

We classify long-term assets into two major categories:

1. **Tangible assets.** Assets in this category include land, land improvements, buildings, equipment, and natural resources. Krispy Kreme's land, buildings, and equipment fall into this category.
2. **Intangible assets.** Assets in this category include patents, trademarks, copyrights, franchises, and goodwill. We distinguish these assets from property, plant, and equipment by their lack of physical substance. The evidence of their existence often is based on a legal contract. Google's copyrights are intangible assets.

Long-term assets often represent a significant portion of the total assets of a company

Property, Plant, and Equipment

The property, plant, and equipment category consists of land, land improvements, buildings, equipment, and natural resources. The general rule for recording all such long-term assets can be simply stated as: We record a long-term asset at its cost *plus* all expenditures necessary to get the asset ready for use. Thus, the initial cost of a long-term asset might be more than just its purchase price; it also will include any additional amounts the company paid to bring the asset to its desired condition and location for use.

We use the term capitalize to describe recording an expenditure as an asset. After initially being recorded as an asset, most capitalized expenditures are expensed over time as the asset is used in company operations. In contrast, an expenditure that relates only to operations in the current year would be expensed fully in that year. We'll discuss both types of expenditures in this chapter. Whether management capitalizes an expenditure or expenses it fully in the current year can have a significant effect on a company's financial statements.

Cost of Land

Include all necessary costs incurred in making land **ready for its intended use**

- ❖ Costs typically include
- ❖ Cash purchase price
- ❖ Closing costs such as title and attorney's fees
- ❖ Real estate brokers' commissions
- ❖ Accrued property taxes and other liens on land assumed by purchaser at acquisition

Illustration: Hayes Company acquires real estate at a cash cost of \$100,000. The property contains an old warehouse that is removed at a net cost of \$6,000 (\$7,500 in costs less \$1,500 proceeds from salvaged materials). Additional expenditures are the attorney's fee, \$1,000, and the real estate broker's commission, \$8,000. **Required:** Determine the amount to be reported as the cost of the land.

Cost of Land Improvements

Includes all expenditures necessary to make the improvements ready for their intended use.

Examples: paving, fencing, and lighting

Cost of Buildings

Includes all costs related directly to purchase or construction

- Purchase price, closing costs such as attorney's fees, title insurance, etc. and real estate broker's commission
- Remodeling and replacing or repairing the roof, floors, electrical wiring, and plumbing

Cost of Equipment

Include all costs incurred in acquiring the equipment and preparing it for use. Costs typically include

- ❖ Cash purchase price
- ❖ Sales taxes
- ❖ Freight charges
- ❖ Insurance during transit paid by purchaser
- ❖ Expenditures for assembling, installing, and testing

Illustration: Lenard Company purchases a delivery truck at a cash price of \$22,000. Related expenditures are sales taxes \$1,320, painting and lettering \$500, motor vehicle license \$80, and a three-year accident insurance policy \$1,600. **Compute the cost** of the delivery truck.

Illustration: Lenard Company purchases a delivery truck at a cash price of \$22,000. Related expenditures are sales taxes \$1,320, painting and lettering \$500, motor vehicle license \$80, and a three-year accident insurance policy \$1,600. Prepare the journal entry to record these costs.

Expenditures during Useful Life

Ordinary repairs

- Expenditures to maintain the operating efficiency and productive life of the unit
- Debited to Maintenance and Repairs Expense

