

ACCT 3368-

Chapter 10

Classified B.S. -

Assets = Liabilities and S.H.E

C.A

C.L

L.T.I

L.T.I

P.P and Equipment

S.H.E

I.A

Total Assets

total liabilities @ S.H.E

↳ (other assets)

\* P.P & Equipment

- ↳ depreciable assets (limited U.L) - *أصول قابلة للتآكل*
- ↳ non depreciable assets [Land] (unlimited U.L)

\* Land improvements

Limited Life

Unlimited life

(Depreciation)

(Assets)

B.S (Land improvements)

B.S (land) ⇒ permanent.

\* أي شيء يتآكل من أصول (الأرض، الخ) يعتبر من أصولها أما إذا كان دائم  
ويستمر، فإنه يعتبر من أصولها الدائمة.

# \* Capitalization of interest - 15 - 2023

\* ~~البيان~~ ~~البيان~~ ~~البيان~~

① شركة لاوي منها Capital كافي بالتالي يجب فرقها

في بطرقة عليها فوائد 5%

② الشركة، الفائدة، ال Capital، الها غير كافي بالتالي حاد فرقها

وحيثكون عليها فوائد 10% (بتكاليفهم خاصة فيكونوا غلط)

\* Interest  $\Rightarrow$  Cost of Building -

لا ي necessarily

\* الفوائد خلال فترة البناء  $\leftarrow$  تكلفة البناء (Cost of Building)

الفوائد بعد استكمال البناء  $\leftarrow$  (Interest expense)  $\leftarrow$  في الأرباح ستقوت

رسالة  $\Rightarrow$  Capitalization  $\Rightarrow$  هي الفوائد نسبيها

(تحويل المصروف للأصول)  $\Rightarrow$  during (قبل الاستكمال)

وما لا asset يدر في B.S

1 \* actual interest cost

2 \* avoidable interest cost

بعدم ا حسم باض الاقل  $\rightarrow$

Capitalization considers three items:-

Qualifying assets (الأصول المؤهلة)   
 البيان

Capitalization period (فترة الرسالة)

Amount of capitalize

ال asset ان يهي مؤهل بل هو فترة محددة كل وقت

(This Equipment qualified to Capitalization)

الرسالة بتبليغ وتشرحها في بداية الرسالة (لأننا نفضل عدم التمر  
 بالرسالة التي يرسلها بتبليغنا أن طلبنا أن نؤمن ذلك في الفرض)  
 \* الفوائد التي يدفعها قبل ال 7 أشهر تكون Interest Expense  
 على حسابها خاصة في Capitalization أما ما تبقى له نهاية يكون  
 لا العيش بهير باجر.

Temporary investment ← استثمارات مؤقتة

\* (ممنوع استخدامها مع الاقتراض والاستثمار معاً)

لا تعامل مع كل وصية كالمال.

مثال صفحة 20  
 صنعة أشتريها 200000 \$ الفائدة سنوية 12%  
 1/1/2017 (لشراءها كمنفعة) ← Jan 1 2017

Jan 1	100000	
April 30	150000	14% - 500000
Nov 1	300000	10 years
Dec 31	100000	16% - 300000
total	650000	5 years

\* صر ← Asset مؤجل يتبين من 1/1 بخط في 31/12

مدة ال Capitalization (سنة كاملة) (12/12)

