

# Financial Accounting

Prepared by Dr. Mohamed Hamouda

## Lecture 6

جامعة الجميع الذكية

تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي  
التعاوني ويقدم العلم مقابل العمل لتنمية وبناء المجتمعات.

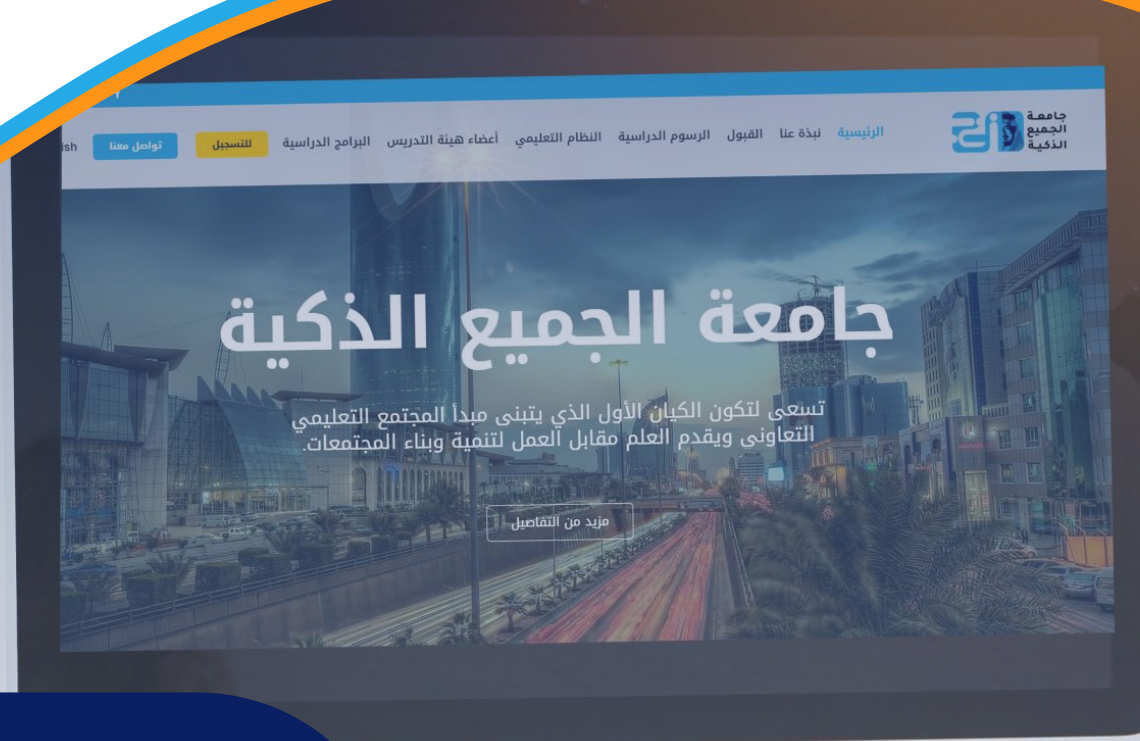
**PLANT ASSETS, NATURAL  
RESOURCES, AND INTANGIBLES**



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# Financial Accounting

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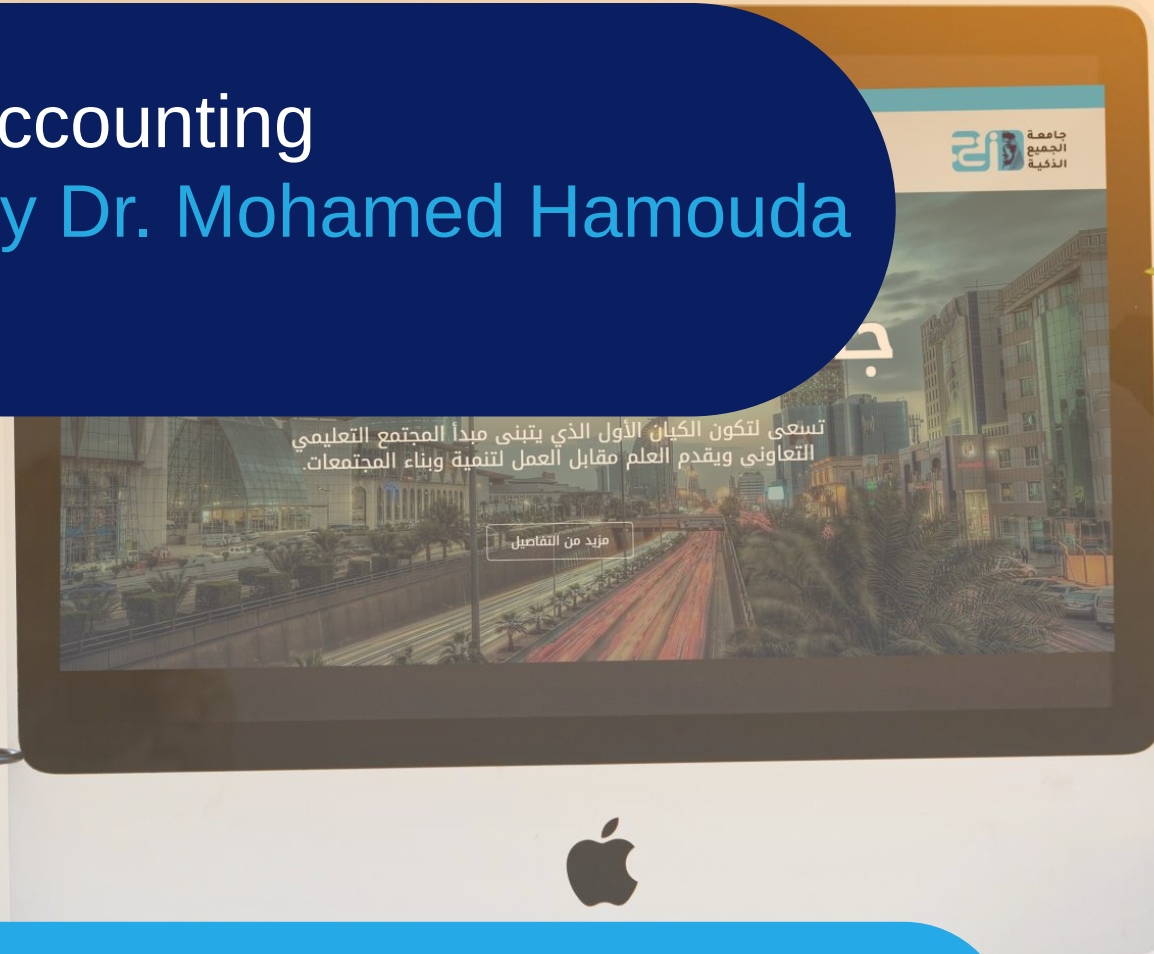
## Lecture 6

