Chapter 10

Student: _____

1. Property, plant and equipment are assets held for sale.

   True False

2. Non-current assets are any liabilities that are used in the operations of a business.

   True False

3. Non-current assets can be divided into two groups including tangible and intangible assets. These assets are generally used in operations of a business and have useful lives extending over more than one accounting period.

   True False

4. Land purchased as a building site is a tangible asset called property, plant and equipment and is classified under the "Long-term Investments" section on the balance sheet.

   True False

5. The cost of an asset includes all normal and reasonable expenditures necessary to get it in place and ready for its intended use.

   True False

6. If a machine is damaged during unpacking, the repairs are added to its cost.

   True False

7. To be charged to and reported as part of the cost of property, plant and equipment, an expenditure must be normal, reasonable, and necessary in preparing the asset for its intended use.

   True False

8. The purchase of real estate that includes land, building, and land improvements is called a lump-sum purchase.

True False

9. Any expenditures for legal fees, surveying, and accrued property taxes should not be included in the cost of land.

True False

10. Revenue expenditures are additional costs of property, plant and equipment that provide material benefits extending beyond the current period.

True False

11. Revenue expenditures are expenditures to keep assets in normal operating condition.

True False

12. Capital expenditures are also called balance sheet expenditures.

True False

13. SportsWorld spent $17,000 to remodel its store. This cost will be recognized with a debit to Store Building.

True False

14. Treating small-dollar-amount capital expenditures as revenue expenditures is likely to mislead users of financial statements.

True False

15. The cost principle requires that an asset be recorded at the cash or cash equivalent amount given in exchange.

True False

16. Subsequent expenditures are purchases made after the acquisition of equipment to operate, maintain, repair, and improve it.

True False

17. Depreciation is the process of allocating the cost of a tangible asset in a rational and systematic manner over the asset's estimated useful life.

True False

18. Residual value is an estimate of an asset's value at the end of its useful life.

True False

19. Inadequacy refers to the condition where the capacity of a property, plant and equipment item is too small to meet the company's productive demands.

True False

20. Depreciation should always be recorded as soon as an asset is purchased.

True False

21. Depreciation measures the decline in market value of an asset.

True False

22. Because depreciation is based on predictions of residual value and useful life, depreciation is an estimate.

True False

23. On the balance sheet, it is not necessary to report both the cost and the accumulated depreciation of an asset.

True False

24. Accumulated depreciation represents funds set aside to buy new assets when the assets currently owned are replaced.

True False

25. The relevance principle requires that property, plant and equipment be reported at book value rather than at market value.

True False

26. Regardless of the method of depreciation, total depreciation expense will be the same over an asset's useful life.

True False

27. Financial accounting and tax accounting require the same recordkeeping; therefore, there should be no difference in results between the two accounting systems.

True False

28. Companies are required to use the straight line depreciation method for tax purposes because this method yields the lowest depreciation expense and results in the highest payment of tax.

True False

29. The Income Tax Act generally requires that companies use a double-declining-balance method of cost allocation called Capital Cost Allowance to determine the maximum amount of deduction for a taxation year.

True False

30. Because land has unlimited life, it is not subject to depreciation. Therefore, items that increase the usefulness of the land such as parking lots are also not depreciated.

True False

31. The most frequently used method of depreciation is the straight-line method.

True False

32. The cost of an asset plus its accumulated depreciation equals the asset's book value.

True False

33. The units of production method of depreciation charges a varying amount of expense for each period of an asset's useful life depending on its usage.

True False

34. An accelerated depreciation method yields smaller depreciation expense in the early years of an asset's life and larger charges in later years.

True False

35. The double-declining balance method is applied by (1) calculating the asset's straight-line depreciation rate, (2) doubling it, (3) subtracting residual value from cost, and (4) multiplying the rate times the cost.

True False

36. SportsWorld purchased store equipment for $65,000. The equipment has an estimated residual value of $6,000, with an estimated useful life of 10 years. The annual depreciation using the straight-line method will be $3,900 per year.

True False

37. A company is required to purchase all assets at the beginning of an accounting period so that a full year's worth of depreciation can be taken.

True False

38. Machinery having a four-year useful life and a residual value of $5,000 was acquired for $65,000 cash on June 28. Using the nearest whole month method, the company would recognize $11,250 for depreciation expense at the end of the first year, December 31.

True False

39. A depreciable asset that is purchased on March 18 would be depreciated for nine months of the first year, if the fiscal year ends on December 31 using nearest whole month method.

True False

40. The half year rule is the partial-year depreciation method that calculates depreciation by determining if the asset was used for more than half of the month.

True False

41. Machinery after two years worth of depreciation has an opening book value of $6,400. At the beginning of the third year, the predicted number of years remaining in its useful life changes from three years to four years and its estimated residual value changes from the original $1,000 to $400. The revised annual depreciation using the straight-line method is $1,500.

