

# MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

## Chapters:

### Depreciation - Unit 1 (Pearson Edexcel)

Page 1	(WAC01 or WAC11) 2018 Winter
Page 4	(WAC01 or WAC11) 2018 Winter - Answer
Page 10	(WAC01 or WAC11) 2017 Autumn
Page 13	(WAC01 or WAC11) 2017 Autumn - Answer
Page 17	(WAC01 or WAC11) 2016 Summer
Page 19	(WAC01 or WAC11) 2016 Summer - Answer
Page 22	(WAC01 or WAC11) 2016 Autumn
Page 23	(WAC01 or WAC11) 2016 Autumn - Answer
Page 28	(WAC01 or WAC11) 2015 Winter
Page 30	(WAC01 or WAC11) 2015 Winter - Answer

- 5 Fast Response is a business delivering goods to customers. The following information is available:

- (1) Extract from the Statement of Financial Position at 31 December 2016.

Non-current assets

	Cost £	Accumulated depreciation £	Carrying value £
Delivery vehicles	31 000	4 600	26 400

- (2) History of delivery vehicle purchases and sales.

1 January 2016	Purchased vehicle A	£15 000
1 July 2016	Purchased vehicle B	£16 000
1 April 2017	Purchased vehicle C	£18 000
1 July 2017	Purchased vehicle D	£20 000
1 July 2017	Sold vehicle A	£11 000

- (3) Fast Response has the following depreciation policy:

- delivery vehicles are depreciated at the rate of 20% per annum using the straight line method
- depreciation is charged on delivery vehicle purchases and sales on a pro rata basis to the months of ownership
- all sales of delivery vehicles are recorded through a disposal account.

- (4) All purchases and sales of delivery vehicles were by cheque.

### Required

- (a) Complete the table in your Question Paper showing the depreciation charged on **each** delivery vehicle for the year ended 31 December 2017. (4)
- (b) Prepare the Journal entries to record the sale of delivery vehicle A on 1 July 2017. (4)
- (c) Prepare, for the year ending 31 December 2017, the:
- (i) Delivery Vehicles Account (4)
- (ii) Delivery Vehicles Disposal Account. (4)
- (d) Explain the difference between the accounting concepts of **going concern** and **consistency** when applied to the depreciation of non-current assets. (4)

(e) Identify whether **each** of the following costs is a **capital expenditure** or a **revenue expenditure** for a new delivery vehicle purchased.

- (1) Delivery cost of vehicle
- (2) Road licence
- (3) Insurance
- (4) Sign writing of business name on delivery vehicle

(4)

(f) Evaluate the suitability of the straight line method for depreciating delivery vehicles.

(6)

**(Total for Question 5 = 30 marks)**

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If you answer Question 5 put a cross in the box ☐ .

Source material for Question 5 is on pages 10 and 11 of the source booklet.

- 5 (a) Complete the table showing the depreciation charged on **each** delivery vehicle for the year ended 31 December 2017.

(4)

Year ended	Delivery vehicle A £	Delivery vehicle B £	Delivery vehicle C £	Delivery vehicle D £	Total £
31 December 2017					

- (b) Prepare the Journal entries to record the sale of delivery vehicle A on 1 July 2017.

(4)

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		An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
5 (a)	<b>AO2(4)</b> <b>AO2 Four marks for calculating the depreciation to be charged on each vehicle.</b>	<b>(4)</b>

Year ended	motor vehicle A £	motor vehicle B £	motor vehicle C £	motor vehicle D £	Total £
31 December 2017	1 500 <b>(1) AO2</b>	3 200 <b>(1) AO2</b>	2 700 <b>(1) AO2</b>	2 000 <b>(1) AO2</b>	9 400

Question Number	Answer	Mark
5 (b)	<b>AO1(1), AO2(2), AO3(1)</b> <b>AO1 One mark for appropriate narrative.</b> <b>AO2 Two marks for journalising motor vehicle and bank entries.</b> <b>AO3 One mark for correct journalising and value of provision for depreciation.</b>	(4)

## Journal

	Dr	Cr
	£	£
Provision for depreciation- motor vehicle	4 500	
Disposal		4 500 (1) <b>AO3</b>
		Both
Disposal	15 000	
Motor vehicle		15 000 (1) <b>AO2</b>
		Both
Bank	11 000	
Disposal		11 000 (1) <b>AO2</b>
		Both
Sale of motor vehicle A on 1 July 2017 for £11 000 (1) <b>AO1</b>		

Question Number	Answer	Mark
5 (c)(i)	<b>AO2(4)</b> <b>AO2 Four marks for posting to delivery vehicle account.</b>	(4)

## Delivery Vehicles Account

Date	Details	£	Date	Details	£
2017			2017		
1 Jan	Balance b/d	31 000 (1) <b>AO2</b>	1 July	Disposal	15 000 (1) <b>AO2</b>
1 April	Bank	18 000			
1 July	Bank	<u>20 000 (1) <b>AO2</b></u>	31 Dec	Balance c/d	<u>54 000 of</u>
		<u>69 000</u>			<u>69 000</u>
2018					
1 Jan	Balance b/d	54 000 (1) <b>AO2</b>			

