

1.

Award: 1.51 points

TB TF Qu. 08-02 (Static) Plant assets are tangible assets...

Plant assets are tangible assets used in a company's operations that have a useful life of more than one accounting period.

→ True

False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-02 (Static) Plant assets are tangible assets... Learning Objective:
08-C1 Compute the cost of plant assets.

2.

Award: 1.51 points

TB TF Qu. 08-07 (Static) When plant assets are purchased as a group in a single...

When plant assets are purchased as a group in a single transaction for a lump-sum price, the cost of the purchase is allocated among the different types of assets acquired based on their relative market (or appraised) values.

→ True

False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-07
(Static) When
plant assets are
purchased as a
group in a
single...

Learning Objective:
08-C1 Compute the
cost of plant assets.

3.

Award: 1.51 points

TB TF Qu. 08-09 (Static) Depreciation does not measure...Depreciation does *not* measure an asset's physical deterioration.→ True False**References**

True / False

Difficulty: 2 Medium

**TB TF Qu. 08-09
(Static)
Depreciation
does not
measure...**Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

4.

Award: 1.51 points

TB TF Qu. 08-13 (Static) A building's book value...

A building's book value is its total cost minus any accumulated depreciation.

→ True

False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-13
(Static) A
building's book
value...

Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

5.

Award: 1.51 points

TB TF Qu. 08-15 (Static) Revising an estimate of the useful...

Revising an estimate of the useful life or salvage value of a plant asset is referred to as a change in accounting estimate and only affects current and future financial statements.

→ True

False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-15
(Static) Revising
an estimate of
the useful...****Learning Objective:
08-C2 Explain
depreciation for
partial years and
changes in estimates.**

6.

Award: 1.51 points

TB TF Qu. 08-16 (Static) Depreciation measures the decline...

Depreciation measures the decline in an asset's market value. The new market value is determined at the end of each period.

True

→ False

References

True / False

Difficulty: 2 Medium

**TB TF Qu. 08-16
(Static)
Depreciation
measures the
decline...**

Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

7.

Award: 1.51 points

TB TF Qu. 08-17 (Static) Total depreciation expense over...

Total depreciation expense over an asset's useful life will be identical under all methods of depreciation.

→ True

False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-17
(Static) Total
depreciation
expense over...**

Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

8.

Award: 1.51 points

TB TF Qu. 08-18 (Static) The Modified Accelerated Cost...

The Modified Accelerated Cost Recovery System (MACRS) is *not* acceptable for financial reporting because it does not consider an asset's useful life or salvage value.

→ True

False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-18
(Static) The
Modified
Accelerated
Cost...****Learning Objective:**
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

9.

Award: 1.51 points

TB TF Qu. 08-20 (Static) The book value of an asset when using...

The book value of an asset when using double-declining-balance depreciation is always greater than the book value from using straight-line depreciation, except at the beginning and the end of the asset's useful life, when it is the same.

 True False**References**

True / False

Difficulty: 2 Medium

TB TF Qu. 08-20 (Static) The book value of an asset when using...

Learning Objective:
08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.

10.

Award: 1.51 points

TB TF Qu. 08-21 (Static) If a company engages in a lawsuit...

If a company engages in a lawsuit to successfully defend a patent, the cost of the lawsuit is debited to the Patents account.

→ True

False

References

True / False

Difficulty: 2 Medium

TB TF Qu. 08-21
(Static) If a
company
engages in a
lawsuit...

Learning Objective:
08-P4 Account for
intangible assets.

11.

Award: 1.51 points

TB TF Qu. 08-22 (Static) The Modified Accelerated Cost Recovery...

The Modified Accelerated Cost Recovery System (MACRS) is part of the U.S. tax laws and must be used for financial reporting.

True

→ False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-22
(Static) The
Modified
Accelerated
Cost Recovery...****Learning Objective:**
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

12.

Award: 1.51 points

TB TF Qu. 08-23 (Static) Total asset turnover is a measure...

Total asset turnover is a measure of a company's ability to use its assets efficiently and effectively.

→ True

False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-23
(Static) Total
asset turnover is
a measure...**

Learning Objective:
08-A1 Compute total
asset turnover and
apply it to analyze a
company's use of
assets.

13.

Award: 1.51 points

TB TF Qu. 08-24 (Static) Total asset turnover is computed...

Total asset turnover is computed by dividing net income by average total assets.

True

→ False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-24
(Static) Total
asset turnover is
computed...**

Learning Objective:
08-A1 Compute total
asset turnover and
apply it to analyze a
company's use of
assets.

14.

Award: 1.51 points

TB TF Qu. 08-26 (Static) Duncan reported net sales...

Duncan reported net sales of \$2,520 million and average total assets of \$1,400 million. Its total asset turnover equals 1.8.

→ True

False

Total Asset Turnover = Net Sales/Average Total Assets
Total Asset Turnover = \$2,520/\$1,400 = 1.8

References

True / False

Difficulty: 3 Hard

TB TF Qu. 08-26
(Static) Duncan
reported net
sales...

Learning Objective:
08-A1 Compute total
asset turnover and
apply it to analyze a
company's use of
assets.

15.

Award: 1.51 points

TB TF Qu. 08-28 (Static) A higher total asset turnover...

A higher total asset turnover means that a company is generating fewer net sales for each dollar of assets relative to a company with a lower total asset turnover.

 True False**References**

True / False

Difficulty: 3 Hard

**TB TF Qu. 08-28
(Static) A higher
total asset
turnover...**Learning Objective:
08-A1 Compute total
asset turnover and
apply it to analyze a
company's use of
assets.

16.

Award: 1.51 points

TB TF Qu. 08-29 (Static) Edmond reported average total...

Edmond reported average total assets of \$9,600 million and net sales of \$10,000 million. Its total asset turnover equals .96.

 True False

Total Asset Turnover = Net Sales/Average Total Assets
Total Asset Turnover = \$10,000/\$9,600 = 1.04

References

True / False

Difficulty: 3 Hard

TB TF Qu. 08-29
(Static) Edmond
reported
average total...

Learning Objective:
08-A1 Compute total
asset turnover and
apply it to analyze a
company's use of
assets.

17.

Award: 1.51 points

TB TF Qu. 08-31 (Static) If a machine is damaged during...

