

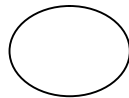
Accounting 212

Unit three: Property, Plant and Equipment Depreciation

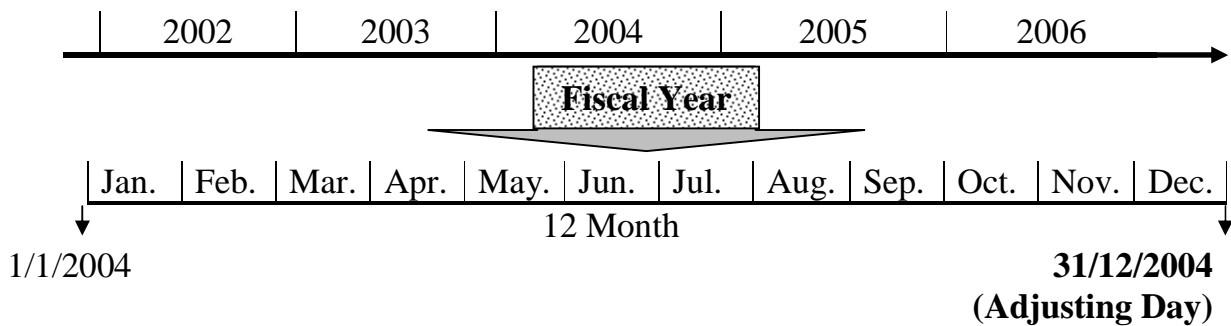


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.....: الصف:
.....: المدرسة:

الرقم التسلسلي



* Years Line and Going Concept:



* The matching principle: An expense is always compared, or matches, to revenue for the same period.

Key term introduced

Fixed assets:.....	الأصول الثابتة	Disposal value:	القيمة التخريدية
Equipment:.....	المعدات	Salvage value:	القيمة التخريدية
Machines:.....	الآلات	Straight – line method:	طريقة القسط الثابت
Furniture:	الأثاث	Declining balance method:	طريقة القسط المتناقص
Truck:	الشاحنات	Depreciation exp.:	مصروف الإهلاك
Cost price:	سعر التكلفة	Accumulated depreciation:	مجمع الإهلاك
Acquisition cost:	تكلفة الحيازة	Net book value:.....	صافي القيمة الدفترية
Taxes:	الضريبة	Income statement:	قائمة الدخل
Freight:	النقل	Balance sheet:	قائمة المركز المالي
Depreciation Base:	القيمة المهلكة		
Useful life:	العمر الإنتاجي		

*** Calculate the Cost of Plant and Assets:**

Acquisition Cost = Purchase Cost of plant + (Purchase Expenses)

* Purchase Expenses = (Taxes, Freight, Insurance, Fixing, Testing, ...est.).

Exercise 1:

Nasser factories purchased Machine at a cash price of BD15,000 in 1st March 2004. They also paid sales taxes BD1,500, insurance during shipping BD500, and installation and testing BD1,000.

Required: Calculate the Acquisition Cost of the Machine.

Solution:

.....

.....

Exercise 2:

Awal Company purchased a Delivery-Van at a cost of BD16,000 in January 1,2004. The Company paid BD2,000 for shipping and taxing, and installation and testing BD2,000.

Required: Calculate the Acquisition Cost of the Delivery-Van.

Solution:

.....
.....

Depreciation as Expenses

Accounting Concept:

- * Useful life: Operation years.

- * Salvage value: estimated amount of assets after Operation years.

- * Depreciation Base = Acquisition Cost - Salvage value

- * Depreciation expense: is “the allocation of the depreciable amount of assets over its estimated useful life.

- * Accumulated depreciation: Sum of Depreciation exp. in the course of Useful live.

- **** The adjustment entry to record the Depreciation expense is:

*

*

General Journal

Date	Explanation	L.F	Dr	Cr

Financial statement:

Income statement			Balance sheet		
<u>Revenue:</u>			<u>Fixed Assets:</u>		
S. revenue	***		Machines	15,600	
Total revenue		****	Less: Accumulated Dep.	600	
<u>Expenses:</u> Depreciation					15,000
Exp.	600				

Methods of Calculating Deprecation Expenses:

First: Straight – Line Method:

Under this method an equal amount for depreciation is charged each year over the useful life of the asset.

It can be expressed in 2 ways:

1. By using useful life:

$$\text{Deprecation Expenses} = \frac{\text{Acquisition Cost} - \text{Salvage value}}{\text{Useful life}}$$

2. By using percentage rate:

$$\text{Deprecation Rate} = 100 \div \text{Useful life}$$

$$\text{Deprecation Expenses} = \text{Acquisition Cost} - \text{Salvage value} \times \text{Dep. rate}$$

.....

Exercise 3:

Al Salam Transportation Company purchased a bus on January 1,2004. Relevant information is given below:

Purchase price	BD18000
Tax	2000
Fright cost	1500
Salvage value	2500
Useful life	four years

Required:

Answer the following questions:

1. The acquisition cost of the bus =.....
2. The depreciation base =.....
3. The depreciation expenses for the first year by using the **straight-line method** is:
Depreciation expenses =.....

Or

Depreciation rate=.....

Depreciation expenses

4. Calculate the Depreciation Expenses, Accumulated Depreciation and Net Book Value using the following table, using the Straight Line Method.

Depreciation Schedule

Year	Calculations	Annual Depreciation	Accumulated Depreciation	Net Book Value
2004				
2005				
2006				
2007				

5. Record the journal entry for the first year.

General Journal

Date	Explanation	L.F	Debit	Credit

6. Show the effect on the financial statement.

Income statement

<u>Revenue:</u>		
S. revenue	***	
Total revenue		****
<u>Expenses:</u>		
.....	

