Intermediate accounting testbank

Principles of Insurance (جامعة بيرزيت)

CHAPTER 12

INTANGIBLE ASSETS

IFRS questions are available at the end of this chapter.

TRUE-FALSE—Conceptual

Answer	No.	Description
F	1.	Characteristics of intangible assets.
F	2.	Recording internally generated intangibles.
T	3.	Amortizing limited-life intangibles.
F	4.	Amortization of limited-life intangible assets.
T	5.	Amortization of limited-life intangibles.
F	6.	Capitalizing trademark costs.
T	7.	Accounting for a customer list.
F	8.	Amortization of patents.
T	9.	Modification of an existing patent.
T	10.	Basic concept of goodwill.
F	11.	Goodwill as master valuation account.
T	12.	Internally generated goodwill.
F	13.	Recording internally generated goodwill.
T	14.	Impairment of intangibles.
T	15.	Recognition of impairment loss.
T	16.	Impaired asset and recoverable amount.
F	17.	Impairment of intangible assets.
F	18.	Recovery of impairment loss.
F	19.	Impairment of intangibles.
F	20.	Reporting intangible assets.
F	21.	Treatment of research and development costs.
F	22.	Recording research and development costs.
F	23.	Start-up costs and initial operating losses.
T	24.	Research and development costs.
F	25.	Example of research and development costs.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
b	26	Characteristics of intangible assets.
c	27	Characteristics of intangible assets.
a	28	Characteristics of intangible assets.
c	29.	Accounting for internally-created intangibles.
a	30.	Treatment of internally generated costs.
b	31.	Amortization methods for intangible assets.
d	32.	Cost of intangible asset.
d	33.	Factors in determining useful life.
b	S34.	Classifying intangible assets.
c	35.	Impairment of intangibles.
a	36.	Determining intangible asset useful life.
b	37.	Amortization of intangibles.
d	38.	Patent amortization.
c	39.	Treatment of patent legal defense costs.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
d	40.	Legal fees associated with patent infringement.
b	41.	Identification of intangible assets.
c	42.	Amortization of intangible assets.
a	43.	Entry to record patent amortization.
c	44.	Capitalizing trademark costs.
c	45.	Contract-related intangible assets.
a	46.	Definition of copyrights.
b	47.	Customer-related intangible assets.
d	48.	Technology-related intangible assets.
c	49.	Classifying intangible assets.
a	50.	Classifying intangible assets.
c	51.	Composition of goodwill.
b	52.	When to record goodwill.
d	53.	Intangibles during acquisition of company.
c	54.	Separability of goodwill.
b	55.	Goodwill definition.
a	56.	Reporting of "bargain purchase."
d	57.	Accounting for goodwill.
a	58.	Recording goodwill.
b	59.	Definition of a bargain purchase.
b	60.	Impairment of intangible asset.
d	61.	Recoverability test.
c	[S]62.	Impairment test for indefinite-life intangibles.
b	[P]63.	Carrying value of an intangible.
a	64.	Reporting of Goodwill
d	65.	Intangible asset disclosure.
d	66.	Trade name amortization.
d	67.	Patent amortization.
d	68.	Reporting intangibles.
b	69.	Amortization expense.
d	70.	Reporting goodwill.
a	71.	Classification of R & D costs.
c	72.	Costs excluded from R & D expense.
b	73.	Depreciation of laboratory building used in R & D.
a	74.	Operating losses during start-up period.
d	[P]75.	Accounting for organization costs.
a	[S]76.	Classification of R & D expense.
d	77.	Classification of R & D expense.
a	78.	Capitalization of R & D costs.
b	79.	R & D accounting principles.
d	80.	Expensing R & D costs.
c	[P]81.	Identify R & D costs.
c	82.	Successful defense of a patent.
d	83.	R & D costs.
d	84.	Identify a non-R & D cost.

[P] These questions also appear in the Problem-Solving Survival Guide.
[S] These questions also appear in the Study Guide.

MULTIPLE CHOICE—Computational

Answer	No.	Description
d	85.	Valuation of patent.
d	86.	Valuation of patent.
c	87.	Valuation of patent.
d	88.	Basket purchase of patents.
c	89.	Intangible asset amortization.
c	90.	Intangible asset amortization.
b	91.	Computing patent amortization expense.
b	92.	Computing patent amortization expense.
b	93.	Computing patent amortization expense.
c	94.	Calculate total intangible assets.
b	95.	Determine amount of worthless patent to be written off.
b	96.	Calculate patent amortization.
a	97.	Calculate trademark amortization.
b	98.	Calculate patent amortization.
c	99.	Calculate goodwill amount.
c	100.	Calculate goodwill amount.
d	101.	Calculate goodwill amount.
a	102.	Calculate goodwill impairment.
b	103.	Proper accounting when fair value of net assets acquired exceeds cost.
b	104.	Fair value of identifiable net assets.
c	105.	Fair value of identifiable net assets.
b	106.	Calculate impairment loss.
c	107.	Calculate patent carrying amount.
d	108.	Calculate patent carrying amount.
b	109.	Calculate loss on impairment of goodwill.
b	110.	Calculate loss on impairment of goodwill.
d	111.	Intangible asset total.
c	112.	Calculate R & D expense.
c	113.	Calculate R & D expense.
a	114.	Calculate R & D expense.
a	115.	Calculate R & D expense.
c	116.	Calculate R & D expense

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
a	117.	Determine capitalized patent costs.
c	118.	Valuation of patent exchanged for common stock.
d	119.	Valuation of patent exchanged for treasury stock.
c	120.	Valuation and amortization of a patent.
c	121.	Amortization of a patent.
d	122.	Amortization of a copyright.
c	123.	Capitalization of legal fees.
a	124.	Amortization of goodwill.
c	125.	Calculate R & D expense.
a	126.	Determine R & D expense.

BRIEF EXERCISES

Item	Description
BE12-127	Amortization of patent.
BE12-128	Calculate patent carrying amount.
BE12-129	Calculate goodwill amount.
BE12-130	Impairment of patent.
BE12-131	Goodwill impairment.

EXERCISES

Item	Description
E12-132	Essay – characteristics of intangible assets.
E12-133	Essay – cost of intangibles.
E12-134	Essay – purchased and internally generated intangible assets.
E12-135	Essay – definition of and accounting for intangibles.
E12-136	Essay – costs associated with patents.
E12-137	Essay – intangible asset amortization.
E12-138	Essay – useful life of intangibles.
E12-139	Essay - Intangible assets theory.
E12-140	Entries for amortization and impairment.
E12-141	Identify intangibles.
E12-142	Essay – Goodwill and bargain purchase.
E12-143	Carrying amount of patents.
E12-144	Accounting for patents.
E12-145	Accounting for patents.
E12-146	Intangible assets reporting.
E12-147	Accounting for copyrights.
E12-148	Goodwill computation and impairment.
E12-149	Patent impairment.
E12-150	Essay – goodwill.
E12-151	Essay – impairment.
E12-152	Goodwill impairment.
E12-153	Impairment of copyrights.
E12-154	Essay – R & D costs.
E12-155	Essay – start-up costs.

PROBLEMS

Item	Description
P12-156	Intangible assets.
P12-157	Goodwill, impairment.

CHAPTER LEARNING OBJECTIVES

1. Describe the characteristics, valuation, and amortization of intangible assets.
2. Describe the accounting for various types of intangible assets.
3. Explain the accounting issues for recording goodwill.
4. Explain impairment procedures and presentation requirements for intangible assets.
5. Describe accounting and presentation for research and development and similar costs.

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	6.	2	K	11.	3	K	16.	4	C	21.	5	C
2.	1	K	7.	2	K	12.	3	K	17.	4	K	22.	5	K
3.	1	K	8.	2	K	13.	3	K	18.	4	C	23.	5	K
4.	1	K	9.	2	K	14.	4	K	19.	4	K	24.	5	K
5.	1	K	10.	3	K	15.	4	K	20.	4	K	25.	5	K
MULTIPLE CHOICE QUESTIONS														
26.	1	K	47.	2	K	68.	4	K	89.	1	AP	110.	4	AP
27.	1	K	48.	2	K	69.	4	C	90.	1	AP	111.	4	AP
28.	1	K	49.	2	C	70.	4	C	91.	1	AP	112.	5	AP
29.	1	K	50.	2	C	71.	5	C	92.	2	AP	113.	5	AP
30.	1	K	51.	3	K	72.	5	C	93.	2	AP	114.	5	AP
31.	1	K	52.	3	K	73.	5	C	94.	2	AP	115.	5	AP
32.	1	K	53.	3	K	74.	5	C	95.	2	AP	116.	5	AP
33.	1	K	54.	3	K	75.	5	C	96.	2	AP	117.	2	AP
34.	1	K	55.	3	K	76.	5	C	97.	2	AP	118.	2	AP
35.	1	K	56.	3	AP	77.	5	C	98.	2	AP	119.	2	AP
36.	1	K	57.	3	C	78.	5	C	99.	3	AP	120.	2	AP
37.	1	K	58.	3	C	79.	5	K	100.	3	AP	121.	2	AP
38.	2	K	59.	3	C	80.	5	K	101.	3	AP	122.	2	AP
39.	2	AP	60.	4	C	81.	5	C	102.	4	AP	123.	2	C
40.	2	AP	61.	4	K	82.	5	K	103.	3	AP	124.	3	C
41.	2	K	62.	4	C	83.	5	K	104.	3	AP	125.	5	AP
42.	2	K	63.	4	K	84.	5	C	105.	3	AP	126.	5	AP
43.	2	K	64.	4	K	85.	1	AP	106.	4	AP			
44.	2	C	65.	4	K	86.	1	AP	107.	4	AP			
45.	2	K	66.	4	K	87.	1	AP	108.	4	AP			
46.	2	K	67.	4	K	88.	1	AP	109.	4	AP			
BRIEF EXERCISES														
127.	2	AP	128.	2	AP	129.	3	AP	130.	4	AP	131.	4	AP
EXERCISES														
132.	1	C	137.	1	K	142.	2	K	147.	2, 4	AP	152.	4	AP
133.	1	C	138.	1	K	143.	2	AP	148.	3,4	AP	153.	4	AP
134.	1	C	139.	1	AN	144.	2	AP	149.	4	AP	154.	5	C
135.	1	K	140.	2	AP	145.	2	AP	150.	3	C	155.	5	AN
136.	1	C	141.	2	AP	146.	2, 4	AP	151.	4	AN			
PROBLEMS														
156.	2, 5	AP	157.	3, 4	AP									

TRUE-FALSE—Conceptual

1. Intangible assets derive their value from the right (claim) to receive cash in the future.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

2. Internally generated intangible assets are initially recorded at fair value.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

3. Limited-life intangibles are amortized by systematic charges to expense over their useful lives.

Ans: T, LO: 1, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

4. Amortization of limited-life intangible assets should not be affected by expected residual values.

Ans: F, LO: 1, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

5. Some intangible assets are not required to be amortized.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

6. If a company develops a trademark, it should expense the costs related to attorney fees, registration fees, and design costs.

