**Chapter 9**

**Multiple Choice**

 1. The cost of a purchased building includes all of the following *except*

a. closing costs.

b. real estate broker's commission.

c. remodeling costs.

d. All of these are included.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 2. A company purchased land for $70,000 cash. Real estate brokers' commission was $5,000 and $7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the cost principle, the cost of land would be recorded at

a. $77,000.

b. $70,000.

c. $75,000.

d. $82,000.

Ans: D, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

 3. The cost of land does *not* include

a. real estate brokers' commission.

b. annual property taxes.

c. accrued property taxes assumed by the purchaser.

d. title fees.

Ans: B, SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 4. Wesley Hospital installs a new parking lot. The paving cost ₤30,000 and the lights to illuminate the new parking area cost ₤15,000. Which of the following statements is true with respect to these additions?

a. ₤30,000 should be debited to the Land account.

b. ₤15,000 should be debited to Land Improvements.

c. ₤45,000 should be debited to the Land account.

d. ₤45,000 should be debited to Land Improvements.

Ans: D, SO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

 5. A company purchases a remote site building for computer operations. The building will be suitable for operations after some expenditures. The wiring must be replaced to computer specifications. The roof is leaky and must be replaced. All rooms must be repainted and recarpeted and there will also be some plumbing work done. Which of the following statements is true?

a. The cost of the building will not include the repainting and recarpeting costs.

b. The cost of the building will include the cost of replacing the roof.

c. The cost of the building is the purchase price of the building, while the additional expenditures are all capitalized as Building Improvements.

d. The wiring is part of the computer costs, not the building cost.

Ans: B, SO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

 6. Yang Company purchased equipment on January 1 at a list price of ¥500,000, with credit terms 2/10, n/30. Payment was made within the discount period and Yang was given a ¥10,000 cash discount. Yang paid ¥25,000 sales tax on the equipment, and paid installation charges of ¥8,800. Prior to installation, Yang paid ¥20,000 to pour a concrete slab on which to place the equipment. What is the total cost of the new equipment?

a. ¥523,800

b. ¥543,800

c. ¥553,800

d. ¥505,000

Ans: B, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

 7. Which of the following statement regarding depreciation is false?

a. The concept of depreciation is inconsistent with the going concern assumption.

b. Recognizing depreciation on an asset does not result in an accumulation of cash for replacement of the asset.

c. The three factors affecting the computation of depreciation include cost, useful life, and residual value.

d. Accumulated depreciation is reported on the statement of financial position as a deduction from plant assets.

Ans: A, SO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 8. The balance in the Accumulated Depreciation account represents the

a. cash fund to be used to replace plant assets.

b. amount to be deducted from the cost of the plant asset to arrive at its fair value.

c. amount charged to expense in the current period.

d. amount charged to expense since the acquisition of the plant asset.

Ans: D, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 9. The book value of an asset is equal to the

a. asset's fair value less its historical cost.

b. blue book value relied on by secondary markets.

c. replacement cost of the asset.

d. asset's cost less accumulated depreciation.

Ans: D, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 10. In computing depreciation, residual value is

a. the fair value of a plant asset on the date of acquisition.

b. subtracted from accumulated depreciation to determine the plant asset's depreciable cost.

c. an estimate of a plant asset's value at the end of its useful life.

d. ignored in all the depreciation methods.

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

 11. Equipment was purchased for $90,000. Freight charges amounted to $4,200 and there was a cost of $12,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a $18,000 residual value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be

a. $21,240.

b. $17,640.

c. $14,760.

d. $14,400.

Ans: B, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 12. A company purchased factory equipment on April 1, 2011 for €80,000. It is estimated that the equipment will have a €10,000 residual value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation expense at December 31, 2011 is

a. €8,000.

b. €7,000.

c. €5,250.

d. €6,000.

Ans: C, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

 13. A company purchased office equipment for $40,000 and estimated a residual value of $8,000 at the end of its 5-year useful life. The constant percentage to be applied against book value each year if the double-declining-balance method is used is

a. 20%.

b. 25%.

c. 40%.

d. 4%.

Ans: C, SO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

 14. A factory machine was purchased for $90,000 on January 1, 2011. It was estimated that it would have a $18,000 residual value at the end of its 5-year useful life. It was also estimated that the machine would be run 40,000 hours in the 5 years. The company ran the machine for 4,000 actual hours in 2011. If the company uses the units-of-activity method of depreciation, the amount of depreciation expense for 2011 would be

a. $9,000.

b. $14,400.

c. $18,000.

d. $7,200.

Ans: D, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 15. The depreciation method that applies a constant percentage to depreciable cost in calculating depreciation is

a. straight-line.

b. units-of-activity.

c. declining-balance.

d. none of these.

Ans: A, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

 16. On October 1, 2011, Holt Company places a new asset into service. The cost of the asset is $80,000 with an estimated 5-year life and $20,000 residual value at the end of its useful life. What is the book value of the plant asset on the December 31, 2011, statement of financial position assuming that Holt Company uses the double-declining-balance method of depreciation?

a. $52,000

b. $60,000

c. $72,000

d. $76,000

Ans: C, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 17. Units-of-activity is an appropriate depreciation method to use when

a. it is impossible to determine the productivity of the asset.

b. the asset's use will be constant over its useful life.

c. the productivity of the asset varies significantly from one period to another.

d. the company is a manufacturing company.

Ans: C, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

 18. Farr Company purchased a new van for floral deliveries on January 1, 2011. The van cost €40,000 with an estimated life of 5 years and €10,000 residual value at the end of its useful life. The double-declining-balance method of depreciation will be used. What is the balance of the Accumulated Depreciation account at the end of 2012?

a. €6,400

b. €19,200

c. €25,600

d. €9,600

Ans: C, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 19. A plant asset was purchased on January 1 for $60,000 with an estimated residual value of $10,000 at the end of its useful life. The current year's Depreciation Expense is $5,000 calculated on the straight-line basis and the balance of the Accumulated Depreciation account at the end of the year is $30,000. The remaining useful life of the plant asset is

a. 10 years.

b. 8 years.

c. 6 years.

d. 4 years.

Ans: D, SO: 3, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

 20. Sargent Corporation bought equipment on January 1, 2011. The equipment cost €180,000 and had an expected residual value of €30,000. The life of the equipment was estimated to be 6 years. The book value of the equipment at the beginning of the third year would be

a. €180,000.

b. €150,000.

c. €130,000.

d. €50,000.

Ans: C, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 21. On January 1, a machine with a useful life of five years and a residual value of $25,000 was purchased for $75,000. What is the depreciation expense for year 2 under the double-declining-balance method of depreciation?

a. $18,000

b. $30,000

c. $24,000

d. $14,400

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 22. A machine with a cost of $160,000 has an estimated residual value of $10,000 and an estimated useful life of 5 years or 15,000 hours. It is to be depreciated using the units-of-activity method of depreciation. What is the amount of depreciation for the second full year, during which the machine was used 5,000 hours?

a. $50,000

b. $30,000

c. $43,333

d. $53,333

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

 23. Salem Company hired Kirk Construction to construct an office building for ₤8,000,000 on land costing ₤2,000,000, which Salem Company owned. The building was complete and ready to be used on January 1, 2011 and it has a useful life of 40 years. The price of the building included land improvements costing ₤600,000 and personal property costing ₤750,000. The useful lives of the land improvements and the personal property are 10 years and 5 years, respectively. Salem Company uses component depreciation, and the company uses straight-line depreciation for other similar assets. What total amount of depreciation expense would Salem Company report on its income statement for the year ended December 31, 2011?

a. ₤335,000

b. ₤200,000

c. ₤426,250

d. ₤376,250

Ans: D, SO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 24. Nicholson Company purchased equipment on January 1, 2010, for €20,000 with an estimated residual value of €5,000 and estimated useful life of 8 years. On January 1, 2012, Nicholson decided the equipment will last 12 years from the date of purchase. The residual value is still estimated at €5,000. Using the straight-line method the new annual depreciation will be:

a. €1,125.

b. €1,250.

c. €1,500.

d. €1,667.

Ans: A, SO: 4, Bloom: AP, Difficulty: Hard, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 25. Enos Company has decided to change the estimate of the useful life of an asset that has been in service for 2 years. Which of the following statements describes the proper way to revise a useful life estimate?

a. Revisions in useful life are permitted if approved by the taxing authority.

b. Retroactive changes must be made to correct previously recorded depreciation.

c. Only future years will be affected by the revision.

d. Both current and future years will be affected by the revision.

Ans: D, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

 26. Additions and improvements

a. occur frequently during the ownership of a plant asset.

b. normally involve immaterial expenditures.

c. increase the book value of plant assets when incurred.

d. typically only benefit the current accounting period.

Ans: C, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

 27. Mento,Inc. spent $3,000,000 during 2011 to repair and update its plant assets. Mento spent $1,200,000 to paint the building, $230,000 to place worn-out gears on motors, $640,000 to install special shelving that will increase operating efficiency in the plant, and $930,000 on new machinery. What amount of these costs would appear as assets on Mento, Inc.'s December 31, 2011 statement of financial position?

a. $3,000,000

b. $1,570,000

c. $1,430,000

d. $2,770,000

Ans: B, SO: 5, Bloom: AP, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

 Feedback: The costs to increase the operating efficiency of the plant or to purchase new assets are reported on the statement of financial position. The remainder of the costs, ordinary repairs and maintenance, will be reported as expenses on the income statement for the year. In this case the shelving and the new machinery are reported on the statement of financial position, $640,000 + 930,000 = $1,570,000.

 28. A company sells a plant asset which originally cost ¥210,000 for ¥70,000 on December 31, 2011. The Accumulated Depreciation account had a balance of ¥84,000 after the current year's depreciation of ¥21,000 had been recorded. The company should recognize a

a. ¥140,000 loss on disposal.

b. ¥56,000 gain on disposal.

c. ¥56,000 loss on disposal.

d. ¥35,000 loss on disposal.

Ans: C, SO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

 29. Which of the following statements is not true when a fully depreciated plant asset is retired?

a. The plant asset's book value is equal to its estimated residual value.

b. The accumulated depreciation account is debited.

c. The asset account is credited.

d. The plant asset's original cost equals its book value.

Ans: D, SO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 30. A truck costing $132,000 was destroyed when its engine caught fire. At the date of the fire, the accumulated depreciation on the truck was $60,000. An insurance check for $150,000 was received based on the replacement cost of the truck. The entry to record the insurance proceeds and the disposition of the truck will include a

a. Gain on Disposal of $18,000.

b. credit to the Truck account of $72,000.

c. credit to the Accumulated Depreciation account for $60,000.

d. Gain on Disposal of $78,000.

Ans: D, SO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

 31. Natural resources are

a. depreciated using the units-of-activity method.

b. resources extracted from the ground.

c. reported at their fair value.

d. amortized over a period no longer than 40 years.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 32. If a mining company extracts 2,000,000 tons in a period but only sells 1,600,000 tons,

a. total depletion on the mine is based on the 1,600,000 tons.

b. depletion expense is recognized on the 2,000,000 tons extracted.

c. depletion expense is recognized on the 1,600,000 tons extracted and sold.

d. a separate accumulated depletion account is set up to record depletion on the 400,000 tons extracted but not sold.

Ans: C, SO: 7, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

 33. Research and development costs

a. Are expenditures that may lead to patents, copyrights, and new products.

b. Development costs incurred after technological feasibility has been achieved are capitalized and reported on the statement of financial position as an intangible asset.

c. Costs incurred in the research phase are always expenses as incurred.

d. All of the choices are correct regarding research and development costs.

Ans: D, SO: 8, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 34. Intangible assets are the rights and privileges that result from ownership of long-lived assets that

a. must be generated internally.

b. are depletable natural resources.

c. have been exchanged at a gain.

d. do not possess physical substance.

Ans: D, SO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

 35. Allocating the cost of an intangible asset is referred to as

a. amortization.

b. depletion.

c. accretion.

d. capitalization.

Ans: A, SO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

 36. A computer company has ¥2,000,000 in research costs. Before accounting for these costs, the net income of the company is ¥1,600,000. What is the amount of net income or loss after these research costs are accounted for?

a. ¥400,000 loss

b. ¥1,600,000 net income

c. ¥0

d. Cannot be determined from the information provided.

Ans: A, SO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

##### Short Answer

##### Q1

DeLong Corporation purchased land adjacent to its plant to improve access for trucks making deliveries. Expenditures incurred in purchasing the land were as follows: purchase price, €65,000; broker’s fees, €6,000; title search and other fees, €5,000; demolition of an old building on the property, €5,700; grading, €1,200; digging foundation for the road, €3,000; laying and paving driveway, €25,000; lighting €7,500; signs, €1,500. List the items and amounts that should be included in the Land account.

Ans: N/A, SO: 1, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

##### Solution 1 (3 min.)

Purchase price €65,000

Broker’s fees 6,000

Title search and other fees 5,000

Demolition of old building 5,700

Grading 1,200

Land acquisition cost €82,900

##### Q2

Hadicke Company purchased a delivery truck for $40,000 on January 1, 2011. The truck was assigned an estimated useful life of 5 years and has a residual value of $10,000. Compute depreciation expense using the double-declining-balance method for the years 2011 and 2012.

Ans: N/A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

##### Solution 2 (4 min.)

Double the straight-line rate: 1 ÷ 5 = 20%; 20% × 2 = 40%

2011: Book value ($40,000) × 40% = $16,000 depreciation expense

2012: Book value ($40,000 – $16,000) × 40% = $9,600 depreciation expense

##### Q3

Hadicke Company purchased a delivery truck for $35,000 on January 1, 2011. The truck was assigned an estimated useful life of 100,000 miles and has a residual value of $10,000. The truck was driven 18,000 miles in 2011 and 22,000 miles in 2012. Compute depreciation expense using the units-of-activity method for the years 2011 and 2012.

Ans: N/A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

##### Solution 3 (4 min.)

Depreciation expense per mile: ($35,000 – $10,000) ÷ 100,000 miles = $.25 per mile

Depreciation expense for 2011: 18,000 miles ($.25 per mile) = $4,500

Depreciation expense for 2012: 22,000 miles ($.25 per mile) = $5,500

##### Q4

Karnes Company purchased a truck for $38,000. The company expected the truck to last four years or 100,000 miles, with an estimated residual value of $4,000 at the end of that time. During the second year the truck was driven 27,000 miles. Compute the depreciation for the second year under each of the methods below and place your answers in the blanks provided.

Units-of-activity $

Double-declining-balance $

Ans: N/A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

##### Solution 4 (6 min.)

Units-of-activity $9,180

[($38,000 – $4,000) ÷ 100,000] × 27,000 = $9,180

Double-declining-balance $9,500

year 1— [$38,000 × (1 ÷ 4 × 2)] = $19,000

year 2— [($38,000 – $19,000) × (1 ÷ 4 × 2)] = $9,500

##### Q5

Guardado Company purchased a new machine for $400,000. It is estimated that the machine will have a $40,000 residual value at the end of its 5-year useful service life. The double-declining-balance method of depreciation will be used.

**Instructions**

Prepare a depreciation schedule which shows the annual depreciation expense on the machine for its 5-year life.

Ans: N/A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

##### Solution 5 (10 min.)

Declining-balance rate = 2 ÷ 5 = 40%

 Book Value Annual End of Year

 Beginning Depreciation Depreciation Accumulated Book Value

 Year of Year × Rate = Expense Depreciation End of Year

 1 $400,000 × 40% $160,000 $160,000 $240,000

 2 240,000 × 40% 96,000 256,000 144,000

 3 144,000 × 40% 57,600 313,600 86,400

 4 86,400 × 40% 34,560 348,160 51,840

 5 51,840 × 40% 11,840\* 360,000 40,000

\*Adjusted to $11,840 because ending book value should not be less than expected residual value.

##### Q6

Presented below are selected transactions for Corbin Company for 2011.

Jan. 1 Received $9,000 scrap value on retirement of machinery that was purchased on January 1, 2000. The machine cost $90,000 on that date, and had a useful life of 10 years with no residual value.

April 30 Sold a machine for $28,000 that was purchased on January 1, 2008. The machine cost $75,000, and had a useful life of 5 years with no residual value.

Dec. 31 Discarded a business automobile that was purchased on April 1, 2007. The car cost $32,000 and was depreciated on a 5-year useful life with a residual value of $2,000.

**Instructions**

Journalize all entries required as a result of the above transactions. Corbin Company uses the straight-line method of depreciation and has recorded depreciation through December 31, 2010.

Ans: N/A, SO: 6, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

##### Solution 6 (15 min.)

Jan. 1 Cash 9,000

 Accumulated Depreciation—Machinery 90,000

 Machinery 90,000

 Gain on Disposal 9,000

April 30 Depreciation Expense 5,000

 Accumulated Depreciation—Machinery 5,000

 ($75,000 × 1/5 × 4/12 = $5,000)

 Cash 28,000

 Accumulated Depreciation—Machinery ($15,000 × 3 1/3) 50,000

 Machine 75,000

 Gain on Disposal ($28,000 – $25,000) 3,000

Dec. 31 Depreciation Expense 6,000

 Accumulated Depreciation—Auto 6,000

 Accumulated Depreciation—Auto ($6,000 × 4 3/4) 28,500

 Loss on Disposal 3,500

 Automobile 32,000