

Survey of Accounting, 9e

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SURVEY OF ^{9E}
ACCOUNTING
WITH WARREN'S METRIC ANALYSIS

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Chapter 7

Fixed Assets, Natural Resources, and Intangible Assets

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Learning Objectives

- Define, classify, and account for the cost of fixed assets
- Compute depreciation using the straight-line and double-declining-balance methods
- Describe the accounting for the disposal of fixed assets
- Describe the accounting for natural resources
- Describe the accounting for intangible assets
- Describe the reporting of fixed assets, natural resources, and intangible assets on the income statement and balance sheet
- Describe and illustrate asset turnover in assessing a company's operating results

Slide 3

ansr9 The LO description for LO 4 as per per page 296 is "Describe the accounting for depletion of natural resources." whereas the description as per page 278 is "Describe the accounting for natural resources." Please let us know which one is final.

ansrsource, 11/19/2019

Learning Objective 1

Define, classify, and account for the cost of fixed assets

Fixed Assets

- Long-term or relatively permanent assets
 - Examples: Equipment, machinery, buildings, and land
- Characteristics
 - Tangible assets
 - Owned and used by the company in its normal operations
 - Not offered for sale as part of normal operations

Exhibit 2: Classifying Costs

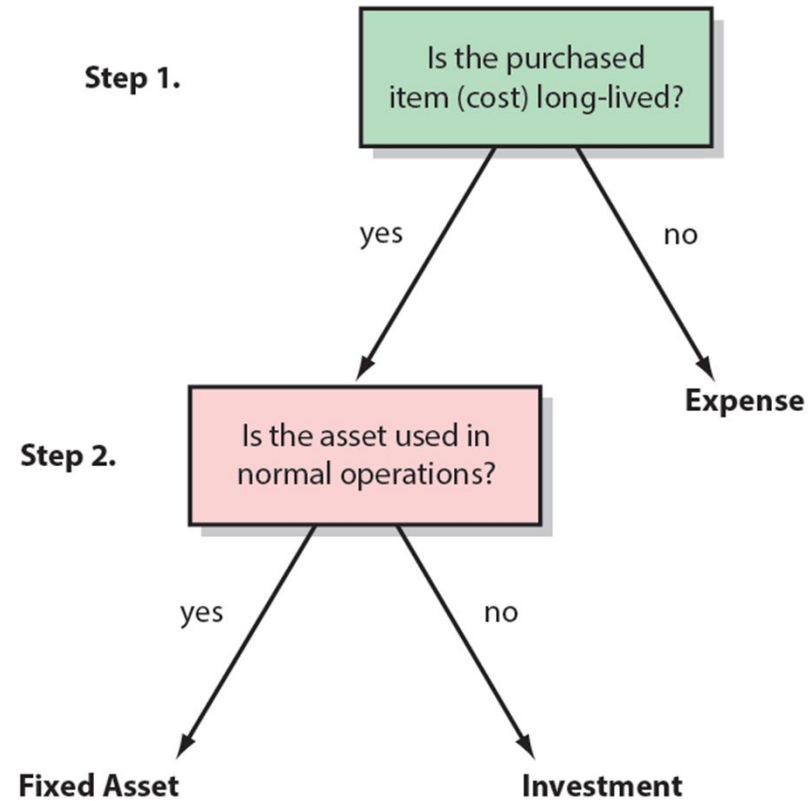


Exhibit 3: Costs of Acquiring Fixed Assets

Building

- Architects' fees
- Engineers' fees
- Insurance costs incurred during construction
- Interest on money borrowed to finance construction
- Walkways to and around the building
- Sales taxes
- Repairs (purchase of existing building)
- Reconditioning (purchase of existing building)
- Modifying for use
- Permits from government agencies

Machinery & Equipment

- Sales taxes
- Freight
- Installation
- Repairs (purchase of used equipment)
- Reconditioning (purchase of used equipment)
- Insurance while in transit
- Assembly
- Modifying for use
- Testing for use
- Permits from government agencies

Land & Land Improvements

- Purchase price
- Sales taxes
- Permits from government agencies
- Broker's commissions
- Title fees
- Surveying fees
- Delinquent real estate taxes
- Removing unwanted buildings, less any salvage
- Grading and leveling
- Paving a public street bordering the land
- Trees and shrubs
- Paved parking areas
- Outdoor lighting
- Fences

Illustration: Southwest Needle Inc.

- Southwest Needle Inc. purchased the following equipment on June 5:
 - All costs were paid in cash

| | |
|------------------------------------------|----------|
| Purchase price..... | \$30,000 |
| Freight costs (FOB shipping point) | 1,100 |
| Installation costs | 2,750 * |

* Includes cost of \$900 incurred to repair equipment damaged during installation.

Transaction Metrics

- Liquidity metric: **Free cash flow**

$$\text{Free Cash Flow} = \text{Operating Cash Flows} - \text{Investing Cash Flows}$$

- Profitability metric: **Asset turnover**

$$\text{Asset Turnover} = \frac{\text{Sales}}{\text{Average Long-Term Operating Assets}}$$

Effects of Purchasing the Equipment on the Financial Statements of Southwest Needle Inc.

