

## **Solution Manual for Fundamental Accounting Principles Canadian Vol 2**

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### **Chapter 10 Intangibles**

### **Property, Plant and Equipment and**

#### **Chapter Opening Critical Thinking Challenge Questions\***

**How do PPE assets generate sales? The article says that property, plant and equipment**

**(PPE) are an “asset group on the balance sheet”. What other asset groups are there?**

- **PPE assets, such as manufacturing equipment and the building in which the equipment is housed, are responsible for producing the goods a company sells to “generate sales”. Other asset groups on the balance sheet are current assets, long-term investments, and intangible assets.**

**\*The Chapter 10 Critical Thinking Challenge questions are asked at the beginning of this chapter. Students are reminded at the conclusion of the chapter to refer to the Critical Thinking Challenge questions at the beginning of the chapter. The solutions to the Critical Thinking Challenge questions are available here in the Solutions Manual and accessible to students at Connect.**

## Concept Review Questions

1. A property, plant and equipment asset is long-lived in that it has a service life of longer than one accounting period; it is used in the production or sale of products or services.
2. Land held for future expansion is classified as a long-term investment. It is not a property, plant and equipment asset because it is not being used in the production or sale of other assets or services.
3. The cost of a property, plant and equipment asset includes all normal, reasonable, and necessary costs of getting the asset in place and ready to use.
4. Land is an asset with an unlimited life and, therefore, is not subject to depreciation. Land improvements have limited lives and are subject to depreciation.
5. No. The Accumulated Depreciation, Machinery account is a contra asset account with a credit balance that does not represent cash or any other funds. Funds available for buying machinery would be shown on the balance sheet as liquid assets with debit balances. The balance of the Accumulated Depreciation, Machinery account shows the portion of the machinery's original cost that has been charged to depreciation expense, and gives some indication of how soon the asset will need to be replaced.
6. Revenue expenditures, such as repairs, are made to keep a plant and equipment asset in normal, good operating condition, and should be charged to expense of the current period. Capital expenditures are made to extend the service potential or the life of a plant and equipment asset beyond the original estimated life and are charged to the plant and equipment asset account.
7. Because the \$75 cost of the plant and equipment asset is not likely to be material to the users of the financial statements, the materiality principle justifies charging it to expense.
8. Danier Leather did not report any gains or losses on disposal of assets for its year ended June 25, 2011. High Liner Foods reported a "loss on disposal of assets" of \$271,000 for its December 31, 2011 year end. Shoppers Drug Mart showed a \$2,015,000 "loss on sale or disposal of property and equipment, including impairments" for its December 31, 2011 year end. WestJet reported a "loss on disposal of property and equipment of \$54,000 for its December 31, 2011 year end.
9. A company might sell or exchange an asset when it reaches the end of its useful life, or if it becomes inadequate or obsolete, or because the company has changed its business plans. An asset may also be damaged or destroyed by fire or some other accident.
10. An intangible asset has no physical existence. Its value comes from the unique legal and contractual rights held by its owner.
11. Intangible assets are generally recorded at their cost and amortized over their predicted useful life in a manner that is similar to what is used to depreciate plant and equipment assets.
12. High Liner Foods reported \$103,109,000 as Intangible assets at December 31, 2011.
13. A business has goodwill when the price paid for a company being purchased exceeds the fair market value of this company's net assets (assets minus liabilities) if purchased separately.
14. Shoppers Drug Mart reported \$2,499,722,000 as Goodwill at December 31, 2011.

## QUICK STUDY

### Quick Study 10-1 (5 minutes)

$$\$18,000 + \$180,000 + \$3,000 + \$600 = \underline{\underline{\$201,600}}$$

### Quick Study 10-2 (10 minutes)

1. (a) R  
(b) C  
(c) R  
(d) C

2.

(a)			
Mar. 15	Repairs Expense .....	120	
	Accounts Payable.....		120
	<i>To record repairs.</i>		
(b)			
Mar. 15	Refrigeration Equipment.....	40,000	
	Accounts Payable.....		40,000
	<i>To record capital expenditure.</i>		
(c)			
Mar. 15	Repairs Expense .....	200	
	Accounts Payable.....		200
	<i>To record repairs.</i>		
(d)			
Mar. 15	Office Building.....	175,000	
	Accounts Payable.....		175,000
	<i>To record capital expenditure.</i>		

**Quick Study 10-3 (10 minutes)**

PPE Item	(a) Appraised Values	(b) Ratio of Individual Appraised Value to Total Appraised Value (a) × Total Appraised Value	(c) Cost Allocation (b) × Total Actual Cost
Land.....	\$ 320,000	320,000 × 500,000 = .64 or 64%	\$ 345,600 <sup>1</sup>
Building.....	<u>180,000</u>	180,000 × 500,000 = .36 or 36%	<u>194,400</u> <sup>2</sup>
Totals .....	<u>\$ 500,000</u>		<u>\$ 540,000</u>

1. 64% × 540,000 = 345,600
2. 36% × 540,000 = 194,400

2014

Apr. 14	Land .....	345,600	
	Building .....	194,400	
	Cash.....		85,000
	Notes Payable.....		455,000
	<i>To record purchase of land and building.</i>		

**Quick Study 10-4 (10 minutes)**

**TechCom Partial  
Balance Sheet  
October 31, 2014**

**Assets**

**Current assets:**

Cash.....		\$ 9,000
Accounts receivable .....	\$16,400	
Less: Allowance for doubtful accounts .....	<u>800</u>	
	<u>15,600</u>	
Total current assets.....		\$ 24,600

**Property, plant and equipment:**

Land		\$48,000
.....	\$62,000	
Less: Accumulated depreciation	<u>13,800</u>	48,200
Equipment.....	\$25,000	
Less: Accumulated depreciation	<u>3,800</u>	<u>21,200</u>
..... Total property, plant and		117,400

**Intangible assets:**

Patent.....	\$20,100	
Less: Accumulated amortization, patent	<u>3,100</u>	<u>17,000</u>

**Total assets** \$159,000

**Quick Study 10-5 (10 minutes)**

$(\$55,900 - \$1,900)/4 = \underline{\$13,500/\text{year}}$

**Quick Study 10-6 (10 minutes)**

$\text{Rate per copy} = (\$45,000 - \$5,000)/4,000,000 \text{ copies} = \underline{\$0.01/\text{copy}}$

<u>Year</u>	<u>Calculation</u>	<u>Annual Depreciation</u>
2014	$\$.01 \times 650,000 =$	\$ 6,500
2015	$\$.01 \times 798,000 =$	7,980
2016	$\$.01 \times 424,000 =$	4,240
2017	$\$.01 \times 935,000 =$	9,350
2018	$\$.01 \times 1,193,000 =$	<u>11,930</u>
		<u>\$40,000</u>

**Quick Study 10-7 (10 minutes)**

$\text{Annual rate of depreciation} = 2/5 = .40 \text{ or } 40\% \text{ per year}$

<u>Year</u>	<u>Calculation</u>	<u>Annual Depreciation</u>
2014	$40\% \times \$86,000 =$	\$34,400
2015	$40\% \times (\$86,000 - \$34,400) =$	20,640
2016	$40\% \times (\$86,000 - \$34,400 - \$20,640) =$	12,384
2017	$40\% \times (\$86,000 - \$34,400 - \$20,640 - \$12,384) =$	2,576*
2018		<u>0</u>
		<u>\$70,000</u>

\*The calculation shows \$7,430 of depreciation but that amount would cause accumulated depreciation to exceed the maximum allowed of cost less residual (\$86,000 - \$16,000 = \$70,000). Therefore, the depreciation for 2017 must be adjusted to \$2,576.

**Quick Study 10-8 (10 minutes)**

**Computer panel:**

**\$4,000/8 years = \$500 depreciation**

**Drycleaning drum:**

**\$70,000 - \$5,000 = \$65,000/400,000 garments = \$0.1625/garment;**

**\$0.1625/garment × 62,000 garments = \$10,075 depreciation**

**Stainless steel housing:**

**\$85,000 - \$10,000 = \$75,000/20 years = \$3,750 depreciation**

**Miscellaneous parts:**

**\$26,000/2 years = \$13,000 depreciation**

**Total depreciation on the dry cleaning equipment for 2014 = \$500 + \$10,075 + \$3,750 + \$13,000 = \$27,325**

**Quick Study 10-9 (10 minutes)**

	<u>2014</u>	<u>2015</u>
a.	\$5,000	\$6,000
b.	\$3,000	\$6,000

**Calculations:**

a.  $\frac{60,000 - 0}{10 \text{ years}} = 6,000/\text{year} \times 10/12 = 5,000$

b.  $6,000/\text{year} \times 6/12 = 3,000$

**Quick Study 10-10 (10 minutes)**

	<u>2014</u>	<u>2015</u>
a.	\$10,000	\$10,000
b.	\$6,000	\$10,800

**Calculations:**

a.  $2/10 = .2$  or 20%;  $20\% \times 60,000 = 12,000 \times 10/12 = 10,000$  for 2014  
 $20\% \times (60,000 - 10,000) = 10,000$  for 2015

b.  $20\% \times 60,000 = 12,000 \times 6/12 = 6,000$  for 2014  
 $20\% \times (60,000 - 6,000) = 10,800$  for 2015

**Quick Study 10-11 (10 minutes)**

	<u>2014</u>	<u>2015</u>
a.	10,000	14,000
b.	10,000	14,000

**Calculations**

:  
 $75,000 - 15,000 = 60,000/120,000 = \$0.50$  depreciation expense per unit produced  
 $\$0.50 \times 20,000 = \$10,000$  for 2014;  $\$0.50 \times 28,000 = \$14,000$  for 2015

**NOTE:** *The units-of-production method is a usage-based method as opposed to a time-based method (such as straight-line and double-declining-balance) and therefore partial periods do not affect the calculations.*

**Quick Study 10-12 (10 minutes)**

$[(\$35,720 - \$11,820^1) - \$1,570] / 7^2$  years remaining = \$3,190

1.  $(\$35,720 - \$4,200) / 8 = \$3,940/\text{year} \times 3 \text{ years} = \$11,820$   
 2.  $10 - 3 = 7$

**Quick Study 10-13 (10 minutes)**

**2014**

Jan. 3	Barbecue – Rotisserie.....	1,000	
	Cash.....		1,000
	<i>To record the purchase of electronic rotisserie.</i>		

Dec. 31	Depreciation Expense, Barbecue.....	1,560	
	Accumulated Depreciation, Barbecue.....		1,560

*To record revised depreciation on the barbecue caused by the addition of a rotisserie;  $\$7,000 - \$200 = \$6,800 \div 5 \text{ years} = \$1,360$  PLUS  $\$1,000 \div 5 \text{ years} = \$200$ ; Total depreciation =  $\$1,360 + \$200 = \$1,560$ .*

**Quick Study 10-14 (10 minutes)**

Impairment losses occurred on the computer and the furniture in the amounts of \$1,500 and \$21,000, respectively.

**Calculations:**

Asset	Cost	Accumulated Depreciation	Book Value	Recoverable Amount	Impairment Loss
Building	\$1,200,000	\$465,000	\$735,000	\$735,000	N/A
Computer	3,500	1,800	1,700	200	\$ 1,500
Furniture	79,000	53,000	26,000	5,000	21,000
Land	630,000	0	630,000	790,000	N/A
Machine	284,000	117,000	167,000	172,000	N/A

**Quick Study 10-15 (10 minutes)**

a.

2014

Oct. 1	Accumulated Depreciation, Equipment.....	39,000	
	Cash.....	17,000	
	Equipment.....		56,000
	<i>To record sale of equipment.</i>		

b.

Oct. 1	Accumulated Depreciation, Machinery .....	96,000	
	Cash.....	27,000	
	Machinery.....		109,000
	Gain on Disposal.....		14,000
	<i>To record sale of equipment.</i>		

c.

Oct. 1	Accumulated Depreciation, Truck.....	33,000	
	Cash.....	11,000	
	Loss on disposal .....	4,000	
	Delivery truck.....		48,000
	<i>To record sale of equipment.</i>		

d.

Oct. 1	Accumulated Depreciation, Furniture .....	21,000	
	Loss on disposal .....	5,000	
	Furniture.....		26,000
	<i>To record disposal of equipment.</i>		



**Quick Study 10-16 (10 minutes)**

2014

Dec 31	Accumulated Depreciation, Automobile .....	13,500	
	Computer* .....	5,800	
	Automobile.....		15,000
	Cash.....		2,750
	Gain on Disposal.....		1,550
	<i>To record exchange.</i>		

\*Computer = FV of assets received = \$5,800 as given

**Quick Study 10-17 (15 minutes)**

2014

Mar. 1	Accumulated Depreciation, Machine (old).....	36,000	
	Machine (new) <sup>2</sup> .....	117,000	
	Cash <sup>1</sup> .....		63,000
	Machine (old).....		90,000
	<i>To record exchange of machines.</i>		

1. Cash paid = \$123,000 - \$60,000 = \$63,000

2. Machine (new) = \$63,000 cash paid + \$54,000 book value of old = \$117,000

**Quick Study 10-18 (10 minutes)**

2014

Jan. 4	Franchise.....	95,000	
	Cash		95,000
	<i>To record purchase of franchise.</i>		
Dec. 31	Amortization Expense, Franchise.....	9,500	
	Accumulated Amortization, Franchise .....		9,500
	<i>To record amortization of franchise;</i> <i>\$95,000/10 years = \$9,500 per year</i>		

**Quick Study 10-19 (10 minutes)**

**2014**

<b>Oct. 1</b>	<b>Mineral Rights</b>	<b>35,000,000</b>	
	<b>Water Rights</b>	<b>4,000,000</b>	
	<b>Cash</b>		<b>9,000,000</b>
	<b>Long-Term Note Payable</b>		<b>30,000,000</b>
	<i>To record the purchase of intangibles.</i>		
<b>Dec. 31</b>	<b>Amortization Expense, Mineral Rights</b>	<b>875,000</b>	
	<b>Accumulated Amortization, Mineral Rights</b>		<b>875,000</b>
	<i>To record amortization of mineral rights;</i>		
	<i>\$35,000,000 ÷ 10 years = \$3,500,000/year;</i>		
	<i>\$3,500,000/year × 3/12 = \$875,000.</i>		
<b>31</b>	<b>Amortization Expense, Water Rights</b>	<b>100,000</b>	
	<b>Accumulated Amortization, Water Rights</b>		<b>100,000</b>
	<i>To record amortization of water rights;</i>		
	<i>\$4,000,000 ÷ 10 years = \$400,000/year;</i>		
	<i>\$400,000/year × 3/12 = \$100,000.</i>		

**\* Quick Study 10-20 (20 minutes)**

<b>Motor (old)</b>	<b>\$45,000 - \$5,000 = \$40,000 ÷ 10 yrs × 8/12 =</b>	<b>\$ 2,667</b>
<b>Motor (new)</b>	<b>\$60,000 - \$10,000 = \$50,000 ÷ 8 yrs × 4/12 =</b>	<b>2,083</b>
<b>Metal housing</b>	<b>\$68,000 - \$15,000 = \$53,000 ÷ 25 yrs =</b>	<b>2,120</b>
<b>Misc. parts</b>	<b>\$15,000 ÷ 5 yrs =</b>	<b><u>3,000</u></b>
<b>Total depreciation expense to be recorded on the machine for 2014 =</b>		<b><u>\$ 9,870</u></b>

## EXERCISES

### Exercise 10-1 (10 minutes)

Invoice cost .....	\$15,000
Freight costs.....	260
Steel mounting .....	795
Assembly .....	375
Raw materials for testing.....	120
Less: discount (\$15,000 × 2%).....	<u>300</u>
Total acquisition costs .....	<u>\$16,250</u>

*Note: The \$190 repairs are an expense and therefore not capitalized.*

### Exercise 10-2 (15 minutes) Cost of land:

Purchase price for land.....	\$1,200,000
Purchase price for old building.....	480,000
Demolition costs for old building.....	75,000
Levelling the lot.....	<u>105,000</u>
Total cost of land.....	<u>\$1,860,000</u>

### Cost of new building:

Construction costs .....	\$2,880,00
Less: Cost of land improvements*.....	<u>215,000</u>
Cost of new building.....	<u>\$2,665,00</u>

*\*The land improvements are a distinct PPE asset that depreciates at a different rate than the building. Therefore it should be debited to an account separate from the building.*

### Journal entry:

2014

Mar. 10	Land .....	1,860,000	
	Land Improvements.....	215,000	
	Building .....	2,665,000	
	Cash.....		4,740,000
	<i>To record costs of plant assets.</i>		