True False

42. An asset that cost $5,000 has a current book value of $2,000. A revision of the useful life of the asset estimates the asset has a remaining useful life of four years and will have a residual value of $400. Using the straight-line method, the revised depreciation will be $500 per year.

True False

43. When the cost of the asset changes because of a subsequent capital expenditure, revised depreciation for current and future periods must be calculated and adjusted.

True False

44. Depreciation amounts can be revised because of changes in the estimates for residual value, useful life or because of subsequent revenue expenditures.

True False

45. An asset with a current book value of $5,000 has a current market value of $2,000. The company should recognize an impairment loss of $3,000.

True False

46. If the book value of a property, plant and equipment item is less than the amount to be recovered through the asset's use or sale, the difference is an impairment loss and the asset is described as impaired.

True False

47. Impairment can result from a variety of situations that include a significant decline in an asset's market value or a major adverse effect caused by technological, economic, or legal factors.

True False

48. Impairment losses must be assessed by companies on an annual basis.

True False

49. The gain or loss from disposal of property, plant and equipment is the difference between an asset's book value and the value received.

True False

50. Property, plant and equipment can be disposed of by discarding, sale, or exchange of the asset.

True False

51. The first step in accounting for the disposal of property, plant and equipment is calculating the gain or loss on disposal.

True False

52. Equipment costing $14,000 with accumulated depreciation of $10,000 was sold for $3,000. The company should recognize a $1,000 loss on disposal of the equipment.

True False

53. At the time a plant asset is being discarded or sold, it is necessary to update the accumulated depreciation of the plant asset to the date of disposal.

True False

54. When accumulated depreciation equals the asset's cost, the asset is fully depreciated. The entry to record the removal of the asset is called exchanging the equipment.

True False

55. When assigning values to an exchange of assets you should use the fair value of the asset given up.

True False

56. When assigning values to an exchange of assets you should always use the fair value of the asset received.

True False

57. A patent is an exclusive right granted to its owner to manufacture and sell a patented machine or device, or to use a process, for a specified period of time.

True False

58. Intangible assets should be amortized over their anticipated legal, regulatory, contractual, competitive or economic life.

True False

59. Amortization is the process of allocating the cost of intangibles over their estimated useful life.

True False

60. Drilling rights are legal permissions to extract natural resources from the earth and are treated as intangible assets.

True False

61. Intangible assets provide rights, privileges, and competitive advantages to the owner, are used in operations, and have no physical substance.

True False

62. A copyright gives its owner the exclusive right to publish and sell a musical, literary, or artistic work during the life of the creator plus 20 years.

True False

63. The cost of developing, maintaining, or enhancing the value of a trademark is capitalized, or added to the value of the asset when incurred.

True False

64. Goodwill is an intangible asset.

True False

65. Goodwill is not depreciated or amortized but is instead decreased only if its value has been determined by management to be impaired .

True False

66. Goodwill is depreciated over its useful life as estimated by the business's management.

True False

67. Goodwill is written down to its fair value if the fair value is less than its carrying value.

True False

68. The impairment of goodwill appears directly on the statement of changes in equity and not on the income statement.

True False

69. Property, plant and equipment are:

A.
B.
C.
D.
E.

70. A main accounting issue for property, plant and equipment is:

A.
B.
C.
D.
E.

71. Property, plant and equipment are:

A.
B.
C.
D.
E.

72. Property, plant and equipment include:

A.
B.
C.
D.
E.

73. Land improvements are:

A.
B.
C.
D.
E.

74. The cost of land can include:

A.
B.
C.
D.
E.

75. SportsWorld paid $140,000 for a property. The property included land appraised at $67,500, land improvements appraised at $25,000, and a building appraised at $55,500. What should be the allocation of costs in the accounting records **(round calculations to 3 decimals)**?

A.
B.
C.
D.
E.

76. SportsWorld purchased property for a building site. The costs associated with the property were:

Purchase price:	$175,000
Real estate commissions:	$ 15,000
Legal fees:	$ 800
Expense of clearing the land:	$ 2,000
Expense to remove old building:	$ 1,000

What portion of these costs should be allocated to the cost of the land and what portion should be allocated to the cost of the new building?

