

CONCEPT: NATURAL RESOURCES AND DEPLETION

- **Natural Resources** – A special category of long-lived assets that _____ as they are extracted
 - Natural resources include: _____, _____, and _____ to name a few.
 - **Depletion expense** is similar to depreciation → _____ method
 - We use an **Accumulated Depletion** account in the same way that we use accumulated depreciation
- The first entry relates to the _____ of a natural resource deposit:

Greenhouse Gases purchased an oil reserve for \$50,000,000 and estimated that the reserve contained 10,000,000 barrels of oil.

Assets

=

Liabilities

+

Equity

Net Book Value of Oil Reserve =

- As we use up the natural resource, we must lower the book value of the asset:

During the first year, Greenhouse Gases extracted 2,500,000 barrels of oil from its reserve.

Assets

=

Liabilities

+

Equity

Net Book Value of Oil Reserve =

PRACTICE: Colorado Mining Company purchased a 300,000-ton mineral deposit for a contract price of \$594,000. Related to the purchase, CMC paid a \$4,000 licensing fee with the State of Colorado and paid \$62,000 for a geological survey of the mine. The company expects the mineral deposit to have no residual value. During the first year of production, CMC extracted and sold 60,000 tons of ore. What is the net book value of the mineral deposit at the end of the first year?

- a) \$0
- b) \$475,200
- c) \$528,000
- d) \$594,000