

## SOLUTIONS

## Learning Goal 6

## Multiple Choice

1. d All the names are used. In this book, we use “plant and equipment” most often.
2. b *Note:* Some textbooks do not use separate Depreciation Expense accounts. That is, all the depreciation expense is recorded in only one expense account called “Depreciation Expense.”
3. a
4. d No such account! There is Depreciation Expense and there is Accumulated Depreciation. Be precise here.
5. c Total assets are decreased because the credit balance in Accumulated Depreciation increases. Net income is decreased because Depreciation Expense increases total expenses.
6. d Total assets would be overstated because accumulated depreciation would be too small. Net income would be overstated because total expenses would be understated—not enough depreciation expense.
7. c
8. a  $(17,500 - 3,500) + 100,000 = 114,000$
9. b The credit balance of the Accumulated Depreciation account offsets the debit balance in the asset account. This is called a *contra-asset* account.
10. c The most difficult situation in which to apply the matching principle is when some item must be allocated between two or more accounting periods and the item does not have an exactly predictable usage. This forces accountants to estimate the usage. The only item here that requires an estimate of usage (useful life) is item (c). Item (d) is the easiest because the transaction only affects one period.
11. b
12. c  $(\$27,000/5) \times 9/12$  (the asset was owned for nine months in the fiscal year) = \$4,050.  
*Note:* What the asset normally sells for is irrelevant. Only actual cost is used for depreciation.

## Reinforcement Problems

**LG 6-1.** Accumulated depreciation is a contra asset account and has a normal credit balance. It appears with the asset accounts on the balance sheet. Depreciation expense is an expense account and has a normal debit balance. It appears with the expenses on the income statement.

**LG 6-2.** By using the Accumulated Depreciation account, credit entries in the asset account are only for reductions or disposals of the asset. Secondly, the use of an Accumulated Depreciation account allows us to quickly and easily see the total accumulated depreciation that has been recorded for each plant and equipment asset (or group).

<b>LG 6-3.</b> Depreciation Expense—Office Equipment	1,500	
Accumulated Depreciation—Office Equipment		1,500

## SOLUTIONS

## Learning Goal 6, continued

## LG 6-4.

Date	Account Titles and Explanation	Post. Ref.	Debit	Credit
Dec.	(a)			
31	Depreciation Expense—Computer		2,450	
	Accumulated Depreciation—Computer			2,450
	To record one year of depreciation expense: $12,250/5$			
	(b)			
Dec.	Depreciation Expense—Drilling Equipment			
31	Accumulated Depreciation—Drilling Equipment		2,550	
	To record nine months of depreciation expense:			2,550
	Calculated as $(35,000 - 1,000/10) \times (9/12)$			
June	(c)			
30	Depreciation Expense—Truck		5,400	
	Accumulated Depreciation—Truck			5,400
	To record six months of depreciation expense:			
	$(54,000/5) \times (6/12)$			

**LG 6-5.** \$480,000. Use the formula for 10-year straight-line depreciation  
 $[\text{cost } (x) - \text{residual value } (0)] / \text{useful life } (10): [(x - 0) / 10] \times 3/12 = 12,000$ .  
 $1/10 x = 48,000$   
 $x = 480,000$

The \$12,000 in the accumulated depreciation account is the current period depreciation expense (for three months) because this is the first year the asset is owned.