**Exercise 10-3 (15 minutes)**

**Allocation of total cost:**

	(a)	(b)	(c)
PPE Asset	Appraised Values	Ratio of Individual Appraised Value to Total Appraised	Cost Allocation (b) x Total Actual
Land	\$249,480	$249,480 \div 594,000 = .42$ or 42%	\$ 244,346 <sup>2</sup>
Land Imprv.	83,160	$83,160 \div 594,000 = .14$ or 14%	81,448 <sup>3</sup>
Building	<u>261,360</u>	$261,360 \div 594,000 = .44$ or 44%	<u>255,981<sup>4</sup></u>
<b>Totals</b>	<b><u>\$594,000</u></b>		<b><u>\$ 581,775<sup>1</sup></u></b>

1.  $552,375 + 29,400 = 581,775$
2.  $42\% \times 581,775 = 244,346$
3.  $14\% \times 581,775 = 81,448$
4.  $44\% \times 581,775 = 255,981$

**Journal entry:**

2014			
Apr. 12	Land	....	244,346
	Land	....	81,448
	Building	....	255,981
	Cash.....		581,775
	<i>To record costs of lump-sum purchase.</i>		

**Exercise 10-4 (20 minutes)**

2014

	Jan. 1	Land	1,296,000	
		Building	1,512,000	
		Equipment.....	1,123,200	
		Tools.....	388,800	
		Cash		1,104,000
		Notes Payable		3,216,000
		<i>To record lump-sum purchase.</i>		

**Calculations**

	(a)	(b)	(c)
PPE Asset	Appraised Values	Ratio of Individual Appraised Value to Total Appraised Value <i>(a) × Total Appraised</i>	Cost Allocation <i>(b) × Total Actual Cost</i>
Land	\$ 1,152,000	$1,152,000 \div 3,840,000 = .30$ or 30%	<u>\$ 1,296,000<sup>1</sup></u>
Building	1,344,000	$1,344,000 \div 3,840,000 = .35$ or 35%	1,512,000 <sup>2</sup>
Equipment	998,400	$998,400 \div 3,840,000 = .26$ or 26%	1,123,200 <sup>3</sup>
Tools	<u>345,600</u>	$345,600 \div 3,840,000 = .09$ or 9%	388,800 <sup>4</sup>
Totals	<u>\$ 3,840,000</u>		<u>\$ 4,320,000</u>

1.  $30\% \times 4,320,000 = 1,296,000$
2.  $35\% \times 4,320,000 = 1,512,000$
3.  $26\% \times 4,320,000 = 1,123,200$
4.  $9\% \times 4,320,000 = 388,800$

**Exercise 10-5 (10 minutes)**

2014

	Dec. 31	Depreciation Expense, Truck	11,100	
		Accumulated Depreciation, Truck		11,100
		<i>To record depreciation.</i>		

**Calculation:**

$$[(37,500 + 13,500 + 6,750 + 5,250) - 7,500] \div 5 \text{ years} = 11,100$$

**Exercise 10-6 (15 minutes)**

Year line	(a) Straight-	(b) Double-declining- balance (Rate = $2/4 = .50$ or 50%)	(c) Units-of-production (Rate = $[(169,200 - 24,000)/181,500] = .80/\text{unit}$ )
2014	36,300 <sup>1</sup>	$50\% \times 169,200 = 84,600$	30,640 ( $.80 \times 38,300$ )
2015	36,300	$50\% \times (169,200 - 84,600) = 42,300$	32,920 ( $.80 \times 41,150$ )
2016	36,300	\$18,300 <sup>2</sup>	42,080 ( $.80 \times 52,600$ )
2017	36,300	0	39,560 <sup>3</sup>

- $(169,200 - 24,000)/4 = 36,300/\text{year}$
- Maximum depreciation is limited to \$145,200 which is cost less residual (\$169,200 - \$24,000) therefore depreciation for 2016 is \$18,300 calculated as \$145,200 - \$126,900 accumulated depreciation recorded to date.
- Maximum depreciation is limited to \$145,200 which is cost less residual (\$169,200 - \$24,000) therefore depreciation for 2017 is \$39,560 calculated as \$145,200 - \$105,640 accumulated depreciation recorded to date.



**Exercise 10-7 (15 minutes)**

a.  $(238,400 - 46,400)/5 =$

**\$38,400** b. Rate =  $2/5 = .40$  or

40%

$40\% \times 238,400 = \$95,360$

c. Rate =  $(238,400 - 46,400)/240,000 \text{ km} = \$0.80/\text{km}$

$\$0.80/\text{km} \times 38,000 \text{ km} = \$30,400$

**Analysis component:**

The units-of-production method will produce the highest net income in 2014 because it is the lowest depreciation expense for 2014.

**Exercise 10-8 (30 minutes)**

Year	<u>Straight-Line<sup>1</sup></u>		<u>Double-Declining-Balance<sup>2</sup></u>		<u>Units-of-Production<sup>3</sup></u>	
	Depreciation Expense	Book Value at December 31	Depreciation Expense	Book Value at December 31	Depreciation Expense	Book Value at December 31
2014	21,250	104,000	50,100	75,150	16,875	108,375
2015	21,250	82,750	30,060	45,090	22,250	86,125
2016	21,250	61,500	18,036	27,054	30,000	56,125
2017	21,250	40,250	8,054	19,000	37,125	19,000
2018	21,250	19,000	0	19,000	0	19,000

**Calculations:**

1.  $125,250 - 19,000 = 106,250/5 = 21,250$

2.  $2/5 = .4$  or 40%;  $.4 \times 125,250 = 50,100$ ;  $.4 \times (125,250 - 50,100) = 30,060$ ;

$.4 \times (125,250 - 50,100 - 30,060) = 18,036$ ;

$.4 \times (125,250 - 50,100 - 30,060 - 18,036) = 10,822$ ; maximum = 8,054 calculated as cost less residual =  $125,250 - 19,000 = 106,250$  less total deprec. taken of 98,196 = 8,054.

3.  $125,250 - 19,000 = 106,250/8,500 = \$12.50/\text{hour}$ ;

2014 -  $12.50 \times 1,350 = 16,875$ ;

2015 -  $12.50 \times 1,780 = 22,250$ ;

2016 -  $12.50 \times 2,400 = 30,000$ ;

2017 -  $12.50 \times 2,980 = 37,250$ ; maximum = 37,125; calculated as cost less residual =  $125,250 - 19,000 = 106,250$  less total deprec. taken of 69,125 = 37,125.

**Analysis component:**

a. 2014 - Units-of-production; 2017 - Straight-line

b. 2014 - Double-declining-balance; 2017 - Units-of-production





**Exercise 10-9 (30 minutes)**

PPE Asset	(a) Appraised Values	(b) Ratio of Individual Appraised Value to Total Appraised	(c) Cost Allocation (b) x Total Actual Cost
Land.....	\$ 700,000	700,000 ÷ 2,100,000 = .33 or 33.33%	\$ 840,000 <sup>1</sup>
Building.....	1,120,000	1,120,000 ÷ 2,100,000 = .533 or 53.33%	1,344,000 <sup>2</sup>
Equipment.....	210,000	210,000 ÷ 2,100,000 = .10 or 10%	252,000 <sup>3</sup>
Tools.....	<u>70,000</u>	70,000 ÷ 2,100,000 = .033 or 3.33%	<u>84,000</u> <sup>4</sup>
Totals.....	<u>\$ 2,100,000</u>		<u>\$ 2,520,000</u>

1.  $33.33\% \times 2,520,000 = 840,000$
2.  $53.33\% \times 2,520,000 = 1,344,000$
3.  $10.00\% \times 2,520,000 = 252,000$
4.  $3.33\% \times 2,520,000 = 84,000$

PPE Asset	Cost	2014 Depreciation	2015 Depreciation
Land.....	\$ 840,000	N/A <sup>5</sup>	N/A <sup>5</sup>
Building.....	1,344,000	1,344,000 × 2/10 = 268,800	(1,344,000 – 268,800) × 2/10 =
Equipment.....	252,000	252,000 × 2/5 = 100,800	215,040 (252,000 – 100,800) × 2/5 =
Tools.....	84,000	84,000 × 2/3 = 56,000	60,480 (84,000 – 56,000) × 2/3 =
			18,667

5. Land is not depreciated as it has an unlimited life and is not consumed when used.

**Analysis component:**

We do not depreciate the cost of land as it has an unlimited life and is not consumed when used.

**Exercise 10-10 (20 minutes)**

Cost Information						Depreciation		
Description	Date of Purchase	Depreciation Method	Cost	Residual	Life	Balance of Accum. Deprec. Dec. 31, 2013	Depreciation Expense for 2014	Balance of Accum. Deprec. Dec. 31, 2014
Building	2 May 2008	S/L	\$650,000	\$250,000	10 yr.	\$226,667	\$40,000 <sup>1</sup>	\$266,667 <sup>2</sup>
Modular Furniture	2 May 2008	S/L	72,000	0	6 yr.	68,000	4,000 <sup>3</sup>	72,000 <sup>4</sup>
Truck	25 Jan 2011	DDB	80,000	10,000	8 yr.	45,313	8,672 <sup>5</sup>	53,985 <sup>6</sup>

1.  $(650,000 - 250,000)/10 = 40,000/\text{year}$
2.  $226,667 + 40,000 = 266,667$
3.  $(72,000 - 0)/6 = 12,000$  per year; however the maximum accumulated depreciation = 72,000; 72,000 less total depreciation taken of 68,000 (8,000 in 2008  $[(72,000 - 0)/6 = \$12,000 \text{ per year} \times 8/12]$  plus 12,000 in years 2009 – 2013) = 4,000
4.  $68,000 + 4,000 = 72,000$
5. Rate =  $2/8 = .25$  or 25%  
 $25\% \times (80,000 - 45,313) = 8,672$
6.  $45,313 + 8,672 = 53,985$

**Analysis component:**

Depreciation is the process of allocating an asset's cost to expense over its useful life. It should be done using a rational and systematic manner. Oroplata uses the straight-line method and the double-declining balance method for its assets, which are both acceptable under GAAP. Oroplata has likely chosen different methods for depreciating its assets to better reflect the usage pattern of each asset, which is acceptable under GAAP.

**Exercise 10-11 (15 minutes)**

**OROPLATA  
EXPLORATION Partial  
Balance Sheet December  
31, 2013**

<b>Assets</b>			
<b>Current assets.....</b>			<b>\$338,000</b>
Furniture.....	\$72,000		
Less: Accumulated	<u>68,000</u>	\$4,000	
Building	\$650,000		
Less: Accumulated	<u>226,667</u>	423,333	
Truck.....	\$ 80,000		
Less: Accumulated	<u>45,313</u>	<u>34,687</u>	
Total property, plant and equipment			<u>462,020</u>
Total			<u>\$800,020</u>

**Exercise 10-12 (15 minutes)**

**a. Straight-line depreciation:**

	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Totals
Income before depreciation	\$171,000	\$171,000	\$171,000	\$171,000	\$171,000	\$855,000
Depreciation expense <sup>1</sup>	73,080	73,080	73,080	73,080	73,080	365,400
<b>Net</b>	<u>\$ 97,920</u>	<u>\$ 97,920</u>	<u>\$ 97,920</u>	<u>\$ 97,920</u>	<u>\$ 97,920</u>	<u>\$489,600</u>

**b. Double-declining-balance depreciation:**

	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Totals
Income before depreciation	\$171,000	\$171,000	\$171,000	\$171,000	\$171,000	\$855,000
Depreciation expense <sup>2</sup>	188,160	112,896	64,344	0	0	365,400
<b>Net income (loss)</b>	<u>\$(17,160)</u>	<u>\$ 58,104</u>	<u>\$106,656</u>	<u>\$171,000</u>	<u>\$171,000</u>	<u>\$489,600</u>

1.  $(470,400 - 105,000)/5 = 73,080$

2. Rate =  $2/5 = .40$  or 40%

Year 1:  $470,400 \times 40\% = 188,160$

Year 2:  $(470,400 - 188,160) \times 40\% = 112,896$

Year 3: 64,344 max. depreciation expense (calculated as  $470,400 - 105,000 - 188,160 - 112,896 = 64,344$ )

**Analysis component:**

Kenartha Oil will choose straight-line depreciation to depreciate the equipment if its goal is to show the highest value possible for the equipment on the Year 1 balance sheet. Straight-line will result in lower depreciation than double declining balance in Year 1. The lower the depreciation, the greater the net book value of the asset (cost less accumulated depreciation appearing in the balance sheet).

**Exercise 10-13 (15 minutes)**

	Depreciation	
Year	Straight-Line <sup>1</sup>	Units-of-Production <sup>3</sup>
2014	7,200	20,088
2015	21,600	43,416
2016	21,600	33,696

- $156,000 - 26,400 = 129,600/6 = 21,600 \times 4/12 = 7,200$
- $156,000 - 26,400 = 129,600/200,000 = \$0.648/\text{unit};$   
 $.648 \times 31,000 = 20,088; .648 \times 67,000 = 43,416; .648 \times 52,000 = 33,696$

**Analysis component:**

If depreciation is not recorded, expenses are understated and net income is overstated on the income statement and on the balance sheet, assets and equity would be overstated.

**Exercise 10-14 (25 minutes)**

	Depreciation	
Year	Straight-Line <sup>1</sup>	Double-Declining-
2014	11,000	22,000
2015	22,000	35,200
2016	22,000	21,120

**Calculations:**

- $110,000/5 = 22,000 \times 6/12 = 11,000$
- $2/5 = .4$  or 40%;  $.4 \times 110,000 \times 6/12 = 22,000;$   
 $.4 \times (110,000 - 22,000) = 35,200; .4 \times (110,000 - 22,000 - 35,200) = 21,120$

**Analysis component:**

If the furniture had been debited to an expense account in 2014 when purchased instead of being recorded as a PPE asset, expenses would have been overstated and net income would have been understated on the income statement in 2014 while assets and equity would have been understated on the balance sheet for the same year. Exercise 10-15 (10 minutes)

<u>Year</u>	(a) <u>Straight-Line</u>	(b) <u>Double-Declining-Balance</u>
2014	$(125,000 - 12,500)/5 = 22,500 \times 9/12 = 16,875$	<del>Rate = <math>2/5 = .40</math> or 40%</del> <del><math>125,000 \times 40\% \times 9/12 = 37,500</math></del>
2015	$(125,000 - 12,500)/5 = 22,500$	$(125,000 - 37,500) \times 40\% = 35,000$

**Exercise 10-16 (10 minutes)**

- $(43,500 - 5,000)/4 = 9,625/\text{year} \times 2 \text{ years} = 19,250$  accumulated depreciation  
Book value =  $43,500 - 19,250 = \underline{24,250}$
- $[(43,500 - 19,250) - 3,850]/3 = \underline{6,800}$

**Exercise 10-17 (15 minutes)**

2017		
Dec. 31	Depreciation Expense,	7,624
	Accumulated Depreciation, Machine	7,624
	<i>To record depreciation.</i>	

**Calculations:**

$$\text{Revised depreciation} = \frac{(71,200 - 30,800^*) - 8,000}{7 - 2 \frac{9}{12} = 4.25 \text{ yrs}} = \underline{7,624/\text{year}}$$

\*2014 depreciation =  $8,400$   $(71,200 - 15,200)/5 = 11,200 \times 9/12$

2015 depreciation =  $11,200$

2016 depreciation =  $\underline{11,200}$

Accumulated depreciation  $\underline{30,800}$

**Exercise 10-18 (20 minutes)**

**Part 1**

<b>2014</b>		
Jan. 5	Warehouse – Door.....	25,500
	Accounts Payable.....	25,500
	<i>To record addition of door on East wall of warehouse.</i>	

**Part 2**

<b>2014</b>		
Dec. 31	Depreciation Expense, Warehouse .....	14,700
	Accumulated Depreciation, Warehouse....	
	14,700	

*To record revised depreciation on warehouse;*  
 $\$292,500 - \$90,000 = \$202,500$ ;  $\$202,500 \div 15 \text{ yrs} = \$13,500$   
*PLUS*  $\$25,500 - \$7,500 = \$18,000$ ;  $\$18,000 \div 15 \text{ yrs} = \$1,200$ ;  
*Total depreciation on the warehouse =*  $\$13,500 + \$1,200 = \$14,700$ .

