

ASSIGNMENT

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Class & I

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CHAPTER 10 - Plant Assets, Natural Resources and Intangibles

Intro

- Plant assets make up a large part of assets on balance sheet, yet because they depreciate they also have one of largest expenses on income statement.
- Capital expenditure impact short and long term success of a company.

Section 1 - Plant Assets

- * Plant assets have useful life of more than one accounting period - PPE
- * Make up large percent of companies assets and have large dollar values.
- * Plant assets are used in operations, and have useful life extending over more than one accounting period.

Cost determination:

- * Cost principle - recorded at cost when acquired. • Cost includes all expenditures to get asset in place and ready for its use.
- * Land: • Cost includes total amount paid for land - real estate commissions, title insurance fees, legal fees, property taxes, payments for surveying etc
- If structures need to be removed, the cost of removal is added to cost of total land.
- * Land improvement: Land has indefinite life and is not used up over time.

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- variables to predict the useful life.
- Wear and tear from operations
- Inadequacy — insufficient capacity to meet growing demand.
- Obsolescence — condition of plants assets that are no longer useful because of inventions and new technology.

* Depreciation Methods:-

- Used to allocate plant asset's cost over accounting periods in its useful life.
- Straight-line method — charges same amount of expenses to each period of useful life.
(Cost - salvage value) / useful life in period = amount ft year

• Dr Dep Exp and Cr Acc Dep

• Book value = (total asset cost) - Acc Dep

• Depreciation schedule.

- Unit of Production Method — charges varying amount to expense depending on usage.

• Depreciation cost per unit = $(\text{cost} - \text{salvage value}) / (\text{total units of production})$

• Depreciation expense = (Depreciation cost per unit) \times (units produced in period)

• $\text{Rs. } 25 \text{ per unit} \times 250 = 625 \text{ dep exp.}$

• Depreciation methods

• Expense depends on unit output.

• Acc dep is sum of current and prior periods dep exp.

• Br declines each period unit it equals salvage at end of period.

* Declining Balance method — uses dep rate related to assets Br at beginning of period. • Accelerated depreciation method. • Double declining balance (DDB) method.

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→ Land improvements have useful lives and are used up (driveways, fences, shrubs, parking lot surfaces)

→ Separate account so that their costs are allocated to periods they benefit

* Buildings:- Cost of purchasing or constructing building used in operations. Costs includes purchase price, brokerage fees, taxes, title fees, expenditures to get it ready for intended use.

⇒ But costs of insurance to cover after in use is an operating expense.

* Machinery and equipment:- Cost of purchase and to prepare for use.

* Lump-Sum Purchase:- Allocate the cost among the different types of assets based on relative market values.

Depreciations

* Depreciation - process of allocation cost of PPE to expense in period benefiting from its use.

→ Doesn't decline market value the assets physical deterioration.

* Factors in Computing Depreciation:-

→ Cost - all necessary and reasonable expenditures to acquire it and prepare for use.

→ Salvage value - estimate of assets value at the end of its benefit period.

→ Useful life - length of time it is productively used in operations.

Additional Expenditures:-

Additional expenditure of assets operation, maintenance, repair, and improvements.

⇒ Reported as current period expenses or add to asset's cost and dep over useful life (capitalize)

⇒ Revenue expenditures — income stmt — additional costs that don't increase asset life or productive capabilities — expenses.

▫ Ex. cleaning, painting, adjustments

⇒ Capital expenditures — costs that provide benefit beyond current period.

* Ordinary repairs — to keep asset in normal, good operating condition

⇒ Dr exp and Cr cash.

* Betterment and extra ordinary repairs

Betterment — made asset more efficient for future periods.

Extra ordinary repairs — modifications that extend useful life.

Disposal of plants

Steps of disposal: Record dep up to disposal date.

Record removal of disposed assets account balance.

Record any cash received or paid.

Record any gain/loss.

⇒ Discarding plant assets — no longer useful and

no market value.

⇒ Selling plant assets — when restructure

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* Comparing Depreciation Methods:-

The total dep exp is same over useful life for all methods - the diff is how much is expensed in each period.

* Depreciation for tax reporting:-

Companies keep diff records for financial and tax accounting purposes.

→ Financial info on financial performance and position.

→ Tax - government objectives is raising revenue.

○ Use accelerated depreciation - higher exp in early years reduces taxable income.

→ Modified Accelerated Cost Recovery System (MACRS)

- separates depreciable assets into diff classes and determines dep life and rate for each class.

○ Not for financial accounting - allocates costs over arbitrary period less than useful life and fails to estimate salvage value.

* Partial Year Depreciation:-

Record the exp of months year is owned -
(straight-line dep exp) \times (# months / 12)

* Change in estimates for Depreciation:-

Revise dep exp by spreading cost yet to be depreciated over remaining useful life.

Change in accounting estimate

* Reporting Depreciation.

→ Both cost and Acc dep are reported on balance sheet.

→ Plant assets reported at BV and not fair market value.

→ Asset impairment - a permanent decline in FMV of asset.

Section 2 — Natural Resources

- * Natural resources — assets physically consumed when use (timber, minerals, oils)
- ⇒ Wasting assets — soon to be inventories of raw material that will be converted into products.
- ⇒ Non current assets that are shown on balance sheet.
- * Cost determination and Depletion
 - ⇒ Recorded at cost, which includes expenditures to acquire resource.
 - ⇒ Depletion — process of all allocating cost to period.
 - ⇒ Reported on balance sheet at (cost - Acc Dep)
 - ⇒ Determining Dep exp.

$$\text{Depreciation per unit} = \frac{\text{cost} - \text{salvage value}}{\text{total units of capacity}}$$
 - ⇒ Depreciation expense
 - ⇒ Journal entry (not all sold)

- * Plants Assets used in Extracting
 - ⇒ If plant asset used in normal resources, record dep with relation to resources.
 - ⇒ If machine used for multiple uses, then depreciated over its own useful life

SECTION 3 — Intangible Assets

- * Intangible — nonphysical assets that given owners long-term rights, privileges, or comparative.

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- * Trademarks and trade names — symbol, name, phrase or jingle indelible with a company, product or service.
 - Cost of developing value of trademark.
 - If trademark is purchased, then cost is debit to asset account and amortized.
- * Goodwill — amount company value exceeds value of individual assets and liabilities.
- * Leaseholds — rights to lessors grant lessee under of terms lease.
 - Monthly payment debited to rent exp.
 - Long term leases require payment in advance so separate account.
- * Leasehold Improvements
 - Lessee debits leasehold improvement account.
- * Other Intangibles:
 - Ex software, customer lists.
 - Record intangible costs. Then determine limited.
 - If limited, allocate costs over period.
 - If indefinite, costs are not amortized.

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advantages:

⇒ Cost Determination and Amortization.

→ Intangible asset recorded at cost when purchased.

→ limited life — cost allocated to expense over useful life — amortization.

→ Indefinite life — no legal, contractual, economic, or other factors limits its useful life — do not amortize.

→ Cost of intangible amortized over period expected to benefit by use, but period cannot be longer than assets legal existence.

⇒ Types of Intangibles.

→ Patents — exclusive right granted to owner to manufacture and sell for 20 years.

• Cost to acquire and to defend are debited to account called patents.

• Cost of research and development is expensed when incurred.

→ Copyright — gives owner exclusive right to publish and sell artistic work during life of creator plus 70 years.

→ Cost is fee to government which is expense.

* Franchise and Licenses — rights to entity to deliver a product.

→ Capitalized.