

# On January 1, 2019, Williams Company Purchased A Copy Machine. The Machine Costs \$160,000, Its Estimated

**On January 1, 2019, Williams Company Purchased A Copy Machine. The Machine Costs \$160,000, Its Estimated** useful life, residual value, and depreciation method are critical factors in accounting for this asset. This article provides an in-depth analysis of the purchase, accounting treatment, depreciation methods, and related considerations for the copy machine, offering valuable insights for financial professionals, students, and business owners.

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## Introduction to Asset Acquisition and Its Significance

When Williams Company acquires a significant asset such as a copy machine, it involves not only the initial purchase but also ongoing accounting treatments that impact the company's financial statements. Proper recording and depreciation of the asset ensure accurate reflection of its value over time, compliance with accounting standards, and optimal tax strategies.

The purchase of the copy machine for \$160,000 signifies a substantial investment. The company must determine how to capitalize this cost, estimate its useful life, residual value, and select an appropriate depreciation method. These decisions influence the company's net income, asset valuation, and tax obligations.

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## Key Aspects of the Purchase

### Cost of the Asset

The initial cost of the copy machine is \$160,000. This includes:

- Purchase price
- Import duties and non-refundable taxes
- Installation costs
- Transportation and handling fees
- Any other costs necessary to acquire the asset and prepare it for use

All these costs are capitalized, meaning they are added to the asset's book value rather than expensed immediately.

## Estimating Useful Life

The useful life of a copy machine refers to the period over which the asset is expected to generate economic benefits for Williams Company. Industry standards, manufacturer specifications, and company policies guide this estimate.

Typically, copy machines have an estimated useful life ranging from 3 to 7 years. For this case, suppose Williams Company estimates the useful life at 5 years, based on industry standards and technological obsolescence considerations.

## Residual (Salvage) Value

Residual value is the estimated amount the company expects to recover at the end of the asset's useful life. For a copy machine, residual value might be minimal, often assumed to be zero or a small amount.

Assuming Williams Company estimates a residual value of \$10,000, this figure will influence the depreciation calculation.

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## Accounting for the Purchase

### Initial Recording of the Asset

At the date of purchase, January 1, 2019, the journal entry to record the acquisition would be:

```
```plaintext
Debit: Copy Machine Asset $160,000
Credit: Cash/Accounts Payable $160,000
```
```

This entry capitalizes the cost, placing the asset on the balance sheet.

### Subsequent Depreciation

Depreciation allocates the cost of the asset over its estimated useful life, matching expense recognition with the periods benefiting from the asset's use.

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# Depreciation Methods and Their Impact

Choosing an appropriate depreciation method affects the timing of expense recognition and can have tax implications.

## Common Depreciation Methods

- **Straight-Line Method:** Allocates an equal expense each year over the useful life.
- **Declining Balance Method:** Accelerates depreciation, higher expense in early years.
- **Units of Production Method:** Based on usage or output.

For simplicity and consistency, many companies, including Williams, may prefer the straight-line method, especially if the asset's usage is relatively uniform.

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## Calculating Depreciation

Suppose Williams Company opts for the straight-line depreciation method.

Formula:

$$\text{Annual Depreciation Expense} = \frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Useful Life}}$$

Calculation:

$$= \frac{\$160,000 - \$10,000}{5 \text{ years}} = \frac{\$150,000}{5} = \$30,000$$

Each year, Williams will record a depreciation expense of \$30,000.

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## Journal Entries for Depreciation

Annually, the following entry is made:

```plaintext

Debit: Depreciation Expense \$30,000

Credit: Accumulated Depreciation \$30,000

```

This reduces the book value of the asset and recognizes expense on the income statement.

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## Impact on Financial Statements

Balance Sheet:

The asset's book value decreases each year by the accumulated depreciation. After 3 years:

$$\begin{aligned} & \backslash \\ & \$160,000 - (3 \times \$30,000) = \$70,000 \\ & \backslash \end{aligned}$$

Income Statement:

Depreciation expense reduces net income by \$30,000 annually.

Cash Flow Statement:

Depreciation is a non-cash expense, added back in operating activities.

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## Tax Implications

Depreciation affects taxable income. Accelerated depreciation methods can lead to larger deductions in early years, reducing taxable income and cash taxes paid.

Williams Company must consider:

- Tax laws and regulations
- Possible incentives for capital investments
- Timing of depreciation deductions

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## End of Useful Life and Disposal

At the end of 5 years, the company assesses the asset's condition and residual value. If the asset's fair value is less than book value, impairment may be necessary. If the asset is sold or disposed of, Williams records the disposal, removing the asset from the books and recognizing any gain or loss.

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## **Additional Considerations**

### **Impairment of Assets**

If technological advances or damages reduce the asset's recoverable amount below its book value, Williams must recognize an impairment loss.

