

Problem 10-3A

Asset cost allocation;
straight-line depreciation

C1 P1

In January 2015, Mitzu Co. pays \$2,600,000 for a tract of land with two buildings on it. It plans to demolish Building 1 and build a new store in its place. Building 2 will be a company office; it is appraised at \$644,000, with a useful life of 20 years and a \$60,000 salvage value. A lighted parking lot near Building 1 has improvements (Land Improvements 1) valued at \$420,000 that are expected to last another 12 years with no salvage value. Without the buildings and improvements, the tract of land is valued at \$1,736,000. The company also incurs the following additional costs:

Cost to demolish Building 1	\$ 328,400
Cost of additional land grading	175,400
Cost to construct new building (Building 3), having a useful life of 25 years and a \$392,000 salvage value	2,202,000
Cost of new land improvements (Land Improvements 2) near Building 2 having a 20-year useful life and no salvage value	164,000

Required

1. Prepare a table with the following column headings: Land, Building 2, Building 3, Land Improvements 1, and Land Improvements 2. Allocate the costs incurred by Mitzu to the appropriate columns and total each column (round percents to the nearest 1%).
2. Prepare a single journal entry to record all the incurred costs assuming they are paid in cash on January 1, 2015.
3. Using the straight-line method, prepare the December 31 adjusting entries to record depreciation for the 12 months of 2015 when these assets were in use.

(3) Depr.—Land

Improv. 1 and 2, \$32,500 and \$8,200