

PRINCIPLES OF ACCOUNTS

CHAPTER 13 NON CURRENT ASSETS

Non-Current Assets

Definition: Assets used by a business to _____ for _____

There are two types of expenditure relating to non-current assets.

Capital expenditure	Revenue expenditure
Provides benefits that last for more than one year	Provides benefits that last for the current year
Cost to bring the non-current asset to its ready-to-use condition	Cost to repair and maintain the non-current asset to its working condition
Recorded as non-current asset in _____	Recorded as expense in _____

Example 1:

Identify whether the following are capital or revenue expenditure

- i) Purchasing a motor vehicle
- ii) Payment of petrol expenses
- iii) Repainting a motor vehicle
- iv) Purchasing the certificate of entitlement (COE)

Example 2:

During the financial year ended 31 January 2013, Plaza Gain renovated its mall by extending a new building at a cost of \$180 000 and repairing its premises at \$20 000.

- (a) State for each of the transactions below whether the transactions are "Capital expenditure" or "Revenue expenditure". Give a reason for each of your answer.

	Type of Expenditure	Reason
(i) Extension of building		
(ii) Repairs		

- (b) If a revenue expenditure of \$600 is incorrectly treated as a capital expenditure, state the effect in the Plaza Gain's books on:

- (i) profit
- (ii) non-current assets

Example 3:

Determine whether the transactions below are material to a business that reports a profit of \$1 million.

- (a) Purchase a motor van for \$200 000
- (b) Incur painting cost of \$2 000
- (c) Purchase a laptop of \$800

1. Accounting concept - _____ concept

A transaction is to be treated as _____ if it is considered immaterial and does not affect decision making.

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Depreciation

Definition: The _____ of the original cost of a non-current asset over its useful life. It is an _____ reported in the Statement of financial performance

As the business uses the non-current asset to generate income, part of the cost of the non-current asset has to be reported as expenses to reflect such usage.

2. Accounting concept - _____ concept

_____ incurred on non-current asset is to be _____ against _____ earned from using the non-current asset to derive a _____.

Journal entry

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Accumulated depreciation

Definition: The _____ depreciation to-date. It is a _____ presented in the statement of financial position.

Causes of Depreciation

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Methods of calculating depreciation

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Assumes non-current asset provides benefits _____ throughout its useful life

An _____ amount of depreciation is recorded for each period

Example:

Formula:

Assumes non-current asset provides _____ benefits in the _____ years of its useful life

A higher amount of depreciation is recorded in the earlier financial periods

Example:

Formula:

3. Accounting concept – _____ concept

Accounting methods used by the business must be _____ from period to period so that its _____ can be _____ meaningfully across financial periods.

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Example 4

Lyn purchased two motor vehicles on 1 January 2018 costing \$10,000 each by cheque. The business depreciates its motor vehicles at 20% per annum using the straight line method.

- (a) Calculate the depreciation on motor vehicles for the years ended 31 December 2018 and 2019.
- (b) Prepare the Motor vehicle account.

Example 5

Angel started business on 1 July 2012 and purchased two computers costing \$5,000 each on credit from HP Office.

On 1 December 2013, she bought a new computer for \$6,500 by cheque from Atlas Ltd.

It is the firm's policy to depreciate office equipment at the rate of 10% per annum using the straight line method. A full year's depreciation is charged.

- (a) Prepare the Office Equipment account for the two years ended 30 June 2013 and 2014.
- (b) Calculate the depreciation for the years ended 30 June 2013 and 2014.

Example 6

ABC Printer purchased two printing machines on 1 January 2013.

Machine A cost \$6 000 and Machine B cost \$8 000. The business depreciates its machinery at 15% per annum using the reducing balance method. A full year's depreciation is to be charged.

- (a) Calculate (showing all workings) the depreciation on machinery for 2013 and 2014.

	Year ended 31 December 2013	Year ended 31 December 2014
Depreciation Machine A		
Depreciation Machine B		
Total depreciation for the year		

- (b) Prepare an extract of the statement of financial performance and statement of financial position for the year ended 31 December 2014.

Example 7

On 1 January 2015, Bobby had the following balances:

	\$
Motor vehicles	50 000
Accumulated depreciation of motor vehicles	15 000

On 1 July 2015, Bobby purchased a new van for \$8,000 on credit.

The business's policy is to provide full year's depreciation. The motor vehicles are to be depreciated at a rate of 20% per annum, using the straight line method.

- (a) Prepare journal entries to record the depreciation of motor vehicles account for the year ended 31 Dec 2015.
- (b) Prepare an extract of the statement of financial performance and statement of financial position for the year ended 31 December 2015.
- (c) Using an accounting theory, explain why a business cannot change its depreciation method every year.
- (d) Bobby used the reducing- balance method for the motor vehicles and straight line method for fixtures and fittings. Give a reason why this is the most appropriate depreciation method.

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Example 8

On 1 July 2013, Sandy had the following balances:

	\$
Machinery	20 000
Accumulated depreciation of machinery	4 000

Sandy's financial year ends on 30 June. On 1 January 2014, she purchased two machines on credit from Sally for \$30 000 each. Depreciation was charged on the machines at 10% per annum at cost.

(a) Prepare the following for the two years ended 30 June 2014 and 2015.

(i) Machinery account

(b) Calculate the depreciation and accumulated depreciation for the years ended 30 June 2014 and 2015.

(c) Prepare an extract of the statement of financial performance and statement of financial position for the year ended 30 June 2015.

Example 9

On 1 May 2019, Mandy had the following balances:

	\$
Machinery	50 000
Accumulated depreciation of machinery	9 000

Mandy's financial year ends on 30 April. On 1 December 2019, she purchased a machinery on credit for \$20000. Depreciation was charged on the machines at 10% per annum at net book value.

(a) Prepare the machinery account for the year ended 30 April 2020.

(b) Calculate the depreciation and accumulated depreciation for the years ended 30 April 2020 and 2021

(c) Prepare an extract of the statement of financial performance and statement of financial position for the year ended 30 April 2020.

Example 10

On 1 November 2015, Mr Tan had the following balances:

	\$
Motor vehicles	50 000
Accumulated depreciation of motor vehicles	15 000

On 1 July 2016, Mr Tan purchased a new van for \$10,000 on credit.

The business's policy is to provide full year's depreciation. The motor vehicles are to be depreciated at a rate of 20% per annum, using the reducing balance method.

(a) Prepare journal entries to record the depreciation of motor vehicles account for the year ended 31 Oct 2015 and 2016.

(b) Prepare an extract of the statement of financial performance and statement of financial position for the year ended 31 Oct 2016.