Accounting B Notes

(Increase)	Debit	Credit
	Asset/Expense/Dividend	**Liability/Equity/Revenue/Acc Depr**
(Decrease)	Credit	Debit

Depreciation: The allocation of the cost of a non–current assets as it is used up over time.

- An application of matching principle: as the asset generates revenues each period, some of its value should be decreased (expensed) in those same periods.
- Accumulated depreciation is a contra asset (Cr to increase the account) and represents the amount of value which is lost for the asset.
- **Carrying cost**: Original cost – accumulated depreciation (i.e. current useful value)
- Depreciation expense is reported on the statement of profit or loss and accumulated depreciation is reported on the balance sheet (stays with the asset until its sold)
- We need to know the following things to calculate depreciation: Original cost, residual value, useful life and depreciation method

NB: Land can't be depreciated because it doesn't have a defined useful life

Methods of depreciations:

1. Straight–line: Constant amount of depreciation per period (e.g. oven)

$$\text{Depreciation Expense} = \frac{\text{Cost} - \text{Residual Value}}{\text{Useful Life}}$$

2. Reducing balance: As the asset's value decreases, the depreciation decreases (proportional to value i.e. exponential decay of depreciation amount) (e.g. computer)
   - Reflects how assets are used more in earlier years and get used less as it becomes outdated and older

     Depreciation Expense = Carrying value * straight line rate * given rate (1.5 or 2)
   - Straight line rate = 100%/useful life

3. Units of activity: Depreciation is directly linked to the use of product (e.g. car)

$$\text{Depreciation Expense per unit} = \frac{\text{Cost} - \text{Residual Value}}{\text{Total units produced}}$$

Adjustments are needed if there is a reassessment of the length of time the asset will remain useful, or the value of the asset at the end of its useful life or because money is spent on the asset to maintain or improve its operating capacity. We can't change past asset value, but we can change future value.

Expenditure after acquisition:
Capital expenditure: upgrading an asset and improving its expected useful life or productivity (increases the asset account) whereas revenue expenditure merely maintains the expected useful life or productivity of the asset (increases an expense account). E.g. buying a new engine vs taking a truck into service.

- If capital expenditure occurs, the value changes and so depreciation must also change.

Asset impairment: recorded when a non-current asset's recoverable amount falls below its carrying amount, the asset is considered impaired. This applies to assets such as land which aren't depreciated. It is recorded on the income statement. Can be caused by changing market conditions, regulations (e.g. new tax), new technologies making current ones outdated etc.

Loss on Impairment		100 000		
Non-current Asset				100 000
(To record permanent impairment of asset)				
Assets	=	Liabilities	+	Equity
−100 000				−100 000

- For asset revaluation, the accounts are "revaluation reserve" or "revaluation expense"

Gains or losses from asset disposal:

1. Update the depreciation expense/carrying amount to include any partial periods
2. Calculate the gain or loss resulting in disposal compared to the new carrying amount
3. Journalise the change in asset/accumulated depreciation accounts and record gains/loss

Issuing shares by instalment: Application –> Allotment. –> Call

Types of complication: Oversubscription (Option 1: Return the money; Option 2: Apply the excess application to the allotment); Forfeiture

e.g. Assume that Fiona's company issues 10 000 shares for 50c payable on application, 30c on allotment and a 20c call.

1. Application steps: Expression of interest
   Dr Cash trust (asset – holding acc) $5000
   Cr Application (liability) $5000
2. Allotment steps: Allocates shares
   Dr Application* $5000
   Dr Allotment (asset – receivable)* $3000
   Cr Contributed Capital (equity) $8000
   Dr Cash $5000
   Cr Cash trust $5000
   [Applications accepted]
   Dr Cash $3000
   Cr Allotment $3000
   [Payment received for Allotment]
3. Call steps: Finalises payment
   Dr Call (asset – receivable) $2000
   Cr Contributed Capital $2000
   [Recognise the Call]
   Dr Cash $2000
   Cr Call $2000
   [Payment received for Call]

In the end: Dr $100,000 Cash, Cr $10000 Contributed Capital