Requirements

1. Set up columns for Land, Land Improvements, Building, and Furniture. Show how to account for each cost by listing the cost under the correct account. Determine the total cost of each asset.
2. All construction was complete and the assets were placed in service on May 1. Record partial-year depreciation for the year ended December 31.

P9-28A *(L.OBJ. 1, 2)* **Capitalized asset cost and first year depreciation, and identifying depreciation results that meet management objectives [30–40 min]**
On January 9, 2010, Swifty Delivery Service purchased a truck at a cost of $67,000. Before placing the truck in service, Swifty spent $2,200 painting it, $500 replacing tires, and $5,000 overhauling the engine. The truck should remain in service for 6 years and have a residual value of $14,700. The truck's annual mileage is expected to be 15,000 miles in each of the first 4 years and 10,000 miles in each of the next 2 years—80,000 miles in total. In deciding which depreciation method to use, Jerry Speers, the general manager, requests a depreciation schedule for each of the depreciation methods (straight-line, units-of-production, and double-declining-balance).

Requirements

1. Prepare a depreciation schedule for each depreciation method, showing asset cost, depreciation expense, accumulated depreciation, and asset book value.
2. Swifty prepares financial statements using the depreciation method that reports the highest net income in the early years of asset use. For income-tax purposes, the company uses the depreciation method that minimizes income taxes in the early years. Consider the first year that Swifty uses the truck. Identify the depreciation methods that meet the general manager's objectives, assuming the income tax authorities permit the use of any of the methods.

P9-29A *(L.OBJ. 2, 3)* **Lump sum asset purchases and partial year depreciation [20–25 min]**
Whitney Plumb Associates surveys American eating habits. The company's accounts include Land, Buildings, Office equipment, and Communication equipment, with a separate accumulated depreciation account for each asset. During 2011, Whitney Plumb completed the following transactions:

Jan 1	Traded in old office equipment with book value of $26,000 (cost of $126,000 and accumulated depreciation of $100,000) for new equipment. Plumb also paid $82,000 in cash.
Apr 1	Acquired land and communication equipment in a group purchase. Total cost was $410,000 paid in cash. An independent appraisal valued the land at $322,875 and the communication equipment at $107,625.
Sep 1	Sold a building that cost $565,000 (accumulated depreciation of $265,000 through December 31 of the preceding year). Plumb received $350,000 cash from the sale of the building. Depreciation is computed on a straight-line basis. The building has a 40-year useful life and a residual value of $45,000.
Dec 31	Recorded depreciation as follows: Communication equipment is depreciated by the straight-line method over a 5-year life with zero residual value. Office equipment is depreciated double-declining-balance over 6 years with $4,000 residual value.

Requirement

1. Record the transactions in the journal of Whitney Plumb Associates. The company ends its accounting year on December 31.