



CH. 10 CHEAT CARD — WHAT A PLANT ASSET REALLY COST

1 THE TWO DOORS — what the cost IS

IN THE ASSET

NECESSARY + REASONABLE

everything to GET IT HERE

and GET IT READY to do its job

capitalised · spread over its life

OUT — EXPENSED THIS YEAR

insurance — operating, not acquiring

fines and tickets — avoidable

training — it trains the person

repairs that only RESTORE

THE ACQUISITION ENTRY

Delivery Equipment 40,000

Prepaid Insurance 1,450

Cash 41,450

every debit before any credit

2 THE FOUR FAMILIES — and the one that never dies

LAND

price + title + commission

+ demolition, LESS salvage sold

NEVER DEPRECIATED

LAND IMPROVEMENTS

paving · lighting · fencing

limited life

DEPRECIATED

BUILDINGS

bought: price + making it usable

built: contract + architect + permits

DEPRECIATED

EQUIPMENT

price + tax + delivery

+ install + test + lettering

DEPRECIATED

3 AFTER DAY ONE — capitalize it, or expense it?

ONE TEST, EVERY TIME

does it EXTEND the life or INCREASE what it can do?

YES → CAPITALIZE the cost

NO → EXPENSE it now

CAPITALIZE IT — joins the asset

Delivery Equipment 6,000

Cash 6,000

a new engine · more years of life

EXPENSE IT — hits this year

Repairs and Maint. Expense 1,900

Cash 1,900

oil, filters, tires · keeps it working

THE EXAM TRAPS: demolition IN, salvage OUT · insurance, tickets, training OUT · size never decides it · a “revenue expenditure” is an EXPENSE





CH. 10 CHEAT CARD — FOUR ROADS, ONE DESTINATION

1 THE FOUR ROADS — four legal answers, same three ingredients

STRAIGHT-LINE

① dep. cost = cost – residual

$$40,000 - 8,000 = 32,000$$

② annual = dep. cost ÷ life

$$32,000 \div 4 = 8,000/\text{yr}$$

or by rate: $100\% \div 4 = 25\%$

$$25\% \times 32,000 = 8,000$$

UNITS OF ACTIVITY

① dep. cost = cost – residual

$$40,000 - 8,000 = 32,000$$

② rate = dep. cost ÷ exp. units

$$32,000 \div 200,000 = 0.16/\text{mile}$$

③ year = rate × units used

$$0.16 \times 60,000 = 9,600$$

DECLINING BALANCE

① SL rate = $100\% \div \text{life}$

$$100\% \div 4 = 25\%$$

② double it — hence the name

$$25\% \times 2 = 50\%$$

③ rate × BOOK VALUE

$$40,000 \times 50\% = 20,000$$

SUM OF THE YEARS

① denominator = add the years

$$4 + 3 + 2 + 1 = 10$$

② fraction = years left ÷ denom.

$$\text{yr 1} \rightarrow 4/10, \text{ then } 3/10, 2/10, 1/10$$

③ fraction × dep. cost

$$4/10 \times 32,000 = 12,800$$

2 EVERY YEAR — the entry, and when the plan changes

THE DEPRECIATION ENTRY

Depreciation Expense 8,000

Accumulated Depreciation 8,000

never credit the asset itself · contra account

PARTIAL YEAR

full year × months owned / 12

April 1 start: $8,000 \times 9/12$

$$= 6,000$$

rented by the month, never granted

REVISING THE ESTIMATE

book value now – new salvage

÷ years REMAINING

$$(30,000 - 4,000) \div 5 = 5,200$$

forward only — never restate the past

3 AFTER DAY ONE — does the spending buy MORE, or just RESTORE?

MORE LIFE / MORE CAPABILITY → CAPITALIZE

Delivery Equipment 6,000

Cash 6,000

ONLY RESTORES → EXPENSE IT NOW

Repairs and Maintenance Expense 1,900

Cash 1,900

THE EXAM TRAPS: declining balance IGNORES salvage — until the FLOOR stops it · a revision NEVER restates the past · book value is a leftover, not a price





CH. 10 CHEAT CARD — WHEN THE ASSET DIES

1 BEFORE ANYTHING — the two steps, and the one that comes early

EVERY DISPOSAL, EVERY TIME

1 · DEPRECIATE TO THE DATE of disposal

2 · compare PROCEEDS with BOOK VALUE

more = gain · less = loss · equal = neither

IMPAIRMENT — while it is still alive

TRIGGER: book value > undiscounted future cash flows

MEASURE: write down to FAIR VALUE (a different number)

