Fundamental Accounting Principles Vol 2 (Canadian) 16th edition Larson Test Bank

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Chapter 09
Property, Plant, and Equipment and Intangibles

True / False Questions

1. Property, plant and equipment are assets held for sale.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

2. Non-current assets are any liabilities that are used in the operations of a business.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

3. Non-current assets can be divided into two groups including tangible and intangible assets. These assets are generally used in operations of a business and have useful lives extending over more than one accounting period.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

4. Land purchased as a building site is a tangible asset called property, plant and equipment and is classified under the "Long-term Investments" section on the balance sheet.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-06 Land

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5. The cost of an asset includes all normal and reasonable expenditures necessary to get it in place and ready for its intended use.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

6. If a machine is damaged during unpacking, the repairs are added to its cost.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

7. To be charged to and reported as part of the cost of property, plant and equipment, an expenditure must be normal, reasonable, and necessary in preparing the asset for its intended use.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

8. The purchase of real estate that includes land, building, and land improvements is called a lump-sum purchase.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-11 Lump-Sum Asset Purchase

9. Any expenditures for legal fees, surveying, and accrued property taxes should not be included in the cost of land.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-06 Land

10. Revenue expenditures are additional costs of property, plant and equipment that provide material benefits extending beyond the current period.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

11. Revenue expenditures are expenditures to keep assets in normal operating condition.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

12. Capital expenditures are also called balance sheet expenditures.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

13. SportsWorld spent $17,000 to remodel its store. This cost will be recognized with a debit to Store Building.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-03 Subsequent Expenditures

14. Treating small-dollar-amount capital expenditures as revenue expenditures is likely to mislead users of financial statements.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-05 Low-Cost Asset Purchases

15. The cost principle requires that an asset be recorded at the cash or cash equivalent amount given in exchange.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

16. Subsequent expenditures are purchases made after the acquisition of equipment to operate, maintain, repair, and improve it.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-03 Subsequent Expenditures

17. Because land has unlimited life, it is not subject to depreciation. Therefore, items that increase the usefulness of the land such as parking lots are also not depreciated.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-07 Land Improvements

18. Depreciation is the process of allocating the cost of a tangible asset in a rational and systematic manner over the asset's estimated useful life.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-12 Depreciation

19. Residual value is an estimate of an asset's value at the end of its useful life.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

20. Inadequacy refers to the condition where the capacity of a property, plant and equipment item is too small to meet the company's productive demands.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

21. Depreciation should always be recorded as soon as an asset is purchased.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-12 Depreciation

22. Depreciation measures the decline in market value of an asset.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

23. On the balance sheet, it is not necessary to report both the cost and the accumulated depreciation of an asset.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-13 Reporting Depreciation on Assets

24. Accumulated depreciation represents funds set aside to buy new assets when the assets currently owned are replaced.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-13 Reporting Depreciation on Assets

25. The full disclosure principle allows us to record an asset costing $50 as a revenue expenditure
FALSE

Materiality principle

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-13 Reporting Depreciation on Assets

26. Regardless of the method of depreciation, total depreciation expense will be the same over an asset's useful life.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

27. Financial accounting and tax accounting require the same recordkeeping; therefore, there should be no difference in results between the two accounting systems.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

28. Companies are required to use the straight line depreciation method for tax purposes because this method yields the lowest depreciation expense and results in the highest payment of tax.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

29. The Income Tax Act requires that companies use a declining-balance method for calculating the maximum capital cost allowance that may be claimed in any period
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

30. The most frequently used method of depreciation is the straight-line method.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

31. The cost of an asset plus its accumulated depreciation equals the asset's book value.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-13 Reporting Depreciation on Assets

32. The units of production method of depreciation charges a varying amount of expense for each period of an asset's useful life depending on its usage.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

33. An accelerated depreciation method yields smaller depreciation expense in the early years of an asset's life and larger charges in later years.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

34. The double-declining balance method is applied by (1) calculating the asset's straight-line depreciation rate, (2) doubling it, (3) subtracting residual value from cost, and (4) multiplying the rate times the cost.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

35. SportsWorld purchased store equipment for $65,000. The equipment has an estimated residual value of $6,000, with an estimated useful life of 10 years. The annual depreciation using the straight-line method will be $3,900 per year.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

36. A company is required to purchase all assets at the beginning of an accounting period so that a full year's worth of depreciation can be taken.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

37. Machinery having a four-year useful life and a residual value of $5,000 was acquired for $65,000 cash on June 28. Using the nearest whole month method, the company would recognize $11,250 for depreciation expense at the end of the first year, December 31.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-16 Partial-Year Depreciation

38. A depreciable asset that is purchased on March 18 would be depreciated for nine months of the first year, if the fiscal year ends on December 31 using nearest whole month method.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-16 Partial-Year Depreciation

39. The half year rule is the partial-year depreciation method that calculates depreciation by determining if the asset was used for more than half of the month.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-16 Partial-Year Depreciation

40. Because depreciation is based on predictions of residual value and useful life, depreciation is an estimate.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-15 Depreciation Methods

41. Machinery after two years worth of depreciation has an opening book value of $6,400. At the beginning of the third year, the predicted number of years remaining in its useful life changes from three years to four years and its estimated residual value changes from the original $1,000 to $400. The revised annual depreciation using the straight-line method is $1,500.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

42. An asset that cost $5,000 has a current book value of $2,000. A revision of the useful life of the asset estimates the asset has a remaining useful life of four years and will have a residual value of $400. Using the straight-line method, the revised depreciation will be $500 per year.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

43. When the cost of the asset changes because of a subsequent capital expenditure, revised depreciation for current and future periods must be calculated and adjusted.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

44. Depreciation amounts can be revised because of changes in the estimates for residual value, useful life or because of subsequent revenue expenditures.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

45. An asset with a current book value of $5,000 has a current market value of $2,000. The company should recognize an impairment loss of $3,000.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

46. If the book value of a property, plant and equipment item is less than the amount to be recovered through the asset's use or sale, the difference is an impairment loss and the asset is described as impaired.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

47. Impairment can result from a variety of situations that include a significant decline in an asset's market value or a major adverse effect caused by technological, economic, or legal factors.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

48. Impairment losses must be assessed by companies on an annual basis.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

49. The gain or loss from disposal of property, plant and equipment is the difference between an asset's book value and the value received.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

50. Property, plant and equipment can be disposed of by discarding, sale, or exchange of the asset.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-20 Discarding PPE

51. The first step in accounting for the disposal of property, plant and equipment is calculating the gain or loss on disposal.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-20 Discarding PPE

52. Equipment costing $14,000 with accumulated depreciation of $10,000 was sold for $3,000. The company should recognize a $1,000 loss on disposal of the equipment.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-21 Selling PPE

53. At the time a plant asset is being discarded or sold, it is necessary to update the accumulated depreciation of the plant asset to the date of disposal.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-20 Discarding PPE

54. When accumulated depreciation equals the asset's cost, the asset is fully depreciated. The entry to record the removal of the asset is called exchanging the equipment.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

55. When assigning values to an exchange of assets you should use the fair value of the asset given up.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

56. When assigning values to an exchange of assets you should always use the fair value of the asset received.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

57. A patent is an exclusive right granted to its owner to manufacture and sell a patented machine or device, or to use a process, for a specified period of time.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-25 Patents

58. Intangible assets should be amortized over their anticipated legal, regulatory, contractual, competitive or economic life.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-24 Accounting for Intangible Assets

59. Amortization is the process of allocating the cost of intangibles over their estimated useful life.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-24 Accounting for Intangible Assets

60. Drilling rights are legal permissions to extract natural resources from the earth and are treated as intangible assets.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-27 Mineral Resources

61. Intangible assets provide rights, privileges, and competitive advantages to the owner, are used in operations, and have no physical substance.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-23 Intangible Assets

62. A copyright gives its owner the exclusive right to publish and sell a musical, literary, or artistic work during the life of the creator plus 20 years.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-26 Copyrights

63. The cost of developing, maintaining, or enhancing the value of a trademark is capitalized, or added to the value of the asset when incurred.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-28 Trademarks and Trade Names

64. Goodwill is an intangible asset.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-23 Intangible Assets

65. Goodwill is not depreciated or amortized but is instead decreased only if its value has been determined by management to be impaired .
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

66. Goodwill is depreciated over its useful life as estimated by the business's management.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

67. Goodwill is written down to its fair value if the fair value is less than its carrying value.
TRUE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

68. The impairment of goodwill appears directly on the statement of changes in equity and not on the income statement.
FALSE

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

Multiple Choice Questions

69. On January 1 of this year, SportsWorld purchased a new cash register for $5,400. This register has a useful life of 10 years and a residual value of $400. Using the double-declining-balance method, how much depreciation expense should SportsWorld recognize for next year?
A. $500.
B. $540.
C. $1,000.
D. $864.
E. $1,080.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

70. SportsWorld purchased equipment costing $10,000. The equipment has a residual value of $1,000, and an estimated useful life of 5 years or 36,000 shoes. Actual units produced during the year were 7,000 units. Calculate annual depreciation using the straight line method.
A. $1,800.
B. $4,000.
C. $1,450.
D. $2,000.
E. $1,750.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

71. On October 1 of this year, SportsWorld purchased a delivery van for $23,000 with a residual value of $3,000. The van has an estimated useful life of 5 years. Using straight-line depreciation and the half-year rule, how much depreciation expense should SportsWorld recognize on December 31 of this year?
A. $1,000.
B. $1,333.
C. $1,465.
D. $2,000.
E. $4,600.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-16 Partial-Year Depreciation