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

True

→ False

References

True / False

Difficulty: 1 Easy

**TB TF Qu. 08-31
(Static) If a
machine is
damaged
during...**

Learning Objective:
08-C1 Compute the
cost of plant assets.

18.

Award: 1.51 points

TB TF Qu. 08-39 (Static) The double-declining balance method...

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

 True False**References**

True / False

Difficulty: 2 Medium

**TB TF Qu. 08-39
(Static) The
double-declining
balance
method...**Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

19.

Award: 1.51 points

TB TF Qu. 08-40 (Static) A company purchased a plant asset...

A company purchased a plant asset for \$60,000. The asset has an estimated salvage value of \$4,000, and an estimated useful life of 7 years. The annual depreciation expense using the straight-line method is \$4,000 per year.

 True False

Depreciation Expense = (Cost – Salvage Value)/Estimated Useful Life

Depreciation Expense = (\$60,000 – \$4,000)/7; Depreciation Expense = \$8,000

References

True / False

Difficulty: 3 Hard

TB TF Qu. 08-40 (Static) A company purchased a plant asset...

Learning Objective:
08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.

20. Award: 1.51 points

TB TF Qu. 08-48 (Static) Accounting for the exchange of...

Accounting for the exchange of assets depends on whether the transaction has commercial substance; an exchange has commercial substance if a company's future cash flows change as a result of the exchange.

→ True

False

References

True / False

Difficulty: 2 Medium

**TB TF Qu. 08-48
(Static)
Accounting for
the exchange
of...**

Learning Objective:
08-P5 Appendix 8A-
Account for asset
exchanges.

21.

Award: 1.51 points

TB TF Qu. 08-54 (Static) Amortization is the process of allocating...

Amortization is the process of allocating the cost of natural resources to periods when they are consumed.

True

→ False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-54 (Static) Amortization is the process of allocating...	Learning Objective: 08-P3 Account for natural resource assets and their depletion.
---	--

22. Award: 1.51 points

TB TF Qu. 08-57 (Static) When the usefulness of plant...

When the usefulness of plant assets is directly related to the depletion of a natural resource, their costs are depreciated using the units-of-production method in proportion to the depletion of the natural resource.

→ True

False

References

True / False

Difficulty: 2 Medium

TB TF Qu. 08-57
(Static) When the
usefulness of
plant...

Learning Objective:
08-P3 Account for
natural resource
assets and their
depletion.

23. Award: 1.51 points

TB TF Qu. 08-60 (Static) Intangible assets are nonphysical...

Intangible assets are nonphysical assets used in operations that give companies long-term rights or competitive advantages.

→ True

False

References

True / False Difficulty: 1 Easy

TB TF Qu. 08-60 (Static) Intangible assets are nonphysical... Learning Objective: 08-P4 Account for intangible assets.

24. Award: 1.51 points

TB TF Qu. 08-61 (Static) Since goodwill is an intangible...

Since goodwill is an intangible asset, it is amortized each year using the straight-line method.

True

→ False

References

True / False Difficulty: 1 Easy

TB TF Qu. 08-61 (Static) Since goodwill is an intangible... Learning Objective: 08-P4 Account for intangible assets.

25. Award: 1.51 points

TB TF Qu. 08-62 (Static) A patent is an exclusive right granted...

A patent is an exclusive right granted to its owner to manufacture and sell a patented item or to use a process for 20 years.

→ True

False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-62
(Static) A patent
is an exclusive
right granted...

Learning Objective:
08-P4 Account for
intangible assets.

26. Award: 1.51 points

TB TF Qu. 08-63 (Static) A copyright gives its owner the exclusive...

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 17 years.

True

→ False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-63 (Static) A copyright gives its owner the exclusive...
Learning Objective:
08-P4 Account for intangible assets.

27.

Award: 1.51 points

TB TF Qu. 08-64 (Static) A trademark is an exclusive right granted...

A trademark is an exclusive right granted to its owner to publish and sell a musical, literary, or artistic work during the life of the creator plus 70 years.

True

→ False

References

True / False

Difficulty: 1 Easy

TB TF Qu. 08-64
(Static) A
trademark is an
exclusive right
granted...

Learning Objective:
08-P4 Account for
intangible assets.

28.

Award: 1.51 points

TB MC Qu. 08-65 (Static) Plant assets are...

Plant assets are defined as:

- Tangible assets used in a company's operations that have a useful life of more than one accounting period.
- Current assets.
- Assets that are physically consumed when used.
- Intangible assets used in the operations of a business that have a useful life of more than one accounting period.
- Tangible assets used in the operation of business that have a useful life of less than one accounting period.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-65 (Static) Plant assets are...	Learning Objective: 08-C1 Compute the cost of plant assets.
---	---

29. Award: 1.51 points

TB MC Qu. 08-66 (Static) One characteristic of plant assets is...

One characteristic of plant assets is that they are:

- Current assets.
- Used in operations.
- Natural resources.
- Long-term investments.
- Intangible.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-66 (Static) One characteristic of plant assets is...	Learning Objective: 08-C1 Compute the cost of plant assets.
---	---

30. Award: 1.51 points

TB MC Qu. 08-71 (Static) The term inadequacy refers...

The term *inadequacy* refers to:

- The inability of a plant asset to meet its demands.
- An asset reaching its book value.
- An asset that does not have a salvage value.
- The condition where the salvage value is too small to replace the asset.
- The process of depletion.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-71 (Static) The term inadequacy refers... Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.

31.

Award: 1.51 points

TB MC Qu. 08-73 (Static) Once the estimated depreciation expense...

Once the estimated depreciation expense for an asset is calculated:

- It cannot be changed.
- It may be revised to reflect changes in the asset's estimated salvage value or useful life.
- Any changes are accumulated and recognized when the asset is sold.
- The estimate itself cannot be changed; however, new information should be disclosed in financial statement footnotes.
- It can be changed only if U.S. tax law changes.

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 08-73 (Static) Once the estimated depreciation expense...	Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.
---	--

32.

Award: 1.51 points

TB MC Qu. 08-74 (Algo) A machine originally had an estimated...

A machine originally had an estimated useful life of 9 years, but after 2 complete years, it was decided that the original estimate of useful life should have been 12 years. At that point the remaining cost to be depreciated should be allocated over the remaining:

- 12 years.
- 10 years.
- 5 years.
- 9 years.
- 7 years.

12 year revised life – 2 years depreciated = 10 years remaining

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-74 (Algo) A machine originally had an estimated... Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.

