



Intermediate Accounting Test Bank Ch10

Intermediate Accounting 1 (Universitas Gadjah Mada)

CHAPTER 10

ACQUISITION AND DISPOSITION OF PROPERTY, PLANT, AND EQUIPMENT

CHAPTER LEARNING OBJECTIVES

1. Identify property, plant, and equipment and its related costs.
2. Discuss the accounting problems associated with interest capitalization.
3. Explain accounting issues related to acquiring and valuing plant assets.
4. Describe the accounting treatment for costs subsequent to acquisition.
5. Describe the accounting treatment for the disposal of property, plant, and equipment.

TRUE-FALSE—Conceptual

1. Assets classified as property, plant, and equipment can be either acquired for use in operations, or acquired for resale.
2. Assets classified as property, plant, and equipment must be both long-term in nature and possess physical substance.
3. When land with an old building is purchased as a future building site, the cost of removing the old building is part of the cost of the new building.
4. Insurance on equipment purchased, while the equipment is in transit, is part of the cost of the equipment.
5. Special assessments for local improvements such as street lights and sewers should be accounted for as land improvements.
6. Variable overhead costs incurred to self-construct an asset should be included in the cost of the asset.
7. Companies should assign no portion of fixed overhead to self-constructed assets.
8. When capitalizing interest during construction of an asset, an imputed interest cost on stock financing must be included.
9. Assets under construction for a company's own use do not qualify for interest cost capitalization.
10. Avoidable interest is the amount of interest cost that a company could theoretically avoid if it had not made expenditures for the asset.
11. When a company purchases land with the intention of developing it for a particular use, interest costs associated with those expenditures qualify for interest capitalization.
12. Assets purchased on long-term credit contracts should be recorded at the present value of the consideration exchanged.
13. Companies account for the exchange of non-monetary assets on the basis of the fair value of the asset given up or the fair value of the asset received.
14. When a company exchanges non-monetary assets and a loss results, the company recognizes the loss only if the exchange has commercial substance.
15. A government grant generally subsidizes a company by transferring resources to that company.
16. When a company acquires an asset through a government grant, the asset's cost is zero so the cost recorded is the direct cost, such as legal fees, incurred.
17. Assets acquired through government grants are generally recorded at fair value.

18. When an asset acquired through a government grant is recorded on the books, equity will increase by the cost of the asset.
19. IFRS requires the income approach to account for assets received through government grants.
20. Under IFRS, all gains on non-monetary exchanges are recognized, regardless of whether the transaction has commercial substance or not.
21. The fair value of an asset acquired through a government grant can be recorded as deferred revenue and recognized as income over the life of the asset.
22. One way of recognizing a government grant is to deduct the grant from the carrying amount of the assets received from the grant.
23. Costs incurred subsequent to the acquisition of an asset are capitalized if it is probable that the company will obtain future economic benefits.
24. Improvements are often referred to as betterments and involve the substitution of a better asset for the one currently used.
25. Companies always treat gains or losses from an involuntary conversion as part of discontinued operations.

True False Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	6.	T	11.	T	16.	F	21.	T
2.	T	7.	F	12.	T	17.	T	22.	T
3.	F	8.	F	13.	T	18.	F	23.	T
4.	T	9.	F	14.	F	19.	T	24.	T
5.	F	10.	T	15.	T	20.	F	25.	F

MULTIPLE CHOICE—Conceptual

26. Plant assets may properly include
- deposits on machinery not yet received.
 - idle equipment awaiting sale.
 - land held for possible use as a future plant site.
 - None of these answer choices are correct.
27. Which of the following is **not** a major characteristic of a plant asset?
- Possesses physical substance
 - Acquired for resale
 - Acquired for use
 - Long-term in nature
28. Which of these is **not** a major characteristic of a plant asset?
- Possesses physical substance
 - Acquired for use in operations
 - Long-term in nature
 - All of these are major characteristics of a plant asset.
29. Cotton Hotel Corporation recently purchased Emporia Hotel and the land on which it is located with the plan to tear down the Emporia Hotel and build a new luxury hotel on the site. The cost of the Emporia Hotel should be
- depreciated over the period from acquisition to the date the hotel is scheduled to be torn down.
 - written off as loss in the year the hotel is torn down.
 - capitalized as part of the cost of the land.
 - capitalized as part of the cost of the new hotel.
30. The cost of land does **not** include
- costs of grading, filling, draining, and clearing.
 - costs of removing old buildings.
 - costs of improvements with limited lives.
 - special assessments.
31. The cost of land typically includes the purchase price and all of the following costs **except**
- grading, filling, draining, and clearing costs.
 - street lights, sewers, and drainage systems cost.
 - private driveways and parking lots.
 - assumption of any liens or mortgages on the property.
32. If a corporation purchases a lot and building and subsequently tears down the building and uses the property as a parking lot, the proper accounting treatment of the cost of the building would depend on
- the significance of the cost allocated to the building in relation to the combined cost of the lot and building.
 - the length of time for which the building was held prior to its demolition.
 - the contemplated future use of the parking lot.
 - the intention of management for the property when the building was acquired.

33. The debit for a sales tax properly levied and paid on the purchase of machinery preferably would be a charge to
 - a. the machinery account.
 - b. a separate deferred charge account.
 - c. miscellaneous tax expense (which includes all taxes other than those on income).
 - d. accumulated depreciation--machinery.

34. Fences and parking lots are reported on the statement of financial position as
 - a. current assets.
 - b. land improvements.
 - c. land.
 - d. property and equipment.

- ^s35. To be consistent with the historical cost principle, overhead costs incurred by an enterprise constructing its own building should be
 - a. allocated on the basis of lost production.
 - b. eliminated completely from the cost of the asset.
 - c. allocated on an opportunity cost basis.
 - d. allocated on a pro rata basis between the asset and normal operations.

36. Which of the following costs are capitalized for self-constructed assets?
 - a. Materials and labor only
 - b. Labor and overhead only
 - c. Materials and overhead only
 - d. Materials, labor, and overhead

37. Which of the following assets do **not** qualify for capitalization of interest costs incurred during construction of the assets?
 - a. Assets under construction for a company's own use.
 - b. Assets intended for sale or lease that are produced as discrete projects.
 - c. Assets financed through the issuance of long-term debt.
 - d. Assets not currently undergoing the activities necessary to prepare them for their intended use.

38. Assets that qualify for interest cost capitalization include
 - a. assets under construction for a company's own use.
 - b. assets that are ready for their intended use in the earnings of the company.
 - c. assets that are not currently being used because of excess capacity.
 - d. All of these assets qualify for interest cost capitalization.

39. When computing the amount of interest cost to be capitalized, the concept of "avoidable interest" refers to
 - a. the total interest cost actually incurred.
 - b. a cost of capital charge for equity.
 - c. that portion of total interest cost which would not have been incurred if expenditures for asset construction had not been made.
 - d. that portion of average accumulated expenditures on which no interest cost was incurred.

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40. The period of time during which interest must be capitalized ends when
- the asset is substantially complete and ready for its intended use.
 - no further interest cost is being incurred.
 - the asset is abandoned, sold, or fully depreciated.
 - the activities that are necessary to get the asset ready for its intended use have begun.
41. Which of the following statements is true regarding capitalization of interest?
- Interest cost capitalized in connection with the purchase of land to be used as a building site should be debited to the land account and not to the building account.
 - The amount of interest cost capitalized during the period should not exceed the actual interest cost incurred.
 - When excess borrowed funds not immediately needed for construction are temporarily invested, any interest earned should be recorded as interest revenue.
 - The minimum amount of interest to be capitalized is determined by multiplying a weighted average interest rate by the amount of average accumulated expenditures on qualifying assets during the period.
42. Construction of a qualifying asset is started on April 1 and finished on December 1. The fraction used to multiply an expenditure made on April 1 to find weighted-average accumulated expenditures is
- 8/8.
 - 8/12.
 - 9/12.
 - 11/12.
43. When funds are borrowed to pay for construction of assets that qualify for capitalization of interest, the excess funds not needed to pay for construction may be temporarily invested in interest-bearing securities. Interest earned on these temporary investments should be
- offset against interest cost incurred during construction.
 - used to increase the cost of assets being constructed.
 - multiplied by an appropriate interest rate to determine the amount of interest to be capitalized.
 - recognized as revenue of the period.
44. Interest cost that is capitalized should
- be written off over the remaining term of the debt.
 - be accumulated in a separate deferred charge account and written off equally over a 40-year period.
 - not be written off until the related asset is fully depreciated or disposed of.
 - None of these answer choices are correct.
- ^s45. Which of the following is **not** a condition that must be satisfied before interest capitalization can begin on a qualifying asset?
- Interest cost is being incurred.
 - Expenditures for the assets have been made.
 - The interest rate is equal to or greater than the company's cost of capital.
 - Activities that are necessary to get the asset ready for its intended use are in progress.

46. Which of the following is the recommended approach to handling interest incurred in financing the construction of property, plant and equipment?
- Capitalize only the actual interest costs incurred during construction.
 - Charge construction with all costs of funds employed, whether identifiable or not.
 - Capitalize no interest during construction.
 - Capitalize interest costs equal to the prime interest rate times the estimated cost of the asset being constructed.
47. Interest revenue earned on specific borrowings for qualifying assets
- reduces the cost of the qualifying asset.
 - reduces interest expense reported on the income statement.
 - increases equity in the period earned.
 - None of these answer choices are correct.
48. If a government entity provides an interest free loan to a company and the company accounts for the grant using the deferred revenue approach,
- no interest expense will be recorded.
 - the interest element is initially recorded as Discount on Notes Payable.
 - the interest element is amortized to Deferred Grant Revenue over the term of the loan.
 - All of these answer choices are correct.
49. Which of the following is **not** true with regard to the accounting for government grants?
- Assets may be recorded at fair value or nominal cost.
 - Companies may use either the capital or income approach to account for the asset and the grant.
 - Companies may apply the income approach either by recording the grant as deferred revenue or as an adjustment to the asset.
 - None of these answer choices are correct.
50. The account Deferred Grant Revenue is classified as
- a separate component of shareholders' equity.
 - a non-current liability.
 - Other income and expense.
 - Revenue.
51. When an asset acquired through government grants is recorded using the capital approach,
- assets and equity increase by the fair value of the asset.
 - assets and liabilities increase by the fair value of the asset.
 - assets and equity increase by the cost of the asset.
 - assets and liabilities increase by the cost of the asset.
52. Which of the following is required by IFRS?
- Resources acquired through government grants must be recorded at cost.
 - Resources acquired through government grants must be recorded at fair value.
 - Resources acquired through government grants must be accounted for using the capital approach.
 - Resources acquired through government grants must be accounted for using the income approach.

