Problems: Set C

P9-1C Franz Company was organized on January 1. During the first year of operations, the following plant asset expenditures and receipts were recorded in random order.

Debit
1. Cost of real estate purchased as a plant site (land $190,000 and building $80,000) $ 270,000
2. Accrued real estate taxes paid at time of purchase of real estate 6,000
3. Cost of demolishing building to make land suitable for construction of new building 32,000
4. Cost of filling and grading the land 6,700
5. Excavation costs for new building 21,900
6. Architect’s fees on building plans 44,000
7. Full payment to building contractor 629,500
8. Cost of parking lots and driveways 36,000
9. Real estate taxes paid for the current year on land 7,300
10. Proceeds for salvage of demolished building $ 12,700

Credit
$1,053,400

Instructions
Analyze the transactions using the table column headings provided here. Enter the number of each transaction in the Item column, and enter the amounts in the appropriate columns. For amounts in the Other Accounts column, also indicate the account titles.

<table>
<thead>
<tr>
<th>Item</th>
<th>Land</th>
<th>Buildings</th>
<th>Other Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
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<td>3</td>
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<td>7</td>
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<td>8</td>
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<td>9</td>
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<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

At December 31, 2013, Craig Corporation reported these plant assets.

Land $4,000,000
Buildings $28,800,000
Less: Accumulated depreciation—buildings 11,520,000

Equipment $48,000,000
Less: Accumulated depreciation—equipment 5,000,000

Total plant assets $64,280,000

During 2014, the following selected cash transactions occurred.

Apr. 1 Purchased land for $2,600,000.
May 1 Sold equipment that cost $750,000 when purchased on January 1, 2009. The equipment was sold for $367,000.
June 1 Sold land purchased on June 1, 2002, for $1,800,000. The land cost $800,000.
Sept. 1 Purchased equipment for $840,000.
Dec. 31 Retired fully depreciated equipment that cost $470,000 when purchased on December 31, 2004. No salvage value was received.

Instructions
(a) Journalize the transactions. (Hint: You may wish to set up T-accounts, post beginning balances, and then post 2014 transactions.) Craig uses straight-line depreciation for buildings and equipment. The buildings are estimated to have a 40-year life and no salvage value; the equipment is estimated to have a 10-year useful life and no salvage value. Update depreciation on assets disposed of at the time of sale or retirement.
(b) Record adjusting entries for depreciation for 2014. (Note: The only assets that are fully depreciated are those that were retired on December 31.)
(c) Prepare the plant assets section of Craig’s balance sheet at December 31, 2014.

P9-3C Here are selected transactions for Halverson Corporation for 2014.

Jan. 1 Retired a piece of machinery that was purchased on January 1, 2004. The machine cost $47,000 and had a useful life of 10 years with no salvage value.
Prepare entries to record transactions related to acquisition and amortization of intangibles; prepare the intangible assets section and note. (LO 7, 8), AP

Prepare entries to correct errors in recording and amortizing intangible assets. (LO 7), AP

Instructions

(c) Tot. intangibles $248,950

Prepare all journal entries necessary to correct any errors made during 2014. Assume the books have not yet been closed for 2014.

P9-5C Due to rapid employee turnover in the accounting department, the following transactions involving intangible assets were improperly recorded by the Demeyer Company in 2014.

1. Demeyer developed a new manufacturing process, incurring research and development costs of $150,000. The company also purchased a patent for $96,000. In early January, Demeyer capitalized $246,000 as the cost of the patents. Patent amortization expense of $24,600 was recorded based on a 10-year useful life.

2. On July 1, 2014, Demeyer purchased a small company and as a result acquired goodwill of $40,000. Demeyer recorded a half-year’s amortization in 2014, based on a 40-year life ($500 amortization). The goodwill has an indefinite life.

Instructions

Prepare all journal entries necessary to correct any errors made during 2014. Assume the books have not yet been closed for 2014.

P9-6C Culver Corporation and Kiltie Corporation, two corporations of roughly the same size, are both involved in the manufacture of umbrellas. Each company depreciates its plant assets using the straight-line approach. An investigation of their financial statements reveals the following information.

<table>
<thead>
<tr>
<th></th>
<th>Culver Corp.</th>
<th>Kiltie Corp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 780,000</td>
<td>$ 900,000</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>2,400,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>3,000,000</td>
<td>2,700,000</td>
</tr>
<tr>
<td>Plant assets</td>
<td>1,400,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>480,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Calculate and comment on return on assets, profit margin, and asset turnover. (LO 6), AN
Instructions
(a) For each company, calculate these values:
   (1) Return on assets.
   (2) Profit margin.
   (3) Asset turnover.
(b) Based on your calculations in part (a), comment on the relative effectiveness of the two companies in using their assets to generate sales. What factors complicate your ability to compare the two companies?

P9-7C In recent years, Harper Transportation purchased three used buses. Because of frequent employee turnover in the accounting department, a different accountant selected the depreciation method for each bus, and various methods have been used. Information concerning the buses is summarized in the table below.

<table>
<thead>
<tr>
<th>Bus</th>
<th>Acquired</th>
<th>Cost</th>
<th>Salvage Value</th>
<th>Useful Life (in years)</th>
<th>Depreciation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jan. 1, 2013</td>
<td>$96,000</td>
<td>$6,000</td>
<td>5</td>
<td>Straight-line</td>
</tr>
<tr>
<td>2</td>
<td>Jan. 1, 2013</td>
<td>$135,000</td>
<td>$10,000</td>
<td>4</td>
<td>Declining-balance</td>
</tr>
<tr>
<td>3</td>
<td>Jan. 1, 2013</td>
<td>$100,000</td>
<td>$4,000</td>
<td>5</td>
<td>Units-of-activity</td>
</tr>
</tbody>
</table>

For the declining-balance method, Harper Transportation uses the double-declining rate. For the units-of-activity method, total miles are expected to be 160,000. Actual miles of use in the first 3 years were: 2013, 29,000; 2014, 34,000; and 2015, 35,000.

Instructions
(a) Compute the amount of accumulated depreciation on each bus at December 31, 2015.
(b) If Bus 2 was purchased on March 1 instead of January 1, what would be the depreciation expense for this bus in 2013? In 2014?

P9-8C Kiram Corporation purchased machinery on January 1, 2014, at a cost of $350,000. The estimated useful life of the machinery is 5 years, with an estimated salvage value at the end of that period of $20,000. The company is considering different depreciation methods that could be used for financial reporting purposes.

Instructions
(a) Prepare separate depreciation schedules for the machinery using the straight-line method, and the declining-balance method using double the straight-line rate. (b) Which method would result in the higher reported 2014 income? In the higher total reported income over the 5-year period? (c) Which method would result in the lower reported 2014 income? In the lower total reported income over the 5-year period?