

29.3 A drill to practise accounting for loss in value throughout the life of a fixed asset

For each example below, show

1. the Fixed Asset Cost Account;
2. the Provision for Depreciation Account;
3. the Fixed Asset Disposal Account and an account for money or promises (M&P);
4. relevant extracts concerning the fixed asset from the P&L Accounts of YEAR 1, YEAR 2 and YEAR 3.

NOTE: assume no depreciation is charged in the year of disposal.

Business 1

A fixed asset is purchased in YEAR 1 at a cost of £130 000. The business uses the fixed asset for two years, believing that it loses £30 000 of value in the first year of use, and £20 000 in the second year.

In Year 3 the fixed asset is sold for £70 000.

Response

Fixed Asset Cost			
original purchase	130 000	to Fixed Asset Disposal Account	130 000
Provision for Depreciation			
to Fixed Asset Disposal Account	50 000	to P&L 1	30 000
		to P&L 2	20 000
	50 000		50 000
Fixed Asset Disposal			
Fixed Asset Cost	130 000	disposal value	70 000
		Provision for Depreciation	50 000
		to P&L 3 loss on disposal	10 000
	130 000		130 000
Money and Promises		P&L 1	
	original payment 130 000	dep'n	30 000
disposal proceeds	70 000		
		P&L 2	
		dep'n	20 000
		P&L 3	
		loss on disposal	10 000

Business 2

A fixed asset is purchased in YEAR 1 at a cost of £10 000. The business uses the fixed asset for two years, believing that it loses £2 000 of value in each year of use.

In Year 3 the fixed asset is sold for £7 000.

Response

Fixed Asset Cost			
original purchase	10 000	to Fixed Asset Disposal Account	10 000
Provision for Depreciation			
to Fixed Asset Disposal Account	4 000	to P&L 1	2 000
		to P&L 2	2 000
	4 000		4 000
Fixed Asset Disposal			
Fixed Asset Cost	10 000	disposal value	7 000
		Provision for Depreciation	4 000
to P&L 3 profit on disposal	1 000		
	11 000		11 000
Money and Promises			
	original payment		10 000
disposal proceeds	7 000		
P&L 1			
	dep'n		2 000
P&L 2			
	dep'n		2 000
P&L 3			
	profit on disposal		1 000

Business 3

A fixed asset is purchased in YEAR 1 at a cost of £20 000. The business believes that the fixed asset will lose 10% of its original value (cost) in each year of use.

In Year 3 the fixed asset is sold for £17 000.

Response

Fixed Asset Cost			
original purchase	20 000	to Fixed Asset Disposal Account	20 000
Provision for Depreciation			
to Fixed Asset Disposal Account	4 000	to P&L 1	2 000
		to P&L 2	2 000
	4 000		4 000
Fixed Asset Disposal			
Fixed Asset Cost	20 000	disposal value	17 000
		Provision for Depreciation	4 000
to P&L 3 profit on disposal	1 000		
	21 000		21 000

Business 4

A fixed asset is purchased in YEAR 1 at a cost of £16 000. The business believes that in each year of use, the fixed asset will lose 25% of the value it had at the start of the year.

In Year 3 the fixed asset is sold for £8 500.

Response

Fixed Asset Cost	
original purchase	16 000
	<u>16 000</u>
to Fixed Asset Disposal Account	16 000
	<u>16 000</u>
Provision for Depreciation	
to Fixed Asset Disposal Account	7 000
	<u>7 000</u>
to P&L 1	4 000
to P&L 2	3 000
	<u>7 000</u>
	<u>7 000</u>
Fixed Asset Disposal	
Fixed Asset Cost	16 000
	<u>16 000</u>
disposal value	8 500
Provision for Depreciation	7 000
to P&L 3 loss on disposal	500
	<u>16 000</u>
	<u>16 000</u>
Money and Promises	
original payment	16 000
	<u>16 000</u>
disposal proceeds	8 500
	<u>8 500</u>
P&L 1	
dep'n	4 000
	<u>4 000</u>
P&L 2	
dep'n	3 000
	<u>3 000</u>
P&L 3	
loss on disposal	500
	<u>500</u>