**Depreciation and Sale of Asset**

***Practice Assessment Task***

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| **Student Name:** | **Solution** | **CG:** |  |

**Time allowed:** 1 hour

**Material required/recommended for this assessment**

To be provided by the supervisor

This Question/Answer Booklet

To be provided by the candidate

*Standard Items:* Pens, pencils, eraser or correction fluid, ruler

*Special Items:* Non-programmable calculators satisfying the conditions set by the School

Curriculum and Standards Authority for this course

**Marking Key**

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| --- | --- | --- |
| Question | **Marks Allocated** | **Marks**  **Gained** |
| **Multiple Choice** | 5 |  |
| **6** | 45 |  |
| **7** | 10 |  |
| **Total** | **60** |  |

**Multiple Choice**

Each question has only one correct response. Signify your answer by circling the label (**a**, **b**, **c** or **d**) of the correct response. If you change your answer, completely erase your original answer. Questions where two or more responses are selected will score no marks.

1. Depreciation is best defined as:

* 1. The allocation of the wear and tear of an asset against income.
  2. **The allocation of the cost of an asset against income.**
  3. The total depreciation written off against an asset over its useful life.
  4. The cost less the current market value of the asset.

2. The reducing balance method of depreciation differs from the straight line method in that the

1. **depreciation amounts decrease over time.**
2. depreciation amounts stay the same over time.
3. accumulated depreciation increases at a faster rate.
4. accumulated depreciation changes at the same rate.

3. A small business sold an existing motor vehicle for $11,500. The vehicle had cost $36,900 and accumulated depreciation of $25,700. Which statement explains the gain on sale?

* 1. **Too much depreciation was charged throughout the life of the motor vehicle.**
  2. Too little depreciation was charged throughout the life of the motor vehicle.
  3. The carrying amount was too high.
  4. The motor vehicle was sold too cheaply.

Questions 4 & 5 relate to the following graph showing the annual depreciation charged over the useful life of machinery purchased for $50,000 on the 1 July 2020.

4. The written down (carrying amount) value of the machinery at the end of the second year would be

1. $50 000
2. **$43 100**
3. $6 900
4. $3 600
5. Which statement is correct?
6. The market value of the machinery at Year 1 would be $46 700.
7. A cash reserve of $17 500 will be available for asset replacement in Year 5.
8. **The machinery contributes to the business income evenly.**
9. The residual value of the machinery is estimated at $21,000.

**( /5 marks)**

6 Southways Vending purchased one new drink vending machine on 31 October 2017 at a cost of $8 000 cash + $800 GST. Other costs included:

Machine preparation and GPS testing 1 600

Annual repairs and maintenance contract 2 000

Inventory of cool drinks 3 500

Annual insurance premium 1 500

Display signs to be placed on machines 400

The estimated useful life of the machines is 10 years with a scrap value of $2 000.

The accountant intends to use the straight line method of depreciation.

On 1 April 2020 the machine was sold for $6 800 (GST Exclusive).

Round all calculations to the nearest dollar.

**Show all workings below**

|  |
| --- |
| **Depreciable Amount** |
| **Cost $8 000** |
| **Machine preparation and GPS testing 1 600** |
| **Display signs to be placed on machines 400** |
| **$10 000** |
|  |
| **Depn($) = Original cost – Residual Value** |
| **Useful Life** |
| **= 10 000 - 2000** |
| **10 yrs** |
| **= 800pa** |
|  |
| **30 June 2018 30 June 2019 1 April 2020** |
|  |
| **800 x 8/12 = 533 800 800 x 9/12 = 600** |
|  |
| **Total accumulated depreciation = 1 933** |
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1. Prepare the general journal entries necessary for **Sale Date only**.

