Accounting for Business Decisions B

Contents

Non-Current Assets

- **Non-current asset:** Tangible resource that is expected to be used in the normal course of operations for more than one year, not intended for resale, e.g. land, buildings, equipment.
- **Write down:** Lowering the value of an asset to represent a fall in price of the asset.
- **Asset:** Resource controlled by an entity as a result of past events and from which future economic benefits are expected to arise.
- Recording and expensing non-current assets:
  - Recorded at cost
  - All costs to purchase, deliver and install for use are included.
  - These costs include the purchase price, taxes and duties paid on the purchase, delivery costs, insurance costs (during transport) and installation costs.
  - Asset converts to expense through depreciation, which is the process of allocating the cost of a non-current asset of its useful.
  - Applies matching principle.
  - Depreciation is expensed and then reduces the contra asset account (accumulated depreciation) of the actual asset.
- Calculating depreciation:
  - Need the cost, the residual/salvage value (how much the asset will be worth when it is sold), the useful life how long the asset will be used for and the deprecation method used.
  - Methods:
    - Straight line method
      - Spreads depreciation evenly over the useful life of the asset.
      - Depreciation expense = (Cost – Residual value) / Useful life
    - Reducing balance method:
      - Accelerated method, depreciation is higher in earlier years and lower in later years.
      - Matches expenses to revenues better than the straight-line, more depreciation is more useful in its early years.
      - Depreciation expenses = 2 * (1/Useful life) * Carrying amount
    - Units of activity method:
      - Useful for an asset where we know exact amount it'll be used.
      - Method limited to assets who's units of activity can be measured.
      - Depreciation expense per unit = (Cost – salvage value) / Useful life in units
      - Depreciation expense = Depreciation expense per unit of actual units of activity.

            - Good for matching principle, however is difficult to measure.
- Carrying amount:
  - **Carrying amount:** Book value or net asset value.
  - Carrying amount = Cost – Accumulated depreciation
- Adjustments for useful life:
  - Changes due to:
    - Changes in estimates
    - Additional expenditures to improve the NCA:
      - Capital expenditure that increases the expected useful life or productivity of the asset, increases asset value.
      - Revenue expenditure maintains the expected useful life or productivity of the asset, increases expense account.
    - Significant declines in the asset's net realisable value:
      - Known as asset impairment, when the recoverable amount falls below its carrying amount.
      - AASB 136 – entities must apply conservatism by writing these assets down from their carrying amount to their recoverable amount.
- Adjustments don't change historic depreciation, only future calculations.
- Disposals:
  - 1. Update depreciation on the asset for the year to date.
  - 2. Calculate gain or loss on the disposal by comparing the asset's carrying amount
    - Gain/loss on sale = Sales price – carrying amount
  - 3. Prepare the journal entry that decreases the asset account and its related accumulated depreciation account.
  - 4. Record any gain or loss on the disposal
- Intangible assets:
  - Resource used in operations for more than one year but has no physical substance.
  - Includes:
    - A patent is the right to manufacture, sell or use a particular product or process exclusively for a limited period of time.
    - A trademark or trade name is the right to use exclusively a name or symbol to identify the business.
    - A copyright is the right to reproduce or sell an artistic or published work.
    - A franchise is the right to operate a business under the trade name of the franchisor.
  - **Amortisation:** Depreciation for intangible assets.

    - Assets with indefinite lives are examined periodically t check for impairment rather than being amortised.
- Goodwill:
    - When one company buys another it pays more than the value of the assets.is the difference.
    - The value of goodwill is the difference between the amount paid for an asset/business and its book value.