

BETTERMENTS & DISPOSALS

ABC Company made the following transactions with a Delivery Truck.

1990

Jan. 31 Paid cash for a new truck that cost \$26,000. The truck was expected to last 5 years and have a salvage value of \$4,000. The company uses the Straight Line Method for amortization.

Feb. 02 Paid 2,000 for special racks. These racks did not increase the salvage value or expected life.

Dec. 31 Recorded amortization.

1991

July 2 Paid \$1,360 to install air conditioning. This increased the estimated salvage value by \$500.

Dec. 31 Recorded amortization.

1992

Aug. 5 Paid \$300 to repair damage to the door.

Dec. 31 Recorded amortization.

1993

July 5 Traded in the old truck for a new truck (estimated life – 4 years; salvage value - \$8,000) as follows (consider any gain or loss as immaterial):

List Price of New Truck	35,000
Trade In Allowance for Old Truck	13,000
Cash Paid	22,000

July 6 Paid 2,320 for special racks. These racks did not increase the expected life or salvage value.

Dec. 31 Recorded Amortization

Required:

Prepare the journal entries to record these transactions.

Working Paper

ASSET TRACKING SCHEDULE

DATE		COST	ACCUM. AMORT.	NET BOOK VALUE	SALVAGE VALUE	REMAINING LIFE IN MONTHS
Jan 31/90	Beginning					
Feb 02/90	Change					
	New Balance					
Dec 31/90	Change					
	New Balance					
Jun 30/91	Change					
	New Balance					
Jul 02/91	Change					
	New Balance					
Dec 31/91	Change					
	New Balance					
Dec 31/92	Change					
	New Balance					
Jun 30/93	Change					
	New Balance					
Jul 05/93	Change Old					
	New Balance					
Jul 05/93	Change New					
	New Balance					
Jul 06/93	Change					
	New Balance					
Dec 31/93	Change					
	New Balance					

JOURNAL ENTRIES:

DATE	ACCOUNT	PUZZLE	DEBIT	CREDIT
Jan 31/90				
	Explain:			
Feb 02/90				
	Explain:			
Dec 31/90				
	Explain:			

Jun 30/91				
	Explain:			
Jul 02/91				
	Explain:			
Dec 31/91				
	Explain:			
Aug 05/92				
	Explain:			
Dec 31/92				
	Explain:			
Jun 30/93				
	Explain:			
Jul 05/93				
	Explain:			
Jul 06/93				
	Explain:			
Dec 31/93				
	Explain:			

Answer

ASSET TRACKING SCHEDULE

DATE		COST	ACCUM. AMORT.	NET BOOK VALUE	SALVAGE VALUE	REMAINING LIFE IN MONTHS
Jan 31/90	Beginning	26,000	0	26,000	4,000	60
Feb 02/90	Change	+ 2,000	0	+ 2,000	0	0
	New Balance	28,000	0	28,000	4,000	60
Dec 31/90	Change	0	+ 4,400	- 4,400	0	- 11
	New Balance	28,000	4,400	23,600	4,000	49
Jun 30/91	Change	0	+ 2,400	- 2,400	0	- 6
	New Balance	28,000	6,800	21,200	4,000	43
Jul 02/91	Change	+ 1,360	0	+ 1,360	+ 500	0
	New Balance	29,360	6,800	22,560	4,500	43
Dec 31/91	Change	0	+ 2,520	- 2,520	0	- 6
	New Balance	29,360	9,320	20,040	4,500	37
Dec 31/92	Change	0	+ 5,040	- 5,040	0	- 12
	New Balance	29,360	14,360	15,000	4,500	25
Jun 30/93	Change	0	+ 2,520	- 2,520	0	- 6
	New Balance	29,360	16,880	12,480	4,500	19
Jul 05/93	Change Old	- 29,360	- 16,880	- 12,480	- 4,500	- 19
	New Balance	0	0	0	0	0
Jul 05/93	Change New	34,480	0	34,480	8,000	48
	New Balance	34,480	0	34,480	8,000	48
Jul 06/93	Change	+ 2,320	0	+ 2,320	0	0
	New Balance	36,800	0	36,800	8,000	48
Dec 31/93	Change	0	+ 3,600	- 3,600	0	- 6
	New Balance	36,800	3,600	33,200	8,000	42

JOURNAL ENTRIES:

DATE	ACCOUNT	PUZZLE	DEBIT	CREDIT
Jan 31/90	Delivery Truck	Asset	26,000	
	Cash in Bank	Asset		26,000
	Purchase Truck			
Feb 02/90	Delivery Truck	Asset	2,000	
	Cash in Bank	Asset		2,000
	Purchased Special Racks for Truck			
Dec 31/90	Amortization	Expense	4,400	
	Accumulated Amort.	Asset		4,400
	Amortization from Feb 01 to Dec 31 for the first year. (Cost minus Salvage Value divided by Life in Months) (28,000 – 4,000) / 60 months = \$400 per month			

Jun 30/91	Amortization	Expense	2,400	
	Accumulated Amort.	Asset		2,400
	Amortization from Jan 1 to Jun 31 before the change in the cost and salvage value. ($\$400 \times 6$ months)			
Jul 02/91	Delivery Truck	Asset	1,360	
	Cash in Bank	Asset		1,360
	Installation of Air Conditioning			
Dec 31/91	Amortization	Expense	2,520	
	Accumulated Amort.	Asset		2,520
	New Amortization from July 1 to Dec 31 (Net Book Value minus Salvage Value divided by Remaining Life) ($22,560 - 4,500$) / 43 = $\$420$ per month			
Aug 05/92	Repairs	Expense	300	
	Cash in Bank	Asset		300
	Record payment of repairs to Delivery Truck			
Dec 31/92	Amortization	Expense	5,040	
	Accumulated Amort.	Asset		5,040
	Amortization from Jan 1 to Dec 31 ($\$420 \times 12$ months)			
Jun 30/93	Amortization	Expense	2,520	
	Accumulated Amort.	Asset		2,520
	Amortization from Jan 1 to Jun 30 ($\$420 \times 6$ months)			
Jul 05/93	Delivery Truck – Old	Asset		29,360
	Accumulated Amort.	Asset	16,880	
	Cash in Bank	Asset		22,000
	Delivery Truck - New	Asset	34,480	
	Net Book Value of Old Truck was $\$12,480$ and the Trade In Allowance was $\$13,000$. Consider the $\$520$ Gain as immaterial so it reduces the Cost of the New Truck.			
Jul 06/93	Delivery Truck – New	Asset	2,320	
	Cash in Bank	Asset		2,320
	Purchase of Racks			
Dec 31/93	Amortization	Expense	3,600	
	Accumulated Amort.	Asset		3,600
	Amortization from Jul 01 to Dec 31 (Cost minus Salvage Value divided by Life in Months) ($36,800 - 8,000$) / 48 months = $\$600$ per month			