

Swifty Company Purchases An Oil Tanker Depot On January 1, 2020, At A Cost Of \$648,500. Swifty Expects

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On January 1, 2020, Swifty Company made a significant strategic move by acquiring an oil tanker depot for \$648,500. This investment marks a pivotal point in the company's expansion into the oil transportation and storage industry. The acquisition not only reflects Swifty's confidence in the growing demand for oil logistics but also sets the stage for future revenue growth, improved operational efficiency, and enhanced market positioning.

In this article, we will explore the details of the acquisition, the accounting implications, the expected benefits for Swifty Company, and how this investment aligns with industry trends. Whether you're an investor, accounting professional, or industry enthusiast, understanding the nuances of such a significant asset purchase is crucial for appreciating Swifty's strategic direction.

Background of Swifty Company and the Oil Tanker Depot Acquisition

Swifty Company Overview

Swifty Company is a prominent player in the logistics and transportation sector, with a focus on oil and energy-related assets. Over the years, Swifty has expanded its portfolio to include various storage facilities, transportation fleets, and terminal operations. The company's core mission is to provide reliable, efficient, and cost-effective solutions for oil producers, refiners, and distributors.

The Strategic Rationale Behind the Acquisition

The decision to purchase the oil tanker depot was driven by several strategic factors:

- Market Expansion: Gaining access to new geographic markets and customer bases.
- Operational Control: Enhancing control over storage and distribution channels.
- Revenue Diversification: Adding a steady income stream from storage fees and related services.
- Synergy Creation: Integrating the depot into existing logistics operations to reduce costs and improve efficiency.

Details of the Oil Tanker Depot Purchase

Purchase Price and Asset Description

Swiftly Company acquired the oil tanker depot for a total cost of \$648,500. The depot includes:

- Storage tanks suitable for large quantities of crude oil or refined products.
- Loading and unloading facilities compatible with tanker ships.
- Administrative and operational buildings.
- Ancillary infrastructure such as pipelines, safety systems, and security features.

Transaction Date and Accounting Considerations

The acquisition was completed on January 1, 2020, a date chosen to align with the start of the fiscal year for streamlined accounting reporting. The purchase price will be recorded as an asset on Swiftly's balance sheet, with considerations for depreciation, potential impairment, and future valuation adjustments.

Accounting for the Oil Tanker Depot Acquisition

Initial Recognition and Measurement

Under generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the oil tanker depot should be recognized as a non-current asset at its purchase cost of \$648,500. This includes:

- The purchase price.
- Any directly attributable costs necessary to bring the asset to working condition (e.g., legal fees, transportation costs).

Depreciation and Useful Life

Swiftly expects the depot to have a useful life of approximately 20 years. Depreciation will be calculated using the straight-line method, allocating the cost evenly over the asset's estimated useful life:

- Annual Depreciation Expense: $\$648,500 \div 20 = \$32,425$
- Monthly Depreciation Expense: \$2,702.08

This systematic allocation ensures that the asset's cost is matched with the revenues it helps generate over time.

Impairment and Revaluation

Swiftly will periodically review the asset for impairment, especially if market conditions or operational factors suggest a decline in value. If the carrying amount exceeds the recoverable amount, an impairment loss must be recognized.

Additionally, under IFRS, Swifty may choose to revalue the depot to fair value, provided there is an active market and relevant information. Such revaluations could impact depreciation calculations and financial statements.

Expected Benefits of the Oil Tanker Depot Purchase

Operational Advantages

By owning the depot, Swifty expects to:

- Reduce reliance on third-party storage providers.
- Improve scheduling flexibility for tanker operations.
- Enhance safety and compliance standards with direct control over facilities.
- Streamline logistics operations, leading to cost savings.

Financial Benefits

The acquisition is anticipated to generate several financial advantages:

- Steady revenue from storage and terminal services.
- Increased asset base, which can improve borrowing capacity.
- Potential appreciation of the asset value over time.
- Enhanced cash flow through service fees and operational efficiencies.

Strategic Market Positioning

Owning a key infrastructure asset positions Swifty as a more integrated player in the oil logistics industry. This can lead to:

- Competitive advantages over rivals who lease storage facilities.
- Opportunities for future expansion or upgrades.
- Increased attractiveness to investors seeking stable, long-term assets.

