

DEMONSTRATION PROBLEM

During a three-year period, Rollins Sound Systems completed the following transactions:

Year 1

- Apr. 17 Bought a service van from Bristol Auto for \$13,955, paying \$3,955 down and issuing a 90-day, 9 percent note for \$10,000, dated April 17, for the remainder. The estimated life of the van is four years, and it has had a trade-in value of \$1,200. The double-declining-balance method of depreciation will be used.
- 18 Paid \$375 for the installation of carrying racks on the service van.
- 20 Paid \$92 for painting the company name on the van.
- July 16 Paid the interest on the 90-day note and renewed it by issuing a new, 60-day, 10 percent note, dated July 16.
- Sept. 14 Paid the principal plus interest on the note issued to Bristol Auto.
- Dec. 31 Made the adjusting entry to record depreciation for the fiscal year.
- 31 Closed the appropriate accounts to the Income Summary account.

Year 2

- Jan. 4 Paid garage for maintenance repairs to the van, \$158.
- 7 Paid \$1,050 for the installation of a propane gas system for the van (an extraordinary repair). It is estimated that the new fuel system will extend the life of the van an additional two years from this date (total five years), when it will have an estimated trade-in value of \$2,400.
- Dec. 31 Made the adjusting entry to record depreciation for the fiscal year.
- 31 Closed the appropriate accounts to the Income Summary account.

Year 3

- Mar. 19 Rollins Sound Systems decided to go out of business. Sold the van for \$5,320.
- Dec. 31 Closed the appropriate accounts to Income Summary.

Instructions

1. Record the transactions in the general journal (pages 36–38).
2. With the purchase of the service van, open an account in the subsidiary ledger, account no. 123-1.
3. After each entry, post the transactions to the Van and Accumulated Depreciation, Van, accounts, account numbers 123 and 124, respectively, and to the subsidiary ledger.

SOLUTION

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<i>Year</i>	<i>1</i>					1
2	<i>Apr.</i>	<i>17</i>	<i>Van</i>	<i>123/ ✓</i>	<i>13,955.00</i>		2
3			<i>Cash</i>			<i>3,955.00</i>	3
4			<i>Notes Payable</i>			<i>10,000.00</i>	4
5			<i>Bought a service van from Bristol Auto,</i>				5
6			<i>paying \$3,955 down and issuing a</i>				6
7			<i>90-day, 9 percent note dated April 17</i>				7
8			<i>for remainder. Account no. 123-1.</i>				8
9							9
10		<i>18</i>	<i>Van</i>	<i>123/ ✓</i>	<i>375.00</i>		10
11			<i>Cash</i>			<i>375.00</i>	11
12			<i>Installed carrying racks on the</i>				12
13			<i>service van.</i>				13
14							14
15		<i>20</i>	<i>Van</i>	<i>123/ ✓</i>	<i>92.00</i>		15
16			<i>Cash</i>			<i>92.00</i>	16
17			<i>Painted company name on the</i>				17
18			<i>service van.</i>				18
19							19
20	<i>July</i>	<i>16</i>	<i>Interest Expense</i>		<i>225.00</i>		20
21			<i>Cash</i>			<i>225.00</i>	21
22			<i>Paid the interest to date on the 90-day</i>				22
23			<i>note issued to Bristol Auto.</i>				23
24			<i>(\$10,000 x 0.09 x 90 / 360)</i>				24
25							25
26		<i>16</i>	<i>Notes Payable</i>		<i>10,000.00</i>		26
27			<i>Notes Payable</i>			<i>10,000.00</i>	27
28			<i>Renewed the note issued to Bristol Auto,</i>				28
29			<i>dated April 17, by issuing a new,</i>				29
30			<i>60-day, 10 percent note, dated July 16.</i>				30
31							31
32	<i>Sept.</i>	<i>14</i>	<i>Notes Payable</i>		<i>10,000.00</i>		32
33			<i>Interest Expense</i>		<i>166.67</i>		33
34			<i>Cash</i>			<i>10,166.67</i>	34
35			<i>Paid the principal plus interest on</i>				35
36			<i>note issued to Bristol Auto dated</i>				36
37			<i>July 16.</i>				37
38			<i>(\$10,000 x 0.10 x 60 / 360)</i>				38
39							39

SOLUTION (continued)

