

CHAPTER 10

PLANT ASSETS, NATURAL RESOURCES, AND INTANGIBLE ASSETS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	13.	2	K	25.	4	C	37.	5	C	^a 49.	8	K
2.	1	K	14.	2	K	26.	4	C	38.	5	K	^{sg} 50.	1	C
3.	1	K	15.	2	K	27.	4	C	39.	6	K	^{sg} 51.	2	K
4.	1	K	16.	2	K	28.	4	K	40.	6	K	^{sg} 52.	2	K
5.	1	K	17.	2	K	29.	4	C	41.	6	K	^{sg} 53.	5	K
6.	1	C	18.	2	K	30.	4	K	42.	6	K	^{sg} 54.	6	K
7.	2	C	19.	2	K	31.	4	C	43.	6	K	^{sg} 55.	6	K
8.	2	K	20.	3	K	32.	5	K	44.	7	K	^{sg,a} 56.	8	K
9.	2	C	21.	3	K	33.	5	K	45.	7	K			
10.	2	K	22.	3	K	34.	5	K	46.	7	K			
11.	2	K	23.	3	K	35.	5	K	^a 47.	8	K			
12.	2	C	24.	4	K	36.	5	K	^a 48.	8	K			
Multiple Choice Questions														
57.	1	K	86.	2	AP	115.	2	AP	144.	4	C	173.	6	K
58.	1	AP	87.	2	AP	116.	2	AP	145.	4	C	174.	6	C
59.	1	C	88.	2	AP	117.	2	AP	146.	4	AP	175.	6	K
60.	1	C	89.	2	AP	118.	2	AP	147.	4	K	176.	6	C
61.	1	K	90.	2	K	119.	2	AP	148.	4	K	177.	6	K
62.	1	C	91.	2	AP	120.	2	AP	149.	4	C	178.	6	C
63.	1	AP	92.	2	K	121.	2	AP	150.	4	C	179.	6	K
64.	1	AP	93.	2	AP	122.	2	AP	151.	4	C	180.	6	AP
65.	1	AP	94.	2	AP	123.	2	AP	152.	4	AP	181.	6	K
66.	1	AP	95.	2	K	124.	4	AP	153.	4	AP	182.	6	C
67.	1	K	96.	2	K	125.	2	AP	154.	4	K	183.	6	K
68.	1	C	97.	2	K	126.	2	AP	155.	4	AP	184.	6	K
69.	1	C	98.	2	K	127.	2	AP	156.	4	C	185.	6	K
70.	1	AP	99.	2	AP	128.	2	AP	157.	4	C	186.	6	K
71.	1	K	100.	2	AP	129.	2	AP	158.	4	C	187.	6	K
72.	1	C	101.	2	K	130.	2	AP	159.	4	AP	188.	6	K
73.	1	AP	102.	2	AP	131.	2	AP	160.	4	AP	189.	6	K
74.	1	AP	103.	2	C	132.	2	K	161.	4	AP	190.	6	K
75.	1	K	104.	2	K	133.	2	K	162.	5	K	191.	6	AP
76.	2	K	105.	2	AP	134.	2	K	163.	5	K	192.	6	AP
77.	2	K	106.	2	AP	135.	2	AN	164.	5	K	193.	6	C
78.	2	K	107.	2	AP	136.	3	K	165.	5	K	194.	6	AP
79.	2	K	108.	2	AN	137.	3	K	166.	5	K	195.	7	AP
80.	2	C	109.	2	AP	138.	3	K	167.	5	K	196.	7	AP
81.	2	K	110.	2	AP	139.	3	C	168.	5	C	197.	7	K
82.	2	C	111.	2	AP	140.	3	C	169.	5	AP	198.	7	K
83.	2	K	112.	2	AP	141.	4	C	170.	5	K	199.	7	K
84.	2	K	113.	2	C	142.	4	K	171.	5	AP	200.	7	K
85.	2	K	114.	2	AP	143.	4	K	172.	5	K	201.	7	AP

^{sg} This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

^a This question covers a topic in an appendix to the chapter.

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SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
Multiple Choice Questions (Cont.)														
^a 202.	8	AP	^a 207.	8	K	^{sg} 212.	2	AP	st 217.	6	K	222.	9	AP
^a 203.	8	K	st 208.	1	K	st 213.	3	K	^{sg} 218.	6	C	223.	9	AP
^a 204.	8	K	^{sg} 209.	1	K	^{sg} 214.	3	K	st 219.	7	K	224.	9	K
^a 205.	8	C	^{sg} 210.	2	K	st 215.	4	K	^{sg,a} 220.	8	K	225.	9	K
^a 206.	8	K	st 211.	2	K	^{sg} 216.	5	C	221.	9	K	226.	9	K
Brief Exercises														
227.	1	K	229.	2	AP	231.	2	AP	233.	4	AP	235.	6	AP
228.	1	C	230.	2	AP	232.	2	AP	234.	5	AP	236.	7	AP
Exercises														
237.	1,2	AP	246.	2	E	255.	3	AN	264.	5	AP	273.	7	AP
238.	1,3	AN	247.	2	AP	256.	4	AP	265.	5	AP	274.	7	C
239.	1	AP	248.	2	AP	257.	4	AP	266.	6	AP	^a 275.	8	AP
240.	1	AP	249.	2	AN	258.	4	AP	267.	6	AP	^a 276.	8	AP
241.	2	AP	250.	2	AN	259.	4	AP	268.	6	AP	^a 277.	8	AP
242.	2	AP	251.	2	AN	260.	4	AP	269.	6	AP	^a 278.	8	AP
243.	2	AP	252.	3	C	261.	4	AP	270.	6	C			
244.	2	AP	253.	2,3	AN	262.	5	AP	271.	7	AN			
245.	2	AP	254.	3	C	263.	5	AP	272.	7	AP			
Completion Statements														
279.	1	K	284.	2	K	289.	2	K	294.	4	K	299.	6	K
280.	1	K	285.	2	K	290.	3	K	295.	4	AP	300.	7	K
281.	1	K	286.	2	K	291.	3	K	296.	5	K	^a 301.	8	K
282.	1	K	287.	2	K	292.	4	K	297.	6	K	^a 302.	8	AP
283.	1	AP	288.	2	K	293.	4	K	298.	6	K			
Matching Statements														
303.	1	K	304.	4-7	K									
Short-Answer Essay														
305.	2	K	307.	7	K	309.	2	K	311.	4	K	313.	4	K
306.	3	K	308.	8	K	310.	6	K	312.	6	K			

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	50.	TF	62.	MC	68.	MC	74.	MC	237.	Ex	281.	C
2.	TF	57.	MC	63.	MC	69.	MC	75.	MC	238.	Ex	282.	C
3.	TF	58.	MC	64.	MC	70.	MC	208.	MC	239.	Ex	283.	C
4.	TF	59.	MC	65.	MC	71.	MC	209.	MC	240.	Ex	303.	MA
5.	TF	60.	MC	66.	MC	72.	MC	227.	BE	279.	C		
6.	TF	61.	MC	67.	MC	73.	MC	228.	BE	280.	C		

Learning Objective 2													
7.	TF	76.	MC	92.	MC	108.	MC	118.	MC	135.	MC	246.	Ex
8.	TF	77.	MC	93.	MC	109.	MC	119.	MC	210.	MC	247.	EX
9.	TF	78.	MC	94.	MC	110.	MC	120.	MC	211.	MC	248.	Ex
10.	TF	79.	MC	95.	MC	111.	MC	121.	MC	221.	MC	249.	EX
11.	TF	80.	MC	96.	MC	112.	MC	122.	MC	222.	MC	250.	EX
12.	TF	81.	MC	97.	MC	113.	MC	123.	MC	223.	MC	251.	EX
13.	TF	82.	MC	98.	MC	114.	MC	125.	MC	229.	BE	253.	Ex
14.	TF	83.	MC	99.	MC	115.	MC	126.	MC	230.	BE	284.	C
15.	TF	84.	MC	100.	MC	116.	MC	127.	MC	231.	BE	285.	C
16.	TF	85.	MC	101.	MC	117.	MC	128.	MC	232.	BE	286.	C
17.	TF	86.	MC	102.	MC	118.	MC	129.	MC	237.	Ex	287.	C
18.	TF	87.	MC	103.	MC	119.	MC	130.	MC	241.	Ex	288.	C
19.	TF	88.	MC	104.	MC	120.	MC	131.	MC	242.	Ex	289.	C
51.	TF	89.	MC	105.	MC	115.	MC	132.	MC	243.	Ex	303.	MA
52.	TF	90.	MC	106.	MC	116.	MC	133.	MC	244.	Ex	305.	SA
75.	MC	91.	MC	107.	MC	117.	MC	134.	MC	245.	Ex	309.	SA
Learning Objective 3													
20.	TF	138.	MC	225.	MC	253.	Ex	306.	SA				
21.	TF	139.	MC	226.	MC	254.	Ex						
22.	TF	140.	MC	232.	BE	255.	Ex						
23.	TF	213.	MC	238.	EX	290.	C						
136.	MC	214.	MC	248.	Ex	291.	C						
137.	MC	224.	MC	252.	Ex	303.	MA						
Learning Objective 4													
24.	TF	31.	TF	146.	MC	153.	MC	160.	MC	259.	Ex	311.	SA
25.	TF	124.	MC	147.	MC	154.	MC	161.	MC	260.	Ex	313.	SA
26.	TF	141.	MC	148.	MC	155.	MC	215.	MC	261.	Ex		
27.	TF	142.	MC	149.	MC	156.	MC	233.	BE	292.	C		
28.	TF	143.	MC	150.	MC	157.	MC	256.	Ex	293.	C		
29.	TF	144.	MC	151.	MC	158.	MC	257.	Ex	294.	C		
30.	TF	145.	MC	152.	MC	159.	MC	258.	Ex	295.	C		
Learning Objective 5													
32.	TF	36.	TF	162.	MC	166.	MC	170.	MC	234.	BE	265.	Ex
33.	TF	37.	TF	163.	MC	167.	MC	171.	MC	262.	Ex	296.	C
34.	TF	38.	TF	164.	MC	168.	MC	172.	MC	263.	Ex		
35.	TF	53.	TF	165.	MC	169.	MC	216.	MC	264.	Ex		
Learning Objective 6													
39.	TF	173.	MC	180.	MC	187.	MC	194.	MC	269.	Ex	312.	SA
40.	TF	174.	MC	181.	MC	188.	MC	217.	MC	270.	Ex		
41.	TF	175.	MC	182.	MC	189.	MC	218.	MC	297.	C		
42.	TF	176.	MC	183.	MC	190.	MC	235.	BE	298.	C		
43.	TF	177.	MC	184.	MC	191.	MC	266.	Ex	299.	C		
54.	TF	178.	MC	185.	MC	192.	MC	267.	Ex	304.	MA		
55.	TF	179.	MC	186.	MC	193.	MC	268.	Ex	310.	SA		

Learning Objective 7													
44.	TF	195.	MC	198.	MC	201.	MC	236.	BE	273.	Ex	307.	SA
45.	TF	196.	MC	199.	MC	218.	MC	271.	Ex	274.	Ex		
46.	TF	197.	MC	200.	MC	219.	MC	272.	Ex	300.	C		
Learning Objective ^a 8													
^a 47.	TF	^a 56.	TF	^a 204.	MC	^a 207.	MC	^a 276.	Ex	^a 301.	C		
^a 48.	TF	^a 202.	MC	^a 205.	MC	^a 220.	MC	^a 277.	Ex	^a 302.	C		
^a 49.	TF	^a 203.	MC	^a 206.	MC	^a 275.	Ex	^a 278.	Ex	308.	SA		
Learning Objective 9													
221.	MC	223.	MC	224.	MC	225.	MC	226.	MC				

Note: TF = True-False BE = Brief Exercise C = Completion
 MC = Multiple Choice Ex = Exercise MA = Matching
 SA = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

- Describe how the historical cost principle applies to plant assets.** The cost of plant assets includes all expenditures necessary to acquire the asset and make it ready for its intended use. Once cost is established, the company uses that amount as the the basis of accounting for the plant assets over its useful life.
- Explain the concept of depreciation and how to compute it.** Depreciation is the allocation of the cost of a plant asset to expense over its useful (service) life in a rational and systematic manner. Depreciation is not a process of valuation, nor is it a process that results in an accumulation of cash. Three depreciation methods are:

Method	Annual Depreciation	Formula
Straight-line	Constant amount	$\text{Depreciable cost} \div \text{Useful life (in years)}$
Units-of-activity	Varying amount	$\text{Depreciable cost per unit} \times \text{Units of activity during the year}$
Declining-balance	Decreasing amount	$\text{Book value at beginning of year} \times \text{Declining-balance rate}$

Companies make revisions of periodic depreciation in present and future periods, not retroactively. They determine the new annual depreciation by dividing the depreciable cost at the time of the revision by the remaining useful life.
- Distinguish between revenue and capital expenditures, and explain the entries for each.** Companies incur revenue expenditures to maintain the operating efficiency and productive life of an asset. They debit these expenditures to Maintenance and Repairs Expense as incurred. Capital expenditures increase the operating efficiency, productive capacity, or expected useful life of the asset. Companies generally debit these expenditures to the plant asset affected.
- Explain how to account for the disposal of a plant asset.** The accounting for disposal of a plant asset through retirement or sale is as follows:
 - Eliminate the book value of the plant asset at the date of disposal.
 - Record cash proceeds, if any.
 - Account for the difference between the book value and the cash proceeds as a gain or loss on disposal.
- Compute periodic depletion of natural resources.** Companies compute depletion cost per unit by dividing the total cost of the natural resource minus salvage value by the number of units estimated to be in the resource. They then multiply the depletion cost per unit by the number of units extracted and sold.

6. **Explain the basic issues related to accounting for intangible assets.** The process of allocating the class of an intangible asset is referred to as amortization. The cost of intangible assets with indefinite lives is not amortized. Companies normally use the straight-line method for amortizing intangible assets.
7. **Indicate how plant assets, natural resources, and intangible assets are reported.** Companies usually combine plant assets and natural resources under property, plant, and equipment: They show intangibles separately under intangible assets. Either within the balance sheet or in the notes, companies should disclose the balances of the major classes of assets, such as land, buildings, and equipment, and accumulated depreciation by major classes or in total. They also should describe the depreciation and amortization methods used, and should disclose the amount of depreciation and amortization expense for the period. The asset turnover measures the productivity of a company's assets in generating sales.
- ^a8. **Explain how to account for the exchange of plant assets.** Ordinarily companies record a gain or loss on the exchange of plant assets. The rationale for recognizing a gain or loss is that most exchanges have commercial substance. An exchange has commercial substance if the future cash flows change as a result of the exchange.

TRUE-FALSE STATEMENTS

1. All plant assets (fixed assets) must be depreciated for accounting purposes.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

2. When purchasing land, the costs for clearing, draining, filling, and grading should be charged to a Land Improvements account.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

3. When purchasing delivery equipment, sales taxes and motor vehicle licenses should be charged to Delivery Equipment.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

4. Land improvements are generally charged to the Land account.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. Once cost is established for a plant asset, it becomes the basis of accounting for the asset unless the asset appreciates in value, in which case, market value becomes the basis for accountability.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

6. The book value of a plant asset is always equal to its fair market value.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

7. Recording depreciation on plant assets affects the balance sheet and the income statement.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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8. The depreciable cost of a plant asset is its original cost minus obsolescence.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

9. Recording depreciation each period is an application of the expense recognition principle.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

10. The Accumulated Depreciation account represents a cash fund available to replace plant assets.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

11. In calculating depreciation, both plant asset cost and useful life are based on estimates.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

12. Using the units-of-activity method of depreciating factory equipment will generally result in more depreciation expense being recorded over the life of the asset than if the straight-line method had been used.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

13. Salvage value is not subtracted from plant asset cost in determining depreciation expense under the declining-balance method of depreciation.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

14. The declining-balance method of depreciation is called an accelerated depreciation method because it depreciates an asset in a shorter period of time than the asset's useful life.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

15. Under the double-declining-balance method, the depreciation rate used each year remains constant.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

16. The IRS does not require the taxpayer to use the same depreciation method on the tax return that is used in preparing financial statements.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

17. A change in the estimated useful life of a plant asset may cause a change in the amount of depreciation recognized in the current and future periods, but not to prior periods.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

18. A change in the estimated salvage value of a plant asset requires a restatement of prior years' depreciation.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

19. To determine a new depreciation amount after a change in estimate of a plant asset's useful life, the asset's remaining depreciable cost is divided by its remaining useful life.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

20. Additions and improvements to a plant asset that increase the asset's operating efficiency, productive capacity, or expected useful life are generally expensed in the period incurred.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

21. Capital expenditures are expenditures that increase the company's investment in productive facilities.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

22. Ordinary repairs should be recognized when incurred as revenue expenditures.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

23. A characteristic of capital expenditures is that the expenditures occur frequently during the period of ownership.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

24. Once an asset is fully depreciated, no additional depreciation can be taken even though the asset is still being used by the business.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

25. The fair value of a plant asset is always the same as its book value.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

26. If the proceeds from the sale of a plant asset exceed its book value, a gain on disposal occurs.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

27. A loss on disposal of a plant asset can only occur if the cash proceeds received from the asset sale are less than the asset's book value.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

28. The book value of a plant asset is the amount originally paid for the asset less anticipated salvage value.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

29. A loss on disposal of a plant asset as a result of a sale or a retirement is calculated in the same way.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

30. A plant asset must be fully depreciated before it can be removed from the books.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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31. If a plant asset is sold at a gain, the gain on disposal should reduce the cost of goods sold section of the income statement.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

32. Depletion cost per unit is computed by dividing the total cost of a natural resource by the estimated number of units in the resource.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

33. The Accumulated Depletion account is deducted from the cost of the natural resource in the balance sheet.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

34. Depletion expense for a period is only recognized on natural resources that have been extracted and sold during the period.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

35. Natural resources are long-lived productive assets that are extracted in operations and are replaceable only by an act of nature.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

36. The cost of natural resources is not allocated to expense because the natural resources are replaceable only by an act of nature.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

37. Conceptually, the cost allocation procedures for natural resources parallels that of plant assets.

Ans: T, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

38. Natural resources include standing timber and underground deposits of oil, gas, and minerals.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

39. If an acquired franchise or license has an indefinite life, the cost of the asset is not amortized.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

40. When an entire business is purchased, goodwill is the excess of cost over the book value of the net assets acquired.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

41. Research and development costs which result in a successful product which is patentable are charged to the Patent account.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

42. The cost of a patent must be amortized over a 20-year period.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

43. The cost of a patent should be amortized over its legal life or useful life, whichever is shorter.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

44. The balances of the major classes of plant assets and accumulated depreciation by major classes should be disclosed in the balance sheet or notes.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

45. The asset turnover is calculated as total sales divided by ending total assets.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

46. Research and development costs can be classified as a property, plant, and equipment item or as an intangible asset.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a47. An exchange of plant assets has commercial substance if the future cash flows change as a result of the exchange.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a48. Companies record a gain or loss on the exchange of plant assets because most exchanges have commercial substance.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a49. When plant assets are exchanged, the cost of the new asset is the book value of the old asset plus any cash paid.