### **Leasing vs. Buying**

While this case involves purchase, some companies may consider leasing options, which have different accounting treatments.

### **Technological Obsolescence**

Copy machines tend to become obsolete quickly. Proper estimation of useful life and residual value is critical to avoid overstatement of assets and income.

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## **Conclusion**

The purchase of the copy machine by Williams Company on January 1, 2019, for \$160,000 exemplifies key accounting principles regarding asset capitalization, depreciation, and financial reporting. Properly estimating useful life, residual value, and selecting an appropriate depreciation method ensures compliance with accounting standards and provides stakeholders with accurate financial information.

By systematically applying depreciation methods, recording accurate journal entries, and monitoring asset condition, Williams Company can optimize its financial management, tax planning, and strategic decision-making related to its fixed assets.

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## **References and Resources**

- Generally Accepted Accounting Principles (GAAP)
- International Financial Reporting Standards (IFRS)
- Industry standards for office equipment depreciation
- Accounting textbooks on fixed assets and depreciation
- Williams Company's internal asset management policies

## Frequently Asked Questions

### **What is the initial cost recorded for the copy machine purchased by Williams Company on January 1, 2019?**

The initial cost recorded for the copy machine is \$160,000.

### **What factors should Williams Company consider when estimating the useful life of the copy machine purchased in 2019?**

Williams Company should consider the manufacturer's estimated useful life, technological obsolescence, usage patterns, and industry standards when estimating the useful life of the copy machine.

### **How should Williams Company account for the purchase of the copy machine in its financial statements?**

The company should record the copy machine as a capital asset on the balance sheet and depreciate it over its estimated useful life using an appropriate depreciation method.

### **What depreciation methods are commonly used for office equipment like the copy machine purchased in 2019?**

Common depreciation methods include straight-line depreciation, declining balance, and units of production, with straight-line being the most typical for office equipment.

### **If the estimated useful life of the copy machine is 5 years, what would be the annual depreciation expense?**

Using straight-line depreciation, the annual expense would be \$160,000 divided by 5 years, totaling \$32,000 per year.

## Additional Resources

On January 1, 2019, Williams Company Purchased A Copy Machine. The Machine Costs \$160,000, Its Estimated

Purchasing equipment is a significant decision for any business, especially when it involves a substantial investment such as a copy machine costing \$160,000. This purchase by Williams Company on January 1, 2019, exemplifies typical capital expenditure decisions that impact financial statements, operational efficiency, and long-term strategic planning. In this comprehensive review, we will explore various aspects of this purchase—from the initial acquisition details to depreciation methods, accounting considerations, and strategic implications—providing a detailed analysis for business owners, accountants, and financial analysts alike.

# Introduction to the Purchase

The purchase of a copy machine for \$160,000 by Williams Company marks an important milestone in its operational infrastructure. Such a high-cost asset indicates that the machine likely offers advanced features, higher capacity, or specialized functionalities to meet the company's growing needs. Typically, businesses consider factors like cost, expected useful life, technological capabilities, and maintenance when acquiring such machinery.

The initial entry for this purchase involves recognizing the asset at its cost, which includes purchase price, taxes, transportation, installation, and other directly attributable costs. The decision to capitalize this expenditure means that the company recognizes it as an asset on the balance sheet rather than an expense on the income statement, aligning with accounting standards such as GAAP or IFRS.

## Accounting for the Purchase

### Asset Recognition and Initial Measurement

Under standard accounting principles, Williams Company will record the copy machine at its historical cost:

- Purchase Price: \$160,000
- Additional Costs: Transportation, installation, testing (if any)
- Total Capitalized Cost: Sum of all directly attributable costs

The journal entry at acquisition would be:

```
```plaintext
Debit: Equipment (Copy Machine) $160,000
Credit: Cash/Accounts Payable $160,000
```
```

This approach ensures transparency and accuracy in reflecting the company's assets and financial position.

### Depreciation Methods

Given the substantial cost and the expected useful life of the machine, Williams Company must allocate this expenditure over its useful life through depreciation. The choice of depreciation method impacts the company's net income and asset book value over time.

Common depreciation methods include:

- Straight-Line Depreciation: Spreads the cost evenly over the useful life.

- Declining Balance Method: Accelerates depreciation in early years.
- Units of Production Method: Based on usage or output.

#### Pros and Cons of Each Method

| Method              | Pros                                 | Cons                                                 |
|---------------------|--------------------------------------|------------------------------------------------------|
| Straight-Line       | Simple, consistent expense each year | May not reflect actual wear and tear                 |
| Declining Balance   | Higher depreciation expense early on | More complex, may lead to lower net income initially |
| Units of Production | Matches expense to usage             | Requires accurate measurement of output              |

For a copy machine, which might have a predictable useful life and consistent usage, straight-line depreciation is often preferred for simplicity and predictability.

## Estimating the Useful Life and Residual Value

Determining the useful life of the machine is critical for accurate depreciation calculation. Industry standards suggest that office equipment like copy machines typically have a useful life of 5 to 7 years, depending on technological obsolescence and usage.

Residual value (salvage value) is the estimated amount the company expects to recover at the end of the asset's useful life. If Williams Company estimates a residual value of \$10,000, depreciation expense per year using straight-line method would be:

```

Depreciation Expense = (Cost - Residual Value) / Useful Life
= ($160,000 - $10,000) / 5 years
= $30,000 per year

```

This systematic allocation ensures that the expense aligns with the periods benefiting from the machine's use.

## Implications for Financial Statements

### Balance Sheet Impact

Initially, the asset appears as a \$160,000 addition to property, plant, and equipment. Over time, accumulated depreciation reduces the book value of the asset, reflecting wear and tear or obsolescence.



## **Income Statement Impact**

Depreciation expense reduces net income, aligning the cost of the equipment with the revenue it helps generate. Proper depreciation accounting ensures accurate profitability analysis.

## **Operational and Strategic Considerations**

### **Efficiency and Technological Features**

Modern copy machines often come with advanced features such as high-speed printing, scanning, document management, and network connectivity. Investing in such a high-priced model suggests that Williams Company prioritizes efficiency, quality, and technological adaptability.

Features to consider include:

- High-volume printing capacity
- Energy efficiency
- Integration with digital workflows
- Security features for confidential documents
- Maintenance and support services

Pros of investing in advanced features:

- Increased productivity
- Lower operational costs over time
- Enhanced security and compliance
- Better integration with digital systems

Potential downsides:

- Higher initial cost
- More complex maintenance
- Rapid technological obsolescence

### **Operational Benefits and Challenges**

The new copy machine likely improves operational workflows, reduces downtime, and enhances document management. However, it also necessitates staff training, maintenance planning, and potentially higher insurance costs.

# Cost-Benefit Analysis and ROI

Assessing the return on investment involves estimating the benefits derived from the machine against its costs. Factors include:

- Increased productivity and throughput
- Cost savings from energy efficiency
- Reduced outsourcing costs
- Improved document security and compliance

A comprehensive analysis should also factor in depreciation, maintenance, and operational costs to determine the net benefit over the machine's useful life.

## Tax Implications

Depreciation also offers tax advantages, as the depreciation expense reduces taxable income. Williams Company can consider accelerated depreciation methods, like MACRS in the U.S., to maximize tax savings in the initial years.

## Tax Strategies and Considerations

- Section 179 Deduction: Allows immediate expensing of qualifying assets up to certain limits.
- Bonus Depreciation: Offers additional depreciation deductions in the first year.
- Impact on Cash Flow: Tax savings can improve cash flow and fund further investments.

## Maintenance and Lifecycle Management

An essential aspect of equipment ownership is ongoing maintenance and lifecycle management. Regular servicing ensures the machine remains operational, maximizes its useful life, and minimizes unexpected downtime.

Maintenance considerations include:

- Scheduled servicing
- Replacement of consumables (toner, drums)
- Software updates
- End-of-life disposal or upgrade planning

Lifecycle management strategies:

- Tracking depreciation and residual value
- Planning for eventual replacement
- Evaluating technological upgrades

# Environmental and Sustainability Factors

Modern office equipment increasingly emphasizes sustainability. Features like energy-saving modes, duplex printing, and eco-friendly materials can reduce environmental impact.

Pros:

- Lower energy costs
- Reduced carbon footprint
- Compliance with environmental regulations

Cons:

- Higher upfront cost for eco-friendly features
- Potential trade-offs with performance or capacity

Williams Company should consider these factors as part of its responsible asset management.

## Conclusion

The purchase of a \$160,000 copy machine by Williams Company on January 1, 2019, illustrates a strategic investment in operational efficiency and technological advancement. Proper accounting treatment, including asset recognition, depreciation, and tax planning, is essential to accurately reflect the asset's value and impact on financial statements. The decision to invest in a high-quality, feature-rich machine aligns with long-term operational goals, but it also requires careful management of maintenance, lifecycle, and environmental considerations.

While the initial cost is substantial, the benefits—if carefully managed—can outweigh the expenses through increased productivity, cost savings, and enhanced security. The choice of depreciation method and useful life assumptions significantly influence financial reporting and tax outcomes. Ultimately, such an investment should be viewed not merely as a fixed cost but as a strategic asset that contributes to the company's competitive edge and operational resilience.

Williams Company's approach to this purchase serves as a valuable case study for organizations contemplating similar capital investments, highlighting the importance of thorough analysis, strategic planning, and diligent asset management to maximize value and ensure sustainable growth.

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