\* actual \* quidability

1/1 - 31/12 ⇒ 12 month 12/12

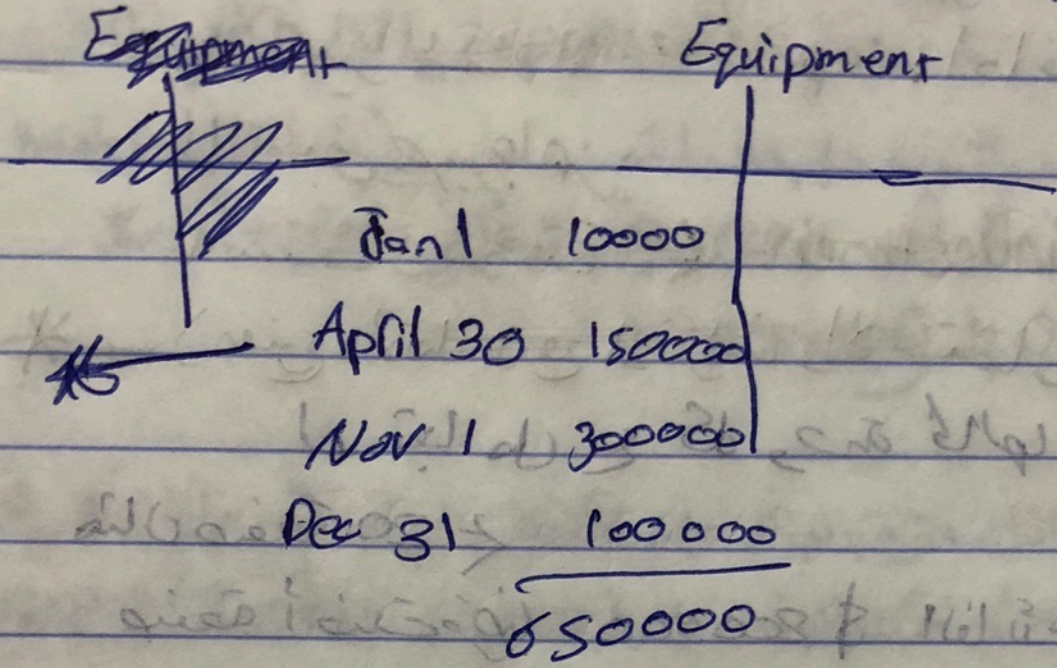
دائماً المقام 12، لأننا دائماً نفضل سنة سنوية.

حتى لو كانت ال Capitalization مختلفة

1/1 - 30/8 ⇒ 8 month 8/12

30/4 - 31/12  $\Rightarrow$  8 months

1/11 - 31/12  $\Rightarrow$  2 months 2/12 (معروفه بتبطل)



Waighted Average accumulated expenditure (WAAFE)

\* 250000

specific loan (S.L) (above the S.L)

$(200000 * 12\%)$   $(50000 * 12.5)$

$= 24000 + 62500$

~~30000~~

avoidable interest = 30250

W.A.I.R. :-

other general Debts :-

\* Bonds payable  $500000 \times 14\% = 70000$

\* Notes payable  $300000 \times 10\% = 30000$   
 $\hookrightarrow 30000 \qquad \qquad \qquad \hookrightarrow 100000$

$\Rightarrow$  total interest expense  $= \frac{100000}{800000} = 12.5\%$   
 total prinable from other debts

\* إذا كان مبلغ الدين بائناً في شهر رمضان سنة 1435  
 فيكون الدين بائناً في شهر رمضان سنة 1435  
 $500000 \times 14\% \times 3/12$

Actual Interest :-

(1) S.L =  $200000 \times 12\% = 24000$

(2) B/P =  $500000 \times 14\% = 70000$

(3) N.P =  $30000 \times 10\% = 30000$

$\hookrightarrow$  total = 124000

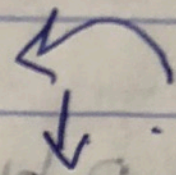
Accumulated Expenditure I.A

200000  $12\%$  24000

500000  $12.5\%$  6250

250000 30250

Avoidable  $\Rightarrow$  30 250



Int. Inc.

Actual  $\Rightarrow$  124 000

\* Capitalization = 30 250 \*

$\Rightarrow$  Cost of Equipment  $\Rightarrow$  B.S

~~68 000~~ = 68 0250

Jan 1 Dr Equipment 100 000

Cr Cash 100 000

Apr 31 Dr Eq 150 000

Cr cash 150 000

Nov 1 Dr Eq 300 000

Cr cash 300 000

Dec 31 Dr Eq 100 000

Cr cash 100 000

Capitalization interest cost introy

Dr Eq (C.I.E) 30 250

~~Cr cash~~ Dr interest Expens 93 750  $\leftarrow$  B.S 1 yr.

Cr cash 124 000

Actual - avoidable ← Interest expense  
(equipment, etc)

\*  
ON November 1, 2016 Shall a Company contracted  
Prestier Construction company, to construct a building  
for 1400 000 on land (purchased for costing  
100 000, Shall a make the following payments to  
the construction company during 2017

1 January 1 ⇒ 210 000

3 March 1 ⇒ 300 000

5 May 1 ⇒ 540 000

Dec 31 ⇒ 450 000

\* Total ⇒ 1 500 000

Jan 1 (100 000) (100 000)  
① 15%, 3 years note to finance purchase land and construction  
of the building, dated December 31, 2016 with interest payable  
annually on December 31 750 000