**PLANT ASSETS, NATURAL RESOURCES  
INTANGIBLES**

# Financial Accounting

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## Lecture 6



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## PLANT ASSETS, NATURAL RESOURCES, AND INTANGIBLES

# Chapter 06

C 1

## PLANT ASSETS, NATURAL RESOURCES, AND INTANGIBLES

# Chapter 06

C1

## PLANT ASSETS

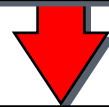
Tangible in Nature



Actively Used in Operations



Expected to Benefit Future Periods

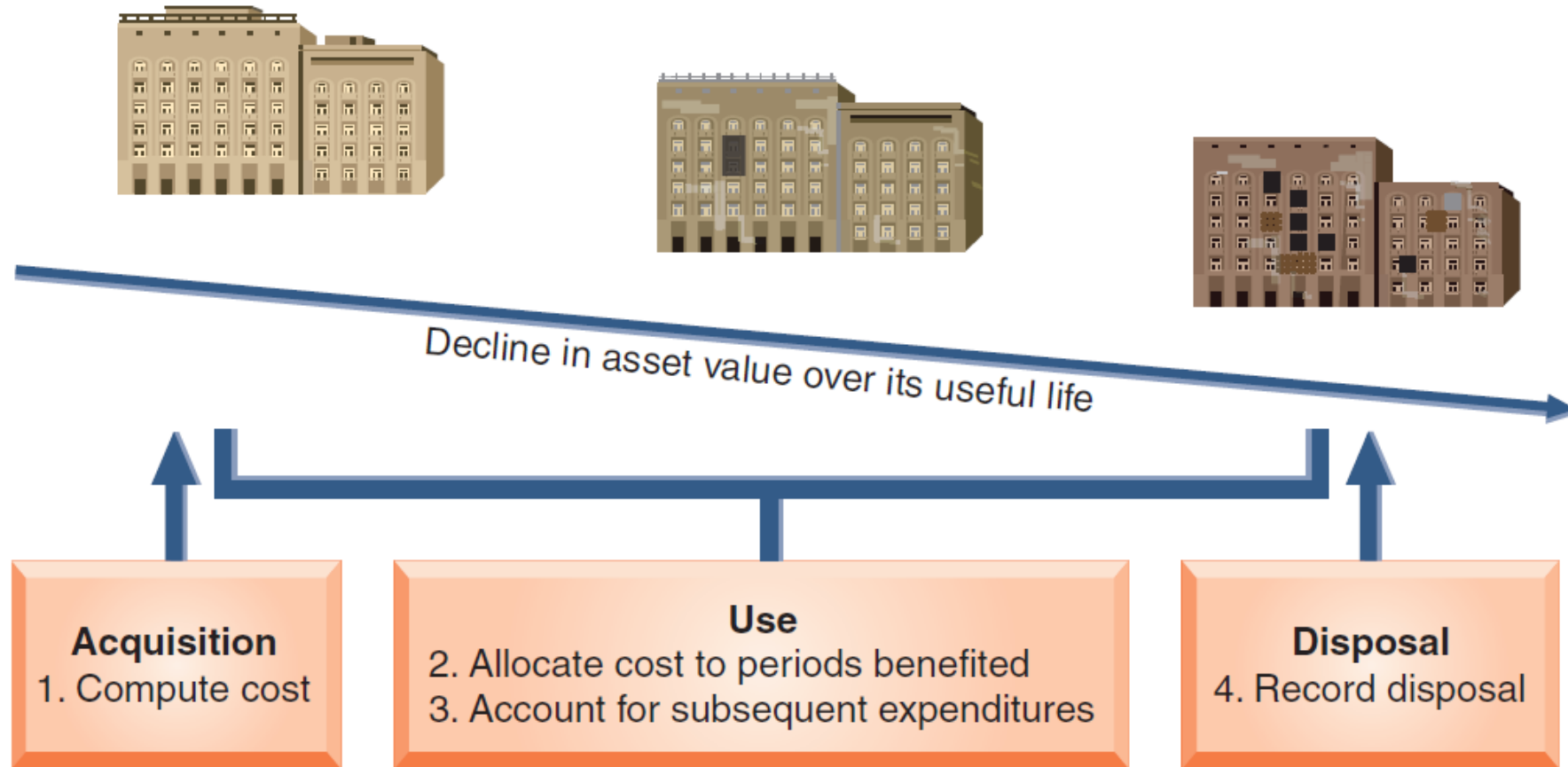


Called Property, Plant, & Equipment

# Chapter 06

C1

## PLANT ASSETS



# Chapter 06

C1

## COST DETERMINATION

Purchase  
price

All expenditures  
needed to  
prepare the  
asset for its  
intended use

Acquisition  
Cost

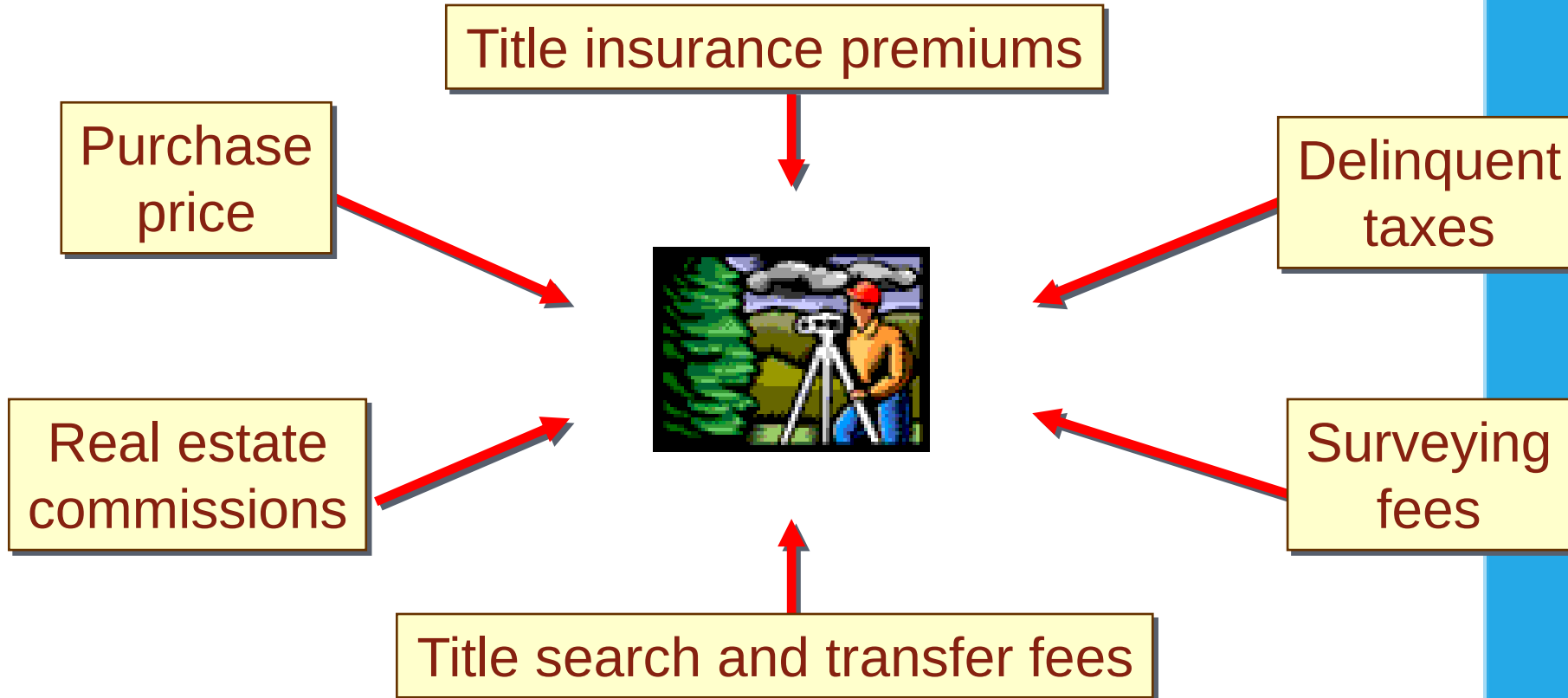
Acquisition cost *excludes*  
financing charges and  
cash discounts



# Chapter 06

C1

## LAND



Land is **not** depreciable.

