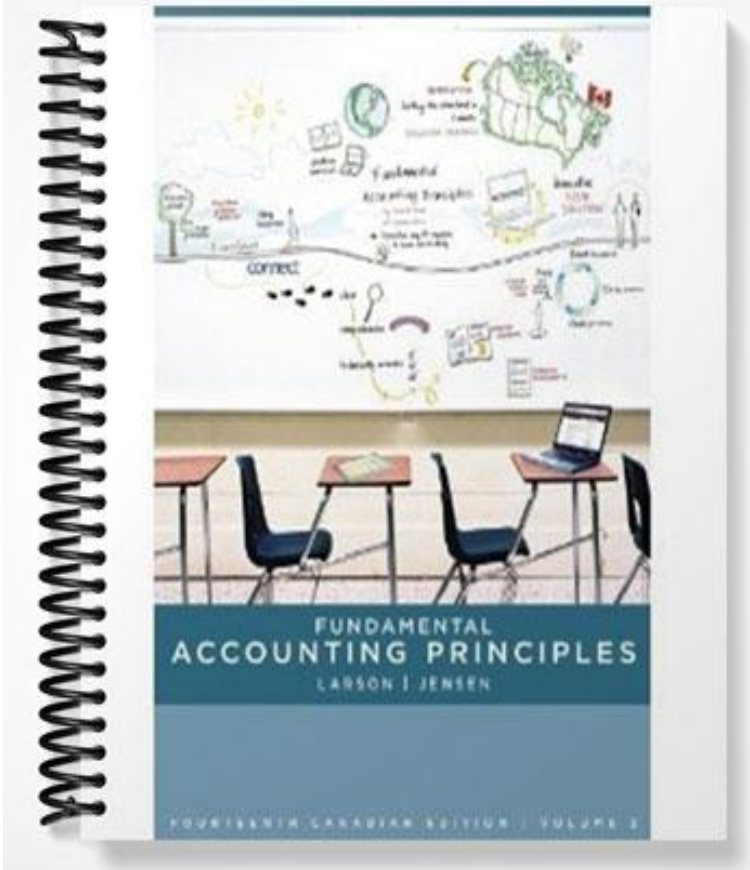
TEST BANK



FUNDAMENTAL
ACCOUNTING PRINCIPLES
LARSON | JENSEN

Student: _____

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

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

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 False

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.
   True False

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 False

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

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 False

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

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

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

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

12. Capital expenditures are also called balance sheet expenditures.
    True False

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

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

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

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

17. 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 False

18. Residual value is an estimate of an asset's value at the end of its useful life.
True False

19. 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 False

20. Depreciation should always be recorded as soon as an asset is purchased.
True False

21. Depreciation measures the decline in market value of an asset.
True False

22. Because depreciation is based on predictions of residual value and useful life, depreciation is an estimate.
True False

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

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

25. The relevance principle requires that property, plant and equipment be reported at book value rather than at market value.
True False

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

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

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.
True False

29. The Income Tax Act generally requires that companies use a double-declining-balance method of cost allocation called Capital Cost Allowance to determine the maximum amount of deduction for a taxation year.
True False

30. 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.
True False

31. The most frequently used method of depreciation is the straight-line method.
True False

32. The cost of an asset plus its accumulated depreciation equals the asset's book value.
True False

33. 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 False

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

35. 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.
True False

36. 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.
True False

37. 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.
True False

38. 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.
True False

39. 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.
True False

40. 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.
True False

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 False

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.
True False

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 False

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

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 False

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.
True False

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 False

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

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 False

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

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

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 False

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 False

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.
True False

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

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

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 False

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

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

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

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

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.
True False

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.
True False

64. Goodwill is an intangible asset.
True False

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

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

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

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

69. 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.

70. 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.

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

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

73. 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.

74. 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.

75. 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.

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

    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.

77. 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.

78. 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.

79. 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.

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

81. 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.

82. 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.

83. 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.

84. 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.

85. 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.

86. 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.

87. 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.

88. 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.

89. 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.

90. 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.

