

CONCEPT: INITIAL COST OF LONG-LIVED (PLANT) ASSETS

● **Plant Assets** include _____, _____, _____, and _____

☐ **RULE:** Initial cost includes the price plus all _____ expenditures to make an asset _____

☐ When recording the initial cost of plant assets, GAAP follows the _____ principle

☐ Plant Assets are then _____ over their _____

- The only plant asset that is not depreciated is _____

The company purchases a machine for \$10,000.

1/1/20X1 Journal Entry for Purchase

The machine is depreciated over its 10-year useful life.

12/31/20X1 Journal Entry for Depreciation

● **Land** is often purchased as the _____ for a factory or office. The costs to make land ready for use include:

☐ The cash purchase price (may also include the value of a _____)

☐ Closing costs related to titles and attorney fees

☐ Real estate broker commissions

☐ Property taxes and liens assumed by the buyer

☐ The cost of _____ any old structures on the land (less any salvage value)

☐ **NOTE:** Land _____ depreciated

EXAMPLE: The Sexy Times Lingerie Company (STLC) just purchased a plot of land to build its new edible underpants factory. STLC paid \$40,000 in cash and signed a 5-year note payable for an additional \$160,000. In closing the sale, STLC also paid \$1,500 in attorney fees and a broker commission of \$2,500. Furthermore, the land housed a dilapidated warehouse that STLC removed for \$12,000, while receiving \$3,000 from the scrap metal. After removing the warehouse, STLC paved a portion of the land as a parking lot at a cost of \$15,000. What is the initial cost of the land and the journal entry to record the purchase?

- **Land Improvements** are additions, such as driveways, parking lots, fences, and sprinklers. These have _____
 - The cost of the land improvement will be debited to the Land Improvements (_____) account
 - A company can have **leasehold improvements** on items that it leases (i.e. painting a logo on a leased truck)
 - Though they don't own the truck, they own and depreciate the improvement over the _____ of the lease
 - **NOTE:** Land Improvements _____ depreciated (amortized) over their useful lives

EXAMPLE: STLC entered into an agreement to lease an office building for the next ten years. As part of the agreement, STLC was allowed to build walls inside of the building to separate the office space. STLC paid \$20,000 to build the walls inside the office building. The walls are expected to last 20 years. The journal entry to record this transaction would include:

- a) A debit to Land for \$20,000
- b) A debit to Buildings for \$20,000
- c) A debit to Leasehold Improvements for \$20,000
- d) A debit to an Expense for \$20,000

The value of the walls will be depreciated over:

- a) 10 years
- b) 15 years
- c) 20 years
- d) The walls will not be depreciated

● **Buildings** purchases are treated similar to land and equipment purchases:

- ☐ Include all costs necessary to make the building _____
- ☐ If the building is constructed, the company can also include _____ on borrowings to finance the project
- ☐ **NOTE:** Buildings _____ depreciated over the useful life of the building.

PRACTICE: On July 1, STLC purchased a building from EZ Construction by putting \$60,000 as a down payment and signing a \$320,000 note payable due in fifteen years. The note payable had an interest rate of 6% due semi-annually. Other details related to the purchase include: \$4,200 in delinquent real estate taxes payable by STLC; \$6,000 in brokerage commissions paid by EZ Construction; \$1,100 in attorney fees paid by STLC; \$11,000 for a company sign at the entrance to the property; and \$2,000 for lighting around the grounds of the building. The building is expected to last forty years. What will be the journal entry to record the purchase of the building on July 1?

● **Equipment** and **Machinery** purchases are treated similar to land and building purchases:

- ☐ Include all costs necessary to make the equipment _____
- ☐ Unique accommodations for the equipment are included in the cost of the equipment (i.e. special platform)
- ☐ Any delivery expenses paid to receive the equipment are included in the cost of the equipment
- ☐ After the asset is in use, any insurance, taxes, and maintenance costs are expensed as incurred
- ☐ **NOTE:** Equipment _____ depreciated over the useful life of the building.

PRACTICE: STLC purchased a new edible underwear production machine at a cost of \$14,000. STLC also paid \$700 in sales taxes, \$1,200 for delivery of the machine, and \$1,600 in installation costs. Upon arrival, a special platform needed to be built for the machine to work properly. The special platform cost \$4,000. STLC also paid an engineer \$1,000 to test the equipment. After successfully installing the machine, STLC insured the machine at a cost of \$500. They also spent \$150 to lube the gears of the machine. What is the initial depreciable cost of the machine?