72. SportsWorld uses straight-line depreciation for a piece of equipment that cost $12,000, had a trade-in value of $2,000, and a five-year service life. At the end of the third year, the trade-in value was revised to $1,200 and the useful life increased to a total of 6 years. Calculate the amount of depreciation expense for each of the remaining years of the asset's useful life.
A. $1,000.
B. $1,467.
C. $1,800.
D. $1,600.
E. $2,160.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

73. JoyCo acquired equipment on April 1, 2017, at a cost of $90,000 and with an estimated useful life of 10 years. The machine has a residual value of $10,000. JoyCo uses the double-declining-balance method of depreciation. How much depreciation should be recorded by JoyCo for the year ended December 31, 2017?
A. $8,000
B. $9,000
C. $10,000
D. $13,500
E. $12,000

1/10 × 2 = 20% depreciation rate
$90,000 × 20% × 9/12 = $13,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

74. SportsWorld bought a new display case for $12,000 and was given a trade-in of $2,000 on an old display case. The old case had an original cost of $7,000 and accumulated depreciation of $4,000 to the date of trade-in. SportsWorld should record the new display case at:
A. $10,000.
B. $10,500.
C. $11,500.
D. $11,700.
E. $12,000.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

75. At the end of the year, SportsWorld completed an asset impairment test and noted that a piece of equipment, with a book value of 12,000, has a recoverable value of $2,000. Calculate the amount of impairment loss on the equipment.
A. $2,000.
B. $2,160.
C. $14,800.
D. $12,800.
E. $10,000.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

76. SportsWorld purchased property for a building site. The costs associated with the property were:

Purchase Price	$175,000
Real Estate Commissions	$15,000
Legal Fees	$800
Expense of clearing land	$2,000
Expense to remove old building	$1,000

What portion of these costs should be allocated to the cost of the land and what portion should be allocated to the cost of the new building?
A. $150,000 to Land; $18,800 to Building.
B. $190,000 to Land; $3,800 to Building.
C. $190,800 to Land; $3,000 to Building.
D. $192,800 to Land; $1,000 to Building.
E. $193,800 to Land; $0 to Building.

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-06 Land

77. SportsWorld uses straight-line depreciation for a piece of equipment that cost $12,000, had a salvage value of $2,000, and a five-year service life. At the end of the first year, an impairment loss of $2,000 was recognized on the asset. Calculate the amount of depreciation expense for each of the remaining years of the asset's useful life.

A. $1,500.
B. $1,600.
C. $2,500.
D. $1,800.
E. $2,000.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-17 Revising Depreciation Rates
Topic: 09-18 Impairment of PPE Assets

78. Sports Med sold an X-ray machine that originally cost $100,000 for $60,000. The accumulated depreciation on the machine to the date of sale was $40,000. On this sale, Sports Med should recognize:

A. $0 gain or loss.
B. $20,000 gain.
C. $25,000 gain.
D. $40,000 loss.
E. $60,000 gain.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-21 Selling PPE

79. Creek Construction purchased a machine for $26,000. It traded in an old machine and received a $4,200 trade-in allowance. The old machine cost $24,000 and had accumulated depreciation of $16,000 to the date of trade-in. At what value should be new asset be recorded?

A. $21,800.
B. $24,000.
C. $26,000.
D. $29,800.
E. $30,200.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

80. SportsWorld purchased a machine for $190,000. The machine has a useful life of 8 years and a residual value of $10,000. SportsWorld estimates that the machine could produce 750,000 units of product over its useful life. In the first year, 95,000 units were produced. In the second year, production increased to 111,000 units. Using the units-of-production method, what is the amount of depreciation that should be recorded for the second year?

A. $26,640.
B. $22,800.
C. $28,000
D. $36,000.
E. $49,440.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

81. SportsWorld purchased property for $100,000. The property included a building, parking lot, and land. The building was appraised at $65,000; the land at $40,000; and the parking lot at $10,000. To the nearest dollar, the value of the land to be recorded in the books should be:

A. $56,522.
B. $40,000.
C. $34,783.
D. $36,364.
E. $48,696.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-11 Lump-Sum Asset Purchase

82. A machine that cost $40,000 and had accumulated depreciation of $30,000 was traded in on a new machine, which had an estimated 20-year life and a cash price of $50,000. If a $7,000 trade-in allowance was received on the old machine, the new machine should be valued at:

A. $10,000.
B. $40,000.
C. $47,000.
D. $50,000.
E. $53,000.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

83. When originally purchased, a vehicle had cost $23,000, with an estimated residual value of $1,500, and an estimated useful life of 8 years. After 4 years of straight-line depreciation, the estimated useful life was revised from 8 to 6 years, but with zero residual value. The depreciation expense in year 5 should be:
A. $5,543.75.
B. $2.687.50.
C. $6,125.00.
D. $10,750.00.
E. $2,856.25.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

84. SportsWorld discarded a display case it had purchased for $8,000. $7,200 in accumulated depreciation had been recorded to the date of sale. SportsWorld should recognize a gain or loss on disposal of:
A. $0.
B. $800 loss.
C. $800 gain.
D. $8,000 loss.
E. $7,200 loss.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-20 Discarding PPE

85. On April 3, 2015, Rainbow Studios purchased a patent for $56,000. Its remaining legal life is 7 years and Rainbow Studios estimates that the patent will be useful for another 4 years. The correct adjusting entry to record amortization of the patent on December 31, 2015 is:

A.
Amortization Expense—Patent	14,000	
Accumulated Amortization - Patent		14,000

B.
Amortization Expense—Patent	8,000	
Accumulated Amortization - Patent		8,000

C.
Amortization Expense—Patent	10,500	
Accumulated Amortization - Patent		10,500

D.
Amortization Expense—Patent	6,000	
Accumulated Amortization - Patent		6,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-25 Patents

86. A machine originally had an estimated service life of 5 years, and after 3 years, it was decided that the original estimate should have been for 10 years. The remaining cost to be depreciated should be allocated over the next:
A. 2 years.
B. 5 years.
C. 6 years.
D. 7 years.
E. 10 years.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

87. A change in accounting estimate is:
A. Reflected only in current and future financial statements.
B. Reflected in current and future financial statements and also requires modification of past statements.
C. A change in a calculated amount used in the financial statements resulting from new information or subsequent developments and from better insight or improved judgment.
D. Both reflected only in current and future financial statements and a change in a calculated amount used in the financial statements resulting from new information or subsequent developments and from better insight or improved judgment.
E. None of these answers is correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

88. Creek Construction owned a bulldozer which was destroyed by fire. The bulldozer originally cost $38,000. The accumulated depreciation recorded to the date of loss was $20,000. The proceeds from the insurance company were $20,000. Creek Construction should recognize:
A. A loss of $2,000.
B. An expense of $2,000.
C. A loss of $38,000.
D. A gain of $20,000.
E. A gain of $2,000.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-20 Discarding PPE

89. A main accounting issue for property, plant and equipment is:
A. The cost of property, plant and equipment.
B. Testing property, plant and equipment for impairment.
C. Accounting for repairs and improvements to property, plant and equipment.
D. Disposal of property, plant and equipment.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

90. If the book value (or carrying amount) of a PPE item is greater than the amount to be recovered through the asset's use or sale, the asset is said to be:
A. Exchanged.
B. Declined.
C. Accumulated.
D. Improved.
E. Impaired.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

91. Inadequacy refers to:
A. The condition where the capacity of a property, plant and equipment asset is too small to meet the company's productive demands.
B. An asset that is worn out.
C. An asset that is no longer useful.
D. The same as obsolescence.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

92. Residual value is:
A. The same as an asset's service life.
B. The cost of an asset minus its accumulated depreciation.
C. An estimate of the asset's value at the end of its useful life.
D. Another name for market value.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

93. Once the estimated depreciation for an asset is calculated:
A. It cannot be changed due to the historical cost principle.
B. It may be revised based on new information.
C. Any changes are accumulated and recognized when the asset is sold.
D. The estimate itself cannot be changed, however, new information should be disclosed in financial statement footnotes.
E. It may be revised based on new information and any changes are accumulated and recognized when the asset is sold.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-04 Explain and calculate revised depreciation.
Topic: 09-17 Revising Depreciation Rates

94. Subsequent capital expenditures:
A. Are expenditures making a property, plant and equipment asset more efficient.
B. Are often called improvements.
C. Are added to the cost of the asset.
D. Often extend an asset's useful life.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-03 Subsequent Expenditures

95. Natural resources:
A. Include trees, mineral deposits, and oil and gas fields.
B. Are consumed when used.
C. Are long-term assets.
D. Can be amortized.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-27 Mineral Resources

96. Property, plant and equipment include:
A. Land.
B. Land improvements.
C. Buildings.
D. Machinery and equipment.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

97. Intangible assets:
A. Are rights, privileges, and competitive advantages to the owner, used in operations, having no physical substance.
B. Include patents, leaseholds, and land improvements.
C. Can be amortized.
D. Are rights, privileges, and competitive advantages to the owner, used in operations, having no physical substance and can be amortized.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-23 Intangible Assets

98. Additional subsequent expenditures that result in future economic benefits and can be reliably measured should be treated as a(n):
A. Revenue expenditure.
B. Asset expenditure.
C. Capital expenditure.
D. Contributed capital expenditure.
E. Balance sheet expenditure.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-03 Subsequent Expenditures

99. Factor(s) that might limit an intangible asset's useful life include:
A. Legal.
B. Regulatory.
C. Contractual.
D. Economic.
E. All of the above answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-24 Accounting for Intangible Assets

100. The cost of land can include:
A. Purchase price.
B. Back property taxes.
C. Costs of removing existing buildings.
D. Real estate commissions.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-06 Land

101. Each year goodwill is examined to see if its value has been impaired. If the value has been impaired goodwill will:
A. Increase.
B. Not change.
C. Decrease.
D. Be amortized.
E. Be depreciated.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

