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| ACF 11 – MOCK TEST | **Depreciation and Sale of Asset** **Doubtful Debts** |  |  |

**Question 1 – Depreciation and Sale of Asset**

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 Cost 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 $5,400 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 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)

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**

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| **Date** | **Details** | **Debit** | **Credit** |
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**GENERAL LEDGER**

**Plant & Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  |  |  |  |
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**Accumulated Depreciation of Plant & Equipment**

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| Date | Contra Account | Dr | Date | Contra Account | Cr |
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**Sale of Plant & Equipment**

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| Date | Contra Account | Dr | Date | Contra Account | Cr |
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**Gain / Loss on Sale of Assets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
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**Profit & Loss Summary**

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| Date | Contra Account | Dr | Date | Contra Account | Cr |
|  |  |  |  |  |  |
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**SOLUTIONS**

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

|  |  |
| --- | --- |
| 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 |

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

**Therefore using straight line depreciation formula:**

1st Sept 2026 – 30 June 2027 = 10 months

Depreciation expense: (39,000-5,400) / 7 = 4,800

Therefore, (4,800 / 12) \* 10 = 4,000

1st July 2027 – 30 June 2028 = 12 months

Depreciation expense: (35,000-5,400) / 7 = 4,800

1st July - 31st October 2028 = 4 months

Depreciation expense: (39,000-5,400) / 7 = 4,800

Therefore, (4,800 / 12) \* 4 = 1,600

**GENERAL LEDGER**

**Plant & Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2026  1 Sept | Bank (purchase price) | 33 000 | 2028  31 Oct | Sale of Asset | 39 000 |
|  | Bank (transport) | 1 700 |  |  |  |
|  | Bank (transport insurance) | 800 |  |  |  |
|  | Bank (cost of foundation) | 2 500 |  |  |  |
|  | Bank (cost of testing) | 1 000 |  |  |  |

**Accumulated Depreciation of Plant & Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2028  31 Oct | Sale of Asset | 10 400 | 2027  30 Jun | Depreciation Expense | 4 000 |
|  |  |  | 2028  30 Jun | Depreciation Expense | 4 800 |
|  |  |  | 2028  31 Oct | Depreciation Expense | 1 600 |
|  |  |  |  |  |  |

**Sale of Plant & Equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2028  31 Oct | Plant & Equipment | 39 000 | 2028  31 Oct | Accumulated Depreciation | 10 400 |
|  |  |  |  | Cash | 17 200 |
|  |  |  |  | Loss on sale of asset | 11 400 |
|  |  |  |  |  |  |

**Gain / Loss on Sale of Assets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2028  31 Oct | Sale of Asset | 11 400 | 2029  30 Jun | Profit & Loss | 11 400 |
|  |  |  |  |  |  |

**Profit & Loss Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2029  30 Jun | Loss on sale of asset | 11 400 | 2029  30 Jun | Depreciation expense | 1 600 |
|  |  |  |  |  |  |

**GENERAL JOURNAL**

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| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 2028 Oct 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* |  |  |