

# Plant Assets

## Topics to be Discussed

Plant, property and equipment  
Accounting for acquisition  
Accounting for costs subsequent to acquisition  
Accounting for depreciation  
Accounting for disposal

## Description

Tangible, long-term assets acquired for use in the operation of the accounting entity

## Acquisition costs

Includes all costs of acquiring assets and preparing them for their intended use  
Cash price today

### Land

cost includes

purchase price

costs incurred in “closing”

- title
- attorney’s fees
- recording fees

costs incurred in getting land in condition for intended use

- grading, filling, draining, clearing

additional land improvements having indefinite life

### Building

cost includes

all costs incurred starting with excavation to completion of building

fees, such as attorney’s and architect’s

building permits

### Equipment

cost includes

insurance on equipment while in transit

cost of special foundations

assembling and installation costs

costs of conducting trial runs

## Account captions

## LAND CAPTIONS

Dominant title:	Land
Other titles:	Land and improvements Land and buildings Land combined with other identified assets

## DEPRECIABLE ASSET CAPTIONS

Buildings

Dominant title:	Buildings and improvements
Other titles:	Buildings Buildings and land or equipment Buildings combined with other identified assets

Other Depreciable Asset Captions

Dominant title:	Machinery and/or equipment
Other titles:	Construction in progress Machinery and/or equipment combined with other assets Leasehold improvements Furniture, fixtures, etc. Automobiles, marine equipment, etc. Computer equipment Software Leased assets

## Costs subsequent to acquisition

Capital vs. revenue expenditure

capital expenditure - an outlay that will provide a benefit beyond the current period; recorded as an asset

revenue expenditure - expenditures that benefit only the current period; charged to expense account

distinction is not always clear-cut

Cost allocation procedures

costs incurred to achieve greater future benefits are capitalized

useful life of the asset must be increased

quantity of units produced from the asset must be increased

quality of the units produced must be enhanced

expenditures that simply maintain a given level of services are expensed

most expenditures below an established arbitrary minimum amount are expensed rather than capitalized

## Depreciation

Depreciation accounting is the process of allocating the cost of fixed assets to the accounting periods in which benefits are received

Depreciation is not a matter of valuation but a means of cost allocation

Factors affecting service life of plant asset

- wear and tear due to use
- wear and tear due to the elements
- inadequacy - asset ceases to be useful because demands of firm have increased
- supersession - replacement of one asset with another more efficient and economical asset
- obsolescence

Depreciation methods

Components of calculation

C = Cost

S = Salvage value

L = Useful service life

R = Depreciation rate

Demonstration Problem

Basic Data

Type of Asset:      Equipment  
 Cost (C):            \$500,000  
 Salvage Value (S): \$50,000  
 Useful Life (L):    5 years

**Straight Line Method**

$$\frac{C - S}{L}$$

Year	C-S	Rate	Annual Depr.	Accum. Depr.	Book Value
1					
2					
3					
4					
5					

**Declining Balance Method**

Year	Rate	Annual Depr.	Accum. Depr.	Book Value
0				
1				
2				
3				
4				
5				

**Units of Production Method**

$(C - S) \times (\text{Units Produced in Period} / \text{Expected Total Production})$

Estimated production during the life of asset: 360,000 units

Actual production:      Year 1            120,000 units  
    Year 2            \_\_\_\_\_ units  
    Year 3            \_\_\_\_\_ units  
    Year 4            \_\_\_\_\_ units  
    Year 5            \_\_\_\_\_ units

Year	C-S	Rate	Annual Depr.	Accum. Depr.	Book Value
1					
2					
3					
4					
5					

## Depreciation Captions

## DEPRECIATION METHODS

Dominant method:	Straight line
Other methods:	Accelerated method – not specified Units of production Declining balance Group/composite Sum-of-the-years' digits

## ACCUMULATED DEPRECIATION

Dominant title:	Accumulated depreciation
Other titles:	Accumulated depreciation and amortization Allowance for depreciation Accumulated depreciation, amortization and depletion Accumulated depreciation and depletion Allowance for depreciation and amortization