

Summary

Acquisition of assets

- Assets are acquired at cost price.
- Recorded according to GAAP: Historical cost principle
- An entry is made in the assets register
- Entries will be as follows:

EFFECT ON ACCOUNTING EQUATION FOR CASH PURCHASES

Journal	Source document	Account debited	Account credited	A=	E+	L
CPJ	Cheque counterfoil	Asset, for example, VEHICLES	BANK	+	0	0

EFFECT ON ACCOUNTING EQUATION FOR CREDIT PURCHASES

Journal	Source document	Account debited	Account credited	A =	E +	L
CJ	Invoice	Asset, for example, EQUIPMENT	CREDITORS CONTROL	+	0	+

EFFECT ON ACCOUNTING EQUATION FOR TRADE-IN

Journal	Source document	Account debited	Account credited	A =	E +	L
CJ	Invoice	Asset, for example, VEHICLES	CREDITORS CONTROL	+	0	+
		CREDITORS CONTROL	Asset (old vehicle)	-		-

Calculation and recoding of depreciation

1 Straight line method (at cost price)

- A fixed percentage of the cost price is written off during the useful life of the asset
- Calculation follows: $\frac{\text{Percentage}}{100} \times \frac{\text{Cost price of asset}}{1} \times \frac{\text{number of months (useful life)}}{12}$

2 The diminishing balance method

- Usually applied where assets are subjected to a high rate of wear and tear
- A fixed percentage of the diminishing value is calculated
- Calculation follows: Cost price – Accumulated depreciation = Book value or Carrying value
- $\frac{\text{Percentage}}{100} \times \frac{\text{Book value of asset}}{100} \times \frac{\text{number of months}}{12}$

General Journal entry

GENERAL JOURNAL OF FOR FEBRUARY 20.9

Doc	Day	Details	Fol.	Debit R	Credit R
		Depreciation Accumulated depreciation on equipment <i>Equipment depreciated at ___%p.a. on (method)</i>		XXX	XXX

Posting to the General Ledger
GENERAL LEDGER
BALANCE SHEET ACCOUNTS SECTIONS

Dr				EQUIPMENT				Cr	
20.8									
Jul	1	Bank	CPJ	XXXX					
ACCUMULATED DEPRECIATION: EQUIPMENT									
					20.9				
					Feb 28	Depreciation	GJ2	XXX	
DEPRECIATION									
20.9									
Feb	28	Accumulated depreciation: on equipment	GJ2	XXX					

EFFECT ON ACCOUNTING EQUATION

Source document	Account debited	Account credited	A =	E +	L
Journal voucher	DEPRECIATION	ACCUMULATED DEPRECIATION: EQUIPMENT	-	-	0

Calculation and recording of disposal of tangible assets

- An asset is disposed of when it reaches a state of inefficiency i.e. it is no longer economically useful; it is out-dated.
- A new account called the ASSET DISPOSAL account which is a Nominal account is created to record the disposal of the asset.
- An important concept to note is that
Carrying value of an asset = Cost price – Accumulated depreciation.
- Assets can be disposed of by selling the assets for cash or credit, trading them for a new asset, taking them for personal use or donating them.
- The following recording procedure is followed at the end of the financial year:

Disposal beginning of the year	Disposal end of year	Disposal during year	Journal	Account debited	Account credited
Cost price of asset transferred	Cost price of asset transferred	Cost price of asset sold	GJ	ASSET DISPOSAL	Asset account
Sale of asset recorded	Sale of asset recorded	Sale of asset recorded			
Cash	Cash	Cash	CRJ	BANK	
Credit	Credit	Credit	GJ	DEBTORS CONTROL	
Trade-in	Trade-in	Trade-in	GJ	CREDITORS CONTROL	ASSET DISPOSAL
Personal Use	Personal Use	Personal Use	GJ	DRAWINGS	
Donation	Donation	Donation	GJ	DONATIONS	

Disposal beginning of the year	Disposal end of year	Disposal during year	Journal	Account debited	Account credited
	Calculate the depreciation for the current year	Calculate the depreciation for the current period of the year	GJ	DEPRECIATION	ACCUMULATED DEPRECIATION
Accumulated depreciation transferred	The accumulated depreciation transferred. Add present year depreciation to the accumulated depreciation at the beginning of the year only for the asset that is sold	The accumulated depreciation transferred. Add present year depreciation to the accumulated depreciation at the beginning of the year only for the asset that is sold	GJ	ACCUMULATED DEPRECIATION	ASSET DISPOSAL
Profit/loss on sale of asset is calculated Dr>Cr: Loss on sale of asset Dr<Cr: Profit on sale of asset	Profit/loss on sale of asset is calculated Dr>Cr: Loss on sale of asset Dr<Cr: Profit on sale of asset	Profit/loss on sale of asset is calculated Dr>Cr: Loss on sale of asset Dr<Cr: Profit on sale of asset	GJ	LOSS ON SALE OF ASSET ASSET DISPOSAL	ASSET DISPOSAL PROFIT ON SALE OF ASSET
Calculate the depreciation for the rest of assets on hand	Calculate the depreciation for the rest of assets on hand	Calculate the depreciation for the rest of assets on hand	GJ	DEPRECIATION	ACCUMULATED DEPRECIATION
Closing transfers to PROFIT AND LOSS account	Closing transfers to PROFIT AND LOSS account	Closing transfers to PROFIT AND LOSS account	GJ	PROFIT AND LOSS PROFIT ON SALE OF ASSET	LOSS ON SALE OF ASSET PROFIT AND LOSS

Internal Control

- Perimeter protection – ensure that the area around your business is protected
- Access control – who has access to assets.
- Surveillance and supervision – policy indicating use of assets.
- Internal control measures to prevent fraud, consumption and diversion.
- Effective planning to deal with emergencies.
- Security of assets.
- Segregation of duties – separate accounting and custody duties.

Ethical Issues

- Private use of assets – should this be allowed and on what terms.
- Fair representation of assets – must show the wear and tear of assets in the financial statements.
- Ethical issues involved in the acquisition of assets – assets must be acquired without any kick-backs.