



CAREER CLUSTER
Finance

CAREER PATHWAY
Accounting

INSTRUCTIONAL AREA
Financial Analysis

MANAGERIAL ACCOUNTING EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills—the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills—the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills—the ability to take a concept from an idea and make it real
- Priorities/time management—the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

1. Account for long-term assets.
2. Discuss the nature of long-term assets.
3. Describe methods used to value long-term assets.
4. Discuss the role of ethics in accounting.
5. Explain the responsibilities of finance professionals in providing client services.

CASE STUDY SITUATION

You are a staff accountant at MARTIN CORPORATION. The assembly department supervisor has asked you to explain depreciation charges and why the double-declining balance method of depreciation was used.

A supervisor in the assembly department has approached you about the 2017 costs charged to the assembly department. In particular, the supervisor is concerned about the “depreciation” line item. The supervisor is very proud of the condition of the equipment in the department, as extra care and effort has been taken to make sure all of the machines are in good working condition. Therefore, the supervisor feels the depreciation charge must be a mistake, as it cannot possibly reflect accurately the minimal wear and tear of the machines in the department over the last year.

There are four machines being depreciated. All were put into use on January 1, 2016. Each cost \$518,000, have a salvage value of \$50,000 and a useful life of 12 years. MARTIN CORPORATION uses the double-declining balance method of depreciation for these machines and similar assets. The supervisor has heard about straight-line depreciation and pointed out that using this method would reduce the charge to the assembly department.

YOUR CHALLENGE

The supervisor has asked to meet with you to discuss using both double-declining and straight-line depreciation methods and have you explain the justification for your method of choice.

Double-Declining Balance (one machine):

Year	Book Value	Rate	Depreciation	Accum. Dep'n
1	518,000	16.67%	86,333.33	86,333.33
2	413,666.67	16.67%	71,944.44	158,277.78
3	273,388.89	16.67%	45,564.81	227,824.07
...				

Straight-Line Balance:

Year	Cost-Salvage	Rate	Depreciation	Accum. Dep'n
1	468,000	1/12	39,000	39,000
2	468,000	1/12	39,000	78,000
3	468,000	1/12	39,000	117,000
...				

SOLUTION

Depreciation Methods

Double-Declining Balance (one machine):

Year	Book Value	Rate	Depreciation	Accum. Dep'n
1	518,000	16.67%	86,333.33	86,333.33
2	431,666.67	16.67%	71,944.45	158,277.78
3	273,388.89	16.67%	45,564.81	227,824.07
...				

Straight-Line Balance:

Year	Cost-Salvage	Rate	Depreciation	Accum. Dep'n
1	468,000	1/12	39,000	39,000
2	468,000	1/12	39,000	78,000
3	468,000	1/12	39,000	117,000
...				

Key Points:

- The purpose of depreciation is to distribute the cost of tangible plant assets, less salvage, over their useful lives in a *systematic and rational* manner.
- Under GAAP, accounting for depreciation is a process of allocation, not of valuation, through which the productive effort (cost) is to be matched with productive accomplishment (revenue) for the period.
- Depreciation is not intended to reflect the wear and tear that the machinery has undergone over the last year.
- Straight-line depreciation expenses even amounts of depreciation for each year of an asset's life. During the earlier years of an asset's life, the double-declining-balance method results in higher depreciation charges because it doubles the charge that would have been made under the straight-line method. However, the same percentage depreciation in the first year is applied annually to the asset's declining book value. Therefore, the double-declining-balance charge becomes lower than the straight-line charge during the last several years of the asset's life.
- The same amount of depreciation is taken in total under either method.
- Double-declining balance depreciation is used on financial statements to have a consistent combination of depreciation expense and repairs and maintenance expense

during the life of the asset. When the asset is new, additional costs for service and repairs are minimal. Thus, a greater part of the asset's cost should be allocated to this optimal portion of the asset's life. After a few years, the department will have to absorb the additional burden of repair and maintenance costs, so it makes sense for depreciation to be lower then.

- The company can review the estimated useful lives and salvage values of the depreciable assets. Since they are estimates, it is possible that some should be changed. Any changes should be based on sound, objective information without concern for the effect on the financial statements. Any changes would be treated prospectively in the financial statements.
- While a non-cash item, depreciation is a very real expense. Depreciation attempts to match up profit with the expense it took to generate that profit. This provides the most accurate picture of a company's earning potential.
- GAAP and tax laws (IRC) differ and thus accounting for depreciation under both can differ, but only in the timing of the deduction.



MANAGERIAL ACCOUNTING, 2019

Participant: _____

JUDGE'S EVALUATION FORM

Sample Event

I.D. Number: _____

INSTRUCTIONAL AREA

Financial Analysis

Did the participant:

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Account for long-term assets?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Discuss the nature of long-term assets?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Describe methods used to value long-term assets?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Discuss the role of ethics in accounting?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Explain the responsibilities of finance professionals in providing client services?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and responses to judge's questions?	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						