

Check list

Video	Done	Comment
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

1

ASSETS = LIABILITIES + EQUITY

ASSETS: what you own or control that yields future benefit.

Type of Assets:

a-Current assets (prepaid insurance, cash, supplies, AR, Inventory)

b-**NON-Current assets**

a-Intangible

b-Tangible (has physical substance)

Property, plant and equipment

Land

Equipment

Buildings

Long term investment

investment in shares

investment in real state

Property, plant and equipment = Plant assets = Fixed assets: are resources that have three characteristics they have physical substance, are used in the operations of a business and are not intend for sale to customer

Cost: all expenditures necessary to acquire the asset and make it ready for its intended use.

*Land improvements such as lighting, fencing, parking

COST			
Land	Building	Build Building	Equipment
Purchase price	Purchase price	Purchase price	Purchase price
removing the warehouse	attorney's fee	attorney's fee	insurance during shipping
cleaning and filling	broker's commission	broker's commission	installation and testing
attorney's fee	repairing and plumbing	repairing and plumbing	painting and lettering
broker's commission		architect's fee	Transportation
Less salvage materials		building permits	
Taxes	Taxes	Taxes	Taxes

LAND

Company purchase Land at a cost of 100,000\$, on the Land there is a warehouse, the cost to remove it is 2000\$, cleaning the land costs 5,500\$, sold the salvage materials for 1,500\$, Attorney's fee 1000\$, broker's commission 7000\$ and accrued taxes 3000\$. COMPUTE the cost of land.

Include in the cost	Not included in the cost
accrued taxes at time plant site was acquired.	parking lots and driveways on new plant site.
insurance to cover possible accident loss on new factory machinery while the machinery was in transit.	one-year accident insurance policy on new delivery truck.
sales taxes on new delivery truck.	motor vehicle license fee on the new truck.
have company name and advertising slogan painted on new delivery truck.	Training employees
installation of new factory machinery.	
Real estate broker's commission on land purchased.	
Cost of landscaping on property purchased.	
Cost of clearing, draining, and filling land.	
Architect's fees on self-constructed building.	

2**E9-3**

On March 1, 2017, Rollinger Company acquired real estate on which it planned to construct a small office building. The company paid €86,000 in cash.

An old warehouse on the property was razed at a cost of €9,400; the salvaged materials were sold for €1,700. Additional expenditures before construction began included €1,100 attorney's fee for work concerning the land purchase, €5,100 real estate broker's fee, €7,800 architect's fee, and €12,700 to put in driveways and a parking lot.

Instructions

1. Determine the amount to be reported as the cost of the land.
2. For each cost not used in part (a), indicate the account to be debited.

1-The cost of a purchased building includes all of the following **except**

- a. closing costs.
- b. real estate broker's commission.
- c. remodeling costs.
- d. All of these answer choices are correct.**

2-A company purchased land for \$80,000 cash. Real estate brokers' commission was \$5,000 and \$7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the historical cost principle, the cost of land would be recorded at

- a. \$87,000.
- b. \$80,000.
- c. \$85,000.
- d. \$92,000.**

3-Which one of the following items is **not** considered a part of the cost of a truck purchased for business use?

- a. Sales tax
- b. Accident insurance**
- c. Freight charges
- d. Cost of lettering on side of truck

4-Which of the following assets does **not** decline in service potential over the course of its useful life?

- a. Equipment
- b. Furnishings
- c. Land**
- d. Fixtures

5-The four subdivisions for plant assets are

- a. land, land improvements, buildings, and equipment.**
- b. intangibles, land, buildings, and equipment.
- c. furnishings and fixtures, land, buildings, and equipment.
- d. property, plant, equipment, and land.

6-The cost of land does **not** include

- a. real estate brokers' commission.
- b. annual property taxes.**
- c. accrued property taxes assumed by the purchaser.
- d. title fees.

3

P9-1

A Diaz SLU was organized on January 1. During the first year of operations, the following plant asset expenditures and receipts were recorded in random order.

Debit

1. Cost of filling and grading the land	6,600 €
2. Full payment to building contractor	780,000
3. Real estate taxes on land paid for the current year	5,000
4. Cost of real estate purchased as a plant site (land €100,000 and building €45,000)	145,000
5. Excavation costs for new building	35,000
6. Architect's fees on building plans	10,500
7. Accrued real estate taxes paid at time of purchase of real estate	2,800
8. Cost of parking lots and driveways	14,000
9. Cost of demolishing building to make land suitable for construction of new building	15,000
	€1,013,900

Credit

10. Proceeds from salvage of demolished building	3,600 €
--	---------

Analyze the foregoing transactions using the following column headings. Insert the number of each transaction in the Item column, and then insert the amounts in the other appropriate columns. For amounts entered in the Other Accounts column, also indicate the account titles.

Item	Land	Buildings	Other Accounts

1-Gagner Clinic purchases land for \$115,000 cash. The clinic assumes \$1,500 in property taxes due on the land. The title and attorney fees totaled \$1,000. The clinic has the land graded for \$2,200. What amount does Gagner Clinic record as the cost for the land?

- a. \$117,200
- b. \$115,000
- c. \$119,700**
- d. \$117,500

2-Carey Company buys land for €50,000 on 12/31/13. As of 3/31/14, the land has appreciated in value to €50,700. On 12/31/14, the land has an appraised value of €51,600. By what amount should the Land account be increased in 2014?

- a. €0**
- b. €700
- c. €900
- d. €1,600

3-Hull Company acquires land for \$92,000 cash. Additional costs are as follows:

Removal of shed = 300\$	Salvage value of lumber of shed = 120\$	Paving of parking lot = 10,000
Filling and grading = 1,500\$	Broker commission = 1,530\$	Closing costs = 560\$

Hull will record the acquisition cost of the land as

- a. \$92,000.
- b. \$94,090.
- c. \$95,990.
- d. \$95,770.**

4-Wesley Hospital installs a new parking lot. The paving cost £40,000 and the lights to illuminate the new parking area cost £20,000. Which of the following statements is true with respect to these additions?

- a. £40,000 should be debited to the Land account.
- b. £20,000 should be debited to Land Improvements.
- c. £60,000 should be debited to the Land account.
- d. £60,000 should be debited to Land Improvements.**

5-Land improvements should be depreciated over the useful life of the

- a. land.
- b. buildings on the land.
- c. land or land improvements, whichever is longer.
- d. land improvements.**

6-Angie's Blooms purchased a delivery van for \$35,000. The company was given a \$3,000 cash discount by the dealer, and paid \$1,500 sales tax. Annual insurance on the van is \$500. As a result of the purchase, by how much will Angie's Blooms increase its van account?

- a. \$35,000
- b. \$33,000
- c. \$34,000
- d. \$33,500**

7-Mattox Company is building a new plant that will take three years to construct. The construction will be financed in part by funds borrowed during the construction period. There are significant architect fees, excavation fees, and building permit fees. Which of the following statements is true?

- Excavation fees are capitalized but building permit fees are not.
- Architect fees are capitalized but building permit fees are not.
- Interest is capitalized during the construction as part of the cost of the building.**
- The capitalized cost is equal to the contract price to build the plant less any interest on borrowed funds.

8-A company purchases a remote site building for computer operations. The building will be suitable for operations after some expenditures. The wiring must be replaced to computer specifications. The roof is leaky and must be replaced. All rooms must be repainted and recarpeted and there will also be some plumbing work done. Which of the following statements is true?

- The cost of the building will not include the repainting and recarpeting costs.
- The cost of the building will include the cost of replacing the roof.**
- The cost of the building is the purchase price of the building, while the additional expenditures are all capitalized as Building Improvements.
- The wiring is part of the computer costs, not the building cost.

9-Engler Company purchases a new delivery truck for \$56,000. The sales taxes are \$3,000. The logo of the company is painted on the side of the truck for \$1,200. The truck license is \$120. The truck undergoes safety testing for \$220. What does Engler record as the cost of the new truck?

- \$60,540
- \$60,420**
- \$59,000
- \$58,420

10-Presto Company purchased equipment and these costs were incurred:

\$27,500	Cash price
1,800	Sales taxes
320	Insurance during transit
<u>430</u>	Installation and testing
<u>\$30,050</u>	Total costs

Presto will record the acquisition cost of the equipment as

- \$27,500.
- \$29,300.
- \$29,620.
- \$30,050.**

11-Yang Company purchased equipment on January 1 at a list price of ¥750,000, with credit terms 2/10, n/30. Payment was made within the discount period and Yang was given a ¥15,000 cash discount. Yang paid ¥37,500 sales tax on the equipment, and paid installation charges of ¥13,200. Prior to installation, Yang paid ¥30,000 to pour a concrete slab on which to place the equipment. What is the total cost of the new equipment?