Industry Trends and Future Outlook

Growing Demand for Oil Storage and Logistics

Global oil consumption continues to grow, driven by emerging markets and industrialization. This increases the need for strategic storage facilities, making assets like the depot valuable.

Environmental and Regulatory Considerations

With stricter environmental regulations, Swifty will need to invest in safety, spill prevention, and eco-friendly technologies. These investments can further enhance the depot's value and operational sustainability.

Technological Innovations

Automation, real-time monitoring, and digital asset management are transforming the oil storage industry. Swifty's investment may include upgrades to incorporate these advanced features, boosting efficiency and safety.

Conclusion

Swifty Company's purchase of an oil tanker depot on January 1, 2020, for \$648,500 marks a strategic milestone that promises operational enhancements, financial growth, and strengthened market positioning. Proper accounting treatment, including depreciation and potential revaluation, ensures transparent reporting and accurate reflection of the asset's value. As the industry evolves with emerging trends and technological advancements, Swifty's investment positions it well for future success in the oil logistics sector.

By understanding the key aspects of this acquisition—from strategic rationale to accounting implications—stakeholders can better appreciate the significance of this move and its impact on Swifty Company's long-term growth trajectory.

Frequently Asked Questions

What was the purchase price of the oil tanker depot by Swifty Company on January 1, 2020?

Swifty Company purchased the oil tanker depot for \$648,500.

What is the significance of the acquisition date for Swifty Company's oil tanker depot?

The acquisition date of January 1, 2020, marks the beginning of the asset's accounting period and initial valuation.

How does Swifty Company plan to record the purchase of the oil tanker depot?

Swifty Company will record the asset at its purchase cost of \$648,500, including any related purchase expenses.

What depreciation method might Swifty Company use for the oil tanker depot?

They may choose methods like straight-line or declining balance depreciation, depending on their accounting policies.

What are the potential impacts of this purchase on Swifty Company's financial statements?

The purchase increases assets on the balance sheet and may affect depreciation expenses and net income over time.

Are there any tax implications for Swifty Company after purchasing the oil tanker depot?

Yes, the company may be able to claim depreciation deductions, reducing taxable income.

What factors should Swifty Company consider for future maintenance and operational costs of the depot?

They should consider ongoing maintenance expenses, operational costs, and potential upgrades for the depot's efficient functioning.

How might this acquisition influence Swifty Company's strategic growth plans?

Acquiring the depot could enhance their logistics capabilities, expand their market reach, and support future business development.

Additional Resources

Swifty Company Purchases An Oil Tanker Depot On January 1, 2020, At A Cost Of \$648,500. Swifty Expects to leverage this strategic acquisition to enhance its operational capacity in the energy sector. This significant investment marks a pivotal move for the company, and understanding the implications, benefits, and potential drawbacks of such a purchase is crucial for stakeholders, investors, and industry analysts alike. This article provides a comprehensive review of the acquisition, exploring its financial, operational, and strategic dimensions.

Overview of the Acquisition

In early 2020, Swifty Company made a landmark purchase: acquiring an oil tanker depot for \$648,500. The depot, situated in a strategic location with access to major shipping routes, was expected to bolster Swifty's infrastructure capabilities significantly. The acquisition was part of Swifty's broader expansion plan aimed at increasing storage capacity, reducing logistical costs, and

gaining greater control over its supply chain.

This purchase reflects Swifty's confidence in the long-term prospects of the energy industry, despite market volatility and geopolitical uncertainties prevalent during that period. The main goal was to establish a robust physical presence in the oil transportation and storage sector, which could translate into increased revenue streams and operational efficiencies.

Financial Analysis of the Acquisition

Purchase Price and Valuation

Swifty paid \$648,500 for the depot, a figure that was presumably negotiated based on the depot's physical condition, capacity, location, and potential for future revenue generation. The valuation process likely considered the depot's current and projected storage capacity, existing infrastructure, and market conditions at the time.

Key financial considerations include:

- Purchase price relative to industry standards for similar facilities.
- Expected return on investment (ROI) based on current and projected operations.
- Potential for appreciation of asset value over time.

