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Depreciation

Is how the value of something drops. ex- a car loses value the more you drive it.

How to calculate:

- ✓ Cost price method/fixed installment method:
 - ♥ Example: brought a car on the first day of the financial year for R150000.
Depreciation calculated at 20% p.a = $150000 \times \frac{20}{100} = 30000$
 - ♥ Every full year the depreciation will be this amount.
 - ♥ If you had brought the car 3 months into the year than you would only work out depreciation for 9 months of that year and then from the next year you will work it out for the full year.
- ✓ Diminished balance method/carrying value:
 - ♥ Example: brought a car on the first day of the financial year for R150000.
Depreciation is calculated at 20% p.a = $150000 \times \frac{20}{100} = 30000$ for the first year.
 - ♥ For year two: $150000 - 30000 = 120000$ carrying value. depreciation = $120000 \times \frac{20}{100} = 24000$ for the second year
 - ♥ This carries on for every year after this.

The general ledger:

 **DID YOU KNOW**

Depreciation represents the amount written off on fixed assets at the end of the financial year.

Accumulated depreciation represents the total depreciation written off on an asset over its lifespan.

Cost price – Accumulated depreciation = Carrying value

Accumulated depreciation cannot exceed the cost price of the asset. The carrying value of an asset can not be a negative figure and the minimum value for carrying value is R1.

Example

The following balances appeared, amongst others, in the books of Joker Traders on 1 January 2014, the first day of the financial year:

Vehicles, R82 000
Equipment, R15 000
Accumulated depreciation on vehicles, R22 000
Accumulated depreciation on equipment, R3 000

Some of the transactions that took place during the financial year:

2014
Mar 31 Bought equipment on credit from Bokkie Traders, R8 000.

Jul 01 A new vehicle was purchased from Bromm Traders and paid for by cheque, R27 000.

Adjustments

Dec 31 Depreciation must be calculated as follows:

- Vehicles at 20% p.a. on the diminished balance method.
- Equipment at 10% p.a. on cost price.

Calculation for depreciation on vehicles equipment

$$(82\ 000 - 22\ 000) \times 20\% \times 12/12 = R12\ 000$$

109 000

$$27\ 000 \times 20\% \times 6/12 = R2\ 700$$

Depreciation = R14 700

Calculation for depreciation on

$$15\ 000 \times 10\% \times 12/12 = R1\ 500$$

23 000

$$8\ 000 \times 10\% \times 9/12 = R600$$

Depreciation = R 2 100

General Journal of Joker Traders for December 2014 GJ1

Day	Details	fol	Debit	Credit
31	Depreciation		14 700	
31	Accumulated on depreciation on vehicles (Depreciation at 20% p.a. on carrying value)			14 700
31	Depreciation		2 100	
31	Accumulated depreciation on equipment (Depreciation at 10% p.a. on cost price)			2 100

General Ledger of Joker Traders Balance Sheet Section									
					Vehicles			CR	
2014 Jan 01	Balance	b/d	82 000						
Jul 01	Bank	CP J	27 000						
			109 000						
					Equipment				
2014 Jan 01	Balance	b/d	15 000						
Mar 31	Creditors control	CJ	8 000						
			23 000						
Accumulated depreciation on vehicles									
2014 Jan 01	Balance	b/d	22 000						
Dec 31	Depreciation	GJ	14 700						
			36 700						
Accumulated depreciation on equipment									
2014 Jan 01	Balance	b/d	3 000						
Dec 31	Depreciation	GJ	2 100						
			5 100						

Nominal Accounts Section				Depreciation					
2014 Dec	31	Accumulated depreciation on vehicles	GJ	14 700	2014 Dec	31	Profit and loss	GJ	16 800
	31	Accumulated depreciation on equipment	GJ	2 100					
				16 800					16 800

Notes to the financial statements for the year ended 31 December 2014

	Vehicles	Equipment	31 December 2014
Cost price	82 000	15 000	97 000
Accumulated depreciation	(22 000)	(3 000)	(25 000)
Carrying value at beginning of year	60 000	12 000	72 000
Movements			
Additions	27 000	8 000	35 000
Depreciation	(14 700)	(2 100)	(16 800)
Carrying value at end of year	72 300	17 900	90 200
Cost price	109 000	23 000	132 000
Accumulated depreciation	(36 700)	(5 100)	(41 800)

Effect on accounting equation						
ASSETS			OWNERS EQUITY		LIABILITIES	
No	Effect	Reason	Effect	Reason	Effect	Reason
	-14 700	Accumulated depreciation	-14 700	Depreciation		
	-2 100	Accumulated depreciation	-2 100	Depreciation		

No	Source document	Subsidiary journal	Account debit	Account credit	Amount
	Journal voucher	GJ	Depreciation	Accumulated depreciation on vehicles	R14 700
	Journal voucher	GJ	Depreciation	Accumulated depreciation on equipment	R2 100