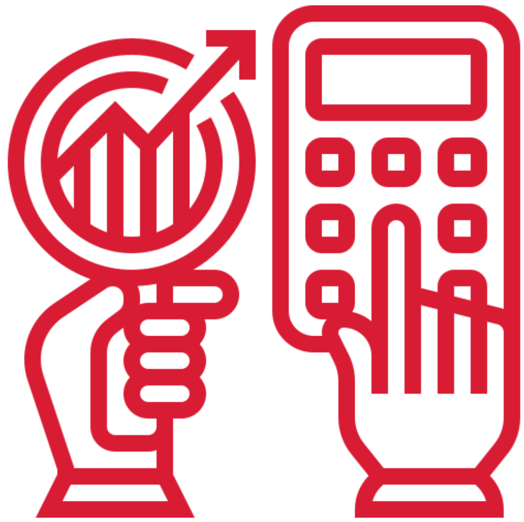

ACCOUNTING

GRADE 11

CHAPTER 2

FIXED ASSETS Theory

Compiled by:

Mrs Brimecombe

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1. MANAGEMENT OF TANGIBLE ASSETS

LAND AND BUILDINGS	VEHICLES AND EQUIPMENT
 ➢ The value **APPRECIATES** ▪ Limited supply ▪ Cost of building increases	 ➢ The value **DEPRECIATES** ▪ Wear and tear ▪ Obsolete – new technology

2. CONCEPTS

CONCEPT	EXPLANATION
Depreciation	A loss in value of an asset in an accounting period
Accumulated Depreciation	Is the total amount of depreciation deducted from the fixed asset since it was purchased.
Carrying value	Original cost price less the depreciation that has accumulated over the period in which the asset was in possession of the business.
Age of Assets	Businesses should monitor their assets to identify assets that need to be replaced. Assets that are old due to wear and tear should be replaced with efficient assets.
Replacement Rate	How often the business determines a fixed asset will be replaced.
Replacement Value of Assets	When a fixed asset has to be replaced, the business needs to look if it is worth replacing the old asset and what it will cost them to buy the new asset.
Lifespan of assets	Estimated length of time the asset can reasonably be used to generate income and be of benefit to the business.
Asset register	A register showing each asset individually.
Residual amount	The full amount of an asset cannot be written off as long as it is in the business' possession. The carrying **value is kept at R1**

3. ASSET REGISTER

ZIZI TRADERS ASSET REGISTER - VEHICLES	
Item Model Registration number Purchased from Date purchased Cost price	Pick-up truck V800 ZZZ200GP XYZ Motors 1 January 2019 **R100 000**
Depreciation method Depreciation rate	Cost price 20%
Date sold To whom sold Selling price Profit/loss on sale	

Date	Cost	Current depreciation	Accumulated depreciation	Carrying value
2019 Dec 31	**100 000**	20 000	20 000	80 000
2020 Dec 31		20 000	40 000	60 000
2021 Dec 31		20 000	60 000	40 000

DETAILS ON AN ASSET REGISTER

- Description of asset
- Serial number
- Receipt/invoice
- Date of purchase
- Supplier's details
- Purchase price
- Depreciation – method of calculation
- Amount of depreciation
- Accumulated depreciation
- Value of asset
- Expected residual value
-

4. DEPRECIATON

- Any asset purchased for less than R7 000 may be deducted in full in the year in which the asset is purchased.
- The following factors must be considered in determining the expected life of an asset:
  - How long the taxpayer expects the asset to last.
  - How the taxpayer expects to use the assets
  - Whether the asset is likely to become obsolete.
  - Whether the effective life of the asset is limited to the life of a particular project.
- SCHEDULE OF WRITE-OFF PERIODS ACCEPTABLE TO SARS
- https://www.sars.gov.za/wp-content/uploads/Legal/Notes/LAPD-IntR-IN-2012-47-Wear-And-Tear-Depreciation-Allowance.pdf

Item	Number of years	Item	Number of years
Cellular telephones	2	Office equipment - mechanical	5
Computers (mainframe or servers)	5	Office equipment – electronic	3
Computers (personal)	3	Passenger cars	5
Delivery vehicles	4	Photocopying equipment	5
Fax machines	3	Trucks (heavy-duty)	3
Furniture & Fittings	6	Trucks (other)	4

The wear and tear may be claimed on either the **DIMINISHING BALANCE METHOD** or on **COST PRICE**, in which certain requirements apply

5. METHODS OF CALCULATING DEPRECIATION

STRAIGHT LINE METHOD

- Cost price method/
- Fixed cost method/
- Fixed instalment method

Writing off – shorter period

Calculated on the cost price each year

DIMINISHING BALANCE

- Reducing balance method/
- Carrying value method/
- Book value method/
- Declining method

