

Solutions to Practice Quiz

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

Multiple Choice

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

Answer: d

Rationale:  $[(\$10,240,000 + \$5,010,000) - \$1,240,000]$

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

Answer: b

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

Answer: b

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

Answer: d

Rationale: [ $\$86,000 + (7\% \times \$86,000) + \$350 + \$1,200$ ]

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

Answer: b

Rationale: [ $(\$30,000 + \$600) - (3 \times \$7,000)$ ]

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

Answer: c

Rationale:  $[2/3 (\$40,000 - \$26,667)]$

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

Answer: c

Rationale:  $[\$190,000 - 1,200 / 6,400 \times (\$190,000 - \$30,000)]$

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

Answer: a

Rationale:  $(\$80,000 / 8 \text{ years})$

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

Answer: a

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

Answer: b