91. 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.

92. 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.

93. 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.

94. 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.

95. 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.

96. 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.

97. 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.

98. 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.

99. 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.

100. 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.

101. 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.

102. 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.

103. 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.

104. 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.

105. 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.

106. 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.

107. 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.

108. 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.

109. 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.

110. 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.

111. 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.

112. 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.

113. 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.

114. 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.

115. 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.

116. 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.

117. 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.

118. 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.

119. 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.

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

121. 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.

122. 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.

123. 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.

124. 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.

125. 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.

    B.

    C.

    D.

126. 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.

127. 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.

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

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

130. 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.

Calculate the depreciable cost of the machine.

131. 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:

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

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

133. 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?

134. 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)

135. 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:

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

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

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

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

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

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

139. 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.

140. 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.

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

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.

142. 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?

143. Explain depreciation and the elements affecting its calculation.

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

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

146. 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.

147. 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.

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

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

149. 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.

150. 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.

151. 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)?

152. 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)?

153. 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?

154. 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?

155. 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.

156. 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.

157. 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.

158. 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.

159. 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.

160. 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?

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

162. 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?

163. 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.

164. 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.

165. 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.

166. 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.

167. 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.

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

169. 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.

170. 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?

171. 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.

172. 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.

173. 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?

174. 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.

175. 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.

176. 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.

177. 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.

178. 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.

179. 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.

180. 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.

181. 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.

182. 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.

183. 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.

184. 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?

185. 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

186. 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.

187. 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.

188. 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.

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

190. 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:

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

191. 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:

1. Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.
2. 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.

192. Discuss accounting for intangible assets.

193. 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.

194. 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.

195. 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.

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

197. _____ are costs that increase the usefulness of land, but have limited useful lives and are thus depreciated.
_____

198. Replacement of a roof or renovation of a plant are examples of _____.
_____

199. The three factors in calculating depreciation are: _____, _____, _____.
_____

200. _____ is the Income Tax Act equivalent for depreciation.
_____

201. _____ depreciation provides for equal amounts of annual depreciation over the life of an asset.
_____

202. _____ is the process of systematically allocating the cost of an intangible asset to expense over its estimated useful life.
_____

203. Revising estimates of the useful life or residual value of property, plant and equipment is referred to as a(n) _____.
_____

204. The three means for disposal of an asset include: _____, _____, or _____.
_____

205. Match each of the following terms with the appropriate definition.

1. Subsequent capital expenditure	A depreciation method in which an asset's depreciation expense for the period is determined by applying a constant depreciation rate to the asset's book value at the beginning of the year.
2. Intangible assets	An expenditure that should appear on the current income statement as an expense and be deducted from the period's revenues because it does not provide a material benefit in future periods.
3. (Ordinary) repairs	Depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years.
4. Accelerated depreciation	Repairs made to keep property, plant and equipment in normal, good operating condition
5. Double-declining-balance method	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.
6. Change in accounting estimate	A name for the rights granted to the lessee by the lessor in a lease.
7. Leasehold	The amount by which the value of a company exceeds the fair market value of the company's net assets if purchased separately.
8. Goodwill	Rights, privileges, and competitive advantages to the owner of long-term assets used in operations that have no physical substance.
9. Revenue expenditure	An expenditure to make a property, plant and equipment more efficient or productive.
10. Depreciation.	The process of matching the depreciable cost of a tangible asset in a rational and systematic manner over the asset's useful life.

