Welcome to Accounting Jeopardy!

Which of the following are subject to IRS depreciation limits?

- Company pickup weighing 5,500 pounds
- Specially modified passenger auto
- Company's passenger auto
- Company van weighing 10,000 pounds

Company pickup weighing 5,500 pounds
Company's passenger auto

- Passenger autos & light trucks SUV's have depr. limits
- Heavy trucks (6,000-14,000 lbs) no deprec. limits . . . . . but Sec 179 limit of $25,000
- Other Vehicles-no limits (specially modified vehicles, vehicles weighing +14,000 lbs, hearses, taxis, delivery trucks)

Depreciable Base

Acquisition cost – salvage value
(Historical cost – residual value)
(Original cost – salvage value)

Straight Line Depreciation Rate

1 / estimated life

or . . .

100% / estimated life

CPA organizes financial data it's given, but does not express an opinion on the reliability or accuracy of the statements or whether they conform to GAAP.

Compilation

Independent CPA examines financial statements and expresses an opinion on whether they materially conform to GAAP

Audit

Independent CPA provides report describing her limited inspection of the financial statements and stating she didn't find any material differences from GAAP rules.

Review

Depreciation under GAAP refers to an assets estimated useful life while depreciation under tax refers to an assets _____ _____.

Recovery Period

Section 179 deduction applies to . . .

New and used equipment and potentially land improvements.

An asset can not be depreciated until it is acquired and _____ __ _____

placed in service.

A company can use the same amount of depreciation for tax and book purposes if . . .

1. **the difference is not material or**
2. **the company's financial statements are not used by a 3rd party and won't be reviewed or audited**

Regardless of GAAP depreciation method used, the maximum allowable depreciation over the asset's life is . . . .

The same or
Equal to the asset's depreciable base

If a company purchases more than $800,000 of equipment, the maximum section 179 deduction of $250,000 is . . .

Reduced dollar for dollar for the amount of equipment purchased over $800,000.

The mid-month convention applies to . . .

Buildings
(residential & nonresidential property)

The mid-quarter convention applies when . . .

The aggregate basis of assets (excluding buildings) acquired during the last 3 months of the year exceeds 40% of the aggregate basis of the assets purchased during the year.

The half-year convention applies to . . .

Equipment & most land improvements

(Assets other than buildings being depreciated under MACRS)

For property purchased in 2008 with a recovery period of less than 20 years, you must take _____ _____ unless you elect not to do so.

Bonus depreciation

Bonus depreciation can be taken only on _____ equipment.

new

Bonus depreciation applies to the first year and is ___ %.

50 %

After taking bonus depreciation, you . . .

Calculated the new cost basis and multiply it by the 1st year's depreciation rate.

Under double declining balance method, you multiply each year's beginning _____ _____ by the _____ _____.

Book value **depreciation rate**

Under GAAP, how can annual depreciation be allocated among *depreciation expense* and *Inventory—Work-in-Process OH*?

Entirely to either account, or partly to both depending upon how the building is used (whether it is used solely for manufacturing, administrative, or both)

A warehouse is purchased October 25th for $350,000. This price includes the $75,000 value of the land. What is the amount of the first year depreciation (pg. 205)?

0.535% x (350,000 – 75,000) = $1,471.25

A sole proprietor that uses her car 60% of the time for work purposes can depreciate . . .

60% of the car's cost basis (but depreciation limits are reduced 60% as well)

If MACRS depreciation for a passenger car exceeds IRS limits, then the excess depreciation . . .

May be taken by extending the MACRS recovery period for as many years as necessary to depreciate the cost basis.

Manufacturing Company buys a machine for $16,000 on 5/1/08. The machine has an estimated life of 10 years and a residual value of $4,000. If it uses the straight line depreciation method, what journal entry is required in 2008 assuming a calendar year and no previous adjusting entries?

Date	Account	Dr.	Cr.
12/31	Inventory – WIP OH	800	
	Accumulated Deprec-Machine		800

($16k-4k)/ 10yrs = $1,200/12 mo = $100 mo x 8mo = $800

Manufacturing Company buys a machine for $16,000 on 5/1/08. The machine has an estimated life of 10 years and a residual value of $4,000. If it uses the straight line depreciation method, what is the value of its accumulated depreciation and its book value at the end of 2010?

