

## 2 Depreciation and Sale of Asset

### Question 1

#### Transaction A

Cost of Plant and Equipment	
Purchase price of plant and equipment	7,100
Transporting the plant and equipment	1,300
Transit insurance	300
Pre-use repair costs	200
Modifications	500
Concrete foundation	600
<b>Total Cost</b>	<b><del>\$10,000</del></b>

+400  
\$10400

#### Transaction B

Cost of Motor Vehicle	
Purchase price of motor vehicle	29,000
Painting of logo	500
Car alarm	600
<b>Total Cost</b>	<b>\$30,100</b>

### Question 2

1

b \$800

2

a \$18,600

3

a \$7,300

### Question 3 About Couriers

1

#### Workings

Calculation of Cost of motor vehicle:

Purchase price	9,700
Cost of car alarm	300
Cost	\$10,000

1

Motor Vehicle		
2018		
Mar 24	Bank	10,000

2 and 3

#### Workings

Depreciation for 3 months ended 30 June 2018:

$$\frac{\$10,000 - \$2,000}{10} \times \frac{3}{12}$$

$$= \$200$$

Calculation of annual depreciation expense on the motor vehicle:

$$\frac{\$10,000 - \$2,000}{10}$$

$$= \$800$$

**Question 3 continued**  
**About Couriers**

4

**General Journal**

Date	Details	Debit	Credit
2018 Jun 30	Depreciation of Motor Vehicle Accumulated Depreciation of Motor Vehicle  <i>Depreciation expense for 3 months ended                30 June 2018.</i>	200	200

5

**General Ledger**

**Depreciation of Motor Vehicle**

2018 Jun 30	Accumulated Depreciation	200	2018 Jun 30	Profit and Loss	200

**Accumulated Depreciation of Motor Vehicle**

	2018 Jun 30	Depreciation of Motor Vehicle	200
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6

**Profit and Loss (extract)**

2018 Jun 30	Depreciation of Motor Vehicle	200
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**Question 3 continued**  
**About Couriers**

7

**About Couriers**  
**Balance Sheet (extract)**  
**as at 30 June 2018**

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**Non-Current Assets**

Motor Vehicle	10,000	
Less Accumulated Depreciation	(200)	9,800

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8

Entry B

9

**About Couriers**  
**Balance Sheet (extract)**  
**as at 30 June 2019**

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**Non-Current Assets**

Motor Vehicle	10,000	
Less Accumulated Depreciation	(1,000)	9,000

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10

The carrying amount of the motor vehicle at 30 June 2019 is \$9,000.

**Question 4**  
**Perth Business College**

1 and 2

**Workings**

**Calculation of cost of office equipment:**

Purchase price	20,800
Cost of transporting office equipment to the business	200
Cost	\$21,000

Calculation of annual depreciation expense on the office equipment:

$$\frac{\$21,000 - \$3,000}{10}$$

$$= \$1,800$$

Depreciation for 6 months ended 30 June 2018:

$$\$1,800 \times 6/12 = \$900$$

3

**General Journal**

Date	Details	Debit	Credit
2018 Jun 30	Depreciation of Office Equipment Accumulated Depreciation of Office Equipment  <i>Depreciation expense for 6 months ended                30 June 2018.</i>	900	900

**Question 4 continued**  
**Perth Business College**

4

**General Ledger**

**Depreciation of Office Equipment**

2018				2018			
Jun 30	Accumulated			Jun 30	Profit and Loss		900
	Depreciation		900				

**Accumulated Depreciation of Office Equipment**

				2018			
				Jun 30	Depreciation of Office		900
					Equipment		

5

**Profit and Loss (extract)**

2018							
Jun 30	Depreciation of Office						
	Equipment		900				

6

**Perth Business College**  
**Balance Sheet (extract)**  
**as at 30 June 2018**

**Non-Current Assets**

Office Equipment	21,000	
Less Accumulated Depreciation	(900)	20,100

**Question 4 continued**  
**Perth Business College**

7

Entry B

8

**Perth Business College**  
**Balance Sheet (extract)**  
**as at 30 June 2019**

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**Non-Current Assets**

Office Equipment	21,000	
Less Accumulated Depreciation	<u>(2,700)</u>	18,300

9

The carrying amount of the office equipment at 30 June 2020 is \$18,300:

