



Accounting II - Simplified for You

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Units-of-Production



Units-of-Production

- Units-of-Production

- 1) Calculate the Depreciation per Unit
- 2) Based on the # of units used, calculate the Depreciation for the year.

Depreciation is at a variable rate.

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Units-of-Production

Example: Unique Designs purchased a machine that costs \$55,000 with a residual value of \$5,000 and the equipment dealer estimates that the machine can produce 100,000 units.

Asset Cost = \$55,000

Residual Value = 5,000

Total Units of Production = 100,000 units

Units-of-Production

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| | | |
|------------------------------|---|---------------------------|
| | | Cost - Residual Value |
| Units-of-Production per Unit | = | Total Production in Units |
| | | |
| | | |
| | | \$55,000 - \$5,000 |
| Units-of-Production per Unit | = | 100,000 units |
| | | |
| | | |
| Depreciation per Unit | = | <u>\$ 0.50</u> |

Units-of-Production

Let's assume the company produced 39,000 units using this equipment for the year.

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| | | |
|------------------------------|---|--|
| Depreciation for the year | = | Depreciation per unit x Total Units produced |
| Depreciation for the year | = | .50 x 39,000 units |
| | = | \$19,500 |

Units-of-Production

Journal Entry

| Journal | | | |
|----------|-------------------------------------|--------|--------|
| Date | Account Description | Debit | Credit |
| 12/31/XX | Depreciation Expense | 19,500 | |
| | Accumulated Depreciation, Equipment | | 19,500 |

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Balance Sheet

| | |
|---------------------------------------|------------------|
| Equipment | \$ 55,000 |
| <u>Less: Accumulated Depreciation</u> | <u>19,500</u> |
| Book Value | <u>\$ 35,500</u> |



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K
E
Y

Keep
Educating
Yourself

