

5 Lecture - MGT401

Important Subjective

1. **What is Property, Plant, and Equipment (PP&E)?**

Answer: PP&E refers to tangible, long-term assets used in a company's operations, including land, buildings, machinery, equipment, vehicles, and other assets that have a useful life of more than one year.

2. **What is the purpose of depreciating PP&E?**

Answer: Depreciating PP&E reduces the asset's carrying value over time, which reflects the asset's decreased value due to wear and tear or obsolescence.

3. **What is the difference between salvage value and residual value?**

Answer: Salvage value refers to the estimated amount a company will receive when it sells an asset, while residual value refers to the estimated value of an asset at the end of its useful life.

4. **What is the difference between straight-line depreciation and accelerated depreciation methods?**

Answer: Straight-line depreciation charges the same amount of depreciation each year, while accelerated depreciation methods charge higher depreciation in the early years of an asset's useful life.

5. **How does the disposal of PP&E affect a company's financial statements?**

Answer: The disposal of PP&E can result in a gain or loss, which is recognized on the income statement. The asset's carrying value is removed from the balance sheet, and the cash received or paid is reflected on the cash flow statement.

6. **How is the cost of PP&E determined?**

Answer: The cost of PP&E includes all expenses necessary to acquire and prepare the asset for its intended use, such as purchase price, transportation costs, installation costs, and legal fees.

7. **What is a useful life, and how is it determined?**

Answer: Useful life refers to the length of time an asset is expected to be used in a company's operations. It is determined based on factors such as the asset's physical life, economic life, and technological obsolescence.

8. **How is depreciation expense calculated?**

Answer: Depreciation expense is calculated by dividing the cost of the asset by its useful life and applying the appropriate depreciation method.

9. **What is an impairment loss, and when is it recognized?**

Answer: An impairment loss occurs when the carrying value of an asset exceeds its recoverable amount. It is recognized on the income statement and reduces the asset's carrying value on the balance sheet.

10. **How do major improvements to PP&E affect a company's financial statements?**

Answer: Major improvements to PP&E are capitalized and added to the asset's carrying value, which increases the asset's book value and extends its useful life.