

FIXED ASSETS

10 APRIL 2014



Lesson Description

In this lesson we:

- Provide a definition for fixed assets
- Look at calculating depreciation
- Discuss disposal of fixed assets
- Look at managing and controlling fixed assets



Summary

Definition of Fixed Assets

- Non-current assets are broken up into **fixed** and **financial** assets
- Fixed assets – Land and buildings, Vehicles and Equipment
- Financial assets – Fixed deposit (non-current if it has more than a year until maturity)
- Remember that fixed assets depreciate because of wear and tear in daily use and because they become **obsolete** (new products with better technology become available)

Calculating Depreciation

Two methods that are used to calculate depreciation:

On Cost

- $\text{Cost} \times r/100 \times n/12$ (r = rate, n = no. of months)

Diminishing Balance

- $\text{Carrying value} \times r/100 \times n/12$

(Remember how to calculate the carrying value!)

Disposal of Fixed Assets

- (This is Grade 11 work) - Very important!
- Learn the format of the asset disposal account!

Format of the Asset Disposal Account

Asset Disposal

Equipment / Vehicles		Accumulated depreciation on vehicles / equipment	
<i>Profit on sale of asset</i>		Bank / Debtors control / Creditors control / Drawings / Donations	
		<i>Loss on sale of asset</i>	

- Make sure you revise your Grade 11 work that teaches you how to complete the Asset Disposal account
- This is often asked as an adjustment in the section on companies – you may need to draw up this account on your own.
- **Go over note 3 on the balance sheet (Fixed assets)**



Improve your Skills

Question 1

Asset Disposal & Internal Auditing

Sacks Limited recognises the importance of keeping their employees happy and motivated within the business. As part of their human resources maintenance strategy they allow their sales representatives to use a company car when on company business, and when the car has reached mileage of 80 000km gives them the option of buying the car they have used, at its carrying value in the company's accounting records.

This strategy has been enjoyed by employees for the past five years, but the directors are concerned that in the last financial year more vehicles than usual have been taken over by employees.

Required

Consider the information given and answer the questions that follow.

Information

1. Representatives travel approximately 18 000km to 20 000km per year.
2. Representatives complete a standard application form when they notice that the car has reached 80 000km if they wish to buy the vehicle. The application is read and filed by the asset manager and the accompanying payment banked. The employee is responsible for transferring the vehicle into their name.
3. Depreciation was adjusted to 25% p.a. on cost by the accountant, Andrew Munnik, as of the beginning of the previous financial year (1 January 2011). Before that vehicles were depreciated at 20% p.a. on carrying value.
4. The following applications to purchase vehicles were received from representatives during June 2012:

Application to purchase vehicle

Employee: **Chido Chikumbu**
Application date: **2 June 2012**
Vehicle registration: **PKZ329GP**
Mileage: **82 000km**
Original purchase date of vehicle by the business: **1 January 2008**
Original cost of the vehicle: **R150 000**
Total depreciation to date: **R126 325**
Purchase price: **R24 675**

Application to purchase vehicle

Employee: **Andrew Munnik**
Application date: **28 June 2012**
Vehicle registration: **VKS847GP**
Mileage: **81 500km**
Original purchase date of vehicle by the business: **1 January 2011**
Original cost of the vehicle: **R200 000**
Total depreciation to date: **R75 000**
Purchase price: **R125 000**

Application to purchase vehicle

Employee: **Nathalie Chevreau**
 Application date: **30 June 2012**
 Vehicle registration: **QZG368GP**
 Mileage: **80 200km**
 Original purchase date of vehicle by the business: **31 April 2008**
 Original cost of the vehicle: **R140 000**
 Total depreciation to date: **R?**
 Purchase price: **R57 500 (based on trade-in value)**

5. Nathalie was not sure how to work out the carrying value of her vehicle, and has offered an amount that she thinks fair based on the trade-in value of the vehicle according to her husband, who runs a car dealership. Accumulated depreciation on Nathalie's vehicle was shown in the accounting records as R114 846.

Questions

- a.) Carefully analyse the three applications received during June. Suggest possible irregularities and use these to comment on the application procedure. Highlight any possible flaws and suggest possible controls that could be used. Make specific reference to the applications received during June 2012. (10)
- b.) Complete the asset disposal account for the sale of Nathalie's car by the business, clearly showing the profit or loss made on the sale, if the vehicle is sold at the price that Nathalie applied to buy it for. (9)

Asset Disposal

- c.) At what value would the business have sold the car to Nathalie, based on the business policy of selling vehicles at the carrying value as shown in the company's accounting records? (3)
- d.) What problem exists relating to the value at which the vehicles are sold to employees? Explain. (6)
- e.) Suggest TWO possible procedures that this business could implement in order to become more "green" with respect to its vehicles. (3)