REVISION: ASSET DISPOSAL 05 SEPTEMBER 2013

Lesson Description

In this lesson we:

- Revise Asset Disposal

Key Concepts

- Depreciation and Imputed Expense
- Non Cash Item - Cash Flow
- Non Cash Item - Budgets

Example

Cost = 100 000
Amount X Rate X Time
100 000 X 10/100 X 12 / 12
10 000

- Diminishing Balance Method
- Reducing Balance Method
- Carrying Value

Example

Cost = 100 000
Accumulated Depreciation = 10 000
Amount X Rate X Time
100 000 - 10 000 = 90 000
90 000 X 10% X 12/12
9 000

Cost Price = 200 000
Accumulated Depreciation = 190 000
Calculation
A R T
200 000 X 10% X 12/12
20 000

One Rand Carrying Value

- Cost 200 000
- Accumulated Depreciation
- 190 000 + 20 000=210 00
- Book Value = (10 000)

- An Asset Cannot have a Negative Value
- Maximum Depreciation 9 999
- Depreciation 9 999
- Accumulated Depreciation 9 999
- Accumulated Depreciation
- (190 000 + 9 999) = 199 999
- Carrying Value = R1

Asset Disposal

- DEP -
- CP -
- AD - + =
- CV -
- SP -
- P/L

- Debit Depreciation
- Credit Accumulated Depreciation

- Debit Asset Disposal
- Credit Asset Account-Vehicles

- Debit Accumulated Depreciation
- Credit Asset Disposal

Carrying Value

- Very Important No Entry
- Note Three Financial Statements

Selling Price

- Cash Debit Bank Credit Asset Disposal
- Credit Debit Debtors Control Credit Asset Disposal

Trade In

- Debit Creditors Control
- Credit Asset Disposal

Owner Took Vehicle for Personal Use ‘Pop’

- Debit Drawings
- Credit Asset Disposal
- Insurance Claim
- Debit Insurance Claim
- Credit Asset Disposal

Profit

- Debit Asset Disposal
- Credit Profit on Sale of Asset
- Loss
- Debit Loss on Sale of Asset
- Credit Asset Disposal

Questions

Question 1

FIXED ASSETS AND INTERNAL CONTROL

You are provided with information in respect of Kagiso Traders for the year ended 28 February 2013. The business is owned by Milly and Billy.

REQUIRED:

a.) Prepare the Asset Disposal Account for office equipment (computers) stolen on 30 June 2012 (see information 1 below).

(12)

ASSET DISPOSAL

June	30				June	30			

b.) One of the office employees, Di Vulge, knows that the insurance policy only covers theft if there is evidence of forced entry. She also knows that Milly broke the security gate of the office to make the incident look like forced entry. She is not sure if Billy knows about this. What advice would you give Di? Explain ONE point.

(3)

c.) Explain how and why the Fixed Assets Register will assist the internal auditor in his duties.

(3)

d.) In order to solve their cash flow problems, Billy has sold a portion of the premises at cost price. Milly disagrees with him on this.
Do you support Milly's opinion? Give a reason.

(3)

INFORMATION:

1. **Office equipment and disposals:**
Office equipment includes the office computers. Six of the office computers were stolen on 30 June 2012. These six computers were originally bought at a cost price of R13 200 each. The insurance company, Ace Insurers, only paid out R5 000 for each computer. These computers were replaced at a higher price on 31 August 2012.

2. Information from the financial statements for year ended 29 February 2013

FIXED ASSETS	**Land & buildings**	**Office equipment**	**Vehicles**
Carrying value at beginning of year	1 200 000	630 000	403 501
Cost	1 200 000	980 000	699 000
Accumulated depreciation		(350 000)	(295 499)
Movements	(700 000)	19 560	(111 000)
Additions		240 000	
Disposals at carrying value	(700 000)	(63 360)	
Depreciation		(157 080)	(111 000)
Carrying value at end of year	500 000	649 560	292 501
Cost	500 000	1 140 800	699 000
Accumulated depreciation		(491 240)	(406 499)