

3 Butler operates a small business.

He has provided the following information for non-current assets at 31 July 2016.

| | |
|----------------------------|---------|
| | \$ |
| Plant and machinery | |
| Cost | 195 000 |
| Provision for depreciation | 68 250 |

During the year ended 31 July 2017, the following transactions took place.

- 1 A machine was sold for \$25 000. There was a loss on disposal of \$3000. The machine had been purchased on 28 May 2016.
- 2 A machine was purchased by cheque at a cost of \$37 500. The following costs were also incurred for the new machine:

| | |
|-----------------------|------|
| | \$ |
| Annual insurance | 2825 |
| Installation expenses | 4500 |

Plant and machinery is depreciated using the reducing balance method at a rate of 20% per annum.

A full year's depreciation is charged in the year of purchase. No depreciation is charged in the year of disposal.

REQUIRED

- (a)** Prepare the following ledger accounts for the year ended 31 July 2017. Dates are **not** required.

(i)

Plant and machinery at cost

| | \$ | | \$ |
|--|----|--|----|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

(ii) Provision for depreciation on plant and machinery

| | \$ | | \$ |
|--|----|--|----|
| | | | |
| | | | |
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| | | | |
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[3]

REQUIRED

- (b) Explain why a business may use reducing balance method of depreciation for plant and machinery.

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Additional information

Butler also purchases loose tools for use in the business.

- (c) Explain **two** accounting treatments for loose tools.

1

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2

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(d) Explain **one** fundamental accounting concept relating to depreciation.

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