**9TH WEEK ASSIGNMENT**

Which of the following expenses can be capitalized, and in what circumstances? Give examples

a. R&D Expenditure

b. Interest Expenditure

c. Marketing Expenditure

d. Salary Expenditure

a. **R&D Expenditure:**

* R&D expenditure can be capitalized if the incurred costs meet specific criteria outlined in accounting standards, typically when they fulfill the definition of an intangible asset and meet certain recognition criteria. For example, costs associated with developing a new product or process that is expected to generate future economic benefits and has a determinable useful life could be capitalized.
* Example: A pharmaceutical company spends money on researching and developing a new drug. If it meets the criteria for capitalization, the costs incurred during the development phase, such as labor, materials, and overhead, could be capitalized as an intangible asset.

b. **Interest Expenditure:**

* Interest expenditure can be capitalized if it is incurred during the construction or acquisition of qualifying assets, as per accounting standards. The capitalized interest becomes part of the cost of the asset and is then depreciated or amortized over its useful life.
* Example: A company borrows funds to construct a new manufacturing facility. The interest incurred on the construction loan during the construction period can be capitalized as part of the cost of the facility.

c. **Marketing Expenditure:**

* Generally, marketing expenditure is expensed as incurred because it is typically considered a current-period expense necessary to generate immediate sales. However, in certain circumstances where marketing expenditures result in identifiable future benefits, they could potentially be capitalized.
* Example: A company incurs costs to develop and launch a new brand identity or trademark. If the new brand identity is expected to generate increased sales or brand recognition over several years, the associated costs could potentially be capitalized as an intangible asset.

d. **Salary Expenditure:**

* Salary expenditure for employees involved in activities directly related to the development of qualifying assets, such as property, plant, and equipment, or intangible assets, may be capitalized under certain circumstances.
* Example: If employees are directly engaged in the construction of a new manufacturing plant or in the development of software that meets the criteria for capitalization, their salaries and wages attributable to those activities could be capitalized as part of the asset's cost.

**9TH WEEK ACTIVITY**

Use the efficiency ratio to analyze the company

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| PARTICULAR | 2019 | 2020 | 2021 | 2022 | 2023 |
| receIvable turnover ratio | 3.98 | 3.02 | 2.82 | 0.49 | 3.16 |
| Asset turnover ratio | 2.25 | 2.16 | 1.87 | 0.30 | 1.66 |
| inventory turnover ratio | 6.63 | 13.89 | 8.58 | 1.04 | 4.09 |
| payable turnover ratio | 18.10 | 23.29 | 20.56 | 2.56 | 17.42 |

**ANALYSIS**

**Receivable Turnover Ratio:**

**This ratio measures how efficiently a company collects payments from its customers. A higher ratio indicates faster collection of receivables, which is generally favorable.**

**Analysis: The receivable turnover ratio has fluctuated over the years, indicating variations in the company's ability to collect payments promptly. It decreased significantly in 2022 but recovered in 2023. Overall, further investigation into the reasons behind these fluctuations is warranted.**

**Asset Turnover Ratio:**

**The asset turnover ratio measures how efficiently a company utilizes its assets to generate sales revenue. A higher ratio indicates better asset utilization.**

**Analysis: The asset turnover ratio has gradually declined over the years, indicating a decrease in the company's ability to generate sales relative to its assets. This may suggest inefficiencies in asset utilization or changes in the company's business model that require further examination.**

**Inventory Turnover Ratio:**

**This ratio assesses how efficiently a company manages its inventory by measuring how many times inventory is sold and replaced over a specific period. A higher ratio suggests efficient inventory management.**

**Analysis: The inventory turnover ratio has shown significant fluctuations over the years, with a notable decrease in 2022 followed by an increase in 2023. This suggests possible challenges in inventory management, such as overstocking or understocking, which may impact the company's profitability and liquidity.**

**Payable Turnover Ratio:**

**The payable turnover ratio evaluates how efficiently a company pays its suppliers and creditors. A higher ratio indicates faster payment to suppliers, which can positively impact supplier relationships.**

**Analysis: The payable turnover ratio has shown fluctuations over the years, with a significant decrease in 2022 followed by a slight increase in 2023. This may suggest changes in the company's payment policies or supplier relationships, requiring further investigation.**

**In summary, the efficiency ratios highlight areas where the company may need to improve its operational effectiveness, such as collecting receivables more efficiently, optimizing asset utilization, managing inventory more effectively, and maintaining favorable relationships with suppliers. Further analysis and comparison with industry benchmarks would provide additional insights into the company's performance and areas for improvement.**