- Financial statement effects

| BALANCE SHEET | | | | |
|---------------|----------|-------------|---|------------------------------------|
| | Assets | | = | Liabilities + Stockholders' Equity |
| | Cash | + Equipment | = | Retained Earnings |
| June 5. | (33,850) | 32,950 | | (900) |

| STATEMENT OF CASH FLOWS | |
|-------------------------|----------|
| June 5. Investing | (32,950) |
| June 5. Operating | (900) |

| INCOME STATEMENT | |
|-----------------------|-------|
| June 5. Misc. expense | (900) |

- Transaction metric effects

| LIQUIDITY | |
|----------------|------------|
| Free Cash Flow | \$(33,850) |

| PROFITABILITY | |
|----------------|----------|
| Asset Turnover | Decrease |

Fixed Asset Leases

- **Lease:** Contract for the use of an asset for a period of time
- Parties to a lease contract
 - Lessor
 - Lessee
- Assumed to be short-term and rental contracts not to extend beyond a year
 - Lease payments are recorded as Rent Expense
- Lease terms are normally disclosed in notes to financial statements

Learning Objective 2

Compute depreciation using the straight-line and double-declining-balance methods

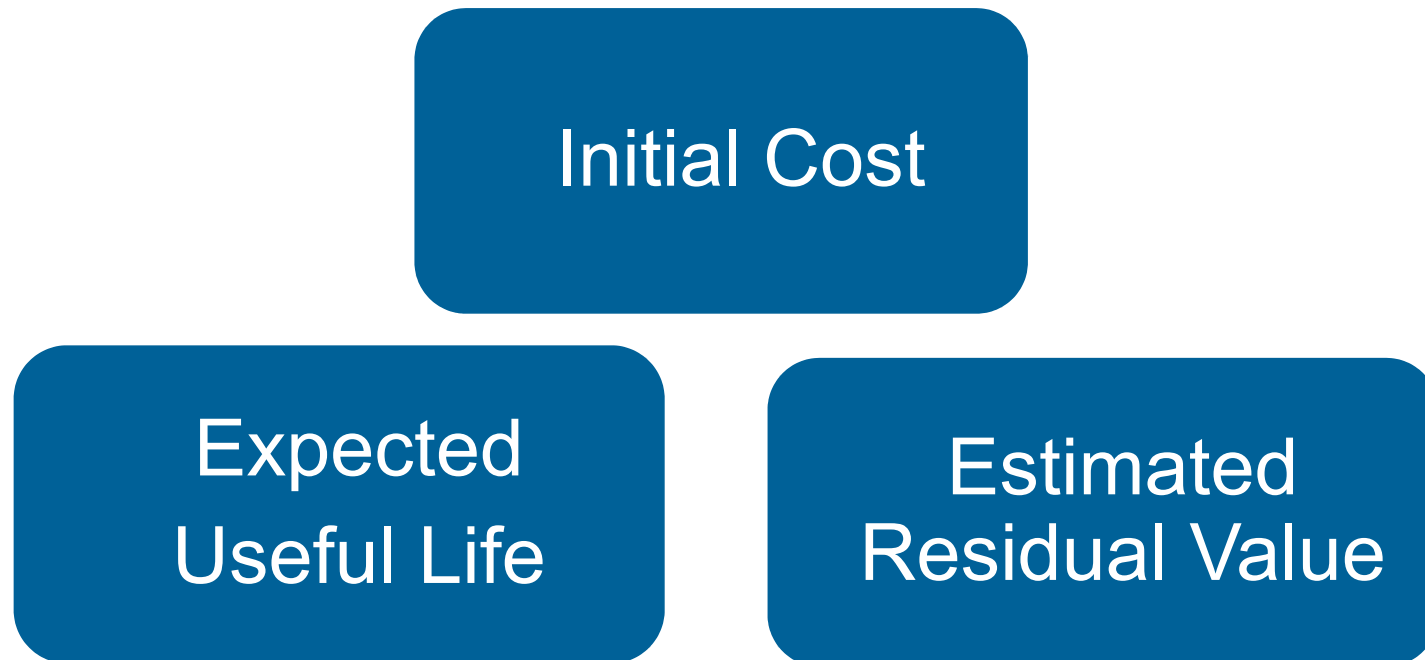
Accounting for Depreciation

- **Depreciation:** Periodic recording of the cost of fixed assets as an expense
 - Caused by:
 - Physical depreciation factors
 - Functional depreciation factor
 - Land is not depreciated as it has unlimited life

Accounting for Depreciation (continued)

- Misunderstandings regarding depreciation
 - Depreciation does not measure a decline in the market value of a fixed asset
 - **Book value** of a fixed asset does not agree with the asset's market value
 - Depreciation does not provide cash to replace fixed assets as they wear out
 - Does not require an outlay of cash when it is recorded

Factors in Computing Depreciation Expense for a Fixed Asset



Computing Depreciation Expense

- **Depreciable cost:** Amount of an asset's cost that is allocated over its useful life as depreciation expense
 - If a fixed asset has no residual value, then its entire cost should be allocated to depreciation

Depreciation Methods

Straight-Line
Depreciation

Double-
Declining-
Balance
Depreciation

Exhibit 4: Depreciation

| | |
|-----------------------|----------------|
| Initial Cost..... | \$24,000 |
| Residual Value..... | <u>(2,000)</u> |
| Depreciable Cost..... | \$22,000 |