- a. ¥785,700
- b. ¥815,700**
- c. ¥830,700
- d. ¥757,500

12-Robin company acquires a piece of land on which it intends to build a factory to produce its primary product. The land is listed for sale at \$460,000, but Robin Company's real estate broker is able to negotiate a sales price of \$420,000. The land contains an old office building that is razed at a cost of \$25,000 (\$29,000 in costs less \$4,000 proceeds from salvaged materials). Robin Company pays a commission to the real estate broker of \$23,000 and an attorney's fee of \$6,000. On its statement of financial position at December 31, 2014, what amount will Robin Company record as the cost of the land?

- a. \$489,000
- b. \$445,000
- c. \$474,000**
- d. \$514,000

13-Chicago Furniture uses a variety of equipment in its manufacturing facility. On Chicago Furniture's statement of financial position, the "Equipment" balance would contain all of the following costs **except**

- a. Motor vehicle licenses on delivery trucks.**
- b. Installation costs on new equipment.
- c. Sales taxes paid on new delivery truck.
- d. Insurance during transit on new equipment.

14-On January 1, 2014, Chicago Furniture purchases a new delivery truck. The company pays \$60,000 for the truck, sales taxes of \$3,400, and delivery costs of \$1,700. Chicago Furniture pays a local vendor \$3,600 to paint the company's name and logo on the side of the truck. The company also pays \$12,000 for an annual insurance policy and \$1,300 for a motor vehicle license. At what amount will Chicago Furniture record the truck on its statement of financial position at January 1, 2014?

- a. \$60,000
- b. \$65,300
- c. \$68,700**
- d. \$82,000

4

EXPENDITURES DURING USEFUL LIFE.

1-ordinary repairs = revenue expenditures: are expenditures to maintain the operating efficiency.

- Immaterial
- expense

2-additions and improvements: are costs incurred to increase operating efficiency, production capacity or useful life

- Material
- Asset (capital expenditures)

1-Costs incurred to increase the operating efficiency or useful life of a plant asset are referred to as

- a. **capital expenditures.**
- b. expense expenditures.
- c. ordinary repairs.
- d. revenue expenditures.

2-Expenditures that maintain the operating efficiency and expected productive life of a plant asset are generally

- a. **expensed when incurred.**
- b. capitalized as a part of the cost of the asset.
- c. debited to the Accumulated Depreciation account.
- d. not recorded until they become material in amount.

3-Which of the following is **not** true of ordinary repairs?

- a. They primarily benefit the current accounting period.
- b. They can be referred to as revenue expenditures.
- c. They maintain the expected productive life of the asset.
- d. **They increase the productive capacity of the asset.**

4-Additions and improvements

- a. occur frequently during the ownership of a plant asset.
- b. normally involve immaterial expenditures.
- c. **increase the book value of plant assets when incurred.**
- d. typically only benefit the current accounting period.

5-Mento, Inc. spent \$4,500,000 during 2014 to repair and update its plant assets. This consisted of \$1,800,000 to paint the building, \$345,000 to place worn-out gears on motors, \$960,000 to install special shelving that will increase operating efficiency in the plant, and \$1,395,000 on new machinery. What amount of these costs would appear as assets on Mento, Inc.'s December 31, 2014 statement of financial position?

- a. \$4,500,000
- b. **\$2,355,000**
- c. \$2,145,000
- d. \$4,155,000

الى الدقيقة 12:30 5

Depreciation: is the process of cost allocation.

Depreciation for land improvement buildings and equipment but not land, land is not a depreciable asset

factors in computing depreciation 1- cost 2- useful life 3-residual value

depreciation method 1-straight line 2-units of activity 3-declining balance

Depreciable cost = Cost - Salvage value

Depreciation methods	
type	Calculation
Straight line	$\frac{\text{Cost} - \text{RV}}{n} = \text{dep. exp}$ <p style="text-align: right;">الدبرشيشين ثابت كل فترة</p>
Units of activity	$\frac{\text{Cost} - \text{RV}}{\text{miles}} = \text{Rate}$ $\text{Actual miles} \times \text{rate} = \text{Dep. exp}$ <p>*miles or hours</p> <p style="text-align: right;">كل فترة نضرب الريت بجم الاكتفتي عندنا بهالفترة</p>
Declining balance	$\frac{100\%}{n} \times 2 = \text{rate}$ $\text{BV} \times \text{rate} = \text{Dep. exp}$ <p>كل سنة نطلع بوك فالير يديد و نضربه بالريت BV = old BV - Dep. Exp BV = cost - acc.dep We don't use RV here.</p>

DEPRECIATION

A car costs 13000\$ its expected residual value is 1000\$, estimated useful life 5 years and its estimated useful life in miles 100000. Compute the Depreciation expense under the three methods.

1-Which of the following statement regarding depreciation is **false**?

- a. **The concept of depreciation is inconsistent with the going concern assumption.**
- b. Recognizing depreciation on an asset does not result in an accumulation of cash for replacement of the asset.
- c. The three factors affecting the computation of depreciation include cost, useful life, and residual value.
- d. Accumulated depreciation is reported on the statement of financial position as a deduction from plant assets.

2-All of the following factors in computing depreciation are estimates **except**

- a. **cost.**
- b. residual value.
- c. salvage value.
- d. useful life.

3-Depreciation

- a. Is a process of asset valuation during the period of ownership by a company.
- b. Applies to land, land improvements, buildings, and equipment.
- c. **Is accumulated and reported as a contra-asset on the statement of financial position.**
- d. Is recognized as a way to accumulated cash for the eventual replacement of assets.

4-The balance in the Accumulated Depreciation account represents the .

- a. cash fund to be used to replace plant assets.
- b. amount to be deducted from the cost of the plant asset to arrive at its fair value.
- c. amount charged to expense in the current period.
- d. **amount charged to expense since the acquisition of the plant asset.**

5-Which one of the following items is **not** a consideration when recording periodic depreciation expense on plant assets?

- a. Residual value
- b. Estimated useful life
- c. **Cash needed to replace the plant asset**
- d. Cost

6-Depreciation is the process of allocating the cost of a plant asset over its useful life in

- a. an equal and equitable manner.
- b. an accelerated and accurate manner.
- c. **a systematic and rational manner.**
- d. a conservative market-based manner.

7-Accountants do not attempt to measure the change in a plant asset's fair value during ownership because

- a. **the assets are not held for resale.**
- b. plant assets cannot be sold.
- c. losses would have to be recognized.
- d. it is management's responsibility to determine fair values.

8-The book value of an asset is equal to the

- a. asset's fair value less its historical cost.
- b. blue book value relied on by secondary markets.
- c. replacement cost of the asset.
- d. **asset's cost less accumulated depreciation.**

9-Depreciation is a process of

- a. asset devaluation.
- b. cost accumulation.
- c. **cost allocation.**
- d. asset valuation.

10-Recording depreciation each period is necessary in accordance with the

- a. going concern principle.
- b. cost principle.
- c. **expense recognition principle.**
- d. asset valuation principle.

11-In computing depreciation, residual value is

- a. the fair value of a plant asset on the date of acquisition.
- b. subtracted from accumulated depreciation to determine the plant asset's depreciable cost.
- c. **an estimate of a plant asset's value at the end of its useful life.**
- d. ignored in all the depreciation methods.

12-When estimating the useful life of an asset, accountants do not consider

- a. **the cost to replace the asset at the end of its useful life.**
- b. obsolescence factors.
- c. expected repairs and maintenance.
- d. the intended use of the asset.

13-Useful life is expressed in terms of time, units of activity, or units of output expected from the asset under the

- a. declining-balance method.
- b. straight-line method.
- c. **units-of-activity method.**
- d. none of these answer choices are correct.

5 تكملة من الدقيقة 12:30**Component Depreciation.**

Building cost 4000000\$, its useful life is 40 years, Personal property costs 320,000\$, its useful life is 5 years, Parking lot costs 600,000, its useful life 10 years. Compute the depreciation expense under straight line method.

Revising periodic depreciation

Steps:

- 1- New BV (cost – Acc. Dep)
- 2- New n عدد السنين الجديدة كاملة – عدد السنين التي مرت
- 3- New depreciation expense

Depreciable cost is 12,000\$, Useful life is 5 years. In year 4 they decide to extend the useful life one year, they use straight line method, compute the depreciation expense the end of year 4.

E9-7

Tanger Company purchased a delivery truck for R\$38,000 on January 1, 2017. The truck has an expected residual value of R\$6,000, and is expected to be driven 100,000 miles over its estimated useful life of 8 years. Actual miles driven were 15,000 in 2017 and 12,000 in 2018.

Instructions

1. Compute depreciation expense for 2017 and 2018 using (1) the straight-line method, (2) the units-of-activity method, and (3) the double-declining-balance method. delivery
- 2.
3. Assume that Tanger uses the straight-line method.
 1. Prepare the journal entry to record 2017 depreciation.
 2. Show how the truck would be reported in the December 31, 2017, statement of financial position.