Writing off – longer period

Book value =
Cost price – Accumulated depreciation

6. CALCULATING DEPRECIATION

STRAIGHT LINE METHOD

$$COST\ x\ \frac{Rate}{100}\ x\ \frac{months}{12} = Depreciation$$

DIMINISHING BALANCE

$$BOOK\ VALUE\ x\ \frac{Rate}{100}\ x\ \frac{months}{12} = Depreciation$$

COST − ACCUMULATED DEPRECIATION = BOOK VALUE

ACCOUNTING PERIOD – 12 MONTHS

OLD/REMAININ
12 MONTHS

\+

NEW
FROM THE DATE OF PURCHASE UNTIL END OF ACCOUNTING PERIOD

\+

SOLD
FROM THE BEGINNING OF THE YEAR UNTIL THE DATE WHEN SOLD

HOW TO GET THE REMAINING/ OLD

STRAIGHT LINE METHOD

\+ A −

Cost

Balance b/d	x	Asset disposal	x
Additions	x	Balance c/d	x

Balance beginning – asset disposal = old

DIMISHING BALANCE METHOD

METHOD 1

\+ A −

Book value/ carrying value

Balance b/d	x	Asset disposal (Beg + Updated dep)	x
Additions	x	Depreciation (old + new + sold)	x x
		Balance c/d	

Balance in beginning
\- Asset disposal in beginning
= Book value in the beginning

METHOD 2

\+ A −

Cost

Balance b/d	x	Asset disposal	x
Addition	x	Balance c/d	x

\+ A −

Accumulated depreciation

Asset disposal	x	Balance b/d	x
Balance c/d	x	Depreciation Sold	x
		Depreciation Old + new	x

	Cost	Balance beginning – Asset disposal
-	Accumulated depreciation	Beginning – Asset disposal
=	Book value	

7. PURCHASE AND DISPOSAL OF ASSETS

WHEN ARE TANGIBLE ASSETS DISPOSED AND PURCHASED?

ACCOUNTING PERIOD – 12 MONTHS

BEGINNING OF YEAR		DURING THE YEAR	END OF YEAR
12	**SOLD**	From the beginning of the year until the date when sold	Asset sold = 12 months
	NEW	From the date of purchase until end of accounting period	New asset = no calculation

8. PURCHASE OF ASSETS

- The business wants to keep up-to-date with new technology.
- Running costs of current assets may be too high.
- The existing equipment has become old / out of date

\+ A −

VEHICLES/ LAND AND BUILDINGS/ EQUIPMENT

Bank	X		
Creditors control	x		

\+ A −

BANK

Vehicles/ Land and buildings/ Equipment	X		

− L +

CREDITORS CONTROL

		Vehicles/ Land and buildings/ Equipment	X

9. DISPOSAL OF ASSET

- Existing asset is too old or has outlived its useful life
- Vehicles have been involved in accidents
- Damaged assets that cannot be used by a business anymore.
- Asset may be obsolete

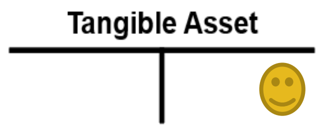
METHODS OF DISPOSING ASSETS

METHOD		ACCOUNTS EFFECTED
Sold for cash	→	Bank
Sold on credit	→	Debtors Control
Donated	→	Donations
Personal use	→	Drawings
Traded-in	→	Creditors Control
Scrapped	→	Write off, no payment
Written off due to damages	→	Accrued income/ Insurance claim

