1. Wenner Furnace Corp. purchased machinery for $279,000 on May 1, 2012. It is estimated that it will have a useful life of 10 years, salvage value of $15,000, production of 240,000 units, and working hours of 25,000. During 2013, Wenner Corp. uses the machinery for 2,650 hours, and the machinery produces 25,500 units.

**Instructions**

From the information given, compute the depreciation charge for 2013 under each of the following methods. (Round to the nearest dollar.)

**(a)** Straight-line.

**(b)** Units-of-output.

**(c)** Working hours.

**(d)** Sum-of-the-years’-digits.

**(e)** Double-declining-balance.

1. Goldman Corporation bought a machine on June 1, 2010, for $31,800, f.o.b. the place of manufacture. Freight to the point where it was set up was $200, and $500 was expended to install it. The machine’s useful life was estimated at 10 years, with a salvage value of $2,500. On June 1, 2011, an essential part of the machine is replaced, at a cost of $2,700, with one designed to reduce the cost of operating the machine. The cost of the old part and related depreciation cannot be determined with any accuracy.

On June 1, 2014, the company buys a new machine of greater capacity for $35,000, delivered, trading in the old machine which has a fair value and trade-in allowance of $20,000. To prepare the old machine for removal from the plant cost $75, and expenditures to install the new one were $1,500. It is estimated that the new machine has a useful life of 10 years, with a salvage value of $4,000 at the end of that time. The exchange has commercial substance.

**Instructions**

Assuming that depreciation is to be computed on the straight-line basis, compute the annual depreciation on the new equipment that should be provided for the fiscal year beginning June 1, 2014.

1. Presented below is information related to Morrow Manufacturing Corporation.

Machine

Cost

Estimated Salvage Value

Estimated Life (in years)

A

$40,500

$5,500

10

B

 33,600

 4,800

 9

C

 36,000

 3,600

 8

D

 19,000

 1,500

 7

E

 23,500

 2,500

 6

**Instructions**

**(a)** Compute the rate of depreciation per year to be applied to the machines under the composite method.

**(b)** Prepare the adjusting entry necessary at the end of the year to record depreciation for the year.

**(c)** Prepare the entry to record the sale of Machine D for cash of $5,000. It was used for 6 years, and depreciation was entered under the composite method.

1. Machinery purchased for $52,000 by Carver Co. in 2008 was originally estimated to have a life of 8 years with a salvage value of $4,000 at the end of that time. Depreciation has been entered for 5 years on this basis. In 2013, it is determined that the total estimated life should be 10 years with a salvage value of $4,500 at the end of that time. Assume straight-line depreciation.

**Instructions**

**(a)** Prepare the entry to correct the prior years’ depreciation, if necessary.

**(b)** Prepare the entry to record depreciation for 2013.

1. Assume the information below, except that Pujols intends to dispose of the equipment in the coming year. It is expected that the cost of disposal will be $20,000.

Cost

$9,000,000

Accumulated depreciation to date

1,000,000

Expected future net cash flows

7,000,000

Fair value

4,400,000

**Instructions**

**(a)** Prepare the journal entry (if any) to record the impairment of the asset at December 31, 2012.

**(b)** Prepare the journal entry (if any) to record depreciation expense for 2013.

**(c)** The asset was not sold by December 31, 2013. The fair value of the equipment on that date is $5,100,000. Prepare the journal entry (if any) necessary to record this increase in fair value. It is expected that the cost of disposal is still $20,000.

1. The 2009 Annual Report of **McDonald’s Corporation** contains the following information.

(in billions)

December 31, 2009

Total assets

$30,225

Net sales

 22,745

Net income

  4,551

December 31, 2008

Total assets

$28,462

**Instructions**

Compute the following ratios for McDonald’s for 2009.

**(a)** Asset turnover ratio.

**(b)** Rate of return on assets.

**(c)** Profit margin on sales.

**(d)** How can the asset turnover ratio be used to compute the rate of return on assets?

1. Khamsah Mining Company has purchased a tract of mineral land for $900,000. It is estimated that this tract will yield 120,000 tons of ore with sufficient mineral content to make mining and processing profitable. It is further estimated that 6,000 tons of ore will be mined the first and last year and 12,000 tons every year in between. (Assume 11 years of mining operations.) The land will have a residual value of $30,000.

The company builds necessary structures and sheds on the site at a cost of $36,000. It is estimated that these structures can serve 15 years but, because they must be dismantled if they are to be moved, they have no salvage value. The company does not intend to use the buildings elsewhere. Mining machinery installed at the mine was purchased secondhand at a cost of $60,000. This machinery cost the former owner $150,000 and was 50% depreciated when purchased. Khamsah Mining estimates that about half of this machinery will still be useful when the present mineral resources have been exhausted but that dismantling and removal costs will just about offset its value at that time. The company does not intend to use the machinery elsewhere. The remaining machinery will last until about one-half the present estimated mineral ore has been removed and will then be worthless. Cost is to be allocated equally between these two classes of machinery.

**Instructions**

**(a)** As chief accountant for the company, you are to prepare a schedule showing estimated depletion and depreciation costs for each year of the expected life of the mine.

**(b)** Also compute the depreciation and depletion for the first year assuming actual production of 5,000 tons. Nothing occurred during the year to cause the company engineers to change their estimates of either the mineral resources or the life of the structures and equipment.