Machine
16,000

Accum. Deprec.	
800	'08
1,200	'09
1,200	'10
3,200	

Book Value = Cost – Accumulated Depreciation

$12,800 = 16,000 – 3,200

Manufacturing Company buys a machine for $16,000 on 5/1/08. The machine has an estimated life of 10 years and a residual value of $4,000. If it uses the straight line depreciation method, what journal entry is required in 2008 if the company used the machine 75% for production of inventory.

Date	Account	Dr.	Cr.
12/31	Inventory – WIP OH	600	
	Depreciation Expense	200	
	Accumulated Deprec-Machine		800

($16k-4k)/ 10yrs = $1,200/12 mo = $100 mo x 8mo = $800

On 9/1/08 Realty Co. purchased a new 4,000 pound SUV for $30,000. The SUV has an expected life of 10 years and a recovery period of 5 years and residual value of $3,000. What is the maximum depreciation allowed in 2008 using MACRS?

Year	3 Yr	5 Yr	7 Yr
1	33.33	20.00	14.29
2	44.45	32.00	24.49
3	14.81	19.20	17.49
4	7.41	11.52	12.49
5		11.52	8.93
6		5.76	8.92
7			8.93
8			4.46

$30,000 x 50% = $15,000 bonus depreciation

$15,000* x 20% = $3,000 1st year depreciation

$18,000 Total calculated

'08 Depreciation Limits - Light SUVs, Trucks & Vans

Tax Year	Standard	50% Bonus
First	$3,160	$11,160
Second	5,100	5,100
Third	3,050	3,050
Subsequent	1,875	1,875

IRS limit on light SUV= $11,160 = Max depreciation

***$30,000 - $15,000 = $15,000 new cost basis**

On 9/1/08 Realty Co. purchased a new 4,000 pound SUV for $30,000. The SUV has an expected life of 10 years and a recovery period of 5 years and residual value of $3,000. What is the maximum depreciation allowed in year 6 (2013) using MACRS?

$864

'08 Depreciation Limits - Light SUVs, Trucks & Vans

Tax Year	Standard	50% Bonus
First	$3,160	$11,160
Second	5,100	5,100
Third	3,050	3,050
Subsequent	1,875	1,875

On 5/1/08 June Co. purchases new furniture with a 7 year recovery period and 10 year expected life. What is the maximum tax deduction for 2008 if the furniture costs $290,000 and has an expected salvage value of $50,000?

Year	3 Yr	5 Yr	7 Yr
1	33.33	20.00	14.29
2	44.45	32.00	24.49
3	14.81	19.20	17.49
4	7.41	11.52	12.49
5		11.52	8.93
6		5.76	8.92
7			8.93
8			4.46

$250,000 sec. 179

$40,000* x 50% = $20,000 bonus deprec.

$20,000* x 14.29% = $2,858 1st yr deprec.

$272,858 Total

*$290,000 - $250,000 = $40,000 cost basis after section 179

*$40,000 - $20,000 = $20,000 new cost basis

On 5/1/08 June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life. What is the tax deduction for 2009?

Year	3 Yr	5 Yr	7 Yr
1	33.33	20.00	14.29
2	44.45	32.00	24.49
3	14.81	19.20	17.49
4	7.41	11.52	12.49
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$250,000 sec. 179

$40,000* x 50% = $20,000 bonus deprec.

$20,000* x 14.29% = $2,858 1st yr deprec.

$20,000 x 24.49% = $4,898 2nd yr deprec.

*$290,000 - $250,000 = $40,000 cost basis after section 179

*$40,000 - $20,000 = $20,000 new cost basis

On 5/1/08 June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life. What is the tax deduction for 2015 (year 8)?

Year	3 Yr	5 Yr	7 Yr
1	33.33	20.00	14.29
2	44.45	32.00	24.49
3	14.81	19.20	17.49
4	7.41	11.52	12.49
5		11.52	8.93
6		5.76	8.92
7			8.93
8			4.46

$250,000 sec. 179

$40,000* x 50% = $20,000 bonus deprec.

