

CORRECTION 1

In the journal entry for the Plant and Equipment on page S-133 below, the amount for amortization is correct, but its calculation should use \$110,000, not \$100,000.

CORRECTION 2

In the journal entry for the Loss On Equipment Sale on page S-133 below, the net book value is \$200,000, not \$400,000. However, the loss is correct as is the journal entry.

Solution to Self Study Problem Six - 6

CORRECTION 1

Step B Adjustment - Plant And Equipment The December 31, 2002 fair value increase on the Plant will be amortized at the rate of \$8,000 per year ($\$80,000 \div 10$). The December 31, 2005 fair value increase will be amortized at the rate of \$15,714 per year ($\$110,000 \div 7$). Give these rates, the required adjusting entry is as follows:

Retained Earnings - January 1, 2010 [(7)(\$8,000)]	\$56,000	
Retained Earnings - January 1, 2010 [(4)(\$15,714)]	62,856	
Other Expenses And Losses (\$8,000 + \$15,714)	23,714	
Plant and Equipment (Net)		\$142,570

CORRECTION 2

Step B Elimination - Loss On Equipment Sale When the equipment is sold on January

1, 2008, it has a net book value of \$200,000 [$(\$300,000)(4/6)$]. This means that the unrealized loss on the sale will be \$100,000 ($\$200,000 - \$100,000$). This loss will be realized at

the rate of \$25,000 per year ($\$100,000 \div 4$). Based on these numbers, the required entry for 2010 is as follows:

No change in journal entry.