↑ Specific construction debt

Other debt

↓ ② 10% - 5 year note payable, dated Dec 31 2013  
with interest payable annually on Dec 31: 550 000

③ 12%, 10 year bonds payable issued Dec 31, 2012  
with interest payable annually on Dec 31, 600 000

— Compute weighted-average accumulated  
expenditures for 2017

600 000

# Expenditures

Date	Amount	Current Year Capitalization period	Weighted average
Jan 1	210000	12/12	210000
Mar 1	300000	10/12	250000
May 1	<del>5480000</del>	8/12	360000
Dec 31	<u>450000</u>	0/12	<u>0</u>
	1500000		820000

(S.L)  $750000 \times 15\% = 112500$

$70000$  (above the S.L.)

$70000 \times 11\% = 7700$

$112500 + 7700 = 120200$

note payable =  $550000 \times 10\% = 55000$

bonds payable =  $600000 \times 12\% = 72000$

$1150000 \times 11.04\% = 127000$

Weighted average interest =  $\frac{127000}{1150000} = 11.04\%$

avoidable interest =  $120200$

Actual interest =

- S.L = 112500
- N.P = 55000
- B.P = 72000

total = 239500





إذا اشتركت شركة قلمها أرضها كواقع للبناء واقترضت  
فمنها قطعة الأرض وفوائدها تدفلي Building

إذا اشتركت الشركة أفدت قرضها وعرضها حقايات وعرضها قطع  
عنا نبيدها لعنهم فرائسها تدفلي فلي الأرض

إذا اشتركت قرضها ولجنت بعد فركها بالرفع ولجنت اشتر  
عنا بلق الرقيقينو مناة ستها وسيفلا شترت  
نبحاصل مع كز وحدة كمال.

## \* Valuation of property, plant, and Equipment.

give up  $\Rightarrow$  fair value <sup>بفرض أسهم</sup>  
received assets  $\Rightarrow$  fair value <sup>وبفدا أرضها</sup>

Cr common stock

Cr additional paid in capital

Other expenses and losses :-

Interest Expense

Less - Capitalization interest

~~F.3~~

⇒ ~~Other Expenses & losses~~

~~Interest expense~~

~~Capitalize~~

Assume

Avoidable > Actual

239500      120228

Dr Building (C.I)      120228

Dr interest expense      0

(120228 - 120228)

Cr Cash      ~~120228~~ 120228

Income Statement

Statement

Other expenditure losses:

Interest expense      120228

Less : Capitalized interest      120228

0

# Exchanges of nonmonetary assets:-

- Monetary assets = assets which have a predetermined value

← أصول ذات قيمة نقدية سبق ثابته للأبد  
بالعادة يكون بالريال أو الدولار  
الذي يكون سهو تحويلها عالية

nonmonetary assets ⇒ أصول ذات قيمة غير نقدية  
ويكون High Quality مثل inventory, equipment  
(علوية) وفي غير مملوكة

الفرق بينهم ← monetary assets - ~~تتغير~~  
تبادل nonmonetary assets من غير نقدية  
تتغير أو ترفع أو تنخفض

- Commercial substance:- (مصلحة تجارية)

cash in ← future cash flow  
cash out ← (الباقي - الباقي)

\* يتخذ القيمة السوقية للباقي أي القيمة فيه

future cash flow غير المحققين بغير صافي الأرباح

## Type OF Exchange s-

\* Exchange has commercial substance.

- Exchange has lacks commercial substance

⇒ no cash received. (معي على ايدل ما كنة (ماتبقة) فاهلها, بيقول)

