Exam

Name_____

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

12) Capital expenditures are also called balance sheet expenditures. 12) _____

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True • False

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

Answer: • True False

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

Answer: True • False

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

Answer: • True False

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

Answer: • True False

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

Answer: • True False

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

Answer: • True False

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

Answer: True • False

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

Answer: • True False

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

Answer: • True False

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

Answer: True • False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

64) Goodwill is an intangible asset. 64) _____

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

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

Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

69) On January 1 of this year, SportsWorld purchased a new cash register for $5,400. This register has a useful life of 10 years and a residual value of $400. Using the double-declining-balance method, how much depreciation expense should SportsWorld recognize for next year? 69) _____

A) $1,000. B) $1,080. C) $864. D) $540. E) $500.

Answer: C

70) SportsWorld purchased equipment costing $10,000. The equipment has a residual value of $1,000, and an estimated useful life of 5 years or 36,000 shoes. Actual units produced during the year were 7,000 units. Calculate annual depreciation using the straight line method. 70) _____

A) $2,000. B) $1,800. C) $1,750. D) $4,000. E) $1,450.

Answer: B

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

A) $1,333. B) $2,000. C) $1,000. D) $4,600. E) $1,465.

Answer: B

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

A) $1,000. B) $2,160. C) $1,800. D) $1,600. E) $1,467.

Answer: D

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

A) $9,000 B) $10,000 C) $13,500 D) $8,000 E) $12,000

Answer: C

74) SportsWorld bought a new display case for $12,000 and was given a trade-in of $2,000 on an old display case. The old case had an original cost of $7,000 and accumulated depreciation of $4,000 to the date of trade-in. SportsWorld should record the new display case at: 74) _____

A) $12,000. B) $11,500. C) $10,500. D) $11,700. E) $10,000.

Answer: A

75) At the end of the year, SportsWorld completed an asset impairment test and noted that a piece of equipment, with a book value of 12,000, has a recoverable value of $2,000. Calculate the amount of impairment loss on the equipment. 75) _____

A) $2,160. B) $2,000. C) $14,800. D) $10,000. E) $12,800.

Answer: D

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

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

What portion of these costs should be allocated to the cost of the land and what portion should be allocated to the cost of the new building?

A) $190,800 to Land; $3,000 to Building.
B) $193,800 to Land; $0 to Building.
C) $190,000 to Land; $3,800 to Building.
D) $150,000 to Land; $18,800 to Building.
E) $192,800 to Land; $1,000 to Building.

Answer: B

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

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

Answer: C

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

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

Answer: E

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

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

Answer: E

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

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

Answer: A

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

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

Answer: B

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

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

Answer: C

83) When originally purchased, a vehicle had cost $23,000, with an estimated residual value of $1,500, and an estimated useful life of 8 years. After 4 years of straight-line depreciation, the estimated useful life was revised from 8 to 6 years, but with zero residual value. The depreciation expense in year 5 should be: 83) _____

A) $2,856.25.
B) $2.687.50.
C) $10,750.00.
D) $5,543.75.
E) $6,125.00.

Answer: E

84) SportsWorld discarded a display case it had purchased for $8,000. $7,200 in accumulated depreciation had been recorded to the date of sale. SportsWorld should recognize a gain or loss on disposal of: 84) _____

A) $8,000 loss.
B) $0.
C) $7,200 loss.
D) $800 loss.
E) $800 gain.

Answer: D

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

A)

| | | |
|---|---|---|
| Amortization Expense—Patent | 10,500 | |
| Accumulated Amortization - Patent | | 10,500 |

B)

| | | |
|---|---|---|
| Amortization Expense—Patent | 14,000 | |
| Accumulated Amortization - Patent | | 14,000 |

C)

| | | |
|---|---|---|
| Amortization Expense—Patent | 6,000 | |
| Accumulated Amortization - Patent | | 6,000 |

D)

| | | |
|---|---|---|
| Amortization Expense—Patent | 8,000 | |
| Accumulated Amortization - Patent | | 8,000 |

Answer: A

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

A) 2 years. B) 10 years. C) 6 years. D) 7 years. E) 5 years.