**Exercise 10-19 (30 minutes)**

**Part 1**

<b>2014</b>			
<b>Dec. 31</b>	<b>Impairment Loss</b>	<b>13,500</b>	
	<b>Equipment</b>		<b>12,000</b>
	<b>Office Building</b>		<b>1,500</b>
	<i>To record impairment loss on equipment and office building.</i>		

**Part 2**

<b>2015</b>			
<b>Dec. 31</b>	<b>Depreciation Expense, Equipment</b>	<b>1,800</b>	
	<b>Accumulated Depreciation, Equipment</b>		<b>1,800</b>
	<i>To record revised depreciation on equipment.</i>		
<b>31</b>	<b>Depreciation Expense, Furniture</b>	<b>491</b>	
	<b>Accumulated Depreciation, Furniture</b>		<b>491</b>
	<i>To record depreciation on furniture.</i>		
<b>31</b>	<b>Depreciation Expense, Office Building</b>	<b>3,838</b>	
	<b>Accumulated Depreciation, Office Building</b>		<b>3,838</b>
	<i>To record depreciation on office building</i>		
<b>31</b>	<b>Depreciation Expense, Warehouse</b>	<b>2,250</b>	
	<b>Accumulated Depreciation, Warehouse</b>		<b>2,250</b>
	<i>To record depreciation on warehouse.</i>		

**Calculations:**

<b>Asset</b>	<b>Cost</b>	<b>Accum. Deprec.</b>	<b>Book Value</b>	<b>Recoverable Amount</b>	<b>Impairment Loss</b>	<b>2015 Dep. Exp.</b>
<b>Equipment</b>	<b>\$40,000</b>	<b>\$20,000</b>	<b>\$20,000</b>	<b>\$ 8,000</b>	<b>\$12,000</b>	<b>1,800<sup>1</sup></b>
<b>Furniture</b>	<b>12,000</b>	<b>9,509</b>	<b>2,491</b>	<b>2,950</b>	<b>N/A</b>	<b>491<sup>2</sup></b>
<b>Land</b>	<b>85,000</b>	<b>N/A</b>	<b>85,000</b>	<b>101,800</b>	<b>N/A</b>	<b>N/A</b>
<b>Office Bldng</b>	<b>77,000</b>	<b>23,000</b>	<b>54,000</b>	<b>52,500</b>	<b>1,500</b>	<b>3,838<sup>3</sup></b>
<b>Warehouse</b>	<b>55,000</b>	<b>12,938</b>	<b>42,062</b>	<b>45,100</b>	<b>N/A</b>	<b>2,250<sup>4</sup></b>

- $[40,000 - 5,000] / 7,000 = \$5.00/\text{unit}$ ;  $20,000 \text{ accum. dep.} \div \$5.00/\text{unit} = 4,000 \text{ units}$ ;  $7,000 \text{ units in original useful life less } 4,000 \text{ units depreciated to date equals } 3,000 \text{ remaining units}$ ;  $40,000 - 12,000 = 28,000 \text{ revised cost}$ ;  $28,000 - 20,000 \text{ accum. dep.} = 8,000 \text{ revised book value}$ ;  $8,000 - 5,000 \text{ residual value} = 3,000$ ;  $3,000 \div 3,000 \text{ remaining units} = \$1.00/\text{unit revised depreciation rate}$ ;  $1.00/\text{unit} \times 1,800 \text{ units} = 1,800$
- $12,000 - 9,509 = 2,491$ ;  $2,491 \times 2/8 = 623$  which exceeds maximum allowable; maximum allowable = 2,491 remaining book value - 2,000 residual = 491
- $77,000 - 1,500 = 75,500 \text{ revised cost of office building}$ ;  $75,500 - 23,000 = 52,500 \text{ remaining book value}$ ;  $(52,500 - 17,000) \div 9.25 \text{ yrs remaining useful life} = 3,838$
- $55,000 - 10,000 = 45,000$ ;  $45,000 \div 20 \text{ yrs} = 2,250$



**Exercise 10-20 (20 minutes)**

a.

2014

Mar. 1	Accumulated Depreciation,	21,850	
	Cash.....	20,150	
	Van		42,000
	<i>To record the sale of the van for \$20,150.</i>		

b.

Mar. 1	Accumulated Depreciation,	21,850	
	Cash.....	21,600	
	Van		42,000
	Gain on Disposal		1,450
	<i>To record the sale of the van for \$21,600.</i>		

c.

Mar. 1	Accumulated Depreciation,	21,850	
	Cash.....	19,200	
	Loss on	950	
	Van		42,000
	<i>To record the sale of the van for \$19,200.</i>		

d.

Mar. 1	Accumulated Depreciation,	21,850	
	Loss on	20,150	
	Van		42,000
	<i>To record the sale of the van for \$0; it was scrapped.</i>		

**Exercise 10-21 (15 minutes)**

To record partial year's depreciation in 2018:

2018

July 1	Depreciation Expense.....	21,200
	Accumulated Depreciation, Machine .....	
	21,200	
	<i>To record partial year depreciation in year of disposal; (296,800/7) × 6/12 = 21,200.</i>	

(a)

July 1	Accumulated Depreciation, Machine .....	
	190,800* Cash	
	.....	112,000
	Machine.....	
	296,800	
	Gain on Disposal .....	
	6,000	
	<i>To record sale of machine for 112,000.</i>	

(b)

1	Accumulated Depreciation, Machine .....	
	190,800* Cash	
	.....	96,000
	Loss on Disposal .....	
	10,000	
	Machine.....	
	296,800	
	<i>To record receipt of \$96,000 from insurance settlement.</i>	

\* $(296,800/7) \times 4.5 \text{ years} = \underline{190,800}$

**Exercise 10-22 (10 minutes)**

- a.  $190,000 - 105,000 = \underline{85,000 \text{ book value}}$
- b.  $\text{Book value of the assets given up} = (85,000 + 164,000) = 249,000$   
 $\text{Less: Fair value of assets given up} (56,000 + 164,000) = \underline{220,000}$   
 $\text{Loss on exchange} \quad \underline{29,000}$
- c. 220,000
- d.

2014

Oct. 6	Tractor	220,000	
	Accumulated Depreciation, Tractor (old)	105,000	
	Loss on Exchange	29,000	
	Cash		164,000

**Tractor**

**190,000**

***To record exchange of old tractor for a new one.***

**\*\$56,000 + \$164,000 = \$220,000.**

**Exercise 10-23 (20 minutes)**

a.

2014

Nov. 3	Accumulated Depreciation, Computer (old)	...	65,000	
	Computer	...	175,000	
	Computer (old)	...		150,000
	Cash.....	.....		90,000

*To record exchange of computers.*

1.  $\text{Computer (new)} = \text{Cash paid} + \text{Book Value of asset given up}$   
 $= \$90,000 + \$85,000 = \$175,000$

b.

2014

Nov. 3	Accumulated Depreciation, Computer (old)	...	65,000	
	Computer	...	174,000	
	Loss on Disposal <sup>2</sup>	...	1,000	
	Computer (old)	...		150,000
	Cash.....	.....		90,000

*To record exchange of computers.*

1.  $\text{Computer (new)} = \text{Fair Value of Assets Received}$   
 $= \$174,000$

2.  $\text{Loss on Disposal} = \text{Proceeds} - \text{Book Value of assets given up}$   
 $= \$174,000 - [(\$150,000 - \$65,000) + \$90,000] = \$1,000$

**Analysis component:**

The dollar value that will be used to depreciate the new computer is \$174,000 because the Cost Principle requires that all transactions are to be recorded at their original cost.

\$174,000 was determined to be the cost.

**Exercise 10-24 (25 minutes)**

(a)

Jan. 2	Accumulated Depreciation, Machine .....	45,250	
	Cash .....	32,500	
	Loss on Disposal .....	6,250	
	Machine.....		84,000
	<i>To record sale of machine;</i>		
	<i>32,500 – (84,000 – 45,250) = 6,250 loss.</i>		

(b)

Jan. 2	Accumulated Depreciation, Machine .....	45,250	
	Tools.....	115,750	
	Cash.....		77,000
	Machine.....		84,000
	<i>To record exchange of machine;</i>		
	<i>Value of assets given up = \$77,000 cash +</i>		
	<i>\$38,750 book value of the old machine =</i>		
	<i>\$115,750.</i>		

(c)

Jan. 2	Accumulated Depreciation, Machine .....	45,250	
	Van.....	104,000	
	Loss on Disposal .....	2,750	
	Cash.....		68,000
	Machine.....		84,000
	<i>To record exchange of machine;</i>		
	<i>104,000 – (68,000 + 38,750) = 2,750 loss.</i>		

(d)

Jan. 2	Accumulated Depreciation, Machine .....	45,250	
	Land.....	75,000	
	Machine.....		84,000
	Cash.....		25,000
	Gain on Disposal.....		11,250
	<i>To record exchange;</i>		
	<i>75,000 – (25,000 + 38,750) = 11,250 gain.</i>		

**Exercise 10-25 (10 minutes)**

<b>2014</b>			
Jan.	1	Copyrights.....	177,480
		Cash.....	177,480
		<i>To record purchase of copyright.</i>	
Dec.	31	Amortization Expense, Copyrights	14,790
		Accumulated Amortization,	14,790
		<i>To record amortization of copyright;</i>	
		<i>177,480/12 = 14,790</i>	

**Exercise 10-26 (15 minutes)**

**Part 1**

<b>2014</b>			
Sept. 5		Timber	432,000
		Cash	96,000
		Long-Term Notes Payable	336,000
		<i>To record purchase of timber rights.</i>	
	27	Patent	148,000
		Accounts	148,000
		<i>To record purchase of patent.</i>	

**Part 2**

<b>2014</b>			
	Dec. 31	Amortization Expense, Timber Rights	
		48,000	
		Accumulated Amort., Timber Rights	
		48,000	
		<i>To record amortization of timber rights;</i>	
		<i>\$432,000 ÷ 3 yrs = \$144,000/year × 4/12 = \$48,000.</i>	
	31	Amortization Expense, Patent	3,700
		Accumulated Amortization, Patent	
		3,700	
		<i>To record amortization of patent;</i>	
		<i>\$148,000 ÷ 10 yrs = \$14,800/year × 3/12 = \$3,700.</i>	
<b>2015</b>			
Dec. 31		Amortization Expense, Timber Rights	144,000
		Accumulated Amortization, Timber Rights	
		144,000	
		<i>To record amortization of timber rights;</i>	
		<i>\$432,000 ÷ 3 yrs = \$144,000/year.</i>	

<b>31 Amortization Expense, Patent</b>	<b>14,800</b>
<b>Accumulated Amortization, Patent</b>	
<b>14,800</b>	
<i>To record amortization of patent;</i>	
<b><math>\\$148,000 \div 10 \text{ yrs} = \\$14,800/\text{year}.</math></b>	

**Exercise 10-27 (25 minutes)**

**Quia Resources  
Balance Sheet  
October 31,  
2014**

**Assets**

**Current assets:**

Cash		\$ 9,600	
Accounts	\$ 27,200		
Less: Allowance for doubtful	<u>1,920</u>	<u>25,280</u>	
<b>Total current assets</b>			<b>\$ 34,880</b>

**Property, plant and equipment:**

Land.....		\$ 89,600	
Building.....	\$ 147,200		
Less: Accumulated	<u>81,600</u>	65,600	
Equipment	\$184,000		
Less: Accumulated	<u>110,400</u>	<u>73,600</u>	
<b>Total property, plant and</b>			<b>228,800</b>

**Intangible assets:**

Mineral rights	\$ 57,600		
Less: Accumulated	<u>30,400</u>	\$ 27,200	
Trademark.....	\$ 33,600		
Less: Accumulated	<u>22,400</u>	<u>11,200</u>	
<b>Total intangible</b>			<b><u>38,400</u></b>

**Total**

**\$302,080**

**Liabilities**

**Current liabilities:**

Accounts payable	\$18,400		
Current portion of long-term note	<u>34,000</u>		
<b>Total current liabilities</b>		<b>\$ 52,400</b>	

**Long-term liabilities:**

Note payable, less current portion		<u>38,000</u>	
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**Total liabilities**

**\$ 90,400**

**Equity**

Ave Quia, capital			<u>211,680<sup>1</sup></u>
<b>Total liabilities and</b>			<b><u>\$302,080</u></b>

**Calculations:**

1. 221,280 adjusted capital balance + 1,433,600 revenues – 1,443,200 expenses = 211,680 post-closing capital balance



**Exercise 10-28 (35 minutes)**

**Victhom  
Bionics  
Balance Sheet  
April 30, 2014**

**Assets**

**Current assets:**

Cash .....		\$ 9,000	
Accounts receivable.....	\$16,200		
Less: Allowance for doubtful accounts.....	<u>900</u>	15,300	
Prepaid rent.....		<u>1,080<sup>1</sup></u>	
<b>Total current assets .....</b>			<b>\$ 25,380</b>

**Property, plant and equipment:**

Furniture .....	\$21,600		
Less: Accumulated depreciation .....	<u>14,400<sup>2</sup></u>	\$ 7,200	
Machinery.....	\$48,600		
Less: Accumulated depreciation.....	<u>21,600<sup>3</sup></u>	<u>27,000</u>	
<b>Total property, plant and equipment.....</b>			<b>34,200</b>

**Intangible assets:**

Patent .....		\$21,600	
Less: Accumulated amortization.....		<u>720<sup>4</sup></u>	<u>20,880</u>
<b>Total assets.....</b>			<b><u>\$80,460</u></b>

**Liabilities**

**Current liabilities:**

Accounts payable .....	\$4,860		
Unearned revenues.....	5,760		
Current portion of long-term note .....	<u>5,400</u>		
<b>Total current liabilities .....</b>		<b>\$ 16,020</b>	

**Long-term liabilities:**

Note payable, less current portion .....		<u>8,100</u>	
<b>Total liabilities .....</b>			<b>\$24,120</b>

**Equity**

Josh Victhom, capital .....			<u>56,340<sup>5</sup></u>
<b>Total liabilities and equity.....</b>			<b><u>\$80,460</u></b>

**Calculations:**

1.  $12,960 \times 11/12 = 11,880$  rent used;  $12,960 - 11,880 = 1,080$  remaining in Prepaid Rent
2.  $21,600 \div 5 = 4,320$ ;  $4,320 + 10,080 = 14,400$  accum. dep.
3.  $48,600 - 20,088 = 28,512$ ;  $28,512 \times 2/10 = 5,702$ ; maximum depreciation is  $48,600 - 27,000 = 21,600$  therefore 2014 depreciation expense is 1,512 and accum. dep. is 20,088  
 $+ 1,512 = 21,600$ .
4.  $21,600 \div 15 = 1,440$ /year;  $1,440 \times 6/12 = 720$ .
5.  $22,572$  unadjusted capital +  $223,200$  revenues –  $82,800$  withdrawals –  $88,200$  expenses –  
 $4,320$  dep. furniture –  $1,512$  dep. machinery –  $720$  amort. patent –  $11,880$  rent expense =  
 $56,340$  post-closing capital

**\*Exercise 10-29 (30 minutes)**

**Part 1**

2014

Jul. 3 Truck – Tool Carrier.....	9,600	
Cash.....		9,600
<i>To record installation of new component to truck.</i>		

**Part 2**

Truck:							
Component	Date of Purchase	Cost	Est. Resid.	Est. Life	Accum. Dep. at Dec 31/13	Dep. Exp. Dec 31/14	Dep. Exp. Dec 31/15
Truck body	Jul 7/12	\$ 28,000	-0-	10 yr	\$ 4,200	\$ 2,800 <sup>1</sup>	\$ 2,800 <sup>1</sup>
Motor	Jul 7/12	8,000	-0-	10 yr	1,200	800 <sup>2</sup>	800 <sup>2</sup>
Tool Carrier	Jul 3/14	9,600	-0-	8 yr	-0-	600 <sup>3</sup>	1,200 <sup>3</sup>
		<b>\$ 45,600</b>			<b>\$ 5,400</b>	<b>\$4,200</b>	<b>\$4,800</b>

**Calculations:**

1.  $28,000 \div 10 \text{ yrs} = 2,800/\text{yr}$
2.  $8,000 \div 10 \text{ yrs} = 800/\text{yr}$
3.  $9,600 \div 8 \text{ yrs} = 1,200/\text{yr} \times 6/12 = 600$  for partial period in 2014

**Part 3**

**Book value of truck at December 31, 2014:**

$\$45,600 \text{ total cost} - (\$5,400 + \$4,200 = \$9,600) = \$36,000$

**Book value of truck at December 31, 2015:**

$\$36,000 - \$4,800 = \$31,200$

## PROBLEMS

### Problem 10-1A (25 minutes)

#### Part 1

	<u>Land</u>	<u>Building Two</u>	<u>Building Three</u>	<u>Land Impmnts. One</u>	<u>Land Impmnts. Two</u>
Purchase	\$2,867,200	\$985,600		\$627,200	
Demolition.....	676,160				
Landscaping	267,520				
New			\$3,230,400		
New					\$252,800
Totals.....	<u>\$3,810,880</u>	<u>\$985,600</u>	<u>\$3,230,400</u>	<u>\$627,200</u>	<u>\$252,800</u>

\*Allocation of purchase price:

