Financial Reporting of Long-Term Assets

by Sophia

WHAT'S COVERED

This tutorial will cover financial reporting of long-term assets.

Our discussion breaks down as follows:

1. Reporting Assets and Depreciation

Assets are reported at their full book value, which is the cost of the depreciable asset less its accumulated depreciation.

We record the asset separately from the accumulated depreciation associated with that asset. Recall that accumulated depreciation is the total depreciation expense that is recorded to date in an asset's life. On the balance sheet, it's reported directly below the related asset.

When reporting, we're going to be reporting fixed assets, also known as capital assets and long-term assets; these terms can be used interchangeably. You may recall that long-term assets are assets that will be used for longer than one year, such as plant assets and long-term investments.

These assets are reported under the "Assets" section of the balance sheet or "Long-Term Assets" section of the balance sheet.

Again, each fixed asset has its own accumulated depreciation line.

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2. Carrying Value

Carrying value is the book value of an asset, which is cost minus accumulated depreciation. Carrying value is also referred to as book value.

The carrying value includes the cost of the asset and the cost incurred getting it ready for use, such as purchase price, fees, installation costs, etc. The book value also factors in accumulated depreciation, a term you may have noticed in the definition of carrying value: cost less accumulated depreciation.

The formula for calculating carrying value is asset cost, which is the cost of the asset and the cost of getting it ready for use, minus accumulated depreciation.

TERM TO KNOW

Carrying Value
The book value of an asset, cost less accumulated depreciation.

FORMULA TO KNOW

Carrying Value
$$Carrying\ Value = Asset\ Cost - Accumulated\ Depreciation$$

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3. Recording Depreciation/Accumulated Depreciation

Now, let's turn our attention to recording a journal entry related to long-term assets. As a reminder, depreciation is the process of cost allocation to expense of a plant asset over its useful life. It can be calculated using the business's chosen method, whether that is straight line depreciation or accelerated depreciation.

So, what is the journal entry to record depreciation? Well, you would debit "Depreciation Expense" and credit "Accumulated Depreciation" for that specific asset.

3a. Depreciation Expense

Let's go ahead and take a look at where we can find "Depreciation Expense" on an income statement.

Here is a sample income statement for Company ABC, complete with sales, net sales, gross profit, etc.

Company ABC
Income Statement
For the period ending December 31, 2012

Sales		**635,000**
Sales Returns and Allowances	15,000	
Sales Discounts	7,500	22,500
Net Sales		**612,500**
Cost of Goods Sold		228,500
Gross Profit		**384,000**
Operating Expenses		
Salaries Expense	175,000	
Advertising Expense	10,000	
Rent Expense	50,000	
Insurance Expense	6,000	
Supplies Expense	2,500	
Depreciation Expense - Buildings	15,000	258,500
Income from Operations		**125,500**
Other Revenue (Expenses)		
Interest Expense		20,000
NET INCOME		**105,500**

If you focus in on the "Operating Expenses" section of the income statement, you'll see a line item titled "Depreciation Expense," in this case, "Depreciation Expense - Buildings."

Therefore, depreciation expense is reported directly on the income statement as a separate line item.

3b. Accumulated Depreciation

Now, accumulated depreciation is the total depreciation expense recorded to date in an asset's life.

Accumulated depreciation is included on the balance sheet, where we reflect the cost of the asset, as well as the carrying value, which again, is the cost minus the accumulated depreciation.

Here is another example balance sheet. Note, we start with assets, liabilities, and equity.

ABC Company
Balance Sheet
As of December 31, 2012

Assets		
Short Term Assets		
Cash	50,000	
Accounts Receivable	80,000	
Merchandise Inventory	112,000	
Prepaid Insurance	6,000	
Total Short Term Assets		248,000
Long Term Assets		
Land	50,000	
Buildings	500,000	
Accumulated Depreciation - Buildings	(285,000)	
Total Long Term Assets		265,000
Total Assets		513,000
Liabilities		
Current Liabilities		
Accounts Payable	85,000	
Sales Tax Payable	27,500	
Unearned Revenue	20,000	
Total Current Liabilities		132,500
Long Term Liabilities		
Notes Payable		175,000
Total Liabilities		307,500
Equity		
Owner's Capital		205,500
Total Liabilities and Equity		513,000

If we look at the "Assets" section, focus in on the "Long-Term Assets" sub-section, and you'll see an "Accumulated Depreciation - Buildings" line item. Right above that line, we have our buildings--a long-term asset which we report at its cost.

Again, directly below that is where we would report the accumulated depreciation for that asset. On a balance sheet, accumulated depreciation is going to be reported directly below the asset that it relates to.

SUMMARY

Today we learned all about **reporting long-term assets and depreciation**. Long-term assets, also known as fixed assets or capital assets, are reported at their **carrying value**, which is the book value of an asset, expressed as cost less accumulated depreciation. Lastly, we learned about **recording depreciation and accumulated depreciation**, looking at examples of how **depreciation expense** shows up on the income statement, as well as how **accumulated depreciation** is reflected on the balance sheet.

Source: Adapted from Sophia instructor Evan McLaughlin.

TERMS TO KNOW

Carrying Value

The book value of an asset, cost less accumulated depreciation.