

Exercises in Tangible Capital Assets

Practice #1

Boulton Inc. purchased the following machinery from Lombard Inc. of the USA on January 1st of this year.

Asset	Moulding die cast press		
Purchase Price	\$ 32,000 USD	Scrap value	\$ 4,000
Florida state tax	2%	Useful life	600,000 hours
Tariff	NAFTA exempt	or	14 years
Freight-in	\$ 2,000 USD	Amort. Rate	45%
Shipping insurance	\$ 1,100 CAD		
Installation	\$ 1,180 CAD	Our tax rate	45%
By-law Inspection fee	\$ 250 CAD	Exchange rate	CAD 1.20 per USD
		CCA rate	20%

The first three years of the machine's usage are shown below.

Year	Hours Used
1	89,000
2	126,000
3	117,000

Instructions

- Record the journal entry for the purchase
- Record the journal entries for the adjusting entry on December 31st of years 1 and 2 using the _____ units of activity method of amortization.

At the start of year three a new ad-on is purchased from Delphi for..... \$50,000 CAD. This figure includes all taxes etc.

It is expected to increase the life of the machine hours of the cast press by..... 140,000 hours

- Record the purchase of this item
- Record the adjusting entry at the end of year three.
- The asset is sold at the end of year three for _____ 33,000
- In each of these three years, determine the difference in taxes owing resulting from _____ units of activity values versus the government's CCA stipulated rate for this machinery. State the effect on the balance in the deferred income tax account by the end of year three.
- Journalize the entry to reconcile taxes recorded due to GAAPs versus what was actually sent to the government in year 1. Assume operating income before taxes and amortization is _____ 72,000 and the tax rate for this firm is 45%

Boulton Inc.

General Journal

	Date		Particulars	P.R.	Debit	Credit	
1	Jan	1					1
2	year 1						2
3							3
4	Dec	31					4
5	year 1						5
6							6
7	Dec	31					7
8	year 2						8
9							9
10	Jan	1					10
11	year 3						11
12							12
13	Dec	31					13
14	year 3						14
15							15
16	Dec	31					16
17							17
18							18
19							19
20							20
21							21
22							22
23							23
24							24
25							25
26							26
27							27
28							28
29							29
30							30
31							31
32							32
33							33
34							34
35							35
36							36

Boulton Inc.						
General Journal						
ANSWER KEY						
	Date	Particulars	P.R.	Debit	Credit	
1		Year 1				1
2						2
3	Jan 1	Machinery		44,098.00		3
4		Cash			44,098.00	4
5		To record the purchase of machinery				5
6						6
7	Dec 31	Amortization Expense		5,947.87		7
8		Accumulated Amortization			5,947.87	8
9		First year's amortization expense				9
10						10
11		Year 2				11
12						12
13	Dec 31	Amortization Expense		8,420.58		13
14		Accumulated Amortization			8,420.58	14
15		Second year's amortization expense				15
16						16
17		Year 3				17
18						18
19	Jan 1	Machinery		50,000.00		19
20		Cash			50,000.00	20
21		To record IMPROVEMENTS to machinery				21
22						22
23	Dec 31	Amortization Expense		16,876.87		23
24		Accumulated Amortization			16,876.87	24
25		To record year three's amortization expense				25
26						26
27	Dec 31	Cash		33,000.00		27
28		Accumulated Amortization		31,245.32		28
29		Loss		29,852.68		29
30		Machinery			94,098.00	30
31		To record the sale of the machinery				31
32						32
33	Dec 31	Income Tax Expense		29,723.46		33
34		Deferred Income Tax		692.13		34
35		Cash			30,415.59	35

Practice #1

Amortization Expense Calculations

	S-L	D.B.	U. of A.	CCA
Year 1	2,864.14	19,844.10	5,947.87	4,409.80
Year 2	2,864.14	10,914.26	8,420.58	7,937.64
Year 3	7,030.81	28,502.84	16,876.87	8,175.06

Units of Activity Rates	
Old Rate	New Rate
0.06683	0.14424676
per hour	per hour

Deferred Income Tax Reconciliation

Amortization using GAAPs	Amortization using CCA	CCA minus GAAP Amort. (more CCA Amortization lowers taxable income and increases Deferred Income taxes)	Tax impact of using CCA instead of GAAP	Effect on the Deferred Income Tax Account
units of activity	20%		Amortization	
5,947.87	4,409.80	(1,538.07)	692.13	(692.13)
8,420.58	7,937.64	(482.94)	217.32	(217.32)
16,876.87	8,175.06	(8,701.82)	3,915.82	(3,915.82)

Income Tax Expense (GAAPs) 29,723.46
Income Tax Payable (CCA) 30,415.59