	<u>Appraised Value</u>	<u>Percent of Total</u>	<u>Apportioned Cost</u>
Land.....	\$2,984,960	64%	\$2,867,200
Building Two.....	1,026,080	22	985,600
Land Improvements One.....	<u>652,960</u>	<u>14</u>	<u>627,200</u>
Totals.....	<u>\$4,664,000</u>	<u>100%</u>	<u>\$4,480,00</u>

#### Part 2

Mar. 31	Land.....	3,810,880	
	Building Two .....	985,600	
	Building Three.....	3,230,400	
	Land Improvements One .....	627,200	
	Land Improvements Two .....	252,800	
	Cash .....		8,906,880
	<i>To record costs of plant assets.</i>		

**Problem 10-2A (25  
minutes)**

**Derlak  
Enterprises  
Balance Sheet  
December 31**

	2014	2013
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 12,000	\$ 28,800
Prepaid rent	40,000	48,000
Office supplies	<u>2,400</u>	<u>2,320</u>
Total current assets	\$ 54,400	\$
79,120		
<b>Property, plant and equipment:</b>		
Equipment	\$184,000	\$100,000
Less: Accumulated depreciation	<u>72,800</u>	111,200
35,200		<u>64,800</u>
Tools	\$143,920	\$100,800
Less: Accumulated depreciation	<u>44,800</u>	99,120
58,400		<u>42,400</u>
Vehicles	\$252,800	\$252,800
Less: Accumulated depreciation	<u>108,800</u>	144,000
155,200		<u>97,600</u>
Total property, plant and equipment	354,320	
248,800		
<b>Intangible assets:</b>		
Franchise	\$ 41,600	\$ 41,600
Less: Accumulated amortization	<u>19,200</u>	22,400
30,400		<u>11,200</u>
Patent	\$ 16,000	\$ 16,000
Less: Accumulated amortization	<u>4,000</u>	12,000
13,600		<u>2,400</u>
Total intangible assets	<u>34,400</u>	
44,000		
Total assets	<u>\$443,120</u>	
<u>\$371,920</u>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 56,800	\$ 9,600
Salaries payable	<u>32,800</u>	<u>26,400</u>
Total current liabilities	\$ 89,600	\$
36,000		
<b>Long-term liabilities:</b>		
Notes payable, due in 2023	<u>240,000</u>	
<u>129,600</u>		

Last revised: November 19,

<b>Total liabilities</b>	<b>\$329,600</b>
<b>\$165,600</b>	
<b>Equity</b>	
Lee Derlak, capital	<u>113,520</u> *
<b>206,320</b>	
<b>Total liabilities and equity</b>	<b><u>\$443,120</u></b>
<b><u>\$371,920</u></b>	
<b>*206,320 – 32,000 – 780,800 + 720,000 = 113,520</b>	

***Analysis component:***

Derlak's assets are financed mainly by equity in 2013. In 2014, the assets are financed largely by debt. The change from 2013 to 2014 in how assets were mainly financed (from equity to debt) is unfavourable because the greater the debt the greater the risk associated with debt (is/will Derlak be in a position to pay the interest and principal as it comes due).

**Problem 10-3A (25 minutes)**

Year	Depreciation		
	Straight-line	Double-declining balance	Units-of-production <sup>2</sup>
2014	$(828,000 - 192,000)/10 = 63,600/\text{year} \times 10/12 = 53,000$	Rate = $2/10 = .20$ or 20% $828,000 \times 20\% \times 10/12 = 138,000$	Rate = $(828,000 - 192,000)/13,250 = 48/\text{hour}$ $48 \times 720 = 34,560$
2015	63,600	$(828,000 - 138,000) \times 20\% = 138,000$	$48 \times 1,780 = 85,440$
2016	63,600	$(828,000 - 138,000 - 138,000) \times 20\% = 110,400$	$48 \times 1,535 = 73,680$

1. Depreciation is calculated to the nearest month.
2. Assume actual hours of service were: 2014: 720; 2015: 1,780; 2016: 1,535.

**Analysis component:**

If you could ignore the matching principle, you might record the purchase of the boats as a revenue expenditure which means the entire cost of \$828,000 would have been expensed in 2014, the year of purchase. This would have resulted in the net income

being understated in 2014 and, because of depreciation expense not being recorded, net income would be overstated in the remaining years of the asset's useful life as well. On the balance sheet, recording the purchase of the boats as a revenue expenditure would have caused assets and equity to be understated in each year of the asset's life. It is interesting to note that the error would self-correct by the end of the asset's life if it would have gone undetected.

**Problem 10-4A (25 minutes)**

Year	Depreciation		
	Straight-line	Double-declining balance	Units-of-production <sup>2</sup>
2014	$(828,000 - 192,000)/10 = 63,600/\text{year} \times 6/12 = 31,800$	Rate = $2/10 = .20$ or 20% $828,000 \times 20\% \times 6/12 = 82,800$	Same as Problem 10-3A; Units-of-production is usage based and not affected by time 34,560
2015	63,600	$(828,000 - 82,800) \times 20\% = 149,040$	85,440
2016	63,600	$(828,000 - 82,800 - 149,040) \times 20\% = 119,232$	73,680

1. Depreciation is calculated using the half-year convention.
2. Assume actual hours of service were: 2014: 720; 2015: 1,780; 2016: 1,535.

**Problem 10-5A (25 minutes)**

	2014	2015	2016
<b>1. Double-declining-balance method</b>			
Equipment.....	\$375,000	\$375,000	
\$375,000			
Less: Accumulated depreciation .....	46,875	128,906	
190,430			
Year-end book value.....	\$328,125	\$246,094	
\$184,570			
Depreciation expense for the year <sup>1</sup> .....	\$46,875	\$82,031	
\$61,524			
<b>2. Straight-line method</b>			
Equipment.....	\$375,000	\$375,000	
\$375,000			
Less: Accumulated depreciation .....	19,531	58,594	
97,657			
Year-end book value.....	\$355,469	\$316,406	
\$277,343			
Depreciation expense for the year .....	\$19,531 <sup>2</sup>	\$39,063	
\$39,063			

1. Rate =  $2/8 = 0.25$  or 25%  
 2014:  $0.25 \times 375,000 \times 6/12 = 46,875$   
 2015:  $0.25 \times (375,000 - 46,875) = 82,031$   
 2016:  $0.25 \times (375,000 - 46,875 - 82,031) = 61,524$
2.  $(375,000 - 62,500)/8 = 39,063 \times 6/12 = 19,531$

**Problem 10-6A (15 minutes)**

<b>1.</b>			
<b>2015</b>			
Apr. 30	Depreciation Expense, Building.....	65,000	
	Accumulated Depreciation, Building.....		65,000
	<i>To record annual depreciation;</i>		
	<i>975,000/15 = 65,000.</i>		
	 30	Depreciation Expense, Equipment.....	86,400
		Accumulated Depreciation, Equipment .....	86,400

Last revised: November 19,

**To record annual depreciation;**

**Rate =  $2/10 = .20$  or 20%;**

**$432,000 \times 20\% = 86,400.$**



**Problem 10-6A (continued)**

2.

**BigSky Farms  
Partial Balance  
Sheet  
April 30, 2015**

<b>Property, plant and equipment:</b>		
Land .....		\$650,000
Building .....	\$975,000	
Less: Accumulated depreciation.....	<u>780,000</u>	195,000
Equipment.....	750,000	
Less: Accumulated depreciation.....	<u>404,400</u>	345,600
<b>Total property, plant and equipment .....</b>		<u><u>\$1,190,600</u></u>

**Problem 10-7A (50 minutes)**

**Part 1**

	Market Value	Percentage of Total	Apportioned Cost
Building.....	\$ 652,800	48%	\$ 604,800
Land.....	462,400	34	428,400
Land improvements.....	68,000	5	63,000
Vehicles.....	<u>176,800</u>	<u>13</u>	<u>163,800</u>
<b>Total.....</b>	<u><b>\$1,360,000</b></u>	<u><b>100%</b></u>	<u><b>\$1,260,000</b></u>

<del>Dr</del> 1	Building .....	604,800	
	Land .....	428,400	
	Land Improvements.....	63,000	
	Vehicles.....	163,800	
	Cash .....		1,260,000
	<i>To record asset purchases.</i>		

**Part 2** 2014 straight-line depreciation on building:  $(\$604,800 - \$41,040)/15 \times 10/12 = \underline{\$31,320}$

**Part 3** 2014 double-declining-balance depreciation on land improvements:  
Rate =  $2/5 = .40$  or 40%  
 $\$63,000 \times 40\% \times 10/12 = \underline{\$21,000}$

**Problem 10-7A (concluded)**

**Analysis component:**

If the assets purchased on March 1, 2014 were put into service on May 23, 2014 the depreciation expense calculated in parts 2 and 3 above would be based on 7 months instead of 10 months because straight-line and double-declining-balance depreciation are both based on the time the assets are actually USED during the period.

**Problem 10-8A (30 minutes)**

<u>Year</u>	<u>Straight-Line<sup>a</sup></u>	<u>Units-of-Production</u>	<u>Double-Declining</u>
2014	\$ 38,000	\$ 20,544	\$ 84,000
2015	114,000	117,504	210,000
2016	114,000	114,816	105,000
2017	114,000	113,472	52,500
2018	<u>76,000</u>	<u>89,664</u>	<u>4,500</u>
<b>Totals</b>	<b><u>\$456,000</u></b>	<b><u>\$456,000</u></b>	<b><u>\$456,000</u></b>

**<sup>a</sup>Straight-line:**

$$\text{Cost per year} = (504,000 - 48,000)/4 \text{ years} = \$114,000 \text{ per year} \times 4/12 = 38,000$$

**<sup>b</sup>Units-of-production:**

$$\text{Cost per unit} = (504,000 - 48,000)/475,000 \text{ units} = \$0.96 \text{ per unit}$$

<u>Year</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Depreciation</u>
2014	21,400	\$0.96	\$ 20,544
2015	122,400	0.96	117,504
2016	119,600	0.96	114,816
2017	118,200	0.96	113,472
2018	102,000	0.96	<u>89,664*</u>
<b>Total</b>			<b><u>\$456,000</u></b>

*\*Take only enough depreciation in Year 2018 to reach the maximum accumulated depreciation of \$456,000 (which is cost less residual).*

**<sup>c</sup>Double-declining-**

**balance: Rate = 2/4 = .50 or 50%**

**2014: 50% × 504,000 × 4/12 = 84,000**

**2015: 50% × (504,000 - 84,000) = 210,000**

**2016: 50% × (504,000 - 84,000 - 210,000) = 105,000**

**2017: 50% × (504,000 - 84,000 - 210,000 - 105,000) = 52,500**

**2018: 456,000 - 451,500\* = 4,500**

Last revised: November 19,

***\*Take only enough depreciation in Year 2018 to reach the maximum accumulated depreciation of \$456,000 (which is cost less residual).***

**Problem 10-9A (30 minutes)**

Cost Information						Depreciation		
Description	Date of Purchase	Depreciation Method	Cost	Residual	Life	Balance of Accum. Deprec. Dec. 31, 2014	Deprec. Expense for 2015	Balance of Accum. Deprec. Dec. 31, 2015
Office equipment	March 27/11	Straight-line	\$52,000	\$14,000	10 yr.	14,250 <sup>1</sup>	3,800 <sup>2</sup>	18,050 <sup>3</sup>
Machinery	June 4/11	Double-declining balance	\$275,000	\$46,000	6 yr.	209,362 <sup>4</sup>	19,638 <sup>5</sup>	229,000 <sup>6</sup>
Truck	Nov. 13/14	Units-of-productio	\$113,000	\$26,000	250,000 km.	4,872 <sup>7</sup>	23,664 <sup>8</sup>	28,536 <sup>9</sup>

1.  $(52,000 - 14,000)/10 = 3,800/\text{year} \times 3 \frac{9}{12} = 14,250$
2.  $(52,000 - 14,000)/10 = 3,800/\text{year}$
3.  $14,250 + 3,800 = 18,050$
4. Rate =  $2/6 = .3333$  or 33.33%
 

2011:	$33.33\% \times 275,000 \times 7/12 =$	53,472
2012:	$33.33\% \times (275,000 - 53,472) =$	73,843
2013:	$33.33\% \times (275,000 - 53,472 - 73,843) =$	49,228
2014:	$33.33\% \times (275,000 - 53,472 - 73,843 - 49,228) =$	<u>32,819</u>
	Accumulated depreciation at Dec. 31, 2014 =	<u>\$209,362</u>
5. 2015:  $(275,000 - 46,000) - 209,362 = 19,638$
6.  $209,362 + 19,638 = 229,000$
7. Rate =  $(113,000 - 26,000)/250,000 = \$0.348/\text{km}$ ;  $14,000 \times 0.348 = 4,872$
8.  $68,000 \times 0.348 = 23,664$
9.  $4,872 + 23,664 = 28,536$

**Problem 10-10A (20 minutes)**

2014

Mar. 26	Delivery	102,900	
	Cash		102,900
	<i>To record purchase of new truck; \$97,075 plus \$5,825 freight costs.</i>		
Dec. 31	Depreciation Expense, Delivery Truck <sup>1</sup>	13,185	
	Accumulated Depreciation, Delivery		13,185
	<i>To record depreciation from Mar. 26 to Dec. 31, 2014.</i>		

2015

Dec. 31	Depreciation Expense, Delivery Truck <sup>2</sup>	22,220	
	Accumulated Depreciation, Delivery		22,220
	<i>To record depreciation.</i>		

$$1. \quad (102,900 - 15,000)/5 \times 9/12 = 13,185$$

$$2. \quad \frac{102,900 - 13,185 - 17,500}{4 - 9/12} = 22,220$$

**Problem 10-11A (30 minutes)**

2015

Dec. 31	Depreciation Expense, Machinery <sup>1</sup>	95,200	
	Accumulated Depreciation,		95,200
	<i>To record annual depreciation.</i>		
31	Depreciation Expense, Office	11,733	
	Accumulated Depreciation, Office		11,733
	<i>To record annual depreciation.</i>		

**Calculations:**

$$1. \quad \frac{\text{Cost} \quad \text{Accumulated Depreciation} \quad \text{Residual}}{556,800 - \quad 246,400 - \quad 120,000} = 95,200$$

2

$$2. \quad \frac{\text{Cost} \quad \text{Accumulated Depreciation} \quad \text{Residual}}{89,600 - \quad 49,600 - \quad (11,200 - 6,400)} = 11,733$$

5 - 2 = 3

**Problem 10-12A (20 minutes)**

**Part 1**

**2014**

<b>Jan. 7</b>	<b>Machine #5027 – Blade (new)</b>	<b>10,400</b>	
	<b>Accumulated Depreciation, Machine #5027 – Blade</b>	<b>2,688<sup>1</sup></b>	
	<b>Loss on Disposal</b>	<b>5,032</b>	
	<b>Machine #5027 – Blade (old) .....</b>		<b>7,720</b>
	<b>Cash .....</b>		<b>10,400</b>
	<i>To record installation of replacement blade.</i>		

**Calculations:**

1.  $7,720 - 1,000 = 6,720$ ;  $6,720 \div 5 \text{ yrs} = 1,344$  deprec. for 2012;  
 $1,344 + 1,344$  deprec. for 2013 = 2,688 accum. deprec. at Dec. 31, 2013.

