


Accounting II - Simplified for You



Acquisition of Fixed Assets
Property, Plant & Equipment

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Fixed Assets

Equipment, machinery, buildings, and land that the business purchases and owns for use in its normal operations. Also known as plant assets or property, plant, and equipment.



Characteristics of Fixed Assets

- Physical existence (tangible)
- Owned and used by the company for its normal business operations
- Life of the Asset is more than a year
- It is not for sale as part of doing business

Cost of Acquiring Fixed Assets

Cost of the plant, property & equipment plus other costs incurred to purchase and successfully get it ready for use.

Examples:

Sales Taxes	Freight & Delivery
Installation Costs	Permits

Depreciation

Depreciation Expense - portion of the fixed asset that is used during the period.

Accumulated Depreciation – a contra asset account of the Fixed asset that represents the cumulative depreciation of an asset at a given point in time

Factors used in calculating Depreciation

- Cost – cost of the asset being depreciated
 - Residual Value (Salvage Value) – value assigned to asset after its estimated useful life
- $\text{Cost} - \text{Residual Value} = \text{Depreciable Cost}$
- Useful life of the asset expressed in years or by the number of units produced.

Methods of Depreciation

- Straight-Line Method
- Units-of-Production
- Double-Declining-Balance
- Sum-of-the-Years Digits

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