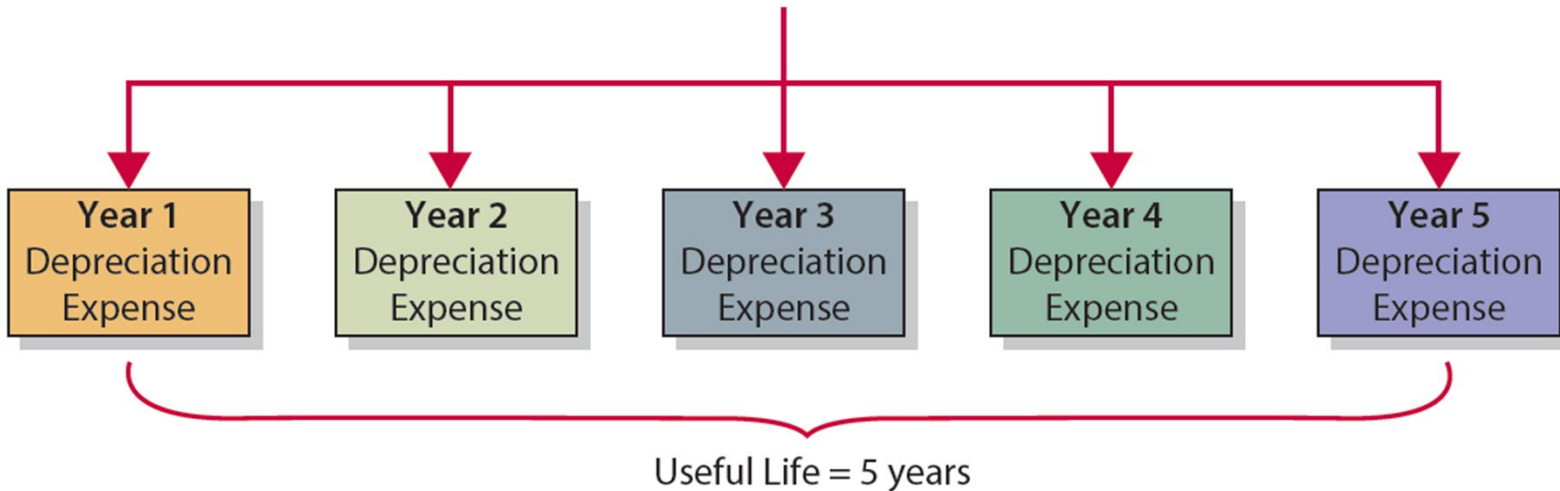
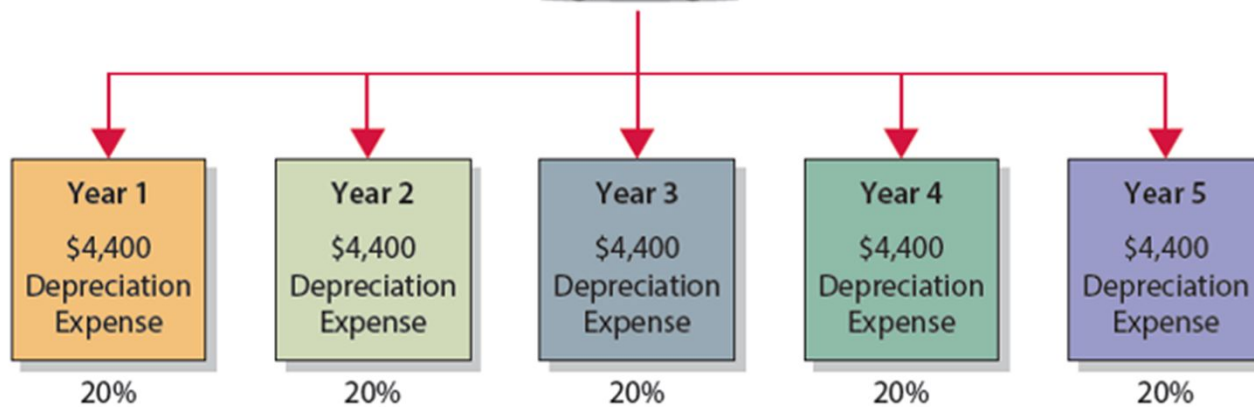


Exhibit 5: Straight-Line Method

| | |
|-----------------------|----------------|
| Initial Cost..... | \$24,000 |
| Residual Value..... | <u>(2,000)</u> |
| Depreciable Cost..... | \$22,000 |



$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Residual Value}}{\text{Useful Life}} = \frac{\$24,000 - \$2,000}{5 \text{ Years}} = \$4,400$$

Financial Statement Effects of Recording First-Year Depreciation

- Financial statement effects

| BALANCE SHEET | | | |
|---------------|---------------------|---|------------------------------------|
| Assets | | = | Liabilities + Stockholders' Equity |
| Equipment | Acc. Depr. – Equip. | = | Retained Earnings |
| Dec. 31. | (4,400) | | (4,400) |

| STATEMENT OF CASH FLOWS | |
|-------------------------|--|
| | |

| INCOME STATEMENT | |
|------------------------|---------|
| Dec. 31. Depr. expense | (4,400) |

- Transaction metric effects

| LIQUIDITY | |
|----------------|-----------|
| Free Cash Flow | No Effect |

| PROFITABILITY | |
|----------------|----------|
| Asset Turnover | Increase |

Double-Declining-Balance Method

- Provides for a declining periodic expense over the expected useful life of the asset
- Also called **accelerated depreciation method**

Steps to Apply the Double-Declining-Balance Method

Step 1: Determine the straight-line percentage using the expected useful life



Step 2: Determine the double-declining-balance rate by multiplying the straight-line rate from step one by two



Step 3: Compute the depreciation expense by multiplying the double-declining-balance rate from step two by the book value of the asset

Double-Declining-Balance Method: Illustration

- Assume a \$24,000 depreciable asset with an estimated five-year useful life and an estimated \$2,000 residual value

| Year | Cost | Acc. Depr. at Beginning of Year | Book Value at Beginning of Year | | Double- Declining- Balance Rate | Depreciation for Year | Book Value at End of Year |
|------|----------|---------------------------------------|---------------------------------------|---|---------------------------------------|--------------------------|---------------------------------|
| 1 | \$24,000 | | \$24,000.00 | × | 40% | \$9,600.00 | \$14,400.00 |
| 2 | 24,000 | \$ 9,600.00 | 14,400.00 | × | 40% | 5,760.00 | 8,640.00 |
| 3 | 24,000 | 15,360.00 | 8,640.00 | × | 40% | 3,456.00 | 5,184.00 |
| 4 | 24,000 | 18,816.00 | 5,184.00 | × | 40% | 2,073.60 | 3,110.40 |
| 5 | 24,000 | 20,889.60 | 3,110.40 | × | — | 1,110.40 | 2,000.00 |