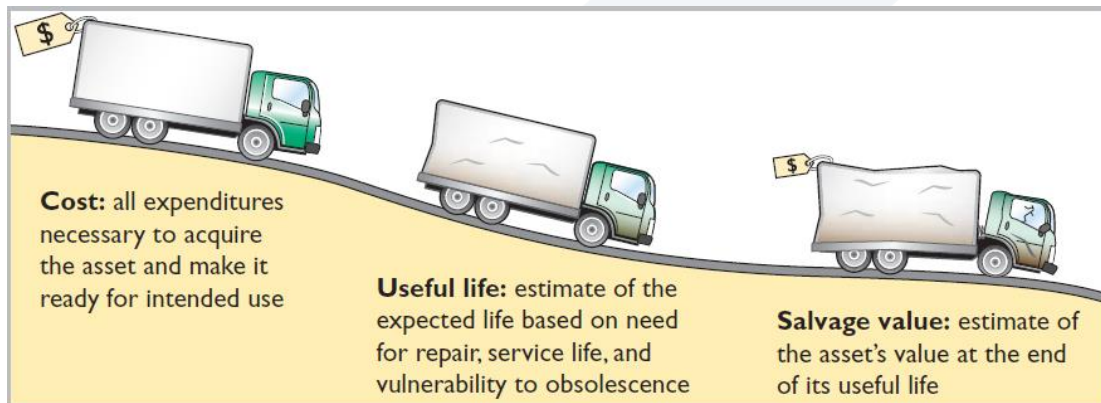
Additions and improvements

- Costs incurred to **increase** the operating efficiency, productive capacity, or useful life of a plant asset
- Debited to the related plant asset account

Depreciation

- Process of allocating to expense the cost of a plant asset over its useful life in a rational and systematic manner

Factors in Computing Depreciation



Management selects the method it believes best measures an asset's contribution to revenue over its useful life.

1. Straight-line method
2. Declining-balance method
3. Units-of-activity method

Illustration: Bill's Pizzas purchased a small delivery truck on January 1, 2022.

Cost	\$13,000
Expected salvage value	\$1,000
Estimated useful life (in years)	5
Estimated useful life (in miles)	100,000

Required: Compute depreciation using:

Straight-Line Method

Depreciation expense is **same amount** each year.

Cost	–	Salvage Value	=	Depreciable Cost
\$13,000	–	\$1,000	=	\$12,000
<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;"> Depreciable Cost \$12,000 </div> <div style="text-align: center;"> ÷ </div> <div style="text-align: center;"> Useful Life (in years) 5 </div> <div style="text-align: center;"> = </div> <div style="text-align: center;"> Depreciation Expense \$2,400 </div> </div>				

Year	Computation		Annual Depreciation Expense	End of Year	
	Depreciable Cost	× Depreciation Rate		Accumulated Depreciation	Book Value
2022	\$12,000	20%	\$ 2,400	\$ 2,400	\$10,600*
2023	12,000	20	2,400	4,800	8,200
2024	12,000	20	2,400	7,200	5,800
2025	12,000	20	2,400	9,600	3,400
2026	12,000	20	2,400	12,000	1,000
Total			<u>\$12,000</u>		

*\$13,000 – \$2,400

On January 1, 2022, Iron Mountain Ski Corporation purchased a new snow-grooming machine for \$50,000. The machine is estimated to have a 10-year life with a \$2,000 salvage value. What journal entry would Iron Mountain Ski Corporation make at December 31, 2022, if it uses the straight-line method of depreciation?

31 Dec	Depreciation Expense		2,400	
		Accumulated Depreciation Expense		2,400

Declining-Balance Method

Accelerated method

- Decreasing annual depreciation expense over asset's useful life
- Double-declining-balance rate is double the straight-line rate
- Rate applied to book value

Year	Computation		Annual Depreciation Expense	End of Year	
	Book Value Beginning of Year	Depreciation Rate		Accumulated Depreciation	Book Value
2022	\$13,000	40%	\$5,200	\$ 5,200	\$7,800*
2023	7,800	40	3,120	8,320	4,680
2024	4,680	40	1,872	10,192	2,808
2025	2,808	40	1,123	11,315	1,685
2026	1,685	40	685**	12,000	1,000

Units-of-Activity Method

Companies estimate total units of activity to calculate depreciation cost per unit