1-Equipment was purchased for \$120,000. Freight charges amounted to \$5,600 and there was a cost of \$16,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$24,000 residual value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be

- a. \$28,320.
- b. \$23,520.**
- c. \$19,680.
- d. \$19,200.

2-A truck was purchased for ¥180,000 and it was estimated to have a ¥36,000 residual value at the end of its useful life. Monthly depreciation expense of ¥3,000 was recorded using the straight-line method. The annual depreciation rate is

- a. 20%.
- b. 2%.
- c. 8%.
- d. 25%.**

3-A company purchased factory equipment on April 1, 2014 for €160,000. It is estimated that the equipment will have a €20,000 residual value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation expense at December 31, 2014 is

- a. €16,000.
- b. €14,000.
- c. €10,500.**
- d. €12,000.

4-A company purchased office equipment for \$50,000 and estimated a residual value of \$10,000 at the end of its 5-year useful life. The constant percentage to be applied against book value each year if the double-declining-balance method is used is

- a. 20%.
- b. 25%.
- c. 40%.**
- d. 4%.

5-The declining-balance method of depreciation produces

- a. a decreasing depreciation expense each period.**
- b. an increasing depreciation expense each period.
- c. a declining percentage rate each period.
- d. a constant amount of depreciation expense each period.

6-The units-of-activity method is generally not suitable for

- a. airplanes.
- b. buildings.**
- c. delivery equipment.
- d. factory machinery.

7-A company purchased factory equipment for ¥1,400,000. It is estimated that the equipment will have a ¥140,000 residual value at the end of its estimated 5-year useful life. If the company uses the double-declining-balance method of depreciation, the amount of annual depreciation recorded for the second year after purchase would be

- a. ¥560,000.
- b. ¥336,000.**
- c. ¥504,000.
- d. ¥241,920.

8-A plant asset cost £256,000 and is estimated to have a £32,000 residual value at the end of its 8-year useful life. The annual depreciation expense recorded for the third year using the double-declining-balance method would be

- a. £21,440.
- b. £36,000.**
- c. £31,500.
- d. £28,000.

9-A factory machine was purchased for \$150,000 on January 1, 2014. It was estimated that it would have a \$30,000 residual value at the end of its 5-year useful life. It was also estimated that the machine would be run 40,000 hours in the 5 years. The company ran the machine for 4,000 actual hours in 2014. If the company uses the units-of-activity method of depreciation, the amount of depreciation expense for 2014 would be

- a. \$15,000.
- b. \$24,000.
- c. \$30,000.
- d. \$12,000.**

10-Which of the following methods of computing depreciation is production based?

- a. Straight-line
- b. Declining-balance
- c. Units-of-activity**
- d. None of these answer choices are correct.

11-Management should select the depreciation method that

- a. is easiest to apply.
- b. best measures the plant asset's fair value over its useful life.
- c. best measures the plant asset's contribution to revenue over its useful life.**
- d. has been used most often in the past by the company.

12-The depreciation method that applies a constant percentage to depreciable cost in calculating depreciation is

- a. **straight-line.**
- b. units-of-activity.
- c. declining-balance.
- d. none of these answer choices are correct.

13-On October 1, 2014, Holt Company places a new asset into service. The cost of the asset is \$120,000 with an estimated 5-year life and \$30,000 residual value at the end of its useful life. What is the depreciation expense for 2014 if Holt Company uses the straight-line method of depreciation?

- a. **\$4,500**
- b. \$24,000
- c. \$6,000
- d. \$12,000

14-On October 1, 2014, Holt Company places a new asset into service. The cost of the asset is \$120,000 with an estimated 5-year life and \$30,000 residual value at the end of its useful life. What is the book value of the plant asset on the December 31, 2014, statement of financial position assuming that Holt Company uses the double-declining-balance method of depreciation?

- a. \$78,000
- b. \$90,000
- c. **\$108,000**
- d. \$114,000

15-Which depreciation method is most frequently used in businesses today?

- a. **Straight-line**
- b. Declining-balance
- c. Units-of-activity
- d. Double-declining-balance

16-Mott Company uses the units-of-activity method in computing depreciation. A new plant asset is purchased for \$30,000 that will produce an estimated 100,000 units over its useful life. Estimated residual value at the end of its useful life is \$2,500. What is the depreciation cost per unit (rounded to the nearest cent)?

- a. \$2.75
- b. \$3.00
- c. **\$.28**
- d. \$.30

17-Units-of-activity is an appropriate depreciation method to use when

- a. it is impossible to determine the productivity of the asset.
- b. the asset's use will be constant over its useful life.
- c. **the productivity of the asset varies significantly from one period to another.**
- d. the company is a manufacturing company.

P9-2A

In recent years, Freeman Transportation purchased three used buses. Because of frequent turnover in the accounting department, a different accountant selected the depreciation method for each bus, and various methods were selected. Information concerning the buses is summarized below.

<u>Bus Acquired</u>	<u>Cost</u>	<u>Residual Value</u>	<u>Useful Life in Years</u>	<u>Depreciation Method</u>
1 1/1/15	96,000 £	6,000 £	5	Straight-line
2 1/1/15	140,000	10,000	4	Declining-balance
3 1/1/16	92,000	8,000	5	Units-of-activity

For the declining-balance method, the company uses the double-declining rate. For the units-of-activity method, total miles are expected to be 120,000. Actual miles of use in the first 3 years were 2016, 24,000; 2017, 36,000; and 2018, 31,000.

Instructions

- (a) Compute the amount of accumulated depreciation on each bus at December 31, 2017.
- (b) If Bus 2 was purchased on April 1 instead of January 1, what is the depreciation expense for this bus in (1) 2015 and (2) 2016?

1-The calculation of depreciation using the declining balance method,

- a. **ignores residual value in determining the amount to which a constant rate is applied.**
- b. multiplies a constant percentage times the previous year's depreciation expense.
- c. yields an increasing depreciation expense each period.
- d. multiplies a declining percentage times a constant book value.

2-Farr Company purchased a new van for floral deliveries on January 1, 2014. The van cost €48,000 with an estimated life of 5 years and €12,000 residual value at the end of its useful life. The double-declining-balance method of depreciation will be used. What is the depreciation expense for 2014?

- a. €9,600
- b. €7,200
- c. €14,400
- d. **€19,200**

3-Farr Company purchased a new van for floral deliveries on January 1, 2014. The van cost €48,000 with an estimated life of 5 years and €12,000 residual value at the end of its useful life. The double-declining-balance method of depreciation will be used. What is the balance of the Accumulated Depreciation account at the end of 2015?

- a. €7,680
- b. €23,040
- c. **€30,720**
- d. €11,520

4-Moreno Company purchased equipment for \$675,000 on January 1, 2013, and will use the double-declining-balance method of depreciation. It is estimated that the equipment will have a 3-year life and a \$30,000 residual value at the end of its useful life. The amount of depreciation expense recognized in the year 2015 will be

- a. \$75,000.
- b. **\$45,000.**
- c. \$81,660.
- d. \$51,660.

5-A plant asset was purchased on January 1 for \$120,000 with an estimated residual value of \$20,000 at the end of its useful life. The current year's Depreciation Expense is \$10,000 calculated on the straight-line basis and the balance of the Accumulated Depreciation account at the end of the year is \$60,000. The remaining useful life of the plant asset is

- a. 10 years.
- b. 8 years.
- c. 6 years.
- d. **4 years.**

6-Equipment was purchased for \$150,000. Freight charges amounted to \$7,000 and there was a cost of \$20,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$30,000 residual value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be

- a. \$35,400.
- b. \$29,400.**
- c. \$24,600.
- d. \$24,000.

7-Equipment was purchased for \$51,000 on January 1, 2013. Freight charges amounted to \$2,100 and there was a cost of \$6,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$9,000 residual value at the end of its 5-year useful life. What is the amount of accumulated depreciation at December 31, 2014, if the straight-line method of depreciation is used?

- a. \$20,040**
- b. \$10,020
- c. \$8,580
- d. \$17,160

8-A company purchased factory equipment on June 1, 2014, for ¥2,000,000. It is estimated that the equipment will have a ¥125,000 residual value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation expense at December 31, 2014, is

- a. ¥187,500.
- b. ¥109,375.**
- c. ¥93,750.
- d. ¥78,125.

9-A plant asset was purchased on January 1 for \$50,000 with an estimated residual value of \$10,000 at the end of its useful life. The current year's Depreciation Expense is \$5,000 calculated on the straight-line basis and the balance of the Accumulated Depreciation account at the end of the year is \$25,000. The remaining useful life of the plant asset is

- a. 10 years.
- b. 8 years.
- c. 5 years.
- d. 3 years.**

10- Sargent Corporation bought equipment on January 1, 2014. The equipment cost €360,000 and had an expected residual value of €60,000. The life of the equipment was estimated to be 6 years. The depreciable cost of the equipment is

- a. €360,000.
- b. €300,000.**
- c. €200,000.
- d. €50,000.

