**Task 1 for submission**

*Part A addresses* ***Unit Objective 1 – Comprehend accounting concepts, principles and processes relating to managing resources and fully classified financial statement reporting for a trading GST business.*** *The cognitive verbs* ***describe*** *and* ***explain*** *are components of* ***comprehend*** *ie to show your comprehension of a concept, principle or process, you must explain and/or describe the concept, principle or process.*

**Part A**

In 50 – 100 word paragraphs:

1. **Describe:**

1. depreciation

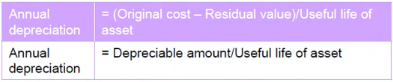
Assets such as motor vehicles, equipment, computers and furniture generally decrease or depreciate in value over time. Because these assets are used to earn revenue, an attempt is made to match the cost of their use against the revenue earned. This cost is called depreciation. The term depreciation is generally used in connection with physical assets.

1. straight line method of depreciation

The straight line method allocates a uniform portion of the cost of the non-current asset less any residual value. The information needed to use this method is:

* Original cost of the asset (including capital expenditure)
* Estimated life of the asset
* Estimated residual value of the asset

The formula for straight line depreciation is:



1. diminishing balance method of depreciation

A uniform rate of depreciation is applied in each period to the cost of the asset reduced by any accumulated depreciation (ie the diminished balance or carrying amount). The allocation of the cost of asset using the diminishing balance method will result in a decreased depreciation expense over time.

The information needed to use this method is:

* Original cost of the asset (including capital expenditure)
* Accumulated depreciation
* Rate of depreciation to be applied

The formula for diminishing balance depreciation is:



2. **Explain** the difference between capital expenditure and other expenditure.

The distinction between capital expenditure and an expense is based on time and the nature of the expenditure.

Capital expenditure is expenditure resulting in the acquisition and installation of an asset whose life will extend over more than one accounting period. Such expenditure is capitalised (treated as an asset) and appears in the Statement of Financial Position. Significant additions or improvements to an asset are treated as capital expenditure.

Usual repairs and maintenance, on the other hand simply maintain the asset’s current condition. They are treated as an expense and appear in the Statement of Profit or Loss. Expenses maintain the asset, but do not extend its useful life.

3. **Explain** the relationship between the historical cost principle and accumulated depreciation.

Accumulated depreciation is the aggregate of the depreciation expenses at a given point in time made is respect to a particular asset. The accumulated depreciation account is a negative asset and is credit in nature. The asset account cannot be credited directly because the depreciation is only an estimate.

The accumulated depreciation is recorded in the Statement of Financial Position. The historical cost principle refers to the recording of items at their original purchase price. Under this principle, the non-current asset account balance shows the original purchase price, however the accumulated depreciation represents the amount the asset has been written down.

*Part B addresses* ***Unit Objective 2 – Apply accounting principles and processes relating to managing resources for a trading GST business.***

**Part B**

**Refer to ex 1.13 on pages 17 & 18 of your text book**

