# Secondary 4

## Principles of Accounts Syllabus **7086** and **7087**

## Topic: Non Current Assets – Depreciation

## This document consists of 4 printed pages.

## Question 1

### REQUIRED

Xiao Hu Pte Ltd is a new business that produces and sells tiger-themed cupcakes. As of 1 January 2023, the business's total costs for its machinery amounted to $40 000.

**Xiao Hu Pte Ltd**

**Accumulated Depreciation of Machinery account**

| Date | Particulars | Dr | Cr | Bal |
|---|---|---|---|---|
| **2023** | | | | |
| Dec 31 | Depreciation of Machinery | | 8000 | 8000 Cr |
| | | | | |
| **2024** | | | | |
| Dec 31 | Depreciation of Machinery | | 6400 | 14 400 Cr |

a) What method of depreciation is Xiao Hu Pte Ltd using to depreciate its Machinery?

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b) Calculate the rate of depreciation per annum.

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# Guided solutions

a)

**Xiao Hu Pte Ltd**

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|------|-------------|----|----|-----|
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| | | | | |
| **2024** | | | | |
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Look at the depreciation amount. It is **decreasing**, thus – reducing balance method. Straight line method should have the same depreciation expense yearly.

b) Calculate the rate of depreciation per annum.

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**Accumulated Depreciation of Machinery account**

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Referring to answer for a), we apply the formula for reducing balance method of depreciation: [Cost – Accumulated Depreciation] x rate.

**Refer to the depreciation of machinery for the year ended 2023.**

[Cost – Accumulated Depreciation] x rate = depreciation expense.

Accumulated Depreciation is ZERO. This is evident upon referring to the Bal in the ledger. The depreciation expense for the year ended 2023, $8000, adds up to the total ($8000) which means there is no amount accumulated from the previous years. (Possibly, a newly purchased NCA)

**[Turn over**

Now, substitute all the amounts into the formula.

[40 000 – 0] x rate = 8000

rate = 8000/[40000 – 0]

= **0.2**

Therefore, we can conclude that Xiao Hu Pte Ltd charges a depreciation rate of **20%** per annum on machinery.

To check if your answer is correct, substitute it into the equation.

[40 000 – 0] x **0.2** = 8000 ✓

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This document serves as an additional guide to prepare you for your GCE NA/O-Level POA examinations. However, it should not replace your textbook/notes.

The business mentioned in this paper is entirely fictitious.

This document is **free to distribute.**

This document was written by Pan Yijie. Any queries should be forwarded to the author directly.

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