**General Journal for Southways Vending**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **F** | **Debit** | **Credit** |
| Aprl 1 | Depn of Machine |  | 600 **✓✓** |  |
|  | Acc depn of Machine |  |  | 600**✓✓** |
|  | Depreciation charged until sale date. |  |  |  |
|  |  |  |  |  |
| 1 | Sale of Machine |  | 10 000**✓✓** |  |
|  | Machine |  |  | 10 000**✓✓** |
|  | Transfer of original cost on sale date. |  |  |  |
|  |  |  |  |  |
| 1 | Acc depn of Machine |  | 1 933**✓✓** |  |
|  | Sale of Machine |  |  | 1 933**✓✓** |
|  | Transfer of accumulated depreciation on sale date. |  |  |  |
|  |  |  |  |  |
| 1 | Bank |  | 7 480**✓** |  |
|  | GST Payable |  |  | 680**✓** |
|  | Machine |  |  | 6800**✓** |
|  | Sold machine for cash |  |  |  |
|  |  |  |  |  |
| 1 | Loss on sale of Machine |  | 1 267**✓✓** |  |
|  | Sale of Machine |  |  | 1 267**✓✓** |
|  | Loss on sale of Machine due to under depreciation. |  |  |  |
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**( /19 marks)**

1. Complete the following ledger accounts showing all transactions that will occur from

**31 October 2017 to 30 June 2020 only.**

**General Ledger for Southways Vending**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Machine A/c** | | | | | |
| **2017**  **Oct 31** | **Bank** | **10 000✓** | **2020**  **Apr 1** | **Sale of machine** | **10 000✓** |
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| **Accumulated Depreciation – Machine A/c** | | | | | |
| **2020**  **Apr 1** | **Sale of machine** | **1 933✓** | **2018**  **June 30** | **Depn of machine** | **533✓** |
|  |  |  | **2019**  **June 30** | **Depn of machine** | **800✓** |
|  |  |  | **2020**  **Aprl 1** | **Depn of machine** | **600✓** |
|  |  | **11 184** |  |  | **11 184** |
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| **Sale of Machine A/c** | | | | | |
| **2020**  **Apr 1** | **Machine** | **10 000✓** | **2020**  **Aprl 1** | **Acc depn of Machine** | **1933✓** |
|  |  |  | **1** | **Bank** | **6 800✓** |
|  |  |  | **1** | **Loss on sale** | **1 267✓** |
|  |  | **51 183** |  |  | **51 183** |
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**( /10 marks)**

1. Explain where Depreciation of Machine would appear in the financial reports of

Southways Vending.

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| **Depreciation of machine appears in the Income Statement✓ as a** |
| **Selling and Distribution expense. ✓** |
|  |

**( /2 marks)**

1. Show the asset Machine as it would have appeared in the Balance Sheet as at 30 June 2019.

**Southways Vending**

**Balance Sheet (extract)**

**As at 30 June 2019**

|  |  |  |
| --- | --- | --- |
| **Non Current Assets✓** |  |  |
| **Machine** | **10 000✓** |  |
| **Less: Accumulated Depreciation** | **1 333✓** | **8 667✓** |
|  |  |  |

**( 4 marks)**

d. The **market value** of the machines at Southways Vending is shown in the Balance Sheet

above. Discuss

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| --- |
| **Depreciation is a process of cost allocation not asset valuation. reduction in the profit figure for 30 June 2020 The amount** |
| **shown is regarded as a carrying amount or book value representing what is** |
| **still to be depreciated from the machine. ✓ While the amount cannot** |
| **represent the market value✓ it can be regarded as a loss in value of the** |
| **machine over time due to wear and tear, and obsolescence. ✓** |
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**( /4 marks)**

e. Was the sold vending machine over or under depreciated, and by how much? Explain the effect of this on Southways Vending profit figure calculated on 30 June 2020**.**

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| --- |
| **The vending machine was under depreciated✓ by $1 267✓ causing a** |
| **reduction in the profit figure for 30 June 2020. ✓** |
|  |

**( /3 marks)**

* + 1. The two owners of Southways Vending are having an argument about depreciation, saying that it sets aside cash for the replacement of vending machines.

Discuss this issue providing a clear explanation to solve the argument?

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| **Depreciation is a book entry/adjustment ✓and does not involve the** |
| **movement of any cash✓ that would be made available to replace** |
| **vending machines✓** |
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**( /3 marks)**

**End of Assessment!**