A.
B.
C.
D.
E.

77. SportsWorld purchased property for $100,000. The property included a building, parking lot, and land. The building was appraised at $65,000; the land at $40,000; and the parking lot at $10,000. To the nearest dollar, the value of the land to be recorded in the books should be:

A.
B.
C.
D.
E.

78. Revenue expenditures:

A.
B.
C.
D.
E.

79. Additional subsequent expenditures that result in future economic benefits and can be reliably measured should be treated as a(n):

A.
B.
C.
D.
E.

80. Treating low-cost asset purchases as expenses is allowed by which principle?

A.
B.
C.
D.
E.

81. Ordinary repairs:

A.
B.
C.
D.
E.

82. Subsequent capital expenditures:

A.
B.
C.
D.
E.

83. The relevant factor(s) in calculating depreciation is(are):

A.
B.
C.
D.
E.

84. Residual value is:

A.
B.
C.
D.
E.

85. Depreciation:

A.
B.
C.
D.
E.

86. The useful life of a property, plant and equipment asset is:

A.
B.
C.
D.
E.

87. Inadequacy refers to:

A.
B.
C.
D.
E.

88. Obsolescence:

A.
B.
C.
D.
E.

89. Capital cost allowance:

A.
B.
C.
D.
E.

90. The straight-line method and the double-declining-balance method of depreciation:

A.
B.
C.
D.
E.

91. The formula for calculating straight-line depreciation is:

A.
B.
C.
D.
E.

92. The original cost of an asset minus accumulated depreciation is called:

A.
B.
C.
D.
E.

93. A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each accounting period during its useful life is called:

A.
B.
C.
D.
E.

94. A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each unit produced is called:

A.
B.
C.
D.
E.

95. A depreciation method in which a property, plant and equipment asset's depreciation expense for the period is determined by applying a constant depreciation rate each year to the asset's beginning book value is called:

A.
B.
C.
D.
E.

96. A depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years is:

A.
B.
C.
D.
E.

97. On January 1 of this year, SportsWorld purchased a new cash register for $5,400. This register has a useful life of 10 years and a residual value of $400. Using the double-declining-balance method, how much depreciation expense should SportsWorld recognize for next year?

A.
B.
C.
D.
E.

98. SportsWorld purchased a machine for $190,000. The machine has a useful life of 8 years and a residual value of $10,000. SportsWorld estimates that the machine could produce 750,000 units of product over its useful life. In the first year, 95,000 units were produced. In the second year, production increased to 111,000 units. Using the units-of-production method, what is the amount of depreciation that should be recorded for the second year?

A.
B.
C.
D.
E.

99. SportsWorld purchased equipment costing $10,000. The equipment has a residual value of $1,000, and an estimated useful life of 5 years or 36,000 shoes. Actual units produced during the year were 7,000 units. Calculate annual depreciation using the straight line method.

A.
B.
C.
D.
E.

100. On October 1 of this year, SportsWorld purchased a delivery van for $23,000 with a residual value of $3,000. The van has an estimated useful life of 5 years. Using straight-line depreciation and the half-year rule, how much depreciation expense should SportsWorld recognize on December 31 of this year?

A.
B.
C.
D.
E.

101. Depreciation is usually recorded:

A.
B.
C.
D.
E.

102. A change in accounting estimate is:

A.
B.
C.
D.
E.

103. When originally purchased, a vehicle had cost $23,000, with an estimated residual value of $1,500, and an estimated useful life of 8 years. After 4 years of straight-line depreciation, the estimated useful life was revised from 8 to 6 years, but with zero residual value. The depreciation expense in year 5 should be:

A.
B.
C.
D.
E.

104. A machine originally had an estimated service life of 5 years, and after 3 years, it was decided that the original estimate should have been for 10 years. The remaining cost to be depreciated should be allocated over the next:

A.
B.
C.
D.
E.

105. SportsWorld uses straight-line depreciation for a piece of equipment that cost $12,000, had a trade-in value of $2,000, and a five-year service life. At the end of the third year, the trade-in value was revised to $1,200 and the useful life increased to a total of 6 years. Calculate the amount of depreciation expense for each of the remaining years of the asset's useful life.

A.
B.
C.
D.
E.

106. Once the estimated depreciation for an asset is calculated:

A.
B.
C.
D.
E.

107. At the end of the year, SportsWorld completed an asset impairment test and noted that a piece of equipment, with a book value of 12,000, has a recoverable value of $2,000. Calculate the amount of impairment loss on the equipment.

A.
B.
C.
D.
E.

108. SportsWorld uses straight-line depreciation for a piece of equipment that cost $12,000, had a salvage value of $2,000, and a five-year service life. At the end of the first year, an impairment loss of $2,000 was recognized on the asset. Calculate the amount of depreciation expense for each of the remaining years of the asset's useful life.

