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SE-3A

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FINAL ASSIGNMENT

- Determine the cost of plant assets.

The cost of plant assets includes all the expenditures that are necessary and reasonable for acquiring the asset and placing it in a position for use in the desired location. Many incidental costs i.e: sales tax on purchase price, delivery costs and installation costs may be included in cost assigned to a plant asset.
Repair cost or maintenance cost are not included in this as they are considered as expense for current period.

Example:- Computation Cost of Machinery

	~~10,000~~
List price	10,000
Sales taxes	1,000
Transportation charges	1350
Cost of installation and set up	~~12,~~4500
Total:	12,450

- Whereas, sales taxes, transportation charges, cost of installation are incidental cost which are included in machinery cost.
- There's also interest charges where we are paying in installments purchases is considered as interest expense over 48 months (time to pay cost of machinery purchased.)

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- Ditinguish between Capital Expenditures and Revenue Expenditures

CAPITAL EXPENDITURE:

Any material expenditure that will benefit several accounting period is considered as a capital expenditure. These are recorded in asset account. They are considered as investments that increase the value of a company or extends their useful life.

Example:-

A company purchases new manufacturing machine for $50,000. This machine is expected to be used for next 10 years. Since it will generate benefits for company over a long period.

Then, this amount is considered as:

Capital Expenditure	50,000

REVENUE EXPENDITURE:-

Expenditures for ordinary repairs, maintanance, fuel and any other items necessary to the ownership and use of plant are called revenue expenditure. These are recorded in expense account. These are not extended beyond accounting period. They are used to run business smoothly.

Example:-

A company spend 2000 repairing one of its machine for currently.

repairing expense	2000	
cash / Bank		2000

It is expense considered as revenue expenditure because it is only short-term to maintain machine's functionality and

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doesnot significantly enhances its values or extends its useful life.

Computing depreciation by straight line method:
This method assigns an equal portion of an asset's cost to expense in each period of asset's life.

Data:

Cost	\$ 17,000
Estimated residual value	\$ 2,000
Estimated useful life	5 Years

$$\frac{\text{Cost - Residual Value}}{\text{Years of Useful life}} = \frac{17000-2000}{5} = \$3000 \text{ per year}$$

Depreciation: Straight-Line Method

Year	Computation	Depreciation Expense	Accumulated depreciation	Book Value
				\$17,000
First	15000 × 1/5	3000	3000	14,000
Second	15000 × 1/5	3000	6000	11,000
Third	15000 × 1/5	3000	9000	8,000
Fourth	15000 × 1/5	3000	12000	5,000
Fifth	15000 × 1/5	3000	15000	2,000
Total		15000		

By Applying declining balance method:

Depreciation expense = Remaining book value × depreciation rate

Depreciation expense = 17000 × 20% =

Depreciation Schedule: Declining Balance method

Year	Computation	Depreciation exp	Accumulated dep	Book value
				17000
First	17000 × 20%	3400	3400	13600
Second	13600 × 20%	2720	6120	10880
Third	10880 × 20%	2176	8296	8704
Fourth	8704 × 20%	1724	10020	6980
Fifth	~~6980×20%~~ 6980-2000	4980	15000	2000

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Using Double declining method:

Depreciation schedule: 200% decling balance Method

Year	Computation	Depreciation Expense	Accumulated depreciation	Book Value
				17000
First	17000 × 40%	6800	6800	10200
Second	10200 × 40%	4080	10880	6120
Third	6120 × 40%	2448	13328	3672
Fourth	3672 × 40%	1469	14797	2203
Fifth	2203 − 2000	203	15000	2000

Using units of output method:-

$$\text{Cost per Unit of Output (Mile)} = \frac{\text{Cost} - \text{Residual Value}}{\text{estimated Units of Output}}$$

$$= \frac{17000 - 2000}{100,000} = 0.15 \text{ depreciation per mile}$$

Depreciation schedule: Units Output Method

Year	Computation (units × per unit)	Depreciation expense	Accumulated depreciation	Book value
~~Firs~~				17000
First	(20000 × 0.15)	3000	3000	14000
Second	(20000 × 0.15)	3000	6000	11000
Third	(20000 × 0.15)	3000	9000	8000
Fourth	(20000 × 0.15)	3000	12000	8000
Fifth	(20000 × 0.15)	3000	18000	2000

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Account for the disposal of plant assets:
When depreciation assets are disposed of at any date other than end of the year, an entry would be made to record depreciation for the fraction of year ending with date of disposal.

GAIN & LOSS ON DISPOSAL OF PLANT ASSET:

- Disposal at a price above book value:

Assume that machine costing 10,000 had accumulated depreciation of 8000 and a book value of 2000 at the time it was sold for 3000 Cash.

Journal entry:

Cash	3000	
Accumulated depreciation: (Machinery)	8000	
Machinery		10000
Gain on disposal of Plant Assets		1000

In this situation gain is calculated as:

Cost	10,800
Accumulated depreciation at time of disposal	(8000)
Book value at time of disposal	2000
Cash recieved	3000
Gain on disposal	1000

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Disposal at a price below book value:
Assume instead same machinery is sold for 500.
Journal entry:

Cash	500	
Accumulated depreciation: Machinery	8000	
Loss on disposal of Plant Assets	1500	
Machinery		10000

In this situation loss is calculated as:

Cost	10000
Accumulated depreciation at time of disposal	(8000)
Book value at time of disposal	2000
Cash recieved	500
Loss on disposal	1500

Nature of Intangible asset Including goodwill
Assets which have no physical substance, are non current and are used in business Operations- Examples include trademarks and patents.
Goodwill is the present value of future earnings. It stems from such factors good reputation loyal customers and superior management.

Account of depletion of natural resources:
Natural resources including mines, oil fields and minerals. The cost is converted into inventory as the resources are mined, pumped or cut. This allocation

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allocation of cost of a natural resource to inventories is called depletion.

Cash effects of transaction involving plant assets:

~~Depreciation is a non cash expense. Cash independent~~

Transaction involving plant assets can result in various cash flows or outflows due to purchases, sales, repairs maintainance, capital expenditure etc. However non cash items like depreciation do not directly affect cash account.