

B-10.04

CityBank recently held an auction to dispose of various assets it had obtained through foreclosures and other loan settlements. Representatives of Advantage Metals attended the auction to bid on an abandoned manufacturing plant that CityBank included in the sale. The auction brochure listed the manufacturing plant as including all land, buildings, and equipment. The brochure indicated that an independent appraisal had been conducted and that land was separately valued at \$1,000,000, the building at \$2,000,000, and the equipment at \$4,000,000. This information is believed to be reasonably accurate and fair.

Advantage Metals wanted the site for a recycling business it planned to start at the location. All of the equipment would be used in this new operation. The minimum bid price was set at \$4,900,000. As it turned out, the auction was poorly attended. Advantage was only the only bidder on this property, and was fortunate to acquire the property at the opening bid minimum.

Determine the correct cost allocation to the land, buildings, and equipment, and prepare a journal entry to reflect this acquisition.

B-10.06

On January 1, 20X3, Perkins Printing Corporation purchased a digital press for \$1,450,000. It cost an additional \$50,000 to deliver, install, and calibrate the press. This machine has a service life of 5 years, at which time it is expected that the device will be disposed of for a \$100,000 salvage value.

Perkins uses the straight-line depreciation method.

- (a) Prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year.
- (b) Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 20X5.
- (c) Prepare journal entries to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for \$100,000.

B-10.07

On January 1, 20X6, Outback Air purchased a new engine for one of its airplanes used to transport adventurers to remote regions of western Australia. The engine cost \$750,000 and has a service life of 10,000 flight hours. Regulations require careful records of usage, and the engines must be replaced or rebuilt at the end of the 10,000 hour service period. Outback simply chooses to sell its used engines and acquire new ones. Used engines are expected to be resold for 1/3 of their original cost.

Outback uses the units-of-output depreciation method.

- (a) Assuming that the engine was used as follows, prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year.

20X6 1,500 hours
20X7 4,000 hours
20X8 3,000 hours
20X9 1,500 hours

- (b) Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 20X7.
- (c) Prepare journal entries to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for \$250,000.

B-10.08

On January 1, 20X1, Pagoda Pond Construction acquired a small excavator for \$85,000. This device had a 4-year service life to Pagoda, at which time it is expected that the equipment will be sold for a \$10,000 salvage value.

Pagoda uses the double-declining balance depreciation method.

- (a) Prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year.
- (b) Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 20X3.
- (c) Prepare journal entries to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for \$10,000.

On January 1, 20X2, The GenKota Winery purchased a new bottling system. The system has an expected life of 5 years. The system cost \$325,000. Shipping, installation, and set up was an additional \$35,000. At the end of the useful life, Julie Hayes, chief accountant for GenKota, expects to dispose of the bottling system for \$96,000. She further anticipates total output of 660,000 bottles over the useful life.

- (a) Assuming use of the straight-line depreciation method, prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year.
- (b) Assuming use of the units-of-output depreciation method, prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year. Actual output, in bottles, was 100,000 (20X2), 130,000 (20X3), 150,000 (20X4), 160,000 (20X5), and 120,000 (20X6).
- (c) Assuming use of the double-declining balance depreciation method, prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year.