

Accounting Standards and Regulations

Reporting Performance

Immediate payment and service: DR Cash, CR Revenue

Without immediate payment: DR Accounts receivable, CR Revenue

- When payment is received: DR Cash, CR Accounts receivable.

Without instant service: DR Cash, CR Unearned revenue

When there are monthly payments:

1. Calculate NPV of monthly payments.
2. Recognise revenue.
3. For each monthly payment, calculate interest revenue.
 - a. DR Cash, CR Interest Revenue, CR Accounts receivable

Assets

Inventory

- Purchasing: DR inventory, CR Cash or accounts payable
- Selling: DR accounts receivable or cash, CR revenue, DR COGS, CR inventory
- Write-down or loss on inventory: DR loss on inventory write-down, CR inventory
- Inventory adjustments:
 - shortage: DR inventory, CR COGS or loss on inventory
 - excess: CR inventory, DR gain on inventory or COGS

PPE

- Initial recognition: DR Asset, CR Cash
- Depreciation: DR depreciation expense, CR accumulated depreciation
- Impairment loss: recoverable amount < book value
 - DR impairment expense, CR accumulated impairment
- Reversal of impairment: if fair value increases
 - DR accumulated impairment, CR impairment expense
- Subsequent measurement:
 1. Calculate the carrying amount before impairment
 - a. Calculate annual depreciation = $(\text{cost} - \text{residual value}) / \text{useful life}$
 - b. Carrying amount = cost – accumulated depreciation
 2. Impairment testing:
 - a. The recoverable amount is the higher of the net fair value and the value in use
 - b. Net fair value = fair value – selling costs
 - c. Carrying amount > recoverable amount there is an impairment loss
 - d. Impairment loss = carrying amount – recoverable amount
 - e. DR impairment loss, CR accumulated impairment
 3. Next test:
 - a. Depreciate further
 - b. New depreciable amount = carrying amount after impairment – revised residual value
 - c. Carrying amount after impairment = BV – impairment
 - d. New annual depreciation = new depreciable amount / new useful life
 - e. New carrying amount = carrying amount – extra depreciation
 - f. Impairment reversal: recoverable amount = higher of net fair value and value in use
 - g. Carrying amount < recoverable amount = reversal of impairment

- h. Carrying amount without previous impairment = original cost – original accumulated depreciation
- i. Impairment reversal = carrying amount without impairment – current carrying amount (with depreciation originally and new depreciation)
- j. DR accumulated impairment CR impairment reversal

Revaluation of assets

- Revaluation increment: fair value > book value
 - Reset depreciation: DR accumulated depreciation, CR asset.
 - Adjust asset value: DR asset, CR revaluation increment.
- Revaluation decrement: fair value < book value
 - Reverse depreciation: DR accumulated depreciation, CR asset
 - Record decrement: DR revaluation increment, CR revaluation decrement, CR asset
- Increase in asset value (revaluation surplus)
 - DR asset, CR revaluation surplus
- Deferred tax liability for revaluation
 - DR revaluation surplus, CR deferred tax liability
- Decrease in asset value (revaluation deficit)
 - DR revaluation deficit, CR asset

Asset impairments with balance sheet and purchase offer

- Determine recoverable amount
 - Recoverable amount is the higher of fair value less costs to sell, and the value in use (present value)
- Calculate the carrying amount of the cash-generating unit (the business)
 - All assets except cash
- Calculate impairment loss
 - Impairment loss = carrying amount – recoverable amount (purchase offer)
 - Carrying amount > recoverable amount, impairment loss is needed
- Allocate impairment loss to asset s
 - Fully impair goodwill
 - DR impairment loss, CR goodwill
 - Allocate the remaining based on each areas carrying amount
 - Impair accounts receivable:
 - DR impairment loss, CR allowance for doubtful debts
 - Impair inventory:
 - DR impairment loss, CR inventory
 - Impair PPE
 - DR impairment loss, CR PPE
- Reversal
 - No reversal if assets have been fully replenished or collected
 - Can reverse up to carrying amount without impairment
 - Starting balance – depreciation without impairment
 - Actual carrying amount with impairment
 - Impairment reversal = starting balance - depreciation without impairment – actual carrying amount
 - DR asset, CR impairment reversal

Intangible assets:

- Initial recognition: DR intangible asset (acquisition cost), CR cash or accounts payable
- Amortisation: DR amortisation expense, CR accumulated amortisation