Answer: D

87) A change in accounting estimate is: 87) _____

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

Answer: C

88) Creek Construction owned a bulldozer which was destroyed by fire. The bulldozer originally cost $38,000. The accumulated depreciation recorded to the date of loss was $20,000. The proceeds from the insurance company were $20,000. Creek Construction should recognize: 88) _____

A) A loss of $38,000.
B) A gain of $2,000.
C) An expense of $2,000.
D) A loss of $2,000.
E) A gain of $20,000.

Answer: B

89) A main accounting issue for property, plant and equipment is: 89) _____

A) Testing property, plant and equipment for impairment.
B) Disposal of property, plant and equipment.
C) The cost of property, plant and equipment.
D) Accounting for repairs and improvements to property, plant and equipment.
E) All of these answers are correct.

Answer: E

90) If the book value (or carrying amount) of a PPE item is greater than the amount to be recovered through the asset's use or sale, the asset is said to be: 90) _____

A) Exchanged.
B) Declined.
C) Improved.
D) Impaired.
E) Accumulated.

Answer: D

91) Inadequacy refers to: 91) _____

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

Answer: D

92) Residual value is: 92) _____

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

Answer: C

93) Once the estimated depreciation for an asset is calculated: 93) _____

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

Answer: C

94) Subsequent capital expenditures: 94) _____

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

Answer: E

95) Natural resources: 95) _____

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

Answer: E

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

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

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

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

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

101) Each year goodwill is examined to see if its value has been impaired. If the value has been impaired goodwill will: 101) _____

A) Decrease.
B) Not change.
C) Increase.
D) Be depreciated.
E) Be amortized.

Answer: A

102) The formula for calculating straight-line depreciation is: 102) _____

A) Cost divided by useful life in years.
B) Depreciable cost divided by the useful life in years.
C) Cost plus residual value divided by the useful life in years.
D) Depreciable cost divided by useful life in units.
E) Cost divided by useful life in units.

Answer: B

103) Ordinary repairs: 103) _____

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

Answer: E

104) The straight-line method and the double-declining-balance method of depreciation: 104) _____

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

Answer: E

105) The appropriate way to amortize goodwill is: 105) _____

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

Answer: A

106) Legal permissions for the extraction of oil and gas from the earth are known as: 106) _____

A) Drilling rights.
B) Trademarks.
C) Copyrights.
D) Leaseholds.
E) Patents.

Answer: A

107) An asset can be disposed of by: 107) _____

A) Donating it to charity.
B) Selling.
C) Exchanging.
D) Discarding.
E) All of these answers are correct.

Answer: E

108) Revenue expenditures: 108) _____

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

Answer: B

109) Depreciation is usually recorded: 109) _____

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

Answer: D

110) Land improvements are: 110) _____

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

Answer: E

111) Which of the following statements is true with respect to intangible assets? 111) _____

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

Answer: D

112) A patent: 112) _____

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

Answer: E

113) A copyright: 113) _____

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

Answer: A

114) Capital cost allowance: 114) _____

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

Answer: D

115) Depreciation: 115) _____

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

Answer: D

116) SportsWorld paid $140,000 for a property. The property included land appraised at $67,500, land improvements appraised at $25,000, and a building appraised at $55,500. What should be the allocation of costs in the accounting records **(round calculations to 3 decimals)**? 116) _____

A) Land $62,000; land improvements, $23,800; building, $46,200.
B) Land $79,500; land improvements, $32,600; building, $47,700.
C) Land $63,840; land improvements, $23,660; building, $52,500.
D) Land $62,000; land improvements, $23,000; building, $45,000.
E) Land $87,500; land improvements; $35,000; building; $52,500.

Answer: C

117) Property, plant and equipment are: 117) _____

A) Long-term investments.
B) Intangible assets used in the operations of a business having a useful life of more than one accounting period.
C) Current assets.
D) Tangible assets used in the operation of business having a useful life of less than one accounting period.
E) Tangible assets used in the operation of a business having a useful life of more than one accounting period.

