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Acute company was incorporated on January 1, 2017. in preparing the financial statements for the year ended December 31, 2019, the entity used the following original cost and useful life for the property, plant and equipment:

	original cost	useful life
building	15,000,000	15 years
machinery	10,500,000	10 years
furniture	3,500,000	7 years

on January 1, 2020, the entity determined that the remaining useful life is 10 years for the building, 7 years for the machinery and 5 years for the furniture.

The entity used the straight line method of depreciation with no residual value

what is the total depreciation for 2020?

Answered by Expert Tutors ⓘ

- Total depreciation for 2020==[1,200,000+1,050,000+400,000]=**2,650,000**

Step-by-step explanation

- Depreciation using the straight line method=[Cost- Residual value]/ Estimated useful life
- When the estimated useful is revised, the **carrying value** of the asset should be spread over the remaining useful life
- Carrying value as at January 1, 2020 is calculated as follows:
 - From January 1, 2017 to January 1, 2020, (3 years)
 - Carrying Value as 1, 2020 = Original cost-[(Cost- Residual value)/ Estimated useful life]*no of years already used (3 years)
- Carrying Value as 1, 2020:
 - Buildings= $15,000,000 - [(15,000,000 - 0) / 15] * 3 = 12,000,000$
 - Machinery= $10,500,000 - [(10,500,000 - 0) / 10] * 3 = 7,350,000$
 - Furniture= $3,500,000 - [(3,500,000 - 0) / 7] * 3 = 2,000,000$
- Depreciation for 2020 = [Carrying Value -residual value/ Remaining useful life]
- Residual value=0
- Remaining useful life:
 - Building= 10 years
 - Machinery =7 years
 - Furniture= 5 years

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- Depreciation for 2020=
- Building= $[12,000,000/10]=1,200,000$
- Machinery= $[7,350,000/7]=1,050,000$
- Furniture= $[2,000,000/5]=400,000$
- Total depreciation= $[1,200,000+1,050,000+400,000]=2,650,000$

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"thank you!"

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