# Chapter 06

C1

## LAND IMPROVEMENTS

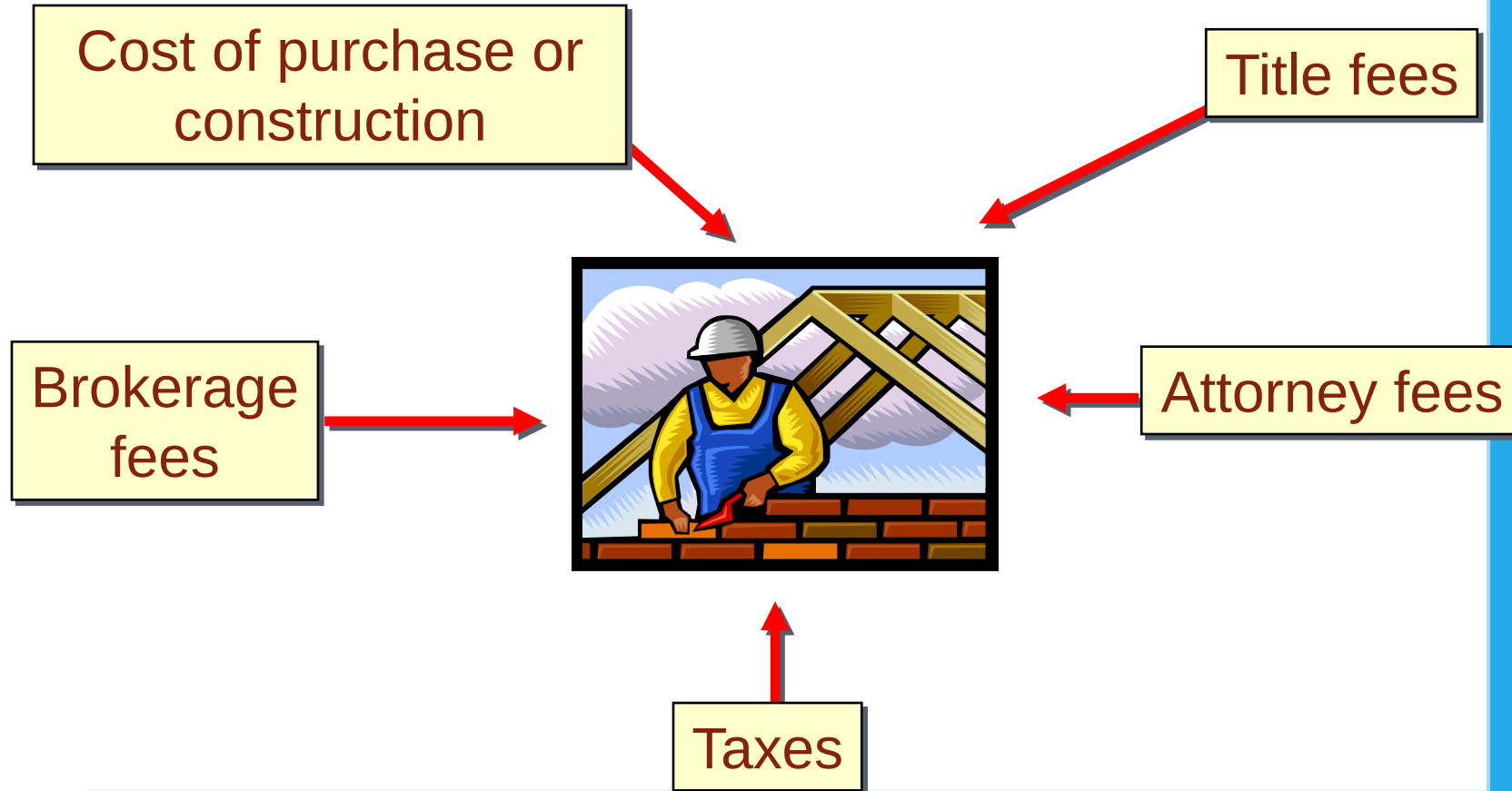
Parking lots, driveways, fences, walks, shrubs, and lighting systems.

Depreciate  
over useful life of  
improvements.

# Chapter 06

C1

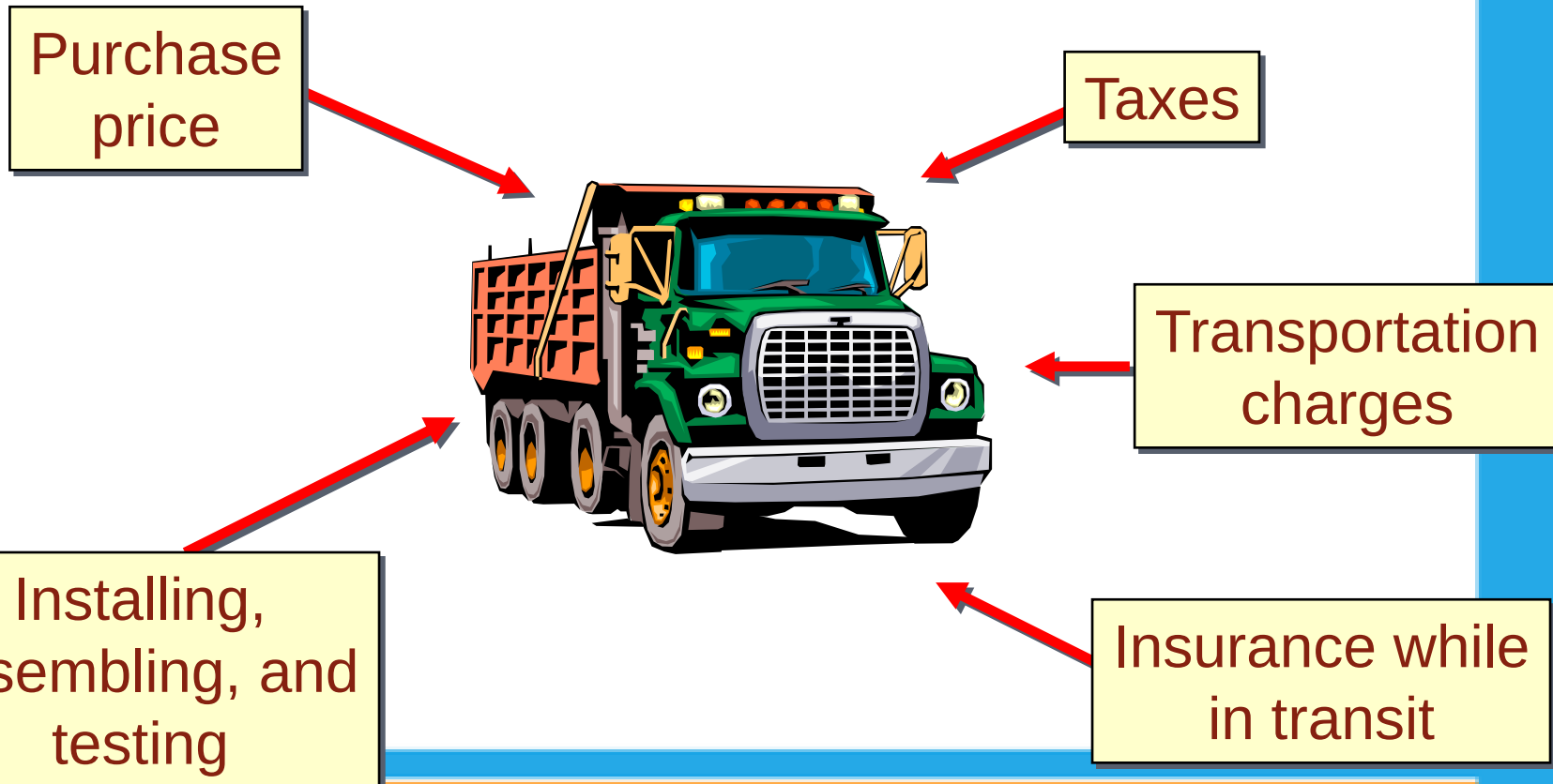
## BUILDINGS



# Chapter 06

C1

## MACHINERY AND EQUIPMENT



## LUMP-SUM ASSET PURCHASE

The total cost of a combined purchase of land and building is separated on the basis of their **relative fair market values**.

CarMax paid \$90,000 cash to acquire a group of items consisting of land appraised at \$30,000, land improvements appraised at \$10,000, and a building appraised at \$60,000. The \$90,000 cost will be allocated on the basis of appraised values as shown:

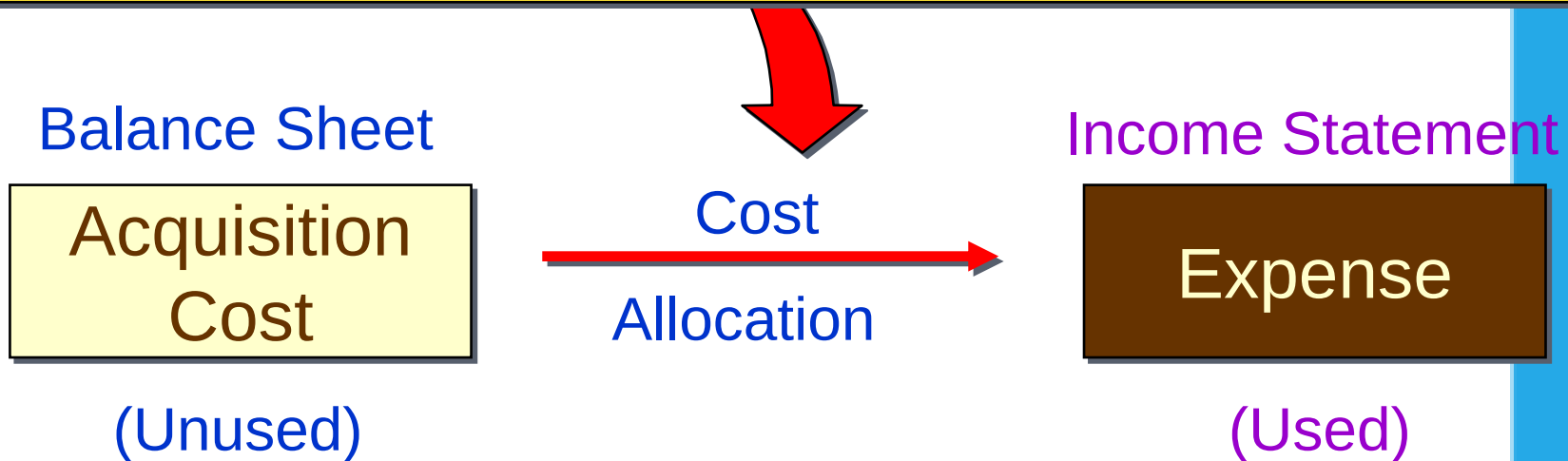
|                         | Appraised Value  | Percent of Total         | Apportioned Cost                 |
|-------------------------|------------------|--------------------------|----------------------------------|
| Land .....              | \$ 30,000        | 30% (\$30,000/\$100,000) | <b>\$27,000</b> (\$90,000 × 30%) |
| Land improvements ..... | 10,000           | 10 (\$10,000/\$100,000)  | <b>9,000</b> (\$90,000 × 10%)    |
| Building .....          | 60,000           | 60 (\$60,000/\$100,000)  | <b>54,000</b> (\$90,000 × 60%)   |
| Totals .....            | <u>\$100,000</u> | <u>100%</u>              | <u>\$ 90,000</u>                 |

# Chapter 06

P 1

## DEPRECIATION

Depreciation is the process of allocating the cost of a plant asset to expense in the accounting periods benefiting from its use.



The calculation of depreciation requires three amounts for each asset:

1. **Cost**
2. **Salvage Value**
3. **Useful Life**



## DEPRECIATION METHODS

1. Straight-line
2. Units-of-production
3. Declining-balance

## Asset we will depreciate in future screens

|                          |              |
|--------------------------|--------------|
| Cost .....               | \$10,000     |
| Salvage value .....      | <u>1,000</u> |
| Depreciable cost .....   | \$ 9,000     |
| Useful life              |              |
| Accounting periods ..... | 5 years      |
| Units inspected .....    | 36,000 shoes |

# Chapter 06

P 1

## STRAIGHT-LINE METHOD

|                          |              |
|--------------------------|--------------|
| Cost .....               | \$10,000     |
| Salvage value .....      | <u>1,000</u> |
| Depreciable cost .....   | \$ 9,000     |
| Useful life              |              |
| Accounting periods ..... | 5 years      |
| Units inspected .....    | 36,000 shoes |

$$\frac{\text{Cost} - \text{Salvage value}}{\text{Useful life in periods}} = \frac{\$10,000 - \$1,000}{5 \text{ years}} = \$1,800 \text{ per year}$$

|         |                                          |       |       |
|---------|------------------------------------------|-------|-------|
| Dec. 31 | Depreciation Expense. ....               | 1,800 |       |
|         | Accumulated Depreciation—Machinery ..... |       | 1,800 |
|         | <i>To record annual depreciation.</i>    |       |       |

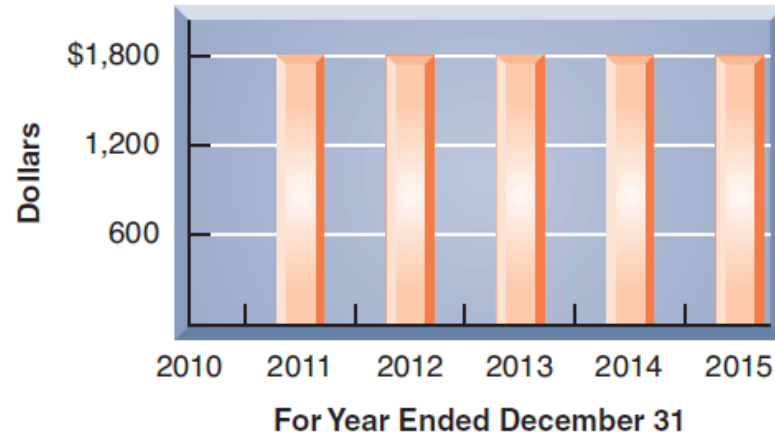


# Chapter 06

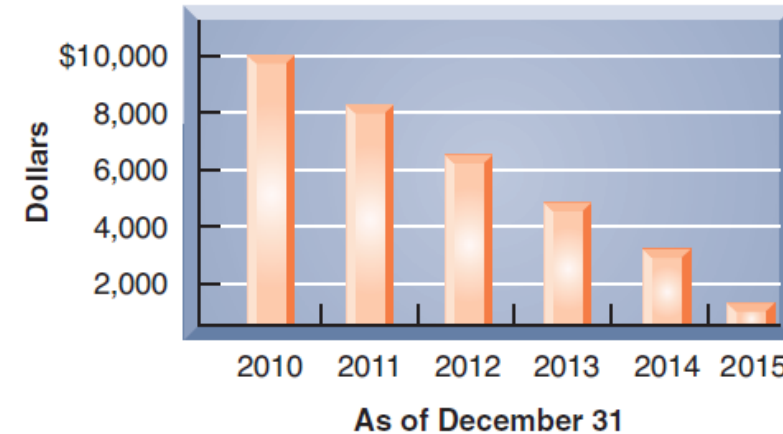
P 1

## STRAIGHT-LINE METHOD

**Depreciation Expense**  
(on Income Statement)



**Asset Book Value**  
(on Balance Sheet)



### Balance Sheet Presentation

|                                |              |          |
|--------------------------------|--------------|----------|
| Machinery                      | \$ 10,000    |          |
| Less: accumulated depreciation | <u>3,600</u> | \$ 6,400 |

# Chapter 06

P 1

## STRAIGHT-LINE DEPRECIATION SCHEDULE

| Annual<br>Period | Depreciation for the Period |                      |                         | End of Period               |                |
|------------------|-----------------------------|----------------------|-------------------------|-----------------------------|----------------|
|                  | Depreciable<br>Cost*        | Depreciation<br>Rate | Depreciation<br>Expense | Accumulated<br>Depreciation | Book<br>Value† |
| 2010             | —                           | —                    | —                       | —                           | \$10,000       |
| 2011             | \$9,000                     | 20%                  | \$1,800                 | \$1,800                     | 8,200          |
| 2012             | 9,000                       | 20                   | 1,800                   | 3,600                       | 6,400          |
| 2013             | 9,000                       | 20                   | 1,800                   | 5,400                       | 4,600          |
| 2014             | 9,000                       | 20                   | 1,800                   | 7,200                       | 2,800          |
| 2015             | 9,000                       | 20                   | 1,800                   | 9,000                       | 1,000          |

\* \$10,000 – \$1,000.

† Book value is total cost minus accumulated depreciation.

# Chapter 06

P 1

## UNITS-OF-PRODUCTION METHOD

Step 1:

$$\text{Depreciation Per Unit} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Total Units of Production}}$$

Step 2:

$$\text{Depreciation Expense} = \text{Depreciation Per Unit} \times \text{Number of Units Produced in the Period}$$

# Chapter 06

P 1

## UNITS-OF-PRODUCTION METHOD

|                          |              |
|--------------------------|--------------|
| Cost .....               | \$10,000     |
| Salvage value .....      | <u>1,000</u> |
| Depreciable cost .....   | \$ 9,000     |
| Useful life              |              |
| Accounting periods ..... | 5 years      |
| Units inspected .....    | 36,000 shoes |

Assume that 7,000 units were inspected during 2011. Depreciation would be calculated as follows:

Step 1:

$$\text{Depreciation Per Unit} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Total Units of Production}} = \frac{\$9,000}{36,000} = \$0.25/\text{unit}$$

Step 2:

$$\text{Depreciation Expense} = \text{Depreciation Per Unit} \times \text{Number of Units Produced in the Period} = \$0.25 \times 7,000 = \$1,750$$

# Chapter 06

P 1

## UNITS-OF-PRODUCTION DEPRECIATION SCHEDULE

| Annual Period | Depreciation for the Period |                       |                      | End of Period            |            |
|---------------|-----------------------------|-----------------------|----------------------|--------------------------|------------|
|               | Number of Units             | Depreciation per Unit | Depreciation Expense | Accumulated Depreciation | Book Value |
| 2010          | —                           | —                     | —                    | —                        | \$10,000   |
| 2011          | 7,000                       | \$0.25                | \$1,750              | \$1,750                  | 8,250      |
| 2012          | 8,000                       | 0.25                  | 2,000                | 3,750                    | 6,250      |
| 2013          | 9,000                       | 0.25                  | 2,250                | 6,000                    | 4,000      |
| 2014          | 7,000                       | 0.25                  | 1,750                | 7,750                    | 2,250      |
| 2015          | 5,000                       | 0.25                  | 1,250                | 9,000                    | 1,000      |

Units produced and sold during the period.

