Exercise 2
On September 1, 20×1, Company M purchased a building at $1,200,000.
Buildings are depreciated using the straight-line depreciation method.
Useful life of the building is 40 years.
Salvage value of the building at the end of useful life is estimated as $120,000
What is the amount of depreciation expense for 20×1?
What is the book value of the building at December 31, 20×1?

Annual depreciation expense
= ($1,200,000 – $120,000) x (1/40) = $1,080,000 x (1/40) = $27,000
Depreciation expense for the period from September 1, 20×1 to December 31, 20×1
= $27,000 x (4/12) = $9,000
Book value of the building at December 31, 20×1
= $1,200,000 – $9,000 = $1,191,000

Exercise 4

Entity P has the following equipment:

Purchase date	September 1, 20x1
Cost	$360,000
Salvage value	$36,000
Amount to be depreciated	$324,000
Years of useful life	5

(1) If Entity P used the straight-line depreciation method, what is the amount of depreciation for each year?
(2) If Entity P used the double-declining balance depreciation method, what is the amount of depreciation for each year?

(1) Straight-line depreciation method

	Cost	Salvage value	Years of useful life	Annual depreciation	# of months for depreciation	Depreciation expense	Accumulated depreciation
20x1	$360,000	$36,000	5	$64,800 (*1)	4	$21,600 (*2)	$21,600
20x2	$360,000	$36,000	5	$64,800	12	$64,800	$86,400
20x3	$360,000	$36,000	5	$64,800	12	$64,800	$151,200
20x4	$360,000	$36,000	5	$64,800	12	$64,800	$216,000
20x5	$360,000	$36,000	5	$64,800	12	$64,800	$280,800
20x6	$360,000	$36,000	5	$64,800	8	$43,200	$324,000

[Note]
(*1) ($360,000 - $36,000) x 1/5 = $64,800
(*2) ($360,000 - $36,000) x 1/5 x 4/12 = $21,600