

Other non-current assets and financial assets

Study Unit 12

Study Unit 12: Other non-current assets and financial assets

Intangible Assets

Lecture 1

What do we need to know about Intangible Assets?

- Recognition
- Measurement
 - Initial measurement
 - Subsequent measurement
 - Amortisation

Lecture 1

What are intangible assets?

- Definition
 - Intangible items
 - It is not a requirement for an asset to be tangible in order to be recognised
 - Identifiable, non-monetary and lack physical substance
 - Probable that future economic benefits associated with the item will flow to the entity; AND
 - The cost can be measured reliably

Lecture 1

Intangible Assets: Examples

- Brands
- Computer software
- Copyrights
- Franchises
- Licences
- Patents
- Trademarks

Lecture 1

Initial measurement

- Cost
 - These will differ depending on the nature of the asset.
 - Eg: Purchased vs developed

Lecture 1

Subsequent measurement

- Intangible assets may have a finite or infinite useful life
- For finite useful lives, the asset should be amortised over the best estimate of the useful life:
 - Debit: Amortisation
 - Credit: Accumulated Amortisation
- Carrying Amount: $\text{Cost} - \text{Accumulated Amortisation}$

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Disclosure

- Non-Current Asset
- $\text{Opening Balance} + \text{or} - \text{movements} = \text{Closing Balance}$

Lecture 1

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Other Financial Assets

Lecture 2

What do we need to know about Financial Assets?

- Recognition
- Measurement
 - Initial measurement
 - Cash investments
 - Investments in shares
 - Subsequent measurement
 - Fair value through profit or loss
- Disclosure

Lecture 2

Financial Assets

- Definition:
 - Any *contract* that gives rise to:
 - a financial asset of one entity *and*
 - a financial liability/equity instrument of another entity.
- cash
- contractual right to receive cash (e.g. debtors)
- equity instrument of another entity (i.e. shares)
- any derivative instrument (e.g. a forward exchange contract (FEC)) that is *favourable* to the entity

Lecture 2

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Other Financial Assets - Initial Measurement

Lecture 3

Initial recognition

- Measure at fair value on initial recognition
- Fair value should normally be the transaction price (fair value of the consideration given or received)
- Financial assets and liabilities at fair value through profit or loss (FVTPL):
 - Expense transaction costs immediately – incremental costs such as fees, commissions, transfer taxes that are directly attributable acquiring or issuing the financial asset or liability

Lecture 3

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Investment in Shares

Lecture 4

Investing in shares

- Buying shares in another company may be for:
 - Speculation (trading shares)
 - Dividends
 - Expansion
 - Diversifying
- Buying JSE listed shares
 - Financial Assets at Fair Value through Profit or Loss
 - Current Asset

Lecture 4

Return on investment

- Return on Financial Asset:
 - Dividends
 - Not the same as interest, since the return will only be realised if the company declares a dividend (ie: it's not a fixed return)

Lecture 4

Example: GJ

- Buy 10 000 ordinary shares in ABC for R30 000, pay R400 in brokers fees

- General Journal

General Journal – February 2013

GJ1

Date	Details	Fol	Debit	Credit
28 Feb	Investment in ABC		30 000	
	Investment expenses (Transaction costs)		400	
	Bank			30 400
	Purchase of 10 000 ordinary shares for R30 000 plus brokers fees of R300			

Lecture 4

Example: GJ

- The shares in ABC are trading at R3.50 per share at the end of the financial year

- General Journal

General Journal – February 2013

GJ1

Date	Details	Fol	Debit	Credit
28 Feb	Investment in ABC		5 000	
	Gain on financial assets at fair value through profit or loss			5 000
	Adjusting the value of the investment in ABC to the fair value			

Lecture 4

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Cash Investments

Lecture 5

Purpose

- Keep liquid assets available
- Create a good / secure return on investment (Interest)
- Savings Accounts
- Fixed Deposits
- Call accounts

Lecture 5

Example: GJ

- Invest R20 000 in a four year fixed deposit with X Bank at 10% interest per annum

- General Journal

General Journal – February 2013

GJ1

Date	Details	Fol	Debit	Credit
28 Feb	Fixed deposit: X Bank		20 000	
	Bank			20 000
	Invest R20 000 @ 10% in X Bank			

Lecture 5

Example: GJ

- Invest R20 000 in a four year fixed deposit with X Bank at 10% interest per annum – Interest for first year

- General Journal

General Journal – February 2014

GJ1

Date	Details	Fol	Debit	Credit
28 Feb	Bank		2 000	
	Interest Income			2 000
	Receipt of interest			

Lecture 5