206. Match each of the following terms with the appropriate definition.

1. Amortization	Management's estimate of the amount that will be recovered at the end of a property, plant and equipment item's useful life through a sale or as a trade-in allowance on the purchase of a new asset. _ _
2. Depreciation	A process of systematically allocating the cost of an intangible asset to expense over its estimated useful life. _ _ _ _
3. Copyright	Major repairs that extend the useful life of property, plant and equipment beyond original expectations. _ _ _ _
4. Patent	Assets that increase the usefulness of land but that have a limited useful life and are subject to depreciation. _ _ _ _
5. Subsequent capital expenditure	The original cost of a property, plant and equipment item less its accumulated depreciation. _ _ _ _
6. Residual value	A condition in which, because of new inventions and improvements, property, plant and equipment can no longer be used to produce goods or services with a competitive advantage. _ _ _
7. Book value	An exclusive right granted to its owner by the federal government to manufacture and sell a machine or device, or to use a process, for 20 years. _ _ _
8. Obsolescence	The process of matching the depreciable cost of a tangible asset in a rational and systematic manner over the asset's useful life. _ _ _
9. Land improvements	A right granted by the federal government or by international agreement giving the owner the exclusive privilege to publish and sell musical, literary, or artistic work during the life of the creator plus 50 years. _ _
10. Inadequacy	A condition in which the capacity of property, plant and equipment is too small to meet the company's productive demands. _ _ _

10 Key

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

Difficulty: Easy
Larson - Chapter 10 #1
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #2
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #3
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #4
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #5
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #6
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #7
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #8
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #9
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #10
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #11
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #12
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #13
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #14
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #15
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #16
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

17. 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

Difficulty: Easy
Larson - Chapter 10 #17
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #18
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

19. 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

Difficulty: Moderate
Larson - Chapter 10 #19
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #20
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #21
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #22
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #23
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #24
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

25. The relevance principle requires that property, plant and equipment be reported at book value rather than at market value.
FALSE

Difficulty: Hard
Larson - Chapter 10 #25
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #26
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #27
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #28
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

29. The Income Tax Act generally requires that companies use a double-declining-balance method of cost allocation called Capital Cost Allowance to determine the maximum amount of deduction for a taxation year.
TRUE

Difficulty: Hard
Larson - Chapter 10 #29
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

30. 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

Difficulty: Hard
Larson - Chapter 10 #30
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #31
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #32
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

33. 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

Difficulty: Moderate
Larson - Chapter 10 #33
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #34
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

35. 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

Difficulty: Hard
Larson - Chapter 10 #35
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

36. 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

Difficulty: Moderate
Larson - Chapter 10 #36
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

37. 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

Difficulty: Easy
Larson - Chapter 10 #37
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

38. 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

Difficulty: Hard
Larson - Chapter 10 #38
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

39. 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

Difficulty: Moderate
Larson - Chapter 10 #39
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

40. 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

Difficulty: Moderate
Larson - Chapter 10 #40
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #41
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

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

Difficulty: Hard
Larson - Chapter 10 #42
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

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

Difficulty: Hard
Larson - Chapter 10 #43
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

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

Difficulty: Hard
Larson - Chapter 10 #44
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

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

Difficulty: Hard
Larson - Chapter 10 #45
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

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

Difficulty: Easy
Larson - Chapter 10 #46
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #47
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #48
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #49
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #50
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #51
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #52
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

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

Difficulty: Moderate
Larson - Chapter 10 #53
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #54
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #55
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #56
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #57
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #58
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #59
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #60
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #61
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #62
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #63
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

64. Goodwill is an intangible asset.
FALSE

Difficulty: Easy
Larson - Chapter 10 #64
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #65
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #66
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #67
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Hard
Larson - Chapter 10 #68
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

69. 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.

Difficulty: Easy
Larson - Chapter 10 #69
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

70. 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.

Difficulty: Easy
Larson - Chapter 10 #70
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #71
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Easy
Larson - Chapter 10 #72
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

73. 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.

Difficulty: Easy
Larson - Chapter 10 #73
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

74. 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.

Difficulty: Moderate
Larson - Chapter 10 #74
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

75. 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.

Difficulty: Hard
Larson - Chapter 10 #75
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

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

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.

Difficulty: Hard
Larson - Chapter 10 #76
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

77. 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.

Difficulty: Hard
Larson - Chapter 10 #77
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

78. 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.

Difficulty: Easy
Larson - Chapter 10 #78
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

79. 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.

Difficulty: Easy
Larson - Chapter 10 #79
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #80
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

81. 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.

Difficulty: Moderate
Larson - Chapter 10 #81
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

82. 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.

