

**28.1 Drills to practise using the Provision for Depreciation Account**

For each separate business and fixed asset below, show:

1. a Fixed Asset Cost Account and an account for money or promises (M&P)
2. a Provision for Depreciation Account

plus relevant extracts concerning the fixed assets from

- the P&L Account for YEAR 1 and the balance sheet at the end of YEAR 1
- the P&L Account for YEAR 2 and the balance sheet at the end of YEAR 2
- the P&L Account for YEAR 3 and the balance sheet at the end of YEAR 3

## Business 1

YEAR 1: the business buys a pressing machine at a cost of £10 000, and a delivery van at cost of £15 000.

During the year, the pressing machine loses £2 000 of value, and the delivery van loses £3 000 of value.

YEAR 2: the machine depreciates by a further £1 500, and the van loses £2 000 of value.

YEAR 3: the machine loses a further £1 500 of value, and the van depreciates by £500.

<i>M&amp;P</i>		<i>P&amp;L 1</i>	
	payment 25 000		
<i>Pressing Machine – Cost</i>			
cost	10 000	depreciation for year	5 000
<i>Delivery Van – Cost</i>			
cost	15 000		
<i>Machine – Provision for Depreciation</i>		<i>P&amp;L 2</i>	
	to P&L 1 2 000	depreciation for year	3 500
	to P&L 2 1 500		
	to P&L 3 1 500	<i>P&amp;L 3</i>	
<i>Van – Provision for Depreciation</i>			
	to P&L 1 3 000	depreciation for year	2 000
	to P&L 2 2 000		
	to P&L 3 500		

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
<b>Pressing Machine</b>			
cost	10 000	10 000	10 000
less provision for depreciation	(2 000)	(3 500)	(5 000)
<b>Net Book Value</b>	<u>8 000</u>	<u>6 500</u>	<u>5 000</u>
<b>Delivery Van</b>			
cost	15 000	15 000	15 000
less provision for depreciation	(3 000)	(5 000)	(5 500)
<b>Net Book Value</b>	<u>12 000</u>	<u>10 000</u>	<u>9 500</u>
<b>Total Net Book Value</b>	<u>£20 000</u>	<u>£16 500</u>	<u>£14 500</u>

## Business 2

YEAR 1: fixtures and fittings are purchased at a cost of £4 000, and plant and machinery is purchased at a cost of £8 000. At the end of the year, the fixtures and fittings are valued at £3 200, and the plant and machinery is valued at £6 000.

YEAR 2: at the end of the year, fixtures and fittings are valued at £2 800, and plant and machinery is valued at £5 000.

YEAR 3: at the end of the year, fixtures and fittings and plant and machinery are both valued at £2 000.

M&P	
payment	12 000
Fixtures and Fittings – Cost	
cost	4 000
Plant & Machinery – Cost	
cost	8 000
F&F – Provision for Depreciation	
to P&L 1	800
to P&L 2	400
to P&L 3	800
P&M – Provision for Depreciation	
to P&L 1	2 000
to P&L 2	1 000
to P&L 3	3 000

P&L 1	
depreciation for year	2 800
P&L 2	
depreciation for year	1 400
P&L 3	
depreciation for year	3 800

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
<b>Fixtures &amp; Fittings</b>			
cost	4 000	4 000	4 000
less provision for depreciation	(800)	(1 200)	(2 000)
Net Book Value	<u>3 200</u>	<u>2 800</u>	<u>2 000</u>
<b>Plant &amp; Machinery</b>			
cost	8 000	8 000	8 000
less provision for depreciation	(2 000)	(3 000)	(6 000)
Net Book Value	<u>6 000</u>	<u>5 000</u>	<u>2 000</u>
<b>Total Net Book Value</b>	<u>£9 200</u>	<u>£7 800</u>	<u>£4 000</u>

### Business 3

YEAR 1: the business buys a truck at cost £100 000 and a refrigeration unit at cost £16 000.

The truck is driven hard and is expected to lose £30 000 of value in each year of use. The refrigeration unit is expected to lose £2 000 of value in each year of use.

