Accounting Units 3 & 4

Chapter 14 Non-current assets and depreciation

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

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Theory

A **non-current asset** is a **present economic resource** controlled by the business as a result of a **past event** — a right with the potential to produce **future economic benefits** — which the business expects to **use** in its operations for **more than one reporting period** rather than hold for resale. Delivery vehicles, machinery, equipment, shop fittings, office furniture and buildings are typical examples. This makes them different from **inventory**, which is bought to be resold, and from **current assets** such as Bank or Accounts Receivable, which are expected to be converted to cash, sold or consumed within twelve months of the end of the reporting period.

Valuation at historical cost. A non-current asset is first recorded at its **historical cost** — the actual, verifiable amount the business sacrificed to acquire the asset and bring it to the location and condition necessary for it to be used. The **cost** of the asset therefore includes not only the supplier's price but **every additional outlay needed to get the asset ready for use**, such as:

- **cartage in / delivery** of the asset to the business, and
- **installation, assembly, testing or modification** costs incurred before the asset is put into service.

Costs of **running or maintaining** the asset once it is in use — registration, insurance, fuel, repairs, or a service/maintenance agreement — are **not** part of its cost. They are **period costs**, expensed as they are incurred, because they do not add to the asset's capacity to earn revenue; they simply keep it operating. **GST paid** on the purchase is also excluded from cost, because it is recoverable through the **GST Clearing** account rather than a cost of the asset itself.

Recording the asset at historical cost is supported by the qualitative characteristics of **verifiability** (the cost is evidenced by a source document such as the supplier's invoice) and **faithful representation** (the figure is complete, neutral and free from material error).

Depreciation — allocating cost over useful life. A non-current asset helps the business earn revenue over **several** periods, so charging its whole cost as an expense in the year it is bought would overstate that year's expenses and understate every later year's. Instead the business applies **depreciation**: the **allocation of the cost of a non-current asset over its useful life**, as an expense, in the periods that benefit from using it. This is an application of the **accrual basis** and the **period assumption** — the cost of *using up* the asset is matched against the revenue it helps generate, period by period.

Two ideas are worth fixing in your mind now:

- Depreciation is a process of **allocation, not valuation**. It does **not** try to record what the asset would sell for; it simply spreads the asset's cost across the periods that use it.
- Depreciation involves **no cash**. The cash outflow happens **once**, when the asset is **bought**; recording depreciation each period does not move any cash and does not set any cash aside.

The three estimates. To spread the cost, the business needs three figures:

- **Cost** — the historical cost determined above.
- **Residual value** (also called *scrap* or *estimated residual value*) — the amount the business expects to recover for the asset at the **end** of its useful life (for example, its trade-in or scrap value).
- **Useful life** — the estimated **number of periods** the business expects to use the asset.

The amount to be allocated is the **depreciable amount = cost − residual value**. Both residual value and useful life are **estimates**, so depreciation is an estimate too; they must be made carefully, because they directly change the expense reported each period.

The straight-line method. The **straight-line method** allocates an **equal** amount of depreciation to **each full year** of the asset's useful life:

$$\text{Depreciation per year} = \frac{\text{cost} - \text{residual value}}{\text{useful life}}$$

Because the annual charge is constant, the **carrying amount** falls by the same amount each year in a straight line — hence the name. The **carrying amount** (or *carrying value*) is what the asset is shown at in the Balance Sheet: **carrying amount = cost − accumulated depreciation**, where **accumulated depreciation** is the total depreciation charged on the asset **to date**. (Accumulated depreciation builds up in a contra-asset account, **Accumulated Depreciation – [asset]**, and the yearly charge is recorded as the expense **Depreciation – [asset]**; the recording is covered in the next section — here we concentrate on the calculation and on preparing the schedule.)

Part-year depreciation. An asset is rarely bought on the first day of a reporting period. In the period of **acquisition** the business owns and uses the asset for only **part** of the year, so it charges only a **proportion** of the full-year amount, based on the **number of months held**:

$$\text{Part-year depreciation} = \text{depreciation per year} \times \frac{\text{months held}}{12}$$

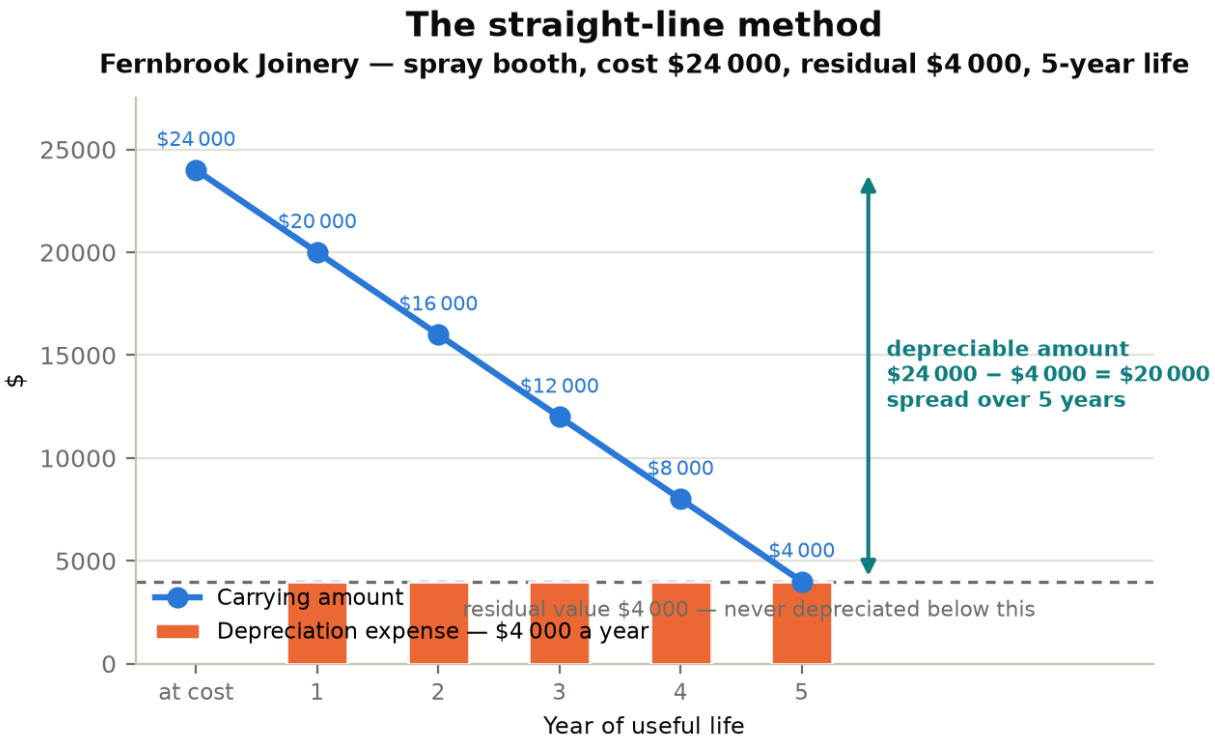
Count the month of acquisition as a full month (an asset bought on 1 April and held to a 30 June balance day has been held for 3 months). In every later **full** year the asset earns a full year's depreciation, until a final part-year completes its useful life.

The depreciation schedule. A **depreciation schedule** sets out, for each period, the **depreciation** for the year, the **accumulated depreciation** to date, and the **carrying amount** at the end of the year. It is the clearest way to see how the straight-line method reduces the carrying amount evenly down towards the residual value.

Worked model. Fernbrook Joinery buys a spray booth for a **cost** of $24 000, with an estimated **residual value** of $4 000 and a **useful life** of 5 years. The depreciable amount is $24 000 − $4 000 = $20 000, so the straight-line **depreciation per year** is $20 000 ÷ 5 = **$4 000**. The schedule is:

Year	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			24 000
1	4 000	4 000	20 000
2	4 000	8 000	16 000
3	4 000	12 000	12 000
4	4 000	16 000	8 000
5	4 000	20 000	4 000

The carrying amount falls by $4 000 every year and finishes at exactly the $4 000 residual value, at which point the asset is **fully depreciated** — the whole $20 000 depreciable amount has been allocated to expense across the five years that used the booth.



Fernbrook Joinery's spray booth — five equal charges, and a carrying amount falling to the residual value

The equal columns are the constant annual charge that gives the method its name, and the line above them is the carrying amount falling by that same $4 000 each year. What the figure adds to the schedule is the **floor**: the line arrives at the $4 000 residual value and stops there, because it is the $20 000 **depreciable amount** — and not the whole $24 000 cost — that is being allocated.

Worked examples (scaffolded)

Example 1 — determining cost, then a full straight-line schedule

Ashford Bakery buys an industrial oven. The supplier's invoice shows a price of $17 000; the bakery also pays $600 to have the oven delivered and $1 400 to install and test it before use, and $500 for the first year's insurance. The oven has an estimated residual value of $3 000 and a useful life of 4 years. Prepare a depreciation schedule for its full useful life.

Working	Comment
Cost = invoice $17 000 + delivery $600 + installation $1 400 = **$19 000**.	Delivery and installation are needed to get the oven ready for use, so they are part of its cost.
The $500 insurance is **excluded** from cost.	Insurance keeps the oven running; it is a **period cost** (an expense), not part of the asset's cost.
Depreciation per year = ($19 000 − $3 000) ÷ 4 = $16 000 ÷ 4 = **$4 000**.	Depreciable amount = cost − residual; the straight-line charge is that amount spread evenly over the life.
Accumulated depreciation grows by $4 000 each year; carrying amount = cost − accumulated depreciation.	The carrying amount falls in equal $4 000 steps until it reaches the $3 000 residual value.

Year	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			19 000
1	4 000	4 000	15 000
2	4 000	8 000	11 000
3	4 000	12 000	7 000
4	4 000	16 000	3 000

Example 2 — part-year depreciation in the year of acquisition

Cliffton Couriers, which reports for the year ended 30 June, buys a delivery vehicle on **1 April 2026** for a cost of $36 000. It estimates a residual value of $6 000 and a useful life of 5 years. Prepare the depreciation schedule for the first three reporting periods.

Working	Comment
Depreciation per year = ($36 000 − $6 000) ÷ 5 = $30 000 ÷ 5 = **$6 000**.	First find the full-year charge; the part-year figure is a fraction of it.
Held from 1 April to 30 June 2026 = **3 months**. Year 1 depreciation = $6 000 × 3/12 = **$1 500**.	In the acquisition period the asset is used for only part of the year, so only that fraction is charged.
Years 2 and 3 are full years, so each is charged the full **$6 000**.	Once a full reporting period is owned, the whole annual amount applies.
Accumulated depreciation = $1 500, then $7 500, then $13 500; carrying amount = cost − accumulated.	The first drop is small (part-year) and later drops are the full $6 000.

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			36 000
30 Jun 2026	1 500	1 500	34 500
30 Jun 2027	6 000	7 500	28 500
30 Jun 2028	6 000	13 500	22 500

Worked examples (unscaffolded)

Example 3 — a part-year start carried through to the end of the asset's life

Glenroy Removals reports for the year ended 30 June and buys a van on **1 January 2026** for a cost of $28 000, with a residual value of $4 000 and a useful life of 4 years. Prepare a depreciation schedule covering every reporting period until the van is fully depreciated.