102. The formula for calculating straight-line depreciation is:
A. Depreciable cost divided by the useful life in years.
B. Cost plus residual value divided by the useful life in years.
C. Depreciable cost divided by useful life in units.
D. Cost divided by useful life in years.
E. Cost divided by useful life in units.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

103. Ordinary repairs:
A. Are expenditures to keep an asset in normal operating condition.
B. Do not extend an asset's useful life.
C. Do not materially increase the asset's life or productive capabilities.
D. Maintain an asset.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

104. The straight-line method and the double-declining-balance method of depreciation:
A. Produce the same total depreciation over an asset's useful life.
B. Allocate an asset's cost in a systematic and rational manner.
C. Do not produce the same book value each year.
D. Are both acceptable for GAAP.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

105. The appropriate way to amortize goodwill is:
A. Straight-line over a maximum of 40 years.
B. Straight-line over a maximum of 20 years.
C. Double-declining-balance over a period not to exceed 20 years.
D. Over the estimated useful life of the goodwill.
E. Goodwill is not amortized or depreciated.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

106. Legal permissions for the extraction of oil and gas from the earth are known as:
A. Trademarks.
B. Patents.
C. Drilling rights.
D. Copyrights.
E. Leaseholds.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-27 Mineral Resources

107. An asset can be disposed of by:
A. Discarding.
B. Selling.
C. Exchanging.
D. Donating it to charity.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

108. Revenue expenditures:
A. Are additional costs related to property, plant and equipment that do not materially increase the asset's life.
B. Are balance sheet expenditures.
C. Extend the asset's useful life.
D. Benefit future periods.
E. Are debited to asset accounts.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

109. Depreciation is usually recorded:
A. From the beginning of the accounting year in which an asset is purchased.
B. From the actual date of purchase.
C. From the first of the month nearest the actual purchase date.
D. From the end of the month nearest the actual purchase date.
E. By any of the above methods.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-16 Partial-Year Depreciation

110. Land improvements are:
A. Assets that increase the usefulness of land, but that have a limited useful life.
B. Assets that increase the usefulness of land, and like land are not depreciated.
C. Included in the land account.
D. Expensed in the period incurred.
E. Never depreciated.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-07 Land Improvements

111. Which of the following statements is true with respect to intangible assets?
A. Goodwill is an intangible asset that is amortized and tested for impairment.
B. Intangible assets are amortized over a period of 50 years.
C. Intangible assets should be evaluated each year to determine if there has been any impairment in their value.
D. Intangible assets are expensed to income in the year they are acquired.
E. An intangible asset is recorded at market value when the asset is acquired.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-23 Intangible Assets

112. A patent:
A. Gives the owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 50 years.
B. Is an exclusive right granted to its owner to manufacture and sell a machine or device, or to use a process, for 20 years.
C. Is an exclusive right granted to its owner to manufacture and sell a machine or device, or to use a process, for 50 years.
D. The amount by which the value of a company exceeds the fair market value of a company's net assets if purchased separately.
E. Gives the owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 20 years.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-25 Patents

113. A copyright:
A. Gives the owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 50 years.
B. Is an exclusive right granted to its owner to manufacture and sell a machine or device, or to use a process, for 20 years.
C. Is an exclusive right granted to its owner to manufacture and sell a machine or device, or to use a process, for 50 years.
D. The amount by which the value of a company exceeds the fair market value of a company's net assets if purchased separately.
E. Gives the owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 20 years.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-26 Copyrights

114. Capital cost allowance:
A. Is the income tax act equivalent of depreciation.
B. Is acceptable for financial reporting.
C. Is not required for tax reporting.
D. Is not used in Canada.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

115. Depreciation:
A. Measures the decline in market value of an asset.
B. Measures physical deterioration of an asset.
C. Is the process of allocating to expense the cost of property, plant and equipment.
D. Is a cause of obsolescence.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-12 Depreciation

116. SportsWorld paid $140,000 for a property. The property included land appraised at $67,500, land improvements appraised at $25,000, and a building appraised at $55,500. What should be the allocation of costs in the accounting records **(round calculations to 3 decimals)**?
A. Land $62,000; land improvements, $23,000; building, $45,000.
B. Land $62,000; land improvements, $23,800; building, $46,200.
C. Land $63,840; land improvements, $23,660; building, $52,500.
D. Land $79,500; land improvements, $32,600; building, $47,700.
E. Land $87,500; land improvements; $35,000; building; $52,500.

Accessibility: Keyboard Navigation
Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-11 Lump-Sum Asset Purchase

117. Property, plant and equipment are:
A. Tangible assets used in the operation of a business having a useful life of more than one accounting period.
B. Current assets.
C. Long-term investments.
D. Intangible assets used in the operations of a business having a useful life of more than one accounting period.
E. Tangible assets used in the operation of business having a useful life of less than one accounting period.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

118. Treating low-cost asset purchases as expenses is allowed by which principle?
A. Cost.
B. Prudence.
C. Materiality.
D. Matching.
E. Timeliness.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-05 Low-Cost Asset Purchases

119. The useful life of a property, plant and equipment asset is:
A. The length of time it is productively used in a company's operations.
B. Another term for its residual value.
C. Measured by its potential inadequacy.
D. Is impossible to estimate.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

120. Property, plant and equipment are:
A. Current assets.
B. Used in business operations.
C. Natural resources.
D. Long-term investments.
E. Never depreciated.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

121. The original cost of an asset minus accumulated depreciation is called:
A. Historical cost.
B. Book value.
C. Present value.
D. Current value.
E. Replacement cost.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

122. Obsolescence:
A. Occurs when an asset is at the end of its useful life.
B. Refers to a condition where a property, plant and equipment asset is no longer useful in producing goods and services.
C. Refers to a condition where the capacity of a property, plant and equipment asset is too small to meet the company's productive demands.
D. Is the same as inadequacy.
E. None of these answers is correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

123. A leasehold:
A. Is a short-term rental agreement.
B. Is not an intangible asset.
C. Refers to the rights granted to the lessee by the lessor in a lease.
D. Is initially recorded as rent expense.
E. Is an investment.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-29 Leaseholds

124. A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each accounting period during its useful life is called:
A. Accelerated depreciation.
B. Double-declining-balance depreciation.
C. Straight-line depreciation.
D. Units-of-production depreciation.
E. Capital cost allowance.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

125. A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each unit produced is called:
A. Accelerated depreciation.
B. Double-declining-balance depreciation.
C. Straight-line depreciation.
D. Units-of-production depreciation.
E. Capital cost allowance.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

126. A depreciation method in which a property, plant and equipment asset's depreciation expense for the period is determined by applying a constant depreciation rate each year to the asset's beginning book value is called:
A. Book value depreciation.
B. Double-declining-balance depreciation.
C. Straight-line depreciation.
D. Units-of-production depreciation.
E. Capital cost allowance.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

127. A depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years is:
A. Accelerated depreciation.
B. Book value depreciation.
C. Straight-line depreciation.
D. Units-of-production depreciation.
E. Capital cost allowance.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

128. CamCo Ltd. leased floor space in a new office building. Rent will cost $10,000 per month for a ten-year lease, but some renovations are needed and will be paid by CamCo to customize the space. The renovations include installing walls to create a new office and boardroom (cost $8,000), new flooring (cost $5,800), painting (cost $1,500) and updated wiring to accommodate computer servers (cost $8,700). How should these costs be handled for accounting purposes by CamCo?
A. Painting costs should be charged to rent expense and the other costs should be capitalized to leasehold improvements.
B. They should all be capitalized as leasehold improvements
C. They should all be charged to rent expense
D. They should be capitalized as development costs
E. Painting costs should be capitalized to leasehold improvements and other costs should be charged to rent expense

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-09 Leasehold Improvements

129. Intangible assets do not include:
A. Patents.
B. Copyrights.
C. Trademarks.
D. Goodwill.
E. Leaseholds.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-23 Intangible Assets

130. The relevant factor(s) in calculating depreciation is(are):
A. Cost.
B. Residual value.
C. Useful life.
D. Both cost and useful life.
E. All of these answers are correct.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

Short Answer Questions

131. Discuss the four issues in accounting for property, plant and equipment.

Property, plant and equipment are tangible assets used in the operations of a company and have a useful life of more than one accounting period. The four main accounting issues include

(1) calculating their costs
(2) allocating their costs to the periods they benefit
(3) accounting for subsequent expenditures such as repairs and improvements, and
(4) recording their disposal.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-01 Property, Plant, and Equipment (PPE)

132. Explain the difference between revenue and capital expenditures and how they are recorded in the accounting system.

Revenue expenditures such as repairs expire in the current accounting period. They are debited to expense and are thus matched with current revenues.
Capital expenditures such as subsequent capital expenditures benefit future periods. They are debited to asset accounts and are matched with future periods through depreciation expense.
Immaterial long-term expenditures are treated as current period expenses (materiality principle).

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

133. Mandy Manufacturing purchased a machine on August 1, 2014, and it was installed and ready to run on January 1, 2015. The following costs were incurred in the purchase and installation of the machine.

Invoice price	$ 1,300,000
Freight costs	7,000
Purchase discount	2,500
Installation costs	66,000
Electrical and power connections	32,000
Repairs to correct damage incurred during uncrating	12,000
Adjustment costs	36,000
Spare parts for future use	25,000
Provincial sales tax	91,000
Fines incurred during the transport and unloading of the machine	500
Cost of special foundation for the machine	6,500

Calculate the depreciable cost of the machine.

Invoice price	1,300,000
Freight costs	7,000
Purchase discount	(2,500)
Installation costs	66,000
Electrical and power connections	32,000
Adjustment costs	36,000
Provincial sales tax	91,000
Cost of special foundation for the machine	6,500
Total	$ 1,536,000

NOTE ALL OTHER COSTS WOULD BE EXPENSED.

