CHAPTER 9

Plant Assets, Natural Resources, and Intangible Assets

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1. Describe how the cost principle applies to plant assets.	1, 2, 3	1, 2	1	1, 2, 3	1A	1B
2. Explain the concept of depreciation and how to compute it.	4, 5, 6, 7, 8, 9, 10, 24, 25, 26	3, 4, 5, 6, 7, 8, 9	2, 3	4, 5, 6, 7, 8, 9, 10	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B
3. Distinguish between revenue and capital expenditures, and explain the entries for each.	11, 27	10				
4. Explain how to account for the disposal of a plant asset.	12, 13	11, 12	4	11, 12	5A, 6A	5B, 6B
5. Compute periodic depletion of extractable natural resources.	14, 15	13		13		
6. Explain the basic issues related to accounting for intangible assets.	16, 17, 18, 19, 20, 21, 22	14, 15	5	14, 15	7A, 8A	7B, 8B
7. Indicate how plant assets, natural resources, and intangible assets are reported.	23	16, 17		16	5A, 7A, 9A	5B, 7B, 9B
*8. Explain how to account for the exchange of plant assets.	28, 29	18, 19		17, 18		

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ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Determine acquisition costs of land and building.	Simple	20–30
2A	Compute depreciation under different methods.	Simple	30–40
3A	Compute depreciation under different methods.	Moderate	30–40
4A	Calculate revisions to depreciation expense.	Moderate	20–30
5A	Journalize a series of equipment transactions related to purchase, sale, retirement, and depreciation.	Moderate	40–50
6A	Record disposals.	Simple	30–40
7A	Prepare entries to record transactions related to acquisition and amortization of intangibles; prepare the intangible assets section.	Moderate	30–40
8A	Prepare entries to correct errors made in recording and amortizing intangible assets.	Moderate	30–40
9A	Calculate and comment on asset turnover ratio.	Moderate	5–10
1B	Determine acquisition costs of land and building.	Simple	20–30
2B	Compute depreciation under different methods.	Simple	30–40
3B	Compute depreciation under different methods.	Moderate	30–40
4B	Calculate revisions to depreciation expense.	Moderate	20–30
5B	Journalize a series of equipment transactions related to purchase, sale, retirement, and depreciation.	Moderate	40–50
6B	Record disposals.	Simple	30–40
7B	Prepare entries to record transactions related to acquisition and amortization of intangibles; prepare the intangible assets section.	Moderate	30–40
8B	Prepare entries to correct errors made in recording and amortizing intangible assets.	Moderate	30–40
9B	Calculate and comment on asset turnover ratio.	Moderate	5–10

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WEYGANDT FINANCIAL ACCOUNTING, IFRS EDITION, 2e
CHAPTER 9
PLANT ASSETS, NATURAL RESOURCES, AND INTANGIBLE ASSETS

Number	LO	BT	Difficulty	Time (min.)
BE1	1	AP	Simple	2–4
BE2	1	AP	Simple	1–2
BE3	2	AP	Simple	2–4
BE4	2	E	Moderate	4–6
BE5	2	AP	Simple	4–6
BE6	2	AP	Simple	2–4
BE7	2	AP	Simple	4–6
BE8	2	AP	Simple	2–4
BE9	2	AP	Simple	4–6
BE10	3	AP	Simple	4–6
BE11	4	AP	Simple	4–6
BE12	4	AP	Simple	2–4
BE13	5	AP	Simple	4–6
BE14	6	AP	Simple	2–4
BE15	6	AP	Simple	4–6
BE16	7	AP	Simple	4–6
BE17	7	AP	Simple	2–4
BE18	8	AP	Simple	4–6
BE19	8	AP	Simple	4–6
DI1	1	C	Simple	4–6
DI2	2	AP	Simple	2–4
DI3	2	AP	Simple	6–8
DI4	4	K	Simple	2–4
DI5	6	K	Simple	2–4
EX1	1	C	Simple	6–8
EX2	1	AP	Simple	4–6
EX3	1	AP	Simple	4–6
EX4	2	C	Simple	4–6
EX5	2	AP	Simple	6–8
EX6	2	AP	Simple	8–10

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PLANT ASSETS, NATURAL RESOURCES, AND INTANGIBLE ASSETS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX7	2	AP	Simple	10–12
EX8	2	AP	Simple	4–6
EX9	2	AN	Moderate	8–10
EX10	2	AP	Moderate	6–8
EX11	4	AP	Moderate	8–10
EX12	4	AP	Moderate	10–12
EX13	5	AP	Simple	6–8
EX14	6	AP	Simple	4–6
EX15	6	AP	Simple	6–8
EX16	7	AP	Simple	4–6
EX17	8	AP	Moderate	8–10
EX18	8	AP	Moderate	8–10
P1A	1	C	Simple	20–30
P2A	2	AP	Simple	30–40
P3A	2	AN	Moderate	30–40
P4A	2	AP	Moderate	20–30
P5A	2, 4, 7	AP	Moderate	40–50
P6A	4	AP	Simple	30–40
P7A	6, 7	AP	Moderate	30–40
P8A	6	AP	Moderate	30–40
P9A	7	AN	Moderate	5–10
P1B	1	C	Simple	20–30
P2B	2	AP	Simple	30–40
P3B	2	AN	Moderate	30–40
P4B	2	AP	Moderate	20–30
P5B	2, 4, 7	AP	Moderate	40–50
P6B	4	AP	Simple	30–40
P7B	6, 7	AP	Moderate	30–40
P8B	6	AP	Moderate	30–40
P9B	7	AN	Moderate	5–10
BYP1	2, 6	AN	Simple	15–20
BYP2	7	AN, E	Simple	10–15
BYP3	2	C	Simple	10–15
BYP4	2	AP, E	Moderate	20–25
BYP5	2	C	Simple	5–10
BYP6	2	E	Simple	10–15

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Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Describe how the cost principle applies to plant assets.		Q9-1 E9-1 Q9-2 P9-1A Q9-3 P9-1B DI9-1	BE9-1 E9-2 BE9-2 E9-3			
2. Explain the concept of depreciation and how to compute it.	Q9-5	Q9-4 E9-4 Q9-6 Q9-7 Q9-8 Q9-9 Q9-10 Q9-21 Q9-24 Q9-25 Q9-26	BE9-3 E9-5 P9-5A BE9-5 E9-6 P9-2B BE9-6 E9-7 P9-4B BE9-7 E9-8 P9-5B BE9-8 EX9-10 BE9-9 P9-2A DI9-2 P9-4A DI9-3	E9-9 P9-3A P9-3B		BE9-4
3. Distinguish between revenue and capital expenditures, and explain the entries for each.		Q9-11 Q9-27	BE9-10			
4. Explain how to account for the disposal of a plant asset.	Q9-12 DI9-4	Q9-13	BE9-11 E9-10 P9-5B BE9-12 P9-5A P9-6B E9-11 P9-6A EX9-12			
5. Compute periodic depletion of natural resources.	Q9-14	Q9-15	BE9-13 E9-13			
6. Explain the basic issues related to accounting for intangible assets.	Q9-20 DI9-5	Q9-16 Q9-19 Q9-17 Q9-21 Q9-18 Q9-22	BE9-14 P9-7A P9-8B BE9-15 P9-8A E9-14 P9-7B E9-15			
7. Indicate how plant assets, natural resources, and intangible assets are reported.			Q9-23 E9-16 P9-5B BE9-16 P9-5A P9-7B BE9-17 P9-7A	P9-9A P9-9B		
*8. Explain how to account for the exchange of plant assets.	Q9-28	Q9-29	BE9-18 E9-17 BE9-19 E9-18			
Broadening Your Perspective		Real-World Focus Communication	Decision-Making Across the Organization	Financial Reporting Comp. Analysis		Comp. Analysis Decision-Making Across the Organization Ethics Case

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ANSWERS TO QUESTIONS

1. For plant assets, the cost principle means that cost consists of all expenditures necessary to acquire the asset and make it ready for its intended use.

2. Examples of land improvements include driveways, parking lots, fences, and underground sprinklers.

3. (a) When only the land is to be used, all demolition and removal costs of the building less any proceeds from salvaged materials are necessary expenditures to make the land ready for its intended use.
(b) When both the land and building are to be used, necessary costs of the building include remodeling expenditures and the cost of replacing or repairing the roofs, floors, wiring, and plumbing.

4. You should explain to the president that depreciation is a process of allocating the cost of a plant asset to expense over its service (useful) life in a rational and systematic manner. Recognition of depreciation is not intended to result in the accumulation of cash for replacement of the asset.