- Depreciable cost is cost less salvage value

Depreciable Cost	÷	Total Units of Activity	=	Depreciation Cost per Unit
\$12,000	÷	100,000 miles	=	\$0.12

Depreciation Cost per Unit	×	Units of Activity during the Year	=	Depreciation Expense
\$0.12	×	15,000 miles	=	\$1,800

Year	Computation		Annual Depreciation Expense	End of Year	
	Units of Activity	Depreciation Cost/Unit		Accumulated Depreciation	Book Value
2022	15,000	\$0.12	\$1,800	\$ 1,800	\$11,200*
2023	30,000	0.12	3,600	5,400	7,600
2024	20,000	0.12	2,400	7,800	5,200
2025	25,000	0.12	3,000	10,800	2,200
2026	10,000	0.12	1,200	12,000	1,000

*\$13,000 – \$1,800

Disposal of Plant Assets

Three ways companies dispose of plant assets



Accounting for disposals

- Record depreciation up to the **date of disposal**
- **Eliminate asset** by
 - ❖ Debiting Accumulated Depreciation, and
 - ❖ Crediting the asset account

Determining Gain or Loss on the Sale of Plant Assets

- ❖ Compare the **book value** of the asset with the **proceeds** received from the sale
 - If proceeds **exceed** the book value, a **gain** on disposal occurs
 - If proceeds **are less than** the book value, a **loss** on disposal occurs

Illustration: On July 1, 2022, Wright Company sells office furniture for \$16,000 cash. The office furniture originally cost \$60,000 and as of January 1, 2022, had accumulated depreciation of \$41,000. Depreciation for the first six months of 2022 is \$8,000. Wright records depreciation expense and updates accumulated depreciation to July 1 as follows.

Illustration: Assume that instead of selling the office furniture for \$16,000, Wright sells it for \$9,000.

General

10.1 Company A purchases a machine for \$5,000 and incurs the following additional costs:

Installation Charges	\$200
Delivery Charges	50
Interest on Loan	250
Testing	35
Sales Tax	400

Prepare an entry to record the purchase.

SOLUTION

Machine	5,685	
Cash		5,685

The interest is not capitalized.

10.2 A desk purchased 10 years ago by Company B for \$1,200 has now become a collector's item and is expected to be sold for \$5,000. Prepare an entry, if required, to recognize the increase in value.

SOLUTION

An entry is neither required nor permitted under GAAP. Gains may be recognized only upon sale of the asset.

Land

10.3 Company C purchases land for \$70,000 and incurs the following additional costs at the time of purchase:

Draining Costs	\$5,000
Clearing Costs	3,000
Attorney's Fees	1,000

Prepare the necessary entries.

10.4 Company D purchases land for \$50,000 and spends \$1,000 and \$4,000 on building a fence and a parking lot, respectively. These improvements have a 5-year life.

- (a) Prepare an entry for all the costs incurred.
(b) Prepare the annual depreciation entry, if required.

SOLUTION

(a)	Land	50,000	
	Cash		50,00
	Land Improvements	5,000	
	Cash		5,000
(b)	Depreciation Expense	1,000	
	Accumulated Depreciation		1,000

[Section 10.2]

Buildings

10.5 Company E constructs its own building and incurs the following costs:

Direct Material	\$50,000
Direct Labor	80,000
Variable Factory Overhead	20,000
Fixed Factory Overhead	10,000

- (a) Determine the cost of this building.

Lump-Sum Purchases; Issuance of Stock for Plant Assets

- 10.6** A package of land, building, and equipment is bought at a lump-sum price of \$110,000. By appraisal, the FMV of these items is determined to be \$50,000, \$30,000, and \$20,000, respectively. Allocate the \$110,000 cost to each item and prepare a journal entry.

