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 ***truck*** 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 <-- 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 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) Unit-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

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

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