

Accounting



- 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

Policy	a.
Purchase date	Oct. 1, 204
Year-end date	Dec. 31, 204
Term of policy	1 year
Premium	\$360

Policy	a.
Purchase date	Oct. 1, 2014
Year-end date	Dec. 31, 2014
Term of policy	1 year
Premium	\$360

Premium is purchased, for \$360, on October 1, and it is good for one year. (12 months)

When we make the purchase, we use the 'Prepaid Insurance' account.

Oct 1	Prepaid Insurance	360
	Bank	360

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

Policy	a.
Purchase date	Oct. 1, 20 4
Year-end date	Dec. 31, 20 4
Term of policy	1 year
Premium	\$360

B.) Dec 31 Insurance Expense 90
Prepaid Insurance 90

On December 31, we have to make an adjustment for the amount we have used up.

October, November, December (3 months out of 12) have been used up.

Thus, \$360 (the total amount) * 3/12 (# months used) = \$90

b.
Oct 1, 20-4
Dec. 31, 20-5
2 years
\$360

\$360 for two years (24 months)
 = $360 / 12 = \$15 / \text{month}$.

Oct 1, 2004	Prepaid Insurance	360	
	Bank		360
Dec 31, 2004	Insurance Expense	45	
	Prepaid Insurance		45
Dec 31, 2005	Insurance Expense	180	
	Prepaid Insurance		180

€
Oct 1, 20-4
Oct 31, 20-4
1 year
\$456

\$456 for 1 year (12 months)
= \$38 per month

Oct 1, 2004	Prepaid Insurance	456	
	Bank		456
Oct 31, 2004	Insurance Expense	38	
	Prepaid Insurance		38

We usually make adjustments on December 31, but the fiscal year end for this business must be October 31.

Policy	d.
Purchase date	Mar. 1, 20-1
Year-end date	Dec. 31, 20-1
Term of policy	1 year
Premium	\$720

\$720 over 12 months = \$60 per month

March 1, until Dec. 31, is **10** months.

Dec 31	Insurance Expense	600
	Prepaid Insurance	600

e.
June 1, 20-6
June 30, 20-6
1 year
\$900

1 year (12 months) for \$900 = $900/12 = \$75$ per month

We prepay the premium on June 1 and make an adjustment on June 30.

June 30	Insurance Expense	75
	Prepaid Insurance	75

f.
July 1, 20-4
Dec. 31, 20-5
2 years
\$1080

2 year premium for \$1080, which over 24 months is $\$1080/24 = \45 per month

There would be an adjustment on December 31 of 2004 for 6 months.

For 2005, there would be an adjustment from Jan 1 to Dec 31 (12 months)

Dec 31, 2005	Insurance Expense	\$540	
	Prepaid Insurance		\$540
	<i>Adjusting Entry: 12 months * \$45</i>		

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

First step: Calculate the yearly depreciation with the formula.

$$\frac{(\text{Original Price} - \text{Residual Value})}{\text{Useful Life}} = \frac{18,000 - 3,000}{5}$$

$$= \$3,000 / \text{year}$$

I. 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.

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20-1	20-2	20-3	20-4	20-5
\$1,500	\$3,000	\$3,000	\$3,000	\$3,000

Second Step: \$3000 yearly depreciation

*Half Year Rule: (applies to first year of depreciation) = \$1500

- Adjustment for Depreciation:

Dec 31	Depreciation Expense	XX	
	Accumulated Depreciation – Asset		XX

This is always the format of our depreciation adjusting entry.

I. 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
	\$1,500	\$3,000	\$3,000	\$3,000	\$3,000

Dec 31, 2001	Depreciation Expense	1,500	
	Accumulated Depreciation- Truck		1,500
Dec 31, 2002	Depreciation Expense	3,000	
	Accumulated Depreciation- Truck		3,000
Dec 31, 2003	Depreciation Expense	3,000	
	Accumulated Depreciation- Truck		3,000

same entry for 2004 & 2005

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
\$600	\$1,200	\$1,200	\$1,200	

Step 1: $(\$5,800 - \$1,000) / 4 = 4,800/4 = \$1,200$ yearly depreciation.

Step 2: *Half year rule*

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
	\$600	\$1,200	\$1,200	\$1,200	

Year	Value at Start of Year	Amortization	Value at end of the year
1	5,800	600	5,200



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
	\$600	\$1,200	\$1,200	\$1,200	

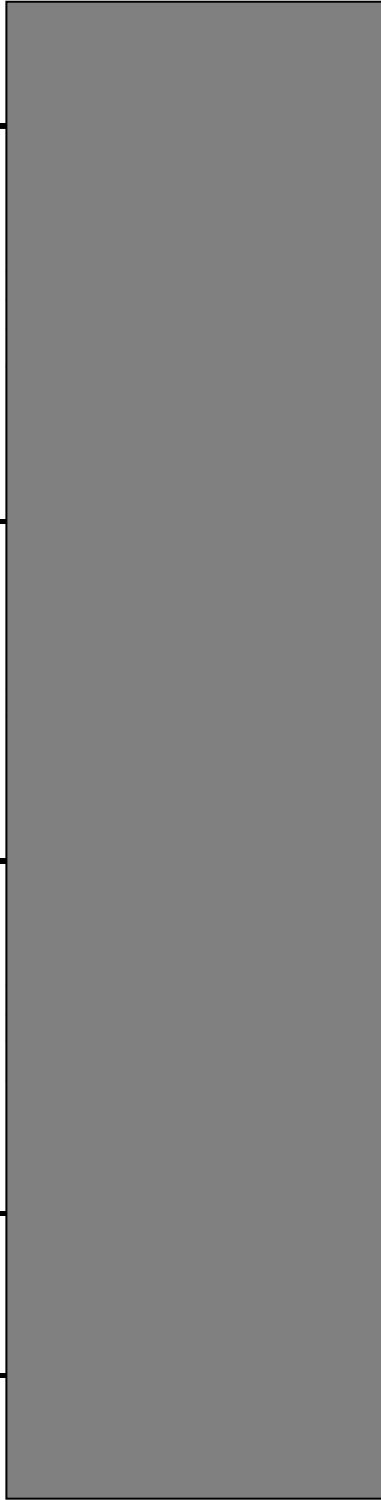
Year	Value at Start of Year	Amortization	Value at end of the year
1	5,800	600	5,200
2	5,200	1200	4,000



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
	\$600	\$1,200	\$1,200	\$1,200	

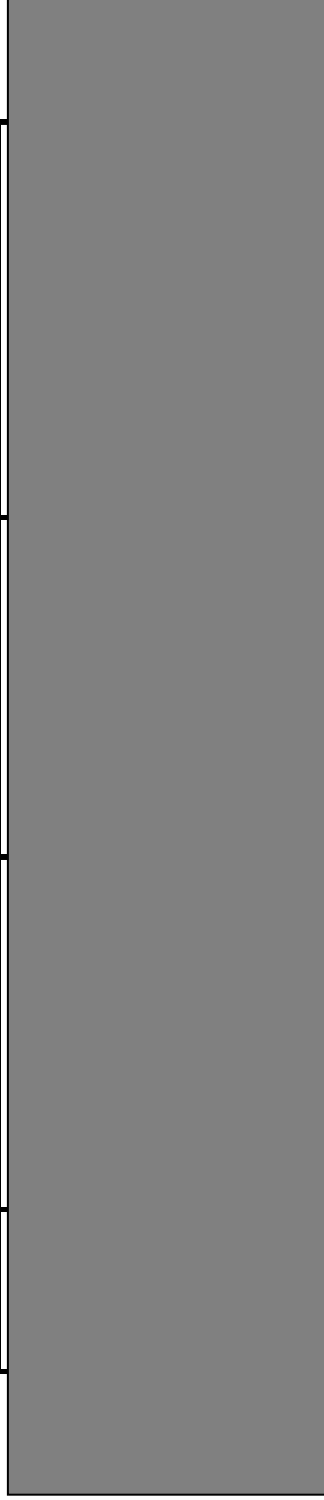
Year	Value at Start of Year	Amortization	Value at end of the year
1	5,800	600	5,200
2	5,200	1200	4,000
3	4,000	1200	2,800
4	2,800	1200	1,600



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
	\$600	\$1,200	\$1,200	\$1,200	\$600

Year	Value at Start of Year	Amortization	Value at end of the year
1	5,800	600	5,200
2	5,200	1200	4,000
3	4,000	1200	2,800
4	2,800	1200	1,600
5	1,600	600	1,000



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
	\$600	\$1,200	\$1,200	\$1,200	\$600

Year	Value at Start of Year	Amortization	Value at end of the year
1	5,800	600	5,200
2	5,200	1200	4,000
3	4,000	1200	2,800
4	2,800	1200	1,600
5	1,600	600	1,000
6	1,000	0	1,000
7	1,000	0	1,000

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
	\$600	\$1,200	\$1,200	\$1,200	\$600

Year	Value at Start of Year	Amortization	Value at end of the year
1	5,800	600	5,200
2	5,200	1200	4,000
3	4,000	1200	2,800
4	2,800	1200	1,600
5	1,600	600	1,000
6	1,000	0	1,000
7	1,000	0	1,000
8	1,000	0	1,000
9	1,000	0	1,000
10	1,000	0	1,000

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
	\$2,160	\$4,320	\$4,320	\$4,320	\$4,320

Step 1: $(\$113,000 - \$5,000) / 25 = \$4,320$

Step 2: \$4,320 yearly (first year is \$2,160 because of the half year rule.)

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.

Year	Value at Start of Year	Amortization	Value at end of the year
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

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.

Step 1: Calculate the yearly depreciation using our formula.

$$\begin{aligned} & (\$100,000 - \$5,500) / 7 \\ & = 13,500 \text{ per year.} \end{aligned}$$

(remember the half year rule as well!)