5 STEPTS IN DISPOSING OF AN ASSET

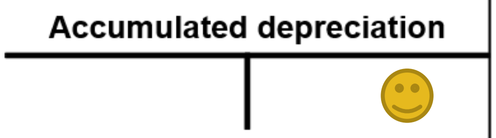
STEP 1 Take out the **COST**

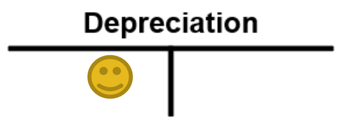
ASSET	OWNERS EQUITY	LIABILITIES
-	-	0



STEP 2 **UPDATE** depreciation

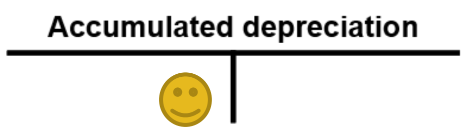
ASSET	OWNERS EQUITY	LIABILITIES
-	-	0

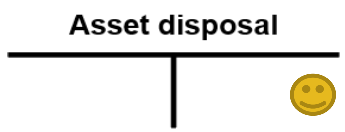




STEP 3 Take out the **TOTAL DEPRECIATION**

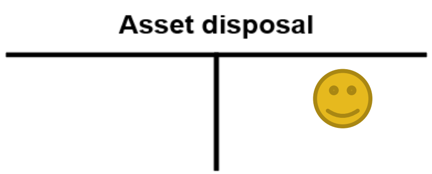
ASSET	OWNERS EQUITY	LIABILITIES
+	+	0

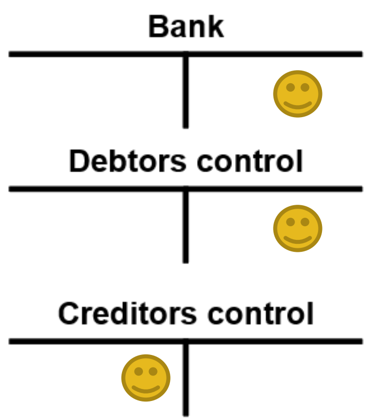




STEP 4 Record the **SELLING PRICE**

	ASSET	OWNERS EQUITY	LIABILITIES
Bank	+	+	0
Debtors control	+	+	0
Creditors control	0	+	-
Drawings	0	+/-	0
Accrued income/ Insurance claim	+	+	0
Donations	0	+/-	0





ASSET DISPOSAL CREDITED – THE REST DEBITED

STEP 5

Calculate the PROFIT or LOSS on the sale of the asset.
If sold at carrying value = NO PROFIT

PROFIT ON SALE OF ASSET = INCOME STATEMENT
Sold it for **MORE** than the **BOOK VALUE**

ASSET	OWNERS EQUITY	LIABILITIES
0	+/-	0

Asset disposal

Cost	Acc. dep
Profit	SP

Profit on sale of asset

LOSS ON SALE OF ASSET = INCOME STATEMENT
Sold it for **LESS** than the **BOOK VALUE**

ASSET	OWNERS EQUITY	LIABILITIES
0	+/-	0

Asset disposal

Cost	Acc. dep
	SP
	Loss

Loss on sale of asset

- If **ASSET DISPOSAL** appears in the NOMINAL ACCOUNT SECTION in the PRE-ADJUSTMENT TRIAL BALANCE, then you need to calculate the **PROFIT/LOSS ON THE SALE OF THE ASSET.**
- Types of adjustments:
- Calculate the depreciation on the asset sold.
- Make a correction
- A building was destroyed, the insurance company did pay out the claim.
- Theft of vehicles or equipment

10. FORMAT – NOTE ON TANGIBLE ASSET

Calculating cost

	Land & Buildings	Vehicles/ Equipment
Carrying value at the beginning of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	Nil	(xxx)
Movements		
Additions at cost	xxxx	xxxx
Disposals at carrying value (Cost – accumulated depreciation)	(xxx)	(xxx)
Depreciation	Nil	(xxx)
Carrying value at the end of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	Nil	(xxx)

+ A —

Cost

Balance beginning	x	Asset disposal	x
Additions	x	Balance end	x

Calculating accumulated depreciation

	Land & Buildings	Vehicles/ Equipment
Carrying value at the beginning of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	Nil	(xxx)
Movements		
Additions at cost	xxxx	xxxx
Disposals at carrying value (Cost – Accumulated depreciation)	(xxx)	(xxx)
Depreciation	Nil	(xxx)
Carrying value at the end of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	Nil	(xxx)

+ A —

Accumulated depreciation

Asset disposal	x	Balance beginning	x
Balance end	x	Depreciation (old + new + sold)	x

Calculating book value

	Land & Buildings	Vehicles/ Equipment
Carrying value at the beginning of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	Nil	(xxx)
Movements		
Additions at cost	xxxx	xxxx
Disposals at carrying value (Cost – Accumulated depreciation)	(xxx)	(xxx)
Depreciation	Nil	(xxx)
Carrying value at the end of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	Nil	(xxx)

+ A —

Book value/ carrying value

Balance beginning	x	Asset disposal **(inflow cash)**	x
Additions **(outflow cash)**	x	Depreciation (old + new + sold) **(added back – non cash item)**	x
		Balance end	x

Note: Integration **Cash Flow Statement -** Always sold at carrying value

11. SUMMARY OF LEDGER ACCOUNTS

HISTORICAL COST

A

\+ Land and Building -

Balance	b/d	x	Sold		x
Purchase		x	Balance	c/d	x
Balance	b/d	x			

HISTORICAL COST

A

\+ Equipment -

Balance	b/d	x	Sold		x
Purchase		x	Balance	c/d	x
Balance	b/d	x			

HISTORICAL COST

A

\+ Vehicle -

Balance	b/d	x	Sold		x
Purchase		x	Balance	c/d	x
Balance	b/d	x			

A

\+ Accumulated dep. on Equipment -

Sold		x	Balance	b/d	x
(Beg + updated)			Dep(Sold)		x
Balance	c/d	x	Dep (New + Old)		x
			Balance	b/d	x

