

23 Feb - 13 April 2022

ASSET VERIFICATION PROCESSES

Wednesdays

10:00 - 12:00



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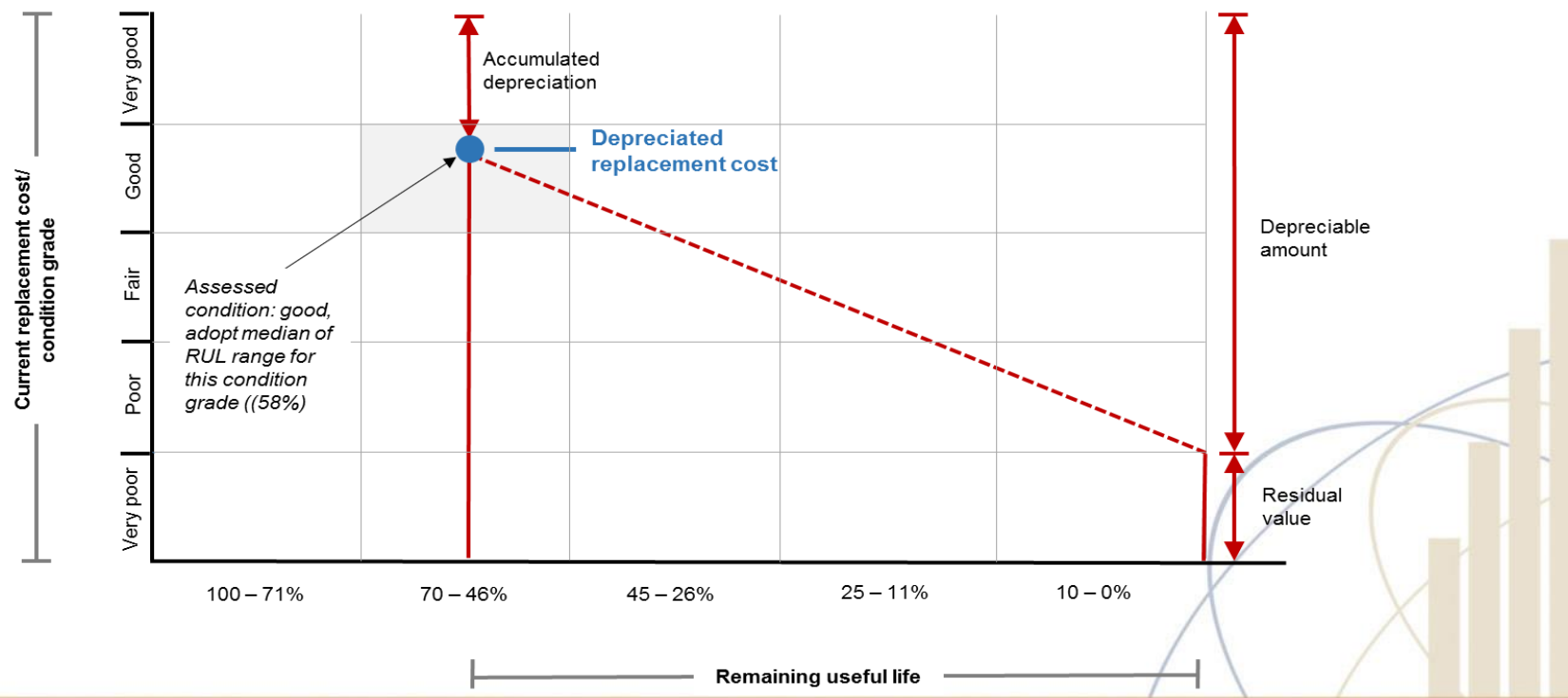
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PRACTICAL DEPRECIATION CALCULATIONS - DEFINITION

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life. The amortisation of Intangible assets is identical.



Depreciation formula

$$\text{Depreciation} = \text{CV} - \text{RV} / \text{RUL} * \text{Days} / 365$$

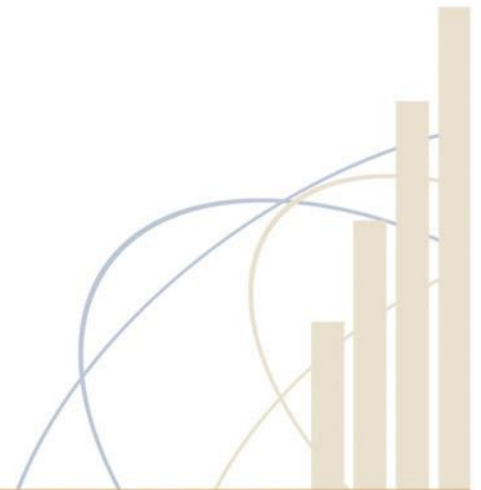
Where:

CV – Carrying Value

RV – Residual Value

RUL – Remaining Useful

Days – No. of days in use during the year



Carrying Value: is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Residual Value: the estimated amount that an entity would currently obtain from disposal of the asset.

