

PPE Handout

Consider each of the following expenditures. For each of the items below, in the blank space provided, put an (E) if it is an expense or a (C) if it should be capitalized.

1. Before new equipment was used, test runs were conducted at a cost of \$6,250.

2. A used truck was purchased and a new carburetor was installed for \$800.

3. A company purchased a new engine for one of its freight trains at a cost of \$45,000.

4. \$30 worth of pens were purchased for the office.

5. A new security system was installed at an old warehouse for \$35,000.

6. A custodian is hired to clean the office at night.

Consider each of the following expenditures. For each of the items below, in the blank space provided, put an (E) if it is an expense and a (C) if it should be capitalized.

1. Paid \$4,000 in legal fees to register a copyright

2. Purchased \$20 of printer ink.

3. Paid \$1,750 for a new computer.

4. Repaired a copier at a cost of \$300.

5. Paid the CEO's health insurance premiums for \$6,250.

6. Destroyed an old building for \$125,000 to make way for a new office.

On January 1st, 2013 Gretzky Corp purchased \$300,000 of equipment. The equipment has an expected life of 10 years and a residual value of \$20,000.

Calculate the depreciation expense over the next 3 years using the following methods:

1. Straight-line
2. Sum-of-the-years digits
3. Double-declining-balance

On January 1st, 2013 Dryden Inc. purchased \$800,000 of equipment. The equipment has an expected life of 15 years and a residual value of \$50,000.

1. Calculate the annual depreciation expense and end of year book value for the first 3 years using the following methods:
 - a. Straight-line
 - b. Double-declining-balance
2. Recalculate your answers from part 1 assuming there was no residual value.