Depreciation per year = ($28 000 − $4 000) ÷ 4 = $24 000 ÷ 4 = $6 000. The van is held for 6 months to 30 June 2026 (1 January to 30 June), so the first period is charged $6 000 × 6/12 = $3 000. Three full years each carry $6 000, and a final 6-month period (the second half of the fourth year of life) carries another $3 000, completing the 4-year life across five reporting periods.

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			28 000
30 Jun 2026	3 000	3 000	25 000
30 Jun 2027	6 000	9 000	19 000
30 Jun 2028	6 000	15 000	13 000
30 Jun 2029	6 000	21 000	7 000
30 Jun 2030	3 000	24 000	4 000

∴ the $24 000 depreciable amount is spread across five reporting periods (3 000 + 6 000 + 6 000 + 6 000 + 3 000), and the final carrying amount equals the $4 000 residual value.

Example 4 — why we depreciate, and the effect of the useful-life estimate

Marlow Textiles buys a machine for a cost of $22 000 with a residual value of $2 000. Explain why the business allocates the machine's cost through depreciation rather than expensing it in full when purchased, and show the effect on annual depreciation of estimating the useful life at 5 years versus 8 years.

The machine will help earn revenue over several years, so under the **accrual basis** and the **period assumption** its cost must be allocated to each period that benefits from using it; charging the whole $22 000 in the year of purchase would overstate that year's expenses and understate profit in every later year. Depreciation is therefore an **allocation of cost**, not an attempt to value the machine, and it moves no cash.

The depreciable amount is $22 000 − $2 000 = $20 000. If the useful life is estimated at **5 years**, annual depreciation is $20 000 ÷ 5 = $4 000; if it is estimated at **8 years**, annual depreciation is $20 000 ÷ 8 = $2 500.

∴ the longer the estimated useful life, the **smaller** the annual depreciation expense ($2 500 rather than $4 000) and so the **higher** the net profit reported in each of those years — which is why the useful-life estimate must be made carefully and applied consistently.

Practice questions — scaffolded

Question 1

Redgum Printing buys a printing press. The invoice price is $26 000; the business also pays $1 000 to freight the press to its factory, $3 000 to install and test it, and $700 for the first year's insurance. The press has a residual value of $6 000 and a useful life of 4 years.

a. Calculate the cost of the printing press.

b. Calculate the annual straight-line depreciation.

c. State the carrying amount of the press at the end of year 2.

Question 2

Harbourview Retail buys shop equipment for a cost of $15 000, with a residual value of $3 000 and a useful life of 3 years.

a. Calculate the annual straight-line depreciation.

b. Prepare a depreciation schedule for the full useful life of the equipment.

c. State the carrying amount at the end of the equipment's useful life, and explain in one sentence why it equals that figure.

Question 3

Tallwood Plumbing, which reports for the year ended 30 June, buys a work vehicle on **1 April 2026** for a cost of $40 000. It estimates a residual value of $10 000 and a useful life of 5 years.

a. Calculate the annual straight-line depreciation.

b. Calculate the depreciation for the year ended 30 June 2026.

c. State the carrying amount of the vehicle at 30 June 2026.

Question 4

Selby Manufacturing buys a machine for a cost of $44 000 with a residual value of $4 000.

a. Calculate the annual depreciation if the useful life is estimated at 5 years.

b. Calculate the annual depreciation if the useful life is instead estimated at 8 years.

c. Explain the effect of the longer useful-life estimate on the annual depreciation expense.

Question 5

Oakhaven Salon, which reports for the year ended 30 June, buys new fittings on **1 October 2025** for a cost of $25 000, with a residual value of $1 000 and a useful life of 6 years.

a. Calculate the annual straight-line depreciation.

b. Calculate the depreciation for the year ended 30 June 2026 and for the year ended 30 June 2027.

c. State the accumulated depreciation on the fittings at 30 June 2027.

Question 6

Brentford Consulting buys a computer system for a cost of $9 000, with a residual value of $1 500 and a useful life of 3 years.

a. Explain why the business depreciates the computer system rather than recording its full cost as an expense in the year of purchase.

b. Explain the role of the residual value in the straight-line depreciation calculation.

c. Calculate the annual straight-line depreciation.

Practice questions — unscaffolded

Question 7

Riverstone Cafe buys an espresso machine for a cost of $12 000, with a residual value of $2 000 and a useful life of 5 years. Prepare a depreciation schedule for the full useful life of the machine, and state its carrying amount at the end of year 3.

Question 8

Hillcrest Printing buys a paper guillotine. The supplier's invoice price is $21 000; the business also pays $900 in freight and $2 100 to install and test the guillotine, and $1 200 for a first-year maintenance contract. The guillotine has a residual value of $6 000 and a useful life of 5 years. Calculate the cost of the guillotine and its annual straight-line depreciation.

Question 9

Meadowlark Landscaping, which reports for the year ended 30 June, buys a ride-on mower on **1 March 2026** for a cost of $18 000, with a residual value of $3 000 and a useful life of 5 years. Calculate the annual depreciation, the depreciation for the year ended 30 June 2026, and the carrying amount of the mower at 30 June 2026.

Question 10

Coastline Freight buys warehouse shelving for a cost of $8 000, with a residual value of $800 and a useful life of 4 years. Prepare a depreciation schedule for the full useful life of the shelving.

Question 11

Kingsford Engineering buys a machine for a cost of $60 000 with a useful life of 6 years. Calculate the annual straight-line depreciation if the estimated residual value is (i) $6 000 and (ii) $12 000, and state the effect of the higher residual estimate on the annual depreciation expense.

Question 12

Delacourt Transport buys a delivery truck for a cost of $55 000 with a residual value of $5 000. Calculate the annual depreciation if the useful life is estimated at (i) 5 years and (ii) 10 years, and explain the effect of the longer useful life on annual depreciation and on the net profit reported each year.

Question 13

Summit Gym, which reports for the year ended 30 June, buys gym equipment on **1 September 2025** for a cost of $30 000, with a residual value of $6 000 and a useful life of 4 years. Calculate the depreciation on the equipment for the year ended 30 June 2026.

Question 14

Brightwater Dental, which reports for the year ended 30 June, buys a dental chair on **1 January 2026** for a cost of $21 000, with a residual value of $3 000 and a useful life of 3 years. Prepare a depreciation schedule showing every reporting period until the chair is fully depreciated.

Question 15

A non-current asset that cost $45 000 is depreciated by the straight-line method at $7 000 per year over a useful life of 6 years. Calculate the estimated residual value that must have been used, and the carrying amount of the asset after 4 full years of depreciation.

Question 16

Explain, with reference to a relevant accounting assumption, why a business records depreciation on its non-current assets rather than recording the full cost of each asset as an expense in the year it is purchased. In your answer, state whether depreciation is a process of valuation or of allocation, and whether recording it involves any movement of cash.

Question 17

A business is deciding whether to estimate the useful life of a new machine at 5 years or at 8 years. Explain the effect of choosing the **longer** useful life on the annual depreciation expense and on the net profit reported in each year, and give one reason the estimates of useful life and residual value must be made carefully.

Question 18

Parkview Clinic reports for the year ended 30 June. It buys a diagnostic scanner on **1 April 2026**. The supplier's invoice price is $70 000; the clinic also pays $1 500 for delivery and $3 500 to install and calibrate the scanner before use, and $2 000 for the first year's service agreement. The scanner has an estimated residual value of $9 000 and a useful life of 5 years.

a. Calculate the cost of the scanner.

b. Prepare a depreciation schedule for the first three reporting periods.

c. State the carrying amount of the scanner at 30 June 2028.

Answers

1.
    a. $30 000 b. $6 000 c. $18 000
2.
    a. $4 000 c. $3 000 (= residual value)
3.
    a. $6 000 b. $1 500 c. $38 500
4.
    a. $8 000 b. $5 000 c. lower annual depreciation
5.
    a. $4 000 b. $3 000 then $4 000 c. $7 000
6.
    c. $2 500
7. Carrying amount at end of year 3 = $6 000
8. Cost $24 000; annual depreciation $3 600
9. Annual $3 000; year-ended 30 Jun 2026 $1 000; carrying amount $17 000
10. Annual $1 800 (final carrying amount $800)
11.
    (i) $9 000 (ii) $8 000; the higher residual lowers annual depreciation by $1 000
12.
    (i) $10 000 (ii) $5 000; longer life → lower annual depreciation, higher yearly profit
13. $5 000
14. Annual $6 000 (schedule totals $18 000)
15. Residual $3 000; carrying amount after 4 years $17 000
16. See solutions
17. See solutions
18.
    a. $75 000 c. $45 300

Fully-worked solutions

Question 1

a. Cost = invoice $26 000 + freight $1 000 + installation $3 000 = **$30 000**. The $700 insurance is a period cost and is excluded.

b. Depreciation per year = ($30 000 − $6 000) ÷ 4 = $24 000 ÷ 4 = **$6 000**.

c. After 2 years, accumulated depreciation = 2 × $6 000 = $12 000, so carrying amount = $30 000 − $12 000 = **$18 000**.

Question 2

a. Depreciation per year = ($15 000 − $3 000) ÷ 3 = $12 000 ÷ 3 = **$4 000**.

Year	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			15 000
1	4 000	4 000	11 000
2	4 000	8 000	7 000
3	4 000	12 000	3 000

c. Carrying amount at the end of the useful life = **$3 000**. The straight-line method allocates the whole depreciable amount (cost − residual) over the life, so once fully depreciated the carrying amount equals the **residual value**.

Question 3

a. Depreciation per year = ($40 000 − $10 000) ÷ 5 = $30 000 ÷ 5 = **$6 000**.

b. Held from 1 April to 30 June 2026 = 3 months, so depreciation = $6 000 × 3/12 = **$1 500**.

c. Carrying amount at 30 June 2026 = $40 000 − $1 500 = **$38 500**.

Question 4

a. Depreciation = ($44 000 − $4 000) ÷ 5 = $40 000 ÷ 5 = **$8 000**.

b. Depreciation = ($44 000 − $4 000) ÷ 8 = $40 000 ÷ 8 = **$5 000**.

c. The same $40 000 depreciable amount is spread over more years, so the **annual depreciation expense is lower** ($5 000 rather than $8 000). Reporting a smaller expense each year raises the net profit reported in each of those years, though the depreciation continues for a greater number of years.

Question 5

a. Depreciation per year = ($25 000 − $1 000) ÷ 6 = $24 000 ÷ 6 = **$4 000**.

b. Held from 1 October 2025 to 30 June 2026 = 9 months, so the year ended 30 June 2026 = $4 000 × 9/12 = **$3 000**. The year ended 30 June 2027 is a full year = **$4 000**.

c. Accumulated depreciation at 30 June 2027 = $3 000 + $4 000 = **$7 000**.

Question 6

a. The computer system will help the business earn revenue across all three years of its life. Under the **accrual basis** and **period assumption**, its cost must be allocated as an expense to each period that benefits from using it; expensing the whole $9 000 in the year of purchase would overstate that year's expenses and understate the expense (and overstate profit) in the following years.

b. The **residual value** is the amount the business expects to recover at the end of the asset's useful life, so it is **not** part of the cost to be consumed. It is **subtracted** from cost to give the depreciable amount (cost − residual), which is the amount actually allocated over the life. A higher residual value means a smaller depreciable amount and therefore a smaller annual depreciation charge.

c. Depreciation per year = ($9 000 − $1 500) ÷ 3 = $7 500 ÷ 3 = **$2 500**.

