

# Accounting for decision makers - discussion question

[Finance](#)



Estimating Machine Repair Costs Estimating machine repair costs Machine repair costs are treated as an expense as well as an Inventory. This will depend on the sector that business is operating. A business that is in the manufacturing sector will treat this as cost of raw materials. A business that is the retail or wholesale that is buying and selling of goods will treat it as an expense. However, there is those businesses that are in the service industry. It becomes an issue to disclose this cost in their financial statements. The IAS calls for consistency and uniformity in disclosure of costs. This discussion will dwell on estimates of machine repair costs.

The estimates are debited to maintenance and repairs account. When the actual repair happens, the exact amount is credit to this ledger account. Credit variance in this estimates account means repairs higher and should not be amortized but rather charged in this period. Debit variance means the company used less in repairs and such variance is rolls to the coming years Morse, & Wayne, (2015).

Machine repair estimates costs are an initial value that is determined throughout the machine life. The cost is dividing by the number of years the machine will be on service. The annual estimates will then form part of amortization costs per year. Finance costs do not form part of estimates. A Major overhaul of a machine is treated as a periodic estimate cost. This cost is amortized over the remaining life of the machine. In manufacturing company, it is accounted as a cost of manufactured goods and recorded in the books as work in progress. An abnormal occurrence such as fire or floods is not allowable cost estimate.

Minor repairs of machinery should be expensed in the year that they were

incurred. They are termed as usage variance and should not form part of estimates the actual costs not estimates, in this case, should be subjected to an income of the same year.

#### References

Morse, L., & Wayne, J. H. (2015). Managerial accounting. Cambridge business publishers, 7(1), 31-60.