5. (a) Residual value, also called salvage value, is the expected value of the asset at the end of its useful life.
(b) Residual value is used in determining depreciation in each of the methods except the declining-balance method.

6. (a) Useful life is expressed in years under the straight-line method and in units of activity under the units-of-activity method.
(b) The pattern of periodic depreciation expense over useful life is constant under the straight-line method and variable under the units-of-activity method.

7. The effects of the three methods on annual depreciation expense are: Straight-line—constant amount; units of activity—varying amount; declining-balance—decreasing amounts.

8. Component depreciation is a method of allocating the cost of a plant asset into separate parts based on the estimated useful lives of each component. IFRS requires an entity to use component depreciation whenever significant parts of a plant asset have significantly different useful lives.

9. A revision of depreciation is made in current and future years but not retroactively. The rationale is that continual restatement of prior periods would adversely affect confidence in the financial statements.

10. Revaluation is an accounting procedure that adjusts plant assets to fair value at the reporting date. Revaluation must be applied annually to assets that are experiencing rapid price changes.

11. Revenue expenditures are ordinary repairs made to maintain the operating efficiency and productive life of the asset. Capital expenditures are additions and improvements made to increase operating efficiency, productive capacity, or useful life of the asset. Revenue expenditures are recognized as expenses when incurred; capital expenditures are generally debited to the plant asset affected.

12. In a sale of plant assets, the book value of the asset is compared to the proceeds received from the sale. If the proceeds of the sale exceed the book value of the plant asset, a gain on disposal occurs. If the proceeds of the sale are less than the book value of the plant asset sold, a loss on disposal occurs.

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Questions Chapter 9 (Continued)

13. The plant asset and its accumulated depreciation should continue to be reported on the statement of financial position without further depreciation adjustment until the asset is retired. Reporting the asset and related accumulated depreciation on the statement of financial position informs the reader of the financial statements that the asset is still in use. However, once an asset is fully depreciated, even if it is still being used, no additional depreciation should be taken. In no situation can the accumulated depreciation on the plant asset exceed its cost.

14. Extractable natural resources consist of underground deposits of oil, gas, and minerals. These long-lived productive assets have two distinguishing characteristics: they are physically extracted in operations, and they are replaceable only by an act of nature.

15. Depletion is the allocation of the cost of natural resources to expense in a rational and systematic manner over the resource's useful life. It is computed by multiplying the depletion cost per unit by the number of units extracted and sold.

16. The terms depreciation, depletion, and amortization are all concerned with allocating the cost of an asset to expense over the periods benefited. Depreciation refers to allocating the cost of a plant asset to expense, depletion to recognizing the cost of a natural resource as expense, and amortization to allocating the cost of an intangible asset to expense.

17. The intern is not correct. The cost of an intangible asset should be amortized over that asset's useful life (the period of time when operations are benefited by use of the asset). In addition, some intangibles have indefinite lives and therefore are not amortized at all.

18. The favorable attributes which could result in goodwill include exceptional management, desirable location, good customer relations, skilled employees, high-quality products, and harmonious relations with labor unions.

19. Goodwill is the value of many favorable attributes that are intertwined in the business enterprise. Goodwill can be identified only with the business as a whole and, unlike other assets, cannot be sold separately. Goodwill can only be sold if the entire business is sold. And, if goodwill appears on the statement of financial position, it means the company has purchased another company for more than the fair value of its net assets.

20. Goodwill is recorded only when there is a transaction that involves the purchase of an entire business. Goodwill is the excess of cost over the fair value of the net assets (assets less liabilities) acquired. The recognition of goodwill without an exchange transaction would lead to subjective valuations which would reduce the reliability of financial statements.

21. Research and development costs present several accounting problems. It is sometimes difficult to assign the costs to specific projects, and there are uncertainties in identifying the extent and timing of future benefits. As a result, IFRS requires that research costs be recorded as an expense when incurred. Development costs incurred prior to technological feasibility are also expensed but development costs incurred after technological feasibility are capitalized.

Questions Chapter 9 (Continued)

22. Both types of development expenditures relate to the creation of new products but one is expensed and the other is capitalized. Development costs incurred before a new product achieves technological feasibility are recorded as development expenses and appear as part of operating expenses on the income statement. Development costs incurred after the product achieves technological feasibility are recorded as assets, and reported in the statement of financial position.

23. McDonald's asset turnover ratio is computed as follows:

$$\frac{\text{Net sales}}{\text{Average total assets}} = \frac{\$20.5 \text{ billion}}{\$28.9 \text{ billion}} = .71 \text{ times}$$

24. Since Alpha uses the straight-line depreciation method, its depreciation expense will be lower in the early years of an asset's useful life as compared to using an accelerated method. Zito's depreciation expense in the early years of an asset's useful life will be higher as compared to the straight-line method. Alpha's net income will be higher than Zito's in the first few years of the asset's useful life. And, the reverse will be true late in an asset's useful life.

25. Yes, the tax regulations often allow a company to use a different depreciation method on the tax return than is used in preparing financial statements. Wanzo Corporation uses an accelerated depreciation method for tax purposes to minimize its income taxes and thereby the cash outflow for taxes.

26. By selecting a longer estimated useful life, Lam Corp. is spreading the plant asset's cost over a longer period of time. The depreciation expense reported in each period is lower and net income is higher. Shuey's choice of a shorter estimated useful life will result in higher depreciation expense reported in each period and lower net income.

27. Expensing these costs will make current period income lower but future period income higher because there will be no additional depreciation expense in future periods. If the costs are ordinary repairs, they should be expensed.

***28.** When assets are exchanged, the gain or loss on disposal is computed as the difference between the book value and the fair value of the asset given up at the time of exchange.

***29.** Yes, Morris should recognize a gain equal to the difference between the fair value of the old machine and its book value. If the fair value of the old machine is less than its book value, Morris should recognize a loss equal to the difference between the two amounts.

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SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 9-1

All of the expenditures should be included in the cost of the land. Therefore, the cost of the land is $75,300, or ($64,000 + $3,000 + $2,500 + $2,000 + $3,800).

BRIEF EXERCISE 9-2

The cost of the truck is £32,200 (cash price £30,000 + sales tax £1,800 + painting and lettering £400). The expenditures for insurance and motor vehicle license should not be added to the cost of the truck.

BRIEF EXERCISE 9-3

Depreciable cost of $33,000, or ($42,000 – $9,000). With a four-year useful life, annual depreciation is $8,250, or ($33,000 ÷ 4). Under the straight-line method, depreciation is the same each year. Thus, depreciation expense is $8,250 for both the first and second years.

BRIEF EXERCISE 9-4

It is likely that management requested this accounting treatment to boost reported net income. Land is not depreciated; thus, by reporting land at HK$1,250,000 above its actual value the company increased yearly income by HK$62,500 $\left(\frac{\text{HK\$1,250,000}}{\text{20 years}}\right)$ **or the reduction in depreciation expense. This practice is not ethical because management is knowingly misstating asset values.**

BRIEF EXERCISE 9-5

The declining balance rate is 50%, or (25% X 2) and this rate is applied to book value at the beginning of the year. The computations are:

	Book Value	X	Rate	=	Depreciation
Year 1	$42,000		50%		$21,000
Year 2	($42,000 – $21,000)		50%		$10,500

BRIEF EXERCISE 9-6

The depreciation cost per unit is 22 cents per mile computed as follows:

Depreciable cost ($33,500 – $500) ÷ 150,000 = $.22
Year 1 36,000 miles X $.22 = $7,920
Year 2 22,000 miles X $.22 = $4,840

BRIEF EXERCISE 9-7

Warehouse component:	**($280,000 – $40,000)/20**	**=**	**$12,000**
HVAC component:	**$40,000/10**	**=**	**4,000**
Total component depreciation in first year			**$16,000**

BRIEF EXERCISE 9-8

Book value, 1/1/14	**$23,000**
Less: Residual value	**2,000**
Depreciable cost	**$21,000**
Remaining useful life	**4 years**
Revised annual depreciation ($21,000 ÷ 4)	**$ 5,250**

BRIEF EXERCISE 9-9

(a)	**Accumulated Depreciation—Equipment**	**60,000**	
	Equipment		**20,000**
	Revaluation Surplus		**40,000**
	(To record revaluation of plant assets)		
(b)	**Accumulated Depreciation—Equipment**	**60,000**	
	Revaluation Surplus	**20,000**	
	Equipment		**80,000**
	(To record revaluation of plant assets)		

