Financial Accounting for Executives & MBAs, 3rd Edition by Simko, Ferris & Wallace

Practice Quiz

Chapter 7 – Long-Lived Fixed Assets, Intangible Assets, and Natural Resources

Multiple Choice Questions. Identify the answer that BEST completes the statement or answers the question.

1. Smith & Sons has the following asset account balances:

Buildings and equipment	$10,240,000
Accumulated depreciation	1,240,000
Patents	750,000
Goodwill	650,000
Accounts receivable	430,000
Land	5,010,000

What is the total amount that should be reported on the company's balance sheet under Property, Plant, & Equipment (net)?

a. $14,250,000
b. $14,410,000
c. $15,650,000
d. $14,010,000

2. The Claremont Company had $790,000 and $740,000, respectively, in its equipment account on January 1 and December 31. During the year, no assets were purchased.

Which of the following is a likely explanation for the decline in value?

a. Depreciation expense during the year is $50,000
b. Equipment with an original cost of $50,000 was sold during the year
c. Equipment was sold during the year for $50,000
d. Equipment with a book value of $50,000 was sold during the year

3. You own a sports bar in Phoenix, AZ. During a Super Bowl football game, one of your customers punched a hole in the wall when his favorite team fumbled the ball. It cost $150 to repair the hole.

How should you account for the cost of repair?

a. Add the cost to the 'Building' account
b. Recognize the cost as repair and maintenance expense
c. No recording is necessary since the customer will be charged for the damage
d. Recognize the cost as a reduction of sales revenue

4. On February 26, Smith & Sons purchased equipment with an invoice cost of $86,000. The company paid 7% sales taxes on the invoice cost and an additional $350 to ship the equipment to the company's facilities. On February 28, the company hired an outside company to train its employees on the new equipment for a cost of $1,200.

How much is the capitalized cost of the equipment?
a. $76,000
b. $82,870
c. $87,200
d. $93,570

5. On January 1, Smith & Sons purchased a forklift for $30,000 cash. Smith & Sons paid freight charges of $600 to the trucking company to deliver the forklift to its warehouse. The estimated salvage value and useful life of the forklift are $2,600 and 4 years, respectively.

Under the straight-line method, what is the book value of the equipment as of December 31, Year 3?
a. $9,100
b. $9,600
c. $7,000
d. $8,950

6. Costco purchased a truck from a company going out of business for $40,000. An appraisal indicated the fair value of the truck to be $42,000. Costco estimated the truck would provide future benefits for 3 years and would bring an $8,800 residual value at the end of the 3-year period.

How much is the depreciation expense for the second year if the company uses the double-declining-balance method?
a. $ 6,933
b. $26,667
c. $ 8,889
d. $13,733

7. On January 1, The Claremont Company purchased a new garbage truck for $190,000. The company estimated the truck's residual value to be $30,000, and that it could be used for 6,400 dumps. During Year 1, the truck completed 1,200 dumps.

If the company uses units-of-production depreciation, how much is the book value of the truck at the end of Year 1?
a. $124,800
b. $130,000
c. $160,000
d. $123,600

8. Xeltron registered a trademark for $80,000. Although the trademark has a 20-year legal life, the company believes that the trademark will produce economic benefits over a maximum of 8 years.

How much amortization will be reported on the company's income statement during the first year?

a. $10,000
b. $82,000
c. $ 4,100
d. $71,750

9. Smith & Sons acquired a truck that cost $95,000. The company estimated it could sell the truck for $21,000 at the end of its estimated useful life of 5 years.

How much is the gain or loss on the sale if double-declining-balance is used and the asset is sold for $21,000 on December 31, Year 5?

a. $0
b. $11,000 loss
c. $11,000 gain
d. $54,000 loss

10. The purpose of recording depreciation expense is to:

a. Provide cash necessary to replace plant assets when they are used up
b. Match expenses with revenues
c. Record the balance sheet amount of plant assets at replacement value
d. Make it difficult to calculate net income