Name: …………………………… (   ) Class: …………… Date: ………..........

2023 Papers Topical Revision:
Non-current Assets set 6

Q 1
ST GABRIEL

Chris operates a printing business. He commenced business on 1 August 2021.

His business has the following transactions relating to office equipment.

		$
2021		
2 August	Chris brought his laptop into the business.	2 000
2022		
24 March	Bought a photocopier machine on credit from IPM.	50 000
26 March	Issued a cheque to pay for installation of the photocopier machine bought.	3 500
31 March	Issued another cheque for the yearly maintenance of the photocopier machine bought.	1 500

REQUIRED

(a) Prepare the office equipment account for Chris' business for the year ended 31 July 2022. Bring down the balance on 1 August 2022. [4]

Chris also had the following balances for his motor vehicles on 1 August 2022.

	$
Motor vehicles	240 000
Accumulated depreciation of motor vehicles	75 000

On 1 November 2022, he bought a new motor vehicle for $80 000 by cheque. He depreciates his motor vehicle at 10% per annum on book value, using reducing-balance method.

REQUIRED

(b) Calculate the depreciation charged on motor vehicle for the year ended 31 July 2023. [3]

(c) State the effect on profit for the year if straight-line method was used for depreciating motor vehicle for the year ended 31 July 2023. [3]

(d) Explain how the matching theory is applied when providing depreciation for non-current assets. [2]

[Total: 12]

Q 2
PRESBYTERIAN HS

Ray owns a number of non-current assets. He depreciates them annually.

REQUIRED
(a) Using an accounting theory, explain why Ray depreciates his non-current assets annually.
[2]

Ray provided the following balances of his non-current assets on 1 January 2022.

	Cost $	Accumulated depreciation $
Fixtures and fittings	24 800	8 600
Motor vehicles	84 000	12 000

Ray depreciates his fixtures and fittings at 20% per annum on cost and 25% per annum on net book value for motor vehicles.
On 1 October 2022, Ray bought new fittings costing $6 400 on credit from Nicholas.

REQUIRED
(b) Prepare the fixtures and fittings account for the year ended 31 December 2022. [2]

(c) Calculate the depreciation on fixtures and fittings for the year ended 31 December 2022. [3]
(d) Prepare journal entries to record depreciation on fixtures and fittings on 31 December 2022. Narration is **not** required. [2]
(e) State the depreciation method adopted on motor vehicles. [1]

Ray discovered that his bookkeeper had incorrectly depreciated motor vehicles at 25% per annum on cost for the year ended 31 December 2022.

REQUIRED
(f) Explain how this error affects the following:

(i) profit for the year ended 31 December 2022; [2]
(ii) net book value of motor vehicles on 31 December 2022. [2]
[Total: 14]

A 1
ST GABRIEL

(a) Office equipment account

Date	Particulars	DR ($)	CR ($)	Bal ($)
2021				
Aug 2	Capital✓✓	2 000		2 000 DR
2022				
Mar 24	Trade payable, ✓ IPM✓	50 000		52 000 DR
Mar 26	Cash at bank✓	3 500		55 500 DR
Aug 1	Balance b/d✓			✓✓55 500 DR

(b) Depreciation on:
New motor vehicle = 9/12 X 10%(80 000) = $6 000✓✓
Old motor vehicle = 10%(240 000 – 75 000) = $16 500✓✓
Total depreciation on motor vehicle = $22 500✓✓

(c) Depreciation on:
New motor vehicle = 9/12 X 10%(80 000) = $6 000✓
Old motor vehicle = 10%(240 000) = $24 000✓✓
Total depreciation on motor vehicle = $30 000✓
Profit will decrease✓ by ($30 000 - $22 500) = $7 500✓

(d) Due to matching theory, depreciation is provided so as to match the expense of the non-current assets✓ to the income✓ generated by the asset✓ in the same period✓

A 2
PRESBYTERIAN HS

a:
Matching theory requires the expense incurred in the current year to be matched against the revenue earned in the current year to calculate profit or loss for the current year [1]. Depreciation is the expense incurred in using the non-current asset in the current year [1].

b:

Fixtures and Fittings Account

Date	Particulars	Dr ($)	Cr ($)	Bal. ($)
2022 Jan 1	Balance b/d [1]			24 800 Dr
Oct 1	Trade payable – Nicholas [1]	6 400		31 200 Dr
2023 Jan 1	Balance b/d			31 200 Dr

c: Reducing balance method [1]
d:
Old : 20% X 24 800 X 1 year = $4 960 [1]
New: 20% X 6400 X 3/12 year =$ 320 [1]
Total depreciation $5 280 [1]

e: Journal

Date	Particulars	Dr ($)	Cr ($)
2022 Dec 31	Depreciation of fixtures and fittings [1] Accumulated depreciation of fixtures and fittings [1]	5 280	 5 280

f:
Depreciation of motor vehicles using reducing balance method = 25% X [84000-12000]
= $18 000
Depreciation of motor vehicles using straight line method = 25% X 84 000
= $21 000
Depreciation expense is overstated by $3 000
(i) Profit will be understated by $3 000 [1]
(ii) Net book value of motor vehicles will be understated by $3 000 [1]