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BRIEF EXERCISE 9-10

1.	Maintenance and Repairs Expense	45	
	Cash		45
2.	Equipment	580	
	Cash		580

BRIEF EXERCISE 9-11

(a)	Accumulated Depreciation—Equipment	44,000	
	Equipment		44,000
(b)	Accumulated Depreciation—Equipment	39,000	
	Loss on Disposal of Plant Assets	5,000	
	Equipment		44,000

Cost of equipment	CHF44,000
Less accumulated depreciation	39,000
Book value at date of disposal	5,000
Proceeds from sale	0
Loss on disposal	CHF 5,000

BRIEF EXERCISE 9-12

(a)	Depreciation Expense	4,800	
	Accumulated Depreciation—Equipment		4,800
(b)	Cash	20,000	
	Accumulated Depreciation—Equipment	46,800	
	Loss on Disposal of Plant Assets	5,200	
	Equipment		72,000

Cost of equipment	$72,000
Less: Accumulated depreciation	46,800*
Book value at date of disposal	25,200
Proceeds from sale	20,000
Loss on disposal	$ 5,200

*$42,000 + $4,800

BRIEF EXERCISE 9-13

(a) Depletion cost per unit = ¥7,000,000 ÷ 28,000,000 = ¥0.25 depletion cost per ton
¥0.25 X 5,000,000 = ¥1,250,000

	Depletion Expense	1,250,000	
	Accumulated Depletion		1,250,000
(b)	Ore mine	¥7,000,000	
	Less: Accumulated depletion	1,250,000	¥5,750,000

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BRIEF EXERCISE 9-14

(a)	Amortization Expense (R$120,000 ÷ 8)	15,000	
	Patents		15,000
(b)	Intangible Assets		
	Patents		R$105,000

BRIEF EXERCISE 9-15

Research Expense	300,000	
Development Expense	400,000	
Development Costs	200,000	
Cash		900,000
(To record research and development costs)		

BRIEF EXERCISE 9-16

LOOMIS COMPANY
Statement of Financial Position (partial)
December 31, 2014

Intangible assets			
Goodwill.....			$ 410,000
Property, plant, and equipment			
Coal mine.....	$ 500,000		
Less: Accumulated depletion.....	122,000	$378,000	
Buildings	1,300,000		
Less: Accumulated depreciation—buildings	650,000	650,000	
Total property, plant, and equipment.....			1,028,000

BRIEF EXERCISE 9-17

$$\$65.8 \div \left(\frac{\$44.5 + \$43.7}{2} \right) = 1.49 \text{ times}$$

*BRIEF EXERCISE 9-18

Equipment (new)	24,000	
Accumulated Depreciation—Equipment	28,000	
Loss on Disposal of Plant Assets	14,000	
Equipment (old)		61,000
Cash		5,000

Fair value of old delivery equipment	$19,000
Cash paid	5,000
Cost of delivery equipment	$24,000

Fair value of old delivery equipment	$19,000
Book value of old delivery equipment ($61,000 – $28,000)	33,000
Loss on disposal	$14,000

*BRIEF EXERCISE 9-19

Equipment (new)	41,000	
Accumulated Depreciation—Equipment	28,000	
Gain on Disposal of Plant Assets		3,000
Equipment (old)		61,000
Cash		5,000

Fair value of old delivery equipment	$36,000
Cash paid	5,000
Cost of new delivery equipment	$41,000

Fair value of old delivery equipment	$36,000
Book value of old delivery equipment ($61,000 – $28,000)	33,000
Gain on disposal	$ 3,000

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SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 9-1

The following four items are expenditures necessary to acquire the truck and get it ready for use:

Negotiated purchase price	£24,000
Installation of special shelving	1,100
Painting and lettering.....	780
Sales tax.....	1,300
Total paid.....	£27,180

Thus, the cost of the truck is £27,180. The payments for the motor vehicle license and for the insurance are operating costs and are expensed in the first year of the truck's life.

DO IT! 9-2

$$\text{Depreciation expense} = \frac{\text{Cost – Residual value}}{\text{Useful life}} = \frac{\$18{,}000 - \$2{,}000}{8 \text{ years}} = \$2{,}000$$

The entry to record the first year's depreciation would be:

Depreciation Expense.....	2,000	
Accumulated Depreciation—Equipment		2,000
(To record annual depreciation on mower)		

DO IT! 9-3

Original depreciation expense = ($50,000 – $2,000) ÷ 6 years = $8,000

Accumulated depreciation after three years = 3 X $8,000 = $24,000

Book value, $50,000 – $24,000	$26,000
Less: Residual value.....	4,000
Depreciable cost.....	$22,000
Remaining useful life	5 years
Revised annual depreciation ($22,000 ÷ 5)	$ 4,400

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DO IT! 9-4

(a) Sale of truck for cash at a gain:		
Cash	**26,000**	
Accumulated Depreciation—Equipment	**28,000**	
Equipment		**48,000**
Gain on Disposal of Plant Assets		**6,000**
(b) Sale of truck for cash at a loss:		
Cash	**15,000**	
Loss on Disposal of Plant Assets	**5,000**	
Accumulated Depreciation—Equipment	**28,000**	
Equipment		**48,000**

DO IT! 9-5

1. **b. Intangible assets**
2. **d. Amortization**
3. **e. Franchises**
4. **f. Development costs**
5. **a. Goodwill**
6. **c. Development expenses**

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SOLUTIONS TO EXERCISES

EXERCISE 9-1

(a) Under the cost principle, the acquisition cost for a plant asset includes all expenditures necessary to acquire the asset and make it ready for its intended use. For example, the cost of factory machinery includes the purchase price, freight costs paid by the purchaser, insurance costs during transit, and installation costs.

(b)
1. **Land**
2. **Equipment**
3. **Equipment**
4. **Land Improvements**
5. **Equipment**
6. **Equipment**
7. **Prepaid Insurance**
8. **License Expense**

EXERCISE 9-2

1. **Equipment**
2. **Equipment**
3. **Equipment**
4. **Land**
5. **Prepaid Insurance**
6. **Land Improvements**
7. **Land Improvements**
8. **Land**
9. **Buildings**

EXERCISE 9-3

(a) Cost of land

Cash paid	€80,000
Net cost of removing warehouse (€9,400 – €1,700)	7,700
Attorney's fee.....	1,100
Real estate broker's fee	5,000
Total	€93,800

(b) The architect's fee (€7,800) should be debited to the Buildings account. The cost of the driveways and parking lot (€12,700) should be debited to Land Improvements.

EXERCISE 9-4

1. **False. Depreciation is a process of *cost allocation*, not *asset valuation*.**
2. **True.**
3. **False. The book value of a plant asset *may be quite different* from its market value.**
4. **False. Depreciation applies to three classes of plant assets: land *improvements,* buildings, and equipment.**
5. **False. Depreciation does not apply to *land* because its usefulness and revenue-producing ability generally remain intact over time.**
6. **True.**
7. **False. Recognizing depreciation on an asset *does not result* in an accumulation of cash for replacement of the asset.**
8. **True.**
9. **False. Depreciation expense is reported on the income statement, and *accumulated depreciation is reported as a deduction from plant assets on the statement of financial position.***
10. **False. *Three* factors affect the computation of depreciation: cost, useful life, and residual value *(also called salvage value).***

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EXERCISE 9-5

(a) Depreciation cost per unit is R$1.30 per mile [(R$145,000 – R$15,000) ÷ 100,000].

(b)

	Computation				End of Year	
Year	Units of Activity	X Depreciation Cost/Unit	=	Annual Depreciation Expense	Accumulated Depreciation	Book Value
2014	26,000	R$1.30		R$33,800	R$ 33,800	R$111,200
2015	32,000	1.30		41,600	75,400	69,600
2016	25,000	1.30		32,500	107,900	37,100
2017	17,000	1.30		22,100	130,000	15,000

EXERCISE 9-6

(a) Straight-line method:

$$\left(\frac{\$96{,}000 - \$12{,}000}{5}\right) = \$16{,}800 \text{ per year.}$$

2014 depreciation = $16,800 X 3/12 = $4,200.

(b) Units-of-activity method:

$$\left(\frac{\$96{,}000 - \$12{,}000}{10{,}000}\right) = \$8.40 \text{ per hour.}$$

2014 depreciation = 1,700 hours X $8.40 = $14,280.

(c) Declining-balance method:

2014 depreciation = $96,000 X 40% X 3/12 = $9,600.
Book value January 1, 2015 = $96,000 – $9,600 = $86,400.
2015 depreciation = $86,400 X 40% = $34,560.

