**CHAPTER 9**

# LONG-LIVED ASSETS

### CHAPTER STUDY OBJECTIVES

1. ***Calculate the cost of property, plant, and equipment*.** The cost of property, plant, and equipment includes all costs that are necessary to acquire the asset and make it ready for its intended use. All costs that benefit future periods (that is, capital expenditures) are included in the cost of the asset. When applicable, cost also includes asset retirement costs. When multiple assets are purchased in one transaction, or when an asset has significant components, the cost is allocated to each individual asset or component using their relative fair values.

2. ***Apply depreciation methods to property, plant, and equipment.*** After acquisition, assets are accounted for using the cost model or the revaluation model. Depreciation is recorded and assets are carried at cost less accumulated depreciation. Depreciation is the allocation of the cost of a long-lived asset to expense over its useful life (its service life) in a rational and systematic way. Depreciation is not a process of valuation and it does not result in an accumulation of cash. There are three commonly used depreciation methods:

Effect on Annual

Method Depreciation Calculation

Straight-line Constant amount (Cost − residual value) ÷

estimated useful life

(in years)

Diminishing- Diminishing Carrying amount at

balance amount beginning of year ×

diminishing-balance rate

Units-of- Varying (Cost − residual value) ÷

production amount total estimated units-of-

production × actual

activity during the year

Each method results in the same amount of depreciation over the asset’s useful life. Depreciation expense for income tax purposes is called capital cost allowance (CCA).

3. ***Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.*** A revision to depreciation will be required if there are (a) capital expenditures during the asset’s useful life; (b) impairments in the asset’s fair value; (c) changes in the asset’s fair value when using the revaluation model; and/or (d) changes in the appropriate depreciation method, estimated useful life, or residual value. An impairment loss must be recorded if the recoverable amount is less than the carrying amount. Revisions of periodic depreciation are made in present and future periods, not retroactively. The new annual depreciation is determined by using the depreciable amount (carrying amount less the revised residual value), and the remaining useful life, at the time of the revision.

4. ***Demonstrate how to account for property, plant, and equipment disposals.*** The accounting for the disposal of a piece of property, plant, or equipment through retirement or sale is as follows:

(a) Update any unrecorded depreciation for partial periods since depreciation was last recorded.

(b) Calculate the carrying amount (cost – accumulated depreciation).

(c) Calculate any gain (proceeds > carrying amount) or loss (proceeds < carrying amount) on disposal.

(d) Remove the asset and accumulated depreciation accounts at the date of disposal. Record the proceeds received and the gain or loss, if any.

An exchange of assets is recorded as the purchase of a new asset and the sale of an old asset. The new asset is recorded at the fair value of the asset given up plus any cash paid (or less any cash received). The fair value of the asset given up is compared with its carrying amount to calculate the gain or loss. If the fair value of the new asset or the asset given up cannot be determined, the new long-lived asset is recorded at the carrying amount of the old asset that was given up, plus any cash paid (or less any cash received).

5. ***Record natural resource transactions and calculate depletion.*** The units-of-production method of depreciation is generally used for natural resources. The depreciable amount per unit is calculated by dividing the total depreciable amount by the number of units estimated to be in the resource. The depreciable amount per unit is multiplied by the number of units that have been extracted to determine the annual depreciation. The depreciation and any other costs to extract the resource are recorded as inventory until the resource is sold. At that time, the costs are transferred to cost of resource sold on the income statement. Revisions to depreciation will be required for capital expenditures during the asset’s useful life, for impairments, and for changes in the total estimated units of the resource.

6. ***Identify the basic accounting issues for intangible assets and goodwill.*** The accounting for tangible and intangible assets is much the same. Intangible assets are reported at cost, which includes all expenditures necessary to prepare the asset for its intended use. An intangible asset with a finite life is amortized over the shorter of its useful life and legal life, usually on a straight-line basis. The extent of the annual impairment tests depends on whether IFRS or ASPE is followed and whether the intangible asset had a finite or indefinite life. Intangible assets with indefinite lives and goodwill are not amortized and are tested at least annually for impairment. Impairment losses on goodwill are never reversed under both IFRS and ASPE.

7. ***Illustrate the reporting and analysis of long-lived assets.*** It is common for property, plant, and equipment, and natural resources to be combined in financial statements under the heading “property, plant, and equipment.” Intangible assets with finite and indefinite lives are sometimes combined under the heading “intangible assets” or are listed separately. Goodwill must be presented separately. Either on the balance sheet or in the notes, the cost of the major classes of long-lived assets is presented. Accumulated depreciation (if the asset is depreciable) and carrying amount must be disclosed either in the balance sheet or in the notes. The depreciation and amortization methods and rates, as well as the annual depreciation expense, must also be indicated. The company’s impairment policy and any impairment losses should be described and reported. Under IFRS, companies must include a reconciliation of the carrying amount at the beginning and end of the period for each class of long-lived assets and state whether the cost or revaluation model is used.

The asset turnover ratio (net sales ÷ average total assets) is one measure that is used by companies to show how efficiently they are using their assets to generate sales revenue. A second ratio, return on assets (profit ÷ average total assets), calculates how profitable the company is in terms of using its assets to generate profit.

### TRUE-FALSE STATEMENTS

1. All long-lived assets must be depreciated for accounting purposes.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

2. All long-lived assets which are included in property, plant, and equipment must be used in the operations of the business.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

3. If long-lived assets are intended for sale, they are included in property, plant, and equipment.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

4. If an item of property, plant, and equipment is recognized as an asset it is probable that the company will NOT receive economic benefits from the item.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

5. Any non-refundable taxes incurred on the acquisition of an asset would be expensed at the time of acquisition.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

6. The expenditures necessary to bring the asset to the location and condition necessary to make it ready for its intended use would be included in the cost of the asset.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

7. Costs that benefit future periods are included in a long-lived asset account, and are called operating expenses.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

8. If insurance is incurred transporting the asset to its final position, this insurance will be added to the cost of the asset.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

9. Subsequent to the acquisition of an asset, insurance costs would be added to the cost of the asset.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

10. If paid by the purchaser, freight charges and insurance during transit are included in the cost of equipment.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

11. Architect’s fee for the plans for a new building would be included in the cost of the land improvements.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

12. A basket purchase of long-lived assets requires that the fair values be assigned based on the cost of each asset.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

13. The cost of land improvements is NOT depreciated because land improvements typically do not decline in value.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

14. Under IFRS, companies have two models they can choose between to account for their property, plant, and equipment: the cost model or the revaluation model.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

