HW8_Solution

E8-1 Preparing a Classified Balance Sheet

Required:
Prepare the asset section of the balance sheet for Hasbro, Inc., classifying the assets into Current Assets; Property, Plant, and Equipment (net); and Other Assets.

Hasbro, Inc.
Excerpts from Balance Sheet
(in millions)

ASSETS	
Current Assets:	
Cash and cash equivalents	$4,580
Accounts receivable (net of allowance for doubtful accounts, $17)	1,411
Inventories	446
Prepaid expenses and other current assets	310
Total current assets	6,747
Property, Plant, and Equipment:	
Machinery, equipment, and software	493
Buildings and improvements	195
Tools, dies, and molds	71
Land and improvements	3
Property, plant, and equipment (at cost)	762
Less: Accumulated depreciation	534
Property, plant, and equipment (net)	228
Other Assets:	
Lease right-of-use assets	154
Goodwill	495
Other intangibles (net of accumulated amortization, $769)	646
Other noncurrent assets	585
Total other assets	1,880
Total Assets	$8,855

E8-6 Recording Depreciation and Repairs (Straight-Line Depreciation)

Required:
1. Give the adjusting entry that was made at the end of last year for depreciation on the equipment.
2. Starting at the beginning of the current year, what is the remaining estimated life?
3. Give the journal entries to record the two expenditures during the current year

Req. 1

Adjusting entry at the end of last year:

Depreciation expense (+E, −SE)..	41,250	
Accumulated depreciation, equipment (+XA, −A)..		41,250
((\$350,000 – \$20,000) x 1/8 = \$41,250)		

Req. 2 (beginning of the current year)

Estimated life	8 years
Less: Used life -	
\$165,000 accumulated depreciation ÷ \$41,250 annual expense =	4 years
Remaining life	4 years

Req. 3 (during the current year):

Equipment (+A)	42,000	
Cash (−A)..		42,000
(Improvements incurred and capitalized.)		
Repairs and maintenance expense (+E, −SE)	5,000	
Cash (−A)..		5,000
(Ordinary repairs incurred.)		

E8-10 Computing Depreciation under Alternative Methods

Required:

1. Complete a separate depreciation schedule for each of the alternative methods. A sample schedule is shown below. Round your answers to the nearest dollar.
   a. Straight-line.
   b. Units-of-production (use two decimal places for the per unit output factor).
   c. Double-declining-balance.
2. Assuming that the machine was used directly in the production of one of the products that the company manufactures and sells, what factors might management consider in selecting a preferable depreciation method in conformity with the expense recognition (matching) principle?

Req. 1

C = Cost	UR = Unit Rate
RV = Residual Value	AL = Activity Level
UL = Useful Life	AD = Accumulated Depreciation

a. **Straight-line:**

Year	*(C – RV) x 1/UL* **Computation**	**Depreciation Expense**	**Accumulated Depreciation**	**Net Book Value**
At acquisition				$950,000
1	($950,000 - $50,000) x 1/5	$180,000	$180,000	770,000
2	($950,000 - $50,000) x 1/5	180,000	360,000	590,000
3	($950,000 - $50,000) x 1/5	180,000	540,000	410,000
4	($950,000 - $50,000) x 1/5	180,000	720,000	230,000
5	($950,000 - $50,000) x 1/5	180,000	900,000	50,000

b. **Units-of-production:** ($950,000 – $50,000) ÷ 300,000 = $3.00 per unit (Unit Rate)

Year	*UR x AL* **Computation**	**Depreciation Expense**	**Accumulated Depreciation**	**Net Book Value**
At acquisition				$950,000
1	$3.00 x 70,000 units	$210,000	$210,000	740,000
2	$3.00 x 67,000 units	201,000	411,000	539,000
3	$3.00 x 50,000 units	150,000	561,000	389,000
4	$3.00 x 73,000 units	219,000	780,000	170,000
5	$3.00 x 40,000 units	120,000	900,000	50,000

c. **Double-declining-balance:** **Stop depreciation when Book Value = RV**

Year	*(C – AD) x 2/UL* Computation	Depreciation Expense	Accumulated Depreciation	Net Book Value
At acquisition				$950,000
1	($950,000 - 0) x 2/5	$380,000	$380,000	570,000
2	($950,000 - $380,000) x 2/5	228,000	608,000	342,000
3	($950,000 - $608,000) x 2/5		744,800	
		136,800		205,200
4	($950,000 - $744,800) x 2/5	82,080	826,880	123,120
5	Last year of useful life	73,120	900,000	50,000

In the last year of the asset's useful life, set net book value equal to residual value – $50,000. Work backwards:

- Set accumulated depreciation to depreciable cost → $950,000 - $50,000 RV = $900,000.
- Record depreciation expense for the amount that is needed to increase accumulated depreciation to $900,000 → $900,000 - $826,880 prior balance = $73,120.

Req. 2

If the machine is used evenly throughout its life and its efficiency (economic value in use) is expected to decline steadily each period over its life, then straight-line depreciation would be preferable. If the machine is used at a consistent rate but the efficiency is expected to decline faster in the earlier years of its useful life, then an accelerated method would be appropriate [such as, double-declining-balance]. If the machine is used at different rates over its useful life and its efficiency declines with output, then the units-of-production method would be preferable because it would result in a better matching of depreciation expense with revenue earned.

E8-17 Recording the Disposal of an Asset at Three Different Sale Prices

Required:

1. Give the journal entry for the disposal of the furniture, assuming that it was sold for
a. $300,000 cash
b. $900,000 cash
c. $100,000 cash
2. Based on the three preceding situations, explain the effects of the disposal of an asset.

E8–17.

Req. 1a

Cash (+A)	300,000	
Accumulated depreciation (−XA, +A)	7,700,000	
Furniture (−A)		8,000,000

Sale of an asset at book value; the result is no loss or gain.

Req. 1b

Cash (+A)	900,000	
Accumulated depreciation (−XA, +A)	7,700,000	
Gain on sale of long-lived asset (+R, +SE)		600,000
Furniture (−A)		8,000,000

Sale of an asset above book value; the result is a gain.

Req. 1c

Cash (+A)	100,000	
Accumulated depreciation (−XA, +A)	7,700,000	
Loss on sale of long-lived asset (+E, −SE)	200,000	
Furniture (−A)		8,000,000

Sale of an asset below book value; the result is a loss.

Req. 2 Summarization of the effects of the disposal:

1. The loss or gain on disposal of a long-lived asset is the difference between the disposal price and the book value at date of disposal.

2. When the disposal price is the same as the book value there is no loss or gain; when the disposal price is above book value there is a gain; and when the disposal price is below book value, there is a loss on disposal.

3. The book value does not purport to be market value, so a loss or gain on disposal of a long-lived asset normally would occur.