# Chapter 06

P 1

## DOUBLE-DECLINING-BALANCE METHOD

### Step 1

Straight-line rate =  $100\% \div \text{Useful life} = 100\% \div 5 \text{ years} = 20\%$

### Step 2

Double-declining-balance rate =  $2 \times \text{Straight-line rate} = 2 \times 20\% = 40\%$

### Step 3

Depreciation expense = Double-declining-balance rate  $\times$  Beginning-period book value  
 $40\% \times \$10,000 = \$4,000$

# Chapter 06

P 1

## DOUBLE-DECLINING-BALANCE METHOD

| Annual Period | Depreciation for the Period    |                   |                      | End of Period            |            |
|---------------|--------------------------------|-------------------|----------------------|--------------------------|------------|
|               | Beginning of Period Book Value | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 2010          | —                              | —                 | —                    | —                        | \$10,000   |
| 2011          | \$10,000                       | 40%               | <b>\$4,000</b>       | \$4,000                  | 6,000      |
| 2012          | 6,000                          | 40                | <b>2,400</b>         | 6,400                    | 3,600      |
| 2013          | 3,600                          | 40                | <b>1,440</b>         | 7,840                    | 2,160      |
| 2014          | 2,160                          | 40                | <b>864</b>           | 8,704                    | 1,296      |
| 2015          | 1,296                          | 40                | <b>296*</b>          | 9,000                    | 1,000      |

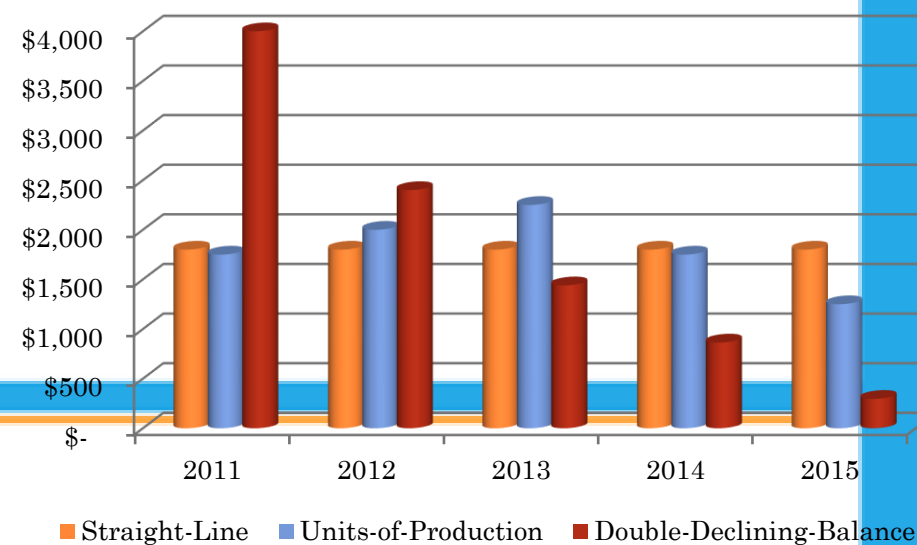
\* Year 2015 depreciation is  $\$1,296 - \$1,000 = \$296$  (never depreciate book value below salvage value).

# Chapter 06

P 1

## COMPARING DEPRECIATION METHODS

| Period | Straight-Line   | Units of Production | Double-Declining-Balance |
|--------|-----------------|---------------------|--------------------------|
| 2011   | \$ 1,800        | \$ 1,750            | \$ 4,000                 |
| 2012   | 1,800           | 2,000               | 2,400                    |
| 2013   | 1,800           | 2,250               | 1,440                    |
| 2014   | 1,800           | 1,750               | 864                      |
| 2015   | 1,800           | 1,250               | 296                      |
| Totals | <u>\$ 9,000</u> | <u>\$ 9,000</u>     | <u>\$ 9,000</u>          |



## DEPRECIATION FOR TAX REPORTING

**Most corporations use the Modified Accelerated Cost Recovery System (MACRS) for tax purposes.**

**MACRS depreciation provides for rapid write-off of an asset's cost in order to stimulate new investment.**



# Chapter 06

C 2

## PARTIAL-YEAR DEPRECIATION

When a plant asset is acquired during the year, depreciation is calculated for the fraction of the year the asset is owned.

|                    |    |              |
|--------------------|----|--------------|
| Cost               | \$ | 10,000       |
| Salvage value      |    | 1,000        |
| Depreciable cost   | \$ | 9,000        |
| Useful life        |    |              |
| Accounting periods |    | 5 years      |
| Units inspected    |    | 36,000 units |

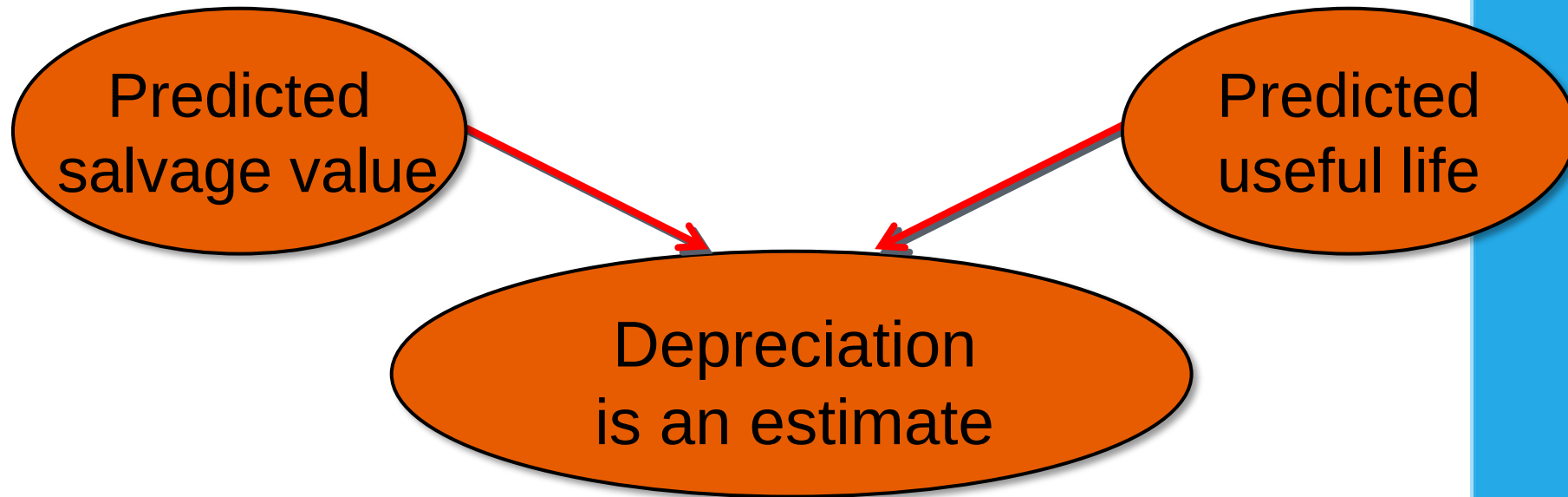
Assume our machinery was purchased on October 8, 2010. Let's calculate depreciation expense for 2010, assuming we use straight-line depreciation.

$$\frac{\$10,000 - \$1,000}{5 \text{ years}} \times \frac{3}{12} = \$450$$

# Chapter 06

C2

## CHANGE IN ESTIMATES FOR DEPRECIATION



Over the life of an asset, new information may come to light that indicates the original estimates were inaccurate.

