

**Disposal Account**

13. On 31 March 2019 Ehab sold machinery for \$16 000.

The machinery had been purchased on 1 November 2016 for \$24 000. He depreciates machinery at 20% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

Ehab's financial year end is 31 March.

Prepare the disposal account.

May 2019(R)

**Disposal Account**

Date	Details	\$	Date	Details	\$

[Total for Question 13 = 5 marks]

16(a) Explain one difference between capital expenditure and revenue expenditure. [2]

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(b) State two accounting concepts that apply when charging depreciation. [2]

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18 Nyat provided the following information at 1 January 2019.

Account	\$
Motor vehicles at cost	48 000
Motor vehicles provision for depreciation	16 000

On 30 September 2019 Nyat sold a motor vehicle for \$13 250 and received a cheque in full settlement. This motor vehicle had been purchased on 1 July 2018 for \$16 400. Nyat's policy is to depreciate motor vehicles at 25% per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase but none in the year of sale.

(a) Prepare the provision for depreciation – motor vehicles account for the year ended 31 December 2019 showing the transfer to the income statement. Balance the account at this date and bring the balance down at 1 January 2020. [5]

**Provision for Depreciation – Motor Vehicles Account**

Date	Details	\$	Date	Details	\$

(b) Prepare the disposal account. [5]

**Disposal account**

Date	Details	\$	Date	Details	\$

January 2020







18 (a) State two differences between capital expenditure and revenue expenditure. [4]

Difference 1

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Difference 2

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(b) State two causes of depreciation. [2]

1

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(c) State one accounting concept that applies when providing for depreciation. [1]

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June 2021

On 1 April 2018 Rafiq purchased a motor vehicle at a cost of \$48 000.







17 (a) State two causes of depreciation.

June 2022

[2]

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(b) State one difference between capital expenditure and revenue expenditure. [2]

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(c) Identify, indicating with a tick (✓), how each would be classified when a new motor vehicle is purchased. [2]

	Capital expenditure	Revenue expenditure
Delivery cost		
Motor insurance		

Tanet prepares his financial statements to 31 March and he provided the following information at 1 April 2021.

	\$
Motor vehicles – cost	68 000
Motor vehicles – provision for depreciation	18 240

On 30 June 2021, a motor vehicle purchased on 1 February 2019 costing \$30000 was sold for \$16400. The sale proceeds were received by credit transfer. Tanet depreciates motor vehicles at 20% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

(d) Calculate the carrying value at 30 June 2021 of the motor vehicle that was sold. [1]

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- (e) Prepare the provision for depreciation motor vehicles account for the year ended 31 March 2022. Balance the account on that date and bring the balance down on 1 April 2022. [4]

**Provision for Depreciation - Motor Vehicles Account**

Date	Details	\$	Date	Details	\$

- (f) Prepare the disposal account. [4]

**Disposal Account**

Date	Details	\$	Date	Details	\$

Hints:

Capital expenditure is charged to the statement of financial position whereas revenue expenditure is charged to the income statement.

OR

Capital expenditure is expenditure on acquiring or improving non-current assets whereas revenue expenditure is payment of day-to-day expenses.

17 (a) State one difference between capital expenditure and revenue expenditure. [2]

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(b) Identify, indicating with a tick (✓), how each item would be treated when a new motor van is purchased for use in the business. [3]

	Capital expenditure	Revenue expenditure
Installed shelving in van		
Motor insurance		
Signwriting on van		

Guy prepares his financial statements to 31 January.

On 1 February 2021, the balances on the motor vans accounts were:

	\$
Cost	146000
Provision for depreciation	68000

On 1 August 2021, Guy sold a motor van that he had purchased for \$36000 on 1 August 2019. He received a cheque for \$25000 in full settlement. On 1 September 2021, Guy purchased a new motor van for \$49000 paid for by bank transfer.

Motor vans are depreciated at 20% per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase but none in the year of disposal.

June 2022(R)

(c) Prepare the following accounts for the year ended 31 January 2022.

June 2022(R)

[10]

**Motor Vans - Cost Account**

Date	Details	\$	Date	Details	\$

**Disposal Account**

Date	Details	\$	Date	Details	\$

State one difference between capital expenditure and revenue expenditure.

[2]

Hints:

Capital expenditure is expected to benefit the business for more than one accounting period whereas revenue expenditure is expected to benefit the current financial period only.

Capital expenditure is charged to the statement of financial position whereas revenue expenditure is charged to the income statement.

Capital expenditure is expenditure on acquiring or improving non-current assets whereas revenue expenditure is payment of day-to-day expenses.

18 (a) Explain one reason why it is necessary to provide for depreciation on non-current assets. [2]

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On 1 January 2022 the balance on the motor vehicles cost account was \$76600.

On 1 March 2022 a motor vehicle was sold for \$12000, payment being received by cheque. This motor vehicle was originally purchased on 1 January 2020 for \$18000.