15. Most Canadian companies reporting under IFRS do NOT use the revaluation method when accounting for their long-lived assets.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

16. Land improvements decline in service potential with time.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

17. Depreciation is the systematic allocation of the cost of a long-lived asset, such as property, plant, and equipment, over the asset’s physical life.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

18. An asset’s cost is allocated to expense over the asset’s useful life because the asset is used to help generate revenue over that period of time.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

19. Assets are depreciated over their useful lives even if the use of the asset is NOT directly related to earning profit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

20. Depreciation is a process of cost allocation.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

21. Residual value is NOT depreciated, since the amount is expected to be recovered at the end of the asset’s useful life.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

22. Recording depreciation on long-lived assets affects the balance sheet and the income statement.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

23. The units-of-production method of depreciation will result in the highest cash flow for the company.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

24. Subject to acquisition, all costs that relate to that asset are classified as operating expenses.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

25. The Accumulated Depreciation account represents a cash fund available to replace long-lived assets.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

26. In calculating depreciation, both the long-lived asset’s cost and useful life are based on estimates.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

27. Under the double diminishing-balance method, the depreciation rate used each year remains constant.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

28. Using the units-of-production method of depreciating factory equipment will generally result in more depreciation expense being recorded over the life of the asset than if the straight-line method had been used.

Answer: False

Bloomcode: Comprehension

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

29. Straight-line depreciation will result in a higher profit than the double diminishing-balance method in the early years of an asset’s life.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

30. The Canada Revenue Agency does NOT require the taxpayer to use the same depreciation method on the tax return that is used in preparing financial statements.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

31. A company using the diminishing-balance method of depreciation will have higher profit in the early years of the asset.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

32. The amount of an asset’s residual value does NOT affect the calculation of depreciation in the units-of-production method.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

33. In the straight-line method, the higher the residual value the greater the profit.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

34. The diminishing-balance method will yield a higher cost of goods sold.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

35. In the diminishing-balance method, the rate of depreciation decreases each year.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

36. In the diminishing-balance method, the depreciation expense will decrease each year.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

37. In the straight-line method of depreciation, the rate of depreciation remains constant over time.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

38. Once an asset is fully depreciated, no additional depreciation can be taken even though the asset is still being used by the business.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

39. The units-of-production method is ideal for equipment whose production can be measured in units of output.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

40. CRA does NOT allow taxpayers to estimate the useful lives of assets or depreciation rates.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

41. Under CRA, depreciation expense is NOT optional in calculating profit.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

42. The carrying amount of a long-lived asset is the amount originally paid for the asset less anticipated residual value.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

43. Ordinary repairs are costs to maintain the asset’s operating efficiency and expected productive life.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

44. A change in the estimated residual value of a long-lived asset requires a restatement of prior years' depreciation.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

45. Additions and improvements to a long-lived asset that increase the asset's operating efficiency, productive capacity, or expected useful life are generally expensed in the period incurred.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

46. Additions and improvements are costs that are incurred to maintain the asset’s operating efficiency, productive capacity, or expected useful life.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

47. An impairment loss is the amount by which the asset’s carrying amount exceeds its recoverable amount.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

48. An impairment loss can only occur in long-lived assets with a finite life.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

49. IFRS allow the reversal of a previously recorded impairment loss.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

50. Under IFRS, at each year end, the company must determine whether or not an impairment loss still exists by measuring the asset’s recoverable amount.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

51. Under the revaluation model, the carrying amount of property, plant, and equipment is its fair value plus any subsequent accumulated depreciation less any subsequent impairment losses.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

52. A loss on disposal of a long-lived asset as a result of a sale or a retirement is calculated in the same way.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

53. A long-lived asset must be fully depreciated before it can be removed from the books.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

54. A loss on disposal of long-lived assets can only occur if the cash proceeds received from the asset sale are less than the asset's carrying amount.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

55. The first step in recording a disposal of a long-lived asset is to update that asset’s depreciation.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

56. In a disposal of an asset, if the carrying amount of the asset exceeds the proceeds received, profit will increase.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

57. When an asset is retired, there are no proceeds received.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

58. In a retirement of an asset, if the carrying amount of the asset is greater than $ 1, profit will increase.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

59. A higher trade-in value will increase the profit of the company disposing of an asset.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

60. The cost of natural resources is NOT allocated to expense because the natural resources are replaceable only by an act of nature.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

61. Conceptually, the cost allocation procedure for natural resources parallels that of property, plant, and equipment.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

62. Natural resources are often called wasting assets because it is difficult to use the assets in an efficient manner.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

63. Accumulated depreciation is only recognized on natural resources that have been extracted and sold during the period.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

64. The diminishing-balance method is the most common method of depreciation for natural resources.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

65. Natural resources do NOT have to be tested for impairment annually.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

66. Intangible assets have unlimited life because they have no physical substance.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

67. The diminishing-balance method of amortization is the most common method of amortization for intangibles.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

68. The amortizable amount of an intangible should be allocated over the shorter of the estimated useful life and legal life.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

69. If an intangible with an indefinite life is disposed of, there is no effect on profit.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

70. A franchise is a contractual arrangement under which the franchisor grants the franchisee the right to sell certain products and/or to provide specific services.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

71. Goodwill CANNOT be sold individually as it is part of the business as a whole.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

72. Goodwill has an indefinite life.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

73. Goodwill should be amortized on the lesser of useful life or 20 years.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

74. Impairment losses on goodwill are NEVER reversed.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

75. IFRS does allow for reversals of impairment losses on both finite-life and other indefinite-life intangible assets if their value increases in the future.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

76. It is NOT necessary to disclose the amount of accumulated amortization in the financial statements.

Answer: False

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

77. The return on assets is calculated by dividing net income by total assets.

Answer: False

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

78. The asset turnover ratio indicates how efficiently a company uses its assets to generate sales.

Answer: True

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

79. Companies must report goodwill separately from property, plant, and equipment, and intangible assets.

Answer: True

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

### MULTIPLE CHOICE QUESTIONS

80. Which of the following would NOT be considered an addition to the capital cost of an asset?

a) HST paid on the asset

b) insurance paid when the asset was in transit from the supplier

c) installation fee when asset is delivered

d) freight costs paid by the purchaser

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

81. All of the following are examples of property, plant, and equipment EXCEPT

a) equipment.

b) copyright.

c) land.

d) building.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

82. An example of operating costs of a long-lived asset would NOT include the following:

a) insurance costs paid after the asset is being used in operations.

b) maintenance costs.

c) repair costs.

