PROPERTY, PLANT, AND EQUIPMENT

Definition of property, plant, and equipment :

Tangible assets that are held by a firm for use in the production or supply of goods and services. Property, plant, and equipment include land, building structures (offices, factories, warehouses), and equipment machinery, computers, vehicles, furniture, and others) . The major characteristics of property, plant, and equipment are as follows:

1. They are acquired for use in operations and not for resale.
2. They are long-term in nature and usually depreciated.
3. They possess physical substance.

Determination of property, plant, and equipment Assets Costs:

The cost of a fixed asset comprises its purchase price, import duties and taxes of a purchase and any directly attributable cost (الكلفة المنسوبة) of bringing the asset to working condition for its intended use. As a rule, expenditures that result in future economic benefits are added as part of the assets cost, or capitalized, while expenditures that do not result in improving the service potential of the asset are charged to current revenue.

Example /1 :

Suppose the costs associated with a machine on January 18, 2012 are:

List price IQD 2000000; Trade discount IQD 100000; Taxes IQD 400000 Transit insurance IQD 12000; Freight IQD 40000; Installation charges IQD 120000.

Solution:

The cost of acquisition of the machine would be computed as follows:

Particulars	**ID**	
List price	2000000	
Less: Trade discount	(100000)	
Net price		1900000
Add:		
Taxes	400000	
Transit insurance	12000	
Freight	40000	
Installation charges	120000	
		572000
		2472000

The Journal entry to record the acquisition of the machine is as follow:

Machinery	2472000	
Cash		2472000

Acquisition of machine and incidental expenditures

Example /2 :

The Iraq company acquires real estate at a cash cost Of ID 150000. The property contains removal cost of an old warehouse of ID 10000, additional expenditures are the attorney's fee, ID 2000 , The Commission ID 8000.

Solution:

Particulars	**ID**
Price of property	150000
Net removal cost of warehouse	10000
Attorney's fee	2000
The Commission	8000
Total cost	170000

The Journal entry to record:

Land	170000	
Cash		170000

Acquisition of land at cost ID 170000

Disposal of property, plant, and equipment by sale

When property, plant, and equipment are sold, gain or loss on the disposal is computed by comparing the book value with the amount received from the sale. A sale price in excess of the book value produces a gain; a sale price below the book value produces a loss. These gains or losses should be reported separately in the income statement or profit and loss account at the end of the period.

Rule :(قاعدة) If the selling price is more than the book value of the asset, the transaction results is gain .Alternatively if the selling price is less than the book value of the asset, the result will be loss.

Cost of asset	××××
Less Accumulated depreciation	××××
Book value asset	××××
comparing from sale	××××
Gain or Loss	

Example /3 :

Assume a car that cost IQD 2000000 and has a book value of IQD 400000 is sold for IQD 500000. The journal entry to record this disposal is as follow:

Solution:

Cash	500000		
Accumulated Depreciation: Car	1600000		…………….. (2000000-400000)
Car		2000000	
Gain on Disposal of Car		100000	

To record sale of car at a price above book value

Assume that the same car is sold for IQD 200000. The journal entry, in this case, would be as follows:

Cash	200000	
Accumulated Depreciation: Car	1600000 …………….. (2000000-400000)	
Loss on Disposal of Car	200000	
Car		2000000

To record sale of car at a price below book value

Assume that the same car is sold for IQD 400000. The journal entry, in this case, would be as follows:

Cash	400000	
Accumulated Depreciation: Car	1600000 …………….. (2000000-400000)	
Car		2000000

To record sale of car

Example /4 :

If a car costing IQD 4500000 was sold on 1st, April, 2012 by IQD 700000 cash. The balance of accumulated depreciation - car on 31st December, 2011 is IQD 3000000. The annual depreciation is IQD 1000000.The entries for sale in the journal are:

Solution:

Depreciation on car sold 1/1/2012 _ 1/4/2012 : 1000000×3/12 = 250000 IQD

Depreciation Expense – Car	250000	
Accumulated Depreciation – Car		250000

record depreciation on car sold from 1st Jan to 1st April, 2012

Cost of a car	4500000
Less Accumulated depreciation	(3250000)
Book value a car	1250000 > from sale 700000 = 550000 (Loss)

Cash	700000	
Accumulated Depreciation. - car	3250000 ………….(3000000+250000)	
Loss on Car Sold (disposed)	550000	
Car		4500000

sold car by IQD 700000 cash Less than book value

On 1/4/2012

Profit and Loss	800000	
Loss on Car sold (disposed)		550000
Depreciation Expense. - car		250000

Close of Loss on car sold and depreciation expense of car in P & L A/c

If the selling price is more than the book value of the car, the result is gain.

Example /5:

Assume the same car in the previous exercise was sold by IQD 3000000 in cash. The entries which should be passed in journal are stated below:

Accumulated Depreciation – Car	3250000	
Cash	3000000	
Gain on Car sold (disposal)		1750000
Car		4500000

record depreciation on car sold

At the end of the year, we should transfer gain on car sold to Profit and Loss A/c as follow:

Gain on Car sold (disposal)	1750000	
Profit and Loss		1750000

Close of Gain on Car sold to P & L A/c

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