On debit side

Question Number	Answer	Mark
5 (c)(ii)	<b>AO2(2), AO3(2)</b> <b>AO2 Two marks for posting to delivery vehicle account.</b> <b>AO3 Two marks for calculating depreciation to 1 July 2017 and correct insertion in disposal account. Correct calculation of loss.</b>	(4)

## Disposal Account

Date	Details	£	Date	Details	£
2017			2017		
1 July	Motor vehicle	15 000 (1) <b>AO2</b>	1 July	Prov for Deprec	4 500 (1of) <b>AO3</b>
31 Dec	Profit on disposal/Income statement	500 (1of) <b>AO3</b>		Bank	11 000 (1) <b>AO2</b>
		<u>15 000</u>			<u>15 000</u>

Question Number	Answer	Mark
5 (d)	<p><b>AO2(4)</b>  <b>AO2 Four marks for explaining the difference between the two accounting concepts.</b></p> <p>Going concern  Assumes business life will continue for the foreseeable future unless the contrary is known  All non-current assets to be depreciated over their economic life</p> <p>Consistency  Assumes same treatment in the accounts over time e.g. using the same method of depreciation  Seeks to avoid distortion in the preparation of the accounts</p> <p>Candidates to distinguish a point for going concern and a point for consistency. <b>2 x (2) AO2</b></p>	(4)

Question Number	Answer	Mark
5 (e)	<p><b>AO1(4)</b>  <b>AO1 Four marks for identification of capital expenditure or revenue expenditure.</b></p> <ul style="list-style-type: none"> <li>Motor vehicle delivery cost      Capital expenditure <b>(1) AO1</b></li> <li>Road licence                              Revenue expenditure <b>(1) AO1</b></li> <li>Insurance                                  Revenue expenditure <b>(1) AO1</b></li> <li>Sign writing of business name      Capital expenditure <b>(1) AO1</b></li> </ul>	(4)



Question Number	Indicative Content	Mark
5 (f)	<p><b>AO2 (1), AO3 (2), AO4 (3)</b></p> <p>Potential positive arguments for straight line</p> <p>Fast Response will obtain many years usage from each motor vehicle. The usage will probably be of equal value over the years. Therefore it seems appropriate to charge equal depreciation to each year.</p> <p>Potential negative points against straight line</p> <p>As the motor vehicle becomes older it will require more maintenance and repair therefore the total cost of operating the motor vehicle in depreciation and repairs will rise distorting profits later in the life of the non-current asset.</p> <p>Motor vehicles tend to lose a greater proportion of their value in the early years. Therefore with the straight line method the carrying value will be in excess of the true market value.</p> <p>It would be prudent to charge higher depreciation in the early years.</p> <p>Decision</p> <p>Candidates may conclude that it is a suitable or not suitable in the depreciation of motor vehicles. The candidate's decision should be supported by reference to positive and negative points.</p> <p>NOT</p> <p>Simple to calculate</p> <p>Easy to calculate</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	<p>Isolated elements of knowledge and understanding which are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>
Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using</p>

		financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
6 (a)	<p><b>AO1 (4)</b>  <b>AO1: Four marks for recommending the basis of apportionment and providing a reason.</b></p> <p>Rent and rates – Floor area <b>(1) AO1</b> the expense will be incurred in relation to the area occupied by the respective departments. <b>(1) AO1</b>  Marketing expenses – Revenue <b>(1) AO1</b> marketing will raise awareness of the goods and services that PC Sales and Repairs has to offer which should increase the sales revenue of the respective departments. <b>(1) AO1</b></p>	<b>(4)</b>

Question Number	Answer	Mark
6 (b)	<p><b>AO1 (5), AO2(12), AO3 (3)</b>  <b>AO1: Five marks for recording the figure correctly from the data given.</b>  <b>AO2: Twelve marks for calculating the figure and then recording this correctly.</b>  <b>AO3: Three marks for calculating the correct figure using two calculations and then recording the figure correctly.</b></p>	<b>(20)</b>

- 4 The Statement of Financial Position of Hoppe Electricals at 30 June 2016, showed the following:

Non-current Asset	Cost	Accumulated Depreciation	Carrying Value
	£	£	£
Land and buildings	250 000	80 000	170 000
Motor vehicles	72 000	30 000	42 000
Loose tools	15 000	5 000	10 000
Total	337 000	115 000	222 000

- (1) During the year ended 30 June 2017, the following non-current asset transactions took place:

- An extension to the building costing £60 000 was completed and occupied.
- New motor vehicles were purchased at a cost of £23 000
- Existing motor vehicles with a cost of £25 000, were sold for their carrying value of £5 000
- Additional loose tools were purchased for £6 000. Loose tools were valued on 30 June 2017 at £14 000

- (2) Hoppe Electricals has the following depreciation policy:

- Land and buildings are depreciated at the rate of 10% per annum using the straight line method.
- Motor vehicles are depreciated at the rate of 25% per annum using the reducing balance method.
- Loose tools are depreciated using the revaluation method.
- A full year's depreciation is charged on all non-current assets owned at the end of the year.

### Required

- (a) State how the following accounting concepts apply to depreciation:

- (i) going concern

(2)

- (ii) consistency.

(2)

- (b) Calculate the depreciation to be charged for each type of non-current asset for the year ended 30 June 2017:
- (i) land and buildings (2)
  - (ii) motor vehicles (3)
  - (iii) loose tools. (3)
- (c) Complete the schedule of non-current assets in your Question Paper. (12)
- (d) Evaluate the depreciation policy of Hoppe Electricals for land and buildings. (6)

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**(Total for Question 4 = 30 marks)**

(c) Complete the schedule of non-current assets.

