Due July 6, 2004

15.511: Corporate Accounting
Problem Set 4

I. Accounting for Depreciation, Delta-Pan Am Airlines case write-up

Answer questions 1. (a), 2, and 3 at the end of the case. It may be helpful to present your answer in question 1 by tabulating the depreciation assumptions used by the two airlines:

	Depreciation Life (yrs)	Salvage value	Annual Depreciation
Delta:			
Before 01/01/1993			
After 01/01/1993			
Pan Am:			
Before 01/01/1993			
After 01/01/1993			

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II. Depreciation Calculation

1. Dove Company acquired a new machine on 1/1/1999. It paid the vendor $4,000 cash and signed a promissory note for an additional $9,000, due in 3 years (10% interest annually). In addition, the firm spent $400 to transport the machine to its factory, $600 to install it, and $1,200 to train employees who will operate it. The manufacturing manager expects the machine to last for 6 years, over which time it will provide 24,000 hours of service. The estimated salvage value is $2,000.

   a. Calculate the depreciation charge for each of the first three years using the straight-line method.

   b. Calculate the annual depreciation charges under the activity method. Actual machine usage was 6,000 hours, 5000 hours, and 4,000 hours respectively in 1999, 2000, and 2001.

   c. At the start of 2002, Dove makes an improvement to the machine that extends its useful service life to a total of 9 years. The improvement costs $6,000. The salvage value estimate is unchanged. For the straight-line depreciation method only, determine how much depreciation expense Dove should recognize for this machine in 2002.

   d. Assume that after making the improvement in c., Dove continues operating this machine through the end of 2005. At that time, a new generation of technology is available, and Dove's managers decide to replace this machine. They are able to sell it for $1,000 cash. Record the effects of this sale on the Balance Sheet Equation, assuming the company had continued to use straight-line depreciation.

   e. Specify how the PP&E-related bookkeeping entries for 2005 would affect Dove's income statement and statement of cash flows.

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III. Inferring Cash Flows from Depreciation Disclosures

The balance sheets of Wilcox Corporation at the beginning and end of the year contained the following data:

	Beginning of Year	End of Year
Property, Plant, and Equipment (at cost)	$400,000	$550,000
Accumulated Depreciation	180,000	160,000
Property, Plant, and Equipment (net)	$220,000	$390,000

During the year, Wilcox Corporation sold machinery and equipment at a gain of $4,000. It purchased new machinery and equipment at a cost of $230,000. Depreciation charges on machinery and equipment for the year amounted to $50,000.

Calculate the proceeds Wilcox Corporation received from the sales of the machinery and equipment.