

- 3 K Limited has been trading for many years and prepares financial statements annually to 30 April. It had the following balances at 1 May 2016:

	\$	\$
Plant and equipment		
at cost	84 695	
provision for depreciation		32 855

On 1 February 2017, the company bought new equipment, \$12 785, and the cost of installing this equipment was \$1595.

On 31 December 2016 the company sold a motor vehicle which had cost \$14 850 on 1 August 2015. The proceeds of \$8900 were paid by cheque.

The company’s depreciation policy is as follows:

Plant and equipment	20% on cost per annum
Motor vehicles	25% reducing balance per annum

Depreciation is charged on a month-by-month basis.

REQUIRED

- (a) (i) Calculate the depreciation charge for plant and equipment for the year ended 30 April 2017. Workings **must** be shown.

.....

.....

.....

.....

..... [2]

- (ii) Prepare the motor vehicle disposal account for the year ended 30 April 2017. Workings **must** be shown.

.....

.....

.....

.....

.....

.....

.....

.....

.....
.....
.....
.....
..... [4]

(b) Explain **two** accounting concepts which are being applied when depreciation is provided.

1
.....
.....
2
.....
..... [4]

Additional information

K Limited is considering purchasing additional plant and equipment costing \$30 000. This could be financed by **one** of the following:

- Bank loan
- Issue of ordinary shares

REQUIRED

(c) Advise the directors which method of finance they should choose. Justify your answer.

.....
.....
.....
.....
.....
.....
.....
..... [5]