Asset Valuation and Disposition Issues

Interest on loans for acquisition
- Lower of actual cost or avoidable interest
- Capitalized interest is written off (depreciated) over life of asset (not debt)
- If loan proceeds are invested before needed, do not net the investment
  - Interest expense on loans are deducted from investment revenue

Valuation issues
- Assets purchased in lump sum→each individual asset is valued proportionately based on FMV times the cost of the purchase
  - Example:
    - Total purchase cost of two assets is $1200
    - Fair market value of asset one is $750; Fair market value of asset two is $1500
    - Value of asset one = (750/2250) x 1200 = $400
    - Value of asset two = (1500/2250) x 1200 = $800
- If stock is exchanged, the asset is valued at the fair value of the stock
- The cost of an asset is whatever was given up to purchase asset
- If long term credit is exchanged, the cost is the present value of credit
- If asset is self-constructed, cost is direct materials and labor and pro-rata overhead.
- If asset is contributed or donated:
  - JE: Asset xxx Revenue xxx

Exchange of non-monetary assets
- Dissimilar assets: acquired asset valued at fair value of asset given up, with recognized gains and losses
- With similar assets and no cash involved, defer gains and recognize losses
- With similar assets and cash (boot) involved, recognize part of the gain.
  - Boot / (Boot+ Fair value of asset received) x total gain = recognized gain

Disposition of Plant Assets
- Recognize gain or loss from continuing operations (normal) or discontinued operations (segment asset is associated with is discontinued)
- Involuntary conversion from fire, flood, theft or condemnation is usually an extraordinary item (unusual in nature; infrequent in occurrence)