Question 7

Depreciation per year = ($12 000 − $2 000) ÷ 5 = $10 000 ÷ 5 = $2 000.

Year	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			12 000
1	2 000	2 000	10 000
2	2 000	4 000	8 000
3	2 000	6 000	6 000
4	2 000	8 000	4 000
5	2 000	10 000	2 000

Carrying amount at the end of year 3 = **$6 000**.

Question 8

Cost = invoice $21 000 + freight $900 + installation $2 100 = **$24 000**. The $1 200 maintenance contract keeps the guillotine running and is a period cost, so it is excluded from cost.

Depreciation per year = ($24 000 − $6 000) ÷ 5 = $18 000 ÷ 5 = **$3 600**.

Question 9

Depreciation per year = ($18 000 − $3 000) ÷ 5 = $15 000 ÷ 5 = **$3 000**.

Held from 1 March to 30 June 2026 = 4 months, so the year ended 30 June 2026 = $3 000 × 4/12 = **$1 000**.

Carrying amount at 30 June 2026 = $18 000 − $1 000 = **$17 000**.

Question 10

Depreciation per year = ($8 000 − $800) ÷ 4 = $7 200 ÷ 4 = $1 800.

Year	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			8 000
1	1 800	1 800	6 200
2	1 800	3 600	4 400
3	1 800	5 400	2 600
4	1 800	7 200	800

The carrying amount finishes at the $800 residual value.

Question 11

(i) Depreciation = ($60 000 − $6 000) ÷ 6 = $54 000 ÷ 6 = **$9 000**.

(ii) Depreciation = ($60 000 − $12 000) ÷ 6 = $48 000 ÷ 6 = **$8 000**.

A higher estimated residual value gives a **smaller depreciable amount**, so the annual depreciation expense is **lower** — here $1 000 lower each year ($8 000 rather than $9 000).

Question 12

(i) Depreciation = ($55 000 − $5 000) ÷ 5 = $50 000 ÷ 5 = **$10 000**.

(ii) Depreciation = ($55 000 − $5 000) ÷ 10 = $50 000 ÷ 10 = **$5 000**.

Spreading the same $50 000 depreciable amount over 10 years rather than 5 **halves** the annual depreciation expense ($5 000 instead of $10 000). Because depreciation is an expense, a smaller charge each year means a **higher net profit** reported in each of those years — although the expense is then reported for twice as many years.

Question 13

Depreciation per year = ($30 000 − $6 000) ÷ 4 = $24 000 ÷ 4 = $6 000.

Held from 1 September 2025 to 30 June 2026 = 10 months, so the year ended 30 June 2026 = $6 000 × 10/12 = **$5 000**.

Question 14

Depreciation per year = ($21 000 − $3 000) ÷ 3 = $18 000 ÷ 3 = $6 000. The chair is held for 6 months to 30 June 2026 (1 January to 30 June), so the first and last reporting periods each carry $6 000 × 6/12 = $3 000, with two full years of $6 000 in between.

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			21 000
30 Jun 2026	3 000	3 000	18 000
30 Jun 2027	6 000	9 000	12 000
30 Jun 2028	6 000	15 000	6 000

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
30 Jun 2029	3 000	18 000	3 000

The four periods total $18 000 of depreciation, and the final carrying amount equals the $3 000 residual value.

Question 15

Total depreciation over the life = annual depreciation × useful life = $7 000 × 6 = $42 000. This is the depreciable amount (cost − residual), so residual value = $45 000 − $42 000 = **$3 000**.

After 4 full years, accumulated depreciation = 4 × $7 000 = $28 000, so carrying amount = $45 000 − $28 000 = **$17 000**.

Question 16

A non-current asset provides an economic benefit — it helps the business earn revenue — over **several** reporting periods, not just the period in which it is bought. Under the **accrual basis** (supported by the **period assumption**), the cost of using up that asset must be recognised as an expense in each period that benefits from it, so that the cost is matched against the revenue it helps generate. Recording the full cost as an expense in the year of purchase would overstate that year's expenses and understate profit, while understating expenses and overstating profit in every later year, giving users a misleading view of performance. Depreciation is therefore a process of **allocation** of the asset's cost over its useful life, **not** a process of **valuation** (it does not attempt to record the asset's market or selling value), and recording it involves **no movement of cash** — the only cash outflow occurred when the asset was purchased.

Question 17

Choosing the **longer** useful life (8 years rather than 5) spreads the same depreciable amount over more periods, so the **annual depreciation expense is smaller**. Because depreciation is an expense in the Income Statement, a smaller charge each year means a **higher net profit** is reported in each of those years (the expense is simply reported across a greater number of years). Since both the useful life and the residual value are **estimates** that directly determine the annual expense — and therefore the reported profit and the carrying amount shown in the Balance Sheet — they must be made carefully and reviewed, so that the reports faithfully represent the consumption of the asset and remain free from bias; a deliberately long life or high residual would understate the expense and flatter profit.

Question 18

a. Cost = invoice $70 000 + delivery $1 500 + installation and calibration $3 500 = **$75 000**. The $2 000 service agreement keeps the scanner running and is a period cost, so it is excluded from cost.

b. Depreciation per year = ($75 000 − $9 000) ÷ 5 = $66 000 ÷ 5 = $13 200. The scanner is held from 1 April to 30 June 2026 = 3 months, so the first period = $13 200 × 3/12 = $3 300; the next two periods are full years of $13 200.

Year ended	Depreciation $	Accumulated depreciation $	Carrying amount $
At cost			75 000
30 Jun 2026	3 300	3 300	71 700
30 Jun 2027	13 200	16 500	58 500
30 Jun 2028	13 200	29 700	45 300

c. Carrying amount at 30 June 2028 = **$45 300**.

Chapter 14 Non-current assets and depreciation — 14B Recording and reporting depreciation

Theory

A **non-current asset** is a resource the business controls and expects to use for **more than one reporting period** — a vehicle, machine or item of equipment. Because the asset earns revenue across several periods, its cost must be spread across those periods rather than treated as an expense of the period in which it was bought. **Depreciation** is the allocation of the cost of a non-current asset (less its residual value) over its **useful life** as an expense, so that each period bears a share of the cost of the asset it used to help earn revenue.

Under the **straight-line** method the same amount is allocated each year:

$$\text{Depreciation per year} = \frac{\text{cost} - \text{residual value}}{\text{useful life (years)}}$$

where **residual value** is the amount the business expects to recover when it disposes of the asset at the end of its useful life, and **useful life** is the number of years the business expects to use it.

Depreciation is a balance day adjustment. No external source document arrives to tell the business that its van or machine has "worn out" a little more this year — the benefit is consumed gradually and silently. So at balance day the business raises a **memo** and records a **balance day adjustment (BDA)** in the General Journal. Under the **accrual basis** assumption, profit is measured by matching the **expenses incurred** in a period against the **revenues earned**; under the **period** assumption, each year's profit must carry the cost of the asset consumed *that* year. Recording depreciation at balance day satisfies both: the expense falls in the period in which the asset helped earn revenue.

The adjusting entry. Recording depreciation requires **one** General Journal entry on balance day:

- **Debit Depreciation – [asset]** — an **expense** — with the year's depreciation. This reduces profit in the period the asset was used.
- **Credit Accumulated Depreciation – [asset]** — a **contra-asset** — with the same amount.

There is **no GST** on this entry: depreciation is an internal allocation of a cost already recorded, not a new purchase or sale.

Why credit a separate Accumulated Depreciation account, not the asset? The credit could, in principle, be made directly to the asset account, reducing its balance. Instead it is made to a separate **Accumulated Depreciation – [asset]** account for two reasons:

- The asset account keeps showing the asset's **original cost** — a figure supported by the purchase source document and therefore **verifiable**. Historical cost is not disturbed year after year.
- The **Accumulated Depreciation** account builds up a running total of **how much of the asset's cost has been allocated to expense to date**. Reporting both the cost *and* the accumulated depreciation tells a user far more than a single written-down figure would.

Accumulated Depreciation is a contra-asset, not a liability. The account carries a **credit balance**, but it is **not** a liability: the business has no obligation to transfer resources to an external party. It is a **negative asset (a contra-asset)** — the portion of the asset's cost already consumed — set **against** the asset it relates to and deducted from it in the Balance Sheet.

Posting over several years. The two accounts behave differently as the years pass:

- **Depreciation – [asset]** is a **nominal (temporary)** account. Each year it is opened by the balance day adjustment and **closed to the Profit and Loss Summary** at year-end, so it starts each new year at nil.
- **Accumulated Depreciation – [asset]** is a **continuing (permanent)** account. It is **not** closed; its credit balance is **carried down** and grows by one year's depreciation each balance day, so after n years of straight-line depreciation its balance is $n \times$ the annual amount.

Carrying amount. The value at which a non-current asset is reported in the Balance Sheet is its **carrying amount**:

$$\text{Carrying amount} = \text{cost} - \text{accumulated depreciation}$$

Because accumulated depreciation grows each year, the carrying amount **falls** each year — from cost towards residual value. It represents the part of the asset's cost **not yet allocated** to expense.

Carrying amount is not market value. Depreciation is a process of **cost allocation**, not **valuation**. The carrying amount is simply the unconsumed portion of the asset's **historical cost**; it is **not** an estimate of what the asset could be sold for. An asset's market value may be higher or lower than its carrying amount at any time — the two are measuring different things. Reporting the asset at carrying amount keeps the report grounded in a **verifiable** cost rather than a subjective valuation.

Reporting. The two accounts appear in different reports:

- **Depreciation – [asset]** (the expense) is reported among the **Other Expenses** in the **Income Statement** for the period.
- The asset is reported under **Non-Current Assets** in the **Balance Sheet** at its cost, **less Accumulated Depreciation**, giving its **carrying amount**.

Worked model. *Rockwell Couriers* bought a delivery van on 1 July 2023 for $24 000. It expects the van to have a useful life of **5 years** and a residual value of **$4 000**, and reports annually to 30 June. Straight-line depreciation is:

$$\frac{\$24\,000 - \$4\,000}{5} = \$4\,000 \text{ per year.}$$

The balance day adjustment for the year ended 30 June 2026 (the third year) is:

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Delivery Van	4 000	
	Accumulated Depreciation – Delivery Van		4 000
	Depreciation of delivery van for the year ended 30 June 2026 (Memo 51)		

The expense account is closed to the Profit and Loss Summary at year-end, while Accumulated Depreciation carries its growing credit balance forward:

Depreciation – Delivery Van

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2026	Accumulated Depreciation – Delivery Van	4 000	30 Jun 2026	Profit and Loss Summary	4 000

Accumulated Depreciation – Delivery Van

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2024	Balance c/d	4 000	30 Jun 2024	Depreciation – Delivery Van	4 000
			1 Jul 2024	Balance b/d	4 000
30 Jun 2025	Balance c/d	8 000	30 Jun 2025	Depreciation – Delivery Van	4 000
			1 Jul 2025	Balance b/d	8 000

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2026	Balance c/d	12 000	30 Jun 2026	Depreciation – Delivery Van	4 000
			1 Jul 2026	Balance b/d	12 000

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Depreciation – Delivery Van	4 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		
Delivery Van (at cost)	24 000	
less Accumulated Depreciation	12 000	12 000

After three years the van is reported at a **carrying amount of $12 000** (cost $24 000 − accumulated depreciation $12 000), and this year's $4 000 depreciation is an expense in the Income Statement.