Ans: F, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

7. The cost of acquiring a customer list from another company is recorded as an intangible asset.

Ans: T, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

8. The cost of a purchased patent should be amortized over the remaining legal life of the patent.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

9. If a new patent is acquired through modification of an existing patent, the remaining book value of the original patent may be amortized over the life of the new patent.

Ans: T, LO: 2, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

10. In a business combination, a company assigns the cost, where possible, to the identifiable tangible and intangible net assets, with the remainder recorded as goodwill.

Ans: T, LO: 3, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

11. Goodwill is considered a master valuation account because it measures the value of specifically identifiable intangible assets.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

12. Internally generated goodwill should not be capitalized in the accounts.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

13. Internally generated goodwill associated with a business may be recorded as an asset when a firm offer to purchase that business unit has been received.

Ans: F, LO: 3, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

14. All intangibles are subject to periodic consideration of impairment with corresponding potential write-downs.

Ans: T, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

15. If the fair value of an unlimited life intangible other than goodwill is less than its book value, an impairment loss must be recognized.

Ans: T, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

16. After an impairment loss is recorded for a limited-life intangible asset, the carrying amout becomes the basis for the impaired asset and is used to calculate amortization in future periods.

Ans: T, LO: 4, Bloom: C, Difficulty: Difficult, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

17. The rules used to account for impairments of limited-life intangible assets are different from the rules used to account for impairments of plant and equipment.

Ans: F, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

18. If fair value of an impaired asset recovers after an impairment has been recognized, the impairment may be reversed in a subsequent period.

Ans: F, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

19. The same recoverability test that is used for impairments of property, plant, and equipment is used for impairments of indefinite-life intangibles.

Ans: F, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

20. Contra accounts must be reported for intangible assets in a manner similar to accumulated depreciation and property, plant, and equipment.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

21. Research and development costs that result in patents may be capitalized to the extent of the fair value of the patent.

Ans: F, LO: 5, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

22. Research and development costs are recorded as intangible assets if they will provide economic benefits in future years.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

23. GAAP requires start-up costs and initial operating losses during the early years to be capitalized.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

24. Material, labor, and overhead costs incurred in developing a new product are to be expensed as these are development costs.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

25. Periodic alterations to existing products are an example of research and development costs.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

True False Answers—Conceptual

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

MULTIPLE CHOICE—Conceptual

26. Which of the following does **not** describe intangible assets?
   a. They lack physical existence.
   b. They are financial instruments.
   c. They provide long-term benefits.
   d. They are classified as long-term assets.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

27. Which of the following characteristics do intangible assets possess?
   a. Physical existence.
   b. Claim to a specific amount of cash in the future.
   c. Long-lived.
   d. Held for resale.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

28. Which characteristic is **not** possessed by intangible assets?
   a. Physical existence.
   b. Long-lived.
   c. Result in future benefits.
   d. Expensed over current and/or future years.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

29. Costs incurred internally to create intangibles are
   a. capitalized.
   b. capitalized if they have an indefinite life.
   c. expensed as incurred.
   d. expensed only if they have a limited life.

Ans: c, LO: 1, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

30. Which of the following costs incurred internally to create an intangible asset is generally expensed?
    a. Research and development costs.
    b. Filing costs.
    c. Legal costs.
    d. All of these answer choices are correct.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

31. Which of the following methods of amortization is normally used for intangible assets?
    a. Sum-of-the-years'-digits
    b. Straight-line
    c. Units of production
    d. Double-declining-balance

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

32. The cost of an intangible asset includes all of the following **except**
    a. purchase price.
    b. legal fees.
    c. other incidental expenses.
    d. All of these choices are included.

Ans: d, LO: 1, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

33. Factors considered in determining an intangible asset's useful life include all of the following **except**
    a. the expected use of the asset.
    b. any legal or contractual provisions that may limit the useful life.
    c. any provisions for renewal or extension of the asset's legal life.
    d. the amortization method used.

Ans: d, LO: 1, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

34. Under current accounting practice, intangible assets are classified as
    a. amortizable or unamortizable.
    b. limited-life or indefinite-life.
    c. specifically identifiable or goodwill-type.
    d. legally restricted or goodwill-type.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

35. Companies should test indefinite life intangible assets at least annually for
    a. recoverability.
    b. amortization.
    c. impairment.
    d. estimated useful life.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

S36. One factor that is not considered in determining the useful life of an intangible asset is
a. salvage value.
b. provisions for renewal or extension.
c. legal life.
d. expected actions of competitors.

Ans: a, LO: 1, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

37. Which intangible assets are amortized?

	Limited-Life	Indefinite-Life
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

38. The cost of successfully defending a patent suit should be
a. charged off in the current period.
b. amortized over the legal life of the purchased patent.
c. added to factory overhead and allocated to production of the product.
d. amortized over the remaining estimated useful life of the patent.

Ans: d, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

39. Broadway Corporation was granted a patent on a product on January 1, 2007. To protect its patent, the corporation purchased on January 1, 2018 a patent on a competing product which was originally issued on January 10, 2014. Because of its unique plant, Broadway Corporation does not feel the competing patent can be used in producing the product. The cost of the competing patent should be
a. amortized over a maximum period of 20 years.
b. amortized over a maximum period of 16 years.
c. amortized over a maximum period of 9 years.
d. expensed in 2018.

Ans: c, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

40. Wriglee, Inc. went to court this year and successfully defended its patent from infringement by a competitor. The cost of this defense should be charged to
a. patents and amortized over the legal life of the patent.
b. legal fees and amortized over 5 years or less.
c. expenses of the period.
d. patents and amortized over the remaining useful life of the patent.

Ans: d, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

41. Which of the following is **not** an intangible asset?
a. Trade name
b. Research and development costs
c. Franchise
d. Copyrights

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

42. Which of the following intangible assets should **not** be amortized?
    a. Copyrights
    b. Customer lists
    c. Perpetual franchises
    d. All of these intangible assets should be amortized.

Ans: c, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

43. When a patent is amortized, the credit is usually made to
    a. the Patents account.
    b. an Accumulated Amortization account.
    c. a Deferred Credit account.
    d. an expense account.

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

44. When a company develops a trademark the costs directly related to securing it should generally be capitalized. Which of the following costs associated with a trademark would **not** be capitalized?
    a. Attorney fees.
    b. Consulting fees.
    c. Research and development costs.
    d. Design costs.

Ans: c, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

45. Which of the following is a contract-related intangible assets?
    a. Trademark
    b. Copyright
    c. Franchise
    d. Patent

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

46. The right granted to all authors, painters, musicians, sculptors, and other artists for their creations and expressions is termed as a
    a. copyright
    b. trademark
    c. patent
    d. franchise

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

47. Which of the following types of intangible assets result from interactions and relationships with outside parties?
    a. Marketing-related intangible assets
    b. Customer-related intangible assets
    c. Contract-related intangible assets
    d. Artistic-related intangible assets

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

48. Which of the following is a type of technology-related intangible asset?
   a. Copyright
   b. Franchise
   c. License
   d. Patent

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

49. Trademarks, newspaper mastheads, and internet domain names are all examples of
   a. contract-related intangible assets
   b. artistic-related intangible assets
   c. marketing-related intangible assets
   d. customer-related intangible assets

Ans: c, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

50. John Thomas has recently entered into an agreement with Longman Inc. Under this agreement, John will sell its products using the trade name of Longman in a specified geographical location. What type of intangible asset is this agreement between John Thomas and Longman Inc.?
   a. contract-related intangible assets
   b. artistic-related intangible assets
   c. marketing-related intangible assets
   d. customer-related intangible assets

Ans: a, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

51. In a business combination, companies record identifiable intangible assets that they can reliably measure. All other intangible assets, too difficult to identify or measure, are recorded as
   a. other assets.
   b. indirect costs.
   c. goodwill.
   d. direct costs.

Ans: c, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

52. Goodwill may be recorded when
   a. it is identified within a company.
   b. one company acquires another in a business combination.
   c. the fair value of a company's assets exceeds their cost.
   d. a company has exceptional customer relations.

Ans: b, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

53. When a new company is acquired, which of these intangible assets, unrecorded on the acquired company's books, might be recorded in addition to goodwill?
   a. A brand name.
   b. A patent.
   c. A customer list.
   d. All of these answer choices are correct.

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

54. Which of the following intangible assets cannot be sold by a business to raise needed cash for a capital project?
    a. Patent.
    b. Copyright.
    c. Goodwill.
    d. Brand Name.

Ans: c, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

55. Goodwill
    a. represents the purchase price of a business that is about to be sold.
    b. is the difference between the fair value of the net tangible and identifiable intangible assets and the purchase price of the acquired business.
    c. generated internally should be capitalized in the year it occurs.
    d. is the only account in the financial statements that is based on value, all other accounts are recorded at an amount other than their value.

Ans: b, LO: 3, Bloom: K, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

56. Easton Company and Lofton Company were combined in a purchase transaction. Easton was able to acquire Lofton at a bargain price. The sum of the fair values of identifiable assets acquired less the fair value of liabilities assumed exceeded the cost of acquiring Easton. Easton will report the excess amount as
    a. a gain.
    b. part of current income in the year of combination.
    c. a deferred credit and amortize it.
    d. paid-in capital.

Ans: a, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

57. Purchased goodwill should
    a. be written off as soon as possible against retained earnings.
    b. be written off as soon as possible as an extraordinary item.
    c. be written off by systematic charges as a regular operating expense over the period benefited.
    d. not be amortized.

Ans: d, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: 5Reporting, IFRS: None

58. The intangible asset goodwill may be
    a. capitalized only when purchased.
    b. capitalized either when purchased or created internally.
    c. capitalized only when created internally.
    d. written off directly to retained earnings.

Ans: a, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

59. When the purchaser in a business combination pays less then the fair value of the identifiable net assets, such a situation is referred to as a:
    a. goodwill purchase.
    b. bargain purchase.
    c. residual purchase.
    d. blanket purchase.

Ans: b, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

60. A loss on impairment of an intangible asset is the difference between the asset's
    a. carrying amount and the expected future net cash flows.
    b. carrying amount and its fair value.
    c. fair value and the expected future net cash flows.
    d. book value and its fair value.

Ans: b, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

61. The recoverability test is used to determine any impairment loss on which of the following types of intangible assets?
    a. Indefinite life intangibles other than goodwill.
    b. Indefinite life intangibles.
    c. Goodwill.
    d. Limited life intangibles.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

62. Buerhle Company needs to determine if its indefinite-life intangibles other than goodwill have been impaired and should be reduced or written off on its balance sheet. The impairment test(s) to be used is (are)

	Recoverability Test	Fair Value Test
a.	Yes	Yes
b.	Yes	No
c	No	Yes
d.	No	No

Ans: c, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

63. The carrying amount of an intangible is
    a. the fair value of the asset at a balance sheet date.
    b. the asset's acquisition cost less the total related amortization recorded to date.
    c. equal to the balance of the related accumulated amortization account.
    d. the assessed value of the asset for intangible tax purposes.

