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On January 1, 2019, Loeffler Company Acquired A Machine At A Cost Of \$200,000. Loeffler Estimates That this significant investment will play a crucial role in their manufacturing operations for many years to come. Understanding the accounting treatment, depreciation methods, and financial implications of such an asset is essential for accurately reflecting Loeffler's financial health and ensuring compliance with accounting standards. This article explores the key considerations Loeffler Company faced when acquiring the machine, including how to record the purchase, select depreciation methods, and evaluate the machine's useful life and residual value.

Understanding the Purchase of the Machinery

Initial Cost and Capitalization

When Loeffler Company acquired the machine at a cost of \$200,000, this amount represented the purchase price, including all costs necessary to bring the asset to its intended location and ready for use. These costs typically encompass:

- Purchase price of the machine
- Transportation and shipping fees
- Installation and setup costs
- Testing expenses before operational use

In accounting terms, Loeffler would capitalize this \$200,000 as an asset on their balance sheet rather than expensing it immediately, aligning with the matching principle which recognizes expenses in the period they generate revenue.

Estimating the Useful Life and Residual Value

Determining the Expected Useful Life

A critical decision Loeffler must make involves estimating how long the machine will remain productive.

The useful life depends on several factors:

- Technological obsolescence
- Physical wear and tear
- Maintenance practices
- Industry standards

Loeffler Company might base its estimate on manufacturer guidelines, historical experience, or industry benchmarks. For example, they may determine the machine's useful life to be 10 years.

Estimating Residual Value

Residual value (or salvage value) is the estimated amount Loeffler expects to recover at the end of the machine's useful life. This estimate affects the depreciation expense calculations. Typically, residual value is based on:

- Market conditions

- Expected condition of the machine at disposal
- Comparable asset sales

Suppose Loeffler estimates the residual value to be \$20,000. This means the depreciable amount over the asset's useful life is \$180,000 (\$200,000 cost minus \$20,000 residual value).

Choosing the Right Depreciation Method

Common Depreciation Methods

Loeffler has several options to allocate the cost of the machine over its useful life. The most common methods include:

- **Straight-Line Method:** Equal expense each year
- **Declining Balance Method:** Accelerated depreciation in the early years
- **Units of Production Method:** Based on usage or output

Applying Straight-Line Depreciation

Given its simplicity, Loeffler might choose the straight-line method, which spreads depreciation evenly over 10 years:

- Annual depreciation expense = $(\text{Cost} - \text{Residual value}) / \text{Useful life}$
- Annual depreciation = $(\$200,000 - \$20,000) / 10 = \$18,000$

Advantages and Disadvantages of Depreciation Methods

- **Straight-Line:** Easy to calculate, consistent expense
- **Declining Balance:** Higher expenses in early years, beneficial for tax purposes; better reflects usage if the asset loses value faster initially
- **Units of Production:** Suitable when usage varies significantly from year to year

Loeffler must consider its financial strategies and tax implications when selecting the appropriate method.

Recording the Purchase and Depreciation

Initial Journal Entry

On January 1, 2019, Loeffler would record the purchase of the machine as follows:

Debit: Machinery (Asset) – \$200,000
Credit: Cash or Accounts Payable – \$200,000

This entry capitalizes the asset on the balance sheet.

Annual Depreciation Entries

Using the straight-line method, Loeffler will record yearly depreciation expenses:

Debit: Depreciation Expense – \$18,000
Credit: Accumulated Depreciation – \$18,000

This process continues annually until the asset's book value reaches its residual value or the asset is disposed of.

Impact on Financial Statements

Balance Sheet

The machinery appears as a fixed asset at its cost minus accumulated depreciation. Over time, the book value decreases, reflecting the asset's usage and wear.

Income Statement

Depreciation expense reduces net income, representing the allocation of the asset's cost over its useful life. This expense affects profitability and tax calculations.

Disposal and Replacement of the Machine

When the Machine Is Disposed

At the end of its useful life or upon sale, Loeffler must record the disposal:

- Remove the asset's accumulated depreciation from the books
- Record any gain or loss based on the sale proceeds compared to the book value

Replacement Considerations

When replacing the machine, Loeffler should consider:

- The book value of the old machine
- The cost of the new machine
- Potential tax implications

Tax Implications and Benefits

Tax Deductions

Depreciation provides a non-cash deduction that reduces taxable income. Different depreciation methods can influence Loeffler's current tax liabilities.

