10-24

On January 2, 2011 the Highlands Company began construction on a new manufacturing facility for its own use. The building was completed in 2012. The Company borrowed $1,500,000 on January 1 to help finance the construction. In addition to the construction loan, Highlands had the following debt outstanding throughout 2011

$5,000,000 12% bonds

$3,000,000 8% long term note

Construction expenditures incurred during 2011 were as follows:

January 1 $ 600,000

March 31 $1,200,000

June 30 $ 800,000

September 30 $ 600,000

December 31 $ 400,000

Required

Calculate the amount of interest capitalized for 2011 using the specific interest method

10-26

Delaware Company incurred the following research and development cost during 2011:

Salaries and wages for lab research $400,000

Materials used in R&D projects 200,000

Purchase of equipment 900,000

Fees paid to outsiders for R&D projects 320,000

Patent filing and legal costs for developed project 65,000

Salaries, wages, and supplies for R&D work performed

For another company under contract 350,000

Total $2,235,000

The equipment has a seven-year life and will be used for a number or research projects. Depreciation for 2011 is $120,000.

Required

Calculate the amount of research and development expense that Delaware should report in its 2011 income statement.