**Extension Activity (Please download and complete this task)**

- You are working on the books of a business which is registered for VAT.
- During the year, an old vehicle was disposed of.
- The old vehicle had originally cost £12,000 plus VAT (which was reclaimed).
- The business' depreciation policy for machinery is 25% reducing balance method and two years depreciation had been applied on the old vehicle.
- The vehicle was sold for £7,000 plus VAT and a cheque was received.

**You are required to make the entries necessary to (a) record the disposal of the old machine.**

NB: Each account should be properly balanced off or the balance transferred to the Profit & Loss Account.

**Vehicles at cost**

| | | | |
|---|---|---|---|
| Balance b/d | 26,000 | | |
| | | | |
| | | | |
| | | | |

**Vehicles: accumulated depreciation**

| | | | |
|---|---|---|---|
| | | Balance b/d | 17,625 |
| | | | |
| | | | |

**Disposals Account**

| | | | |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |

**Bank Account**

| | | | |
|---|---|---|---|
| | | Balance b/d | 3000 |
| | | | |
| | | | |

LIVEWORKSHEETS

## Suggested Answer

**Vehicles at cost**

| | | | |
|---|---|---|---|
| Balance b/d | 26,000 | **Disposals** | **12,000** |
| | | **Balance c/d** | **14,000** |
| | **26,000** | | **26,000** |

**Working of Depreciation**

**Dep'n (Year 1) = 25% x 12,000 = 3,000** **Dep'n (Year 2) = 25% x 9,000 = 2,250**

Accumulated Depreciation 3000+2250 = 5,250

**Vehicles: accumulated depreciation**

| | | | |
|---|---|---|---|
| **Disposals** | **5,250** | Balance b/d | 17,625 |
| **Balance c/d** | **12,375** | | |
| | **17,625** | | **17,625** |

**Disposals Account**

| | | | |
|---|---|---|---|
| **Vehicles at cost** | **12,000** | **Vehicles: Accum Dep'n** | **5,250** |
| **Profit & Loss Account** | **250** | **Bank** | **7,000** |
| | **12,250** | | **12,250** |

**Bank Account**

| | | | |
|---|---|---|---|
| **Disposals** | **7,000** | Balance b/d | 3,000 |
| **VAT** | **1,400** | **Balance c/d** | **5,400** |
| | **8,400** | | **8,400** |

LIVEWORKSHEETS