33.

Award: 1.51 points

TB MC Qu. 08-75 (Static) A change in an accounting...

A change in an accounting estimate is:

- Reflected in past financial statements.
- Reflected in future financial statements and also requires modification of past statements.
- Reflected in current and future years' financial statements, not in prior statements.
- Not allowed under current accounting rules.
- Considered an error in the financial statements.

References**Multiple Choice** Difficulty: 2 Medium

TB MC Qu. 08-75 (Static) A change in an accounting...	Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.
--	---

34.

Award: 1.51 points

TB MC Qu. 08-76 (Algo) When originally purchased, a vehicle...

When originally purchased, a vehicle costing \$24,840 had an estimated useful life of 8 years and an estimated salvage value of \$2,600. After 4 years of straight-line depreciation, the asset's total estimated useful life was revised from 8 years to 6 years and there was no change in the estimated salvage value. The depreciation expense in year 5 equals:

- \$11,120.00.
- \$2,780.00.
- \$5,560.00.
- \$2,948.00.
- \$5,728.00.

Accumulated Depreciation through the end of year 4:
(Cost of Asset – Salvage Value)/Estimated Useful Life × Years Elapsed
 $(\$24,840 - \$2,600)/8 \times 4 = \$11,120$

Depreciation in Year 5 = (Cost of Asset – Accumulated Depreciation – Salvage Value)/Remaining Estimated Useful Life
 $(\$24,840 - \$11,120 - \$2,600)/2 = \$5,560$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-76 (Algo) When originally purchased, a vehicle...	Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.
--	--

35.

Award: 1.51 points

TB MC Qu. 08-77 (Algo) A company used straight-line depreciation...

A company used straight-line depreciation for an item of equipment that cost \$17,750, had a salvage value of \$4,400 and a six-year useful life. After depreciating the asset for three complete years, the salvage value was reduced to \$1,775 but its total useful life remained the same. Determine the amount of depreciation to be charged against the equipment during each of the remaining years of its useful life:

- \$6,792.
- \$3,960.
- \$4,400.
- \$3,100.
- \$1,335.

Accumulated Depreciation through the end of year 3:
(Cost of Asset – Salvage Value)/Estimated Useful Life × Years Elapsed
 $(\$17,750 - \$4,400)/6 \times 3 = \$6,675$

Depreciation, years 4 through 6 = (Cost of Asset - Accumulated Depreciation - Salvage Value)/Remaining Estimated Useful Life
 $(\$17,750 - \$6,675 - \$1,775)/3 = \$3,100$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-77 (Algo) A company used straight-line depreciation... Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.

36.

Award: 1.51 points

TB MC Qu. 08-78 (Algo) Beckman Enterprises purchased...

Beckman Enterprises purchased a depreciable asset on October 1, Year 1 at a cost of \$172,000. The asset is expected to have a salvage value of \$16,800 at the end of its five-year useful life. If the asset is depreciated on the double-declining-balance method, the asset's *book value* on December 31, Year 2 will be:

- \$92,880
 \$37,152
 \$50,868
 \$33,912
 \$154,800

Period	BOY BV	DB Rate	Depreciation Expense	EOY BV
Year 1	172,000	40%	$\$68,800 \times 3/12 = \$ 17,200$	\$ 154,800
Year 2	154,800	40%	61,920	92,880

Accordingly, the asset's book value at the end of Year 2 would be \$92,880.

BOY BV = Beginning of Year Book Value

DB Rate = Declining Balance Rate of Depreciation ($1/5 \times 2$)

EOY BV = End of Year Book Value

References

Multiple Choice Difficulty: 3 Hard Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.

TB MC Qu. 08-78 (Algo) Beckman Enterprises purchased... Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.

37.

Award: 1.51 points

TB MC Qu. 08-79 (Algo) Peavey Enterprises purchased...

Peavey Enterprises purchased a depreciable asset for \$25,500 on April 1, Year 1. The asset will be depreciated using the straight-line method over its four-year useful life. Assuming the asset's salvage value is \$2,700, what will be the amount of *accumulated depreciation* on this asset on December 31, Year 3?

- \$19,000
 \$15,675
 \$4,750
 \$22,800
 \$5,700

Year 1	$[(\$25,500 - \$2,700)/4] \times 9/12 =$	\$ 4,275
Year 2	$(\$25,500 - 2,700)/4 =$	\$ 5,700
Year 3		\$ 5,700
Accumulated		<u>\$ 15,675</u>

References

Multiple Choice Difficulty: 3 Hard Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.

TB MC Qu. 08-79 (Algo) Peavey Enterprises purchased... Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.

38.

Award: 1.51 points

TB MC Qu. 08-81 (Algo) The following information is available...

The following information is available on a depreciable asset:

Purchase date	January 1, Year 1
Purchase price	\$68,000
Salvage value	\$10,000
Useful life	10 years
Depreciation method	straight-line

The asset's book value is \$56,400 on January 1, Year 3. On that date, management determines that the asset's salvage value should be \$5,000 rather than the original estimate of \$10,000. Based on this information, the amount of *depreciation expense* the company should recognize during Year 3 would be:

- \$6,425.00
- \$7,050.00
- \$5,140.00
- \$5,800.00
- \$5,640.00

$[(\text{Year 3 book value} - \text{revised salvage value}) / \text{useful life}] = \text{Year 3 depreciation}$

$[(\$56,400 - \$5,000) / 8] = \$6,425.00.$

References

Multiple Choice Difficulty: 3 Hard Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.

TB MC Qu. 08-81 (Algo) The following information is available... Learning Objective: 08-C2 Explain depreciation for partial years and changes in estimates.

39.

Award: 1.51 points

TB MC Qu. 08-82 (Static) Which of the following statements...

Which of the following statements is true regarding the use of an accelerated depreciation method?

- An accelerated method is the only method allowed by the tax code.
- An accelerated method is also called units-of-production.
- An accelerated method yields more depreciation expense in the early years of an asset's life as compared to the straight-line method.
- An accelerated method yields a higher taxable income in the early years of the asset's useful life.
- An accelerated method and the straight-line method will produce the same amount of depreciation expense each year.

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
08-82 (Static)
Which of the
following
statements...

Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

40.

Award: 1.51 points

TB MC Qu. 08-84 (Static) The straight-line depreciation method...

