



CHAPTER 8

ACCOUNTING FOR PLANT ASSETS

Objectives

As related to plant assets and depreciation:

1. Define accounting terms
2. Identify accounting concepts and practices
3. Journalize entries for buying plant assets
4. Calculate and record property tax expense
5. Calculate and record depreciation expense for a plant asset using straight-line depreciation
6. Journalize entries for disposing of plant assets
7. Calculate depreciation expense using other methods

Terms

- Plant asset record
- Real property
- Personal property
- Assessed value
- Straight-line method of depreciation
- Book value of a plant asset
- Declining –balance method of depreciation
- Sum-of-years' digits method of depreciation
- Production-unit method of depreciation
- Modified Accelerated Cost Recovery System
- Depletion

Section 8.1- Buying Plant Assets

Name types of assets that a business owns to help it earn a profit:

- Current Assets – exchanged or consumed within a year
 - a) Cash
 - b) Accounts Receivables
 - c) Supplies
- Plant Assets – assets that will be used for a number of years
 - a) Land
 - b) Buildings
 - c) Equipment

What are plant assets also known as?

Answer: Fixed or long-term assets

Buying plant assets

What does the concept going concern state?

Answer: Financial statements are prepared with the expectation that a business will remain in operation indefinitely.

- Records must be kept up-to-date as plant assets are bought and used over the years.
- Yearly depreciation is recorded based on the expected (useful) life of a piece of equipment.

Plant Asset Record

An accounting form on which a business records information about each plant asset is called _____.

When are the three sections of a plant asset record completed?

1. Section 1 – prepared when the asset is purchased. Describes the asset.
2. Section 2 - prepared when the asset is disposed.
3. Section 3 – used to record annual depreciation.

Remember 225

A building and the land it is located on are typically purchased for a single price.

Separate values must be assigned to each asset (appraisals).

Desoto County Tax Assessor

- APPRAISED LAND VALUE:
- 35,000
- APPRAISED IMP. VALUE:
- 168,403
- APPRAISED TOTAL VALUE:
- 203,403

- APPRAISED LAND VALUE:
- 30,000
- APPRAISED IMP. VALUE:
- 163,385
- APPRAISED TOTAL VALUE:
- 193,385

- APPRAISED LAND VALUE:
- 15,000
- APPRAISED IMP. VALUE:
- 48,672
- APPRAISED TOTAL VALUE:
- 63,672

Buying a plant asset for cash

January 2. Paid cash for new copying machine, \$1 680. Check No. 62.

Which journal will we use?

What are the two accounts that will be used?

1. Office Equipment - Debit
2. Cash – Credit

What is my source document?

Answer: Check 62. Is it necessary to use “C” in the Cash receipt journal?

Buying a plant asset on account

January 2. Bought an office machine on account from Discount Computers, \$3,300. Memorandum No. 70.

Which Journal will I use? Which ledger(s)?

What are the two accounts that will be used?

1. Office Equipment
2. Accounts Payable / Discount Computers

Where are each of these accounts located?

What is my source document?

Answer: Check 62. Is it necessary to use "C" in the Cash receipt journal?

Calculating and Paying Property Tax

For tax purposes, state and federal governments define two kinds of property:

1. Real Property
2. Personal Property

Real Property examples:

- Land and anything attached to it (examples).
- Sometimes referred to as _____

Personal Property – all property not classified as real property.

Calculating and Paying Property Tax

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Calculating and Paying Property Tax

The value of an asset determined by tax authorities for the purpose of calculating taxes is called _____.

Answer: Assessed Value of Property

Assessed value is usually based on the judgment of persons called _____

Answer: Assessors

Assessors are elected by citizens or are specially trained employees of a government unit.

Calculating and Paying Property Tax

Will the assessed value and the book value be the same?

Answer: Not necessarily; most likely not

Assessed value is for tax purposes only and may not represent the true value of an asset.

Can use the assessed value to estimate the market value of an asset.

Market Value - the price at which something can be sold : the price that buyers are willing to pay for something.

Calculating and Paying Property Tax

Calculating Property Tax on Plant Assets:

$$\text{Assessed Value} \times \text{Tax Rate} = \text{Annual Property Tax}$$

Paying Property Tax:

Property Tax Expense – Debit
Cash – Credit

Audit Your Understanding

What are the three sections of a plant asset?

1. Section 1 – prepared when the asset is purchased.
Describes the asset.
2. Section 2 - prepared when the asset is disposed.
3. Section 3 – used to record annual depreciation.

Audit Your Understanding

Why are asset purchases not recorded in the purchases journal?

Because you are not purchasing **merchandise** on account. Purchases of merchandise is considered a “cost” account.

Audit Your Understanding

What accounts are affected, and how, by an entry to pay property tax?

Property Tax Expense – Debit
Cash - Credit