

## CONCEPT: ADJUSTING ENTRIES – DEPRECIATION

- Adjusting entries include **deferrals**, **accruals**, and **depreciation**.

☐ **Depreciation** – breaks up the up-front cost of a long-term asset over its \_\_\_\_\_

**POP QUIZ:** Depreciation expense is a (an):

- a) Expense
- b) Liability
- c) Asset
- d) Revenue

☐ There are two important dates for recording depreciation:

The asset purchase date: Record the purchase of the asset at its \_\_\_\_\_ cost

On January 1, 2000, the company purchased the Millennium Machine for \$50,000. It is expected to last ten years.

Adjustment Date – Record depreciation expense for the amount of the “useful life” used up.

On December 31, 2000, the company records depreciation

Accumulated Depreciation:

Net Book Value:

**Accumulated Depreciation** is a \_\_\_\_\_ account. **Contra-** accounts have an opposite balance of the typical account. Thus, a **contra-asset** has a \_\_\_\_\_ balance. Contra- accounts are always related to a companion account. Accumulated Depreciation's companion account is the asset being depreciated.

### **Straight-Line Depreciation (without salvage value)**

$$\text{Depreciation Expense} = \frac{\text{Purchase Price}}{\text{Useful Life of Asset}}$$

### **Net Book Value**

$$\text{Net Book Value} = \text{Purchase Price} - \text{Accumulated Depreciation}$$

Adjustment Date – Record depreciation expense for the amount of the “useful life” used up.

On December 31, 2001, the company records depreciation

Accumulated Depreciation:

Net Book Value:

**PRACTICE:** On January 1, Super Car Wash purchases a brand new auto-washing machine on account for \$40,000. The company expects the machine to last eight years. The company chose the “straight-line” method to depreciate the asset, expecting no salvage value. The adjusting entry at the end of the first year would include:

- a) Debit Depreciation Expense \$5,000; Credit Accumulated Depreciation \$5,000
- b) Debit Accumulated Depreciation \$5,000; Credit Depreciation Expense \$5,000
- c) Debit Depreciation Expense \$40,000; Credit Accumulated Depreciation \$40,000
- d) Debit Accumulated Depreciation \$40,000; Credit Depreciation Expense \$40,000

What will be the book value of the asset after two years?

- a) \$40,000
- b) \$30,000
- c) \$20,000
- d) \$10,000
- e) \$0

**PRACTICE:** On January 1, 1989 XYX Company purchased a machine for \$180,000 in cash. The company estimated a nine year useful life with no salvage value. After the correct entries are made, what will be the balance in the Accumulated Depreciation account on December 31, 1992?

- a) \$20,000
- b) \$60,000
- c) \$80,000
- d) \$180,000