The straight-line depreciation method and the double-declining-balance depreciation method:

- Produce the same total depreciation over an asset's useful life.
- Produce the same depreciation expense each year.
- Produce the same book value each year.
- Are acceptable for tax purposes only.
- Are the only acceptable methods of depreciation for financial reporting.

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 08-84 (Static) The straight-line depreciation method...	Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.
--	---

41.

Award: 1.51 points

TB MC Qu. 08-85 (Static) Total asset turnover is used to...

Total asset turnover is used to evaluate:

- A company's ability to use assets efficiently and effectively to generate sales.
- The necessity for asset replacement.
- The number of times operating assets were sold during the year.
- The cash flows used to acquire assets.
- The relation between asset cost and book value.

References**Multiple Choice** Difficulty: 2 Medium

TB MC Qu. 08-85 (Static) Total asset turnover is used to...	Learning Objective: 08-A1 Compute total asset turnover and apply it to analyze a company's use of assets.
--	--

42.

Award: 1.51 points

TB MC Qu. 08-86 (Algo) A total asset turnover ratio...

A total asset turnover ratio of 5.3 indicates that:

- For every \$1 in net sales, the firm acquired \$5.3 in assets during the period.
- For every \$1 in assets, the firm produced \$5.3 in net sales during the period.
- For every \$1 in assets, the firm earned gross profit of \$5.3 during the period.
- For every \$1 in assets, the firm earned \$5.3 in net income.
- For every \$1 in assets, the firm paid \$5.3 in expenses during the period.

[References](#)

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 08-86 (Algo) A total asset turnover ratio...	Learning Objective: 08-A1 Compute total asset turnover and apply it to analyze a company's use of assets.
---	--

43.

Award: 1.51 points

TB MC Qu. 08-87 (Static) The calculation of total asset turnover...

The calculation of total asset turnover is:

- Gross profit divided by average total assets.
- Average total assets divided by gross profit.
- Net sales divided by average total assets.
- Average total assets multiplied by net sales.
- Net assets multiplied by total assets.

[References](#)

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-87 (Static) The calculation of total asset turnover...	Learning Objective: 08-A1 Compute total asset turnover and apply it to analyze a company's use of assets.
---	--

44.

Award: 1.51 points

TB MC Qu. 08-88 (Algo) A company had average total assets...

A company had average total assets of \$927,000. Its gross sales were \$1,095,000 and its net sales were \$970,000. The company's total asset turnover equals:

- 1.13.
- 1.20.
- 0.85.
- 0.96.
- 1.05.

Total Asset Turnover = Net Sales/Average Total Assets

Total Asset Turnover = \$970,000/\$927,000 = 1.05

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
08-88 (Algo) A
company had
average total
assets...

Learning Objective:
08-A1 Compute total
asset turnover and
apply it to analyze a
company's use of
assets.

45.

Award: 1.51 points

TB MC Qu. 08-90 (Static) Land improvements...

Land improvements are:

- Additions that increase the usefulness of land and are not depreciated.
- Additions to land that have limited useful lives.
- Included in the cost of the land account.
- Expensed in the period incurred.
- Also called basket purchases.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-90 (Static) Land improvements...	Learning Objective: 08-C1 Compute the cost of plant assets.
--	---

46.

Award: 1.51 points

TB MC Qu. 08-92 (Static) The cost of land would...

The cost of land would *not* include:

- Purchase price.
- Cost of parking lot lighting.
- Costs of removing existing structures.
- Title insurance fees.
- Government assessments.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-92 (Static) The cost of land would...	Learning Objective: 08-C1 Compute the cost of plant assets.
---	---

47.

Award: 1.51 points

TB MC Qu. 08-93 (Static) A company paid...

A company paid \$165,500 for property. The property included land appraised at \$87,500, land improvements appraised at \$35,000, and a building appraised at \$52,500. What should be the allocation of this property's costs in the company's accounting records?

- Land \$75,000; Land Improvements, \$30,000; Building, \$45,000.
- Land \$75,000; Land Improvements, \$30,800; Building, \$46,200.
- Land \$82,750; Land Improvements, \$33,100; Building, \$49,650.
- Land \$80,250; Land Improvements, \$32,100; Building, \$48,150.
- Land \$77,500; Land Improvements; \$31,000; Building; \$46,500.

Total cost to allocate = \$165,500

	Appraisal Value		%
Land	\$ 87,500	/\$ 175,000	= 50%
Land Improvements	35,000	/\$ 175,000	= 20%
Building	52,500	/\$ 175,000	= 30%
Total	<u>\$ 175,000</u>		

	Appraisal Value	%	Total Cost	Allocated
Land	\$ 87,500	50%	\$ 165,500	\$ 82,750
Land Improvements	35,000	20%	\$ 165,500	33,100
Building	52,500	30%	\$ 165,500	49,650
Total	<u>\$ 175,000</u>			<u>\$ 165,500</u>

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-93 (Static) A company paid... Learning Objective: 08-C1 Compute the cost of plant assets.

48.

Award: 1.51 points

TB MC Qu. 08-94 (Algo) Merchant Company purchased...

Merchant Company purchased land for a building site. The costs associated with the property were:

Purchase price	\$ 178,000
Real estate commissions	15,300
Legal fees	1,100
Expenses of clearing the land	2,300

What is the total recorded cost of the land?

- \$194,400
- \$196,700
- \$178,000
- \$193,300
- \$181,100

Total cost = \$178,000 + \$15,300 + \$1,100 + \$2,300 = \$196,700

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-94 (Algo) Merchant Company purchased...	Learning Objective: 08-C1 Compute the cost of plant assets.
--	---

49.

Award: 1.51 points

TB MC Qu. 08-95 (Algo) A company purchased property...

A company purchased property for \$100,000. The property included a building, a parking lot, and land. The building was appraised at \$57,500; the land at \$48,600, and the parking lot at \$18,900. Land should be recorded in the accounting records with an allocated cost of:

- \$48,600.
- \$100,000.
- \$38,880.
- \$0.
- \$44,880.

$$\$100,000 \times \$48,600 / (\$57,500 + \$48,600 + \$18,900) = \$38,880$$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
08-95 (Algo) A
company
purchased
property...Learning Objective:
08-C1 Compute the
cost of plant assets.