Financial statement:

Balance sheet

<u>Fixed Assets:</u>		
.....		
.....		

7. Re-calculate depreciation expense if the bus was bought on 1st May, 2004.

Exercise 4:

Jawad Cleaning Company purchased Cleaning Machine on 1st January 2004
 BD34,000 – Tax BD1,700 – Fright cost BD500. It's estimated useful live is 6 years
 and the expected salvage value is 200.

Required:

- A. Calculate the depreciation expense for the first year using the straight-line method.
- B. Prepare journal entry to record depreciation at December 31, 2004 .
- C. Re-calculate the depreciation expense if the Machine was bought on 1st March, 2004.

Solution:

A)

.....

.....

B)

General Journal

Date	Explanation	L.F	Debit	Credit

C)

.....

Exercise 5:

Majed Transportation Company bought Machine on 1st January 2004. Relevant information is given below:

Cost	16,000
Taxes	1,000
Fright cost	1,000
Salvage Value	1,500
Useful life	5 years

Required:

1. Calculate the Depreciation for each year using the Straight Line Method.
2. Record the journal entries for the first year

Solution:

1. .

.....

Depreciation Schedule

Year	Calculations	Annual Depreciation	Accumulated Depreciation	Net Book Value

2.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 6:

Waseem Transportation Company bought two buses. The company used straight – line method, information related to the buses is given below:

Bus	Date of purchase	Cost	Salvage value	Useful life	Depreciation method
1	1/1/2004	BD30,000	BD5,000	6 years	Straight – line
2	31/3/2004	BD24,000	BD6,000	4 years	Straight – line

Required: Calculate the depreciation expense for first year for each Bus.

Solution:

A).

Bus 1:

.....

Bus 2:

.....

Second: Reducing or declining Balance Method.

$$\text{Deprecation Rate} = 100 \div \text{Useful life}$$

Thirdly: Declining Balance Method.

$$\text{Deprecation Rate} = 100 \div \text{Useful life} \times 2$$

$$\text{Deprecation Exp.} = \text{Acquisition Cost} - \text{Accumulated Dep.} \times \text{Depreciation Rate}$$

Exercise 7:

Calculate the Depreciation Rate for the following useful life.

Useful life	Calculation	Depreciation rate
4		
5		
10		
16		

Exercise 8:

Amenco heavy Transportation purchased Truck on 1st January 2004. Relevant information is given below:

Cost	16,000
Taxes	1,000
Fright cost	1,000
Salvage value	1,500
Useful life	5 years

Required:

A. Calculate the Depreciation Expenses for each year using the Declining Balance Method.

B. Prepare the journal entries for first and last year.

Solution:

A).

Depreciation Schedule

Year	Calculation	Annual Depreciation	Accumulate Depreciation	Not book value
2004- 1				

B).

The journal entries for first year:

General Journal

Date	Details	L.F	Debit	Credit

The journal entries for last year:

General Journal

Date	Explanation	L.F	Debit	Credit

=====

Exercise 9:

Cars Transportation Company bought Bus on 1st January 2004. Relevant information is given below:

Cost	BD 15,500
Taxes	500
Fright Cost	1,000
Useful life	5 years

Required:

- A. If the declining balance method is used, work out the Depreciation expense for each year.
- B. Prepare the journal entry for year 1 and year 2.
- C. If the Bus was purchased in 1st March instead of 1st January what will be the depreciation charge at first and second year.

Solution:

A).

.....

Depreciation Schedule

Year	Calculation	Annual Depreciation	Accumulate Depreciation	Not book value
2002- 1				

B).

The journal entries for first year:

General Journal

Date	Explanation	L.F	Debit	Credit

The journal entries for second year:

General Journal

Date	Explanation	L.F	Debit	Credit

C).

Depreciation of first year:

.....

.....

Depreciation of second year:

.....

.....

Exercise 10:

(A) Complete the following depreciation schedule if the Declining Balance Method is used:

Depreciation Schedule

Year	Calculation	Annual Depreciation	Accumulate Depreciation	Not book value
1	7,000 x 30%	.....	.....	4,900
2	..... x 30%	1,470	.....	.....
3	3430 x .....	.....	4,599	.....
4	..... x .....	.....	.....	1680.7

(B) Prepares the journal entries for the first and second year.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 11:

Waseem Transportation Company bought two buses. The company used both the depreciation method because of heavy turnover in account department. Information related to the buses is given below:

Bus number	Date of purchase	Cost	Salvage value	Useful life	Depreciation method
1	1/3/2004	BD34,000	BD4,000	4 years	Straight-line
2	1/6/2004	BD26,000	BD2,000	4 years	Declining balance

Required:

A. Calculate the depreciation expense for first year for each Bus.

B. Prepares the journal entries for the first year.

Solution:

A.

Depreciation expense for first year of Bus No. 1:

.....

Depreciation expense for first year of Bus No. 2:

.....

.....

B. General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 11:

Amal Company bought two Machines. The company used both the depreciation method because of heavy turnover in account department. Information related to the buses is given below:

Machines No.	Date of purchase	Cost	Salvage value	Useful life	Depreciation method
1	1/3/2004	BD35,000	BD5,000	4 years	Straight – line
2	1/4/2004	BD20,000	BD2,000	4 years	Double Declining

Required:

A. Calculate the depreciation expense for first and last year for each Machine.

B. Prepares the journal entries for the first year of Machines.

Solution:

A. Machine No. 1:

Depreciation expense for first year:

.....

Depreciation expense for last year:

.....

Depreciation Schedule

Year	Calculation	Annual Depreciation	Accumulate Depreciation	Not book value
First				
Second				
Third				
Fourth				

C. The journal entries for the first year of Machines:

.....

General Journal

Date	Explanation	L.F	Debit	Credit