- 11- Sargent Corporation bought equipment on January 1, 2014. The equipment cost €360,000 and had an expected residual value of €60,000. The life of the equipment was estimated to be 6 years. The book value of the equipment at the beginning of the third year would be
- €360,000.
 - €300,000.
 - €260,000.**
 - €100,000.
- 12- Tomko Company purchased machinery with a list price of \$96,000. They were given a 10% discount by the manufacturer. They paid \$600 for shipping and sales tax of \$4,500. Tomko estimates that the machinery will have a useful life of 10 years and a residual value of \$30,000. If Tomko uses straight-line depreciation, annual depreciation will be
- \$6,150.**
 - \$6,108.
 - \$9,150.
 - \$5,640.
- 13- Drago Company purchased equipment on January 1, 2013, at a total invoice cost of \$600,000. The equipment has an estimated residual value of \$15,000 and an estimated useful life of 5 years. What is the amount of accumulated depreciation at December 31, 2014, if the straight-line method of depreciation is used?
- \$120,000
 - \$240,000
 - \$117,000
 - \$234,000**
- 14-On January 1, a machine with a useful life of five years and a residual value of \$50,000 was purchased for \$150,000. What is the depreciation expense for year 2 under the double-declining-balance method of depreciation?
- \$36,000**
 - \$60,000
 - \$48,000
 - \$28,800
- 15-A machine with a cost of \$240,000 has an estimated residual value of \$15,000 and an estimated useful life of 5 years or 15,000 hours. It is to be depreciated using the units-of-activity method of depreciation. What is the amount of depreciation for the second full year, during which the machine was used 5,000 hours?
- \$75,000**
 - \$45,000
 - \$65,000
 - \$80,000

16-Equipment with a cost of ¥800,000 has an estimated residual value of ¥50,000 and an estimated life of 4 years or 15,000 hours. It is to be depreciated using the units-of-activity method. What is the amount of depreciation for the first full year, during which the equipment was used 3,300 hours?

- a. ¥200,000
- b. ¥226,000
- c. ¥165,000**
- d. ¥187,500

17-Eckman Company purchased equipment for \$80,000 on January 1, 2013, and will use the double-declining-balance method of depreciation. It is estimated that the equipment will have a 5-year life and a \$4,000 residual value at the end of its useful life. The amount of depreciation expense recognized in the year 2015 will be

- a. \$11,520.**
- b. \$18,240.
- c. \$19,200.
- d. \$10,944.

18- Grimwood Trucking purchased a tractor trailer for \$196,000. Grimwood uses the units-of-activity method for depreciating its trucks and expects to drive the truck 1,000,000 miles over its 12-year useful life. Residual value is estimated to be \$28,000. If the truck is driven 90,000 miles in its first year, how much depreciation expense should Grimwood record?

- a. \$14,000
- b. \$17,640
- c. \$15,120**
- d. \$16,333

19- On May 1, 2014, Pinkley Company sells office furniture for €60,000 cash. The office furniture originally cost €150,000 when purchased on January 1, 2006. Depreciation is recorded by the straight-line method over 10 years with a residual value of €15,000. What depreciation expense should be recorded on this asset in 2014?

- a. €4,500.**
- b. €5,000.
- c. €6,750.
- d. €13,500.

8

P9-3A

On January 1, 2017, Pele SA purchased the following two machines for use in its production process.

Machine A:	The cash price of this machine was R\$35,000. Related expenditures included: sales tax R\$2,200, shipping costs R\$150, insurance during shipping R\$80, installation and testing costs R\$70, and R\$100 of oil and lubricants to be used with the machinery during its first year of operations. Pele estimates that the useful life of the machine is 5 years with a R\$5,000 residual value remaining at the end of that time period. Assume that the straight-line method of depreciation is used.
Machine B:	The recorded cost of this machine was R\$80,000. Pele estimates that the useful life of the machine is 4 years with a R\$5,000 residual value remaining at the end of that time period.

Instructions

1. Prepare the following for Machine A.
 1. The journal entry to record its purchase on January 1, 2017.
 2. The journal entry to record annual depreciation at December 31, 2017.
2. Calculate the amount of depreciation expense that Pele should record for Machine B each year of its useful life under the following assumptions.
 1. Pele uses the straight-line method of depreciation.
 2. Pele uses the declining-balance method. The rate used is twice the straight-line rate.
 3. Pele uses the units-of-activity method and estimates that the useful life of the machine is 125,000 units. Actual usage is as follows: 2017, 42,000 units; 2018, 37,000 units; 2019, 28,000 units; and 2020, 18,000 units.
3. Which method used to calculate depreciation on Machine B reports the highest amount of depreciation expense in year 1 (2017)? The highest amount in year 4 (2020)? The highest total amount over the 4-year period?

1-Mather Company purchased equipment on January 1, 2013 at a total invoice cost of \$280,000; additional costs of \$5,000 for freight and \$25,000 for installation were incurred. The equipment has an estimated residual value of \$10,000 and an estimated useful life of five years. The amount of accumulated depreciation at December 31, 2014 if the straight-line method of depreciation is used is:

- a. \$108,000.
- b. \$110,000.
- c. \$120,000.**
- d. \$124,000.

2-Kingston Company purchased a piece of equipment on January 1, 2013. The equipment cost \$120,000 and had an estimated life of 8 years and a residual value of \$15,000. What was the depreciation expense for the asset for 2014 under the double-declining-balance method?

- a. \$13,000.
- b. \$22,500.**
- c. \$30,000.
- d. \$13,125.

3-Regarding depreciation,

- a. External auditors select the method believed to be most appropriate and consistent with other companies in the same industry.
- b. The income statement is impacted by depreciation through the accumulated depreciation account, and the statement of financial position is impacted by depreciation expense.
- c. Once a company chooses a depreciation method, it should apply the same method consistently over the entire useful life of the asset.**
- d. All of these answer choices are correct.

4-Each of the following is used in computing revised annual depreciation for a change in estimate **except**

- a. book value.
- b. cost.**
- c. depreciable cost.
- d. remaining useful life.

5-On January 1, 2013, Chicago Furniture purchased a new delivery truck. The truck is expected to be driven a total of 130,000 miles during its useful life of 4 years; however, Chicago Furniture expects that 2014 and 2015 will be the years the truck is most frequently used for deliveries. If Chicago Furniture wants to achieve the best matching of expenses with revenues, which IFRS acceptable depreciation method should it select?

- a. Straight-line depreciation.
- b. Units-of-activity depreciation.**
- c. Declining-balance depreciation.
- d. Component depreciation.

6-On January 1, 2013, Chicago Furniture purchased a new delivery truck. The company paid \$60,000 for the truck, \$12,000 for an annual insurance policy and \$1,300 for a motor vehicle license. The truck has an estimated residual value of \$5,000 at the end of its 4 year useful life and Chicago Furniture uses the double-declining-balance method for other similar assets. At what net amount will Chicago Furniture record the truck on its statement of financial position at December 31, 2013?

- a. \$60,000
- b. \$30,000**
- c. \$27,500
- d. \$36,650

7-As a recent graduate of State University, you're aware that IFRS requires component depreciation for plant assets. A friend has asked you to succinctly explain what component depreciation means. Which of the following correctly describes component depreciation?

- a. The method used to ensure that the depreciation rate remains constant from year to year.
- b. The method that requires that significant parts of a plant asset with different useful lives be depreciated separately.**
- c. The method used to prorate annual depreciation on a time basis.
- d. The method of depreciation recommended for an asset that is expected to be significantly more productive in the first half of its useful life.

Salem Company hired Kirk Construction to construct an office building for £9,600,000 on land costing £2,400,000, which Salem Company owned. The building was complete and ready to be used on January 1, 2014 and it has a useful life of 40 years. The price of the building included land improvements costing £720,000 and personal property costing £900,000. The useful lives of the land improvements and the personal property are 10 years and 5 years, respectively. Salem Company uses component depreciation, and the company uses straight-line depreciation for other similar assets.

8-What total amount of depreciation expense would Salem Company report on its income statement for the year ended December 31, 2014?

- a. £402,000
- b. £240,000
- c. £511,500
- d. £451,500**

9-What is the net amount reported for the building on Salem Company's December 31, 2014 statement of financial position?

- a. £9,198,000
- b. £9,088,500
- c. £7,780,500**
- d. £9,360,000

10-IFRS allows companies to revalue plant assets to fair value. Which of the following statements is true regarding revaluation?

- a. At the time a company purchases an asset it must decide whether to follow revaluation procedures for the asset; once the election is made, it must be followed for the remainder of the asset's useful life.
- b. Assets that are experiencing rapid price changes must be revalued quarterly, other assets can be revalued on an annual basis.
- c. **The journal entry to record a revaluation when the asset's price has increased includes a credit to the account revaluation surplus.**
- d. All of these answer choices are correct.