Answer: E

118) Treating low-cost asset purchases as expenses is allowed by which principle? 118) _____

A) Matching.
B) Cost.
C) Materiality.
D) Timeliness.
E) Prudence.

Answer: C

119) The useful life of a property, plant and equipment asset is: 119) _____

A) Is impossible to estimate.
B) Measured by its potential inadequacy.
C) Another term for its residual value.
D) The length of time it is productively used in a company's operations.
E) All of these answers are correct.

Answer: D

120) Property, plant and equipment are: 120) _____

A) Used in business operations.
B) Long-term investments.
C) Natural resources.
D) Current assets.
E) Never depreciated.

Answer: A

121) The original cost of an asset minus accumulated depreciation is called: 121) _____

A) Book value.
B) Replacement cost.
C) Current value.
D) Historical cost.
E) Present value.

Answer: A

122) Obsolescence: 122) _____

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

Answer: B

123) A leasehold: 123) _____

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

Answer: E

124) A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each accounting period during its useful life is called: 124) _____

A) Double-declining-balance depreciation.
B) Capital cost allowance.
C) Straight-line depreciation.
D) Units-of-production depreciation.
E) Accelerated depreciation.

Answer: C

125) A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each unit produced is called: 125) _____

A) Double-declining-balance depreciation.
B) Straight-line depreciation.
C) Accelerated depreciation.
D) Capital cost allowance.
E) Units-of-production depreciation.

Answer: E

126) A depreciation method in which a property, plant and equipment asset's depreciation expense for the period is determined by applying a constant depreciation rate each year to the asset's beginning book value is called: 126) _____

A) Double-declining-balance depreciation.
B) Capital cost allowance.
C) Straight-line depreciation.
D) Book value depreciation.
E) Units-of-production depreciation.

Answer: A

127) A depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years is: 127) _____

A) Accelerated depreciation.
B) Book value depreciation.
C) Capital cost allowance.
D) Units-of-production depreciation.
E) Straight-line depreciation.

Answer: A

128) CamCo Ltd. leased floor space in a new office building. Rent will cost $10,000 per month for a ten-year lease, but some renovations are needed and will be paid by CamCo to customize the space. The renovations include installing walls to create a new office and boardroom (cost $8,000), new flooring (cost $5,800), painting (cost $1,500) and updated wiring to accommodate computer servers (cost $8,700). How should these costs be handled for accounting purposes by CamCo? 128) _____

A) They should all be charged to rent expense.
B) They should be capitalized as development costs.
C) They should all be capitalized as leasehold improvements.
D) Painting costs should be capitalized to leasehold improvements and other costs should be charged to rent expense.
E) Painting costs should be charged to rent expense and the other costs should be capitalized to leasehold improvements.

Answer: C

129) Intangible assets do not include: 129) _____

A) Leaseholds.
B) Copyrights.
C) Patents.
D) Trademarks.
E) Goodwill.

Answer: E

130) The relevant factor(s) in calculating depreciation is(are): 130) _____

A) Residual value.
B) Cost.
C) Useful life.
D) Both cost and useful life.
E) All of these answers are correct.

Answer: E

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

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

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

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

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

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

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

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

Calculate the depreciable cost of the machine.

Answer:

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

NOTE ALL OTHER COSTS WOULD BE EXPENSED.

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

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

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

Answer:

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

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

Mar 1 Purchased a truck for $50,000 with a 5 year useful life and a $10,000 residual value. Salem also paid 7% provincial sales tax, a $500 annual truck license, $3,000 to paint the truck and $1,300 for spare parts. All payments were in cash.

May 12 Purchased a garage from a neighbouring business with a $50,000 note payable. The seller's book value for the garage was $47,000 and the garage was appraised at $58,000. The estimated useful life is 12 years. Salem also paid $3,000 cash for real estate commission.

Jun 5 Paid $550 to replace garage windows broken during a hail storm.

Aug 23 Purchase used office equipment for $12,500 plus provincial sales tax of $875, terms 2/10, n30 from Great West Office Supplies. As well, Salem paid freight of $200 and reconditioning costs of $950 on credit. Estimated useful life of 4 years and a residual value of $1,000.