# Chapter 06

C 2

## CHANGE IN ESTIMATES FOR DEPRECIATION

Let's look at our machinery from the previous examples and assume that at the beginning of the asset's third year, its book value is \$6,400 (\$10,000 cost less \$3,600 accumulated depreciation using straight-line depreciation). At that time, it is determined that the machinery will have a remaining useful life of 4 years, and the estimated salvage value will be revised downward from \$1,000 to \$400.

$$\frac{\text{Book value} - \text{Revised salvage value}}{\text{Revised remaining useful life}} = \frac{\$6,400 - \$400}{4 \text{ years}} = \$1,500 \text{ per year}$$

# Chapter 06

C 2

## REPORTING DEPRECIATION

### Dale Jarrett Racing Adventure

|                                |                   |
|--------------------------------|-------------------|
| Office furniture and equipment | \$ 54,593         |
| Shop and track equipment       | 202,973           |
| Race vehicles and other        | 975,084           |
| Property and equipment, gross  | 1,232,650         |
| Less: accumulated depreciation | 628,355           |
| Property and equipment, net    | <u>\$ 604,295</u> |



# Chapter 06

C 3

## ADDITIONAL EXPENDITURES

| Treatment                  | Financial Statement Effect              |                             |                |               |
|----------------------------|-----------------------------------------|-----------------------------|----------------|---------------|
|                            | Statement                               | Expense                     | Current Income | Current Taxes |
| <b>Capital Expenditure</b> | <b>Balance sheet account debited</b>    | <b>Deferred</b>             | <b>Higher</b>  | <b>Higher</b> |
| <b>Revenue Expenditure</b> | <b>Income statement account debited</b> | <b>Currently recognized</b> | <b>Lower</b>   | <b>Lower</b>  |

If the amounts involved are not material, most companies expense the item.

# Chapter 06

C 3

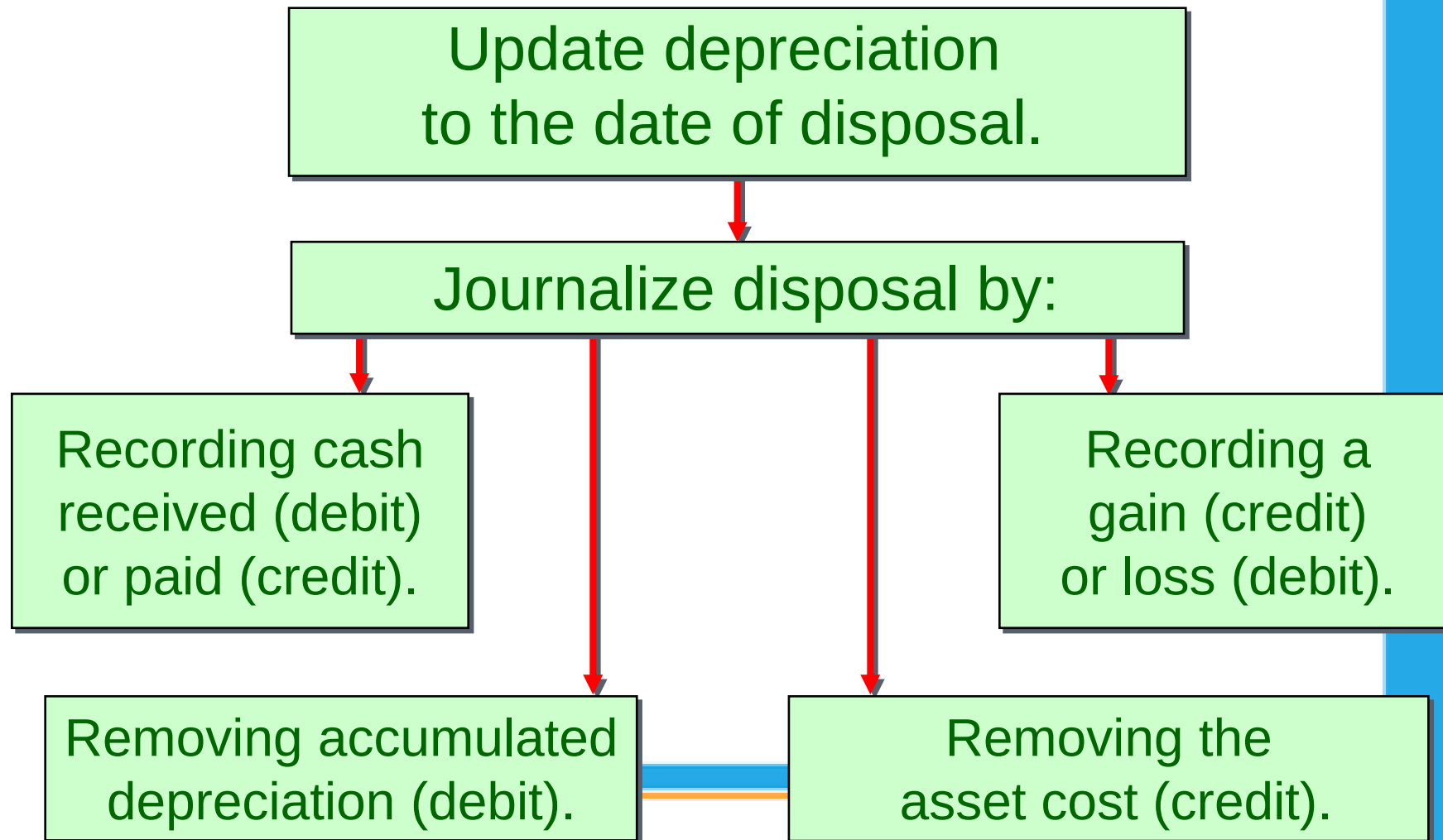
## REVENUE AND CAPITAL EXPENDITURES

| Type of Expenditure                   | Capital or Revenue | Identifying Characteristics                                                                                                                                                                       |
|---------------------------------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ordinary Repairs                      | Revenue            | <ol style="list-style-type: none"> <li>1. Maintains normal operating condition.</li> <li>2. Does not increase productivity.</li> <li>3. Does not extend life beyond original estimate.</li> </ol> |
| Betterments and Extraordinary Repairs | Capital            | <ol style="list-style-type: none"> <li>1. Major overhauls or partial replacements.</li> <li>2. Extends life beyond original estimate.</li> </ol>                                                  |

# Chapter 06

P2

## DISPOSALS OF PLANT ASSETS



# Chapter 06

P2

## DISCARDING PLANT ASSETS

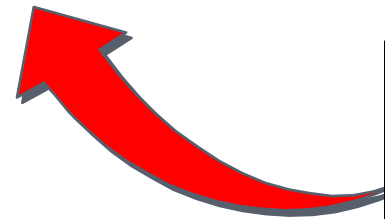
If Cash > BV, record a gain (credit).

If Cash < BV, record a loss (debit).

If Cash = BV, no gain or loss.

Recording cash  
received (debit)  
or paid (credit).

Recording a  
gain (credit)  
or loss (debit).



Removing accumulated  
depreciation (debit).

Removing the  
asset cost (credit).

# Chapter 06

P 2

## DISCARDING PLANT ASSETS

A machine costing \$9,000, with accumulated depreciation of \$9,000 on December 31<sup>st</sup> of the previous year was discarded on June 5<sup>th</sup> of the current year. The company is depreciating the equipment using the straight-line method over eight years with zero salvage value.

|        |                                                |       |       |
|--------|------------------------------------------------|-------|-------|
| June 5 | Accumulated Depreciation—Machinery . . . . .   | 9,000 |       |
|        | Machinery . . . . .                            |       | 9,000 |
|        | <i>To discard fully depreciated machinery.</i> |       |       |

# Chapter 06

P 2

## DISCARDING PLANT ASSETS

Equipment costing \$8,000, with accumulated depreciation of \$6,000 on December 31<sup>st</sup> of the previous year was discarded on July 1<sup>st</sup> of the current year. The company is depreciating the equipment using the straight-line method over eight years with zero salvage value.