Difficulty: Hard
Larson - Chapter 10 #82
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

83. 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.

Difficulty: Easy
Larson - Chapter 10 #83
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

84. 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.

Difficulty: Easy
Larson - Chapter 10 #84
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

85. 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.

Difficulty: Moderate
Larson - Chapter 10 #85
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

86. 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.

Difficulty: Moderate
Larson - Chapter 10 #86
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

87. 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.

Difficulty: Hard
Larson - Chapter 10 #87
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

88. 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.

Difficulty: Hard
Larson - Chapter 10 #88
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

89. 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.

Difficulty: Moderate
Larson - Chapter 10 #89
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

90. 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.

Difficulty: Hard
Larson - Chapter 10 #90
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

91. 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.

Difficulty: Easy
Larson - Chapter 10 #91
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

92. 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.

Difficulty: Easy
Larson - Chapter 10 #92
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

93. 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.

Difficulty: Easy
Larson - Chapter 10 #93
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

94. 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.

Difficulty: Easy
Larson - Chapter 10 #94
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

95. 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.

Difficulty: Easy
Larson - Chapter 10 #95
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

96. 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.

Difficulty: Moderate
Larson - Chapter 10 #96
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

97. 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.

Difficulty: Hard
Larson - Chapter 10 #97
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

98. 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.

Difficulty: Moderate
Larson - Chapter 10 #98
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

99. 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.

Difficulty: Moderate
Larson - Chapter 10 #99
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

100. 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.

Difficulty: Moderate
Larson - Chapter 10 #100
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

101. 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.

Difficulty: Moderate
Larson - Chapter 10 #101
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Knowledge

102. 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.

Difficulty: Hard
Larson - Chapter 10 #102
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Knowledge

103. 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.

Difficulty: Hard
Larson - Chapter 10 #103
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

104. 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.

Difficulty: Moderate
Larson - Chapter 10 #104
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

105. 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.

Difficulty: Hard
Larson - Chapter 10 #105
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

106. 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.

Difficulty: Easy
Larson - Chapter 10 #106
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Knowledge

107. 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.

Difficulty: Moderate
Larson - Chapter 10 #107
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

108. 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.

Difficulty: Hard
Larson - Chapter 10 #108
Learning Objective: 10-04 Explain and calculate revised depreciation.
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

109. 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.

Difficulty: Hard
Larson - Chapter 10 #109
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

110. 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.

Difficulty: Easy
Larson - Chapter 10 #110
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

111. 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.

Difficulty: Easy
Larson - Chapter 10 #111
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

112. 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.

Difficulty: Easy
Larson - Chapter 10 #112
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

113. 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.

Difficulty: Easy
Larson - Chapter 10 #113
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

114. 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.

Difficulty: Moderate
Larson - Chapter 10 #114
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

115. 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.

Difficulty: Moderate
Larson - Chapter 10 #115
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

116. 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.

Difficulty: Moderate
Larson - Chapter 10 #116
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

117. 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.

Difficulty: Easy
Larson - Chapter 10 #117
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

118. 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.

Difficulty: Easy
Larson - Chapter 10 #118
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

119. 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.

Difficulty: Easy
Larson - Chapter 10 #119
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

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

Difficulty: Moderate
Larson - Chapter 10 #120
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

121. 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.

Difficulty: Moderate
Larson - Chapter 10 #121
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

122. 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.

Difficulty: Moderate
Larson - Chapter 10 #122
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

123. 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.

Difficulty: Moderate
Larson - Chapter 10 #123
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

124. 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.

Difficulty: Moderate
Larson - Chapter 10 #124
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

125. 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.

B.

C.

D.

Difficulty: Moderate
Larson - Chapter 10 #125
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Application

126. 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.

Difficulty: Easy
Larson - Chapter 10 #126
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

127. 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.

Difficulty: Moderate
Larson - Chapter 10 #127
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

128. 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.

Difficulty: Moderate
Larson - Chapter 10 #128
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

129. 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).

Difficulty: Moderate
Larson - Chapter 10 #129
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge