# Unit 3 – LONG-LIVED ASSETS – UNIT TEST ANSWER KEY

**SHORT ANSWER SECTION – *37 marks total***

1. MNO Company acquired several expensive pieces of machinery as summarized in the following chart:

| Machine | Date Acquired | Cost | Estimated Useful Life (in years) | Estimated Residual Value | Method of Depreciation |
|---|---|---|---|---|---|
| **A** | Apr. 30 – year 1 | $308,000 | 6 | $30,800 | Straight-line |
| **B** | Aug. 31 – year 1 | $180,000 | 5 | $10,000 | Double Declining |
| **C** | Jan. 2 – year 2 | $250,000 | 10 | $40,000 | CCA – 20% |

a. Calculate the depreciation for year 1 for machines A & B. The company's year-end is December 31 and it prorates its depreciation to the nearest month.

*(Application – 6 marks – 3 marks for each machine)*

A = ($308,000-30,800) / 6years * 8/12 months = $30,800

B = ($180,000*40%) * 4/12 months = $24,000

b. Calculate the depreciation for year 2 for all three machines.

*(Application – 6 marks – 2 marks for each machine)*

A = ($308,000-30,800) / 6 = $42,600

B = ($180,000-24,000) * 40% = $62,400

C = ($250,000) * 20% = $50,000

c. Journalize the total depreciation for part b) above.

*(Application – 3 marks – 1 mark for each account and amount)*

| GENERAL JOURNAL | | | |
|---|---|---|---|
| **Date** | **Account Titles and Explanation** | **Debit** | **Credit** |
| Dec. 31 | Depreciation Expense | $155,000 | |
| | Accumulated Depreciation | | $155,000 |
| | ($42,600+$62,400+$50,000) | | |

d. Machine B was severely damaged on January 2 in year 3 and is now worthless. Prepare a journal entry to take the machine off the books.

*(Application – 6 marks – 1 mark for each account and amount)*

| GENERAL JOURNAL | | | |
|---|---|---|---|
| **Date** | **Account Titles and Explanation** | **Debit** | **Credit** |
| Jan. 2 | Loss on Write-down of Asset Expense | $93,600 | |
| | Accumulated Depreciation | 86,400 | |
| | Equipment / Machinery | | $180,000 |
| | ($86,400 = $42,600 + $62,400 + $50,000) | | |

2. FGH Company traded in its old truck for a new one. The old truck cost $11,000. The accumulated depreciation at the time of the sale amounted to $7,000. The price of the new truck was $17,000 and a $5,000 trade-in allowance was negotiated. The balance owed was paid in cash. Use the account name, Vehicles, for the trucks.

a. Record this transaction in a journal entry.

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

| GENERAL JOURNAL | | | |
|---|---|---|---|
| **Date** | **Account Titles and Explanation** | **Debit** | **Credit** |
| Month | Vehicles (new) | $17,000 | |
| | Accumulated Depreciation – Equipment | 7,000 | |
| | Vehicles (old) | | $11,000 |
| | Bank/Cash | | 12,000 |
| | Gain on Trade-in of Assets | | 1,000 |
| | (Cash=17-5) (Gain=11-7+5) | | |

3. JKL Company purchased Copper Mine for $15M cash. The mine was estimated to contain 2M tonnes of ore and to have a residual value of $3M. During the first year, 400,000 tonnes were mined and 300,000 tonnes of these were sold.

   a. Prepare the journal entry to record this year's ore mined.

   *(Application – 6 marks – 1 mark for each account and amount)*

| GENERAL JOURNAL | | | |
|---|---|---|---|
| **Date** | **Account Titles and Explanation** | **Debit** | **Credit** |
| | Inventory | $600,000 | |
| | Depletion Expense | 1,800,000 | |
| | Accumulated Depletion – Mine | | $2,400,000 |
| | (I=($15M-3M)/2M * 100,000; DE=($15M-3M)/2M * 300,000) | | |

**CASE – *8 marks total – 2 marks for each question***

4. Pick and answer **4 ONLY** of the following questions. Make two significant statements in each answer.

   i. Explain how to determine what gets recorded in Land and Land Improvements.

   Land Improvements are those things that need ongoing repair. Land includes one-time costs that are needed to prepare the Land for use.

   ii. Explain the theory behind the half-year convention.

   July 1, the half-way point in the year, is the average date of all possible purchases or disposals of assets.

   iii. Explain the difference between a copyright and a patent.

   Copyright protects an artist's work from being copied for 50 years after the death of the artist. A patent, once registered, protects a unique idea from competition for 20 years.

iv. Explain what goodwill is.

Goodwill is the difference between the book value and purchase price of a company. It represents good reputation and it is tested annually for impairment.

v. Explain why long-lived assets are depreciated over time.

Long-lived assets give up their useful life generating revenue. The depreciation expense matches the use of the asset against the revenue generated by it.