- Exchange has lack commercial substance

⇒ cash received

## Accounting Guidance s-

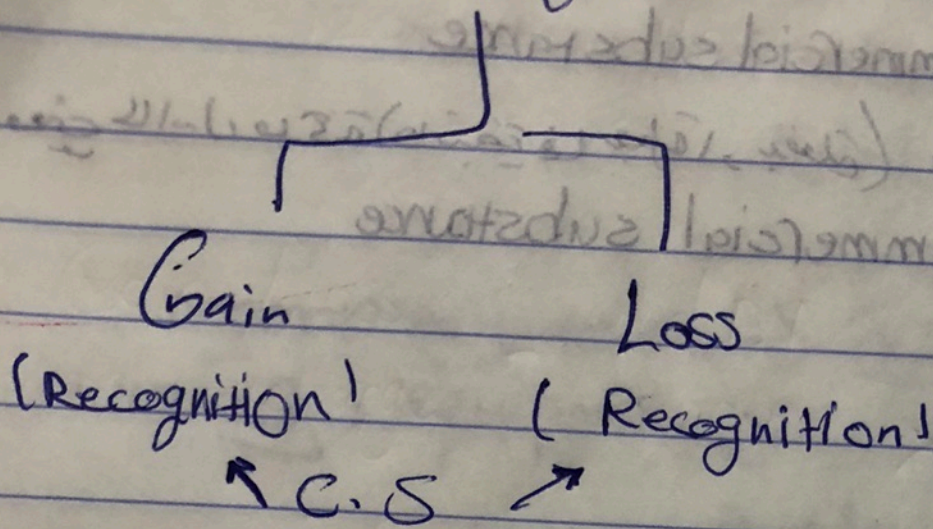
- Recognize gain or losses immediately.

- Defair gains - recognize losses immediately. (تأجيله)

- Recognize partial gain - recognize losses immediately.

\* If cash is 25% or more of the Fair value of the exchange, recognize entire gain because earning process is complete.

# Exchange



Lacks  $\Rightarrow$  C.S (loss - recog recording.)

ال loss داياً خساره تسجل دون اي تسجيل  
(من ضروري ان عرف ازامن وبت اولاه)

ال gain لازم اعرف ازامن C.S

lacks C.S (gain)

① Defer gain & -

FMV of new asset. (cost).

② cash received.

Total gain

Recognize Defered.

Recognized gain  $\geq$   $\frac{\text{Cash received}}{\text{cash received} + \text{Fair market value}}$

$\geq 25\%$  or  $25\%$

greater 25% or 25%  $\Rightarrow$

All gain must be reported.

Defer gain - new asset.

CS

(old Assets) Book value

$$BV = \text{Cost} - \text{Accumulated depreciation.}$$

$$= 12000 - 4000$$

$$= 8000$$

Gain / loss on Exchange = old BV  $\rightarrow$  8000  $\leftarrow$  MFV  $\leftarrow$  6000

Loss (2000)

list price of new machine	16000
<span style="border: 1px solid black; padding: 2px;">less</span> trade in allowance	9000
cash to be paid	<u>7000</u>
+ Fair value of used machine	6000
Cost of new machine	<u>13000</u>

$$FMV \text{ of new asset} = \text{old FMV} + \text{cash paid}$$

$$= 6000 + 7000$$

$$= 13000$$

الابجد اتقري

① لغيره لا يستلزم

Accumulated depreciation. ~~4000~~



Dr Acc. Dep 4000  
 Dr New machine 13000  
 Dr loss on Disposal 2000  
 cr old machine 12000  
 cr cash 7000

•  $BV = 64000 - 22000 = 24000$

• loss / gain = old BV - old FMB  
 $42000 - 49000$

gain  $\Rightarrow 7000$

• FMV of new assets = old FMV + cash paid  
 $49000 + 11000 = 60000$

Dr Accumlated depreciation 22000

Dr ~~Old~~ New Delivery truck 60000

cr old delivery truck 64000

cr gain on disposal 7000

cr cash 11000

\* This transaction lacks C.O.S  $\Rightarrow$  Defer gain  
 FMV of new delivery truck =  $60000 - 7000 = 53000$

Dr Acc. Dep 22000  
 Dr New delivery truck 53000  
 Cr old delivery truck 64000  
 Cr cash 11000

$$\text{Depreciation Expense} = \frac{\text{Cost} - \text{SV}}{\text{U.L}}$$

$$= \frac{6000 - 0}{10} = 600$$

Dep. Exp New ↙  
 $= \frac{53000}{10}$   
 $= 5300$

Example slide 48

Boot ⇒ cash received

$$\text{BV} = \text{cost} - \text{Acc Dep}$$

$$= 100000 - 50000$$

$$= 50000$$

$$\text{gain/loss} = \text{old BV} - \text{old FMV}$$

$$50000 < 100000$$

gain 40000

FMV of new assets = old FMV - cash received

$$100000 - 10000$$

$$= 90000$$

⇒ Recognized gain =  $\frac{\text{cash received}}{\text{cash received} + \text{FMV of New}}$