**Part 2**

<b>Metal</b>	$44,000 - 8,000 = 36,000$ ; $36,000 \div 15 \text{ yrs} = 2,400$ for 2012 <b>PLUS</b> $2,400$ for 2013 = 4,800 accum. deprec. at Dec. 31/2013; Revised deprec. = $44,000 - 4,800 = 39,200$ book value;		<b>\$1,700</b>
<b>Housing</b>	$39,200 - 8,600$ residual = 30,600 depreciable cost; $30,600 \div 18 \text{ years}^* =$		

*\*20 years – 2 yrs already depreciated = 18 yr remaining life*

<b>Motor</b>	2012: $26,000 \times 2/10 = 5,200$ 2013: $26,000 - 5,200 = 20,800 \times 2/10 = 4,160$ 2014: $20,800 - 4,160 = 16,640 \times 2/10 =$		<b>3,328</b>
<b>Blade</b>	$10,400 - 1,000 = 9,400$ ; $9,400 \div 5 \text{ yrs} =$		<b><u>1,880</u></b>

**Total depreciation expense to be recorded on Machine #5027 for 2014 = \$6,908**

**Problem 10-13A (40 minutes)**

**Part 1**

**2014**

<b>Oct. 31</b>	<b>Impairment Loss .....</b>	<b>24,200</b>	
	<b>Equipment .....</b>		<b>24,200</b>
	<i>To record impairment loss on equipment.</i>		
<b>31</b>	<b>Impairment Loss .....</b>	<b>14,300</b>	
	<b>Furniture .....</b>		<b>14,300</b>
	<i>To record impairment loss on furniture.</i>		

**\*Calculations:**

	Book Value	Recoverable Value	Impairment Loss
<b>Land</b>	<b>\$105,600</b>	<b>\$136,400</b>	<b>NA</b>
<b>Building</b>	<b>57,200</b>	<b>105,600</b>	<b>NA</b>
<b>Equipment</b>	<b>52,800</b>	<b>28,600</b>	<b>\$24,200</b>
<b>Furniture</b>	<b>29,700</b>	<b>15,400</b>	<b>14,300</b>

**Problem 10-13A**  
**(concluded) Part 2**

**Safety-First**  
**Company Balance**  
**Sheet October 31,**  
**2014**

**Assets****Current assets:**

Cash		\$ 11,000	
Accounts	\$ 19,800		
Less: Allowance for doubtful	<u>880</u>	18,920	
Merchandise inventory		<u>35,200</u>	
<b>Total current assets</b>			<b>\$ 65,120</b>

**Property, plant and equipment:**

Land.....		\$105,600	
Building.....	\$136,400		
Less: Accumulated	<u>79,200</u>	57,200	
Equipment	\$ 66,000 <sup>1</sup>		
Less: Accumulated	<u>37,400</u>	28,600	
Furniture	\$ 36,300 <sup>2</sup>		
Less: Accumulated	<u>20,900</u>	<u>15,400</u>	
<b>Total property, plant and</b>			<b><u>206,800</u></b>

**Total****\$271,920****Liabilities****Current liabilities:**

Accounts payable	\$ 11,220		
Unearned revenues	7,920		
Current portion of long-term note	<u>26,400</u>		
<b>Total current liabilities</b>		<b>\$ 45,540</b>	

**Long-term liabilities:**

Note payable, less current portion		<u>59,400</u>	
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**Total liabilities****\$104,940****Equity**

Tarifa Sharma, capital		<u>166,980<sup>3</sup></u>	
<b>Total liabilities and</b>			<b><u>\$271,920</u></b>

**Calculations:**

1. 90,200 cost – 24,200 impairment loss = 66,000
2. 50,600 cost – 14,300 impairment loss = 36,300
3. 62,480 adjusted capital balance + 904,200 sales – 761,200 expenses – 24,200 impairment loss, equip. – 14,300 impairment loss, furn. = 166,980 post-closing capital balance

**Analysis component:**

An impairment loss causes net income to decrease on the income statement. On the balance sheet, an impairment loss causes total assets to decrease because of the decrease in property, plant and equipment. Equity also decreases on the balance sheet as a result of the decreased net income.



**Problem 10-14A (30 minutes)**

1.

2015

Sept. 27	Depreciation Expense,	4,950	
	Accumulated Depreciation, Building <sup>1</sup>		4,950
	<i>To record building depreciation for 2015.</i>		

27	Cash.....	592,000	
	Accumulated Depreciation,	398,550	
	Gain on Disposal.....		67,350
	Land.....		396,800
	Building.....		526,400
	<i>To record sale of land and building.</i>		

2.

Nov. 2	Depreciation Expense,	16,133	
	Accumulated Depreciation, Equipment <sup>3</sup>		16,133
	<i>To record equipment depreciation for 2015.</i>		

2	Cash.....	56,800	
	Accumulated Depreciation, Equipment <sup>4</sup>	90,533	
	Loss on	23,867	
	Equipment.....		171,200
	<i>To record sale of equipment.</i>		

1. Depreciation from Jan. 1, 2015 to Sept. 27, 2015  
 $[(526,400 - 393,600) - 80,000]/8 = 6,600/\text{year} \times 9/12 = 4,950$

2. Accumulated Depreciation, Building =  
 $4,950 + 393,600 = 398,550$

3. Depreciation from Jan. 1, 2015 to Nov. 2, 2015  
 Rate =  $2/10 = .20$  or 20%  
 $171,200 - 74,400 = 96,800 \times 20\% = 19,360 \times 10/12 = 16,133$

4. Accumulated Depreciation, Equipment =  
 $16,133 + 74,400 = 90,533$

**Problem 10-15A (45 minutes)**

1.

2014

Jan. 2	Machine	116,900	
	Cash.....		116,900
	<i>To record purchase of machine.</i>		

3	Machine	4,788	
	Cash.....		4,788
	<i>To record capital repairs on machine.</i>		

3	Machine	1,512	
	Cash.....		1,512
	<i>To record installation of machine.</i>		

2.

2014

Dec. 31	Depreciation Expense,	17,080	
	Accumulated Depreciation,		17,080
	<i>To record depreciation;</i>		
	<i>(123,200 – 20,720)/6 =</i>		
	<i>17,080</i>		

2019

Sept. 30	Depreciation Expense,	12,810	
	Accumulated Depreciation,		12,810
	<i>To record partial year's depreciation;</i>		
	<i>17,080 × 9/12 = 12,810.</i>		

3(a).

30	Accumulated Depreciation,	98,210	
	Cash.....	21,000	
	Loss on Disposal <sup>2</sup>	3,990	
	Machine.....		123,200
	<i>Sold machine for \$21,000.</i>		

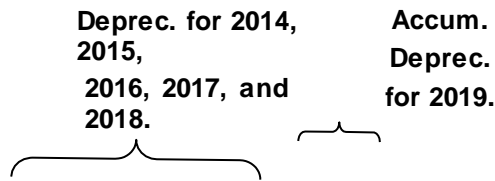
3(b).

30	Accumulated Depreciation,	98,210	
	Cash.....	27,300	
	Machine.....		123,200
	Gain on Disposal <sup>3</sup>		2,310
	<i>Sold machine for \$27,300.</i>		

3(c).

30	Accumulated Depreciation,	98,210	
	Cash.....	25,760	
	Machine.....		123,200
	Gain on Disposal <sup>4</sup>		770
	<i>Received insurance settlement.</i>		

**Problem 10-15A (continued)**



1. Accumulated depreciation =  $(17,080 \times 5 \text{ years}) + 12,810 = \underline{98,210}$
2. Gain (Loss) = Cash Proceeds – Book Value  
 $= 21,000 - (123,200 - 98,210) =$   
 $12,000$
3. Gain (Loss) = Cash Proceeds – Book Value  
 $= 27,300 - (123,200 - 98,210) = \underline{2,310}$
4. Gain (Loss) = Cash Proceeds – Book Value  
 $= 25,760 - (123,200 - 98,210) = \underline{770}$

**Problem 10-16A (15 minutes)**

2014

July 5	Accumulated Depreciation, Truck.....	6,000	
	Loss on Disposal* .....	10,500	
	Furniture.....	45,100	
	Truck.....		36,000
	Cash.....		25,600
	<i>To record exchange.</i>		

Dec. 31	Depreciation Expense, Furniture .....	3,236	
	Accumulated Depreciation, Furniture .....		3,236
	<i>To record depreciation;</i>		
	$(45,100 - 6,268)/6 \times 6/12 = 3,236.$		

\* Gain (Loss) = Proceeds – Book Value of Assets Given Up  
 $= 45,100 - [25,600 + (36,000 - 6,000)]$   
 $= 45,100 - 55,600$   
 $= (10,500)$

**Problem 10-17A (45 minutes)**

**a. Depreciation expense on first December 31 of each machine's life**

**2014**

Dec. 31	Depreciation Expense, Machine 15-50 <sup>1</sup>	.	6,075	
	Accumulated Depreciation, Machine 15-50			6,075
	<i>To record depreciation.</i>			

**2017**

Dec. 31	Depreciation Expense, Machine 17-95 <sup>3</sup>	.	22,646	
	Accumulated Depreciation, Machine 17-95			22,646
	<i>To record depreciation.</i>			

**2018**

Dec. 31	Depreciation Expense, Machine BT-311 <sup>5</sup>	.	77,810	
	Accumulated Depreciation,			
	Machine BT-	.		77,810
	<i>To record depreciation.</i>			

**b. Purchase/exchange/disposal of each machine.**

**2014**

Apr. 1	Machine 15-		52,900	
	Cash .....			52,900
	<i>To record purchase of Machine 15-50.</i>			

**2017**

Mar. 29	Machine 17-95 (= assets given		60,390	
	Accumulated Depreciation, Machine 15-50 <sup>2</sup>		24,300	
	Machine 15-			52,900
	Cash .....			31,790
	<i>To record exchange of Machine 15-50.</i>			

**2018**

Oct. 2	Machine BT-		537,000	
	Accumulated Depreciation, Machine 17-95 <sup>4</sup>		36,800	
	Loss on		3,590	
	Machine 17-			60,390
	Cash .....			517,000
	<i>To record exchange of Machine 17-95.</i>			

**2021**

Aug. 21	Cash.....		81,200	
	Accumulated Depreciation, Machine BT-311 <sup>6</sup>		348,890	
	Loss on		106,910	
	Machine BT-311			537,000
	<i>To record sale of Machine BT-311.</i>			

**Problem 10-17A**

*(continued) Calculations:*

1.  $\frac{52,900 - 4,300}{6} = 8,100/\text{year} \times 9/12 = \underline{6,075}$

2. Depreciation 2014:

2015:	8,100	
2016:	8,100	
2017:	<u>2,025</u>	(8,100 × 3/12)
Accum. Deprec.	<u>24,300</u>	

3. Rate =  $2/4 = .50$  or 50%

$50\% \times 60,390 \times 9/12 = \underline{22,646}$  (deprec. for 2017)

4.  $50\% \times (60,390 - 22,646) \times 9/12 =$  14,154 (deprec. for 2018)  
+ 22,646 (deprec. for 2017)  
36,800 (accum. deprec.)

5.  $(537,000 - 35,000)/200,000 = 2.51/\text{unit}$   
 2018:  $31,000 \text{ units} \times 2.51/\text{unit} = \underline{77,810}$

6. Depreciation for Jan. 1/2019 to August 21/2021

$= 108,000 \text{ units} \times 2.51/\text{unit} =$  271,080  
+ 77,810 (2018)  
348,890 (accum. deprec.)

**Problem 10-18A (10 minutes)**

(a)

	<b>2014</b>		
Oct. 1	Copyright.....	288,000	
	Cash .....		288,000
	<i>To record purchase of copyright.</i>		

(b)

Dec. 31	Amortization Expense .....	24,000	
	Accumulated Amortization, Copyright .....		24,000
	<i>To record amortization of copyright;</i> $288,000/3 \times 3/12 = 24,000.$		

**Problem 10-19A (30 minutes) Part 1**

**2014**

<b>Dec. 31</b>	<b>Amortization Expense, Mineral Rights</b>	<b>13,000</b>	
	<b>Accumulated Amortization, Mineral Rights</b>		<b>13,000</b>
	<i>To record amortization on the mineral rights;</i>		
	<i>\$62,400 ÷ 4 years = \$15,600/year × 10/12 = \$13,000.</i>		
<b>31</b>	<b>Depreciation Expense, Equipment</b>	<b>51,000</b>	
	<b>Accumulated Depreciation, Equipment</b>		<b>51,000</b>
	<i>To record depreciation on the equipment;</i>		
	<i>\$244,800 ÷ 4 years = \$61,200/year × 10/12 = \$51,000</i>		
<b>31</b>	<b>Depreciation Expense, Truck</b>	<b>19,875</b>	
	<b>Accumulated Depreciation, Truck</b>		<b>19,875</b>
	<i>To record depreciation on the truck;</i>		
	<i>\$95,400 ÷ 4 years = \$23,850/year × 10/12 = \$19,875.</i>		

**Part 2**

**2017**

<b>Dec. 31</b>	<b>Accumulated Amortization, Mineral Rights</b>	<b>57,200</b>	
	<b>Loss on Disposal</b>	<b>5,200</b>	
	<b>Mineral Rights</b>		<b>62,400</b>
	<i>To record disposal of the mineral rights;</i>		
	<i>\$13,000 + \$15,600 + \$15,600 + 13,000 = \$57,200 accum. amortization.</i>		
<b>31</b>	<b>Accumulated Depreciation, Equipment</b>	<b>224,400</b>	
	<b>Loss on Disposal</b>	<b>20,400</b>	
	<b>Equipment</b>		<b>244,800</b>
	<i>To record disposal of the equipment;</i>		
	<i>\$51,000 + \$61,200 + \$61,200 + \$51,000 = \$224,400 accum. depreciation.</i>		
<b>31</b>	<b>Accumulated Depreciation, Truck</b>	<b>87,450</b>	
	<b>Loss on Disposal</b>	<b>7,950</b>	
	<b>Truck</b>		<b>95,400</b>
	<i>To record disposal of the truck;</i>		
	<i>\$19,875 + \$23,850 + \$23,850 + \$19,875 = \$87,450 accum. depreciation.</i>		

**\*Problem 10-20A (30 minutes)**

**Part 1**

a.

2014

Jun. 27	Depreciation Expense, Boat – Motor.....	2,660	
	Accumulated Depreciation, Boat – Motor .....		2,660
	<i>To update depreciation in 2014 regarding motor being replaced.</i>		

27	Boat – Motor (new) .....	63,000	
	Accumulated Depreciation, Boat – Motor .....	43,890 <sup>1</sup>	
	Loss on Disposal .....	9,310	
	Boat – Motor (old).....		53,200
	Cash .....		63,000
	<i>To record replacement of motor.</i>		

b.

Dec. 31	Depreciation Expense, Boat .....	3,113 <sup>2</sup>	
	Accumulated Depreciation, Boat .....		3,113
	<i>To record revised depreciation for 2014 on the boat (boat body plus motor).</i>		

**Calculations:**

1.  $53,200 \div 10 \text{ years} = 5,320/\text{year}$ ;  $5,320 \times 9/12 = 3,990$  depreciation for 2006;  $5,320 \times 7$  years

for 2007 thru 2013 = 37,240;  $5,320/\text{year} \times 6/12 = 2,660$  deprec. from Jan. 1/14 to June 27/14;  $37,240 + 3,990 + 2,660 = 43,890$  accumulated depreciation at June 27, 2014;

2. Body:

Accumulated depreciation at Dec. 31, 2013:

$23,800 - 7,000 = 16,800$ ;  $16,800 \div 15 \text{ years} = 1,120/\text{year}$ ;  $1,120$

$\times$

$9/12 = 840$  depreciation for 2006;  $1,120 \times 7 \text{ years (2007 thru 2013)} = 7,840$ ;  $7,840 + 840 = 8,680$

Revised depreciation at Dec. 31, 2014 (rounded):

$23,800 - 8,680 - 7,000 = 8,120$  remaining depreciable cost; \$ 663\*

$8,120 \div 12.25^1 \text{ years} =$

$1,000 - 7,000 = 3,000 - 4,000 = 1,000$

Motor:  $63,000 - 4,200 = 58,800$ ;  $58,800 \div 12 \text{ years} = 4,900/\text{yr} \times 6/12 =$  2,450  
\$3,113

\*rounded to the nearest whole dollar since depreciation is based on estimates.

**Part 2**

Total 2014 depreciation =  $\$2,660 + \$3,113 = \$5,773$

## ALTERNATE PROBLEMS

### Problem 10-1B (25 minutes)

#### Part 1

	<u>Land</u>	<u>Building B</u>	<u>Building C</u>	<u>Land Imprmnts. B</u>	<u>Land Imprmnts. C</u>
Purchase price* .....	\$307,800	\$183,600		\$48,600	
Demolition.....	46,800				
Landscaping .....	69,000				
New building.....			\$542,400		
New improvements.....					<u>\$40,500</u>
Totals.....	<u>\$423,600</u>	<u>\$183,600</u>	<u>\$542,400</u>	<u>\$48,600</u>	<u>\$40,500</u>

\*Allocation of purchase price:

	<u>Appraised Value</u>	<u>Percent of Total</u>	<u>Apportione Cost</u>
Land.....	\$317,034	57%	\$307,800
Building B.....	189,108	34	183,600
Land Improvements B.....	<u>50,058</u>	<u>9</u>	<u>48,600</u>
Totals.....	<u>\$556,200</u>	<u>100 %</u>	<u>\$540,000</u>

#### Part 2

June 1	Land.....	423,600	
	Building	183,600	
	Building	542,400	
	Land Improvements	48,600	
	Land Improvements	40,500	
	Cash.....		1,238,700
	<i>To record costs of plant assets.</i>		



**Problem 10-2B (25 minutes)**

**Xentel  
Interactive  
Balance Sheet  
December 31**

	2014	2013
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 900	\$ 2,700
Accounts receivable	1,800	4,320
Prepaid insurance	<u>-0-</u>	<u>1,530</u>
Total current assets	\$ 2,700	\$
8,550		
<b>Property, plant and equipment:</b>		
Land	68,400	68,400
Machinery	\$295,200	\$115,200
Less: Accumulated depreciation	<u>90,000</u>	<u>82,800</u>
32,400	205,200	
Building	\$225,000	\$225,000
Less: Accumulated depreciation	<u>54,000</u>	<u>50,400</u>
<u>174,600</u>	<u>171,000</u>	
Total property, plant and equipment	444,600	
275,400		
<b>Intangible assets:</b>		
Copyright	\$ 7,200	\$ 7,200
Less: Accumulated amortization	<u>1,080</u>	<u>540</u>
<u>6,660</u>	<u>6,120</u>	
Total assets	<u>\$453,420</u>	
<u>\$290,610</u>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 4,320	\$ 3,150
Unearned fees	<u>82,800</u>	<u>5,580</u>
Total current liabilities	\$ 87,120	\$
8,730		
<b>Long-term liabilities:</b>		
Notes payable, due in 2019	<u>230,220</u>	
<u>55,800</u>		
Total liabilities	\$317,340	\$
64,530		
<b>Equity</b>		
Mason Xentel, capital	<u>136,080*</u>	
<u>226,080</u>		

**Total liabilities and equity**  
**\$290,610**

**\$453,420**

$$*226,080 - 72,000 + 540,000 - 558,000 = 136,080$$

***Analysis component:***

Xentel's assets were mainly financed by equity in 2013. In 2014, Xentel's assets were mainly financed by debt. The increase in the debt financing has weakened the balance sheet as opposed to strengthening it.

