

SELF STUDY PROBLEMS 4-1 AND 4-2

Problem 4-1

The following is a schedule of the fixed assets owned by the Welby Manufacturing Company:

	Building	Trucks
Cost	\$500,000	\$150,000
Estimated Scrap Value	60,000	10,000
Estimated Life, in Years	20	4

Compute the depreciation for the first and second years using the methods listed below:

Building -- straight line method

Trucks -- double declining balance method

Problem 4-2

The following is a schedule of the fixed assets owned by the Young Manufacturing Company:

	Building	Trucks
Cost	\$300,000	\$ 40,000
Estimated Scrap Value	20,000	5,000
Estimated Life, in Years	40	5

Compute the depreciation for the first and second years using the methods listed below:

Building -- straight line method

Trucks -- double declining balance method

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ANSWERS

Problem 4-1

Building

Year One: $(\text{Cost} - \text{Salvage}) \times \text{Rate} = (500,000 - 60,000) \times 1/20 = \underline{\$22,000}$

Year Two: Same as year one, \$22,000

Trucks

Year One: $\text{Book Value} \times \text{Twice Straight Line Rate} = 150,000 \times 2(1/4) = \underline{75,000}$

Year Two: $\text{Book Value} \times \text{Twice Straight Line Rate} = (150,000 - 75,000) \times 2/4 = \underline{37,500}$

Problem 4-2

Building

Year One: $(\text{Cost} - \text{Salvage}) \times \text{Rate} = (300,000 - 20,000) \times 1/40 = \underline{\$7,000}$

Year Two: Same as year one, \$7,000

Trucks

Year One: $\text{Book Value} \times \text{Twice Straight Line Rate} = 40,000 \times 2(1/5) = \underline{16,000}$

Year Two: $\text{Book Value} \times \text{Twice Straight Line Rate} = (40,000 - 16,000) \times 2/5 = \underline{9,600}$