Estimated Useful Life: the period over which an asset is expected to be available for use by an entity



Incorrect calculation

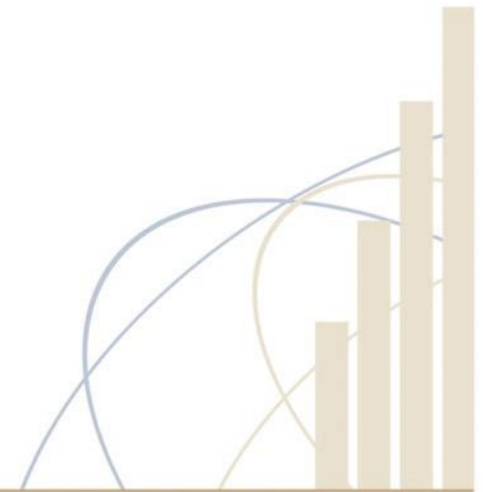
$$\text{Depreciation} = \text{Cost of asset} / \text{EUL}$$

Shortfall?

GRAP 17.56-57

An entity shall assess at each reporting date whether there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date.

If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3).



PRACTICAL DEPRECIATION CALCULATIONS - EXAMPLE

#1 Asset Cost: 10 000 000

Useful Life: 20 years

Calculation: $10\,000\,000/20 = 500\,000$

#2 Asset Cost: 10 000 000

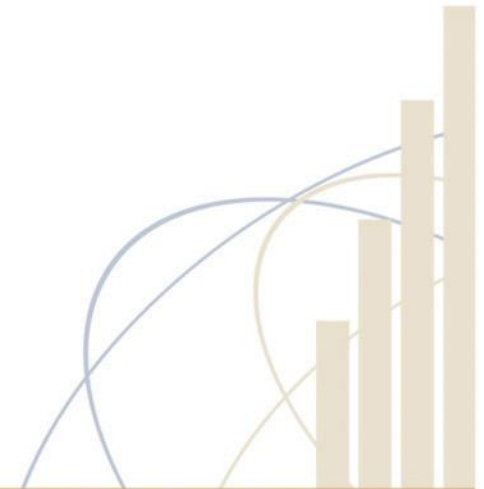
Carrying value: 8 500 000

EUL: 20

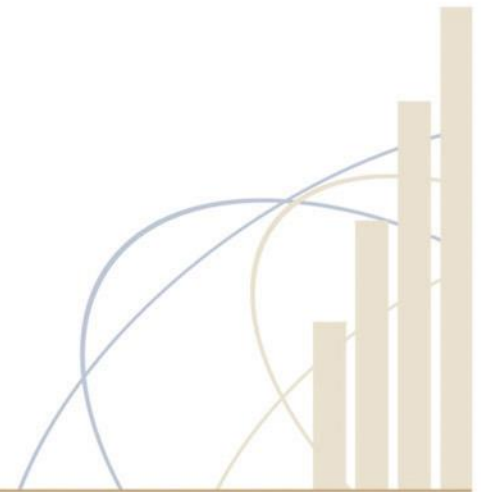
RUL: 15

Days: 250

Calculation: $8\,500\,000/15 * 250/365 = 388\,127,85$



DR Depreciation (P/L) **CR Accumulated Depreciation (SoFP)**



PRACTICAL DEPRECIATION CALCULATIONS – EXAMPLE

#3 Simple depreciation existing asset

Asset Cost: 10 000 000

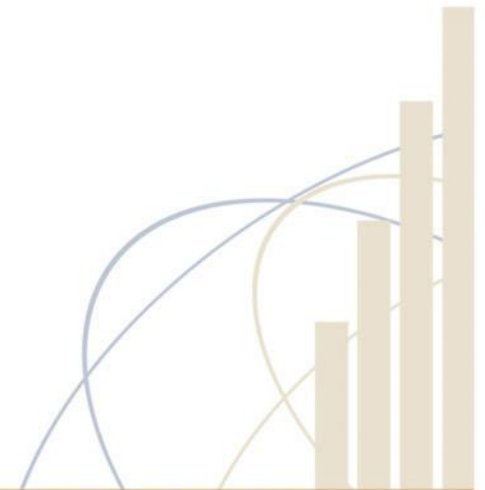
Carrying Value: 8 500 000

EUL: 20

RUL: 18

Days: 365

Calculation: $8\,500\,000 / 18 * 365 / 365 = 472\,222,22$



PRACTICAL DEPRECIATION CALCULATIONS – EXAMPLE

#4 Depreciation new asset

Asset Cost: 10 000 000

Carrying Value: 10 000 000

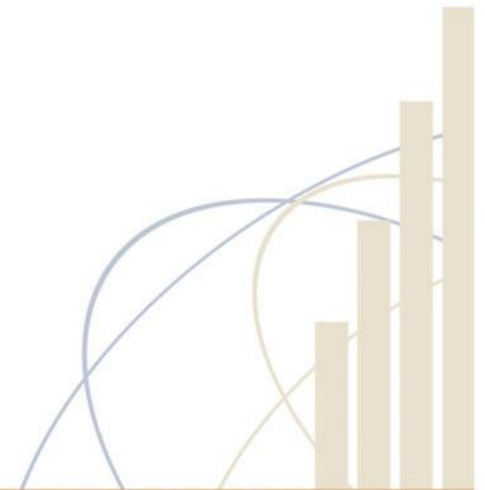
EUL: 20

RUL: 20