**Problem 10-3B (30 minutes)**

Year	Depreciation		
	Straight-line	Double-declining balance	Units-of-production
2014	$(145,000 - 25,000)/5 =$ $24,000/\text{year} \times 2/12 =$ <b>4,000</b>	Rate = $2/5 = .40$ or 40% $145,000 \times 40\% \times 2/12 =$ <b>9,667</b>	Rate = $(145,000 - 25,000)/100,000 = 1.20/\text{km}$ $1.20 \times 5,800 =$ <b>6,960</b>
2015	<b>24,000</b>	$(145,000 - 9,667) \times 40\% =$ <b>54,133</b>	$1.20 \times 19,400 =$ <b>23,280</b>
2016	<b>24,000</b>	$(145,000 - 9,667 - 54,133) \times 40\% =$ <b>32,480</b>	$1.20 \times 22,850 =$ <b>27,420</b>
2017	<b>24,000</b>	$(145,000 - 9,667 - 54,133 - 32,480) \times$ 40% = <b>19,488</b>	$1.20 \times 25,700 =$ <b>30,840</b>
2018	<b>24,000</b>	<b>4,232*</b>	$1.20 \times 19,980 =$ <b>23,976</b>
2019	<b>20,000</b>	<b>0</b>	$120,000 - 112,476$ <b>=</b>
<b>Totals</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>

\*Maximum allowed = \$4,232 [ $\$120,000 - (\$9,667 + \$54,133 + \$32,480 + \$19,488)$ ]

\*\*Maximum allowed = \$7,524 [ $\$120,000 - (\$6,960 + \$23,280 + \$27,420 + \$30,840 + \$23,976)$ ]

**Problem 10-4B (30 minutes)**

Year	Depreciation		
	Straight-line	Double-declining balance	Units-of-production
2014	$(145,000 - 25,000)/5 = 24,000/\text{year} \times 6/12 = 12,000$	Rate = $2/5 = .40$ or 40% $145,000 \times 40\% \times 6/12 = 29,000$	Same as Problem 10-3B; Units-of-production is usage based and not affected by time
2015	24,000	$(145,000 - 29,000) \times 40\% = 46,400$	$1.20 \times 19,400 = 23,280$
2016	24,000	$(145,000 - 29,000 - 46,400) \times 40\% = 27,840$	$1.20 \times 22,850 = 27,420$
2017	24,000	$(145,000 - 29,000 - 46,400 - 27,840) \times 40\% = 16,704$	$1.20 \times 25,700 = 30,840$
2018	24,000	56*	$1.20 \times 19,980 = 23,976$
2019	12,000	0	$120,000 - 112,476 =$
Totals	120,000	120,000	120,000

\* Maximum allowed = \$56 [ $\$120,000 - (\$29,000 + \$46,400 + \$27,840 + \$16,704)$ ]

\*\* Maximum allowed = \$7,524 [ $\$120,000 - (\$6,960 + \$23,280 + \$27,420 + \$30,840 + \$23,976)$ ]

**Problem 10-5B (30 minutes)**

	2014	2015	2016
<b>Part 1. Double-declining balance method</b>			
Machinery.....	\$588,000	\$588,000	\$588,000
Less: Accumulated depreciation	<u>58,800</u>	<u>164,640</u>	<u>249,312</u>
Year-end book	<u>\$529,200</u>	<u>\$423,360</u>	<u>\$338,688</u>
Depreciation expense for the year <sup>1</sup> .....	<u>\$58,800</u>	<u>\$105,840</u>	<u>\$84,672</u>
<b>Part 2. Straight-line method</b>			
Machinery.....	\$588,000	\$588,000	\$588,000
Less: Accumulated depreciation	<u>26,600</u>	<u>79,800</u>	<u>133,000</u>
Year-end book	<u>\$561,400</u>	<u>\$508,200</u>	<u>\$455,000</u>
Depreciation expense for the	<u>\$26,600</u>	<u>\$53,200</u>	<u>\$53,200</u>

1. Rate =  $2/10 = .20$  or 20%  
 2014:  $20\% \times 588,000 \times 6/12 = 58,800$   
 2015:  $20\% \times (588,000 - 58,800) = 105,840$   
 2016:  $20\% \times (588,000 - 58,800 - 105,840) = 84,672$
  
2.  $(588,000 - 56,000)/10 = 53,200 \times 6/12 = 26,600$

**Problem 10-6B (15 minutes)**

**Part 1.  
2015**

<b>Dec. 31</b>	<b>Depreciation Expense, Machinery</b>	<b>55,000</b>	
	Accumulated Depreciation, Machinery.....		<b>55,000</b>
	<i>To record annual depreciation;</i> $(500,000 - 60,000)/8 = 55,000$		
<b>31</b>	<b>Depreciation Expense,</b>	<b>126,667</b>	
	Accumulated Depreciation, Equipment .....		<b>126,667</b>
	<i>To record annual depreciation;</i> $Rate = 2/4 = .50 \text{ or } 50\%;$ $50\% \times (1,280,000 - 1,026,667) = 126,667$		

**Part 2.**

**WESTFAIR FOODS**  
**Partial Balance**  
**Sheet December 31,**  
**2015**

<b>Property, plant and equipment:</b>			
	<b>Machinery.....</b>	<b>\$ 500,000</b>	
	Less: Accumulated	<u><b>385,000</b></u>	<b>\$115,000</b>
	<b>Equipment.....</b>	<b>1,280,000</b>	
	Less: Accumulated	<u><b>1,153,334</b></u>	<b>126,666</b>
	<b>Total property, plant and equipment</b>		<u><u><b>\$241,666</b></u></u>

**Problem 10-7B (30 minutes)**

**Part 1**

	<i>Market Value</i>	<i>Percentage of Total</i>	<i>Apportioned Cost</i>
Building.....	\$ 663,300	55%	\$ 574,200
Land.....	397,980	33	344,520
Land improvements.....	120,600	10	104,400
Truck.....	<u>24,120</u>	<u>2</u>	<u>20,880</u>
Total.....	<u>\$1,206,000</u>	<u>100%</u>	<u>\$1,044,000</u>

**2014**

Sept. 30	Building	. 574,200	
	Land	. 344,520	
	Land	. 104,400	
	Truck.....	20,880	
	Cash.....		1,044,000
	<i>To record asset purchases.</i>		

**Part 2** 2014 straight-line depreciation on building:

$$(\$574,200 - 45,000)/15 \times 3/12 = \underline{\underline{\$8,820}}$$

**Part 3** 2014 double-declining-balance depreciation on land improvements:

$$\text{Rate} = 2/8 = .25 \text{ or } 25\%$$

$$\$104,400 \times 25\% \times 3/12 = \underline{\underline{\$6,525}}$$

**Problem 10-8B (45 minutes)**

<u>Year</u>	<u>Straight-Line<sup>a</sup></u>	<u>Units-of-Production<sup>b</sup></u>	<u>Double-Declining Balance<sup>c</sup></u>
2014	\$ 31,304	\$ 32,928	\$ 72,800
2015	46,956	51,744	80,080
2016	46,956	47,040	48,048
2017	46,956	44,688	28,829
2018	46,956	37,240	5,023*
2019	<u>15,652</u>	<u>21,140</u>	<u>0</u>
Totals	<u>\$234,780</u>	<u>\$234,780</u>	<u>\$234,780</u>

**<sup>a</sup>Straight- line:**

$$\text{Cost per year} = (273,000 - 38,220)/5 \text{ years} = \$46,956 \text{ per year} \times 8/12$$

$$= \$31,304 \text{ for 2014}$$

$$= \$46,956/\text{year} \times 4/12 = \$15,652 \text{ for}$$

**2019 <sup>b</sup>Units-of-production:**

$$\text{Cost per unit} = (273,000 - 38,220)/168,000 \text{ units} = \$1.40 \text{ per unit}$$

(rounded)

<i>Year</i>	<i>Units</i>	<i>Unit Cost</i>	<i>Depreciation</i>
2014	23,520	\$1.40	\$ 32,928
2015	36,960	1.40	51,744
2016	33,600	1.40	47,040
2017	31,920	1.40	44,688
2018	26,600	1.40	37,240
2019	30,940	1.40	<u>21,140*</u>
Total			<u>\$234,780</u>

\*Take only enough depreciation in Year 2019 to reach the maximum accumulated depreciation of \$234,780.

**<sup>c</sup>Double-declining-**

$$\text{balance: Rate} = 2/5 =$$

.40 or 40%

$$2014: 40\% \times 273,000 \times 8/12 = 72,800$$

$$2015: 40\% \times (273,000 - 72,800) = 80,080$$

$$2016: 40\% \times (273,000 - 72,800 - 80,080) = 48,048$$

$$2017: 40\% \times (273,000 - 72,800 - 80,080 - 48,048) = 28,829$$

$$2018: 234,780 - 229,757^* = 5,023$$

\*Take only enough depreciation in Year 2018 to reach the maximum accumulated depreciation of \$234,780.



**Problem 10-9B (40 minutes)**

Cost Information						Depreciation		
Description	Date of Purchase	Depreciation Method	Cost <sup>1</sup>	Residual	Life	Balance of Accum. Deprec. Apr. 30,	Depreciation Expense for 2015	Balance of Accum. Deprec. Apr. 30, 2015
Equipment	Oct. 3/11	Straight-line	\$ 62,400	\$ 16,800	20 yr.	\$ 5,700 <sup>1</sup>	\$ 2,280 <sup>2</sup>	\$ 7,980 <sup>3</sup>
Machinery	Oct. 28/11	Units-of-productio	540,000	180,000	100,000 units	73,332 <sup>4</sup>	38,124 <sup>5</sup>	111,456 <sup>6</sup>
Tools	Nov. 3/11	Double-declining balance	64,000	15,000	5 yr.	45,568 <sup>7</sup>	3,432 <sup>8</sup>	49,000 <sup>9</sup>

1.  $(62,400 - 16,800)/20 = 2,280/\text{year} \times 2 \frac{6}{12} = \underline{5,700}$

2.  $(62,400 - 16,800)/20 = \underline{2,280/\text{year}}$

3.  $5,700 + 2,280 = \underline{7,980}$

4. Rate =  $(540,000 - 180,000)/100,000 = 3.60/\text{unit};$

2012:  $940 \times 3.60 = 3,384$

2013:  $10,150 \times 3.60 = 36,540$

2014:  $9,280 \times 3.60 = \underline{33,408}$

73,332

5.  $10,590 \times 3.60 = \underline{38,124}$

6.  $73,332 + 38,124 = \underline{111,456}$

7. Rate =  $2/5 = .40$  or 40%

2012:  $40\% \times 64,000 \times 6/12 = 12,800$

2013:  $40\% \times (64,000 - 12,800) = 20,480$

2014:  $40\% \times (64,000 - 12,800 - 20,480) = \underline{12,288}$

Accumulated depreciation at Apr. 30, 2014 = \$45,568

8. 2015:  $(64,000 - 15,000) - 45,568 = \underline{3,432}$

9.  $45,568 + 3,432 = \underline{49,000}$

**Problem 10-10B (20 minutes)**

**2014**

<b>June 26</b>	<b>Truck.....</b>	<b>71,820</b>	
	<b>Cash</b>		<b>71,820</b>
	<i>To record purchase of new truck; \$68,400 + \$3,420 freight costs.</i>		
<b>27</b>	<b>Truck.....</b>	<b>3,780</b>	
	<b>Cash</b>		<b>3,780</b>
	<i>To record installation of special racks.</i>		
<b>Dec. 31</b>	<b>Depreciation Expense, Truck<sup>1</sup></b>	<b>7,200</b>	
	<b>Accumulated Depreciation,</b>		<b>7,200</b>
	<i>To record depreciation for half-year.</i>		

**2015**

<b>Jan. 5</b>	<b>No entry.</b>		
<b>Mar. 15</b>	<b>Repair and Maintenance</b>	<b>660</b>	
	<b>Cash</b>		<b>660</b>
	<i>To record repairs.</i>		
<b>Dec. 31</b>	<b>Depreciation Expense, Truck<sup>2</sup></b>	<b>10,600</b>	
	<b>Accumulated Depreciation,</b>		<b>10,600</b>
	<i>To record revised depreciation</i>		

1.  $[(71,820 + 3,780) - 18,000] / 4 \times 6 / 12 = \underline{7,200}$

2.  $[(71,820 + 3,780) - 7,200 - 10,100] / (6 - .5 = 5.5) = \underline{10,600}$

**Problem 10-11B (40 minutes)**

**2015**

**Dec. 31 Depreciation Expense, 1,620**  
**Accumulated Depreciation, 1,620**  
*To record annual depreciation.*

**31 Depreciation Expense, Equipment<sup>2</sup> 7,320**  
**Accumulated Depreciation, 7,320**  
*To record annual depreciation.*

$$1. \quad \begin{array}{r} \text{Cost} \\ 274,800 \end{array} - \begin{array}{r} \text{Accumulated} \\ \text{Depreciation} \\ 134,400 \end{array} = \begin{array}{r} \text{Residual} \\ 108,000 \end{array} = \underline{\underline{1,620}}$$

20

$$2. \quad \begin{array}{r} \text{Cost} \\ 117,600 \end{array} - \begin{array}{r} \text{Accumulated} \\ \text{Depreciation} \\ 38,400 \end{array} = \begin{array}{r} \text{Residual} \\ 6,000 \end{array} = \underline{\underline{7,320}}$$

10

**Problem 10-12B (40 minutes)**

2014

Jan. 4	Warehouse – Furnace	39,000	
	Accumulated Depreciation, Warehouse – Furnace	18,153 <sup>1</sup>	
	Loss on Disposal	8,847	
	Warehouse – Furnace		27,000
	Accounts Payable		39,000

*To record installation of new warehouse furnace.*

**Calculations:**

1. 2009 Deprec.:  $27,000 \times 2/10 = 5,400$ ;
- 2010 Deprec.:  $(27,000 - 5,400) \times 2/10 = 4,320$ ;
- 2011 Deprec.:  $(27,000 - 9,720) \times 2/10 = 3,456$ ;
- 2012 Deprec.:  $(27,000 - 13,176) \times 2/10 = 2,765$ ;
- 2013 Deprec.:  $(27,000 - 15,941) \times 2/10 = 2,212$ ;
- Accum. Deprec. Dec. 31, 2013 =  $5,400 + 4,320 + 3,456 + 2,765 + 2,212 = 18,153$ .

**Part 2**

Windows	51,750 ÷ 15 =	\$ 3,450
Doors	105,000 ÷ 20 = 5,250/yr; 5,250/yr × 5 yrs = 26,250 Accum. Dep.; 105,000 – 26,250 = 78,750 book value; 78,750 – 23,100 = 55,650 revised depreciable value; 55,650 ÷ (12 yrs – 5 yrs = 7 yrs) =	7,950
Roofing	43,500 ÷ 10 =	4,350
Siding	54,000 ÷ 25 =	2,160
Framing/Walls	222,000 – 60,000 = 162,000; 162,000 ÷ 30 =	5,400
Furnace	39,000 × 2/16 =	4,875
Misc.	Maximum allowable depreciation reached <sup>1</sup>	-0-
<b>Total depreciation expense to be recorded on the warehouse for 2014</b>		<b>\$28,185</b>

1. 2009:  $61,500 \times 2/5 = 24,600$ ;
- 2010:  $(61,500 - 24,600) \times 2/5 = 14,760$ ;
- 2011:  $(61,500 - 39,360) \times 2/5 = 8,856$ ;
- 2012:  $(61,500 - 48,216) \times 2/5 = 5,314$ ;
- 2013:  $(61,500 - 53,530) \times 2/5 = 3,188$  which exceeds max. allowable accumulated depreciation of 54,000 therefore the maximum that can be recorded in 2013 is 54,000 – 53,530 = 470 with no depreciation recorded in any subsequent years.

