

Property, Plant, and Equipment (PPE)

Key terms: **Property, plant and equipment** are *tangible* items that:

- (a) are held for *use* in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during *more than one period*.

Examples are building, machine, land, furniture, plant, vehicle, etc.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity

The **residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Example: Information on Acquisition, Depreciation, Disposal of PPE and Financial Statement Presentation:

Company A acquired the <i>truck</i> for ₱1,250,000 cash on January 1, 20X1.	<--	COST
The estimated useful life is 5 years or 125,000 kilometers driven.	<--	USEFUL LIFE
(Actual units used are 27,000, 29,000, 25,000, 24,000, 20,000 kilometers driven in YR. 1-5)		
The residual value at the end of the useful life is ₱250,000.	<--	RESIDUAL VALUE

I. Acquisition of Property, Plant, and Equipment

Journal entry to record acquisition

Date	General Journal	Debit	Credit

II. Depreciation of Property, Plant, and Equipment

COST - RESIDUAL VALUE = DEPRECIABLE AMOUNT

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DEPRECIABLE
AMOUNT**Journal entry to record depreciation**

Date	General Journal	Debit	Credit

Depreciation method**(1) Straight-line method**

Year	Calculations	Depreciation Expense	Accumulated Depreciation	Carrying Amount (Book Value)
YR0:				
YR1:				
YR2:				
YR3:				
YR4:				
YR5:				

(2) Double-declining-balance method

Year	Calculations	Depreciation Expense	Accumulated Depreciation	Carrying Amount (Book Value)
YR0:				
YR1:				
YR2:				
YR3:				
YR4:				
YR5:				

(3) Sum-of-the-years' digits method

Year	Calculations	Depreciation Expense	Accumulated Depreciation	Carrying Amount (Book Value)
YR0:				
YR1:				
YR2:				
YR3:				
YR4:				
YR5:				

(4) Units-of-production method

Year	Calculations	Depreciation Expense	Accumulated Depreciation	Carrying Amount (Book Value)
YR0:				
YR1:				
YR2:				
YR3:				
YR4:				
YR5:				

III. Change in Accounting Estimates of Property, Plant, and Equipment

IF company A decided to revise the useful life from 5 years to 8 years on January 1, 20X3.

Assume that the company applied the straight-line method for this truck and the residual value is not revised.

Straight-line method

Year	Calculations	Depreciation Expense	Accumulated Depreciation	Carrying Amount (Book Value)
YR0:				
YR1:				
YR2:				
YR3:				
YR4:				
YR5:				
YR6:				
YR7:				
YR8:				

IV. Disposal of Property, Plant, and Equipment

IF company A sold the truck on September 30, 20X3 for \$750,000 cash.

Assume that the company applied the straight-line method for this truck.

Gain or loss calculation

Figure 1: Proceed from sale

Figure 2: Carrying amount (Book value) at the time of sale

Cost

Less: Accumulated depreciation

Carrying amount (Book value) at the time of sale

Gain (Loss) on sale

Journal entry to record disposal

Date	General Journal	Debit	Credit

V. Financial Statement Presentation

Statement of Comprehensive Income

Year 20X2

Year 20X3

REVENUE

EXPENSE

Depreciation expense

GAIN (LOSS)

Gain (Loss) on sale of truck

PROFIT OR LOSS (NET INCOME)

+/- OTHER COMPREHENSIVE INCOME

= TOTAL COMPREHENSIVE INCOME

Statement of Financial Position

Dec. 31, 20X2

Dec. 31, 20X3

ASSETS

Property, Plant, and Equipment, cost

Less: Accumulated Depreciation (Contra-asset account)

Property, Plant, and Equipment, net (Carrying value or Book value)

LIABILITIES

SHAREHOLDERS' EQUITY