

Exercises

XACC/291 Principles of Accounting II

## Exercises

## E9-1 – Bel Air Company

A. According to the cost principle, the assets must be recorded at the cost at which they were acquired. If plan assets increases in the fair market value, their book value will remain consistent. Companies must calculate total depreciation of all assets and move it over the useful life of the asset.

B.

Paid \$5,000 of accrued taxes at time plant site was acquired.	\$5,000	Land
Paid \$200 insurance to cover possible accident loss on new factory machinery while the machinery was in transit.	\$200	Equipment
Paid \$850 sales taxes on new delivery truck.	\$850	Delivery Truck
Paid \$17,500 for parking lots and driveways on new plant site.	\$17,500	Land Improvements
Paid \$250 to have company name and advertising slogan painted on a new delivery truck.	\$250	Delivery Truck
Paid \$8,000 for installation of new factory machinery.	\$8,000	Equipment
Paid \$900 for one-year accident insurance policy on new delivery truck.	\$900	Prepaid Insurance
Paid \$75 motor vehicle license fee on the new truck.	\$75	License Expenditure

**E9-7****(A)**

Straight-line method

Cost (-)	Salvage Value (=)	Depreciation Cost
\$30,000.00	\$2,000.00	\$28,000.00
Depreciation Cost (/)	Useful Life (=)	Annual depreciation expense
\$28,000.00	8	\$3,500.00
<b>2011 = \$26,500</b>		<b>2012 = \$23,000</b>

The units-of-activity- method

Depreciation cost	Total Units of activity	Depreciation cost per unit
\$28,000.00	100,000	\$0.28
Depreciable cost per unit	Units of activity during the year	Annual depreciation expense
\$0.28	15,000	\$4,200.00
<b>2011 = 25,800</b>		<b>2012 = 21,600</b>

The double-declining method

Book Value at Beginning of Year	Declining Balance rate	Annual Depreciation Expense
\$30,000.00	25.00%	\$7,500.00
<b>2011 = 22,500</b>		<b>2012 = 16,875</b>