

Acct 301 Chapter 9 Group Activity Answer Key (P1A)
301C9gp.doc/jun'09/Burbage

<u>Item #</u>	<u>Account classification</u>	<u>Amount</u>
1	land	280,000
2	fence – land improvement	6,800
3	land	24,000
4	building	23,000
5	land	2,179
6	parking lot – land improvements	29,000
7	building	33,000
8	property tax expense	5,800
9	building	640,000

Cost of building from above is **\$696,000**

Assume: salvage value is \$96,000 and life is 20 years

Required:

1. Calculate depreciation expense for years 2005-2007 using SL beginning 1/1/05.
2. Calculate depreciation expense for years 2005-2007 using SL beginning 9/30/05.
3. Calculate depreciation expense for years 2005-2007 using DDB beginning 1/1/05.
4. Calculate depreciation expense for years 2005-2007 using DDB beginning 9/30/05.

SL depreciation formula: $(\text{cost} - \text{salvage value}) / \text{life in years} = \text{depreciation for 1 year}$

DDB depreciation formula: $\text{book value} \times \text{rate} = \text{depreciation for 1 year}$

Book value = cost – accumulated depreciation

Rate = $(1 / \text{life in years}) \times 2$ ← put rate into decimal form

1. 2005: $(696,000 - 96,000) / 20 = \mathbf{30,000}$
2006: **30,000** same as above – note SL is always the same amount for each full year
2007: **30,000** same as above
2. 2005: $(696,000 - 96,000) / 20 \times 3/12^* = \mathbf{7,500}$
2006: **30,000** – same as #1 above
2007: **30,000** – same as #1 above

DDB Rate for 20 year asset = $(1/20) \times 2 = .10$

3. 2005: $(696,000 - 0) \times .10 = \mathbf{69,600}$
2006: $(696,000 - 69,600) \times .10 = \mathbf{62,640}$
2007: $(696,000 - [69,600 + 62,640]) \times .10 =$
 $(696,000 - 132,240) \times .10 =$
 $(563,760) \times .10 = \mathbf{56,376}$
4. 2005: $(696,000 - 0) \times .10 \times 3/12^* = \mathbf{17,400}$
2006: $(696,000 - 17,400) \times .10 = \mathbf{67,860}$
2007: $(696,000 - [17,400 + 67,860]) \times .10 =$
 $(696,000 - 85,260) \times .10 =$
 $(610,740) \times .10 = \mathbf{61,074}$

*9/30/05 to 12/31/05 = 3/12 of a year