(12)

**Schedule of Non-current Assets at 30 June 2017**

	<b>Land and buildings</b>	<b>Motor vehicles</b>	<b>Loose tools</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b> at 30 June 2016	250 000	72 000	15 000
Additions for year			
Disposals for year			
<b>Total non-current asset cost</b>			
<b>Less depreciation</b>			
Provision at 30 June 2016	80 000	30 000	5 000
Depreciation on non-current asset disposals			
Depreciation for the year ended 30 June 2017			
<b>Total accumulated depreciation</b>			
<b>Carrying value</b> at 30 June 2017			

Question Number	Answer	Mark
4 (a) (i)	<p><b>AO1 (2)</b>  <b>AO1: Two marks for stating how the concepts apply to depreciation.</b></p> <p>Going concern  It is assumed that the business will have perpetual life <b>(1) AO1</b> Therefore the cost of non-current assets should be matched to each accounting period over the useful life of the asset. <b>(1) AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
4 (a) (ii)	<p><b>AO1 (2)</b>  <b>AO1: Two marks for stating how the concepts apply to depreciation.</b></p> <p>Consistency  Whichever method of depreciation and rate has been chosen for a non-current asset it should be consistently applied to the non-current assets' useful life <b>(1) AO1</b> to avoid distortion of profit.  <b>(1) AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
4 (b) (i)	<p><b>AO2 (2)</b>  <b>AO2: Two marks for completing the calculations.</b></p> <p>Land and buildings</p> <p><math>250\,000 + 60\,000 = 310\,000</math> <b>(1) AO2</b> x 10%  <math>= 31\,000</math> <b>(1) of AO2</b></p>	<b>(2)</b>

Question Number	Answer	Mark
4 (b) (ii)	<p><b>AO2 (2), AO3 (1)</b>  <b>AO2: Two marks for completing the calculations.</b>  <b>AO3: One mark for adjusting the calculations for disposals.</b></p> <p>Motor vehicles</p> <p>Carrying value after disposal 37 000 <b>(1) AO3</b> +  23 000 = 60 000 <b>(1) AO2</b> x 25% = 15 000 <b>(1) of AO2</b></p> <p>OR</p> <p>((42 000 – 5 000 <b>(1) AO3</b>) + 23 000 <b>(1) AO2</b>)  x 25% = 15 000 <b>(1) of</b></p>	<b>(3)</b>

Question Number	Answer	Mark
4 (b) (iii)	<p><b>AO2 (1), AO3 (2)</b>  <b>AO2: One mark for completing the calculations.</b>  <b>AO3: Two marks for adjusting the calculations for disposals.</b></p> <p>Loose tools</p> <p>15 000 + 6 000 = 21 000 <b>(1) AO2</b> – 14 000  = 7 000 <b>(1) AO3</b> – 5000 = 2 000 <b>(1) AO3</b></p>	<b>(3)</b>

Question Number	Answer	Mark																																																
4 (c)	<p><b>AO1 (5), AO2 (7)</b></p> <p><b>AO1: Five marks for inserting figures in the table.</b></p> <p><b>AO2: Seven marks for applying provision for depreciation correctly.</b></p> <p>Schedule of Non-current Assets at 30 June 2017.</p> <table><tr><th></th><th>Land and buildings</th><th>Motor vehicles</th><th>Loose tools</th></tr><tr><th></th><th>£</th><th>£</th><th>£</th></tr><tr><td><b>Cost</b> at 30 June 2016</td><td>250 000</td><td>72 000</td><td>15 000</td></tr><tr><td>Additions for year</td><td>60 000 <b>(1) AO1</b></td><td>23 000 <b>(1) AO1</b></td><td>6 000 <b>(1) AO2</b></td></tr><tr><td>Disposals for year</td><td>( - )</td><td>( 25 000 ) <b>(1) AO2</b></td><td>( - )</td></tr><tr><td><b>Total non-current asset cost</b></td><td><b>310 000</b></td><td><b>70 000</b></td><td><b>21 000</b></td></tr><tr><td><b>Less depreciation</b></td><td></td><td></td><td></td></tr><tr><td>Provision at 30 June 2016</td><td>( 80 000 )</td><td>( 30 000 )</td><td>( 5 000 )</td></tr><tr><td>Depreciation on non-current asset disposals</td><td>-</td><td>20 000 <b>(1) AO2</b></td><td>-</td></tr><tr><td>Depreciation for the year ended 30 June 2017</td><td>( 31 000 ) <b>(1) of AO2</b></td><td>( 15 000 ) <b>(2)(1) of AO2</b></td><td>( 2 000 ) <b>(1) of AO2</b></td></tr><tr><td><b>Total accumulated depreciation</b></td><td><b>(111 000)</b></td><td><b>( 25 000)</b></td><td><b>( 7 000)</b></td></tr><tr><td><b>Carrying value</b> at 30 June 2017</td><td><b>199 000</b> <b>(1) of AO1</b></td><td><b>45 000</b> <b>(1) of AO1</b></td><td><b>14 000</b> <b>(1) of AO1</b></td></tr></table>		Land and buildings	Motor vehicles	Loose tools		£	£	£	<b>Cost</b> at 30 June 2016	250 000	72 000	15 000	Additions for year	60 000 <b>(1) AO1</b>	23 000 <b>(1) AO1</b>	6 000 <b>(1) AO2</b>	Disposals for year	( - )	( 25 000 ) <b>(1) AO2</b>	( - )	<b>Total non-current asset cost</b>	<b>310 000</b>	<b>70 000</b>	<b>21 000</b>	<b>Less depreciation</b>				Provision at 30 June 2016	( 80 000 )	( 30 000 )	( 5 000 )	Depreciation on non-current asset disposals	-	20 000 <b>(1) AO2</b>	-	Depreciation for the year ended 30 June 2017	( 31 000 ) <b>(1) of AO2</b>	( 15 000 ) <b>(2)(1) of AO2</b>	( 2 000 ) <b>(1) of AO2</b>	<b>Total accumulated depreciation</b>	<b>(111 000)</b>	<b>( 25 000)</b>	<b>( 7 000)</b>	<b>Carrying value</b> at 30 June 2017	<b>199 000</b> <b>(1) of AO1</b>	<b>45 000</b> <b>(1) of AO1</b>	<b>14 000</b> <b>(1) of AO1</b>	
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(12)