Ans: F, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

50. When constructing a building, a company is permitted to include the acquisition cost and certain interest costs incurred in financing the project.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

51. Recognition of depreciation permits the accumulation of cash for the replacement of the asset.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

52. When an asset is purchased during the year, it is not necessary to record depreciation expense in the first year under the declining-balance depreciation method.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

53. Depletion expense is reported in the income statement as an operating expense.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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54. Goodwill is not recognized in accounting unless it is acquired from another business enterprise.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

55. Research and development costs should be charged to expense when incurred.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

- ^a56. A loss on the exchange of plant assets occurs when the fair market value of the old asset is less than its book value.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	9.	T	17.	T	25.	F	33.	T	41.	F	^a 49.	F
2.	F	10.	F	18.	F	26.	T	34.	T	42.	F	50.	T
3.	F	11.	F	19.	T	27.	T	35.	T	43.	T	51.	F
4.	F	12.	F	20.	F	28.	F	36.	F	44.	T	52.	F
5.	F	13.	T	21.	T	29.	T	37.	T	45.	F	53.	F
6.	F	14.	F	22.	T	30.	F	38.	T	46.	F	54.	T
7.	T	15.	T	23.	F	31.	F	39.	T	^a 47.	T	55.	T
8.	F	16.	T	24.	T	32.	F	40.	F	^a 48.	T	^a 56.	T

MULTIPLE CHOICE QUESTIONS

57. The cost of a purchased building includes all of the following **except**
- closing costs.
 - real estate broker's commission.
 - remodeling costs.
 - All of these are included.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

58. A company purchased land for \$90,000 cash. Real estate brokers' commission was \$5,000 and \$7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the historical cost principle, the cost of land would be recorded at
- \$107,000.
 - \$90,000.
 - \$90,000.
 - \$102,000.

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: \$90,000 + \$5,000 + \$7,000 = \$102,000

59. Which one of the following items is **not** considered a part of the cost of a truck purchased for business use?
- a. Sales tax
 - b. Truck license
 - c. Freight charges
 - d. Cost of lettering on side of truck

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

60. Which of the following assets does **not** decline in service potential over the course of its useful life?
- a. Equipment
 - b. Furnishings
 - c. Land
 - d. Fixtures

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

61. The four subdivisions for plant assets are
- a. land, land improvements, buildings, and equipment.
 - b. intangibles, land, buildings, and equipment.
 - c. furnishings and fixtures, land, buildings, and equipment.
 - d. property, plant, equipment, and land.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

62. The cost of land does **not** include
- a. real estate brokers' commission.
 - b. annual property taxes.
 - c. accrued property taxes assumed by the purchaser.
 - d. title fees.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Gagner Clinic purchases land for \$175,000 cash. The clinic assumes \$1,500 in property taxes due on the land. The title and attorney fees totaled \$1,000. The clinic has the land graded for \$2,200. What amount does Gagner Clinic record as the cost for the land?
- a. \$157,200
 - b. \$175,000
 - c. \$179,700
 - d. \$157,500

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$175,000 + \$1,500 + \$1,000 + \$2,200 = \$179,700$

64. Carey Company buys land for \$50,000 on 12/31/13. As of 3/31/14, the land has appreciated in value to \$50,700. On 12/31/14, the land has an appraised value of \$51,800. By what amount should the Land account be increased in 2014?
- a. \$0
 - b. \$700
 - c. \$1,100
 - d. \$1,800

Ans: A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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65. Hull Company acquires land for \$86,000 cash. Additional costs are as follows:

Removal of shed	\$ 300
Filling and grading	1,500
Salvage value of lumber of shed	120
Broker commission	1,130
Paving of parking lot	10,000
Closing costs	560

Hull will record the acquisition cost of the land as

- \$96,000.
- \$87,690.
- \$89,610.
- \$89,370.

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$86,000 + \$300 + \$1,500 - \$120 + \$1,130 + \$560 = \$89,370$

66. Wesley Hospital installs a new parking lot. The paving cost \$40,000 and the lights to illuminate the new parking area cost \$25,000. Which of the following statements is true with respect to these additions?

- \$40,000 should be debited to the Land account.
- \$25,000 should be debited to Land Improvements.
- \$65,000 should be debited to the Land account.
- \$65,000 should be debited to Land Improvements.

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$40,000 + \$25,000 = \$65,000$

67. Land improvements should be depreciated over the useful life of the

- land.
- buildings on the land.
- land or land improvements, whichever is longer.
- land improvements.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

68. Mattox Company is building a new plant that will take three years to construct. The construction will be financed in part by funds borrowed during the construction period. There are significant architect fees, excavation fees, and building permit fees. Which of the following statements is true?

- Excavation fees are capitalized but building permit fees are not.
- Architect fees are capitalized but building permit fees are not.
- Interest is capitalized during the construction as part of the cost of the building.
- The capitalized cost is equal to the contract price to build the plant less any interest on borrowed funds.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

69. A company purchases a remote site building for computer operations. The building will be suitable for operations after some expenditures. The wiring must be replaced to computer specifications. The roof is leaky and must be replaced. All rooms must be repainted and recarpeted and there will also be some plumbing work done. Which of the following statements is true?
- The cost of the building will not include the repainting and recarpeting costs.
 - The cost of the building will include the cost of replacing the roof.
 - The cost of the building is the purchase price of the building, while the additional expenditures are all capitalized as Building Improvements.
 - The wiring is part of the computer costs, not the building cost.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

70. Engler Company purchases a new delivery truck for \$55,000. The sales taxes are \$4,000. The logo of the company is painted on the side of the truck for \$1,600. The truck license is \$160. The truck undergoes safety testing for \$290. What does Engler record as the cost of the new truck?
- \$61,050
 - \$60,890
 - \$59,000
 - \$60,600

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$55,000 + \$4,000 + \$1,600 + \$290 = \$60,890$

71. All of the following factors in computing depreciation are estimates **except**
- cost.
 - residual value.
 - salvage value.
 - useful life.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

72. Presto Company purchased equipment and these costs were incurred:

Cash price	\$65,000
Sales taxes	3,600
Insurance during transit	640
Installation and testing	860
Total costs	<u>\$70,100</u>

Presto will record the acquisition cost of the equipment as

- \$65,000.
- \$68,600.
- \$69,240.
- \$70,100.

Ans: D, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$65,000 + \$3,600 + \$640 + \$860 = \$70,100$

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73. Angie's Blooms purchased a delivery van for \$40,000. The company was given a \$4,000 cash discount by the dealer, and paid \$2,000 sales tax. Annual insurance on the van is \$1,000. As a result of the purchase, by how much will Angie's Blooms increase its van account?
- \$40,000
 - \$36,000
 - \$39,000
 - \$38,000

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$40,000 - \$4,000 + \$2,000 = \$38,000$

74. Yocum Company purchased equipment on January 1 at a list price of \$120,000, with credit terms 2/10, n/30. Payment was made within the discount period and Yocum was given a \$2,400 cash discount. Yocum paid \$6,000 sales tax on the equipment, and paid installation charges of \$1,760. Prior to installation, Yocum paid \$4,000 to pour a concrete slab on which to place the equipment. What is the total cost of the new equipment?
- \$125,360
 - \$129,360
 - \$131,760
 - \$123,600

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$120,000 - \$2,400 + \$6,000 + \$1,760 + \$4,000 = \$129,360$

75. Interest may be included in the acquisition cost of a plant asset
- during the construction period of a self-constructed asset.
 - if the asset is purchased on credit.
 - if the asset acquisition is financed by a long-term note payable.
 - if it is a part of a lump-sum purchase.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

76. The balance in the Accumulated Depreciation account represents the
- cash fund to be used to replace plant assets.
 - amount to be deducted from the cost of the plant asset to arrive at its fair market value.
 - amount charged to expense in the current period.
 - amount charged to expense since the acquisition of the plant asset.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

77. Which one of the following items is **not** a consideration when recording periodic depreciation expense on plant assets?
- Salvage value
 - Estimated useful life
 - Cash needed to replace the plant asset
 - Cost

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

78. Depreciation is the process of allocating the cost of a plant asset over its service life in
- an equal and equitable manner.
 - an accelerated and accurate manner.
 - a systematic and rational manner.
 - a conservative market-based manner.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

79. The book value of an asset is equal to the
- asset's fair value less its historical cost.
 - blue book value relied on by secondary markets.
 - replacement cost of the asset.
 - asset's cost less accumulated depreciation.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

80. Accountants do not attempt to measure the change in a plant asset's fair value during ownership because
- the assets are not held for resale.
 - plant assets cannot be sold.
 - losses would have to be recognized.
 - it is management's responsibility to determine fair values.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

81. Depreciation is a process of
- asset devaluation.
 - cost accumulation.
 - cost allocation.
 - asset valuation.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

82. Recording depreciation each period is necessary in accordance with the
- going concern principle.
 - historical cost principle.
 - expense recognition principle.
 - asset valuation principle.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

83. In computing depreciation, salvage value is
- the fair value of a plant asset on the date of acquisition.
 - subtracted from accumulated depreciation to determine the plant asset's depreciable cost.
 - an estimate of a plant asset's value at the end of its useful life.
 - ignored in all the depreciation methods.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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84. When estimating the useful life of an asset, accountants do **not** consider
- the cost to replace the asset at the end of its useful life.
 - obsolescence factors.
 - expected repairs and maintenance.
 - the intended use of the asset.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

85. Useful life is expressed in terms of use expected from the asset under the
- declining-balance method.
 - straight-line method.
 - units-of-activity method.
 - none of these answer choices are correct.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

86. Equipment was purchased for \$300,000. Freight charges amounted to \$14,000 and there was a cost of \$40,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$60,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be
- \$70,800.
 - \$58,800.
 - \$49,200.
 - \$48,000.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$300,000 + \$14,000 + \$40,000 - \$60,000) \div 5 = \$58,800$

87. A truck was purchased for \$180,000 and it was estimated to have a \$36,000 salvage value at the end of its useful life. Monthly depreciation expense of \$3,000 was recorded using the straight-line method. The annual depreciation rate is
- 20%.
 - 2%.
 - 8%.
 - 25%.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$3,000 \times 12) \div (\$180,000 - \$36,000) = .25$

88. A company purchased factory equipment on April 1, 2014 for \$160,000. It is estimated that the equipment will have a \$20,000 salvage value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation expense at December 31, 2014 is
- \$16,000.
 - \$14,000.
 - \$10,500.
 - \$12,000.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $[(\$160,000 - \$20,000) \div 10] \times 9/12 = \$10,500$

89. A company purchased office equipment for \$40,000 and estimated a salvage value of \$8,000 at the end of its 5-year useful life. The constant percentage to be applied against book value each year if the double-declining-balance method is used is
- 20%.
 - 25%.
 - 40%.
 - 5%.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(1 \div 5) \times 2 = .40$

90. The declining-balance method of depreciation produces
- a decreasing depreciation expense each period.
 - an increasing depreciation expense each period.
 - a declining percentage rate each period.
 - a constant amount of depreciation expense each period.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

91. A company purchased factory equipment for \$700,000. It is estimated that the equipment will have a \$70,000 salvage value at the end of its estimated 5-year useful life. If the company uses the double-declining-balance method of depreciation, the amount of annual depreciation recorded for the second year after purchase would be
- \$280,000.
 - \$168,000.
 - \$252,000.
 - \$120,960.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$700,000 - 0) \times .40 = \$280,000$; $(\$700,000 - \$280,000) \times .40 = \$168,000$

92. The units-of-activity method is generally **not** suitable for
- airplanes.
 - buildings.
 - delivery equipment.
 - factory machinery.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

93. A plant asset cost \$288,000 and is estimated to have a \$36,000 salvage value at the end of its 8-year useful life. The annual depreciation expense recorded for the third year using the double-declining-balance method would be
- \$24,120.
 - \$40,500.
 - \$35,436.
 - \$27,570.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$288,000 - 0) \times .25 = \$72,000$; $(\$288,000 - \$72,000) \times .25 = \$54,000$; $(\$288,000 - \$126,000) \times .25 = \$40,500$

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94. A factory machine was purchased for \$375,000 on January 1, 2014. It was estimated that it would have a \$75,000 salvage value at the end of its 5-year useful life. It was also estimated that the machine would be run 40,000 hours in the 5 years. The company ran the machine for 4,000 actual hours in 2014. If the company uses the units-of-activity method of depreciation, the amount of depreciation expense for 2014 would be
- \$37,500.
 - \$60,000.
 - \$75,000.
 - \$30,000.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$375,000 - \$75,000) \div 40,000] \times 4,000 = \$30,000$

95. The Modified Accelerated Cost Recovery System (MACRS) is a depreciation method which
- is used for tax purposes.
 - must be used for financial statement purposes.
 - is required by the SEC.
 - expenses an asset over a single year because capital acquisitions must be expensed in the year purchased.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

96. Which of the following methods of computing depreciation is production based?
- Straight-line
 - Declining-balance
 - Units-of-activity
 - None of these answer choices are correct.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

97. Management should select the depreciation method that
- is easiest to apply.
 - best measures the plant asset's market value over its useful life.
 - best measures the plant asset's contribution to revenue over its useful life.
 - has been used most often in the past by the company.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Decision Modeling, AICPA PC: Problem Solving, IMA: Business Economics

98. The depreciation method that applies a constant percentage to depreciable cost in calculating depreciation is
- straight-line.
 - units-of-activity.
 - declining-balance.
 - none of these.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

99. On October 1, 2014, Holt Company places a new asset into service. The cost of the asset is \$120,000 with an estimated 5-year life and \$30,000 salvage value at the end of its useful life. What is the depreciation expense for 2014 if Holt Company uses the straight-line method of depreciation?
- \$4,500
 - \$24,000
 - \$6,000
 - \$12,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$120,000 - \$30,000) \div 5] \times 3/12 = \$4,500$

100. On October 1, 2014, Holt Company places a new asset into service. The cost of the asset is \$120,000 with an estimated 5-year life and \$30,000 salvage value at the end of its useful life. What is the book value of the plant asset on the December 31, 2014, balance sheet assuming that Holt Company uses the double-declining-balance method of depreciation?
- \$78,000
 - \$90,000
 - \$108,000
 - \$114,000

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$120,000 - 0) \times .40] \times 3/12 = \$12,000$; $\$120,000 - \$12,000 = \$108,000$

101. Which depreciation method is most frequently used in businesses today?
- Straight-line
 - Declining-balance
 - Units-of-activity
 - Double-declining-balance

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

102. Mott Company uses the units-of-activity method in computing depreciation. A new plant asset is purchased for \$48,000 that will produce an estimated 100,000 units over its useful life. Estimated salvage value at the end of its useful life is \$4,000. What is the depreciation cost per unit?
- \$4.40
 - \$4.80
 - \$.44
 - \$.48

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(\$48,000 - 4,000) \div 100,000 = \$.44$

103. Units-of-activity is an appropriate depreciation method to use when
- it is impossible to determine the productivity of the asset.
 - the asset's use will be constant over its useful life.
 - the productivity of the asset varies significantly from one period to another.
 - the company is a manufacturing company.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

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104. The calculation of depreciation using the declining balance method,
- ignores salvage value in determining the amount to which a constant rate is applied.
 - multiplies a constant percentage times the previous year's depreciation expense.
 - yields an increasing depreciation expense each period.
 - multiplies a declining percentage times a constant book value.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

105. Farr Company purchased a new van for floral deliveries on January 1, 2014. The van cost \$56,000 with an estimated life of 5 years and \$14,000 salvage value at the end of its useful life. The double-declining-balance method of depreciation will be used. What is the depreciation expense for 2014?
- \$11,200
 - \$8,400
 - \$16,800
 - \$22,400

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$56,000 - 0) \times .40 = \$22,400$

106. Farr Company purchased a new van for floral deliveries on January 1, 2014. The van cost \$56,000 with an estimated life of 5 years and \$14,000 salvage value at the end of its useful life. The double-declining-balance method of depreciation will be used. What is the balance of the Accumulated Depreciation account at the end of 2015?
- \$8,960
 - \$26,880
 - \$35,840
 - \$13,440

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$56,000 - 0) \times .40 = \$22,400$; $[(\$56,000 - \$22,400) \times .40] + \$22,400 = \$35,840$

107. Moreno Company purchased equipment for \$900,000 on January 1, 2013, and will use the double-declining-balance method of depreciation. It is estimated that the equipment will have a 3-year life and a \$40,000 salvage value at the end of its useful life. The amount of depreciation expense recognized in the year 2015 will be
- \$100,000.
 - \$60,000.
 - \$108,880.
 - \$68,880.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$900,000 - 0) \times .66^{2/3} = \$600,000$; $(\$900,000 - \$600,000) \times .66^{2/3} = \$200,000$; $\$900,000 - \$40,000 - (\$600,000 + \$200,000) = \$60,000$

108. A plant asset was purchased on January 1 for \$100,000 with an estimated salvage value of \$20,000 at the end of its useful life. The current year's Depreciation Expense is \$10,000 calculated on the straight-line basis and the balance of the Accumulated Depreciation account at the end of the year is \$50,000. The remaining useful life of the plant asset is
- 10 years.
 - 8 years.
 - 5 years.
 - 3 years.

