

# Property, Plant, and Equipment

## lecture 1



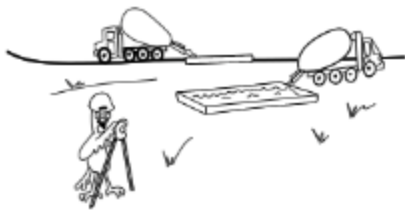
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## Property, plant, & equipment

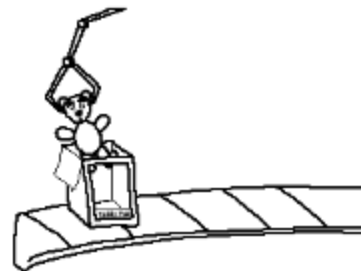
Long-term assets used in the course of business



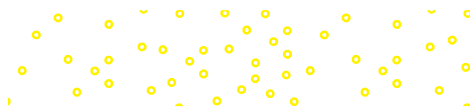
Property



Plant



Equipment





## Property, Plant and Equipment

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 والالات والمعدات: هي الموارد الملموسة التي تُستخدم في عمليات وحدة الاعمال (الكيان التجاري ) وغير المخصصة للبيع للزبائن وتشمل الأراضي والمباني (المكاتب والمصانع والمستودعات ) الالات والادوات والسيارات والاثاث .

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 والالات والمعدات بشكل عام اصولا طويلة الأمد ويمكن ان توفر فوائد طويلة الأمد بالإضافة الى ذلك ، من المتوقع أن تقدم هذه الاصول خدمات للشركة لعدد من السنوات.

### Characteristics of Property, plant and Equipment خصائص الممتلكات والالات والمعدات

- 1- They have a physical substance . أن يكون لها جوهر مادي.
- 2- They are used in the operations of a business entity يتم استخدامها في عمليات كيان تجاري
- 3- They are not intended for sale to the customers . هي ليست مخصصة للبيع للعملاء.
- 4- Long-term in nature and usually depreciated . طويلة الأجل بطبيعتها وعادة ما تنخفض قيمتها



## 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 جاهز للاستخدام المقصود. على سبيل المثال ، تشمل تكلفة الآلات 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 الانتاجي.

**Example 1:** Baghdad company acquires real estate at a cash cost of 100,000 ID . The property contains an old warehouse the cost of removing it is of 6000 ID , additional expenditures are the attorney's fee, 1000 ID , and the real estate broker's Commission 8000 ID . The cost of the land is 115,000 ID , computed as shown below :

### Illustration;

Cash price of property ID 100,000

Net removal cost of warehouse 6000

Attorney's fee 1000

Real estate broker's commission 8000

Total cost **115,000** ID



The company records the following entry of acquisition

|             |                |
|-------------|----------------|
| <b>Land</b> | <b>115,000</b> |
| <b>Cash</b> | <b>115,000</b> |

To record acquisition of land at cost 115,000 ID

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**Example 2:** assume that Baghdad Company purchases factory machinery at a cash price of 50,000 ID. Related expenditures are for sales taxes 3000 ID , insurance during shipping 500 ID , and installation and testing 1000 ID .

The cost of the factory machinery is ID 54,500 as shown in the following illustration;

**Illustration :**

Cash price ID 50000

Sales taxes 3000

Insurance during shipping 500

Installation and testing 1000

Total Cost of factory machinery **54,500** ID

And the company records the following entry

|                  |               |
|------------------|---------------|
| <b>Equipment</b> | <b>54,500</b> |
| <b>Cash</b>      | <b>54,500</b> |

To record factory machinery at total cost of 54,500 ID



### 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 16,000 ID cash. The Equipment originally cost 60,000 ID. As of January 1, 2012, it had accumulated depreciation of 41,000 ID . Depreciation for the first six months of 2012 is 8000 ID .

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

#### Solution:

July 1, 2012,

|   |             |
|---|-------------|
| <b>Depreciation Expense</b>               | <b>8000</b> |
| <b>Accumulated Depreciation—Equipment</b> | <b>8000</b> |

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

Cost of Equipment 60,000 ID

Less: Accumulated depreciation (41,000 + 8000) = 49,000 ID

Book value at date of disposal 11,000

Proceeds from sale 16,000

Gain on disposal of plant asset 5000



July 1

|  |                |   |                |
|--|----------------|---|----------------|
| <b>Cash</b>                                | <b>16, 000</b> |   |                |
| <b>Accumulated Depreciation- Equipment</b> | <b>49, 000</b> |   |                |
|  |                | <b>Equipment</b>                        | <b>60, 000</b> |
|  |                | <b>Gain on Disposal of Plant Assets</b> | <b>5 000</b>   |

(To record sale of Equipment at a gain)

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## 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 60,000 ID  
Less: Accumulated depreciation 49,000 ID  
Book value at date of disposal 11,000 ID  
Proceeds from sale 9000 ID  
Loss on disposal of plant asset 2000 ID

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



**Solution:**

July 1

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

(To record sale of Equipment at a loss)

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**Question :** Ottawa Corporation owns machinery that cost \$20,000 when purchased on July 1, 2019. Depreciation has been recorded at a rate of \$2,400 per year, resulting in a balance in accumulated depreciation of \$8,400 at December 31, 2022. The machinery is sold on September 1, 2023, for \$10,500.

**Prepare** journal entries to **(a)** update depreciation for 2023 and **(b)** record the sale.