**Depreciation**

**ACF 11 Study Tips: Depreciation**

**Straight-line Method (SLM):**

(Cost + Additional Costs incurred – residual value) X number of months

Lifetime in Years12

**Reducing Balance Method (RBM):**

(Cost + Additional Costs incurred – Accumulated Depreciation) X % X number of months

12

* *at school level the percentage for RBM will always be provided!*

**Additional Costs:**

Delivery Costs

Insurance during delivery

Installation Costs

Alterations prior to use

Repairs prior to use

**Journal Entries:**

**Purchase:** Dr the Asset account with the cost of the asset itself

Dr the Asset with each of the modifications, extras or add-ons prior to use 🡪 *Show each of these separately in the Asset account*

Dr GST Credits

Cr Cash at Bank or Loan

**Depreciation:** Dr Depreciation (expense account)

Cr Accumulated Depreciation (negative asset account)

**Sale of Asset Steps:**

1. Transfer Asset to Sale of Asset Account
2. Transfer Accumulated Depreciation to Sale of Asset Account
3. Record what is received for asset (eg. cash/account receivable/new asset if a trade -in)
4. Record the Gain or Loss on Sale of Asset account… always end with a cleared account (no balance)

ALSO: Close off Gain or Loss on Sale of Asset to Profit and Loss Summary account on 30 June

**Sale of Asset Journals:**

1. Transfer Asset out of Asset acc to Sale of Asset account

Dr Sale of Asset

Cr Asset

1. Transfer Accumulated Depreciation to Sale of Asset account

Dr Accumulated Depreciation

Cr Sale of Asset

1. Record the Sale of the Asset

Dr Cash at Bank

Cr Sale of Asset

Cr GST Payable (if applicable)

1. Transfer the Gain or Loss to out of Sale of Asset acc to Gain or Loss on Sale of Asset

**Total Credit entries greater: GAIN 🡪 Dr Sale of Asset**

**Cr Gain on Sale of Asset**

**Total Debit entries greater: LOSS 🡪 Dr Loss on Sale of Asset**

**Cr Sale of Asset**

**Sale of Asset**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
|  | Asset | 1,300 |  | Accum Depreciation | 500 |
|  | **Gain on Sale of Asset** | **100** |  | Cash at Bank | 900 |
|  |  | **1,400** |  |  | **1,400** |
|  |  |  |  |  |  |

**🡪 the Asset was over depreciated causing a GAIN when the asset was sold**

**Sale of Asset**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
|  | Asset | 1,300 |  | Accum Depreciation | 500 |
|  |  |  |  | Cash at Bank | 600 |
|  |  |  |  | **Loss on Sale of Asset** | **200** |
|  |  | **1,300** |  |  | **1,300** |
|  |  |  |  |  |  |

**🡪 the Asset was under depreciated and therefor a LOSS was made during the sale of the asset**

1. On 30 June **close off** **Gain on Sale of Asset** or **Loss on Sale of Asset** account to Profit and Loss Summary account.

**Gain on Sale of Asset**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
|  | Profit and Loss Summary | 100 |  | Sale of Asset | **100** |
|  |  |  |  |  |  |

**Loss on Sale of Asset**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross Reference** | **Amount** | **Date** | **Cross Reference** | **Amount** |
|  | Sale of Asset | **200** |  | Profit and Loss Summary | 200 |
|  |  |  |  |  |  |

**Note:**

* **Use the correct DATES in the General Journal and General Ledger**
* **Remember the Journal DESCRIPTIONS when you do Journals!**