Ans: D, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(\$100,000 - \$20,000) \div \$10,000 = 8$; $8 - (\$50,000 \div \$10,000) = 3$

109. Equipment was purchased for \$150,000. Freight charges amounted to \$7,000 and there was a cost of \$20,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$30,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be
- \$35,400.
 - \$29,400.
 - \$24,600.
 - \$24,000.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$150,000 + \$7,000 + \$20,000 = \$177,000$; $(\$177,000 - \$30,000) \div 5 = \$29,400$

110. Equipment was purchased for \$85,000 on January 1, 2014. Freight charges amounted to \$3,500 and there was a cost of \$10,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$15,000 salvage value at the end of its 5-year useful life. What is the amount of accumulated depreciation at December 31, 2015, if the straight-line method of depreciation is used?
- \$33,400
 - \$16,700
 - \$14,300
 - \$28,600

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$85,000 + \$3,500 + \$10,000 = \$98,500$; $[(\$98,500 - \$15,000) \div 5] \times 2 = \$33,400$

111. A company purchased factory equipment on June 1, 2014, for \$160,000. It is estimated that the equipment will have a \$10,000 salvage value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation expense at December 31, 2014, is
- \$15,000.
 - \$8,750.
 - \$7,500.
 - \$6,250.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$160,000 - \$10,000) \div 10] \times 7/12 = \$8,750$

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112. A plant asset was purchased on January 1 for \$60,000 with an estimated salvage value of \$12,000 at the end of its useful life. The current year's Depreciation Expense is \$6,000 calculated on the straight-line basis and the balance of the Accumulated Depreciation account at the end of the year is \$30,000. The remaining useful life of the plant asset is
- 10 years.
 - 8 years.
 - 5 years.
 - 3 years.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $(\$60,000 - \$12,000) \div 6,000 = 8$; $8 - (\$30,000 \div \$6,000) = 3$

113. Sargent Corporation bought equipment on January 1, 2014. The equipment cost \$360,000 and had an expected salvage value of \$60,000. The life of the equipment was estimated to be 6 years. The depreciable cost of the equipment is
- \$360,000.
 - \$300,000.
 - \$200,000.
 - \$50,000.

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$360,000 - \$60,000 = \$300,000$

114. Sargent Corporation bought equipment on January 1, 2014. The equipment cost \$360,000 and had an expected salvage value of \$60,000. The life of the equipment was estimated to be 6 years. The depreciation expense using the straight-line method of depreciation is
- \$70,000.
 - \$72,000.
 - \$50,000.
 - None of these answer choices are correct.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$360,000 - \$60,000) \div 6 = \$50,000$

115. Sargent Corporation bought equipment on January 1, 2014. The equipment cost \$360,000 and had an expected salvage value of \$60,000. The life of the equipment was estimated to be 6 years. Assuming straight-line depreciation, the book value of the equipment at the beginning of the third year would be
- \$360,000.
 - \$150,000.
 - \$260,000.
 - \$100,000.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$360,000 - \$60,000) \div 6 = \$50,000$; $\$360,000 - (\$50,000 \times 2) = \$260,000$

116. Tomko Company purchased machinery with a list price of \$96,000. They were given a 10% discount by the manufacturer. They paid \$600 for shipping and sales tax of \$4,500. Tomko estimates that the machinery will have a useful life of 10 years and a residual value of \$30,000. If Tomko uses straight-line depreciation, annual depreciation will be
- \$6,150.
 - \$6,108.
 - \$9,150.
 - \$5,640.

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$96,000 \times .90) + \$600 + \$4,500 - \$30,000 \div 10 = \$6,150$

117. Drago Company purchased equipment on January 1, 2014, at a total invoice cost of \$1,200,000. The equipment has an estimated salvage value of \$30,000 and an estimated useful life of 5 years. What is the amount of accumulated depreciation at December 31, 2015, if the straight-line method of depreciation is used?
- \$240,000
 - \$480,000
 - \$234,000
 - \$468,000

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$1,200,000 - \$30,000) \div 5] \times 2 = \$468,000$

118. On January 1, a machine with a useful life of five years and a residual value of \$30,000 was purchased for \$90,000. What is the depreciation expense for year 2 under the double-declining-balance method of depreciation?
- \$21,600
 - \$36,000
 - \$28,800
 - \$17,280

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$90,000 - \$0) \times .40 = \$36,000$; $(\$90,000 - \$36,000) \times .40 = \$21,600$

119. A machine with a cost of \$480,000 has an estimated salvage value of \$30,000 and an estimated useful life of 5 years or 15,000 hours. It is to be depreciated using the units-of-activity method of depreciation. What is the amount of depreciation for the second full year, during which the machine was used 5,000 hours?
- \$150,000
 - \$90,000
 - \$130,000
 - \$160,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$480,000 - \$30,000) \div 15,000 = \$30$; $\$30 \times 5,000 = \$150,000$

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120. Equipment with a cost of \$400,000 has an estimated salvage value of \$25,000 and an estimated life of 4 years or 15,000 hours. It is to be depreciated using the units-of-activity method. What is the amount of depreciation for the first full year, during which the equipment was used 3,300 hours?
- \$100,000
 - \$113,800
 - \$82,500
 - \$93,750

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$400,000 - \$25,000) \div 15,000 = \$25$; $3,300 \times \$25 = \$82,500$

121. Eckman Company purchased equipment for \$120,000 on January 1, 2013, and will use the double-declining-balance method of depreciation. It is estimated that the equipment will have a 5-year life and a \$6,000 salvage value at the end of its useful life. The amount of depreciation expense recognized in the year 2015 will be
- \$17,280.
 - \$27,360.
 - \$28,800.
 - \$16,416.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$120,000 - \$0) \times .40 = \$48,000$; $(\$120,000 - \$48,000) \times .40 = \$28,800$; $(\$120,000 - \$76,800) \times .40 = \$17,280$

122. Grimwood Trucking purchased a tractor trailer for \$171,500. Interline uses the units-of-activity method for depreciating its trucks and expects to drive the truck 1,000,000 miles over its 12-year useful life. Salvage value is estimated to be \$24,500. If the truck is driven 90,000 miles in its first year, how much depreciation expense should Grimwood record?
- \$12,250
 - \$15,435
 - \$13,230
 - \$14,292

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$171,500 - \$24,500) \div 1,000,000 = \0.147 ; $90,000 \times \$0.147 = \$13,230$

123. On May 1, 2014, Pinkley Company sells office furniture for \$300,000 cash. The office furniture originally cost \$750,000 when purchased on January 1, 2007. Depreciation is recorded by the straight-line method over 10 years with a salvage value of \$75,000. What depreciation expense should be recorded on this asset in 2014?
- \$22,500.
 - \$25,000.
 - \$33,750.
 - \$67,500.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$750,000 - \$75,000) \div 10] \times 4/12 = \$22,500$

124. On May 1, 2014, Pinkley Company sells office furniture for \$300,000 cash. The office furniture originally cost \$750,000 when purchased on January 1, 2007. Depreciation is recorded by the straight-line method over 10 years with a salvage value of \$75,000. What gain should be recognized on the sale?
- \$22,500.
 - \$45,000.
 - \$47,500.
 - \$90,000.

Ans: B, LO: 4, Bloom: AP, Difficulty: Hard, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $[(\$750,000 - \$75,000) \div 10] \times 7 = \$495,000$; $(\$750,000 - \$495,000) - \$300,000 = \$45,000$

125. Mather Company purchased equipment on January 1, 2014 at a total invoice cost of \$336,000; additional costs of \$6,000 for freight and \$30,000 for installation were incurred. The equipment has an estimated salvage value of \$12,000 and an estimated useful life of five years. The amount of accumulated depreciation at December 31, 2015 if the straight-line method of depreciation is used is:
- \$129,600.
 - \$132,000.
 - \$144,000.
 - \$148,800.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$336,000 + \$6,000 + \$30,000 - \$12,000) \div 5 = \$72,000$; $\$72,000 \times 2 = \$144,000$

126. Kingston Company purchased a piece of equipment on January 1, 2014. The equipment cost \$200,000 and had an estimated life of 8 years and a salvage value of \$25,000. What was the depreciation expense for the asset for 2015 under the double-declining-balance method?
- \$21,667.
 - \$37,500.
 - \$50,000.
 - \$39,063.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$200,000 - \$0) \times .25 = \$50,000$; $(\$200,000 - \$50,000) \times .25 = \$37,500$

127. Able Towing Company purchased a tow truck for \$180,000 on January 1, 2014. It was originally depreciated on a straight-line basis over 10 years with an assumed salvage value of \$36,000. On December 31, 2016, before adjusting entries had been made, the company decided to change the remaining estimated life to 4 years (including 2016) and the salvage value to \$5,000. What was the depreciation expense for 2016?
- \$18,000.
 - \$14,400.
 - \$45,000.
 - \$36,550.

Ans: D, LO: 2, Bloom: AP, Difficulty: Hard, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$180,000 - \$36,000) \times 2/10 = \$28,800$; $(\$180,000 - \$28,800 - \$5,000) \div 4 = \$36,550$

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128. Nicholson Company purchased equipment on January 1, 2012, for \$80,000 with an estimated salvage value of \$20,000 and estimated useful life of 8 years. On January 1, 2014, Nicholson decided the equipment will last 12 years from the date of purchase. The salvage value is still estimated at \$20,000. Using the straight-line method the new annual depreciation will be:
- \$4,500.
 - \$5,000.
 - \$6,000.
 - \$6,667.

Ans: A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$80,000 - \$20,000) \times 2/8 = \$15,000$; $(\$80,000 - \$15,000 - \$20,000)/(12 - 2) = \$4,500$

129. An asset was purchased for \$250,000. It had an estimated salvage value of \$50,000 and an estimated useful life of 10 years. After 5 years of use, the estimated salvage value is revised to \$40,000 but the estimated useful life is unchanged. Assuming straight-line depreciation, depreciation expense in year 6 would be
- \$30,000.
 - \$22,000.
 - \$15,000.
 - \$21,000.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$250,000 - \$50,000) \times 5/10 = \$100,000$; $(\$250,000 - \$100,000 - \$40,000) \div 5 = \$22,000$

130. Equipment costing \$70,000 with a salvage value of \$14,000 and an estimated life of 8 years has been depreciated using the straight-line method for 2 years. Assuming a revised estimated total life of 5 years and no change in the salvage value, the depreciation expense for year 3 would be
- \$ 8,400.
 - \$18,667.
 - \$14,000.
 - \$11,200.

Ans: C, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$70,000 - \$14,000) \div 8] \times 2 = \$14,000$; $(\$70,000 - \$14,000 - \$14,000) \div 3 = \$14,000$

131. Ron's Quik Shop bought machinery for \$75,000 on January 1, 2014. Ron estimated the useful life to be 5 years with no salvage value, and the straight-line method of depreciation will be used. On January 1, 2015, Ron decides that the business will use the machinery for a total of 6 years. What is the revised depreciation expense for 2015?
- \$12,000
 - \$ 6,000
 - \$10,000
 - \$15,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$75,000 - 0) \div 5 = \$15,000$; $(\$75,000 - \$15,000) \div (6 - 1) = \$12,000$

132. Each of the following is used in computing revised annual depreciation for a change in estimate **except**
- book value.
 - cost.
 - depreciable cost.
 - remaining useful life.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

133. A change in the estimated useful life of equipment requires
- a retroactive change in the amount of periodic depreciation recognized in previous years.
 - that no change be made in the periodic depreciation so that depreciation amounts are comparable over the life of the asset.
 - that the amount of periodic depreciation be changed in the current year and in future years.
 - that income for the current year be increased.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

134. Enos Company has decided to change the estimate of the useful life of an asset that has been in service for 2 years. Which of the following statements describes the proper way to revise a useful life estimate?
- Revisions in useful life are permitted if approved by the IRS.
 - Retroactive changes must be made to correct previously recorded depreciation.
 - Only future years will be affected by the revision.
 - Both current and future years will be affected by the revision.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

135. Don's Copy Shop bought equipment for \$450,000 on January 1, 2013. Don estimated the useful life to be 3 years with no salvage value, and the straight-line method of depreciation will be used. On January 1, 2014, Don decides that the business will use the equipment for a total of 5 years. What is the revised depreciation expense for 2014?
- \$150,000
 - \$ 60,000
 - \$ 75,000
 - \$112,500

Ans: C, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$450,000 - 0) \div 3 = \$150,000$; $(\$450,000 - \$150,000) \div (5 - 1) = \$75,000$

136. Costs incurred to increase the operating efficiency or useful life of a plant asset are referred to as
- capital expenditures.
 - expense expenditures.
 - ordinary repairs.
 - revenue expenditures.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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137. Expenditures that maintain the operating efficiency and expected productive life of a plant asset are generally
- expensed when incurred.
 - capitalized as a part of the cost of the asset.
 - debited to the Accumulated Depreciation account.
 - not recorded until they become material in amount.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

138. Which of the following is **not** true of ordinary repairs?
- They primarily benefit the current accounting period.
 - They can be referred to as revenue expenditures.
 - They maintain the expected productive life of the asset.
 - They increase the productive capacity of the asset.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

139. The paneling of the body of an open pickup truck would be classified as a(n)
- revenue expenditure.
 - addition.
 - improvement.
 - ordinary repair.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

140. Additions and improvements
- occur frequently during the ownership of a plant asset.
 - normally involve immaterial expenditures.
 - increase the book value of plant assets when incurred.
 - typically only benefit the current accounting period.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

141. If a plant asset is retired before it is fully depreciated and no salvage value is received,
- a gain on disposal occurs.
 - a loss on disposal occurs.
 - either a gain or a loss can occur.
 - neither a gain nor a loss occurs.

Ans: B, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

142. A gain or loss on disposal of a plant asset is determined by comparing the
- replacement cost of the asset with the asset's original cost.
 - book value of the asset with the asset's original cost.
 - original cost of the asset with the proceeds received from its sale.
 - book value of the asset with the proceeds received from its sale.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

143. The book value of a plant asset is the difference between the
- replacement cost of the asset and its historical cost.
 - cost of the asset and the amount of depreciation expense for the year.
 - cost of the asset and the accumulated depreciation to date.
 - proceeds received from the sale of the asset and its original cost.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

144. If a plant asset is sold before it is fully depreciated,
- only a gain on disposal can occur.
 - only a loss on disposal can occur.
 - either a gain or a loss can occur.
 - neither a gain nor a loss can occur.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

145. If a plant asset is retired before it is fully depreciated, and the salvage value received is less than the asset's book value,
- a gain on disposal occurs.
 - a loss on disposal occurs.
 - there is no gain or loss on disposal.
 - additional depreciation expense must be recorded.

Ans: B, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

146. A company sells a plant asset which originally cost \$360,000 for \$120,000 on December 31, 2014. The Accumulated Depreciation account had a balance of \$144,000 after the current year's depreciation of \$36,000 had been recorded. The company should recognize a
- \$240,000 loss on disposal.
 - \$96,000 gain on disposal.
 - \$96,000 loss on disposal.
 - \$60,000 loss on disposal.

Ans: C, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$120,000 - (\$360,000 - \$144,000) = (\$96,000)$

147. If disposal of a plant asset occurs during the year, depreciation is
- not recorded for the year.
 - recorded for the whole year.
 - recorded for the fraction of the year to the date of the disposal.
 - not recorded if the asset is scrapped.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

148. If a fully depreciated plant asset is still used by a company, the
- estimated remaining useful life must be revised to calculate the correct revised depreciation.
 - asset is removed from the books.
 - accumulated depreciation account is removed from the books but the asset account remains.
 - asset and the accumulated depreciation continue to be reported on the balance sheet without adjustment until the asset is retired.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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149. Which of the following statements is **not** true when a fully depreciated plant asset is retired?
- The plant asset's book value is equal to its estimated salvage value.
 - The accumulated depreciation account is debited.
 - The asset account is credited.
 - The plant asset's original cost equals its book value.

Ans: D, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

150. If a plant asset is retired before it is fully depreciated, and no salvage or scrap value is received,
- a gain on disposal will be recorded.
 - phantom depreciation must be taken as though the asset were still on the books.
 - a loss on disposal will be recorded.
 - no gain or loss on disposal will be recorded.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

151. The book value of an asset will equal its fair market value at the date of sale if
- a gain on disposal is recorded.
 - no gain or loss on disposal is recorded.
 - the plant asset is fully depreciated.
 - a loss on disposal is recorded.

Ans: B, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. A truck costing \$110,000 was destroyed when its engine caught fire. At the date of the fire, the accumulated depreciation on the truck was \$50,000. An insurance check for \$125,000 was received based on the replacement cost of the truck. The entry to record the insurance proceeds and the disposition of the truck will include a
- Gain on Disposal of \$15,000.
 - credit to the Truck account of \$60,000.
 - credit to the Accumulated Depreciation account for \$50,000.
 - Gain on Disposal of \$65,000.

Ans: D, LO: 4, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$125,000 - (\$110,000 - \$50,000) = \$65,000$

153. On July 1, 2014, Hale Kennels sells equipment for \$220,000. The equipment originally cost \$600,000, had an estimated 5-year life and an expected salvage value of \$100,000. The accumulated depreciation account had a balance of \$350,000 on January 1, 2014, using the straight-line method. The gain or loss on disposal is
- \$30,000 gain.
 - \$20,000 loss.
 - \$30,000 loss.
 - \$20,000 gain.

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$600,000 - \$100,000) \div 5] \times 6/12 = \$50,000$; $\$220,000 - [\$600,000 - (\$350,000 + \$50,000)] = \$20,000$

154. A loss on disposal of a plant asset is reported in the financial statements
- in the Other Revenues and Gains section of the income statement.
 - in the Other Expenses and Losses section of the income statement.
 - as a direct increase to the capital account on the balance sheet.
 - as a direct decrease to the capital account on the balance sheet.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

155. Yanik Company's delivery truck, which originally cost \$84,000, was destroyed by fire. At the time of the fire, the balance of the Accumulated Depreciation account amounted to \$57,000. The company received \$48,000 reimbursement from its insurance company. The gain or loss as a result of the fire was
- \$36,000 loss.
 - \$21,000 loss.
 - \$36,000 gain.
 - \$21,000 gain.

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$48,000 - (\$84,000 - 57,000) = \$21,000$

156. Equipment that cost \$420,000 and on which \$200,000 of accumulated depreciation has been recorded was disposed of for \$180,000 cash. The entry to record this event would include a
- gain of \$40,000.
 - loss of \$40,000.
 - credit to the Equipment account for \$220,000.
 - credit to Accumulated Depreciation for \$200,000.

Ans: B, LO: 4, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$180,000 - (\$420,000 - 200,000) = (\$40,000)$

157. A truck that cost \$72,000 and on which \$60,000 of accumulated depreciation has been recorded was disposed of for \$18,000 cash. The entry to record this event would include a
- gain of \$6,000.
 - loss of \$6,000.
 - credit to the Equipment account for \$12,000.
 - credit to Accumulated Depreciation for \$60,000.

Ans: A, LO: 4, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$18,000 - (\$72,000 - \$60,000) = \$6,000$

158. Orr Corporation sold equipment for \$30,000. The equipment had an original cost of \$90,000 and accumulated depreciation of \$45,000. As a result of the sale,
- net income will increase \$30,000.
 - net income will increase \$15,000.
 - net income will decrease \$15,000.
 - net income will decrease \$30,000.

