

Pretest for Depreciation

<p>1. You have started your own carpet company and bought the truck of your dreams—bright red, with the greatest company name in the world on the side. The truck costs \$40000 and has an estimated salvage value of \$5000 and you will only use it five years. Determine the value of the truck at the end of year three.</p>	$\text{Original Cost} \cdot (100\% - \text{Depreciation Rate})^t$ <p>t is time in years</p> $40000 \cdot (1.00 - .40)^3$ $40000 \cdot (.60)^3$
<p>2. You purchase a trailer to haul the carpet. The purchase price is 20,000. The trailer should last 10 years and have a salvage value of \$500. What is the book value after 9 years?</p>	$20000 \cdot (1.00 - .20)^9$ $20000 \cdot (.80)^9$ $20000 \cdot .1342177$ $\$2684.35$
<p>3. Your company purchased a piece of equipment to expedite shipping your products. The purchase price was \$5,000 and the useful life was estimated at 5 years. When you replace this piece of equipment, you should be able to resell it for \$1,500. At the end of 4 years, you decide to purchase a replacement that reflects your changing customer base. What is the book value at the end of year 4?</p>	$\$5,000 \cdot (1.00 - .40)^4$ $\$5,000 \cdot (.60)^4$ $\$5,000 \cdot .1296$ $\$648, \text{ but salvage value is } \$1,500 \text{ so the answer is } \$1,500$

Posttest for Depreciation

<p>1. You have started your own carpet company and bought the truck of your dreams—bright red, with the greatest company name in the world on the side. The truck costs \$30,000 and has an estimated salvage value of \$2,500 and you will only use it four years. Determine the value of the truck at the end of year three.</p>	$\$30000 \cdot (1.00-.50)^3$ $\$30000 \cdot (.50)^3$ $\$3750.$
<p>2. You purchase a trailer to haul the carpet. The purchase price is \$15,000. The trailer should last 5 years and have a salvage value of \$500. What is the book value after 4 years?</p>	$\$15,000 \cdot (1.00-.40)^4$ $\$15,000 \cdot (.60)^4$ $\$1944.$
<p>3. Your company purchased a piece of equipment to expedite shipping your products. The purchase price was \$8,000 and the useful life was estimated at 5 years. When you replace this piece of equipment, you should be able to resell it for \$2,500. At the end of 4 years, you decide to purchase a replacement that reflects your changing customer base. What is the book value at the end of year 4?</p>	$\$8,000 \cdot (1.00-.40)^4$ $\$8,000 \cdot (.60)^4$ $\$8,000 \cdot .1296$ $\$1036.80$ <p>But the salvage value is \$2,500, so that is the book value.</p>