

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

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