

Timberly Construction negotiates a lump-sum purchase of several assets from a company that is going out of business. The purchase is completed on January 1, 2015, at a total cash price of \$900,000 for a building, land, land improvements, and four vehicles. The estimated market values of the assets are building, \$508,800; land, \$297,600; land improvements, \$28,800; and four vehicles, \$124,800. The company's fiscal year ends on December 31.

PROBLEM SET A

Problem 10-1A

Plant asset costs;
depreciation methods

C1 P1



Required

1. Prepare a table to allocate the lump-sum purchase price to the separate assets purchased (round percentages to the nearest 1%). Prepare the journal entry to record the purchase.
2. Compute the depreciation expense for year 2015 on the building using the straight-line method, assuming a 15-year life and a \$27,000 salvage value.
3. Compute the depreciation expense for year 2015 on the land improvements assuming a five-year life and double-declining-balance depreciation.

Check (2) \$30,000

(3) \$10,800

Analysis Component

4. Defend or refute this statement: Accelerated depreciation results in payment of less taxes over the asset's life.