

Fixed/Tangible Assets

Bought for use in the day-to-day business operations. Not intended for resale but as part of investing operation of the business in order to help generate profit, e.g. Land & buildings, equipment, vehicles. Classified as Non-current assets because they have a lifespan of more than 1 financial year.

Read summary of accounting entries on p.253

Remember:

Let's look closely at No.5 - Disposal of asset

It's important to note when the asset is sold, i.e. beginning, during or end of the financial year. Noting this will affect your depreciation calculation and updating the depreciation on the asset sold.

What to do when disposing an asset?

- a) Update depreciation on asset sold [this is not required if the asset is sold at the beginning of the financial year] Dr Depreciation Cr Accum Depr on Asset [GJ]
- b) Transfer the cost price Dr Asset Disp Cr Asset [GJ]
- c) Transfer accum depr Dr Accum Depr Cr Asset Disp [GJ]
- d) Record the selling price* Dr Bank Cr Asset Disp [CRJ]
- e) Record the profit Dr Asset Disp Cr Profit on disposal of asset [GJ]

OR Record the loss Dr Loss on disposal of asset Cr Asset Disp [GJ]

**record selling price -*

If sold on credit	Dr Debtors control
If taken over by the owner for personal use	Dr Drawings
If donated	Dr Donation
If traded-in	Dr Creditors control

Business will acquire asset once all proper acquisition + procurement procedures have been completed. Acquisition is recorded in books using historical cost principle.

Cost price of asset = purchase prices + direct costs [costs attributed to bringing asset into workable state; viz. transport cost, delivery/handling cost + installation cost].

Fixed asset register - keeps details of individual items of all tangible assets, e.g. on p.254.

Serves as an important tool in assisting with internal control over fixed assets.

It is important to periodically take physical count of all tangible assets + reconcile them with the FA registers so that all tangible assets are accounted for.

Internal auditing of FA, read + summarise p.264+265

Ethical issues relating to FA, read + summarise p.266

Lifespan of FA

Useful economic life. Assets depreciate/become obsolete. Depreciation method + % used in calculating depreciation amount by a business will be determined by guidelines provided by SARS. Cost price of FA is important in recording the acquisition of asset in business books. SARS accept cost price of FA to include:

- original purchase price; shipping + delivery price; any other costs incurred + costs directly relating to installation of an assets.

Planned + regular maintenance of FA can prolong the useful life of that FA.

- Lifespan of a new FA → no set formula in determining lifespan because it depends on the nature of the business, type of FA + what that asset will be used for.

- **Lifespan of an existing FA = Cost price ÷ Depreciation = in years.** However, this applies when the straight line method is used when calculating depreciation.

Age of FA

Historical cost principle - when asset is bought it is recorded + remain in books at its original cost price. Ea. year asset depreciated + accum depreciation reduces the value of FA in books.

Carrying value = cost price - accum depr

Age of FA = Accum depr ÷ Depr = in years. However, this applies when the straight line method is used when calculating depreciation.

Replacement rate of FA

Replacement rate = Cost price of new FA - Carrying value of old FA

Some terms to note:

Net Realisable Value - value that the business would receive for a FA if it were sold, less any expenses incurred.

Disposal of FA - FA sold when no longer needed by the business/ needs to be replaced.

GAAP principles relating to FA - read + summarise p.256+257

Do

Activity 2.8 p.260; 2.12 p.263; 2.16 p.268