Exhibit 6: Double-Declining-Balance Method

| | |
|-----------------------|-----------------|
| Initial Cost..... | \$24,000 |
| Residual Value..... | (2,000) |
| Depreciable Cost..... | <u>\$22,000</u> |

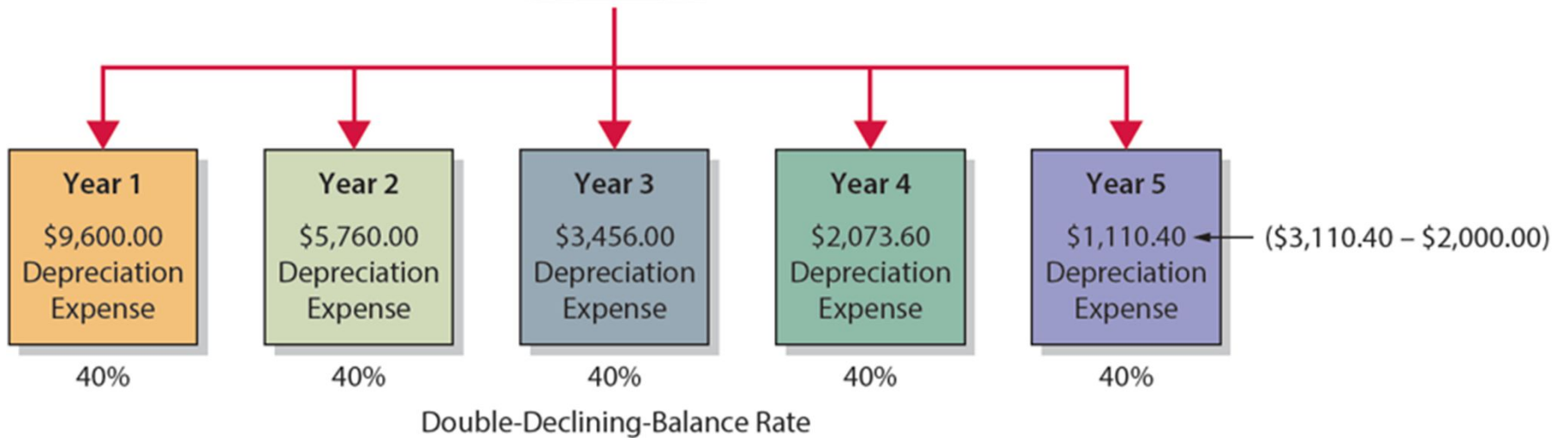


Exhibit 7: Summary of Depreciation Methods

| Method | Useful Life | Depreciable Cost | Depreciation Rate | Depreciation Expense |
|--------------------------|--------------------|----------------------------------------------------|--------------------------|-----------------------------|
| Straight-line | Years | Cost less residual value | Straight-line rate* | Constant |
| Double-declining-balance | Years | Declining book value, but not below residual value | Straight-line rate* × 2 | Declining |

*Straight-line rate = (1/Useful life)

Exhibit 8: Comparing Depreciation Methods

| Year | Depreciation Expense | |
|-------|----------------------|---------------------------------|
| | Straight-Line Method | Double-Declining-Balance Method |
| 1 | \$ 4,400.00* | \$ 9,600.00 (\$24,000 × 40%) |
| 2 | 4,400.00 | 5,760.00 (\$14,400 × 40%) |
| 3 | 4,400.00 | 3,456.00 (\$8,640 × 40%) |
| 4 | 4,400.00 | 2,073.60 (\$5,184 × 40%) |
| 5 | 4,400.00 | 1,110.40** |
| Total | <u>\$22,000.00</u> | <u>\$22,000.00</u> |

*\$4,400 = $(\$24,000 - \$2,000) \div 5$ years
 **\$3,110.40 – \$2,000.00 because the equipment cannot be depreciated below its residual value.

Partial Year Depreciation

- Depreciation is prorated based on the month the asset is placed in service
- Computed using:
 - Straight-line method
 - Double-declining-balance method

Slide 27

ansr10 We have not made the suggested change on this slide since the sentence does not seem redundant.
ansrsource, 11/19/2019

Partial Year Depreciation: Straight-Line Method

- Illustration: The van in the preceding illustration was purchased on October 1 instead of January 1
 - The first-year depreciation would be computed as follows:
 - Annual depreciation = $(\$22,000 - \$2,000) \div 5 \text{ years} = \$4,400$
 - First-year depreciation = $\$4,400 \times (3 \div 12) = \$1,100$
 - Second year's depreciation = $\$4,400$

Partial Year Depreciation: Double-Declining-Balance Method

- Illustration: The van in the preceding illustration was purchased on October 1 instead of January 1
 - Computation of depreciation for the first year
 - Double-declining balance rate = $(100 \div 5) \times 2 = 40\%$
 - First-year annual depreciation = $\$24,000 \times 40\% = \$9,600$
 - First-year partial depreciation = $\$9,600 \times (3 \div 12) = \$2,400$
 - Second-year annual depreciation = $\$21,600 \times 40\% = \$8,640$

Additional Costs

- Incurred after a fixed asset has been purchased and placed into service
- Include:
 - Routine maintenance and repairs
 - Known and recorded as **revenue expenditures**
 - Extraordinary repairs and improvements
 - Known and recorded as **capital expenditures**
 - Improvements
 - Recorded as capital expenditure