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	Year	1	<i>Adjusting Entry</i>				1
2	Dec.	31	Depreciation Expense, Van		4,807.33		2
3			Accumulated Depreciation, Van	124/ ✓		4,807.33	3
4			(\$14,422 x 0.50 x 8 / 12)				4
5							5
6			<i>Closing Entry</i>				6
7		31	Income Summary		5,199.00		7
8			Depreciation Expense, Van			4,807.33	8
9			Interest Expense			391.67	9
10							10
11	Year	2					11
12	Jan.	4	Van Repair Expense		158.00		12
13			Cash			158.00	13
14			<i>Paid for maintenance and repairs.</i>				14
15							15
16		7	Accumulated Depreciation, Van	124/ ✓	1,050.00		16
17			Cash			1,050.00	17
18			<i>Paid for installation of a propane gas</i>				18
19			<i>system, which extends the life of the van</i>				19
20			<i>for another two years from this date</i>				20
21			<i>and increases its estimated salvage</i>				21
22			<i>value to \$2,400.</i>				22
23							23
24			<i>Adjusting Entry</i>				24
25	Dec.	31	Depreciation Expense, Van		4,265.87		25
26			Accumulated Depreciation, Van	124/ ✓		4,265.87	26
27			(\$10,664.67 x 0.40)				27
28							28
29			<i>Closing Entry</i>				29
30		31	Income Summary		4,423.87		30
31			Depreciation Expense, Van			4,265.87	31
32			Van Repair Expense			158.00	32
33							33
34	Year	3					34
35	Mar.	19	Depreciation Expense, Van		639.88		35
36			Accumulated Depreciation, Van	124/ ✓		639.88	36
37			<i>To depreciate the van to date.</i>				37
38			(\$6,398.80 x 0.40 x 3 / 12)				38
39							39

SOLUTION (continued)

GENERAL JOURNAL

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	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<i>Year</i>	<i>3</i>					1
2	<i>Mar.</i>	<i>19</i>	<i>Cash</i>		<i>5,320.00</i>		2
3			<i>Accumulated Depreciation, Van</i>	<i>124/ ✓</i>	<i>8,663.08</i>		3
4			<i>Loss on Disposal of Plant and Equipment</i>		<i>438.92</i>		4
5			<i>Van</i>	<i>123/ ✓</i>		<i>14,422.00</i>	5
6			<i>Sold van.</i>				6
7							7
8			<i>Closing Entry</i>				8
9	<i>Dec.</i>	<i>31</i>	<i>Income Summary</i>		<i>1,078.80</i>		9
10			<i>Loss on Disposal of Plant and Equipment</i>			<i>438.92</i>	10
11			<i>Depreciation Expense, Van</i>			<i>639.88</i>	11
12							12
13							13

GENERAL LEDGER

ACCOUNT *Van* ACCOUNT NO. *123*

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
<i>Year 1</i>						
<i>Apr. 17</i>		<i>J36</i>	<i>13,955.00</i>		<i>13,955.00</i>	
<i>18</i>		<i>J36</i>	<i>375.00</i>		<i>14,330.00</i>	
<i>20</i>		<i>J36</i>	<i>92.00</i>		<i>14,422.00</i>	
<i>Year 3</i>						
<i>Mar. 19</i>		<i>J38</i>		<i>14,422.00</i>	<i>0.00</i>	

ACCOUNT *Accumulated Depreciation, Van* ACCOUNT NO. *124*

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
<i>Year 1</i>						
<i>Dec. 31</i>	<i>Adjusting</i>	<i>J37</i>		<i>4,807.33</i>		<i>4,807.33</i>
<i>Year 2</i>						
<i>Jan. 7</i>		<i>J37</i>	<i>1,050.00</i>			<i>3,757.33</i>
<i>Dec. 31</i>	<i>Adjusting</i>	<i>J37</i>		<i>4,265.87</i>		<i>8,023.20</i>
<i>Year 3</i>						
<i>Mar. 19</i>		<i>J37</i>		<i>639.88</i>		<i>8,663.08</i>
<i>19</i>		<i>J38</i>	<i>8,663.08</i>			<i>0.00</i>

SOLUTION (concluded)

PLANT AND EQUIPMENT RECORD

ITEM Van ACCOUNT NO. 123-1
 SERIAL NO. _____ MAKER _____
 FROM WHOM PURCHASED: Bristol Auto ESTIMATED SALVAGE VALUE \$1,200.00
 EST. LIFE 4 yrs. DEPREC. METHOD Double-decl.-bal. DEPRECIATION PER Year — DEPRECIATION PER MONTH — RATE OF DEPRECIATION 50% Year 1
40% Years 2-6

	DATE		EXPLANATION	ASSET			ACCUMULATED DEPRECIATION			BOOK VALUE	
				DEBIT	CREDIT	BALANCE	DEBIT	CREDIT	BALANCE		
1	Year	1								1	
2	Apr.	17		13,955.00		13,955.00			13,955.00	2	
3		18		375.00		14,330.00			14,330.00	3	
4		20		92.00		14,422.00			14,422.00	4	
5	Dec.	31	Adjusting					4,807.33	4,807.33	9,614.67	5
6	Year	2								6	
7	Jan.	7					1,050.00		3,757.33	10,664.67	7
8	Dec.	31	Adjusting					4,265.87	8,023.20	6,398.80	8
9	Year	3								9	
10	Mar.	19						639.88	8,663.08	5,758.92	10
11		19	Sold		14,422.00	0.00	8,663.08		0.00	0.00	11
12										12	