Ans: C, LO: 4, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$30,000 - (\$90,000 - \$45,000) = (\$15,000)$

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159. Powell's Courier Service recorded a loss of \$9,000 when it sold a van that originally cost \$84,000 for \$15,000. Accumulated depreciation on the van must have been
- \$78,000.
 - \$24,000.
 - \$75,000.
 - \$60,000.

Ans: D, LO: 4, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$15,000 - (\$84,000 - x) = (\$9,000)$; $x = \$60,000$

160. A plant asset cost \$90,000 when it was purchased on January 1, 2007. It was depreciated by the straight-line method based on a 9-year life with no salvage value. On June 30, 2014, the asset was discarded with no cash proceeds. What gain or loss should be recognized on the retirement?
- No gain or loss.
 - \$20,000 loss.
 - \$15,000 loss.
 - \$10,000 gain.

Ans: C, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$90,000 - [(\$90,000 - 0) \div 9] \times 7.5 = \$15,000$

161. Nicklaus Company has decided to sell one of its old machines on June 30, 2014. The machine was purchased for \$200,000 on January 1, 2010, and was depreciated on a straight-line basis for 10 years with no salvage value. If the machine was sold for \$65,000, what was the amount of the gain or loss recorded at the time of the sale?
- \$45,000.
 - \$135,000.
 - \$55,000.
 - \$115,000.

Ans: A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$200,000 - 0) \div 10] \times 4.5 = \$90,000$; $\$65,000 - (\$200,000 - \$90,000) = (\$45,000)$

162. On a balance sheet, natural resources may be described more specifically as all of the following **except**
- land improvements.
 - mineral deposits.
 - oil reserves.
 - timberlands.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

163. Natural resources are
- depreciated using the units-of-activity method.
 - physically extracted in operations and are replaceable only by an act of nature.
 - reported at their market value.
 - amortized over a period no longer than 40 years.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

164. Depletion is
- a. a decrease in market value of natural resources.
 - b. the amount of spoilage that occurs when natural resources are extracted.
 - c. the allocation of the cost of natural resources to expense.
 - d. the method used to record unsuccessful patents.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

165. To qualify as natural resources in the accounting sense, assets must be
- a. underground.
 - b. replaceable.
 - c. of a mineral nature.
 - d. physically extracted in operations.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

166. The method most commonly used to compute depletion is the
- a. straight-line method.
 - b. double-declining-balance method.
 - c. units-of-activity method.
 - d. effective interest method.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

167. In computing depletion, salvage value is
- a. always immaterial.
 - b. ignored.
 - c. impossible to estimate.
 - d. included in the calculation.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

168. If a mining company extracts 1,500,000 tons in a period but only sells 1,200,000 tons,
- a. total depletion on the mine is based on the 1,200,000 tons.
 - b. depletion expense is recognized on the 1,500,000 tons extracted.
 - c. depletion expense is recognized on the 1,200,000 tons extracted and sold.
 - d. a separate accumulated depletion account is set up to record depletion on the 300,000 tons extracted but not sold.

Ans: C, LO: 5, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

169. A coal company invests \$15 million in a mine estimated to have 20 million tons of coal and no salvage value. It is expected that the mine will be in operation for 5 years. In the first year, 1,000,000 tons of coal are extracted and sold. What is the depletion expense for the first year?
- a. \$750,000
 - b. \$300,000
 - c. \$75,000
 - d. Cannot be determined from the information provided.

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$15 \div 20) \times 1,000,000 = \$750,000$

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170. Accumulated Depletion
- is used by all companies with natural resources.
 - has a normal debit balance.
 - is a contra-asset account.
 - is never shown on the balance sheet.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

171. On July 4, 2014, Wyoming Mining Company purchased the mineral rights to a granite deposit for \$1,600,000. It is estimated that the recoverable granite will be 400,000 tons. During 2014, 100,000 tons of granite was extracted and 60,000 tons were sold. The amount of the Depletion Expense recognized for 2014 would be
- \$200,000.
 - \$120,000.
 - \$240,000.
 - \$400,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$1,600,000 \div 400,000) \times 60,000 = \$240,000$

172. Depletion expense is computed by multiplying the depletion cost per unit by the
- total estimated units.
 - total actual units.
 - number of units extracted.
 - number of units sold.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

173. Intangible assets are the rights and privileges that result from ownership of long-lived assets that
- must be generated internally.
 - are depletable natural resources.
 - have been exchanged at a gain.
 - do not have physical substance.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

174. Identify the item below where the terms are not related.
- Equipment—depreciation
 - Franchise—depreciation
 - Copyright—amortization
 - Oil well—depletion

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

175. A patent should
- be amortized over a period of 20 years.
 - not be amortized if it has an indefinite life.
 - be amortized over its useful life or 20 years, whichever is longer.
 - be amortized over its useful life or 20 years, whichever is shorter.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

176. The entry to record patent amortization usually includes a credit to
- Amortization Expense.
 - Accumulated Amortization.
 - Accumulated Depreciation.
 - Patents.

Ans: D, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

177. The cost of successfully defending a patent in an infringement suit should be
- charged to Legal Expenses.
 - deducted from the book value of the patent.
 - added to the cost of the patent.
 - recognized as a loss in the current period.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

178. An asset that cannot be sold individually in the market place is
- a patent.
 - goodwill.
 - a copyright.
 - a trade name.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

179. Goodwill can be recorded
- when customers keep returning because they are satisfied with the company's products.
 - when the company acquires a good location for its business.
 - when the company has exceptional management.
 - only when there is an exchange transaction involving the purchase of an entire business.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

180. On July 1, 2014, Jenks Company purchased the copyright to Jackson Computer tutorials for \$324,000. It is estimated that the copyright will have a useful life of 5 years with an estimated salvage value of \$24,000. The amount of Amortization Expense recognized for the year 2014 would be
- \$64,800.
 - \$30,000.
 - \$60,000.
 - \$32,400.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(\$324,000 - \$24,000) \div 5] \times 6/12 = \$30,000$

181. All of the following intangible assets are amortized **except**
- copyrights.
 - limited-life franchises.
 - patents.
 - trademarks.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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182. Which of the following is not an intangible asset arising from a government grant?
- Goodwill
 - Patent
 - Trademark
 - Trade name

Ans: A, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

183. The amortization period for a patent cannot exceed
- 50 years.
 - 40 years.
 - 20 years.
 - 10 years.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

184. Cost allocation of an intangible asset is referred to as
- amortization.
 - depletion.
 - accretion.
 - capitalization.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

185. A patent
- has a legal life of 40 years.
 - is nonrenewable.
 - can be renewed indefinitely.
 - is rarely subject to litigation because it is an exclusive right.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

186. If a company incurs legal costs in successfully defending its patent, these costs are recorded by debiting
- Legal Expense.
 - an Intangible Loss account.
 - the Patent account.
 - a revenue expenditure account.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

187. Copyrights are granted by the federal government
- for the life of the creator or 70 years, whichever is longer.
 - for the life of the creator plus 70 years.
 - for the life of the creator or 70 years, whichever is shorter.
 - and therefore cannot be amortized.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

188. Goodwill
- is only recorded when generated internally.
 - can be subdivided and sold in parts.
 - can only be identified with the business as a whole.
 - can be defined as normal earnings less accumulated amortization.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

189. In recording the acquisition cost of an entire business,
- goodwill is recorded as the excess of cost over the fair value of identifiable net assets.
 - assets are recorded at the seller's book values.
 - goodwill, if it exists, is never recorded.
 - goodwill is recorded as the excess of cost over the book value of identifiable net assets.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

190. Research and development costs
- are classified as intangible assets.
 - must be expensed when incurred under generally accepted accounting principles.
 - should be included in the cost of the patent they relate to.
 - are capitalized and then amortized over a period not to exceed 40 years.

Ans: B, LO:6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

191. A computer company has \$2,800,000 in research and development costs. Before accounting for these costs, the net income of the company is \$2,000,000. What is the amount of net income or loss after these R & D costs are accounted for?
- \$800,000 loss
 - \$2,000,000 net income
 - \$0
 - Cannot be determined from the information provided.

Ans: A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$2,000,000 - \$2,800,000 = -\$800,000$

192. Henson Company incurred \$600,000 of research and development costs in its laboratory to develop a new product. It spent \$90,000 in legal fees for a patent granted on January 2, 2014. On July 31, 2014, Henson paid \$60,000 for legal fees in a successful defense of the patent. What is the total amount that should be debited to Patents through July 31, 2014?
- \$600,000
 - \$150,000
 - \$750,000
 - Some other amount

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$90,000 + \$60,000 = \$150,000$

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193. Given the following account balances at year end, compute the total intangible assets on the balance sheet of Kepler Enterprises.

Cash	\$1,500,000
Accounts Receivable	4,000,000
Trademarks	1,000,000
Goodwill	3,000,000
Research & Development Costs	2,000,000

- a. \$10,000,000
- b. \$6,000,000
- c. \$4,000,000
- d. \$8,000,000

Ans: C, LO: 6, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$1,000,000 + \$3,000,000 = \$4,000,000$

194. Rooney Company incurred \$560,000 of research and development cost in its laboratory to develop a patent granted on January 1, 2014. On July 31, 2014, Rooney paid \$84,000 for legal fees in a successful defense of the patent. The total amount debited to Patents through July 31, 2014, should be:

- a. \$560,000.
- b. \$84,000.
- c. \$644,000.
- d. \$476,000.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

195. Mehring Company reported net sales of \$540,000, net income of \$72,000, beginning total assets of \$240,000, and ending total assets of \$360,000. What was the company's asset turnover?

- a. 2.3 times
- b. 0.6 times
- c. 1.8 times
- d. 1.5 times

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$540,000 \div [(\$240,000 + \$360,000) \div 2] = 1.8$

196. During 2014, Rathke Corporation reported net sales of \$3,000,000, net income of \$1,200,000, and depreciation expense of \$100,000. Rathke also reported beginning total assets of \$1,000,000, ending total assets of \$1,500,000, plant assets of \$800,000, and accumulated depreciation of \$500,000. Rathke's asset turnover is

- a. 3 times.
- b. 2.4 times.
- c. 2.0 times.
- d. .96 times.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$3,000,000 \div [(\$1,000,000 + \$1,500,000) \div 2] = 2.4$

197. During 2014, Stein Corporation reported net sales of \$5,000,000 and net income of \$2,100,000. Stein also reported beginning total assets of \$1,000,000 and ending total assets of \$1,500,000. Stein's asset turnover is
- 5.0 times.
 - 4.0 times.
 - 3.3 times.
 - 1.7 times.

Ans: B, LO: 7, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$5,000,000 \div [(\$1,000,000 + \$1,500,000) \div 2] = 4$

198. Natural resources are generally shown on the balance sheet under
- Intangibles.
 - Investments.
 - Property, Plant, and Equipment.
 - Owner's Equity.

Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

199. Which of the following statements concerning financial statement presentation is **not** a true statement?
- Intangibles are reported separately under Intangible Assets.
 - The balances of major classes of assets may be disclosed in the footnotes.
 - The balances of the accumulated depreciation of major classes of assets may be disclosed in the footnotes.
 - The balances of all individual assets, as they appear in the subsidiary plant ledger, should be disclosed in the footnotes.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

200. Intangible assets
- should be reported under the heading Property, Plant, and Equipment.
 - are not reported on the balance sheet because they lack physical substance.
 - should be reported as Current Assets on the balance sheet.
 - should be reported as a separate classification on the balance sheet.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

201. A company has the following assets:

Buildings and Equipment, less accumulated depreciation of \$2,000,000	\$9,600,000
Copyrights	960,000
Patents	4,000,000
Timberlands, less accumulated depletion of \$2,800,000	4,800,000

The total amount reported under Property, Plant, and Equipment would be

- \$19,360,000.
- \$14,400,000.
- \$18,400,000.
- \$15,360,000.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$9,600,000 + \$4,800,000 = \$14,400,000$

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- ^a202. A company decides to exchange its old machine and \$231,000 cash for a new machine. The old machine has a book value of \$189,000 and a fair value of \$210,000 on the date of the exchange. The cost of the new machine would be recorded at
- \$420,000.
 - \$441,000.
 - \$399,000.
 - cannot be determined.

Ans: B, LO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$231,000 + \$210,000 = \$441,000$

- ^a203. A company exchanges its old office equipment and \$80,000 for new office equipment. The old office equipment has a book value of \$56,000 and a fair value of \$40,000 on the date of the exchange. The cost of the new office equipment would be recorded at
- \$136,000.
 - \$120,000.
 - \$96,000.
 - cannot be determined.

Ans: B, LO: 8, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$80,000 + \$40,000 = \$120,000$

- ^a204. In an exchange of plant assets that has commercial substance, any difference between the fair value and the book value of the old plant asset is
- recorded as a gain or loss.
 - recorded if a gain but is deferred if a loss.
 - recorded if a loss but is deferred if a gain.
 - deferred if either a gain or loss.

Ans: A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

- ^a205. Gains on an exchange of plant assets that has commercial substance are
- deducted from the cost of the new asset acquired.
 - deferred.
 - not possible.
 - recognized immediately.

Ans: D, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

- ^a206. Losses on an exchange of plant assets that has commercial substance are
- not possible.
 - deferred.
 - recognized immediately.
 - deducted from the cost of the new asset acquired.

Ans: C, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

- ^a207. The cost of a new asset acquired in an exchange that has commercial substance is the cash paid plus the
- book value of the old asset.
 - fair value of the old asset.
 - book value of the asset acquired.
 - fair value of the new asset.

Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

208. The cost of land includes all of the following **except**
- real estate brokers' commissions.
 - closing costs.
 - accrued property taxes.
 - parking lots.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

209. A term that is **not** synonymous with property, plant, and equipment is
- plant assets.
 - fixed assets.
 - intangible assets.
 - long-lived tangible assets.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

210. The factor that is **not** relevant in computing depreciation is
- replacement value.
 - cost.
 - salvage value.
 - useful life.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

211. Depreciable cost is the
- book value of an asset less its salvage value.
 - cost of an asset less its salvage value.
 - cost of an asset less accumulated depreciation.
 - book value of an asset.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

212. Santayana Company purchased a machine on January 1, 2012, for \$60,000 with an estimated salvage value of \$15,000 and an estimated useful life of 8 years. On January 1, 2014, Santayana decides the machine will last 12 years from the date of purchase. The salvage value is still estimated at \$15,000. Using the straight-line method, the new annual depreciation will be
- \$3,375.
 - \$3,750.
 - \$4,500.
 - \$5,000.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $[(\$60,000 - \$15,000) \div 8] \times 2 = \$11,250$; $(\$60,000 - \$11,250 - \$15,000) \div (12 - 2) = \$3,375$

213. Ordinary repairs are expenditures to maintain the operating efficiency of a plant asset and are referred to as
- capital expenditures.
 - expense expenditures.
 - improvements.
 - revenue expenditures.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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214. Improvements are
- revenue expenditures.
 - debited to an appropriate asset account when they increase useful life.
 - debited to accumulated depreciation when they do not increase useful life.
 - debited to an appropriate asset account when they do not increase useful life.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

215. A gain on sale of a plant asset occurs when the proceeds of the sale are greater than the
- salvage value of the asset sold.
 - market value of the asset sold.
 - book value of the asset sold.
 - accumulated depreciation on the asset sold.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

216. The entry to record depletion expense
- decreases owner's equity and assets.
 - decreases net income and increases liabilities.
 - decreases assets and liabilities.
 - decreases assets and increases liabilities.

Ans: A, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

217. All of the following are intangible assets **except**
- copyrights.
 - goodwill.
 - patents.
 - research and development costs.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

218. A purchased patent has a legal life of 20 years. It should be
- expensed in the year of acquisition.
 - amortized over 20 years regardless of its useful life.
 - amortized over its useful life if less than 20 years.
 - not amortized.

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

219. The asset turnover is computed by dividing
- net income by average total assets.
 - net sales by average total assets.
 - net income by ending total assets.
 - net sales by ending total assets.

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a220. In an exchange of plant assets that has commercial substance
- neither gains nor losses are recognized immediately.
 - gains, but not losses, are recognized immediately.
 - losses, but not gains, are recognized immediately.
 - both gains and losses are recognized immediately.

Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

221. As a recent graduate of State University you're aware that IFRS requires component depreciation for plant assets. A friend has asked you to succinctly explain what component depreciation means. Which of the following correctly describes component depreciation?
- The method used to ensure that the depreciation rate remains constant from year to year.
 - The method that requires that significant parts of a plant asset with different useful lives be depreciated separately.
 - The method used to prorate annual depreciation on a time basis.
 - The method of depreciation recommended for an asset that is expected to be significantly more productive in the first half of its useful life.

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Hard, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

222. Salem Company hired Kirk Construction to construct an office building for £6,400,000 on land costing £1,600,000, which Salem Company owned. The building was complete and ready to be used on January 1, 2014 and it has a useful life of 40 years. The price of the building included land improvements costing £480,000 and personal property costing £600,000. The useful lives of the land improvements and the personal property are 10 years and 5 years, respectively. Salem Company uses component depreciation, and the company uses straight-line depreciation for other similar assets. What total amount of depreciation expense would Salem Company report on its income statement for the year ended December 31, 2014?
- £268,000
 - £160,000
 - £341,000
 - £301,000

IFRS: Ans: D, LO: 9, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting
 $(\$6,400,000 - \$480,000 - \$600,000)/40 = \$133,000$; $\$480,000/10 = \$48,000$; $\$600,000/10 = \$60,000$; $\$133,000 + \$48,000 + \$60,000 = \$301,000$

223. Salem Company hired Kirk Construction to construct an office building for £6,400,000 on land costing £1,600,000, which Salem Company owned. The building was complete and ready to be used on January 1, 2014 and it has a useful life of 40 years. The price of the building included land improvements costing £480,000 and personal property costing £600,000. The useful lives of the land improvements and the personal property are 10 years and 5 years, respectively. Salem Company uses component depreciation, and the company uses straight-line depreciation for other similar assets. What is the net amount reported for the building on Salem Company's December 31, 2014 statement of financial position?
- £6,132,000
 - £6,059,000
 - £5,187,000
 - £6,240,000

IFRS: Ans: C, LO: 9, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting
 $(\$6,400,000 - \$480,000 - \$600,000)/40 = \$133,000$; $\$6,400,000 - \$480,000 - \$600,000 - \$133,000 = \$5,187,000$

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224. IFRS allows companies to revalue plant assets to fair value. Which of the following statements is true regarding revaluation?