**Problem 10-13B (40 minutes)**

**Part 1**

<b>2014</b>			
<b>Mar. 31</b>	<b>Impairment Loss</b>	<b>26,000</b>	
	Computer Equipment .....		<b>26,000</b>
	<i>To record impairment loss on computer equipment.</i>		
<b>31</b>	<b>Impairment Loss</b>	<b>23,750</b>	
	Machinery.....		<b>23,750</b>
	<i>To record impairment loss on machinery.</i>		

**\*Calculations:**

	Book Value	Recoverable Value	Impairment Loss
Computer equipment	\$ 32,250	\$ 6,250	\$26,000
Land	145,000	172,500	NA
Machinery	88,750	65,000	23,750
Warehouse	173,500	243,750	NA

**Problem 10-13B (concluded)**

**Part 2**

**La Mancha  
Enterprises  
Balance Sheet  
March 31, 2014**

**Assets**

**Current assets:**

Cash		\$ 35,000	
Accounts	\$ 57,500		
Less: Allowance for doubtful Office	<u>6,000</u>	51,500	
		<u>4,875</u>	
<b>Total current assets</b>			<b>\$ 91,375</b>

**Property, plant and equipment:**

Land.....		\$145,000	
Warehouse.....	\$ 460,000		
Less: Accumulated	<u>286,500</u>	173,500	
Machinery.....	\$217,500 <sup>1</sup>		
Less: Accumulated	<u>152,500</u>	65,000	
Computer	\$ 46,500 <sup>2</sup>		
Less: Accumulated	<u>40,250</u>	<u>6,250</u>	
<b>Total property, plant and</b>			<b><u>389,750</u></b>
<b>Total</b>			<b><u>\$481,125</u></b>

**Liabilities**

**Current liabilities:**

Accounts payable	\$ 14,750		
Salaries	33,750		
Current portion of long-term mortgage	<u>59,550</u>		
<b>Total current liabilities</b>		<b>\$108,050</b>	

**Long-term liabilities:**

Mortgage payable, less current		<u>34,200</u>	
<b>Total liabilities</b>			<b>\$142,250</b>

**Equity**

Joy La Mancha, capital		<u>338,875<sup>3</sup></u>	
<b>Total liabilities and</b>			<b><u>\$481,125</u></b>

**Calculations:**

1. 241,250 cost – 23,750 impairment loss = 217,500
2. 72,500 cost – 26,000 impairment loss = 46,500
3. 407,875 adjusted capital balance + 1,227,500 revenues – 1,246,750 expenses – 26,000 impairment loss, computer equip. – 23,750 impairment loss, machinery. = 338,875 post-closing capital balance

**Analysis component:**

The recording of an impairment loss causes expenses to increase which in turn causes net income to decrease. Decreases in income cause equity on the balance sheet to decrease.

**Problem 10-14B (45 minutes)**

**Part 1  
2014**

<b>Mar.</b>	<b>2</b>	<b>Depreciation Expense,</b> <b>Accumulated Depreciation, Van<sup>1</sup></b> <i>To record depreciation on van for 2014.</i>	<b>1,575</b>  	  <b>1,575</b>
	<b>2</b>	<b>Cash.....</b> <b>Accumulated Depreciation,</b> <b>Loss on</b> <b>Van</b> <i>To record sale of van.</i>	<b>17,920</b> <b>42,175</b> <b>4,305</b> 	   <b>64,400</b>

**Part 2**

<b>Aug.</b>	<b>27</b>	<b>Depreciation Expense, Machinery</b> <b>Accumulated Depreciation, Machinery<sup>2</sup></b> <i>To record depreciation on machinery for 2014.</i>	<b>12,642</b>  	  <b>12,642</b>
	<b>27</b>	<b>Cash.....</b> <b>Accumulated Depreciation, Machinery<sup>2</sup></b> <b>Machinery</b> <i>To record sale of machinery.</i>	<b>95,718</b> <b>33,082</b> 	  <b>128,800</b>

**Part 3**

<b>June</b>	<b>29</b>	<b>Depreciation Expense,</b> <b>Accumulated Depreciation, Equipment<sup>3</sup></b> <i>To record depreciation on equipment for 2014.</i>	<b>3,500</b>  	  <b>3,500</b>
	<b>29</b>	<b>Cash.....</b> <b>Accumulated Depreciation, Equipment<sup>3</sup></b> <b>Gain on</b> <b>Equipment.....</b> <i>To record sale of equipment.</i>	<b>27,720</b> <b>48,300</b> 	   <b>420</b> <b>75,600</b>

**Calculations:**

1. Depreciation from Feb. 1/14 to Mar.

$$\begin{array}{r}
 \text{2/14:} \\
 \underline{64,400 - 40,600 - 9,800} = \$0.35/\text{km} \times 4,500 \text{ km} = \\
 40,000
 \end{array}
 \qquad
 \begin{array}{r}
 1,575 \\
 \\
 \\
 \underline{+ 40,600} \\
 \underline{42,175}
 \end{array}$$

*(calculations continued on next page)*

**Problem 10-14B (concluded)**

2. Depreciation from Feb. 1/14 to Aug. 27/14:  
 $128,800 - 20,440 = 108,360$  Book Value  
 Rate =  $2/10 = .20$  or 20%  
 $108,360 \times 20\% \times 7/12 =$

12,642  
+ 20,440  
33,082

3. Depreciation from Feb. 1/14 to June 29/14:

$$\frac{75,600 - 44,800 - 5,600}{3} \times 5/12 =$$

3,500  
+ 44,800  
48,300

**Problem 10-15B (60 minutes)**

Part 1  
 2014

Jan.	1	Machine .....	156,000	
		Cash.....		156,000
		<i>To record purchase of machine.</i>		
	2	Machine .....		
		4,068		
		Cash.....		4,068
		<i>To record capital repairs on machine.</i>		
	2	Machine .....		
		5,760		
		Cash.....		5,760
		<i>To record installation of machine.</i>		

Part 2

Dec.	31	Depreciation Expense, Accumulated Depreciation, Machine.....	20,604	20,604
		<i>To record depreciation;</i>		
		<i>(165,828 - 21,600)/7 =</i>		

2019

Apr.	1	Depreciation Expense, Machine..... Accumulated Depreciation, Machine.....	5,151	5,151
		<i>To record partial year's depreciation;</i>		
		<i>20,604 × 3/12 = 5,151.</i>		



**Problem 10-15B (concluded)**

**Part 3(a)**

<b>Apr. 30</b>	Accumulated Depreciation, Machine <sup>1</sup> .....	108,171	
	Cash.....	36,000	
	Loss on Disposal <sup>2</sup> .....	21,657	
	Machine.....		165,828
	<i>Sold machine for \$36,000.</i>		

**Part 3(b)**

<b>30</b>	Accumulated Depreciation, Machine.....	108,171	
	Cash.....	60,000	
	Machine.....		165,828
	Gain on Disposal <sup>3</sup> .....		2,343
	<i>Sold machine for \$60,000.</i>		

**Part 3(c)**

<b>30</b>	Accumulated Depreciation, Machine.....	108,171	
	Cash.....	24,000	
	Loss on Disposal <sup>4</sup> .....	33,657	
	Machine.....		165,828
	<i>Received insurance settlement.</i>		

**Calculations**

:		Deprec. for	Deprec. for	
		2014,	2019	
		2015, 2016, 2017,	}	
		2018		
<b>Depreciation</b>		{		

1. Accumulated depreciation =  $(20,604 \times 5 \text{ years}) + 5,151 = \underline{\underline{108,171}}$
  
2. Gain (Loss) = Cash Proceeds – Book Value  
 $= 36,000 - (165,828 - 108,171) = \underline{\underline{(21,657)}}$
  
3. Gain (Loss) = Cash Proceeds – Book Value  
 $= 60,000 - (165,828 - 108,171) = \underline{\underline{2,343}}$
  
4. Gain (Loss) = Cash Proceeds – Book Value  
 $= 24,000 - (165,828 - 108,171) = \underline{\underline{(33,657)}}$

**Problem 10-16B (20 minutes)**

**2014**

Aug. 31	Accumulated Depreciation, Furniture Computer	25,800 72,600	
	Furniture.....		42,000
	Cash.....		56,400
	<i>To record exchange.</i>		
Sept. 4	Computer	11,760	
	Cash.....		11,760
	<i>Addition of capital expenditures.</i>		
Dec. 31	Depreciation Expense, Computer Accumulated Depreciation, Computer	7,240	
	<i>To record depreciation;</i>		7,240
	<i>[(72,600 + 11,760) – 19,200] / 3 × 4/12.</i>		

\* **Assets Given up = Cash Paid + Book Value of Assets Given Up**  
**= 56,400 + [42,000 – 25,800]**  
**= 56,400 + 16,200 = 72,600**

**Problem 10-17B (45 minutes)**

**1. Depreciation expense on first December 31 of each machine's life**

<b>2014</b>			
Dec. 31	Depreciation Expense, Machine 366-90 <sup>1</sup>	.. 10,800	
	Accumulated Depreciation, Machine 366-	..	10,800
	<i>To record depreciation.</i>		
<b>2016</b>			
Dec. 31	Depreciation Expense, Machine 366-91 <sup>3</sup>	.. 8,325	
	Accumulated Depreciation, Machine 366-	..	8,325
	<i>To record depreciation.</i>		
<b>2019</b>			
Dec. 31	Depreciation Expense, Machine 367-11 <sup>5</sup>	.. 7,155	
	Accumulated Depreciation,		
	Machine 367-	..	7,155
	<i>To record depreciation.</i>		

**2. Purchase/exchange/disposal of each machine**

<b>2014</b>			
May 1	Machine 366-	72,900	
	Cash		72,900
	<i>To record purchase of Machine 366-90.</i>		
<b>2016</b>			
Aug. 5	Machine 366-91 (= to assets given)	49,950	
	Accumulated Depreciation, Machine 366-90 <sup>2</sup>	36,450	
	Machine 366-		72,900
	Cash		13,500
	<i>To record exchange of Machine 366-90.</i>		
<b>2019</b>			
Feb. 1	Cash.....	13,500	
	Accumulated Depreciation, Machine 366-91 <sup>4</sup>	35,465	
	Loss on	985	
	Machine 366-		49,950
	<i>To record sale of Machine 366-91.</i>		
	1 Machine 367-	79,650	
	Cash		79,650
	<i>To record purchase of Machine 367-11.</i>		
<b>2020</b>			
Oct. 3	Cash.....	54,000	
	Accumulated Depreciation, Machine 367-11 <sup>6</sup>	17,888	
	Loss on	7,762	
	Machine 367-		79,650
	<i>To record sale of Machine 367-11.</i>		

**Problem 10-17B (continued)**

**Calculations:**

1.  $\frac{72,900 - 8,100}{4} = 16,200/\text{year} \times 8/12 = \underline{10,800}$

2.	Depreciation	2014:	10,800	
		2015:	16,200	
		2016:	<u>9,450</u>	(16,200 × 7/12)
	Accum. Deprec.		<u>36,450</u>	

3. Rate =  $2/5 = .40$  or 40%  
 $40\% \times 49,950 \times 5/12 = \underline{8,325}$

4.	2016:	8,325
	2017: $40\% \times (49,950 - 8,325) =$	16,650
	2018: $40\% \times (49,950 - 8,325 - 16,650) =$	9,990
	2019: $40\% \times (49,950 - 8,325 - 16,650 - 9,990) \times 1/12 =$	<u>500</u>
		<u>35,465</u>

5.  $(79,650 - 8,100)/75,000 = \$0.954/\text{unit}$

2019:  $7,500 \text{ units} \times 0.954/\text{unit} = \underline{7,155}$

6.	Depreciation for Jan. 1/2020 to Oct. 3/2020:	
	$= 11,250 \text{ units} \times 0.954/\text{unit} =$	10,733
		<u>7,155</u>
	Accum. Deprec.	<u>17,888</u>

**Problem 10-18B (20 minutes)**

**Part 1**

a.

2014

Feb. 3	Patent.....	220,800	
	Cash .....		220,800
	<i>To record purchase of patent.</i>		

b.

Dec. 31	Amortization Expense, Patent.....	40,480	
	Accumulated Amortization, Patent.....		40,480
	<i>To record amortization on patent;</i>		
	<i>220,800 ÷ 5 = 44,160/year;</i>		
	<i>44,160 x 11/12 = 40,480.</i>		

**Part 2**

**Abacus Software  
Group Partial Balance  
Sheet December 31,  
2014**

**Assets**

**Current assets:**

Cash.....		\$103,200	
Accounts receivable (net).....		277,200	
Merchandise inventory.....		<u>135,600</u>	
<b>Total current assets.....</b>			<b>\$ 516,000</b>

**Property, plant and equipment:**

Land.....		\$110,400	
Building.....	\$595,200		
Less: Accumulated depreciation, building	<u>189,000</u>	406,200	
Equipment.....	\$477,600		
Less: Accumulated depreciation, equip.....	<u>259,200</u>	<u>218,400</u>	
<b>Total property, plant and equipment</b>			<b>735,000</b>

**Intangible assets:**

Patent .....		\$220,800	
Less: Accumulated amortization, patent.....		<u>40,480</u>	<u>180,320</u>

<b>Total assets .....</b>			<b><u>\$1,431,320</u></b>
---------------------------	--	--	---------------------------

**Problem 10-19B (30 minutes)**

**Part 1**

**2014**

<b>Dec. 31</b>	<b>Amortization Expense,</b> <b>Accumulated Amortization,</b> <i>To record amortization on the patent;</i> $\$210,000 \div 20 \text{ years} = \$10,500/\text{yr} \times 11/12 = \$9,625.$	<b>9,625</b>	
			<b>9,625</b>
<b>31</b>	<b>Depreciation Expense, Equipment</b> <b>Accumulated Depreciation, Equipment</b> <i>To record depreciation on the equipment;</i> $\$320,600 - \$56,000 = \$264,600;$ $\$264,600 \div 15 \text{ years} = \$17,640/\text{yr} \times 11/12 = \$16,170.$	<b>16,170</b>	
			<b>16,170</b>
<b>31</b>	<b>Depreciation Expense,</b> <b>Accumulated Depreciation,</b> <i>To record depreciation on the computer;</i> $\$79,800 \div 5 \text{ years} = \$15,960/\text{yr} \times 11/12 = \$14,630.$	<b>14,630</b>	
			<b>14,630</b>

**Part 2**

**2018**

<b>Jan. 27</b>	<b>Accumulated Amortization, Patent .....</b> <b>Loss on Disposal .....</b> <b>Patent.....</b> <i>To record disposal of the patent;</i> $4 \text{ yrs} \times \$10,500/\text{yr} = \$42,000 \text{ accum. amort.}$	<b>42,000</b>	
		<b>168,000</b>	
			<b>210,000</b>
<b>27</b>	<b>Accumulated Depreciation, Equipment.....</b> <b>Cash .....</b> <b>Gain on Disposal .....</b> <b>Equipment .....</b> <i>To record disposal of the equipment;</i> $4 \text{ yrs} \times \$17,640/\text{yr} = \$70,560 \text{ accum. amort.}$	<b>70,560</b>	
		<b>252,000</b>	
			<b>1,960</b>
			<b>320,600</b>
<b>27</b>	<b>Accumulated Depreciation, Computer .....</b> <b>Loss on Disposal .....</b> <b>Computer.....</b> <i>To record disposal of the computer;</i> $4 \text{ yrs} \times \$15,960/\text{yr} = \$63,840 \text{ accum. amort.}$	<b>63,840</b>	
		<b>15,960</b>	
			<b>79,800</b>

**\*Problem 10-20B (40 minutes)**

**1.a. 2014**

**Oct. 3 Depreciation Expense, Equipment – Fan ..... 3,840**  
**Accum. Deprec., Equipment – Fan..... 3,840**  
**To update depreciation on replaced fan from Jan 1/14 to Oct 3/14.**

**3 Cash ..... 8,400**  
**Accum. Deprec., Equipment – Fan ..... 28,800<sup>1</sup>**  
**Equipment – Fan (old)..... 32,400**  
**Gain on Disposal 4,800**  
**–**

**3 Equipment – Fan (new) ..... 36,000**  
**Cash ..... 36,000**  
**To record purchase of replacement fan on equipment.**

**1.b. Dec. 31 Depreciation Expense, Equipment..... 22,370<sup>2</sup>**  
**Accum. Deprec., Equipment ..... 22,370**  
**To record depreciation for 2014 on the equipment (sum of all components).**

**Calculations:**

1.  $32,400 - 3,600 = 28,800$ ;  $28,800 \div 5 \text{ yrs} = 5,760/\text{yr}$ ;  
 $5,760 \times 4/12 = 1,920$  deprec. for 2009;  
 $5,760/\text{yr} \times 4 \text{ yrs (2010 to 2013 inclusive)} = 23,040$ ;  
 $5,760/\text{yr} \times 8/12$  (max depreciation to depreciate 5 years) = 3,840 deprec. from Jan. 1/14 to Oct. 3/14;  
 $1,920 + 23,040 + 3,840 = 28,800$  accum. deprec. at Oct. 3/14.

