

# Property, Plant and Equipment

## الممتلكات والآلات والمعدات

Definition of property plant and Equipment: Tangible resources that are used in the operations of the business entity and are not intended for sale to customers and they include lands, buildings (offices, factories, and warehouses), machinery, tools, cars, and furniture.

تعريف الممتلكات والآلات والمعدات: هي الموارد الملموسة التي تُستخدم في عمليات وحدة الاعمال (الكيان التجاري) وغير المخصصة للبيع للزبائن وتشمل الأراضي والمباني (المكاتب والمصانع والمستودعات) والآلات والأدوات والسيارات والأثاث.

Property plant and Equipment are generally long- lived assets and they can give long- term benefits. In addition, these assets are expected to provide services to the company for a number of years.

تعتبر الممتلكات والآلات والمعدات بشكل عام أصولاً طويلة الامد ويمكن أن توفر فوائد طويلة الأجل بالإضافة إلى ذلك ، من المتوقع أن تقدم هذه الأصول خدمات للشركة لعدد من السنوات.

### Characteristics of Property, plant and Equipment

- 1 -They have a physical substance.
- 2 -They are used in the operations of a business entity.
- 3 -They are not intended for sale to the customers.
- 4 -Long-term in nature and usually depreciated.

## Determining the Cost of Property, Plant and Equipment Assets

The measurement principle requires that companies record Property, plant and equipment assets at cost. Cost consists of all expenditures necessary to acquire the asset and make it ready for its intended use. For example, the cost of factory machinery includes the purchase price, freight costs paid by the purchaser, and installation costs. Once cost is established, the company uses that amount as the basis of accounting for the plant asset over its useful life.

### تحديد تكلفة أصول الممتلكات والآلات والمعدات

يتطلب مبدأ القياس أن تقوم الشركات بتسجيل أصول الممتلكات والآلات والمعدات بالتكلفة. تتكون التكلفة من جميع النفقات اللازمة للحصول على الأصل وجعله جاهزاً للاستخدام المقصود. على سبيل المثال ، تشمل تكلفة آلات المصنع سعر الشراء وتكاليف الشحن التي يدفعها المشتري وتكاليف التركيب. بمجرد تحديد التكلفة ، تستخدم الشركة هذا المبلغ كأساس للمحاسبة عن أصل المصنع على مدار عمره الإنتاجي.

**Example 1: Baghdad company acquires real estate at a cash cost of ID100000. The property contains an old warehouse the cost of removing it is of ID 6000, additional expenditures are the attorney's fee, ID 1000, and the real estate broker's Commission ID 8000. The cost of the land is ID115000, computed as shown below.**

Illustration;

Cash price of property ID 100000

Net removal cost of warehouse 6000

Attorney's fee 1000

Real estate broker's commission 8000

**Total cost ID 115000**

The company records the following entry of acquisition

|             |               |                              |               |
|-------------|---------------|------------------------------|---------------|
| <b>Land</b> | <b>115000</b> |                              |               |
|             |               | <b>Cash/Accounts Payable</b> | <b>115000</b> |

To record acquisition of land at cost ID 115000

**Example 2: assume that Baghdad Company purchases factory machinery at a cash price of ID 50000. Related expenditures are for sales taxes ID 3000, insurance during shipping ID 500, and installation and testing ID 1000.**

**The cost of the factory machinery is ID 54500 as shown in the following illustration;**

Illustration:

Cash price ID 50000

Sales taxes 3000

Insurance during shipping 500

Installation and testing 1000

**Cost of factory machinery ID 54500**

And the company records the following entry

|                  |              |
|------------------|--------------|
| <b>Equipment</b> | <b>54500</b> |
| <b>Cash</b>      | <b>54500</b> |

To record factory machinery at total cost of ID 54500

### 1. By sale Disposal of Property, Plant, And Equipment

The company compares the book value of the asset with the proceeds received from the sale. If the proceeds of the sale **exceed** the book value of the plant asset, **a gain on disposal occurs**. If the proceeds of the sale **are less than** the book value of the plant asset sold, **a loss on disposal occurs**.

**Example 3:** On July 1, 2012, Baghdad Company sells Equipment for ID16000 cash. The Equipment originally cost ID 60 000. As of January 1, 2012, it had accumulated depreciation of ID 41000. Depreciation for the first six months of 2012 is ID 8 000.

**Instruction:** Record the journal entries of the above transaction.

**Solution:**

July 1, 2012,

Depreciation Expense                      8 000

Accumulated Depreciation—Equipment      8 000

(To record depreciation expense for the first 6 months of 2012)

Cost of Equipment ID 60000

Less: Accumulated depreciation (ID41 000 1 ID8 000) 49 000

Book value at date of disposal 11000

Proceeds from sale 16 000

Gain on disposal of plant asset ID 5 000

July 1

Cash 16 000

Accumulated Depreciation- Equipment 49 000

Equipment 60 000

Gain on Disposal of Plant Assets 5 000

(To record sale of Equipment at a gain)

## 2. by disposing of the asset

Companies report a gain on disposal of plant assets in the “Other revenues and gains” section of the income statement.

**Example 4:** Assume that instead of selling the Equipment for ID16 000, Baghdad Company sells it for ID9 000. In this case, Baghdad computes a loss of ID 2 000 as follows.

Cost of Equipment ID 60 000

Less: Accumulated depreciation 49 000

Book value at date of disposal 11 000

Proceeds from sale 9 000

Loss on disposal of plant asset ID 2 000

required records the sale and the loss on disposal of the plant asset as follows.

July 1

|                                      |        |                  |
|--------------------------------------|--------|------------------|
| Cash                                 | 9 000  |                  |
| Accumulated Depreciation — Equipment | 49 000 |                  |
| Loss on Disposal of Plant Assets     | 2 000  |                  |
|                                      |        | Equipment 60 000 |

(To record sale of Equipment at a loss)

**Q1:** On January 1, 2009, Baghdad Company owns equipment at cash price of ID 45000 Related expenditures are for sales taxes ID 3000, insurance during shipping ID 1000, and installation and testing ID 1000. It has been depreciated using the straight-line method based on estimated salvage value of ID 5 000 and an estimated useful life of 5 years.

**Instructions:**

Prepare Baghdad Company's journal entries four the following (Show all computations):

- 1- Record entry of acquisition at 1-1-2009.
- 2- Record the sale of the equipment in these four independent situations.
  - (a) Sold for ID 28 000 on January 1, 2012.
  - (b) Sold for ID 28 000 on 1-5- 2012.
  - (c) Sold for ID 11 000 on 1-1- 2012.
  - (d) Sold for ID 11000 on 1-10- 2012.