- a. At the time a company purchases an asset it must decide whether to follow revaluation procedures for the asset; once the election is made, it must be followed for the remainder of the asset's useful life.
- b. Assets that are experiencing rapid price changes must be revalued quarterly, other assets can be revalued on an annual basis.
- c. The journal entry to record a revaluation when the asset's price has increased includes a credit to the account revaluation surplus.
- d. All of the choices are correct regarding revaluation of plant assets.

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

225. IFRS allows companies to revalue plant assets to fair value. When an asset has increased in value, where is the account "Revaluation Surplus" reported?

- a. On the income statement as part of income from continuing operations (other revenues and gains).
- b. On the income statement as part of discontinued operations (discontinuing historical cost).
- c. On the statement of financial position as part of accumulated comprehensive income (equity).
- d. All of the choices are acceptable methods for the reporting of "Revaluation Surplus".

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Hard, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

226. Which of the following statements concerning IFRS and U.S. GAAP is true?

- a. IFRS permits revaluation of all intangible assets, whereas U.S. GAAP prohibits revaluation of intangible assets.
- b. Gains on exchange of assets when the exchange has commercial substance are recognized under both IFRS and U.S. GAAP.
- c. Changes in depreciation method under IFRS are reported in current and future periods, under U.S. GAAP such changes are treated as prior period adjustments.
- d. All of the choices are true regarding IFRS and U.S. GAAP.

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
57.	d	82.	c	107.	b	132.	b	157.	a	182.	a	^a 207.	b
58.	d	83.	c	108.	d	133.	c	158.	c	183.	c	^a 208.	d
59.	b	84.	a	109.	b	134.	d	159.	d	184.	a	209.	c
60.	c	85.	c	110.	a	135.	c	160.	c	185.	b	210.	a
61.	a	86.	b	111.	b	136.	a	161.	a	186.	c	211.	b
62.	b	87.	d	112.	d	137.	a	162.	a	187.	b	212.	a
63.	c	88.	c	113.	b	138.	d	163.	b	188.	c	213.	d
64.	a	89.	c	114.	c	139.	b	164.	c	189.	a	214.	d
65.	d	90.	a	115.	c	140.	c	165.	d	190.	b	215.	c
66.	d	91.	b	116.	a	141.	b	166.	c	191.	a	216.	a
67.	d	92.	b	117.	d	142.	d	167.	d	192.	b	217.	d
68.	c	93.	b	118.	a	143.	c	168.	c	193.	c	218.	c
69.	b	94.	d	119.	a	144.	c	169.	a	194.	b	219.	b
70.	b	95.	a	120.	c	145.	b	170.	c	195.	c	^a 220.	d
71.	a	96.	c	121.	a	146.	c	171.	c	196.	b	221.	b
72.	d	97.	c	122.	c	147.	c	172.	d	197.	b	222.	d
73.	d	98.	a	123.	a	148.	d	173.	d	198.	c	223.	c
74.	b	99.	a	124.	b	149.	d	174.	b	199.	d	224.	c
75.	a	100.	c	125.	c	150.	c	175.	d	200.	d	225.	c
76.	d	101.	a	126.	b	151.	b	176.	d	201.	b	226.	b
77.	c	102.	c	127.	d	152.	d	177.	c	^a 202.	b		
78.	c	103.	c	128.	a	153.	d	178.	b	^a 203.	b		
79.	d	104.	a	129.	b	154.	b	179.	d	^a 204.	a		
80.	a	105.	d	130.	c	155.	d	180.	b	^a 205.	d		
81.	c	106.	c	131.	a	156.	b	181.	d	^a 206.	c		

BRIEF EXERCISES

BE 227

Indicate whether each of the following expenditures should be classified as land (L), land improvements (LI), buildings (B), equipment (E), or none of these (X).

- _____ 1. Parking lots
- _____ 2. Electricity used by a machine
- _____ 3. Excavation costs
- _____ 4. Interest on building construction loan
- _____ 5. Cost of trial runs for machinery
- _____ 6. Drainage costs
- _____ 7. Cost to install a machine
- _____ 8. Fences
- _____ 9. Unpaid (past) property taxes assumed
- _____ 10. Cost of tearing down a building when land and a building on it are purchased

Ans: N/A, LO: 1, Bloom: K, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 227 (5 min.)

- | | |
|-------|-------|
| 1. LI | 6. L |
| 2. X | 7. E |
| 3. B | 8. LI |
| 4. B | 9. L |
| 5. E | 10. L |

BE 228

Farley Corporation purchased land adjacent to its plant to improve access for trucks making deliveries. Expenditures incurred in purchasing the land were as follows: purchase price, \$70,000; broker's fees, \$6,000; title search and other fees, \$5,000; demolition of an old building on the property, \$5,700; grading, \$1,200; digging foundation for the road, \$3,000; laying and paving driveway, \$25,000; lighting \$7,500; signs, \$1,500. List the items and amounts that should be included in the Land account.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 228 (3 min.)

Purchase price	\$70,000
Broker's fees	6,000
Title search and other fees	5,000
Demolition of old building	5,700
Grading	<u>1,200</u>
Land acquisition cost	<u>\$87,900</u>

BE 229

Iverson Company purchased a delivery truck for \$45,000 on January 1, 2014. The truck was assigned an estimated useful life of 5 years and has a residual value of \$10,000. Compute depreciation expense using the double-declining-balance method for the years 2014 and 2015.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 229 (4 min.)

Double the straight-line rate: $1 \div 5 = 20\%$; $20\% \times 2 = 40\%$

2014: Book value $(\$45,000 - 0) \times 40\% = \$18,000$ depreciation expense

2015: Book value $(\$45,000 - \$18,000) \times 40\% = \$10,800$ depreciation expense

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

BE 230

Iverson Company purchased a delivery truck for \$45,000 on January 1, 2014. The truck was assigned an estimated useful life of 100,000 miles and has a residual value of \$10,000. The truck was driven 18,000 miles in 2014 and 22,000 miles in 2015. Compute depreciation expense using the units-of-activity method for the years 2014 and 2015.

Ans: N/A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 230 (4 min.)

Depreciation expense per mile: $(\$45,000 - \$10,000) \div 100,000 \text{ miles} = \0.35 per mile

Depreciation expense for 2014: 18,000 miles $(\$0.35 \text{ per mile}) = \$6,300$

Depreciation expense for 2015: 22,000 miles $(\$0.35 \text{ per mile}) = \$7,700$

BE 231

Weller Company purchased a truck for \$66,000. The company expected the truck to last four years or 100,000 miles, with an estimated residual value of \$6,000 at the end of that time. During the second year the truck was driven 27,000 miles. Compute the depreciation for the second year under each of the methods below and place your answers in the blanks provided.

Units-of-activity \$ _____

Double-declining-balance \$ _____

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 231 (6 min.)

Units-of-activity \$ 16,200
 $[(\$66,000 - \$6,000) \div 100,000] \times 27,000 = \$16,200$

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Double-declining-balance \$ 16,500
 year 1— $[\$66,000 \times (1 \div 4 \times 2)] = \$33,000$
 year 2— $[(\$66,000 - \$33,000) \times (1 \div 4 \times 2)] = \$16,500$

BE 232

On January 1, 2012, Santo Company purchased a computer system for \$30,500. The system had an estimated useful life of 5 years and no salvage value. At January 1, 2014, the company revised the remaining useful life to two years. What amount of depreciation will be recorded for 2014 and 2015?

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 232 (4 min.)

Original depreciation: $\$30,500 \div 5 = \$6,100$ per year
 Book value at January 1, 2014: $\$30,500 - (\$6,100 + \$6,100) = \$18,300$
 Depreciation for 2014 and 2015: $\$18,300 \div 2 = \$9,150$ per year

BE 233

Carey Enterprises sold equipment on January 1, 2014 for \$10,000. The equipment had cost \$48,000. The balance in Accumulated Depreciation at January 1 is \$40,000. What entry would Carey make to record the sale of the equipment?

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 233 (4 min.)

Calculate gain or loss on sale:

Proceeds	\$10,000	
Book value	<u>8,000</u>	(\$48,000 – \$40,000)
Gain on Disposal of plant Assets		<u>\$2,000</u>

Entry to record sale:

Cash.....	10,000	
Accumulated Depreciation—Equipment	40,000	
Gain on Disposal of plant Assets		2,000
Equipment		48,000

BE 234

On January 1, 2014, Petersen Enterprises purchased natural resources for \$1,800,000. The company expects the resources to produce 12,000,000 units of product. (1) What is the depletion cost per unit? (2) If the company mined and sold 20,000 units in January, what is depletion expense for the month?

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 234 (3 min.)

- (1) Depletion cost per unit: $\$1,800,000 \div 12,000,000 \text{ units} = \$.15$ per unit
- (2) Depletion expense for January: $\$.15 \times 20,000 = \$3,000$

BE 235

On January 2, 2014, Kerwin Company purchased a patent for \$48,000. The patent has an estimated useful life of 25 years and a 20-year legal life. What entry would the company make at December 31, 2014 to record amortization expense on the patent?

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 235 (3 min.)

Amortization Expense (\$48,000 ÷ 20)	2,400	
Patents		2,400

BE 236

Using the following data for Renfro, Inc., compute its asset turnover.

<u>Notson, Inc.</u>	
Net Income 2014	\$ 123,000
Total Assets 12/31/14	2,443,000
Total Assets 12/31/13	1,880,000
Net Sales 2014	2,135,000

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 236 (3 min.)

$$\text{Asset Turnover:} = \frac{\text{Net Sales}}{\text{Avg. Total Assets}} = \frac{\$2,135,000}{(\$2,443,000 + \$1,880,000) \div 2} = .99 \text{ times}$$

EXERCISES

Ex. 237

Hunt Company purchased factory equipment with an invoice price of \$90,000. Other costs incurred were freight costs, \$1,100; installation wiring and foundation, \$2,200; material and labor costs in testing equipment, \$700; oil lubricants and supplies to be used with equipment, \$500; fire insurance policy covering equipment, \$1,400. The equipment is estimated to have a \$5,000 salvage value at the end of its 8-year useful service life.

Instructions

- (a) Compute the acquisition cost of the equipment. Clearly identify each element of cost.
- (b) If the double-declining-balance method of depreciation was used, the constant percentage applied to a declining book value would be _____.

Ans: N/A, LO: 1,2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 237 (10 min.)

(a) Invoice cost	\$90,000
Freight costs	1,100
Installation wiring and foundation	2,200
Material and labor costs in testing	<u>700</u>
Acquisition cost	<u>\$94,000</u>

- (b) If the double-declining-balance method of depreciation was used, the constant percentage applied to a declining book value would be 25% (8 years = 12.5% × 2).

Ex. 238

For each entry below make a correcting entry if necessary. If the entry given is correct, then state "No entry required."

- (a) The \$60 cost of repairing a printer was charged to Equipment.
- (b) The \$5,000 cost of a major engine overhaul was debited to Maintenance and Repairs Expense. The overhaul is expected to increase the operating efficiency of the truck.
- (c) The \$6,000 closing costs associated with the acquisition of land were debited to Miscellaneous Expense.
- (d) A \$500 charge for transportation expenses on new equipment purchased was debited to Freight-In.

Ans: N/A, LO: 1,3, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 238 (10 min.)

(a)	Maintenance and Repairs Expense	60	
	Equipment		60
(b)	Equipment	5,000	
	Maintenance and Repairs Expense		5,000
(c)	Land	6,000	
	Miscellaneous Expense		6,000
(d)	Equipment	500	
	Freight-In		500

Ex. 239

Garrison Company was organized on January 1. During the first year of operations, the following expenditures and receipts were recorded in random order in the account, Land.

	<u>Debits</u>	
1. Cost of real estate purchased as a plant site (land and building).		\$ 250,000
2. Accrued real estate taxes paid at the time of the purchase of the real estate.		4,000
3. Cost of demolishing building to make land suitable for construction of a new building.		15,000
4. Architect's fees on building plans.		14,000
5. Excavation costs for new building.		24,000
6. Cost of filling and grading the land.		5,000
7. Insurance and taxes during construction of building.		6,000
8. Cost of repairs to building under construction caused by a small fire.		7,000
9. Interest paid during the year, of which \$54,000 pertains to the construction period.		64,000
10. Full payment to building contractor.		780,000
11. Cost of parking lots and driveways.		46,000
12. Real estate taxes paid for the current year on the land.		4,000
Total Debits		\$1,219,000

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Ex. 239 (Cont.)

	<u>Credits</u>
13. Insurance proceeds for fire damage.	\$3,000
14. Proceeds from salvage of demolished building	<u>3,500</u>
Total Credits	<u>\$6,500</u>

Instructions

Analyze the foregoing transactions using the following tabular arrangement. Insert the number of each transaction in the Item space and insert the amounts in the appropriate columns.

<u>Item</u>	<u>Land</u>	<u>Buildings</u>	<u>Other</u>	<u>Account Title</u>
-------------	-------------	------------------	--------------	----------------------

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: FSA

Solution 239 (15 min.)

<u>Item</u>	<u>Land</u>	<u>Buildings</u>	<u>Other</u>	<u>Account Title</u>
1	\$250,000			
2	4,000			
3	15,000			
4		\$ 14,000		
5		24,000		
6	5,000			
7		6,000		
8			\$ 7,000	Fire Loss
9		54,000	10,000	Interest Expense
10		780,000		
11			46,000	Land Improvements
12			4,000	Taxes Expense
13			(3,000)	Fire Loss
14	(3,500)			
Totals	<u>\$270,500</u>	<u>\$878,000</u>	<u>\$64,000</u>	

Ex. 240

On March 1, 2014, Landon Company acquired real estate on which it planned to construct a small office building. The company paid \$90,000 in cash. An old warehouse on the property was razed at a cost of \$7,600; the salvaged materials were sold for \$1,700. Additional expenditures before construction began included \$1,100 attorney's fee for work concerning the land purchase, \$4,000 real estate broker's fee, \$7,800 architect's fee, and \$14,000 to put in driveways and a parking lot.

Instructions

Determine the amount to be reported as the cost of the land.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 240 (4 min.)

<u>Cost of land</u>	
Cash paid	\$90,000
Net cost of removing warehouse (\$7,600 – \$1,700)	5,900
Attorney’s fee.....	1,100
Real estate broker’s fee	<u>4,000</u>
Total.....	<u>\$101,000</u>

Ex. 241

Ermler Company purchased a machine at a cost of \$80,000. The machine is expected to have a \$5,000 salvage value at the end of its 5-year useful life.

Instructions

Compute annual depreciation for the first and second years using the

- (a) straight-line method.
- (b) double-declining-balance method.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 241 (8 min.)

- (a) Straight-line method:

Years 1 and 2 depreciation = \$15,000/yr. $(\$80,000 - \$5,000) \div 5$

- (b) Double-declining-balance method:

Year 1 depreciation = \$32,000 $(\$80,000 - 0) \times *40\%$

Year 2 depreciation = \$19,200 $(\$80,000 - \$32,000) \times 40\%$

*($1/5 \times 2$)

Ex. 242

Alvarado Company purchased a new machine for \$400,000. It is estimated that the machine will have a \$40,000 salvage value at the end of its 5-year useful service life. The double-declining-balance method of depreciation will be used.

Instructions

Prepare a depreciation schedule which shows the annual depreciation expense on the machine for its 5-year life.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 242 (10 min.)

Declining-balance rate = $2 \div 5 = 40\%$

Year	Book Value	×	Depreciation Rate	=	Annual	End of Year	
	Beginning of Year				Depreciation Expense	Accumulated Depreciation	Book Value End of Year
1	\$400,000	×	40%	=	\$160,000	\$160,000	\$240,000
2	240,000	×	40%	=	96,000	256,000	144,000
3	144,000	×	40%	=	57,600	313,600	86,400
4	86,400	×	40%	=	34,560	348,160	51,840
5	51,840	×	40%	=	11,840*	360,000	40,000

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*Adjusted to \$11,840 because ending book value should not be less than expected salvage value.

Ex. 243

Dougan Company purchased equipment on January 1, 2013 for \$90,000. It is estimated that the equipment will have a \$5,000 salvage value at the end of its 5-year useful life. It is also estimated that the equipment will produce 100,000 units over its 5-year life.

Instructions

Answer the following independent questions.

1. Compute the amount of depreciation expense for the year ended December 31, 2013, using the straight-line method of depreciation.
2. If 16,000 units of product are produced in 2013 and 24,000 units are produced in 2014, what is the book value of the equipment at December 31, 2014? The company uses the units-of-activity depreciation method.
3. If the company uses the double-declining-balance method of depreciation, what is the balance of the Accumulated Depreciation—Equipment account at December 31, 2015?

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 243 (15 min.)

1. Straight-line method:
$$= \frac{C - S}{\text{Years}} = \frac{(\$90,000 - \$5,000)}{5} = \underline{\$17,000 \text{ per year}}$$

2. Units-of-activity method:
$$= \frac{C - S}{\text{Units}} = \frac{(\$90,000 - \$5,000)}{100,000 \text{ units}} = \underline{\$0.85 \text{ per unit}}$$

2013	16,000 units × \$.85	=	\$13,600
2014	24,000 units × \$.85	=	<u>20,400</u>
Accumulated depreciation		=	<u>\$34,000</u>

Cost of asset		\$90,000
Less: Accumulated depreciation		<u>34,000</u>
Book value		<u>\$56,000</u>

3. Double-declining-balance method:

	Book Value Beginning of Year	×	Declining Balance Rate	=	Depreciation Expense	Accumulated Depreciation
2013	\$90,000		40%		\$36,000	\$36,000
2014	54,000		40%		21,600	57,600
2015	32,400		40%		12,960	70,560

Ex. 244

A plant asset acquired on October 1, 2014, at a cost of \$400,000 has an estimated useful life of 10 years. The salvage value is estimated to be \$40,000 at the end of the asset's useful life.

Instructions

Determine the depreciation expense for the first two years using:

- the straight-line method.
- the double-declining-balance method.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 244 (10 min.)

