- 4. Furniture
- 5. Buildings
- 6. Land

PP&E and Noncurrent Assets

Although PP&E are noncurrent assets or long-term assets, not all noncurrent assets are property, plant, and equipment. Intangible assets are nonphysical assets, such as patents and copyrights. They are considered to be noncurrent assets because they provide value to a company but cannot be readily converted to cash within a year. Long-term investments, such as bonds and notes, are also considered noncurrent assets because a company usually holds these assets on its balance sheet for more than one fiscal year. PP&E refers to specific fixed, tangible assets, whereas noncurrent assets are all of the long-term assets of a company. Calculating PP&E:

Net PPE=Gross PPE+ Capital Expenditures-AD

where: AD=Accumulated depreciation

Lump-sum Purchase: A lump-sum purchase occurs when several assets are acquired for a single price. Each of the assets must be recorded separately as a fixed asset in the accounting records; to do so, the purchase price is allocated among the various acquired assets based on their fair market values. This situation most commonly arises when property is purchased and the purchase price includes both land and structures. Example of a Lump-Sum Purchase

A buyer acquires property for \$1,000,000. The property includes land with a market value of \$250,000 and a building with a market value of \$800,000. The apportionment of the lump-sum purchase price to these assets is calculated as follows:

Land: ((\$250,000/(\$250,000+\$800,000)) x \$1,000,000 = \$238,095

Building: ((\$800,000/\$250,000+\$800,000) x \$1,000,000 = \$761,905

- Subsequent Expenditure: Subsequent expenditure on an item of PPE occurs after the acquisition/initial recognition of the item. For accounting purposes, entities need to evaluate subsequent expenditure to determine if it may be capitalized or expensed at the time incurred.
- Depreciation methods: There are several types of depreciation methods and differ formulas for determining the book value of an asset. The most common depresiant Straight-line Double declining balance Units of production Sum of years digits thods include:
- •
- •
- Cate the cost of a tangible asset over its useful life. In other sed in accounting to Depreciation (A) ente • words, is the reduction in the value of an asset that occurs over time due to usage, wear and tear, or obsolescence. The four main depreciation methods mentioned above are explained in detail below. 1. Straight-Line Depreciation Method

Straight-Line Depreciation is a very common, and the simplest, method of calculating depreciation expense. In straight-line depreciation, the expense amount is the same every year over the useful life of the asset. Depreciation Formula Depreciation Expense = (Cost – Salvage value) / Useful life Example

Consider a piece of equipment that costs \$25,000 with an estimated useful life of 8 years and a \$0 salvage value. The depreciation expense per year for this equipment would be as follows:

Depreciation Expense = (\$25,000 - \$0) / 8 = \$3,125 per year

2. Double Declining Balance Depreciation Method

Compared to other depreciation methods, Double Declining Balance Depreciation results in a larger amount expensed in the earlier years as opposed to the later years of an asset's useful life. The method reflects the fact that assets are typically more productive in their early years than in their later years – also, the practical fact that any asset (think of buying a car) loses more of its value in the first few years of its use. With the double-declining-balance method, the depreciation factor is 2x that of the straight-line expense method. Periodic Depreciation Expense = Beginning book value x Rate of depreciation Example

Consider a piece of PP&E that costs \$25,000, with an estimated useful life of 8 years and a \$2,500 salvage value. To calculate the double-declining balance depreciation, set up a schedule:

The information on the schedule is explained below:

1. The beginning book value of the asset is filled in at the beginning of year 1 and the salvage value is filled in at the end of year 8.