<i>M&amp;P</i>		<i>P&amp;L 1</i>	
	payment 116 000		
<i>Truck – Cost</i>			
cost	100 000	depreciation for year	32 000
<i>Refrigeration Unit – Cost</i>			
cost	16 000		
<i>Truck – Provision for Depreciation</i>		<i>P&amp;L 2</i>	
	to P&L 1 30 000	depreciation for year	32 000
	to P&L 2 30 000		
	to P&L 3 30 000	<i>P&amp;L 3</i>	
<i>Refrigeration Unit – Prov'n for Dep'n</i>			
	to P&L 1 2 000	depreciation for year	32 000
	to P&L 2 2 000		
	to P&L 3 2 000		

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
Truck			
cost	100 000	100 000	100 000
less provision for depreciation	(30 000)	(60 000)	(90 000)
Net Book Value	70 000	40 000	10 000
Refrigeration Unit			
cost	16 000	16 000	16 000
less provision for depreciation	(2 000)	(4 000)	(6 000)
Net Book Value	14 000	12 000	10 000
Total Net Book Value	£84 000	£52 000	£20 000

## Business 4

YEAR 1: the business purchases a grinding machine and a polishing machine, each at a cost of £20 000.

In each year of use, the grinding machine is expected to lose 10% of its original value or cost, while the polishing machine is expected to lose 10% of its value at the start of that year.

<i>M&amp;P</i>		<i>P&amp;L 1</i>	
	payment 40 000		
<i>Grinding Machine – Cost</i>			
cost	20 000	depreciation for year	4 000
<i>Polishing Machine – Cost</i>			
cost	20 000		
<i>Grinding M/c – Provision for Dep'n</i>			
	to P&L 1 2 000	depreciation for year	3 800
	to P&L 2 2 000		
	to P&L 3 2 000		
<i>Polishing M/c – Provision for Dep'n</i>			
	to P&L 1 2 000	depreciation for year	3 620
	to P&L 2 1 800		
	to P&L 3 1 620		

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
<b>Grinding Machine</b>			
cost	20 000	20 000	20 000
less provision for depreciation	(2 000)	(4 000)	(6 000)
<b>Net Book Value</b>	<b>18 000</b>	<b>16 000</b>	<b>14 000</b>
<b>Polishing Machine</b>			
cost	20 000	20 000	20 000
less provision for depreciation	(2 000)	(3 800)	(5 420)
<b>Net Book Value</b>	<b>18 000</b>	<b>16 200</b>	<b>14 580</b>
<b>Total Net Book Value</b>	<b>£36 000</b>	<b>£32 200</b>	<b>£28 580</b>

## Business 5

YEAR 1: the business acquires a steam generator at a cost of £100 000, and a steam hammer at a cost of £20 000.

The business estimates that the steam generator will be used for 15 years before it is scrapped with a value of £10 000. The steam hammer will be used for 10 years, after which it will be sold for £5 000.

<i>M&amp;P</i>		<i>P&amp;L 1</i>	
	payment 120 000		
<i>Steam Generator – Cost</i>			
cost	100 000	depreciation for year	7 500
<i>Steam Hammer – Cost</i>			
cost	20 000		
<i>Steam Generator – Prov'n for Dep'n</i>		<i>P&amp;L 2</i>	
	to P&L 1 6 000 to P&L 2 6 000 to P&L 3 6 000	depreciation for year	7 500
<i>Steam Hammer – Prov'n for Dep'n</i>			
	to P&L 1 1 500 to P&L 2 1 500 to P&L 3 1 500	depreciation for year	7 500
		<i>P&amp;L 3</i>	

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
<b>Steam Generator</b>			
cost	100 000	100 000	100 000
less provision for depreciation	(6 000)	(12 000)	(18 000)
<b>Net Book Value</b>	<b>94 000</b>	<b>88 000</b>	<b>82 000</b>
<b>Steam Hammer</b>			
cost	20 000	20 000	20 000
less provision for depreciation	(1 500)	(3 000)	(4 500)
<b>Net Book Value</b>	<b>18 500</b>	<b>17 000</b>	<b>15 500</b>
<b>Total Net Book Value</b>	<b>£112 500</b>	<b>£105 000</b>	<b>£97 500</b>

## Business 6

YEAR 1: the business buys a diamond drilling machine for £120 000. the business estimates that it will be possible to use the machine for 200 000 cutting operations before it is sold for £20 000 and replaced.