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-10 Machinery and Equipment

134. Primadonna Company paid $870,000 plus $10,000 in legal costs for a parcel of real estate. This included land appraised at $350,000; land improvements appraised at $80,000; and a building appraised at $370,000. The plan is to use the building as a manufacturing plant. Determine the amounts that should be debited to:

(a) Land	$_____
(b) Land Improvements	$_____
(c) Building	$_____

Take all percentages to two decimals, e.g. 12.35%

		Appraised Cost	Percent Total		Apportioned Cost
(a)	Land	350,000	43.75%	(350,000/800,000)	385,000
(b)	Land Improvements	80,000	10.00%	(80,000/800,000)	88,000
(c)	Building	370,000	46.25%	(370,000/800,000)	407,000
	Total	800,000	100%		880,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-11 Lump-Sum Asset Purchase

135. Prepare journal entries to record the following transactions of Salem Sales Co. during the current year:

Mar 1 Purchased a truck for $50,000 with a 5 year useful life and a $10,000 residual value. Salem also paid 7% provincial sales tax, a $500 annual truck license, $3,000 to paint the truck and $1,300 for spare parts. All payments were in cash.
May 12 Purchased a garage from a neighbouring business with a $50,000 note payable. The seller's book value for the garage was $47,000 and the garage was appraised at $58,000. The estimated useful life is 12 years. Salem also paid $3,000 cash for real estate commission.
Jun 5 Paid $550 to replace garage windows broken during a hail storm.
Aug 23 Purchase used office equipment for $12,500 plus provincial sales tax of $875, terms 2/10, n30 from Great West Office Supplies. As well, Salem paid freight of $200 and reconditioning costs of $950 on credit. Estimated useful life of 4 years and a residual value of $1,000.
Sep 12 Paid for office equipment purchased on August 23.
Oct 5 Purchased store equipment for $26,700 plus $1,869 provincial sales tax. As well, Salem paid $750 for repairs incurred from an accident during installation, $4,200 for a special base for the equipment and $3,700 of supplies to be used for regular preventive maintenance. Estimated useful life is 9 years and residual value is $1,300.

Mar 1	Trucks	56,500	
	Spare Parts Inventory	1,300	
	Licence Expense	500	
	Cash		58,300
	$50,000 + (50,000 x 7%) + 3,000 = $56,500		
May12	Garage	53,000	
	Notes Payable		50,000
	Cash		3,000
Jun 5	Repairs and Maintenance Expense	550	
	Cash		550
Aug 23	Office Equipment	14,525	
	Accounts Payable		14,525
	$12,500+875+200+950= $14,525		
Sep 12	Accounts Payable	14,525	
	Cash		14,525
Oct 05	Store Equipment	32,769	
	Repairs and Maintenance Expense	750	
	Supplies	3,700	
	Cash		37,219

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$26,700+1,869+4,200=$32,769

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Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-10 Machinery and Equipment

136. Shady Lanes installed automatic sprinkler systems. The electrical work for the installation was $24,000. The invoice price of the sprinkler equipment was $280,000. Additional costs were $5,000 for delivery and $800 for insurance during transportation. During installation a sprinkler line was punctured and was replaced for $200. What is the cost of the sprinkler equipment?

$24,000 + 280,000 + 5,000 + 800 = $309,800

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-10 Machinery and Equipment

137. Twin Investments purchased land with a building for a total cost of $5,500,000 ($500,000 paid in cash and the balance on a long-term note). The appraised cost of the land and building were $3,000,000 and $2,100,000, respectively. Calculate the costs to be allocated to the land and the building and prepare the appropriate journal entry to record the acquisition. (Round all calculations to two decimals)

	Appraised Cost	Percent Total	Apportioned Cost
Land	3,000,000	58.82% (3,000,000/5,100,000)	3,235,100
Building	2,100,000	41.18% (2,100,000/5,100,000)	2,264,900
Total	5,100,000	100.00%	5,500,000

Land	3,235,100	
Building	2,264,900	
Cash		500,000
Notes Payable		5,000,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-11 Lump-Sum Asset Purchase

138. Pink Lady Co needed a new building, and found a suitable piece of land which had an old building on it. Pink Lady made an agreement to buy the land and the building for $960,000 cash. The old building was demolished to make way for the new building.

The following is information regarding the demolishing of the old building and construction of the new one:

Cost of construction of new building, which included $700,000 for a parking lot	$ 5,560,000
Demolition of old building	350,000
Proceeds from salvage materials	20,000

Prepare a single journal entry to record the above costs (assume all paid cash).

Land **		1,290,000	
Building *	4,860,000		
Land Improvements	700,000		
Cash			6,850,000

* 5,560,000- 700,000

** 960,000+350,000-20,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-06 Land

139. Alpha Co paid $180,000 to purchase a piece of land on which to build a new building. Additional costs incurred were:

Real estate broker's commissions	$10,800
Legal fees of purchasing the real estate	1,400
Landscaping expenses	6,000
Expense to demolish old house located on land	1,500
Proceeds from selling materials salvaged from old house	900

What dollar amount of the above costs should be allocated to Land and what amount should be allocated to the new Building?

$180,000 + $10,800 + $1,400 + $6,000 + $1,500 - $900 = $198,800 to Land; $-0- to the new Building account.

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-06 Land

140. SASA Company made the following expenditures in connection with the construction of its new soccer facility:

Architect's fees	8,000
Cash paid for land and old building	130,000
Removal of old building	19,000
Survey to site the new building	(6,000)
Legal fees for title search	900
Excavation for construction of basement	1,500
Machinery purchased	71,000
Storage charges on machinery because building was not ready when machinery was delivered	500
Freight on machinery purchased	1,500
Hauling charges to deliver machinery from storage to new building	500
Construction costs of new building	612,000
Landscaping	6,500
Installation of machinery	8,500

Prepare a schedule showing the amounts to be recorded as Land, Building, and Machinery and Equipment and Expenses.

	Land	Building	Machinery and Equipment	Expense
Architect's fees		8,000		
Cash paid for land and old building	130,000			
Removal of old building	19,000			
Survey to site the new building	(6,000)			
Legal fees for title search	900			
Excavation for construction of basement		1,500		
Machinery purchased			71,000	
Storage charges on machinery because building was not ready when machinery was delivered				500
Freight on machinery purchased			1,500	
Hauling charges to deliver machinery from storage to new building				500
Construction costs of new building		612,000		
Landscaping	6,500			
Installation of machinery			8,500	
	150,400	621,500	81,000	1,000

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-08 Buildings

141. How is the cost principle applied to property, plant and equipment?

Property, plant and equipment should be recorded at cost when acquired. Cost includes all normal and reasonable expenditures necessary to get the asset in place and ready for its intended use. The cost of a lump-sum purchase is allocated among its individual assets based on their relative market values.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-02 Cost of PPE

142. RoboCop Company paid $31,400 for a machine that was expected to last 5 years and have a residual value of $5,000.

During the third year of the machine's life, $3,700 was paid for replacement parts that were expected to increase the machine's productivity by 20% each year. Prepare the general journal entry to record this transaction.

Machinery	3,700	
Cash		3,700

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-10 Machinery and Equipment

143. RoboCop Company paid $31,400 for a machine that was expected to last 5 years and have a residual value of $5,000.

During the fourth year of the machine's life, $5,400 was paid for repairs that were expected to increase the service life of the machine from 5 to 7 years. Prepare the general journal entry to record this transaction.

Machinery	5,400	
Cash		5,400

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Topic: 09-10 Machinery and Equipment

144. Xeno Co. incurred the following transactions concerning its machinery:

8-Jan-14 Purchased a machine for $55,000 cash, and also paid $3,000 cash to have it installed. Estimated useful life is 10 years and residual value is $5,000. Straight line depreciation is used.

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1-Jan-15 The machine's useful life was changed from 10 years to 9.

5-Jan-15 General maintenance on the machine was completed for $800.

1-Jan-16 Paid $3,800 to replace a motor in the machine. This was considered a major overhaul, but it did not alter the machine's useful life

Xeno Co uses the calendar year as its fiscal year.

Prepare the journal entry to record depreciation expense for 2014.
Prepare the journal entry to record depreciation expense for 2015.
Prepare the journal entry to record depreciation expense for 2016.

Round all values to the nearest dollar.

31-Dec-14	Depreciation Expense, Machine	5,300	
	Accumulated Depreciation, Machine		5,300
	($58,000-5,000)/10 years		
31-Dec-15	Depreciation Expense, Machine	5,963	
	Accumulated Depreciation, Machine		5,963
	(58,000-5,300-5,000)/8 years		
31-Dec-16	Depreciation Expense, Machine	6,505	
	Accumulated Depreciation, Machine		6,505
	[(58,000-5,300-5,963+3,800)-5,000]/7 years		

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

145. On January 1, 2014, Friar Company purchased a machine for $175,000 that was expected to last 6 years and have a residual value of $16,000. On January 4, 2017, Friar Company paid $25,000 for improvements to the machine, which increased the total estimated useful life from 6 to 10 years and increased the residual value to $19,500. Friar uses straight-line depreciation.

(1) What account should be debited in the journal entry to record the $25,000 improvements?
(2) What amount of depreciation expense should be recorded for 2017?

(1) Machinery

(2) ($175,000- (3x (175,000-16,000)/6)+ $25,000 =	120,500.00
($120,500-19,500)/7=	14,428.57

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

146. Explain depreciation and the elements affecting its calculation.

Depreciation is the process of allocating to expense the cost of property, plant and equipment over the accounting periods benefiting from the use of the assets. Three factors determine depreciation: cost, residual value, and useful life.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-14 Factors in Calculating Depreciation

147. Compare the three different depreciation methods: straight-line, units of production, and double-declining balance.

The amount of depreciation expense per period is usually different for different methods. Yet total depreciation expense is the same for all methods. The straight-line method results in the same amount of depreciation for each accounting period. The units-of-production method results in depreciation expense that increases or decreases with the amount of asset usage. The double-declining-balance method is an accelerated method and yields more depreciation expense in the first years of ownership and less in later years than straight-line depreciation.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

148. Explain how each of the following depreciation methods is calculated: straight-line, units-of-production, and double-declining-balance.