d) insurance costs paid before the asset is being used in operations.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

83. A company purchased land for $ 70,000 cash. $ 7,000 was spent demolishing an old building on the land before construction of a new building could start. The cost of land would be recorded at

a) $ 77,000.

b) $ 70,000.

c) $ 63,000.

d) $ 7,000.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

84. Which one of the following items is NOT considered a part of the cost of a truck purchased for business use?

a) insurance during transit

b) truck licence

c) freight charges

d) cost of lettering on side of truck

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

85. 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

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

86. The four subdivisions for property, plant, and equipment are normally

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.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

87. The cost of land does NOT include

a) costs to clear the land.

b) annual property taxes.

c) accrued property taxes assumed by the purchaser.

d) legal fees.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

88. Merry Clinic purchases land for $ 80,000 cash. The clinic assumes $ 2,000 in property taxes due on the land. The legal fees totalled $ 1,000. The clinic has the land graded for $ 2,200. What amount does Merry Clinic record as the cost for the land?

a) $ 82,000

b) $ 80,000

c) $ 85,200

d) $ 84,200

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

89. Juang Company acquires land for $ 56,000 cash. Additional costs are as follows:  
 Removal of shed $ 1,800  
 Filling and grading 1,500  
 Paving of parking lot 10,000  
 Closing costs 690  
Juang will record the acquisition cost of the land as

a) $ 56,000.

b) $ 56,690.

c) $ 69,990.

d) $ 59,990.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

90. Newman Hospital installs a new parking lot. The paving cost $ 30,000 and the lights to illuminate the new parking area cost $ 12,000. Which of the following statements is true with respect to these additions?

a) $ 30,000 should be debited to the Land account.

b) $ 12,000 should be debited to Land Improvements.

c) $ 42,000 should be debited to the Land account.

d) $ 42,000 should be debited to Land Improvements.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

91. General Paint 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?

a) Excavation fees are capitalized but building permit fees are not.

b) Architect fees are capitalized but building permit fees are not.

c) Interest during the construction is capitalized as part of the cost of the building.

d) The capitalized cost is equal to the contract price to build the plant less any interest on borrowed funds.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

92. 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 re-carpeted and there will also be some plumbing work done. Which of the following statements is true?

a) The cost of the building will not include the repainting and re-carpeting costs.

b) The cost of the building will include the cost of replacing the roof.

c) The cost of the building is the purchase price of the building, while the additional expenditures are all capitalized as building improvements.

d) The wiring is part of the computer costs, not the building cost.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

93. The Fizzard Company purchases a new delivery truck for $ 45,000. The logo of the company is painted on the side of the truck for $ 600. The truck licence is $ 60. The truck undergoes safety testing for $ 110. What does Fizzard record as the cost of the new truck?

a) $ 45,770

b) $ 45,060

c) $ 45,000

d) $ 45,710

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

94. Interest may be included in the acquisition cost of property, plant, and equipment

a) during the construction period of a self-constructed asset.

b) if the asset is purchased on credit.

c) if the asset acquisition is financed by a long-term note payable.

d) if it is a part of a lump-sum purchase.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

95. Expenditures that maintain the operating efficiency and expected productive life of a long-lived 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.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

96. 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 operating expenditures.

c) They maintain the expected productive life of the asset.

d) They increase the productive capacity of the asset.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

97. The replacement of the bumper of a company’s delivery truck would be classified as a(n)

a) non-monetary exchange.

b) addition.

c) renovation.

d) ordinary repair.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

98. Additions and improvements

a) occur frequently during the ownership of a long-lived asset.

b) normally involve immaterial expenditures.

c) increase the carrying amount of long-lived assets when incurred.

d) typically only benefit the current accounting period.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

99. A company purchased property for $ 300,000. The property included an acre of land valued at $ 50,000, a building valued at $ 150,000, and equipment valued at $ 125,000. The land will be recorded at a cost of

a) $ 45,000.

b) $ 48,234.

c) $ 46,154.

d) $ 50,000.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

100. A company purchased property for $ 300,000. The property included an acre of land valued at $ 50,000, a building valued at $ 150,000, and equipment valued at $ 125,000. The building will be recorded at a cost of

a) $ 150,000.

b) $ 140,000.

c) $ 135,000.

d) $ 138,461.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

101. A company purchased property for $ 300,000. The property included an acre of land valued at $ 50,000, a building valued at $ 150,000, and equipment valued at $ 125,000. The equipment will be recorded at a cost of

a) $ 125,000.

b) $ 120,000.

c) $ 118,723.

d) $ 115,384.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

102. A company purchased property for $ 300,000. The property included an acre of land valued at $ 50,000, a building valued at $ 150,000, and equipment valued at $ 125,000. The above transaction may be referred to as a

a) fair value purchase.

b) long-lived asset purchase.

c) property purchase.

d) basket purchase.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

103. Which of the following is NOT a characteristic of property, plant, and equipment?

a) physical substance

b) used in operations of business

c) not intended for sale

d) held for sale

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

104. The cost of property, plant, and equipment includes all of the following items EXCEPT

a) annual maintenance.

b) purchase price.

c) installation fee.

d) freight charges.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

105. Which of the following items should NOT be capitalized?

a) insurance paid while item is in transit

b) land surveying fees

c) building permits

d) truck license

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

106. Which of the following items should NOT be included in the cost of land?

a) removal of old building

b) legal fees

c) clearing and draining land

d) structural additions to land

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

107. Which of the following items qualify as land improvements?

a) underground sprinkler

b) building

c) surveying fees

d) grading and clearing land

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

108. Which of the following items is considered an operating expenditure?

a) testing new equipment

b) installing equipment

c) interest on loan to construct a building

d) insurance on equipment in use

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

109. Yani Company purchased land for $ 115,000 with the intentions of constructing a new operating facility. The land purchase included a dilapidated building that was removed at a cost of $ 16,000. The only salvage value from this old building was some materials which were sold for proceeds of $ 4,000. Yani had paid surveying costs of $ 1,800 and legal fees related to land transfer of $ 6,700. The new building was quickly constructed at a total cost of $ 422,000. Permits on the construction of this new facility totalled $ 18,000. Insurance premiums of $ 9,200 are paid annually. The production manager is currently on-site facilitating the production startup. This manager is an annual salary of $ 85,000. What capital cost is assigned to the land?

