Cost of Land

BE9.1 (LO 1), AP These expenditures were incurred by Dobbin Company in purchasing land: cash price $60,000, assumed accrued taxes $5,000, attorney’s fees $2,100, real estate broker’s commission $3,300, and clearing and grading $3,500. What is the cost of the land?

Cost of Land

E9.3 (LO 1), AP On March 1, 2022, Boyd Company acquired real estate, on which it planned to construct a small office building, by paying $80,000 in cash. An old warehouse on the property was demolished at a cost of $8,200; the salvaged materials were sold for $1,700. Additional expenditures before construction began included $1,900 attorney’s fee for work concerning the land purchase, $5,200 real estate broker’s fee, $9,100 architect’s fee, and $14,000 to put in driveways and a parking lot.

Instructions

a. Determine the amount to be reported as the cost of the land.

b. For each cost not used in part (a), indicate the account to be debited.

Cost of Assets

BE9.2 (LO 1), AP Thoms Company incurs these expenditures in purchasing a truck: cash price $24,000, accident insurance (during use) $2,000, sales taxes $1,080, motor vehicle license $300, and painting and lettering $1,700. What is the cost of the truck?

Cost of Assets

BE9.3 (LO 1), AP Krieg Company had the following two transactions related to its delivery truck.

Prepare entries for delivery truck costs.

1. Paid $38 for an oil change.

2. Paid $400 to install special shelving units, which increase the operating efficiency of the truck.

Prepare Krieg’s journal entries to record these two transactions.

Cost of Assets

E9.1 (LO 1), C The following expenditures relating to plant assets were made by Glenn Company during the first 2 months of 2022.

1. Paid $7,000 of accrued taxes at the time the plant site was acquired.

2. Paid $200 insurance to cover a possible accident loss on new factory machinery while the machinery was in transit.

3. Paid $850 sales taxes on a new delivery truck.

4. Paid $21,000 for parking lots and driveways on the new plant site.

5. Paid $250 to have the company name and slogan painted on the new delivery truck.

6. Paid $8,000 for installation of new factory machinery.

7. Paid $900 for a 2-year accident insurance policy on the new delivery truck.

8. Paid $75 motor vehicle license fee on the new truck.

a. Explain the application of the historical cost principle in determining the acquisition cost of plant assets.

b. List the numbers of the transactions, and opposite each indicate the account title to which each expenditure should be debited.

Cost of Assets

E9.2 (LO 1), C Adama Company incurred the following costs

1. Sales tax on factory machinery purchased    $  5,000

2. Painting of and lettering on truck immediately upon purchase 700

3. Installation and testing of factory machinery 2,000

4. Real estate broker’s commission on land purchased 3,500

5. Insurance premium paid for first year’s insurance on new truck 880

6. Cost of landscaping on property purchased 7,200

7. Cost of paving parking lot for new building constructed 17,900

8. Cost of clearing, draining, and filling land 13,300

9. Architect’s fees on self-constructed building 10,000

Indicate to which account Adama would debit each of the costs.

Depreciation

BE9.4 (LO 2), AP Gordon Chemicals Company acquires a delivery truck at a cost of $31,000 on January 1, 2022. The truck is expected to have a salvage value of $4,000 at the end of its 4-year useful life. Compute annual depreciation for the first and second years using the straight-line method.

Depreciation

E9.6 (LO 2), AP Linton Company purchased a delivery truck for $34,000 on July 1, 2022. The truck has an expected salvage value of $2,000, and is expected to be driven 100,000 miles over its estimated useful life of 8 years. Actual miles driven were 15,000 in 2022 and 12,000 in 2023. Linton uses the straight-line method of depreciation.

Compute depreciation using the straight-line method.

Instructions

a. Compute depreciation expense for 2022 and 2023.

b. Prepare the journal entry to record 2022 depreciation.

c. Prepare the journal entry to record 2023 depreciation.

d. Show how the truck would be reported in the December 31, 2023, balance sheet.

Depreciation

E9.5 (LO 2), AP Gotham Company purchased a new machine on October 1, 2022, at a cost of $90,000. The company estimated that the machine has a salvage value of $8,100. The machine is expected to be used for 70,000 working hours during its 10-year life.

Instructions

Compute the depreciation expense under the straight-line method for 2022 and 2023, assuming a December 31 year-end.

Depreciation

\*BE9.13 (LO 6), AP Depreciation information for Gordon Chemicals Company is given in BE9.4. Assuming the declining-balance depreciation rate is double the straight-line rate, compute annual depreciation for the first and second years under the declining-balance method.

Depreciation

\*BE9.14 (LO 6), AP Kwik Taxi Service uses the units-of-activity method in computing depreciation on its taxicabs. Each cab is expected to be driven 150,000 miles. Taxi 10 cost $27,500 and is expected to have a salvage value of $500. Taxi 10 was driven 32,000 miles in 2021 and 33,000 miles in 2022. Compute the depreciation for each year.

Depreciation

\*E9.24 (LO 6), AP Basic information relating to a new machine purchased by Gotham Company purchased a new machine on October 1, 2022, at a cost of $90,000. The company estimated that the machine has a salvage value of $8,100. The machine is expected to be used for 70,000 working hours during its 10-year life.

Compute declining-balance and units-of-activity depreciation.

Instructions

a. Declining-balance using double the straight-line rate for 2022 and 2023.

b. Units-of-activity for 2022, assuming machine usage was 500 hours. (Round depreciation per unit to the nearest cent.)

Revised Depreciation

BE9.6 (LO 2), AP On January 1, 2022, the Hermann Company general ledger shows Equipment $36,000 and Accumulated Depreciation $13,600. The depreciation resulted from using the straight-line method with a useful life of 10 years and a salvage value of $2,000. On this date, the company concludes that the equipment has a remaining useful life of only 2 years with the same salvage value. Compute the revised annual depreciation.

Revised Depreciation

BE9.6 (LO 2), AP On January 1, 2022, the Hermann Company general ledger shows Equipment $36,000 and Accumulated Depreciation $13,600. The depreciation resulted from using the straight-line method with a useful life of 10 years and a salvage value of $2,000. On this date, the company concludes that the equipment has a remaining useful life of only 2 years with the same salvage value. Compute the revised annual depreciation.

Revised Depreciation

E9.7 (LO 2), AN Victor Mineli, the new controller of Santorini Company, has reviewed the expected useful lives and salvage values of selected depreciable assets at the beginning of 2022. Here are his findings:

Compute revised annual depreciation.



All assets are depreciated by the straight-line method. Santorini Company uses a calendar year in preparing annual financial statements. After discussion, management has agreed to accept Victor’s proposed changes. (The “Proposed” useful life is total life, not remaining life.)

Instructions

a. Compute the revised annual depreciation on each asset in 2022. (Show computations.)

b. Prepare the entry (or entries) to record depreciation on the building in 2022.

Revised Depreciation

E9.8 (LO 2), AP On July 1, 2019, April Company purchased new equipment for $80,000. Its estimated useful life was 7 years with a $10,000 salvage value. On December 31, 2022, the company estimated that the equipment’s remaining useful life was 10 years, with a revised salvage value of $5,000.

Instructions

a. Prepare the journal entry to record depreciation on December 31, 2019.

b. Prepare the journal entry to record depreciation on December 31, 2020.

c. Compute the revised annual depreciation on December 31, 2022.

d. Prepare the journal entry to record depreciation on December 31, 2022.

e. Compute the balance in Accumulated Depreciation—Equipment for this equipment after depreciation expense has been recorded on December 31, 2022.

Asset Disposals and Sales

BE9.7 (LO 3), AP Prepare journal entries to record these transactions. (a) Echo Company retires its delivery equipment, which cost $41,000. Accumulated depreciation is also $41,000 on this delivery equipment. No salvage value is received. (b) Assume the same information as in part (a), except that accumulated depreciation for the equipment is $37,200 instead of $41,000.

Asset Disposals and Sales

BE9.8 (LO 3), AP Antone Company sells office equipment on July 31, 2022, for $21,000 cash. The office equipment originally cost $72,000 and as of January 1, 2022, had accumulated depreciation of $42,000. Depreciation for the first 7 months of 2022 is $4,600. Prepare the journal entries to (a) update depreciation to July 31, 2022, and (b) record the sale of the equipment.

Asset Disposals and Sales

BE9.7 (LO 3), AP Prepare journal entries to record these transactions. (a) Echo Company retires its delivery equipment, which cost $41,000. Accumulated depreciation is also $41,000 on this delivery equipment. No salvage value is received. (b) Assume the same information as in part (a), except that accumulated depreciation for the equipment is $37,200 instead of $41,000.

Asset Disposals and Sales

BE9.8 (LO 3), AP Antone Company sells office equipment on July 31, 2022, for $21,000 cash. The office equipment originally cost $72,000 and as of January 1, 2022, had accumulated depreciation of $42,000. Depreciation for the first 7 months of 2022 is $4,600. Prepare the journal entries to (a) update depreciation to July 31, 2022, and (b) record the sale of the equipment.

Asset Disposals and Sales

E9.9 (LO 3), AP Thieu Co. has delivery equipment that cost $50,000 and has been depreciated $24,000.

Journalize transactions related to disposals of plant assets.

Instructions

Record entries for the disposal under the following assumptions.

a. It was scrapped as having no value.

b. It was sold for $37,000.

c. It was sold for $20,000.

Asset Disposals and Sales

E9.10 (LO 3), AP Here are selected 2022 transactions of Akron Corporation.

Jan. 1

Retired a piece of machinery that was purchased on January 1, 2012. The machine cost $62,000 and had a useful life of 10 years with no salvage value.

June 30

Sold a computer that was purchased on January 1, 2020. The computer cost $36,000 and had a useful life of 3 years with no salvage value. The computer was sold for $5,000 cash.

Dec. 31

Sold a delivery truck for $9,000 cash. The truck cost $25,000 when it was purchased on January 1, 2019, and was depreciated based on a 5-year useful life with a $4,000 salvage value.

Journalize all entries required on the above dates, including entries to update depreciation on assets disposed of, where applicable. Akron Corporation uses straight-line depreciation.

Asset Disposals and Sales

E9.11 (LO 3), AP Pryce Company owns equipment that cost $65,000 when purchased on January 1, 2019. It has been depreciated using the straight-line method based on an estimated salvage value of $5,000 and an estimated useful life of 5 years.

Instructions

Prepare Pryce Company’s journal entries to record the sale of the equipment in these four independent situations.

a. Sold for $31,000 on January 1, 2022.

b. Sold for $31,000 on May 1, 2022.

c. Sold for $11,000 on January 1, 2022.

d. Sold for $11,000 on October 1, 2022.