A.
B.
C.
D.
E.

109. If the book value (or carrying amount) of a PPE item is greater than the amount to be recovered through the asset's use or sale, the asset is said to be:

A.
B.
C.
D.
E.

110. An asset can be disposed of by:

A.
B.
C.
D.
E.

111. Sports Med sold an X-ray machine that originally cost $100,000 for $60,000. The accumulated depreciation on the machine to the date of sale was $40,000. On this sale, Sports Med should recognize:

A.
B.
C.
D.
E.

112. SportsWorld discarded a display case it had purchased for $8,000. $7,200 in accumulated depreciation had been recorded to the date of sale. SportsWorld should recognize a gain or loss on disposal of:

A.
B.
C.
D.
E.

113. Creek Construction owned a bulldozer which was destroyed by fire. The bulldozer originally cost $38,000. The accumulated depreciation recorded to the date of loss was $20,000. The proceeds from the insurance company were $20,000. Creek Construction should recognize:

A.
B.
C.
D.
E.

114. A machine that cost $40,000 and had accumulated depreciation of $30,000 was traded in on a new machine, which had an estimated 20-year life and a cash price of $50,000. If a $7,000 trade-in allowance was received on the old machine, the new machine should be valued at:

A.
B.
C.
D.
E.

115. SportsWorld bought a new display case for $12,000 and was given a trade-in of $2,000 on an old display case. The old case had an original cost of $7,000 and accumulated depreciation of $4,000 to the date of trade-in. SportsWorld should record the new display case at:

A.
B.
C.
D.
E.

116. Creek Construction purchased a machine for $26,000. It traded in an old machine and received a $4,200 trade-in allowance. The old machine cost $24,000 and had accumulated depreciation of $16,000 to the date of trade-in. At what value should be new asset be recorded?

A.
B.
C.
D.
E.

117. Natural resources:

A.
B.
C.
D.
E.

118. Legal permissions for the extraction of oil and gas from the earth are known as:

A.
B.
C.
D.
E.

119. Factor(s) that might limit an intangible asset's useful life include:

A.
B.
C.
D.
E.

120. Intangible assets do not include:

A.
B.
C.
D.
E.

121. Intangible assets:

A.
B.
C.
D.
E.

122. A patent:

A.
B.
C.
D.
E.

123. A copyright:

A.
B.
C.
D.
E.

124. A leasehold:

A.
B.
C.
D.
E.

125. On April 3, 2015, Rainbow Studios purchased a patent for $56,000. Its remaining legal life is 7 years and Rainbow Studios estimates that the patent will be useful for another 4 years. The correct adjusting entry to record amortization of the patent on December 31, 2015 is:

A.

B.

C.

D.

126. The appropriate way to amortize goodwill is:

A.
B.
C.
D.
E.

127. Each year goodwill is examined to see if its value has been impaired. If the value has been impaired goodwill will:

A.
B.
C.
D.
E.

128. Discuss the four issues in accounting for property, plant and equipment.

129. Explain the difference between revenue and capital expenditures and how they are recorded in the accounting system.

130. Mandy Manufacturing purchased a machine on August 1, 2014, and it was installed and ready to run on January 1, 2015. The following costs were incurred in the purchase and installation of the machine.

Invoice price
Freight costs
Purchase discount
Installation costs
Electrical and power connections
Repairs to correct damage incurred during uncrating
Adjustment costs
Spare parts for future use
Provincial sales tax
Fines incurred during the transport and unloading of the
Cost of special foundation for the machine

Calculate the depreciable cost of the machine.

131. Primadonna Company paid $870,000 plus $10,000 in legal costs for a parcel of real estate. This included land appraised at $350,000; land improvements appraised at $80,000; and a building appraised at $370,000. The plan is to use the building as a manufacturing plant. Determine the amounts that should be debited to:

(a) Land	$_____
(b) Land Improvements	$_____
(c) Building	$_____

Take all percentages to two decimals, e.g. 12.35%

132. Prepare journal entries to record the following transactions of Salem Sales Co. during the current year:

Mar 1	Purchased a truck for $50,000 with a 5 year useful life ar Salem also paid 7% provincial sales tax, a $500 annual tı truck and $1,300 for spare parts. All payments were in ca
May 12	Purchased a garage from a neighbouring business with a seller's book value for the garage was $47,000 and the ga The estimated useful life is 12 years. Salem also paid $3, commission.
Jun 5	Paid $550 to replace garage windows broken during a ha
Aug 23	Purchase used office equipment for $12,500 plus provinc 2/10, n30 from Great West Office Supplies. As well, Sal reconditioning costs of $950 on credit. Estimated useful l value of $1,000.
Sep 12	Paid for office equipment purchased on August 23.
Oct 5	Purchased store equipment for $26,700 plus $1,869 prov paid $750 for repairs incurred from an accident during in base for the equipment and $3,700 of supplies to be used maintenance. Estimated useful life is 9 years and residua

133. Shady Lanes installed automatic sprinkler systems. The electrical work for the installation was $24,000. The invoice price of the sprinkler equipment was $280,000. Additional costs were $5,000 for delivery and $800 for insurance during transportation. During installation a sprinkler line was punctured and was replaced for $200. What is the cost of the sprinkler equipment?