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EXERCISE 9-7

(a) (1) 2014: (R$36,000 – R$6,000)/8 = R$3,750
2015: (R$36,000 – R$6,000)/8 = R$3,750

(2) (R$36,000 – R$6,000)/100,000 = R$0.30 per mile
2014: 15,000 X R$0.30 = R$4,500
2015: 12,000 X R$0.30 = R$3,600

(3) 2014: R$36,000 X 25% = R$9,000
2015: (R$36,000 – R$9,000) X 25% = R$6,750

(b) (1)

Depreciation Expense	3,750	
Accumulated Depreciation—Equipment.....		3,750

(2)

Equipment	R$36,000
Less: Accumulated Depreciation—Equipment....	3,750
	R$32,250

EXERCISE 9-8

Building depreciation:	$1,920,000*/40 years	=	$ 48,000
Personal property depreciation:	$300,000/5 years	=	60,000
Land improvement depreciation:	$180,000/10 years	=	18,000
Total component depreciation			$126,000

*$2,400,000 – $300,000 – $180,000 = $1,920,000

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EXERCISE 9-9

(a) Type of Asset	Building	Warehouse
Book value, 1/1/14	$648,000	$82,000
Less: Residual value	18,000	3,700
Depreciable cost	$630,000	$78,300
Remaining useful life in years	42	15
Revised annual depreciation	$ 15,000	$ 5,220

(b)	Dec. 31	Depreciation Expense	15,000	
		Accumulated Depreciation—Buildings		15,000

EXERCISE 9-10

(a)	Depreciation Expense	70,000	
	Accumulated Depreciation—Equipment		70,000
	(To record depreciation expense)		
(b)	Accumulated Depreciation—Equipment	70,000	
	Equipment		30,000
	Revaluation Surplus		40,000
	(To adjust the plant assets to fair value and record revaluation surplus)		
(c)	Depreciation Expense	80,000*	
	Accumulated Depreciation—Equipment		80,000
	(To record depreciation expense)		

*$350,000 – $30,000 = $320,000; $320,000/4 years = $80,000

EXERCISE 9-11

Jan.	1	Accumulated Depreciation—Equipment.....	58,000	
		Equipment.....		58,000
June	30	Depreciation Expense	4,000	
		Accumulated Depreciation—Equipment		
		(£40,000 X 1/5 X 6/12)		4,000
	30	Cash	14,000	
		Accumulated Depreciation—Equipment		
		(£40,000 X 3/5 = £24,000; £24,000 + £4,000) ...	28,000	
		Gain on Disposal of Plant Assets		
		[£14,000 – (£40,000 – £28,000)].....		2,000
		Equipment.....		40,000
Dec.	31	Depreciation Expense	5,000	
		Accumulated Depreciation—Equipment		
		[(£33,000 – £3,000) X 1/6]		5,000
	31	Loss on Disposal of Plant Assets	8,000	
		Accumulated Depreciation—Equipment		
		[(£33,000 – £3,000) X 5/6].....	25,000	
		Equipment.....		33,000

EXERCISE 9-12

(a)	Cash.....	28,000	
	Accumulated Depreciation—Equipment		
	[($50,000 – $8,000) X 3/5].....	25,200	
	Equipment.....		50,000
	Gain on Disposal of Plant Assets		3,200
(b)	Depreciation Expense		
	[($50,000 – $8,000) X 1/5 X 4/12].....	2,800	
	Accumulated Depreciation—Equipment.....		2,800
	Cash.....	28,000	
	Accumulated Depreciation—Equipment		
	($25,200 + $2,800).....	28,000	
	Equipment.....		50,000
	Gain on Disposal of Plant Assets		6,000

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EXERCISE 9-12 (Continued)

(c)	Cash	11,000	
	Accumulated Depreciation—Equipment	25,200	
	Loss on Disposal of Plant Assets	13,800	
	Equipment		50,000
(d)	Depreciation Expense [($50,000 – $8,000) ÷ 5 X 9/12]	6,300	
	Accumulated Depreciation—Equipment		6,300
	Cash	11,000	
	Accumulated Depreciation—Equipment ($25,200 + $6,300)	31,500	
	Loss on Disposal of Plant Assets	7,500	
	Equipment		50,000

EXERCISE 9-13

(a)	Dec. 31	Depletion Expense	108,000	
		Accumulated Depletion (120,000 X CHF0.90)		108,000

Cost	(a)	CHF720,000
Units estimated	(b)	800,000 tons
Depletion cost per unit [(a) ÷ (b)]		CHF0.90

(b) The costs pertaining to the unsold units are reported in current assets as part of inventory (30,000 X CHF0.90 = CHF27,000).

EXERCISE 9-14

Dec. 31	Amortization Expense	11,200	
	Patents ($84,000 ÷ 5 X 8/12)		11,200

Note: No entry is made to amortize goodwill because it has an indefinite life.

EXERCISE 9-15

1/2/14	Patents	560,000	
	Cash.....		560,000
4/1/14	Goodwill	360,000	
	Cash.....		360,000
	(Part of the entry to record purchase of another company)		
7/1/14	Franchises	440,000	
	Cash.....		440,000
9/1/14	Research Expense	223,000	
	Cash.....		223,000
11/1/14	Development Expense.....	225,000	
	Cash.....		225,000
12/31/14	Amortization Expense ($560,000 ÷ 8) + [($440,000 ÷ 10) X 1/2]	92,000	
	Patents.....		70,000
	Franchises.....		22,000

Ending balances, 12/31/14:

- Patents = $490,000 ($560,000 – $70,000).
- Goodwill = $360,000
- Franchises = $418,000 ($440,000 – $22,000).
- Research expense = $223,000
- Development expense = $225,000

EXERCISE 9-16

$$\text{Asset turnover ratio} = \frac{\$5,200,000}{\$1,600,000} = 3.25 \text{ times}$$

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*EXERCISE 9-17

(a)	Equipment (new)	55,000	
	Accumulated Depreciation—Equipment (old)	22,000	
	Loss on Disposal of Plant Assets	4,000	
	Equipment (old)		64,000
	Cash		17,000

Cost of old trucks	£64,000
Less: Accumulated depreciation	22,000
Book value	42,000
Fair value of old trucks	38,000
Loss on disposal	£ 4,000

Fair value of old trucks	£38,000
Cash paid	17,000
Cost of new trucks	£55,000

(b)	Equipment (new)	11,700	
	Accumulated Depreciation—Equipment (old)	4,000	
	Gain on Disposal of Plant Assets		1,000
	Equipment (old)		12,000
	Cash		2,700

Cost of old machine	£12,000
Less: Accumulated depreciation	4,000
Book value	8,000
Fair value of old machine	9,000
Gain on disposal	£ 1,000

Fair value of old machine	£ 9,000
Cash paid	2,700
Cost of new machine	£11,700

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*EXERCISE 9-18

(a)	Equipment (new)	4,000	
	Loss on Disposal of Plant Assets.....	2,000	
	Accumulated Depreciation—Equipment (old)	16,000	
	Equipment (old)		22,000

Cost of old truck	$22,000
Less: Accumulated depreciation	16,000
Book value	6,000
Fair value of old truck	4,000
Loss on disposal	$ 2,000

(b)	Equipment (new)	4,000	
	Accumulated Depreciation—Equipment (old)	7,000	
	Equipment (old)		10,000
	Gain on Disposal of Plant Assets		1,000

Cost of old truck	$10,000
Less: Accumulated depreciation	7,000
Book value	3,000
Fair value of old truck	4,000
Gain on disposal	$ 1,000
Cost of new truck*	$ 4,000

*Fair value of old truck

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SOLUTIONS TO PROBLEMS

PROBLEM 9-1A

Item	Land	Buildings	Other Accounts	
1	€ 6,000			
2		€780,000		
3			€ 5,000	Property Taxes Expense
4	145,000			
5		35,000		
6		10,000		
7	2,000			
8			14,000	Land Improvements
9	15,000			
10	(3,600)			
	€164,400	€825,000		

PROBLEM 9-2A

(a)

Year	Computation	Accumulated Depreciation 12/31
	BUS 1	
2012	$ 90,000 X 20% = $18,000	$ 18,000
2013	$ 90,000 X 20% = $18,000	36,000
2014	$ 90,000 X 20% = $18,000	54,000
	BUS 2	
2012	$140,000 X 50% = $70,000	$ 70,000
2013	$ 70,000 X 50% = $35,000	105,000
2014	$ 35,000 X 50% = $17,500	122,500
	BUS 3	
2013	24,000 miles X $.70* = $16,800	$ 16,800
2014	36,000 miles X $.70 = $25,200	42,000

*$84,000 ÷ 120,000 miles = $.70 per mile.

