4. A one-year insurance policy was purchased on August 1, 20-1 for $648.

A. Calculate the value of the prepaid insurance for this policy as of December 31, 20-1.

B. Calculate the portion of the cost of this insurance policy to be charged as an expense to each of the years ended December 31, 20-1 and 20-2.

5. For each of the following insurance policies perform the required calculations:

A. Calculate the value of the prepaid insurance at the year-end date shown.

B. Prepare the adjusting journal entry for the year end shown.

Policy	a.	b.	c.
Purchase date	Oct. 1, 20–4	Oct. 1, 20–4	Oct. 1, 20–4
Year-end date	Dec. 31, 20–4	Dec. 31, 20–5	Oct. 31, 20–4
Term of policy	1 year	2 years	1 year
Premium	$360	$360	$456

Policy	d.	e.	f.
Purchase date	Mar. 1, 20–1	June 1, 20–6	July 1, 20–4
Year-end date	Dec. 31, 20–1	June 30, 20–6	Dec. 31, 20–5
Term of policy	1 year	1 year	2 years
Premium	$720	$900	$1080

6. Use T-accounts to help you do this exercise in your Workbook.
The Kaleido Glass Shop began business on October 1, 20-0. Its first fiscal year ended on September 30, 20-1. On January 1, 20-1, $720 was paid for a truck licence for the 20-1 calendar year.

A. Give the accounting entry to record the above transaction.

B. Calculate the value for prepaid licences on September 30, 20-1.

C. Calculate the truck licence expense for the fiscal period ended September 30, 20-1.

D. Give the adjusting entry necessary at September 30, 20-1.

On January 1, 20-2, $720 was paid for the truck licence for the 20-2 calendar year.

E. Give the balance in the Prepaid Licences account after recording the above payment.

F. Calculate the value for prepaid licences on September 30, 20-2.

G. Calculate the truck licence expense for the fiscal period ended September 30, 20-2.

Perhaps these conclusions have caused you to ask some questions. For example, is the business pleased with the declining-balance method, or would it prefer the straight-line calculations for its tax calculations? How does the declining-balance method benefit the interests of government? Can a business use the 50% rule to its advantage? Wondering about these questions indicates a high-level of curiosity, and curiosity is essential to your becoming a successful student of accounting.

Section 9.5 Review Questions

1. Define "depreciation."
2. Why is it not possible to make a precise calculation of depreciation until the end of the asset's useful life?
3. What is the simplest depreciation method?
4. Give the formula for calculating straight-line depreciation.
5. How is depreciation for partial years handled when straight-line depreciation is used?
6. Give the basic adjusting entry for depreciation.
7. How is a depreciable asset represented in the ledger accounts?
8. What is a contra account?
9. What depreciation method is required by Canada Customs and Revenue Agency for income tax purposes?
10. Describe how to calculate declining-balance depreciation.
11. Why is taxation a challenging area of study?
12. Under Canada Customs and Revenue Agency rules, how much of an asset's cost can be used for calculating its first-year depreciation?
13. How can the 50% rule simplify an accountant's work?

Section 9.5 Exercises

1. **In your Workbook, for each of the following situations, allocate the total cost to the proper fiscal periods. Assume that the company commenced business on January 1, 20-1 and has a fiscal year-end of December 31.**

   A. A truck was purchased on January 1, 20-1 for $18 000. It was expected to last for five full years, at the end of which it would have a trade-in value of $3 000. Use the straight-line method of depreciation.

20-1	20-2	20-3	20-4	20-5

   B. A used vehicle was bought on November 1, 20-1 for $5 800. It was expected to last for four full years, at the end of which it would have a resale value of $1 000. Use the straight-line method of depreciation.

20-1	20-2	20-3	20-4	20-5

C. A building was purchased on May 1, 20-2 for the sum of $113 000. It was expected to last for 25 years, at which time it would have a resale value of $5 000. Use the straight-line method of depreciation.

20-1	20-2	20-3	20-4	20-5

D. A new machine was bought on January 1, 20-1 for $54 000. It is depreciated using the declining-balance method at the rate of 20 per cent.

20-1	20-2	20-3	20-4	20-5

E. A new building was bought on July 1, 20-1 for $282 000. It is depreciated using the declining-balance method at the rate of 5 per cent.

20-1	20-2	20-3	20-4	20-5

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2. A company purchases computer equipment costing $100 000, which it expects to last for seven years and to have a salvage value of $5 500.

A. For the use of management, prepare a depreciation schedule for the first five years of the asset's life showing depreciation calculated on a straight-line basis.

B. Prepare a depreciation schedule for the first five years of the asset's life showing depreciation calculated on a declining-balance basis at the rate of 30 per cent.

C. Using the amounts from Year 3 of your schedules, prepare the adjusting entry required by the straight-line method of depreciation. Repeat for the declining-balance method. Which adjusting entry saves the company the most money? Why?

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3. On page 336–337, a van costing $22 500 is depreciated for five years, and the net income is calculated for the years 20-1 through 20-5. For this exercise assume the entire cost of the van was counted as an expense in the year 20-1.

A. Under the above assumption, calculate the net incomes for each of the five years. Write your answers in the spaces provided in your Workbook.

B. To compare the two different sets of net income, complete a bar chart in the space provided in your Workbook.

C. Which year misrepresents net income most dramatically? Are the net incomes for the other years overstated or understated? In which year would the least amount of tax be paid?

4. This exercise appears in your Workbook.
The simplified general ledger of Shahid Company of Abbotsford, British Columbia, at the end of its annual fiscal period appears below.

A. Using the additional information that is provided, record the year-end adjusting entries directly in the T-accounts.

B. Prepare an adjusted trial balance.

Bank	
400	

Accounts Receivable	
8 285	

Supplies	
1 900	

Prepaid Insurance	
1 800	

Land	
50 000	

Buildings	
70 000	

Accum. Depr. Buildings	
	6 750

Equipment	
96 500	

Accum. Depr. Equipment	
	24 000

Accounts Payable	
	3 200

J. Salk, Capital	
	144 985

J. Salk, Drawings	
30 000	

Revenue	
	140 700

Bank Charges Expense	
450	

Delivery Expense	
1 500	

Miscellaneous Expense	
490	

Telephone Expense	
390	

Utilities Expense	
1 300	

Wages Expense	
56 620	

Supplies Expense	

Insurance Expense	

Depreciation Exp.—Buildings	

Depreciation Exp.—Equipment	

Additional Information

1. Inventory of supplies at the year-end is $850.
2. Unexpired insurance at the year-end is $625.
3. Depreciation is calculated on a straight-line basis. The building is expected to last 40 years, after which it will be worth $25 000. The equipment is expected to last 15 years, after which it will be worth $6 500. Ignore the 50% rule.