Maintenance, Repair, and Improvement Costs: Illustration

- On January 8 of Year 2, the van that was used incurred the following costs:
 - Tune-up engine and oil change: \$300
 - Repaired transmission: \$900
 - Installed new hydraulic lift: \$1,500

Effects of Incurring the Preceding Costs

- Financial statement effects

| BALANCE SHEET | | | | | | |
|---------------|---------|--------------|---|---------------------------|-------------|------------------------|
| Assets | | | | = | Liabilities | + Stockholders' Equity |
| Cash | + | Delivery Van | - | Acc. Depr. – Delivery Van | = | Retained Earnings |
| Jan. 8. | (2,700) | 1,500 | | 900 | | (300) |

| STATEMENT OF CASH FLOWS | |
|-------------------------|---------|
| Jan. 8. Investing | (2,400) |
| Jan. 8. Operating | (300) |

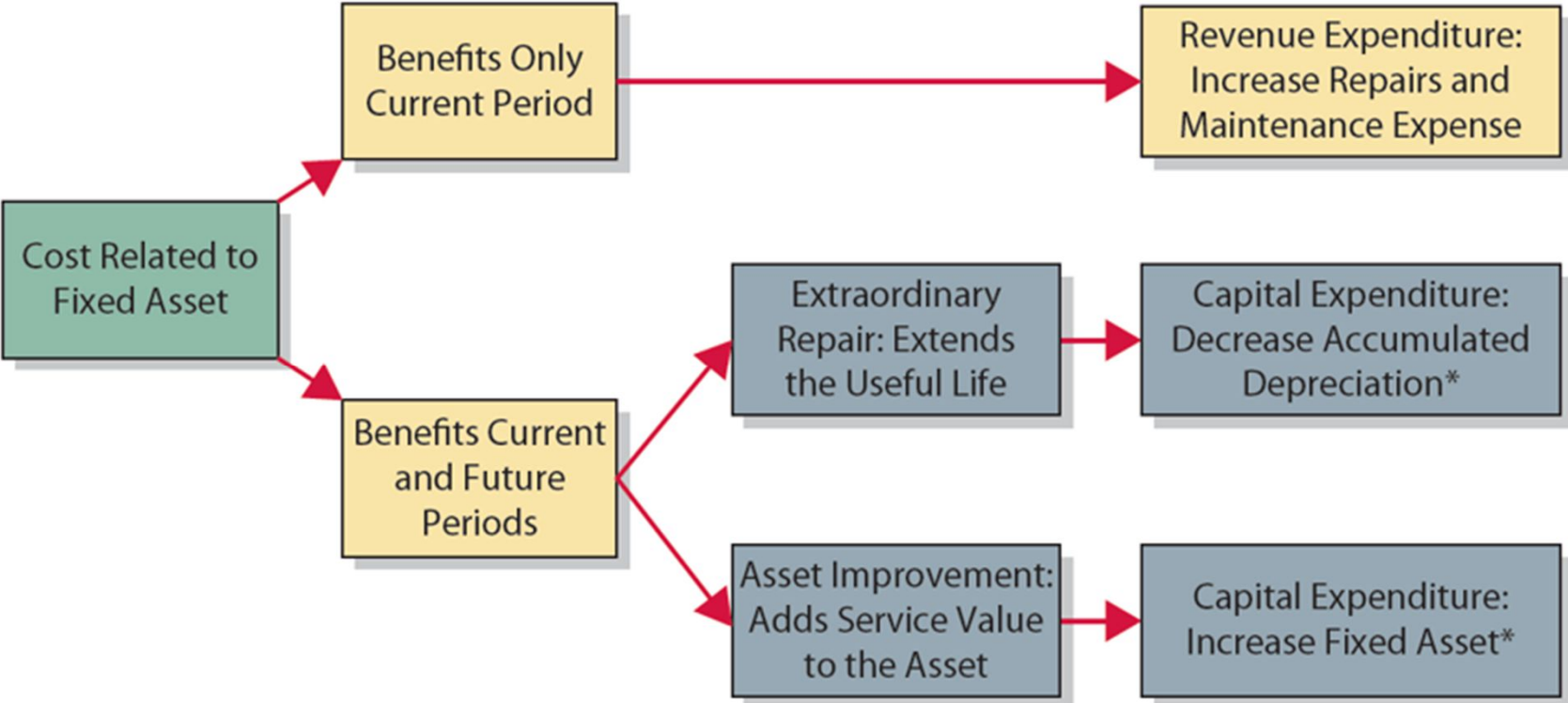
| INCOME STATEMENT | |
|-------------------------------|-------|
| Jan. 8. Repairs & maint. exp. | (300) |