Accounting Treatment

From an accounting perspective, the depot is classified as a long-term asset on Swifty's balance sheet. It would be recorded at its purchase cost (\$648,500) and subjected to depreciation over its useful life.

Depreciation considerations:

- The company might choose straight-line depreciation or an accelerated method based on expected usage.
- Estimated useful life of storage infrastructure typically ranges between 15-30 years.
- Residual value assumptions influence annual depreciation expense.

Impact on Financial Statements

The acquisition would influence Swifty's financial metrics in several ways:

- Assets: Increase in total assets by \$648,500.
- Liabilities: If financed through debt, liabilities would increase correspondingly; if paid in cash, cash reserves decrease.
- Profitability: Depreciation expense reduces net income; however, operational efficiencies gained may boost future revenues.
- Cash Flow: Initial cash outflow for the purchase; ongoing cash flows from operations may improve with increased storage capacity.

Strategic and Operational Implications

Enhanced Storage Capacity and Logistics

Owning an oil tanker depot provides Swiftly with several operational advantages:

- Increased Storage Capacity: Ability to store larger volumes of oil, accommodating fluctuating supply and demand.
- Cost Savings: Reduced reliance on third-party storage facilities, leading to lower logistics costs.
- Operational Control: Greater oversight over storage conditions, safety protocols, and scheduling.

Features of the depot include:

- Multiple storage tanks with varying capacities.
- Advanced safety and monitoring systems.
- Proximity to major shipping lanes for quick deployment.

Market Position and Competitive Advantage

By owning the depot, Swiftly can:

- Offer integrated storage and transportation solutions to clients.
- Reduce lead times, thus improving customer satisfaction.
- Potentially negotiate better transportation rates due to increased control.

Pros:

- Strengthens market presence.
- Diversifies revenue streams.
- Facilitates expansion into related services like refining or distribution.

Cons:

- Requires ongoing maintenance and operational costs.
- Market fluctuations can impact storage utilization rates.

Risks and Challenges

While the acquisition presents numerous opportunities, it also introduces certain risks:

Market Volatility

Oil prices are inherently volatile, influenced by geopolitical events, regulatory changes, and global economic conditions. A downturn could reduce demand for storage, impacting revenue.

Operational Risks

Managing a physical depot involves:

- Ensuring safety standards to prevent accidents or environmental hazards.

- Maintaining infrastructure to prevent deterioration.
- Complying with local regulations and environmental laws.

Financial Risks

If the depot does not generate expected revenue, Swifty might face challenges in recouping its investment, especially if market conditions deteriorate rapidly.

Pros and Cons of the Acquisition

Pros:

- Strategic Growth: Enhances Swifty's footprint in the oil transportation sector.
- Cost Efficiency: Potential to reduce operational costs over time.
- Revenue Diversification: Opens new streams through storage and related services.
- Asset Appreciation: The depot's value may increase, providing future sale or refinancing opportunities.

Cons:

- High Initial Investment: \$648,500 could be significant relative to company size.
- Operational Complexity: Managing a physical depot requires expertise.
- Market Dependency: Revenue is tied to oil demand and prices, which are unpredictable.
- Maintenance Costs: Infrastructure upkeep can be costly and ongoing.

Future Outlook and Expectations

Swifty's expectations from this acquisition are optimistic, with projections likely including:

- Increased revenue from expanded storage capacity.
- Cost savings through direct control of logistics.
- Enhanced market competitiveness.
- Potential for future growth through additional investments or upgrades.

However, the company must remain vigilant regarding market trends and operational risks. Continuous assessment of the depot's performance, along with strategic marketing, will be essential for maximizing the benefits of this investment.

Conclusion

Swifty Company's purchase of an oil tanker depot for \$648,500 represents a strategic move aimed at strengthening its position in the energy logistics sector. The acquisition offers numerous advantages, including increased operational control, cost savings, and potential revenue growth. Nonetheless, it also introduces risks related to market volatility, operational management, and financial commitments.

For stakeholders, the success of this investment hinges on effective management, market conditions, and Swifty's ability to optimize the depot's utilization. If managed well, this asset can serve as a cornerstone for Swifty's future expansion and profitability in the dynamic energy industry.

By carefully balancing the opportunities and challenges, Swifty can leverage this acquisition to achieve sustainable growth and solidify its presence in the oil transportation and storage market.

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