Straight-line depreciation is calculated by subtracting residual value from the cost of a property, plant and equipment item and dividing the result by the useful life in years. The resulting amount is the annual depreciation expense for the asset.
Units-of-production depreciation is calculated by subtracting residual value from the cost of a property, plant and equipment item and dividing the result by the estimated number of units to be produced. The resulting amount is the depreciation expense per unit. That amount is multiplied by the number of units used during each accounting period in order to determine the total amount of depreciation expense for the period.
The double-declining-balance method uses twice the straight-line percent times the beginning book value of the asset. The resulting amount is the annual depreciation expense.

Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

149. Chervinski Industries recently paid $460,000 to buy a building that has an estimated useful life of 40 years and a residual value of $116,000. Calculate the depreciation expense for the third year after acquisition using double-declining-balance depreciation. Assume a full year of depreciation in the first year.

Annual rate is 2/40 x 100= 5%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
1	460,000 x 0.05	23,000.00	437,000.00
2	437,000 x 0.05	21,850.00	415,150.00
3	415,150 x 0.05	20,757.50	394,392.50

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

150. Dersch Co. purchased a machine on January 1, 2014, for $1,500,000. Using the table below, calculate the annual depreciation expense for each year of the machine's life (estimated at 5 years or 50,000 hours with a residual value of $150,000). During the machine's life it was used 15,000; 14,000; 10,000; 9,000; and 6,000 hours.

Year	Straight Line	Units of Production	Declining Balance
2014			
2015			
2016			
2017			
2018			

Year	(a) Straight Line	(b) Units of Production	(c) Double-Declining-Balance
2014	$270,000	$405,000	$600,000
2015	270,000	378,000	360,000
2016	270,000	270,000	216,000
2017	270,000	243,000	129,600
2018	270,000	54,000	44,400
Totals	$1,350,000	$1,350,000	$1,350,000

(a)
($1,500,000-150,000)/5 years= 270,000

(b)
Rate=(
$1,500,0
00-150,0
00)/50,00
0 hours=
$27/hour

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	15,000 hrs x $27/hr	405,000	1,095,000
2015	14,000 hrs x $27/hr	378,000	717,000
2016	10,000 hrs x $27/hr	270,000	447,000
2017	9,000 hrs x $27/hr	243,000	204,000
2018	6,000 hrs x $27/hr	Max 54,000	150,000

(c) Rate=
2/5 x
100=
40%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	1,500,000 x 0.40	600,000	900,000
2015	900,000 x 0.40	360,000	540,000
2016	540,000 x 0.40	216,000	324,000
2017	324,000 x 0.40	129,600	194,400
2018	194,400 x 0.40	Max 44,400	150,000

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

151. Twilight Manufacturing's property, plant and equipment records reveal the following information:

Equipment	Cost	Residual Value	Purchase Date	Depreciation Method	Estimated Useful Life	Units Produced in 2014
(1)	50,000	12,000	Dec1, 2013	Straight Line	5 years	2,000
(2)	60,000	8,000	Oct 18, 2014	Units of Production	50,000 units	5,000
(3)	120,000	none	June 12, 2014	Double Declining Balance	10 years	6,000
(4)	90,000	10,000	May 3, 2014	Straight Line	8 years	8,000

Calculate the depreciation expense for each equipment item for the year ended December 31, 2014, using the nearest whole month method.

Equipment		
(1)	(50,000-12,000)/5 years =	7,600
(2)	(60,000-8,000)/50,000 x 5,000 units=	5,200
(3)	2/10 x 120,000 x 7/12=	14,000
(4)	(90,000-10,000)/8 years x 8/12 =	6,667

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

152. On January 2, 2014, Far Co. purchased a machine for $525,000. The company expects the machine to last for 10 years or 50,000 hours of operation, with an estimated residual value of $15,000. During 2014 the machine was operated for 3,000 hours, while in 2015 it was operated for 2,600 hours. Calculate the depreciation expense for the machine for 2014 and 2015 using the following depreciation methods:

(a) Straight-line.
(b) Double-declining-balance.
(c) Units-of-production.

(a) ($525,000 - 15,000)/10 years = $51,000
(b) Double Declining Rate is 2/10 = 20%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	525,000 x 0.20	105,000	420,000
2015	420,000 x 0.20	84,000	336,000

(c) ($525,000 - 15,000)/50,000 hours = $10.20/hour

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	3,000 hrs x $10.20/hr	30,600	494,400
2015	2,600 hrs x $10.20/hr	26,520	467,880

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

153. On January 1, 2014, a machine costing $230,000 with a 4-year service life and an estimated $3,000 residual value was purchased. It was also estimated that the machine would produce 50,000 units during its life. The actual units produced during its first 2 years of operation were 9,000 and 10,000 respectively. Calculate the amount of depreciation expense for calendar years 2014 and 2015 under each of the following assumptions:

(a) The company uses the straight-line method of depreciation.
(b) The company uses the units-of-production method of depreciation.
(c) The company uses the double-declining-balance method of depreciation.

(a) ($230,000-3,000)/4 years= $56,750

(b) Double Declining Rate is 2/4= 50%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	230,000 x 0.50	115,000	115,000
2015	115,000 x 0.50	57,500	57,500

(c) ($230,000-3,000)/50,000 units= $4.54/unit

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	9,000 hrs x $4.54/unit	40,860	189,140
2015	10,000 hrs x $4.54/unit	45,400	143,740

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

154. On October 1, 2014, Fisherman Company purchased a light truck, at a cost of $62,000. The truck is expected to last six years and have a residual value of $5,200. Fisherman Company uses the calendar year as their fiscal year, and the nearest whole month method for depreciation.

(a) What is the depreciation expense for 2014, assuming the straight-line method is used?
(b) What is the depreciation expense for 2014 and 2015, assuming the double-declining-balance method is used (round double declining rate to 4 decimals)?

(a)
($62,000-5,
200)/6
years x 3/12
= $2,366.67

(b) Double Declining Rate is 2/6= 33.33%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	62,000 x 0.3333 x 3/12	5,166	56,834
2015	56,834 x 0.3333	18,943	37,891

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

155. A new machine is expected to produce 60,000 units of product during its 5-year life. The machine cost $180,000 and is estimated to have a $20,000 residual value.

If the machine produces 7,200 units of product during its first year, what is the depreciation for the year calculated by the units-of-production method (round rate to 2 decimals)?

Rate is ($180,000-20,000)/60,000units= $2.67/unit $2.67/unit ´ 7,200 units = $19,224 depreciation for the first year

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

156. A new machine is expected to produce 40,000 units of product during its 5-year life. The machine cost $180,000 and is estimated to have a $20,000 residual value.

If depreciation on the machine is calculated by the double-declining-balance method, what is the depreciation for the first year?

2/5 ´ 100 = 40% $180,000 ´ 40% = $72,000 depreciation for the first year

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

157. A new machine is expected to produce 40,000 units of product during its 5-year life. The machine cost $38,000 and is estimated to have a $6,000 residual value.

What is the first year's depreciation on the machine calculated by the straight-line method?

($38,000-6,000)/5 years= $6,400

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

158. On January 1, 2014, High Flying Airways acquired and placed in service a plane that cost $8,000,000. The plane's service life and residual value were estimated at 5 years and $1,500,000, respectively. Calculate depreciation for 2014-2018, assuming the following alternative depreciation methods are used:

(a) Straight-line.
(b) Double-declining-balance.

(a) per year
($8,000,00
0-1,500,00
0)/5 years
=
1,300,000

(b) Double Declining Rate is 2/5= 40%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	8,000,000 x 0.40	3,200,000	4,800,000
2015	4,800,000 x 0.40	1,920,000	2,880,000
2016	2,880,000 x 0.40	1,152,000	1,728,000
2017	1,728,000 x 0.40	Max 228,000	1,500,000
2018	0	Max 0	1,500,000

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

159. On July 1, 2014, Delta Company purchased and placed in service a machine that cost $360,000. Delta estimated the service life to be 5 years or 25,000 units of output, with an estimated residual value of $6,000. During 2014, 2,600 units were produced.

Prepare the necessary December 31, 2014, adjusting journal entry to record depreciation assuming Delta uses:

(a) The straight-line method of depreciation.
(b) The units-of-production method of depreciation.

(a) ($360,000-6,000)/5 years x 6/12= 35,400

31-Dec-14 Depreciation Expense, Machine	35,400	
Accumulated Depreciation, Machine		35,400

(b) ($360,000-6,000)/25,000 units= $14.16/unit
2,600 units x $14.16/unit= 36,816

31-Dec-14 Depreciation Expense, Machine	36,816	
Accumulated Depreciation, Machine		36,816

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

160. On July 1, 2014, Delta Company purchased and placed in service a machine with a cost of $340,000. Delta estimated the service life to be 6 years or 60,000 units of output, with an estimated residual value of $80,000. During 2014, 15,000 units were produced.

Prepare the necessary December 31, 2014, adjusting journal entry to record depreciation for 2014 assuming Delta uses the double-declining-balance method to the nearest whole month.

31-Dec-14 Depreciation Expense, Machine	56,667	
Accumulated Depreciation, Machine		56,667

($340,000x 2/6) x 6/12= 56,666.67

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

161. On September 30, 2014, Sabena Industries acquired and placed in service a machine that cost $850,000. It was estimated that the machine has a service life of five years and a residual value of $69,400.