Section 179 and Bonus Depreciation

Loeffler may explore special tax provisions like Section 179 or bonus depreciation, which allow for accelerated expense recognition, providing immediate tax relief.

Conclusion

Understanding the acquisition, depreciation, and disposal of machinery is vital for Loeffler Company to accurately portray its financial position and performance. By carefully estimating the useful life and residual value, selecting the appropriate depreciation method, and maintaining diligent records, Loeffler ensures compliance with accounting standards and optimizes its tax strategies. Proper management of

fixed assets not only influences financial statements but also impacts strategic planning, investment decisions, and overall corporate health.

This comprehensive approach to asset management underscores the importance of meticulous accounting practices following the acquisition of machinery at a significant cost, such as Loeffler's \$200,000 investment made on January 1, 2019.

Frequently Asked Questions

What is the significance of the acquisition date for Loeffler Company's machine in 2019?

The acquisition date of January 1, 2019, marks the start of the asset's useful life and depreciation period, which affects financial statements and tax reporting.

How does Loeffler Company typically estimate the useful life of its machinery acquired in 2019?

Loeffler Company estimates the useful life based on industry standards, manufacturer guidelines, and historical experience with similar equipment.

What depreciation method might Loeffler Company use for the machine acquired in 2019?

Loeffler could choose methods such as straight-line, declining balance, or units of production, depending on the asset's usage pattern and accounting policies.

How does the initial cost of \$200,000 impact Loeffler Company's

financial statements?

The \$200,000 cost is recorded as a capital asset on the balance sheet, and its depreciation expense will be reflected in the income statement over its estimated useful life.

What factors could influence Loeffler Company's estimate of the machine's useful life in 2019?

Factors include technological obsolescence, expected usage, maintenance practices, and industry trends that could shorten or extend the asset's useful life.

Why is it important for Loeffler Company to accurately estimate the useful life of its machinery?

Accurate estimates ensure proper depreciation expense allocation, financial statement accuracy, and compliance with accounting standards, ultimately affecting profitability and asset valuation.

Additional Resources

On January 1, 2019, Loeffler Company Acquired A Machine At A Cost Of \$200,000. Loeffler Estimates That this investment will significantly influence its operational capacity and financial reporting in the years to come. Understanding how to properly account for such a purchase, including the nuances of depreciation and asset management, is essential for accurate financial statements and strategic decision-making.

Understanding the Context of Asset Acquisition

When Loeffler Company acquires a machine for \$200,000, it is engaging in a common but critically important activity within the realm of accounting and finance: capitalizing a long-term asset. The initial

purchase price encompasses not just the cost of the machine itself but also includes any costs necessary to bring the asset into usable condition—such as transportation, installation, and testing.

This acquisition marks the beginning of a lifecycle that involves tracking the asset's depreciation, evaluating its useful life, and ultimately recognizing its disposal or sale. Properly accounting for this machine ensures that Loeffler's financial statements accurately reflect the company's assets, profitability, and financial position.

Step 1: Recording the Acquisition

Initial Entry

On January 1, 2019, Loeffler would record the purchase with a journal entry similar to:

- Debit: Machinery (Asset) \$200,000
- Credit: Cash or Accounts Payable \$200,000

This entry capitalizes the machine on the balance sheet, reflecting its status as a long-term asset.

Step 2: Estimating the Useful Life and Residual Value

Key Concepts

- Useful Life: The estimated period over which the machine is expected to be productive for Loeffler Company.
- Residual Value (Salvage Value): The estimated amount Loeffler expects to recover at the end of the machine's useful life.

Estimating Factors

Loeffler should base these estimates on industry standards, historical experience, and manufacturer specifications. For example, Loeffler might estimate:

- Useful life: 10 years
- Residual value: \$20,000

These estimates will influence the depreciation calculations over the asset's lifespan.

