

FIXED ASSETS

Fixed assets are defined as "those assets which are intended for use on a continuing basis in the enterprise's activities"

The benefit of these assets is spread over a period of time so the expenditure is not immediately charged to the profit and loss account

i.e. It is capitalised in the balance sheet

Examples of fixed assets include :

- motor vehicles
- plant and machinery
- fixtures and equipment
- freehold / leasehold property

RECORDING OF FIXED ASSETS

- Recorded at purchase price or production cost
- We can also include costs necessary to bring the item to its present location and to prepare it for use

e.g. -- delivery charges
-- installation fees
-- import duties
-- legal fees

ESTIMATING DEPRECIATION

There are 3 factors to consider when calculating the depreciation charge :

- the cost of the asset
- the estimated useful life
- the estimated residual value (scrap value)

RECORDING DEPRECIATION

Depreciation is an expense in the profit and loss account

-- depreciation account

It also reduces the value of the asset in the balance sheet which is achieved by creating an account called

-- provision for depreciation

(also called "accumulated depreciation")

DEPRECIATION

- All fixed assets have finite useful lives
- The cost of a fixed asset should be matched with the accounting periods expected to benefit from its use
- Depreciation is thus a means of spreading the cost of a fixed asset over its useful life

CALCULATING DEPRECIATION

There are 2 methods :

(1) The Straight Line Method

This requires an equal depreciation charge in each period of the asset's life

- We will either
- (1) Divide the cost by the useful life or
 - (2) Take a percentage of the cost each year

(3) The Reducing Balance Method

This method applies a fixed percentage to the net book value of the asset each year

e.g.

An asset was purchased on 1-1-01 for £6000 and is being depreciated at 25% on the reducing balance method

£

Depreciation charge (2001)

Depreciation charge (2002)

Depreciation charge (2003)

BALANCE SHEET AT 31ST DECEMBER 2001

	Cost	Provision for Depreciation	Net Book Value
	£	£	£
FIXED ASSETS			
Motor Vehicles			

EXAMPLE

A motor vehicle was purchased on 1-1-01 for £40000 and has an expected life of 4 years

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER 2001

	£	£
Sales		X
Less : cost of goods sold		
Opening stock	X	
Purchases	X	
Less : closing stock	<u>(X)</u>	(X)
Gross Profit		<u>X</u>
Less : expenses		
.	X	
.	X	
.	X	
.	X	
.	X	
.	X	
Depreciation	X	
.	X	
.	X	
.	X	
.	<u>X</u>	(X)
Net Profit		<u><u>XX</u></u>

RECORDING DEPRECAITION

Once the depreciation charge for the year has been calculated , it is recording in the adjustments columns of the spreadsheet as follows :

Dr	Depreciation expense (p @ l)	X
Cr	Provision for Depreciation (b/s)	X