Ans: b, LO: 4, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

64. Which of the following intangible assets should be shown as a separate item on the balance sheet?
    a. Goodwill
    b. Franchise
    c. Patent
    d. Trademark

Ans: a, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

65. The notes to the financial statements should include information about acquired intangible assets, and aggregate amortization expense for how many succeeding years?
    a. 6
    b. 5
    c. 4
    d. 3

Ans: b, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

66. Which of the following is not reported under the "Other Expenses and Losses" section of the income statement?
    a. Goodwill impairment losses.
    b. Loss on sale of patent.
    c. Patent impairment losses.
    d. Trade name amortization expense.

Ans: d, LO: 4, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

67. The total amount of patent cost amortized to date is usually
    a. shown in a separate Accumulated Patent Amortization account which is shown contra to the Patents account.
    b. shown in the current income statement.
    c. shown as credits in the Patents account.
    d. reported as a contra property, plant and equipment item.

Ans: c, LO: 4, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

68. Intangible assets are reported on the balance sheet
    a. with an accumulated depreciation account.
    b. in the property, plant, and equipment section.
    c. separately from other assets.
    d. None of these answer choices are correct.

Ans: c, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

69. Which of the following is often reported as part of operating expenses?
    a. Loss on sale of patent.
    b. Impairment losses for intangible assets other than goodwill.
    c. Impairment losses on goodwill.
    d. Amortization expense.

Ans: d, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

70. Which of the following is not reported as part of continuing operations?
    a. Amortization expense.
    b. Impairment losses for intangible assets.
    c. Research and development costs.
    d. Goodwill.

Ans: d, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

71. Which of the following is considered research and development costs?
    a. Planned search or critical investigation aimed at discovery of new knowledge.
    b. Research costs incurred under contract with another company.
    c. Commissions to sales staff marketing a new product.
    d. Cost of marketing research to promote a new product.

Ans: a, LO: 5, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

72. Which of the following costs should be **excluded** from research and development expense?
    a. Modification of the design of a product
    b. Acquisition of R & D equipment for use on a current project only
    c. Cost of marketing research for a new product
    d. Engineering activity required to advance the design of a product to the manufacturing stage

Ans: c, LO: 5, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

73. If a company constructs a laboratory building to be used as a research and development facility, the cost of the laboratory building is matched against earnings as
    a. research and development expense in the period(s) of construction.
    b. depreciation deducted as part of research and development costs.
    c. depreciation or immediate write-off depending on company policy.
    d. an expense at such time as productive research and development has been obtained from the facility.

Ans: b, LO: 5, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

74. Operating losses incurred during the start-up years of a new business should be
    a. accounted for and reported like the operating losses of any other business.
    b. written off directly against retained earnings.
    c. capitalized as a deferred charge and amortized over five years.
    d. capitalized as an intangible asset and amortized over a period not to exceed 20 years.

Ans: a, LO: 5, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

75. The costs of organizing a corporation include legal fees, fees paid to the state of incorporation, fees paid to promoters, and the costs of meetings for organizing the promoters. These costs are said to benefit the corporation for the entity's entire life. These costs should be
    a. capitalized and never amortized.
    b. capitalized and amortized over 40 years.
    c. capitalized and amortized over 5 years.
    d. expensed as incurred.

Ans: d, LO: 5, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

76. Which of the following would **not** be considered an R & D activity?
    a. Adaptation of an existing capability to a particular requirement or customer's need.
    b. Searching for applications of new research findings.
    c. Laboratory research aimed at discovery of new knowledge.
    d. Conceptual formulation and design of possible product or process alternatives.

Ans: a, LO: 5, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

77. Which of the following research and development expenditures should be capitalized and depreciated?
    a. Engineering costs incurred to advance the new product to a production stage
    b. Cost of marketing research to promote a new product
    c. Material, labor, and overhead costs incurred in developing a new product
    d. Acquisition of machinery that can also be used for future R&D projects

Ans: d, LO: 5, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

78. Which of the following research and development related costs should be capitalized and depreciated over current and future periods?
    a. Research and development general laboratory building which can be put to alternative uses in the future
    b. Inventory used for a specific research project
    c. Administrative salaries allocated to research and development
    d. Research findings purchased from another company to aid a particular research project currently in process

Ans: a, LO: 5, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

79. Which of the following principles best describes the current method of accounting for research and development costs?
    a. Associating cause and effect
    b. Systematic and rational allocation
    c. Income tax minimization
    d. Immediate recognition as an expense

Ans: d, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

80. According to a Financial Accounting Standards Board Statement, how are research and development costs accounted for?
    a. They must be capitalized when incurred and then amortized over their estimated useful lives.
    b. They must be expensed in the period incurred.
    c. They may be either capitalized or expensed when incurred, depending upon the materiality of the amounts involved.
    d. They must be expensed in the period incurred unless it can be clearly demonstrated that the expenditure will have alternative future uses or unless contractually reimbursable.

Ans: d, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

81. Which of the following would be considered research and development costs?
    a. Routine efforts to refine an existing product.
    b. Periodic alterations to existing production lines.
    c. Marketing research to promote a new product.
    d. Construction of prototypes.

Ans: d, LO: 5, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

82. Which of the following costs should be capitalized in the year incurred?
    a. Research and development costs.
    b. Costs to internally generate goodwill.
    c. Organizational costs.
    d. Costs to successfully defend a patent.

Ans: d, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

83. Research and development costs
    a. are intangible assets.
    b. may result in the development of a patent.
    c. are easily identified with specific projects.
    d. All of these answer choices are correct.

Ans: b, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

84. Which of the following is **not** considered research and development costs?
    a. Planned search or critical investigation aimed at discovery of new knowledge.
    b. Translation of research findings or other knowledge into a plan or design for a new product or process.
    c. Translation of research findings or other knowledge into a significant improvement of an existing product.
    d. Cost of marketing research to promote a new product.

Ans: d, LO: 5, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
26.	b	35.	c	44.	c	53.	d	62.	c	71.	a	80.	d
27.	c	36.	a	45.	c	54.	c	63.	b	72.	c	81.	d
28.	a	37.	b	46.	a	55.	b	64.	a	73.	b	82.	d
29.	c	38.	d	47.	b	56.	a	65.	b	74.	a	83.	b
30.	a	39.	c	48.	d	57.	d	66.	d	75.	d	84.	d
31.	b	40.	d	49.	c	58.	a	67.	c	76.	a		
32.	d	41.	b	50.	a	59.	b	68.	c	77.	d		
33.	d	42.	c	51.	c	60.	b	69.	d	78.	a		
34.	b	43.	a	52.	b	61.	d	70.	d	79.	d		

MULTIPLE CHOICE—Computational

85. Lynne Corporation acquired a patent on May 1, 2017. Lynne paid cash of $90,000 to the seller. Legal fees of $2,000 were paid related to the acquisition. What amount should be debited to the patent account?
    a. $2,000
    b. $88,000
    c. $90,000
    d. $92,000

Ans: d, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

86. Contreras Corporation acquired a patent on May 1, 2017. Contreras paid cash of $35,000 to the seller. Legal fees of $1,500 were paid related to the acquisition. What amount should be debited to the patent account?
    a. $1,500
    b. $33,500
    c. $35,000
    d. $36,500

Ans: d, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

87. Mini Corp. acquires a patent from Maxi Co. in exchange for 2,500 shares of Mini Corp.'s $5 par value common stock and $90,000 cash. When the patent was initially issued to Maxi Co., Mini Corp.'s stock was selling at $7.50 per share. When Mini Corp. acquired the patent, its stock was selling for $9 a share. Mini Corp. should record the patent at what amount?
    a. $102,500
    b. $108,750
    c. $112,500
    d. $90,000

Ans: c, LO: 1, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

88. Alonzo Co. acquires 3 patents from Shaq Corp. for a total of $280,000. The patents were carried on Shaq's books as follows: Patent AA: $5,000; Patent BB: $2,000; and Patent CC: $3,000. When Alonzo acquired the patents their fair values were: Patent AA: $20,000; Patent BB: $240,000; and Patent CC: $60,000. At what amount should Alonzo record Patent BB?
    a. $93,333
    b. $186,666
    c. $2,000
    d. $210,000

Ans: d, LO: 1, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

89. Jeff Corporation purchased a limited-life intangible asset for $375,000 on May 1, 2016. It has a useful life of 10 years. What total amount of amortization expense should have been recorded on the intangible asset by December 31, 2018?
    a. $ -0-
    b. $75,000
    c. $100,000
    d. $112,500

Ans: c, LO: 1, Bloom: AP, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

90. Rich Corporation purchased a limited-life intangible asset for $450,000 on May 1, 2016. It has a useful life of 10 years. What total amount of amortization expense should have been recorded on the intangible asset by December 31, 2018?
    a. $ -0-.
    b. $90,000
    c. $120,000
    d. $135,000

Ans: c, LO: 1, Bloom: AP, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

91. Thompson Company incurred research and development costs of $100,000 and legal fees of $40,000 to acquire a patent. The patent has a legal life of 20 years and a useful life of 10 years. What amount should Thompson record as Patent Amortization Expense in the first year?
    a. $ -0-.
    b. $ 4,000.
    c. $ 7,000.
    d. $14,000.

Ans: b, LO: 1, Bloom: AP, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

92. ELO Corporation purchased a patent for $135,000 on September 1, 2016. It had a useful life of 10 years. On January 1, 2018, ELO spent $33,000 to successfully defend the patent in a lawsuit. ELO feels that as of that date, the remaining useful life is 5 years. What amount should be reported for patent amortization expense for 2018?
   a. $30,900.
   b. $30,000.
   c. $28,200.
   d. $23,400.

Ans: b, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

93. Danks Corporation purchased a patent for $405,000 on September 1, 2016. It had a useful life of 10 years. On January 1, 2018, Danks spent $99,000 to successfully defend the patent in a lawsuit. Danks feels that as of that date, the remaining useful life is 5 years. What amount should be reported for patent amortization expense for 2018?
   a. $92,700.
   b. $90,000.
   c. $84,600.
   d. $70,200.

Ans: b, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

94. The general ledger of Vance Corporation as of December 31, 2018, includes the following accounts:

Copyrights	$ 50,000
Deposits with advertising agency (will be used to promote goodwill)	27,000
Discount on bonds payable	70,000
Excess of cost over fair value of identifiable net assets of Acquired subsidiary	480,000
Trademarks	90,000

In the preparation of Vance's balance sheet as of December 31, 2018, what should be reported as total intangible assets?
   a. $570,000.
   b. $597,000.
   c. $620,000.
   d. $647,000.

