

28.2 More drills to practise using the Provision for Depreciation Account

Business A

At 30 November, Year 10, the balance sheet of a business showed the following in relation to fixed assets:

	£	£
machinery		
cost	80 000	
provision for depreciation	<u>(28 800)</u>	
Net Book Value		51 200
motor vehicles		
cost	40 000	
provision for depreciation	<u>(24 000)</u>	
Net Book Value		16 000

The business believes that in each year of use, the machinery loses 20% of its value at the start of that year, while the motor vehicles lose 20% of their original value.

Show relevant extracts concerning the fixed assets from the P&L Account for the year to 30 November, Year 11, and from the balance sheet at 30 November, Year 11.

Response

P&L Account for y/e 30 Nov, Year 11

depreciation:	
machinery	10 240
motor vehicles	8 000

Balance Sheet extract at end of Year 11

	£	£
machinery		
cost	80 000	
provision for depreciation	<u>(39 040)</u>	
Net Book Value		40 960
motor vehicles		
cost	40 000	
provision for depreciation	<u>(32 000)</u>	
Net Book Value		8 000

Business B

At the end of the year to 31 December, Year 20, the trial balance of a business included the following:

	DR	CR
	£	£
fixed asset cost	90 000	
provision for depreciation		18 000

The business believes that the fixed asset loses 10% of its original value (cost) in every year of use.

Show relevant extracts concerning the fixed assets from the P&L Account for the year to 31 December, Year 20, and from the balance sheet at 30 December, Year 20. (Notice that the trial balance is drawn up *before* transfers to the P&L Account.)

Response

<i>P&L Account for y/e 31 Dec, Year 20</i>	
<i>depreciation</i>	9 000

Balance Sheet extract at end of Year 20	
	£
fixed asset	
cost	90 000
provision for depreciation	<u>(27 000)</u>
Net Book Value	63 000