1. a. Under straight-line Depreciation, the yearly expense will be 
   \( \frac{\text{Acquisition Cost} - \text{Salvage Value}}{\text{Estimated Useful Life (in years)}} \).
   Acquisition cost = $4,000 + $9,000 + $400 + $600 = $14,000
   Salvage Value = $2,000
   Est. UL = 6 years, or 24,000 hours
   So annual SL Depreciation = \( \frac{14,000 - 2,000}{6} = $2,000 \)

b. Under the activity method, depreciation will be charged by hour of machine usage
   using the following formula \( \frac{14,000 - 2,000}{24,000 \text{ hrs}} = $.50 / \text{hour} \)
   Hence, depreciation expense for the first three years will be:
   Year 1: 5,000 hours \times $.50 / \text{hr} = $2,500
   Year 2: 4,500 hours \times $.50 / \text{hr} = $2,250
   Year 3: 4,000 hours \times $.50 / \text{hr} = $2,000

c. Book Value at start of 2000 = $14,000 – (3 \times $2,000) = $8,000
   The improvement increases the Book Value to $8,000 + $4,000 = $12,000
   The amount to be depreciated over the remaining life is $12,000 - $2,000 = $10,000
   The remaining useful life is 8 – 3 = 5.
   Hence, the depreciation expense for 2002 will still be $2,000 = $10,000 / 5 years.

d. Accumulated Depreciation at the end of 2005 will be 7 \times $2,000 or $14,000
   The Acquisition cost was $14,000 + 4,000 = $18,000, so the Book Value is $4,000.
   Since the machine is sold for only $1,000, there is a loss of $3,000.
   \[
   \begin{align*}
   \text{BSE:} & \quad \text{Cash} + \text{PPE} - \text{Accum Deprec.} = \text{Ret. Earnings} \\
   +$1,000 & \quad -$18,000 -14000 = -$3,000
   \end{align*}
   \]

e. Reported Net Income for 2005 will be lower by $3,000, the amount of the loss on disposal.
   In the Statement of Cash flows, Dove will report an inflow of $1,000 in the investing section.
   In the Operating section, using the indirect method, Dove will add back the $3,000 loss to Net Income,
   since it reduced Net Income without reducing cash.
## 2. Depreciation at Delta and Pan Am Airlines

<table>
<thead>
<tr>
<th>Delta</th>
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</tr>
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<tr>
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</tbody>
</table>

### Depreciation computations 1989-1992
- **Original Cost**: 50,000
- **Residual value (10%)**: 5,000
- **Amount to depreciate**: 45,000
- **Life in years**: 15
- **Depreciation expense/yr, 1993-1999**: $3,000

### Depreciation computations 1993-1999
- **Net book value @ 1/1/93**: $38,000
- **Life in years**: 15
- **Already depreciated**: (4)
- **Extended years**: 5
- **Remaining years**: 16
- **Depreciation expense/yr**: $2,062.5

### Depreciation computations: 1989-1992
- **Original Cost**: 50,000
- **Residual value (10%)**: 7,500
- **Amount to depreciate**: 42,500
- **Life in years**: 25
- **Depreciation expense/yr, 1993-1999**: $1,700

### Depreciation computations 1993-1999
- **Net book value @ 1/1/93**: $43,200
- **Life in years**: 25
- **Already depreciated**: (4)
- **Extended years**: 5
- **Remaining years**: 26
- **Depreciation expense/yr**: $1,373.1