3 Ahmed has a vehicle breakdown recovery business. He owns a recovery vehicle and has provided the following information about the vehicle:

- Purchase date: 1 October 2021
- Purchase price: $80 000 paid by bank transfer
- Estimated residual value: $30 000
- Estimated working life: 5 years

Ahmed provides a full year's depreciation in the year of purchase but charges **no** depreciation in the year of disposal. He depreciates his vehicles using the reducing balance method at 20% per annum.

His recovery vehicle is now 4 years old and is no longer reliable. Ahmed considered replacing his recovery vehicle on 31 August 2025.

Ahmed's financial year ends on 30 April.

REQUIRED

(a) Calculate the depreciation charge for **each** year of the recovery vehicle's working life, assuming Ahmed replaces the recovery vehicle on 31 August 2025. Show your workings.

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[4]

(b) State **one** advantage and **one** disadvantage of the reducing balance method of depreciation.

Advantage ....

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Disadvantage ....

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[2]

On 1 February 2025, a local dealer offered to buy the recovery vehicle from Ahmed for $35 000 cash.

REQUIRED

(c) Calculate the profit or loss on disposal if Ahmed had sold his recovery vehicle to the local dealer on 1 February 2025.

Show your workings, and state whether it would have been a 'profit' or 'loss'.

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.... [3]

(d) (i) Prepare Ahmed's motor vehicles account for the year ended 30 April 2025 if Ahmed had sold his recovery vehicle to the local dealer on 1 February 2025.

Ahmed
Motor vehicles account

Date	Details	$	Date	Details	$

[2]

(ii) Prepare Ahmed's disposal of motor vehicles account for the year ended 30 April 2025 if Ahmed had sold his recovery vehicle to the local dealer on 1 February 2025.

Ahmed
Disposal of motor vehicles account

Date	Details	$	Date	Details	$

[4]

Ahmed sold his recovery vehicle. Since the sale, he has been hiring a recovery vehicle capable of recovering larger vehicles and is now considering buying a similar vehicle.

He would finance the purchase of this new vehicle using the money received from selling his old recovery vehicle, and the balance will come from a bank loan repayable in 5 years. Delivery of the new vehicle is estimated to be in 6 months.

REQUIRED

(e) Advise Ahmed whether he should buy this new recovery vehicle. Justify your answer by providing advantages and disadvantages of buying the new recovery vehicle.

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.... [5]

[Total: 20]

Question	Answer	Marks
3(a)	$	4
	Cost 80 000	
	Depreciation for the year ended 30 April 2022 16 000 **(1)**	
	Net Book Value 64 000	
	Depreciation for the year ended 30 April 2023 12 800 **(1)**	
	Net Book Value 51 200	
	Depreciation for the year ended 30 April 2024 10 240 **(1)OF**	
	Net Book Value 40 960	
	Depreciation for the year ended 30 April 2025 8 192 **(1)OF**	
	Net Book Value 32 768	

Question	Answer	Marks
3(b)	**Advantages (Max 1)** Matches cost with revenue **(1)** Appropriate when greater benefits are gained from the non-current assets in the early years **(1)** May provide a more accurate depreciation / net book value for the asset / non-current asset **(1)** **Disadvantages (Max 1)** Depreciation has to be recalculated each year / more complicated to calculate **(1)** The charge against profits is greater in the early years of the non-current asset's life **(1)** **Accept other valid responses**	2

3(c) — **3**

	$	
Cost		80 000
Depreciation for the year ended 30 April 2022	16 000	
Depreciation for the year ended 30 April 2023	12 800	
Depreciation for the year ended 30 April 2024	10 240	(39 040)
Net Book Value at 01 May 2024		40 960 **(1OF)**
Sale proceeds		35 000 **(1)**
Loss on disposal		5 960 **(1OF)**

3(d)(i) — **2**

Ahmed
Motor vehicles account

Date	Details	$		Date	Details	$	
2021 Oct 1	Bank	80 000 **(1)**		2025 Feb 1	Disposal	80 000 **(1)**	

Question	Answer	Marks
3(d)(ii)	<table><tr><td colspan="6" align="center">Ahmed Disposal of motor vehicles account</td></tr><tr><td>Date</td><td>Details</td><td>$</td><td>Date</td><td>Details</td><td>$</td></tr><tr><td>2025 Feb 1</td><td>Motor Vehicles</td><td>80 000 **(1)**</td><td>2025 Feb 1</td><td>Provision for depreciation</td><td>39 040 **(1)OF**</td></tr><tr><td></td><td></td><td></td><td></td><td>Cash</td><td>35 000 **(1)**</td></tr><tr><td></td><td></td><td></td><td>April 30</td><td>Income statement</td><td>5 960 **(1)OF**</td></tr><tr><td></td><td></td><td><u>80 000</u></td><td></td><td></td><td><u>80 000</u></td></tr></table>	4
3(e)	**Advantages (Max 3)** Saving on hire costs **(1)** Improve revenue / profit **(1)** Less risk because he has already trialled it / hired for short period **(1)** Increases non-current assets **(1)** **Disadvantages (Max 3)** A larger recovery vehicle which will cost more than a smaller vehicle **(1)** Hire costs will have to be paid for six months **(1)** Interest charges on loan **(1)** Bank may not agree the loan / may require some form of security / loans have to be repaid **(1)** Proceeds from sale may have been used elsewhere **(1)** **Accept other valid responses.** **Recommendation (1)**	5