Worked examples (scaffolded)

Example 1 — calculating depreciation and recording the adjusting entry

Brookvale Catering bought a commercial oven on 1 July 2024 for $18 000, expecting a useful life of **5 years** and a residual value of **$3 000**. It reports annually to 30 June. Record depreciation for the year ended 30 June 2025.

Working	Comment
Depreciation = ($18 000 − $3 000) ÷ 5 = **$3 000** per year.	Straight-line spreads the depreciable amount (cost − residual) evenly over the useful life.
Debit Depreciation – Commercial Oven $3 000 (an expense).	The expense is recognised in the period the oven helped earn revenue.
Credit Accumulated Depreciation – Commercial Oven $3 000 (a contra-asset).	The credit builds the running total of cost consumed; the asset stays recorded at its $18 000 cost. The entry balances ($3 000 Dr = $3 000 Cr).
Carrying amount = $18 000 − $3 000 = **$15 000**.	Reported in the Balance Sheet after one year.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Commercial Oven	3 000	
	Accumulated Depreciation – Commercial Oven		3 000
	Depreciation of commercial oven for the year ended 30 June 2025 (Memo 18)		

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2025	$
Other Expenses	
Depreciation – Commercial Oven	3 000

Example 2 — posting to Accumulated Depreciation over several years

Hartley Landscaping bought a ride-on mower on 1 July 2023 for $16 000, expecting a useful life of **5 years** and a residual value of **$1 000**. It reports annually to 30 June. Show the Accumulated Depreciation account for the three years to 30 June 2026 and report the mower at 30 June 2026.

Working	Comment
Depreciation = ($16 000 − $1 000) ÷ 5 = **$3 000** per year.	The same amount is charged every year under straight-line.
Accumulated depreciation: $3 000 → $6 000 → **$9 000** after three years.	Accumulated Depreciation is a continuing account; each year's $3 000 is added to its credit balance.
Each year the balance is **carried down** (Balance c/d, then Balance b/d).	The account is not closed to Profit and Loss Summary — only the expense account is.
Carrying amount at 30 June 2026 = $16 000 − $9 000 = **$7 000**.	Cost less accumulated depreciation; it falls each year towards the residual value.

Accumulated Depreciation – Ride-on Mower

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2024	Balance c/d	3 000	30 Jun 2024	Depreciation – Ride-on Mower	3 000
			1 Jul 2024	Balance b/d	3 000
30 Jun 2025	Balance c/d	6 000	30 Jun 2025	Depreciation – Ride-on Mower	3 000
			1 Jul 2025	Balance b/d	6 000
30 Jun 2026	Balance c/d	9 000	30 Jun 2026	Depreciation – Ride-on Mower	3 000
			1 Jul 2026	Balance b/d	9 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		
Ride-on Mower (at cost)	16 000	
less Accumulated Depreciation	9 000	7 000

Worked examples (unscaffolded)

Example 3 — recording and reporting in a later year

Copperline Printing bought a printing press on 1 July 2023 for $40 000, expecting a useful life of **7 years** and a residual value of **$5 000**. It reports annually to 30 June. Record depreciation for the year ended 30 June 2025, and report the expense and the asset.

Depreciation is ($40 000 − $5 000) ÷ 7 = $5 000 per year. By 30 June 2025 the press has been depreciated for **two** years, so accumulated depreciation is 2 × $5 000 = $10 000 and the carrying amount is $40 000 − $10 000 = $30 000.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Printing Press	5 000	
	Accumulated Depreciation – Printing Press		5 000
	Depreciation of printing press for the year ended 30 June 2025 (Memo 34)		

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2025	$
Other Expenses	
Depreciation – Printing Press	5 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2025	$	$
Non-Current Assets		
Printing Press (at cost)	40 000	
less Accumulated Depreciation	10 000	30 000

∴ the year's $5 000 depreciation reduces profit, and the press is reported at a carrying amount of $30 000.

Example 4 — carrying amount versus market value; the contra-asset

Ferndale Joinery bought a timber lathe on 1 July 2023 for $12 000, expecting a useful life of **5 years** and a residual value of **$2 000**. It reports annually to 30 June. At 30 June 2026 a second-hand dealer offers to buy the lathe for $7 500. Record depreciation for the year ended 30 June 2026, report the lathe, and explain why its carrying amount is not the $7 500 the dealer would pay.

Depreciation is ($12 000 − $2 000) ÷ 5 = $2 000 per year. After three years accumulated depreciation is 3 × $2 000 = $6 000, so the carrying amount is $12 000 − $6 000 = $6 000.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Timber Lathe	2 000	
	Accumulated Depreciation – Timber Lathe		2 000
	Depreciation of timber lathe for the year ended 30 June 2026 (Memo 47)		

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		

Balance Sheet (extract) as at 30 June 2026	$	$
Timber Lathe (at cost)	12 000	
less Accumulated Depreciation	6 000	6 000

The depreciation is credited to **Accumulated Depreciation – Timber Lathe**, a **contra-asset**, rather than to the lathe account itself, so the ledger keeps reporting the lathe at its **verifiable original cost** of $12 000 while separately disclosing the $6 000 of that cost already consumed. The **carrying amount of $6 000 is not a market value**: it is simply the portion of the historical cost not yet allocated to expense. Depreciation is a process of **allocating cost**, not of valuing the asset, so the $6 000 carrying amount and the $7 500 the dealer would pay are measuring different things and need not agree.

∴ the lathe is reported at a carrying amount of $6 000, independent of its $7 500 market value.

Practice questions — scaffolded

Question 1

Marlow Signage bought a digital printer on 1 July 2024 for $22 000, expecting a useful life of **5 years** and a residual value of **$2 000**. It reports annually to 30 June.

a. Calculate the annual depreciation of the printer.

b. Record the balance day adjustment for the year ended 30 June 2025 in the General Journal.

c. State the carrying amount of the printer at 30 June 2025, and name the account credited in the adjustment.

Question 2

Talia Fitness bought gym equipment on 1 July 2023 for $30 000, expecting a useful life of **6 years** and a residual value of **$6 000**. It reports annually to 30 June.

a. Calculate the annual depreciation of the equipment.

b. Post depreciation to the Accumulated Depreciation – Gym Equipment account for the three years ended 30 June 2024, 2025 and 2026 (showing the balance carried down each year).

c. State the balance of the account at 30 June 2026 and the carrying amount of the equipment at that date.

Question 3

Oakhurst Dairy bought a refrigeration unit on 1 July 2024 for $28 000, expecting a useful life of **8 years** and a residual value of **$4 000**. It reports annually to 30 June.

a. Record the balance day adjustment for the year ended 30 June 2026 in the General Journal.

b. Prepare the Income Statement extract showing the depreciation expense for the year ended 30 June 2026.

c. Prepare the Balance Sheet extract as at 30 June 2026, showing the refrigeration unit at its carrying amount.

Question 4

Pinehaven Bakery bought a dough mixer on 1 July 2024 for $9 000, expecting a useful life of **4 years** and a residual value of **$1 000**. It reports annually to 30 June.

a. Record the balance day adjustment for the year ended 30 June 2025 in the General Journal.

b. Explain, in one sentence, why the depreciation is credited to Accumulated Depreciation – Dough Mixer rather than directly to the Dough Mixer asset account.

c. State the carrying amount of the mixer at 30 June 2025.

Question 5

Seabreeze Charters bought a fishing boat on 1 July 2023 for $50 000, expecting a useful life of **8 years** and a residual value of **$10 000**. It reports annually to 30 June. At 30 June 2026 the boat has an estimated market value of $42 000.

a. Calculate the carrying amount of the boat at 30 June 2026.

b. Explain why the carrying amount differs from the estimated market value of $42 000.

c. Identify the qualitative characteristic that supports reporting the boat at its carrying amount rather than at market value, and justify your choice in one sentence.

Question 6

Kingsford Motors bought a vehicle hoist on 1 July 2024 for $15 000, expecting a useful life of **6 years** and a residual value of **$3 000**. It reports annually to 30 June.

a. Record the balance day adjustment for the year ended 30 June 2025 in the General Journal.

b. Explain why depreciation is recorded as a balance day adjustment. Refer to the accrual basis and the reporting period.

c. State the amount of the Depreciation – Hoist expense and name the account credited when the adjustment is made.

Practice questions — unscaffolded

Question 7

Verdant Nurseries bought a greenhouse heater on 1 July 2024 for $11 000, expecting a useful life of **5 years** and a residual value of **$1 000**. It reports annually to 30 June. Record the balance day adjustment for the year ended 30 June 2025 in the General Journal and state the carrying amount of the heater at 30 June 2025.

Question 8

Ridgeway Transport bought a forklift on 1 July 2025 for $26 000, expecting a useful life of **6 years** and a residual value of **$2 000**. It reports annually to 30 June. Calculate the annual depreciation, record the balance day adjustment for the year ended 30 June 2026 in the General Journal, and state the carrying amount of the forklift at 30 June 2026.

Question 9

Lumina Studios bought a camera rig on 1 July 2023 for $20 000, expecting a useful life of **6 years** and a residual value of **$2 000**. It reports annually to 30 June. Prepare the Accumulated Depreciation – Camera Rig account for the three years ended 30 June 2024, 2025 and 2026, and state the carrying amount of the rig at 30 June 2026.

Question 10

Cobalt Engineering bought a lathe on 1 July 2024 for $34 000, expecting a useful life of **5 years** and a residual value of **$4 000**. It reports annually to 30 June. Record the balance day adjustment for the year ended 30 June 2026 in the General Journal, and prepare the Income Statement extract and the Balance Sheet extract as at 30 June 2026 showing the lathe at its carrying amount.

Question 11

Driftwood Cafe bought an espresso machine on 1 July 2024 for $13 000, expecting a useful life of **4 years** and a residual value of **$1 000**. It reports annually to 30 June. Record the balance day adjustment for the year ended 30 June 2025 in the General Journal, prepare the Depreciation – Espresso Machine and Accumulated Depreciation – Espresso Machine ledger accounts, and prepare the Income Statement extract and the Balance Sheet extract as at 30 June 2025.

Question 12

Ironbark Timber bought a sawmill on 1 July 2022 for $60 000, expecting a useful life of **10 years** and a residual value of **$10 000**. It reports annually to 30 June. Prepare the Accumulated Depreciation – Sawmill account for the four years ended 30 June 2023, 2024, 2025 and 2026, and prepare the Balance Sheet extract as at 30 June 2026.

Question 13

Halcyon Dental bought a dental chair on 1 July 2024 for $17 000, expecting a useful life of **5 years** and a residual value of **$2 000**. It reports annually to 30 June. Record the balance day adjustment for the year ended 30 June 2025 in the General Journal, and explain — with reference to a relevant qualitative characteristic — why the credit is made to Accumulated Depreciation rather than to the Dental Chair asset account.

Question 14

Summit Aviation bought a light aircraft on 1 July 2023 for $120 000, expecting a useful life of **10 years** and a residual value of **$20 000**. It reports annually to 30 June. At 30 June 2026 the aircraft has an estimated market value of $105 000. State the carrying amount of the aircraft at 30 June 2026 and explain why it differs from the estimated market value.