a) $ 135,500

b) $ 123,500

c) $ 115,000

d) $ 127,000

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

110. Yani Company purchased land for $ 115,000 with the intentions of constructing a new operating facility. The land purchase included a dilapidated building that was removed at a cost of $ 16,000. The only salvage value from this old building was some materials which were sold for proceeds of $ 4,000. Yani had paid surveying costs of $ 1,800 and legal fees related to land transfer of $ 6,700. The new building was quickly constructed at a total cost of $ 422,000. Permits on the construction of this new facility totalled $ 18,000. Insurance premiums of $ 9,200 are paid annually. The production manager is currently on-site facilitating the production startup. This manager is an annual salary of $ 85,000. What capital cost is assigned to the new building?

a) $ 440,000

b) $ 449,200

c) $ 452,000

d) $ 534,200

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

111. Which is NOT a method of depreciation?

a) straight-line

b) diminishing-balance

c) specific-identification

d) units-of-production

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

112. The balance in the accumulated depreciation account represents the

a) cash fund to be used to replace long-lived assets.

b) amount to be deducted from the cost of the long-lived 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 long-lived asset.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

113. Which one of the following items is NOT a consideration when recording periodic depreciation expense on long-lived assets?

a) residual value

b) estimated useful life

c) cash needed to replace the long-lived asset

d) cost

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

114. Depreciation is the process of allocating the cost of a long-lived asset (such as property, plant, and equipment) over its service life in a(n)

a) equal and equitable manner.

b) accelerated and accurate manner.

c) systematic and rational manner.

d) conservative market-based manner.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

115. The carrying amount of an asset is equal to the

a) asset's fair value less its cost.

b) asset’s cost less depreciation expense.

c) replacement cost of the asset.

d) asset's cost less accumulated depreciation.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

116. When an asset is fully depreciated, the carrying amount of the asset will be

a) nil.

b) equal to the trade-in value.

c) equal to the residual value.

d) equal to the fair value.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

117. Depreciation is a process of

a) asset devaluation.

b) cost accumulation.

c) cost allocation.

d) asset valuation.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

118. In calculating depreciation, residual value is

a) the fair value of a long-lived asset on the date of acquisition.

b) subtracted from accumulated depreciation to determine the long-lived asset's depreciable cost.

c) an estimate of what a long-lived asset could be sold for at the end of its useful life.

d) the amount that a similar replacement asset is expected to cost at the end of the old asset’s useful life.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

119. 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.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

120. Equipment was purchased for $ 15,000. Freight charges amounted to $ 700, and there was a cost of $ 2,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a $ 3,000 residual value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be

a) $ 3,540.

b) $ 2,940.

c) $ 2,460.

d) $ 2,400.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

121. A truck was purchased for $ 15,000, and it was estimated to have a $ 3,000 residual value at the end of its useful life. Monthly depreciation expense of $ 250 was recorded using the straight-line method. The annual depreciation rate is

a) 20%.

b) 2%.

c) 8%.

d) 25%.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

122. A company purchased factory equipment on June 1, 2021 for $ 48,000. It is estimated that the equipment will have a $ 6,000 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, 2021 is

a) $ 4,800.

b) $ 4,200.

c) $ 2,450.

d) $ 6,000.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

123. A company purchased office equipment for $ 10,000 and estimated a residual value of $ 2,000 at the end of its 4-year useful life. The constant percentage to be applied against carrying amount each year if the double diminishing-balance method is used is

a) 20%.

b) 25%.

c) 50%.

d) 4%.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

124. The diminishing-balance method of depreciation produces a(n)

a) decreasing depreciation expense each period.

b) increasing depreciation expense each period.

c) decreasing percentage rate each period.

d) constant amount of depreciation expense each period.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

125. A company purchased a delivery truck for $ 60,000. It is estimated that the truck will have a $ 10,000 residual value at the end of its estimated 5-year useful life. If the company uses the double diminishing-balance method of depreciation, the amount of annual depreciation recorded for the second year after purchase would be

a) $ 9,600.

b) $ 24,000.

c) $ 14,400.

d) $ 12,000.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

126. A long-lived asset cost $ 24,000 and is estimated to have a $ 3,000 residual value at the end of its 8-year useful life. The annual depreciation expense recorded for the third year using the double diminishing-balance method would be

a) $ 2,010.

b) $ 3,375.

c) $ 2,953.

d) $ 2,297.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

127. A factory machine was purchased for $ 20,000 on March 1, 2021. It was estimated that it would have a $ 4,000 residual value at the end of its 5-year useful life. It was also estimated that the machine would be run 25,000 hours in the 5 years. If the actual number of machine hours run in 2021 was 4,000 hours and the company uses the units-of-production method of depreciation, the amount of depreciation expense for 2021 would be

a) $ 2,133.

b) $ 2,560.

c) $ 3,200.

d) $ 4,000.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

128. Which of the following methods of calculating depreciation uses measures other than time?

a) straight-line

b) diminishing-balance

c) units-of-production

d) none of these

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

129. Under International Financial Reporting Standards, the models which companies can choose to account for their long-lived assets are

a) cost model and units-of-production model.

b) units-of-production model and diminishing-balance model.

c) revaluation model and straight-line model.

d) cost model and revaluation model.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

130. Management should select the depreciation method that

a) is easiest to apply.

b) best measures the long-lived asset's fair value over its useful life.

c) best measures the long-lived asset's contribution to revenue over its useful life.

d) has been used most often in the past by the company.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

131. The depreciation method that applies a constant percentage to the carrying amount of an asset in calculating depreciation is

a) straight-line.

b) units-of-production.

c) diminishing-balance.

d) perpetual-fair value.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

132. On October 1, 2021, Marshwinds Wind Turbine Company places a new asset into service. The cost of the asset is $ 8,000 with an estimated 5-year life and $ 2,000 residual value at the end of its useful life. What is the depreciation expense for 2021 if Marshwinds Wind Turbine Company uses the straight-line method of depreciation?

a) $ 300

b) $ 1,600

c) $ 400

d) $ 800

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

133. On October 1, 2021, Marshwinds Wind Turbine Company places a new asset into service. The cost of the asset is $ 8,000 with an estimated 5-year life and $ 2,000 residual value at the end of its useful life. What is the carrying amount of the long-lived asset on the December 31, 2021, balance sheet assuming that Marshwinds Wind Turbine Company uses the double diminishing-balance method of depreciation?

a) $ 5,200

b) $ 6,000

c) $ 7,200

d) $ 7,600

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

134. Which depreciation method is most frequently used in businesses today?

a) straight-line

b) diminishing-balance

c) units-of-production

d) revaluation

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

135. Bay of Fundy Company uses the units-of-production method in calculating depreciation. A new piece of equipment is purchased for $ 18,000 that will produce an estimated 100,000 units over its useful life. Estimated residual value at the end of its useful life is $ 2,000. What is the depreciable cost per unit?

