

Chapter 14: Depreciation and the Asset Register

Chapter Review Solutions

2. The objective of AASB136 is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. The standard defines recoverable amount as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use.

Examples of cost of disposal include: legal costs, stamp duty, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

Elements of value in use include: estimate of the future cash flows the entity expects to derive from the asset, time value of money, risk and other factors.

4. **Capital expenditure:**
Benefit is expected to be derived beyond a twelve month period.
Account for capital expenditure by debiting an asset account.

Revenue expenditure:
Benefit applies for not more than 12 month.
Account for revenue expenditure by debiting an expense account.

6. Total cost (including GST) = 1,265 + 484 + 748 = \$2,497
Capitalised cost = 2,497 x 10/11 = \$2,270

Dr. Office Equipment	2,270	
Dr. GST Paid	227	
Cr. Accounts Payable		2,497
<i>Purchase of Office Equipment on credit</i>		

8. Depreciation spreads the cost of a non-current asset over its expected useful life. As the benefit derived from the asset is expected to be realised over more than one accounting period, the capitalised cost of the asset is not charged as an expense to the period in which the asset is acquired.

Instead, a certain portion of the asset's cost is charged as an expense each accounting period. Therefore the cost of the asset is matched to income earned over the life of the asset. The asset is depreciated to its expected residual value.

10. (a) Annual Depreciation charge = $\frac{30,000 - 8,000}{10} = \$2,200$

(b) Depreciation Rate = $\frac{2,200}{30,000} = 7.33\%$

12. (a) Annual Depreciation charge = $\frac{4,000 - 200}{10} = \380

Dec 31	Dr. Depreciation Expense	\$ 380	
	Cr. Accumulated Depreciation - Machinery		\$ 380

(b) Written down value at the end of the first year = $4000 - 380 = \$ 3,620$

14. Annual depreciation = $12.5\% = 1/8$, so the life is 8 years.

16. (a) Depreciation in first year = $8,000 \times 0.4 = \$3,200$

(b) Carrying amount at end of first year = $8,000 - 3,200 = \$4,800$

18. Annual depreciation = $36,000 \times 35\% = 12,600$

(a) Charge for 6 months = $12,600 \times 6/12 = 6,300$

(b) Charge for 4 months = $12,600 \times 4/12 = 4,200$

(c) Charge for 8 months = $12,600 \times 8/12 = 8,400$

20. **Felco Ltd.**

Year End 30 June	Carrying amount at start	Depreciation Charged	Accumulated Depreciation	Carrying amount at end
2020	5,000	1,375	1,375	3,625
2021	3,625	1,088	2,463	2,537
2022	2,537	761	3,224	1,776

22. **Axel Limited**

(a) Using the straight-line method

Date	Account	Debit	Credit
31/12/19	Depreciation Accumulated Depreciation <i>Depreciation [(25,000-1,000)/6 * 6/12]</i>	2,000	2,000

(b) Using the units of production method

Date	Account	Debit	Credit
31/12/19	Depreciation Accumulated Depreciation <i>Depreciation [(25,000-1,000)/500,000 * 58,000]</i>	2,784	2,784

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Date	Details	Debit	Credit	
01/10/19	Depreciation	400		
	Accum Depreciation		400	
	<i>Depreciation to disposal(20,000-12,000)*0.2*3/12</i>			
	Disposal	20,000		
	Motor Vehicle		20,000	
30/06/20	Accumulated Depreciation	12,400		
	Disposal		12,400	
	<i>Transfer to Disposal (400 + 12,000)</i>			
30/06/20	Bank	7,700		
	Disposal		7,000	
	GST Collected		700	
30/06/20	<i>Proceeds from sale of vehicle</i>			
	Loss on Disposal	600		
30/06/20	Disposal		600	
	<i>Transfer</i>			
30/06/20	P & L	600		
	Loss on Disposal		600	
<i>Transfer to P&L</i>				

GENERAL LEDGER EXTRACT

Motor Vehicle							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/10/19	Balance b/d		120,000	01/10/19	Disposal		20,000
				30/06/20	Balance c/d		100,000
			120,000				120,000
01/07/20	Balance b/d		100,000				

Accumulated Depreciation							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/10/19	Disposal		12,400	01/10/19	Balance b/d		82,000
30/06/20	Balance c/d		70,000	01/10/19	Depreciation		400
			82,400				82,400
				01/07/20	Balance b/d		70,000

Bank							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/10/19	Balance b/d		20,000	30/06/20	Balance c/d		27,700
	Disposal, GST		7,700				
			27,700				27,700
01/07/20	Balance b/d		27,700				

GST Collected							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/06/20	Balance c/d		700	01/10/19	Bank		700
			700				700
				01/07/20	Balance b/d		700

Depreciation							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/10/19	Accum Deprec		400	30/06/20	P & L		400
			400				400

Disposal							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/10/19	Motor Vehicle		20,000	01/10/19	Accum Deprec		12,400
					Bank		7,000
					Loss on Disposal		600
			20,000				20,000

Loss on Disposal							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/10/19	Disposal		600	30/06/20	P&L		600
			600				600

Profit and Loss			
01/10/19	Loss on Disposal	600	30/06/20 Capital
		600	600

26. City Contractor

Date	Details	Debit	Credit
12/8/18	Depreciation	353	
	Accum Depreciation		353
	<i>Depreciation to disposal (12,000 x 0.25 x 43/365)</i>		
	Disposal	30,000	
	Motor Vehicle		30,000
	<i>Transfer asset cost to Disposal</i>		
	Accumulated Depreciation – Motor Vehicle	18,353	
	Disposal		18,353
	<i>Transfer to Disposal (353 + 18,000)</i>		
	Motor Vehicle	50,000	
	MV Registration	400	
	GST Paid	5,000	
	Accounts Payable		55,400
	<i>Purchase of new vehicle</i>		
12/8/18	Accounts Payable	12,100	
	Disposal		11,000
	GST Collected		1,100
	<i>Trade in of old vehicle</i>		
	Accounts Payable	5,000	
	Bank		5,000
	<i>Deposit paid</i>		
	Loss on Disposal	647	
	Disposal		647
	<i>Transfer</i>		
30/6/19	P & L	647	
	Loss on Disposal		647
	<i>Transfer to P&L</i>		

GENERAL LEDGER EXTRACT

Motor Vehicle							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
1/7/18	Balance b/d		440,000	12/8/18	Disposal		30,000
12/8/18	Accounts Payable		50,000	31/8/18	Balance c/d		460,000
			490,000				490,000
01/9/18	Balance b/d		460,000				

Accumulated Depreciation							
12/8/18	Disposal		18,353	1/7/18	Balance b/d		170,000
31/8/18	Balance c/d		152,000	12/8/18	Depreciation		353
			170,353				170,353
				01/9/18	Balance b/d		152,000

GST Paid							
12/8/18	Accounts Payable		5,000	31/8/18	Balance c/d		5,000
			5,000				5,000
01/9/18	Balance b/d		5,000				

Bank							
12/8/18	Balance b/d		15,000	12/8/18	Accounts Payable		5,000
				31/8/18	Balance c/d		10,000
			15,000				15,000
01/9/18	Balance b/d		10,000				

GST Collected							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
31/8/18	Balance c/d		1,100	12/8/18	Disposal		1,100
			1,100				1,100
				01/9/18	Balance b/d		1,100

Depreciation							
12/8/18	Accum Deprec		353	31/8/18	P & L		353
			353				353

Disposal							
12/8/18	Motor Vehicle		30,000	12/8/18	Accum Deprec		18,353
				31/8/18	Acc Pay – Vehicle		11,000
				31/8/18	Loss on Disposal		647
			30,000				30,000

Loss on Disposal							
12/8/18	Disposal		647	30/06/19	Profit & Loss		647
			647				647

Profit and Loss							
30/06/19	Loss on Disposal		647	30/06/19	Profit & Loss		647
			647				647

28. Law Engineering Co.

(a) Straight Line Method							
Asset Cost on	01/07/17	\$120,000	Depreciation charge	= \$105,000/4	= \$26,250 p.a		
Less Residual		- 15,000					
Depn Amount		105,000					
<i>Year ended</i>	<i>Asset Cost</i>	<i>Depreciation</i>	<i>Accum Depn</i>	<i>Carrying amount at end</i>			
30/06/18	120,000	26,250	26,250	93,750			
30/06/19		26,250	52,500	67,500			
30/06/20		26,250	78,750	41,250			
30/06/21		26,250	105,000	15,000			
(b) Reducing Balance Method							
Asset Cost on	01/07/17	\$120,000	Depreciation p.a.	40% x Carrying			
Less Residual		- 15,000		Amount			
Depn Amount		105,000					
<i>Year ended</i>	<i>Carrying amount at bgn</i>	<i>Depreciation</i>	<i>Accum Depn</i>	<i>Carrying amount at end</i>			
30/06/18	120,000	48,000	48,000	72,000			
30/06/19	72,000	28,800	76,800	43,200			
30/06/20	43,200	17,280	94,080	25,920			
30/06/21	25,920	10,920	105,000	15,000			

(c)

Machinery							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
01/07/17	Bank		120,000	30/06/18	Balance c/d		120,000
			120,000				120,000
01/07/18	Balance b/d		120,000	30/06/19	Balance c/d		120,000
			120,000				120,000
01/07/19	Balance b/d		120,000				

Accumulated Depreciation							
30/06/18	Balance c/d		26,250	30/06/18	Depreciation		26,250
			26,250				26,250
30/06/19	Balance c/d		52,500	01/07/18	Balance b/d		26,250
			52,500	30/06/19	Depreciation		26,250
							52,500
				01/07/19	Balance b/d		52,500

Depreciation							
Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/06/18	Accum Deprec		26,250	30/06/18	P & L		26,250
			26,250				26,250
30/06/19	Accum Deprec		26,250	30/06/19	P & L		26,250
			26,250				26,250

(d)

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Date	Details	Debit	Credit
30/06/19	Disposal Machinery <i>Original cost transferred to Disposal account</i>	120,000	120,000
	Accumulated Depreciation – Machinery Disposal <i>Accumulated Depreciation transferred to Disposal account</i>	52,500	52,500
	Bank Disposal GST Collected <i>Sale proceeds received</i>	77,000	70,000 7,000
	Disposal Profit and Loss <i>Transfer gain on disposal</i>	2,500	2,500