Question 15

Westgate Freight bought a truck for $80 000, expecting a useful life of **6 years** and a residual value of **$20 000**. It reports annually to 30 June and depreciates on the straight-line basis. At 30 June 2026 the carrying amount of the truck is $50 000. Calculate the annual depreciation, the accumulated depreciation at 30 June 2026, and the number of years for which depreciation has been charged. (You are not required to prepare any journal or ledger.)

Question 16

Brightwater Bottling bought a bottling line for $45 000, expecting a useful life of **8 years** and a residual value of **$5 000**. It reports annually to 30 June and depreciates on the straight-line basis. At 30 June 2026 the Accumulated Depreciation – Bottling Line account has a credit balance of $20 000. State the carrying amount of the bottling line at 30 June 2026 and the number of years for which depreciation has been charged.

Question 17

Referring to the *Driftwood Cafe* espresso machine in Question 11, explain why the depreciation is recorded as an expense at balance day rather than being ignored until the machine is eventually sold or scrapped. In your answer, refer to the **accrual basis**, the **reporting period** and one relevant **qualitative characteristic**.

Question 18

Meridian Print Co bought a guillotine on 1 July 2024 for $25 000, expecting a useful life of **4 years** and a residual value of **$1 000**. It reports annually to 30 June. Record the balance day adjustment for the year ended 30 June 2026 in the General Journal; prepare the Depreciation – Guillotine and Accumulated Depreciation – Guillotine ledger accounts for the two years ended 30 June 2025 and 2026; and prepare the Income Statement extract and the Balance Sheet extract as at 30 June 2026.

Answers

1.
    a. $4 000 b. Dr Depreciation – Digital Printer $4 000; Cr Accumulated Depreciation – Digital Printer $4 000 c. Carrying amount $18 000; Accumulated Depreciation – Digital Printer
2.
    a. $4 000 b. See solutions c. Balance $12 000 Cr; carrying amount $18 000
3.
    a. Dr/Cr $3 000 b. Depreciation – Refrigeration Unit $3 000 c. Carrying amount $22 000 (cost $28 000 − accumulated depreciation $6 000)
4.
    a. Dr/Cr $2 000 c. Carrying amount $7 000
5.
    a. $35 000 b. See solutions c. Verifiability (see solutions)
6.
    a. Dr/Cr $2 000 c. Expense $2 000; credit Accumulated Depreciation – Hoist
7. Dr/Cr $2 000; carrying amount $9 000
8. Depreciation $4 000; carrying amount $22 000
9. Balance $9 000 Cr; carrying amount $11 000
10. Depreciation $6 000; accumulated depreciation $12 000; carrying amount $22 000
11. Depreciation $3 000; accumulated depreciation $3 000; carrying amount $10 000
12. Balance $20 000 Cr; carrying amount $40 000
13. Dr/Cr $3 000; see solutions
14. Carrying amount $90 000; see solutions
15. Depreciation $10 000; accumulated depreciation $30 000; 3 years
16. Carrying amount $25 000; 4 years
17. See solutions
18. Depreciation $6 000; accumulated depreciation $12 000; carrying amount $13 000

Fully-worked solutions

Question 1

a. Depreciation = ($22 000 − $2 000) ÷ 5 = **$4 000** per year.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Digital Printer	4 000	
	Accumulated Depreciation – Digital Printer		4 000
	Depreciation of digital printer for the year ended 30 June 2025 (Memo 9)		

c. Carrying amount = $22 000 − $4 000 = **$18 000**. The account credited is **Accumulated Depreciation – Digital Printer** (a contra-asset).

Question 2

a. Depreciation = ($30 000 − $6 000) ÷ 6 = **$4 000** per year.

Accumulated Depreciation – Gym Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2024	Balance c/d	4 000	30 Jun 2024	Depreciation – Gym Equipment	4 000
			1 Jul 2024	Balance b/d	4 000
30 Jun 2025	Balance c/d	8 000	30 Jun 2025	Depreciation – Gym Equipment	4 000
			1 Jul 2025	Balance b/d	8 000
30 Jun 2026	Balance c/d	12 000	30 Jun 2026	Depreciation – Gym Equipment	4 000
			1 Jul 2026	Balance b/d	12 000

c. Balance at 30 June 2026 = **$12 000 Cr**; carrying amount = $30 000 − $12 000 = **$18 000**.

Question 3

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Refrigeration Unit	3 000	
	Accumulated Depreciation – Refrigeration Unit		3 000
	Depreciation of refrigeration unit for the year ended 30 June 2026 (Memo 22)		

Depreciation = ($28 000 − $4 000) ÷ 8 = $3 000 per year.

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Depreciation – Refrigeration Unit	3 000

c. By 30 June 2026 the unit has been depreciated for **two** years, so accumulated depreciation is 2 × $3 000 = $6 000 and the carrying amount is $28 000 − $6 000 = $22 000.

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		
Refrigeration Unit (at cost)	28 000	
less Accumulated Depreciation	6 000	22 000

Question 4

a. Depreciation = ($9 000 − $1 000) ÷ 4 = $2 000 per year.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Dough Mixer	2 000	
	Accumulated Depreciation – Dough Mixer		2 000
	Depreciation of dough mixer for the year ended 30 June 2025 (Memo 14)		

b. Crediting **Accumulated Depreciation** (a contra-asset) rather than the asset account keeps the Dough Mixer reported at its original, **verifiable cost** of $9 000 while separately building a record of how much of that cost has been consumed.

c. Carrying amount = $9 000 − $2 000 = **$7 000**.

Question 5

a. Depreciation = ($50 000 − $10 000) ÷ 8 = $5 000 per year. After three years accumulated depreciation is 3 × $5 000 = $15 000, so the carrying amount at 30 June 2026 = $50 000 − $15 000 = **$35 000**.

b. The carrying amount is a **cost figure**, not a valuation: it is the portion of the boat's $50 000 historical cost that has **not yet been allocated** to expense ($50 000 − $15 000). Depreciation allocates cost over the boat's useful life; it does not try to track what the boat would sell for. The $42 000 market value is set by the second-hand market and reflects supply, demand and condition, so the two figures are measuring different things and need not agree.

c. **Verifiability.** Reporting the boat at its carrying amount keeps it grounded in the **original cost**, which is supported by the purchase source document and can be checked by an independent party, whereas an estimated market value is subjective and could not be verified in the same way. (Faithful representation is also supported, because a verifiable cost-based figure is more likely to be free from bias.)

Question 6

a. Depreciation = ($15 000 − $3 000) ÷ 6 = $2 000 per year.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Hoist	2 000	
	Accumulated Depreciation – Hoist		2 000
	Depreciation of vehicle hoist for the year ended 30 June 2025 (Memo 27)		

b. Under the **accrual basis**, profit is measured by matching the expenses incurred in a period against the revenues earned in that period. The hoist is used across several **reporting periods**, so a share of its cost must be recognised as an expense in **each** period it helps earn revenue. No source document arrives to trigger this, so a balance day adjustment (on a memo) is made at the end of each period to allocate that year's share of the cost, ensuring each period's profit is measured correctly.

c. The Depreciation – Hoist expense is **$2 000**; the account credited is **Accumulated Depreciation – Hoist**.

Question 7

Depreciation = ($11 000 − $1 000) ÷ 5 = $2 000 per year; carrying amount = $11 000 − $2 000 = $9 000.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Greenhouse Heater	2 000	
	Accumulated Depreciation – Greenhouse Heater		2 000
	Depreciation of greenhouse heater for the year ended 30 June 2025 (Memo 6)		

∴ carrying amount at 30 June 2025 = **$9 000**.

Question 8

Depreciation = ($26 000 − $2 000) ÷ 6 = $4 000 per year; carrying amount = $26 000 − $4 000 = $22 000.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Forklift	4 000	
	Accumulated Depreciation – Forklift		4 000
	Depreciation of forklift for the year ended 30 June 2026 (Memo 11)		

∴ carrying amount at 30 June 2026 = **$22 000**.

Question 9

Depreciation = ($20 000 − $2 000) ÷ 6 = $3 000 per year.

Accumulated Depreciation – Camera Rig

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2024	Balance c/d	3 000	30 Jun 2024	Depreciation – Camera Rig	3 000
			1 Jul 2024	Balance b/d	3 000
30 Jun 2025	Balance c/d	6 000	30 Jun 2025	Depreciation – Camera Rig	3 000
			1 Jul 2025	Balance b/d	6 000
30 Jun 2026	Balance c/d	9 000	30 Jun 2026	Depreciation – Camera Rig	3 000
			1 Jul 2026	Balance b/d	9 000

∴ carrying amount at 30 June 2026 = $20 000 − $9 000 = **$11 000**.

Question 10

Depreciation = ($34 000 − $4 000) ÷ 5 = $6 000 per year. By 30 June 2026 the lathe has been depreciated for **two** years, so accumulated depreciation is 2 × $6 000 = $12 000 and the carrying amount is $34 000 − $12 000 = $22 000.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Lathe	6 000	
	Accumulated Depreciation – Lathe		6 000
	Depreciation of lathe for the year ended 30 June 2026 (Memo 31)		

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Depreciation – Lathe	6 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		
Lathe (at cost)	34 000	
less Accumulated Depreciation	12 000	22 000

Question 11

Depreciation = ($13 000 − $1 000) ÷ 4 = $3 000 per year.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Espresso Machine	3 000	
	Accumulated Depreciation – Espresso Machine		3 000
	Depreciation of espresso machine for the year ended 30 June 2025 (Memo 8)		

Depreciation – Espresso Machine

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2025	Accumulated Depreciation – Espresso Machine	3 000	30 Jun 2025	Profit and Loss Summary	3 000

Accumulated Depreciation – Espresso Machine

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2025	Balance c/d	3 000	30 Jun 2025	Depreciation – Espresso	3 000

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
				Machine	
			1 Jul 2025	Balance b/d	3 000

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2025	$
Other Expenses	
Depreciation – Espresso Machine	3 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2025	$	$
Non-Current Assets		
Espresso Machine (at cost)	13 000	
less Accumulated Depreciation	3 000	10 000

Question 12

Depreciation = ($60 000 − $10 000) ÷ 10 = $5 000 per year.

Accumulated Depreciation – Sawmill

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2023	Balance c/d	5 000	30 Jun 2023	Depreciation – Sawmill	5 000
			1 Jul 2023	Balance b/d	5 000
30 Jun 2024	Balance c/d	10 000	30 Jun 2024	Depreciation – Sawmill	5 000
			1 Jul 2024	Balance b/d	10 000
30 Jun 2025	Balance c/d	15 000	30 Jun 2025	Depreciation – Sawmill	5 000
			1 Jul 2025	Balance b/d	15 000
30 Jun 2026	Balance c/d	20 000	30 Jun 2026	Depreciation – Sawmill	5 000
			1 Jul 2026	Balance b/d	20 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		
Sawmill (at cost)	60 000	
less Accumulated Depreciation	20 000	40 000

∴ carrying amount at 30 June 2026 = **$40 000**.

Question 13

Depreciation = ($17 000 − $2 000) ÷ 5 = $3 000 per year.

General Journal

Date 2025	Details	Debit $	Credit $
30 Jun	Depreciation – Dental Chair	3 000	
	Accumulated Depreciation – Dental Chair		3 000
	Depreciation of dental chair for the year ended 30 June 2025 (Memo 19)		

The credit is made to **Accumulated Depreciation – Dental Chair**, a contra-asset, rather than to the Dental Chair asset account, so that the asset continues to be reported at its **original cost** of $17 000. That cost is supported by the purchase source document and can be independently checked, so it upholds **verifiability**; the separate accumulated depreciation balance then discloses how much of the cost has been consumed, which a single written-down asset figure would hide.