50. Award: 1.51 points**TB MC Qu. 08-100 (Static) The depreciation method which...**

The depreciation method which uses a depreciation rate that is a multiple of the straight-line rate is called:

- Book value depreciation.
- Declining-balance depreciation.
- Amortization.
- Units-of-production depreciation.
- Modified accelerated cost recovery system (MACRS) depreciation.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-100 (Static) The depreciation method which...	Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.
---	---

51.

Award: 1.51 points

TB MC Qu. 08-103 (Algo) Marlow Company purchased a point...

Marlow Company purchased a point of sale system on January 1 for \$7,200. This system has a useful life of 10 years and a salvage value of \$1,300. What would be the *depreciation expense* for the second year of its useful life using the double-declining-balance method?

- \$1,088.
- \$1,152.
- \$1,180.
- \$590.
- \$1,440.

Depreciation Expense = Beginning of Year Book Value × Double Straight-line Rate
Depreciation Expense = $\$7,200 \times (2 \times 10\%) = \$1,440$ (Year 1, depreciation)

Depreciation Expense = Beginning of Year Book Value × Double Straight-line Rate
Depreciation Expense = $(\$7,200 - \$1,440) \times (2 \times 10\%) = \$1,152$ (Year 2, depreciation)

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
08-103 (Algo)
Marlow
Company
purchased a
point...

Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

52.

Award: 1.51 points

TB MC Qu. 08-107 (Algo) A company purchased a weaving machine...

A company purchased a weaving machine for \$264,970. The machine has a useful life of 8 years and a salvage value of \$14,500. It is estimated that the machine could produce 759,000 bolts of woven fabric over its useful life. In the first year, 109,500 bolts were produced. In the second year, production increased to 113,500 units. Using the units-of-production method, what is the amount of *depreciation expense* that should be recorded for the second year?

- \$39,623.
- \$38,227.
- \$37,455.
- \$36,135.
- \$73,590.

Depreciation Expense = [(Cost – Salvage Value)/Estimated Useful Life (in units)] × Units Produced

Depreciation per unit = (\$264,970 – \$14,500)/759,000 units = \$.33 per unit

Depreciation Expense = \$.33 × 113,500 = \$37,455

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu.
08-107 (Algo) A
company
purchased a
weaving
machine...

Learning Objective:
08-P1 Compute and
record depreciation
using the straight-line,
units-of-production,
and declining-balance
methods.

53.

Award: 1.51 points

TB MC Qu. 08-108 (Static) A company purchased a machine...

A company purchased a machine for \$190,000. The machine has a useful life of 8 years and a salvage value of \$10,000. It is estimated that the machine could produce 75,000 bolts over its useful life. In the first year, 15,000 bolts were produced. In the second year, production increased to 19,000 units. Using the units-of-production method, what is the amount of *accumulated depreciation* at the end of the second year?

- \$48,133.
- \$45,600.
- \$86,133.
- \$23,750.
- \$81,600.

Depreciation Expense = [(Cost – Salvage Value)/Estimated Useful Life (in units)] × Units Produced

Depreciation per unit = (\$190,000 – \$10,000)/75,000 units = \$2.40 per unit

Accumulated Depreciation = \$2.40 × (15,000 + 19,000) = \$81,600

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-108 (Static) A company purchased a machine...	Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.
--	--

54. Award: 1.51 points**TB MC Qu. 08-109 (Static) A company purchased a machine...**

A company purchased a machine for \$190,000. The machine has a useful life of 8 years and a salvage value of \$10,000. It is estimated that the machine could produce 75,000 bolts over its useful life. In the first year, 15,000 bolts were produced. In the second year, production increased to 19,000 units. Using the units-of-production method, what is the *book value* of the machine at the end of the second year?

- \$108,400.
- \$144,400.
- \$81,600.
- \$190,000.
- \$180,000.

Depreciation Expense = [(Cost – Salvage Value)/Estimated Useful Life in Units] × Units Produced

Depreciation per unit = (\$190,000 – \$10,000)/75,000 units = \$2.40 per unit

Accumulated Depreciation = \$2.40 × (15,000 + 19,000) = \$81,600

Book Value = Cost – Accumulated Depreciation = \$190,000 – \$81,600 = \$108,400

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-109 (Static) A company purchased a machine...	Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.
--	--

55.

Award: 1.51 points

TB MC Qu. 08-110 (Static) Revenue...

Revenue expenditures:

- Are costs that do not materially increase a plant asset's life or capabilities.
- Are known as balance sheet expenditures because they relate to plant assets.
- Extend the asset's useful life.
- Substantially benefit future periods.
- Are debited to asset accounts when incurred.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-110 (Static) Revenue...	Learning Objective: 08-C3 Distinguish between revenue and capital expenditures, and account for them.
--	---

56.

Award: 1.51 points

TB MC Qu. 08-113 (Static) Extraordinary repairs:

Extraordinary repairs:

- Are revenue expenditures.
- Are expenditures that extend an asset's useful life beyond its original estimate.
- Are credited to accumulated depreciation.
- Are additional costs of plants assets that do not materially increase the asset's life.
- Are expensed when incurred.

References**Multiple Choice** Difficulty: 1 Easy

TB MC Qu. 08-113 (Static) Extraordinary repairs:	Learning Objective: 08-C3 Distinguish between revenue and capital expenditures, and account for them.
---	--

57.

Award: 1.51 points

TB MC Qu. 08-114 (Static) Which of the following is an example...

Which of the following is an example of an extraordinary repair?

- An oil change for a truck.
- Replacement of all florescent light tubes in an office.
- Carpet cleaning and repair.
- Replacing the roof on a manufacturing warehouse.
- Routine machine maintenance.

References**Multiple Choice** Difficulty: 2 Medium

TB MC Qu. 08-114 (Static) Which of the following is an example...	Learning Objective: 08-C3 Distinguish between revenue and capital expenditures, and account for them.
--	--

58.

Award: 1.51 points

TB MC Qu. 08-116 (Static) Betterments:

Betterments:

- Are expenditures that make a plant asset more efficient or productive.
- Are also called ordinary repairs.
- Always increase an asset's life.
- Are revenue expenditures.
- Are credited against the asset account when incurred.

