CONCEPT: DEPRECIATION – UNITS OF PRODUCTION METHOD

- ***Depreciation –*** breaks up the up-front cost of a long-term asset over its _____
  - □ When calculating depreciation (in all methods), we must know three things about the asset:
    1. ***Cost*** – The initial cost of the asset
    2. ***Useful Life*** – how long the company _____ the asset to help generate revenue
       - For this method, the useful life is in _____
    3. ***Residual Value*** – how much the company _____ the asset to be worth at the end of its useful life
       - Residual Value is also called *salvage value* or *scrap value*

$$Depreciation\ per\ unit\ of\ output = \frac{Cost - Residual\ Value}{Useful\ Life, in\ units\ of\ output}$$

EXAMPLE: On January 1, Year 1, Johnson & Johnson & Johnson Company purchased a delivery truck for $42,000. The company estimated a useful life of 120,000 miles and a residual value of $2,000. During Year 1, the truck was driven 36,000 miles. 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?

Cost = $42,000; Estimated Residual Value = $2,000; Estimated Useful Life = _____				
Date	Miles Driven During Year	Depreciation Expense	Accumulated Depreciation	Net Book Value
January 1, Year 1				
December 31, Year 1	36,000			
December 31, Year 2	24,000			
December 31, Year 3	30,000			
December 31, Year 4	18,000			
December 31, Year 5	16,000			
December 31, Year 6	8,000			

PRACTICE: ABC Company purchased a new machine on January 1, Year 1 for $44,000. The company expects the machine to produce 50,000 units. The company thinks it could sell the scrap metal from the machine for $4,000 at the end of its useful life. If the company uses the units-of-production method for depreciation, what will be the net book value of the machine on December 31, Year 1, if 15,000 units are produced with the machine during the year?

a) $12,000
b) $13,200
c) $30,800
d) $32,000

PRACTICE: DBQ Company purchased a machine on January 1, Year 1 for $60,000. The company estimated a 300,000 unit production useful life and $8,000 residual value. During Year 1, the company produced 90,000 units. During Year 2, the company produced 30,000 units. If the company uses the units-of-production method for depreciation, what will be the amount of accumulated depreciation on December 31, Year 2?

a) $5,200
b) $6,000
c) $20,800
d) $24,000

PRACTICE: XYZ Company purchased a machine on January 1, 2018 for $110,000. The company estimated a 20,000 unit useful life and $10,000 residual value. XYZ produced 8,000 units in 2018; 6,000 units in 2019; and 10,000 units in 2020. If the company uses the units-of-production method for depreciation, what will be the amount of depreciation expense for the year 2020?

a) $30,000
b) $40,000
c) $50,000
d) None of the above