

5 Astil is in business as a sole trader. He is considering the purchase of a new car to use in his business.

He is considering two options manufactured by Molvo Cars, the Classic petrol version and the Super electric.

The following information is available for both cars.

	Classic petrol	Super electric
Cost	£35 000	£52 500
Resale value after 5 years	£15 000	£20 000
Annual usage	20 000 kilometres (km) per annum	20 000 kilometres (km) per annum
Fuel usage	8 km per litre of fuel	One electrical charge per 200 km
Fuel cost	£1.50 per litre	One electric charge costs £2 per hour for three hours
Service maintenance	£150 every 3 months	£175 every 10 000 km
Repairs	£200 per year	£150 per year
Road tax	£150 per year	£0 per year
Insurance	£200 plus £50 per year for each 5 000 km over 10 000 km	£100 per 3 months

Required

- (a) Explain **two** causes of depreciation. (4)
- (b) Explain why some non-current assets are depreciated using the reducing balance method and other non-current assets are depreciated using the straight-line method. (4)
- (c) Calculate the **total cost per year**, by completing the table in the question paper, of operating the:
- (i) Classic petrol car (6)
 - (ii) Super electric car. (6)
- (d) Calculate the **total cost per kilometre** of operating the:
- (i) Classic petrol car (2)
 - (ii) Super electric car. (2)
- (e) Evaluate whether Astil should purchase the Classic petrol car or the Super electric car. Your answer may consider financial and non-financial factors. (6)

(Total for Question 5 = 30 marks)