- Straight-line method

$$\text{Year 1} = \frac{(\$400,000 - \$40,000)}{10 \text{ years}} = \$36,000 \times 3 \div 12 = \underline{\$9,000}$$

$$\text{Year 2 } \underline{\$36,000}$$

- Double-declining-balance method

$$\text{Constant rate} — 2 \div 10 = 20\%$$

$$\text{Year 1 } \$400,000 \times 20\% \times 3 \div 12 = \underline{\$20,000}$$

$$\text{Year 2 } \$380,000 \times 20\% = \underline{\$76,000}$$

Ex. 245

Jack's, a popular pizza hang-out, has a thriving delivery business. Jack's has a fleet of three delivery automobiles. Prior to making the entry for this year's depreciation expense, the subsidiary ledger for the fleet is as follows:

<u>Car</u>	<u>Cost</u>	<u>Salvage Value</u>	<u>Estimated Life in Miles</u>	<u>Accumulated Depr.—Beg. of the Year</u>	<u>Miles Operated During Year</u>
1	\$21,000	\$3,000	75,000	\$2,520	20,000
2	18,000	2,400	60,000	2,340	22,000
3	23,500	2,500	70,000	2,000	19,000

Instructions

- Determine the depreciation rates per mile for each car.
- Determine the depreciation expense for each car for the current year.
- Make one compound journal entry to record the annual depreciation expense for the fleet.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 245 (10 min.)

(a) Car 1 = $\frac{(\$21,000 - \$3,000)}{75,000 \text{ miles}}$ = \$0.24 per mile

Car 2 = $\frac{(\$18,000 - \$2,400)}{60,000 \text{ miles}}$ = \$0.26 per mile

Car 3 = $\frac{(\$23,500 - \$2,500)}{70,000 \text{ miles}}$ = \$0.30 per mile

(b) Car 1 — 20,000 miles × \$0.24 = \$4,800

Car 2 — 22,000 miles × \$0.26 = \$5,720

Car 3 — 19,000 miles × \$0.30 = \$5,700

(c) Depreciation Expense.....	16,220	
Accumulated Depreciation—Car 1		4,800
Accumulated Depreciation—Car 2		5,720
Accumulated Depreciation—Car 3		5,700

Ex. 246

The Hartley Clinic purchased a new surgical laser for \$90,000. The estimated salvage value is \$5,000. The laser has a useful life of five years and the clinic expects to use it 10,000 hours. It was used 1,600 hours in year 1; 2,200 hours in year 2; 2,400 hours in year 3; 1,800 hours in year 4; 2,000 hours in year 5.

Instructions

- (a) Compute the annual depreciation for each of the five years under each of the following methods:
 - (1) straight-line.
 - (2) units-of-activity.
- (b) If you were the administrator of the clinic, which method would you deem as most appropriate? Justify your answer.
- (c) Which method would result in the lowest reported income in the first year? Which method would result in the lowest total reported income over the five-year period?

Ans: N/A, LO: 2, Bloom: E, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 246 (10 min.)

(a) (1) Straight-line method: = $\frac{(\$90,000 - \$5,000)}{5 \text{ years}}$ = \$17,000 per year

(2) Units-of-activity method: = $\frac{(\$90,000 - \$5,000)}{10,000 \text{ hours}}$ = \$8.50/hour

Solution 246 (Cont.)

Year 1	1,600	×	\$8.50	=	\$13,600
2	2,200	×	8.50	=	18,700
3	2,400	×	8.50	=	20,400
4	1,800	×	8.50	=	15,300
5	2,000	×	8.50	=	17,000

	<u>Straight-line</u>	<u>Units-of-Activity</u>
Year 1	\$17,000	\$13,600
Year 2	17,000	18,700
Year 3	17,000	20,400
Year 4	17,000	15,300
Year 5	<u>17,000</u>	<u>7,000</u>
Total	<u>\$85,000</u>	<u>\$85,000</u>

- (b) The units-of-activity method can be justified based on the variable usage the laser will receive during its useful life.
- (c) The straight-line method provides the highest depreciation expense for the first year, and therefore the lowest first year income. Over the five-year period, both methods result in the same total depreciation expense (\$85,000) and, therefore, the same total income.

Ex. 247

The December 31, 2013 balance sheet of Jensen Company showed Equipment of \$76,000 and Accumulated Depreciation of \$18,000. On January 1, 2014, the company decided that the equipment has a remaining useful life of 6 years with a \$4,000 salvage value.

Instructions

Compute the (a) depreciable cost of the equipment and (b) revised annual depreciation.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 247 (5 min.)

(a) Book value, 1/1/14 (\$76,000 – \$18,000)	\$58,000
Less salvage value	<u>4,000</u>
Depreciable cost	<u>\$54,000</u>

- (b) Revised annual depreciation = \$9,000 (\$54,000 ÷ 6)

Ex. 248

South Airlines purchased a 747 aircraft on January 1, 2013, at a cost of \$35,000,000. The estimated useful life of the aircraft is 20 years, with an estimated salvage value of \$5,000,000. On January 1, 2016 the airline revises the total estimated useful life to 15 years with a revised salvage value of \$3,500,000.

Instructions

- (a) Compute the depreciation and book value at December 31, 2015 using the straight-line method and the double-declining-balance method.
- (b) Assuming the straight-line method is used, compute the depreciation expense for the year ended December 31, 2016.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 248 (20 min.)

(a)

Year	Depreciable		<u>Straight-line</u>		Accumulated Depreciation	<u>Book Value</u>
	<u>Cost</u>	× <u>Rate</u>	Depreciation	Annual Depreciation		
2013	\$30,000,000	× 5%		\$1,500,000	\$1,500,000	\$33,500,000
2014	√	√		√	3,000,000	32,000,000
2015	√	√		√	4,500,000	30,500,000

Year	Book Value		<u>Double-declining-balance</u>		Accumulated Depreciation	<u>Book Value</u>
	<u>Beginning Year</u>	× <u>Rate</u>	Depreciation	Annual Depreciation		
2013	\$35,000,000	× 10%		\$3,500,000	\$ 3,500,000	\$31,500,000
2014	31,500,000	√		3,150,000	6,650,000	28,350,000
2015	28,500,000	√		2,835,000	9,485,000	25,515,000

(b)

Book value, January 1, 2016	\$30,500,000
Less: Revised salvage value	<u>3,500,000</u>
Depreciable cost	<u>\$27,000,000</u>
Remaining useful life	<u>12 yrs.</u>
Revised annual depreciation	<u>\$2,250,000</u>

Ex. 249

Hayden Company purchased a machine on January 1, 2014, at a cost of \$90,000. It is expected to have an estimated salvage value of \$5,000 at the end of its 5-year life. The company capitalized the machine and depreciated it in 2014 using the double-declining-balance method of depreciation. The company has a policy of using the straight-line method to depreciate equipment but the company accountant neglected to follow company policy when he used the double-declining-balance method. Net income for the year ended December 31, 2014 was \$55,000 as the result of depreciating the machine incorrectly.

Instructions

Using the method of depreciation which the company normally follows, prepare the correcting entry and determine the corrected net income. (Show computations.)

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 249 (10 min.)

Depreciation taken: $(\$90,000 - 0) \times .40 =$	\$36,000
Correct depreciation: $(\$90,000 - \$5,000) \div 5 \text{ yrs.} =$	<u>17,000</u>
Overstatement of depreciation =	<u>\$19,000</u>

Accumulated Depreciation.....	19,000	
Depreciation Expense.....		19,000

Correct net income:

Net income as reported	\$55,000
Add: Overstatement of depreciation expense	<u>19,000</u>
Correct net income	<u>\$74,000</u>

Ex. 250

Equipment was acquired on January 1, 2011, at a cost of \$90,000. The equipment was originally estimated to have a salvage value of \$5,000 and an estimated life of 10 years. Depreciation has been recorded through December 31, 2014, using the straight-line method. On January 1, 2015, the estimated salvage value was revised to \$6,000 and the useful life was revised to a total of 8 years.

Instructions

Determine the depreciation expense for 2015.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 250 (5 min.)

Calculate the book value at the time of the revision:

$$\frac{\$90,000 - \$5,000}{10 \text{ years}} = \$8,500 \text{ annual depreciation expense}$$

$$4 \text{ years have been depreciated: } \$8,500 \times 4 = \$34,000$$

$$\text{Book value at the time of the revision: } \$90,000 - \$34,000 = \$56,000$$

Calculate the revised annual depreciation:

$$\frac{\$56,000 - \$6,000}{4 \text{ years remaining}} = \$12,500 \text{ revised annual depreciation}$$

The depreciation expense for 2015 is \$12,500.

Ex. 251

Frank White the new controller of Youngman Company, has reviewed the expected useful lives and salvage values of selected depreciable assets at the beginning of 2014. His findings are as follows.

Type of Asset	Date Acquired	Cost	Accumulated Depreciation 1/1/14	Useful Life in Years		Salvage Value	
				Old	Proposed	Old	Proposed
Buildings	1/1/08	\$1,600,000	\$228,000	40	50	\$80,000	\$52,000
Warehouse	1/1/09	207,000	40,000	25	20	7,000	5,000

All assets are depreciated by the straight-line method. Youngman Company uses a calendar year in preparing annual financial statements. After discussion, management has agreed to accept Frank's proposed changes.

Instructions

- Compute the revised annual depreciation on each asset in 2014. (Show computations.)
- Prepare the entry (or entries) to record depreciation on the building in 2014.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 251 (10 min.)

(a)	<u>Type of Asset</u>	<u>Building</u>	<u>Warehouse</u>
	Book value, 1/1/14	\$1,372,000	\$167,000
	Less: Salvage value	<u>52,000</u>	<u>5,000</u>
	Depreciable cost	<u>\$ 1,320,000</u>	<u>\$162,000</u>
	Revised useful life in years	<u>44</u>	<u>15</u>
	Revised annual depreciation	<u>\$ 30,000</u>	<u>\$ 10,800</u>

(b)	Dec. 31	Depreciation Expense	30,000
		Accumulated Depreciation—	
		Buildings	30,000

Ex. 252

Fleming Company purchased a machine on January 1, 2014. In addition to the purchase price paid, the following additional costs were incurred: (a) sales tax paid on the purchase price, (b) transportation and insurance costs while the machinery was in transit from the seller, (c) personnel training costs for initial operation of the machinery, (d) annual city operating license, (e) major overhaul to extend the life of the machinery, (f) lubrication of the machinery gearing before the machinery was placed into service, (g) lubrication of the machinery gearing after the machinery was placed into service, and (h) installation costs necessary to secure the machinery to the building flooring.

Instructions

Indicate whether the items (a) through (h) are capital or revenue expenditures in the spaces provided: C = Capital, R = Revenue.

- (a) _____ (b) _____ (c) _____ (d) _____
 (e) _____ (f) _____ (g) _____ (h) _____

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 252 (5 min.)

- (a) Capital (b) Capital (c) Capital (d) Revenue
 (e) Capital (f) Capital (g) Revenue (h) Capital

Ex. 253

Foley Word Processing Service uses the straight-line method of depreciation. The company's fiscal year end is December 31. The following transactions and events occurred during the first three years.

- 2013 July 1 Purchased a computer from the Computer Center for \$1,900 cash plus sales tax of \$150, and shipping costs of \$50.
 Nov. 3 Incurred ordinary repairs on computer of \$140.
 Dec. 31 Recorded 2013 depreciation on the basis of a four year life and estimated salvage value of \$500.

Ex. 253 (Cont.)

2014 Dec. 31 Recorded 2013 depreciation.

2015 Jan. 1 Paid \$300 for an upgrade of the computer. This expenditure is expected to increase the operating efficiency and capacity of the computer.

Instructions

Prepare the necessary entries. (Show computations.)

Ans: N/A, LO: 2,3, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 253 (15 min.)

<u>2013</u>	July	1	Equipment.....	2,100	
			Cash.....		2,100
	Nov.	3	Maintenance and Repairs Expense.....	140	
			Cash.....		140
	Dec.	31	Depreciation Expense	200	
			Accumulated Depreciation—Equipment		200
			[(\$2,100 – \$500) ÷ 4 × 1/2]		
<u>2014</u>	Dec.	31	Depreciation Expense	400	
			Accumulated Depreciation—Equipment		400
			(\$1,600 ÷ 4)		
<u>2015</u>	Jan.	1	Equipment.....	300	
			Cash.....		300

Ex. 254

Identify the following expenditures as capital expenditures or revenue expenditures.

- (a) Replacement of worn out gears on factory machinery.
- (b) Construction of a new wing on an office building.
- (c) Painting the exterior of a building.
- (d) Oil change on a company truck.
- (e) Painting and lettering of a used truck upon acquisition of the truck.
- (f) Overhaul of a truck motor. One year extension in useful life is expected.
- (g) Purchased a wastebasket at a cost of \$10.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 254 (5 min.)

- | | |
|-------------|-------------|
| (a) revenue | (e) capital |
| (b) capital | (f) capital |
| (c) revenue | (g) revenue |
| (d) revenue | |

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Ex. 255

On January 1, 2012 Grier Company purchased and installed a telephone system at a cost of \$20,000. The equipment was expected to last five years with a salvage value of \$3,000. On January 1, 2013 more telephone equipment was purchased to tie-in with the current system for \$10,000. The new equipment is expected to have a useful life of four years. Through an error, the new equipment was debited to Telephone Expense. Grier Company uses the straight-line method of depreciation.

Instructions

Prepare a schedule showing the effects of the error on Telephone Expense, Depreciation Expense, and Net Income for each year and in total beginning in 2013 through the useful life of the new equipment.

Year	<u>Telephone Expense</u> Overstated (Understated)	<u>Depreciation Expense</u> Overstated (Understated)	<u>Net Income</u> Overstated (Understated)
2013			
2014			
2015			
2016			

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Hard, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 255 (25 min.)

Year	<u>Telephone Expense</u> Overstated (Understated)	<u>Depreciation Expense</u> Overstated (Understated)	<u>Net Income</u> Overstated (Understated)
2013	\$10,000	\$(2,500)	\$(7,500)
2014		(2,500)	2,500
2015		(2,500)	2,500
2016		(2,500)	2,500
Total	<u>\$10,000</u>	<u>\$(10,000)</u>	<u>-0-</u>

Ex. 256

Karley Company sold equipment on July 1, 2014 for \$75,000. The equipment had cost \$210,000 and had \$120,000 of accumulated depreciation as of January 1, 2014. Depreciation for the first 6 months of 2014 was \$12,000.

Instructions

Prepare the journal entry to record the sale of the equipment.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 256 (6 min.)

Cash	75,000	
Accumulated Depreciation—Equipment (\$120,000 + \$12,000)	132,000	
Loss on Disposal of Plant Assets [\$75,000 – (\$210,000 – \$132,000)]..	3,000	
Equipment		210,000

Ex. 257

- (a) Brown Company purchased equipment in 2007 for \$150,000 and estimated a \$10,000 salvage value at the end of the equipment’s 10-year useful life. At December 31, 2013, there was \$98,000 in the Accumulated Depreciation account for this equipment using the straight-line method of depreciation. On March 31, 2014, the equipment was sold for \$40,000.

Prepare the appropriate journal entries to remove the equipment from the books of Brown Company on March 31, 2014.

- (b) Finney Company sold a machine for \$15,000. The machine originally cost \$35,000 in 2011 and \$8,000 was spent on a major overhaul in 2014 (charged to the Equipment account). Accumulated Depreciation on the machine to the date of disposal was \$28,000.

Prepare the appropriate journal entry to record the disposition of the machine.

- (c) Stanley Company sold office equipment that had a book value of \$12,000 for \$16,000. The office equipment originally cost \$40,000 and it is estimated that it would cost \$50,000 to replace the office equipment.

Prepare the appropriate journal entry to record the disposition of the office equipment.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 257 (15 min.)

(a)

Depreciation Expense	3,500	
Accumulated Depreciation—Equipment.....		3,500
(To record depreciation expense for the first 3 months of 2014. $\$14,000 \times 1/4 = \$3,500$)		

Cash.....	40,000	
Loss on Disposal of Plant Assets	8,500	
Accumulated Depreciation—Equipment (\$98,000 + \$3,500)	101,500	
Equipment		150,000
(To record sale of equipment at a loss)		

(b)

Cash.....	15,000	
Accumulated Depreciation— Equipment	28,000	
Equipment		43,000
(To record disposition of machine at book value)		

(c)

Cash.....	16,000	
Accumulated Depreciation—Equipment	28,000	
Equipment		40,000
Gain on Disposal of Plant Assets.....		4,000
(To record disposal of office equipment at a gain)		

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Ex. 258

Grayson's Lumber Mill sold two machines in 2015. The following information pertains to the two machines:

Machine	Cost	Purchase Date	Useful Life	Salvage Value	Depreciation Method	Date Sold	Sales Price
#1	\$66,000	7/1/11	5 yrs.	\$6,000	Straight-line	7/1/15	\$15,000
#2	\$50,000	7/1/14	5 yrs.	\$5,000	Double-declining-balance	12/31/15	\$30,000

Instructions

- (a) Compute the depreciation on each machine to the date of disposal.
- (b) Prepare the journal entries in 2015 to record 2015 depreciation and the sale of each machine.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 258 (20 min.)

(a) Machine #1

Year	Depreciable Cost	×	Depreciation Rate	=	Annual Depreciation	Accumulated Depreciation
2011	\$60,000		20%		\$ 6,000*	\$ 6,000
2012	√		√		12,000	18,000
2013	√		√		12,000	30,000
2014	√		√		12,000	42,000
2015	√		√		6,000*	48,000

*One-half a year.

Machine #2

Year	Book Value Beginning of Year	×	DDB Rate	=	Annual Depreciation	Accumulated Depreciation
2014	\$50,000		40%		\$ 10,000*	\$ 10,000
2015	40,000		40%		16,000	26,000

*One-half a year.

(b)

	Machine 1	Machine 2
Depreciation Expense	6,000	16,000
Accumulated Depreciation—Equip.	6,000	16,000
Cash	15,000	30,000
Loss on Disposal of Plant Assets	3,000*	-0-
Accumulated Depreciation—Equip.	48,000	26,000
Equipment	66,000	50,000
Gain on Disposal of Plant Assets	-0-	6,000**

*\$66,000 – \$48,000 = \$18,000; \$18,000 – \$15,000 = \$3,000 loss.

**\$30,000 – (\$50,000 – \$26,000) = \$6,000.

Ex. 259

Presented below are selected transactions for Werley Company for 2014.

- Jan. 1 Received \$9,000 scrap value on retirement of machinery that was purchased on January 1, 2004. The machine cost \$90,000 on that date, and had a useful life of 10 years with no salvage value.
- April 30 Sold a equipment for \$34,000 that was purchased on January 1, 2011. The equipment cost \$90,000, and had a useful life of 5 years with no salvage value.
- Dec. 31 Discarded a business automobile that was purchased on April 1, 2010. The car cost \$27,000 and was depreciated on a 5-year useful life with a salvage value of \$2,000.

Instructions

Journalize all entries required as a result of the above transactions. Werley Company uses the straight-line method of depreciation and has recorded depreciation through December 31, 2013.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 259 (15 min.)

