

Financial Accounting for Undergraduates
3rd Edition by Wallace, Nelson, Christensen, and Ferris

Practice Quiz Solutions

Chapter 9. Accounting for Long-Lived and Intangible Assets

1. Which of the following expenditures would *not* be capitalized as part of the cost of purchasing a piece of equipment?
- Transportation costs to get the new equipment to the buyer's factory
 - Sales tax on the purchase price of the new equipment
 - The cost to train employees to maintain the new equipment
 - The cost to install the new equipment

Answer: *c*

2. Impairments of plant assets are recorded as a consequence of which accounting principle or assumption?
- Matching
 - Conservatism
 - Monetary unit
 - Going concern

Answer: *b*

3. On January 1, Smith & Sons purchased a delivery truck for \$24,000, having a salvage value of \$2,000, and an estimated useful life of 4 years. Calculate the depreciation expense in Year 2 assuming the use of straight-line depreciation.
- \$5,500
 - \$6,000
 - \$6,500
 - \$6,800

Answer: *a*

Rationale: $(\$24,000 - \$2,000) / 4 \text{ years}$

4. On January 1, Smith & Sons purchased a delivery truck for \$24,000, having a salvage value of \$2,000, and an estimated useful life of 4 years. Calculate the depreciation expense in Year 2 assuming the use of the double-declining balance method.
- a. \$5,500
 - b. \$6,000
 - c. \$6,500
 - d. \$6,800

Answer: *b*

Rationale: $(\$24,000 - \$12,000) \times 2/4$

5. On January 1, Smith & Sons purchased a delivery truck for \$24,000, having a salvage value of \$2,000, and an estimated useful life of 100,000 miles. Calculate the depreciation expense for Year 2 assuming the truck is driven 20,000 miles.
- a. \$5,500
 - b. \$6,000
 - c. \$6,500
 - d. \$4,400

Answer: *d*

Rationale: $(\$24,000 - \$2,000) \times (20,000 \text{ miles}/100,000 \text{ miles})$

6. Which of the following statements is *true*?
- a. Goodwill is subject to amortization.
 - b. Research and development costs should be capitalized to the balance sheet.
 - c. Intangible assets are amortized to expense on the income statement.
 - d. Goodwill arises because of a company's positive corporate image among its customers.

Answer: *c*

7. Which of the following statements is *false*?
- a. Expenditures for ordinary repairs are a capital expenditure.
 - b. Betterment expenditures are a capital expenditure.
 - c. Expenditures to acquire low-cost assets are revenue expenditures.
 - d. Material additions to a plant asset are capital expenditures.

Answer: *a*

8. Accounting for the periodic amortization of intangible assets is similar to which depreciation method?
- a. Double-declining balance depreciation
 - b. Straight-line depreciation
 - c. Units-of-production depreciation
 - d. The periodic amortization of intangible assets is not similar to any depreciation method.

Answer: *b*

9. A company reports net income of \$8,000, sales revenue of \$18,000, and average total assets of \$24,000. Calculate the company's return on assets.
- a. 44 percent (rounded)
 - b. 33 percent (rounded)
 - c. 75 percent (rounded)
 - d. There is insufficient information to calculate this ratio.

Answer: *b*

Rationale: $(\$8,000/\$24,000)$

10. A company reports net income of \$8,000, sales revenue of \$18,000, and average total assets of \$24,000. Calculate the company's asset turnover.
- a. 0.44 (rounded)
 - b. 0.33 (rounded)
 - c. 0.75 (rounded)
 - d. There is insufficient information to calculate this ratio.

Answer: *c*

Rationale: $(\$18,000/\$24,000)$