

# 7 Lecture - MGT401

## Important Subjective

1. **What is the difference between Property, Plant & Equipment (PP&E) and intangible assets?**

Answer: PP&E are tangible assets that a company owns and uses in its operations, such as buildings, machinery, and vehicles, while intangible assets are non-physical assets, such as patents, trademarks, and goodwill.

2. **What are the three criteria that an asset must meet to qualify for capitalization of borrowing costs?**

Answer: An asset must meet the following criteria to qualify for capitalization of borrowing costs:

- a) It takes a substantial period of time to get ready for its intended use or sale;
- b) Activities that are necessary to prepare the asset for its intended use or sale are in progress; and
- c) The borrowing costs are directly attributable to the asset.

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

Answer: Straight-line depreciation allocates an equal amount of an asset's cost over its useful life, while accelerated depreciation methods allocate more of the asset's cost to the early years of its life and less in the later years.

4. **What is the difference between the cost model and revaluation model for measuring Property, Plant & Equipment?**

Answer: The cost model measures PP&E at their historical cost less accumulated depreciation, while the revaluation model measures PP&E at their fair value less accumulated depreciation.

5. **What is the purpose of impairment testing for PP&E assets?**

Answer: Impairment testing determines whether the carrying amount of a PP&E asset exceeds its recoverable amount and, if so, the company must recognize an impairment loss.

6. **What are some examples of borrowing costs that can be capitalized?**

Answer: Examples of borrowing costs that can be capitalized include interest on loans used to finance the construction of a new factory, fees paid to arrange a loan for the acquisition of PP&E, and interest on a loan used to purchase a building that will be leased out to tenants.

7. **What is the difference between tangible and intangible assets in relation to depreciation?**

Answer: Tangible assets, such as PP&E, are depreciated over their useful lives based on wear and tear or obsolescence, while intangible assets, such as patents or copyrights, are amortized over their useful lives based on the expected future benefits from the asset.

**8. What is the purpose of the impairment loss reversal test for PP&E assets?**

Answer: The impairment loss reversal test determines whether an impairment loss recognized in a previous period for a PP&E asset can be reversed if there has been a change in circumstances or an improvement in the asset's recoverable amount.

**9. What are some factors that can affect the useful life of a PP&E asset?**

Answer: Factors that can affect the useful life of a PP&E asset include physical wear and tear, technological obsolescence, changes in legal or regulatory requirements, and changes in the way the asset is used in the company's operations.

**10. What is the difference between tangible and intangible assets in relation to borrowing costs?**

Answer: Tangible assets, such as PP&E, are eligible for the capitalization of borrowing costs if they meet certain criteria, while intangible assets are generally not eligible for the capitalization of borrowing costs.