Ans: c, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

95. In January, 2013, Findley Corporation purchased a patent for a new consumer product for $960,000. At the time of purchase, the patent was valid for fifteen years. Due to the competitive nature of the product, however, the patent was estimated to have a useful life of only ten years. During 2018 the product was determined to be obsolete due to a competitors new product. What amount should Findley charge to expense during 2018, assuming amortization is recorded at the end of each year?
   a. $640,000.
   b. $480,000.
   c. $96,000.
   d. $64,000.

Ans: b, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

96. Day Company purchased a patent on January 1, 2017 for $640,000. The patent had a remaining useful life of 10 years at that date. In January of 2018, Day successfully defends the patent at a cost of $288,000, extending the patent's life to 12/31/29. What amount of amortization expense would Day record in 2018?
   a. $64,000
   b. $72,000
   c. $77,000
   d. $96,000

Ans: b, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

97. On January 2, 2017, Klein Co. bought a trademark from Royce, Inc. for $2,000,000. An independent research company estimated that the remaining useful life of the trademark was 10 years. Its unamortized cost on Royce's books was $1,500,000. In Klein's 2017 income statement, what amount should be reported as amortization expense?
   a. $200,000.
   b. $150,000.
   c. $100,000.
   d. $ 75,000.

Ans: a, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

98. A company acquires a patent for a drug with a remaining legal and useful life of six years on January 1, 2016 for $3,000,000. The company uses straight-line amortization for patents. On January 2, 2018, a new patent is received for a timed-release version of the same drug. The new patent has a legal and useful life of twenty years. The least amount of amortization that could be recorded in 2018 is
   a. $500,000.
   b. $100,000.
   c. $136,362.
   d. $115,000.

Ans: b, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

99. Blue Sky Company's 12/31/18 balance sheet reports assets of $7,000,000 and liabilities of $2,800,000. All of Blue Sky's assets' book values approximate their fair value, except for land, which has a fair value that is $420,000 greater than its book value. On 12/31/18, Horace Wimp Corporation paid $7,140,000 to acquire Blue Sky. What amount of goodwill should Horace Wimp record as a result of this purchase?
   a. $ -0-
   b. $140,000
   c. $2,520,000
   d. $2,940,000

Ans: c, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

100. Dotel Company's 12/31/18 balance sheet reports assets of $12,000,000 and liabilities of $5,000,000. All of Dotel's assets' book values approximate their fair value, except for land, which has a fair value that is $800,000 greater than its book value. On 12/31/18, Egbert Corporation paid $12,200,000 to acquire Dotel. What amount of goodwill should Egbert record as a result of this purchase?
   a. $ -0-
   b. $ 200,000
   c. $4,400,000
   d. $5,200,000

Ans: c, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

101. Floyd Company purchases Haeger Company for $2,400,000 cash on January 1, 2018. The book value of Haeger Company's net assets, as reflected on its December 31, 2017 balance sheet is $1,860,000. An analysis by Floyd on December 31, 2017 indicates that the fair value of Haeger's tangible assets exceeded the book value by $180,000, and the fair value of identifiable intangible assets exceeded book value by $135,000. How much goodwill should be recognized by Floyd Company when recording the purchase of Haeger Company?
   a. $ -0-
   b. $540,000
   c. $360,000
   d. $225,000

Ans: d, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

102. General Products Company bought Special Products Division in 2017 and appropriately recorded $750,000 of goodwill related to the purchase. On December 31, 2018, the fair value of Special Products Division is $6,000,000 and it is carried on General Product's books for a total of $5,100,000, including the goodwill. An analysis of Special Products Division's assets indicates that goodwill of $600,000 exists on December 31, 2018. What goodwill impairment should be recognized by General Products in 2018?
   a. $0.
   b. $300,000.
   c. $75,000.
   d. $450,000.

Ans: a, LO: 4, Bloom: AP, Difficulty: Easy, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

103. During 2018, Bond Company purchased the net assets of May Corporation for $2,200,000. On the date of the transaction, May had $600,000 of liabilities. The fair value of May's assets when acquired were as follows:

Current assets	$ 1,080,000
Noncurrent assets	2,520,000
	$3,600,000

How should the $800,000 difference between the fair value of the net assets acquired ($3,000,000) and the cost ($2,200,000) be accounted for by Bond?

a. The $800,000 difference should be credited to retained earnings.
b. The $800,000 difference should be recognized as a gain.
c. The current assets should be recorded at $1,080,000 and the noncurrent assets should be recorded at $1,720,000.
d. A deferred credit of $800,000 should be set up and then amortized to income over a period not to exceed forty years.

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

104. Dennis Company purchases Miles Company for $5,000,000 cash on January 1, 2018. The book value of Miles Company's net assets reported on its December 31, 2017 financial statement was $3,600,000. An analysis indicated that the fair value of Miles's tangible assets exceeded the book value by $600,000, and the fair value of identifiable intangible assets exceeded book value by $320,000. Determine the fair value of identifiable net assets used to record goodwill.

a. $280,000.
b. $4,520,000.
c. $4,200,000.
d. $3,600,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

105. Dennis Company purchases Miles Company for $4,200,000 cash on January 1, 2018. The book value of Miles Company's net assets reported on its December 31, 2017 financial statement was $3,600,000. An analysis indicated that the fair value of Miles's tangible assets exceeded the book value by $600,000, and the fair value of identifiable intangible assets exceeded book value by $320,000. What amount of gain or goodwill is recognized by Dennis?

a. $920,000 gain.
b. $600,000 goodwill.
c. $320,000 gain.
d. $320,000 goodwill.

Ans: c, LO: 3, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

106. The following information is available for Barkley Company's patents:

Cost	$3,440,000
Carrying amount	1,920,000
Expected future net cash flows	1,600,000
Fair value	1,300,000

Barkley would record a loss on impairment of
a. $ 320,000.
b. $ 620,000.
c. $1,920,000.
d. $1,840,000.

Ans: b, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

107. Harrel Company acquired a patent on an oil extraction technique on January 1, 2017 for $7,500,000. It was expected to have a 10 year life and no residual value. Harrel uses straight-line amortization for patents. On December 31, 2018, the future cash flows expected from the patent were $900,000 per year for the next eight years. The present value of these cash flows, discounted at Harrel's market interest rate, is $4,200,000. At what amount should the patent be carried on the December 31, 2018 balance sheet?
a. $7,500,000
b. $7,200,000
c. $6,000,000
d. $4,200,000

Ans: c, LO: 4, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

108. Malrom Manufacturing Company acquired a patent on a manufacturing process on January 1, 2017 for $5,000,000. It was expected to have a 10 year life and no residual value. Malrom uses straight-line amortization for patents. On December 31, 2018, the future cash flows expected from the patent were $400,000 per year for the next eight years. The present value of these cash flows, discounted at Malrom's market interest rate, is $2,400,000. At what amount should the patent be carried on the December 31, 2018 balance sheet?
a. $5,000,000
b. $4,000,000
c. $3,200,000
d. $2,400,000

Ans: d, LO: 4, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

109. Twilight Corporation acquired End-of-the-World Products on January 1, 2017 for $6,400,000, and recorded goodwill of $1,200,000 as a result of that purchase. At December 31, 2018, the End-of-the-World Products Division had a fair value of $5,440,000. The net identifiable assets of the Division (excluding goodwill) had a fair value of $4,740,000 at that time. What amount of loss on impairment of goodwill should Twilight record in 2018?
a. $ -0-
b. $500,000
c. $460,000
d. $960,000

Ans: b, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

110. Jenks Corporation acquired Linebrink Products on January 1, 2018 for $8,000,000, and recorded goodwill of $1,700,000 as a result of that purchase. At December 31, 2018, Linebrink Products had a fair value of $6,800,000. The net identifiable assets of the Linebrink (excluding goodwill) had a fair value of $5,800,000 at that time. What amount of loss on impairment of goodwill should Jenks record in 2018?

a. $ -0-
b. $700,000
c. $500,000
d. $1,200,000

Ans: b, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

111. Platteville Corporation has the following account balances at 12/31/18:

Amortization expense	$ 20,000
Goodwill	280,000
Patent, net of $60,000 amortization	160,000

What amount should Platteville report for intangible assets on the 12/31/18 balance sheet?

a. $160,000
b. $220,000
c. $440,000
d. $460,000

Ans: c, LO: 4, Bloom: AP, Moderate: Easy, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

112. Hall Co. incurred research and development costs in 2018 as follows:

Materials used in research and development projects	$ 950,000
Equipment acquired that will have alternate future uses in future research and development projects	3,000,000
Depreciation for 2018 on above equipment	500,000
Personnel costs of persons involved in research and development projects	750,000
Consulting fees paid to outsiders for research and development projects	300,000
Indirect costs reasonably allocable to research and development projects	225,000
	$5,725,000

The amount of research and development costs charged to Hall's 2018 income statement should be

a. $2,000,000.
b. $2,200,000.
c. $2,725,000.
d. $5,000,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

113. Loazia Inc. incurred the following costs during the year ended December 31, 2018:

Laboratory research aimed at discovery of new knowledge	$270,000
Costs of testing prototype and design modifications	75,000
Quality control during commercial production, including routine testing of products	270,000
Construction of research facilities having an estimated useful life of 6 years but no alternative future use	360,000

The total amount to be classified and expensed as research and development in 2018 is
a. $675,000.
b. $975,000.
c. $705,000.
d. $405,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

114. MaBelle Corporation incurred the following costs in 2018:

Acquisition of R&D equipment with a useful life of 4 years in R&D projects	$800,000
Start-up costs incurred when opening a new plant	140,000
Advertising expense to introduce a new product	700,000
Engineering costs incurred to advance a product to full production stage	600,000

What amount should MaBelle record as research & development expense in 2018?
a. $ 800,000
b. $1,040,000
c. $1,400,000
d. $1,540,000

Ans: a, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

115. Leeper Corporation incurred the following costs in 2018:

Acquisition of R&D equipment with a useful life of 4 years in R&D projects	$900,000
Cost of making minor modifications to an existing product	140,000
Advertising expense to introduce a new product	700,000
Engineering costs incurred to advance a product to full production stage	800,000

What amount should Leeper record as research & development expense in 2018?
a. $1,025,000
b. $1,090,000
c. $1,500,000
d. $1,790,000

Ans: a, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

116. In 2017, Edwards Corporation incurred research and development costs as follows:

Materials and equipment	$ 110,000
Personnel	130,000
Indirect costs	170,000
	$ 410,000

These costs relate to a product that will be marketed in 2018. It is estimated that these costs will be recouped by December 31, 2020. The equipment has no alternative future use. What is the amount of research and development costs that should be expensed in 2017?

a. $0.
b. $280,000.
c. $300,000.
d. $410,000.