**\*Problem 10-20B (continued)**

2. Metal Frame	$144,000 - 36,000 = 108,000$ ; $108,000 \div 20 \text{ yrs} = 5,400/\text{yr}$ ; $5,400/\text{yr} \times 4/12 = 1,800$ deprec. for 2009; $5,400/\text{yr} \times 4 \text{ yrs (2010 to 2013 inclusive)} = 21,600$ ; $1,800 + 21,600 = 23,400$ accum. deprec. at Dec. 31/13;  Revised deprec. = $144,000 - 23,400$ accum. deprec. = $120,600$ remaining book value; $120,600 - (36,000 - 12,000$ $=$ $24,000$ residual value) = $96,600$ remaining depreciable	\$ 4,830
Engine	2009: $96,000 \times 2/10 \times 4/12 = 6,400$ 2010: $96,000 - 6,400 = 89,600 \times 2/10 = 17,920$ 2011: $89,600 - 17,920 = 71,680 \times 2/10 = 14,336$ 2012: $71,680 - 14,336 = 57,344 \times 2/10 = 11,469$ 2013: $57,344 - 11,469 = 45,875 \times 2/10 = 9,175$ 2014: $45,875 - 9,175 = 36,700 \times 2/10 =$	7,340
New Fan	$36,000 - 4,800 = 31,200$ ; $31,200 \div 5 \text{ yrs} = 6,240 \times 3/12 =$	1,560
Conveyor System	$126,000 - 39,600 = 86,400$ ; $86,400 \div 10 \text{ yrs} =$	8,640
Misc. Parts	2009: $27,600 \times 2/5 \times 4/12 = 3,680$ 2010: $27,600 - 3,680 = 23,920 \times 2/5 = 9,568$ 2011: $23,920 - 9,568 = 14,352 \times 2/5 = 5,741$ 2012: $14,352 - 5,741 = 8,611 \times 2/5 = 3,444$ 2013: $8,611 - 3,444 = 5,167 \times 2/5 = 2,067$ which exceeds max.; maximum that can be taken in 2013 is $5,167 - 4,800$ $=$	-0-
		<b>\$22,370</b>

**Part 2**

**Total 2014 depreciation = \$3,840 + \$22,370 = \$26,210**



## **ANALYTICAL AND REVIEW PROBLEMS**

### **A&R Problem 10-1**

The following points should be set out in the report:

- 1. Assets on which depreciation was charged were purchased for use in the business and not for resale. Therefore, the fact that they may be sold for more than cost is not relevant since, in keeping with the cost principle, PPE are maintained in the accounting records at cost.**
- 2. Because these assets are subject to both physical and economic (obsolescence) deterioration, they have a limited useful life span, however long it may be, and their cost, less any residual value, must be allocated over their useful life.**
- 3. Maintenance expenditures maintain these assets in a properly functioning order. They, however, do not eliminate the fact of physical and economic deterioration.**
- 4. Not charging periodic depreciation is in violation of the matching principle and results in an understatement of expenses and overstatement of net income.**
- 5. Depreciation is a process of allocation not of valuation.**

## **ETHICS CHALLENGE**

- 1. When managers acquire new assets a variety of decisions relative to depreciation must be made. The asset must be assigned a useful life and residual value, and a method of depreciation must be chosen.**
- 2. It is true that managers can choose a useful life and residual value based on an estimate. However, the estimated life should be the manager's realistic expectation of how long the asset will actually be used in the operations of the business. The estimated residual value should not be arbitrary; it should reflect expectations of the recoverable value of the asset at the end of its useful life to the business, even if it is zero. The depreciation method should reflect a systematic allocation of the asset's cost based on how the asset is actually consumed by the business.**
- 3. By selecting a useful life that is significantly greater than what is realistic in combination with an unreasonably high residual value, the profit margin will be overstated since depreciation expense will be greatly understated.**

## FOCUS ON FINANCIAL STATEMENTS

### FFS 10- 1 a.

Cost Information						Depreciation/Amortization		
Description	Date of Purchase	Deprec. Method	Original Cost	Residual	Life	Accum. Balance Dec. 31, 2013	Expense for 2014	Accum. Balance
Land	July 3/11		\$280,000			n/a	n/a	n/a
Building	July 3/11	S/L	454,000	\$40,000	15 yr.	\$ 69,000 <sup>1</sup>	\$46,000 <sup>2</sup>	\$115,000
Machinery	Mar 20/11	Units	150,000	30,000	250,000	72,960 <sup>3</sup>	31,200 <sup>4</sup>	104,160
Truck	Mar 01/11	S/L	298,800	30,000	7 yr.	108,800 <sup>5</sup>	38,400 <sup>6</sup>	147,200
Furniture	Feb 18/11	DDB	24,000	3,000	5 yr.	18,240 <sup>7</sup>	576 <sup>8</sup>	-0- <sup>10</sup>
Patent	Nov 7/12	S/L	103,800	-0-	5 yr.	24,220 <sup>9</sup>	20,760 <sup>9</sup>	44,980
Office Equip.	Apr 10/14	DDB	65,143 <sup>11</sup>	10,000	4 yr.	-0-	24,429 <sup>12</sup>	24,429
Furniture	Apr 10/14	DDB	48,857 <sup>11</sup>	4,000	5 yr.	-0-	14,657 <sup>13</sup>	14,657

#### Calculations:

- $(454,000 - 40,000)/15 = 27,600/\text{year} \times 6/12 = 13,800$  for 2011  
 $27,600$  for 2012  
27,600 for 2013  

69,000 Accum. deprec. at Dec. 31/13
- $(454,000 - 40,000 - 69,000)/(10 - 2.5 = 7.5) = \underline{46,000}$  for 2014
- $(150,000 - 30,000)/250,000 = \$0.48/\text{unit} \times 45,000 = 21,600$  for 2011  
 $\times 55,000 = 26,400$  for 2012  
 $\times 52,000 = \underline{24,960}$  for 2013  
72,960 Accum. deprec. at Dec. 31/13
- $\$0.48/\text{unit} \times 65,000 = \underline{31,200}$  for 2014
- $(298,800 - 30,000)/7 = 38,400/\text{year} \times 10/12 = 32,000$  for 2011  
 $38,400$  for 2012  
38,400 for 2013  
108,800 Accum. deprec. Dec. 31/13
- $(298,800 - 30,000)/7 = 38,400/\text{year}$  depreciation for 2014

**FFS 10-1 (continued)**

7.  $24,000 \times \frac{2}{5} \times \frac{10}{12} = 8,000$  for  
 $(24,000 - 8,000) \times \frac{2}{5} = 6,400$  for  
 $24,000 - (8,000 + 6,400)] \times \frac{2}{5} = \underline{3,840}$  for  
18,240 Accum. deprec. Dec. 31/13
8.  $[24,000 - (8,000 + 6,400 + 3,840)] \times \frac{2}{5} \times \frac{3}{12} = \underline{576}$  for 2014
9.  $(103,800 - 0)/5 = 20,760/\text{year} \times \frac{2}{12} = 3,460$  for 2012  
20,760 for 2013  
24,220 Total dep. taken to Dec. 31/13
10. This has a -0- balance at December 31, 2011 because the asset was disposed of (donated to charity).

11.

	Appraised Values	Ratio	Cost Allocation
Office Equipment	96,000	$96/168 \times 114,000$	= 65,143
Furniture	<u>72,000</u>	$72/168 \times 114,000$	= <u>48,857</u>
Totals	<u>168,000</u>		<u>114,000</u>

12.  $65,143 \times \frac{2}{4} \times \frac{9}{12} = \underline{24,429}$  for 2014
13.  $48,857 \times \frac{2}{5} \times \frac{9}{12} = \underline{14,657}$  for 2014

**FFS 10-1 (continued)**

b.

<b>Times TeleCom</b>		
<b>Income</b>		
<b>Statement</b>		
<b>Revenues:</b>	<b>For Year Ended December 31,</b>	
	<b>2014</b>	
Fees earned .....		<b>\$950,000</b>
<b>Expenses:</b>		
Salaries expense	\$294,000	
Depreciation expense	155,262	
Amortization	20,760	
Insurance	30,000	
Loss on disposal of furniture	<u>5,184</u>	
Total		<u><b>505,206</b></u>
<b>Net income</b>		<u><b>\$444,794</b></u>

<b>Times TeleCom</b>	
<b>Statement of Changes in</b>	
<b>Equity</b>	
<b>For Year Ended December 31,</b>	
Susan Times, capital, January 1, 2014	<b>\$421,180</b>
Add: Net income	<u><b>444,794</b></u>
Total.....	<b>865,974</b>
Less: Withdrawals by owner.....	<u><b>204,000</b></u>
Susan Times, capital, December 31, 2014	<u><b>\$661,974</b></u>

**FFS 10-1**  
**(continued)**

1.

**Times TeleCom**  
**Balance Sheet**  
**December 31,**  
**2014**

**Assets****Current assets:**

Cash		\$ 30,000	
Accounts receivable		72,000	
Prepaid insurance		<u>15,600</u>	
Total current assets			\$ 117,600

**Property, plant and equipment:**

Land		\$280,000	
Building	\$454,000		
Less: Accumulated	<u>115,000</u>	339,000	
Machinery	\$150,000		
Less: Accumulated	<u>104,160</u>	45,840	
Truck	\$298,800		
Less: Accumulated	<u>147,200</u>	151,600	
Office	\$ 65,143		
Less: Accumulated	<u>24,429</u>	40,714	
Furniture	\$ 48,857		
Less: Accumulated	<u>14,657</u>	<u>34,200</u>	
Total property, plant and equipment			891,354

**Intangible assets:**

Patent	\$103,800		
Less: Accumulated Amortization	<u>44,980</u>		<u>58,820</u>

**Total assets****\$1,067,774****Liabilities****Current liabilities:**

Accounts payable	\$ 68,000		
Unearned revenue	<u>53,800</u>		
Total current liabilities		\$ 121,800	

**Long-term liabilities:**

Notes payable, due		<u>284,000</u>	
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Total liabilities			\$ 405,800
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**Equity**

Susan Times, capital			<u>661,974</u>
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**Total liabilities and****\$1,067,774**

## FFS 10-2

### Part 1

**NOTE: Both Danier Leather and WestJet use the term 'amortization' instead of 'depreciation' in the statements referenced in this question. To be consistent with the textbook, the answers use the term 'depreciation'.**

- a. The \$15,061 (thousand) represents the book value of the PPE. The June 25, 2011, book value is the \$43,741 (thousand) total cost of the PPE assets less the \$28,680 (thousand) total accumulated depreciation of the PPE. (Note to instructor: Point out to students that this additional information — cost and accumulated depreciation — is found in Danier's Note 3 of the financial statements.)
- b. The full disclosure principle requires financial statements to report all relevant information about the operations and financial position of the entity. In conformance with the full disclosure principle, information in addition to the \$15,061 (thousand) book value is reported in Note 1(f) (depreciation methods) and Note 3 (cost, accumulated depreciation, and book value).
- c. The depreciation expense for the year ended June 25, 2011, was \$4,041 (thousand). Although depreciation expense typically appears on the income statement, Danier does not detail it there but these amounts do appear on the statement of cash flows and in Note 7.

### Part 2

- a. Shopper's property and equipment at December 31, 2011 represent 24.21% of total assets calculated as  $(\$1,767,543,000/\$7,300,310,000) \times 100$ .
- b. WestJet's property and equipment at December 31, 2011 is 55.02% of total assets calculated as  $(\$1,911,227,000/\$3,473,678,000) \times 100$ .
- c. WestJet and Shoppers operate in different industries: WestJet is an airline while Shoppers operates drug stores. As such, WestJet has relatively little inventory in comparison to Shoppers. Shoppers' inventory at December 31, 2011 is \$2,042,302 thousand or 27.98% of total assets (calculated as  $\$2,042,302,000/\$7,300,310,000 \times 100$ ). Shoppers' inventory plus property and equipment represent half of its total assets while WestJet's property and equipment represent half of its assets. Shoppers needs a large stock of inventory held in stores (property and equipment) in order to operate. WestJet primarily needs property and equipment (planes) to operate its business. Therefore, it seems logical that the mix of assets would be different for each company.

## 2. CRITICAL THINKING QUESTIONS

### CT 10-1

***Note to instructor: Student responses will vary and therefore the answer here is only suggested and not inclusive of all possibilities; it is presented in point form for brevity.***

**Problem:**

- Taking the perspective of both the external and internal auditors, there is a problem with how a number of revenue expenditures were recorded as capital expenditures.

**Goal:\***

- To identify which transactions were recorded incorrectly, correct them, and restate net income on the income statement and restate assets and equity on the balance sheet.
- Another goal, from the perspective of the auditor, would be to bring these issues to the attention of the board of directors for their action because there may be ethical concerns regarding the behaviour of the business manager (bonus is tied to income so he/she may be manipulating the recording of transactions to maximize income).

**Principles:**

- The matching principle has been violated; it requires costs to be allocated or matched to the period in which it helped generate revenues.
- The prudence principle was also violated; it states that assets and income should never be overstated.
- Another GAAP requires consideration: materiality. If the misstatements are not material in nature (not significant in dollar amount so that the decisions of shareholders would not have been affected), the conclusions are affected. Therefore, we must look at the numbers to determine whether materiality has been violated or not.

### **CT 10-1 (continued)**

#### **Facts:**

**as stated in the mini case**

—The insurance was incorrectly debited to the Truck account; it should have been debited to a current asset account: Prepaid Insurance. The result of this error is an overstatement of net income in 2012 of \$7,800 ( $36,000/24 \text{ months} = 1,500/\text{month}$  insurance used  $\times 10 \text{ months} = 15,000$  for 2012 vs.  $36,000/5 \text{ yrs useful life} = 7,200$ ;  $15,000 - 7,200 = 7,800$ ). 2012 net income is not known but if it is assumed that it approximates 2013 net income as reported (\$78,000), then the \$7,800 overstatement of net income in 2012 is material in nature since it approximates 10%.

The net income in 2013 would also have been materially overstated; by \$10,800 ( $1,500 \text{ insurance expense per month} \times 12 \text{ months used} = 18,000 - \text{depreciation of } 7,200 = 10,800$ ). Net income in 2014 would have been understated by \$4,200 ( $7,200 \text{ depreciation} - 3,000 \text{ insurance used} = 4,200$ ). It is unclear from the information provided how the insurance renewal was treated: as a capital or revenue expenditure; this would have affected the impact of the misstatement in 2014. It is unclear from the information provided whether revised depreciation was calculated when the subsequent expenditures (motors) were debited to the truck account (which is correct assuming that the motors enhanced the trucks which is likely). We will assume that this was treated correctly (capital expenditure with resulting calculation of revised depreciation) given no information to the contrary. The \$32,000 and \$2,500 costs regarding the tires and brakes were capitalized in error; they should have been expensed when incurred in 2013. Therefore, net income in 2013 is overstated by a potential \$34,500 ( $32,000 + 2,500$ ) — I say potential because it is unclear whether revised depreciation was calculated on the truck; this additional depreciation would affect the amount of any misstatement in 2013 and 2014. There is also the issue of when the bonus was recorded; these were recorded in the incorrect accounting periods (recorded when paid as opposed to the period which triggered the cost — violation of matching and realization principles). In addition, because the bonuses were based on overstated net income amounts, the bonuses would have been overstated for 2012 and 2013 and potentially in 2014.

**It appears that the 2013 net income was overstated by almost**

#### **50%. Conclusions/Consequences:**

- To do 'nothing' would mean that shareholders/owners are making decisions based on inaccurate information.
- If the manager did, in fact, engage in unethical actions, a longer term implication from the perspective of the manager is that he/she may lose their job and future employability prospects in addition to damaging the credibility of the company and its share values assuming it is publicly held.



Last revised: November 19,

- **The board of directors need to be made aware of the errors made in recording capital expenditures so that they can deal appropriately with the manager responsible and negative repercussions with shareholders/owners.**

**\*The goal is highly dependent on perspective.**