Question Number	Indicative Content		Mark
<b>4 (d)</b>	<b>AO2 (1), AO3 (2), AO4 (3)</b>  Potential positive arguments for the policy Buildings will require depreciation because they will deteriorate. Accruals/matching concepts are being applied. Prudence concept has been applied. Straight line method is the same depreciation each year and does not distort profit.  Potential negative points for the policy Land is not normally depreciated. At 10% the rate is too high for matching/accruals concept. The book value may not be near to the market value.  <b>NOT</b> Less time to calculate. Less errors.  Decision Candidates may decide that the application of 10% straight line depreciation to land and buildings is appropriate or not appropriate. Candidate's decisions must be supported by a rationale of key points in arriving at that conclusion.		<b>(6)</b>
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	

4 The following is a schedule of non-current assets from the records of Jabir.

Non-current assets	Balances at 1 May 2015		For the year ended 30 April 2016	
	Cost	Provision for depreciation	Additions at cost	Disposals at cost
	£	£	£	£
Land and buildings	85 000	8 000	20 000	-
Computers	30 000	9 200	10 000	5 000
Fixtures and fittings	9 500	4 300	1 500	-

The depreciation policy of Jabir is as follows:

- No depreciation is charged on land, which cost £35 000. Depreciation is charged on buildings at the rate of 2% per annum using the straight line method.
- Computers are depreciated at the rate of 20% per annum using the straight line method.
- Fixtures and fittings are depreciated at the rate of 10% per annum using the straight line method.
- A full year's depreciation is charged in the year of addition (purchase).
- A half year's depreciation is charged in the year of disposal (sale).

**Additional information**

- (1) All non-current asset additions were paid for by cheque.
- (2) All disposals were transferred to the Disposals Account.
- (3) The computer disposed of in the year had been purchased on 1 January 2014.

**Required**

- (a) Explain why Jabir needs to charge depreciation on his non-current assets. (4)
- (b) Calculate the depreciation to be charged on the computers for the year ended 30 April 2016. (2)
- (c) Prepare, for the year ended 30 April 2016, the:
  - (i) Computers Account (5)
  - (ii) Computers – Provision for Depreciation Account. (5)
- (d) Complete in the question paper the extract from the Statement of Financial Position at 30 April 2016 for the non-current assets. (8)

Non-current assets	Cost	Accumulated depreciation	Carrying value
	£	£	£
Land and buildings			
Computers			
Fixtures and fittings			
Total			

- (e) Evaluate Jabir's depreciation policy for computers. (6)

**(Total for Question 4 = 30 marks)**

Question Number	Indicative content
4 (a)	<p><b>AO1 (1), AO2 (2), AO3 (1)</b></p> <p><b>AO1: One mark for identifying that depreciation relates to age and usage.</b></p> <p><b>AO2: Two marks for explaining the impact upon the income for the period and non-current asset values in the financial position statement.</b></p> <p><b>AO3: One mark for linking the need for depreciation to the application of accounting concepts.</b></p> <ul style="list-style-type: none"> <li>• Non-current assets generally <b>fall in value</b> with age and usage (1)<b>AO1</b></li> <li>• The depreciation is a <b>cost/expense of a period of time</b> and therefore should be charged against income for that period/<b>profits should not be overstated</b> (1)<b>AO2</b></li> <li>• Because the non-current assets are generally falling in value this should be <b>reflected in the financial position statement</b> (1)<b>AO2</b></li> <li>• Charging depreciation complies with the <b>going concern</b>(1)<b>AO3</b></li> <li>• Charging depreciation complies with the <b>accruals concepts</b>. (1)<b>AO3</b></li> </ul> <p>Max 4</p> <p><b>Not</b> Prudence concept</p>

Question Number	Indicative content
4 (b)	<p><b>AO2 (2)</b></p> <p><b>AO2: One mark for calculating the depreciation on existing non-current assets and additions. One mark for calculating the depreciation on disposals.</b></p> <p>Cost 30 April 2015 £30 000 + Additions £10 000 = £40 000          - Disposals £5 000 = £35 000 x 20% = £7000 (1)<b>AO2</b> +          Disposals £5 000 x 20%/2 £500 (1)<b>AO2</b> = Total £7 500</p>

Question Number	Indicative content																																																																																																										
4 (c)	<p><b>AO1 (4), AO2 (4), AO3 (2)</b></p> <p><b>AO1: Four marks for correctly recording the opening balances and bringing down the balances to the next period.</b></p> <p><b>AO2: Four marks for correctly recording the transactions for the year.</b></p> <p><b>AO3: Two marks for calculating the disposal sums and correctly recording in the accounts.</b></p> <div><div><div>Computer Account</div><table><tr><td colspan="2"></td><td>£</td><td colspan="2"></td><td>£</td></tr><tr><td>2015</td><td></td><td></td><td>2015</td><td></td><td></td></tr><tr><td>1 May</td><td>Balance b/d</td><td>30 000 (1)</td><td>AO1</td><td>Disposal</td><td>5 000 (1)</td><td>AO3</td></tr><tr><td></td><td>Bank/cash</td><td>10 000 (1)</td><td>AO2</td><td>2016</td><td></td><td></td></tr><tr><td></td><td></td><td><u>40 000</u></td><td>30 April</td><td>Balance c/d</td><td>35 000 (1)</td><td>AO2</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td><u>40 000</u></td><td></td></tr><tr><td>2016</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>1 May</td><td>Balance b/d</td><td>35 000 (1of)</td><td>AO1</td><td></td><td></td><td></td></tr></table></div><div><div>Computer- Provision for Depreciation Account</div><table><tr><td colspan="2"></td><td>£</td><td colspan="2"></td><td>£</td></tr><tr><td>2015</td><td></td><td></td><td>2015</td><td></td><td></td></tr><tr><td></td><td>Disposal(1)</td><td>2 500 (1)</td><td>AO3</td><td>1 May</td><td>Balance b/d</td><td>9 200 (1)</td><td>AO1</td></tr><tr><td>2016</td><td></td><td></td><td>2016</td><td></td><td></td><td></td><td></td></tr><tr><td>30 April</td><td>Balance c/d</td><td>14 200</td><td>30 April</td><td>Income statement</td><td>7 500(1of)</td><td>AO2</td><td></td></tr><tr><td></td><td></td><td><u>16 700</u></td><td></td><td></td><td><u>16 700</u></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>1 May</td><td>Balance b/d</td><td>14 200 (1of)</td><td>AO1</td><td></td></tr></table></div></div>			£			£	2015			2015			1 May	Balance b/d	30 000 (1)	AO1	Disposal	5 000 (1)	AO3		Bank/cash	10 000 (1)	AO2	2016					<u>40 000</u>	30 April	Balance c/d	35 000 (1)	AO2						<u>40 000</u>		2016							1 May	Balance b/d	35 000 (1of)	AO1						£			£	2015			2015				Disposal(1)	2 500 (1)	AO3	1 May	Balance b/d	9 200 (1)	AO1	2016			2016					30 April	Balance c/d	14 200	30 April	Income statement	7 500(1of)	AO2				<u>16 700</u>			<u>16 700</u>						1 May	Balance b/d	14 200 (1of)	AO1	
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Question Number	Indicative content																																				
4(d)	<p><b>AO1(4), AO2 (4)</b> <b>AO1: Four marks for correctly recording or totalling figures in the statement.</b> <b>AO2: Four marks for calculating and applying the correct figures to the statement.</b></p> <p>Extract Non-current assets</p> <table><tr><th></th><th>Cost</th><th></th><th>Accumulated depreciation</th><th></th><th>Carrying over</th></tr><tr><th></th><th>£</th><th></th><th>£</th><th></th><th>£</th></tr><tr><td>Land &amp; buildings</td><td>105 000 (1)AO2</td><td>-</td><td>9 400 (1)AO2</td><td>=</td><td>95 600</td></tr><tr><td>Computers</td><td>35 000 (1)AO2</td><td>-</td><td>14 200(1of)AO1</td><td>=</td><td>20 800</td></tr><tr><td>Fixtures &amp; fittings</td><td><u>11 000</u> (1)AO1</td><td>-</td><td><u>5 400</u> (1)AO2</td><td>=</td><td><u>5 600</u></td></tr><tr><td></td><td><u>151 000</u> (1of)AO1</td><td></td><td><u>29 000</u></td><td></td><td>122 000 (1of)AO1</td></tr></table>		Cost		Accumulated depreciation		Carrying over		£		£		£	Land & buildings	105 000 (1)AO2	-	9 400 (1)AO2	=	95 600	Computers	35 000 (1)AO2	-	14 200(1of)AO1	=	20 800	Fixtures & fittings	<u>11 000</u> (1)AO1	-	<u>5 400</u> (1)AO2	=	<u>5 600</u>		<u>151 000</u> (1of)AO1		<u>29 000</u>		122 000 (1of)AO1
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Question Number	Indicative content
4(e)	<p><b>AO2 (1), AO3 (2), AO4 (3)</b></p> <p><b>AO2: One mark for applying positive or negative aspects of Jabir's depreciation policy, drawing out key points.</b></p> <p><b>AO3: Two marks for interpreting and analysing possible solutions to depreciating computers, using a developed chain of reasoning.</b></p> <p><b>AO4: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.</b></p> <p>Potential positive arguments for the business</p> <ul style="list-style-type: none"> <li>• Depreciation is being charged and therefore the accounting concepts are being complied with.</li> <li>• The method will reflect the principle of <b>equal usage equal charge</b> for each year.</li> <li>• Does not distort profits.</li> </ul> <p>Potential negative points for the business</p> <ul style="list-style-type: none"> <li>• Computers depreciate quickly due to obsolescence and therefore 20% is a fairly low figure for the early years.</li> <li>• In the early years the computer value in the financial position statement will be overstated.</li> <li>• A full year's depreciation in the year of purchase would result in high depreciation for non-current assets bought late in the year.</li> </ul> <p><b>Not</b> Easier to calculate Consistent method</p>

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

- 6 Palak has reviewed his policy for the depreciation of computers. He has decided to change from the straight line method to the reducing balance method. He provided the following information:
- (1) Purchased computers on 1 October 2013 at a cost of £25 000
  - (2) His policy for depreciating computers for the years ended 30 September 2014 and 30 September 2015 was to depreciate at the rate of 10% per annum using the straight line method.
  - (3) His policy for depreciating computers for the year ended 30 September 2016 will be to depreciate at the rate of 20% per annum using the reducing balance method.
  - (4) The difference due to the change in depreciation method on computers for the years ended 30 September 2014 and 30 September 2015 will be charged to the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September 2016.

### Required

- (a) Explain the difference between capital expenditure and revenue expenditure. (4)
- (b) Explain how capital expenditure will be treated in the financial statements. (4)
- (c) Identify **one** accounting concept that:
  - (i) supports a change in the method of depreciation on computers (1)
  - (ii) does **not** support a change in the method of depreciation on computers. (1)
- (d) Calculate the:
  - (i) difference due to the change in method of depreciation on computers for the years ended 30 September 2014 and 30 September 2015 (6)
  - (ii) depreciation on computers for the year ended 30 September 2016. (2)
- (e) Prepare the Computers – Provision for Depreciation Account for the years ending 30 September 2014, 30 September 2015 and 30 September 2016. (6)
- (f) Evaluate Palak's decision to change the method for depreciating computers from the straight line method to the reducing balance method. (6)

(Total for Question 6 = 30 marks)

**TOTAL FOR SECTION B = 90 MARKS**  
**TOTAL FOR PAPER = 200 MARKS**

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
<b>6(a)</b>	<p><b>AO1 (4)</b>  <b>AO1: Four marks for correct explanations.</b></p> <p>Capital expenditure is the acquisition of or enhancement of non-current assets <b>(1)</b> which will provide a benefit to the business for more than one year. <b>(1)</b></p> <p>Revenue expenditure is day to day expenditure <b>(1)</b> the benefit of which will only be in the current year. <b>(1)</b></p>	<b>(4)</b>



Question Number	Answer	Mark
<b>6(b)</b>	<p><b>AO1 (4)</b>  <b>AO1: Four marks for correct explanation.</b>  A proportion of the non-current asset value (depreciation) <b>(1)</b> will be charged to the Statement of Profits or Losses and Other Comprehensive Income. <b>(1)</b></p> <p>The non-current asset will be recorded in the Statement of Financial Position at original cost <b>(1)</b> less accumulated depreciation <b>(1)</b> to give the carrying value which will be totalled with the other assets.</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>6(c)</b>	<p><b>AO3 (2)</b>  <b>AO3: Two marks for analysing the scenario and determining the concept.</b></p> <p>(i) Prudence <b>(1)</b></p> <p>(ii) Consistency <b>(1)</b></p>	<b>(2)</b>

Question Number	Answer	Mark
<b>6(d)(i)</b>	<p><b>AO2 (5), AO3 (1)</b>  <b>AO2: five marks for correct calculation.</b>  <b>AO3: One mark for analysing the difference.</b></p>	<b>(6)</b>

Straight line	Reducing balance
<p>£</p> <p>Cost 25 000</p> <p>30 September 2014 <u>2 500</u> <b>(1) AO2</b></p> <p>Carrying value 22 500</p> <p>30 September 2015 <u>2 500</u> <b>(1) AO2</b></p> <p>Carrying value 20 000</p>	<p>£</p> <p>Cost 25 000</p> <p>30 September 2014 <u>5 000</u> <b>(1) AO2</b></p> <p>Carrying value 20 000</p> <p>30 September 2015 <u>4 000</u> <b>(1) AO2</b></p> <p>Carrying value 16 000</p> <p><b>Difference</b></p> <p>Reducing balance 5 000 + 4 000 = 9 000</p> <p>Straight line 2 500 + 2 500 = <u>5 000</u></p> <p>Difference 4 000 <b>(2/1 of) AO3</b></p> <p><b>OR carrying value</b></p> <p>Reducing balance 16 000</p> <p>Straight line <u>20 000</u></p> <p>Difference <u>4 000</u> <b>(2/1 of) AO3</b></p>

Question Number	Answer	Mark
6(d) (ii)	<b>A02 (2)</b> <b>A02: Two marks for correct calculation.</b>  30 September 2016 16 000 <b>(1 of)</b> x 20% = 3 200 <b>(1)</b> <b>A02</b>	<b>(2)</b>

