

B-10.07

On January 1, 20X6, Outback Air purchased a new engine for one of its airplanes used to transport adventurers to remote regions of western Australia. The engine cost \$750,000 and has a service life of 10,000 flight hours. Regulations require careful records of usage, and the engines must be replaced or rebuilt at the end of the 10,000 hour service period. Outback simply chooses to sell its used engines and acquire new ones. Used engines are expected to be resold for 1/3 of their original cost.

Outback uses the units-of-output depreciation method.

- (a) Assuming that the engine was used as follows, prepare a schedule showing annual depreciation expense, accumulated depreciation, and related calculations for each year.

20X6 1,500 hours

20X7 4,000 hours

20X8 3,000 hours

20X9 1,500 hours

- (b) Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 20X7.
- (c) Prepare journal entries to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for \$250,000.