Ans: d, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Multiple Choice Answers—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
85.	d	91.	b	97.	a	103.	b	109.	b	115.	a
86.	d	92.	b	98.	b	104.	b	110.	b	116.	d
87.	c	93.	b	99.	c	105.	c	111.	c		
88.	d	94.	c	100.	c	106.	b	112.	c		
89.	c	95.	b	101.	d	107.	c	113.	c		
90.	c	96.	b	102.	a	108.	d	114.	a		

MULTIPLE CHOICE—CPA Adapted

117. Lopez Corp. incurred $840,000 of research and development costs to develop a product for which a patent was granted on January 2, 2015. Legal fees and other costs associated with registration of the patent totaled $160,000. On March 31, 2018, Lopez paid $350,000 for legal fees in a successful defense of the patent. The total amount capitalized for the patent through March 31, 2018 should be

a. $510,000.
b. $1,000,000.
c. $1,190,000.
d. $1,350,000.

Ans: a, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

118. On June 30, 2018, Cey, Inc. exchanged 6,000 shares of Seely Corp. $30 par value common stock for a patent owned by Gore Co. The Seely stock was acquired in 2018 at a cost of $165,000. At the exchange date, Seely common stock had a fair value of $48 per share, and the patent had a net carrying value of $310,000 on Gore's books. Cey should record the patent at

a. $165,000.
b. $180,000.
c. $288,000.
d. $310,000.

Ans: c, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

119. On May 5, 2018, MacDougal Corp. exchanged 4,000 shares of its $25 par value treasury common stock for a patent owned by Masset Co. The treasury shares were acquired in 2017 for $90,000. At May 5, 2018, MacDougal's common stock was quoted at $36 per share, and the patent had a carrying value of $115,000 on Masset's books. MacDougal should record the patent at

a. $90,000.
b. $100,000.
c. $115,000.
d. $144,000.

Ans: d, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

120. Ely Co. bought a patent from Baden Corp. on January 1, 2018, for $900,000. An independent consultant retained by Ely estimated that the remaining useful life at January 1, 2018 is 15 years. Its unamortized cost on Baden's accounting records was $450,000; the patent had been amortized for 5 years by Baden. How much should be amortized for the year ended December 31, 2018 by Ely Co.?
a. $0.
b. $45,000.
c. $60,000.
d. $90,000.

Ans: c, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

121. January 2, 2015, Koll, Inc. purchased a patent for a new consumer product for $800,000. At the time of purchase, the patent was valid for 15 years; however, the patent's useful life was estimated to be only 10 years due to the competitive nature of the product. On December 31, 2018, the product was permanently withdrawn from the market under governmental order because of a potential health hazard in the product. What amount should Koll charge against income during 2018, assuming amortization is recorded at the end of each year?
a. $ 80,000
b. $480,000
c. $560,000
d. $640,000

Ans: c, LO: 2, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

122. On January 1, 2014, Russell Company purchased a copyright for $2,500,000, having an estimated useful life of 16 years. In January 2018, Russell paid $375,000 for legal fees in a successful defense of the copyright. Copyright amortization expense for the year ended December 31, 2018, should be
a. $0.
b. $156,250.
c. $179,686.
d. $187,500.

Ans: d, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

123. Which of the following legal fees should be capitalized?

	Legal fees to obtain a copyright	Legal fees to successfully defend a trademark
a.	No	No
b.	No	Yes
c.	Yes	Yes
d.	Yes	No

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

124. Which of the following costs of goodwill should be amortized over their estimated useful lives?

	Costs of goodwill from a business combination	Costs of developing goodwill internally
a.	No	No
b.	No	Yes
c.	Yes	Yes
d.	Yes	No

Ans: a, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

125. During 2018, Leon Co. incurred the following costs:

Testing in search for process alternatives	$ 380,000
Costs of marketing research for new product	250,000
Modification of the formulation of a process	560,000
Research and development services performed by Beck Corp. for Leon	475,000

In Leon's 2018 income statement, research and development expense should be

a. $560,000.
b. $1,035,000.
c. $1,415,000.
d. $1,635,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

126. Riley Co. incurred the following costs during 2018:

Significant modification to the formulation of a chemical product	$160,000
Trouble-shooting in connection with breakdowns during commercial production	150,000
Cost of exploration of new formulas	200,000
Seasonal or other periodic design changes to existing products	185,000
Laboratory research aimed at discovery of new technology	355,000

In its income statement for the year ended December 31, 2018, Riley should report research and development expense of

a. $715,000.
b. $865,000.
c. $90,000.
d. $1,050,000.

Ans: a, LO: 5, Bloom: AP, Difficulty: Difficult, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
117.	a	119.	d	121.	c	123.	c	125.	c
118.	c	120.	c	122.	d	124.	a	126.	a

DERIVATIONS — Computational

No.	Answer	Derivation
85.	d	\$90,000 + \$2,000 = \$92,000.
86.	d	\$35,000 + \$1,500 = \$36,500.
87.	c	(2,500 X \$9) + \$90,000 = \$112,500.
88.	d	\$280,000 X (\$240,000 / \$320,000) = \$210,000.
89.	c	(\$375,000 ÷ 10) × 2 2/3 = \$100,000.
90.	c	(\$450,000 ÷ 10) × 2 2/3 = \$120,000.
91.	b	\$40,000 ÷ 10 = \$4,000.
92.	b	\$135,000 – [(\$135,000 ÷ 10) × 1 1/3] = \$117,000. (\$117,000 + \$33,000) ÷ 5 = \$30,000.
93.	b	\$405,000 – [(\$405,000 ÷ 10) × 1 1/3] = \$351,000. (\$351,000 + \$99,000) ÷ 5 = \$90,000.
94.	c	\$50,000 + \$480,000 + \$90,000 = \$620,000.
95.	b	(\$960,000 ÷ 10) × 5 = \$480,000.
96.	b	[(\$640,000 – \$64,000) + \$288,000] ÷ 12 = \$72,000.
97.	a	\$2,000,000 ÷ 10 = \$200,000.
98.	b	\$3,000,000 – [(\$3,000,000 ÷ 6) × 2] = \$2,000,000. \$2,000,000 ÷ 20 = \$100,000.
99.	c	(\$7,000,000 + \$420,000) – \$2,800,000 = \$4,620,000 \$7,140,000 – \$4,620,000 = \$2,520,000.
100.	c	(\$12,000,000 + \$800,000) – \$5,000,000 = \$7,800,000. \$12,200,000 – \$7,800,000 = \$4,400,000.
101.	d	\$1,860,000 + \$180,000 + \$135,000 = \$2,175,000. \$2,400,000 – \$2,175,000 = \$225,000.
102.	a	Since \$6,000,000 > \$5,100,000, \$0 impairment.
103.	b	\$3,000,000 – \$2,200,000 = \$800,000 gain.

DERIVATIONS — Computational (cont.)

No.	Answer	Derivation
104.	b	\$3,600,000 + \$600,000 + \$320,000 = \$4,520,000.
105.	c	\$3,600,000 + \$600,000 + \$320,000 = \$4,520,000; \$4,520,000 – \$4,200,000 = \$320,000.
106.	b	\$1,920,000 – \$1,300,000 = \$620,000.
107.	c	\$7,500,000 – [(\$7,500,000 ÷ 10) × 2] = \$6,000,000.
108.	d	\$5,000,000 – [(\$5,000,000 ÷ 10) × 2] = \$4,000,000. Since \$4,000,000 > (\$400,000 × 8), patent is reported at \$2,400,000 (present value of cash flows.
109.	b	\$5,440,000 – \$4,740,000 = \$700,000 \$1,200,000 – \$700,000 = \$500,000.
110.	b	\$6,800,000 – \$5,800,000 = \$1,000,000 \$1,700,000 – \$1,000,000 = \$700,000.
111.	c	\$280,000 + \$160,000 = \$440,000.
112.	c	\$5,725,000 – \$3,000,000 = \$2,725,000.
113.	c	\$270,000 + \$75,000 + \$360,000 = \$705,000.
114.	a	(\$800,000 ÷ 4) + \$600,000 = \$800,000.
115.	a	(\$900,000 ÷ 4) + \$800,000 = \$1,025,000.
116.	d	Expense total of \$410,000.

DERIVATIONS — CPA Adapted

117.	a	\$160,000 + \$350,000 = \$510,000.
118.	c	6,000 × \$48 = \$288,000.
119.	d	4,000 × \$36 = \$144,000.
120.	c	\$900,000 ÷ 15 = \$60,000.
121.	c	\$800,000 – [(\$800,000 ÷ 10) × 3] = \$560,000.
122.	d	(\$2,500,000 – [(\$2,500,000 ÷ 16) × 4] = \$1,875,000 (\$1,875,000 + \$375,000) ÷ 12 = \$187,500.
123.	c	Conceptual.
124.	a	Conceptual.
125.	c	\$380,000 + \$560,000 + \$475,000 = \$1,415,000.
126.	a	\$160,000 + \$200,000 + \$355,000 = \$715,000.

BRIEF EXERCISES

BE. 12-127

Remington Corporation purchases a patent from Durler Company on January 1, 2017, for $84,000. The patent has a remaining legal of 16 years. Remington feels the patent will be useful for 10 years. Assume that at January 1, 2019, the carrying amount of the patent on Remington's books is $67,200. In January, Remington spends $20,000 successfully defending a patent suit. Remington still feels the patent will be useful until the end of 2026. Prepare Remington's journal entries to record the amortization for 2017 and 2019.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 4-6, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-127

Amortization Expense	8,400	
Patents ($84,000 X 1/10 = $8,400)		8,400
Amortization Expense	10,900	
Patents [($67,200 + $20,000) X 1/8 = $10,900]		10,900

BE. 12-128

Snyder Industries had one patent recorded on its books as of January 1, 2018. This patent had a carrying amount of $252,000 and a remaining useful life of 7 years. During 2018, Snyder brought a patent infringement suit against a competitor. On October 1, 2018, Snyder received the good news that its patent was valid and that its competitor could not use the process Snyder had patented. The company incurred $90,000 to defend the patent. Compute the carrying amount of the patent that would be reported on the December 31, 2018, balance sheet, assuming monthly amortization of carrying value of the patents.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-128

	Carrying Amount	Life in Months	Amortization Per Month	Months Amortization
Patent (1/1/18)	$252,000	84	$3,000	12
Legal costs (10/1/18)	90,000	75	$1,200	3
	$342,000			

Carrying amount	$342,000
Less: Amortization of patent (12 X $3,000)	(36,000)
Legal costs amortization (3 X $1,200)....................	(3,600)
Carrying amount 12/31/18...	$302,400

BE. 12-129

On September 1, 2018, Vernon Corporation acquired Barlow Enterprises for a cash payment of $820,000. At the time of purchases, Barlow's balance sheet showed assets of $610,000, liabilities of $240,000, and owner's equity of $420,000. The fair value of Barlow's assets is estimated to be $970,000. Compute the amount of goodwill acquired by Vernon.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-129

Purchase price		$820,000
Fair value of assets	$970,000	
Fair value of liabilities	240,000	
Fair value of net assets		730,000
Value assigned to goodwill		$ 90,000

BE. 12-130

Merlin Corporation owns a patent that has a carrying amount of $600,000. Merlin expects future net cash flows from this patent to total $375,000. The fair value of the patent is $465,000. Prepare journal entry, if necessary, to record the loss on impairment.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-130

Loss on Impairment..	135,000	
Patent ($600,000 – $465,000)..................		135,000

Note: An impairment has occurred because expected net future cash flows ($505,000) are less then the carrying amount ($600,000). The loss is measured as the difference between the carrying amount and fair value ($465,000).