(b)

	Year	Computation	Expense
		BUS 2	
(1)	2012	$140,000 X 50% X 9/12 = $52,500	$52,500
(2)	2013	$87,500 X 50% = $43,750	$43,750

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PROBLEM 9-3A

(a) (1)

Purchase price	R$ 35,000
Sales tax	1,700
Shipping costs	150
Insurance during shipping	80
Installation and testing	70
Total cost of machine	R$ 37,000

Equipment	37,000	
Cash		37,000

(2)

Recorded cost	R$ 37,000
Less: Residual value	5,000
Depreciable cost	R$ 32,000
Years of useful life	÷ 5
Annual depreciation	R$ 6,400

Depreciation Expense	6,400	
Accumulated Depreciation—Equipment		6,400

(b) (1)

Recorded cost	R$ 80,000
Less: Residual value	5,000
Depreciable cost	R$ 75,000
Years of useful life	÷ 4
Annual depreciation	R$ 18,750

(2)

Year	Book Value at Beginning of Year	DDB Rate	Annual Depreciation Expense	Accumulated Depreciation
2014	R$80,000	50%*	R$40,000	R$40,000
2015	40,000	50%	20,000	60,000
2016	20,000	50%	10,000	70,000
2017	10,000	50%	5,000	75,000

*100% ÷ 4-year useful life = 25% X 2 = 50%.

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PROBLEM 9-3A (Continued)

(3) Depreciation cost per unit = (R$80,000 – R$5,000)/125,000 units = R$.60 per unit.

Annual Depreciation Expense

2014:	**R$.60 X 42,000 =**	**R$25,200**
2015:	**.60 X 35,000 =**	**21,000**
2016:	**.60 X 28,000 =**	**16,800**
2017:	**.60 X 20,000 =**	**12,000**

(c) The declining-balance method reports the highest amount of depreciation expense the first year while the straight-line method reports the lowest. In the fourth year, the straight-line method reports the highest amount of depreciation expense while the declining-balance method reports the lowest.

These facts occur because the declining-balance method is an accelerated depreciation method in which the largest amount of depreciation is recognized in the early years of the asset's life. If the straight-line method is used, the same amount of depreciation expense is recognized each year. Therefore, in the early years less depreciation expense will be recognized under this method than under the declining-balance method while more will be recognized in the later years.

The amount of depreciation expense recognized using the units-of-activity method is dependent on production, so this method could recognize more or less depreciation expense than the other two methods in any year depending on output.

No matter which of the three methods is used, the same total amount of depreciation expense will be recognized over the four-year period.

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PROBLEM 9-4A

Year	Depreciation Expense	Accumulated Depreciation
2012	$12,000[a]	$12,000
2013	12,000	24,000
2014	9,600[b]	33,600
2015	9,600	43,200
2016	9,600	52,800
2017	11,400[c]	64,200
2018	11,400	75,600

(a) $$\frac{\$80{,}000 - \$8{,}000}{6 \text{ years}} = \$12{,}000$$

(b) $$\frac{\text{Book value} - \text{Residual value}}{\text{Remaining useful life}} = \frac{\$56{,}000 - \$8{,}000}{5 \text{ years}} = \$9{,}600$$

(c) $$\frac{\$27{,}200 - \$4{,}400}{2 \text{ years}} = \$11{,}400$$

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PROBLEM 9-5A

(a)	Apr.	1	Land	2,200,000	
			Cash		2,200,000
	May	1	Depreciation Expense	25,000	
			Accumulated Depreciation—Equipment (€750,000 X 1/10 X 4/12)		25,000
		1	Cash	460,000	
			Accumulated Depreciation—Equipment	325,000	
			Equipment		750,000
			Gain on Disposal of Plant Assets		35,000

Cost	€750,000
Accum. depreciation—equipment [(€750,000 X 1/10 X 4) + €25,000]	325,000
Book value	425,000
Cash proceeds	460,000
Gain on disposal	€ 35,000

	June	1	Cash	1,800,000	
			Land		300,000
			Gain on Disposal of Plant Assets		1,500,000
	July	1	Equipment	2,400,000	
			Cash		2,400,000
	Dec.	31	Depreciation Expense	50,000	
			Accumulated Depreciation—Equipment (€500,000 X 1/10)		50,000
		31	Accumulated Depreciation—Equipment	500,000	
			Equipment		500,000

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PROBLEM 9-5A (Continued)

Cost	€500,000
Accum. depreciation—equipment (€500,000 X 1/10 X 10)	500,000
Book value	€ 0

(b)

Dec. 31	Depreciation Expense		530,000	
	Accumulated Depreciation—Buildings (€26,500,000 X 1/50)			530,000
31	Depreciation Expense		3,995,000	
	Accumulated Depreciation—Equipment			3,995,000

(€38,750,000* X 1/10)	€3,875,000
[(€2,400,000 X 1/10) X 6/12]	120,000
	€3,995,000

*(€40,000,000 – €750,000 – €500,000)

(c)

JIMENEZ COMPANY
Partial Statement of Financial Position
December 31, 2014

Plant Assets*		
Land		€ 4,900,000
Buildings	€26,500,000	
Less: Accumulated depreciation—buildings	12,630,000	13,870,000
Equipment	41,150,000	
Less: Accumulated depreciation—equipment	8,245,000	32,905,000
Total plant assets		€51,675,000

*See T-accounts which follow.

PROBLEM 9-5A (Continued)

Land			
Bal.	3,000,000	June 1	300,000
Apr. 1	2,200,000		
Bal.	4,900,000		

Buildings			
Bal.	26,500,000		
Bal.	26,500,000		

Accumulated Depreciation—Buildings			
		Bal.	12,100,000
		Dec. 31 adj.	530,000
		Bal.	12,630,000

Equipment			
Bal.	40,000,000	May 1	750,000
July 1	2,400,000	Dec. 31	500,000
Bal.	41,150,000		

Accumulated Depreciation—Equipment			
May 1	325,000	Bal.	5,000,000
Dec. 31	500,000	May 1	25,000
		Dec. 31	50,000
		Dec. 31 adj.	3,995,000
		Bal.	8,245,000

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PROBLEM 9-6A

(a)	Accumulated Depreciation—Equipment	22,000	
	Loss on Disposal of Plant Assets	28,000	
	Equipment		50,000
(b)	Cash	25,000	
	Accumulated Depreciation—Equipment	22,000	
	Loss on Disposal of Plant Assets	3,000	
	Equipment		50,000
(c)	Cash	31,000	
	Accumulated Depreciation—Equipment	22,000	
	Gain on Disposal of Plant Assets		3,000
	Equipment		50,000

PROBLEM 9-7A

(a)	Jan. 2	Patents	36,000	
		Cash		36,000
	Jan.–June	Research Expense	140,000	
		Cash		140,000
	Sept. 1	Advertising Expense	58,000	
		Cash		58,000
	Oct. 1	Franchises	100,000	
		Cash		100,000
(b)	Dec. 31	Amortization Expense	10,000	
		Patents		10,000
		[($60,000 X 1/10) + ($36,000 X 1/9)]		
	31	Amortization Expense	5,300	
		Franchises		5,300
		[($48,000 X 1/10) + ($100,000 X 1/50 X 3/12)]		

(c) **Intangible Assets**

Patents ($96,000 cost – $16,000 amortization) (1)	$ 80,000
Franchises ($148,000 cost – $24,500 amortization) (2)	123,500
Total intangible assets	$203,500

(1) Cost ($60,000 + $36,000); amortization ($6,000 + $10,000).
(2) Cost ($48,000 + $100,000); amortization ($19,200 + $5,300).

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PROBLEM 9-8A

1.	**Research Expense**	**97,000**	
	Development Expense	**50,000**	
	Patents		**147,000**
	Patents	**7,350**	
	Amortization Expense [$10,350 – ($60,000 X 1/20)]		**7,350**
2.	**Goodwill**	**800**	
	Amortization Expense		**800**

Note: Goodwill should not be amortized because it has an indefinite life unlike Patents.

PROBLEM 9-9A

(a)

	Luō	Zhào
Asset turnover ratio	$\frac{\text{HK\$1,200,000}}{\text{HK\$2,000,000}}$ = .60 times	$\frac{\text{HK\$1,140,000}}{\text{HK\$1,500,000}}$ = .76 times

(b) Based on the asset turnover ratio, Zhào is more effective in using assets to generate sales. Its asset turnover ratio is almost 27% higher than Luō's ratio.