11-IFRS allows companies to revalue plant assets to fair value. When an asset has increased in value, where is the account "Revaluation Surplus" reported?

- a. On the income statement as part of income from continuing operations (other revenues and gains).
- b. On the income statement as part of discontinued operations (discontinuing historical cost).
- c. **On the statement of financial position as part of accumulated comprehensive income (equity).**
- d. All of these answer choices are correct.

9

REVALUATION OF PLANT ASSETS

impairment loss If the $BV > FV$

revaluation surplus If the $BV < FV$

Plant asset cost 1,000,000\$, it's useful life 5 years, and there is no residual value. At the end of the first year, the appraisers determined that the fair value of the plant asset is 850,000\$.

Report the plant asset at fair value.

E9-10

Barton Enterprises purchased equipment on January 1, 2017, at a cost of €350,000. Barton uses the straight-line depreciation method, a 5-year estimated useful life, and no residual value. At the end of 2017, independent appraisers determined that the assets have a fair value of €320,000.

Instructions

1. Prepare the journal entry to record 2017 depreciation using the straight-line method.
2. Prepare the journal entry to record the revaluation of the equipment.
3. Prepare the journal entry to record 2018 depreciation, assuming no additional revaluation.

1-Able Towing Company purchased a tow truck for \$150,000 on January 1, 2013. It was originally depreciated on a straight-line basis over 10 years with an assumed residual value of \$30,000. On December 31, 2015, before adjusting entries had been made, the company decided to change the remaining estimated life to 4 years (including 2015) and the residual value to \$5,000. What was the depreciation expense for 2015?

- a. \$15,000.
- b. \$12,000.
- c. \$37,500.
- d. \$30,250.**

2-Nicholson Company purchased equipment on January 1, 2013, for €80,000 with an estimated residual value of €20,000 and estimated useful life of 8 years. On January 1, 2015, Nicholson decided the equipment will last 12 years from the date of purchase. The residual value is still estimated at €20,000. Using the straight-line method the new annual depreciation will be:

- a. €4,500.**
- b. €5,000.
- c. €6,000.
- d. €6,667.

3-An asset was purchased for ¥450,000. It had an estimated residual value of ¥90,000 and an estimated useful life of 10 years. After 5 years of use, the estimated residual value is revised to ¥72,000 but the estimated useful life is unchanged. Assuming straight-line depreciation, depreciation expense in year 6 would be

- a. ¥54,000.
- b. ¥39,600.**
- c. ¥27,000.
- d. ¥37,800.

4-Equipment costing \$90,000 with a residual value of \$18,000 and an estimated life of 8 years has been depreciated using the straight-line method for 2 years. Assuming a revised estimated total life of 5 years and no change in the residual value, the depreciation expense for year 3 would be

- a. \$10,800.
- b. \$24,000.
- c. \$18,000.**
- d. \$14,400.

5-Ron's Quik Shop bought machinery for \$75,000 on January 1, 2013. Ron estimated the useful life to be 5 years with no residual value, and the straight-line method of depreciation will be used. On January 1, 2014, Ron decides that the business will use the machinery for a total of 6 years. What is the revised depreciation expense for 2014?

- a. \$12,000**
- b. \$6,000
- c. \$10,000
- d. \$15,000

6-A change in the estimated useful life of equipment requires

- a. a retroactive change in the amount of periodic depreciation recognized in previous years.
- b. that no change be made in the periodic depreciation so that depreciation amounts are comparable over the life of the asset.
- c. that the amount of periodic depreciation be changed in the current year and in future years.**
- d. that income for the current year be increased.

7-Enos Company has decided to change the estimate of the useful life of an asset that has been in service for 2 years. Which of the following statements describes the proper way to revise a useful life estimate?

- a. Revisions in useful life are permitted if approved by the taxing authority.
- b. Retroactive changes must be made to correct previously recorded depreciation.
- c. Only future years will be affected by the revision.
- d. Both current and future years will be affected by the revision.**

8-Don's Copy Shop bought equipment for \$120,000 on January 1, 2013. Don estimated the useful life to be 3 years with no residual value, and the straight-line method of depreciation will be used. On January 1, 2014, Don decides that the business will use the equipment for a total of 5 years. What is the revised depreciation expense for 2014?

- a. \$40,000
- b. \$16,000
- c. \$20,000**
- d. \$30,000

10

PLANT ASSET DISPOSAL

1- RETIREMENT

2- sale

3- exchange

Retirement			
If cost = Acc. Dep (BV ZERO)	Acc Dep Equipment	XX XX	XX
If cost > Acc. Dep	Acc Dep Loss on disposal Equipment	XX XX XX	XX
Sale			
	Cash Acc Dep Loss on disposal Equipment Gain on disposal	XX XX XX XX XX	XX XX
			Either gain or loss, not together
Exchange			
Exchange و دفعنا لهم كاش	New equipment Acc Dep Loss on disposal Old Equipment Cash Gain on disposal	XX XX XX XX XX XX	XX XX XX
			FV + cash مالت مكينتنا القديمة اذا البوك فاليو أكبر من الغير فاليو Cost of old المبلغ الي دفعناه اذا الغير فاليو أكبر من البوك فاليو - Either gain or loss, not together
Exchange واهما دفعو لهم كاش	New equipment Acc Dep Loss on disposal Cash Old Equipment Gain on disposal	XX XX XX XX XX XX	XX XX
			FV + cash المبلغ الي عطونا ياه - Either gain or loss, not together

Retirement:

Equipment cost 32,000\$, has accumulated depreciation is 32,000\$.
Record the retirement transaction.

If the accumulated depreciation is 30,000\$. Record the retirement entry.

Sale

The company sold equipment for 16,000\$. the cost of the equipment is 60,000\$, it's accumulated depreciation is 49,000\$. Record the sales transaction.

Suppose the company sold it for 9,000\$, record the sales transaction.

Exchange

commercial substance: if the future cash flow changes as a result of the exchange

11**E9-18**

exchange Presented below are two independent transactions. Both transactions have commercial substance.

1. Global Co. exchanged old trucks (cost £64,000 less £22,000 accumulated depreciation) plus cash of £17,000 for new trucks. The old trucks had a fair value of £37,400.
2. Rijo Ltd. trades its used machine (cost £12,000 less £4,000 accumulated depreciation) for a new machine. In addition to exchanging the old machine (which had a fair value of £9,000), Rijo also paid cash of £3,200.

Instructions

1. Prepare the entry to record the exchange of assets by Global Co.
2. Prepare the entry to record the exchange of assets by Rijo Ltd.

12**E9-19**

exchange Jay's Delivery Company and Astro's Express Delivery exchanged delivery trucks on January 1, 2017. Jay's truck cost €22,000. It has accumulated depreciation of €16,000 and a fair value of €4,000. Astro's truck cost €10,000. It has accumulated depreciation of €7,000 and a fair value of €4,000. The transaction has commercial substance.

Instructions

1. Journalize the exchange for Jay's Delivery Company.
2. Journalize the exchange for Astro's Express Delivery.

13

P9-6A

Yount Co. has equipment that cost €50,000 and that has been depreciated €22,000.

Instructions

Record the disposal under the following assumptions.

1. It was scrapped as having no value.
2. It was sold for €25,000.
3. It was sold for €31,000.

- 1-On May 1, 2014, Pinkley Company sells office furniture for €60,000 cash. The office furniture originally cost €150,000 when purchased on January 1, 2007. Depreciation is recorded by the straight-line method over 10 years with a residual value of €15,000. What gain should be recognized on the sale?
- €4,500.
 - €9,000.**
 - €9,500.
 - €18,000.
- 2-Touch Tronix Company has a piece of manufacturing equipment that has become obsolete. On December 21, 2014, the company discards the equipment which has a historical cost of \$500,000 and accumulated depreciation of \$440,000. What is the net impact on the long-term assets of Touch Tronix Company on its December 31, 2014 statement of financial position?
- Decrease of \$500,000.
 - Increase of \$60,000.
 - Decrease of \$60,000.**
 - Decrease of \$940,000.
- 3-When a company sells an asset at a gain, which of the following is true?
- Proceeds from the sale exceeded the historical cost of the asset on the statement of financial position.
 - Proceeds from the sale were less than the book value of the asset on the statement of financial position.
 - Proceeds from the sale exceeded the book value of the asset on the statement of financial position.**
 - Proceeds from the sale are equal to the historical cost of the asset on the statement of financial position.
- 4-If a plant asset is retired before it is fully depreciated and no salvage value is received,
- a gain on disposal occurs.
 - a loss on disposal occurs.**
 - either a gain or a loss can occur.
 - neither a gain nor a loss occurs.
- 5-A gain or loss on disposal of a plant asset is determined by comparing the
- replacement cost of the asset with the asset's original cost.
 - book value of the asset with the asset's original cost.
 - original cost of the asset with the proceeds received from its sale.
 - book value of the asset with the proceeds received from its sale.**
- 6-The book value of a plant asset is the difference between the
- replacement cost of the asset and its historical cost.
 - cost of the asset and the amount of depreciation expense for the year.
 - cost of the asset and the accumulated depreciation to date.**
 - proceeds received from the sale of the asset and its original cost.