On 1 June 2022 a new motor vehicle was purchased costing \$21500, paid for by cheque.

Motor vehicles are depreciated at 25% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

(b) Prepare the following accounts for the year ended 31 December 2022. [9]

**Motor Vehicles – Cost Account**

Date	Details	\$	Date	Details	\$

**Hints:**

→ Explain one reason why it is necessary to provide for depreciation on non-current assets.

Depreciation is an estimate of the loss in value of a non-current asset which should be matched against the revenue generated.

Nov. 2023

## Disposal Account

Date	Details	\$	Date	Details	\$

(c) (i) Identify, indicating with a tick (✓), the effect on gross profit if the purchase of the new vehicle was treated as revenue expenditure. [1]

Overstated	
Understated	
No effect	

(ii) Explain why the purchase of the new motor vehicle was treated as capital expenditure. [3]

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**Hints:**

→ Explain why the purchase of the new motor vehicle was treated as capital expenditure.

The purchase of a new motor vehicle will benefit the business for more than one year. If the purchase of a new motor vehicle is not treated as capital expenditure it would result in non-current assets being understated and the profit for the year also being understated.

Jan. 2023

17 Carson depreciates his computer equipment using the straight-line method at 20% per annum. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

On 1 September 2021 the balances were:

	\$
Computer equipment – cost	16 800
Computer equipment – provision for depreciation	9200

On 1 May 2022, computer equipment originally purchased on 1 March 2020 for \$3 600, was sold for \$1 950

(a) Prepare the following accounts for the year ended 31 August 2022. [9]

**Computer Equipment – Provision for Depreciation Account**

Date	Details	\$	Date	Details	\$

**Disposal Account**

Date	Details	\$	Date	Details	\$

18 (a) Identify, indicating with a tick (✓), how each item of expenditure would be classified. [4]

	Capital expenditure	Revenue expenditure
Purchase of inventory		
Purchase of machinery		
Installation of machinery		
Machine operator wages		

(b) State in which financial statement each would be shown.

(i) Capital expenditure [1]

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(ii) Revenue expenditure [1]

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On 1 May 2020 Xavier purchased two machines. Xavier depreciates machinery at 30% per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase but none in the year of disposal.

(c) Calculate the depreciation charge for each machine for each year. [4]

	Cost \$	Depreciation charge for the year ended 30 April 2021 \$	Depreciation charge for the year ended 30 April 2022 \$
Machine A	28000		
Machine B	36000		

On 1 March 2023 Xavier sold Machine A for \$17500

(d) Calculate the profit or loss on the disposal of Machine A. [1]

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- (e) Prepare the provision for depreciation – machinery account for the year ended 30 April 2023. Balance the account on this date and bring the balance down on 1 May 2023. [4]

June 2023(R)

**Provision for Depreciation – Machinery Account**

Date	Details	\$	Date	Details	\$

18 On 1 May 2023 Alex owed wages of \$1580, and had paid wages in advance of \$920. During the year ended 30 April 2024, Alex paid wages of \$87900. On 30 April 2024, Alex owed wages of \$4230.

- (a) Prepare the wages account for the year ended 30 April 2024. Balance the account at this date and bring the balance down on 1 May 2024. [5]

June 2024

**Wages Account**

Date	Details	\$	Date	Details	\$

On 1 May 2023 Alex had received rent in advance of \$800 from his tenant. During the year ended 30 April 2024 Alex received rent of \$7800 On 30 April 2024 Alex had received rent in advance of \$1300.

- (b) Prepare the rent receivable account for the year ended 30 April 2024. Balance the account at this date and bring the balance down on 1 May 2024. [4]

**Rent Receivable Account**

Date	Details	\$	Date	Details	\$

On 1 May 2023 the balance on the motor vehicles cost account was \$172000 and the balance on the motor vehicles provision for depreciation account was \$85000.

On 30 September 2023 Alex sold a motor vehicle for \$16000 and received a bank transfer in full settlement. This motor vehicle had been purchased on 31 March 2022 for \$36000 and had a residual value of \$8000 Alex depreciates motor vehicles at 20% per annum using the straight-line method.

A full year's depreciation is charged in the year of purchase but none in the year of disposal.

(c) Prepare the motor vehicles – provision for depreciation account for the year ended 30 April 2024. Balance the account at this date and bring the balance down on 1 May 2024. [4]

**Motor Vehicles – Provision for Depreciation Account**

Date	Details	\$	Date	Details	\$

(d) Explain, referring to an accounting concept, one reason why it is necessary for a business to account for depreciation on its non-current assets. [2]

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Hints:

→ Explain, referring to an accounting concept, one reason why it is necessary for a business to account for depreciation on its non-current assets.

In accordance with the accruals concept depreciation matches the cost of the non-current asset with its use over a period.

OR

In accordance with the prudence concept to avoid overstating the value of non-current assets / profit for the year.