

Problem-Solving Assignment 10 (E22-10; E22-11)

Instructions

Prepare the revised retained earnings statement for 2017 and 2018, assuming comparative statements. (Ignore income taxes.)
E22-10 (L01,2,3) (Accounting for Accounting Changes and Errors) Listed below are various types of accounting changes and errors.

- _____ 1. Change in a plant asset's salvage value.
- _____ 2. Change due to overstatement of inventory.
- _____ 3. Change from sum-of-the-years'-digits to straight-line method of depreciation.
- _____ 4. Change from presenting unconsolidated to consolidated financial statements.
- _____ 5. Change from LIFO to FIFO inventory method.
- _____ 6. Change in the rate used to compute warranty costs.
- _____ 7. Change from an unacceptable accounting principle to an acceptable accounting principle.
- _____ 8. Change in a patent's amortization period.
- _____ 9. Change from completed-contract to percentage-of-completion method on construction contracts.
- _____ 10. Change from FIFO to average-cost inventory method.

Instructions

For each change or error, indicate how it would be accounted for using the following code letters:

- (a) Accounted for prospectively.
- (b) Accounted for retrospectively.
- (c) Neither of the above.

E22-11 (L02,3) EXCEL (Error and Change in Estimate—Depreciation) Joy Cunningham Co. purchased a machine on January 1, 2015, for \$550,000. At that time, it was estimated that the machine would have a 10-year life and no salvage value. On December 31, 2018, the firm's accountant found that the entry for depreciation expense had been omitted in 2016. In addition, management has informed the accountant that the company plans to switch to straight-line depreciation, starting with the year 2018. At present, the company uses the sum-of-the-years'-digits method for depreciating equipment.

Instructions

Prepare the general journal entries that should be made at December 31, 2018, to record these events. (Ignore tax effects.)

E22-12 (L02) (Depreciation Changes) On January 1, 2014, Jackson Company purchased a building and equipment that have the following useful lives, salvage values, and costs.

Building, 40-year estimated useful life, \$50,000 salvage value, \$800,000 cost
 Equipment, 12-year estimated useful life, \$10,000 salvage value, \$100,000 cost

The building has been depreciated under the double-declining-balance method through 2017. In 2018, the company decided to switch to the straight-line method of depreciation. Jackson also decided to change the total useful life of the equipment to 9 years, with a salvage value of \$5,000 at the end of that time. The equipment is depreciated using the straight-line method.

Instructions

- (a) Prepare the journal entry(ies) necessary to record the depreciation expense on the building in 2018.
- (b) Compute depreciation expense on the equipment for 2018.

E22-13 (L02) EXCEL (Change in Estimate—Depreciation) Peter M. Dell Co. purchased equipment for \$510,000 which was estimated to have a useful life of 10 years with a salvage value of \$10,000 at the end of that time. Depreciation has been entered for 7 years on a straight-line basis. In 2018, it is determined that the total estimated life should be 15 years with a salvage value of \$5,000 at the end of that time.

Instructions

- (a) Prepare the entry (if any) to correct the prior years' depreciation.
- (b) Prepare the entry to record depreciation for 2018.

E22-14 (L02) (Change in Estimate—Depreciation) Gerald Englehart Industries changed from the double-declining-balance to the straight-line method in 2018 on all its equipment. There was no change in the assets' salvage values or useful lives. Plant assets, acquired on January 2, 2015, had an original cost of \$1,600,000, with a \$100,000 salvage value and an 8-year estimated useful life. Income before depreciation expense was \$270,000 in 2017 and \$300,000 in 2018.

Instructions

- (a) Prepare the journal entry(ies) to record depreciation expense in 2018.
- (b) Starting with income before depreciation expense, prepare the remaining portion of the income statement for 2017 and 2018.