2023 Practice

|  |  |  |  |
| --- | --- | --- | --- |
| Application | **Depreciation and Sale of Asset 10%** | **Total :** |  |

**SECTION A: PRACTICAL**

On 1 September 2026 Trendy Feet, a manufacturer of footwear, purchased plant and equipment. The asset was transported to Perth . The following payments were associated with the purchase of the plant and equipment before GST.

|  |  |
| --- | --- |
|  |  |
| Purchase price | 33 000 |
| Transport to Perth | 1 700 |
| Insurance on journey | 800 |
| Cost of preparing foundation for asset | 2 500 |
| Cost of testing the asset | 1 000 |
| Insurance once installed for 12 months | 900 |

The Plant is expected to have a residual value of $5400 and a useful life of 7 years. It is depreciated using the straight line method. The plant and equipment was sold on 31st October 2028

Show calculation of Depreciation Expense for the Plant and Equipment for balance day 2027, 2028 and 2029. **(6 marks)**

Prepare the journal entries for the **31st of October 2028** including **gain/loss on sale of asset** and **profit and loss entry.** (Don’t forget narrations) **(12 marks)**

Prepare the following ledger accounts **from the date of purchase** to the date of sale – 31st October 2028. It was sold for $17 200 (before GST).

* Plant and equipment (2 marks)
* Accumulated depreciation (4 marks)
* Deprectiation Expense (July 1 – Oct 31 2028 ONLY) (2 marks)
* Sale of asset (4 marks)
* Gain/Loss on Sale of Asset (2 marks)
* Profit and Loss (2 marks)

**16 marks**

**SOLUTIONS**

Show calculation of Depreciation Expense for the Plant and Equipment for balance day 2027, 2028 and 2029. **(6 marks)**

|  |  |
| --- | --- |
| Purchase price | 33000 |
| Transport to Perth | 1700 |
| Insurance on journey | 800 |
| Cost of preparing foundation for asset | 2500 |
| Cost of testing the asset | 1000 |

**Cost of Asset for Depreciation Purposes = $39 000**

**Therefore using straight line depreciation formula:**

1st Sept 2026 – 30 June 2027 = 10 months

Depreciation expense: (39000-5400) / 7 = 4800

Therefore, (4800 / 12) \* 10 = 4000

1st July 2027 – 30 June 2028 = 12 months

Depreciation expense: (35000-5400) / 7 = 4800

1st July - 31st October 2028 = 4 months

Depreciation expense: (39000-5400) / 7 = 4800

Therefore, (4800 / 12) \* 4 = 1600

Prepare the journal entries for the **31st of October 2028** including **gain/loss on sale of asset** and **profit and loss entry.** (Don’t forget narrations) **(12 marks)**

**GENERAL JOURNAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 2028 October 31 | Depreciation Expense | 1 600 |  |
|  | Accumulated Depreciation |  | 1 600 |
|  | *Depreciation from 1 Jul 2027 to 31 Oct 2028* |  |  |
|  |  |  |  |
|  | Accumulated Depreciation | 10 400 |  |
|  | Sale of Asset |  | 10 400 |
|  | *Closing accumulated depreciation account* |  |  |
|  |  |  |  |
|  | Sale of Asset | 39 000 |  |
|  | Plant and Equipment |  | 39 000 |
|  | *Closing plant and equipment account* |  |  |
|  |  |  |  |
|  | Cash | 17 200 |  |
|  | Sale of Asset |  | 17 200 |
|  | *Proceeds from sale of Plant and Equipment* |  |  |
|  |  |  |  |
|  | Loss from Sale of Asset | 11 400 |  |
|  | Sale of Asset |  | 11 400 |
|  | *Loss from sale of plant and equipment* |  |  |
|  |  |  |  |
|  | Profit and Loss Summary | 11 400 |  |
|  | Loss on Sale of Asset |  | 11 400 |
|  | *Closing loss on sale of asset account* |  |  |
|  |  |  |  |

