**\*3-3C: Long-Lived Assets Assignment (50 marks)**

1. JKL Company purchased a group of assets together from one of their competitors whose owner had recently decided to retire and stop operations. JKL paid $400,000 for land, building, equipment, 5 trucks, and a patent. They also had the following costs: $10,000 lawyer’s fee; replaced the company name signage on the building for $15,000; had the company name and logo painted on the trucks for $10,000; bought driver’s licenses for $3,300; paid $5,000 for the regular maintenance of the equipment; repainted the interior of the building for $10,000.

The independent appraisals indicated the following fair values for the assets: land $250,000; building $280,000; equipment $175,000; trucks $50,000; patent $40,000.

1. Prepare the journal entry to record the capital purchase (not the expenses).

*(Application – 12 marks – 2 marks for each amount)*

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| Date | **Account Titles and Explanation** | **Debit** | **Credit** |
| Year |  |  |  |
| Month | Land |  |  |
|  | Building |  |  |
|  | Equipment |  |  |
|  | Trucks |  |  |
|  | Patent |  |  |
|  | Bank/Cash |  |  |
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1. CDE Company purchased a mine for $6.5M that is estimated to have 25M tonnes of ore and a residual value of $500,000. In the first year, 5 million tonnes of ore are extracted and 3 million tonnes are sold.
2. Journalize the ore mined for CDE year-end on August 31, 2018.

*(Application – 7 marks – 1 mark for each account, amount and explanation)*

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1. Several years ago, MM Company purchased a well-known trademark for $120,000. After using the trademark for 3 years, MM discontinued using it completely. The owner tells you to continue depreciating the patent $3000 per year for the remaining 36 years. Do you agree? Explain.

*(Thinking – 2 marks)*

1. WXY Company purchased new equipment on January 3, 2000, at a cost of $240,000. The equipment had an estimated useful life of 8 years, with an estimated residual value of $24,000. Use full years of depreciation. Show your calculations.
2. Compute the first two years depreciation using:
   1. Straight-line Method
   2. Double Declining Balance Method

*(Application – 5 marks – 2 marks for Straight-line; 3 marks for Double Declining)*

1. At the beginning of the 3rd year, the remaining estimated life is 4 years, and the residual value is now expected to be $26,000. Using Straight-line Method, calculate the depreciation for year 3.

*(Application – 3 marks)*

1. At the beginning of the 4th year, the equipment is traded-in for a new piece of equipment. The new equipment is being sold for $250,000 and the old equipment has a trade-in allowance of $140,000. Record the journal entry for the trade-in.

*(Application – 10 marks – 1 mark for each account and amount)*

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1. Recalculate the depreciation for years 1 & 2 using the ½ year convention.

*(5 marks – 2 marks for Straight-line; 3 marks for Double Declining)*

1. Assume that A Corporation and B Corporation are in the same line of business, have similar plant assets and report the same amount of net income. In their financial statements, A Corp. uses straight-line depreciation and B Corp. uses an accelerated method.
2. Do you have any reason for considering one of these companies to be more profitable than the other? Explain.

*(Thinking – 3 marks)*

1. If a capital expenditure is mistakenly treated as a revenue expenditure, will the Net Income of the current year be overstated or understated? Will this error have any effect upon the Net Income reported in future years? Explain.

*(Thinking – 3 marks)*