Question 14

Depreciation = ($120 000 − $20 000) ÷ 10 = $10 000 per year. After three years accumulated depreciation is 3 × $10 000 = $30 000, so the carrying amount at 30 June 2026 = $120 000 − $30 000 = $90 000.

The carrying amount of $90 000 is the part of the aircraft's **historical cost** that has not yet been allocated to expense; it is a **cost-allocation** figure, not a valuation. The estimated market value of $105 000 is what the aircraft could be sold for in its current condition, set by the second-hand market. Depreciation spreads the original cost over the useful life on a straight-line basis and takes no account of movements in market prices, so the carrying amount and the market value are measuring different things and are not expected to be equal.

∴ carrying amount = **$90 000**, which differs from the $105 000 market value.

Question 15

Depreciation = ($80 000 − $20 000) ÷ 6 = **$10 000** per year.

Accumulated depreciation = cost − carrying amount = $80 000 − $50 000 = **$30 000**.

Number of years charged = accumulated depreciation ÷ annual depreciation = $30 000 ÷ $10 000 = **3 years**.

Question 16

Depreciation = ($45 000 − $5 000) ÷ 8 = $5 000 per year.

Carrying amount = cost − accumulated depreciation = $45 000 − $20 000 = **$25 000**.

Number of years charged = accumulated depreciation ÷ annual depreciation = $20 000 ÷ $5 000 = **4 years**.

Question 17

The espresso machine is a non-current asset that *Driftwood Cafe* uses across several **reporting periods** to help earn revenue. Under the **accrual basis**, each period's profit must be measured by matching against its revenue the expenses incurred in earning it — including the cost of the asset consumed that period. Ignoring depreciation until the machine is finally sold or scrapped would load the entire cost into one distant period and leave every earlier period carrying **none** of it, overstating profit while the machine is in use and understating it at the end. Recording $3 000 of depreciation each year at balance day allocates the cost to the periods that benefit from the machine, so each year's profit is measured correctly. This also upholds **faithful representation** (and relevance): the espresso machine is reported at a carrying amount that reflects the cost not yet consumed, so the asset is not overstated in the Balance Sheet.

Question 18

Depreciation = ($25 000 − $1 000) ÷ 4 = $6 000 per year. By 30 June 2026 the guillotine has been depreciated for **two** years, so accumulated depreciation is 2 × $6 000 = $12 000 and the carrying amount is $25 000 − $12 000 = $13 000.

General Journal

Date 2026	Details	Debit $	Credit $
30 Jun	Depreciation – Guillotine	6 000	
	Accumulated Depreciation – Guillotine		6 000
	Depreciation of guillotine for the year ended 30 June 2026 (Memo 40)		

Depreciation – Guillotine

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2025	Accumulated Depreciation – Guillotine	6 000	30 Jun 2025	Profit and Loss Summary	6 000
30 Jun 2026	Accumulated Depreciation – Guillotine	6 000	30 Jun 2026	Profit and Loss Summary	6 000

Accumulated Depreciation – Guillotine

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jun 2025	Balance c/d	6 000	30 Jun 2025	Depreciation – Guillotine	6 000
			1 Jul 2025	Balance b/d	6 000
30 Jun 2026	Balance c/d	12 000	30 Jun 2026	Depreciation – Guillotine	6 000
			1 Jul 2026	Balance b/d	12 000

Income Statement (extract)

Income Statement (extract) for the year ended 30 June 2026	$
Other Expenses	
Depreciation – Guillotine	6 000

Balance Sheet (extract)

Balance Sheet (extract) as at 30 June 2026	$	$
Non-Current Assets		
Guillotine (at cost)	25 000	
less Accumulated Depreciation	12 000	13 000

Chapter 14 Non-current assets and depreciation — 14C Purchasing non-current assets

Theory

A **non-current asset** is a **present economic resource** controlled by the business as a result of a **past event** — a right with the potential to produce **future economic benefits** — that is expected to be used in the business for **more than one reporting period**. Vehicles, machinery, equipment, fixtures and fittings are all non-current assets: the business buys them not to resell but to **use** in earning revenue over several years. Because the benefit is consumed gradually, the asset is **depreciated** — its cost is allocated as an expense across its useful life. Getting the purchase right therefore matters twice: it fixes the value of the asset in the Balance Sheet **and** it fixes the amount that will be depreciated in every future period.

Recording the purchase for cash. When a business pays cash (usually by electronic funds transfer) for a non-current asset, three lines are recorded:

- The **non-current asset** account (Equipment, Motor vehicle, and so on) is **debited** with the **GST-exclusive** cost of the asset — its value increases.
- **GST Clearing** is **debited** with the GST paid (10% of the GST-exclusive cost, or 1/11 of the GST-inclusive amount). The business can recover this GST from the ATO, so it is **never** added to the cost of the asset.
- **Bank** is **credited** with the total **GST-inclusive** amount paid.

Recording a purchase financed by a loan. A business will often **borrow** to buy an expensive asset. Where a lender finances the purchase, the credit entry is a **liability** rather than Bank:

- The **non-current asset** account is **debited** with its GST-exclusive cost.
- **GST Clearing** is **debited** with the GST.
- **Loan – [lender]** is **credited** with the GST-inclusive amount financed.

The business still pays the GST to the supplier and still claims it back from the ATO, so **GST Clearing is debited exactly as it is for a cash purchase** — the only difference is *what supplies the funds*. If the business pays a **cash deposit** and borrows the rest, the entry has **two credits**: **Bank** for the deposit and **Loan – [lender]** for the balance financed. The asset and its GST are unaffected by *how* the purchase is funded.

Determining the cost of the asset. The **cost** of a non-current asset is **every cost incurred to bring the asset into the location and condition necessary for it to be used** as management intends. Such costs are **capitalised** — added to the asset account — because they help generate future economic benefit across the asset's whole life. They include:

- the **purchase price** (GST-exclusive);
- **delivery / cartage** to get the asset to the business;
- **installation** and connection;
- **modification** or assembly needed to make the asset ready for its intended use.

Costs incurred **after** the asset is ready for use, or that do not add to its service potential, are the **running costs** of owning the asset. They are consumed within the current period, so they are **expensed** — reported in full in the Income Statement of the period they relate to — and are **not** part of the asset's cost. They include:

- **registration** of a motor vehicle;
- **insurance** of the asset;
- **fuel, servicing, repairs** and similar recurring costs.

The distinction rests on the definition of an asset: a cost that creates a resource with the potential to produce economic benefits **across several periods** belongs in the **asset** (and is depreciated); a cost whose benefit is used up in the **current** period is an **expense**. Capitalising a cost that should be expensed would **overstate** the asset and profit now and overstate depreciation later; expensing a cost that should be capitalised would **understate** the asset and profit now — both breach **faithful representation**.

The effect on future depreciation. Because straight-line depreciation is (cost − residual value) ÷ useful life, **every dollar capitalised increases the amount depreciated each period**. Adding $1 000 of installation to a machine with a five-year life and no residual, for example, raises annual depreciation by $200. Expensing that $1 000 instead would charge the whole amount against this year's profit and leave future depreciation unchanged. Deciding what forms the cost of the asset therefore shapes reported profit in **this** period and in **every** future period of the asset's life.

GST on the purchase. Every GST-bearing cost — the asset itself, delivery, installation, modification, and GST-bearing running costs such as insurance — carries **10%** GST that is **debited to GST Clearing**, because the business will recover it from the ATO. A few charges are **GST-free**: motor-vehicle **registration** is a government charge that carries **no GST**, so it is expensed in full with no GST Clearing line. In every case the GST is kept **out** of the asset account.

Worked model. On 1 July 2026 **Kingsley Joinery** bought a *TimberMaster* panel saw, paying by a single EFT: $8 000 (plus GST) for the saw, $400 (plus GST) delivery and $600 (plus GST) installation (**EFT 3120**). The saw, delivery and installation are all needed to get the asset ready for use, so they are **capitalised**: cost of the saw = $8 000 + $400 + $600 = **$9 000**. GST = 10% × $9 000 = **$900**, so the total paid is $9 900.

General Journal

Date 2026	Details	Debit $	Credit $
1 Jul	Equipment	9 000	
	GST Clearing	900	
	Bank		9 900
	Purchase of panel saw incl. delivery and installation (EFT 3120)		

Had Kingsley also paid $300 insurance or $250 for a servicing agreement, those running costs would be **expensed**, never added to the $9 000 Equipment balance.

Worked examples (scaffolded)

Example 1 — a cash purchase; capitalising delivery and installation, expensing insurance

On 5 July 2026 **Fernvale Engineering** acquired a *Precision-500* metal lathe, paying by a single EFT (**EFT 4210**): $12 000 (plus GST) for the lathe, $300 (plus GST) delivery, $700 (plus GST) installation, and $500 (plus GST) for the first year's insurance. Record the purchase in the General Journal and state the cost of the lathe.

Working	Comment
Capitalise the lathe $12 000, delivery $300 and installation $700 — all are needed to get the lathe ready for use. Cost of the lathe = **$13 000**.	Delivery and installation form part of the asset's cost because their benefit is enjoyed across the lathe's whole life; they will be depreciated.
Expense the insurance $500 — it is a running cost of owning the lathe, not a cost of getting it ready.	Insurance is consumed within the period; it is charged to the **Insurance** expense account, never to Equipment.
GST = 10% of every GST-bearing amount = 10% × ($13 000 + $500) = **$1 350** → debit **GST Clearing**.	The GST on the asset *and* on the insurance is claimable from the ATO, so all of it is debited to GST Clearing.
Bank = $13 000 + $500 + $1 350 = **$14 850** → credit Bank.	The whole GST-inclusive amount leaves the bank. Entry balances: $13 000 + $500 + $1 350 = $14 850.

General Journal

Date 2026	Details	Debit $	Credit $
5 Jul	Equipment	13 000	
	Insurance	500	
	GST Clearing	1 350	

Date 2026	Details	Debit $	Credit $
	Bank		14 850
	Purchase of metal lathe incl. delivery and installation; first-year insurance (EFT 4210)		

The cost of the lathe is **$13 000** — the amount that will be depreciated over its useful life.

Example 2 — a purchase financed by a loan with a cash deposit; a running cost expensed

On 8 July 2026 **Brightwater Transport** bought a delivery truck for $60 000 (plus GST) and had cargo shelving fitted to make it ready for deliveries for $4 000 (plus GST). It paid a $7 000 deposit by EFT and financed the balance with a loan from **Metro Finance** (**EFT 4315; Loan agreement**). On the same day it paid $900 registration, a GST-free government charge, by EFT (**EFT 4316**). Record both transactions in the General Journal.

Working	Comment
Capitalise the truck $60 000 and the shelving modification $4 000 — the shelving is needed to make the truck ready for its intended use. Cost of the truck = **$64 000**.	A modification that gets the asset ready for use is part of its cost, so it is depreciated with the truck.
GST = 10% × $64 000 = **$6 400** → debit GST Clearing. GST-inclusive cost = $70 400.	The GST is claimable, so it is debited to GST Clearing whether the purchase is paid for by cash or by loan.
Deposit $7 000 → credit **Bank**; **Loan – Metro Finance** = $70 400 − $7 000 = **$63 400** → credit the loan.	Two credits fund one purchase: Bank for the deposit and the loan for the balance. Entry balances: $64 000 + $6 400 = $7 000 + $63 400.
Registration $900 is GST-free and is a running cost → debit **Vehicle registration**, credit Bank $900, no GST line.	Registration is expensed, not added to the truck; a government charge carries no GST.