SOLUTION

	FMV	Fraction	Total Cost	Allocation
Land	\$ 50,000	$50 / 100 \times$	\$110,000	\$55,000
Building	30,000	$30 / 100 \times$	110,000	33,000
Equipment	20,000	$20 / 100 \times$	110,000	22,000
	<u>\$100,000</u>			

The journal entry is:

Land	55,000		
Building	33,000		
Equipment	22,000		
Cash		110,000	[Section 10.5]

- 10.7** Company F issues 50 shares of its \$50-par common stock for equipment. Prepare the journal entry for the following two cases.

- (a) The FMV of the equipment is \$2,800; the FMV of the stock is unclear.
 (b) The FMV of the equipment is unclear; the FMV of the stock is \$2,700.

SOLUTION

(a)	Equipment	2,800		
	Common Stock		2,500 (par)	
	Paid in Capital, etc.		300	
(b)	Equipment	2,700		
	Common Stock		2,500 (par)	
	Paid-in-Capital, etc.		200	[Section 10.5]

Exchanges of Plant Assets

- 10.14** Company K exchanges land with book value and FMV of \$1,000 and \$1,200, respectively, for another asset, and also pays \$3,000 cash. Assume the exchange has commercial substance.

- (a) Is there a gain or loss recognized on this transaction for Company K? If yes, how much?
 (b) At what amount should Company K record the new asset?
 (c) Prepare a journal entry for the exchange.

SOLUTION

- (a) There is a gain of \$200 ($\$1,200 - \$1,000$).
- (b) \$4,200 (FMV of \$1,200 + \$3,000 cash)
- (c)

New Asset	4,200	
Land		1,000
Cash		3,000
Gain on Exchange		200

Note: This entry contains no debit to accumulated depreciation, since land does *not* depreciate. [Section 10.8]

10.15 How would your answers to Problem 10.14 change if the exchange had *no* commercial substance?

SOLUTION

- (a) The gain would *not* be recognized.
- (b) \$4,000 (book value of \$1,000 + \$3,000 cash)
- (c)

New Asset	4,000	
Land		1,000
Cash		3,000

[Section 10.8]

10.20 Company N trades in an old machine (FMV, \$22,000; cost, \$18,000; accumulated depreciation, \$5,000) for a new machine with a FMV of \$17,000 and \$5,000 cash.

- (a) What is the book value of the old machine?
- (b) How much gain was *realized* on the exchange?
- (c) If the exchange has commercial substance, how much gain is recognized?
- (d) If the exchange has no commercial substance, how much gain is recognized?

SOLUTION

- (a) \$13,000 (\$18,000 – \$5,000)
- (b) \$9,000 (\$22,000 – \$13,000)
- (c) \$9,000
- (d) Zero

[Section 10.8]

10.21 For Problem 10.20, prepare the journal entry if the exchange has commercial substance.

SOLUTION

New Machine	17,000*	
Accumulated Depreciation	5,000	
Cash	5,000	
Old Machine		18,000
Gain on Exchange		9,000
*($\$22,000 - \$5,000$)		

[Section 10.8]

10.22 Company O trades in an old asset with a book value of \$10,000 for a new one with a FMV of \$14,000. It also pays \$5,000 in cash. Assume that the exchange has no commercial substance.

- (a) What is the FMV of the old asset?
- (b) How much gain or loss should be recognized on this exchange?
- (c) How much gain or loss should be recognized if the exchange has *no* commercial substance?

SOLUTION

- (a) The FMV is \$9,000 (\$14,000 – \$5,000).
- (b) There is a \$1,000 loss (\$10,000 – \$9,000).
- (c) Zero.

[Section 10.8]

Costs Incurred Subsequent to Acquisition

10.25 Company R incurs the following expenditures for its delivery truck:

1. Installation of brand new engine, \$4,000. This will lengthen the truck's life by 3 years.
2. Replacement of old air conditioner with a brand new one, \$1,500. (The old one did not work on Mondays and Thursdays and would automatically shut off on Sundays when the temperature reached 71°F.)
3. Oil change and lubrication, \$60.
 - (a) Should these items be capitalized or expensed?
 - (b) Prepare a journal entry for each.

