MGAB02 Financial Accounting II - Midterm Review Questions & Solutions

Question 1:

Grindstone Corp. (Grindstone) produces fad toys for children. In 2024, Grindstone purchased a new stamping machine to produce the latest fad toy. The machine cost $100,000 plus taxes of $13,000, and delivery and installation of $12,000. Grindstone's management estimates that the market for the toy is about 600,000 units and demand will last no more than three years. Management expects that it will be able to produce and sell 320,000 units in 2024, 210,000 units in 2025, and 70,000 units in 2026. Once the fad dies, the machine won't be useful for any purpose and will have to be sold for scrap, about $4,000. Grindstone will use unit-of-production depreciation for the machine.

Required:

1. Prepare the journal entry to record the purchase of the new machine.