A

\+ Accumulated dep. on Vehicles -

Sold		x	Balance	b/d	x
(Beg + updated)			Dep(Sold)		x
Balance	c/d	x	Dep (New + Old)		x
			Balance	b/d	x

MATCHING PRINCIPLE

E

\+ Depreciation -

Accumulated depreciation on equipment/ vehicles	X	Profit and Loss account	X

A

\+ Asset Disposal -

Cost	x	Accumulated dep	x
PROFIT	x	Selling price	x
		LOSS	x

- I + **(+ E -)**

Profit (Loss) on sale of Asset

Closes off to the profit and loss account

12. SUMMARY OF TANGIBLE ASSET NOTE

3. TANGIBLE ASSETS/ FIXED ASSETS		LAND AND BUILDING	EQUIPMENT	VEHICLES	TOTAL
Beginning	**Carrying value beginning of year**	Cost – Accumulated depreciation beginning			
	Cost				
	Accumulated depreciation	( )	( )	( )	( )
	Movement				
During	Additions at cost				
	Disposal at carrying value (Cost – Accumulated dep.)	( )	( )	( )	( )
	Depreciation for the year		(O+N+S)	(O+N+S)	(O+N+S)
	Carrying value (end of year)	Cost – Accumulated depreciation end			
End	Cost	Beginning + addition at cost – disposal at cost			
	Accumulated depreciation	Beginning + Depreciation – disposal accumulated depreciation			

O= Old N= New S=Sold

Notes

- Beginning: Cost – Accumulated depreciation = **Carrying value in beginning**
- Carrying value beginning
  + Additions at cost
  – Disposal at carrying value
  – Depreciation for the year
  = Carrying value end of year
- End: Cost beginning + additions at cost – disposal at cost = **Cost at end**
- End: Accumulated depreciation beginning
  + Depreciation (include old, new and sold)
  [Depreciation calculated until day of purchase, must be included in depreciation]
  - Disposal at accumulated depreciation
  = Accumulated depreciation at end
- End: Cost – Accumulated depreciation = **Carrying value end of year**

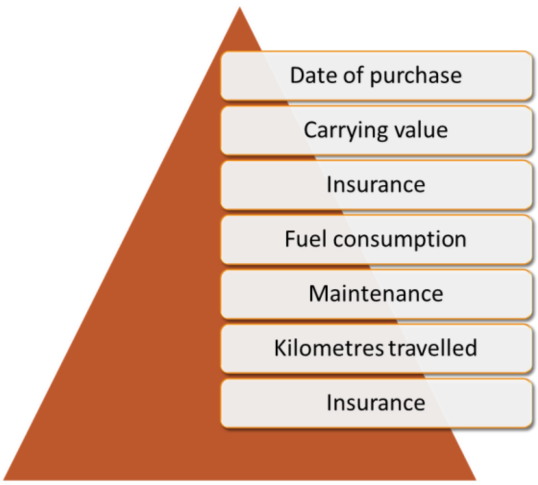
13. INTERNAL CONTROL

- Purchases of assets should be authorised by management.
- All fixed assets should be recorded in a Fixed Asset Register.
- Internal auditor ensures that proper records and documentation are in place.
- Receipts /invoices should be proof of purchase for insurance and external audit purpose.
- Fixed assets purchased must be labelled / bar coded or a serial number given for identification and asset verification.
- Regular stock taking of assets and comparing against the asset register.
- Signing in and out of assets to track to track where they are and who used them.
- The movement of assets must be recorded in a logbook, e.g. vehicles
- All fixed assets must be insured against fire, theft, etc.

14. ETHICS

- Using of business fixed assets for personal gain.
- Incorrect recording of kilometres travelled using the business vehicle.
- Irregular fuel consumption by certain vehicles used by employees.
- Change in depreciation method used to calculate depreciation without informing SARS.

15. PROBLEM SOLVING



Steps:

1. Identify the problem
2. Quote figures
3. Give solution/ advice

Note:

Problem identified must correspond with solution/ advice

16. IMPORTANT NOTES

- Fixed assets are integrated into:
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
  - Budgets
  - Cost Accounting
  - VAT
- Fixed assets forms part of Paper 1 and Paper 2.
- Asset disposal opened and closed on the same day.
- Asset disposal can influence both the Balance sheet account and the Nominal account.
- If asset disposal appears in the Pre-adjustment Trial balance in the Nominal account section – need to calculate the profit/loss on the sale of asset.
- Be aware if the transactions have been recorded or not when taking the information from the pre-adjustment trial balance.