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PROBLEM 9-1B

Item	Land	Buildings	Other Accounts	
1	$ 9,000			
2			$ 6,500	Property Taxes Expense
3		$500,000		
4		19,000		
5	100,000			
6			18,000	Land Improvements
7		9,000		
8			6,000	Land Improvements
9	19,000			
10	(3,800)			
	$124,200	$528,000		

PROBLEM 9-2B

(a)

Year	Computation	Accumulated Depreciation 12/31
	MACHINE 1	
2011	¥100,000 X 12.5% = ¥12,500	¥12,500
2012	¥100,000 X 12.5% = ¥12,500	25,000
2013	¥100,000 X 12.5% = ¥12,500	37,500
2014	¥100,000 X 12.5% = ¥12,500	50,000
	MACHINE 2	
2012	¥150,000 X 20% = ¥30,000	¥30,000
2013	¥120,000 X 20% = ¥24,000	54,000
2014	¥ 96,000 X 20% = ¥19,200	73,200
	MACHINE 3	
2014	1,300 X (¥85,000 ÷ 25,000) = ¥4,420	¥ 4,420

(b)

	Year	Depreciation Computation	Expense
		MACHINE 2	
(1)	2012	¥150,000 X 20% X 8/12 = ¥20,000	¥20,000
(2)	2013	¥130,000 X 20% = ¥26,000	¥26,000

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PROBLEM 9-3B

(a) (1)

Purchase price	$ 55,000
Sales tax	2,750
Shipping costs	100
Insurance during shipping	75
Installation and testing	75
Total cost of machine	$ 58,000

Equipment	58,000	
Cash		58,000

(2)

Recorded cost	$ 58,000
Less: Residual value	6,000
Depreciable cost	$ 52,000
Years of useful life	÷ 4
Annual depreciation	$ 13,000

Depreciation Expense	13,000	
Accumulated Depreciation—Equipment		13,000

(b) (1)

Recorded cost	$130,000
Less: Residual value	10,000
Depreciable cost	$120,000
Years of useful life	÷ 5
Annual depreciation	$ 24,000

(2)

Year	Book Value at Beginning of Year	DDB Rate	Annual Depreciation Expense	Accumulated Depreciation
2014	$130,000	40%*	$52,000	$52,000
2015	78,000	40%	31,200	83,200
2016	46,800	40%	18,720	101,920
2017	28,080	40%	11,232	113,152
2018	16,848	40%	6,848**	120,000

*100% ÷ 5-year useful life = 20% X 2 = 40%.
**$16,848 – $10,000 = $6,848.

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PROBLEM 9-3B (Continued)

(3) Depreciation cost per unit = ($130,000 – $10,000)/24,000 units = $5.00 per unit.

Annual Depreciation Expense

2014:	**$5.00 X 4,700 =**	**$23,500**
2015:	**5.00 X 7,000 =**	**35,000**
2016:	**5.00 X 8,000 =**	**40,000**
2017:	**5.00 X 2,500 =**	**12,500**
2018:	**5.00 X 1,800 =**	**9,000**

(c) The units-of-activity method reports the lowest amount of depreciation expense the first year while the declining-balance method reports the highest. In the fifth year, the declining-balance method reports the lowest amount of depreciation expense while the straight-line method reports the highest.

These facts occur because the declining-balance method is an accelerated depreciation method in which the largest amount of depreciation is recognized in the early years of the asset's life. If the straight-line method is used, the same amount of depreciation expense is recognized each year. Therefore, in the early years less depreciation expense will be recognized under this method than under the declining-balance method while more will be recognized in the later years.

The amount of depreciation expense recognized using the units-of-activity method is dependent on production, so this method could recognize more or less depreciation expense than the other two methods in any year depending on output.

No matter which of the three methods is used, the same total amount of depreciation expense will be recognized over the four-year period.

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PROBLEM 9-4B

Year	Depreciation Expense	Accumulated Depreciation
2012	£9,000[(a)]	£ 9,000
2013	9,000	18,000
2014	7,200[(b)]	25,200
2015	7,200	32,400
2016	7,200	39,600
2017	8,700[(c)]	48,300
2018	8,700	57,000

(a) $\frac{£60,000 - £6,000}{6 \text{ years}} = £9,000$

(b) $\frac{\text{Book value} - \text{Residual value}}{\text{Remaining useful life}} = \frac{£42,000 - £6,000}{5 \text{ years}} = £7,200$

(c) $\frac{£20,400 - £3,000}{2 \text{ years}} = £8,700$

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PROBLEM 9-5B

(a)	Apr.	1	Land	1,200,000	
			Cash		1,200,000
	May	1	Depreciation Expense	14,000	
			Accumulated Depreciation—Equipment		14,000
			($420,000 X 1/10 X 4/12)		
		1	Cash	246,000	
			Accumulated Depreciation—Equipment	182,000	
			Equipment		420,000
			Gain on Disposal of Plant Assets		8,000

Cost	$420,000
Accum. depreciation—equipment [($420,000 X 1/10 X 4) + $14,000]	182,000
Book value	238,000
Cash proceeds	246,000
Gain on disposal	$ 8,000

	June	1	Cash	1,000,000	
			Land		310,000
			Gain on Disposal of Plant Assets		690,000
	Oct.	1	Equipment	1,280,000	
			Cash		1,280,000
	Dec.	31	Depreciation Expense	30,000	
			Accumulated Depreciation—Equipment		30,000
			($300,000 X 1/10)		
		31	Accumulated Depreciation—Equipment	300,000	
			Equipment		300,000

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PROBLEM 9-5B (Continued)

Cost	$300,000
Accum. depreciation—equipment ($300,000 X 1/10 X 10)	300,000
Book value	$ 0

(b)

Dec. 31	Depreciation Expense		570,000	
	Accumulated Depreciation—Buildings			570,000
	($28,500,000 X 1/50)			
31	Depreciation Expense		2,960,000	
	Accumulated Depreciation—Equipment			2,960,000

($29,280,000* X 1/10)	$2,928,000
[($1,280,000 X 1/10) X 3/12]	32,000
	$2,960,000

*($30,000,000 – $420,000 – $300,000)

(c)

DURANGO COMPANY
Partial Statement of Financial Position
December 31, 2014

Plant Assets*		
Land		$ 2,890,000
Buildings	$28,500,000	
Less: Accumulated depreciation—buildings	12,670,000	15,830,000
Equipment	30,560,000	
Less: Accumulated depreciation—equipment	6,522,000	24,038,000
Total plant assets		$42,758,000

*See T-accounts which follow.

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PROBLEM 9-5B (Continued)

Land			
Bal.	2,000,000	June 1	310,000
Apr. 1	1,200,000		
Bal.	2,890,000		

Buildings			
Bal.	28,500,000		
Bal.	28,500,000		

Accumulated Depreciation—Buildings			
		Bal.	12,100,000
		Dec. 31 adj.	570,000
		Bal.	12,670,000

Equipment			
Bal.	30,000,000	May 1	420,000
Oct. 1	1,280,000	Dec. 31	300,000
Bal.	30,560,000		

Accumulated Depreciation—Equipment			
May 1	182,000	Bal.	4,000,000
Dec. 31	300,000	May 1	14,000
		Dec. 31	30,000
		Dec. 31 adj.	2,960,000
		Bal.	6,522,000

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PROBLEM 9-6B

(a)	Accumulated Depreciation—Equipment	29,000	
	Loss on Disposal of Plant Assets	11,000	
	Equipment		40,000
(b)	Cash	24,000	
	Accumulated Depreciation—Equipment	29,000	
	Gain on Disposal of Plant Assets		13,000
	Equipment		40,000
(c)	Cash	10,000	
	Accumulated Depreciation—Equipment	29,000	
	Loss on Disposal of Plant Assets	1,000	
	Equipment		40,000

PROBLEM 9-7B

(a)	Jan. 2	Patents	54,000	
		Cash		54,000
	Jan.–June	Research Expense	230,000	
		Cash		230,000
	Sept. 1	Advertising Expense	125,000	
		Cash		125,000
	Nov. 1	Copyrights	180,000	
		Cash		180,000
(b)	Dec. 31	Amortization Expense	16,000	
		Patents		16,000
		[($100,000 X 1/10) + ($54,000 X 1/9)]		
	31	Amortization Expense	8,750	
		Copyrights		8,750
		[($80,000 X 1/10) + ($180,000 X 1/40 X 2/12)]		

(c) Intangible Assets

Patents ($154,000 cost – $26,000 amortization) (1)	$128,000
Copyrights ($260,000 cost – $40,750 amortization) (2)	219,250
Total intangible assets	$347,250

(1) Cost ($100,000 + $54,000); amortization ($10,000 + $16,000).
(2) Cost ($80,000 + $180,000); amortization ($32,000 + $8,750).