Prepare the following ledger accounts **from the date of purchase** to the date of sale – 31st October 2028. It was sold for $17 200 (before GST). **16 marks**

**GENERAL LEDGER**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Plant and Equipment** | | | | | |
| **Date** | **Cross Ref** | **$$** | **Date** | **Cross Ref** | **$$** |
| ‘26 Sept. 1 | Bank | 39 000 | Oct 31 | Sale of Asset | 39 000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Accumulated Depreciation** | | | | | |
| **Date** | **Cross Ref** | **$$** | **Date** | **Cross Ref** | **$$** |
| 2028 Oct. 31 | Sale of Asset | 10 400 | 2027 June 30 | Depreciation Expense | 4 000 |
|  |  |  | 2028 June 30 | Depreciation Expense | 4 800 |
|  |  |  | 2028 Oct. 31 | Depreciation Expense | 1 600 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Depreciation** | | | | | |
| **Date** | **Cross Ref** | **$$** | **Date** | **Cross Ref** | **$$** |
| 2028 Oct. 31 | Accumulated Depreciation | 1 600 | 2028 June 30 | Profit and Loss | 1 600 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sale of Plant and Equipment** | | | | | |
| **Date** | **Cross Ref** | **$$** | **Date** | **Cross Ref** | **$$** |
| 2028 Oct 31 | Plant and Equipment | 39 000 | 2028 Oct 31 | Accumulated Depreciation | 10400 |
|  |  |  | 2028 Oct 31 | Cash | 17 200 |
|  |  |  | 2028 Oct 31 | Loss on Sale of Asset | 11 400 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gain / Loss on Sale of Assets** | | | | | |
| **Date** | **Cross Ref** | **$$** | **Date** | **Cross Ref** | **$$** |
| 2028 Oct 31 | Sale of Asset | 11 400 | 2029 June 30 | Profit and Loss | 11 400 |
|  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- |
| **Profit and Loss** | | | | | |
| **Date** | **Cross Ref** | **$$** | **Date** | **Cross Ref** | **$$** |
| 2029 June 30 | Loss on Sale of Asset | 11 400 |  |  |  |
|  | Depreciation on Plant and Equipment | 1 600 |  |  |  |

**GENERAL LEDGER**

**Plant & Equipment**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Dr** | **Cr** | **BALANCE** |
| 2026 Sept. 1 | Bank | 39 000 |  | 39 000 Dr |
| 2028 Oct. 31 | Sale of Asset |  | 39 000 | --- |
|  |  |  |  |  |
|  |  |  |  |  |

**Accumulated Depreciation of Plant & Equipment**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Dr** | **Cr** | **BALANCE** |
| 2027 June 30 | Depreciation Expense |  | 4 000 |  |
| 2028 June 30 | Depreciation Expense |  | 4 800 |  |
| 2028 Oct. 31 | Depreciation Expense |  | 1 600 | 10 400 Cr |
|  | Sale of Asset | 10 400 |  | --- |

**Sale of Plant & Equipment**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Dr** | **Cr** | **BALANCE** |
| 2028 Oct 31 | Plant and Equipment | 39 000 |  |  |
|  | Accumulated Depreciation |  | 10 400 |  |
|  | Cash |  | 17 200 | 11 400 Dr |
|  | Gain / Loss on Sale of Assets |  | 11 400 | --- |

**Gain / Loss on Sale of Assets**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Dr** | **Cr** | **BALANCE** |
| 2028 Oct 31 | Sale of Asset | 11 400 |  | 11 400 Dr |
| 2029 June 30 | Profit and Loss |  | 11 400 | --- |
|  |  |  |  |  |
|  |  |  |  |  |

**Profit & Loss Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Dr** | **Cr** | **BALANCE** |
| 2029 June 30 | Loss on Sale of Asset | 11 400 |  | 11 400 Dr |
|  | Depreciation on Plant and Equipment | 1 600 |  | 13 000 Dr |