VCE Accounting Advice for teachers

Detailed example

Unit 2 Area of Study 3: Accounting for and managing   
non-current assets

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| Detailed example |
| **Financial impact of vehicle choice**  *Business scenario*  Metro Pizza makes and delivers a range of pizzas and sides to customers in the city area. The business owners are considering replacing three vehicles and are hoping to take advantage of potential discounts available for purchasing multiple vehicles. They are considering two options.  **Option 1**  Three small two-door vehicles that run on petrol, with appropriate branding, costing $18,000 each plus GST. Metro Pizza estimates that these would have a likely useful life of three years, with resale value of $2,000 each. The estimated annual running cost of these is $5,000 in total.  **Option 2**  Three four-door vehicles that run on diesel, with appropriate branding, costing $30,000 each plus GST. These are estimated to have a useful life of five years, with a predicted residual value of $8,000 each. Estimated running costs would be $7,000 in total.  *Tasks*  1. Using ICT, calculate the Depreciation Expense for each option and prepare a graph showing the Historical Cost, Carrying Value and Depreciation Expense for each year.  2. Describe the likely differences in impact of each of the options on the financial reports of the business.  3. Make a recommendation to the business owner as to which is the best option. Justify your recommendation. |