

Problem 1

- a. Capital Expenditure
- b. Revenue Expenditure
- c. Capital Expenditure
- d. Revenue Expenditure
- e. Capital Expenditure
- f. Capital Expenditure

Problem 2

<u>Current Assets</u>	<u>Property and Equipment</u>
Inventory	Land
Accounts Receivable	Leaseholds
Prepaid Expense	Construction in Progress
Notes Receivable	Building
Short-Term Investments	Furnishings and Equipment

Problem 3

Amortization of Leasehold Improvements	\$5,000
Leasehold Improvements	\$ 5,000

Problem 4

Based on the information provided, the cost to be recorded for the asset is determined as follows:

List Price of Equipment	\$ 8,000
Less 2% Cash Discount	<u>160</u>
Net Price	7,840
Sales Tax	308
Freight Charges	300
Installation Charges	<u>150</u>
Cost of Equipment	<u>\$ 8,598</u>

Problem 5

Cost of Land	\$400,000
Property Taxes	6,000
Title Opinion	800
Surveying Costs	3,000
Brokerage Commission	10,000
Cost of Demolition of Existing Building	<u>5,000</u>
Total Cost	<u>\$424,800</u>

Problem 6

Depreciable Cost	\$60,000.00
Less: Depreciation for 20X4/20X5	<u>20,000.00</u>
Remaining Depreciable Cost	40,000.00

Remaining Life = 6 years

Depreciation for 20X6:

$$\$40,000 \div 6 = \underline{\$6,666.67}$$

Problem 7

<u>Year</u>	<u>Rate</u>	<u>Declining Balance</u>	<u>Annual Depreciation</u>
1	50%	\$45,000	\$22,500
2	50%	22,500	11,250
3	50%	11,250	5,625
4	50%	5,625	625

Problem 8

<u>Year</u>	<u>Rate</u>	<u>Declining Balance</u>	<u>Annual Depreciation</u>
1	40%	\$30,000	\$12,000
2	40%	18,000	7,200
3	40%	10,800	4,320
4	40%	6,480	2,592
5	40%	3,888	1,388

Problem 9

- | | | | | |
|-------------------------------|----------|---|-----------|------------------------------|
| Cost of bus | \$40,000 | | | |
| Less salvage value | 4,000 | | | |
| Depreciable cost | 36,000 | ÷ | 5 years = | \$ 7,200 annual depreciation |
| Total depreciation over life: | 7,200 | × | 5 = | 36,000 |

- | | | | | |
|------------------|--------|---|-----------------|---------------|
| Depreciable cost | 36,000 | ÷ | 100,000 miles = | 0.36 per mile |
|------------------|--------|---|-----------------|---------------|

Year 1 usage 15,000 miles × 0.36 per mile = 5,400 Year 1 depreciation

- Using the bus in the example above, we would sum the years of its life:

$$5 + 4 + 3 + 2 + 1 = 15$$

A quick formula for this is $\frac{n(n+1)}{2}$

where n is the number of years of useful life. For example, if n = 5,

$$\frac{5(6)}{2} = 15$$

To calculate depreciation for the first year, we would take 5/15 of the cost less salvage value of \$36,000 and get a \$12,000 depreciation for the first year.

$$4. \text{ Depreciation percentage} = 100\% \div 5 \text{ years} = 20\% \text{ per year} \times 2 = 40\%$$

$$\text{Cost of bus} = \$40,000 \times 40\% = \$16,000 \text{ year 1 depreciation}$$

Problem 10

1. 20X3: Understated by \$3,150
20X4: Overstated by \$350
2. 20X3: Understated by \$3,150
20X4: Understated by \$2,800

Problem 11

Land	\$	240,000	
Building		840,000	
Furnishings and Equipment		120,000	
Cash			\$ 1,200,000

To record acquisition of lump sum assets.

Problem 12

1.	Truck—New	\$	23,000	
	Accumulated Depreciation		15,000	
	Cash			\$ 20,000
	Truck—Old			18,000

To record the exchange of a truck for another, with the gain not recognized but offset against price of new truck.

2.	Truck—New	\$	24,000	
	Accumulated Depreciation		15,000	
	Loss on Disposal of Asset		1,000	
	Cash			\$ 22,000
	Truck—Old			18,000

To record the exchange of a truck with the loss on the trade recognized separately.

3. In the case of reporting for tax purposes, neither gains nor losses are recorded on exchanges of similar assets.

Problem 13

Straight-line

<u>Year</u>	<u>Rate</u>	<u>Calculation</u>	<u>Depreciation</u>
1-8	12.5%	$(50,000 - 5,000) \times 12.5\%$	\$5,625

Double declining balance

<u>Year</u>	<u>Rate</u>	<u>Declining Balance</u>	<u>Annual Depreciation</u>
1	25%	\$50,000	\$12,500
2	25%	37,500	9,375
3	25%	28,125	7,031
4	25%	21,094	5,274
5	25%	15,820	3,955
6	25%	11,865	2,966
7	25%	8,899	2,225
8	25%	6,674	1,669

Problem 14

	1. <u>S/L</u>	2. <u>DDB</u>
Sales	\$ 800,000	\$ 800,000
Expense (excluding depreciation)	(700,000)	(700,000)
Depreciation Expense	<u>(10,000)</u>	<u>(20,000)</u>
Earnings before Taxes	\$ <u>90,000</u>	\$ <u>80,000</u>

Problem 15

1.	Accumulated Depreciation	\$ 18,000	
	Loss on Disposal of Asset	2,000	
	Exercise Equipment		\$ 20,000
2.	Cash	\$ 4,000	
	Accumulated Depreciation	18,000	
	Exercise Equipment		\$ 20,000
	Gain on Disposal of Asset		2,000
3.	Cash	\$ 1,000	
	Accumulated Depreciation	18,000	
	Loss on Disposal of Asset	1,000	
	Exercise Equipment		\$ 20,000