

Financial & Managerial Accounting for Undergraduates
2nd Edition
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PRACTICE QUIZ

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?
 - a. Transportation costs to get the new equipment to the buyer's factory
 - b. Sales tax on the purchase price of the new equipment
 - c. The cost to train employees to maintain the new equipment
 - d. The cost to install the new equipment

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

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.
 - a. \$5,500
 - b. \$6,000
 - c. \$6,500
 - d. \$6,800

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

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.
- \$5,500
 - \$6,000
 - \$6,500
 - \$4,400
6. Which of the following statements is *true*?
- Goodwill is subject to amortization.
 - Research and development costs should be capitalized to the balance sheet.
 - Intangible assets are amortized to expense on the income statement.
 - Goodwill arises because of a company's positive corporate image among its customers.
7. Which of the following statements is *false*?
- Expenditures for ordinary repairs are a capital expenditure.
 - Betterment expenditures are a capital expenditure.
 - Expenditures to acquire low-cost assets are revenue expenditures.
 - Material additions to a plant asset are capital expenditures.
8. Accounting for the periodic amortization of intangible assets is similar to which depreciation method?
- Double-declining balance depreciation
 - Straight-line depreciation
 - Units-of-production depreciation
 - The periodic amortization of intangible assets is not similar to any depreciation method.
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.
- 44 percent (rounded)
 - 33 percent (rounded)
 - 75 percent (rounded)
 - There is insufficient information to calculate this ratio.
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.
- 0.44 (rounded)
 - 0.33 (rounded)
 - 0.75 (rounded)
 - There is insufficient information to calculate this ratio.

SOLUTIONS

Chapter 9: Accounting for Long-Lived and Intangible Assets

1. c
2. b
3. a
Rationale: $(\$24,000 - \$2,000) / 4 \text{ years}$
4. b
Rationale: $(\$24,000 - \$12,000) \times 2/4$
5. d
Rationale: $(\$24,000 - \$2,000) \times (20,000 \text{ miles} / 100,000 \text{ miles})$
6. c
7. a
8. b
9. b
Rationale: $(\$8,000 / \$24,000)$
10. c
Rationale: $(\$18,000 / \$24,000)$