Review Answer Key
Question 1

(a)

	2008	2009
(i)	(30,000 - 12,000) ÷ 3 x 3/12 = $1,500	(30,000 - 12,000) ÷ 3 = $ 6,000
(ii)	(30,000 - 12,000) ÷ 75,000 x 8,000 = $1,920	(30,000 - 12,000) ÷ 75,000 x 39,000 = $9,360

(b) Because revenue is based on units of activity (kilometres driven) the method that will best match depreciation expense with revenue is units–of-activity.

Question 2

1. Straight-line method: $\dfrac{\$60{,}000 - \$5{,}000}{5}$ = $11,000 per year

2. Units-of-activity method: $\dfrac{\$60{,}000 - \$5{,}000}{100{,}000 \text{ units}}$ = $0.55 per unit

2008	16,000 units × $.55	=	$ 8,800
2009	24,000 units × $.55	=	13,200
Accumulated depreciation		=	$22,000

Cost of asset	$60,000
Less: Accumulated depreciation	22,000
Net book value	$38,000

3. Double declining-balance method:

	Net Book Value Beginning of Year	×	Declining-Balance Rate	=	Depreciation Expense	Accumulated Depreciation
2008	$60,000		40%		$24,000	$24,000
2009	36,000		40%		14,400	38,400
2010	21,600		40%		8,640	47,040

Question 3

(a)

Straight-line

Year	Depreciable Cost	×	Depreciation Rate	=	Annual Depreciation	Accumulated Depreciation	Net Book Value
2007	$26,000,000		5%		$1,300,000	$1,300,000	$28,700,000
2008	26,000,000		5%		1,300,000	2,600,000	27,400,000

Double declining-balance

Year	Net Book Value Beginning Year	×	Depreciation Rate	=	Annual Depreciation	Accumulated Depreciation	Net Book Value

2007	$30,000,000	10%	$3,000,000	$ 3,000,000	$27,000,000
2008	27,000,000	10%	2,700,000	5,700,000	24,300,000

(b)	Net book value, January 1, 2009	$27,400,000
	Less: Revised residual value	3,000,000
	Depreciable cost	$24,400,000
	Remaining useful life (15 years – 2 years)	13 yrs.
	Revised annual depreciation	$1,876,923

Question 4

Solution 20 (15 min.)

(a)	Depreciation Expense	1,800	
	Accumulated Depreciation—Equipment		1,800
	To record depreciation expense for the first 3 months of 2004. ($7,200 × 3/12 = $1,800.		
	Cash	21,000	
	Loss on Disposal	6,800	
	Accumulated Depreciation—Equipment ($50,400 + $1,800)	52,200	
	Equipment		80,000
	To record sale of equipment at a loss.		
(b)	Cash	11,000	
	Accumulated Depreciation—Delivery Truck	20,000	
	Delivery Truck ($25,000 + $6,000)		31,000
	To record disposition on delivery truck at net book value.		
(c)	Cash	6,000	
	Accumulated Depreciation—Office Equipment	10,500	
	Office Equipment		15,000
	Gain on Disposal		1,500
	To record disposal of office equipment at a gain.		

Question 5

Solution 16 (5 min.)

Calculate the net book value at the time of the revision:

$$\frac{\$90{,}000 - \$5{,}000}{10 \text{ years}} = \$8{,}500 \text{ annual depreciation expense}$$

2 years have been depreciated: $8,500 × 2 = $17,000

Net book value at the time of the revision: $90,000 – $17,000 = $73,000

Calculate the revised annual depreciation:

$$\frac{\$73{,}000 - \$6{,}000}{\text{6 years remaining}} = \$11{,}167 \text{ revised annual depreciation}$$

The depreciation expense for 2008 is $11,167.