BE. 12-131

Weaver Corporation purchased Merando Company 3 years ago and at that time recorded goodwill of $720,000. The Division's net assets, including the goodwill, have a carrying amount of $1,200,000. The fair value of the division is estimated to be $1,100,000 and implied goodwill is $630,000. Prepare Weaver's journal entry, if necessary, to record impairment of the goodwill.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-131

Loss on Impairment ($720,000 – $630,000)........	90,000	
Goodwill		90,000

The fair value of the reporting unit ($1,100,000) is less then the carrying value ($1,200,000) — an impairment has occurred. The loss is the difference between the recorded goodwill and the implied goodwill.

EXERCISES

Ex. 12-132

Intangible assets have two main characteristics: (1) they lack physical existence, and (2) they are not financial instruments.

Instructions

(a) Explain why intangible assets are classified as assets if they have no physical existence.
(b) Explain why intangible assets are not considered financial instruments.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

Solution 12-132

(a) Intangible assets derive their value from the rights and privileges granted to the company using them which will result in future economic benefits.
(b) Intangible assets are not considered financial instruments because they do not derive their value from the right (claim) to receive cash or cash equivalents in the future.

Ex. 12-133

Intangible assets may be internally generated or purchased from another party. In either case, what costs should be included in the initial valuation of the asset is an issue.

Instructions

(a) Identify the typical costs included in the cash purchase of an intangible asset.
(b) Discuss how to determine the cost of an intangible asset acquired in a non-cash transaction.
(c) Describe how to determine the cost of several intangible assets acquired in a "basket purchase." Provide a numerical example involving intangibles being acquired for a total price of $90,000.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 8-10, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

Solution 12-133

(a) The typical costs included in the purchase of an intangible asset are: purchase price, legal fees, and other incidental expenses.
(b) In a non-cash acquisition of an intangible asset, the initial cost of the intangible is either the fair value of the consideration given or the fair value of the intangible received, whichever is more clearly evident.
(c) When several intangible assets are acquired in a "basket purchase", the cost of the individual assets is based on their relative fair values. For example:

Asset	FV	%	Allocation
Patent A	$ 60,000	60	60% x $90,000 = $ 54,000
Patent B	40,000	40	40% x $90,000 = 36,000
Totals	$100,000	100	$90,000

Ex. 12-134

Why does the accounting profession make a distinction between internally created intangible assets and purchased intangible assets?

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

Solution 12-134

When intangible assets are created internally, it is often difficult to determine the validity of any future service potential. To permit deferral of these types of costs would lead to a great deal of subjectivity because management could argue that almost any expense could be capitalized on the basis that it will increase future benefits. The cost of purchased intangible assets, however, is capitalized because its cost can be objectively verified and reflects its fair value at the date of acquisition.

Ex. 12-135

1. What are intangible assets?
2. How are limited-life intangibles accounted for subsequent to acquisition?

Ans: N/A, LO: 1, Bloom: K, Difficulty: Moderate, Min: 5, AACSB: Reflective, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

Solution 12-135

1. Intangible assets are assets that derive their value from the rights and privileges granted to the company using them. They provide services over a period of years and are normally classified as long-term assets. Examples are patents, copyrights, franchises, goodwill, trademarks, and trade names.
2. Limited-life intangibles are amortized by systematic charges to expense over their useful life. In addition, they are reviewed for impairment each year. Impairment occurs when the future net cash flows are less than the carrying amount of the intangible asset. The intangible asset is reduced for the amount by which its carrying amount exceeds its fair value at year end.

Ex. 12-136

Redstone Company spent $190,000 developing a new process, $45,000 in legal fees to obtain a patent, and $91,000 to market the process that was patented. How should these costs be accounted for in the year they are incurred?

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-136

The $190,000 should be expensed when incurred as research and development expense. The $91,000 is expensed as selling and promotion expense when incurred. The $45,000 of costs to legally obtain the patent should be capitalized and amortized over the useful or legal life of the patent, whichever is shorter.

Ex. 12-137

Intangible assets have either a limited useful life or an indefinite useful life. How should these two different types of intangibles be amortized?

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 3, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-137

Limited-life intangible assets should be amortized by systematic charges to expense over the shorter of their useful life or legal life. An intangible asset with an indefinite life is not amortized.

Ex. 12-138

What factors are considered in estimating the useful life of an intangible asset?

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-138

Factors to be considered in determining useful life are:

a. The expected use of the asset by the company.
b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.
c. Any legal, regulatory, or contractual provisions that may limit the useful life.
d. Any legal, regulatory or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost.
e. The effects of obsolescence, demand, competition, and other economic factors.
f. The level of maintenance expenditure required to obtain the expected future cash flows from the asset.

Ex. 12-139

It has been argued on the grounds of conservatism that all intangible assets should be written off immediately after acquisition. Discuss the accounting arguments against this treatment.

Ans: N/A, LO: 1, Bloom: AN, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-139

Intangible assets provide revenues over a period of years. Limited-life intangibles are therefore capitalized and amortized by systematic charges to expense over their useful life. This treatment is in accordance with the expense recognition principle—deducting expenses in the same period(s) that revenues are reported.

Ex. 12-140

Barkley Corp. obtained a trade name in January 2016, incurring legal costs of $72,000. The company amortizes the trade name over 8 years. Barkley successfully defended its trade name in January 2017, incurring $19,600 in legal fees. At the beginning of 2018, based on new marketing research, Barkley determines that the fair value of the trade name is $60,000. Estimated future net cash flows from the trade name are $64,000 on January 4, 2018.

Instructions

Prepare the necessary journal entries for the years ending December 31, 2016, 2017, and 2018. Show all computations.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 8-10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-140

2016			
Dec. 31	Amortization Expense	9,000	
	Trade Names		9,000
	($72,000 ÷ 8 years)		
2017			
Dec. 31	Amortization Expense	11,800	
	Trade Names		11,800
	[($72,000 − $9,000 + $19,600) ÷ 7 years]		
2018			
Dec. 31	Loss on Impairment	10,800	
	Trade Names		10,800

Carrying amount = $72,000 − $9,000 + $19,600 − $11,800 = $70,800
Expected future net cash flows = 64,000
Therefore, an impairment loss has occurred

Carrying amount	= $70,800
Fair value	= (60,000)
Loss on impairment	= $10,800

2018			
Dec. 31	Amortization Expense	10,000	
	Trade Names		10,000
	($60,000 ÷ 6 years)		

Ex. 12-141

Listed below is a selection of accounts found in the general ledger of Marshall Corporation as of December 31, 2018:

Accounts receivable	Research & development costs
Goodwill	Internet domain name
Organization costs	Initial operating loss
Prepaid insurance	Non-competition agreement
Radio broadcasting rights	Customer list
Premium on bonds payable	Video copyrights
Trade name	Notes receivable

Instructions

List those accounts that should be classified as intangible assets.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-141

Goodwill	Non-competition agreement
Radio broadcasting rights	Customer list
Trade name	Video copyrights
Internet domain name	

Ex. 12-142

Define the following terms.
(a) Goodwill (b) Bargain purchase

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

Solution 12-142

(a) Varying approaches are used to define goodwill. They are:
- Goodwill should be measured initially as the excess of the fair value of the acquisition cost over the fair value of the net assets acquired.
- Goodwill is sometimes defined as one or more unidentified intangible assets and identifiable intangible assets that are not reliably measurable. Examples of elements of goodwill include new channels of distribution, synergies of combining sales forces, and a superior management team.

(b) A bargain purchase occurs when the fair value of the assets purchased is higher than the cost. This situation may develop from a market imperfection. In this case, the seller would have been better off to sell the assets individually than in total. However, situations do occur (e.g., a forced liquidation or distressed sale due to the death of the company founder), in which the purchase price is less than the value of the identifiable net assets.

Ex. 12-143

Sisco Co. purchased a patent from Thornton Co. for $930,000 on July 1, 2015. Expenditures of $178,500 for successful litigation in defense of the patent were paid on July 1, 2018. Sisco estimates that the useful life of the patent will be 20 years from the date of acquisition.

Instructions

Prepare a computation of the carrying amount of the patent at December 31, 2018.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-143

Cost of patent	$930,000
Amortization 7/1/15 to 7/1/18 [($930,000 ÷ 20) × 3]	(139,500)
Carrying amount at 7/1/18	790,500
Cost of successful defense	178,500
Carrying amount	969,000
Amortization 7/1/18 to 12/31/18 [$969,000 × 1/(20 – 3) × 1/2]	(28,500)
Carrying amount at 12/31/18	$940,500

Ex. 12-144

In early January 2016, Lerner Corporation applied for a patent, incurring legal costs of $100,000. In January 2017, Lerner incurred $18,000 of legal fees in a successful defense of its patent.

Instructions

(a) Compute 2016 amortization, 12/31/16 carrying amount, 2017 amortization, and 12/31/17 carrying amount if the company amortizes the patent over 10 years.

(b) Compute the 2018 amortization and the 12/31/18 carrying amount, assuming that at the beginning of 2018, based on new market research, Lerner determines that the fair value of the patent is $76,000. Estimated future cash flows from the patent are $84,000 on January 3, 2018.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-144

(a) 2016 amortization: $100,000 ÷ 10 yrs. = $10,000
12/31/16 carrying amount: $100,000 – $10,000 = $90,000
2017 amortization: ($90,000 + $18,000) ÷ 9 yrs. = $12,000
12/31/17 carrying amount: ($90,000 + $18,000) – $12,000 = $96,000

(b) Since the expected future cash flows ($84,000) are less than the carrying amount ($96,000), an impairment loss must be computed.
Loss on impairment: $96,000 carrying amount – $76,000 fair value = $20,000
2018 amortization: $76,000 ÷ 8 yrs. = $9,500
12/31/18 carrying amount: $76,000 – $9,500 = $66,500

Ex. 12-145

A patent was acquired by Renfro Corporation on January 1, 2014, at a cost of $80,000. The useful life of the patent was estimated to be 10 years. At the beginning of 2017, Renfro spent $14,000 in successfully defending an infringement of the patent. At the beginning of 2018, Renfro purchased a patent for $21,000 that was expected to prolong the life of its original patent for 5 additional years.