SOLUTION

- (a) Items 1 and 2 should be capitalized; item 3 should be expensed.

(b) For item 1:	Accumulated Depreciation	4,000	
	Cash		4,000
For item 2:	Truck	1,500	
	Cash		1,500
For item 3:	Repair and Maintenance Expense	60	
	Cash		60

[Section 10.9]

Sales of Plant Assets

10.26 Company S purchases a machine for \$10,000 on January 1, 19X1. The machine has a 10-year life and no salvage value. Prepare the journal entry for each of the following involving the machine's disposal on January 1, 19X5.

- (a) The machine is sold for \$6,000.
- (b) The machine is sold for \$5,200.
- (c) The machine is sold for \$6,400.
- (d) The machine is abandoned.

SOLUTION

The T-accounts appear as follows:

Machine	Accumulated Depreciation
10,000	1,000
	1,000
	1,000
	1,000

(a)	Cash	6,000	
	Accumulated Depreciation	4,000	
	Machine		10,000
(b)	Cash	5,200	
	Accumulated Depreciation	4,000	
	Loss on Sale	800	
	Machine		10,000
(c)	Cash	6,400	
	Accumulated Depreciation	4,000	
	Machine		10,000
	Gain on Sale		400
(d)	Accumulated Depreciation	4,000	
	Loss on Disposal	6,000	
	Machine		10,000

[Section 10.10]

- 10.27** Company T purchased a machine on January 1, 19X1, for \$10,000. The machine has a 9-year life with a \$1,000 salvage value. On July 1, 19X4, the machine is disposed of. Prepare an entry if the disposal price is \$6,700.

SOLUTION

Cash	6,700	
Accumulated Depreciation	3,500	
Machine		10,000
Gain on Disposal		200

[Section 10.10]

Involuntary Conversions

- 10.28** Company U has land with a book value of \$20,000. The federal government, exercising its right of eminent domain, purchases the land from Company U for its FMV of \$25,000. Prepare the journal entry.

SOLUTION

Cash	25,000	
Land		20,000
Gain on Involuntary Conversion (extraordinary)		5,000

[Section 10.11]

Depreciation Methods: Straight-Line Method; Activity Method

- 11.1** Blue Corp. purchased a machine for \$2,600 with a \$200 salvage value and a 4-year life. The machine has a production capacity of 4,800 units and was purchased on January 1, 19X1.

- (a) Determine annual depreciation under the straight-line method.
(b) Determine annual depreciation under the activity method.

Assume that production for 19X1–19X4 was: 19X1, 2,000 units; 19X2, 1,200 units; 19X3, 1,000 units; 19X4, 600 units.

SOLUTION

(a) $\frac{\$2,600 - \$200}{4} = \$600$ for each year

(b) $\frac{\$2,600 - \$200}{4,800} = \$0.50$ per unit

19X1: $\$0.50 \times 2,000 = \$1,000$

19X2: $\$0.50 \times 1,200 = \600

19X3: $\$0.50 \times 1,000 = \500

19X4: $\$0.50 \times 600 = \300

- 11.2** Assume the same information as in Problem 11.1, except that the machine was purchased on October 1. Determine depreciation for each year under the straight-line method.

SOLUTION

The depreciation for each *whole* year is \$600.

19X1	(Oct.–Dec.):	$600 \times \frac{3}{12} = \150
19X2	(full year):	600
19X3	(full year):	600
19X4	(full year):	600
19X5	(Jan.–Sept.):	$600 \times \frac{9}{12} = 450$

[Section 11.2]

- 11.3** On January 1, 19X1, Green Corporation purchased a \$2,200 machine with a \$100 salvage value and a 3-year life. The machine has a capacity of 1,050 units and produced the following: 19X1, 500 units; 19X2, 300 units; 19X3, 150 units; 19X4, 100 units.