Sep 12 Paid for office equipment purchased on August 23.

Oct 5 Purchased store equipment for $26,700 plus $1,869 provincial sales tax. As well, Salem paid $750 for repairs incurred from an accident during installation, $4,200 for a special base for the equipment and $3,700 of supplies to be used for regular preventive maintenance. Estimated useful life is 9 years and residual value is $1,300.

Answer: 135)

| | | | |
|---|---|---|---|
| Mar 1 | Trucks | 56,500 | |
| | Spare Parts Inventory | 1,300 | |
| | Licence Expense | 500 | |
| | Cash | | |
| | $50,000 + (50,000 x 7%) + 3,000 = $56,500 | | |
| May12 | Garage | 53,000 | |
| | Notes Payable | | |
| | Cash | | |
| Jun 5 | Repairs and Maintenance Expens | 550 | |
| | Cash | | |
| Aug 23 | Office Equipment | 14,525 | |
| | Accounts Payable | | |
| | $12,500+875+200+950= $14,525 | | |
| Sep 12 | Accounts Payable | 14,525 | |
| | Cash | | |
| Oct 05 | Store Equipment | 32,769 | |
| | Repairs and Maintenance Expense | 750 | |
| | Supplies | 3,700 | |
| | Cash | | |
| | $26,700+1,869+4,200=$32,769 | | |

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

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

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

Answer:

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

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

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

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

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

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

Answer:

| | | |
|---|---|---|
| Land ** | 1,290,000 | |
| Building * | 4,860,000 | |
| Land Improvements | 700,000 | |
| Cash | | 6,8 |

* 5,560,000- 700,000

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

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

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

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

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

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

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

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

Answer: 140)

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

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

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

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

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

Answer:

| | | |
|---|---|---|
| Machinery | 3,700 | |
| Cash | | 3,700 |

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

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

Answer:

| | | |
|---|---|---|
| Machinery | 5,400 | |
| Cash | | 5,400 |

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

| | |
|---|---|
| 8-Jan-14 | Purchased a machine for $55,000 cash, and also paid $3,000 cash to have it installed.<br>Estimated useful life is 10 years and residual value is $5,000. Straight line depreciation is used. |
| 1-Jan-15 | The machine's useful life was changed from 10 years to 9. |
| 5-Jan-15 | General maintenance on the machine was completed for $800. |
| 1-Jan-16 | Paid $3,800 to replace a motor in the machine. This was considered a major overhaul, but it did not alter the machine's useful life |

Xeno Co uses the calendar year as its fiscal year.

Prepare the journal entry to record depreciation expense for 2014.
Prepare the journal entry to record depreciation expense for 2015.
Prepare the journal entry to record depreciation expense for 2016.
Round all values to the nearest dollar.

Answer:

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

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

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

Answer:

| | | |
|---|---|---|
| (1) | Machinery | |
| (2) | ($175,000- (3x (175,000-16,000)/6)+ $25,000 = | 120,5 |
| | ($120,500-19,500)/7= | 14,4 |

146) Explain depreciation and the elements affecting its calculation. 146) _____

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

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

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

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

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

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

Answer:

Annual rate is 2/40 x 100= 5%

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

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

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

Answer:

(a) (b)

Double-Dec

| Year | Straight Line | Units of Production | E |
|---|---|---|---|
| 2014 | $270,000 | $405,000 | $6 |
| 2015 | 270,000 | 378,000 | 3 |
| 2016 | 270,000 | 270,000 | 2 |
| 2017 | 270,000 | 243,000 | 1 |
| 2018 | 270,000 | 54,000 | |
| Totals | $1,350,000 | $1,350,000 | $1,3 |