- Transaction metric effects

| LIQUIDITY | |
|----------------|-----------|
| Free Cash Flow | \$(2,700) |

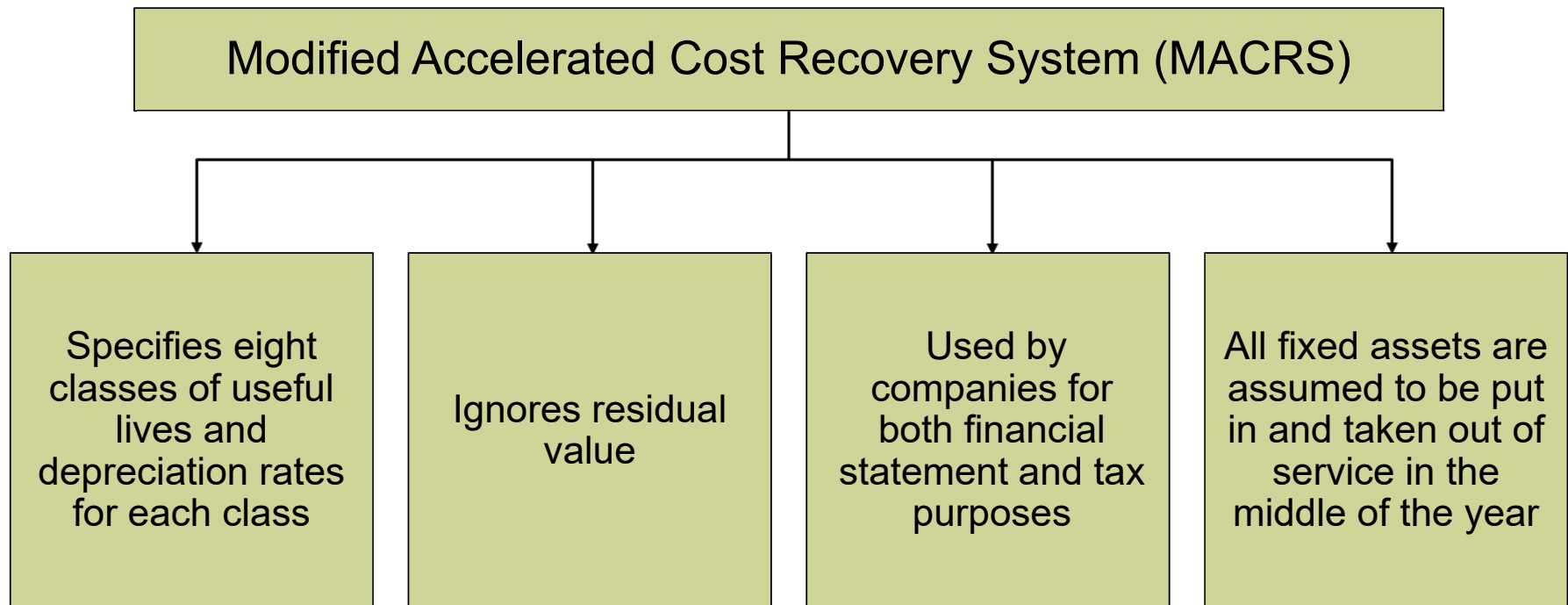
| PROFITABILITY | |
|----------------|----------|
| Asset Turnover | Decrease |

Exhibit 9: Revenue and Capital Expenditures



* Revise depreciation.

Depreciation for Federal Income Tax



Learning Objective 3

Describe the accounting for the disposal of fixed assets

Disposal of Fixed Assets

- Fixed assets are removed from accounts when they are discarded or sold
- If a fixed asset is still being used, its cost and accumulated depreciation should remain in the records even if the asset is fully depreciated
 - Maintains accountability

Discarding Fixed Assets

- Fully depreciated equipment acquired at a cost of \$25,000 is discarded on February 14, 20Y7

| BALANCE SHEET | | | |
|---------------|-------------|---------------------|------------------------------------|
| Assets | | = | Liabilities + Stockholders' Equity |
| | Equipment - | Acc. Depr. - Equip. | |
| Feb. 14. | (25,000) | 25,000 | |

| | |
|-------------------------|------------------|
| STATEMENT OF CASH FLOWS | INCOME STATEMENT |
|-------------------------|------------------|

- Transaction metric effects

| LIQUIDITY | | PROFITABILITY | |
|----------------|-----------|----------------|-----------|
| Free Cash Flow | No Effect | Asset Turnover | No Effect |

Discarding Fixed Assets (continued 1)

- Equipment costing \$6,000 with \$4,750 of accumulated depreciation on December 31, 20Y6, is discarded on March 24, 20Y7
 - Effect of recording the depreciation for the three months of 20Y7 before the asset is discarded

| BALANCE SHEET | | | | |
|---------------|-----------------------|---|-------------|------------------------|
| Assets | | = | Liabilities | + Stockholders' Equity |
| Equipment | - Acc. Depr. - Equip. | = | | Retained Earnings |
| Mar. 24. | | | | (150) |
| | (150)* | | | |

| STATEMENT OF CASH FLOWS | |
|-------------------------|--|
| | |

| INCOME STATEMENT | |
|------------------------|-------|
| Mar. 24. Depr. expense | (150) |

*(\$6,000 x 10%) x (3 ÷ 12) = \$150

Discarding Fixed Assets (continued 2)

- Equipment costing \$6,000 with \$4,750 of accumulated depreciation on December 31, 20Y6, is discarded on March 24, 20Y7
 - Effect on the accounts and financial statements of discarding the equipment

| BALANCE SHEET | | | | | | |
|---------------|---------|---------------------|---|-------------|---|----------------------|
| Assets | | | = | Liabilities | + | Stockholders' Equity |
| Equipment | - | Acc. Depr. - Equip. | = | | | Retained Earnings |
| Mar. 24. | (6,000) | 4,900* | = | | | (1,100) |

| STATEMENT OF CASH FLOWS | |
|-------------------------|--|
| | |
| | |

| INCOME STATEMENT | |
|-------------------------------------|---------|
| Mar. 24. Loss on disposal of equip. | (1,100) |

*\$4,750 + \$150 = \$4,900

Discarding Fixed Assets (continued 3)

- Equipment costing \$6,000 with \$4,750 of accumulated depreciation on December 31, 20Y6, is discarded on March 24, 20Y7
 - Effects of updating depreciation and discarding the asset on liquidity and profitability metrics are as follows:

| LIQUIDITY | | PROFITABILITY | |
|----------------|-----------|----------------|----------|
| Free Cash Flow | No Effect | Asset Turnover | Increase |