7-If a plant asset is sold before it is fully depreciated,

- a. only a gain on disposal can occur.
- b. only a loss on disposal can occur.
- c. either a gain or a loss can occur.**
- d. neither a gain nor a loss can occur.

8-If a plant asset is retired before it is fully depreciated, and the residual value received is less than the asset's book value,

- a. a gain on disposal occurs.
- b. a loss on disposal occurs.**
- c. there is no gain or loss on disposal.
- d. additional depreciation expense must be recorded.

9-A company sells a plant asset which originally cost ¥420,000 for ¥140,000 on December 31, 2014. The Accumulated Depreciation account had a balance of ¥168,000 after the current year's depreciation of ¥42,000 had been recorded. The company should recognize a

- a. ¥280,000 loss on disposal.
- b. ¥112,000 gain on disposal.
- c. ¥112,000 loss on disposal.**
- d. ¥70,000 loss on disposal.

10-If disposal of a plant asset occurs during the year, depreciation is

- a. not recorded for the year.
- b. recorded for the whole year.
- c. recorded for the fraction of the year to the date of the disposal.**
- d. not recorded if the asset is scrapped.

11-If a fully depreciated plant asset is still used by a company, the

- a. estimated remaining useful life must be revised to calculate the correct revised depreciation.
- b. asset is removed from the books.
- c. accumulated depreciation account is removed from the books but the asset account remains.
- d. asset and the accumulated depreciation continue to be reported on the statement of financial position without adjustment until the asset is retired.**

12-Which of the following statements is **not** true when a fully depreciated plant asset is retired?

- a. The plant asset's book value is equal to its estimated residual value.
- b. The accumulated depreciation account is debited.
- c. The asset account is credited.
- d. The plant asset's original cost equals its book value.**

13-If a plant asset is retired before it is fully depreciated, and no residual or scrap value is received,

- a. a gain on disposal will be recorded.
- b. phantom depreciation must be taken as though the asset were still on the books.
- c. a loss on disposal will be recorded.**
- d. no gain or loss on disposal will be recorded.

14-The book value of an asset will equal its fair value at the date of sale if

- a. a gain on disposal is recorded.
- b. no gain or loss on disposal is recorded.**
- c. the plant asset is fully depreciated.
- d. a loss on disposal is recorded.

15-A truck costing \$154,000 was destroyed when its engine caught fire. At the date of the fire, the accumulated depreciation on the truck was \$70,000. An insurance check for \$175,000 was received based on the replacement cost of the truck. The entry to record the insurance proceeds and the disposition of the truck will include a

- a. Gain on Disposal of \$21,000.
- b. credit to the Truck account of \$84,000.
- c. credit to the Accumulated Depreciation account for \$70,000.
- d. Gain on Disposal of \$91,000.**

16-On July 1, 2014, Hale Kennels sells equipment for \$110,000. The equipment originally cost \$300,000, had an estimated 5-year life and an expected residual value of \$50,000. The accumulated depreciation account had a balance of \$175,000 on January 1, 2014, using the straight-line method. The gain or loss on disposal is

- a. \$15,000 gain.
- b. \$10,000 loss.
- c. \$15,000 loss.
- d. \$10,000 gain.**

17-A loss on disposal of a plant asset is reported in the financial statements

- a. in the Operating expenses section of the income statement.
- b. in the Other income and expense section of the income statement.**
- c. as a direct increase to the retained earnings account on the statement of financial position.
- d. as a direct decrease to the retained earnings account on the statement of financial position.

18-Yanik Company's delivery truck, which originally cost £84,000, was destroyed by fire. At the time of the fire, the balance of the Accumulated Depreciation account amounted to £57,000. The company received £48,000 reimbursement from its insurance company. The gain or loss as a result of the fire was

- a. £36,000 loss.
- b. £21,000 loss.
- c. £36,000 gain.
- d. £21,000 gain.**

19-A truck that cost \$63,000 and on which \$30,000 of accumulated depreciation has been recorded was disposed of for \$27,000 cash. The entry to record this event would include a

- a. gain of \$6,000.
- b. loss of \$6,000.**
- c. credit to the Truck account for \$33,000.
- d. credit to Accumulated Depreciation for \$30,000.

20-A truck that cost \$84,000 and on which \$70,000 of accumulated depreciation has been recorded was disposed of for \$21,000 cash. The entry to record this event would include a

- a. gain of \$7,000.**
- b. loss of \$7,000.
- c. credit to the Truck account for \$14,000.
- d. credit to Accumulated Depreciation for \$70,000.

21-Orr Corporation sold equipment for \$20,000. The equipment had an original cost of \$60,000 and accumulated depreciation of \$30,000. As a result of the sale,

- a. net income will increase \$20,000.
- b. net income will increase \$10,000.
- c. net income will decrease \$10,000.**
- d. net income will decrease \$20,000.

22-Powell's Courier Service recorded a loss of \$6,000 when it sold a machine that originally cost \$56,000 for \$10,000. Accumulated depreciation on the machine must have been

- a. \$52,000.
- b. \$16,000.
- c. \$50,000.
- d. \$40,000.**

23-A plant asset cost ¥900,000 when it was purchased on January 1, 2007. It was depreciated by the straight-line method based on a 9-year life with no residual value. On June 30, 2014, the asset was discarded with no cash proceeds. What gain or loss should be recognized on the retirement?

- a. No gain or loss.
- b. ¥200,000 loss.
- c. ¥150,000 loss.**
- d. ¥100,000 gain.

24-Nicklaus Company has decided to sell one of its old machines on June 30, 2014. The machine was purchased for \$160,000 on January 1, 2010, and was depreciated on a straight-line basis for 10 years with no residual value. If the machine was sold for \$52,000, what was the amount of the gain or loss recorded at the time of the sale?

- a. \$36,000.**
- b. \$108,000.
- c. \$44,000.
- d. \$92,000.

25-A company decides to exchange its old machine and ¥1,540,000 cash for a new machine. The old machine has a book value of ¥1,260,000 and a fair value of ¥1,400,000 on the date of the exchange. The cost of the new machine would be recorded at

- a. ¥2,800,000.
- b. ¥2,940,000.**
- c. ¥2,660,000.
- d. cannot be determined.

26-A company exchanges its old office equipment and \$60,000 for new office equipment. The old office equipment has a book value of \$42,000 and a fair value of \$30,000 on the date of the exchange. The cost of the new office equipment would be recorded at

- a. \$102,000.
- b. \$90,000.**
- c. \$72,000.
- d. cannot be determined.

27-In an exchange of plant assets that has commercial substance, any difference between the fair value and the book value of the old plant asset is

- a. recorded as a gain or loss.**
- b. recorded if a gain but is deferred if a loss.
- c. recorded if a loss but is deferred if a gain.
- d. deferred if either a gain or loss.

28-Gains on an exchange of plant assets that has commercial substance are

- a. deducted from the cost of the new asset acquired.
- b. deferred.
- c. not possible.
- d. recognized immediately.**

29-Losses on an exchange of plant assets that has commercial substance are

- a. not possible.
- b. deferred.
- c. recognized immediately.**
- d. deducted from the cost of the new asset acquired.

30-The cost of a new asset acquired in an exchange that has commercial substance is the cash paid plus the

- a. book value of the old asset.
- b. fair value of the old asset.**
- c. book value of the asset acquired.
- d. fair value of the new asset.

14

Natural resources: Are resources extracted from the ground such as oil, gas and minerals.

Depletion UA rete		
Compute depletion		
Depletion cost per unit =	Total cost – Residual Value	
	Total estimated units available	
Record depletion		
Inventory Accumulated Depletion	XX XX	Amount extracted * depletion cost per unit

Sold		
Cost of goods sold Inventory	XX XX	الي بعناه نشيله من inventory او نحوله expense

Depletion

Company invested 5000,000\$ in mine estimated to have 10,000,000 tons of coal and no residual value.

If the company extracts 250,000 tons in the first year. **Record the depletion:**

15**E9-14**

On July 1, 2017, Ticino AG invested CHF736,000 in a mine estimated to have 800,000 tons of ore of uniform grade. During the last 6 months of 2017, 124,000 tons of ore were mined.

Instructions

1. Prepare the journal entry to record depletion.
2. Assume that the 124,000 tons of ore were mined, but only 90,000 units were sold. How are the costs applicable to the 34,000 unsold units reported?

1-On a statement of financial position, natural resources may be described more specifically as all of the following **except**

- a. **land improvements.**
- b. mineral deposits.
- c. oil reserves.
- d. timberlands.

2-Natural resources are

- a. depreciated using the units-of-activity method.
- b. **resources extracted from the ground.**
- c. reported at their fair value.
- d. amortized over a period no longer than 40 years.

3-Depletion is

- a. a decrease in fair value of natural resources.
- b. the amount of spoilage that occurs when natural resources are extracted.
- c. **the allocation of the cost of natural resources to expense.**
- d. the method used to record unsuccessful patents.

4-The method most commonly used to compute depletion is the

- a. straight-line method.
- b. double-declining-balance method.
- c. **units-of-activity method.**
- d. effective interest method.

5-In computing depletion, residual value is

- a. always immaterial.
- b. ignored.
- c. impossible to estimate.
- d. **included in the calculation.**

6-If a mining company extracts 2,000,000 tons in a period but only sells 1,500,000 tons,

- a. total depletion on the mine is based on the 1,500,000 tons.
- b. depletion expense is recognized on the 2,000,000 tons extracted.
- c. **depletion expense is recognized on the 1,500,000 tons extracted and sold.**
- d. a separate accumulated depletion account is set up to record depletion on the 500,000 tons extracted but not sold.

7-Accumulated Depletion

- a. is used by all companies with natural resources.
- b. has a normal debit balance.
- c. **is a contra-asset account.**
- d. is never shown on the statement of financial position.

8-A coal company invests €12 million in a mine estimated to have 20 million tons of coal and no residual value. It is expected that the mine will be in operation for 5 years. In the first year, 1,000,000 tons of coal are extracted and sold. What is the depletion expense for the first year?

- a. **€600,000**
- b. €240,000
- c. €60,000
- d. Cannot be determined from the information provided.

9-On July 4, 2014, Wyoming Mining Company purchased the mineral rights to a granite deposit for \$1,600,000. It is estimated that the recoverable granite will be 400,000 tons. During 2014, 100,000 tons of granite was extracted and 60,000 tons were sold. The amount of the Depletion Expense recognized for 2014 would be

- a. \$200,000.
- b. \$120,000.
- c. **\$240,000.**
- d. \$400,000.

10-Depletion expense is computed by multiplying the depletion cost per unit by the

- a. total estimated units.
- b. total actual units.
- c. number of units extracted.
- d. **number of units sold.**

11-On January 1, 2014, Cooper Tree Company (CTC) purchases a copper mine for €15,000,000. The mine is estimated to have 20 million tons of copper and no residual value. CTC estimates that it will take 10 years to extract all the copper contained in the mine. CTC spends an additional €3,000,000 during the early part of 2014 preparing the mine. During 2014, CTC extracts and sells 3 million tons of copper. On CTC's December 31, 2014 statement of financial position, at what net amount is the copper mine reported?

- a. **€15,300,000**
- b. €16,200,000
- c. €13,500,000
- d. €12,750,000

12-On January 1, 2014, Cooper Tree Company (CTC) purchases a copper mine for €15,000,000. The mine is estimated to have 20 million tons of copper and no residual value. CTC estimates that it will take 10 years to extract all the copper contained in the mine. CTC spends an additional €3,000,000 during the early part of 2014 preparing the mine. During 2014, CTC extracts 3 million tons of copper; however due to price fluctuations none of the copper is sold during 2014. On CTC's financial statement for 2014, how would the depletion associated with the extracted copper be reported?

- a. As an expense on the income statement.
- b. **As inventory on the statement of financial position.**
- c. As a loss on the income statement.
- d. As part of comprehensive income(unrealized gain).

16

Intangible Assets:

Patent - copyright- trademark- goodwill - franchises and licenses

	Patent	Copyright	Trade mark	Goodwill
Useful life	20 years	70 years	20 years	Indefinite life
Renewable	NO		YES	

franchises and licenses: is a contractual agreement between franchisee and franchisor.

Goodwill:

- is the largest intangible asset in the financial statement.
- is recorded only when the business is purchased.
- It is the different between BV and FV.
- No amortization for goodwill.
- we don't revalue Intangibles assets except the goodwill.

Amortization expense	XX	
Intangible assets		XX

Amortization.

Patent's cost is 60,000\$, its useful life 8years. Record the amortization transaction.

Research and Development

Research = expense

development before technological feasibility = expense

development after technological feasibility = asset

Research expense	XX	
Development expense	XX	Before feasibility
Development cost	XX	After feasibility
Cash		XX

Company spent 1000000\$ on research and 2000000million\$ on development of new product. Of the 2000000\$ in development costs, 500000\$ was incurred prior to technological feasibility and 1500000\$ was incurred after technological feasibility had been demonstrated.

Record the transaction.

P9-7A

The intangible assets section of Glover Ltd. at December 31, 2016, is presented below.

Patents (£60,000 cost less £6,000 amortization)	£54,000
Franchises (£48,000 cost less £19,200 amortization)	28,800
Total	£82,800

The patent was acquired in January 2016 and has a useful life of 10 years. The franchise was acquired in January 2013 and also has a useful life of 10 years. The following cash transactions may have affected intangible assets during 2017.

Jan. 2	Paid £45,000 legal costs to successfully defend the patent against infringement by another company.
Jan.– June	Developed a new product, incurring £100,000 in research costs and £68,000 in development costs prior to technological feasibility. A patent was granted for the product on July 1. Its useful life is equal to its 20-year legal life.
Sept. 1	Paid £58,000 to an extremely large defensive lineman to appear in commercials advertising the company's products. The commercials will air in September and October.
Oct. 1	Acquired a franchise for £100,000. The franchise has a useful life of 40 years.

Instructions

1. Prepare journal entries to record the transactions above.
2. Prepare journal entries to record the 2017 amortization expense.
3. Prepare the intangible assets section of the statement of financial position at December 31, 2017.

18**P9-8A**

Due to rapid turnover in the accounting department, a number of transactions involving intangible assets were improperly recorded by the Buek Company in 2017.

1. Buek developed a new manufacturing process, incurring research costs of €97,000 and development costs prior to technological feasibility of €50,000. The company also purchased a patent for €60,000. In early January, Buek capitalized €207,000 as the cost of the patents. Patent amortization expense of €10,350 was recorded based on a 20-year useful life.
2. On July 1, 2017, Buek purchased a small company and as a result acquired goodwill of €80,000. Buek recorded a half-year's amortization in 2017, based on a 50-year life (€800 amortization). The goodwill has an indefinite life.

Instructions

Prepare all journal entries necessary to correct any errors made during 2017. Assume the books have not yet been closed for 2017.

1-Goodwill

- a. represents things of value associated with a company such as its investments and plant assets.
- b. is amortized using the straight-line method similar to other intangible assets.
- c. is reported in the statement of financial position under intangible assets.**
- d. All of these answer choices are correct.

2-Research and development costs are

- a. expenditures that may lead to patents, copyrights, and new products.
- b. development costs incurred after technological feasibility has been achieved and are capitalized and reported on the statement of financial position as an intangible asset.
- c. costs incurred in the research phase are always expense as incurred.
- d. All of these answer choices are correct.**

3-Intangible assets are the rights and privileges that result from ownership of long-lived assets that

- a. must be generated internally.
- b. are depletable natural resources.
- c. have been exchanged at a gain.
- d. do not possess physical substance.**

4-Identify the item below where the terms are not related.

- a. Equipment—depreciation
- b. Franchise—depreciation**
- c. Copyright—amortization
- d. Oil well—depletion

5-A patent should

- a. be amortized over a period of 20 years.
- b. not be amortized if it has an indefinite life.
- c. be amortized over its useful life or 20 years, whichever is longer.
- d. be amortized over its useful life or 20 years, whichever is shorter.**

6-The entry to record patent amortization usually includes a credit to 206.

- a. Amortization Expense.
- b. Accumulated Amortization.
- c. Accumulated Depreciation.
- d. Patent.**

7-The cost of successfully defending a patent in an infringement suit should be

- a. charged to Legal Expenses.
- b. deducted from the book value of the patent.
- c. added to the cost of the patent.**
- d. recognized as a loss in the current period.

8-An asset that cannot be sold individually in the market place is

- a. a patent.
- b. goodwill.**
- c. a copyright.
- d. a trade name.

9-Goodwill can be recorded

- a. when customers keep returning because they are satisfied with the company's products.
- b. when the company acquires a good location for its business.
- c. when the company has exceptional management.
- d. only when an entire business is purchased.**

10-On July 1, 2014, Jenks Company purchased the copyright to Jackson Computer tutorials for \$270,000. It is estimated that the copyright will have a useful life of 5 years with an estimated residual value of \$20,000. The amount of Amortization Expense recognized for the year 2014 would be

- a. \$54,000.
- b. \$25,000.**
- c. \$50,000.
- d. \$27,000.