134. Twin Investments purchased land with a building for a total cost of $5,500,000 ($500,000 paid in cash and the balance on a long-term note). The appraised cost of the land and building were $3,000,000 and $2,100,000, respectively. Calculate the costs to be allocated to the land and the building and prepare the appropriate journal entry to record the acquisition. (Round all calculations to two decimals)

135. Pink Lady Co needed a new building, and found a suitable piece of land which had an old building on it. Pink Lady made an agreement to buy the land and the building for $960,000 cash. The old building was demolished to make way for the new building.
The following is information regarding the demolishing of the old building and construction of the new one:

Cost of construction of new building, which included parking lot	$700,000
Demolition of old building	
Proceeds from salvage materials	

Prepare a single journal entry to record the above costs (assume all paid cash).

136. Alpha Co paid $180,000 to purchase a piece of land on which to build a new building. Additional costs incurred were:

Real estate broker's commissions
Legal fees of purchasing the real estate
Landscaping expenses
Expense to demolish old house located on land
Proceeds from selling materials salvaged from old house

What dollar amount of the above costs should be allocated to Land and what amount should be allocated to the new Building?

137. SASA Company made the following expenditures in connection with the construction of its new soccer facility:

Architect's fees
Cash paid for land and old building
Removal of old building
Survey to site the new building
Legal fees for title search
Excavation for construction of basement
Machinery purchased
Storage charges on machinery because building was ready when machinery was delivered
Freight on machinery purchased
Hauling charges to deliver machinery from storage to building
Construction costs of new building
Landscaping
Installation of machinery

Prepare a schedule showing the amounts to be recorded as Land, Building, and Machinery and Equipment and Expenses.

138. How is the cost principle applied to property, plant and equipment?

139. RoboCop Company paid $31,400 for a machine that was expected to last 5 years and have a residual value of $5,000.
During the third year of the machine's life, $3,700 was paid for replacement parts that were expected to increase the machine's productivity by 20% each year. Prepare the general journal entry to record this transaction.

140. RoboCop Company paid $31,400 for a machine that was expected to last 5 years and have a residual value of $5,000.
During the fourth year of the machine's life, $5,400 was paid for repairs that were expected to increase the service life of the machine from 5 to 7 years. Prepare the general journal entry to record this transaction.

141. Xeno Co. incurred the following transactions concerning its machinery:

8-Jan-14	Purchased a machine for $55,000 cash, and also paid $3,000 cash to
	life is 10 years and residual value is $5,000. Straight line depreciatic
1-Jan-15	The machine's useful life was changed from 10 years to 9.
5-Jan-15	General maintenance on the machine was completed for $800.
1-Jan-16	Paid $3,800 to replace a motor in the machine. This was considered
	alter the machine's useful life

Xeno Co uses the calendar year as its fiscal year.

Prepare the journal entry to record depreciation expense for 2014.
Prepare the journal entry to record depreciation expense for 2015.
Prepare the journal entry to record depreciation expense for 2016.
Round all values to the nearest dollar.

142. On January 1, 2014, Friar Company purchased a machine for $175,000 that was expected to last 6 years and have a residual value of $16,000. On January 4, 2017, Friar Company paid $25,000 for improvements to the machine, which increased the total estimated useful life from 6 to 10 years and increased the residual value to $19,500. Friar uses straight-line depreciation.

(1) What account should be debited in the journal entry to record the $25,000 improvements?
(2) What amount of depreciation expense should be recorded for 2017?

143. Explain depreciation and the elements affecting its calculation.

144. Compare the three different depreciation methods: straight-line, units of production, and double-declining balance.

145. Explain how each of the following depreciation methods is calculated: straight-line, units-of-production, and double-declining-balance.

146. Chervinski Industries recently paid $460,000 to buy a building that has an estimated useful life of 40 years and a residual value of $116,000. Calculate the depreciation expense for the third year after acquisition using double-declining-balance depreciation. Assume a full year of depreciation in the first year.

147. Dersch Co. purchased a machine on January 1, 2014, for $1,500,000. Using the table below, calculate the annual depreciation expense for each year of the machine's life (estimated at 5 years or 50,000 hours with a residual value of $150,000). During the machine's life it was used 15,000; 14,000; 10,000; 9,000; and 6,000 hours.

Year	Straight Line	Units of Productio
2014		
2015		
2016		
2017		
2018		

148. Twilight Manufacturing's property, plant and equipment records reveal the following information:

Equipment	Cost	Residual Value	Purchase Date	Depreciation Method
(1)	50,000	12,000	Dec 1, 2013	Straight Line
(2)	60,000	8,000	Oct 18, 2014	Units of Production
(3)	120,000	none	June 12, 2014	Double Declining Balan
(4)	90,000	10,000	May 3, 2014	Straight Line

Calculate the depreciation expense for each equipment item for the year ended December 31, 2014, using the nearest whole month method.

