

- 2 Amirtha commenced business on 1 January 2010. During the first two years of business the following non-current assets were purchased on the dates shown:

Motor vehicles		
2010		\$
1 January	MV1	26 000
1 July	MV2	18 000
2011		
1 April	MV3	24 000

Equipment		
2010		
1 January	EQ1	30 000
2011		
1 January	EQ2	44 000

Amirtha has a policy to depreciate motor vehicles at 20% per annum on cost (straight line method) and equipment at 15% per annum on cost (straight line method), rates being charged for each month of ownership.

REQUIRED

- (a) Calculate the total depreciation for each of the years 2010 **and** 2011.

- (i) Motor vehicles

.....

.....

.....

..... [3]

- (ii) Equipment

.....

.....

.....

..... [2]

Early in 2012, consideration was given to changing to the reducing (diminishing) balance method, with the following rates applying to the balance at the end of each year.

Motor vehicles	25%
Equipment	20%

A full year's depreciation would be charged irrespective of the date of purchase.

REQUIRED

(b) Calculate the total depreciation for **each** of the years 2010 **and** 2011, using the reducing (diminishing) balance method for:

(i) Motor vehicles

.....

.....

.....

.....

.....

.....

.....

.....

.....

[5]

(ii) Equipment.

.....

.....

.....

.....

.....

.....

[3]

The original profits for the first two years in business were:

2010	\$86 000
2011	\$94 000

REQUIRED

- (c) Prepare a statement to show the revised profits for the years 2010 and 2011, if the reducing (diminishing) balance method had been used.

.....

.....

.....

.....

.....

.....

.....

.....

..... [4]

- (d) Explain why it is appropriate to use the reducing (diminishing) balance method for motor vehicles.

.....

.....

.....

.....

.....

.....

.....

.....

..... [3]

The following information is also available from the books of Amirtha.

	1 January 2011	31 December 2011
	\$	\$
Wages	2 040 accrued	2 130 accrued
Insurance	130 accrued	610 prepaid
Rent received	1 490 prepaid	1 320 prepaid

During the year ended 31 December 2011 the following transactions took place.

	\$
Wages paid	24 100
Insurance paid	1 400
Rent received	14 000

All transactions are through the bank account.

REQUIRED

- (e) Prepare the following ledger accounts for the year ended 31 December 2011, showing the closing entry to the financial statements at the end of the year. Dates are not required.

(i) Wages account

.....

.....

.....

.....

.....

.....

.....

(ii)

Insurance account

.....

.....

.....

.....

.....

.....

[3]

(iii)

Rent received account

.....

.....

.....

.....

.....

.....

[4]