

Week 13

Penang Sangam High School

Accounting-Year 11

Strand 4: Measuring Periodic Income 1

Sub-strand: Balance Day Adjustments

Greetings students

Let us continue with our topic Balance day adjustments.

Learning outcome: Examine balance day adjustments and account for them in the financial records of the business.

Depreciation

Refers to the writing off the cost of a fixed asset over its useful life.

Straight Line Method/ Fixed Installment Method

- The depreciation expense remains the same irrespective of the year.
- The book value of the asset decreases at a constant amount.

Formula

$$\text{Depreciation per annum/year} = \frac{\text{original cost} - \text{scrap value}}{\text{Estimated useful life}}$$

OR

$$\text{Depreciation per annum/year} = \text{original cost} \times \text{rate}$$

Example

On 1 January 2011 a business purchased Equipment for \$6000 cash. Its estimated life was considered to be 5 years with a residual value of \$2000. The financial year ends on 31 December each year.

Required:

a) Calculate Depreciation per annum for equipment

$$\text{Depreciation per annum} = \frac{\text{Original Cost} - \text{Scrap value}}{\text{Estimated Useful Life}}$$

$$\text{\$800/ annum} = \frac{\text{\$6000} - \text{\$2000}}{\text{5}}$$

5 Years

General Journal Entry for Recording Depreciation

Date	Particulars	Dr (\$)	Cr (\$)
	Depreciation on equipment	800	
	Provision for depreciation on equipment		800

Balance Sheet (extract)(31/12/13)

<u>Fixed assets</u>	\$
Name of the asset (original cost)	6000
Less accumulated depreciation	<u>2400</u>
Book value	<u>3600</u>

- Another name for Provision for Depreciation is Accumulated Depreciation
- Provision for Depreciation means the total amount of depreciation that has accumulated for a particular asset

Homework activity

On 1 January 2017 a business purchased Equipment for \$19000 cash. Its estimated life was considered to be 6 years with a residual value of \$5000. The financial year ends on 31 December each year.

Required:

a) Calculate Depreciation per annum for equipment