Using the double-declining-balance method of depreciation, prepare a schedule showing the depreciation amounts for the years 2014 through 2019 (use the nearest whole month method and round answers to the nearest dollar). Sabena closes its books on December 31 of every year.

Rate = 2/5 x 100 = 40%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	Remaining Book Value
2014	850,000 x 0.40 x 3/12	85,000	765,000
2015	765,000 x 0.40	306,000	459,000
2016	459,000 x 0.40	183,600	275,400
2017	275,400 x 0.40	110,160	165,240
2018	165,240 x 0.40	66,096	99,144
2019	99,144 x 0.40 x 9/12	29,744	69,400

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

162. Jelly Bean had the following property, plant and equipment purchases during 2014:

(1) On April 4, equipment costing $150,000 with a 5-year service life and an estimated $40,000 residual value was purchased.
(2) On October 4, a machine costing $230,000 with a 5 year service life and an estimated $50,000 residual value was purchased.
Assuming Jelly Bean has a December 31 year end, prepare the necessary adjusting journal entries at December 31, 2014 to record depreciation under the following depreciation methods (using the nearest whole month method):

(a) Straight-line.
(b) Double-declining-balance.

(a) ($150,000-40,000)/5 years x 9/12= 16,500

31-Dec-14 Depreciation Expense, Equipment	16,500	
Accumulated Depreciation, Equipment		16,500

($230,000-50,000)/5 year x 3/12= 9,000

31-Dec-14 Depreciation Expense, Machine	9,000	
Accumulated Depreciation, Machine		9,000

(b) Rate is 2/5 x 100 = 40%
150,000 x .40 x 9/12= 45,000

31-Dec-14 Depreciation Expense, Equipment	45,000	
Accumulated Depreciation, Equipment		45,000

Rate is 2/5 x 100 = 40%
230,000 x .40 x 3/12= 23,000

31-Dec-14 Depreciation Expense, Machine	23,000	
Accumulated Depreciation, Machine		23,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

163. On January 1, 2014, Boone Company purchased a machine for $75,000 that had a 6-year life and a residual value of $6,000. After 3 years of use, on January 1, 2017, Boone Company paid $7,500 to improve the efficiency of the machine. The effect of the expenditure was to increase the productivity of the machine without increasing its remaining useful life or changing its residual value. Boone uses straight-line depreciation.

(1) What account should be debited in recording the $7,500 expenditure?
(2) What amount of depreciation expense should be reported for 2017?

(1) Machinery
(2) ($75,000 - [(75,000-6,000)/6 x 3] + $7,500) = $48,000 (NBV at Jan 1/17)
($48,000-6,000)/3 = $14,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

164. Explain (1) depreciation for partial years and (2) revision of depreciation when estimates change.

(1) Partial years' depreciation is often required because assets are bought and sold throughout the year. Depreciation for assets owned for less than one year can be based on the number of months owned during the year (nearest whole month method) or the half-year convention may be used.
(2). Depreciation is revised when changes in estimates such as residual value and useful life occur. For example, if the useful life of a property, plant and equipment item changes, the remaining cost to be depreciated is spread over the remaining revised useful life of the asset.

Bloom's: Knowledge
Difficulty: Difficult
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-16 Partial-Year Depreciation

165. A machine was purchased for $37,000 and depreciated for 5 years on a straight-line basis under the assumption it would have a 10-year life and a $1,000 residual value. At the beginning of the machine's sixth year, it was recognized that it had 3 years of remaining life left, instead of five, and that at the end of the 3 years its residual value would be $1,600. What should the annual depreciation be for the machine's remaining years?

($37,000 - $1,000)/10 =	$ 3,600
$3,600 × 5 =	$18,000
$37,000 - $18,000 =	$19,000
($19,000 - $1,600)/3 =	$ 5,800

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

166. On January 1, 2015, Bailey Company purchased a machine for $106,000 that was expected to last five years and has a residual value of $6,000. At the beginning of 2018, Bailey decided that the machine's estimated useful life should be revised to a total of 6 years instead of 5. Also, the residual value was now estimated to be $5,500. Straight-line depreciation was used. Calculate the depreciation expense for 2018.

($106,000 - $6,000)/5 = $20,000 (annual depreciation)
$106,000 - (3 ´ $20,000) = $46,000 (NBV at Jan 1/18)
($46,000 - $5,500)/3 = $13,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

167. Wildcat Company purchased a heating system on January 2, 2003, for $625,000. The system had an estimated useful life of 15 years, with no residual value. On January 2, 2015, the company paid $33,000 cash for a complete renovation of the system, and now expects the system to last 5 years beyond the original estimate. The company uses the straight-line method of depreciation.

(a) Prepare the journal entry at January 2, 2015, to record the renovation of the heating system.
(b) Prepare the journal entry at December 31, 2015, to record the depreciation for 2015.

(a)

2-Jan-15	Heating System	33,000	
	Cash		33,000

(b)

31-Dec-15	Depreciation Expense, Heating System	19,750	
	Accumulated Depreciation, Heating System		19,750

Annual Depreciation 2003-2014 = 625,000/15 years x 12 years = 500,000
At January 2, 2015, book value is 625,000 + 33,000 - 500,000 = 158,000
New annual depreciation 158,000/8 years = 19,750
(15 years - 12 years + 5 years) = 8 years remaining

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-15 Depreciation Methods

168. FNT Company purchased land and a building on January 1, 2018, at a cost of $950,000. The land was appraised at $150,000 and the building at $900,000.

FNT renovated the building from January 1 to March 31, 2018, at a cost of $125,000. It also paid the local government an assessment of $55,000 to have a sidewalk and improved sewer system put into place. The new building opened on April 1, 2018, with a customer reception that cost JMT $7,000.

FNT estimates the building will be used for 25 years and will use the straight line method to depreciate the asset

Required:
Prepare all journal entries relating to the land, building, and related activities, for JMT's January 1 to December 31, 2018, fiscal year. Round the final answer to the nearest dollar.

Jan 1, 2018 - purchase:

Land	135,714		
Building	814,286		
	Cash		950,000

Costs subsequent to purchase:

Land	55,000		
Building	125,000		
Promotion Expense	7,000		
	Cash		187,000

December 31, 2018 - depreciation:

Depreciation Expense	28,719		
	Accumulated depreciation		28,179

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-08 Buildings
Topic: 09-15 Depreciation Methods
Topic: 09-16 Partial-Year Depreciation

On January 1, 2018, 2018, PetraCo ordered a new machine to help increase production for one of its most popular products. The machine had an invoice price of $30,000 and PetraCo was required to pay shipping ($1,200) and insurance during shipping ($300) by boat from British Columbia to Toronto. The machine arrived on January 5, 2019 and was installed at a cost of $800 and calibrated and tested for a cost of $200. On February 1, 2019 it was put into operation.PetraCo's fiscal year runs from January to December. Round all final answers to the nearest dollar.

169. Prepare a journal entry (or entries) to record all costs associated with the new machine

Machine	32,500		
	Cash		32,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-10 Machinery and Equipment
Topic: 09-15 Depreciation Methods
Topic: 09-16 Partial-Year Depreciation

170. The machine was expected to last 10 years with a salvage value of $2,500. Prepare the journal entry to record depreciation for 2019 using the double-declining balance method of depreciation.

Depreciation expense	5,958		
	Accumulated depreciation		5,958

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-10 Machinery and Equipment
Topic: 09-15 Depreciation Methods
Topic: 09-16 Partial-Year Depreciation

171. PetraCo sold the machine on July 1, 2020 for $19,000. Prepare all journal entries required by HRO in 2020 relating to the machine and its disposal.

Depreciation to July 1, 2020 date of sale

Depreciation expense	2,654		
	Accumulated depreciation		2,654

Sale on July 1, 2020:

Cash		19,000	
Accumulated depreciation		8,612	
Loss on disposal of machine		4,888	
	Machine		32,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-01 Describe property, plant, and equipment (PPE) and calculate their cost.
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Learning Objective: 09-03 Explain and calculate depreciation for partial years.
Topic: 09-10 Machinery and Equipment
Topic: 09-15 Depreciation Methods
Topic: 09-16 Partial-Year Depreciation

172. At December 31, 2015, Great Coast Coffee Company's adjusted trial balance shows an espresso machine with a book value of $12,000. As part of the year end procedures GCC completed the asset impairment test on the machine and noted that the recoverable value of the machine was $6,000. Record the impairment loss on the asset.

Dec-31	Impairment Loss	6,000	
	Machine		6,000
	(12,000-6,000)		

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

173. Great Coast Construction (GCC) exchanged a three-year-old excavator for a new excavator that had a list price of $160,000. The old excavator originally cost $175,000 and had accumulated depreciation of $45,000 to the date of exchange. In addition to the $145,000 trade-in given for the old excavator (which was the old asset's fair value), GCC paid $10,000 cash to complete the deal. The list price for the new excavator is considered unreliable.

Record the asset exchange.

Equipment (new) (145,000 + 10,000)	155,000	
Accumulated depreciation, equipment (old)	45,000	
Equipment (old)		175,000
Cash		10,000
Gain on asset exchange		15,000
(145,000 trade in - 130,000 book value)		

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

174. Great Coast Construction (GCC) exchanged a three-year-old excavator for a new excavator that had a list price of $63,000, which was its fair value. The old excavator originally cost $85,000 and has accumulated depreciation of $45,000 to the date of exchange. In addition to the $45,000 trade-in given for the old excavator, GCC paid $8,000 cash to complete the deal.