Question Number	Answer	Mark																																																																														
6(e)	<p><b>AO2 (5), AO3 (1)</b></p> <p><b>A02: Five marks for correctly posting figures and labelling.</b></p> <p><b>A03: One mark for correctly posting the annual depreciation and difference.</b></p> <div><div>Computers - Provision for Depreciation Account</div><table><tr><td colspan="3">£</td><td colspan="3">£</td></tr><tr><td colspan="3">2014</td><td colspan="3">2014</td></tr><tr><td>30 Sept</td><td>Balance c/d</td><td><u>2 500</u></td><td>30 Sept</td><td>Income Statement</td><td><u>2 500</u> (1) AO2</td></tr><tr><td></td><td></td><td><u>2 500</u></td><td></td><td></td><td><u>2 500</u></td></tr><tr><td colspan="3">2015</td><td colspan="3">2015</td></tr><tr><td>30 Sept</td><td>Balance c/d</td><td>5 000</td><td>1 Oct</td><td>Balance b/d</td><td>2 500 (1) AO2</td></tr><tr><td></td><td></td><td><u>5 000</u></td><td>30 Sept</td><td>Income statement</td><td><u>2 500</u> (1) AO2</td></tr><tr><td></td><td></td><td><u>5 000</u></td><td></td><td></td><td><u>5 000</u></td></tr><tr><td colspan="3">2016</td><td colspan="3">2016</td></tr><tr><td>30 Sept</td><td>Balance c/d</td><td>12 200</td><td>1 Oct</td><td>Balance b/d</td><td>5 000 (1 of) AO2</td></tr><tr><td></td><td></td><td><u>12 200</u></td><td>30 Sept</td><td>Income Statement</td><td><u>7 200</u> (1 of) AO3</td></tr><tr><td></td><td></td><td><u>12 200</u></td><td></td><td>(3 200 + 4 000)</td><td><u>12 200</u></td></tr><tr><td></td><td></td><td></td><td>1 Oct</td><td>Balance b/d</td><td>12 200 (1 of) AO2</td></tr></table></div>	£			£			2014			2014			30 Sept	Balance c/d	<u>2 500</u>	30 Sept	Income Statement	<u>2 500</u> (1) AO2			<u>2 500</u>			<u>2 500</u>	2015			2015			30 Sept	Balance c/d	5 000	1 Oct	Balance b/d	2 500 (1) AO2			<u>5 000</u>	30 Sept	Income statement	<u>2 500</u> (1) AO2			<u>5 000</u>			<u>5 000</u>	2016			2016			30 Sept	Balance c/d	12 200	1 Oct	Balance b/d	5 000 (1 of) AO2			<u>12 200</u>	30 Sept	Income Statement	<u>7 200</u> (1 of) AO3			<u>12 200</u>		(3 200 + 4 000)	<u>12 200</u>				1 Oct	Balance b/d	12 200 (1 of) AO2	(6)
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Question Number	Indicative content	Mark
6(f)	<p><b>AO2 (1), AO3 (2), AO4 (3)</b></p> <p>Potential arguments for keeping straight line</p> <ul style="list-style-type: none"> <li>• Simple to calculate, easier to use. The calculation is a straight percentage of cost</li> <li>• Consistent to retain straight line method. Applying the consistency concept it would be better to retain the current method</li> <li>• Equal usage in each year. The straight line concept is valid on the grounds that the usage of the non-current asset will probably be the same each year. Therefore an equal amount of depreciation should be charged against income</li> <li>• Time and skill required to restate previous year's figures. Re-calibrating the overhead calculations will take time and accounting skills.</li> </ul> <p>Potential arguments against keeping straight line</p> <ul style="list-style-type: none"> <li>• Computers depreciate by more than 10% per annum. Computers tend to lose considerable value in the early years, a 10% charge will understate the depreciation incurred</li> <li>• Carrying value will be higher than market value for many years. The non-current asset will therefore be overvalue in the financial position statement</li> <li>• Applying the concept of prudence, the change in method is advised. The change would ensure that depreciation charged would be appropriate to the value of the non-current asset.</li> </ul> <p>Conclusion</p> <ul style="list-style-type: none"> <li>• Candidates may argue for or against retaining straight line. Candidate's decision should be supported by key arguments in arriving at that decision.</li> </ul>	(6)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

**SOURCE MATERIAL FOR USE WITH QUESTION 3**

- 3** Miguel owns a construction business which hires equipment to customers. The following balances were recorded in his books on 31 December 2014:

	£
Income from hire of equipment to customers	573 000
Wages and salaries	185 000
Rent and rates	30 000
Administration expenses	17 500
Marketing expenses	42 750
Delivery expenses	61 200
Servicing and repair of equipment	89 750
Bad debts	11 000
Fixtures and fittings at cost	110 000
Fixtures and fittings provision for depreciation	27 000
Equipment at cost	285 000
Equipment provision for depreciation	125 000
Non-current asset disposal account	4 500 Cr

**Additional information 31 December 2014**

- Wages and salaries were prepaid £1 300.
- Servicing and repairs of equipment £3 200 were outstanding.
- Depreciation is charged as follows:
  - fixtures and fittings 15% on cost
  - equipment at 25% by the diminishing balance method.