References**Multiple Choice** Difficulty: 1 Easy

TB MC Qu. 08-116 (Static) Betterments:	Learning Objective: 08-C3 Distinguish between revenue and capital expenditures, and account for them.
---	--

59. Award: 1.51 points**TB MC Qu. 08-117 (Algo) An asset's book value...**

An asset's book value is \$19,300 on December 31, Year 5. Assuming the asset is sold on December 31, Year 5 for \$13,700, the company should record:

- Neither a gain nor a loss is recognized on this transaction.
- A gain on sale of \$5,600.
- A loss on sale of \$12,850.
- A loss on sale of \$5,600.
- A gain on sale of \$12,850.

Selling price \$13,700 – \$19,300 Book value = \$5,600 Loss.

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 08-117 (Algo) An asset's book value...	Learning Objective: 08-P2 Account for asset disposal through discarding or selling an asset.
---	--

60. Award: 1.51 points**TB MC Qu. 08-118 (Static) Martinez owns an asset that...**

Martinez owns an asset that cost \$87,000 with accumulated depreciation of \$40,000. The company sells the equipment for cash of \$42,000. At the time of sale, the company should record:

- A gain on sale of \$2,000.
- A loss on sale of \$2,000.
- A loss on sale of \$5,000.
- A gain on sale of \$5,000.
- A loss on sale of \$45,000.

Selling price \$42,000 – Book value (\$87,000 – \$40,000) = \$5,000 loss.

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 08-118 (Static) Martinez owns an asset that...	Learning Objective: 08-P2 Account for asset disposal through discarding or selling an asset.
---	--

61.

Award: 1.51 points

TB MC Qu. 08-120 (Algo) An asset's book value...

An asset's book value is \$64,800 on January 1, Year 6. The asset is being depreciated \$900 per month using the straight-line method. Assuming the asset is sold on July 1, Year 7 for \$46,600, the company should record:

- Neither a gain or loss is recognized on this type of transaction.
- A gain on sale of \$2,000.
- A loss on sale of \$1,000.
- A gain on sale of \$1,000.
- A loss on sale of \$2,000.

If the asset's book value is \$64,800 on January 1, Year 6 and is being depreciated \$900 per month, \$16,200 ($18 \times \$900$) of additional depreciation expense would be recognized by July 1, Year 7. Thus, the asset's book value on that date would be \$48,600. If the asset is sold for \$46,600, a loss on sale of \$2,000 should be recognized.

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-120 (Algo) An asset's book value...	Learning Objective: 08-P2 Account for asset disposal through discarding or selling an asset.
---	--

62. Award: 1.51 points

TB MC Qu. 08-122 (Static) A machine costing...

A machine costing \$75,000 is purchased on January 1, Year 1. The machine is estimated to have a salvage value of \$10,000 and an estimated useful life of 4 years. Double-declining-balance depreciation is used. If the machine is sold on January 1, Year 4 for \$9,000, the journal entry to record the sale will include:

- A credit to gain on sale for \$1,000.
- A debit to loss on sale for \$1,000.
- A credit to accumulated depreciation for \$65,000.
- A credit to loss on sale for \$1,000.
- A credit to cash for \$9,000.

Period	BOY BV	DB Rate	Depreciation Expense	EOY BV
Year 1	\$ 75,000	50%	\$ 37,500	\$ 37,500
Year 2	37,500	50%	18,750	18,750
Year 3	18,750	50%	8,750	10,000
Accumulated depreciation			<u>\$ 65,000</u>	

Therefore, the journal entry to record the sale of the machine would be as follows:

Account Title	Debit	Credit
Cash	9,000	
Accumulated Depreciation	65,000	
Loss on Sale	1,000	
Machine		75,000

BOY BV = Beginning of the year book value

DB Rate = Declining-balance rate of depreciation $(100\%/4) \times 2$

EOY BV = End of the year book value

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-122 (Static) A machine costing... Learning Objective: 08-P2 Account for asset disposal through discarding or selling an asset.

63.

Award: 1.51 points

TB MC Qu. 08-126 (Algo) A company had a...

A company sold a tractor that originally cost \$133,000 for \$28,000 cash. The accumulated depreciation on the tractor was \$67,200. The company should recognize:

- A loss of \$37,800.
- A gain of \$37,800.
- A loss of \$28,000.
- A gain of \$65,800.
- A gain of \$28,000.

Cost of tractor	\$ 133,000
Accumulated depreciation	(67,200)
Book value	<u>\$ 65,800</u>
Cash received	<u>28,000</u>
Loss	<u><u>\$ 37,800</u></u>

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. Learning Objective:
08-126 (Algo) A 08-P2 Account for
company had a... asset disposal
 through discarding or
 selling an asset.

64.

Award: 1.51 points

TB MC Qu. 08-129 (Static) Depletion is:

Depletion is:

- The process of allocating the cost of a natural resource to the period when it is consumed.
- Calculated using the double-declining balance method.
- Also called amortization.
- An increase in the value of a natural resource when incurred.
- The process of allocating the cost of intangibles to periods when they are used.

References**Multiple Choice** Difficulty: 1 Easy

TB MC Qu. 08-129 (Static) Depletion is:	Learning Objective: 08-P3 Account for natural resource assets and their depletion.
--	---

65.

Award: 1.51 points

TB MC Qu. 08-130 (Algo) A company purchased...

A company purchased a tract of land for its natural resources at a cost of \$1,500,000. It expects to mine 2,000,000 tons of ore from this land. The salvage value of the land is expected to be \$250,000. The depletion expense per ton of ore is:

- \$0.625.
- \$0.750.
- \$8.000.
- \$0.875.
- \$6.000.

Depletion Expense per ton = (Cost – Salvage Value)/Estimated Useful Life (in tons)

Depletion Expense per ton = (\$1,500,000 – \$250,000)/2,000,000 tons = \$0.625/ton

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu.
08-130 (Algo) A
company
purchased...

Learning Objective:
08-P3 Account for
natural resource
assets and their
depletion.

66. Award: 1.51 points**TB MC Qu. 08-131 (Static) A company purchased a mine...**

A company purchased a mine at a cost of \$1,500,000. It expects to mine 2,000,000 tons of ore from this mine. The salvage value of the mine is expected to be \$250,000. If 150,000 tons of ore are mined and sold during the first year, the journal entry to record the depletion is:

- Debit Depletion Expense \$93,750; credit Natural Resources \$93,750.
- Debit Cash \$112,500; credit Natural Resources \$112,500.
- Debit Depletion Expense \$93,750; credit Accumulated Depletion \$93,750.
- Debit Cash \$93,750; credit Accumulated Depletion \$93,750.
- Debit Depletion Expense \$112,500; credit Accumulated Depletion \$112,500.