Instructions
Calculate the following amounts for Renfro Corporation.
(a) Amortization expense for 2014.
(b) The balance in the Patent account at the beginning of 2017, immediately after the infringement suit.
(c) Amortization expense for 2017.
(d) The balance in the Patent account at the beginning of 2018, after purchase of the additional patent.
(e) Amortization expense for 2018.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-145

(a) $80,000 ÷ 10 yrs = $8,000
(b) $80,000 − ($8,000 × 3) + $14,000 = $70,000
(c) $70,000 ÷ (10 − 3) = $10,000
(d) $70,000 − $10,000 + $21,000 = $81,000
(e) $81,000 ÷ (10 − 4 + 5) = $7,364

Ex. 12-146

Information concerning Rothlisberger Corporation's intangible assets follows:

1. Rothlisberger incurred $70,000 of experimental and development costs in its laboratory to develop a patent which was granted on January 2, 2017. Legal fees associated with registration of the patent totaled $20,000. Rothlisberger estimates that the useful life of the patent will be 10 years; the legal life of the patent is 20 years.
2. On January 1 2017, Rothlisberger signed an agreement to operate as a franchisee of Dairy King, Inc. for an initial franchise fee of $150,000. The agreement provides that the fee is not refundable and no future services are required of the franchisor. Rothlisberger estimates the useful life of the franchise to be 15 years.
3. A trade name was purchase from Stine Company for $80,000 on May 1, 2015. Expenditures for successful litigation in defense of the trade name totaling $18,000 were paid on June 1, 2017. Rothlisberger estimates that the trade name will have an indefinite life.

Instructions
Prepare the intangible asset section of the Rothlisberger's balance sheet at December 31, 2017.

Ans: N/A, LO: 2, 4, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-146

Rothlisberger Corporation
INTANGIBLE ASSETS
December 31, 2017

Patent, net of accumulated amortization of $2,000	$ 18,000(1)
Franchise, net of accumulated amortization of 10,000	140,000(2)
Trade name	98,000(3)
Total intangible assets	$256,000

(1) [$20,000 − ($20,000 ÷ 10)]
(b) [$150,000 − ($150,000 ÷ 15)]
(c) $80,000 + $18,000

Ex. 12-147

The following information is available for Gorman Company.

1. Purchased a copyright on January 1, 2017 for $60,000. It is estimated to have a 10-year life.
2. On July 1, 2017, legal fees for successful defense of the copyright purchased on January 1, 2017, were $17,100.

Instructions
(a) Prepare the journal entries to record all the events related to the copyright during 2017.
(b) At December 31, 2018, an impairment test is performed on the copyright purchased in 2017. It is estimated that the net cash flows to be received from the copyright will be $60,000, and its fair value is $57,000. The accumulated amortization at the end of 2018 was $14,700. Compute the amount of impairment, if any, to be recorded on December 31, 2018.

Ans: N/A, LO: 2, 4, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-147

(a)

January 2, 2017		
Copyrights	60,000	
Cash		60,000
July 1, 2017		
Copyrights	17,100	
Cash		17,100
December 31, 2017		
Amortization Expenses	6,900	
Copyrights		6,900

Computation of amortization expense:

$60,000 × 1/10 = $6,000
$17,100 × 6/114 = 900
$6,900

Solution 12-147 (cont.)

(b) Computation of impairment loss:

Cost ($60,000 + $17,100)	$77,100
Less: Accumulated amortization	14,700
Carrying amount	$62,400

Carrying amount of $62,400 is greater than expected future net cash flows of $60,000. Therefore, the copyright is impaired. The impairment loss is computed as follows.

Carrying amount	$62,400
Fair value	57,000
Loss on impairment	$ 5,400

Ex. 12-148

On July 1, 2017, Vinson Corporation acquired Carley Company for $900,000 cash. At the time of purchase, Carley's balance sheet showed assets of $775,000 and liabilities of $250,000. The fair value of Carley's assets is estimated to be $950,000.

Instructions

(a) Compute the amount of goodwill acquired by Vinson.

(b) On December 31, the fair value of Carley is estimated to be $720,000 and the implied fair value of goodwill is $170,000. The carrying value of Carley's net assets, including the goodwill, at year-end is $750,000. Prepare Vinson's journal entry, if necessary, to record impairment of goodwill.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-148

(a)	Purchase price		$900,000
	Fair value of assets	$950,000	
	Fair value of liabilities	250,000	
	Fair value of net assets		700,000
	Value assigned to goodwill		$200,000
(b)	Loss on impairment ($200,000 − $170,000)	30,000	
	Goodwill		30,000

The fair value of the reporting unit ($720,000) is less than the carrying value ($750,000)—an impairment has occurred. The loss is the difference between the recorded goodwill and the implied goodwill.

Ex. 12-149

The following information relates to a patent owned by Gentry Company:

Cost	$3,400,000
Carrying amount	1,700,000
Expected future net cash flow	1,500,000
Fair value	1,200,000

Instructions

(a) Prepare the journal entry (if any) to record the impairment of the asset at December 31, 2016.

(b) Using the same assumption as part (a) above, prepare the journal entry to record amortization expense for 2017 assuming the asset has a remaining useful life of 3 years at the beginning of 2017.

(c) Using the same assumption as part (a) above, prepare the journal entry (if any) at December 31, 2017, assuming the fair value of the asset has increased to $1,900,000.

(d) Prepare the journal entry (if any) to record the impairment of the asset at December 31, 2016, assuming Gentry ceased using the patent at the end of 2016 and intends to dispose of the patent in the coming year. Gentry expects to incur a $10,000 cost of disposal.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-149

(a)	Loss on Impairment ($1,700,000 − $1,200,000)........................	500,000	
	Patent		500,000
(b)	Amortization Expense	400,000	
	Patents ($1,200,000 ÷ 3 yrs.)..		400,000

(c) No journal entry is to be recorded at December 31, 2017 due to the increase in fair value of the patent. Restoration of a previously recognized impairment loss is not permitted when the asset is expected to be held and used by the company in the future.

(d)	Loss on Impairment [$1,700,000 − ($1,200,000 − $10,000)]	510,000	
	Patent		510,000

Recoverability test: The expected future net cash flows from the asset's expected disposition is measured by the asset's net realizable value which is $1,200,000 less $10,000 equals $1,190,000. The expected future net cash flows of $1,190,000 is less than the carrying amount of the asset ($1,700,000); hence the recoverability test indicates that an impairment has occurred.

Impairment loss: The impairment loss ($510,000) is the amount by which the carrying amount of the asset ($1,700,000) exceeds the asset's fair value ($1,200,000) reduced by the estimated disposal cost ($10,000).

Ex. 12-150

Under what circumstances is it appropriate to record goodwill in the accounts? How should goodwill, properly recorded on the books, be written off in accordance with generally accepted accounting principles?

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-150

Goodwill is recorded only when it is acquired through a business combination. Goodwill acquired in a business combination is considered to have an indefinite life and therefore should not be amortized, but should be tested for impairment on at least an annual basis.

Ex. 12-151

Fred's Company is considering the write-off of a limited life intangible asset because of its lack of profitability. Explain to the management of Fred's how to determine whether a writeoff is permitted.

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Moderate, Min: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-151

Accounting standards require that if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, then the carrying amount of the asset should be assessed. The assessment or review takes the form of a recoverability test that compares the sum of the expected future cash flows from the asset (undiscounted) to the carrying amount. If the cash flows are less than the carrying amount, the asset has been impaired. The impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset. The fair value of assets is measured by their market value if an active market for them exists. If no market price is available, the present value of the expected future net cash flows from the asset may be used.

Ex. 12-152

Leon Corp. purchased Spinks Co. 4 years ago and at that time recorded goodwill of $640,000. The Spinks Division's net assets, including goodwill, have a carrying amount of $1,530,000. The fair value of the division is estimated to be $1,600,000.

Instructions

(a) Explain whether or not Leon Corp. must prepare an entry to record impairment of the goodwill. Include the entry, if necessary.
(b) Repeat instruction (a) assuming that the fair value of the division is estimated to be $1,425,000 and the implied goodwill is $480,000.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-152

(a) The fair value of the division ($1,600,000) exceeds the carrying amount of its assets ($1,530,000). Therefore, goodwill is not impaired and no entry is necessary.
(b) The fair value of the division ($1,425,000) is less than the carrying amount of its assets ($1,530,000). Therefore, goodwill is impaired. The amount of the impairment loss is $160,000, the difference between the recorded goodwill ($640,000) and the implied goodwill ($480,000).

Loss on Impairment	160,000	
Goodwill		160,000

Ex. 12-153 also delete on page 57&58

Presented below is information related to copyrights owned by Wamser Corporation at December 31, 2017.

Cost	$6,000,000
Carrying amount	5,200,000
Expected future net cash flows	4,700,000
Fair value	3,200,000

Assume Wamser will continue to use this asset in the future. As of December 31, 2017, the copyrights have a remaining useful life of 5 years.

Instructions

(a) Prepare the journal entry (if any) to record the impairment of the asset at December 31, 2017.
(b) Prepare the journal entry to record amortization expense for 2018.
(c) The fair value of the copyright at December 31, 2018 is $2,500,000. Prepare the journal entry (if any) necessary to record this increase in fair value.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 8-10, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-153

(a) December 31, 2017

Loss on Impairment	2,000,000	
Copyrights		2,000,000

Carrying amount	$5,200,000
Fair value	3,200,000
Loss on impairment	$2,000,000

(b) December 31, 2018

Amortization Expense..	640,000	
Copyrights		640,000

New carrying amount	$3,200,000
Useful life	÷ 5 years
Amortization	$ 640,000

(c) No entry necessary. Restoration of any impairment loss is not permitted for assets held for use.

Ex. 12-154

Research and development activities may include (a) personnel costs, (b) materials and equipment costs, and (c) indirect costs. What is the recommended accounting treatment for these three types of R&D costs?

Ans: N/A, LO: 5, Bloom: C, Difficulty: Moderate, Min: 4, AACSB: Analytic, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-154

(a) Personnel (labor) type costs incurred in R & D activities should be expensed as incurred.
(b) Materials and equipment costs should be expensed immediately unless the items have alternative future uses. If the items have alternative future uses, the materials should be recorded as inventories and allocated as consumed and the equipment should be capitalized and depreciated as used.
(c) Indirect costs of R & D activities should be reasonably allocated to R & D (except for general and administrative costs, which must be clearly related to be included) and expensed.

Ex. 12-155

Recently, a group of university students decided to incorporate for the purposes of selling a process to recycle the waste product from manufacturing cheese. Some of the initial costs involved were legal fees and office expenses incurred in starting the business, state incorporation fees, and stamp taxes. One student wishes to charge these costs against revenue in the current period. Another wishes to defer these costs and amortize them in the future. Which student is correct and why?

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-155

These costs are referred to as start-up costs, or more specifically organizational costs in this case. Accounting for start up costs is straightforward—expense these costs as incurred. The profession recognizes that these costs are incurred with the expectation that future revenues will occur or increased efficiencies will result. However, to determine the amount and timing of future benefits is so difficult that a conservative approach—expensing these costs as incurred—is required.

PROBLEMS

Pr. 12-156—Intangible assets.