**Required:**

- Prepare the Statement of Comprehensive Income for the year ended 31 December 2014. (11)
- (i) Distinguish between **capital expenditure** and **revenue expenditure**. (4)
  - State, giving your reasons, whether each of the following is capital expenditure or revenue expenditure:
    - servicing and repair of equipment
    - purchase of new equipment
    - purchase of second hand equipment.

(6)

Miguel owns a Mobile Crane which is a piece of equipment. The details of the Mobile Crane are as follows:

1 January 2012	Purchased Mobile Crane	£60 000
1 January 2012	Delivery of Mobile Crane	£4 000
30 June 2014	Sold Mobile Crane	£35 000

Miguel has the depreciation policy, that non-current assets sold in a year will be depreciated pro-rata to the months of ownership.

- (c) Prepare for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 the:

- (i) Mobile Crane Account
- (ii) Mobile Crane Provision for Depreciation Account.

(11)

Miguel has purchased a new piece of equipment, the Trench Digger. The following information is available:

	£
Depreciation for the year	21 000 per annum
Operator wages	100 per day hired
Delivery costs to site	200 per contract
Servicing and repair	3 000 per annum
Overheads	15 000 per annum
Profit mark-up	20%

The Trench Digger will be hired to customers at a rate per day. Miguel estimates that the Trench Digger will be used on 80 different contracts per year and hired to customers for a total of 200 days per year.

- (d) Calculate the:

- (i) total cost per year of operating the Trench Digger
- (ii) rate per day charged to customers, including the profit mark-up of 20%.

(12)

Miguel stated that "If we allow the correct depreciation on a piece of equipment, this will always ensure that we have the cash for a replacement when it is worn out".

- (e) Evaluate this statement.

(8)

**(Total for Question 3 = 52 marks)**

**Answer space for question 3 is on pages 15 to 23 of the question paper.**

3 (a)

Miguel

## Statement of Comprehensive Income for the year ended 31 December 2014

	£	£	
Hire of equipment		573 000	✓
Profit on disposal		<u>4 500</u>	✓
		577 500	
Less expenses:			
Wages and salaries      185 000 – 1 300	183 700		✓
Rent and rates	30 000		✓
Administration expenses	17 500		✓
Marketing expenses	42 750		✓
Delivery expenses	61 200		✓
Servicing and repairs      89 750 + 3 200	92 950		✓
Bad debts	11 000		✓
Depreciation:      Fixtures and fittings	16 500		✓
Equipment	<u>40 000</u>		✓
		<u>(495 600)</u>	
Profit for the year		<u><u>81 900</u></u>	

(11)

(b)(i)

Capital expenditure- Money spent on purchasing a non-current asset and improving or extending existing non-current assets / provide long term benefits✓✓

Revenue expenditure- Money spent running the business on a day to day basis / provide benefits for less than one year ✓✓

(4)

(ii)

- Repair of equipment- Revenue expenditure ✓ day to day expenditure ✓
- Purchase of new equipment- Capital expenditure ✓ purchase of non-current asset✓
- Purchase of second hand equipment- Capital expenditure ✓ purchase of non-current asset✓

(6)

(c)

Equipment – Mobile Crane Account			
		£	£
2012			2012
1 Jan	Bank	<u>64 000</u> ✓	31 Dec Balance c/d <u>64 000</u> ✓
		<u>64 000</u>	<u>64 000</u>
2013			2013
1 Jan	Balance b/d	<u>64 000</u>	31 Dec Balance c/d <u>64 000</u> ✓ of
		<u>64 000</u>	<u>64 000</u>
2014			2014
1 Jan	Balance b/d	<u>64 000</u>	30 June Disposal <u>64 000</u> ✓ of
		<u>64 000</u>	<u>64 000</u>

Equipment- Mobile Crane provision for depreciation account			
		£	£
2012			2012
31 Dec	Balance c/d	<u>16 000</u>	31 Dec Income statement / depreciation <u>16 000</u> ✓
		<u>16 000</u>	<u>16 000</u>
2013			2013
			1 Jan Balance b/d 16 000 ✓ of
31 Dec	Balance c/d	<u>28 000</u>	31 Dec Income statement/ depreciation <u>12 000</u> ✓ of
		<u>28 000</u>	<u>28 000</u>
2014			2014
			1 Jan Balance b/d 28 000 ✓ of
30 June Disposal ✓		<u>32 500</u> ✓ of	31 Dec Income statement / depreciation <u>4 500</u> ✓ of
		<u>32 500</u>	<u>32 500</u>

(11)

(d)(i)

	£
Depreciation	21 000 ✓
Operator's wages	20 000 ✓✓
Transport	16 000 ✓✓
Servicing and repairs	3 000 ✓
Overheads	<u>15 000</u> ✓
Total cost for year	75 000

(ii)

Total cost	<u>75 000 + 15 000</u> ✓ of = £450 ✓✓ (✓ of)
Days of hire	200 ✓✓

(12)



(e)

Valid answers may include:

In favour

- Cash will be generated from general trading profit
- The business may set aside cash for the replacement of a non-current asset

Against

- Depreciation is non-cash
- Depreciating a non-current asset does not enable a replacement to be purchased
- Depreciation is an estimate of the loss in value of an existing non-current asset
- Depreciating a non-current asset does not directly generate cash

✓✓ x 4 points (MAX two points in favour and two points against)

(8)

**(Total 52 marks)**