Jan. 1	Cash.....	9,000	
	Accumulated Depreciation—Equipment.....	90,000	
	Equipment.....		90,000
	Gain on Disposal of Plant Assets		9,000
April 30	Depreciation Expense.....	6,000	
	Accumulated Depreciation—Equipment.....		6,000
	(\$90,000 × 1/5 × 4/12 = \$6,000)		
	Cash.....	34,000	
	Accumulated Depreciation—Equipment (\$18,000 × 3 1/3).. Equipment.....	60,000	90,000
	Gain on Disposal of Plant Assets (\$34,000 – \$30,000)		4,000
Dec. 31	Depreciation Expense.....	5,000	
	Accumulated Depreciation—Equipment.....		5,000
	Accumulated Depreciation—Equipment (\$5,000 × 4 3/4)....	23,750	
	Loss on Disposal of Plant Assets.....	3,250	
	Equipment.....		27,000

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Ex. 260

Zimmer Company sold the following two machines in 2014:

	<u>Machine A</u>	<u>Machine B</u>
Cost	\$76,000	\$80,000
Purchase date	7/1/10	1/1/11
Useful life	8 years	5 years
Salvage value	\$4,000	\$4,000
Depreciation method	Straight-line	Double-declining-balance
Date sold	7/1/14	8/1/14
Sales price	\$35,000	\$16,000

Instructions

Journalize all entries required to update depreciation and record the sales of the two assets in 2014. The company has recorded depreciation on the machines through December 31, 2013.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 260 (20 min.)

July 1	Depreciation Expense.....	4,500	
	Accumulated Depreciation—Equipment.....		4,500
	(\$76,000 – \$4,000) × 1/8 × 6/12 = \$4,500		
	Cash.....	35,000	
	Accumulated Depreciation—Equipment*	36,000	
	Loss on Disposal of Plant Assets (\$40,000 – \$35,000)	5,000	
	Equipment.....		76,000
	*2010 (\$76,000 – \$4,000) × 1/8 × 6/12 = \$4,500		
	2011 (\$76,000 – \$4,000) × 1/8 = \$9,000		
	2012 \$9,000		
	2013 \$9,000		
	2014 (\$76,000 – \$4,000) × 1/8 × 6/12 = \$4,500		
	Total accumulated depreciation at date of disposal = \$36,000		
Aug. 1	Depreciation Expense.....	4,032	
	Accumulated Depreciation—Equipment.....		4,032
	(\$80,000 – \$62,720) × .40 × 7/12 = \$4,032		
	Cash.....	16,000	
	Accumulated Depreciation—Equipment**	66,752	
	Equipment.....		80,000
	Gain on Disposal of Plant Assets (\$16,000 – \$13,248)		2,752
	**2011 (\$80,000 – 0) × .40 = \$32,000		
	2012 (\$80,000 – \$32,000) × .40 = \$19,200		
	2013 (\$80,000 – \$51,200) × .40 = \$11,520		
	2014 (\$80,000 – \$62,720) × .40 × 7/12 = \$4,032		
	Total accumulated depreciation at date of disposal = \$66,752		

Ex. 261

Lynn Company owns equipment that cost \$120,000 when purchased on January 1, 2011. It has been depreciated using the straight-line method based on estimated salvage value of \$15,000 and an estimated useful life of 5 years.

Instructions

Prepare Lynn Company's journal entries to record the sale of the equipment in these four independent situations.

- (a) Sold for \$58,000 on January 1, 2014.
- (b) Sold for \$58,000 on May 1, 2014.
- (c) Sold for \$32,000 on January 1, 2014.
- (d) Sold for \$32,000 on October 1, 2014.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 261 (12 min.)

(a)	Cash.....	58,000	
	Accumulated Depreciation—Equipment	63,000	
	[$(\$120,000 - \$15,000) \times 3/5$]		
	Equipment.....		120,000
	Gain on Disposal of Plant Assets		1,000
(b)	Depreciation Expense	7,000	
	[$(\$120,000 - \$15,000) \times 1/5 \times 4/12$]		
	Accumulated Depreciation—Equipment		7,000
	Cash.....	58,000	
	Accumulated Depreciation—Equipment	70,000	
	(\$63,000 + \$7,000)		
	Equipment.....		120,000
	Gain on Disposal of Plant Assets		8,000
(c)	Cash.....	32,000	
	Accumulated Depreciation—Equipment	63,000	
	Loss on Disposal of Plant Assets.....	25,000	
	Equipment.....		120,000
(d)	Depreciation Expense	15,750	
	[$(\$120,000 - \$15,000) \times 1/5 \times 9/12$]		
	Accumulated Depreciation—Equipment		15,750
	Cash.....	32,000	
	Accumulated Depreciation—Equipment	78,750	
	(\$63,000 + \$15,750)		
	Loss on Disposal of Plant Assets.....	9,250	
	Equipment.....		120,000

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Ex. 262

On July 1, 2014, Melton Inc. invested \$560,000 in a mine estimated to have 800,000 tons of ore of uniform grade. During the last 6 months of 2014, 100,000 tons of ore were mined and sold.

Instructions

- (a) Prepare the journal entry to record depletion expense.
- (b) Assume that the 100,000 tons of ore were mined, but only 85,000 units were sold. How are the costs applicable to the 15,000 unsold units reported?

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 262 (6 min.)

(a)	Dec. 31	Depletion Expense	70,000	
		Accumulated Depletion		70,000
		(100,000 × \$.70)		

Cost	(a) \$560,000
Units estimated	(b) 800,000 tons
Depletion cost per unit [(a) ÷ (b)]	\$0.70

- (b) The costs pertaining to the unsold units are reported in current assets as part of inventory (15,000 × \$.70 = \$10,500).

Ex. 263

Gorman Mining invested \$960,000 in a mine estimated to have 1,200,000 tons of ore with no salvage value. During the first year, 200,000 tons of ore were mined and sold.

Instructions

Prepare the journal entry to record depletion expense.

Ans: N/A, LO:5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 263 (5 min.)

Depletion Expense	160,000	
Accumulated Depreciation (\$960,000 ÷ 1,200,000) × 200,000....		160,000

Ex. 264

Kahn Mining Company purchased a mine for \$60 million which is estimated to have 250,000 tons of ore and a salvage value of \$10 million.

- (a) In the first year, 50,000 tons of ore are extracted and sold. Prepare the journal entry to record depletion expense for the first year.
- (b) In the second year, 150,000 tons of ore are extracted but only 125,000 tons are sold. Prepare the journal entry to record depletion expense for the second year.
- (c) What amount and in what account are the tons of ore not sold reported?

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 264 (10 min.)

- (a) Calculation of the depletion expense/ton of coal:

$$(\$60,000,000 - \$10,000,000) \div 250,000 \text{ tons} = \$200 \text{ per ton}$$

$$\text{First Year: } 50,000 \text{ tons} \times \$200 = \$10,000,000$$

Depletion Expense	10,000,000	
Accumulated Depletion.....		10,000,000

- (b) Second Year: 125,000 tons \times \$200 = \$25,000,000

Depletion Expense	25,000,000	
Accumulated Depletion.....		25,000,000

Note: Only expense the ore that is extracted and sold.

- (c) The ore that is extracted and not sold is reported in the current asset section of the balance sheet in an Inventory account. In this case, \$5,000,000 (25,000 \times \$200) should be reported as inventory.

Ex. 265

Quayle Mining Company purchased land containing an estimated 15 million tons of ore at a cost of \$4,200,000. The land without the ore is estimated to be worth \$600,000. The company expects to operate the mine for 12 years. Buildings costing \$600,000 are erected on the site and are expected to last for 25 years. Equipment costing \$300,000 with an estimated life of 15 years is installed. The buildings and the equipment possess no salvage value after the mine is closed. During the first year of operations, the mining company mined and sold 2 million tons of ore.

Instructions

- (a) Compute the depletion charge per ton.
- (b) Compute the depletion expense for the first year.
- (c) Compute the appropriate first year's depreciation expense for the buildings.
- (d) Compute the appropriate first year's depreciation expense for the equipment.
- (e) Prepare journal entries to record depletion and depreciation expenses for the year.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 265 (20 min.)

- (a) Depletion charge per ton:

$$(\$4,200,000 - \$600,000) \div 15 \text{ million tons of ore} = \$24 \text{ per ton}$$

(b) 2,000,000 tons \times \$.24 = \$480,000

- (c) The appropriate useful life is the shorter of the life of the mine or the life of the buildings. In this case, 12 years is the appropriate useful life (\$600,000 \div 12 years = \$50,000).

(d) Same reasoning as (c). \$300,000 \div 12 years = \$25,000

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Solution 265 (Cont.)

(e) Depletion Expense	480,000	
Accumulated Depletion		480,000
Depreciation Expense.....	75,000	
Accumulated Depreciation—Buildings		50,000
Accumulated Depreciation—Equipment.....		25,000

Ex. 266

- (a) A company purchased a patent on January 1, 2014, for \$2,500,000. The patent’s legal life is 20 years but the company estimates that the patent’s useful life will only be 5 years from the date of acquisition. On June 30, 2014, the company paid legal costs of \$135,000 in successfully defending the patent in an infringement suit. Prepare the journal entry to amortize the patent at year end on December 31, 2014.
- (b) Trent Company purchased a franchise from Tastee Food Company for \$400,000 on January 1, 2014. The franchise is for an indefinite time period and gives Trent Company the exclusive rights to sell Tastee Wings in a particular territory. Prepare the journal entry to record the acquisition of the franchise and any necessary adjusting entry at year end on December 31, 2014.
- (c) Kline Company incurred research and development costs of \$500,000 in 2014 in developing a new product. Prepare the necessary journal entries during 2014 to record these events and any adjustments at year end on December 31, 2014.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 266 (15 min.)

(a) December 31, 2014		
Amortization Expense	515,000	
Patents		515,000
(To record patent amortization)		
\$2,500,000 ÷ 5 years	\$500,000	
\$135,000 ÷ 54 months = \$2,500 × 6	<u>15,000</u>	
	<u>\$515,000</u>	

(b) January 1, 2014		
Franchises.....	400,000	
Cash		400,000
(To record acquisition of Tastee Food franchise)		

December 31, 2014
 No amortization of the franchise is required since its life is indefinite.

(c) 2014		
Research and Development Expense.....	500,000	
Cash		500,000
(To record research and development expense for the current year)		

December 31—no entry.

Ex. 267

On January 2, 2014, Olathe Company purchased a patent for \$240,000. The patent has an 8-year estimated useful life and a legal life of 20 years.

Instructions

Prepare the journal entry to record patent amortization.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 267 (3 min.)

Amortization Expense	30,000	
Patents ($\$240,000 \div 8$)		30,000

Ex. 268

For each item listed below, enter a code letter in the blank space to indicate the allocation terminology for the item. Use the following codes for your answer:

A—Amortization P—Depletion
D—Depreciation N—None of these

- | | |
|---|--|
| <p>___ 1. Goodwill</p> <p>___ 2. Land</p> <p>___ 3. Buildings</p> <p>___ 4. Patents</p> <p>___ 5. Copyrights</p> <p>___ 6. Research and development costs</p> | <p>___ 7. Timberlands</p> <p>___ 8. Franchises (indefinite life)</p> <p>___ 9. Licenses (limited life)</p> <p>___ 10. Land Improvements</p> <p>___ 11. Oil Deposits</p> <p>___ 12. Equipment</p> |
|---|--|

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Easy, Min: 10, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 268 (10 min.)

- | | | |
|------|------|-------|
| 1. N | 5. A | 9. A |
| 2. N | 6. N | 10. D |
| 3. D | 7. P | 11. P |
| 4. A | 8. N | 12. D |

Ex. 269

For each of the following unrelated transactions, (a) determine the amount of the amortization or depletion expense for the current year, and (b) present the adjusting entries required to record each expense at year end.

- (1) Timber rights were purchased on a tract of land for \$480,000. The timber is estimated at 1,200,000 board feet. During the current year, 75,000 board feet of timber were cut and sold.

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Ex. 269 (Cont.)

- (2) Costs of \$8,000 were incurred on January 1 to obtain a patent. Shortly thereafter, \$22,000 was spent in legal costs to successfully defend the patent against competitors. The patent has an estimated legal life of 12 years.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 269 (10 min.)

- (1) Calculation of depletion/board ft.:
 $\$480,000 \div 1,200,000 = \$.40/\text{board ft.}$
 $75,000 \times \$.40 = \$30,000$

Depletion Expense	30,000	
Accumulated Depletion		30,000

- (2) Legal costs to successfully defend a patent are capitalized.

Amortization Expense	2,500	
Patents		2,500
($\$30,000 \div 12 \text{ years} = \$2,500$)		

Ex. 270

During the current year, Marin Company incurred several expenditures. Briefly explain whether the expenditures listed below should be recorded as an operating expense or as an intangible asset. If you view the expenditure as an intangible asset, indicate the number of years over which the asset should be amortized. Explain your answer.

- (a) Spent \$30,000 in legal costs in a patent defense suit. The patent was unsuccessfully defended.
- (b) Purchased a trademark from another company. The trademark can be renewed indefinitely. Marin Company expects the trademark to contribute to revenue indefinitely.
- (c) Marin Company acquires a patent for \$2,000,000. The company selling the patent has spent \$1,000,000 on the research and development of it. The patent has a remaining life of 15 years.
- (d) Marin Company is spending considerable time and money in developing a different patent for another product. So far \$3,000,000 has been spent this year on research and development. Marin Company is very confident they will obtain this patent in the next few years.

Ans: N/A, LO: 6, Bloom: C, Difficulty: Medium, Min: 10, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 270 (10 min.)

- (a) Operating Expense. Only successful patent defense costs can be capitalized.
- (b) Intangible Asset. Trademarks are renewable. Since Marin Company expects to use the trademark indefinitely, it will be recorded as an intangible asset, but it will not be amortized.
- (c) Intangible Asset. The patent cost of \$2,000,000 should be amortized over its remaining useful life of 15 years since this is shorter than the maximum allowable period of 20 years.
- (d) Operating Expense. Research and development costs are required by GAAP to be expensed.

Ex. 271

Presented below is information related to plant assets, natural resources, and intangibles at year end on December 31, 2014, for Hanley Company:

Buildings	\$1,280,000
Goodwill	650,000
Patents	480,000
Coal Mine	440,000
Accumulated Depreciation—Bldg.	670,000
Accumulated Depletion	275,000

Instructions

Prepare a partial balance sheet for Hanley Company that shows how the above listed items would be presented.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 271 (10 min.)

HANLEY COMPANY
Balance Sheet (Partial)
December 31, 2014

Property, Plant, and Equipment

Buildings	\$1,280,000		
Less: Accumulated depreciation—Bldg.	<u>670,000</u>	\$610,000	
Coal Mine	440,000		
Less: Accumulated depletion	<u>275,000</u>	<u>165,000</u>	
Total Property, Plant, and Equipment			\$775,000

Intangibles

Goodwill	\$650,000	
Patents	<u>480,000</u>	
Total Intangibles		1,130,000

Ex. 272

Compute the asset turnover based on the following:

Beginning total assets	\$ 800,000
Ending total assets	1,200,000
Net income	300,000
Net sales	2,500,000

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 272 (3 min.)

Asset turnover = $\$2,500,000 \div [(\$800,000 + \$1,200,000) \div 2] = 2.5$ times

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Ex. 273

During 2014 Lopez Corporation reported net sales of \$3,200,000 and net income of \$1,200,000. Its balance sheet reported average total assets of \$1,600,000.

Instructions

Calculate the asset turnover.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 273 (3 min.)

$$\text{Asset turnover} = \frac{\$3,200,000}{\$1,600,000} = 2.0 \text{ times}$$

Ex. 274

Indicate in the blank spaces below, the section of the balance sheet where the following items are reported. Use the following code to identify your answer:

PPE Property, Plant, and Equipment
I Intangibles
O Other
N/A Not on the balance sheet

- | | |
|---------------------------------------|----------------------|
| ___ 1. Goodwill | ___ 7. Timberlands |
| ___ 2. Land Improvements | ___ 8. Franchises |
| ___ 3. Buildings | ___ 9. Licenses |
| ___ 4. Accumulated Depreciation | ___ 10. Equipment |
| ___ 5. Trademarks | ___ 11. Oil Deposits |
| ___ 6. Research and development costs | ___ 12. Land |

Ans: N/A, LO: 7, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 274 (5 min.)

- | | |
|---------------------------------------|----------------------|
| 1. I Goodwill | 7. PPE Timberlands |
| 2. PPE Land Improvements | 8. I Franchises |
| 3. PPE Buildings | 9. I Licenses |
| 4. PPE Accumulated Depreciation | 10. PPE Equipment |
| 5. I Trademarks | 11. PPE Oil Deposits |
| 6. N/A Research and development costs | 12. PPE Land |

*Ex. 275

Presented below are two independent situations:

- (a) Yount Company exchanged an old machine (cost \$150,000 less \$90,000 accumulated depreciation) plus \$10,000 cash for a new machine. The old machine had a fair value of \$54,000. Prepare the entry to record the exchange of assets by Yount Company.

***Ex. 275** (Cont.)

(b) Lawson Company trades old equipment (cost \$90,000 less \$54,000 accumulated depreciation) for new equipment. Lawson paid \$36,000 cash in the trade. The old equipment that was traded had a fair value of \$54,000. Prepare the entry to record the exchange of assets by Lawson Company. The transaction has commercial substance.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

***Solution 275** (10 min.)

(a)	Equipment (new) (\$54,000 + \$10,000)	64,000	
	Accumulated Depreciation—Equipment	90,000	
	Loss on Disposal of Plant Assets (\$60,000 – \$54,000).....	6,000	
	Machine.....		150,000
	Cash.....		10,000
(b)	Equipment (new)	90,000	
	Accumulated Depreciation—Equipment	54,000	
	Equipment (old)		90,000
	Cash.....		36,000
	Gain on Disposal of Plant Assets.....		18,000
	Fair value of old equipment	\$54,000	
	Book value of old equipment	<u>36,000</u>	
	Gain recognized	<u>\$18,000</u>	
	FV of asset exchanged	\$54,000	
	Plus: Cash	<u>36,000</u>	
	Cost of new equipment	<u>\$90,000</u>	

***Ex. 276**

Dolan Company exchanges equipment with Eaton Company and Pawnee Company exchanges equipment with Fiero Company. The following information pertains to the exchanges:

	<u>Dolan Company</u>	<u>Pawnee Company</u>	
Equipment (cost)	\$228,000	\$192,000	
Accumulated depreciation	100,000	90,000	
Fair value of the equipment	150,000	84,000	
Cash paid	90,000	-0-	

Instructions

Prepare the journal entries to record the exchanges on the books of Dolan Company and Pawnee Company. The transaction has commercial substance.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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***Solution 276** (15 min.)