The machine is used to perform the following number of cutting operations in the first three years of its life:

- Year 1 30 000 cutting operations
- Year 2 20 000 cutting operations
- Year 3 40 000 cutting operations

<table> <tr><td colspan="2"><i>M&amp;P</i></td></tr> <tr><td></td><td>payment 120 000</td></tr> </table>	<i>M&amp;P</i>			payment 120 000	<table> <tr><td colspan="2"><i>P&amp;L 1</i></td></tr> <tr><td>depreciation for year</td><td>15 000</td></tr> </table>	<i>P&amp;L 1</i>		depreciation for year	15 000				
<i>M&amp;P</i>													
	payment 120 000												
<i>P&amp;L 1</i>													
depreciation for year	15 000												
<table> <tr><td colspan="2"><i>Drilling Machine – Cost</i></td></tr> <tr><td>cost</td><td>120 000</td></tr> </table>	<i>Drilling Machine – Cost</i>		cost	120 000	<table> <tr><td colspan="2"><i>P&amp;L 2</i></td></tr> <tr><td>depreciation for year</td><td>10 000</td></tr> </table>	<i>P&amp;L 2</i>		depreciation for year	10 000				
<i>Drilling Machine – Cost</i>													
cost	120 000												
<i>P&amp;L 2</i>													
depreciation for year	10 000												
<table> <tr><td colspan="2"><i>Drilling Machine – Prov'n for Dep'n</i></td></tr> <tr><td>to P&amp;L 1</td><td>15 000</td></tr> <tr><td>to P&amp;L 2</td><td>10 000</td></tr> <tr><td>to P&amp;L 3</td><td>20 000</td></tr> </table>	<i>Drilling Machine – Prov'n for Dep'n</i>		to P&L 1	15 000	to P&L 2	10 000	to P&L 3	20 000	<table> <tr><td colspan="2"><i>P&amp;L 3</i></td></tr> <tr><td>depreciation for year</td><td>20 000</td></tr> </table>	<i>P&amp;L 3</i>		depreciation for year	20 000
<i>Drilling Machine – Prov'n for Dep'n</i>													
to P&L 1	15 000												
to P&L 2	10 000												
to P&L 3	20 000												
<i>P&amp;L 3</i>													
depreciation for year	20 000												

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
Drilling Machine			
cost	120 000	120 000	120 000
less provision for depreciation	<u>(15 000)</u>	<u>(25 000)</u>	<u>(45 000)</u>
Net Book Value	<u>105 000</u>	<u>95 000</u>	<u>75 000</u>

## Business 7

YEAR 1: the business buys a truck for £50 000. The business estimates that the truck will be driven for 500 000 miles before it is scrapped with no value.

The mileage driven by the truck in the first three years of its life is:

Year 1	100 000 miles
Year 2	140 000 miles
Year 3	80 000 miles

<div>M&amp;P</div>	
	payment 120 000

<div>Truck – Cost</div>	
cost	50 000

<div>Truck – Provision for Depreciation</div>	
to P&L 1	10 000
to P&L 2	14 000
to P&L 3	8 000

<div>P&amp;L 1</div>	
depreciation for year	10 000

<div>P&amp;L 2</div>	
depreciation for year	14 000

<div>P&amp;L 3</div>	
depreciation for year	8 000

BALANCE SHEET VALUES	at end of Year 1 £	at end of Year 2 £	at end of Year 3 £
Truck			
cost	50 000	50 000	50 000
less provision for depreciation	<u>(10 000)</u>	<u>(24 000)</u>	<u>(32 000)</u>
Net Book Value	<u>£40 000</u>	<u>£26 000</u>	<u>£18 000</u>