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

(b) Rate=( $1,500,000-150,000)/50,000 hours= $27/hour

| Year | Annual Depreciation Calculation | Annual Depreciation Expense | Remainin |
|---|---|---|---|
| 2014 | 15,000 hrs x $27/hr | 405,000 | 1,( |
| 2015 | 14,000 hrs x $27/hr | 378,000 | 7 |
| 2016 | 10,000 hrs x $27/hr | 270,000 | 4 |
| 2017 | 9,000 hrs x $27/hr | 243,000 | 2 |
| 2018 | 6,000 hrs x $27/hr | Max 54,000 | 1 |

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

| Year | Annual Depreciation Calculation | Annual Depreciation Expense | Remainin |
|---|---|---|---|
| 2014 | 1,500,000 x 0.40 | 600,000 | 9 |
| 2015 | 900,000 x 0.40 | 360,000 | 5 |
| 2016 | 540,000 x 0.40 | 216,000 | 3 |
| 2017 | 324,000 x 0.40 | 129,600 | 1 |
| 2018 | 194,400 x 0.40 | Max 44,400 | 1 |

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

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

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

Answer:

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

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

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

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

Answer:

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

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

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

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

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

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

Answer:

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

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

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

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

Answer: Rate = 2/5 x 100 = 40%

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

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

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

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

Answer:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

Answer:

(a)

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

(b)

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

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

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

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

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

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

Answer: Jan 1, 2018 - purchase:

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

Costs subsequent to purchase:

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

December 31, 2018 - depreciation:

| | | | |
|---|---|---|---|
| Depreciation Expense | | 28,719 | |
| | Accumulated depreciation | | 28,179 |

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

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

Answer:

| | | | |
|---|---|---|---|
| Machine | | 32,500 | |
| | Cash | | 32,500 |

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

Answer:

| | | | |
|---|---|---|---|
| Depreciation expense | | 5,958 | |
| | Accumulated depreciation | | 5,958 |

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

Answer: Depreciation to July 1, 2020 date of sale

| | | | |
|---|---|---|---|
| Depreciation expense | | 2,654 | |
| | Accumulated depreciation | | 2,654 |

Sale on July 1, 2020:

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

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

Answer:

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

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

Record the asset exchange.

Answer:

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

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

Answer:

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

* Gain = Fair Value of new excavator- assets given up

Gain= 63,000 (list price) - 40,000 (book value of old excavator)- 8,000 (cash)

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

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

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

Answer:

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

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

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

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

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

Answer:

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

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

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

Answer:

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

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

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

Answer:

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

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

(b)

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

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

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

Answer:

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

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

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

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Answer:

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

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

Assuming that this transaction has commercial substance,

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

Answer:

(1)

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

(2)

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

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

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

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

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

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

Answer:

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

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

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

Answer:

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

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

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

Answer:

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

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

Answer:

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

*(($1,600,000-$130,000) / 6 ) x 1/2

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

198)

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

Answer: 1.

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

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

2.

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

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

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

199) Discuss accounting for intangible assets. 199) _____

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

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

Answer:

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

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

Answer:

| | | |
|---|---|---|
| Rent Expense | 566,667 | |
| Leasehold | | 566,667 |

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

Answer:

| | | |
|---|---|---|
| Amortization Expense, Copyrights | 41,853 | |
| Accumulated Amortization, Copyrights | | 41,853 |

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

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

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

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

| Machine: | | | | | | |
|---|---|---|---|---|---|---|
| Component | Date of Purchase | Depreciation Method | Cost | Est. Residual | Est. Life | Accum. Dep. at Dec. 31, 2016, Year-End |
| Electronic Controller | April 1/16 | Straight-line | $ 5,000 | $ 0 | 5 years | $750 |
| Motor | April 1/16 | Units of Production | 100,000 | 10,000 | 50,000 hours | 2,700 |
| | | | | | | |
| | | | $105,000 | | | $3,450 |

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

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

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

October 31, 2017:

| | | | |
|---|---|---|---|
| Depreciation expense, Machinery | | 6593 | |
| | Accumulated Depreciation, Machinery | | 6593 |

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

November 1, 2017:

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

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

December 31, 2017:

| | | | |
|---|---|---|---|
| Depreciation expense, Machinery | | 1,403 | |
| | Accumulated Depreciation, Machinery | | 1,403 |
| | | | |