Selling Fixed Assets

- Entry to record the sale of fixed assets is similar to the entries for discarding fixed assets
 - Involves recording cash or other assets received
- Sale of fixed assets could result in a gain or a loss
- Illustration: Equipment costing \$10,000 with no estimated residual value is depreciated at an annual straight-line rate of 10%
 - The equipment is sold for cash at book value on October 12 of the eighth year of use
 - Accumulated depreciation as of the preceding December 31 is \$7,000

Selling Fixed Assets (continued)

- Financial statement effects of updating depreciation for nine months of the current year

| BALANCE SHEET | | | | |
|---------------|---------------------|---|-------------|------------------------|
| Assets | | = | Liabilities | + Stockholders' Equity |
| Equipment | Acc. Depr. – Equip. | = | | Retained Earnings |
| Oct. 12. | (750)* | = | | (750) |

| STATEMENT OF CASH FLOWS | |
|-------------------------|--|
| | |

| INCOME STATEMENT | |
|------------------------------|-------|
| Oct. 12. Depr. exp. – equip. | (750) |

*(\$10,000 x 10%) x (9 ÷ 12) = \$750

Selling Fixed Assets: Assumption (a)

- The asset is sold at book value, for \$2,250

| BALANCE SHEET | | | | |
|---------------|-------|-------------|--------------------------------------|-----------------------|
| Assets | | | = Liabilities + Stockholders' Equity | |
| | Cash | + Equipment | - | Acc. Depr.— Equip. |
| Oct. 12. | 2,250 | (10,000) | | 7,750 |

| STATEMENT OF CASH FLOWS | |
|-------------------------|-------|
| Oct. 12. Investing | 2,250 |

| INCOME STATEMENT | |
|------------------|--|
| | |

No gain or loss

Selling Fixed Assets: Assumption (b)

- The asset is sold below book value, for \$1,000

| BALANCE SHEET | | | | | | |
|---------------|-------|-------------|---|--------------------------------------|---|-------------------|
| Assets | | | | = Liabilities + Stockholders' Equity | | |
| | Cash | + Equipment | - | Acc. Depr. — Equip. | = | Retained Earnings |
| Oct. 12. | 1,000 | (10,000) | | 7,750 | | (1,250) |

| STATEMENT OF CASH FLOWS | |
|-------------------------|-------|
| Oct. 12. Investing | 1,000 |

| INCOME STATEMENT | |
|-------------------------------------|---------|
| Oct. 12. Loss on disposal of equip. | (1,250) |

Selling Fixed Assets: Assumption (c)

- The asset is sold above book value, for \$2,800

| BALANCE SHEET | | | | | |
|---------------|-------------|----------|--------------------------------------|---|----------------------|
| Assets | | | = Liabilities + Stockholders' Equity | | |
| Cash | + Equipment | - | Acc. Depr.— Equip. | = | Retained Earnings |
| Oct. 12. | 2,800 | (10,000) | 7,750 | | 550 |

| STATEMENT OF CASH FLOWS | |
|-------------------------|-------|
| Oct. 12. Investing | 2,800 |

| INCOME STATEMENT | |
|-------------------------------------|-----|
| Oct. 12. Gain on disposal of equip. | 550 |

\$2,800 – \$2,250

Gain of \$550

Selling Fixed Assets: Transaction Metric Effects

- Effects of updating depreciation and selling the equipment on liquidity and profitability metrics

| | Liquidity Metric | Profitability Metric |
|----------------------------------------------|-------------------------|-----------------------------|
| | <u>Free Cash Flow</u> | <u>Asset Turnover</u> |
| Equipment sold for \$2,250. No gain or loss. | \$2,250 | Increase |
| Equipment sold for \$1,000. Loss of \$1,250. | \$1,000 | Increase |
| Equipment sold for \$2,800. Gain of \$550. | \$2,800 | Increase |

Learning Objective 4

Describe the accounting for depletion of natural resources

Natural Resources Assets

- Characteristics
 - Naturally occurring
 - Removed from their land source for sale
 - Removed and sold over more than one year
- Classified as a type of long-term asset
- **Depletion expense** account is created for a portion of the cost of the resource removed

Depletion

- Depletion is determined as follows:

- Step 1

$$\text{Depletion Rate} = \frac{\text{Cost of Resource}}{\text{Estimated Total Units of Resource}}$$

- Step 2

$$\text{Depletion Expense} = \text{Depletion Rate} \times \text{Quantity Removed}$$

Depletion Expense: Illustration

- Karst Company purchased mining rights as follows:
 - Cost of mineral deposit: \$400,000
 - Estimated total units of resource: 1,000,000 tons
 - Tons mined during year: 90,000 tons
 - Depletion rate = $\$400,000 \div 1,000,000 = \0.40 per ton
 - Depletion expense = $\$0.40$ per ton \times 90,000 tons = \$36,000

Effect of Depletion on Accounts and Financial Statements

- Financial statement effects

| BALANCE SHEET | | | |
|-----------------|-----------------|---|------------------------------------|
| Assets | | = | Liabilities + Stockholders' Equity |
| Mineral Deposit | -Acc. Depletion | = | Retained Earnings |
| Dec. 31. | (36,000) | | (36,000) |

| STATEMENT OF CASH FLOWS | INCOME STATEMENT |
|-------------------------|----------------------------------|
| | Dec. 31. Depletion exp. (36,000) |

- Transaction metric effects

| LIQUIDITY | | PROFITABILITY | |
|----------------|-----------|----------------|----------|
| Free Cash Flow | No Effect | Asset Turnover | Increase |

Learning Objective 5

Describe the accounting for intangible assets

Intangible Assets

- Long-term assets that are used in the operations of a business
 - Acquired through innovative, creative activities or from purchasing the rights from another company
- Do not exist physically
- Accounting is similar to that for fixed assets
- Cost is transferred to expense through **amortization**