Step 1: Bring the depreciation up-to-date.

|        |                                                           |     |     |
|--------|-----------------------------------------------------------|-----|-----|
| July 1 | Depreciation Expense . . . . .                            | 500 |     |
|        | Accumulated Depreciation—Equipment . . . . .              |     | 500 |
|        | <i>To record 6 months' depreciation (\$1,000 × 6/12).</i> |     |     |

Step 2: Record discarding of asset.

|        |                                                        |       |       |
|--------|--------------------------------------------------------|-------|-------|
| July 1 | Accumulated Depreciation—Equipment . . . . .           | 6,500 |       |
|        | Loss on Disposal of Equipment . . . . .                | 1,500 |       |
|        | Equipment . . . . .                                    |       | 8,000 |
|        | <i>To discard equipment with a \$1,500 book value.</i> |       |       |

# Chapter 06

P 2

## SELLING PLANT ASSETS

On March 31<sup>st</sup>, BTO sells equipment that originally cost \$16,000 and has accumulated depreciation of \$12,000 at December 31<sup>st</sup> of the prior calendar year-end. Annual depreciation on this equipment is \$4,000 using straight-line depreciation. The equipment is sold for \$3,000 cash.

Step 1: Update depreciation to March 31<sup>st</sup>.

|          |                                                           |       |       |
|----------|-----------------------------------------------------------|-------|-------|
| March 31 | Depreciation Expense . . . . .                            | 1,000 |       |
|          | Accumulated Depreciation—Equipment . . . . .              |       | 1,000 |
|          | <i>To record 3 months' depreciation (\$4,000 × 3/12).</i> |       |       |

Step 2: Record sale of asset at book value (\$16,000 - \$13,000 = \$3,000).

|          |                                                         |        |        |
|----------|---------------------------------------------------------|--------|--------|
| March 31 | Cash . . . . .                                          | 3,000  |        |
|          | Accumulated Depreciation—Equipment . . . . .            | 13,000 |        |
|          | Equipment . . . . .                                     |        | 16,000 |
|          | <i>To record sale of equipment for no gain or loss.</i> |        |        |

# SELLING PLANT ASSETS

On March 31<sup>st</sup>, BTO sells equipment that originally cost \$16,000 and has accumulated depreciation of \$12,000 at December 31<sup>st</sup> of the prior calendar year-end. Annual depreciation on this equipment is \$4,000 using straight-line depreciation. The equipment is sold for \$2,500 cash.

Step 1: Update depreciation to March 31<sup>st</sup>.

|          |                                                           |       |       |
|----------|-----------------------------------------------------------|-------|-------|
| March 31 | Depreciation Expense . . . . .                            | 1,000 |       |
|          | Accumulated Depreciation—Equipment . . . . .              |       | 1,000 |
|          | <i>To record 3 months' depreciation (\$4,000 × 3/12).</i> |       |       |

Step 2: Record sale of asset at a loss (Book value \$3,000 - \$2,500 cash received).

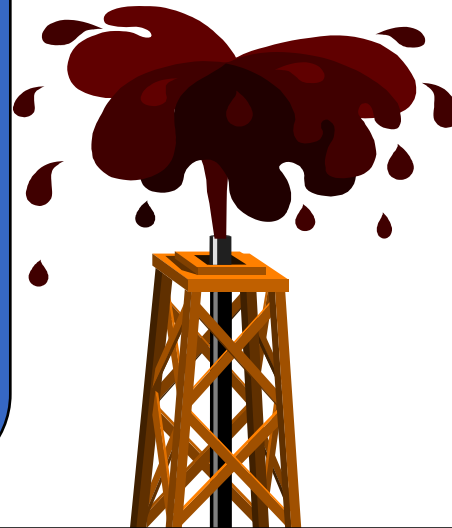
|          |                                                      |        |        |
|----------|------------------------------------------------------|--------|--------|
| March 31 | Cash . . . . .                                       | 2,500  |        |
|          | Loss on Disposal of Equipment . . . . .              | 500    |        |
|          | Accumulated Depreciation—Equipment . . . . .         | 13,000 |        |
|          | Equipment . . . . .                                  |        | 16,000 |
|          | <i>To record sale of equipment for a \$500 loss.</i> |        |        |

# Chapter 06

P 3

## NATURAL RESOURCES

Total cost, including exploration and development, is charged to depletion expense over periods benefited.



Extracted from the natural environment and reported at cost less accumulated **depletion**.

Examples: oil, coal, gold

# Chapter 06

P 3

## COST DETERMINATION AND DEPLETION

Let's consider a mineral deposit with an estimated 250,000 tons of available ore. It is purchased for \$500,000, and we expect zero salvage value.

### Step 1

$$\text{Depletion per unit} = \frac{\text{Cost} - \text{Salvage value}}{\text{Total units of capacity}} = \frac{\$500,000 - \$0}{250,000 \text{ tons}} = \$2 \text{ per ton}$$

### Step 2

$$\begin{aligned} \text{Depletion expense} &= \text{Depletion per unit} \times \text{Units extracted and sold in period} \\ &= \$2 \times 85,000 = \$170,000 \end{aligned}$$

# Chapter 06

P 3

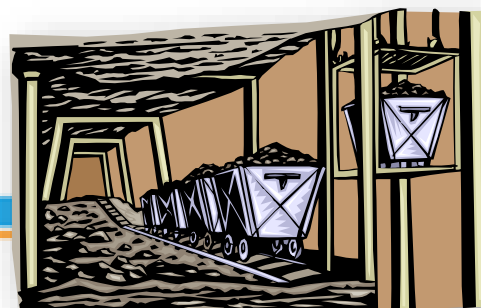
## DEPLETION OF NATURAL RESOURCES

Depletion expense in the first year would be:

|         |                                                    |         |         |
|---------|----------------------------------------------------|---------|---------|
| Dec. 31 | Depletion Expense—Mineral Deposit . . . . .        | 170,000 |         |
|         | Accumulated Depletion—Mineral Deposit . . . . .    |         | 170,000 |
|         | <i>To record depletion of the mineral deposit.</i> |         |         |

Balance Sheet presentation of natural resources:

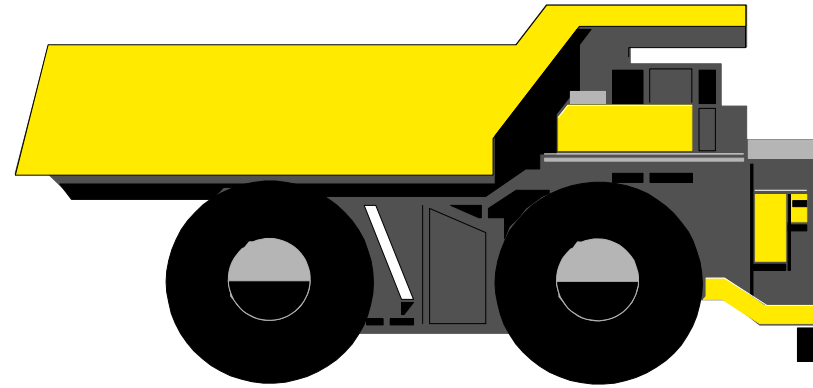
|                                             |                       |                  |
|---------------------------------------------|-----------------------|------------------|
| Mineral deposit . . . . .                   | \$500,000             |                  |
| <b>Less accumulated depletion . . . . .</b> | <b><u>170,000</u></b> | <b>\$330,000</b> |