Dr Loss on Impairment · Cr Accumulated Depreciation · never reversed

2 THE SKELETON — every disposal entry is this, plus a plug

Cash CASH IN · ACCUM. DEP. OUT · ASSET OUT what you got

Accumulated Depreciation all of it

Equipment full cost

accumulated depreciation is credit-balance — DEBIT it to clear it

credits short → Cr GAIN on Disposal THEN THE PLUG NAMES ITSELF

debits short → Dr LOSS on Disposal

a gain is NOT revenue — other revenues and expenses

a loss usually means the ESTIMATE was optimistic

3 THE THREE EXITS — the ENTRY for each, and two are the first in disguise

SALE

Cash proceeds

Accumulated Depreciation all of it

Equipment full cost

Gain / Dr Loss the PLUG

RETIREMENT

Accumulated Depreciation all of it

Loss on Disposal book value left

Equipment full cost

nothing comes in so never a gain

TRADE-IN

Equipment (new) own cost

Accumulated Depreciation all of it

Equipment (old) full cost

Cash what you still pay

Gain / Dr Loss the PLUG





CH. 10 CHEAT CARD — WHAT YOU CAN'T DRIVE

1 ONE SENTENCE — the asset decides the WORD, the life decides the SCHEDULE**SPREAD THE COST OVER THE BENEFIT**

truck, building, equipment → **DEPRECIATION**

mine, quarry, oil field → **DEPLETION**

patent, franchise, copyright → **AMORTIZATION**

DEPLETION — TWO STEPS

1 · RATE = cost ÷ total estimated units

2 · EXPENSE = rate × units taken

credit ACCUMULATED depletion

2 THE FORK — ask an intangible “do you die?” before anything else**LIMITED LIFE → AMORTIZE**

straight-line over the **SHORTER** of

legal life and useful life

Dr Amortization Expense · Cr THE ASSET ITSELF

INDEFINITE LIFE → LEAVE IT ALONE

trademark · goodwill

amortization = ZERO, not a small number

test for impairment once a year instead

3 THE TWO TRAPS — and where every one of them prints**GOODWILL**

price paid — fair value of
identifiable net assets

ONLY on purchase, never self-made

R & D

expensed as incurred, always
however promising it looks

buy it = asset · invent it = expense

ON THE STATEMENTS

PP&E, then INTANGIBLES

PP&E shows cost + accumulated

turnover = sales ÷ avg fixed assets

THE EXAM TRAPS: credit the ASSET, never accumulated amortization · indefinite life means ZERO · goodwill only when a business is bought





CHAPTER 10 — PLANT ASSETS, THE WHOLE CHAPTER

1 WHAT IT COST — and what you do with a dollar after day one

THE COST PRINCIPLE

cost = everything to GET it here and GET it working

two doors: NECESSARY? and REASONABLE?

demolition goes IN · salvage sold comes OUT

land NEVER depreciates · land improvements DO

AFTER DAY ONE — ONE TEST

EXTEND or IMPROVE → capitalise (debit the asset)

RESTORE or MAINTAIN → expense it now

the new engine is capital · the oil change is revenue

a REVENUE expenditure is an EXPENSE, not revenue

2 HOW YOU SPREAD IT — allocation, never valuation

THE FOUR ROADS

depreciable cost = COST – RESIDUAL

straight-line = depreciable ÷ life

units = (depreciable ÷ total units) × used

DDB = BOOK VALUE × 2 × (100% ÷ life) · SYD = depreciable × yrs-left/sum

AND WHAT YOU CANNOT DRIVE

depletion rate = cost ÷ total units

LIMITED life → amortise over the SHORTER of legal

and useful life · INDEFINITE → do NOT amortise

goodwill = price paid – FV of net assets

3 WHEN IT LEAVES — and where all of it prints

EVERY DISPOSAL

1 · depreciate to the DATE

2 · proceeds vs BOOK VALUE

SALE · RETIREMENT · TRADE-IN

one entry — only the plug changes

IMPAIRMENT

trigger: BV > undiscounted flows

measure: write to FAIR VALUE

never reversed

more=gain · less=loss · equal=neither

ON THE STATEMENTS

PP&E: cost AND accum. depreciation

intangibles: NET, their OWN section

goodwill ONLY on purchase · R&D expensed

turnover = sales ÷ avg fixed assets

EXAM TRAPS: depreciate to the DATE first · DDB ignores residual in the CALC, but residual is a FLOOR
revise FORWARD only · credit the ASSET, never accumulated amortisation · goodwill is never amortised

