

BTN 3-3 Jessica Boland works for Sea Biscuit Co. She and Farah Smith, her manager, are preparing adjusting entries for annual financial statements. Boland computes depreciation and records it as

Depreciation Expense—Equipment	123,000
Accumulated Depreciation—Equipment	123,000

Smith agrees with her computation but says the credit entry should be directly to the Equipment account. Smith argues that while accumulated depreciation is technically correct, “it is less hassle not to use a contra account and just credit the Equipment account directly. And besides, the balance sheet shows the same amount for total assets under either method.”

Required

1. How should depreciation be recorded? Do you support Boland or Smith?
2. Evaluate the strengths and weaknesses of Smith’s reasons for preferring her method.
3. Indicate whether the situation Boland faces is an ethical problem. Explain.

ETHICS CHALLENGE

C1 C2 A1