Equipment (new)	63,000	
Accumulated depreciation, equipment (old)	45,000	
Equipment (old)		85,000
Cash		8,000
Gain on asset exchange*		15,000

* Gain = Fair Value of new excavator- assets given up
Gain= 63,000 (list price) - 40,000 (book value of old excavator)- 8,000 (cash)

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

175. Discuss the accounting procedures involved for asset disposal through discarding, selling, or exchanging an asset.

When an asset is disposed of through discarding or selling, the depreciation must first be brought up to date. Then the cost of the asset and its related accumulated depreciation are removed from the books, along with recording any cash involved in the transaction and any gain or loss from the disposal.
When a new asset is purchased by trading in an old asset, assuming the transaction has commercial substance, depreciation to date is recorded, the cost of the old asset and its related accumulated depreciation are removed from the books, the new asset is recorded at its fair value, and any cash paid or received and any gain or loss on disposal is recognized.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

176. Five years ago, Sanford and Sons purchased equipment for $108,000 which had an estimated useful life of 10 years with an expected residual value of $15,000. At the end of five years, the equipment's accumulated depreciation is $46,500. Prepare the journal entry to record the sale of the equipment at the end of the fifth year for $45,000 cash.

Cash	45,000	
Loss on Sale of Equipment	16,500	
Accumulated Depreciation	46,500	
Equipment		108,000

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-21 Selling PPE

177. Vroom Company sold for $60,000 a machine that originally cost $100,000. The accumulated depreciation on this machine to date of sale was $47,000. What was Vroom Company's gain or loss on this sale?

Machine Book Value $100,000-47,000 = $53,000
Cash Received = $60,000
Gain on Sale = $7,000

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-21 Selling PPE

178. Aye Company's computer was destroyed by fire. The computer originally cost $5,000, and accumulated depreciation to the date of the fire was $900. The company received $2,000 from an insurance policy that covered the computer and will use that money to help pay for a new computer. Prepare the general journal entry to record the loss of the computer and the receipt of cash from the insurance company.

Cash	2,000	
Accumulated Depreciation, Computer	900	
Loss from fire	2,100	
Computer		5,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-20 Discarding PPE

179. The $60,000 original cost of a machine is recorded in an account called Old Machine. After $45,000 of depreciation was recorded, the machine was traded in on a new machine with a cash price of $85,000. A $10,500 trade-in allowance was received on the old machine and the balance was paid in cash. This transaction has commercial substance. Prepare the general journal entry to record the trade; the cost of the new machine should be debited to a New Machine account.

New Machine	85,000	
Accumulated Depreciation, Old Machine	45,000	
Loss on Asset Exchange	4,500	
Old Machine		60,000
Cash		74,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

180. Robertson Company exchanged a used machine for a new machine. The old machine cost $80,000, and the new one had a cash price of $95,000. Robertson had recorded a total of $75,000 depreciation on the old machine and was allowed a $4,500 trade-in allowance. This transaction has commercial substance. What gain or loss should be recorded on the exchange?

Cost	80,000
Accumulated Depreciation	75,000
Book Value	5,000
Less Trade in allowance	4,500
Loss	500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

181. Wilkins Company exchanged its old computer for a newer model. The Old Computer was purchased for $22,000, with related accumulated depreciation of $15,500 to the date of the exchange. The new computer had a cash price of $30,200, and Wilkins Company was given a $7,500 trade-in allowance. This transaction has commercial substance. Prepare the general journal entry to record the exchange, recording the new computer in an account called New Computer.

New Computer	30,200	
Accumulated depreciation, Old Computer	15,500	
Old Computer		22,000
Cash ($30,200 - $7,500)		22,700
Gain on Asset Exchange		1,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

182. On January 2, 2015, Mullins Company purchased a delivery truck for $45,000 cash. The truck had an estimated useful life of seven years and an estimated residual value of $3,000. Straight-line depreciation was used.

Assuming the transactions have commercial substance, prepare the journal entries to record the disposition of the truck on September 1, 2019, under each of the following assumptions:

(a) The truck and $55,000 cash were exchanged for equipment that had a fair value of $70,000.
(b) The truck and $40,000 cash were exchanged for a new delivery truck that had a fair value of $70,000.

(a) Sept 1	New Delivery Truck	70,000	
	Accumulated Depreciation, Old Truck	28,000	
	Loss on Exchange	2,000	
	Old Delivery Truck		45,000
	Cash		55,000
(b) Sept 1	New Delivery Truck	70,000	
	Accumulated Depreciation, Old Truck	28,000	
	Gain on Exchange		13,000
	Old Delivery Truck		45,000
	Cash		40,000

Accumulated Depreciation:
(45,000 - 3,000)/7 x 6 yrs 8 mths

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

183. On April 1, 2015, Hogan Industries scrapped a machine that cost $10,000 and had accumulated depreciation through December 31, 2014, of $10,000. Prepare the journal entry to record the disposal of the machine.

01-Apr	Accumulated Depreciation, Machine	10,000	
	Machine		10,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

184. On April 1, 2015, Lockhart Company discarded equipment that cost $80,000, had a useful life of 5 years, a residual value of $14,000, and, under straight-line depreciation, accumulated depreciation as of December 31, 2014 of $26,400.

(a) Prepare the journal entry to record depreciation up to the date of disposal of the equipment.
(b) Prepare the journal entry to record the disposal of the equipment.

(a) ($80,000-14,000)/5 years x 3/12= 3,300

01-Apr-15	Depreciation Expense, Equipment	3,300	
	Accumulated Depreciation, Equipment		3,300

(b)

01-Apr-15	Accumulated Depreciation, Equipment	29,700	
	Loss on Disposal of Equipment	50,300	
	Equipment		80,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

185. On April 1, 2015, Sagan Realty disposed of an automobile that had cost $50,000 on January 1, 2013. The automobile had a residual value of $8,000, and a useful life of 5 years. The accounting records showed accumulated depreciation for this asset of $16,800 at December 31, 2014. The asset was discarded after an accident, and $11,500 was received from an insurance claim.

Prepare the journal entry to record the disposal of the automobile.

01-Apr-15	Accumulated Depreciation, Automobile	18,900	
	Cash	11,500	
	Loss on Disposal of Automobile	19,600	
	Automobile		50,000

Depreciation Expense= (50,000-8,000)/5 = $8,400/year

2013	8,400	
2014	8,400	
2015	2,100	(8,400 x 3/12)
Total	18,900	accum depre.

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

186. On April 1, 2015, Thunderbird Co sold a piece of equipment that had cost $35,000 on January 1, 2011. The equipment had a residual value of $5,000, a useful life 10 years, and double-declining-balance depreciation at twice the straight-line rate was used. On December 31, 2014, accumulated depreciation was $20,664. The asset was sold for $14,200.

Prepare the journal entry to record depreciation up to the date of disposal of the equipment, and the journal entry to record the disposal of the equipment.

Apr-01	Depreciation Expense	716.80	
	Accumulated Depreciation, Equip.		716.80
	($35,000-$20,664) x0.2 x 3/12= $716.80		
1	Accumulated Depreciation, Equip	21,380.80	
	Cash	14,200.00	
	Equipment		35,000.00
	Gain on Sale of Equipment		580.80

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

187. During 2016, Melanie's Emporium exchanged an old truck costing $18,000 with accumulated depreciation of $13,000 to the date of exchange for a new truck. The new truck had a cash price of $30,000 and Melanie received a $6,000 trade-in allowance on the old truck. This transaction has commercial substance. Prepare the journal entry to record the exchange.

Truck (new)	30,000	
Accumulated Depreciation, Truck (old)	13,000	
Truck (old)		18,000
Cash (30,000-6,000)		24,000
Gain on Asset Exchange		1,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

188. During 2014, Storey Company acquired a new computer with a cash price of $12,800 by exchanging an old one on which Storey received a $1,500 trade-in. The old computer had cost $9,000 and its accumulated depreciation to the date of exchange was $5,500. This transaction has commercial substance. Prepare the journal entry to record the exchange.

Computer (new)	12,800	
Accumulated Depreciation, Computer (old)	5,500	
Loss on Asset Exchange	2000	
Computer (old)		9,000
Cash (12,800-1,500)		11,300

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

189. Upside Down Company purchased new office equipment for $4,300, by trading in old equipment with a cost of $2,000 and accumulated depreciation to the date of trade of $1,900. Upside Down received a $50 trade-in allowance for the old equipment. This transaction has commercial substance. Prepare the journal entry to record the transaction.

Office Equipment (new)	4,300	
Accumulated Depreciation, Office Equipment	1,900	
Loss on Asset Exchange	50	
Office Equipment (old)		2,000
Cash		4,250

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

190. On April 1, Fog Company traded an old machine that originally cost $32,000 and had been depreciated $24,000 for a new machine that had a cash price of $40,000.

Assuming that this transaction has commercial substance,

(1) Prepare the journal entry to record the exchange under the assumption that a $5,000 trade-in allowance was received and the balance was paid in cash.
(2) Prepare the journal entry to record the exchange under the assumption that instead of a $5,000 trade-in allowance, a $12,500 trade-in allowance was received and the balance was paid in cash.

(1)

Apr-01	Machinery	40,000	
	Accumulated Depreciation, Machinery	24,000	
	Loss on Asset Exchange	3,000	
	Machinery		32,000
	Cash ($40,000-$5,000)		35,000

(2)

Apr-01	Machinery	40,000	
	Accumulated Depreciation, Machinery	24,000	
	Gain on Asset Exchange		4,500
	Machinery		32,000
	Cash ($40,000-$12,500)		27,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

191. Natsuko Company traded an old forklift for a new forklift, receiving a $10,500 trade-in allowance and paying the remaining $37,200 in cash. The old forklift cost $39,000, and straight-line depreciation of $27,200 had been recorded to the date of trade under the assumption it would last 5 years and have a $5,000 residual value. At the date of trade, the fair value of the old forklift is $11,000, however the fair value of the new forklift is not known.

(1) What was the book value of the old forklift?
(2) At what amount should the new forklift be recorded?

