

CHAPTER ELEVEN

NON-CURRENT ASSETS AND DEPRECIATION

CHAPTER OUTLINE

- ❖ Non-current assets
- ❖ Determination of cost of non-current assets
- ❖ Depreciation
- ❖ Methods of calculating depreciation
- ❖ Double entry recording of depreciation
- ❖ Disposal of non-current assets

Learning Objectives:

At the end of this chapter, the student should be able to:

- Explain the features of a non-current assets
- Define depreciation and its purposes
- Identify different methods of calculating depreciation.
- Identify the effects of depreciation on disposal of assets

11.1 NON CURRENT ASSETS.

Most business enterprises make use of non-current assets (i.e assets of durable nature acquired not for resale but for the purpose of increasing the earning capacity or the productivity in the organization). There should be a clear understanding of how to manage these non-current assets in relation to the prevailing accounting standards. It is necessary to know how to calculate the cost of the asset and equally determine the part of such cost that should be charged annually against the income of the organization.

11.2 DETERMINATION OF COST OF NON-CURRENT ASSETS.

When a non-current asset is acquired, it is recorded at its historical cost.

Such cost includes the price of obtaining the asset and the cost of bringing it to its required condition and location. It therefore, comprises costs such as

- (a) Purchase price
- (b) Freight or transportation cost
- (c) Installation cost, e.t.c

Illustration 11:1

Olasuki Ltd purchased plant and machinery at an invoiced price of ₦5,000,000. Other payments include value added tax of 5% on cost as well as freight charges of ₦1,000,000. The machine is to be re-modified at a cost of ₦800,000 to enable it be used. The installation cost of the machine is ₦500,000.

Required: Calculate the purchase price to be charged in the Plant and Machinery Account.

Solution 11.1

Olasuki's	
Purchase Price of Plant and Machinery.	
	₦
Invoice Price	5,000,000
Vat (5% of 5,000,000)	250,000
Freight Charge	1,000,000
Installation Cost	500,000
Re-modification charge	<u>800,000</u>
Total Purchase Price	<u>7,550,000</u>

The following points should be noted in the purchase of non-current assets:

- ❖ Cost of acquiring non-current assets is always huge and regarded as capital expenditure.
- ❖ The earning potential of such assets lasts for more than one accounting period.
- ❖ The cost of maintenance of the non-current asset is classified as revenue expenditure.
- ❖ This cost of maintenance (revenue expenditure) should be charged to the annual statement of comprehensive income.