Depletion Expense per ton = (Cost – Salvage Value)/Estimated Useful Life (in tons)

Depletion Expense per ton = $(\$1,500,000 - \$250,000) / 2,000,000 = \$0.625/\text{ton}$

Year 1 Depletion Expense = $150,000 \times \$0.625 = \$93,750$

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 08-131 (Static) A company purchased a mine...	Learning Objective: 08-P3 Account for natural resource assets and their depletion.
---	--

67.

Award: 1.51 points

TB MC Qu. 08-136 (Static) Owing a patent:

Owing a patent:

- Gives the owner the exclusive right to publish and sell a musical, literary, or artistic work during the life of the creator plus 70 years.
- Gives the owner exclusive rights to manufacture and sell a patented item or to use a process for 20 years.
- Gives its owner an exclusive right to manufacture and sell a device or to use a process for 50 years.
- Indicates that the value of a company exceeds the fair market value of a company's net assets if purchased separately.
- Gives its owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 17 years.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. Learning Objective:
08-136 (Static) 08-P4 Account for
Owing a patent: intangible assets.

68.

Award: 1.51 points

TB MC Qu. 08-137 (Static) Holding...

Holding 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 70 years.
- Gives its owner an exclusive right to manufacture and sell a patented item or to use a process for 20 years.
- Gives its owner an exclusive right to manufacture and sell a device or to use a process for 50 years.
- Indicates that the value of a company exceeds the fair market value of a company's net assets if purchased separately.
- Gives its owner the exclusive right to publish and sell a musical or literary work during the life of the creator plus 20 years.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-137 (Static) Holding...	Learning Objective: 08-P4 Account for intangible assets.
--	--

69. Award: 1.51 points**TB MC Qu. 08-138 (Static) A leasehold is:**

A leasehold is:

- The right that a company or government grants an entity to sell a product or service under specified conditions.
- The same as a patent.
- The rights the lessor grants to the lessee under the terms of a lease.
- Recorded as revenue expenditure when paid.
- An asset held as an investment.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-138 (Static) A leasehold is: Learning Objective: 08-P4 Account for intangible assets.

70.

Award: 1.51 points

TB MC Qu. 08-139 (Static) The meaning of goodwill...

The meaning of goodwill in accounting is:

- The amount by which a company's value exceeds the value of its individual assets and liabilities.
- Long term assets held as investment.
- The support of the board of directors for the operating decisions of management.
- The cost of developing, maintaining, or enhancing the value of a trademark.
- Rights granted to an entity to deliver a product or service under specified conditions.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 08-139 (Static) The meaning of goodwill...	Learning Objective: 08-P4 Account for intangible assets.
---	--

71.

Award: 1.51 points

TB MC Qu. 08-140 (Algo) A company's old machine...

A company's old machine that cost \$57,000 and had accumulated depreciation of \$45,300 was traded in on a new machine having an estimated 20-year life with an invoice price of \$68,700. The company also paid \$58,300 cash, along with its old machine to acquire the new machine. If this transaction has commercial substance, the new machine should be recorded at:

- \$57,000.
 \$11,700.
 \$70,000.
 \$68,700.
 \$67,400.

Market value of new machine		\$ 68,700
Cost of old machine	\$ 57,000	
Accumulated depreciation	(45,300)	
Book value of old machine	<u>\$ 11,700</u>	
Plus cash paid in exchange	58,300	70,000
Loss on exchange		<u><u>\$ (1,300)</u></u>

	Account Title	Debit	Credit
Machine (new)		68,700	
Loss on disposal		1,300	
Accumulated depreciation (old)		45,300	
Machine (old)			57,000
Cash			58,300

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
 08-140 (Algo) A
 company's old
 machine...

Learning Objective:
 08-P5 Appendix 8A-
 Account for asset
 exchanges.

72.

Award: 1.51 points

TB MC Qu. 08-141 (Static) Hunter Sailing Company...

Hunter Sailing Company exchanged an old sailboat for a new one. The old sailboat had a cost of \$160,000 and accumulated depreciation of \$100,000. The new sailboat had an invoice price of \$270,000. Hunter received a trade in allowance of \$70,000 on the old sailboat, which meant the company paid \$200,000 in addition to the old sailboat to acquire the new sailboat. If this transaction has commercial substance, what amount of gain or loss should be recorded on this exchange?

- \$0 gain or loss.
 \$10,000 gain.
 \$10,000 loss.
 \$60,000 loss.
 \$70,000 loss.

Market value of new sailboat		\$ 270,000
Book value of old sailboat (\$160,000 – \$100,000)	\$ 60,000	
Cash	200,000	(260,000)
Gain		<u>\$ 10,000</u>

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-141 (Static)
 Hunter Sailing Company...
 Learning Objective:
 08-P5 Appendix 8A-
 Account for asset
 exchanges.

73.

Award: 1.51 points

TB MC Qu. 08-142 (Algo) Cliff Company traded...

Cliff Company traded in an old truck for a new one. The old truck had a cost of \$80,000 and accumulated depreciation of \$64,000. The new truck had an invoice price of \$130,000. Huffington was given a \$12,800 trade-in allowance on the old truck, which meant they paid \$117,200 in addition to the old truck to acquire the new truck. If this transaction has commercial substance, what is the recorded value of the new truck?

- \$16,000
 \$80,000
 \$117,200
 \$130,000
 \$133,200

Market value of new truck		\$ 130,000
Book value of the old truck (\$80,000 – \$64,000)	\$ 16,000	
Cash	117,200	133,200
Loss		<u>\$ 3,200</u>

As the transaction has commercial substance and there is a loss on the exchange, the new asset is recorded at its market value:

Account Title	Debit	Credit
Truck (new)	130,000	
Loss on exchange	3,200	
Accumulated depreciation (old)	64,000	
Truck (old)		80,000
Cash		117,200

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-142 (Algo) Cliff Company traded...
 Learning Objective: 08-P5 Appendix 8A- Account for asset exchanges.

74.

Award: 1.51 points

TB MC Qu. 08-142 (Static) Cliff Company traded...

Cliff Company traded in an old truck for a new one. The old truck had a cost of \$75,000 and accumulated depreciation of \$60,000. The new truck had an invoice price of \$125,000. Huffington was given a \$12,000 trade-in allowance on the old truck, which meant they paid \$113,000 in addition to the old truck to acquire the new truck. If this transaction has commercial substance, what is the recorded value of the new truck?