$20,000* x 14.29% = $2,858 1st yr deprec.

$20,000 x 24.49% = $4,898 2nd yr deprec.

$20,000 x 4.46% = $892 8th yr deprec.

On 5/1/08 June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life. If the furniture has an expected salvage value of $50,000 and June Co. uses the straight line depreciation method per GAAP, what is the depreciation rate for year 1?

10% = 1/10

On 5/1/08 June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life. If the furniture has an expected salvage value of $50,000 and June Co. uses the straight line depreciation method per GAAP, what is the total depreciation for year 1?

(290,000–50,000)x10% =24,000/12 mo=2,000 mo x 8 =

$16,000

June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life on 1/1/08. The furniture has an expected salvage value of $50,000 and June Co. uses the double declining balance method for its books, what is the depreciation rate for year 1?

2/10 or 20%

June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life on 1/1/08. The furniture has an expected salvage value of $50,000 and June Co. uses the double declining balance method for its books, what is the depreciation amount for year 2?

$46,400

Beg. BV		Rate		Deprec.	A/D	End BV
290,000	x	20%	=	58,000	58,000	232,000
232,000	x	20%	=	46,400	104,400	185,600

June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life on 1/1/08. The furniture has an expected salvage value of $50,000 Under sum of the years digits, what is the numerator in year 2? What is the denominator in year 2?

Numerator
Denominator

$$\text{Denominator} = \frac{\text{life x (life +1)}}{2} = \frac{(10 \times 11)}{2} = 55$$

Depreciation 1st yr = $240,000 x 10/55 =
Depreciation 2nd yr = $240,000 x 9/55 =
Depreciation 3rd yr = $240,000 x 8/55 =
Depreciation 4th yr = $240,000 x 7/55 =

June Co. purchases new furniture for $290,000 with a 7 year recovery period and 10 year expected life on 1/1/08. The furniture has an expected salvage value of $50,000

Under GAAP, what is the maximum amount of depreciation allowed over the asset's life?

$240,000 = depreciable base or (cost – salvage)

Jo Co. buys a machine for $13,000 + $1,000 sales tax. Joe Co. also paid for transportation costs of $2,000 and installation of $1,000 to get the machine ready for production. The machine has an estimated life of 5 years or 40,000 hours and has a residual value of $1,000.

What is the depreciation rate under units of production?

$0.40 per hour

$13 + 1 + 2 + 1 = 17 – 1 residual = 16k depr base / 40k hrs = $0.40 / hr

Jo Co. buys a machine for $13,000 + $1,000 sales tax. Joe Co. also paid for transportation costs of $2,000 and installation of $1,000 to get the machine ready for production. The machine has an estimated life of 5 years or 40,000 hours and has a residual value of $1,000.

If the machine were acquired 10/1 and used 5,000 hours during year 1, what is depreciation using units of production?

$2,000

$13 + 1 + 2 + 1 = 17 – 1 residual = 16k depr base / 40k hrs = $0.40 / hr

Year	Usage		Rate		Deprec.
1	5,000	x	$0.40	=	2,000

Jo Co. buys a machine for $13,000 + $1,000 sales tax. Joe Co. also paid for transportation costs of $2,000 and installation of $1,000 to get the machine ready for production. The machine has an estimated life of 5 years or 40,000 hours and has a residual value of $1,000.

If the machine were acquired 10/1 and assuming **double declining** balance, what is the accumulated depreciation at the end of yr 2?

What is **the book value at the end of the 3rd year**?

Yr	Beg. BV		Rate		Part Yr		Deprec.	A/D	End BV
1	17,000	x	40%	x	3/12	=	1,700	1,700	15,300
2	15,300	x	40%	x		=	6,120	7,820	9,180
3	9,180	x	40%	x		=	3,672	11,492	5,508

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If the machine were acquired 10/1 and assuming **sum of years digits method** is used, what is the amount of **depreciation for the 2nd year.**

17,000 – 1,000 = 16,000 depreciable cost & 5 x 6 / 2 = 15

16,000 x 5/15 x 3/12 = 1,333.33

16,000 x 4/15 x 9/12 = 3,200.00

$4,533.33