CONCEPT: DEPRECIATION – PARTIAL YEAR

● If we purchase an asset in the middle of an accounting period (i.e. July 1 not January 1), we take partial depreciation

  □ For straight-line and DDB depreciation, first calculate the full year depreciation, then adjust for the time period

  □ For units-of-production depreciation, the units produced during the year already account for the partial year!

EXAMPLE: On October 1, Year 1, Johnson & Johnson & Johnson Company purchased a delivery truck for $42,000. The company estimated a useful life of 5 years and a residual value of $2,000. If the company uses the straight-line method for depreciation, what would be the entry to record depreciation when preparing the December 31, Year 1 financial statements and the net book value on that date?

PRACTICE: DBQ Company purchased a machine on July 1, Year 1 for $60,000. The company estimated a five year useful life and $8,000 residual value. If the company uses the double-declining-balance method for depreciation, what will be the amount of accumulated depreciation on December 31, Year 2?

a) $27,040
b) $31,200
c) $38,400
d) $41,600

PRACTICE: DAB Company purchased a machine on November 1, Year 1 for $12,000. DAB estimated that the machine could produce 60,000 units over its useful life and would be worth $2,000 as scrap. During Year 1, DAB produced 3,000 units. During Year 2, DAB produced 12,000 units. During Year 3, DAB produced 9,000 units. If DAB uses the units-of-production method for depreciation, what would be the net book value of the machine at the end of Year 2?

a) $2,500
b) $4,000
c) $7,500
d) $8,000
e) $9,500