- \$15,000
 \$75,000
 \$113,000
 \$125,000
 \$128,000

Market value of new truck		\$ 125,000
Book value of the old truck (\$75,000 – \$60,000)	\$ 15,000	
Cash	113,000	\$ 128,000
Loss		<u>3,000</u>

As the transaction has commercial substance and there is a loss on the exchange, the new asset is recorded at its market value:

Account Title	Debit	Credit
Truck (new)	125,000	
Loss on exchange	3,000	
Accumulated depreciation (old)	60,000	
Truck (old)		75,000
Cash		113,000

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-142 (Static) Cliff Company traded...
 Learning Objective: 08-P5 Appendix 8A- Account for asset exchanges.

75.

Award: 1.51 points

TB MC Qu. 08-143 (Algo) A company bought a new...

A company bought a new \$48,000 heating system. The company paid \$43,500 cash and was given a trade-in of \$4,500 on an old heating system. The old system had an original cost of \$42,600 and accumulated depreciation of \$36,700. If the transaction has commercial substance, the company should record the new heating system at:

- \$4,500.
 \$5,900.
 \$43,500.
 \$48,000.
 \$49,400.

Market value of new system		\$ 48,000
Cost of old system	\$ 42,600	
Accumulated depreciation	(36,700)	
Book value of old system	<u>\$ 5,900</u>	
Plus cash paid in exchange	43,500	49,400
Loss on exchange		<u><u>\$ (1,400)</u></u>

Since the transaction has commercial substance, the loss on exchange is recognized and the new system should be recorded at its \$48,000 price.

Account Title	Debit	Credit
Equipment (new)	48,000	
Loss on exchange	1,400	
Accumulated depreciation (old)	36,700	
Equipment (old)		42,600
Cash		43,500

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. Learning Objective:
 08-143 (Algo) A 08-P5 Appendix 8A-
 company bought Account for asset
 a new... exchanges.

76.

Award: 1.51 points

TB MC Qu. 08-143 (Static) A company bought a new...

A company bought a new \$42,000 heating system. The company paid \$40,000 cash and was given a trade-in of \$2,000 on an old heating system. The old system had an original cost of \$37,000 and accumulated depreciation of \$34,000. If the transaction has commercial substance, the company should record the new heating system at:

- \$2,000.
 \$3,000.
 \$40,000.
 \$42,000.
 \$43,000.

Market value of new system		\$ 42,000
Cost of old system	\$ 37,000	
Accumulated depreciation	(34,000)	
Book value of old system	<u>\$ 3,000</u>	
Plus cash paid in exchange	40,000	43,000
Loss on exchange		<u><u>\$ (1,000)</u></u>

Since the transaction has commercial substance, the loss on exchange is recognized and the new system should be recorded at its \$42,000 price.

Account Title	Debit	Credit
Equipment (new)	42,000	
Loss on exchange	1,000	
Accumulated depreciation (old)	34,000	
Equipment (old)		37,000
Cash		40,000

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. Learning Objective:
 08-143 (Static) A 08-P5 Appendix 8A-
 company bought Account for asset
 a new... exchanges.

77.

Award: 1.51 points

TB MC Qu. 08-146 (Algo) Granite Company purchased a machine...

Granite Company purchased a machine costing \$121,770. Granite paid freight charges of \$2,300. The machine requires special mounting and wiring connections costing \$10,300. When installing the machine, \$1,800 in damages occurred. Compute the cost recorded for this machine.

- \$139,000.
- \$133,870.
- \$134,570.
- \$134,370.
- \$121,770.

Cost of Machine = 121,770 + \$2,300 + \$10,300 = \$134,370

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
08-146 (Algo)
Granite
Company
purchased a
machine...

Learning Objective:
08-C1 Compute the
cost of plant assets.

78.

Award: 1.51 points

TB MC Qu. 08-150 (Static) Wickland Company installs a manufacturing...

Wickland Company installs a manufacturing machine in its production facility at the beginning of the year at a cost of \$87,000. The machine's useful life is estimated to be 5 years, or 400,000 units of product, with a \$7,000 salvage value. During its second year, the machine produces 84,500 units of product. What journal entry would be needed to record the machines' second year depreciation under the units-of-production method?

- Debit Depletion Expense \$16,900; credit Accumulated Depletion \$16,900.
- Debit Depletion Expense \$16,000; credit Accumulated Depletion \$16,000.
- Debit Depreciation Expense \$16,900; credit Accumulated Depreciation \$16,900.
- Debit Depreciation Expense \$16,000; credit Accumulated Depreciation \$16,000.
- Debit Amortization Expense \$16,900; credit Accumulated Amortization \$16,900.

Depreciation Expense = [(Cost – Salvage Value)/Estimated Useful Life (in units)] × Production of Units
Depreciation Expense = [(\$87,000 – \$7,000)/400,000] × 84,500 = \$16,900

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 08-150 (Static) Wickland Company installs a manufacturing...	Learning Objective: 08-P1 Compute and record depreciation using the straight-line, units-of-production, and declining-balance methods.
---	--

79.

Award: 2.22 points

TB MC Qu. 08-160 (Algo) Crestfield leases office space....

Crestfield leases office space. On January 3, the company incurs \$25,000 to improve the leased office space. These improvements are expected to yield benefits for 10 years. Crestfield has 5 years remaining on its lease. What journal entry would be needed to record the expense for the first year related to the improvements?

- Debit Amortization Expense—Leasehold Improvements \$2,500; credit Accumulated Amortization—Leasehold Improvements \$2,500.
- Debit Depletion Expense \$5,000; credit Accumulated Depletion \$5,000.
- Debit Depreciation Expense \$2,500; credit Accumulated Depreciation \$2,500.
- Debit Depletion Expense \$25,000; credit Accumulated Depletion \$25,000.
- Debit Amortization Expense—Leasehold Improvements \$5,000; credit Accumulated Amortization—Leasehold Improvements \$5,000.

Amortization Expense = Cost/Lesser of Estimated Useful Life or Remaining Length of Lease
Amortization Expense = \$25,000/5 = \$5,000

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. Learning Objective:
08-160 (Algo) 08-P4 Account for
Crestfield leases intangible assets.
office space....