Purchase date: 31/12/2021

Days: 183

Calculation: $10\,000\,000 / 20 * 183 / 365 = 250\,684,93$



PRACTICAL DEPRECIATION CALCULATIONS – EXAMPLE

#5 Depreciation disposal

Asset Cost: 10 000 000

Carrying Value: 8 500 000

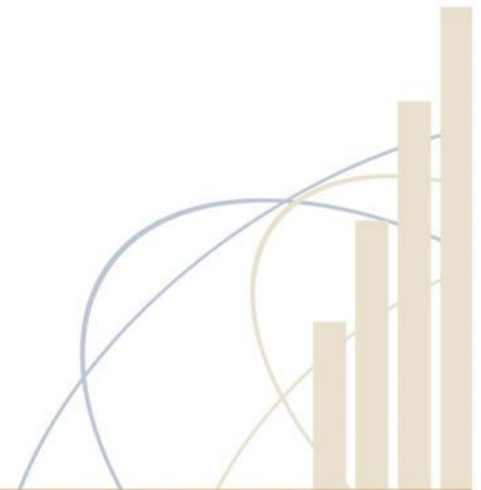
EUL: 20

RUL: 8

Disposal date: 31/12/2021

Days: 183

Calculation: $8\,500\,000 / 8 * 183 / 365 = 532\,705,48$



PRACTICAL DEPRECIATION CALCULATIONS – EXAMPLE

#6 Depreciation with residual value

Asset Cost: 10 000 000

Carrying Value: 8 500 000

EUL: 20

RUL: 10

RV: 500 000

Days: 365

Calculation: $(8\,500\,000 - 500\,000) / 10 * 365 / 365 = 800\,000$



PRACTICAL DEPRECIATION CALCULATIONS – EXAMPLE

#7 Depreciation Change in RUL

RUL:10 RUL:5 RUL 6

Carrying Value 2020: 8 500 000

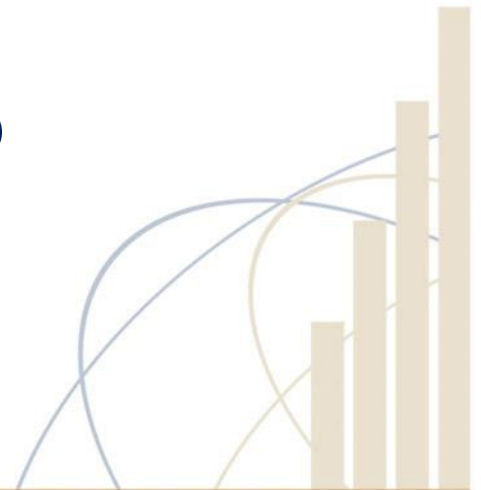
Calculation: $8\,500\,000/10 \times 365/365 = 850\,000$

Carrying Value 2021: $(8\,500\,000 - 850\,000)$ 7 650 000

Calculation: $7\,650\,000/5 \times 365/365 = 1\,530\,000$

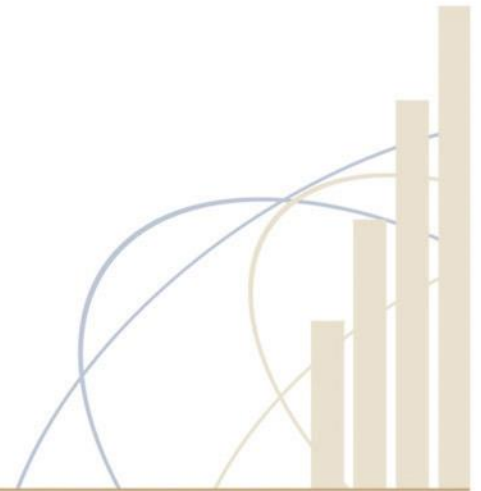
Carrying Value 2022: $(7\,650\,000 - 1\,530\,000)$ 6 120 000

Calculation: $6\,120\,000/6 \times 365/365 = 1\,020\,000$



PRACTICAL DEPRECIATION CALCULATIONS

Presenter: Sixolisile Yaphi CA(SA)
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Thank You!



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