The following transactions involving intangible assets of Minton Corporation occurred on or near December 31, 2017. Complete the chart below by writing the journal entry (ies) needed at that date to record the transaction and at December 31, 2018 to record any resultant amortization. If no entry is required at a particular date, write "none needed."

	On Date of Transaction	On December 31, 2018
1. Minton paid Grand Company $400,000 for the exclusive right to market a particular product, using the Grand name and logo in promotional material. The franchise runs for as long as Minton is in business.		
2. Minton spent $600,000 developing a new manufacturing process. It has applied for a patent, and it believes that its application will be successful.		
3. In January, 2018, Minton's application for a patent (#2 above) was granted. Legal and registration costs incurred were $210,000. The patent runs for 20 years. The manufacturing process will be useful to Minton for 10 years.		
4. Minton incurred $160,000 in successfully defending one of its patents in an infringement suit. The patent expires during December, 2021.		
5. Minton incurred $480,000 in an unsuccessful patent defense. As a result of the adverse verdict, the patent, with a remaining unamortized cost of $252,000, is deemed worthless.		
6. Minton paid Sneed Laboratories $104,000 for research and development work performed by Sneed under contract for Minton. The benefits are expected to last six years.		

Ans: N/A, LO: 2, 5, Bloom: AP, Difficulty: Moderate, Min: 12, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-156

On Date of Transaction				On December 31, 2018		
1. Franchises	400,000			1. "None needed."		
Cash.............		400,000				
2. Research and Devel. Expense...	600,000			2. "None needed."		
Cash.............		600,000				
3. Patents...............	210,000			3. Amortization Expense	21,000	
Cash.............		210,000		Patents		21,000
4. Patents...............	160,000			4. Amortization Expense	40,000	
Cash.............		160,000		Patents		40,000
5. Legal Fees Exp. ..	480,000			5. "None needed."		
Cash.............		480,000				
Loss on Patent Write-off	252,000					
Patents..........		252,000				
6. Research and Devel. Expense...	104,000			6. "None needed."		
Cash.............		104,000				

Pr. 12-157—Goodwill, impairment.

On May 31, 2018, Armstrong Company paid $3,500,000 to acquire all of the common stock of Hall Corporation, which became a division of Armstrong. Hall reported the following balance sheet at the time of the acquisition:

Current assets	$ 900,000	Current liabilities	$ 600,000
Noncurrent assets	2,700,000	Long-term liabilities	500,000
		Stockholders' equity	2,500,000
Total assets	$3,600,000	Total liabilities and stockholders' equity	$3,600,000

It was determined at the date of the purchase that the fair value of the identifiable net assets of Hall was $3,100,000. At December 31, 2018, Hall reports the following balance sheet information:

Current assets	$ 800,000
Noncurrent assets (including goodwill recognized in purchase)	2,400,000
Current liabilities	(700,000)
Long-term liabilities	(500,000)
Net assets	$2,000,000

It is determined that the fair value of the Hall division is $2,200,000. The recorded amount for Hall's net assets (excluding goodwill) is the same as fair value, except for property, plant, and equipment, which has a fair value of $200,000 above the carrying value.

Pr. 12-157 (Cont.)

Instructions

(a) Compute the amount of goodwill recognized, if any, on May 31, 2018.
(b) Determine the impairment loss, if any, to be recorded on December 31, 2018.
(c) Assume that the fair value of the Hall division is $1,950,000 instead of $2,200,000. Prepare the journal entry to record the impairment loss, if any, on December 31, 2018.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Moderate, Min: 15, AACSB: Analytic, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS: None

Solution 12-157

(a) Goodwill = Fair value of the division less the fair value of the identifiable net assets.
$3,500,000 – $3,100,000 = $400,000.

(b) No impairment loss is recorded, because the fair value of Hall ($2,200,000) is greater than the carrying value ($2,000,000) of the new assets.

(c) Computation of impairment loss:

Implied fair value of goodwill = Fair value of division less the carrying value of the division (adjusted for fair value changes), net of goodwill:

Fair value of Hall division		$1,950,000
Carrying value of division	$2,000,000	
Increase in fair value of PP&E	200,000	
Less goodwill	(400,000)	
		(1,800,000)
Implied fair value of goodwill		350,000
Carrying amount of goodwill		(400,000)
Loss on impairment		$ (50,000)

Loss on Impairment	50,000	
Goodwill		50,000

IFRS QUESTIONS

True/False Questions

1. As in GAAP, under IFRS the costs associated with research and development are segregated into two components.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS

2. Costs in the research phase are expensed under GAAP, but capitalized under IFRS.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

3. Costs in the research phase are always expensed under both IFRS and GAAP.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

4. IFRS differs from GAAP in the development phase in that costs are capitalized once technological feasibility is achieved.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

5. The increased acceptance of IFRS has caused costs associated with internally generated intangible assets to be capitalized under GAAP.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

6. IFRS permits some capitalization of internally generated intangible assets, if it is probable there will be a future benefit and the amount can be readily measured.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

7. While IFRS requires an impairment test at each reporting date for long-lived assets, it requires no such test for intangibles once a legal or useful life has been determined.

Ans: F, LO: 6, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

8. IFRS allows reversal of impairment losses when there has been a change in economic conditions or in the expected use of the asset. Under GAAP, impairment losses cannot be reversed for assets to be held and used.

Ans: T, LO: 6, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

9. IFRS and GAAP are similar in the accounting for impairments of assets held for disposal.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

10. Under GAAP, impairment loss is measured as the excess of the carrying amount over the assets discounted cash flow.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

Answers to True/False:
1. True
2. False
3. True
4. True
5. False
6. True
7. False
8. True
9. True
10. False

Multiple-Choice Questions

11. As in GAAP, under IFRS the costs associated with research and development are segregated into
    a. two components, the research phase and the production phase.
    b. two components, the research phase and the development phase.
    c. three components, the planning phase, the research phase and the production phase.
    d. three components, the analysis phase, the development phase and the production phase.

Ans: b, LO: 6, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS

12. In accounting for internally generated intangible assets, GAAP requires that
    a. all costs, no matter how immaterial, be capitalized.
    b. only material costs be capitalized.
    c. planned costs be capitalized, while costs in excess of plan be expensed.
    d. all costs be expensed.

Ans: d, LO: 6, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

13. The following costs are incurred during the research and development phases of a laser bone scanner

Laboratory research aimed at discovery of new knowledge	$800,000
Search for application of new research findings	400,000
Salaries of research staff designing new laser bone scanner	1,200,000
Material, labor and overhead costs of prototype laser scanner	850,000
Costs of testing prototype and design modifications	450,000
Engineering costs incurred to advance the laser scanner to full production stage (technological feasibility reached)	700,000

Identify which of these are research phase items and will be immediately expensed under GAAP and IFRS.

	GAAP	IFRS
a.	$1,200,000	$1,200,000
b.	$2,400,000	$1,400,000
c.	$4,400,000	$4,400,000
d.	$4,400,000	$3,700,000

Ans: a, LO: 6, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

14. The following costs are incurred during the research and development phases of a laser bone scanner

Laboratory research aimed at discovery of new knowledge	$800,000
Search for application of new research findings	400,000
Salaries of research staff designing new laser bone scanner	1,200,000
Material, labor and overhead costs of prototype laser scanner	850,000
Costs of testing prototype and design modifications	450,000
Engineering costs incurred to advance the laser scanner to full production stage (technological feasibility reached)	700,000

Identify which of these are development phase items and will be immediately expensed under GAAP and IFRS.

	GAAP	IFRS
a.	$1,200,000	$1,200,000
b.	$2,400,000	$1,400,000
c.	$2,400,000	$2,500,000
d.	$3,200,000	$2,500,000

Ans: d, LO: 6, Bloom: AP, Difficulty: Difficult, Min: 3, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

15. The primary IFRS related to intangible assets and impairments is found in
   a. IAS 38 and IAS 10.
   b. IAS 16 and IAS 36.
   c. IAS 1 and IAS 34.
   d. IAS 38 and IAS 36.

Ans: d, LO: 6, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS

16. IFRS allows reversal of impairment losses when
   a. the reversal is greater than the amount of the original impairment.
   b. the reversal falls in a subsequent fiscal year of the company's operations.
   c. there has been a change in economic conditions or in the expected use of the asset.
   d. reversal of impairment losses is never allowed.

Ans: c, LO: 6, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

17. Under GAAP, impairment losses
   a. can be reversed but only if the reversal is greater than the amount of the original impairment.
   b. can be reversed but only if the reversal falls in a subsequent fiscal year of the company's operations.
   c. cannot be reversed for assets to be held and used.
   d. none of these answer choices are correct.

Ans: c, LO: 6, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

18. IFRS and GAAP
    a. are diametrically opposed in their accounting for impairments of assets held for disposal.
    b. are similar in the accounting for impairments of assets held for disposal.
    c. are moving toward common ground in their accounting for impairments of assets held for disposal.
    d. are moving further apart in their accounting for impairments of assets held for disposal.

Ans: b, LO: 6, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS

19. Under IFRS, costs in the development phase are
    a. never capitalized, but expensed as they are under GAAP.
    b. capitalized if they exceed development phase costs incurred for previously successful ventures.
    c. capitalized once technological feasibility is achieved.
    d. capitalized on an interim basis, but then expensed prior to the end of the company's fiscal year.

Ans: c, LO: 6, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Measurement, AICPA PC: Prob. Solving, IMA: Reporting, IFRS

Answers to Multiple Choice:

11. b
12. d
13. a
14. d
15. d
16. c
17. c
18. b
19. c

Short Answer

20. Briefly describe some of the similarities and differences between GAAP and IFRS with respect to the accounting for intangible assets.

1. **Similarities** include (1) in GAAP and IFRS, the costs associated with research and development are segregated into the two components; (2) IFRS and GAAP are similar for intangibles acquired in a business combination. That is, an intangible asset is recognized separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; (3) IFRS and GAAP are similar in the accounting for impairments of assets held for disposal.

Notable **differences** are: (1) while costs in the research phase are always expensed under both IFRS and GAAP, under IFRS costs in the development phase are capitalized once technological feasibility is achieved; (2) IFRS permits some capitalization of internally generated intangible assets (e.g. brand value), if it is probable there will be a future benefit and the amount can be reliably measured. GAAP requires expensing of all costs associated with internally generated intangibles; (3) IFRS requires an impairment test at each reporting date for long-lived assets and intangibles and records an impairment if the asset's carrying amount exceeds its recoverable amount; the recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value-in-use is the future cash flows to be derived from the particular asset, discounted to present value. Under GAAP, impairment loss is measured as the excess of the carrying amount over the asset's fair value; (4) IFRS allows reversal of impairment losses for limited life intangibles when there has been a change in economic conditions or in the expected use of the asset. Under GAAP, impairment losses cannot be reversed for assets to be held and used; the impairment loss results in a new cost basis for the asset.

Ans: NA, LO: 6, Bloom: K, Difficulty: Moderate, Min: 15, AACSB: Analytic, AICPA BB: International Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS