

Depreciation

Factors include:

- Cost → all expenditure to acquire the asset and make it ready for intended use
- Useful Life → estimate of expected life based on intended use, need for repair, vulnerability to obsolescence and legal life
- Residual Value → estimate of the assets value at the end of its useful life

Methods

1. Straight Line

- Expense is consistent every year as it is consumed at a constant rate

$$\text{annual Depreciation Expense} = \frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Useful Life of the Asset}}$$

- In the journal, it is recorded as Dr Dep Exp, Cr Accumulated Dep

2. Diminishing-Balance Method

- Depreciation expense decreases each year as greater benefits are consumed earlier in assets life

$$\text{Depreciation Rate} = 1 - \sqrt[n]{r/c}$$

3. Units-of-Production Method

- Useful life is expressed in terms of total units of production or use expected from the asset

$$\begin{aligned}\text{Cost per Unit} &= \frac{\text{Total Cost of Asset} - \text{Residual Value}}{\text{Useful Life in Terms of Units}} \\ \text{Annual Expense} &= \text{Cost per Unit} \times \text{Number of Units Produced}\end{aligned}$$

Intangible Assets

Types of Intangible Assets

1. Patents

- Exclusive right granted by IP Australia enabling recipient to manufacture, sell or otherwise control an invention

2. Research and Development Costs

- Expenditure that may lead to patents, copyrights, new processes and new products

3. Copyright

- Gives the owner exclusive rights to reproduce and sell an artistic or published work

4. Trademarks and Brand Names

- Words, phrases, jingles or symbols that distinguish or identify a particular business or product

5. Franchises and Licenses

- A contractual arrangement under the franchisee is granted certain rights

6. Goodwill

- Represents all favourable attributes that relate to an entity and is defined as future benefits from unidentifiable assets

Analysing and Decision Making

$$\text{Average Useful Life of PPE Assets} = \frac{\text{Average cost of PPE Assets}}{\text{Depreciation Expense}}$$