2 Mo is a farmer. He prepares his financial statements to 31 December each year. He delivers his farm produce to his customers in his delivery vehicle.

Mo charges depreciation on vehicles at 20% per annum using the reducing balance method. He charges a full year's depreciation in the year of purchase and no depreciation in the year of disposal.

On 31 March 2024, he sold his delivery vehicle for $2900 and received payment by cheque. He had purchased this delivery vehicle in June 2021 for $10 000.

REQUIRED

(a) Calculate the accumulated depreciation on the delivery vehicle which Mo sold on 31 March 2024.

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.... [3]

(b) Prepare the disposal account for the sale of the delivery vehicle on 31 March 2024.

Mo
Disposal of vehicles account

Date	Details	$	Date	Details	$
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....	....	....	....	....	....
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[4]

Mo purchased a new delivery vehicle on 1 April 2024. The purchase price is made up as follows:

	$
Cost of vehicle	12 500
Petrol	60
Insurance (6 months)	475
Number (licence) plates	215
Total	13 250

REQUIRED

(c) Calculate the amount which Mo will record in his delivery vehicle account for this transaction on 1 April 2024.

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.... [2]

Mo is considering opening a shop to sell his farm produce. He hopes that customers will come to his farm and buy from the shop so that he will not need to deliver to them. He will use an existing farm building as his shop.

REQUIRED

(d) Advise Mo whether or not he should open the shop. Justify your answer by providing advantages and disadvantages of opening the shop.

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Question	Answer	Marks
2(a)	Cost $\begin{array}{r}\$\\ 10\,000\end{array}$ Depreciation 2021 (10 000 × 20%) 2 000 Net book value 31 Dec 2021 8 000 Depreciation 2022 (8 000 × 20%) 1 600 Net book value 31 Dec 2022 6 400 Depreciation 2023 (6 400 × 20%) 1 280 Net book value 31 Dec 2023 5 120 Total depreciation on delivery vehicle = 2000 + 1600 **(1)** + 1280 **(1)** = 4880 **(1)OF**	3

2(b) — Marks: 4

Mo
Disposal of motor vehicles account

Date 2024	Details		$	Date 2024	Details		$
Mar 31	Motor vehicles	**(1)**	10 000	Mar 31	Provision for depreciation of motor vehicles	**(1)OF**	4 880
					Bank	**(1)**	2 900
				Dec 31	Income statement	**(1)OF**	2 220
			10 000				10 000

Question	Answer	Marks
2(c)	Cost of vehicle $\begin{array}{r}\$\\ 12\,500\end{array}$ Number plates 215 **(1)** Total 12 715 **(1)OF**	2

Question	Answer	Marks
2(d)	**Advantages opening a shop** There would be no motor expenses/no delivery costs **(1)** Can utilise his time on other aspects of the business **(1)** Might increase sales/increase customers/increase profits **(1)** He could sell his vehicle/vehicle is no longer required **(1)** **Accept other valid points** **Max (3)** **Disadvantages of opening a shop** Cost of converting the farm building into a shop **(1)** Cost of running the shop **(1)** Customers may not be willing to travel/may prefer their goods delivered/ no guarantee that customers will come/ may spoil relationship with customers **(1)** New van has just been purchased **(1)** **Accept other valid points** **Max (3)** **Overall Advantages and Disadvantages Max (4)** **Recommendation (1)**	**5**