

## FIXED ASSETS

These assets have a reasonably long life span and are not purchased with the intention of reselling them, but rather to produce an income for the business.

Business Assets (commonly known as PPE)

- Land and Building
- Motor vehicles
- Equipment

### PURCHASING OF FIXED ASSETS

- Business owners must keep an accurate record of the purchasing price and carrying value of their fixed assets. These records are kept in the fixed asset register.
- Fixed assets can be purchased in one of the following three ways:
  - For cash
  - On credit
  - As a trade-in
- Land and Building and vehicles are in most cases, purchased on credit. The business has to secure a loan known as a mortgage bond, payable within 20 years with an accrued interest.
- Vehicles purchased on credit in most cases are subjected to vehicles finance, businesses acquire a loan from the bank and the bank pay the dealer full amount. A loan for a vehicle is payable within 5 years.

### LIFESPAN VERSUS USEFUL LIFE

- Lifespan means the actual physical life of the asset, until it is really worthless or worth nothing. Such an asset will then be simply written off or sold for a very low amount.
- Useful life of an asset refers to the period that the asset was use for in the business

### DEPRECIATION

- Loss of value of an asset as it is being used in the business
- Depreciation is calculated at the end of the financial year and is written off against the asset as an expense.

### DEPRECIATION METHODS

1. Straight-line method/cost price method/fixed instalment-where a certain percentage of the cost price is depreciated every year
2. Diminishing balance method/reducing balance method/carrying value method-where a certain % of the carrying value (cost price minus accumulated depreciation) is depreciated every year.

## RECORDING NEW ASSETS

- New assets are either purchased at the beginning of the financial year, during the financial year or at the end of the financial year.
- Assets purchased at the beginning of the financial year will be depreciated for the full financial year
- Assets purchased during the year will have its depreciation apportioned in accordance with the number of months it was used for during the current financial year.
- Assets purchased at the end of the financial year will not be depreciated because they were never used in the business on that financial year, their first depreciation will be on the next financial year.

### ACTIVITY 1

The financial year OF SIYA Traders end on 28 February 2022. On 1 March 2021 the business had 2 Motor vehicles, 1 motor vehicle was purchased on 1 March 2020 and the 2<sup>nd</sup> was purchased on 1 July 2020. The cost of the 2 vehicles was R300 000 and R250 000 respectively. On 1 September 2021, a third vehicle was purchased for R110 000. The business depreciates its vehicles at 15% p.a. using the reducing balance method.

Required:

Calculate the total depreciation for the current financial year ending 28 February 2022, showing clearly depreciation for all three vehicles.

## RECORDING DISPOSAL OF A FIXED ASSET

- When a fixed asset is no longer needed by the business or needs to be replaced, the business will dispose (sell) it.
- Machines and computers often need to be replaced or upgraded because of technological advances in the industry
- Vehicles often need to be replaced because of wear and tear which makes them very expensive to maintain.
- When this happens, the business will sell its old fixed assets and replaced them with new ones. This process is called asset disposal.
- When a fixed asset is sold, it must be removed from the records of the business. The price received for that asset is the selling price.

### STEPS TO FOLLOW WHEN DOING ASSET DISPOSAL

Make sure about:

- The current accounting period
- The date of selling the asset
- The method and % of depreciation

#### STEPS 1: COST PRICE

- The cost price of the asset sold will be given to you
- Remove the cost price of the asset sold from the asset account
- Date: selling price date
- General ledger: debit asset disposal account (N)  
Credit vehicles account (B)

#### STEP 2: ADDITIONAL DEPRECIATION

- When selling the asset on the first day of the financial year, there will be no need to do step 2.
- When selling the asset during the year or on the last day of the financial year, you must do step 2
- The depreciation on the asset sold must be calculated for this year, sometimes it is for the whole year (12 months) and sometimes it is only for few months
- Calculate the depreciation of the asset sold from the beginning of the year to the date of sell
- Recording will be done in step 3

#### STEP 3: ACCUMULATED DEPRECIATION

- If the accumulated depreciation on the first day of the disposed asset is not given, you must calculate it.
- You must calculate the accumulated depreciation for the previous year. Found out:
  - When was the asset purchased?
  - What is the current financial year?
  - What method and % of depreciation is used
- Add the amount as calculated in step 2 to the accumulated depreciation on the asset being sold as on the first day of the financial year.
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- You will then have the total accumulated depreciation on the asset sold, therefore the accumulated depreciation on the first day of the financial year + the depreciation during the year.

#### **STEP 4: SELLING PRICE**

- The asset can be sold in one of the following ways:
  - Sold for cash (bank)
  - Sold on credit (debtors control)
  - Traded-in on a new asset (creditors control)
  - Taken by the owner (drawings)
- Enter the selling price on the credit side of the asset disposal account

#### **STEP 5: PROFIT/LOSS**

- Calculate the profit or loss on the sale of the asset by closing off the asset disposal account.
- The business will make a profit when the credit side of the asset disposal account is more than the debit side
- Thus, when the value that you get out of the asset (usage and money) is more than the amount you paid for it (cost price)
- The business will make a loss when the debit side of the asset disposal account is more than the credit side.

Thus, when the amount we paid for (cost price) is more than the value that you get out of the asset (usage and money)