- Determine the annual depreciation under the straight-line method.
- Determine the annual depreciation under the activity method.

SOLUTION

$$(a) \frac{\$2,200 - \$100}{3} = \$700$$

$$(b) \frac{\$2,200 - \$100}{1,050} = \$2 \text{ per unit}$$

19X1:	500 × \$2 =	\$1,000
19X2:	300 × \$2 =	600
19X3:	150 × \$2 =	300
19X4:	100 × \$2 =	200

- 11.4** Black Corp. purchases a machine for \$2,900 with a \$100 salvage value and a capacity of 1,000 hours. Each unit of output requires $1\frac{1}{2}$ hours of input. During 19X1 and 19X2 the machine produces 200 and 100 units, respectively. Determine depreciation for each year.

SOLUTION

$$\frac{\$2,900 - \$100}{1,000} = \$2.80 \text{ per hour}$$

19X1:	200 units × $1\frac{1}{2}$	=	300 hours
	×	<u>\$2.80</u>	
		<u>\$840</u>	
19X2:	100 units × $1\frac{1}{2}$	=	150 hours
	×	<u>\$2.80</u>	
		<u>\$420</u>	

Sum-of-the-Years'-Digits (SYD) and Declining-Balance Methods

11.5 Determine the numerators and denominators to be used for each of the following assets, under the SYD method:

- (a) 10-year life
- (b) 8-year life
- (c) 12-year life

SOLUTION

(a) The numerators are 10, 9, 8, 7, 6, 5, 4, 3, 2, 1. The denominator is:

$$S = \frac{10(10+1)}{2} = 55$$

(b) The numerators are 8, 7, 6, 5, 4, 3, 2, 1. The denominator is:

$$S = \frac{8(8+1)}{2} = 36$$

(c) The numerators are: 12, 11, 10, 9, 8, 7, 6, 5, 4, 3, 2, 1. The denominator is:

$$S = \frac{12(12+1)}{2} = 78$$

[Section 11.3]

11.6 A machine with a 3-year life and salvage value of \$100 is purchased for \$6,100 on January 1, 19X1. Determine the annual depreciation under SYD.

SOLUTION

$$\begin{aligned} 19X1: \quad \frac{3}{6} \times \$6,000 &= \$3,000 \quad (\text{the depreciable base is } \$6,100 - \$100 = \$6,000) \\ 19X2: \quad \frac{2}{6} \times \$6,000 &= 2,000 \\ 19X3: \quad \frac{1}{6} \times \$6,000 &= 1,000 \end{aligned}$$

[Section 11.3]

11.7 Assume the same information as in Problem 11.6, except that the machine was purchased on July 1, 19X1. Determine depreciation for each year under the SYD method.

SOLUTION

$$\begin{aligned} 19X1 \text{ (July-Dec.):} \quad \frac{3}{6} \times \$6,000 \times \frac{6}{12} &= \underline{\underline{\$1,500}} \\ 19X2 \text{ (all year):} \quad \frac{3}{6} \times \$6,000 \times \frac{6}{12} &= \underline{\underline{\$1,500}} \\ \quad \frac{2}{6} \times \$6,000 \times \frac{6}{12} &= \underline{\underline{\$1,000}} \\ \quad \text{Total} &= \underline{\underline{\$2,500}} \\ 19X3 \text{ (all year):} \quad \frac{2}{6} \times \$6,000 \times \frac{6}{12} &= \underline{\underline{\$1,000}} \\ \quad \frac{1}{6} \times \$6,000 \times \frac{6}{12} &= \underline{\underline{500}} \\ \quad \text{Total} &= \underline{\underline{\$1,500}} \\ 19X4 \text{ (Jan.-June):} \quad \frac{1}{6} \times \$6,000 \times \frac{6}{12} &= \underline{\underline{\$ 500}} \end{aligned}$$

- 11.8** Red Corp. purchases a machine for \$4,200 on January 1, 19X1. The machine has a 4-year life and a salvage value of \$200. Determine depreciation for each year under SYD.

SOLUTION

$$\begin{aligned} 19X1: \frac{4}{10} \times \$4,000 &= \$1,600 \\ 19X2: \frac{3}{10} \times \$4,000 &= 1,200 \\ 19X3: \frac{2}{10} \times \$4,000 &= 800 \\ 19X4: \frac{1}{10} \times \$4,000 &= 400 \end{aligned}$$

[Section 11.3]

- 11.9** Assume the same information as in Problem 11.8, except that the machine was purchased on October 1. Determine depreciation for each period under SYD.

SOLUTION

$$\begin{aligned} 19X1: \frac{4}{10} \times \$4,000 \times \frac{3}{12} &= \$ 400 \\ 19X2: \frac{4}{10} \times \$4,000 \times \frac{9}{12} &= \$1,200 \\ \frac{3}{10} \times \$4,000 \times \frac{3}{12} &= + 300 \\ &\underline{\$1,500} \\ 19X3: \frac{3}{10} \times \$4,000 \times \frac{9}{12} &= \$ 900 \\ \frac{2}{10} \times \$4,000 \times \frac{3}{12} &= + 200 \\ &\underline{\$1,100} \\ 19X4: \frac{2}{10} \times \$4,000 \times \frac{9}{12} &= \$ 600 \\ \frac{1}{10} \times \$4,000 \times \frac{3}{12} &= + 100 \\ &\underline{\$ 700} \\ 19X5: \frac{1}{10} \times \$4,000 \times \frac{9}{12} &= \$ 300 \quad (\text{Jan.-Sept.}) \end{aligned}$$

Example Exercise 9-4 Analysis of Receivables Method

Obj. 4

At the end of the current year, Accounts Receivable has a balance of \$800,000, Allowance for Doubtful Accounts has a credit balance of \$7,500, and sales for the year total \$3,500,000. Using the aging method, the balance of Allowance for Doubtful Accounts is estimated as \$30,000.

Determine (a) the amount of the adjusting entry for uncollectible accounts; (b) the adjusted balances of Accounts Receivable, Allowance for Doubtful Accounts, and Bad Debt Expense; and (c) the net realizable value of accounts receivable.

Follow My Example 9-4

- a. \$22,500 (\$30,000 – \$7,500)

	Adjusted Balance Debit (Credit)
b. Accounts Receivable	\$800,000
Allowance for Doubtful Accounts	(30,000)
Bad Debt Expense	22,500
c. \$770,000 (\$800,000 – \$30,000)	

Assume that Crawford Company issues a \$4,000, 90-day, 12% note dated December 1, 20Y4, to settle its account receivable. If the accounting period ends on December 31, the company receiving the note would record the following entries: 20Y4

20Y4	Dec.	1	Notes Receivable—Crawford Company	4,000	
			Accounts Receivable—Crawford Company		4,000
		31	Interest Receivable	40	
			Interest Revenue		40
			Accrued interest		
			(\$4,000 × 12% × 30 ÷ 360).		
20Y5	Mar.	1	Cash	4,120	
			Notes Receivable—Crawford Company		4,000
			Interest Receivable		40
			Interest Revenue		80
			Total interest of \$120		
			(\$4,000 × 12% × 90 ÷ 360).		

Example Exercise 9-5 Note Receivable

Obj. 6

Same Day Surgery Center received a 120-day, 6% note for \$40,000, dated March 14, from a patient on account.

- Determine the due date of the note.
- Determine the maturity value of the note.
- Journalize the entry to record the receipt of the payment of the note at maturity.