$\frac{10000}{10000 + 90000} = 10\%$

$$10000 + 90000$$

Total gain =  $40000 \times 10\% = 40000$  ← Recognized gain

Deferred gain = Total gain - Recognized gain

$$= 40000 - 4000$$

$$= 36000$$

FMV From New =  $90000 - 36000$

⇒ (Assets) =  $54000$

$$100000 - 46000 = 54000$$

Dr Acc. Dep 50000

Dr New machine 54000

Dr cash 10000

Cr old machine 110000

Cr gain on disposal 4000

Example Slide 53 - VM7 to - assets won 901

BV (santana)

$$= 28000 - 19000$$

$$= 9000$$

BV (Delaware)

$$= 28000 - 10000$$

$$= 18000$$

gain or loss  $\Rightarrow$  13500  $\Delta$  9000

$$4500 \text{ (gain)}$$

MV BV  
15500  $\leq$  18000

$$2500 \text{ (loss) } \checkmark$$

X FMV of new asset = old FMV + cash paid

$$13500 + 2000$$

← (كاش) يفتوا أو يتقبضوا الشركة هو عبارة عن



Fair market old - Fair Market new

\* Accounting for contributions

fair value of the asset  $\Rightarrow$  value in the books

Dr land

Cr Revenue (Contribution Revenue)

Example Slide 60 :- (اجانا ببيع) ←

Land 150 000  
 Contribution Revenue 150 000

Example Slide 61 :-

Contribution Expense 110 000  
 Land 80 000  
 Gain on disposal 30 000

BV FMV

~~Example Slide 49 :-~~  $80000 < 110000 = 30000$  \*  
 FMV gain  
 BV = Cost

Historical cost

(القيمة التاريخية) (acc. dep. ...)

Land → FMV

Building (القيمة الحالية) (acc. dep. ...)

← Building

DR Contribution Expense  
 DR Accumulated depreciation  
 CR Building  
 CR gain/loss on disposal

Exception (Historical Cost) -

Product - Cost Construction

Building 680 000 → 700 000 (loss reserve)  
(670 000 - 680 000) = 20 000

\* Conservation concept

gain = 700 000 - 680 000 = 20 000  
net income

\* Expenditures

Accounting Treatment

Capital Expenditure

Revenue Expense

- ① material in amount
- ② Intrequent
- ③ To increase V.L of the asset

- To increase quantity → DF maintenance Expense
- To increase quality → CR Cash

DF Equipment

## \* Major Types OF Expenditures -

(الاصناف)

① Additions asset زيادة وتوسيع ال  
 (Expense) (Assets) على الأصل  
 (Expense) (Assets) إضافة الأصول

② Impairments and Replacements (Repairs) إصلاحات وبتكاليف

Impairments (Repairs) إصلاحات وبتكاليف

③ Rearrangement and Reinstallation إعادة ترتيب وتركيب

④ Repairs

Major Capital (Expense) (Expenditure) (الاصناف)

## \* Deposition of PPE

- ① Sale
- ② Exchange
- ③ abandonment
- ④ involuntarily conversion

Example Slide 70g-

Cost = 18000

U.L = ?

annual depreciation = 1200

$$SLM = \frac{\text{Cost} - SV}{U.L}$$

$$1200 = \frac{18000 - 0}{U.L} \Rightarrow 15 \text{ years}$$

12000 x 9 = 108000 ← Depreciated Expense \*

Accumulated Dep.

108000

600

11400

BV = 18000 - 11400

= 6600

Gain / Loss ⇒ BV

EMV

6600

7000

Gain

Example Slide 738-1

Cash 500000

Acc. dep. 200000

Plant Asset

Gain on disposal

400000

300000

at Sale 554 ← gain 110



- 80000, 534 gain on

Item Plumbing System  $\Rightarrow$  Plastic Improvements

$\downarrow$  cost = 125

old cost } Ac. Dep.      Less scrap value = 1000  
150000      135000       $\Rightarrow$  cash paid = 124000

BV = 150000

Scrap value = 1000

Gain or loss = old BV      old FMV (scrap value)

15000 > 1000

Loss  $\Rightarrow$  14000

Substitution Approach when the CV is known :-

Dr Acc. dep.      135000

Dr new plumbing      125000

Dr loss on disposal      14000

Cr old plumbing      150000

Cr cash      124000

- CV unknown improvements -

Dr new plumbing      125000

Cr cash      124000

Cr gain on disposal      1000

\*CV is unknown

old

new

Iron

→ Iron

(Replacement)

Charge it to Acc. Dep.

~~125000~~

Dr Acc. Dep.

125000

Cr gain on disposal

124000

Cr cash

1000