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.

Step 2:

Year	Value at Start of Year	Amortization	Value at end of the year
1	100,000	6,750	93,250
2	93,250	13,500	79,750
3	79,750	13,500	66,250
4	66,250	13,500	52,750
5	52,750	13,500	39,250
6	39,250	13,500	25,750
7	25,750	13,500	12,250
8	12,250	6,750	5,500

Can't go below the salvage value..!

Step 2:

Year	Value at Start of Year	Amortization	Value at end of the year
1	100,000	6,750	93,250
2	93,250	13,500	79,750
3	79,750	12,500	67,250

This is the value from the end of the previous year.

This is the value at the start of the year – the amortization.

Bank
400

Prepaid Insurance
1 800

Accum. Depr. Buildings
6 750

Accounts Payable
3 200

Revenue
140 700

Miscellaneous Expense
490

Wages Expense
56 620

Depreciation Exp.—
Buildings

Accounts Receivable
8 285

Land
50 000

Equipment
96 500

J. Salk, Capital
144 985

Bank Charges Expense
450

Telephone Expense
390

Supplies Expense

Depreciation Exp.—
Equipment

Supplies
1 900

Buildings
70 000

Accum. Depr. Equipment
24 000

J. Salk, Drawings
30 000

Delivery Expense
1 500

Utilities Expense
1 300

Insurance Expense

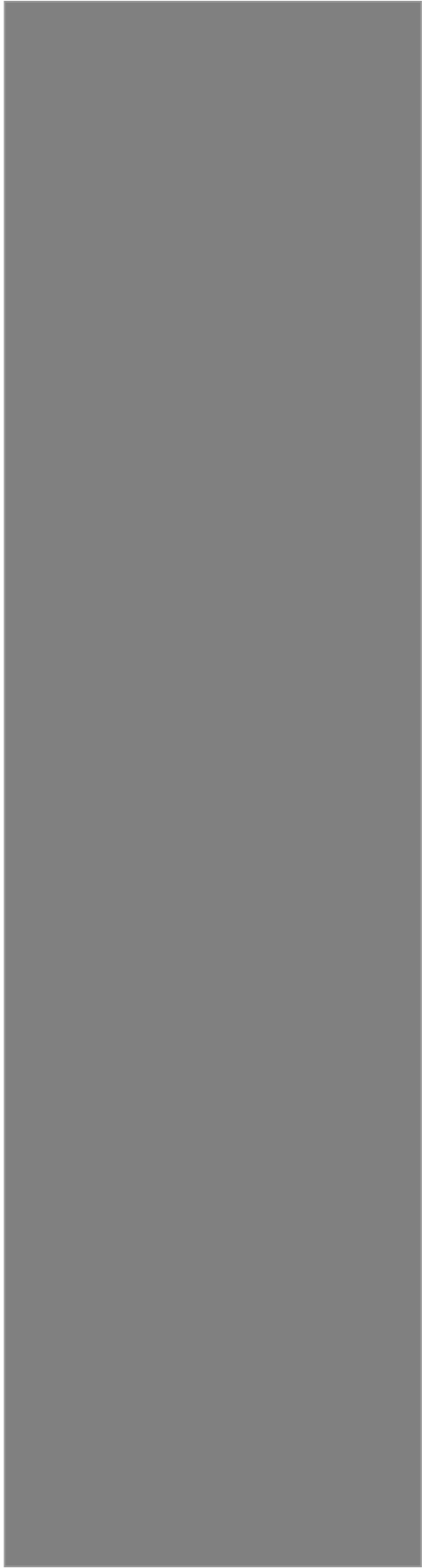
Additional Information

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.

Dec 31 Adjusting Entries

1. Supplies started at \$1,900, so \$1,050 have been used up.

Dec 31	Supplies Expense	\$1,050	
	Supplies		\$1,050



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.

Dec 31 Adjusting Entries

1. Supplies started at \$1,900, so \$1,050 have been used up.

Dec 31	Supplies Expense	\$1,050	
	Supplies		\$1,050

2. Prepaid Insurance started at \$1,800, so \$1,375 has been used up.

Dec 31	Insurance Expense	\$1,375	
	Prepaid Insurance		\$1,375

3. See next page...

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.

Step 1: Buildings are worth \$70,000. (*From the T accounts*)

They have a residual value of \$25,000 and last for 40 years.
(and we are ignoring the %50 rule.)

Calculation: $(\$70,000 - \$25,000) / 40 = \$1,125$ per year.

Step 2:

Dec 31	Depreciation Expense	\$1,125
	Accumulated Depreciation – Building	\$1,125

Similar calculation and entry done for equipment.

40 inch LED television...



- i) Prepare an amortization schedule for the following television
 - \$800 purchase price.
 - \$100 salvage value.
 - 10 year useful life.
- ii) Give the journal entries for:
 - The purchase of the television.
 - The first two years of depreciation.

Year	Value at Start of Year	Amortization	Value at end of the year
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			