Step 3: Choosing the Appropriate Depreciation Method

Loeffler Company must select a depreciation method that best reflects the pattern in which the asset's economic benefits are consumed. Common methods include:

- Straight-Line Method: Allocates an equal amount of depreciation expense each year.
- Declining Balance Method: Accelerates depreciation, with higher expenses in earlier years.
- Units of Production Method: Depreciates based on usage or output rather than time.

Most Suitable Method for Loeffler?

Suppose Loeffler expects consistent utility from the machine over its life; the straight-line method is typically preferred for its simplicity and consistency.

Step 4: Calculating Depreciation

Straight-Line Depreciation Calculation

Using the estimates:

- Cost = \$200,000
- Residual Value = \$20,000
- Useful Life = 10 years

Annual depreciation expense:

...

$$(\$200,000 - \$20,000) / 10 = \$18,000$$

...

Each year, Loeffler will record:

- Debit: Depreciation Expense \$18,000
- Credit: Accumulated Depreciation \$18,000

This process continues annually until the asset's book value reaches its residual value.

Step 5: Recording Depreciation and Monitoring Asset Value

Annual Entry

At the end of each fiscal year, Loeffler will record depreciation:

- Year 1 (2019):
 - Debit: Depreciation Expense \$18,000
 - Credit: Accumulated Depreciation \$18,000

- Year 2 (2020):

- Same entry, increasing accumulated depreciation to \$36,000

Book Value Over Time

Year	Cost	Accumulated Depreciation	Book Value
-----	-----	-----	-----
Jan 1, 2019	\$200,000	\$0	\$200,000
Dec 31, 2019		\$18,000	\$182,000
Dec 31, 2020		\$36,000	\$164,000
...	...	...	
End of useful life		\$180,000 (total depreciation)	\$20,000 (residual)

This systematic depreciation ensures the asset's value on the books aligns with its economic use.

Step 6: Asset Impairment and Revaluation Considerations

While depreciation systematically allocates cost, Loeffler should also monitor for any impairments—significant declines in value due to damage, obsolescence, or market conditions. If impairment occurs, Loeffler must:

- Write down the asset to its recoverable amount
- Recognize an impairment loss on the income statement

Revaluation models may apply if Loeffler adopts fair value accounting, but for most machinery, cost-based depreciation remains standard.

Step 7: Disposal of the Asset

When Loeffler eventually disposes of the machine—either through sale, scrapping, or other means—it must:

- Calculate the asset's book value at disposal
- Record any gain or loss:

Example:

If sold for \$50,000 after 8 years:

- Book value after 8 years:

...

$$\$200,000 - (8 \times \$18,000) = \$200,000 - \$144,000 = \$56,000$$

...

- Gain on sale:

...

$$\$50,000 \text{ (sale price)} - \$56,000 \text{ (book value)} = -\$6,000 \text{ (loss)}$$

...

Entry to record sale:

- Debit: Cash \$50,000
- Debit: Loss on Disposal \$6,000
- Credit: Machinery \$200,000
- Credit: Accumulated Depreciation \$144,000

Additional Considerations for Loeffler Company

Tax Implications

Depreciation deductions reduce taxable income, impacting Loeffler's tax liabilities each year. The company must stay compliant with IRS or relevant tax authority rules regarding depreciation methods and asset life.

Strategic Asset Management

Regular maintenance, tracking usage, and planning for replacement can optimize the utility and financial benefits of the machinery.

Accounting Standards Compliance

Loeffler should adhere to applicable accounting standards such as GAAP or IFRS, which provide guidelines on asset recognition, depreciation, impairment, and disclosures.

Conclusion

The acquisition of a machine at a cost of \$200,000 is more than just a ledger entry; it involves strategic planning, accurate estimation, and ongoing management to ensure the asset contributes effectively to Loeffler Company's operations and financial health. By carefully selecting depreciation methods, monitoring asset value, and complying with accounting standards, Loeffler can maximize the utility of its investment and present a truthful picture of its financial position to stakeholders.

Proper accounting for such assets not only aids in compliance but also provides insights into operational efficiency, helps with tax planning, and supports long-term strategic decisions. As Loeffler continues to utilize the machine, diligent management of its depreciation and eventual disposal will be

key to sustaining its financial stability and growth.

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