

Complete P8-3 (page 432) and CP8-2 (page 443) from Chapter 8 of your *Financial Accounting* textbook.

**P8-3**

**Computing the Acquisition Cost and Recording Depreciation under Three Alternative Methods (AP8-3)**

**LO8-2, 8-3**

At the beginning of the year, Plummer's Sports Center bought three used fitness machines from Advantage, Inc. The machines immediately were overhauled, installed, and started operating. The machines were different; therefore, each had to be recorded separately in the accounts.

	Machine A	Machine B	Machine C
Amount paid for asset	\$11,000	\$30,000	\$8,000
Installation costs	500	1,000	500
Renovation costs prior to use	2,500	1,000	1,500

By the end of the first year, each machine had been operating 4,800 hours.

*Required:*

1. Compute the cost of each machine.
2. Give the entry to record depreciation expense at the end of year 1, assuming the following:

Machine	ESTIMATES		
	Life	Residual Value	Depreciation Method
A	5 years	\$1,000	Straight-line
B	60,000 hours	2,000	Units-of-production
C	4 years	1,500	Double-declining-balance

**CP8-2**

**Finding Financial Information**

**LO8-1, 8-2, 8-6**

Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book.

*Required:*

For each question, answer it and indicate where you located the information to answer the question. (**Hint:** Use the notes to the financial statements for many of these questions.)

1. What method of depreciation does the company use?
2. What is the amount of accumulated depreciation and amortization at the end of the most recent reporting year?
3. For depreciation purposes, what is the estimated useful life of furniture and fixtures?
4. What was the original cost of leasehold improvements owned by the company at the end of the most recent reporting year?
5. What amount of depreciation and amortization was reported as expense for the most recent reporting year?
6. What is the company's fixed asset turnover ratio for the most recent year? What does it suggest?

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P8-3

Page 432

### Computing the Acquisition Cost and Recording Depreciation under Three Alternative Methods (AP8-3)

#### LO8-2, 8-3



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A	5 years	\$1,000	Straight-line
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C	4 years	1,500	Double-declining-balance

P8-4

### Inferring Depreciation Amounts and Determining the Effects of a Depreciation Error on Key Ratios (AP8-4)

#### LO8-1, 8-3

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## CASES AND PROJECTS

Page 443

### Annual Report Cases

#### CP8-1

#### Finding Financial Information

LO8-1, 8-2, 8-4, 8-6

AMERICAN EAGLE  
OUTFITTERS, INC.

Refer to the financial statements of American Eagle Outfitters in Appendix B at the end of this book.



*Required:*

For each question, answer it and indicate where you located the information to answer the question. (**Hint:** Use the notes to the financial statements for some of these questions.)

1. How much did the company spend on property and equipment (capital expenditures) in fiscal 2011 (the year ended January 28, 2012)?
2. What is the typical estimated useful life of leasehold improvements for amortization purposes?
3. What was the original cost of fixtures and equipment held by the company at the end of the most recent reporting year?
4. What was the amount of depreciation and amortization reported as an expense for the current year? Compare this amount to the change in accumulated depreciation from fiscal year ended 2011 to fiscal year ended 2012. Why would these numbers be different?
5. What is the company's fixed asset turnover ratio for fiscal year ended 2012?

#### CP8-2

#### Finding Financial Information

LO8-1, 8-2, 8-6

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URBAN OUTFITTERS, INC.



Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book.

*Required:*

For each question, answer it and indicate where you located the information to answer the question. (**Hint:** Use the notes to the financial statements for many of these questions.)

1. What method of depreciation does the company use?
2. What is the amount of accumulated depreciation and amortization at the end of the most recent reporting year?
3. For depreciation purposes, what is the estimated useful life of furniture and fixtures?
4. What was the original cost of leasehold improvements owned by the company at the end of the most recent reporting year?
5. What amount of depreciation and amortization was reported as expense for the most recent reporting year?
6. What is the company's fixed asset turnover ratio for the most recent year? What does it suggest?

### CP8-3

#### Comparing Companies within an Industry

LO3-1, 8-3

AMERICAN EAGLE  
OUTFITTERS, INC.

Refer to the financial statements of American Eagle Outfitters (Appendix B) and Urban Outfitters (Appendix C) and the Industry Ratio Report (Appendix D) at the end of this book.



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*Required:*

1. Compute the percentage of net fixed assets to total assets for both companies for the most recent year. Why do the companies differ?
2. Compute the percentage of gross fixed assets that has been depreciated for both companies for the most recent year. Why do you think the percentages differ?
3. Compute the fixed asset turnover ratio for the most recent year presented for both companies. Which company has higher asset efficiency? Why?
4. Compare the fixed asset turnover ratio for both companies to the industry average. Are these companies doing better or worse than the industry average in asset efficiency?