

- 2 SMC Limited is a wholesale business. An extract from their statement of financial position at 31 December 2012 showed:

Non-current Assets			
	\$	\$	\$
Fittings and fixtures	240 000	96 000	144 000
Equipment	60 000	18 000	42 000

SMC Ltd has a policy to depreciate fittings and fixtures at 20% per annum on cost (straight line method) and equipment at 10% per annum on cost. Depreciation is charged for each month of ownership.

No allowance is made for any residual value.

All fittings and fixtures held by the company at the end of the financial year had been purchased within the previous four years. All equipment had been purchased within the previous seven years.

During the year ended 31 December 2013 the following transactions took place:

#### Purchases

1 January 2013 fittings and fixtures \$16 000, purchased on credit from Walker.  
1 July 2013 equipment \$14 000, purchased on credit from Arcadia Limited.

#### Disposals

31 March 2013 equipment (original cost \$8 000, bought on 1 January 2010) was sold for \$6 000.

Disposal proceeds were received in full by cheque.

## REQUIRED

(a) Prepare journal entries to record the following (narratives are not required).

(i) The purchase of the equipment.

Account	Debit \$	Credit \$

[2]

(ii) The depreciation charge for fittings and fixtures for the year ended 31 December 2013.

Account	Debit \$	Credit \$

[4]

(iii) The depreciation charge for equipment for the year ended 31 December 2013.

Account	Debit \$	Credit \$

[4]

(iv) The disposal of equipment.

Account	Debit \$	Credit \$

[8]

(b) (i) Explain the purposes of the journal.

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..... [2]

(ii) State two examples of transactions which would be recorded in the journal, other than the purchase of non-current assets on credit.

1 .....

2 ..... [2]

**Additional information**

SMC is considering changing the depreciation method for equipment to reducing balance method.

**REQUIRED**

(c) (i) State an accounting concept which is applied when depreciation is provided.

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(ii) Explain the possible reasons why the business is considering this change.

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..... [7]

**[Total 30]**