Patterson Company acquired a used machine for $75,000 on January 2. It was repaired the next day at a cost of $2,000 and installed on a new platform that cost $1,000. The company predicted that the machine would be used for six years and would then have a $6,000 salvage value. Amortization was to be charged on a straight-line basis. A full year's amortization was charged on December 31, the end of the first year of the machine's use. On September 30 of its sixth year in service, it was retired.

Required:

1. Prepare General Journal entries to record the acquisition of the machine, the cost of repairing it, and the installation. Assume that cash was paid.
2. Prepare entries to record amortization on the machine on December 31 of its first year and on September 30 in the year of disposal.
3. Prepare entries to record the disposal of the machine under each of the following unrelated assumptions: a) it was sold for $6,750; b) it was sold for $18,000; c) it was destroyed in a fire and the insurance settlement was $12,000

Part 1 and 2

| DATE | ACCOUNT | TYPE | DEBIT | CREDIT |
|---|---|---|---|---|
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Part 3

| DATE | ACCOUNT | TYPE | DEBIT | CREDIT |
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Answer:
Patterson Company acquired a used machine for $75,000 on January 2. It was repaired the next day at a cost of $2,000 and installed on a new platform that cost $1,000. The company predicted that the machine would be used for six years and would then have a $6,000 salvage value. Amortization was to be charged on a straight-line basis. A full year's amortization was charged on December 31, the end of the first year of the machine's use. On September 30 of its sixth year in service, it was retired.

Required:

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Part 1 and 2

| **DATE** | **ACCOUNT** | **TYPE** | **DEBIT** | **CREDIT** |
|---|---|---|---|---|
| Jan 2 | Machinery | A | 75,000 | |
| | Cash | A | | 75,000 |
| | Acquired used machine | | | |
| | | | | |
| Jan 3 | Machinery | A | 2,000 | |
| | Cash | A | | 2,000 |
| | Repair used machine | | | |
| | | | | |
| Jan 3 | Machinery | A | 1,000 | |
| | Cash | A | | 1,000 |
| | Install new platform | | | |
| | | | | |
| Dec 31/1 | Amortization – Machinery | EX | 12,000 | |
| | Acc Amort. – Machinery | A | | 12,000 |
| | [(75,000 + 2,000 + 1,000) – 6000] / 6 years | | | |
| | | | | |
| Sept 30/6 | Amortization – Machinery | EX | 9,000 | |
| | Acc Amort. – Machinery | A | | 9,000 |
| | 12,000 / 12 x 9 months | | | |

Part 3

| | | | | |
|---|---|---|---|---|
| a) | Cash | A | 6,750 | |
| | Acc Amort. – Machinery | A | 69,000 | |
| | Loss on Disposal | EX | 2,250 | |
| | Machinery | A | | 78,000 |
| | Disposal at $6,750 | | | |
| | | | | |
| b) | Cash | A | 18,000 | |
| | Acc Amort. – Machinery | A | 69,000 | |
| | Machinery | A | | 78,000 |
| | Gain on Disposal | R | | 9,000 |
| | Disposal at $18,000 | | | |
| | | | | |
| c) | Cash | A | 12,000 | |
| | Acc Amort. – Machinery | A | 69,000 | |
| | Machinery | A | | 78,000 |
| | Gain on Disposal | R | | 3,000 |
| | Disposal at $12,000 | | | |