53. If the cost of the asset is recorded net of the government grant,
- equity will likely be overstated.
 - liabilities will likely be overstated.
 - assets will likely be understated.
 - revenues will likely be understated.
54. Which of the following is true regarding the alternative ways to apply the income approach to accounting of resources acquired through government grants?
- expenses will be higher and net income lower if the grant is recorded as deferred revenue.
 - expenses will be higher and net income lower if the grant is accounted for as an adjustment to the asset.
 - depreciation expense will be higher if the grant is recorded as deferred revenue, but net income will be the same under the two alternatives.
 - depreciation expense will be higher if the grant is recorded as an adjustment to the asset, but net income will be the same under the two alternatives.
- ^S55. Which of the following non-monetary exchange transactions has commercial substance?
- Exchange of assets with no difference in future cash flows.
 - Exchange of products by companies in the same line of business with no difference in future cash flows.
 - Exchange of assets with a difference in future cash flows.
 - Exchange of an equivalent interest in similar productive assets that causes the companies involved to remain in essentially the same economic position.
- ^S56. When cash is involved in an exchange having commercial substance.
- gains or losses are recognized in their entirety.
 - a gain or loss is computed by comparing the fair value of the asset received with the fair value of the asset given up.
 - only gains should be recognized.
 - only losses should be recognized.
- ^S57. The cost of a non-monetary asset acquired in exchange for another non-monetary asset and the exchange has commercial substance is usually recorded at
- the fair value of the asset given up, and a gain or loss is recognized.
 - the fair value of the asset given up, and a gain but not a loss may be recognized.
 - the fair value of the asset received if it is equally reliable as the fair value of the asset given up.
 - either the fair value of the asset given up or the asset received, whichever one results in the largest gain (smallest loss) to the company.
- ^P58. Ringler Corporation exchanges one plant asset for a similar plant asset and gives cash in the exchange. The exchange is not expected to cause a material change in the future cash flows for either entity. If a gain on the disposal of the old asset is indicated, the gain will
- be reported in the Other income and expense section of the income statement.
 - effectively reduce the amount to be recorded as the cost of the new asset.
 - effectively increase the amount to be recorded as the cost of the new asset.
 - be credited directly to the retained earnings account.

59. Plant assets purchased on long-term credit contracts should be accounted for at
- the total value of the future payments.
 - the future amount of the future payments.
 - the present value of the future payments.
 - none of these answer choices are correct.
60. When a plant asset is acquired by issuance of ordinary shares, the cost of the plant asset is properly measured by the
- par value of the shares.
 - stated value of the shares.
 - book value of the shares.
 - fair value of the shares.
61. When a closely held corporation issues preference shares for land, the land should be recorded at the
- total par value of the shares issued.
 - total book value of the shares issued.
 - total liquidating value of the shares issued.
 - fair value of the land.
62. Accounting recognition should be given to the gain realized on a non-monetary exchange of plant assets **except** when the exchange has
- no commercial substance and additional cash is paid.
 - commercial substance and additional cash is received.
 - commercial substance and additional cash is paid.
 - All of these cause recognition of a gain.
63. For a non-monetary exchange of plant assets, accounting recognition should **not** be given to
- a loss when the exchange has no commercial substance.
 - a gain when the exchange has commercial substance.
 - a gain when the exchange has no commercial substance.
 - a loss when the exchange has commercial substance.
64. An improvement made to a machine increased its fair value and its production capacity by 25% without extending the machine's useful life. The cost of the improvement should be
- expensed.
 - debited to accumulated depreciation.
 - capitalized in the machinery account.
 - allocated between accumulated depreciation and the machinery account.
65. Which of the following is a capital expenditure?
- Payment of an account payable
 - Retirement of bonds payable
 - Payment of income taxes
 - None of these answer choices are correct
66. Which of the following is **not** a capital expenditure?
- Repairs that maintain an asset in operating condition
 - An addition
 - A betterment
 - A replacement

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- ^P67. In accounting for plant assets, which of the following outlays made subsequent to acquisition should be fully expensed in the period the expenditure is made?
- Expenditure made to increase the efficiency or effectiveness of an existing asset
 - Expenditure made to extend the useful life of an existing asset beyond the time frame originally anticipated
 - Expenditure made to maintain an existing asset so that it can function in the manner intended
 - Expenditure made to add new asset services
- ^S68. An expenditure made in connection with a machine being used by a company should be
- expensed immediately if it merely extends the useful life but does not improve the quality.
 - expensed immediately if it merely improves the quality but does not extend the useful life.
 - capitalized if it maintains the machine in normal operating condition.
 - capitalized if it increases the quantity of units produced by the machine.
69. The sale of a depreciable asset resulting in a loss indicates that the proceeds from the sale were
- less than current fair value.
 - greater than cost.
 - greater than book value.
 - less than book value.
70. Which of the following statements about involuntary conversions is **false**?
- An involuntary conversion may result from condemnation or fire.
 - The gain or loss from an involuntary conversion is reported in other income and expense on the income statement.
 - The gain or loss from an involuntary conversion should not be recognized when the company reinvests in replacement assets.
 - None of these answer choices are false.

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
26.	d	33.	a	40.	a	47.	a	54.	c	61.	d	68.	d
27.	b	34.	b	41.	b	48.	c	55.	c	62.	a	69.	d
28.	d	35.	d	42.	b	49.	b	56.	a	63.	c	70.	c
29.	c	36.	d	43.	a	50.	b	57.	a	64.	c		
30.	c	37.	d	44.	d	51.	a	58.	b	65.	d		
31.	c	38.	a	45.	c	52.	d	59.	c	66.	a		
32.	d	39.	c	46.	a	53.	c	60.	d	67.	c		

Solutions to those Multiple Choice questions for which the answer is “none of these.”

- Assets used in normal business operations.
- Capitalized interest is depreciated over the related asset’s useful life.
- Capital expenditures include additions, betterments, improvements, and major repairs.

MULTIPLE CHOICE—Computational

Use the following information for questions 71 and 72.

Wilson Co. purchased land as a factory site for €600,000. Wilson paid €60,000 to tear down two buildings on the land. Salvage was sold for €5,400. Legal fees of €3,480 were paid for title investigation and making the purchase. Architect's fees were €31,200. Title insurance cost €2,400, and liability insurance during construction cost €2,600. Excavation cost €10,440. The contractor was paid €2,200,000. An assessment made by the city for pavement was €6,400. Interest costs during construction were €170,000.

71. The cost of the land that should be recorded by Wilson Co. is
- €660,480.
 - €666,880.
 - €669,880.
 - €676,280.
72. The cost of the building that should be recorded by Wilson Co. is
- €2,403,800.
 - €2,404,840.
 - €2,413,200.
 - €2,414,240.
73. On February 1, 2019, Nelson Corporation purchased a parcel of land as a factory site for €200,000. An old building on the property was demolished, and construction began on a new building which was completed on November 1, 2019. Costs incurred during this period are listed below:
- | | |
|---|-----------|
| Demolition of old building | € 20,000 |
| Architect's fees | 35,000 |
| Legal fees for title investigation and purchase contract | 5,000 |
| Construction costs | 1,090,000 |
| (Salvaged materials resulting from demolition were sold for €10,000.) | |
- Nelson should record the cost of the land and new building, respectively, as
- €225,000 and €1,115,000.
 - €210,000 and €1,130,000.
 - €210,000 and €1,125,000.
 - €215,000 and €1,125,000.
74. Worthington Chandler Company purchased equipment for £10,000. Sales tax on the purchase was £500. Other costs incurred were freight charges of £200, repairs of £350 for damage during installation, and installation costs of £225. What is the cost of the equipment?
- £10,000
 - £10,500
 - £10,925
 - £11,275

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75. Fogelberg Company purchased equipment for £12,000. Sales tax on the purchase was £600. Other costs incurred were freight charges of £240, repairs of £420 for damage during installation, and installation costs of £270. What is the cost of the equipment?
- £12,000.
 - £12,600.
 - £13,110.
 - £13,530.

Use the following information for questions 76–78.

La Bianco Company purchased land for a manufacturing facility for €1,100,000. The company paid €70,000 to tear down a building on the land. Salvage was sold for €10,500. Legal fees of €6,500 were paid for title investigation and making the purchase. Architect's fees were €40,500. Title insurance cost €4,500, and liability insurance during construction cost €13,500. Excavation cost €12,000. The contractor was paid €1,357,000. A one-time assessment made by the city for sidewalks was €7,500. La Bianca installed lighting and signage at a cost of €11,000.

76. The cost of the land that should be recorded by La Bianca is
- €1,195,000.
 - €1,178,000.
 - €1,103,500.
 - €1,006,500.
77. The cost of the building that should be recorded by La Bianca is
- €1,505,500.
 - €1,432,000.
 - €1,423,000.
 - €1,357,500.
78. La Bianca should record land improvements of
- €-0-.
 - €11,000.
 - €18,500.
 - €23,000.
79. Istandul Enterprise constructed a building at a cost of TL24,000,000. Average accumulated expenditures were TL17,000,000, actual interest was TL2,120,000, and avoidable interest was TL1,600,000. If the salvage value is TL4,600,000, and the useful life is 30 years, depreciation expense for the first full year using the straight-line method is
- TL700,000.
 - TL717,733.
 - TL800,000.
 - TL870,667.

80. During self-construction of an asset by Samuelson Company, the following were among the costs incurred:

Fixed overhead for the year	£1,000,000
Portion of £1,000,000 fixed overhead that would be allocated to asset if it were normal production	40,000
Variable overhead attributable to self-construction	35,000

What amount of overhead should be included in the cost of the self-constructed asset?

- a. £ -0-
 - b. £35,000
 - c. £40,000
 - d. £75,000
81. During self-construction of an asset by Richardson Company, the following were among the costs incurred:

Fixed overhead for the year	€1,000,000
Portion of €1,000,000 fixed overhead that would be allocated to asset if it were normal production	60,000
Variable overhead attributable to self-construction	55,000

What amount of overhead should be included in the cost of the self-constructed asset?

- a. € -0-
 - b. €55,000
 - c. € 60,000
 - d. €115,000
82. Mendenhall Corporation constructed a building at a cost of €10,000,000. Average accumulated expenditures were €4,000,000, actual interest was €600,000, and avoidable interest was €300,000. If the salvage value is €800,000, and the useful life is 40 years, depreciation expense for the first full year using the straight-line method is
- a. €237,500.
 - b. €245,000.
 - c. €257,500.
 - d. €337,500.

83. Messersmith Company is constructing a building. Construction began in 2019 and the building was completed 12/31/19. Messersmith made payments to the construction company of €1,000,000 on 7/1, €2,100,000 on 9/1, and €2,000,000 on 12/31. Average accumulated expenditures were

- a. €1,025,000.
- b. €1,200,000.
- c. €3,100,000.
- d. €5,100,000.

84. Huffman Corporation constructed a building at a cost of £20,000,000. Average accumulated expenditures were £8,000,000, actual interest was £1,200,000, and avoidable interest was £600,000. If the salvage value is £1,600,000, and the useful life is 40 years, depreciation expense for the first full year using the straight-line method is

- a. £475,000.
- b. £490,000.
- c. £\$515,000.
- d. £675,000.

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85. Gutierrez Company is constructing a building. Construction began in 2019 and the building was completed 12/31/19. Gutierrez made payments to the construction company of €1,500,000 on 7/1, €3,300,000 on 9/1, and €3,000,000 on 12/31. Average accumulated expenditures were
- €1,575,000.
 - €1,850,000.
 - €4,800,000.
 - €7,800,000.
86. On May 1, 2019, Goodman Company began construction of a building. Expenditures of €120,000 were incurred monthly for 5 months beginning on May 1. The building was completed and ready for occupancy on September 1, 2019. For the purpose of determining the amount of interest cost to be capitalized, the average accumulated expenditures on the building during 2019 were
- €100,000.
 - €120,000.
 - €480,000.
 - €600,000.
87. During 2019, Kimmel Co. incurred average accumulated expenditures of €400,000 during construction of assets that qualified for capitalization of interest. The only debt outstanding during 2019 was a €500,000, 10%, 5-year note payable dated January 1, 2017. What is the amount of interest that should be capitalized by Kimmel during 2019?
- €0.
 - €10,000.
 - €40,000.
 - €50,000.
88. On March 1, Felt Co. began construction of a small building. Payments of £120,000 were made monthly for three months beginning March 1. The building was completed and ready for occupancy on June 1. In determining the amount of interest cost to be capitalized, the weighted-average accumulated expenditures are
- £30,000.
 - £60,000.
 - £120,000.
 - £240,000.
89. On March 1, Imhoff Co. began construction of a small building. Payments of €180,000 were made monthly for four months beginning March 1. The building was completed and ready for occupancy on June 1. In determining the amount of interest cost to be capitalized, the weighted-average accumulated expenditures are
- €90,000.
 - €180,000.
 - €360,000.
 - €720,000.

Use the following information for questions 90 through 92.

On March 1, 2019, Newton Company purchased land for an office site by paying €540,000 cash. Newton began construction on the office building on March 1. The following expenditures were incurred for construction:

<u>Date</u>	<u>Expenditures</u>
March 1, 2019	€ 360,000
April 1, 2019	504,000
May 1, 2019	900,000
June 1, 2019	1,440,000

The office was completed and ready for occupancy on July 1. To help pay for construction, €720,000 was borrowed on March 1, 2019 on a 9%, 3-year note payable. Other than the construction note, the only debt outstanding during 2019 was a €300,000, 12%, 6-year note payable dated January 1, 2019.

90. The weighted-average accumulated expenditures on the construction project during 2019 were
- €384,000.
 - €2,934,000.
 - €312,000.
 - €696,000.
91. The actual interest cost incurred during 2019 was
- €90,000.
 - €100,800.
 - €50,400.
 - €84,000.
92. Assume the weighted-average accumulated expenditures for the construction project are €870,000. The amount of interest cost to be capitalized during 2019 is
- €41,400.
 - €27,600.
 - €90,000.
 - €100,800.
93. During 2019, Bass Corporation constructed assets costing £1,000,000. The weighted-average accumulated expenditures on these assets during 2019 was £600,000. To help pay for construction, £440,000 was borrowed at 10% on January 1, 2019, and funds not needed for construction were temporarily invested in short-term securities, yielding £9,000 in interest revenue. Other than the construction funds borrowed, the only other debt outstanding during the year was a £500,000, 10-year, 9% note payable dated January 1, 2011. What is the amount of interest that should be capitalized by Bass during 2019?
- £60,000.
 - £51,000.
 - £58,400.
 - £49,400.

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Use the following information for questions 94 through 97.

On January 2, 2018, Indian River Groves began construction of a new citrus processing plant. The automated plant was finished and ready for use on September 30, 2019. Expenditures for the construction were as follows:

January 2, 2018	£200,000
September 1, 2018	600,000
December 31, 2018	600,000
March 31, 2019	600,000
September 30, 2019	400,000

Indian River Groves borrowed £1,100,000 on a construction loan at 12% interest on January 2, 2018. This loan was outstanding during the construction period. The company also had £4,000,000 in 9% bonds outstanding in 2018 and 2019.

94. What were the weighted-average accumulated expenditures for 2018?
- a. £533,333
 - b. £500,000
 - c. £400,000
 - d. £1,000,000
95. The interest capitalized for 2018 was:
- a. £180,000
 - b. £48,000
 - c. £192,000
 - d. £60,000
96. What were the weighted-average accumulated expenditures for 2019 by the end of the construction period?
- a. £390,000
 - b. £1,635,000
 - c. £1,986,000
 - d. £1,386,000
97. The interest capitalized for 2019 was:
- a. £124,740
 - b. £118,305
 - c. £ 25,740
 - d. £ 99,000

Use the following information to answer questions 98 - 102.

Arlington Company is constructing a building. Construction began on January 1 and was completed on December 31. Expenditures were €2,400,000 on March 1, €1,980,000 on June 1, and €3,000,000 on December 31. Arlington Company borrowed €1,200,000 on January 1 on a 5-year, 12% note to help finance construction of the building. In addition, the company had outstanding all year a 10%, 3-year, €2,400,000 note payable and an 11%, 4-year, €4,500,000 note payable.

98. What are the weighted-average accumulated expenditures?
- €4,380,000
 - €3,155,000
 - €7,380,000
 - €3,690,000
99. What is the weighted-average interest rate used for interest capitalization purposes?
- 11%
 - 10.85%
 - 10.5%
 - 10.65%
100. What is the avoidable interest for Arlington Company?
- €144,000
 - €463,808
 - €164,281
 - €352,208
101. What is the actual interest for Arlington Company?
- €879,000
 - €891,000
 - €735,000
 - €352,208
102. What amount of interest should be charged to expense?
- €382,792
 - €735,000
 - €526,792
 - €415,192
103. During 2019, Chan Company incurred average accumulated expenditures of HK\$3,200,000 during construction of assets that qualified for capitalization of interest. The only debt outstanding during 2019 was a HK\$5,000,000, 7.5%, 6-year note payable dated July 1, 2018. What is the amount of interest that should be capitalized by Chan during 2019?
- HK\$0.
 - HK\$120,000.
 - HK\$240,000.
 - HK\$375,000.

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104. During 2019, Churchill Inc. constructed assets costing £4,200,000. The weighted-average accumulated expenditures on these assets during the year was £2,600,000. Churchill took out a 7% construction loan of £4,000,000 on January 1, 2019, and funds not needed for construction were temporarily invested in short-term securities, yielding £30,000 in interest revenue. Other than the construction loan, the only other debt outstanding during the year was a £2,000,000, 5-year, 9% note payable dated January 1, 2015. What is the amount of interest that should be capitalized by Churchill during 2019?
- £152,000.
 - £182,000.
 - £280,000.
 - £330,000.
105. On January 1, 2019, Le Pavillion Co began construction on assets which cost CHF2,900,000. The weighted-average accumulated expenditures on these assets during 2015 was CHF1,900,000. To help pay for construction, CHF1,500,000 was borrowed at 9.5% on January 1, 2019. Funds not needed for construction were temporarily invested in short-term securities, earning CHF79,000 in interest revenue during the year. Other than the construction loan, the only other debt outstanding during the year was a CHF2,750,000, 10-year, 12% note payable dated May 1, 2016. What is the amount of interest that should be capitalized by Le Pavillion during 2019?
- CHF101,500.
 - CHF111,500.
 - CHF180,500.
 - CHF190,500.
106. During 2019, Bella Corporation constructed assets costing CHF4,215,000. The weighted-average accumulated expenditures on these assets during 2019 was CHF3,900,000. Bella borrowed CHF2,000,000 at 7.5% on January 1, 2019. Funds not needed for construction were temporarily invested in short-term securities, and earned CHF59,000 in interest revenue. In addition to the construction loan, Bella had two other notes outstanding during the year: (1) a CHF1,500,000, 10-year, 10% note payable dated October 1, 2017, and (2) a CHF1,000,000, 8% note payable dated November 2, 2018. What is the amount of interest that should be capitalized by Bella during 2019?
- CHF328,800.
 - CHF297,500.
 - CHF273,000.
 - CHF265,800.

107. In an exchange with commercial substance, Huang Company traded equipment with a cost of ¥8,200,000 and book value of ¥3,120,000 and gave ¥4,698,000 cash. The old machine had a fair value of ¥2,960,000. Which of the following journal entries would Huang make to record the exchange?
- | | | |
|-----------------------------|-----------|-----------|
| a. Equipment | 7,658,000 | |
| Loss on Disposal | 160,000 | |
| Accumulated Depreciation | 5,080,000 | |
| Equipment | | 8,200,000 |
| Cash | | 4,698,000 |
| b. Equipment | 8,208,000 | |
| Equipment | | 8,200,000 |
| Cash | | 8,000 |
| c. Accumulated Depreciation | 5,080,000 | |
| Equipment | 7,818,000 | |
| Equipment | | 8,200,000 |
| Cash | | 4,698,000 |
| d. Equipment | 7,658,000 | |
| Accumulated Depreciation | 542,000 | |
| Equipment | | 8,200,000 |

Use the following information for questions 108 and 109.

Gabrielle Inc. and Lucci Company have an exchange with no commercial substance. The asset given up by Gabrielle has a book value of €120,000 and a fair value of €135,000. The asset given up by Lucci has a book value of €220,000 and a fair value of €200,000. Boot of €65,000 is received by Lucci.

108. What amount should Gabrielle record for the asset received?
- a. €110,000
 - b. €135,000
 - c. €185,000
 - d. €200,000
109. The journal entry made by Lucci to record the exchange will include
- a. a debit to Gain on Exchange for €20,000.
 - b. a credit to Cash for €65,000.
 - c. a credit to Equipment for €200,000.
 - d. a debit to Loss on Exchange for €20,000.

Use the following information for questions 110–114.

Lee Company received an HK\$1,800,000 subsidy from the government to purchase manufacturing equipment on January, 2, 2018. The equipment has a cost of HK\$3,000,000, a useful life a six years, and no salvage value. Lee depreciates the equipment on a straight-line basis.

110. If Lee chooses to account for the grant as deferred revenue, the grant revenue recognized will be:
- a. Zero in the first year of the grant's life.
 - b. HK\$300,000 per year for the years 2015-2020.
 - c. HK\$500,000 per year for the years 2015-2020.
 - d. \$HK1,800,000 in 2015.

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111. If Lee chooses to account for the grant as deferred revenue, the amount of depreciation expense recorded in 2018 will be:
- HK\$0.
 - HK\$200,000.
 - HK\$300,000.
 - \$HK500,000.
112. If Lee chooses to account for the grant as an adjustment to the asset, the amount of depreciation expense recorded in 2018 will be:
- HK\$0.
 - HK\$200,000.
 - HK\$300,000.
 - \$HK500,000.
113. If Lee chooses to account for the grant as an adjustment to the asset, the book value of the asset on the 2019 statement of financial position will be:
- HK\$800,000.
 - HK\$1,200,000.
 - HK\$2,800,000.
 - \$HK2,400,000.
114. Whether Lee chooses to account for the grant as deferred revenue, the combined impact of deferred grant revenue recognition and/ or depreciation expense recorded per year will be:
- decrease to net income of HK\$200,000.
 - decrease to net income of HK\$300,000.
 - increase to net income of HK\$500,000.
 - increase to net income of HK\$100,000.

Use the following information for questions 115–117.

On January 1, 2019, in an effort to lure Tar-Mart, a major discount retail chain to the area, the city of Bordeaux agreed to provide the company with a €6,000,000 three-year, zero-interest bearing note. The prevailing rate of interest for a loan of this type is 10% and the present value of €6,000,000 at 10% for three years is €4,507,800.

115. In recording the loan and grant, Tar-Mart will
- debit Discount on Notes Payable of €1,492,200.
 - credit Deferred Grant Revenue €1,492,200.
 - credit Note Payable €6,000,000.
 - All of these answer choices are correct.
116. At the end of 2019, Tar-Mart will recognize
- interest expense of €149,220.
 - grant revenue of €450,780.
 - interest revenue of €149,220.
 - None of these answer choices are correct.

117. At December 13, 2019, Tar-Mart will report Deferred Grant Revenue of
- €1,492,400.
 - €1,041,420.
 - €0.
 - None of these answer choices are correct.
118. Dodson Company traded in a manual pressing machine for an automated pressing machine and gave £8,000 cash. The old machine cost £93,000 and had a book value of £71,000. The old machine had a fair value of £60,000.

Which of the following is the correct journal entry to record the exchange?

- | | | | |
|----|--------------------------|---------|---------|
| a. | Equipment | 68,000 | |
| | Loss on Disposal | 11,000 | |
| | Accumulated Depreciation | 22,000 | |
| | Equipment | | 93,000 |
| | Cash | | 8,000 |
| | | | |
| b. | Equipment | 68,000 | |
| | Equipment | | 60,000 |
| | Cash | | 8,000 |
| | | | |
| c. | Cash | 8,000 | |
| | Equipment | 60,000 | |
| | Loss on Disposal | 11,000 | |
| | Accumulated Depreciation | 22,000 | |
| | Equipment | | 101,000 |
| | | | |
| d. | Equipment | 123,000 | |
| | Accumulated Depreciation | | 22,000 |
| | Equipment | | 93,000 |
| | Cash | | 8,000 |

Use the following information to answer questions 119 and 120.

Below is the information relative to an exchange of assets by Stanton Company. The exchange lacks commercial substance.

	<u>Old Equipment</u>		
	<u>Book Value</u>	<u>Fair Value</u>	<u>Cash Paid</u>
Case I	€75,000	€85,000	€15,000
Case II	€50,000	€45,000	€7,000

119. Which of the following would be correct for Stanton to record in Case I?

	<u>Record Equipment at:</u>	<u>Record a gain of (loss) of:</u>
a.	€90,000	€0
b.	€100,000	€10,000
c.	€75,000	€(5,000)
d.	€90,000	€10,000

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120. Which of the following would be correct for Stanton to record in Case II?

	<u>Record Equipment at:</u>	<u>Record a gain of (loss) of:</u>
a.	€57,000	€5,000
b.	€50,000	€2,000
c.	€52,000	€(5,000)
d.	€50,000	€(2,000)

Use the following information for questions 121 and 122.

Glen Inc. and Armstrong Co. have an exchange with no commercial substance. The asset given up by Glen Inc. has a book value of €12,000 and a fair value of €15,000. The asset given up by Armstrong Co. has a book value of €20,000 and a fair value of €19,000. Boot of €4,000 is received by Armstrong Co.

121. What amount should Glen Inc. record for the asset received?

- a. €15,000
- b. €16,000
- c. €19,000
- d. €20,000

122. What amount should Armstrong Co. record for the asset received?

- a. €15,000
- b. €16,000
- c. €19,000
- d. €20,000

123. Hardin Company received £40,000 in cash and a used computer with a fair value of £120,000 from Page Corporation for Hardin Company's existing computer having a fair value of £160,000 and an undepreciated cost of £150,000 recorded on its books. The transaction has no commercial substance. How much gain should Hardin recognize on this exchange, and at what amount should the acquired computer be recorded, respectively?

- a. £0 and £110,000
- b. £769 and £110,769
- c. £10,000 and £120,000
- d. £40,000 and £150,000

Use the following information to answer questions 124 and 125.

Jamison Company purchased the assets of Booker Company at an auction for €1,400,000. An independent appraisal of the fair value of the assets is listed below:

Land	€475,000
Building	700,000
Equipment	525,000
Trucks	850,000

124. Assuming that specific identification costs are impracticable and that Jamison allocates the purchase price on the basis of the relative fair values, what amount would be allocated to the Trucks?

- a. €466,667
- b. €700,000
- c. €840,000

- d. €850,000
125. Assuming that specific identification costs are impracticable and that Jamison allocates the purchase price on the basis of the relative fair values, what amount would be allocated to the Building?
- €529,730
 - €700,000
 - €1,275,000
 - €384,314
126. On December 1, Miser Corporation exchanged 2,000 shares of its £25 par value ordinary shares held in treasury for a parcel of land to be held for a future plant site. The treasury shares were acquired by Miser at a cost of £40 per share, and on the exchange date the ordinary shares of Miser had a fair value of £50 per share. Miser received £6,000 for selling scrap when an existing building on the property was removed from the site. Based on these facts, the land should be capitalized at
- £74,000.
 - £80,000.
 - £94,000.
 - £100,000.
127. Storm Corporation purchased a new machine on October 31, 2019. A €1,200 down payment was made and three monthly installments of €3,600 each are to be made beginning on November 30, 2019. The cash price would have been €11,600. Storm paid no installation charges under the monthly payment plan but a €200 installation charge would have been incurred with a cash purchase. The amount to be capitalized as the cost of the machine on October 31, 2019 would be
- €12,200.
 - €12,000.
 - €11,800.
 - €11,600.
128. Horner Company buys a delivery van with a list price of €30,000. The dealer grants a 15% reduction in list price and an additional 2% cash discount on the net price if payment is made in 30 days. Sales taxes amount to €400 and the company paid an extra €300 to have a special horn installed. What should be the recorded cost of the van?
- €24,990.
 - €25,645.
 - €25,690.
 - €25,390.
129. On August 1, 2019, Hayes Corporation purchased a new machine on a deferred payment basis. A down payment of €3,000 was made and 4 monthly installments of €2,500 each are to be made beginning on September 1, 2019. The cash equivalent price of the machine was €12,000. Hayes incurred and paid installation costs amounting to €500. The amount to be capitalized as the cost of the machine is
- €12,000.
 - €12,500.
 - €13,000.
 - €13,500.

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130. On April 1, Mooney Corporation purchased for £855,000 a tract of land on which was located a warehouse and office building. The following data were collected concerning the property:

	<u>Current Assessed Valuation</u>	<u>Vendor's Original Cost</u>
Land	£300,000	£280,000
Warehouse	200,000	180,000
Office building	400,000	340,000
	<u>£900,000</u>	<u>£800,000</u>

- What are the appropriate amounts that Mooney should record for the land, warehouse, and office building, respectively?
- Land, £280,000; warehouse, £180,000; office building, £340,000.
 - Land, £300,000; warehouse, £200,000; office building, £400,000.
 - Land, £299,250; warehouse, £192,375; office building, £363,375.
 - Land, £285,000; warehouse, £190,000; office building, £380,000.

131. On August 1, 2019, Mendez Corporation purchased a new machine on a deferred payment basis. A down payment of €2,000 was made and 4 annual installments of €6,000 each are to be made beginning on September 1, 2019. The cash equivalent price of the machine was €23,000. Due to an employee strike, Mendez could not install the machine immediately, and thus incurred €300 of storage costs. Costs of installation (excluding the storage costs) amounted to €800. The amount to be capitalized as the cost of the machine is
- €23,000.
 - €23,800.
 - €24,100.
 - €26,000.

132. Siegle Company exchanged 400 shares of Guinn Company ordinary shares, which Siegle was holding as an investment, for equipment from Mayo Company. The Guinn Company ordinary shares, which had been purchased by Siegle for €50 per share, had a quoted market value of €58 per share at the date of exchange. The equipment had a recorded amount on Mayo's books of €21,000. What journal entry should Siegle make to record this exchange?

a. Equipment	20,000	
Investment in Guinn Co. Ordinary Shares		20,000
b. Equipment	21,000	
Investment in Guinn Co. Ordinary Shares		20,000
Gain on Disposal of Investment		1,000
c. Equipment	21,000	
Loss on Disposal of Investment	2,200	
Investment in Guinn Co. Ordinary Shares		23,200
d. Equipment	23,200	
Investment in Guinn Co. Ordinary Shares		20,000
Gain on Disposal of Investment		3,200

133. On January 2, 2019, Rapid Delivery Company traded in an old delivery truck for a newer model. The exchange lacked commercial substance. Data relative to the old and new trucks follow:

<u>Old Truck</u>	
Original cost	€24,000
Accumulated depreciation as of January 2, 2019	16,000
Average published retail value	7,000
 <u>New Truck</u>	
List price	€40,000
Cash price without trade-in	36,000
Cash paid with trade-in	30,000

What should be the cost of the new truck for financial accounting purposes?

- a. €30,000.
 - b. €36,000.
 - c. €38,000.
 - d. €40,000.
134. On December 1, 2019, Kelso Company acquired a new delivery truck in exchange for an old delivery truck that it had acquired in 2016. The old truck was purchased for £35,000 and had a book value of £13,300. On the date of the exchange, the old truck had a fair value of £14,000. In addition, Kelso paid £45,500 cash for the new truck, which had a list price of £63,000. The exchange lacked commercial substance. At what amount should Kelso record the new truck for financial accounting purposes?
- a. £45,500.
 - b. £58,800.
 - c. £59,500.
 - d. £63,000.

Use the following information for questions 135 and 136.

A machine cost €120,000, has annual depreciation of €20,000, and has accumulated depreciation of €90,000 on December 31, 2018. On April 1, 2019, when the machine has a fair value of €27,500, it is exchanged for a machine with a fair value of €135,000 and the proper amount of cash is paid. The exchange has commercial substance.

135. The gain to be recorded on the exchange is
- a. €0.
 - b. €2,500.
 - c. €5,000.
 - d. €15,000.
136. The new machine should be recorded at
- a. €107,500.
 - b. €122,500.
 - c. €132,500.
 - d. €135,000.

Use the following information for questions 137 and 138.

Equipment that cost £81,000 and has accumulated depreciation of £30,000 is exchanged for equipment with a fair value of £48,000 and £12,000 cash is received. The exchange has commercial substance.

137. The gain to be recognized from the exchange is
- a. £9,000 gain.
 - b. £6,000 gain.
 - c. £12,000 gain.
 - d. £21,000 gain.
138. The new equipment should be recorded at
- a. £28,800.
 - b. £51,000.
 - c. £30,000.
 - d. £48,000.

Use the following information for questions 139 through 141.

Two independent companies, Hager Co. and Shaw Co., are in the home building business. Each owns a tract of land held for development, but each would prefer to build on the other's land. They agree to exchange their land. An appraiser was hired, and from her report and the companies' records, the following information was obtained:

	<u>Hager's Land</u>	<u>Shaw's Land</u>
Cost and book value	€192,000	€120,000
Fair value based upon appraisal	220,000	210,000

The exchange was made, and based on the difference in appraised fair values, Shaw paid €10,000 to Hager. The exchange has commercial substance.

139. For financial reporting purposes, Hager should recognize a gain on this exchange of
- a. €0.
 - b. €28,000.
 - c. €10,000.
 - d. €90,000.
140. The new land should be recorded on Hager's books at
- a. €210,000.
 - b. €192,000.
 - c. €240,000.
 - d. €168,000.
141. The new land should be recorded on Shaw's books at
- a. €120,000.
 - b. €220,000.
 - c. €150,000.
 - d. €210,000.

142. Timmons Company traded machinery with a book value of £185,000 and a fair value of £200,000. It received in exchange from Lewis Company a machine with a fair value of £180,000 and cash of £20,000. Lewis's machine has a book value of £190,000. What amount of gain should Timmons recognize on the exchange?
- £ -0-
 - £15,000
 - £20,000
 - £5,000
143. Lewis Company traded machinery with a book value of €190,000 and a fair value of €180,000. It received in exchange from Timmons Company a machine with a fair value of €200,000. Lewis also paid cash of €20,000 in the exchange. Timmons's machine has a book value of €190,000. What amount of gain or loss should Lewis recognize on the exchange?
- €20,000 gain
 - € -0-
 - €1,000 loss
 - €10,000 loss
144. Durler Company traded machinery with a book value of €280,000 and a fair value of €300,000. It received in exchange from Hoyle Company a machine with a fair value of €270,000 and cash of €30,000. Hoyle's machine has a book value of €285,000. What amount of gain should Durler recognize on the exchange?
- € -0-
 - €20,000
 - €30,000
 - €10,000
145. Hoyle Company traded machinery with a book value of €285,000 and a fair value of €270,000. It received in exchange from Durler Company a machine with a fair value of €300,000. Hoyle also paid cash of €30,000 in the exchange. Durler's machine has a book value of €285,000. What amount of gain or loss should Hoyle recognize on the exchange?
- €30,000 gain
 - € -0-
 - €1,500 loss
 - €15,000 loss
146. Peterson Company purchased machinery for £160,000 on January 1, 2015. Straight-line depreciation has been recorded based on a £10,000 salvage value and a 5-year useful life. The machinery was sold on May 1, 2019 at a gain of £3,000. How much cash did Peterson receive from the sale of the machinery?
- £23,000
 - £27,000
 - £33,000
 - £43,000

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147. Sutherland Company purchased machinery for €320,000 on January 1, 2015. Straight-line depreciation has been recorded based on a €20,000 salvage value and a 5-year useful life. The machinery was sold on May 1, 2019 at a gain of €6,000. How much cash did Sutherland receive from the sale of the machinery?
- €46,000.
 - €54,000.
 - €66,000.
 - €86,000.
148. Ecker Company purchased a new machine on May 1, 2010 for €176,000. At the time of acquisition, the machine was estimated to have a useful life of ten years and an estimated salvage value of €8,000. The company has recorded monthly depreciation using the straight-line method. On March 1, 2019, the machine was sold for €24,000. What should be the loss recognized from the sale of the machine?
- €0.
 - €3,600.
 - €8,000.
 - €11,600.
149. On January 1, 2011, Mill Corporation purchased for €152,000, equipment having a useful life of ten years and an estimated salvage value of €8,000. Mill has recorded monthly depreciation of the equipment on the straight-line method. On December 31, 2019, the equipment was sold for €28,000. As a result of this sale, Mill should recognize a gain of
- €0.
 - €5,600.
 - €13,600.
 - €28,000.

Multiple Choice Answers—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
71.	b	83.	b	95.	b	107.	a	119.	a	131.	b	143.	d
72.	d	84.	a	96.	d	108.	c	120.	c	132.	d	144.	b
73.	d	85.	b	97.	b	109.	d	121.	b	133.	b	145.	d
74.	c	86.	a	98.	b	110.	b	122.	a	134.	b	146.	c
75.	c	87.	c	99.	d	111.	d	123.	c	135.	b	147.	c
76.	b	88.	b	100.	d	112.	b	124.	a	136.	d	148.	b
77.	c	89.	a	101.	a	113.	a	125.	d	137.	a	149.	b
78.	b	90.	d	102.	c	114.	a	126.	c	138.	d		
79.	a	91.	a	103.	c	115.	b	127.	c	139.	b		
80.	d	92.	b	104.	a	116.	b	128.	c	140.	a		
81.	d	93.	d	105.	b	117.	b	129.	b	141.	b		
82.	a	94.	c	106.	d	118.	a	130.	d	142.	b		

MULTIPLE CHOICE—CPA Adapted

150. On December 1, 2019, Hogan Co. purchased a tract of land as a factory site for €800,000. The old building on the property was razed, and salvaged materials resulting from demolition were sold. Additional costs incurred and salvage proceeds realized during December 2019 were as follows:
- | | |
|--|---------|
| Cost to raze old building | €70,000 |
| Legal fees for purchase contract and to record ownership | 10,000 |
| Title guarantee insurance | 16,000 |
| Proceeds from sale of salvaged materials | 8,000 |
- In Hogan's December 31, 2019 statement of financial position, what amount should be reported as land?
- €826,000.
 - €862,000.
 - €888,000.
 - €896,000.
151. Land was purchased to be used as the site for the construction of a plant. A building on the property was sold and removed by the buyer so that construction on the plant could begin. The proceeds from the sale of the building should be
- classified as other income.
 - deducted from the cost of the land.
 - netted against the costs to clear the land and expensed as incurred.
 - netted against the costs to clear the land and amortized over the life of the plant.
152. A company is constructing an asset for its own use. Construction began in 2018. The asset is being financed entirely with a specific new borrowing. Construction expenditures were made in 2018 and 2019 at the end of each quarter. The total amount of interest cost capitalized in 2019 should be determined by applying the interest rate on the specific new borrowing to the
- total accumulated expenditures for the asset in 2018 and 2019.
 - average accumulated expenditures for the asset in 2018 and 2019.
 - average expenditures for the asset in 2019.
 - total expenditures for the asset in 2019.
153. Colt Football Co. had a player contract with Watts that is recorded in its books at \$3,600,000 on July 1, 2019. Day Football Co. had a player contract with Kurtz that is recorded in its books at \$4,500,000 on July 1, 2019. On this date, Colt traded Watts to Day for Kurtz and paid a cash difference of \$450,000. The fair value of the Kurtz contract was \$5,400,000 on the exchange date. The exchange had no commercial substance. After the exchange, the Kurtz contract should be recorded in Colt's books at
- \$4,050,000.
 - \$4,500,000.
 - \$4,950,000.
 - \$5,400,000.

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154. Huff Co. exchanged non-monetary assets with Sayler Co. No cash was exchanged and the exchange had no commercial substance. The carrying amount of the asset surrendered by Huff exceeded both the fair value of the asset received and Sayler's carrying amount of that asset. Huff should recognize the difference between the carrying amount of the asset it surrendered and
- the fair value of the asset it received as a loss.
 - the fair value of the asset it received as a gain.
 - Sayler's carrying amount of the asset it received as a loss.
 - Sayler's carrying amount of the asset it received as a gain.

155. On September 10, 2019, Jenks Co. incurred the following costs for one of its printing presses:

Purchase of attachment	£55,000
Installation of attachment	5,000
Replacement parts for renovation of press	18,000
Labor and overhead in connection with renovation of press	7,000

Neither the attachment nor the renovation increased the estimated useful life of the press. However, the renovation resulted in significantly increased productivity. What amount of the costs should be capitalized?

- £0.
 - £67,000.
 - £78,000.
 - £85,000.
156. On January 2, 2019, York Corp. replaced its boiler with a more efficient one. The following information was available on that date:

Purchase price of new boiler	€150,000
Carrying amount of old boiler	10,000
Fair value of old boiler	4,000
Installation cost of new boiler	20,000

The old boiler was sold for €4,000. What amount should York capitalize as the cost of the new boiler?

- €170,000.
- €166,000.
- €160,000.
- €150,000.

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
150.	c	152.	b	154.	a	156.	a
151.	b	153.	a	155.	d		

DERIVATIONS — Computational

No.	Answer	Derivation
71.	b	$€600,000 + €60,000 - €5,400 + €3,480 + €2,400 + €6,400 = €666,880.$
72.	d	$€31,200 + €2,600 + €10,440 + €2,200,000 + €170,000 = €2,414,240.$
73.	d	Land: $€200,000 + €20,000 + €5,000 - €10,000 = €215,000.$ Building: $€35,000 + €1,090,000 = €1,125,000.$
74.	c	$£10,000 + £500 + £200 + £225 = £10,925.$
75.	c	$£12,000 + £600 + £240 + £270 = £13,110.$
76.	b	$€1,100,000 + €70,000 - €10,500 + €4,500 + €6,500 + €7,500 = €1,178,000.$
77.	c	$€40,500 + €13,500 + €12,000 + €1,357,000 = €1,423,000.$
78.	b	€11,000 (lighting and signage).
79.	a	$[(TL24,000,000 + TL1,600,000) - TL4,600,000] ÷ 30 = TL700,000.$
80.	d	$£40,000 + £35,000 = £75,000.$
81.	d	$€60,000 + €55,000 = €115,000.$
82.	a	$[(€10,000,000 + €300,000) - €800,000] ÷ 40 = €237,500.$
83.	b	$(€1,000,000 × 6/12) + (€2,100,000 × 4/12) = €1,200,000.$
84.	a	$[(£20,000,000 + £600,000) - £1,600,000] ÷ 40 = £475,000.$
85.	b	$(€1,500,000 × 6/12) + (€3,300,000 × 4/12) = €1,850,000.$
86.	a	$(€120,000 × 4/12) + (€120,000 × 3/12) + (€120,000 × 2/12) + (€120,000 × 1/12) = €100,000.$
87.	c	$€400,000 × .10 = €40,000.$
88.	b	$£120,000 (3/12 + 2/12 + 1/12) = £60,000.$
89.	a	$€180,000 (3/12 + 2/12 + 1/12) = €90,000.$
90.	d	$(€900,000 × 4/12) + (€504,000 × 3/12) + (€900,000 × 2/12) + (€1,440,000 × 1/12) = €696,000.$
91.	a	$(€720,000 × 9% × 10/12) + (€300,000 × 12%) = €90,000.$
92.	b	$(€720,000 × .09) + (€150,000 × .12) = €82,800 × 4/12 = €27,600.$
93.	d	$(£440,000 × .1) + (£160,000 × .09) - £9,000 = £49,400.$

DERIVATIONS — Computational (cont.)

No.	Answer	Derivation
94.	c	$(£200,000 \times 12/12) + (£600,000 \times 4/12) + (£600,000 \times 0/12) = £400,000.$
95.	b	$£400,000 \text{ (from \# 94)} \times 12\% = £48,000.$
96.	d	$[(£200,000 + £600,000 + £600,000 + £48,000) \times 9/12] + (£600,000 \times 6/12) + (£400,000 \times 0/12) = £1,386,000.$
97.	b	$£1,100,000 \times 12\% \times 9/12 = £99,000;$ $(£1,448,000 \times 9/12) + (£600,000 \times 6/12) = £1,386,000;$ $[(£1,386,000 - £1,100,000) \times 9\% \times 9/12] + £99,000 = £118,305.$
98.	b	$(€2,400,000 \times 10/12) + (€1,980,000 \times 7/12) + (€3,000,000 \times 0/12) = €3,155,000.$
99.	d	$[(€2,400,000 \times .10) + (€4,500,000 \times .11)] \div (€2,400,000 + €4,500,000) = 10.65\%.$
100.	d	$€1,200,000 \times 12\% = €144,000;$ $(€2,400,000 \times 10/12) + (€1,980,000 \times 7/12) = €3,155,000;$ $[(€3,155,000 - €1,200,000) \times 10.65\%] + €144,000 = €352,208.$
101.	a	$(€1,200,000 \times .12) + (€2,400,000 \times .10) + (€4,500,000 \times .11) = €879,000.$
102.	c	$(€1,200,000 \times .12) + (€2,400,000 \times .10) + (€4,500,000 \times .11) = €879,000;$ $[(€3,155,000 - €1,200,000) \times 10.65\%] + (€1,200,000 \times .12) = €352,208.$ $€879,000 - €352,208 = €526,792.$
103.	c	$HK\$3,200,000 \times 7.5\% = HK\$240,000.$
104.	a	$(£2,600,000 \times 7\%) - £30,000 = £152,000.$
105.	b	$(CHF1,500,000 \times 9.5\%) + (CHF400,000 \times 12\%) - CHF79,000 = CHF111,500.$
106.	d	$(CHF1,500,000 \times 10\%) + (CHF1,000,000 \times 8\%) = CHF230,000;$ $CHF230,000 \div CHF2,500,000 = 9.2\%.$ $[(CHF2,000,000 \times 7.5\%) + (CHF1,900,000 \times 9.2\%)] - CHF59,000 = CHF265,800.$
107.	a	$¥3,120,000 \text{ BV} - ¥2,960,000 \text{ FV} = ¥160,000 \text{ Loss}.$
108.	c	$€200,000 - (€135,000 - €120,000) = €185,000.$
109.	d	$€220,000 \text{ BV} - €200,000 \text{ FV} = €20,000.$
110.	b	$HK\$1,800,000 \div 6 = HK\$300,000.$
111.	d	$HK\$3,000,000 \div 6 = HK\$500,000.$
112.	b	$(HK\$3,000,000 - HK\$1,800,000) \div 6 = HK\$200,000.$
113.	a	$(HK\$3,000,000 - HK\$1,800,000) - (HK\$200,000 \times 2) = HK\$800,000.$

DERIVATIONS — Computational (cont.)

No.	Answer	Derivation
114.	a	$(\text{HK}\$500,000 - \text{HK}\$300,000) = \$200,000$ decrease
115.	b	$(\text{€}6,000,000 - \text{€}4,507,800) = \text{€}1,492,200$ dr.(cr.) to Cash (Deferred Grant Rev.).
116.	b	$\text{€}4,507,800 \times 10\% = \text{€}450,780$.
117.	b	$\text{€}1,492,200 - (\text{€}4,507,800 \times 10\%) = \text{€}1,041,420$.
118.	a	Equipment = $\text{£}60,000 + \text{£}8,000$; Loss: $\text{£}71,000 - \text{£}60,000 = \text{£}11,000$.
119.	a	$\text{€}75,000 + \text{€}15,000 = \text{€}90,000$.
120.	c	$\text{€}45,000 + \text{€}7,000 = \text{€}52,000$; $\text{€}45,000 - \text{€}50,000 = \text{€}5,000$.
121.	b	$\text{€}12,000 + \text{€}4,000 = \text{€}16,000$.
122.	a	$\text{€}15,000$ (fair value).
123.	c	$\text{£}160,000 - \text{£}150,000 = \text{£}10,000$; $\text{£}120,000$ (fair value).
124.	a	$[\text{€}850,000 \div (\text{€}475,000 + \text{€}700,000 + \text{€}525,000 + \text{€}850,000)] \times \text{€}1,400,000 = \text{€}466,667$.
125.	d	$[\text{€}700,000 \div (\text{€}475,000 + \text{€}700,000 + \text{€}525,000 + \text{€}850,000)] \times \text{€}1,400,000 = \text{€}384,314$.
126.	c	$(2,000 \times \text{£}50) - \text{£}6,000 = \text{£}94,000$.
127.	c	$\text{€}11,600 + \text{€}200 = \text{€}11,800$.
128.	c	$(\text{€}30,000 \times .85 \times .98) + \text{€}400 + \text{€}300 = \text{€}25,690$.
129.	b	$\text{€}12,000 + \text{€}500 = \text{€}12,500$.
130.	d	Land: $30/90 \times \text{£}855,000 = \text{£}285,000$. Warehouse: $20/90 \times \text{£}855,000 = \text{£}190,000$. Office Building: $40/90 \times \text{£}855,000 = \text{£}380,000$.
131.	b	$\text{€}23,000 + \text{€}800 = \text{€}23,800$.
132.	d	$\text{€}23,200 - \text{€}20,000 = \text{€}3,200$ (gain).
133.	b	Fair value of new truck = $\text{€}36,000$. Loss: $(\text{€}36,000 - \text{€}30,000) - \text{€}8,000 = (\text{€}2,000)$. New Machine: $\text{€}8,000 + \text{€}30,000 - \text{€}2,000 = \text{€}36,000$.
134.	b	$\text{£}13,300 + \text{£}45,500 = \text{£}58,800$.
135.	b	$\text{€}27,500 - (\text{€}120,000 - \text{€}95,000) = \text{€}2,500$.

DERIVATIONS — Computational (cont.)

No.	Answer	Derivation
136.	d	$€107,500 + €27,500 = €135,000.$
137.	a	$[(£48,000 + £12,000) - (£81,000 - £30,000)] = £9,000.$
138.	d	£48,000 fair value.
139.	b	$€220,000 - €192,000 = €28,000.$
140.	a	€210,000 fair value.
141.	b	€220,000 fair value.
142.	b	$£200,000 - £185,000 = £15,000.$
143.	d	$€180,000 - €190,000 = (€10,000).$
144.	b	$(€300,000 - €280,000) = €20,000.$
145.	d	$€270,000 - €285,000 = (€15,000).$
146.	c	$[(£160,000 - £10,000) ÷ 5] × 4 \frac{1}{3} = £130,000$ $(£160,000 - £130,000) + £3,000 = £33,000.$
147.	c	$[(€320,000 - €20,000) ÷ 5] × 4 \frac{1}{3} = €260,000$ $(€320,000 - €260,000) + €6,000 = €66,000.$
148.	b	$(€176,000 - €8,000) ÷ (10 × 12) = €1,400$ per month $€24,000 - [€176,000 - (€1,400 × 106 \text{ mo.})] = -€3,600.$
149.	b	$(€152,000 - €8,000) ÷ (10 × 12) = €1,200/\text{mo.};$ $€28,000 - [€152,000 - (€1,200 × 108)] = €5,600.$

DERIVATIONS — CPA Adapted

No.	Answer	Derivation
150.	c	$€800,000 + €70,000 + €10,000 + €16,000 - €8,000 = €888,000.$
151.	b	Conceptual.
152.	b	Conceptual.
153.	a	$(\$5,400,000 - \$450,000) - \$3,600,000 = \$1,350,000$ (deferred gain) $\$5,400,000 - \$1,350,000 = \$4,050,000$ (Basis).
154.	a	Conceptual.
155.	d	$£55,000 + £5,000 + £18,000 + £7,000 = £85,000.$
156.	a	$€150,000 + €20,000 = €170,000.$

EXERCISES

Ex. 10-157—Plant asset accounting.

During 2018 and 2019, Sawyer Corporation experienced several transactions involving plant assets. A number of errors were made in recording some of these transactions. For each item listed below, indicate the effect of the error (if any) in the blanks provided by using the following codes:

O = Overstate; U = Understate; NE = No Effect

If no error was made, write NE in each of the four columns.

<u>Transaction</u>	2018		2019	
	Book Value of Plant Assets at <u>12/31/18</u>	2018 Net Income	Book Value of Plant Assets at <u>12/31/19</u>	2019 Net Income
1. The cost of installing a new computer system in 2018 was not recorded in 2018. It was charged to expense in 2019.	_____	_____	_____	_____
2. In 2019 clerical workers were trained to use the new computer system at a cost of €15,000, which was erroneously capitalized. The cost is to be written off over the expected life of the new computer system.	_____	_____	_____	_____
3. A major overhaul of factory machinery in 2018, which extended its useful life by 5 years, was charged to accumulated depreciation in 2018.	_____	_____	_____	_____
4. Interest cost qualifying for capitalization in 2018 was charged to interest expense in 2018.	_____	_____	_____	_____
5. In 2018 land was bought for an employee parking lot. The €2,000 title search fee was charged to expense in 2018.	_____	_____	_____	_____
6. The cost of moving several manufacturing facilities from metropolitan locations to suburban areas in 2018 was capitalized. The cost was written off over a 10-year period beginning in 2018.	_____	_____	_____	_____

Solution 10-157

	<u>Book Value of Plant Assets at 12/31/18</u>	<u>2018 Net Income</u>	<u>Book Value of Plant Assets at 12/31/19</u>	<u>2019 Net Income</u>
1.	U	O	U	U
2.	NE	NE	O	O
3.	NE	NE	NE	NE
4.	U	U	U	O
5.	U	U	U	NE
6.	NE	NE	NE	NE

Ex. 10-158—Weighted-Average Accumulated Expenditures.

On April 1, Paine Co. began construction of a small building. Payments of €120,000 were made monthly for four months beginning on April 1. The building was completed and ready for occupancy on August 1. For the purpose of determining the amount of interest cost to be capitalized, calculate the weighted-average accumulated expenditures on the building by completing the schedule below:

<u>Date</u>	<u>Expenditures</u>	<u>Capitalization Period</u>	<u>Weighted-Average Expenditures</u>
-------------	---------------------	------------------------------	--------------------------------------

Solution 10-158

<u>Date</u>	<u>Expenditures</u>	<u>Capitalization Period</u>	<u>Weighted-Average Expenditures</u>
April 1	€120,000	4/12	€ 40,000
May 1	120,000	3/12	30,000
June 1	120,000	2/12	20,000
July 1	120,000	1/12	10,000
			<u>€100,000</u>

Ex. 10-159—Capitalization of interest.

On March 1, Mocl Co. began construction of a small building. The following expenditures were incurred for construction:

March 1	€ 75,000	April 1	€ 74,000
May 1	180,000	June 1	270,000
July 1	100,000		

The building was completed and occupied on July 1. To help pay for construction €50,000 was borrowed on March 1 on a 12%, three-year note payable. The only other debt outstanding during the year was a €500,000, 10% note issued two years ago.

Instructions

- (a) Calculate the weighted-average accumulated expenditures.
- (b) Calculate avoidable interest.

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Solution 10-159

(a)	<u>Date</u>	<u>Expenditures</u>	<u>Capitalization Period</u>	<u>Weighted-Average Accum. Expend.</u>
	March 1	€ 75,000	4/12	€25,000
	April 1	74,000	3/12	18,500
	May 1	180,000	2/12	30,000
	June 1	270,000	1/12	22,500
	July 1	100,000	0	0
				<u>€96,000</u>

(b)	<u>Weighted-Average Accum. Expend.</u>	<u>Rate</u>	<u>Avoidable Interest</u>
	€50,000	.12	€ 6,000
	<u>46,000</u>	.10	<u>4,600</u>
	<u>€96,000</u>		<u>€10,600</u>

Ex. 10-160—Non-monetary exchange.

A machine cost £80,000, has annual depreciation expense of £16,000, and has accumulated depreciation of £40,000 on December 31, 2018. On April 1, 2019, when the machine has a fair value of £32,000, it is exchanged for a similar machine with a fair value of £96,000 and the proper amount of cash is paid. The exchange lacked commercial substance.

Instructions

Prepare all entries that are necessary at April 1, 2019.

Solution 10-160

Depreciation Expense (£16,000 × 3/12)	4,000	
Accumulated Depreciation		4,000
Accumulated Depreciation	44,000	
Machinery	96,000	
Loss on Disposal	4,000	
Machinery		80,000
Cash (£96,000 – £32,000)		64,000

Ex. 10-161—Nonmonetary exchange.

Equipment that cost €80,000 and has accumulated depreciation of €43,000 is exchanged for equipment with a fair value of €32,000 and €8,000 cash is received. The exchange has commercial substance.

Instructions

- (a) Show the calculation of the gain to be recognized from the exchange.
- (b) Prepare the entry for the exchange.

Solution 10-161

(a) Cost		€80,000
Accumulated depreciation		<u>(43,000)</u>
Book value		37,000
Fair value (€32,000 + €8,000)		<u>40,000</u>
Gain		<u>€3,000</u>

(b) Accumulated Depreciation		43,000	
Equipment		32,000	
Cash		8,000	
Equipment			80,000
Gain on Disposal			3,000

Ex. 10-162—Capitalizing vs. Expensing.

Consider each of the items below. Place the proper letter in the blank space provided to indicate the nature of the account or accounts to be debited when recording each transaction using the preferred accounting treatment. Prepayments should be recorded in balance sheet accounts. Disregard income tax considerations unless instructed otherwise.

- a. asset(s) only
- b. accumulated depreciation only
- c. expense only
- d. asset(s) and expense
- e. some other account or combination of accounts

- ___ 1. A motor in one of North Company's trucks was overhauled at a cost of \$600. It is expected that this will extend the life of the truck for two years.
- ___ 2. Machinery which had originally cost €130,000 was rearranged at a cost of €450, including installation, in order to improve production.
- ___ 3. Orlando Company recently purchased land and two buildings for a total cost of €35,000, and entered the purchase on the books. The €1,200 cost of razing the smaller building, which has an appraisal value of €6,200, is recorded.
- ___ 4. Jantzen Company traded its old machine with a net book value of \$3,000 plus cash of €7,000 for a new one which had a fair value of €9,000.
- ___ 5. Jim Parra and Mary Lawson, maintenance repair workers, spent five days in unloading and setting up a new €6,000 precision machine in the plant. The wages earned in this five-day period, €480, are recorded.
- ___ 6. On June 1, the Milton Hotel installed a sprinkler system throughout the building at a cost of €13,000. As a result the insurance rate was decreased by 40%.
- ___ 7. An improvement, which extended the life but not the usefulness of the asset, cost €6,000.
- ___ 8. The attic of the administration building was finished at a cost of €3,000 to provide an additional office.
- ___ 9. In March, the Lyon Theatre bought projection equipment on the installment basis. The contract price was €23,610, payable €5,610 down, and €2,250 a month for the next eight months. The cash price for this equipment was €22,530.
- ___ 10. Lambert Company recorded the first year's interest on 6% €100,000 ten-year bonds sold a year ago at 94. The bonds were sold in order to finance the construction of a hydroelectric plant. Six months after the sale of the bonds, the construction of the hydroelectric plant was completed and operations were begun. (Only cash interest, and not discount amortization, is to be considered.)

Solution 10-162

- | | |
|-----------|-------|
| 1. a | 6. a |
| 2. a or c | 7. a |
| 3. a | 8. a |
| 4. e | 9. e |
| 5. a | 10. d |

Ex. 10-163—Non-Monetary Exchange

Ramirez Company exchanged equipment used in its manufacturing operations plus €6,000 in cash for similar equipment used in the operations of Kennedy Company. The following information pertains to the exchange.

	<u>Ramirez Co.</u>	<u>Kennedy Co.</u>
Equipment (cost)	€84,000	€84,000
Accumulated depreciation	57,000	30,000
Fair value of equipment	40,500	46,500
Cash given up	6,000	

Instructions

- (a) Prepare the journal entries to record the exchange on the books of both companies. Assume that exchange lacks commercial substance.
- (b) Prepare the journal entries to record the exchange on the books of both companies. Assume that exchange has commercial substance.

Solution 10-163

- (a) Exchange lacks Commercial Substance

Ramirez Company:

Equipment.....	33,000	
Accumulated Depreciation—Equip.	57,000	
Equipment.....		84,000
Cash		6,000
<u>Valuation of equipment</u>		
Book value of equipment given	€ 27,000	
Cash paid.....	<u>6,000</u>	
New equipment	<u>€ 33,000</u>	

Kennedy Company:

Cash.....	6,000	
Equipment.....	40,500	
Accumulated Depreciation—Equip.	30,000	
Loss on Disposal of Plant Assets.....	7,500*	
Equipment		84,000

*Computation of loss

Book value of old equipment	€54,000
Fair value of old equipment	<u>46,500</u>
Loss of disposal of equipment	<u>€ 7,500</u>

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Solution 10-163 (Cont)

(b) Exchange has Commercial Substance

Ramirez Company:

Equipment	46,500	
Accumulated Depreciation—Equip.....	57,000	
Equipment.....		84,000
Cash.....		6,000
Gain on Disposal of Plant Assets.....		13,500*

*Computation of gain

Fair value of old equipment	€40,500
Book value of old equipment	<u>27,000</u>
Gain on disposal of equipment	<u>€13,500</u>

OR

Fair value of new equipment received		€46,500
Less: Cash paid	€ 6,000	
Book value of old equipment	<u>27,500</u>	<u>33,000</u>
Gain on disposal of equipment		€13,500

Kennedy Company: (same as part a)

Cash	6,000
Equipment	40,500
Accumulated Depreciation—Equip.....	30,000
Loss on Disposal of Plant Assets	7,500*
Equipment.....	84,000

*Computation of loss

Book value of old equipment	€54,000
Fair value of old equipment	<u>46,500</u>
Loss of disposal of equipment	<u>€ 7,500</u>

Ex. 10-164

Winsor Corp. received a grant from the government of £160,000 to acquire £800,000 of delivery equipment on January 2, 2018. The delivery equipment has a useful life of 4 years. Winsor Corp. uses the straight-line method of depreciation. The delivery equipment has a zero residual value.

Instructions

- (a) If Winsor Corp. reports the grant as a reduction of the asset, answer the following questions.
 - (1) What is the carrying amount of the delivery equipment at December 31, 2018?
 - (2) What is the amount of depreciation expense related to the delivery equipment in 2019?
 - (3) What is the amount of grant revenue reported in 2018 on the income statement?
- (b) If Winsor Corp. reports the grant as deferred grant revenue, answer the following questions.
 - (1) What is the balance in the deferred grant revenue account at December 31, 2018?
 - (2) What is the amount of depreciation expense related to the delivery equipment in 2019?
 - (3) What is the amount of grant revenue reported in 2018 on the income statement?

Solution 10-164

- (a) 1. Carrying amount = £480,000 (£640,000 – £160,000)
- 2. Depreciation expense = £160,000 (£640,000 ÷ 4yrs.)
- 3. Grant revenue = 0
- (b) 1. Deferred grant revenue balance = 120,000 (£160,000 – £40,000)
- 2. Depreciation expense = £200,000 (£800,000 ÷ 4yrs.)
- 3. Grant revenue = £40,000

Ex. 10-165—Government Grants

Bowden Company is provided a grant by the local government to purchase land for a building site. The grant is a zero-interest-bearing note for 4 years. The note is issued on January 2, 2019, for €3 million payable on January 2, 2023. Bowden's incremental borrowing rate is 6%. The land is not purchased until July 15, 2019.

Instructions

- (a) Prepare the journal entry(ies) to record the grant and note payable on January 2, 2019.
- (b) Determine the amount of interest expense and grant revenue to be reported on December 31, 2019.

Solution 10-165

(a) January 2, 2019

Cash(€3,000,000 X .79209).....	2,376,270	
Notes Payable.....		2,376,270
Cash.....	623,730	
Deferred Grant Revenue.....		623,730

- (b) Interest expense – 2019 = €2,376,270 x .06 = €142,576
- Grant revenue – 2019 = €142,576

PROBLEMS

Pr. 10-166—Capitalizing acquisition costs.

Gibbs Manufacturing Co. was incorporated on 1/2/19 but was unable to begin manufacturing activities until 8/1/19 because new factory facilities were not completed until that date. The Land and Building account at 12/31/19 per the books was as follows:

<u>Date</u>	<u>Item</u>	<u>Amount</u>
1/31/19	Land and dilapidated building	€200,000
2/28/19	Cost of removing building	4,000
4/1/19	Legal fees	6,000
5/1/19	Fire insurance premium payment	5,400
5/1/19	Special tax assessment for streets	4,500
5/1/19	Partial payment of new building construction	150,000
8/1/19	Final payment on building construction	150,000
8/1/19	General expenses	30,000
12/31/19	Asset write-up	75,000
		<u>€624,900</u>

Additional information:

- To acquire the land and building on 1/31/19, the company paid €100,000 cash and 1,000 ordinary shares of its (par value = €100/share) which is very actively traded and had a market price per share of €170.
- When the old building was removed, Gibbs paid Kwik Demolition Co. €4,000, but also received €1,500 from the sale of salvaged material.
- Legal fees covered the following:

Cost of organization	€2,500
Examination of title covering purchase of land	2,000
Legal work in connection with the building construction	<u>1,500</u>
	<u>€6,000</u>
- The fire insurance premium covered premiums for a three-year term beginning May 1, 2019.
- General expenses covered the following for the period 1/2/19 to 8/1/19.

President's salary	€20,000
Plant superintendent covering supervision of new building	<u>10,000</u>
	<u>€30,000</u>
- Because of the rising land costs, the president was sure that the land was worth at least €75,000 more than what it cost the company.

Instructions

Determine the proper balances as of 12/31/19 for a separate land account and a separate building account. Use separate T-accounts (one for land and one for building) labeling all the relevant amounts and disclosing all computations.

Solution 10-166

Land	
Land and old building (€100,000 plus €170,000)	270,000
Removal of old building (€4,000 – €1,500)	2,500
Legal fees	2,000
Special assessment	<u>4,500</u>
Balance	<u>279,000</u>

Building	
Legal Fees	1,500
Partial payment	150,000
Insurance (3 months)	450
Final payment	150,000
Superintendent's salary	<u>10,000</u>
Balance	<u>311,950</u>

Pr. 10-167—Capitalization of interest.

During 2019, Barden Building Company constructed various assets at a total cost of £8,400,000. The weighted average accumulated expenditures on assets qualifying for capitalization of interest during 2019 were £5,600,000. The company had the following debt outstanding at December 31, 2019:

- | | |
|--|------------|
| 1. 10%, 5-year note to finance construction of various assets,
dated January 1, 2019, with interest payable annually on January 1 | £3,600,000 |
| 2. 12%, ten-year bonds issued at par on December 31, 2013, with interest
payable annually on December 31 | 4,000,000 |
| 3. 9%, 3-year note payable, dated January 1, 2018, with interest payable
annually on January 1 | 2,000,000 |

Instructions

Compute the amounts of each of the following (show computations).

1. Avoidable interest.
2. Total interest to be capitalized during 2019.

Solution 10-167

1. Weighted Average			
	<u>Accumulated</u> <u>Expenditures</u>	<u>Applicable</u> <u>Interest Rate</u>	<u>Avoidable</u> <u>Interest</u>
	£3,600,000	.10	£360,000
	<u>2,000,000</u>	.11*	<u>220,000</u>
	<u>£5,600,000</u>		<u>£580,000</u> = Avoidable Interest

*Computation of weighted average interest rate:

	<u>Principal</u>	<u>Interest</u>
12% ten-year bonds	£4,000,000	£480,000
9% 3-year note	<u>2,000,000</u>	<u>180,000</u>
	<u>£6,000,000</u>	<u>£660,000</u>

Weighted average interest rate = £660,000 ÷ £6,000,000 = 11%.

