

**PURCHASE OF A MOTOR
VEHICLE & THE VARIOUS
CIRCUMSTANCES THAT MAY
AFFECT IT**

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INTRODUCTION

The accounting for the purchase of a motor vehicle is a topic that requires the bookkeeper to have knowledge of not just the purchase but the events happening around it.

The purpose of this report is to demonstrate how to record a motor vehicle under varying, yet common, circumstances. In particular it will cover,

- The purchase of a vehicle below the Car Limit
- The purchase of a vehicle above the Car limit including when financed with a Chattel mortgage
- The purchase of a vehicle including a trade-in and financed with a Chattel mortgage

Included in this paper will be theory points including effects on income and goods and services tax affect as well as worked examples.

THE CAR LIMIT'S AFFECT

Overview

The Car Limit restricts the amount of the motor vehicle that can be depreciated as well as limiting the input tax credit claimable. The Car Limit is assessed annually by the ATO but has been \$57,466 since 1 July 2010.

With respect to income tax, only \$57,466 of the vehicle can be depreciated.¹

With respect to goods and services tax, if the entity is registered, only one eleventh of \$57,466 (\$5,224) can be claimed². This is labelled on activity statements as G10 - \$57,466, 1B - \$5,224 (adjust for any private use)

Example – Under Car Limit

Dre is a doctor who performs locum work in rural towns and is registered for GST. On 23 June 2012 he pays a \$1,000 deposit on a Holden Barina which is used only for work purposes. Settlement for the vehicle takes place the following week on 1 July 2012.

New vehicle details:

Vehicle Cost	22,727.27*
GST	2,272.73
Transfer Fee	15.00*
Stamp Duty	850.00*
Total Inc GST	25,865.00

Workings:

Initial Cost Base: $22,727.27 + 15.00 + 850.00$
 $= 23,592.27 \rightarrow (22,727.27 + 865.00)$

The journals to record this purchase are,

23 June 2012	DR Deposits paid (N-T)		1,000.00	
		CR Cash at bank (N-T)		1,000.00
<i>(Record deposit paid on motor vehicle)</i>				
1 July 2012	DR Motor vehicle (CAP)		25,000.00	
	DR Motor vehicle (N-T)		865.00	
		CR Deposits paid (N-T)		1,000.00
		CR Cash at bank (N-T)		24,865.00
<i>(Record purchase of motor vehicle)</i>				

Example – Exceeded Car Limit

Psy is a Korean barbeque restaurant owner and is registered for GST. On 23 June 2012 he pays a \$9,865 deposit on a Ford Mustang which is used only for work purposes. Settlement for the vehicle takes place the following week on 1 July 2012.

New vehicle details:

Vehicle Cost	59,060.91*
GST	5,909.09
Transfer Fee	15.00*
Stamp Duty	1,950.00*
Total Inc GST	66,965.00

Workings:

Initial Cost Base: 59,090.91 + 15.00 + 1950.00
 = 61,055.91
 Excess GST: 5,909.09 – 5,224.00
 = 685.09
 Adjusted Cost Base: 61,025.91 + 686.09
 = 61,741.00 → (52,242.00 + 9,499.00)

The journals to record this purchase are the same as the example above but the workings for the vehicle's cost base are changed,

23 June 2012	DR Deposits paid (N-T)		9,865.00	
		CR Cash at bank (N-T)		9,865.00
<i>(Record deposit paid on motor vehicle)</i>				
1 July 2012	DR Motor vehicle (N-T)		9,499.00	
	DR Motor vehicle (CAP)		57,466.00	
		CR Deposits paid (N-T)		9,865.00
		CR Cash at bank (N-T)		57,100.00
<i>(Record purchase of motor vehicle)</i>				

In this scenario the purchase was made in cash. More commonly the vehicle would be financed through a finance instrument like a Chattel mortgage. In which case the journal would look like,

1 July 2012	DR Motor vehicle (N-T)		9,499.00	
	DR Motor vehicle (CAP)		57,466.00	
	DR Unexpired interest (N-T)		10,445.56	
		CR Chattel mortgage liability (N-T)		67,547.56
		CR Deposits paid (N-T)		9,865.00

The Chattel mortgage liability is the sum of all the payments required to be made under the contract while the unexpired interest is the total amount of interest to be incurred over the life of the agreement.

For greater understanding of Chattel mortgages as well as other financing arrangements, review 'Finance Leases, Hire-Purchase and Chattel Mortgage Contracts' (D'Agostino, T. (Aug, 2012))

THE EFFECT OF TRADING-IN A VEHICLE

Overview

When disposing of a vehicle by trade-in there are 2 distinct parts,

- the disposal which includes recognition of a gain/loss as well as closing off any financing arrangements that may be in place
- the purchase of the incoming vehicle, which may include recognition of a new financing agreement

When broken down into these steps the process is made easier.

To illustrate we follow on from the second example above.