General Journal

Date 2026	Details	Debit $	Credit $
8 Jul	Motor vehicle	64 000	
	GST Clearing	6 400	
	Bank		7 000
	Loan – Metro Finance		63 400
	Purchase of delivery truck incl. shelving; deposit and loan finance (EFT 4315)		
8 Jul	Vehicle registration	900	
	Bank		900
	Registration of delivery truck — GST-free (EFT 4316)		

The cost of the truck is **$64 000**; the loan liability begins at **$63 400**; the $900 registration is an expense of the period.

Worked examples (unscaffolded)

Example 3 — a purchase financed entirely by a loan

On 12 July 2026 **Oakhill Printing** bought a printing press for $40 000 (plus GST) and paid $1 500 (plus GST) to install it, financing the whole purchase with a loan from **Regional Bank** (**Memo 51**). Record the purchase in the General Journal.

The press and its installation are both capitalised: cost = $40 000 + $1 500 = $41 500. GST = 10% × $41 500 = $4 150, so the GST-inclusive amount financed is $45 650, credited in full to the loan.

General Journal

Date 2026	Details	Debit $	Credit $
12 Jul	Equipment	41 500	
	GST Clearing	4 150	
	Loan – Regional Bank		45 650
	Purchase of printing press incl. installation, fully loan-financed (Memo 51)		

∴ the Equipment asset increases by its $41 500 cost, GST Clearing is debited $4 150 (claimable from the ATO), and a $45 650 loan liability is created — no cash changes hands.

Example 4 — determining the cost of an asset with both kinds of running cost

On 15 July 2026 **Rosslyn Couriers** acquired a delivery van, paying by a single EFT (**EFT 5090**): $28 000 (plus GST) for the van, $500 (plus GST) to transport it from interstate, $1 500 (plus GST) to fit cargo shelving, $700 registration (GST-free) and $1 100 (GST-inclusive) for comprehensive insurance. Record the purchase and state the cost of the van.

Capitalise the van $28 000, transport $500 and shelving $1 500 → cost of the van = $30 000; GST on these = $3 000. Registration $700 is GST-free and expensed. Insurance $1 100 GST-inclusive = $1 000 expense + $100 GST. GST Clearing = $3 000 + $100 = $3 100. Bank = $30 000 + $700 + $1 000 + $3 100 = $34 800.

General Journal

Date 2026	Details	Debit $	Credit $
15 Jul	Motor vehicle	30 000	
	Vehicle registration	700	
	Insurance	1 000	
	GST Clearing	3 100	
	Bank		34 800
	Purchase of delivery van incl. transport and shelving; registration and insurance (EFT 5090)		

∴ the cost of the van is **$30 000** (the depreciable amount); registration $700 and insurance $1 000 are expenses of the period; and the $3 100 GST is recovered from the ATO, not added to the van.

Practice questions — scaffolded

Question 1

On 2 August 2026 **Larkspur Bakery** bought a commercial oven for $5 000 (plus GST) and paid $200 (plus GST) delivery, all by EFT (**EFT 6010**).

a. Record the purchase in the General Journal.

b. State the cost of the oven.

c. State the amount debited to GST Clearing.

Question 2

On 4 August 2026 **Highfield Gym** bought fitness equipment for $8 000 (plus GST), paid $500 (plus GST) installation and $600 (plus GST) for the first year's insurance, all by EFT (**EFT 6120**).

a. Record the purchase in the General Journal.

b. State the cost of the equipment.

c. Explain why the insurance is not included in the cost of the equipment.

Question 3

On 6 August 2026 **Meadowbrook Farm** bought a tractor for $45 000 (plus GST) and paid $1 000 (plus GST) to deliver it, financing the whole purchase with a loan from **AgriBank** (**Memo 33**).

a. Record the purchase in the General Journal.

b. State the cost of the tractor.

c. State the amount of the loan liability created.

Question 4

On 9 August 2026 **Coastline Diving** bought a boat for $36 000 (plus GST) and paid $4 000 (plus GST) to fit a dive platform that makes the boat ready for charter work. It paid a $4 400 deposit by EFT and financed the balance with a loan from **Harbour Finance** (**EFT 6240; Loan agreement**).

a. Record the purchase in the General Journal.

b. State the cost of the boat.

c. State the amount financed by the loan.

Question 5

On 11 August 2026 **Pinehill Dental** acquired a dental chair, paying by a single EFT (**EFT 6355**): $11 000 (plus GST) for the chair, $300 (plus GST) delivery, $700 (plus GST) installation and $500 (plus GST) for insurance.

a. State which costs form the cost of the chair, and calculate that cost.

b. Record the purchase in the General Journal.

c. Explain the effect on future depreciation of capitalising the delivery and installation.

Question 6

On 13 August 2026 **Brightpath Couriers** bought a van for $32 000 (plus GST) and paid $800 (plus GST) for signwriting that makes it ready for use, $600 registration (GST-free) and $900 (plus GST) insurance, all by EFT (**EFT 6470**).

a. Determine the cost of the van.

b. Record the purchase in the General Journal.

c. State which two costs are expensed, and explain in one sentence why.

Practice questions — unscaffolded

Question 7

On 1 September 2026 **Verdant Landscaping** bought a ride-on mower for $3 000 (plus GST) and paid $150 (plus GST) delivery, all by EFT (**EFT 7010**). Record the purchase in the General Journal and state the cost of the mower.

Question 8

On 3 September 2026 **Sunhaven Cafe** bought a coffee roaster for $13 200 (GST-inclusive) and paid $1 100 (GST-inclusive) to install it, all by EFT (**EFT 7120**). Record the purchase in the General Journal and state the cost of the roaster.

Question 9

On 5 September 2026 **Ridgeline Mining** bought an excavator for $120 000 (plus GST) and paid $5 000 (plus GST) to transport it to the site, financing the whole purchase with a loan from **Capital Finance** (**Memo 62**). Record the purchase in the General Journal and state the amount of the loan.

Question 10

On 8 September 2026 **Marisol Catering** bought a van for $34 000 (plus GST) and paid $2 000 (plus GST) to fit refrigerated shelving that makes it ready for use. It paid a $3 960 deposit by EFT and financed the balance with a loan from **Metro Credit** (**EFT 7240; Loan agreement**). Record the purchase in the General Journal and state the amount financed by the loan.

Question 11

On 10 September 2026 **Thornwood Furniture** acquired a CNC router, paying by a single EFT (**EFT 7355**): $22 000 (plus GST) for the router, $800 (plus GST) delivery, $1 200 (plus GST) installation and $600 (plus GST) for the first year's insurance. Record the purchase in the General Journal, state the cost of the router, and state which cost is expensed.

Question 12

On 12 September 2026 **Eastgate Printing** bought a press for $50 000 (plus GST) and paid $2 500 (plus GST) installation. It paid a $5 500 deposit by EFT and financed the balance with a loan from **Regional Finance** (**EFT 7470; Loan agreement**). Record the purchase in the General Journal and state the amount of the loan.

Question 13

Waverley Print is deciding how to record the acquisition of a laminator. The costs incurred were: purchase price $7 000; delivery $200; installation $300; a modification to the workbench so the laminator will fit $500; a 12-month service agreement $250; and the first year's insurance $400. (All amounts are quoted GST-exclusive.) State which costs form the **cost of the laminator**, calculate that cost, and identify the costs that are treated as expenses.

Question 14

On 15 September 2026 **Coralbay Tours** bought a minibus for $48 000 (plus GST) and paid $3 000 (plus GST) to fit extra seating that makes it ready for tours, $750 registration (GST-free) and $1 200 (plus GST) insurance, all by EFT (**EFT 7590**). Record the purchase in the General Journal, state the cost of the minibus, and state the total amount debited to GST Clearing.

Question 15

On 18 September 2026 **Hillcrest Removals** bought a truck for $72 000 (plus GST) and paid $8 000 (plus GST) to fit a tailgate lift that makes it ready for use. It paid an $8 800 deposit by EFT and financed the balance with a loan from **TransFinance** (**EFT 7680; Loan agreement**); it also paid $900 registration, GST-free, by EFT (**EFT 7681**). Record both transactions in the General Journal, and state the cost of the truck and the amount of the loan.

Question 16

Explain, with reference to the definition of an asset, why the delivery and installation of a machine are **capitalised** as part of its cost while the machine's insurance and servicing are **expensed**. Justify your answer by reference to a relevant qualitative characteristic.

Question 17

A bookkeeper recorded $1 000 (plus GST) of installation costs on a new machine as an **expense** instead of adding it to the machine's cost. The machine has a five-year useful life and no residual value, and is depreciated using the straight-

line method. Explain the effect of this error on the **current period's net profit**, on the **carrying amount of the machine** in the Balance Sheet, and on **depreciation in future periods**.

Question 18

On 20 September 2026 **Glenmore Winery** acquired a bottling machine: $54 000 (plus GST) for the machine, $1 000 (plus GST) delivery and $3 000 (plus GST) installation. It paid a $6 600 deposit by EFT and financed the balance of the machine's GST-inclusive cost with a loan from **Vineyard Finance** (**EFT 7790; Loan agreement**). It also paid $800 (plus GST) for the first year's insurance by a separate EFT (**EFT 7791**). Record both transactions in the General Journal; state the cost of the machine, the amount of the loan, and the total amount debited to GST Clearing across the two entries.

Answers

1.
    b. $5 200 c. $520 (Bank $5 720)
2.
    b. $8 500 c. Insurance is a running cost, expensed — see solutions
3.
    b. $46 000 c. Loan $50 600
4.
    b. $40 000 c. Loan $39 600 (deposit $4 400)
5.
    a. Chair + delivery + installation = $12 000 c. Higher cost → higher depreciation each period
6.
    a. $32 800 c. Registration and insurance — running costs, not costs of getting the van ready
7. Cost of mower $3 150 (Bank $3 465; GST $315)
8. Cost of roaster $13 000 (GST $1 300; Bank $14 300)
9. Loan $137 500 (cost $125 000; GST $12 500)
10. Loan $35 640 (cost $36 000; GST $3 600; deposit $3 960)
11. Cost of router $24 000; insurance $600 expensed (GST $2 460; Bank $27 060)
12. Loan $52 250 (cost $52 500; GST $5 250; deposit $5 500)
13. Cost of laminator $8 000 (purchase + delivery + installation + modification); service agreement $250 and insurance $400 expensed
14. Cost of minibus $51 000; GST Clearing $5 220 (Bank $58 170)
15. Cost of truck $80 000; loan $79 200 (deposit $8 800; registration $900 expensed)
16. See solutions
17. Net profit understated $1 000 this year; machine understated $1 000; future depreciation understated $200 p.a. — see solutions
18. Cost of machine $58 000; loan $57 200 (deposit $6 600); total GST Clearing $5 880

Fully-worked solutions

Question 1

Cost of the oven = $5 000 + $200 = $5 200; GST = 10% × $5 200 = $520; Bank = $5 720.