2. Actual interest cost during 2019:		
Construction note, £3,600,000 × .10		£ 360,000
12% ten-year bonds, £4,000,000 × .12		480,000
9% three-year note, £2,000,000 × .09		<u>180,000</u>
		<u>£1,020,000</u>

The interest cost to be capitalized is £580,000 (the lesser of the £580,000 avoidable interest and the £1,020,000 actual interest).

Pr. 10-168—Capitalization of interest.

Early in 2019, Dobbs Corporation engaged Kiner, Inc. to design and construct a complete modernization of Dobbs's manufacturing facility. Construction was begun on June 1, 2019 and was completed on December 31, 2019. Dobbs made the following payments to Kiner, Inc. during 2019:

<u>Date</u>	<u>Payment</u>
June 1, 2019	€3,600,000
August 31, 2019	5,400,000
December 31, 2019	4,500,000

In order to help finance the construction, Dobbs issued the following during 2019:

- €3,000,000 of 10-year, 9% bonds payable, issued at par on May 31, 2019, with interest payable annually on May 31.
- 1,000,000 shares of no-par ordinary shares, issued at €10 per share on October 1, 2019.

In addition to the 9% bonds payable, the only debt outstanding during 2019 was a €750,000, 12% note payable dated January 1, 2015 and due January 1, 2025, with interest payable annually on January 1.

Instructions

Compute the amounts of each of the following (show computations):

- Weighted-average accumulated expenditures qualifying for capitalization of interest cost.
- Avoidable interest incurred during 2019.
- Total amount of interest cost to be capitalized during 2019.

Solution 10-168

1.	<u>Date</u>	<u>Capitalization Expenditures</u>	<u>Period</u>	<u>Weighted-Average Accumulated Expenditures</u>
	June 1	€3,600,000	7/12	€2,100,000
	August 31	5,400,000	4/12	1,800,000
	December 31	4,500,000	0	0
				€3,900,000

2.	<u>Weighted-Average Accumulated Expenditures</u>	<u>Appropriate Interest Rate</u>	<u>Avoidable Interest</u>
	€3,000,000	.09	€270,000
	900,000	.12	108,000
	€3,900,000		€378,000

3.	Actual interest incurred during 2019:	
	9% bonds payable, €3,000,000 × .09 × 7/12	€157,500
	12% note payable, €750,000 × .12	90,000
		€247,500

The interest cost to be capitalized is €247,500 (the lesser of the €378,000 avoidable interest and the €247,500 actual interest cost).

Pr. 10-169—Asset acquisition.

Ford Inc. plans to acquire an additional machine on January 1, 2019 to meet the growing demand for its product. Stever Company offers to provide the machine to Ford using either of the options listed below (each option gives Ford exactly the same machine and gives Stever Company approximately the same net present value cash equivalent at 10%).

- Option 1 — Cash purchase €800,000.
- Option 2 — Installment purchase requiring 15 annual payments of €105,179 due December 31 each year.

The expected economic life of this machine to Ford is 15 years. Salvage value at that time is estimated to be €50,000. Straight-line depreciation is used. Interest expense under Option 2 is computed using the effective interest method.

Instructions

Based upon IFRS, state how, if at all, the book value of the machine and the obligation should appear on the December 31, 2019 statement of financial position of Ford Inc., for each option. Present your answer on an answer sheet in the following format. If an item should not appear in the statement of financial position, write "not shown" opposite the option.

	Assets		Liabilities	
	<u>Account Name</u>	<u>Amount</u>	<u>Account Name</u>	<u>Amount</u>
Option 1				
Option 2				

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Solution 10-169

	Assets		Liabilities	
	Account Name	Amount	Account Name	Amount
Option 1	Machinery	€800,000	"not shown"	
	Accum. Depr.	50,000		
Option 2	Machinery	€800,000	Notes Payable—	
	Accum. Depr.	50,000	Current	€ 27,697
			Notes Payable—	
			Long-term	747,124

Computations:

At January 1, 2019, the note payable is €800,000.

At December 31, 2019, after the first payment of €105,179 has been made (€80,000 interest) €774,821 principal remains, of which €747,124 is long-term and €27,697 is current [€105,179 – (10% × €774,821)].

Note: €105,179 × 7.60608 (Table 6-4) = €800,000, the present value of the obligation on January 1, 2019.

Pr. 10-170—Non-monetary exchanges.

Moore Corporation follows a policy of a 10% depreciation charge per year on all machinery and a 5% depreciation charge per year on buildings. The following transactions occurred in 2019:

March 31, 2019— Negotiations which began in 2018 were completed and a warehouse purchased 1/1/10 (depreciation has been properly charged through December 31, 2018) at a cost of €3,200,000 with a fair value of €2,000,000 was exchanged for a second warehouse which also had a fair value of €2,000,000. The exchange had no commercial substance. Both parcels of land on which the warehouses were located were equal in value, and had a fair value equal to book value.

June 30, 2019— Machinery with a cost of €240,000 and accumulated depreciation through January 1 of €180,000 was exchanged with €150,000 cash for a parcel of land with a fair value of €230,000. The exchange had commercial substance.

Instructions

Prepare all appropriate journal entries for Moore Corporation for the above dates.

Solution 10-170

3/31/19	Depreciation Expense	40,000	
	Accumulated Depreciation—Warehouse		40,000
	(€3,200,000 × 5% × 1/4)		
	Warehouse	1,720,000	
	Accumulated Depreciation—Warehouse	1,480,000	
	Warehouse		3,200,000
	(€3,200,000 × 5% × 9 1/4 = €1,480,000)		

Solution 10-170 (cont.)

6/30/19	Depreciation Expense.....	12,000	
	Accumulated Depreciation—Machinery		12,000
	(€240,000 × 10% × 1/2)		
	Land	230,000	
	Accumulated Depreciation—Machinery	192,000	
	Gain on Disposal		32,000
	Machinery.....		240,000
	Cash.....		150,000
	[€80,000 – (€240,000 – €192,000)] = €32,000		

Pr. 10-171—Non-monetary exchange.

Rogers Co. had a sheet metal cutter that cost £96,000 on January 5, 2014. This old cutter had an estimated life of ten years and a salvage value of £16,000. On April 3, 2019, the old cutter is exchanged for a new cutter with a fair value of £48,000. The exchange had commercial substance. Rogers also received £12,000 cash. Assume that the last fiscal period ended on December 31, 2018, and that straight-line depreciation is used.

Instructions

- (a) Show the calculation of the amount of the gain or loss to be recognized by Rogers Co.
- (b) Prepare all entries that are necessary on April 3, 2019.

Solution 10-171

(a)	Cost	£96,000	
	Accumulated depreciation (5 1/4 × £8,000)	<u>(42,000)</u>	
	Book value	54,000	
	Fair value (£48,000 + £12,000)	<u>60,000</u>	
	Gain	<u>£ 6,000</u>	
(b)	Depreciation Expense.....	2,000	
	Accumulated Depreciation		2,000
	Accumulated Depreciation	42,000	
	Machinery	48,000	
	Cash.....	12,000	
	Machinery		96,000
	Gain on Disposal		6,000

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Pr. 10-172—Nonmonetary exchange.

Layne Co. has a machine that cost €255,000 on March 20, 2015. This old machine had an estimated life of ten years and a salvage value of €15,000. On December 23, 2019, the old machine is exchanged for a new machine with a fair value of €142,000. The exchange lacked commercial substance. Layne also paid €18,000 cash. Assume that the last fiscal period ended on December 31, 2018, and that straight-line depreciation is used.

Instructions

- (a) Show the calculation of the amount of gain or loss to be recognized by Layne Co. from the exchange. (Round to the nearest dollar.)
- (b) Prepare all entries that are necessary on December 23, 2019.

Solution 10-172

(a)	Cost	€255,000	
	Accumulated depreciation (4 3/4 × €24,000)	<u>(114,000)</u>	
	Book value	141,000	
	Fair value (€142,000 – €18,000)	<u>124,000</u>	
	Loss	<u>€ 17,000</u>	
(b)	Depreciation Expense	24,000	
	Accumulated Depreciation.....		24,000
	Accumulated Depreciation	114,000	
	Machine	142,000	
	Loss on Disposal	17,000	
	Machine		255,000
	Cash		18,000

Pr. 10-173—Non-monetary exchange.

Hodge Co. exchanged Building 24 which has an appraised value of €3,000,000, a cost of €5,060,000, and accumulated depreciation of €2,400,000 for Building M belonging to Fine Co. Building M has an appraised value of €2,800,000, a cost of €6,020,000, and accumulated depreciation of €3,168,000. The correct amount of cash was also paid. Assume depreciation has already been updated.

Instructions

Prepare the entries on both companies' books assuming the exchange has commercial substance.

Solution 10-173

Hodge Co.:

Cost	€5,060,000
Accumulated depreciation	<u>2,400,000</u>
Book value	2,660,000
Fair value	<u>3,000,000</u>
Gain	<u>€ 340,000</u>

Accumulated Depreciation	2,400,000	
Building M	2,800,000	
Cash.....	200,000	
Building 24		5,060,000
Gain on Disposal.....		340,000

Fine Co.:

Cost	€6,020,000
Accumulated Depreciation	<u>3,168,000</u>
Book value	2,852,000
Fair value	<u>2,800,000</u>
Loss	<u>€ 52,000</u>

Accumulated Depreciation	3,168,000	
Building 24	3,000,000	
Loss on Disposal.....	52,000	
Building M		6,020,000
Cash.....		200,000

Pr. 10-174—Non-monetary exchange.

Beeman Company exchanged machinery with an appraised value of £1,755,000, a recorded cost of £2,700,000 and Accumulated Depreciation of £1,350,000 with Lacey Corporation for machinery Lacey owns. The machinery has an appraised value of £1,695,000, a recorded cost of £3,240,000, and Accumulated Depreciation of £1,782,000. Lacey also gave Beeman £60,000 in the exchange. Assume depreciation has already been updated.

Instructions

- (a) Prepare the entries on both companies' books assuming that the exchange had commercial substance.
- (b) Prepare the entries on both companies' books assuming that the exchange lacked commercial substance.

Solution 10-174

(a) Commercial Substance

Beeman

Machinery.....	1,695,000	Cost	£2,700,000
Cash.....	60,000	A/D	<u>1,350,000</u>
Accum. Depreciation—		BV	1,350,000
Machinery	1,350,000	FV	<u>1,755,000</u>
Gain on Disposal of		Gain	<u>£ 405,000</u>
Plant Assets.....	405,000		
Machinery	2,700,000		

Lacey

Machinery.....	1,755,000	Cost	£3,240,000
Accum. Depreciation—		A/D	<u>1,782,000</u>
Machinery	1,782,000	BV	1,458,000
Gain on Disposal of		FV	<u>1,695,000</u>
Plant Assets.....	237,000	Gain	<u>£ 237,000</u>
Machinery	3,240,000		
Cash	60,000		

(b) No Commercial Substance

Beeman

Machinery.....	1,290,000		
Cash.....	60,000		
Accumulated Depreciation—Machinery	1,350,000		
Machinery			2,700,000

Lacey

Machinery.....	1,518,000		
Accumulated Depreciation—Machinery	1,782,000		
Machinery			3,240,000
Cash			60,000