a) $ 1.60

b) $ 1.80

c) $ 0.16

d) $ 0.18

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

136. Units-of-production 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.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

137. The calculation of depreciation using the diminishing-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 diminishing percentage times a constant carrying amount.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

138. Dorchester Company purchased a new van for floral deliveries on July 1, 2021. The van cost $ 20,000 with an estimated life of 5 years and $ 5,000 residual value at the end of its useful life. The double diminishing-balance method of depreciation will be used. What is the depreciation expense for 2021?

a) $ 4,000

b) $ 3,000

c) $ 6,000

d) $ 8,000

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

139. Dorchester Company purchased a new van for floral deliveries on July 1, 2021. The van cost $ 20,000 with an estimated life of 5 years and $ 5,000 residual value at the end of its useful life. The double diminishing-balance method of depreciation will be used. What is the balance of the accumulated depreciation account at the end of 2022?

a) $ 4,800

b) $ 6,400

c) $ 10,400

d) $ 4,000

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

140. Lois Ltd. purchased equipment for $ 30,000 on January 1, 2019, and will use the diminishing-balance method of depreciation. It is estimated that the equipment will have a 3-year life and a $ 3,000 residual value at the end of its useful life. The amount of depreciation expense recognized in the year 2021 will be

a) $ 6,000.

b) $ 4,444.

c) $ 4,800.

d) $ 2,400.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

141. A long-lived asset was purchased on January 1 for $ 30,000 with an estimated residual value of $ 6,000 at the end of its useful life. The current year's depreciation expense is $ 3,000 calculated on the straight-line basis and the balance of the accumulated depreciation account at the end of the year is $ 15,000. The remaining useful life of the asset is

a) 10 years.

b) 8 years.

c) 5 years.

d) 3 years.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

142. The carrying amount of a long-lived asset is the difference between the

a) replacement cost of the asset and its cost.

b) cost of the asset and the amount of depreciation expense for the year.

c) cost of the asset and the accumulated depreciation to date.

d) proceeds received from the sale of the asset and its original cost.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

143. Use of straight-line depreciation in comparison to the diminishing-balance method results in

a) a greater amount of depreciation in the earlier years of an asset’s useful life.

b) a greater amount of depreciation in the later years of an asset’s useful life.

c) an equal amount of depreciation over an asset’s total useful life.

d) both b and c

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

144. Use of the units-of-production method of depreciation results in

a) varying effects on profit as it depends on actual usage each year.

b) equal effects on profit each year.

c) the least effect on profit compared to other methods.

d) the greatest effect on profit compared to other methods.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

145. Which of the following methods of depreciation results in the highest cash flow?

a) straight-line

b) diminishing-balance

c) units-of-production

d) all of these result in the same cash flow

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

146. It is appropriate to stop recording depreciation expense when the asset’s

a) depreciable cost is less than its fair value.

b) carrying amount exceeds its fair value.

c) carrying amount equals its residual value.

d) residual value equals total accumulated depreciation.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

147. The units-of-production method is ideal for equipment whose activity

a) can be measured in units of output.

b) can be measured in units of input.

c) is consistent from year to year.

d) is based on time.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

148. Which of the following terms describe an asset’s cost less its residual value?

a) carrying amount

b) net book value

c) depreciation expense

d) depreciable amount

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

149. Yogi Inc. purchased a specialized machine on April 1, 2021 for a total cost of $ 254,000 from Bubu Manufactory. This machine is expected to become outdated and be replaced in 16 years at which time it will have a residual value of $ 25,000. What amount would be reported as depreciation expense for this machine on Yogi Inc.’s December 31, 2021 income statement if Yogi Inc. used the straight-line method of depreciation? Round answer to the nearest whole dollar.

a) $ 15,875

b) $ 11,906

c) $ 10,734

d) $ 14,312

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

CPA: Financial Reporting

AACSB: Analytic

150. 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 profit for the current year be increased.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

151. Ranger 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 Chartered Professional Accountants.

b) Retroactive changes must be made to correct previously recorded depreciation.

c) Depreciation in future years only will be affected by the revision.

d) Depreciation in both current and future years will be affected by the revision.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

152. Copycat Copy Shop bought equipment for $ 16,000 on January 1, 2021. Copycat estimated the useful life to be 4 years with no residual value, and the straight-line method of depreciation will be used. On December 31, 2022, prior to recording depreciation for that year, Copycat decides that the business will use the equipment for a total of 5 years. What is the depreciation expense for 2022?

a) $ 6,000

b) $ 2,400

c) $ 3,000

d) $ 4,500

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

153. Annual depreciation expense needs to be revised if

a) there is an impairment loss.

b) repairs are completed to restore the asset to its prior condition.

c) insurance premiums on the asset increase.

d) worn out parts are replaced.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

154. Property, plant, and equipment are considered impaired if the carrying amount exceeds the asset’s

a) depreciation expense.

b) fair value.

c) recoverable amount.

d) accumulated depreciation.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

155. Revaluation model is allowed under IFRS mainly because it is useful in countries where

a) there is a high inventory turnover.

b) companies cannot estimate fair value of assets.

c) there is a high inflation rates.

d) companies cannot determine an appropriate method of depreciation.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

156. The appropriateness of the depreciation method selected should be reviewed at least

a) monthly.

b) annually.

c) every 5 years.

d) every 10 years.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

157. When there is a change in the useful life of an asset, depreciation must be revised if you are using

a) straight-line depreciation.

b) units-of-production depreciation.

c) diminishing-balance depreciation.

d) any of the above depreciation methods.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

158. Beaches Ltd. reviews its assets every fiscal year for potential asset impairments. In the current year Beaches realized through its impairment assessment that a specialized machine has a recoverable amount of $ 360,500. This asset carries a cost of $ 890,000 and up-to-date accumulated depreciation of $ 549,200. What amount would be reported as an impairment loss on Beaches Ltd. current income statement at year end?

a) $ 0

b) $ 340,800

c) $ 360,500

d) $ 19,700

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

159. Under the revaluation method, the carrying amount of property, plant, and equipment is defined as

a) cost less accumulated depreciation.

b) fair value less accumulated depreciation less accumulated impairment losses.

c) cost less depreciation expense less impairment loss.

d) cost less depreciations expense.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

160. A gain on disposal of an asset occurs when the proceeds of the sale are greater than the

a) loan outstanding on the asset sold.

b) fair value of the asset sold.

c) carrying amount of the asset sold.

d) the original cost of the asset sold.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

161. A gain or loss on disposal of a long-lived asset is determined by comparing the

a) replacement cost of the asset with the asset's original cost.

b) carrying amount of the asset with the asset's original cost.

c) original cost of the asset with the proceeds received from its sale.

d) carrying amount of the asset with the proceeds received from its sale.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

162. If a long-lived asset is sold before it is fully depreciated, and the proceeds received is less than the asset's carrying amount,

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.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

163. If a long-lived asset is sold and the carrying amount is higher than the proceeds received,

a) profit will be increased.

b) profit will be decreased.

c) there will be no effect on profit.

d) the current ratio will increase.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

164. A company sells a long-lived asset which originally cost $ 150,000 for $ 50,000 on December 31, 2021. The accumulated depreciation account had a balance of $ 60,000 after the current year's depreciation of $ 15,000 had been recorded. The company should recognize a

a) $ 100,000 loss on disposal.

b) $ 40,000 gain on disposal.

c) $ 40,000 loss on disposal.

d) $ 25,000 loss on disposal.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

165. If disposal of a long-lived 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.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

166. If a fully depreciated long-lived 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 balance sheet without adjustment until the asset is retired.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

167. Which of the following statements is NOT true when a fully depreciated long-lived asset is retired?

a) The long-lived asset's carrying amount is equal to its estimated residual value.

b) The accumulated depreciation account is debited.

c) The asset account is credited.

d) The long-lived asset's original cost equals its carrying amount.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

168. If a long-lived 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.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

169. If the carrying amount of an asset equals its fair value at the date of sale,

a) a gain on disposal is recorded.

b) no gain or loss on disposal is recorded.

c) the long-lived asset is fully depreciated.

d) a loss on disposal is recorded.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

170. A truck costing $ 47,000 was destroyed during a flood. At the date of the flood, the accumulated depreciation on the truck was $ 22,000. An insurance cheque for $ 35,000 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 $ 10,000.

b) credit to the Truck account of $ 12,000.

c) credit to the Accumulated Depreciation account for $ 22,000.

d) gain on disposal of $ 25,000.

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

171. On July 1, 2021 The Who Co. sells equipment for $ 22,000. The equipment originally cost $ 60,000, had an estimated 5-year life and an expected residual value of $ 10,000. The accumulated depreciation account had a balance of $ 35,000 on January 1, 2021, using the straight-line method. The gain or loss on disposal is

a) $ 3,000 gain.

b) $ 2,000 loss.

c) $ 3,000 loss.

d) $ 2,000 gain.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

172. In an exchange of assets, the new asset is recorded at

a) the fair value of the asset given up.

b) the fair value of the new asset.

c) the carrying amount of the asset given up plus any cash paid (or less any cash received).

d) the fair value of the asset given up plus any cash paid (or less any cash received).

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

173. Loonyback Inc. exchanged an old vehicle for a new vehicle on August 31, 2021. The original cost of the vehicle was $ 45,000 on January 1, 2017. Depreciation was calculated using the straight-line method over a ten-year useful life, with an estimated residual value of $ 3,000. The fair value of the old vehicle on August 31, 2021 was $ 21,500. The list price of the new vehicle was $ 30,000. Loonyback received a $ 24,000 trade in allowance from the dealership and paid $ 6,000 cash for the new vehicle. The new machinery should be recorded on Loonyback’s books at

a) $ 30,000.

b) $ 27,500.

c) $ 24,000.

d) $ 23,500.

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

174. Big Wave Inc. exchanged an old vehicle for a new vehicle on August 31, 2021. The original cost of the vehicle was $ 45,000 on January 1, 2017. Depreciation was calculated using the straight-line method over a ten-year useful life, with an estimated residual value of $ 3,000. The fair value of the old vehicle on August 31, 2021 was $ 21,500. The list price of the new vehicle was $ 30,000. Big Wave received a $ 24,000 trade in allowance from the dealership and paid $ 6,000 cash for the new vehicle. As a result of this transaction, the company would record which of the following?

a) Dr. Loss on Disposal $ 3,900

b) Cr. Vehicle $ 23,500

c) Cr. Gain on Disposal $ 3,900

d) Cr. Cash $ 24,000

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

175. Mo Bounce Company's delivery truck, which originally cost $ 28,000, was destroyed by fire. At the time of the fire, the balance of the accumulated depreciation account amounted to $ 19,000. The company received $ 16,000 reimbursement from its insurance company. The gain or loss as a result of the fire was

a) $ 12,000 loss.

b) $ 7,000 loss.

c) $ 12,000 gain.

d) $ 7,000 gain.

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

176. A loss on disposal of a long-lived asset is reported in the financial statements

a) as an increase to depreciation expense in the income statement.

b) in the operating expenses section of the income statement.

c) as a direct increase to the capital account on the balance sheet.

d) as a direct decrease to the capital account on the balance sheet.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

177. The Breakfast Club Company purchased land and building on January 1, 2003 for a combined price of $ 285,000. The Breakfast Club Company allocated 75% of the purchase price to the building and 25% to the land to approximate their individual fair values. The building was depreciated using the double diminishing-balance and accumulated depreciation to date was correctly computed as $ 190,000. The land and building was subsequently sold on June 18, 2021 for a combined price of $ 650,000. What gain or loss on disposal of these assets would be reported in 2021?

a) gain of $ 95,000

b) gain of $ 555,000

c) gain of $ 578,750

d) gain of $ 626,250

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

178. The Weekend Company owns specialized equipment with an original cost of $ 235,000. The company has fully depreciated the asset over the past 5 years and has now made the decision to retire the asset. Which journal entry would be required to record the retirement of this equipment?

a) Debit to Equipment and credit to Accumulated Depreciation—Equipment for $ 235,000

b) Debit Depreciation Expense and credit Accumulated Depreciation—Equipment for $ 235,000

c) Debit Accumulated Depreciation—Equipment and credit Depreciation Expense for $ 235,000

d) Debit to Accumulated Depreciation—Equipment and credit to Equipment for $ 235,000

Answer: d

Bloomcode: Application

Difficulty: Medium

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposals of Property, Plant, and Equipment

CPA: Financial Reporting

AACSB: Analytic

179. Natural resources are frequently referred to as wasting assets because

a) they are worthless.

b) they are physically extracted in operations and are replaceable only by an act of nature.

c) there is a lot of inefficiency in their use in operations.

d) there is a lot of spoilage when they are extracted.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

