Lec 1 Non-Current Assets

Non-current assets:

- tangible resource
- is used for more than 1 year
- **not intended for resale**
- Are presented on the Balance Sheet
- i.e. land (is not depreciable), buildings, equipment

Recording non-current assets:

- At the cost of acquiring them (historic cost)
- All necessary costs incurred to **get the asset DELIVERED, INSTALLED & READY TO USE** should be included.
- i.e.
  - – purchase price
    – taxes and duties paid on the purchase
    – delivery costs
    – insurance costs during transit
    – installation costs
- Non-compulsory insurance is not included because:
  - We **dont need insurance to drive the truck** or use it
  - Can still use the truck without insurance

Expensing non-current assets:

- **Depreciation:** the process of allocating the cost of a non-current asset over its useful life
- Is an application of the matching principle (**match the depreciation with the revenue)**
- Is **NOT** about getting an asset to its' market value

Recording depreciation:

- Is calculated **at the end** of an accounting period
- Dr Depreciation Expense (expense increasing)
  Cr Accumulated Depreciation (contra asset increasing)
- $Cost\ -\ Accumulated\ Depreciation\ =\ Carrying\ Amount\ (Net\ book\ value)$
- Depreciation Expense -> Income statement
- Accumulated depreciation -> Balance sheet

Depreciation:

- Calculating depreciation expense requires:
  - Cost
  - Residual value/ salvage value
  - Useful life
  - Depreciation method (straight-line, reducing-balance, units-of-activity)

Straight-line depreciation:

- $Depreciation\ Expense = \dfrac{cost - residual\ value}{useful\ life}$
- Carrying amount is also called Net Value or Book Value

Reducing-balance depreciation:

- More depreciation expense in the early years, less depreciation expense in the later years
- Match expenses to revenues better than the straight-line method
- Larger expenses (larger tax deductible expenses) in earlier years
- **The larger the depreciation expense** in a given year, **the lower** the company's reported **net**

income -- its **profit**. However, because **depreciation is a non-cash expense**, the expense **doesn't change the company's cash flow.**

- Since businesses **get taxed on their profits**, means a lower tax bill in the earlier years.
- $Depreciation\ Expense = 2 * \frac{1}{useful\ life} * carrying\ amount$
- Sometimes use 1.5 times the straight line rate

Units-of activity method:

- Calculates depreciation based on use
- Is limited to assets whose **units-of-activity can be measured**
- $Depreciation\ expense\ per\ unit = \frac{cost\ - salvage\ value}{useful\ life\ in\ units}$
- $Depreciation\ expense = Depreciation\ expense\ per\ unit\ * Actual\ units\ of\ activity$

Adjustments:

- Can arise from the following: changes in estimates, additional expenditures to improve the non-current asset, significant declines in the asset's net realisable value
- Changes in depreciation estimates:
  - Calculate the new carrying amount
  - Calculate how much of the new carrying amount will be depreciated over the new useful life
- Expenditures after acquisition:
  - Capital expenditure: **increases** the expected useful life -> increases the asset value
    - Like record for the purchase

      i.e. Dr non-current asset

      Cr Cash
  - Revenue expenditure: **maintains** the expected useful life -> increase an expense account

    i.e. Dr Maintenance expense

    Cr Cash
- Asset impairment:
  - Recoverable amount falls below carrying amount -> asset is impaired
  - An impairment is an expense that lowers the value of a non-current asset
  - i.e. Dr Impairment expenses - Land

    Cr Land

Disposals

1. Update accumulated depreciation
2. Calculate gain or loss on the disposal

   $Sales\ Price - Carrying\ Amount = Gain\ (loss)\ on\ sale$
3. Decreases asset account and its related accumulated depreciation account
4. Record gain/loss on the disposal

Intangible assets

- Have value but no physical forms: patent, trademark, trade name, copyright, franchise,…
- Amortisation:
  - Amortise = depreciate
  - Like straight line method of depreciation
  - Applies only to intangibles with **limited lives** (patents)
  - i.e. Dr Amortisation expense

    Cr Accumulated amortisation - patent
- Goodwill:
  - When one company buys another company and pays more than the value of the net assets of the purchased company (acquired company's customers, reputation, employees, market share, research,…)