## Question 5

### Rebuild Smash Repairs

#### Workings

Depreciation expense on the plant and equipment for 3 months ended 30 June 2018:

$$\frac{\$29,000 - \$11,000}{9} \times \frac{3}{12}$$

$$= \$500$$

Calculation of annual depreciation expense on the plant and equipment:

$$\frac{\$29,000 - \$11,000}{9}$$

$$= \$2,000$$

1

#### General Journal

Date	Details	Debit	Credit
2018 Jun 30	Depreciation of Plant and Equipment Accumulated Depreciation of Plant and Equipment  <i>Depreciation expense for 3 months ended 30 June 2018.</i>	500	500

2

#### General Ledger

##### Depreciation of Plant and Equipment

2018 Jun 30	Accumulated Depreciation	500	
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##### Accumulated Depreciation of Plant and Equipment

2018 Jun 30	Depreciation of Plant and Equipment		500
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**Question 5 continued**  
**Rebuild Smash Repairs**

3

Rebuild Smash Repairs				
Balance Sheet (extracts) as at				
	30 June 2018		30 June 2019	
<b>Non-Current Assets</b>				
Plant and Equipment	29,000		29,000	
Less Accumulated Depreciation	(500)	28,500	(2,500)	26,500

4

The depreciation entry is a book entry, that is, an entry in an accounting system that does not involve a cash inflow or cash outflow. The depreciation entry does **not** set aside cash for the replacement of an asset.

5

- *wear and tear*, that is, the decline in the efficiency of an asset due to use.
- *technical obsolescence*, that is, the asset is redundant (of no further use) because of the introduction of new technology.
- *commercial obsolescence*, that is, the asset is redundant because of a fall in the demand for the goods or services that the asset was used to produce.

## Question 6

### Image Makers

#### Workings

#### Calculation of cost of office equipment:

Purchase price	3,900
Cost of transporting office furniture to the business	100
Cost	\$4,000

Depreciation expense on the office furniture for 9 months ended 30 June 2019:

$$\frac{\$4,000 - \$1,000}{15} \times \frac{9}{12}$$

$$= \$150$$

#### General Journal

Date	Details	Debit	Credit
2019 Jun 30	Depreciation of Office Furniture Accumulated Depreciation of Office Furniture  <i>Depreciation expense for 9 months ended 30 June 2019.</i>	150	150

2

#### Image Makers

#### Balance Sheet (extract)

#### as at 30 June 2019

##### Non-Current Assets

Office Furniture	4,000	
Less Accumulated Depreciation	(150)	3,850

3

Depreciation is a process of expense allocation not asset valuation. The depreciation process is not intended to arrive at the current market value of a depreciable asset.

**Question 7**  
**Movie Time DVD Shop**

1

Depreciation expense on the office equipment for the 10 months ended 30 June 2018:

$$\frac{\$2,900 - \$500}{8} \times \frac{10}{12}$$

$$= \$250$$

2

The carrying amount of the office equipment on 30 June 2018 is:

$$\$2,900 - \$250 = \$2,650.$$

3

Depreciation expense to 30 June 2018	250
Depreciation expense for year ended 30 June 2019	300
Depreciation expense for year ended 30 June 2020	300
Total accumulated depreciation on 30 June 2020	850

4

The term “depreciable amount” means the cost of an asset less its re-sale value.

The depreciable amount of the asset is  $\$9,000 - \$2,000 = \$7,000$ .

**Question 8**

1

a

The motor vehicle depreciation expense to 30 June 2018 is:

$$\frac{\$11,000 - \$2,900}{9} \times \frac{8}{12}$$

$$= \$600$$

2

c

The motor vehicle accumulated depreciation on 30 June 2019 is

$$\$600 + \$900 = \$1,500$$

3

a

The carrying amount of the motor vehicle on 30 June 2020 is:

$$\$11,000 - (\$600 + \$900 + \$900) = \$8,600$$

4

It is impossible to decide which business is in a better position to replace its motor vehicle. The cash at bank amounts of each business on 30 June 2024 have not been disclosed and the debts of each business on 30 June 2024 have not been disclosed.

5

A depreciable asset is a tangible asset that is:

- held for use in the production or supply of goods or services, for rental to others or for administrative purposes, and
- is expected to be used during more than one accounting period.

Therefore, the inventory (b) is not a depreciable asset.