

Amortization:

Identify the missing information that is needed to complete the amortization calculation:

1. The Community purchased a bus for \$61,450. They expect the bus to be used for eight years. {answer – residual value and amortization method}
2. During the year, the right engine of the First Nation's Piper aircraft was overhauled. The cost of the overhaul was \$26,780. The unit of output method of amortization is the chosen method of amortization. Since the overhaul, the engine was used for 860 hours. {answer – number of hours before next overhaul}
3. A new Community Hall was built during the year. It is expected to last for 25 years at which time it will likely be replaced. It is the First Nation's policy to amortize its buildings equally over the life of the building. INAC provided funding for the building in the amount of \$280,000. {answer – cost; follow-up question – “what components would likely be included in the cost?”}

Based on the following calculation, what is the likely amortization method being used:

4. $45,000 \times (62 \text{ days} / 724 \text{ days})$ {answer – unit of output}
5. $(\text{acquisition cost} - \text{left-over cost}) / \text{number of years of service}$ {answer – straight-line}
6. $5,000 \times 10\%$ {answer – declining balance}
7. $(600,000 - 45,000) / 15 \text{ years}$ {answer – straight-line}
8. $\text{cost} \times (\text{current year's use} / \text{expected total use})$ {answer – unit of output}
9. $\text{purchase price} \times \text{estimated rate of use}$ {answer – declining balance}

Common Journal Entries:

Identify the journal entry recorded for the following transactions:

10. The Community purchased a bus for \$61,450 using the operating account. {answer – dr cost 61,450, cr cash 61,450}

11. During the year, a back-hoe was sold to a Community member for \$1,000. The back-hoe was originally purchased from Joe's Heavy Machinery five years ago for \$25,000. The back-hoe was being amortized at \$2,500 per year. {answer – dr cash 1,000, dr accum amort 12,500, dr loss 11,500, cr cost 25,000}

12. During the year, the right engine of the First Nation's Piper aircraft was overhauled. The cost of the overhaul was \$26,000. The unit of output method of amortization is the chosen method of amortization. Since the overhaul, the engine was used for 1,000 hours. The engine needs to be overhauled every 5,000 hours. {answer – dr amort exp 5,200, cr accum amort 5,200}

13. Three years ago, the Community built a new arena. At the time, the Community incurred expenditures of: \$470,000 in construction costs, \$25,000 in engineering costs, \$3,000 of interest on the construction loan, \$2,000 of construction insurance, \$5,000 of insurance for the first year of use. Unfortunately, the arena was severely damaged in a wind-storm this summer. Due to a poorly prepared insurance policy, there is no insurance coverage for wind-storm damage. The arena is now unusable. The arena was originally expected to last 25 years. {answer – dr accum amort 60,000, dr write-down or loss 440,000 cr cost 500,000}

14. Two years ago, the Community installed mobile radios in all of its public works vehicles and the public works office. The radios operated on a new technology that required the use of a specific service provider. The radios cost \$6,000 to purchase and install. They were expected to last 10 years. In the current year, the service provider indicated that they would no longer support the technology after the next year (this year and next year still supported). Research by the Community showed that the radios would not be usable without this support. What is the current year amortization entry assuming a straight-line method? {answer – dr amort expense 2,400, cr accum amort 2,400}

Assigning Value:

Calculate the most appropriate value (if no calculator, prepare the formula):

15. The Community purchased a bus in 1998. Today, that bus would cost \$20,000. As buses haven't changed much in the last 10 years, a discount rate of 4% is appropriate. {answer – $20,000 * 0.6382 = 12,764$ }

16. The current school was built in 1988. According to the engineering firm who helps build most of the schools in the province, a similar school was built in 2004 for a cost of \$1,500,000. {answer $276.7 / 387.4 * 1,500,000 = 1,071,373$ }

17. The Community was able to have the parking lot of the school paved in 1994. In 2003, the Community paved the parking lot of the health clinic, which is ½ the size, for a cost of 30,000. {answer – resurfacing index – $122.3 / 142.1 * (30,000 * 2) = 51,640$ }

18. In 1999, the Community rebuilt one of two boat launches. As part of the project, large cement blocks were laid in the water to make it easier and quicker to launch and to extend the life of the launch. Due to water erosion, the cement blocks are expected to last eight years. The other boat launch was redone in 2004 and the cement blocks cost \$15,000. {answer - \$1 as the asset is past the estimated useful life and would be fully amortized – could be $348.0 / 387.4 * 15,000 = 13,474$, but again it would be fully amortized}