

ACCT 101 - Chapter 8

I. Fixed Assets – long-term, relatively permanent assets.

A. Cost of acquiring

II. Depreciation

A. Information needed

- 1.
- 2.
- 3.

The equipment was purchased on January 2, 2024.

B. Methods of Depreciation

1. Straight-line

| Date | Cost | Accumulated Depreciation | Book Value | Depreciation Expense |
|------|------|--------------------------|------------|----------------------|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

2. Units-of-Production

| Date | Cost | Accumulated Depreciation | Book Value | Depreciation Expense |
|------|------|--------------------------|------------|----------------------|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

3. Declining Balance

a. Double-Declining Balance

| | Cost | BV at the end of the previous year | Accumulated Depreciation | Book Value | Depreciation Expense |
|--|------|------------------------------------|--------------------------|------------|----------------------|
| | | | | | |
| | | | | | |
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4. Partial year depreciation – when an asset is purchased at a time other than the beginning of the year, the depreciation expense in the year the asset is acquired must be pro-rated for only those months that the assets was owned and used.

Assume the same facts as above, however, the equipment was purchased on May 31, 2024.

Straight Line -

Double Declining Balance -

- III. Revised depreciation – when calculating depreciation, the useful life and the residual value are both estimates. During the life of the asset either of these amounts can be changed if a more accurate estimate is determined.

When an estimate is changed, only the future depreciation expense will be effected; do not recalculate prior year depreciation expense.

Assume that for the truck purchased above was being depreciated using straight line depreciation. At the end of the second year of use the remaining useful life was increased by 3 years.

- IV. Capital vs. Revenue Expenditures

1. Revenue Expenditures

2. Capital Expenditures

- a. Betterment

- b. Extraordinary repair

V. Disposal of Fixed Assets

A. Discarding

| | DATE | DESCRIPTION | POST REF | DEBIT | CREDIT | |
|---|------|-------------|----------|-------|--------|---|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |

B. Selling

1. Loss

| | DATE | DESCRIPTION | POST REF | DEBIT | CREDIT | |
|---|------|-------------|----------|-------|--------|---|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |

2. Gain

| | DATE | DESCRIPTION | POST REF | DEBIT | CREDIT | |
|---|------|-------------|-------------|-------|--------|---|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |

VI. Natural Resources

A. Depletion

| | DATE | DESCRIPTION | POST REF | DEBIT | CREDIT | |
|---|------|-------------|-------------|-------|--------|---|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |

VII. Intangible Assets

A. Amortization

- B. Patents
- C. Copyrights
- D. Franchises and Licenses
- E. Trademarks or Trade Names
- F. Goodwill
- G. Other

EXHIBIT 3

Costs of Acquiring Fixed Assets

Building

- Architects' fees
- Engineers' fees
- Insurance costs incurred during construction
- Interest on money borrowed to finance construction
- Walkways to and around the building
- Sales taxes
- Repairs (purchase of existing building)
- Reconditioning (purchase of existing building)
- Modifying for use
- Permits from government agencies

Machinery & Equipment

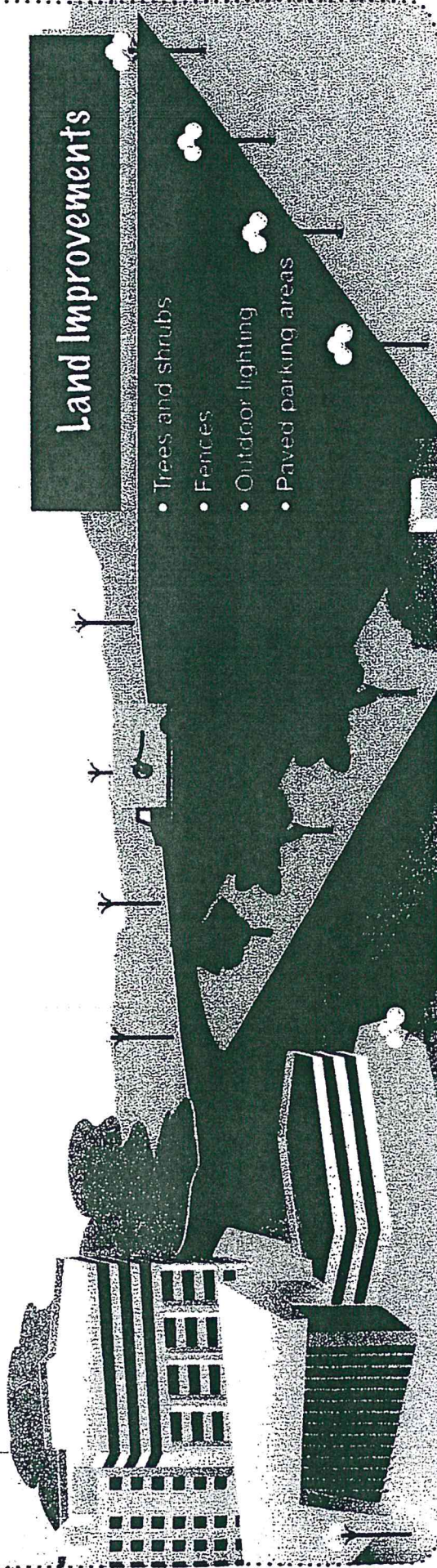
- Sales taxes
- Freight
- Installation
- Repairs (purchase of used equipment)
- Reconditioning (purchase of used equipment)
- Insurance while in transit
- Assembly
- Modifying for use
- Testing for use
- Permits from government agencies

Land

- Purchase price
- Sales taxes
- Permits from government agencies
- Broker's commissions
- Title fees
- Surveying fees
- Delinquent real estate taxes
- Razing or removing unwanted buildings, less any salvage
- Grading and leveling
- Paving a public street bordering the land

Land Improvements

- Trees and shrubs
- Fences
- Outdoor lighting
- Paved parking areas



Fixed Asset Transactions

1. Equipment acquired on January 3, 2020, at a cost of \$360,000, has an estimated useful life of 12 years, has an estimated residual value of \$30,000, and is depreciated by the straight-line method.
 - a. What is the book value of the equipment on December 31, 2020?
 - b. Assuming that the equipment was sold on April 1, 2024, for \$220,000, \$20,000 cash and the rest in a note. Journalize the entries to record (1) the depreciation to April 1, 2024, and (2) the sale of the equipment.

| | DATE | DESCRIPTION | PR | DEBIT | CREDIT | |
|----|------|-------------|----|-------|--------|----|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |
| 7 | | | | | | 7 |
| 8 | | | | | | 8 |
| 9 | | | | | | 9 |
| 10 | | | | | | 10 |
| 11 | | | | | | 11 |

2. Equipment acquired on May 30, 2020, at a cost of \$147,484, has an estimated useful life of eight years and an estimated residual value of \$17,500. The equipment is being depreciated using the straight-line method.
 - a. What is the book value of the equipment on December 31, 2024?
 - b. Assuming the equipment was sold on January 2, 2025, for \$85,000, journalize the entry to record the sale.
 - c. Assuming the equipment was sold on August 2, 2025, for \$92,000, \$12,000 was paid in cash and a note was accepted for the balance. Journalize the entry.

| | DATE | DESCRIPTION | PR | DEBIT | CREDIT | |
|----|------|-------------|----|-------|--------|----|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |
| 7 | | | | | | 7 |
| 8 | | | | | | 8 |
| 9 | | | | | | 9 |
| 10 | | | | | | 10 |
| 11 | | | | | | 11 |
| 12 | | | | | | 12 |

3. Assume the same facts as in #2 above, but instead of selling the asset, on January 2, 2025, the useful life was increased by 2 years and the residual value was decreased to \$8,000. What is the new annual depreciation expense?

4. Assume the same facts as in #1 above. What is the depreciation expense for the first 3 years using the double declining balance method?

5. Assuming the same facts as #1 above. The total useful life of is estimated to be 1,200,000 units, what is the depreciation expense using units of production if the actual units used are: 2020 - 89,000 units; 2021 - 103,600 units; 2022 - 100,250 units.