Valuing Assets and Using Depreciation for Closing Inventories.

Objectives:

- The student will learn how are assets valued or appraised (inventoried).
- The student will use straight line method to depreciate assets

What is an inventory and why is one necessary?

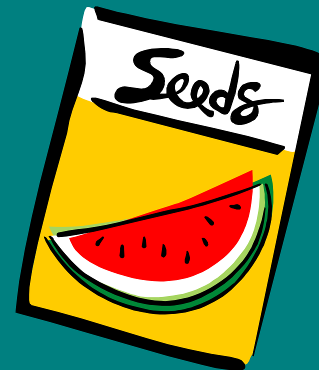
- An inventory is the listing and valuation of all business assets.
- Inventories are important in getting a financial picture of the business.
- Assets in the inventory are a major part of the net worth statement.

What is an inventory and why is one necessary?

- Inventories are separated into current and non-current categories, then divided into schedules or sections.
- The time frame of one year is used to separate current from non-current.

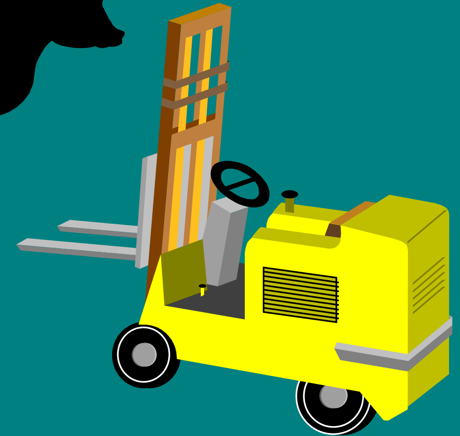
Name common CURRENT inventory schedules for non-depreciable assets

- harvested and growing crops
- feed, seed, and supplies
- items purchased for resale
- raised market livestock



Name common NON-CURRENT inventory schedules for non-depreciable assets

- raised breeding livestock
- purchased depreciable livestock



- machinery, equipment, and fixtures
- depreciable land improvements, buildings, and fences

- land

When should an inventory be completed?

- Inventories can be done at anytime, but beginning January 1 and closing December 31 are standard because it corresponds to the tax year.

- The date should be significant to the business operation and convenient to the owner.

When should an inventory be completed?

- Ending inventories for the current year are beginning inventories for next year.

- Inventory dates must be the same each year so accurate comparisons can be made.

Explain two methods of determining inventory value.

- Book value is the original cost of an asset minus depreciation or other adjustments. This value is used for tax purposes.

- Current market value is the cash value or fair market price of the asset.

Define depreciation and explain why it is used.

- Depreciation is the decrease in value of assets caused by usage, wear, and age.
- It is used to recover or write-off the cost of using up assets over their useful life.

What is useful life?

- number of years the asset is expected to be valuable to the business
- assets vary in useful life but are usually 3, 5, 7, 10, 15, or 20 years

What is salvage value?

- the value of an asset at the end of it’s useful life.

Straight-line depreciation is calculated by:

$$\frac{\text{Original Cost} - \text{Salvage Value}}{\text{Useful Life}} = \text{Depreciation per year}$$

Solve the following Straight-line depreciation example:

4-M Feeders bought a new four-wheeler to use at the south feedlot. The purchase price was $6,500 and they are planning on a 3 year useful life with a salvage of $500. Calculate the depreciation per year.

Solution:

$$\frac{\$6{,}500 - \$500}{3 \text{ years}} = \$2{,}000 \text{ depreciation per year}$$

Solve the following Straight-line depreciation example:

The local coop purchased a new pesticide sprayer for $190,000 and they plan on a useful life of 5 years with a remaining value of $75,000. How much total depreciation would be claimed after the first 3 years of use?

Solution:

$$\frac{\$190,000 - \$75,000}{5 \text{ years}} = \$23,000 \text{ depreciation per year}$$

$$\$23,000 \times 3 \text{ years} = \$69,000$$