

B-11.06

McCurdy Oil acquired an existing oil well and all related equipment used in the production of oil. McCurdy paid \$2,500,000, of which 20% was attributable to pumps, pipelines, and tanks. The oil well is expected to produce oil as follows:

Year 1	100 barrels per day
Year 2	80 barrels per day
Year 3	60 barrels per day
Year 4	40 barrels per day
Year 5	20 barrels per day

At the end of the 5th year, McCurdy anticipates selling the oil well and equipment for \$1,000,000. Of this amount, \$250,000 is expected to be attributable to the equipment.

Assuming the above estimates serve as the basis for depletion, calculate depletion cost for the 3rd year. Prepare an appropriate journal entry for depletion. In preparing the entry, assume that all oil is sold at the time of its production (i.e., none of the oil remains in inventory).