180. Natural resource 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 process of allocating the cost of natural resources extracted and sold to expense.

d) the method used to record unsuccessful oil well explorations.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

181. Natural resource depletion is most often a function of

a) the expected economic life of the natural resource.

b) the expected period over which the resource is expected to be exhausted.

c) the units of natural resource extracted during the period.

d) the number of years expected to be in operations.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

182. All of the following are examples of wasting assets EXCEPT a

a) coal mine.

b) timber stand.

c) logging truck.

d) gold mine.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

183. The method most commonly used to calculate natural resource depreciation is the

a) straight-line method.

b) diminishing-balance method.

c) units-of-production method.

d) revaluation method.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

184. In calculating natural resource depreciation, residual value is

a) always immaterial.

b) ignored.

c) impossible to estimate.

d) included in the calculation.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

185. If a mining company extracts 1,500,000 tonnes in a period but only sells 1,200,000 tonnes,

a) accumulated depreciation on the mine is based on the 1,200,000 tonnes.

b) depreciation included in cost of goods sold is based on the 1,500,000 tonnes extracted.

c) depreciation included in cost of goods sold is based on the 1,200,000 tonnes extracted and sold.

d) a separate accumulated depreciation account is set up to record depreciation on the 300,000 tonnes extracted but not sold.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

186. A coal company invests $ 12 million in a mine estimated to have 20 million tonnes 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 tonnes of coal are extracted and sold. What is the depreciation included in cost of goods sold for the first year?

a) $ 600,000

b) $ 240,000

c) $ 60,000

d) cannot be determined from the information provided

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

187. Depreciation of natural resources is initially debited to

a) cost of goods sold expense.

b) inventory.

c) depreciation expense.

d) loss on extraction of resources.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

188. Which of the following would NOT be considered a natural resource?

a) mineral deposit

b) herd of cows

c) gravel pit

d) timberlands

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

189. On July 1, 2021, Yukon Minerals Co. purchased the mineral rights to a granite deposit for $ 700,000. It is estimated that the recoverable granite will be 400,000 tonnes. During 2021, 100,000 tonnes of granite was extracted and 60,000 tonnes were sold. The amount of the depreciation expense to be included in cost of goods sold for 2021 would be

a) $ 87,500.

b) $ 52,500.

c) $ 105,000.

d) $ 175,000.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

190. The calculated annual depletion expense is initially debited to

a) Inventory.

b) Natural Resource Property.

c) Accumulated Depletion.

d) Cash.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

191. Helios invested $ 6 million for the rights to explore and extract natural resources from land in Ukraine. The company estimated that a total of 1.5 million tons of ore would be extracted from the property. The company extracted 50,000 tons of ore in its first year of operations. What entry would be necessary to record depletion?

a) Debit to Natural Resource Property and credit to Accumulated Depletion—Natural Resource Property for $ 200,000

b) Debit to Inventory and credit to Accumulated Depletion—Natural Resource Property for $ 200,000

c) Debit to Natural Resource Property and credit to Accumulated Depletion—Natural Resource Property for $ 6,000,000

d) Debit to Inventory and credit to Accumulated Depletion—Natural Resource Property for $ 6,000,000

Answer: b

Bloomcode: Application

Difficulty: Medium

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

CPA: Financial Reporting

AACSB: Analytic

192. Which of the following assets has indefinite life?

a) land improvements

b) patent

c) goodwill

d) copyright

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

193. Which of the following statements is correct?

a) All research and development costs should be capitalized.

b) Development costs are always capitalized.

c) Research costs should always be expensed as incurred.

d) All research and development costs should be expensed as incurred.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

194. Intangible assets are the rights and privileges that result from ownership of long-lived assets that many of which

a) must be generated internally.

b) are depreciable natural resources.

c) have been exchanged at a gain.

d) do not have physical substance.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

195. If an intangible asset with an indefinite life becomes impaired, the asset must be

a) written down to cost.

b) written down to fair value.

c) sold at its net realizable value.

d) No adjustment is required and a loss will be recorded when the intangible asset is sold.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

196. If a company incurs legal costs in successfully defending its patent, these costs are recorded by debiting

a) Legal Expense.

b) a Loss on Intangibles account.

c) the Patent account.

d) an operating expenditure account.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

197. The cost of successfully defending a patent in an infringement suit should be

a) charged to Legal Expenses.

b) deducted from the carrying amount of the patent.

c) added to the cost of the patent.

d) recognized as a loss in the current period.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

198. An asset that CANNOT be sold individually is

a) a patent.

b) goodwill.

c) a copyright.

d) a trade name.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

199. 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.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

200. Which is NOT a characteristic of goodwill?

a) It can be sold.

b) It is never amortized.

c) It is tested for impairment annually.

d) It has indefinite life.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

201. On January 1, 2021, Keebler Company purchased the copyright to Bodine Computer Tutorials for $ 81,000. It is estimated that the copyright will have a useful life of 5 years with an estimated residual value of $ 6,000. The amount of amortization expense recognized for the year 2021 would be

a) $ 16,200.

b) $ 7,500.

c) $ 15,000.

d) $ 8,100.

Answer: c

Bloomcode: Application

Difficulty: Medium

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

202. Which of the following is an intangible asset that has a finite life?

a) goodwill

b) patent

c) trademark

d) franchise

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

203. A franchise should be classified on the balance sheet as a(n)

a) current asset.

b) prepaid expanse.

c) intangible asset.

d) property, plant, and equipment.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

204. A patent can be renewed

a) every twenty years.

b) only after its economic life has been exhausted.

c) only if significantly defended in an infringement suit.

d) A patent can never be renewed.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

205. Development costs

a) are always expensed when incurred.

b) cannot be recorded separately from research costs.

c) can be capitalized if it can be shown that the costs will provide future benefits.

d) are intangible assets that are not amortized.

Answer: c

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

206. An intangible asset should

a) be expensed immediately if it has a finite life.

b) not be amortized if it has an indefinite life.

c) be grouped together with property plant, and equipment for reporting purposes.

d) be depreciated over its useful life or legal life, whichever is longer.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

207. Copyrights are granted by the federal government

a) for the life of the creator or 50 years, whichever is longer.

b) for the life of the creator plus 50 years.

c) for the life of the creator or 50 years, whichever is shorter.

d) and therefore cannot be amortized.

