

# Depreciation Practice

Student: \_\_\_\_\_

1. Modern Products Company purchased new packaging equipment for \$245,000 on January 1, 2016. The equipment is expected to be used for 6 years, or 60,000 operating hours. It has an estimated salvage value of \$5,000. The equipment was used for 10,000 hours in 2016, 15,000 hours in 2017, and 12,000 hours in 2018.

Compute annual depreciation expense for the first three years, using the straight-line method, the double-declining balance method, and the units of output method.

	<b>Straight-Line</b>	<b>Double-Declining Balance</b>	<b>Units of Output</b>
	<b>Method</b>	<b>Method</b>	<b>Method</b>
<b>2016</b>			
<b>2017</b>			
<b>2018</b>			

2. Selected transactions of the Harrel Company are listed below. The company uses the straight-line method of depreciation. Record the transactions on page 9 of a general journal. Omit descriptions.

2016

- Jan. 5 Purchased office equipment at a price of \$6,000 FOB. The freight charge was \$48; the installation charge was \$200.
- April 1 Sold warehouse equipment for \$5,000 in cash. The equipment was purchased on January 3, 2007, for \$18,000. The equipment has a useful life of five years and a salvage value of \$1,000. Depreciation was last recorded on December 31, 2015.
- July 1 Sold office equipment for \$2,500 in cash. The equipment was purchased on July 3, 2013, for \$3,500. The equipment has a useful life of five years and a salvage value of \$500. Depreciation was last recorded on December 31, 2015.

2017

- Jan. 2 Traded in office equipment for new equipment that is similar. The list price of the new office equipment is \$15,000. Paid \$9,000 cash and received a trade-in allowance of \$6,000 for the old equipment. The old equipment had been purchased on January 3, 2013, for \$12,000. The old equipment had an estimated useful life of five years and a salvage value of \$2,000. Depreciation on the old equipment was last recorded on December 31, 2016. (Use the income tax method to record the trade-in.)
- Jan. 4 Traded in warehouse equipment for new equipment that is similar. The list price of the new warehouse equipment is \$26,000. Paid \$20,000 cash and received a trade-in allowance of \$6,000 for the old equipment. The old equipment had been purchased on January 4, 2013, for \$24,000. The old equipment had an estimated useful life of five years and a salvage value of \$4,000. Depreciation on the old equipment was last recorded on December 31, 2016. (Use the fair market value method to record the trade-in.)

## Depreciation Practice **Key**

	Straight-Line	Double-Declining Balance	Units of Output
	Method	Method	Method
2016			
2017			
2018			

	Straight-Line	Double-Declining Balance	Units of Output
	Method	Method	Method
2016	\$40,000	\$81,667	\$40,000
2017	\$40,000	\$54,444	\$60,000
2018	\$40,000	\$36,296	\$48,000

Feedback: SL =  $(\$245,000 - \$5,000)/6 = \$40,000$

DDB

2016 =  $(\$245,000/6) \times 2 = \$81,667$

2017 =  $((\$245,000 - \$81,667)/6) \times 2 = \$54,444$

2018 =  $((\$245,000 - (\$81,667 + \$54,444))/6) \times 2 = \$36,296$

Units of Output

2016 =  $(\$245,000 - \$5,000) \times (10,000/60,000) = \$40,000$

2017 =  $(\$245,000 - \$5,000) \times (15,000/60,000) = \$60,000$

2018 =  $(\$245,000 - \$5,000) \times (12,000/60,000) = \$48,000$

2.

GENERAL JOURNAL				
DATE	DESCRIPTION	P.R.	DEBIT	CREDIT
2016				
Jan. 5	Office Equipment		6,248	
	Cash			6,248
April 1	Depr. Exp.--Warehouse Equip.		850	
	Accum. Depr.--Ware. Equip.			850
April 1	Cash		5,000	
	Accum. Depr.--Ware. Equip.		11,050	
	Loss on Sale of Equipment		1,950	
	Warehouse Equipment			18,000
July 1	Depr. Exp.--Office Equip.		300	
	Accum. Depr.--Office Equip.			300
July 1	Cash		2,500	
	Accum. Depr.--Office Equip.		1,800	
	Office Equipment			3,500
	Gain on Sale of Equipment			800
2017				
Jan. 2	Office Equipment (new)		13,000	
	Accum. Depr.--Office Eq.(old)		8,000	
	Office Equipment (old)			12,000
	Cash			9,000
Jan. 4	Warehouse Equipment (new)		26,000	
	Accum. Depr.--Ware. Eq. (old)		16,000	
	Loss on Sale of Equipment		2,000	
	Warehouse Equipment (old)			24,000
	Cash			20,000