

- 2 Depreciation may be thought of as the difference between the cost of an asset and the amount received from it on disposal.

The following extract from the schedule of non-current (fixed) assets applies to the year ended 30 April 2009.

Non-current (fixed) assets	Machinery	Motor vehicles
	\$000	\$000
Cost at 1 May 2008	4200	3200
Additions during year	1200	800
Disposals during year	<u>(700)</u>	<u>(1000)</u>
Cost at 30 April 2009	<u>4700</u>	<u>3000</u>
Depreciation at 1 May 2008	1560	840
Add charge for year	470	750
Less disposals for year	<u>(520)</u>	<u>(800)</u>
Depreciation at 30 April 2009	<u>1510</u>	<u>790</u>
Net book value at 30 April 2009	3190	2210

During the year ended 30 April 2010 the following took place:

- 1 New machinery costing \$900 000 was purchased on 1 November 2009. Machinery, which had cost \$400 000 on 1 July 2005, was sold for \$200 000 in December 2009.
- 2 Three new motor vehicles were purchased on 1 April 2010 for \$280 000 **each**. Two motor vehicles, which had been purchased on 1 March 2007, for \$200 000 **each**, were taken in part-exchange. The part-exchange allowance for **each** vehicle was \$60 000.
- 3 One vehicle which had been purchased for \$360 000 on 31 January 2009 was involved in an accident on 2 December 2009. The insurance company decided that it could not be repaired and gave compensation of \$210 000.

Depreciation is charged for the full year on all non-current (fixed) assets held at the year-end, using the straight-line method.

No depreciation is charged on a non-current (fixed) asset in the year of disposal.

Rates of depreciation have remained constant since the business began trading.

REQUIRED

- (a) (i)** Calculate the profits or losses on disposals during the year ended 30 April 2010.

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(b) (i) State **three** causes of depreciation.

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(ii) Give an example of a non-current (fixed) asset for which **each** cause given in (b)(i) above might be appropriate.

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(c) State **four** factors which must be taken into account when deciding how much depreciation to charge.

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