

## Working Accounting Problems — Martin Corp.

Print this example. Use it as you view the module -- Working Accounting Problems – Example

Martin Corp. has a one year accounting period that ends on 4/30/X1. On 12/1/X0, Martin acquires equipment for use in its business operations at a cost of \$100,000. Martin got a good deal on the equipment since it had recently been selling for \$125,000. Martin estimates the useful life of this equipment to be 5 years. At the end of the 5 year useful life, the equipment will have no salvage value. Martin uses straight line depreciation for financial accounting and double declining balance for tax purposes.

On 12/1/X0, Martin paid \$20,000 and signed a note for the balance of the purchase price. The term of the note is 1 year and the interest rate is 8%.

Required:

(1) Prepare journal entries (a) for the purchase of the equipment on 12/1/X0 and (b) for any necessary adjustments on 4/30/X1. Round all computations to the nearest dollar

(2) How does this appear on the 4/30/X1 Balance Sheet and on the Income Statement for the year ended 4/30/X1?

(3) Assume that the accountant does not make the adjusting entry for the accrual of interest. How does this error impact the financial statements?