Exercises in Tangible Capital Assets

Question 35 (20 marks)

Boulton Inc. purchased the following machinery from Lombard Inc. of the USA on January 1st of this year.

Asset	Moulding die cast press		
Purchase Price	$ 41,000 USD	Scrap value	$ 7,000
Florida state tax	6%	Useful life	560,000 hours
Tariff	*NAFTA exempt*	or	9 years
Freight-in	$ 1,500 USD	Amort. Rate	15%
Shipping insurance	$ 1,300 CAD		
Installation	$ 1,380 CAD	Our tax rate	55%
By-law Inspection fee	$ 250 CAD	Exchange rate	CAD 1.20 per USD
		CCA rate	12%

The first three years of the machine's usage are shown below.

Year	Hours Used
1	45,000
2	127,000
3	72,000

Instructions

1 Record the journal entry for the purchase. Show all your calculations.
2 Record the journal entries for the adjusting entry on December 31st of years 1 and 2 using the straight-line method of amortization.

At the start of year 3 a new ad-on is purchased from Delphi for……. $50,000 CAD. This figure includes all taxes etc.
It is expected to increase the life of the machine hours of the cast press by………… 20,000 hours

3 Record the journal entry for the purchase of this item.
4 Record the adjusting entry at the end of year 3.
5 The asset is sold at the end of year 3 for 40,500 Record the journal entry.

6 In each of these three years, determine the difference in taxes owing resulting from straight-line values versus the government's CCA stipulated rate for this machinery. State the effect on the balance in the deferred income tax account by the end of year three.
7 Journalize the entry to reconcile taxes recorded due to GAAPs versus what was actually sent to the government in year 1. Assume operating income before taxes and amortization is 100,000 and the tax rate for this firm is 55%