149. On January 2, 2014, Far Co. purchased a machine for $525,000. The company expects the machine to last for 10 years or 50,000 hours of operation, with an estimated residual value of $15,000. During 2014 the machine was operated for 3,000 hours, while in 2015 it was operated for 2,600 hours. Calculate the depreciation expense for the machine for 2014 and 2015 using the following depreciation methods:

(a) Straight-line.
(b) Double-declining-balance.
(c) Units-of-production.

150. On January 1, 2014, a machine costing $230,000 with a 4-year service life and an estimated $3,000 residual value was purchased. It was also estimated that the machine would produce 50,000 units during its life. The actual units produced during its first 2 years of operation were 9,000 and 10,000 respectively. Calculate the amount of depreciation expense for calendar years 2014 and 2015 under each of the following assumptions:

(a) The company uses the straight-line method of depreciation.
(b) The company uses the units-of-production method of depreciation.
(c) The company uses the double-declining-balance method of depreciation.

151. On October 1, 2014, Fisherman Company purchased a light truck, at a cost of $62,000. The truck is expected to last six years and have a residual value of $5,200. Fisherman Company uses the calendar year as their fiscal year, and the nearest whole month method for depreciation.

(a) What is the depreciation expense for 2014, assuming the straight-line method is used?
(b) What is the depreciation expense for 2014 and 2015, assuming the double-declining-balance method is used (round double declining rate to 4 decimals)?

152. A new machine is expected to produce 60,000 units of product during its 5-year life. The machine cost $180,000 and is estimated to have a $20,000 residual value.
If the machine produces 7,200 units of product during its first year, what is the depreciation for the year calculated by the units-of-production method (round rate to 2 decimals)?

153. A new machine is expected to produce 40,000 units of product during its 5-year life. The machine cost $180,000 and is estimated to have a $20,000 residual value.
If depreciation on the machine is calculated by the double-declining-balance method, what is the depreciation for the first year?

154. A new machine is expected to produce 40,000 units of product during its 5-year life. The machine cost $38,000 and is estimated to have a $6,000 residual value.
What is the first year's depreciation on the machine calculated by the straight-line method?

155. On January 1, 2014, High Flying Airways acquired and placed in service a plane that cost $8,000,000. The plane's service life and residual value were estimated at 5 years and $1,500,000, respectively. Calculate depreciation for 2014-2018, assuming the following alternative depreciation methods are used:

(a) Straight-line.
(b) Double-declining-balance.

156. On July 1, 2014, Delta Company purchased and placed in service a machine that cost $360,000. Delta estimated the service life to be 5 years or 25,000 units of output, with an estimated residual value of $6,000. During 2014, 2,600 units were produced.
Prepare the necessary December 31, 2014, adjusting journal entry to record depreciation assuming Delta uses:

(a) The straight-line method of depreciation.
(b) The units-of-production method of depreciation.

157. On July 1, 2014, Delta Company purchased and placed in service a machine with a cost of $340,000. Delta estimated the service life to be 6 years or 60,000 units of output, with an estimated residual value of $80,000. During 2014, 15,000 units were produced.
Prepare the necessary December 31, 2014, adjusting journal entry to record depreciation for 2014 assuming Delta uses the double-declining-balance method to the nearest whole month.

158. On September 30, 2014, Sabena Industries acquired and placed in service a machine that cost $850,000. It was estimated that the machine has a service life of five years and a residual value of $69,400.
Using the double-declining-balance method of depreciation, prepare a schedule showing the depreciation amounts for the years 2014 through 2019 (use the nearest whole month method and round answers to the nearest dollar). Sabena closes its books on December 31 of every year.

159. Jelly Bean had the following property, plant and equipment purchases during 2014:

(1) On April 4, equipment costing $150,000 with a 5-year service life and an estimated $40,000 residual value was purchased.
(2) On October 4, a machine costing $230,000 with a 5 year service life and an estimated $50,000 residual value was purchased.
Assuming Jelly Bean has a December 31 year end, prepare the necessary adjusting journal entries at December 31, 2014 to record depreciation under the following depreciation methods (using the nearest whole month method):

(a) Straight-line.
(b) Double-declining-balance.

160. On January 1, 2014, Boone Company purchased a machine for $75,000 that had a 6-year life and a residual value of $6,000. After 3 years of use, on January 1, 2017, Boone Company paid $7,500 to improve the efficiency of the machine. The effect of the expenditure was to increase the productivity of the machine without increasing its remaining useful life or changing its residual value. Boone uses straight-line depreciation.

(1) What account should be debited in recording the $7,500 expenditure?
(2) What amount of depreciation expense should be reported for 2017?