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

208. In recording the acquisition cost of an entire business,

a) goodwill is recorded as the excess of cost over the fair value of net identifiable assets.

b) assets are recorded at the seller's carrying amounts.

c) goodwill, if it exists, is never recorded.

d) goodwill is recorded as the excess of cost over the carrying amount of net identifiable assets.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

209. Research costs

a) are classified as intangible assets.

b) must be expensed when incurred under both IFRS and ASPE.

c) should be included in the cost of the patent they relate to.

d) are capitalized and then depreciated over a period not to exceed 40 years.

Answer: b

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

210. Goodwill

a) may be expensed upon purchase if desired.

b) can be sold by itself to another company.

c) can be purchased and charged directly to owner’s equity.

d) should be recorded as an intangible asset and carried on the balance sheet unless an impairment in value occurs.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

211. Which of the following is NOT an intangible asset that is reported on the balance sheet?

a) goodwill

b) internally developed trademarks

c) employees

d) copyrights

Answer: b

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

212. For an intangible asset with a finite life, the cost less residual value should be allocated over the

a) estimated useful life.

b) legal life.

c) shorter of the estimated useful life and legal life.

d) higher of the estimated useful life and legal life.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

213. With of the following statements is most accurate with respect to goodwill?

a) Goodwill is an intangible asset subject to annual amortization.

b) Goodwill is an intangible asset subject to annual amortization and impairment testing.

c) Goodwill is not amortized but is tested annually for impairment.

d) Goodwill is not amortized or tested for impairment.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

214. A high return on assets indicates

a) a profitable company.

b) the amount of sales generated by each dollar invested in total assets.

c) new assets need to be purchased.

d) the company may be in financial difficulty.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

215. For the year ended December 31, 2021, Akito Co. has net sales of $ 1,000,000 and profit of $ 290,000. Total assets on January 1, 2021 were $ 1,750,000 and total assets at December 31, 2021 are $ 1,245,000. Akito’s return on assets for 2021 is

a) 19.4%.

b) 23.3%.

c) 66.8%.

d) 80.3%.

Answer: a

Bloomcode: Application

Difficulty: Medium

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

216. Natural resources are generally shown on the balance sheet under

a) Intangible Assets.

b) Investments.

c) Property, Plant, and Equipment.

d) Owner's Equity.

Answer: c

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

217. Which of the following statements concerning financial statement presentation is NOT a true statement?

a) Intangible assets can be listed separately on the balance sheet.

b) The balances of major classes of assets may be disclosed in the footnotes.

c) The balances of the accumulated depreciation of major classes of assets may be disclosed in the footnotes.

d) The balances of all individual assets, as they appear in the subsidiary long-lived asset ledger, should be disclosed in the footnotes.

Answer: d

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

218. Intangible assets

a) are not reported on the balance sheet because they are expensed.

b) are not reported on the balance sheet because they lack physical substance.

c) should be reported as current assets on the balance sheet.

d) should be reported as a separate classification on the balance sheet.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

219. A company has the following assets:  
 Buildings and equipment, less accumulated depreciation of $ 2,500,000 $ 12,000,000  
 Copyrights, less accumulated amortization of $ 240,000 1,200,000  
 Goodwill 5,000,000  
The total amount reported under property, plant, and equipment would be

a) $ 12,000,000.

b) $ 14,500,000.

c) $ 17,000,000.

d) $ 19,200,000.

Answer: a

Bloomcode: Comprehension

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

220. Asset turnover is calculated as follows:

a) net sales divided by average total assets.

b) property, plant and equipment divided by total assets.

c) long-lived assets divided by total sales.

d) net sales divided by net long-lived assets.

Answer: a

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

221. Which of the following statements is correct with respect to the return on assets ratio?

a) Return on assets is a measure of liquidity.

b) Calculated by dividing net sales by average total assets.

c) Indicates the amount of net sales generated by each dollar invested in assets.

d) A high return on assets indicates a profitable company.

Answer: d

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Illustrate the reporting and analysis of long-lived assets.

Section Reference: Statement Presentation and Analysis

CPA: Financial Reporting

AACSB: Analytic

### MATCHING QUESTIONs

222. Match the items below by entering the appropriate code letter in the space provided.

A. Long-lived assets F. Units-of-production method

B. Depreciation G. Diminishing-balance method

C. Carrying amount H. Operating expenditures

D. Residual value I. Capital expenditures

E. Straight-line method J. Capital cost allowance

1. Small expenditures which primarily benefit the current period

2. Long-lived resources that are used in operations and are not intended for resale

3. Cost less accumulated depreciation

4. An accelerated depreciation method used for financial statement purposes

5. Results in an equal amount of depreciation each period

6. Expected cash value of the asset at the end of its useful life

7. Process of allocating the cost of a depreciable asset over its useful life

8. Material expenditures which increase an asset's operating efficiency, productive capacity, or useful life

9. An accelerated depreciation method used for income tax purposes

10. Estimated useful life is expressed in terms of expected use

223. Match the items below by entering the appropriate code letter in the space provided.

A. Gain on disposal E. Goodwill

B. Loss on disposal F. Depreciation

C. Trademark G. Intangible assets

D. Natural resources H. Research costs

1. Process of allocating the cost of a depreciable asset to expense over its useful life

2. Occurs if proceeds of disposal exceed the carrying amount

3. When carrying amount of asset is greater than the proceeds received from its sale

4. Long-lived assets replaceable only by an act of nature

5. Can be identified only with a business as a whole

6. Examples are franchises and licences

7. A symbol that identifies a particular company or product

8. Must be expensed when incurred

##### ANSWERS TO MATCHING QUESTIONS

222.

1. H

2. A

3. C

4. G

5. E

6. D

7. B

8. I

9. J

10. F

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Calculate the cost of property, plant, and equipment.

Section Reference: Property, Plant, and Equipment

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

Learning Objective: Explain the factors that cause changes in periodic depreciation and calculate revised depreciation for property, plant, and equipment.

Section Reference: Revising Periodic Depreciation

CPA: Financial Reporting

AACSB: Analytic

223.

1. F

2. A

3. B

4. D

5. E

6. G

7. C

8. H

Bloomcode: Knowledge

Difficulty: Easy

Learning Objective: Apply depreciation methods to property, plant, and equipment.

Section Reference: Depreciation

Learning Objective: Demonstrate how to account for property, plant, and equipment disposals.

Section Reference: Disposal of Property, Plant, and Equipment

Learning Objective: Record natural resource transactions and calculate depletion.

Section Reference: Natural Resources

Learning Objective: Identify the basic accounting issues for intangible assets and goodwill.

Section Reference: Intangible Assets and Goodwill

CPA: Financial Reporting

AACSB: Analytic

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