Patents

- Allow manufacturers to acquire exclusive rights to produce and sell goods with one or more unique features
- Patent amortization is computed using the straight-line method
- Costs of the patents developed through research and development are recorded as current operating expenses in the period in which they are incurred

Patents: Illustration

- At the beginning of its fiscal year, a company acquires patent rights for \$100,000
 - Although the patent will not expire for 14 years, its remaining useful life is estimated as five years

| BALANCE SHEET | | |
|-------------------|---|------------------------------------|
| Assets | = | Liabilities + Stockholders' Equity |
| Patents | = | Retained Earnings |
| Dec. 31. (20,000) | | (20,000) |

| STATEMENT OF CASH FLOWS | INCOME STATEMENT |
|-------------------------|-------------------------------------------------|
| | Dec. 31. Amortization exp.— (20,000) patents |

Patents: Transaction Metric Effects

- Effects of amortizing the patent on the liquidity and profitability metrics are as follows:

| LIQUIDITY | | PROFITABILITY | |
|----------------|-----------|----------------|----------|
| Free Cash Flow | No Effect | Asset Turnover | Increase |

Copyrights and Trademarks

Copyright

- Exclusive right to publish and sell a literary, artistic, or musical composition
- Costs include all costs of creating the work plus any other costs of obtaining the copyright
- Amortized over its estimated useful life

Trademark

- Name, term, or symbol used to identify a business and its products
- Symbol: ®
- Not amortized

Goodwill

- Created from favorable factors, such as location, product quality, reputation, and managerial skill
- Generally accepted accounting principles (GAAP)
 - Allow goodwill to be recorded only if it is objectively determined by a transaction
- Not amortized

Goodwill: Illustration

- On December 31, FaceCard Company has determined that \$250,000 of the goodwill created from the purchase of Electronic Systems is impaired

| BALANCE SHEET | | |
|---------------------------|---|------------------------------------|
| Assets | = | Liabilities + Stockholders' Equity |
| Goodwill | = | Retained Earnings |
| <i>Dec. 31.</i> (250,000) | | (250,000) |

| STATEMENT OF CASH FLOWS | INCOME STATEMENT |
|-------------------------|-------------------------------------------------------|
| | <i>Dec. 31.</i> Loss from impaired goodwill (250,000) |

Goodwill: Transaction Metric Effects

- The effects the impaired goodwill has on liquidity and profitability metrics are as follows:

| LIQUIDITY | | PROFITABILITY | |
|----------------|-----------|----------------|----------|
| Free Cash Flow | No Effect | Asset Turnover | Increase |

Exhibit 11: Comparison of Intangible Assets

| Intangible Asset | Description | Amortization Period | Periodic Expense |
|------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------------------------------------------|
| Patent | Exclusive right to benefit from an innovation | Estimated useful life not to exceed legal life | Amortization expense |
| Copyright | Exclusive right to benefit from a literary, artistic, or musical composition | Estimated useful life not to exceed legal life | Amortization expense |
| Trademark | Exclusive use of a name, term, or symbol | None | Impairment loss if fair value less than carrying value (impaired) |
| Goodwill | Excess of purchase price of a business over the fair value of its net assets (assets – liabilities) | None | Impairment loss if fair value less than carrying value (impaired) |

Learning Objective 6

Describe the reporting of fixed assets, natural resources, and intangible assets on the income statement and balance sheet

Financial Reporting for Fixed Assets and Intangible Assets

Income statement

- Depreciation and amortization should be reported separately
- Description of methods used in computation should be disclosed

Balance sheet

- Each class of fixed assets should be disclosed
- Related accumulated depreciation should be disclosed
- Intangible assets are reported in a separate section

Exhibit 12: Fixed Assets and Intangible Assets on the Balance Sheet

| Assets | | | |
|--------------------------------------------|--------------------|---------------------|-------------------|
| Total current assets | | | \$ 462,500 |
| Property, plant, and equipment: | <u>Cost</u> | <u>Acc. Depr.</u> | <u>Book Value</u> |
| Land | \$ 30,000 | — | \$ 30,000 |
| Buildings | 110,000 | \$ 26,000 | 84,000 |
| Factory equipment | 650,000 | 192,000 | 458,000 |
| Office equipment | 120,000 | 13,000 | 107,000 |
| | <u>\$ 910,000</u> | <u>\$ 231,000</u> | \$ 679,000 |
| Mineral deposits: | <u>Cost</u> | <u>Acc. Depl.</u> | <u>Book Value</u> |
| Alaska deposit | \$1,200,000 | \$ 800,000 | \$ 400,000 |
| Wyoming deposit | 750,000 | 200,000 | 550,000 |
| | <u>\$1,950,000</u> | <u>\$ 1,000,000</u> | 950,000 |
| Total property, plant, and equipment | | | 1,629,000 |
| Intangible assets: | | | |
| Patents | | | \$ 75,000 |
| Goodwill | | | 50,000 |
| Total intangible assets | | | 125,000 |

Learning Objective 7

Describe and illustrate asset turnover in assessing a company's operating results

Asset Turnover: Illustration

- The following data (in millions) are adapted from recent financial statements for Delta Air Lines:

| | Year 2 | Year 1 |
|--------------------------------------|----------|----------|
| Sales | \$41,244 | \$39,639 |
| Operating assets (average for year): | | |
| Property, plant, equipment | 25,469 | 23,707 |
| Intangibles..... | 14,640 | 14,647 |

- Asset turnover (rounded to two decimal places)

| Asset turnover | Year 2 | Year 1 |
|---------------------------------------|--------|--------|
| $\$41,244 \div (\$25,469 + \$14,640)$ | 1.03 | N A |
| $\$39,639 \div (\$23,707 + \$14,647)$ | N A | 1.03 |

End of Chapter 7