# Chapter 06

P 3

## PLANT ASSETS USED IN EXTRACTING

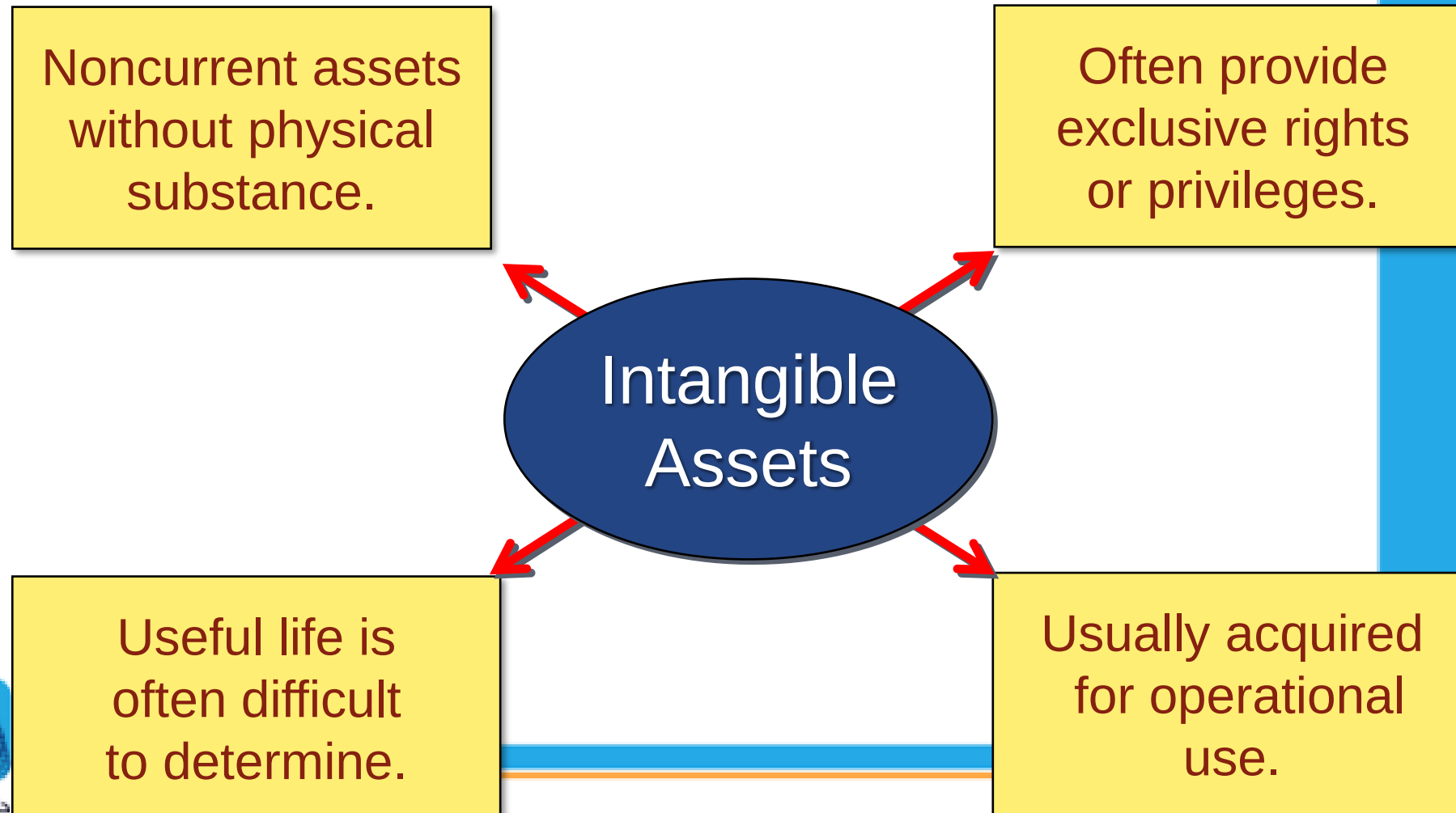


- Specialized plant assets may be required to extract the natural resource.
- These assets are recorded in a separate account and depreciated.

# Chapter 06

P 4

## INTANGIBLE ASSETS



# Chapter 06

P 4

## COST DETERMINATION AND AMORTIZATION

Record at current cash equivalent cost, including purchase price, legal fees, and filing fees.



- o Patents
- o Copyrights
- o Leaseholds
- o Leasehold Improvements
- o Franchises and Licenses
- o Goodwill
- o Trademarks and Trade Names
- o Other Intangibles

# Chapter 06

## GLOBAL VIEW



There is one area where notable differences exist, and that is in accounting for changes in the value of plant assets (between the time they are acquired and disposed of). Namely, how does IFRS and U.S. GAAP treat decreases and increases in the value of plant assets subsequent to acquisition?

**Decreases in the Value of Plant Assets**  
Both U.S. GAAP and IFRS require that an impairment in value be recognized.

**Increases in the Value of Plant Assets**  
U.S. GAAP prohibits recording increase in value of plant assets. IFRS permits upward asset revaluation.

# Chapter 06

A1

## TOTAL ASSET TURNOVER

$$\text{Total Asset Turnover} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

Provides information about a company's efficiency in using its assets.

| Company      | \$ in millions       | 2008     | 2007     | 2006     | 2005     |
|--------------|----------------------|----------|----------|----------|----------|
| Molson Coors | Net sales            | \$ 4,774 | \$ 6,191 | \$ 5,845 | \$ 5,507 |
|              | Average total assets | 11,934   | 12,528   | 11,701   | 8,228    |
|              | Total asset turnover | 0.40     | 0.49     | 0.50     | 0.67     |
| Boston Beer  | Net sales            | \$ 398   | \$ 342   | \$ 285   | \$ 238   |
|              | Average total assets | 208      | 176      | 137      | 113      |
|              | Total asset turnover | 1.91     | 1.94     | 2.09     | 2.10     |

## 10A – EXCHANGING PLANT ASSETS

Many plant assets such as machinery, automobiles, and office equipment are disposed of by exchanging them for newer assets. In a typical exchange of plant assets, a trade-in allowance is received on the old asset and the balance is paid in cash. Accounting for the exchange of assets depends on whether the transaction has **commercial substance.**

Commercial substance implies the company's future cash flows will be altered.

# Chapter 06

P5

## EXCHANGE WITH COMMERCIAL SUBSTANCE: A LOSS

A company acquires \$42,000 in new equipment. In exchange, the company pays \$33,000 cash and trades in old equipment. The old equipment originally cost \$36,000 and has accumulated depreciation of \$20,000 (book value is \$16,000). This exchange has commercial substance. The old equipment has a trade-in allowance of \$9,000.

| Asset Exchange Has Commercial Substance |          | Loss                           |
|-----------------------------------------|----------|--------------------------------|
| Market value of asset received          |          | \$ 42,000                      |
| Book value of assets given:             |          |                                |
| Equipment (\$36,000 – \$20,000)         | \$16,000 |                                |
| Cash                                    | 33,000   | 49,000                         |
| <b>Gain (loss) on exchange</b>          |          | <b><u><u>\$(7,000)</u></u></b> |

|        |                                                                                                    |        |        |
|--------|----------------------------------------------------------------------------------------------------|--------|--------|
| Jan. 3 | Equipment ( <b>new</b> )                                                                           | 42,000 |        |
|        | Loss on Exchange of Assets                                                                         | 7,000  |        |
|        | Accumulated Depreciation—Equipment ( <b>old</b> )                                                  | 20,000 |        |
|        | Equipment ( <b>old</b> )                                                                           |        | 36,000 |
|        | Cash                                                                                               |        | 33,000 |
|        | <i>To record exchange (with commercial substance) of old equipment and cash for new equipment.</i> |        |        |

# Chapter 06

P5

## EXCHANGES WITHOUT COMMERCIAL SUBSTANCE

Let's assume the same facts as on the previous screen except that the market value of the new equipment received is \$52,000 and the transaction lacks commercial substance.

|                                                      |                               |
|------------------------------------------------------|-------------------------------|
| Cost of old equipment . . . . .                      | \$ 36,000                     |
| Less accumulated depreciation . . . . .              | <u>20,000</u>                 |
| Book value of old equipment . . . . .                | 16,000                        |
| Cash paid in the exchange . . . . .                  | <u>33,000</u>                 |
| <b>Cost recorded for new<br/>equipment . . . . .</b> | <b><u><u>\$49,000</u></u></b> |

|        |                                                                                                           |        |        |
|--------|-----------------------------------------------------------------------------------------------------------|--------|--------|
| Jan. 3 | Equipment ( <b>new</b> ) . . . . .                                                                        | 49,000 |        |
|        | Accumulated Depreciation—Equipment ( <b>old</b> ) . . . . .                                               | 20,000 |        |
|        | Equipment ( <b>old</b> ) . . . . .                                                                        |        | 36,000 |
|        | Cash . . . . .                                                                                            |        | 33,000 |
|        | <i>To record exchange (without commercial substance)<br/>of old equipment and cash for new equipment.</i> |        |        |

# Chapter 06

# END

