SOLUTION TO TEST QUESTION ON DEPRECIATION ACCOUNTS

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QUESTION

1. The following information has been given to you about Emilokan Nigeria Limited`s factory plant and machinery.

Cost N12.75 million

Rate of depreciation 15%

Useful life 5 years

You are required to calculate the annual depreciation charges for each year using:

(a) Straight-line Method up till 4 years.

(b) Reducing Balance Method

(c) Sum of the year Digit Method

SOLUTION

a. **EMILOKAN NIGERIA LIMITED**

ANNUAL DEPRECIATION USING STRAIGHT LINE METHOD

Cost	N12,750,000
Rate of depreciation	15%
Estimated useful life	5 Years

Annual Depreciation = Cost of the asset x Rate of depreciation

Annual Depreciation = N12,750,000 x $\frac{15}{100}$ = N1,912,500

	N
Cost	12,750,000
Less; Year 1 Depreciation	1,912,500
Net Book Value	10,837,500
Less; Year 2 Depreciation	1,912,500
Net Book Value	8,925,000
Less; Year 3 Depreciation	1,912,500

Net Book Value	7,012,500
Less; Year 4 Depreciation	1,912,500
Net Book Value	5,100,000

b. **EMILOKAN NIGERIA LIMITED**

ANNUAL DEPRECIATION USING REDUCING BALANCE METHOD

Cost	N12,750,000
Rate of depreciation	15%
Estimated useful life	5 Years

	N
Cost	12,750,000
Less; Year 1 Depreciation (12,750,000 X 0.15)	1,912,500
Net Book Value	10,837,500
Less; Year 2 Depreciation (10,837,500 X 0.15)	1,625,625
Net Book Value	9,211,875
Less; Year 3 Depreciation (9,211.875 X 0.15)	1,381,781
Net Book Value	7,830,094
Less; Year 4 Depreciation (7,830,094 X 0.15)	1,174,514
Net Book Value	6,655,580

Less; Year 5 Depreciation (6,655,580 X 0.15)	998,337
Net Book Value	5,657,243

c. **EMILOKAN NIGERIA LIMITED**

ANNUAL DEPRECIATION USING SUM OF THE YEAR DIGIT METHOD

Cost	N12,750,000
Rate of depreciation	15%
Estimated useful life	5 Years

NOTE:

Annual Depreciation= $\frac{15}{100}$ x 12,750,000 = N1,912,500

Net Book Value = Annual Depreciation x Estimated Useful life

Net Book Value = N1,912,500 X 5 Years

Net Book Value = N9,562,500

Scrap Value = Cost - Net Book Value

Scrap Value = N12,750,000 - N9,562,500

Scrap Value = N3,187,500

EMILOKAN NIGERIA LIMITED

SUM OF THE YEAR DIGIT METHOD

Year	Digit	Ratio	Cost	Scrap Value	Net Book Value	Annual Depreciation
			N	N	N	N
1	5	5/15	12,750,000	3,187,500	9,562,500	3,187,500
2	4	4/15	12,750,000	3,187,500	9,562,500	2,550,000
3	3	3/15	12,750,000	3,187,500	9,562,500	1,912,500
4	2	2/15	12,750,000	3,187,500	9,562,500	1,275,000
5	1	1/15	12,750,000	3,187,500	9,562,500	637,500
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BEST OF LUCK!

PRACTICE QUESTIONS

1. The following information has been given to you about Odebeodero Nigeria Limited`s factory plant and machinery.

Cost N51.2 million

Rate of depreciation 25%

Useful life 5 years

You are required to calculate the annual depreciation charges for each year using:

(a) Straight-line Method up till 4 years.

(b) Reducing Balance Method

(c) Sum of the year Digit Method

2. The following information has been given to you about Sogbae Nigeria Limited`s factory plant and machinery.

Cost N15 million

Rate of depreciation 20%

Useful life 5 years

You are required to calculate the annual depreciation charges for each year using:

(a) Straight-line Method

(b) Reducing Balance Method

(c) Sum of the year Digit Method

3. The following information has been given to you about Asese Nigeria Limited`s factory plant and machinery.

Cost N51.2 million
Scrap Value N12.15 million
Useful life 5 years

You are required to calculate the annual depreciation charges for each year using:

(a) Straight-line Method

(b) Reducing Balance Method

(c) Sum of the year Digit Method

4. The following information has been given to you about Ajepeaiye Nigeria Limited`s factory plant and machinery.

Cost N12.5 million
Scrap Value N5.12 million
Useful life 4 years

You are required to calculate the annual depreciation charges for each year using:

(a) Straight-line Method

(b) Reducing Balance Method

(c) Sum of the year Digit Method