11-All of the following intangible assets are amortized **except**

- a. copyrights.
- b. limited-life franchises.
- c. patents.
- d. trademarks.**

12-Which of the following is **not** an intangible asset arising from a government grant?

- a. Goodwill**
- b. Patent
- c. Trademark
- d. Trade name

13-Allocating the cost of an intangible asset is referred to as

- a. amortization.**
- b. depletion.
- c. accretion.
- d. capitalization.

14-A patent

- a. has a legal life of 40 years.
- b. is nonrenewable.**
- c. can be renewed indefinitely.
- d. is rarely subject to litigation because it is an exclusive right.

15-Copyrights are granted by the government

- a. for the life of the creator or 70 years, whichever is longer.
- b. for the life of the creator plus 70 years.**
- c. for the life of the creator or 70 years, whichever is shorter.
- d. and therefore cannot be amortized.

16-Goodwill

- a. is only recorded when generated internally.
- b. can be subdivided and sold in parts.
- c. can only be identified with the business as a whole.**
- d. can be defined as normal earnings less accumulated amortization.

17-In recording the acquisition cost of an entire business,

- a. goodwill is recorded as the excess of cost over the fair value of the net assets acquired.**
- b. assets are recorded at the seller's book values.
- c. goodwill, if it exists, is never recorded.
- d. goodwill is recorded as the excess of cost over the book value of the net assets acquired.

18-Research and development costs

- a. are classified as intangible assets.
- b. are expenditures that may lead to new processes and new products.**
- c. should be included in the cost of the patent they relate to.
- d. are capitalized and then amortized over a period not to exceed 40 years.

19-A computer company has ¥2,000,000 in research costs. Before accounting for these costs, the net income of the company is ¥1,400,000. What is the amount of net income or loss after these research costs are accounted for?

- a. ¥600,000 loss**
- b. ¥1,400,000 net income
- c. ¥0
- d. Cannot be determined from the information provided.

20-Henson Company incurred \$600,000 of research costs in its laboratory to develop a new product. It spent \$80,000 in legal fees for a patent granted on January 2, 2014. On July 31, 2014, Henson paid \$60,000 for legal fees in a successful defense of the patent. What is the total amount that should be debited to Patents through July 31, 2014?

- a. \$600,000
- b. \$140,000**
- c. \$740,000
- d. Some other amount

21-Given the following account balances at year end, compute the total intangible assets on the balance sheet of Kepler Enterprises.

Cash	€1,500,000
Accounts Receivable	4,000,000
Trademarks	1,000,000
Goodwill	3,500,000
Research Costs	2,000,000

- a. €10,500,000
- b. €6,500,000
- c. €4,500,000**
- d. €8,500,000

22-Rooney Company incurred \$420,000 of research costs in its laboratory to develop a patent granted on January 1, 2014. On July 31, 2014, Rooney paid \$63,000 for legal fees in a successful defense of the patent. The total amount debited to Patents through July 31, 2014, should be:

- a. \$420,000.
- b. \$63,000.**
- c. \$483,000.
- d. \$357,000.

23-The entry to record depletion expense

- a. decreases equity and assets.**
- b. decreases net income and increases liabilities.
- c. decreases assets and liabilities.
- d. decreases assets and increases liabilities.

24-All of the following are intangible assets **except**

- a. copyrights.
- b. goodwill.
- c. patents.
- d. research and development costs.**

25-Natural resources are generally shown on the statement of financial position under

- a. Intangibles.
- b. Investments.
- c. Property, Plant, and Equipment.**
- d. Equity.

26-Intangible assets

- a. should be reported under the heading Property, Plant, and Equipment.
- b. are not reported on the statement of financial position because they lack physical substance.
- c. should be reported as Current Assets on the statement of financial position.
- d. should be reported as a separate classification on the statement of financial position.**

19**Analysis**

Asset turnover ratio = Net sale/ average total asset

Net sale: Sales revenue - sales discount - sales allowance.

Company's net sales for 2017 were 90222\$. Its total ending assets were 64782\$ and beginning assets were 54080\$. Calculate Asset turnover ratio

1-Mehring Company reported net sales of \$450,000, net income of \$90,000, beginning total assets of \$240,000, and ending total assets of \$360,000. What was the company's asset turnover ratio?

- a. 1.88
- b. 0.30
- c. 1.50**
- d. 1.85

2-During 2014, Rathke Corporation reported net sales of \$3,000,000, net income of \$1,440,000, and depreciation expense of \$120,000. Rathke also reported beginning total assets of \$1,000,000, ending total assets of \$1,500,000, plant assets of \$960,000, and accumulated depreciation of \$600,000. Rathke's asset turnover ratio is

- a. 3.0 times.
- b. 2.4 times.**
- c. 1.9 times.
- d. 1.4 times.

3-During 2014, Stein Corporation reported net sales of \$5,000,000 and net income of \$2,250,000. Stein also reported beginning total assets of \$1,000,000 and ending total assets of \$1,500,000. Stein's asset turnover ratio is

- a. 5.0 times.
- b. 4.0 times.**
- c. 3.4 times.
- d. 2.4 times.

4-The asset turnover ratio

- a. Is computed by dividing net sales (income statement account) by average total assets (statement of financial position account).**
- b. Measures how efficiently a company is using its net sales to purchase and use fixed assets.
- c. Measures how many dollars are invested in fixed assets per dollar of net sales.
- d. All of these answer choices are correct.

5-The asset turnover ratio is computed by dividing

- a. net income by average total assets.
- b. net sales by average total assets.**
- c. net income by ending total assets.
- d. net sales by ending total assets.

6-A company has the following assets:

¥14,400,000	Buildings and Equipment, less accumulated depreciation of ¥3,000,000
1,440,000	Copyrights
6,000,000	Patents
7,200,000	Timberlands, less accumulated depletion of ¥4,200,000

The total amount reported under Property, Plant, and Equipment would be

- a. ¥29,040,000.
- b. ¥21,600,000.**
- c. ¥27,600,000.
- d. ¥23,040,000.

7-Which of the following is disclosed in the statement of financial position or the notes to the financial statements?

- a. The year the asset was purchased.**
- b. Accumulated depreciation by class of asset.
- c. Depreciation method used.
- d. Depreciation expense for the period.

8-The cost of land includes all of the following **except**

- a. real estate brokers' commissions.
- b. closing costs.
- c. accrued property taxes.
- d. parking lots.**

9-Under U.S. GAAP

- a. Property, plant, and equipment may not be revalued.
- b. Component depreciation is not required.
- c. Research and development costs are expensed as incurred.
- d. All of these answer choices are correct.**

10-Which of the following statements concerning IFRS and U.S. GAAP is true?

- a. IFRS permits revaluation of all intangible assets, whereas U.S. GAAP prohibits revaluation of intangible assets.
- b. Gains on exchange of assets when the exchange has commercial substance are recognized under both IFRS and U.S. GAAP.**
- c. Changes in depreciation method under IFRS are reported in current and future periods, under U.S. GAAP such changes are treated as prior period adjustments.
- d. All of these answer choices are correct.

11-A term that is not synonymous with property, plant, and equipment is

- a. plant assets.
- b. fixed assets.
- c. intangible assets.**
- d. Plant and equipment.

12-In an exchange of plant assets that has commercial substance

- a. neither gains nor losses are recognized immediately.
- b. gains, but not losses, are recognized immediately.
- c. losses, but not gains, are recognized immediately.
- d. **both gains and losses are recognized immediately.**

13-A gain on sale of a plant asset occurs when the proceeds of the sale are greater than the

- a. residual value of the asset sold.
- b. fair value of the asset sold.
- c. **book value of the asset sold.**
- d. accumulated depreciation on the asset sold.

14-The factor that is not relevant in computing depreciation is

- a. **replacement value.**
- b. cost.
- c. residual value.
- d. useful life.

15-Depreciable cost is the

- a. book value of an asset less its residual value.
- b. **cost of an asset less its residual value.**
- c. cost of an asset less accumulated depreciation.
- d. book value of an asset.

16-Santayana Company purchased a machine on January 1, 2012, for \$24,000 with an estimated residual value of \$6,000 and an estimated useful life of 8 years. On January 1, 2014, Santayana decides the machine will last 12 years from the date of purchase. The residual value is still estimated at \$6,000. Using the straight-line method, the new annual depreciation will be

- a. **\$1,350.**
- b. \$1,500.
- c. \$1,800.
- d. \$2,000.

17-Ordinary repairs are expenditures to maintain the operating efficiency of a plant asset and are referred to as

- a. capital expenditures.
- b. expense expenditures.
- c. improvements.
- d. **revenue expenditures.**

18-Additions and improvements are generally

- a. revenue expenditures.
- b. debited to an expense account.
- c. debited to accumulated depreciation.
- d. **debited to an appropriate asset account.**

THE END
Good luck