**APPLICATION EXERCISE 16 – SUGGESTED SOLUTION**

1. **If Hutchins’ Harps used the Reducing Balance method of depreciation at a rate of 40% per annum instead of the Straight-Line method, calculate and explain the effect on the Income Statement for the year ending 30 June 2019.**

If Hutchins’ Harps used the reducing balance method instead of the straight method of depreciation the profit would be lower as depreciation expense for the period would be higher.

This is because under the straight-line method the depreciation expense would be $3 200 as opposed to using the reducing balance method depreciation expense would be $7 000 for the year ended 30 June 2019.

**Workings**

Straight-Line Method

$35 000 - $3 000 = $6 400 per annum or $3 200 for the six months January to June 2019.

5

Reducing Balance Method

$35 000 x 40% = $14 000 per annum or $7 000 for the six months January to June 2019.

1. **Assuming no additional Vans had been purchased and that the Reducing Balance method of depreciation is used, show how the Van would be reported in the Balance Sheet as at 30 June 2020.**

**Hutchins’ Harps**

**Balance Sheet (extract) as at 30 June 2020**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| Van | 35 000 |  |
| Less: Accumulated Depreciation | 18 200 | 16 800 |