(d) The intangible assets of the company consist of two patents and two copyrights. One patent with a total cost of $154,000 is being amortized in two segments ($100,000 over 10 years and $54,000 over 9 years); the other patent was obtained at no recordable cost. A copyright with a cost of $80,000 is being amortized over 10 years; the other copyright with a cost of $180,000 is being amortized over 40 years.

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PROBLEM 9-8B

1.	**Development Expense**	**110,000**	
	Patents		**110,000**
	Patents	**5,500**	
	Amortization Expense [€9,000 – (€70,000 X 1/20)]		**5,500**
2.	**Goodwill**	**2,500**	
	Amortization Expense		**2,500**

Note: Goodwill should not be amortized because it has an indefinite life unlike Patents.

PROBLEM 9-9B

(a)

	Nina Corp.	Vernon Corp.
Asset turnover ratio	$\frac{\$1,100,000}{\$1,000,000}$ = 1.10 times	$\frac{\$930,000}{\$1,020,000}$ = .91 times

(b) Based on the asset turnover ratio, Nina Corp. is more effective in using assets to generate sales. Its asset turnover ratio is 21% higher than Vernon's asset turnover ratio.

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CHAPTER 9 COMPREHENSIVE PROBLEM SOLUTION

(a) 1.	Equipment	13,780	
	Cash		13,780
2.	Depreciation Expense	450	
	Accumulated Depreciation—Equipment		450
	Cash	3,500	
	Accumulated Depreciation—Equipment	2,250	
	Equipment		5,000
	Gain on Disposal of Plant Assets		750
3.	Accounts Receivable	9,400	
	Sales Revenue		9,400
	Cost of Goods Sold	6,600	
	Inventory		6,600
4.	Bad Debt Expense	3,700	
	Allowance for Doubtful Accounts		3,700
5.	Interest Receivable ($10,000 X .08 X 9/12)	600	
	Interest Revenue		600
6.	Insurance Expense ($4,400 X 3/6)	2,200	
	Prepaid Insurance		2,200
7.	Depreciation Expense	3,500	
	Accumulated Depreciation—Buildings		3,500
8.	Depreciation Expense	9,900	
	Accumulated Depreciation—Equipment [($60,000 – $5,000) – ($55,000 X .10)] ÷ 5		9,900
9.	Depreciation Expense	1,704	
	Accumulated Depreciation—Equipment [($13,780 – $1,000) ÷ 5] X 8/12		1,704

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10. Amortization Expense	**800**	
Patents		**800**
11. Salaries and Wages Expense	**2,200**	
Salaries and Wages Payable		**2,200**
12. Unearned Rent Revenue ($6,000 ÷ 4)	**1,500**	
Rent Revenue		**1,500**
13. Interest Expense ($11,000 + $35,000) X .09	**4,140**	
Interest Payable		**4,140**
14. Income Tax Expense	**17,000**	
Income Taxes Payable		**17, 000**

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COMPREHENSIVE PROBLEM (Continued)

(b)

RAYMOND COMPANY
Trial Balance
December 31, 2014

	Debits	Credits
Cash	$ 17,720	
Accounts Receivable	46,200	
Notes Receivable	10,000	
Interest Receivable	600	
Inventory	29,600	
Prepaid Insurance	2,200	
Land	20,000	
Buildings	160,000	
Equipment	68,780	
Patents	7,200	
Allowance for Doubtful Accounts		$ 4,000
Accumulated Depreciation—Buildings		52,500
Accumulated Depreciation—Equipment		33,804
Accounts Payable		28,300
Income Taxes Payable		17,000
Salaries and Wages Payable		2,200
Unearned Rent Revenue		4,500
Notes Payable (due in 2015)		11,000
Interest Payable		4,140
Notes Payable (due after 2015)		35,000
Share Capital—Ordinary		50,000
Retained Earnings		63,600
Dividends	12,000	
Sales Revenue		919,400
Interest Revenue		600
Rent Revenue		1,500
Gain on Disposal of Plant Assets		750
Bad Debt Expense	3,700	
Cost of Goods Sold	636,600	
Depreciation Expense	15,554	
Income Tax Expense	17,000	
Insurance Expense	2,200	
Interest Expense	4,140	
Other Operating Expenses	61,800	
Amortization Expense	800	
Salaries and Wages Expense	112,200	
Total	$1,228,294	$1,228,294

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RAYMOND COMPANY
Income Statement
For the Year Ended December 31, 2014

Sales Revenue		$919,400
Cost of Goods Sold		636,600
Gross Profit		282,800
Operating Expenses		
Salaries and Wages Expense	$112,200	
Other Operating Expenses	61,800	
Depreciation Expense	15,554	
Bad Debt Expense	3,700	
Insurance Expense	2,200	
Amortization Expense	800	
Total Operating Expenses		196,254
Income From Operations		86,546
Other Income and Expense		
Rent Revenue	1,500	
Gain on Disposal of Plant Assets	750	
Interest Revenue	600	2,850
Interest Expense		4,140
Income Before Income Taxes		85,256
Income Tax Expense		17,000
Net Income		$ 68,256

RAYMOND COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained Earnings, 1/1/14	$ 63,600
Add: Net Income	68,256
	131,856
Less: Dividends	12,000
Retained Earnings, 12/31/14	$119,856

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(d)

RAYMOND COMPANY
Statement of Financial Position
December 31, 2014

Assets			
Intangible Assets			
Patents			$ 7,200
Property, Plant, and Equipment		$ 20,000	
Land	$160,000		
Buildings	52,500	107,500	
Less Accum. Depr.—Buildings	68,780		
Equipment	33,804	34,976	
Less Accum. Depr.—Equipment			
Total Property, Plant and Equipment			162,476
Current Assets			
Prepaid Insurance		2,200	
Inventory		29,600	
Interest Receivable		600	
Notes Receivable		10,000	
Accounts Receivable	46,200		
Less Allowance for Doubtful Accounts	4,000	42,200	
Cash		17,720	
Total Current Assets			102,320
Total Assets			$271,996
Equity and Liabilities			
Equity			
Share Capital—Ordinary		$ 50,000	
Retained Earnings		119,856	$ 169,856
Non-current Liabilities			
Notes Payable		35,000	
Current Liabilities			
Notes Payable	11,000		
Accounts Payable	28,300		
Income Taxes Payable	17,000		
Interest Payable	4,140		
Unearned Rent Revenue	4,500		
Salaries and Wages Payable	2,200		
Total Current Liabilities		67,140	
Total Liabilities			102,140
Total Equity and Liabilities			$271,996

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CCC9 CONTINUING COOKIE CHRONICLE

(a)

Purchase price	$36,500
Painting	2,500
Shelving	1,500
Cost of van	$40,500

(b) Straight-line depreciation

Year	Depreciable Cost	X	Deprec. Rate	=	Deprec. Expense	Accum. Deprec.	Net Book Value
							$40,500
2014	$33,000*		20% X 4/12		$2,200	$ 2,200	38,300
2015	33,000		20%		6,600	8,800	31,700
2016	33,000		20%		6,600	15,400	25,100

*$40,500 – $7,500

Double-declining-balance depreciation

Year	NBV (Beg. of Year)	X	Deprec. Rate	=	Deprec. Expense	Accum. Deprec.	Net Book Value
							$40,500
2014	$40,500		40% X 4/12		$ 5,400	$ 5,400	35,100
2015	35,100		40%		14,040	19,440	21,060
2016	21,060		40%		8,424	27,864	12,636

Units-of-activity depreciation

Year	Units of Activity	X	Deprec. Cost/Unit	=	Deprec. Expense	Accum. Deprec.	Net Book Value
							$40,500
2014	15,000		$0.165*		$ 2,475	$ 2,475	38,025
2015	45,000		0.165		7,425	9,900	30,600
2016	50,000		0.165		8,250	18,150	22,350

*($40,500 – $7,500) ÷ 200,000 = $0.165 per mile

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CCC9 (Continued)

(c) Impact on Cookie Creation's statement of financial position and income statement in 2014:

	Straight-Line	Double declining Balance	Units-of-Activity
Cost of asset	$40,500	$40,500	$40,500
Accumulated depreciation	(2,200)	(5,400)	(2,475)
Net book value	$38,300	$35,100	$38,025
Depreciation expense	$ 2,200	$ 5,400	$ 2,475

The double-declining method of depreciation will result in the lowest amount of net income reported, the lowest amount of equity reported, and the lowest net book value of the asset reported.