General Journal

Date 2026	Details	Debit $	Credit $
2 Aug	Equipment	5 200	
	GST Clearing	520	
	Bank		5 720
	Purchase of oven incl. delivery (EFT 6010)		

b. Cost of the oven = **$5 200** (purchase $5 000 + delivery $200). c. GST Clearing debited **$520**.

Question 2

Capitalise equipment $8 000 + installation $500 = $8 500. Insurance $600 is expensed. GST = 10% × ($8 500 + $600) = $910; Bank = $8 500 + $600 + $910 = $10 010.

General Journal

Date 2026	Details	Debit $	Credit $
4 Aug	Equipment	8 500	
	Insurance	600	
	GST Clearing	910	
	Bank		10 010
	Purchase of fitness equipment incl. installation; first-year insurance (EFT 6120)		

b. Cost of the equipment = **$8 500** (purchase $8 000 + installation $500).

c. The insurance is a **running cost** of owning the equipment, not a cost of getting it ready for use. Its benefit is consumed within the current period, so it is recorded as an **expense** (Insurance) rather than capitalised. Adding it to the asset would overstate the equipment and, through depreciation, misstate profit across future periods — a breach of **faithful representation**.

Question 3

Cost of the tractor = $45 000 + $1 000 = $46 000; GST = 10% × $46 000 = $4 600; loan financed = $50 600.

General Journal

Date 2026	Details	Debit $	Credit $
6 Aug	Tractor	46 000	
	GST Clearing	4 600	
	Loan – AgriBank		50 600
	Purchase of tractor incl. delivery, fully loan-financed (Memo 33)		

b. Cost of the tractor = **$46 000**. c. Loan liability created = **$50 600** (the GST-inclusive cost).

Question 4

Cost of the boat = $36 000 + $4 000 = $40 000; GST = $4 000; GST-inclusive = $44 000; deposit $4 400 by Bank; loan = $44 000 − $4 400 = $39 600.

General Journal

Date 2026	Details	Debit $	Credit $
9 Aug	Boat	40 000	
	GST Clearing	4 000	
	Bank		4 400
	Loan – Harbour Finance		39 600
	Purchase of boat incl. dive platform; deposit and loan finance (EFT 6240)		

b. Cost of the boat = **$40 000** (purchase $36 000 + dive platform $4 000). c. Loan = **$39 600**.

Question 5

a. The **chair $11 000**, **delivery $300** and **installation $700** are all needed to get the chair ready for use, so they are capitalised: cost of the chair = **$12 000**. The insurance $500 is a running cost and is expensed.

GST = 10% × ($12 000 + $500) = $1 250; Bank = $12 000 + $500 + $1 250 = $13 750.

General Journal

Date 2026	Details	Debit $	Credit $
11 Aug	Equipment	12 000	
	Insurance	500	
	GST Clearing	1 250	
	Bank		13 750
	Purchase of dental chair incl. delivery and installation; insurance (EFT 6355)		

c. Capitalising the delivery and installation raises the cost of the chair from $11 000 to $12 000. Because straight-line depreciation is based on cost, the **depreciation charged each period is higher** (and total depreciation over the asset's life is $1 000 greater) than if those costs had been expensed.

Question 6

a. Capitalise the van $32 000 and signwriting $800 → cost of the van = **$32 800**. Registration $600 (GST-free) and insurance $900 are running costs, expensed.

GST = 10% × ($32 800 + $900) = $3 370; Bank = $32 800 + $600 + $900 + $3 370 = $37 670.

General Journal

Date 2026	Details	Debit $	Credit $
13 Aug	Motor vehicle	32 800	
	Vehicle registration	600	
	Insurance	900	
	GST Clearing	3 370	
	Bank		37 670
	Purchase of van incl. signwriting; registration and insurance (EFT 6470)		

c. **Registration** and **insurance** are expensed because they are the **running costs of owning** the van, not costs of getting it ready for use — their benefit is consumed within the current period.

Question 7

Cost of the mower = $3 000 + $150 = $3 150; GST = $315; Bank = $3 465.

General Journal

Date 2026	Details	Debit $	Credit $
1 Sep	Equipment	3 150	
	GST Clearing	315	
	Bank		3 465
	Purchase of ride-on mower incl. delivery (EFT 7010)		

Cost of the mower = **$3 150**.

Question 8

The amounts are GST-inclusive: roaster GST = 1/11 × $13 200 = $1 200, so the roaster is $12 000; installation GST = 1/11 × $1 100 = $100, so installation is $1 000. Cost of the roaster = $12 000 + $1 000 = $13 000; GST Clearing = $1 300; Bank = $14 300.

General Journal

Date 2026	Details	Debit $	Credit $
3 Sep	Equipment	13 000	
	GST Clearing	1 300	
	Bank		14 300
	Purchase of coffee roaster incl. installation (EFT 7120)		

Cost of the roaster = **$13 000**.

Question 9

Cost of the excavator = $120 000 + $5 000 = $125 000; GST = $12 500; loan financed = $137 500.

General Journal

Date 2026	Details	Debit $	Credit $
5 Sep	Equipment	125 000	
	GST Clearing	12 500	
	Loan – Capital Finance		137 500
	Purchase of excavator incl. transport, fully loan-financed (Memo 62)		

Loan = **$137 500** (the GST-inclusive cost of the excavator).

Question 10

Cost of the van = $34 000 + $2 000 = $36 000; GST = $3 600; GST-inclusive = $39 600; deposit $3 960; loan = $39 600 − $3 960 = $35 640.

General Journal

Date 2026	Details	Debit $	Credit $
8 Sep	Motor vehicle	36 000	
	GST Clearing	3 600	
	Bank		3 960
	Loan – Metro Credit		35 640
	Purchase of van incl. refrigerated shelving; deposit and loan finance (EFT 7240)		

Loan = **$35 640**.

Question 11

Capitalise the router $22 000, delivery $800 and installation $1 200 → cost of the router = $24 000. Insurance $600 is expensed. GST = 10% × ($24 000 + $600) = $2 460; Bank = $24 000 + $600 + $2 460 = $27 060.

General Journal

Date 2026	Details	Debit $	Credit $
10 Sep	Equipment	24 000	
	Insurance	600	
	GST Clearing	2 460	
	Bank		27 060
	Purchase of CNC router incl. delivery and installation; insurance (EFT 7355)		

Cost of the router = **$24 000**; the **$600 insurance** is expensed.

Question 12

Cost of the press = $50 000 + $2 500 = $52 500; GST = $5 250; GST-inclusive = $57 750; deposit $5 500; loan = $57 750 − $5 500 = $52 250.

General Journal

Date 2026	Details	Debit $	Credit $
12 Sep	Equipment	52 500	
	GST Clearing	5 250	
	Bank		5 500
	Loan – Regional Finance		52 250
	Purchase of press incl. installation; deposit and loan finance (EFT 7470)		

Loan = **$52 250**.

Question 13

The **cost of the laminator** is every cost incurred to get it ready for use: purchase $7 000 + delivery $200 + installation $300 + workbench modification $500 = **$8 000**. These costs give a benefit across the laminator's whole life and will be depreciated.

The **service agreement $250** and **insurance $400** are the **running costs** of owning the laminator; they keep it operating rather than get it ready for use, and their benefit is consumed within the period, so they are recorded as **expenses**, not added to the asset.

Question 14

Capitalise the minibus $48 000 and seating $3 000 → cost of the minibus = $51 000; GST on these = $5 100. Registration $750 is GST-free and expensed. Insurance $1 200 is expensed with GST $120. GST Clearing = $5 100 + $120 = $5 220; Bank = $51 000 + $750 + $1 200 + $5 220 = $58 170.

General Journal

Date 2026	Details	Debit $	Credit $
15 Sep	Motor vehicle	51 000	
	Vehicle registration	750	
	Insurance	1 200	
	GST Clearing	5 220	

Date 2026	Details	Debit $	Credit $
	Bank		58 170
	Purchase of minibus incl. extra seating; registration and insurance (EFT 7590)		

Cost of the minibus = **$51 000**; total GST Clearing debited = **$5 220**.

Question 15

Cost of the truck = $72 000 + $8 000 = $80 000; GST = $8 000; GST-inclusive = $88 000; deposit $8 800; loan = $88 000 − $8 800 = $79 200. Registration $900 (GST-free) is a separate expense entry.

General Journal

Date 2026	Details	Debit $	Credit $
18 Sep	Motor vehicle	80 000	
	GST Clearing	8 000	
	Bank		8 800
	Loan – TransFinance		79 200
	Purchase of truck incl. tailgate lift; deposit and loan finance (EFT 7680)		
18 Sep	Vehicle registration	900	
	Bank		900
	Registration of truck — GST-free (EFT 7681)		

Cost of the truck = **$80 000**; loan = **$79 200**.

Question 16

An **asset** is a **present economic resource** controlled by the business as a result of a **past event** — a right with the **potential to produce future economic benefits**. The **delivery** and **installation** of a machine are costs that must be incurred to bring the machine into the location and condition necessary for it to operate; without them the machine could not earn revenue. The resource they create therefore has the potential to produce economic benefits across the machine's **whole useful life**, so they meet the definition of an asset and are **capitalised** (added to the machine's cost and depreciated over its life).

The machine's **insurance** and **servicing** are **running costs** of owning it: they recur period after period and their benefit is consumed **within the current period**, so once that period ends they carry no potential to produce economic benefits. They keep the machine operating rather than bring it to the condition necessary for it to be used, so they are recorded as **expenses**.

This treatment upholds **faithful representation**: capitalising the costs that genuinely form part of the asset, and expensing those that do not, reports the asset at its true cost and each period's profit completely and without bias. Capitalising a running cost would overstate the asset and understate the current expense; expensing a set-up cost would understate the asset — either way the reports would mislead users.

Question 17

Recording the $1 000 installation as an expense (rather than capitalising it) has three effects:

- **Current period's net profit** — an extra $1 000 expense is recognised now, so this year's net profit is **understated by $1 000** (before considering the smaller offsetting depreciation, the machine's cost being $1 000 lower). The whole set-up cost is written off immediately instead of over the asset's life.
- **Carrying amount of the machine** — the machine is recorded at a cost $1 000 lower than it should be, so its **carrying amount in the Balance Sheet is understated by $1 000** (less the effect of depreciation).
- **Future depreciation** — because depreciation is (cost − residual) ÷ life = $1 000 ÷ 5, each future year's depreciation is **understated by $200**, so profit in each of the next years is correspondingly **overstated by $200**.

The GST ($100) is unaffected — it is debited to GST Clearing either way. The error breaches **faithful representation**, misstating both profit and the asset across several periods.

Question 18

Cost of the machine = $54 000 + $1 000 + $3 000 = $58 000; GST = $5 800; GST-inclusive = $63 800; deposit $6 600; loan = $63 800 − $6 600 = $57 200. Insurance $800 is expensed by a separate EFT, with GST $80.

General Journal

Date 2026	Details	Debit $	Credit $
20 Sep	Equipment	58 000	
	GST Clearing	5 800	
	Bank		6 600
	Loan – Vineyard Finance		57 200
	Purchase of bottling machine incl. delivery and installation; deposit and loan finance (EFT 7790)		
20 Sep	Insurance	800	
	GST Clearing	80	
	Bank		880
	First-year insurance on bottling machine (EFT 7791)		

Cost of the machine = **$58 000**; loan = **$57 200**; total debited to GST Clearing across the two entries = $5 800 + $80 = **$5 880**.