161. Explain (1) depreciation for partial years and (2) revision of depreciation when estimates change.

162. A machine was purchased for $37,000 and depreciated for 5 years on a straight-line basis under the assumption it would have a 10-year life and a $1,000 residual value. At the beginning of the machine's sixth year, it was recognized that it had 3 years of remaining life left, instead of five, and that at the end of the 3 years its residual value would be $1,600. What should the annual depreciation be for the machine's remaining years?

163. On January 1, 2015, Bailey Company purchased a machine for $106,000 that was expected to last five years and has a residual value of $6,000. At the beginning of 2018, Bailey decided that the machine's estimated useful life should be revised to a total of 6 years instead of 5. Also, the residual value was now estimated to be $5,500. Straight-line depreciation was used. Calculate the depreciation expense for 2018.

164. Wildcat Company purchased a heating system on January 2, 2003, for $625,000. The system had an estimated useful life of 15 years, with no residual value. On January 2, 2015, the company paid $33,000 cash for a complete renovation of the system, and now expects the system to last 5 years beyond the original estimate. The company uses the straight-line method of depreciation.

(a) Prepare the journal entry at January 2, 2015, to record the renovation of the heating system.
(b) Prepare the journal entry at December 31, 2015, to record the depreciation for 2015.

165. At December 31, 2015, Great Coast Coffee Company's adjusted trial balance shows an espresso machine with a book value of $12,000. As part of the year end procedures GCC completed the asset impairment test on the machine and noted that the recoverable value of the machine was $6,000. Record the impairment loss on the asset.

166. Great Coast Construction (GCC) exchanged a three-year-old excavator for a new excavator that had a list price of $160,000. The old excavator originally cost $175,000 and had accumulated depreciation of $45,000 to the date of exchange. In addition to the $145,000 trade-in given for the old excavator (which was the old asset's fair value), GCC paid $10,000 cash to complete the deal. The list price for the new excavator is considered unreliable.
Record the asset exchange.

167. Great Coast Construction (GCC) exchanged a three-year-old excavator for a new excavator that had a list price of $63,000, which was its fair value. The old excavator originally cost $85,000 and has accumulated depreciation of $45,000 to the date of exchange. In addition to the $45,000 trade-in given for the old excavator, GCC paid $8,000 cash to complete the deal.

168. Discuss the accounting procedures involved for asset disposal through discarding, selling, or exchanging an asset.

169. Five years ago, Sanford and Sons purchased equipment for $108,000 which had an estimated useful life of 10 years with an expected residual value of $15,000. At the end of five years, the equipment's accumulated depreciation is $46,500. Prepare the journal entry to record the sale of the equipment at the end of the fifth year for $45,000 cash.

170. Vroom Company sold for $60,000 a machine that originally cost $100,000. The accumulated depreciation on this machine to date of sale was $47,000. What was Vroom Company's gain or loss on this sale?

171. Aye Company's computer was destroyed by fire. The computer originally cost $5,000, and accumulated depreciation to the date of the fire was $900. The company received $2,000 from an insurance policy that covered the computer and will use that money to help pay for a new computer. Prepare the general journal entry to record the loss of the computer and the receipt of cash from the insurance company.

172. The $60,000 original cost of a machine is recorded in an account called Old Machine. After $45,000 of depreciation was recorded, the machine was traded in on a new machine with a cash price of $85,000. A $10,500 trade-in allowance was received on the old machine and the balance was paid in cash. This transaction has commercial substance. Prepare the general journal entry to record the trade; the cost of the new machine should be debited to a New Machine account.

173. Robertson Company exchanged a used machine for a new machine. The old machine cost $80,000, and the new one had a cash price of $95,000. Robertson had recorded a total of $75,000 depreciation on the old machine and was allowed a $4,500 trade-in allowance. This transaction has commercial substance. What gain or loss should be recorded on the exchange?

174. Wilkins Company exchanged its old computer for a newer model. The Old Computer was purchased for $22,000, with related accumulated depreciation of $15,500 to the date of the exchange. The new computer had a cash price of $30,200, and Wilkins Company was given a $7,500 trade-in allowance. This transaction has commercial substance. Prepare the general journal entry to record the exchange, recording the new computer in an account called New Computer.

175. On January 2, 2015, Mullins Company purchased a delivery truck for $45,000 cash. The truck had an estimated useful life of seven years and an estimated residual value of $3,000. Straight-line depreciation was used.
Assuming the transactions have commercial substance, prepare the journal entries to record the disposition of the truck on September 1, 2019, under each of the following assumptions:

(a) The truck and $55,000 cash were exchanged for equipment that had a fair value of $70,000.
|(b) The truck and $40,000 cash were exchanged for a new delivery truck that had a fair value of $70,000.

176. On April 1, 2015, Hogan Industries scrapped a machine that cost $10,000 and had accumulated depreciation through December 31, 2014, of $10,000. Prepare the journal entry to record the disposal of the machine.