Example – Without Financing

A few years pass, the Chattel mortgage is paid out and Psy has become unhappy with the colour choice of his vehicle. On 1 July 2015 Psy purchases the same vehicle but in a brighter shade of pink to impress his friends. The trade-in value given for the old Mustang was \$20,000 (GST inclusive). No deposit was paid but due to his recent success he pays the difference in cash on settlement.

Snapshot of key financials:

Assets	\$
Motor vehicle at cost	61,741.00
Less accumulated depreciation	(35,092.85)
Written Down Value	26,648.15
Trade in price (ex GST)	(18,181.82)
Loss on sale of vehicle	8,466.33

New vehicle details:

Vehicle Cost	59,060.91*
Metallic paint	909.09*
GST	6,000.00
Transfer Fee	15.00*
Stamp Duty	1,950.00*
Total Inc GST	67,960.00

Workings:

Initial Cost Base: $59,090.91 + 909.09 + 15.00 + 1950.00$

= 61,965.00

Excess GST: $6,000.00 - 5,224.00$

= 776.00

Adjusted Cost Base: $61,965.00 + 776.00$

= 62,741.00 → $(52,242.00 + 10,499.00)$

The journals to record this disposal and purchase are,

1 July 2015	DR Trade-in suspense (N-T)		20,000.00	
		CR Loss on vehicle sale (GST)		20,000.00
<i>(Record sale of traded-in vehicle for GST purposes)</i>				
1 July 2015	DR Loss on vehicle sale (N-T)		26,648.15	
	DR Accumulated depreciation (N-T)		35,092.85	
		CR Motor Vehicle (N-T)		61,741.00
<i>(Record sale of traded-in vehicle for Income Tax purposes)</i>				
1 July 2015	DR Motor vehicle (N-T)		10,499.00	
	DR Motor vehicle (CAP)		57,466.00	
		CR Trade-in suspense (N-T)		20,000.00
		CR Cash at bank (N-T)		47,965.00
<i>(Record purchase of new vehicle)</i>				

Example – With Chattel Mortgage

A few years pass, the Chattel mortgage is paid out and Psy has become unhappy with the colour choice of his vehicle. On 1 July 2015 Psy purchases the same vehicle but in a brighter shade of pink to impress his friends. The trade-in value given for the old Mustang was \$20,000 (GST inclusive). No deposit was paid and a new Chattel mortgage commences.

Snapshot of key financials:

Assets	\$
Motor vehicle at cost	61,741.00
Less accumulated depreciation	(35,092.85)
Written Down Value	26,648.15
Trade in price (ex GST)	(18,181.82)
Loss on sale of vehicle	8,466.33

New vehicle details:

Vehicle Cost	59,060.91*
Metallic paint	909.09
GST	6,000.00
Transfer Fee	15.00*
Stamp Duty	1,950.00*
Total Inc GST	67,960.00

Workings:

Initial Cost Base: $59,090.91 + 909.09 + 15.00 + 1950.00$
 $= 61,965.00$
 Excess GST: $6,000.00 - 5,224.00$
 $= 776.00$
 Adjusted Cost Base: $61,965.00 + 776.00$
 $= 62,741.00 \rightarrow (52,242.00 + 10,499.00)$

The journals to record this disposal and purchase are the same as above but include the paying out of the Chattel mortgage still in place,

1 July 2015	DR Trade-in suspense (N-T)		20,000.00	
		CR Loss on vehicle sale (GST)		20,000.00
<i>(Record sale of traded-in vehicle for GST purposes)</i>				
1 July 2015	DR Loss on vehicle sale (N-T)		26,648.15	
	DR Accumulated depreciation (N-T)		35,092.85	
		CR Motor Vehicle (N-T)		61,741.00
<i>(Record sale of traded-in vehicle for Income Tax purposes)</i>				
1 July 2015	DR Motor vehicle (N-T)		10,499.00	
	DR Motor vehicle (CAP)		57,466.00	
	DR Unexpired interest (N-T)		8,996.45	
		CR Chattel mortgage liability (N-T)		56,961.45
		CR Trade-in suspense (N-T)		20,000.00
<i>(Record purchase of new vehicle and chattel mortgage liability)</i>				

The difference in this scenario is that instead of the trade-in money reducing the amount Psy has to pay in cash, the money reduces the amount of the Chattel mortgage that Psy has to obtain to fund the new vehicle.

SUMMARY

The purpose of this report was to examine events that affect the accounting for a new motor vehicle. It is important to be alert to possible events that may occur, ie Chattel mortgages and Trade-ins as well as changes to the various tax laws ie Car Limit.

Below are two links to the ATO's website that may be a useful resource to assistance in accounting of new motor vehicles.

ATO's published Car Limit

1 - <https://www.ato.gov.au/business/small-business-entity-concessions/in-detail/income-tax/simplified-depreciation-rules/?page=10>

How to account for GST on motor vehicles, including activity statement labelling

2 - <https://www.ato.gov.au/Business/Consultation--Business/In-detail/Motor-vehicles/Publications/GST-and-motor-vehicles/>