Dolan Company:

Cost of equipment:			
Fair value of the old equipment	\$150,000		
Plus: Cash paid	<u>90,000</u>		
Cost		<u>\$240,000</u>	
Fair value	150,000		
Book value of old equipment	<u>128,000</u>		
Gain on disposal of plant assets		<u>\$22,000</u>	
Equipment (new)		240,000	
Accumulated Depreciation—Equipment		100,000	
Cash			90,000
Equipment (old)			228,000
Gain on Disposal of Plant Assets			22,000

Pawnee Company:

Fair value of the old equipment	\$84,000		
Book value of old equipment	<u>102,000</u>		
Loss on disposal of plant assets	<u>\$ (18,000)</u>		
Equipment (new)		84,000	
Loss on Disposal of Plant Assets		18,000	
Accumulated Depreciation—Equipment		90,000	
Equipment (old)			192,000

Ex. 277

Bell Company and Kene Company exchanged trucks on January 1, 2012. Bell's truck cost \$140,000, had accumulated depreciation of \$115,000, and has a fair value of \$15,000. Kene's truck cost \$105,000, had accumulated depreciation of \$90,000, and has a fair value of \$15,000.

Instructions

- (a) Journalize the exchange for Bell Company.
- (b) Journalize the exchange for Kene Company.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 277 (10 min.)

(a) Bell Company:

Cost	\$140,000		
Less: Accumulated Depreciation	<u>115,000</u>		
Book value	25,000		
Fair value of old truck	<u>15,000</u>		
Loss on disposal of plant assets	<u>\$ 10,000</u>		
Equipment (new)		15,000	
Accumulated Depreciation—Truck		115,000	
Loss on Disposal of Plant Assets		10,000	
Equipment (old)			140,000

Solution 277 (Cont.)

(b) Kene Company:

Cost	\$105,000
Less: Accumulated Depreciation	<u>90,000</u>
Book value	15,000
Fair value of old truck	<u>15,000</u>
Gain (Loss)	<u>\$ -0-</u>

Equipment (new)	15,000	
Accumulated Depreciation—Equipment	90,000	
Equipment (old)		105,000

^aEx. 278

Prepare the journal entries to record the following transactions for Ogleby Company which has a calendar year end and uses the straight-line method of depreciation.

- a) On September 30, 2014, the company exchanged old delivery equipment and \$36,000 for new delivery equipment. The old delivery equipment was purchased on January 1, 2012, for \$126,000 and was estimated to have a \$18,000 salvage value at the end of its 5-year life. Depreciation on the delivery equipment has been recorded through December 31, 2013. It is estimated that the fair value of the old delivery equipment is \$54,000 on September 30, 2014.

- (b) On June 30, 2014, the company exchanged old office equipment and \$40,000 for new office equipment. The old office equipment originally cost \$80,000 and had accumulated depreciation to the date of disposal of \$35,000. It is estimated that the fair market value of the old office equipment on June 30 was \$60,000. The transaction has commercial substance.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 278 (15 min.)

(a) September 30, 2014

Depreciation Expense	16,200	
Accumulated Depreciation—Equipment.....		16,200
(To record depreciation expense for the first 9 months of 2014. $\$108,000 \div 5 \text{ years} = \$21,600 \times 9/12 = \$16,200$)		

Equipment (new).....	90,000	
Accumulated Depreciation—Equipment (\$43,200 + \$16,200).....	59,400	
Loss on Disposal of Plant Assets (\$66,600 – \$54,000)	12,600	
Equipment (old)		126,000
Cash		36,000

(To record exchange of old delivery equipment for new delivery equipment at a loss)

Fair value of old delivery equipment	\$54,000
Cash paid	<u>36,000</u>
Cost of new delivery equipment	<u>\$90,000</u>

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^aSolution 278 (Cont.)

(b) June 30, 2014

Equipment (new).....	100,000	
Accumulated Depreciation—Equipment (old).....	35,000	
Equipment (old).....		80,000
Cash		40,000
Gain on Disposal.....		15,000
(To record exchange of old office equipment for new office equipment)		
Fair value of old office equipment	\$ 60,000	
Cash paid	<u>40,000</u>	
Cost of new office equipment	<u>\$100,000</u>	

COMPLETION STATEMENTS

279. With the exception of land, plant assets experience a _____ in service potential over their useful lives.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

280. When vacant land is acquired, expenditures for clearing, draining, filling, and grading should be charged to the _____ account.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

281. The cost of demolishing an old building on land that has been acquired so that a new building can be constructed should be charged to the _____ account.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

282. The cost of paving, fencing, and lighting a new company parking lot is charged to a _____ account.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

283. Equipment with an invoice price of \$20,000 was purchased and freight costs were \$900. The cost of the equipment would be \$_____.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

284. _____ is the process of allocating the cost of a plant asset to expense over its service life in a rational and systematic manner.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

285. The book value of a plant asset is obtained by subtracting _____ from the _____ of the plant asset.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

286. Three factors that affect the computation of periodic depreciation expense are (1) _____, (2) _____, and (3) _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

287. The _____ method of computing depreciation expense results in an equal amount of periodic depreciation throughout the service life of the plant asset.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

288. The declining-balance method of computing depreciation expense involves multiplying a _____ book value by a _____ percentage.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

289. The declining-balance method of computing depreciation is known as an _____ depreciation method.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

290. Ordinary repairs which maintain operating efficiency and expected productive life are called _____.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

291. Additions and improvements are costs incurred to increase the operating efficiency, productive capacity, or expected useful life and are referred to as _____.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

292. If disposal of a plant asset occurs at any time during the year, _____ for the fraction of the year to the date of disposal must be recorded.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

293. If fully depreciated equipment that cost \$10,000 with no salvage value is retired, the entry to record the retirement requires a debit to the _____ account and a credit to the _____ account.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

294. If the proceeds from the sale of a plant asset exceed its _____, a gain on disposal will occur.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

295. A plant asset originally cost \$64,000 and was estimated to have a \$4,000 salvage value at the end of its 5-year useful life. If at the end of three years, the asset was sold for \$12,000, and had accumulated depreciation recorded of \$36,000, the company should recognize a _____ on disposal in the amount of \$_____.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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296. Natural resources have two distinguishing characteristics (1) they are physically _____ in operations, and (2) they are _____ only by an act of nature.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

297. In recording the purchase of a business, goodwill should be recorded for the excess of _____ over the _____ of the net assets acquired.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

298. The allocation of the cost of an asset to expense over its useful life is called _____ for tangible plant assets, _____ for natural resources, and _____ for intangible assets.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

299. The cost of a patent should be amortized over its _____ life or its _____ life, whichever is shorter.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

300. The _____ is calculated by dividing net sales by average total assets.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a301. In the case of an exchange of plant assets resulting in a loss on disposal, the cost of the new asset acquired is equal to the _____ of the asset given up plus any cash paid by the purchaser.

Ans: N/A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

^a302. A company exchanged an old machine, which originally cost \$22,000 and has accumulated depreciation to date of \$12,000, for a new machine. The old machine had a fair value of \$14,000. The cost of the new machine should be recorded at \$_____.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Answers to Completion Statements

- | | |
|--|--|
| 279. decline | 294. book value |
| 280. Land | 295. loss, 16,000 |
| 281. Land | 296. extracted, replaceable |
| 282. Land Improvement | 297. cost, fair value |
| 283. \$20,900 | 298. depreciation, depletion, amortization |
| 284. Depreciation | 299. legal, useful (or useful, legal) |
| 285. accumulated depreciation, cost | 300. asset turnover |
| 286. cost, salvage value, useful life | ^a 301. fair value |
| 287. straight-line | ^a 302. 14,000 |
| 288. declining, constant | |
| 289. accelerated | |
| 290. revenue expenditures | |
| 291. capital expenditures | |
| 292. depreciation | |
| 293. Accumulated Depreciation—Equipment, Equipment | |

FOR INSTRUCTOR USE ONLY

MATCHING

303. Match the items below by entering the appropriate code letter in the space provided.

- | | |
|-------------------------|------------------------------------|
| A. Plant assets | F. Units-of-activity method |
| B. Depreciation | G. Double-declining-balance method |
| C. Book value | H. MACRS |
| D. Salvage value | I. Revenue expenditure |
| E. Straight-line method | J. Capital expenditure |

- ___ 1. Small expenditures which primarily benefit the current period.
- ___ 2. Cost less accumulated depreciation.
- ___ 3. An accelerated depreciation method used for financial statement purposes.
- ___ 4. Tangible resources that are used in operations and are not intended for resale.
- ___ 5. Equal amount of depreciation each period.
- ___ 6. Expected cash value of the asset at the end of its useful life.
- ___ 7. Allocation of the cost of a plant asset to expense over its useful life.
- ___ 8. Material expenditures which increase an asset's operating efficiency, productive capacity, or useful life.
- ___ 9. An accelerated depreciation method used for tax purposes.
- ___ 10. Useful life is expressed in terms of units of production or expected use.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Matching 303.

- | | |
|------|-------|
| 1. I | 6. D |
| 2. C | 7. B |
| 3. G | 8. J |
| 4. A | 9. H |
| 5. E | 10. F |

304. Match the items below by entering the appropriate code letter in the space provided.

- | | |
|---------------------|-----------------------------------|
| A. Gain on disposal | F. Asset turnover |
| B. Loss on disposal | G. Goodwill |
| C. Trademark | H. Amortization |
| D. Depletion | I. Intangible asset |
| E. Useful life | J. Research and development costs |

- ___ 1. Process of allocating the cost of an intangible asset to expense over its useful life.
- ___ 2. Is only recorded when an exchange has commercial substance.

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- _____ 3. Examples are franchises and licenses.
- _____ 4. The allocation of the cost of a natural resource to expense over its useful life.
- _____ 5. Can be identified only with a business as a whole.
- _____ 6. A symbol that identifies a particular enterprise or product.
- _____ 7. When book value of asset is greater than the proceeds received from its sale.
- _____ 8. Must be expensed when incurred.
- _____ 9. Indicates how efficiently a company is able to generate sales with its assets.
- _____ 10. An estimate of the expected productive life of an asset.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Answers to Matching 304.

- | | |
|------|-------|
| 1. H | 6. C |
| 2. A | 7. B |
| 3. I | 8. J |
| 4. D | 9. F |
| 5. G | 10. E |

SHORT-ANSWER ESSAY QUESTIONS

S-A E 305

The declining-balance method is an accelerated method of depreciation. Briefly explain what is meant by an accelerated method of depreciation and justify the choosing of an accelerated method.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: Business Economics

Solution 305

An accelerated depreciation method is a method which produces higher depreciation expense in the early years than in the later years. The choice of an accelerated method can be justified if the asset being depreciated contributes more to the revenue-earning process in the earlier years and less in the later years. In such a situation, an accelerated method would properly match expense to revenue.

S-A E 306

Identify the factors that are considered in classifying an expenditure as a capital or a revenue expenditure. Are there instances where it may be difficult to classify an expenditure as one or the other (e.g., the purchase of a wastebasket that has a useful life of 5 years and cost \$10)? What basis would be used in a decision?

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 306

An expenditure is classified as a revenue expenditure if it maintains the operating efficiency and expected productive life of the asset and primarily benefits the current accounting period. Revenue expenditures are usually small amounts that occur frequently throughout the life of the asset and are often called *ordinary repairs*.

An expenditure is classified as a capital expenditure if it *increases* (rather than maintains) operating efficiency, productive capacity, or expected useful life, and therefore benefits more than one accounting period. Capital expenditures are usually large amounts that occur infrequently during the life of the asset. Capital expenditures can be further classified as either additions or improvements.

The distinction between a capital expenditure and a revenue expenditure is not always clear-cut. The purchase of an asset with a relatively insignificant cost (for example, the purchase of a \$10 wastebasket with a 5 year useful life) may meet the criteria for classification as a capital expenditure, even though it is similar in many ways to a revenue expenditure (small amount, more frequent occurrence). The accounting constraint of materiality would indicate that this item could be recorded as an expense (more expedient) since it is not material enough to influence the decision of a reasonably prudent creditor or investor.

S-A E 307

What are the similarities and differences between the terms depreciation, depletion, and amortization?

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 307

The terms depreciation, depletion, and amortization are all concerned with allocating the cost of an asset to expense over the periods benefited. Depreciation refers to allocating the cost of a plant asset to expense, depletion to recognizing the cost of a natural resource as expense, and amortization to allocating the cost of an intangible asset to expense.

S-A E 308

In general, how does one determine whether or not an expenditure should be included in the acquisition cost of property, plant, and equipment?

Ans: N/A, LO: 8, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: Business Economics

Solution 308

The acquisition cost of property, plant, and equipment would include all expenditures deemed reasonable and necessary to prepare the asset for its intended purpose (use) and place. This includes getting an asset to its proper place, acquiring legal title, and getting the asset ready for its intended use.

S-A E 309

Comment on the validity of the following statements: "As an asset loses its ability to provide services, cash needs to be set aside to replace it. Depreciation accomplishes this goal."

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: Business Economics

Solution 309

Depreciation is the process of allocating to expense the cost of a plant asset over its useful (service) life in a rational and systematic manner. Recognizing depreciation for an asset does not result in the accumulation of cash for replacement of the asset. The balance in Accumulated Depreciation represents the total amount of the asset's cost that has been charged to expense to date; it is not a cash fund.

S-A E 310

Goodwill is an unusual asset in that it cannot be sold individually apart from a business as a whole. If goodwill is an intangible asset, why can't it be sold like other intangible assets such as copyrights and patents? Briefly explain what makes goodwill different.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 310

Goodwill is the value of all favorable attributes that relate to a business enterprise. As goodwill is the product of these attributes, and would not exist apart from them, goodwill cannot be separated from the company and then sold. This is different from a copyright or patent which can exist independent of a company, and can be sold apart from any other assets.

S-A E 311

How is a gain or loss on the sale of a plant asset computed?

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: Business Economics

Solution 311

In a sale of plant assets, the book value of the asset is compared to the proceeds received from the sale. If the proceeds of the sale exceed the book value of the plant asset, a gain on disposal occurs. If the proceeds of the sale are less than the book value of the plant asset sold, a loss on disposal occurs.

S-A E 312 (Ethics)

Physician Reference Service (PRS) provides services to physicians including research assistance, diagnosis coding and medical practice software including an advanced medical record cross-referencing system. PRS is aggressive in monitoring other firms' offerings and ensuring that its services are comparable to all others.

Because of its need to stay abreast of new product offerings, PRS spends a lot of money sending professionals to trade shows. In addition, PRS has agreements with several clients whereby the client requests a presentation of a competitor's services. A PRS employee poses as an employee of the client's office and attends the presentation, obtaining as much data and sample information as possible. The cost of the travel and attending presentations is charged to Product Development and expensed during the current year.

In April of this year, PRS began selling a software product substitute before the competitor's software was released. The competitor, Compu-Med, sued for copyright infringement and won. PRS had to withdraw its product from the market and pay \$1.5 million in damages. PRS immediately negotiated an agreement with Compu-Med to sell Compu-Med's product (since it was prohibited from offering its own version for five years.) This agreement cost an additional \$1.3 million, but it allowed PRS to continue to offer a full line of services.

PRS's accountant, Jill Linsey, initially recorded the cash payments as "Loss from Lawsuit" and "Product Development," respectively. However, Jack Meyer, the controller, instructed Jill to create an intangible asset, named "Goodwill" and charge both costs to this account. "We're protected from another lawsuit as long as this agreement is in effect," he says. "It's about as close to goodwill as we'll ever get from our competitors. We might as well amortize the cost rather than take the full hit to income, anyway."

Required:

1. What are the ethical issues?
2. What should Jill do?

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 312

1. The following are some of the ethical issues:
 - a. Whether PRS should continue to obtain its information by deception
 - b. Whether PRS makes a practice of pirating software
 - c. Whether the attempt to hide the losses from the lawsuit and software agreement is indicative of the state of the accounting system at PRS.
2. Jill should explain to her boss that goodwill arises only when a business is purchased. It is not allowed to write off lawsuit losses or product development costs (which these clearly are) over more than one year. She cannot allow her integrity to be compromised by misrecording these economic events. She could also point out that Mr. Meyer's attempt to delay recognition of the losses will undoubtedly be discovered by the auditors. All the records will then likely be subjected to much more scrutiny than would otherwise be the case.

S-A E 313 (Communication)

The Restor-It is a company specializing in the restoration of old homes. To showcase its work, the company purchased an old Victorian home in downtown Pittsburg, Kansas. The original home was purchased for \$125,000. A new heating and air-conditioning system was added for \$30,000. The house was completely rewired and re-plumbed at a cost of \$50,000. Custom cabinets were added, and the floors and trim were refurbished to their original condition, at a cost of \$75,000.

The project was such a success, that Restor-It decided to purchase another very large home, this time in nearby Joplin, Missouri. A realtor offered to purchase the home in Pittsburg for \$175,000. He plans to lease it as luxury short-term apartments for visiting dignitaries. Restor-It decided that a modest return was all that was required, and so they agreed to sell. Only afterward did they learn that they had a \$10,000 loss on the sale. The president of the company, Dan Easler, does not believe that a loss is possible. "We sold that house for more than we paid for it," he said. "I know we put some money in it, but we had depreciated it for three years. How in the world can we have a loss?"

Required:

Write a short memo to Mr. Easler explaining how it would be possible to have a loss. Do not try to use specific numbers for cost or depreciation.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: Business Economics

Solution 313

M E M O

TO: Dan Easler, President

FROM: Mary Martin, Accountant

RE: Loss on Pittsburg showcase

I understand that you are concerned about the loss on the Pittsburg showcase house. You have said that a loss is not possible, since we sold the house for more than we paid for it.

Ordinarily, it would not be possible for any fixed asset to generate a loss if sold for more than the original purchase price. Accounting rules allow for writing down impaired assets, and depreciation also reduces the cost basis. In our case, however, we had added enough costs that it was almost like we purchased the house twice. Thus, we had a book value of \$185,000 at the time of the sale, even though we had taken three years' depreciation.

All in all, I think that the Pittsburg house was still an excellent investment—we got far more benefit from the \$10,000 "loss" than we would have had spending ten times that much in advertising. To prevent the problem in the future, however, you could have the Accounting Department calculate the book value before you negotiate a sales contract. That way, you'll know the effect of the transaction on our income—though you should remember that book value is not a substitute for market value; we'll still have to rely on real estate agents for that.

Let me know if you have further questions.

(signature)