

Gilman Company acquired a used machine for \$68,400 on January 2. It was repaired the next day at a cost of \$8,100 and installed on a new platform that cost \$6,300. The company predicted that the machine would be used for three years and would then have a \$10,800 salvage value. Amortization was to be charged on a straight-line basis. A full year's amortization was charged on December 31, the end of the first and second years of the machine's use. On March 29 of its third year in service, it was retired.

Required:

1. Prepare General Journal entries to record the acquisition of the machine, the cost of repairing it, and the installation. Assume that cash was paid.
2. Prepare entries to record amortization on the machine on December 31 of its first year and on March 29 of the third year.
3. Prepare entries to record the disposal of the machine under each of the following unrelated assumptions: a) it was sold for \$35,250; b) it was sold for \$24,150; c) it was destroyed in a fire and the insurance settlement was \$22,050.

Part 1 and 2

[illegible]

Part 3

DATE	ACCOUNT	TYPE	DEBIT	CREDIT

Answer:

Gilman Company acquired a used machine for \$68,400 on January 2. It was repaired the next day at a cost of \$8,100 and installed on a new platform that cost \$6,300. The company predicted that the machine would be used for three years and would then have a \$10,800 salvage value. Amortization was to be charged on a straight-line basis. A full year's amortization was charged on December 31, the end of the first and second years of the machine's use. On March 29 of its third year in service, it was retired.

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Part 1 and 2

DATE	ACCOUNT	TYPE	DEBIT	CREDIT
Jan 2	Machinery	A	68,400	
	Cash	A		68,400
	Acquired used machine			
Jan 3	Machinery	A	8,100	
	Cash	A		8,100
	Repair used machine			
Jan 3	Machinery	A	6,300	
	Cash	A		6,300
	Install new platform			
Dec 31/1	Amortization – Machinery	EX	24,000	
	Acc Amort. – Machinery	A		24,000
	[(68,400 + 8,100 + 6,300) – 10,800] / 3 years			
Mar 29/3	Amortization – Machinery	EX	6,000	
	Acc Amort. – Machinery	A		6,000
	24,000 / 12 x 3 months			

Part 3

a)	Cash	A	35,250	
	Acc Amort. – Machinery	A	54,000	
	Gain on Disposal	R		6,450
	Machinery	A		82,800
	Disposal at \$35,250			
b)	Cash	A	24,150	
	Acc Amort. – Machinery	A	54,000	
	Loss on Disposal	EX	4,650	
	Machinery	A		82,800
	Disposal at \$24,150			
c)	Cash	A	22,050	
	Acc Amort. – Machinery	A	54,000	
	Loss on Disposal	EX	6,750	
	Machinery	A		82,800
	Disposal at \$22,050			