

(Examining conservatism, LO 4) Anvil Ltd. (Anvil) adheres to GAAP in its financial statements. For each of the following independent situations, explain how Anvil should account for the transaction or economic event. Explain your reasoning. In each case, provide the journal entry that Anvil should prepare.

- a. A piece of equipment that was purchased for \$25,000 was destroyed in an accident during initial installation. The equipment had not yet been amortized.
- b. Inventory with a cost of \$100,000 has gone out of style and it will have to be sold at a discount. Management estimates that Anvil will be able to sell the inventory for \$60,000.
- c. Equipment used by one of the divisions of Anvil has become technologically obsolete because a new generation of equipment has been introduced that is more efficient and produces output of higher quality. Anvil's existing equipment can still be used (it still functions) but is used infrequently because of the lower quality output it produces.
- d. Last year Anvil loaned \$300,000 to a biotechnology company. Last week, the biotechnology company announced that it was bankrupt and would be liquidating all of its assets and going out of business. Anvil expects to receive nothing from the biotechnology company for the loan.

E5-13. (Audit opinions, LO 5) For each of the following situations, indicate the type of audit