Follow My Example 9-5

- The due date of the note is July 12, determined as follows:

March	17 days (31 – 14)
April	30 days
May	31 days
June	30 days
July	12 days
Total	120 days

- \$40,800 [\$40,000 + (\$40,000 × 6% × 120 ÷ 360)]

c. July 12	Cash	40,800	
	Notes Receivable		40,000
	Interest Revenue		800

Exercises

- Which of the following is not a major characteristic of a plant asset?
 - Possesses physical substance
 - Acquired for resale**
 - Acquired for use
 - Yields services over a number of years
- Fences and parking lots are reported on the balance sheet as
 - Current assets.
 - Land improvements.**
 - Land.

D. Property and Equipment.

3. The sale of a depreciable asset resulting in a loss indicates that the proceeds from the sale were
 - A. Less than current fair value.
 - B. Greater than cost.
 - C. Greater than book value.
 - D. **Less than book value.**
4. Glen Inc. and Armstrong Co. have an exchange with no commercial substance. The asset given up by Glen Inc. has a book value of \$48,000 and a fair value of \$60,000. The asset given up by Armstrong Co. has a book value of \$80,000 and a fair value of \$76,000. Boot of \$16,000 is received by Armstrong Co. What amount should Glen Inc. record for the asset received?
 - A. \$60,000
 - B. **\$64,000**
 - C. \$76,000
 - D. \$80,000
5. A machine cost \$360,000, has annual depreciation of \$60,000, and has accumulated depreciation of \$270,000 on December 31, 2012. On April 1, 2013, when the machine has a fair value of \$82,500, it is exchanged for a machine with a fair value of \$405,000 and the proper amount of cash is paid. The exchange lacked commercial substance. The gain to be recorded on the exchange is
6. Peterson Company purchased machinery for \$480,000 on January 1, 2009. Straight-line depreciation has been recorded based on a \$30,000 salvage value and a 5-year useful life. The machinery was sold on May 1, 2013 at a gain of \$9,000. How much cash did Peterson receive from the sale of the machinery?
7. Ferguson Company purchased a depreciable asset for \$120,000. The estimated salvage value is \$10,000, and the estimated useful life is 10 years. The straight-line method will be used for depreciation. What is the depreciation base of this asset?
 - a. **\$11,000**
 - b. \$12,000
 - c. \$110,000
 - d. \$120,000
8. Solar Products purchased a machine for \$39,000 on July 1, 2012. The company intends to depreciate it over 4 years using the double-declining balance method. Salvage value is \$3,000. Depreciation for 2012 is

9. Gardner Corporation purchased a truck at the beginning of 2012 for \$90,000. The truck is estimated to have a salvage value of \$3,600 and a useful life of 120,000 miles. It was driven 18,000 miles in 2012 and 32,000 miles in 2013. What is the depreciation expense for 2012?
10. Kinder Company purchased a depreciable asset for \$280,000. The estimated salvage value is \$14,000, and the estimated useful life is 10,000 hours. Kinder used the asset for 1,100 hours in the current year. The activity method will be used for depreciation. What is the depreciation expense on this asset?
11. On January 1, 2012, Graham Company purchased a new machine for \$2,800,000. The new machine has an estimated useful life of nine years and the salvage value was estimated to be \$100,000. Depreciation was computed on the sum-of-the-years'-digits method. What amount should be shown in Graham's balance sheet at December 31, 2013, net of accumulated depreciation, for this machine?
12. Williamson Corporation purchased a depreciable asset for \$400,000 on January 1, 2010. The estimated salvage value is \$40,000, and the estimated useful life is 9 years. The straight-line method is used for depreciation. In 2013, Williamson changed its estimates to a total useful life of 5 years with a salvage value of \$60,000. What is 2013 depreciation expense?

A company operating a minicab service depreciates its vehicles over four years using the sum-of-the-year's- digits method. Its vehicles were all acquired on 1st March 2011 for £180,000, except a mini-bus acquired for £60,000 on 1st April 2012. What is the depreciation charge for the year ended 31st December 2012?