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|  | Chapter 19 | Accounting for Plant Assets, Depreciation, and Intangible Assets |

Memo

To:My Awesome Advanced Accounting Students

From:Mrs. Cleary

Date:11/7/2016

Re:Chapter 19 Learning Guide

**Lesson 19-1 – Buying Plant Assets and Paying Property Taxes (Page 582)**

**Bridge:**

* You have already learned how to journalize and post using a cash payments journal, cash receipts journal and a general journal.
* Chapter 15 taught you how to record an adjustment for depreciation expense using the straight-line method of depreciation. This chapter presents an alternative method for calculating depreciation expense.
* Plant assets are the largest asset category for many businesses. You learned about physical assets in Chapter 15, and this chapter will teach you how to account for non-physical assets like patents, copyrights, trademarks, customer lists, and other similar items.
* Managers must analyze investment opportunities to determine which plant asset will help ern the most revenue. They use a ration called ROI to help predict the efficiency of an investment. A higher ROI is better.
* You already know how to record the purchase of supplies in a cash payments journal. Recording a plant asset is similar.
* When journalizing the purchase of a plant asset, all of the costs used to obtain the item—like taxes, shipping costs, and installation—are included in the cost.

**Reading Guide** *(Please key your answers to the following questions.)*

1. Please define return on investment.
2. Define plant assets.
3. Plant assets are recorded at cost. Which accounting concept is involved when recording the cost of a plant asset?
4. What is real property?
5. Please define personal property and provide an example.
6. Define assessed value.

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| **19-1 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Buying a plant asset |  |  |
| Buying a group of assets |  |  |
| Calculating and paying property tax |  |  |

**Lesson 19-2 – Calculating Depreciation Expense (Page 589)**

**Bridge:**

* Straight-line depreciation was covered in Chapter 15. This lesson shows you how to depreciate a plant asset for a partial year*.*
* The straight-line depreciation method results in an equal amount of depreciation each year.
* Total straight line depreciation: original cost - estimated salvage value = estimated total depreciation expense.
* Annual depreciation expense: total estimated total depreciation expense divided by the years of estimated useful life.

**Reading Guide** *(Please key your answers to the following questions.)*

1. Tell me about the Accumulated Depreciation account.
2. Can the salvage value of an asset be zero? Please explain.
3. Please explain the straight-line depreciation method.
4. What is the formula for calculating depreciation expense for part of a year?
5. How is accumulated depreciation calculated?
6. How is book value calculated?

**Lesson 19-3 – Journalizing Depreciation Expense (Page 594)**

**Bridge:**

* This lesson shows how to organize and journalize the depreciation expense once it is calculated.
* Remember, depreciation is calculated and recorded as an adjustment in the general journal.
* The Accumulated Depreciation account is a contra asset account with a normal credit balance.
* Recording annual depreciation does not have an effect on the plant asset. It only affects the book value of the asset account.
* Depreciation expense is calculated and recorded for each category of plant assets.
* At any time, the book value of a plant asset can be calculated by subtracting its accumulated depreciation from the plant asset account.

**Reading Guide** *(Please key your answers to the following questions.)*

1. What is a plant asset record?

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| **19-3 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Adjusting entry to record the annual depreciation expense for office equipment |  |  |

**Lesson 19-4 – Disposing of a Plant Asset (Page 598)**

**Bridge:**

* So now you know about depreciating plant assets. Now you will learn how to record the sale of a plant asset when it is sold at book value, or more than book value, or less than book value.
* What if the plant assets become obsolete or just wear out? Most plant assets have a book value when discarded or sold.
* You are going to learn how to calculate the gain or loss on the sale of a plant asset.

**Reading Guide** *(Please key your answer to the following questions.)*

1. What three things must be achieved in the journal entry that records the disposal of a plant asset?
2. Why must depreciation expense be recorded for a partial year if the asset is being sold or disposed of in the middle of a year?
3. How many journal entries are required to record the discarding of a plant asset? Which two journals are used?

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| **19-4 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Depreciation expense on the disposal of store equipment. |  |  |
| Received cash from sale of office equipment for more than book value *(Cash Receipts Journal Entry)* |  |  |
| Received cash from sale of office equipment for less than book value *(Cash Receipts Journal Entry)* |  |  |

**Lesson 19-5 – Declining Balance Method of Depreciation (Page 603)**

**Bridge:**

* You now have a good handle on straight-line depreciation. This lesson will explain the Double-Declining Balance Method, which is used for plant assets that depreciate more in their early years of useful life.
* The Double-Declining Balance Method is known as an accelerated depreciation method because it results in a higher amount of depreciation expense in the first years of an asset’s useful life and less in the later years. (Automobiles lose the most value in the first years of useful life. Consequently, autos are typically depreciated using the Double-Declining Balance Method.)
* **Note:** A plant asset is never depreciated below its salvage value. The original cost is used in the formula when calculating the annual depreciation. Therefore, in the final year, only enough depreciation expense is recorded to reduce the book value of the plant asset to its salvage value**. In other words, the estimated salvage value is used only to limit the last year’s depreciation expense.**
* Depreciation Expense can decrease the tax obligation. Whatever method is used, GAAP (Generally Accepted Accounting Principles) requires a business to use the same method of depreciation each year.
* Over the life of a plant asset, both methods record the same total amount of depreciation expense.

**Reading Guide** *(Please key your answers to the following questions.)*

1. The declining-balance depreciation rate is some multiple of the straight-line rate. What rate do many companies use?
2. Please explain the formula for calculating depreciation using the Double-Declining Balance Method.
3. How is depreciation expense calculated in the final year?

**Lesson 19-6 – Buying Intangible Assets and Calculating Amortization Expense (Page 607)**

**Bridge:**

* You already know how to record the purchase and depreciation of plant assets. This lesson covers recording the purchase of an asset that is nonphysical in nature.
* You will also learn how to expense the cost of the intangible asset, much like depreciation.
* Recording the purchase of an intangible asset is very similar to recording the purchase of any other asset.
* The value of the intangible, the nonphysical one, comes from the rights it gives to the individual.
* If the useful life or legal life of an intangible asset can be determined, the cost must be spread out over its useful life, similar to depreciation.
* Unlike recording annual depreciation for a physical asset, the intangible asset is decreased with the amortization expense.
* There is no estimated salvage value of an intangible asset and not accumulated amortization account.
* Amortization expense decreases net income.

**Reading Guide** *(Please key your answers to the following questions.)*

1. What is an intangible asset?
2. What is amortization?

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| **19-6 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Paid cash for a patent.  |  |  |
| Adjusting entry for recording an amortization expense. |  |  |