The straight-line method of depreciation will result in the greatest amount of net income reported, the greatest amount of equity reported, and the greatest net book value of the asset reported.

(d) Over the van's 5-year useful life, the total depreciation will be $33,000 (resulting in a net book value equal to the residual value of $7,500) under each of the methods. The impact will affect only the timing of the depreciation expense recognized each year.

(e) The units-of-activity method may provide Natalie with a more accurate assessment of usage of the van in relation to the amount of revenue earned. As long as Natalie is willing to track the number of miles driven over the course of the year, then this would be the method recommended.

BYP 9-1 FINANCIAL REPORTING PROBLEM

(a) Property, plant, and equipment is reported at net book value, on the December 31, 2010, statement of financial position at ₩52,964,594 million. The cost of the property, plant, and equipment is ₩115,535,327 million as shown in Note 11.

(b) Depreciation expense is calculated on a straight-line basis over an asset's estimated useful life. (see Note 2.9).

(c) Depreciation expense was:

2010: ₩10,847,374 million.
2009: ₩10,771,334 million.

(d) Samsung's capital spending was:

2010: ₩21,619,244 million.
2009: ₩8,072,165 million.

(e) Samsung reports its intangible assets on the statement of financial position, under the non-current assets section and in Note 12. Their intangibles consisted of goodwill, capitalized development, and other intangibles (patents, trademarks ad software licenses).

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BYP 9-2 COMPARATIVE ANALYSIS PROBLEM

(a)

	Zetar	Nestlé
Asset turnover ratio	£134,998 ÷ $\frac{£93,062 + £85,108}{2}$ = 1.52 times	CHF109,722 ÷ $\frac{CHF111,641 + CHF110,916}{2}$ = .99 times

(b) The asset turnover ratio measures how efficiently a company uses its assets to generate sales. It shows the dollars of sales generated by each dollar invested in assets. Zetar's asset turnover ratio (1.52) was 54% higher than Nestlé's (.99). Therefore, it can be concluded that Zetar was more efficient during the most recent period in utilizing assets to generate sales.

BYP 9-3 REAL-WORLD FOCUS

Answers will vary depending on the company selected.

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BYP 9-4 DECISION-MAKING ACROSS THE ORGANIZATION

(a) **Givens Company—Straight-line method**

Annual Depreciation	
Buildings [($320,000 – $20,000) ÷ 40]	**$ 7,500**
Equipment [($125,000 – $10,000) ÷ 10]	**11,500**
Total annual depreciation	**$19,000**
Total accumulated depreciation ($19,000 X 3)	**$57,000**

Runge Company—Double-declining-balance method

Year	Asset	Computation	Annual Depreciation	Accumulated Depreciation
2012	Buildings	$320,000 X 5%	$16,000	
	Equipment	$125,000 X 20%	25,000	$41,000
2013	Buildings	$304,000 X 5%	15,200	
	Equipment	$100,000 X 20%	20,000	35,200
2014	Buildings	$288,800 X 5%	14,440	
	Equipment	$ 80,000 X 20%	16,000	30,440
				$106,640

(b)

Year	Givens Company Net Income	Runge Company Net Income As Adjusted	Computations for Runge Company
2012	$ 84,000	$ 90,000	$68,000 + $41,000 – $19,000 = $90,000
2013	88,400	92,200	$76,000 + $35,200 – $19,000 = $92,200
2014	90,000	96,440	$85,000 + $30,440 – $19,000 = $96,440
Total net income	$262,400	$278,640	

(c) **As shown above, when the two companies use the same depreciation method, Runge Company is more profitable than Givens Company. When the two companies are using different depreciation methods, Runge Company has more cash than Givens Company for two reasons:**

(1) its earnings are generating more cash than the earnings of Givens Company, and (2) depreciation expense has no effect on cash. Cash generated by operations can be arrived at by adding depreciation expense to net income. If this is done, it can be seen that Runge Company's operations generate more cash ($229,000 + $106,640 = $335,640) than Givens Company's ($262,400 + $57,000 = $319,400). Based on the above analysis, Linda Yanik should buy Runge Company. It not only is in a better financial position than Givens Company, but it is also more profitable.

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BYP 9-5 COMMUNICATION ACTIVITY

To: Instructor

From: Student

Re: American Exploration Company (USA) footnote

American Exploration Company (USA) accounts for its oil and gas activities using the successful efforts approach. Under this method, only the costs of successful exploration are included in the cost of the natural resource, and the costs of unsuccessful explorations are expensed.

Depletion is determined using the units-of-activity method. Under this method, a depletion cost per unit is computed based on the total number of units expected to be extracted. Depletion expense for the year is determined by multiplying the units extracted and sold by the depletion cost per unit.

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BYP 9-6 ETHICS CASE

(a) The stakeholders in this situation are:

- **Edward Mohling, president of Dieker Container Company.**
- **Betty Fetters, controller.**
- **The stockholders of Dieker Container Company.**
- **Potential investors in Dieker Container Company.**

(b) The intentional misstatement of the life of an asset or the amount of the residual value is unethical for whatever the reason. There is nothing per se unethical about changing the estimate either of the life of an asset or of an asset's residual value if the change is an attempt to better match cost and revenues and is a better allocation of the asset's depreciable cost over the asset's useful life. In this case, it appears from the controller's reaction that the revisions in the life are intended only to improve earnings and, therefore, are unethical.

The fact that the competition uses a longer life on its equipment is not necessarily relevant. The competition's maintenance and repair policies and activities may be different. The competition may use its equipment fewer hours a year (e.g., one shift rather than two shifts daily) than Dieker Container Company.

(c) Income before income taxes in the year of change is increased $140,000 by implementing the president's proposed changes.

	Old Estimates
Asset cost	$3,100,000
Estimated residual	300,000
Depreciable cost	2,800,000
Depreciation per year (1/8)	$ 350,000

	Revised Estimates
Asset cost	$3,100,000
Estimated residual	300,000
Depreciable cost	2,800,000
Depreciation taken to date ($350,000 X 2)	700,000
	2,100,000
Remaining life in years	10 years
Depreciation per year	$ 210,000

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GAAP EXERCISES

GAAP9-1

Component depreciation is a method of allocating the cost of a plant asset into separate parts based on the estimated useful lives of each component. IFRS requires an entity to use component depreciation whenever significant parts of a plant asset have significantly different useful lives. GAAP does not require component depreciation, but does allow companies to use it.

GAAP9-2

Revaluation is an accounting procedure that adjusts plant assets to fair value at the reporting date. Under IFRS revaluation must be applied annually to assets that are experiencing rapid price changes. Revaluation of plant assets is not acceptable under GAAP.

GAAP9-3

Both types of development expenditures relate to the creation of new products but under IFRS one is expensed and the other is capitalized. Development costs incurred before a new product achieves technological feasibility are recorded as development expenses and appear as part of operating expenses on the income statement.

Cost incurred after technological feasibility are recorded as development costs and appear as an intangible asset on the statement of financial position. Under GAAP development costs are expensed as incurred.

GAAP9-4

Component depreciation :
Warehouse component: ($280,000 – $40,000)/20 = $12,000
HVAC component: $40,000/10 = $4,000
Total component depreciation in first year $16,000
Straight-line depreciation-GAAP:$280,000/20=$14,000

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GAAP9-5

(a) IFRS entry:

Development Expense	**400,000**	
Research Expense	**300,000**	
Development Costs	**200,000**	
Cash		**900,000**
(To record research and development costs)		

(b) GAAP entry:

Research and Development Expenses	**900,000**	
Cash		**900,000**
(To record research and development costs)		

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GAAP FINANCIAL STATEMENT ANALYSIS

GAAP9-6

(a) Total cost of property, plant, and equipment for 2010: $440,974,000
Book value of property, plant, and equipment for 2010: $715,492,000

(b) Depreciation is completed using the straight-line method based on useful levels of 20 to 35 years for buildings and 5 to 20 years for machinery and equipment.

(c) Depreciation expense	2010	2009	2008
	$18,279,000	$17,862,000	$17,036,000

(d) Capital expenditures	2010	2009
	$12,813,000	$20,831,000

(e) Goodwill and intangible assets with indefinite levels are not amortized, but rather tested for impairment at least annually unless certain interim triggering events or circumstances require more frequently testing. No impairments were recorded in 2010, nor any amortization.

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