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Support Pack | Grade 12

CAPS

Accounting

Asset disposal

This revision pack for **Accounting Grade 12** provides support for learners revising the most important concepts and principles covered in the CAPS curriculum. These include concepts relating to companies, the acquisition of Fixed assets, inventories, VAT, Manufacturing and cost accounts, and budgeting. Summaries of the GAAP principles, theory of Accounting, and the format of Debtors and Creditors control accounts are provided. Furthermore, a detailed table to summarise the interpretation of Financial Statements is provided.

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Revision 5
Interpretation and reporting on asset disposal

Acquisition (purchase) of fixed assets

- **Cash:** Via cheque or EFT, usually when fixed assets have a relatively low value such as computers or furniture
- **Credit:** Via bonds or vehicle finance, usually for very expensive fixed assets such as buildings or cars.
  Bonds and vehicle finance are classified as long-term credit (paid over several years).
  Assets bought on credit are classified as short-term credit (paid within one year).
- **Trade-in:** When a vehicle is traded in (exchanged) for another vehicle. The trade-in value of the old vehicle is deducted from the purchase price of the new vehicle.

Historical cost principle

Fixed assets are recorded in the financial records at cost price.

Depreciation

Depreciation is written off systematically over the useful life of the asset.

- **Straight-line method (cost price method):** A fixed percentage of the cost price of the asset is written off annually.
- **Diminishing balance method (carrying value method):** A percentage of the carrying value of the asset is written off annually.
  Formula: Carrying value = cost price – accumulated depreciation
- **Accumulated depreciation:** Each year, the depreciated values are added to the *Accumulated Depreciation* account. As accumulated depreciation increases, the carrying value of the asset decreases. The *Accumulated Depreciation* account is known as a negative asset.

Age of assets

The business must monitor its assets in order to determine which assets need to be replaced. When an asset hinders productivity, it needs to be replaced.

Replacement rate

This is how often the business determines a fixed asset will be replaced. The business might want to replace its vehicles every 120 000 kilometres, or replace its machines after they have produced a certain number of items.

Disposal of fixed assets

- Reasons for selling assets:
  - The asset is no longer needed (obsolete) or needs to be replaced.
  - Status is attached to owning the most up-to-date and modern assets in the industry.
  - The asset needs to be upgraded because of technological advances.
  - Wear and tear of the assets has made them very costly to maintain.
- An asset can be sold on the first or last day of the financial year, or any other time during the financial year.
- Steps in selling an asset:

  Step 1 Transfer the cost price of the asset to the *Assets Disposal* account.

  Step 2 Calculate depreciation for the current year on the asset being sold (only during and on the last day of the financial year).

  Step 3 Transfer all the accumulated depreciation up to the date of sale, to the *Assets Disposal* account.

  Step 4 Record the selling price of the asset.

  Step 5 Determine the profit or loss on sale of asset by closing off the *Asset Disposal* account.

Lifespan of assets

This concept is similar to replacement rate, in that the business will determine how long the business will keep the asset. After a certain period of time, the asset will be replaced. Once the lifespan is determined, the business will establish the rate and method of depreciation.