(1) $39,000 - $27,200 = $11,800
(2) $11,000 + 37,200 = 48,200
(fair value of old asset plus cash paid)

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-22 Exchanging PPE

192. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.

Assuming the machine was sold for $22,000, prepare the general journal entry to record the disposal

Jul-31	Cash	22,000	
	Accumulated Depreciation, Machinery	50,400	
	Gain on Disposal of Equipment		400
	Machinery		72,000
	$72,000/5 x 3.5 years = $50,400		

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

193. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.

Assuming the machine was sold for $15,000, prepare the general journal entry to record the disposal.

Jul-31	Cash	15,000	
	Loss on Disposal of Equipment	6,600	
	Accumulated Depreciation, Machinery	50,400	
	Machinery		72,000
	$72,000/5 x 3.5 years = $50,400		

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

194. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.

Assuming the machine was totally destroyed in a fire and the insurance company settled the claim for $18,000 cash, prepare the general journal entry to record the disposal.

Jul-31	Cash	18,000	
	Loss from Fire	3,600	
	Accumulated Depreciation, Machinery	50,400	
	Machinery		72,000

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-06 Account for asset disposal through discarding, selling, or exchanging an asset.
Topic: 09-19 Disposals of PPE

195. Danner Co. purchased a computer on January 1, 2014, for $1,600,000. The straight-line method of depreciation was used, based on an expected life of 6 years and a residual value of $130,000. Prepare the journal entries to record depreciation for the first 6 months of 2016 and the sale of the computer on July 1, 2016, for $1,000,000.

Jul-01	Depreciation Expense*	122,500	
	Accumulated Depreciation, Computer		122,500
1	Cash	1,000,000	
	Accumulated depreciation, Computer **	612,500	
	Computer Equipment		1,600,000
	Gain on Disposal of Equipment ***		12,500

*(($1,600,000-$130,000) / 6) x 1/2
**(($1,600,000-$130,000)/6) x 2.5 years = $612,500

*** Original Cost	$	1,600,000
Accumulated depreciation		612,500
Book Value	$	987,500
Sales Price		1,000,000
Gain	$	12,500

Bloom's: Application
Difficulty: Moderate
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Topic: 09-21 Selling PPE

196. Discuss accounting for an impairment of property, plant and equipment.

If the book value or carrying amount of a PPE item is greater than the amount to be recovered through the asset's use or sale, the difference is an impairment loss and the asset is described as impaired. To account for the impairment of an asset a company must record a debit to impairment loss and a credit to the impaired asset. When a loss is recorded, revised depreciation must be calculated and recorded in future periods because of the decrease in the carrying amount of the asset caused by the impairment loss.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

197. Matador & Company was preparing the annual financial statements and, as part of its year-end procedures, prepared the following schedule based on adjusted values at March 31, 2015:

Asset		Cost		Accumulated Depreciation		Recoverable Amount
Furniture	$	25,000	$	20,000	$	15,000
Computer	$	2,000	$	1,000	$	-
Land	$	105,000	$	-	$	125,000
Machine	$	90,000	$	25,000	$	45,000

Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.

Asset	Cost	Accumulated Depreciation	Book Value	Recoverable Amount	Impairment Loss
Furniture	$ 25,000	$ 20,000	$ 5,000	$ 15,000	$ -
Computer	$ 2,000	$ 1,000	$ 1,000	$ -	$ 1,000
Land	$ 105,000	$ -	$ 105,000	$ 125,000	$ -
Machine	$ 90,000	$ 25,000	$ 65,000	$ 45,000	$ 20,000

Impairment Loss	21,000	
Computer		1,000
Machine		20,000

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-18 Impairment of PPE Assets

198. Matador & Company was preparing the annual financial statements and, as part of its year-end procedures, prepared the following schedule based on adjusted values at March 31, 2015:

Asset	Cost	Accumulated Depreciation	Recoverable Amount	Residual Value	Depreciation Method	Remaining Life
Furniture	$ 25,000	$ 20,000	$ 10,000	$ 500	Straight Line	3 years
Computer	$ 2,000	$ 1,000	$ 500	$ -	Double Declining	5 years
Land	$ 105,000	$ -	$ 90,000	N/A	N/A	Unlimited
Machine	$ 90,000	$ 25,000	$ 35,000	$ 5,000	Straight Line	3 years

Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.

Record the entry for depreciation on each of the assets at March 31, 2015. Assume there was no change in residual or useful lives regardless of impairment losses.

1.

Asset	Cost	Accumulated Depreciation	Recoverable Amount	Book Value	Impairment Loss
Furniture	$ 25,000	$ 20,000	$ 10,000	$ 5,000	$ -
Computer	$ 2,000	$ 1,000	$ 500	$ 1,000	$ 500
Land	$ 105,000	$ -	$ 90,000	$ 105,000	$ 15,000
Machine	$ 90,000	$ 25,000	$ 35,000	$ 65,000	$ 30,000

Mar-31	Impairment Loss	45,500	
	Computer		500
	Land		15,000
	Machine		30,000

2.

Asset	Cost	Accumulated Depreciation	Impairment Loss	Adjusted Book Value after loss	Residual Value	Depreciation Method	Remaining Life
Furniture	$ 25,000	$ 20,000	$ -	$ 5,000	$ 500	Straight Line	3 years
Computer	$ 2,000	$ 1,000	$ 500	$ 500	$ -	Double Declining	5 years
Land	$ 105,000	$ -	$ 15,000	$ 90,000	N/A	N/A	Unlimited
Machine	$ 90,000	$ 25,000	$ 30,000	$ 35,000	$ 5,000	Straight Line	3 years

Asset	Depreciation Expense
Furniture	($5,000-$500)/3 years= $1,500
Computer	2/5 x 500 = $200
Land	N/A
Machine	($35,000-$5,000)/3 years= $10,000

Mar-31	Depreciation expense, Furniture	$ 1,500	
	Depreciation expense, Computer	200	
	Depreciation expense, Machine	10,000	
	Accumulated Depreciation, Furniture		1,500
	Accumulated Depreciation, Computer		200
	Accumulated Depreciation, Machine		10,000

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-02 Explain, record, and calculate depreciation using the methods of straight-line, units-of-production, and double-declining-balance.
Learning Objective: 09-05 Explain and record impairment losses.
Topic: 09-15 Depreciation Methods
Topic: 09-18 Impairment of PPE Assets

199. Discuss accounting for intangible assets.

Intangible assets are recorded at acquisition cost and are debited to asset accounts. Allocation of the cost of an intangible asset to expense is done by using the straight-line method and is called amortization. Theoretically, a contra account should be used for the accumulated amortization (as with tangible property, plant and equipment and accumulated depreciation), but a credit directly to the asset account is also done in practice.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-24 Accounting for Intangible Assets

200. On January 4, 2015, SportsWorld purchased a patent for $35,000 with a useful life of 10 years. Prepare the journal entry to amortize the patent for the calendar year 2015.

Amortization Expense, Patent (35,000/10)	3,500	
Accumulated Amortization, Patent		3,500

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-25 Patents

201. Hawaii Kai purchased a leasehold property for $8,500,000. The leasehold expires in 15 years. Prepare the journal entry to record the first year's depreciation expense.

Rent Expense	566,667	
Leasehold		566,667

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-29 Leaseholds

202. GenX Music purchased a music distributor's collection of songs for $1,423,000. The copyrights are expected to last another 34 years. Prepare the journal entry to record the amortization expense for the first year.

Amortization Expense, Copyrights	41,853	
Accumulated Amortization, Copyrights		41,853

$1,423,000/34 = 41,853 rounded

Bloom's: Application
Difficulty: Easy
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-26 Copyrights

203. Explain what could cause the impairment of goodwill. How often should goodwill be tested to see if it is impaired?

Goodwill could be impaired by an ongoing past or potential cash flow losses or negative changes in variables supporting original calculations of goodwill. Testing for impairment should be done at least annually.

Bloom's: Knowledge
Difficulty: Moderate
Learning Objective: 09-07 Account for intangible assets and their amortization.
Topic: 09-30 Goodwill

204. The following information is available for a piece of A Company's machinery:

Machine:						
Component	Date of Purchase	Depreciation Method	Cost	Est. Residual	Est. Life	Accum. Dep. at Dec. 31, 2016, Year-End
Electronic Controller	April 1/16	Straight-line	$ 5,000	$ 0	5 years	$750
Motor	April 1/16	Units of Production	100,000	10,000	50,000 hours	2,700

			$105,000			$3,450

On November 1, 2017, the electronic controller was replaced with a new one costing $8,000 purchased for cash. The new controller had an estimated residual value of $1,000 and an estimated useful life of 5 years. During 2017 the machinery was used for 3,200 hours from January 1 to October 31 and 650 hours from November 1 to December 31.

Required: Record depreciation on machinery and the controller replacement for 2017. Round depreciation amounts to the nearest dollar.

Step 1: Update depreciation on the machinery to October 31, 2017:
Using original rates of depreciation:

October 31, 2017:

Depreciation expense, Machinery	6593		
	Accumulated Depreciation, Machinery		6593

Step 2: Record the capital expenditure and remove the old controller being replaced:

November 1, 2017:

Machinery (new controller)		8,000	
Accumulated depreciation, machinery (750 + 8333)		1,583	
Loss on Disposal of Machinery		3,417	
	Machinery (old controller)		5,000
	Cash		8,000

Step 3: record depreciation from November 1 - December 31, 2017

December 31, 2017:

Depreciation expense, Machinery	1,403		
	Accumulated Depreciation, Machinery		1,403

Bloom's: Application
Difficulty: Difficult
Learning Objective: 09-08 Explain and calculate revised depreciation when there is a subsequent capital expenditure that creates partial-period depreciation.
Topic: 09-13 Reporting Depreciation on Assets