

Fixed Asset Transactions

1. Equipment acquired on January 3, 2014, 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, 2014? **\$332,500**
 - a. Assuming that the equipment was sold on April 1, 2018, for \$220,000, \$20,000 cash and the rest in a note. Journalize the entries to record (1) the depreciation to April 1, 2018, and (2) the sale of the equipment.

	DATE		DESCRIPTION	PR	DEBIT	CREDIT	
1	2018						1
2	Apr	1	Depreciation Expense		6,875		2
3			Accumulated Depreciation			6,875	3
4							4
5		1	Accumulated Depreciation		116,875		5
6			Cash		20,000		6
7			Note Receivable		200,000		7
8			Loss on sale of equipment		23,125		8
9			Equipment			360,000	9
10							10

2. Equipment acquired on May 30, 2014, 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, 2018? **\$73,014**
 - b. Assuming the equipment was sold on January 2, 2019, for \$85,000, journalize the entry to record the sale.
 - c. Assuming the equipment was sold on August 2, 2019, 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	2019						1
2	Jan	2	Accumulated Depreciation		74,470		2
3			Cash		85,000		3
4			Equipment			147,484	4
5			Gain on sale of Equipment			11,986	5
6							6
7							7
8		2	Accumulated Depreciation		83,948		8
9			Cash		12,000		9
10			Note Receivable		80,000		10
11			Equipment			147,484	11
12			Gain on sale of Equipment			28,464	12

3. Assume the same facts as in #2 above, but instead of selling the asset, on January 2, 2019, the useful life was increased by 2 years and the residual value was decreased to \$8,000. What is the new annual depreciation expense?

$$\frac{73,014 - 8,000}{65^*} = 1,000 \text{ per month} \times 12 = 12,000 \text{ per year}$$

Hint: as the first year was a partial year, use months for the useful life.

* Original useful life	96 months
Months used to 1/2/19	-55 months
Life remaining	41 months
Increased by 2 yrs	+24 months
New useful life	65 months

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?

Year	Cost	BV at end of prev. year	Accum. Deprec.	Book Value	Expense
2014	360,000	360,000 * 1/6	60,000	300,000	60,000
2015	360,000	300,000 * 1/6	110,000	250,000	50,000
2016	360,000	250,000 * 1/6	151,667	208,333	41,667

5. Assuming the total useful life of 1,200,000 units, what is the depreciation expense using units of production if the actual units used are: 2014 - 89,000 units; 2015 - 103,600 units; 2016 - 100,250 units.

For #1: $\frac{360,000 - 30,000}{1,200,000} = .275$ rounded to .28/unit

2014: 89,000 * .28 = 24,920
 2015: 103,600 * .28 = 29,008
 2016: 100,250 * .28 = 28,070

For #2: $\frac{147,484 - 17,500}{1,200,000} = .10832$ rounded to .11/unit

2014: 89,000 * .11 = 9,790
 2015: 103,600 * .11 = 11,396
 2016: 100,250 * .11 = 11,028