Lesson Description

In this lesson we revise:

- Calculate depreciation on assets
- Complete the Asset Disposal ledger account
- Complete note 3 to the balance sheet: Fixed / tangible assets

Key Concepts

Asset Disposal Steps

1. Transfer the cost price of the item being sold to the Asset Disposal account
2. Calculate additional depreciation on the asset being sold from the beginning of the year up to the date of the sale
3. Transfer total accumulated depreciation on the sold asset to the Asset Disposal account
4. Enter the selling price into the Asset Disposal account
5. Calculate the profit or loss on the sale of the asset

Questions

Question 1

(Adapted from Grade 11 Exemplar 2007, NSC, Question 4.1)

Recording and Reporting of Fixed Assets

REQUIRED:

1.1 Calculate depreciation on vehicles for the year ended 28 February 2007. (7)
1.2 Prepare the Asset Disposal Account on 31 December 2006. (9)
1.3 Complete the note to the Balance Sheet for fixed assets on 28 February 2007. A total column is not required. Some of the figures have already been entered for you. (13)

INFORMATION:

1. Depreciation on vehicles is calculated at 20% p.a. on the straight-line method. Depreciation on equipment for the year amounts to R11 400.
2. The following balances appeared in the ledger on 1 March 2006:
   - Vehicles, at cost R880 000
   - Accumulated depreciation on vehicles, R250 000
   - Equipment, at cost R336 000
   - Accumulated depreciation on equipment, R257 000
3. Bought new equipment on credit for R105 000 on 1 November 2006.
4. Paid Urban Technics the following on 28 February 2007:
   - R8 000 for installing a sound system in a vehicle
   - R3 000 for repairing the air-conditioning system in the vehicle
5. Traded in a vehicle at Pretoria Motors on 31 December 2006. The trade-in value offered by Pretoria Motors was R32 000, while the cost of the new vehicle was R180 000. The balance of R148 000 due to Pretoria Motors will be paid over the next 6 months.

Details of the old vehicle traded in were obtained from the Fixed Assets Register:

<table>
<thead>
<tr>
<th>FIXED ASSETS REGISTER</th>
<th>Model: 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle: Toyota Corolla</td>
<td>Date sold: 31 Dec. 2006</td>
</tr>
<tr>
<td>Date bought: 1 May 2003</td>
<td></td>
</tr>
<tr>
<td>Cost price: R144 000</td>
<td></td>
</tr>
<tr>
<td>Depreciation written off:</td>
<td></td>
</tr>
<tr>
<td>28 Feb. 2004: R24 000</td>
<td></td>
</tr>
<tr>
<td>28 Feb. 2005: R28 800</td>
<td></td>
</tr>
<tr>
<td>28 Feb. 2006: R28 800</td>
<td></td>
</tr>
<tr>
<td>R81 600</td>
<td></td>
</tr>
<tr>
<td>31 Dec. 2006</td>
<td>?</td>
</tr>
</tbody>
</table>

**Question 2**

*(Adapted from Grade 11 Exemplar 2007, NSC, Question 4.21)*

**Internal Control and Internal Audit of Fixed Assets**

You are provided with an extract of a newspaper article. The names and details have been altered as the case has not yet been finalised.

**REQUIRED:**

Read the article and then answer the questions which follow:

**ASSETS OF BROTHERS ON FRAUD CHARGES FROZEN**

*Based on an article by Tania Broughton, Independent Newspapers, 7 Nov. 2006.*

Houses, a holiday home, cars and cash belonging to two brothers accused of fraud involving more than R3.6 million were ‘preserved’ by a Durban High Court judge on Friday, pending the outcome of criminal proceedings against them.

Should John Jones* and his brother, James Jones*, be found guilty of the charges, an application will be made to have their assets forfeited to the state.

According to legal papers before Judge Braam Schreuder*, the two brothers were employed as managers by Grimebusters*, a curtain and carpet cleaning business. They have both since resigned.

Wilfred Moolman*, the head of the Asset Forfeiture Unit, said as a result of a police investigation, the pair had been arrested in July and charged with fraud, alternatively theft. They intended to plead not guilty.

He said the investigation revealed that while employed at Grimebusters* they had formed a curtain and carpet cleaning business trading as JJ Cleaners*.

‘They allocated Grimebusters* staff, equipment and stock to conduct curtain and carpet cleaning services for various customers of JJ Cleaners*. They then created invoices containing the name and banking details of JJ Cleaners* and payments were made into that account,’ he said.

He alleged that as a result of this, R3 627 000 had been paid into the account of their own business, which has caused loss to Grimebusters*.

According to the court order, which was made by consent, the brothers had to surrender cash of R877 000 which is being held in trust by a lawyer, a house in Durban, a flat in Margate, a house in Pinetown, four vehicles and three trailers.

* Names altered.
QUESTIONS:

2.1 Briefly describe the crime of which the two brothers are accused. (3)

2.2 In your opinion, is it right that the personal assets of the brothers be confiscated if they are found guilty? Briefly explain. (2)

2.3 If you were appointed as internal auditor of Grimebusters, what procedures or checks would you establish in the business to prevent this type of crime from occurring in future? Name THREE points. (6)

Answer Book

Question 1

1.1

1.2

LEDGER OF MADUNA & SON TRADERS
ASSET DISPOSAL
### Question 1.3

<table>
<thead>
<tr>
<th>Fixed Assets</th>
<th>Land &amp; buildings</th>
<th>Vehicles</th>
<th>Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value at the beginning of the year</td>
<td>255 600</td>
<td></td>
<td>79 000</td>
</tr>
<tr>
<td>Cost</td>
<td>255 600</td>
<td></td>
<td>336 000</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td></td>
<td></td>
<td>(257 000)</td>
</tr>
<tr>
<td>Movements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying value at the end of the year</td>
<td>255 600</td>
<td>602 400</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>255 600</td>
<td>92 400</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>0</td>
<td>(321 600)</td>
<td></td>
</tr>
</tbody>
</table>

### Question 2

#### 2.1

#### 2.2