UNIVERSITY OF THE WEST INDIES
Mona Campus

Financial Accounting – ACCT 1005(MS15D)

Plant Assets

Fixed assets are long-lived assets that are purchased to enhance the earning power of the business. They are intended to be used over more than one accounting period.

The three categories of plant assets are:

1. ***Tangible assets*** Have physical substance e.g. Land, building & equipment.
2. ***Natural resources*** Sites acquired for extracting inventory e.g. mines, oil reserves etc.
3. ***Intangible assets*** Have no physical substance e.g. goodwill, patents & copyright.

1. Accounting for Tangible Assets (IAS 16)

The cost of a tangible (fixed) asset includes all amounts paid to acquire the asset and prepare it for its intended use.

Land Cost of land includes purchase price (pp) brokerage commission, survey and legal fees, back property taxes and cost of clearing land and removing unwanted buildings. Land is not depreciated.

Land improvements Costs to improve land e.g. fencing, paving, lighting & signs are depreciated.

Buildings Cost includes architectural fees, building permits, contractor's charges, cost of material labour and overheads for construction of building, cost of renovation and repairs. Buildings are depreciated.

Machinery and Equipment Costs include pp less discounts, transportation charges, insurance while in transit, installation costs and costs to test machine before use.

Furniture & Fixtures Include desks, chairs, file cabinets, display racks, shelves etc. Costs include the purchase price less discounts plus any other costs to put an asset in the form intended for use.

Lump-Sum or Basket Purchase
Costs are allocated based on the assets appraised or market value.
E.g. A Company bought land and building for $5,600,000. Appraised values are: land $600,000 and building $5,400,000. The purchase prices allocated would be as follows:

Total Appraised Value = $600,000 + $5,400,000 = $6,000,000
Land $600,000/$6,000,000 * $5,600,000 = $560,000
Building $5,400,000/$6,000,000 * $5,600,000 = $5,040,000