

FA Module 9: Accounting for long-lived assets (overview)

(The attached PDF file has better formatting.)

Reading: chapter 9 long-lived assets

- § 2 acquisition of long-lived assets, *excluding*
 - Exhibit 1 (Anheuser-Busch InBev)
 - Example 6 (MTR gaming)
 - § 2.5 (Capitalization of internal development costs)
- § 3 depreciation and amortization of long-lived assets
- § 4 the revaluation model, *excluding*
 - Exhibit 6 (Impact of revaluation – KPN)
- § 5 impairment of assets
- § 6 de-recognition, *excluding*
 - Exhibit 7 (Altria group)

[§7 (Presentation and Disclosures) and §8 (Investment Property) are not on the syllabus for this course.]

Know two depreciation methods: straight line depreciation and double declining balance depreciation. In the United States, one method may be used for financial statements and the other method for taxable income, leading to a deferred tax asset or liability. Other countries may require the same method for taxable income as for financial statements.

If the asset has zero salvage value, the purchase price and the estimated useful life determine both straight line depreciation and double declining balance depreciation. Given the depreciation expense in any year from the two methods, one can derive the purchase price and the estimated useful life. A final exam problem might give straight line depreciation in the second year and double declining balance depreciation in the third year and ask for the double declining balance depreciation in the fifth year.

Acquisition expenditures (including interest costs) for long-lived fixed assets are often capitalized. A final exam problem may give the cost of constructing a building, and the interest rate on a loan taken to pay a contractor, and ask for the carrying value of the building and the annual depreciation expense. GAAP and IFRS differ in one item: whether to deduct interest income on the unused cash from the capitalized interest.

Know how GAAP and IFRS deal with

- impairment of long-lived tangible assets held for use vs held for sale
- impairment of intangible assets with finite lives
- impairment of goodwill and other intangibles with indefinite lives
- reversals of impairments of long-lived assets
- revaluation of long-lived assets

The module on leases covers subsection 9 of chapter 9.