177. On April 1, 2015, Lockhart Company discarded equipment that cost $80,000, had a useful life of 5 years, a residual value of $14,000, and, under straight-line depreciation, accumulated depreciation as of December 31, 2014 of $26,400.

(a) Prepare the journal entry to record depreciation up to the date of disposal of the equipment.
(b) Prepare the journal entry to record the disposal of the equipment.

178. On April 1, 2015, Sagan Realty disposed of an automobile that had cost $50,000 on January 1, 2013. The automobile had a residual value of $8,000, and a useful life of 5 years. The accounting records showed accumulated depreciation for this asset of $16,800 at December 31, 2014. The asset was discarded after an accident, and $11,500 was received from an insurance claim.
Prepare the journal entry to record the disposal of the automobile.

179. On April 1, 2015, Thunderbird Co sold a piece of equipment that had cost $35,000 on January 1, 2011. The equipment had a residual value of $5,000, a useful life 10 years, and double-declining-balance depreciation at twice the straight-line rate was used. On December 31, 2014, accumulated depreciation was $20,664. The asset was sold for $14,200.
Prepare the journal entry to record depreciation up to the date of disposal of the equipment, and the journal entry to record the disposal of the equipment.

180. During 2016, Melanie's Emporium exchanged an old truck costing $18,000 with accumulated depreciation of $13,000 to the date of exchange for a new truck. The new truck had a cash price of $30,000 and Melanie received a $6,000 trade-in allowance on the old truck. This transaction has commercial substance. Prepare the journal entry to record the exchange.

181. During 2014, Storey Company acquired a new computer with a cash price of $12,800 by exchanging an old one on which Storey received a $1,500 trade-in. The old computer had cost $9,000 and its accumulated depreciation to the date of exchange was $5,500. This transaction has commercial substance. Prepare the journal entry to record the exchange.

182. Upside Down Company purchased new office equipment for $4,300, by trading in old equipment with a cost of $2,000 and accumulated depreciation to the date of trade of $1,900. Upside Down received a $50 trade-in allowance for the old equipment. This transaction has commercial substance. Prepare the journal entry to record the transaction.

183. On April 1, Fog Company traded an old machine that originally cost $32,000 and had been depreciated $24,000 for a new machine that had a cash price of $40,000.
Assuming that this transaction has commercial substance,

(1) Prepare the journal entry to record the exchange under the assumption that a $5,000 trade-in allowance was received and the balance was paid in cash.
(2) Prepare the journal entry to record the exchange under the assumption that instead of a $5,000 trade-in allowance, a $12,500 trade-in allowance was received and the balance was paid in cash.

184. Natsuko Company traded an old forklift for a new forklift, receiving a $10,500 trade-in allowance and paying the remaining $37,200 in cash. The old forklift cost $39,000, and straight-line depreciation of $27,200 had been recorded to the date of trade under the assumption it would last 5 years and have a $5,000 residual value. At the date of trade, the fair value of the old forklift is $11,000, however the fair value of the new forklift is not known.

(1) What was the book value of the old forklift?
(2) At what amount should the new forklift be recorded?

185. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.
Assuming the machine was sold for $22,000, prepare the general journal entry to record the disposal

186. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.
Assuming the machine was sold for $15,000, prepare the general journal entry to record the disposal.

187. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.
Assuming the machine was totally destroyed in a fire and the insurance company settled the claim for $18,000 cash, prepare the general journal entry to record the disposal.

188. Danner Co. purchased a computer on January 1, 2014, for $1,600,000. The straight-line method of depreciation was used, based on an expected life of 6 years and a residual value of $130,000. Prepare the journal entries to record depreciation for the first 6 months of 2016 and the sale of the computer on July 1, 2016, for $1,000,000.

189. Discuss accounting for an impairment of property, plant and equipment.

190. Matador & Company was preparing the annual financial statements and, as part of its year-end procedures, prepared the following schedule based on adjusted values at March 31, 2015:

Asset	Cost	Accumulated Depreciation
Furniture	$ 25,000	$ 20,000
Computer	$ 2,000	$ 1,000
Land	$ 105,000	$ -
Machine	$ 90,000	$ 25,000

Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.

191. Matador & Company was preparing the annual financial statements and, as part of its year-end procedures, prepared the following schedule based on adjusted values at March 31, 2015:

Asset	Cost	Accumulated Depreciation	Recoverable Amount	Residual Value	D
Furniture	$ 25,000	$ 20,000	$ 10,000	$ 500	S
Computer	$ 2,000	$ 1,000	$ 500	$ -	Dou
Land	$ 105,000	$ -	$ 90,000	N/A	
Machine	$ 90,000	$ 25,000	$ 35,000	$ 5,000	S

1. Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.
2. Record the entry for depreciation on each of the assets at March 31, 2015. Assume there was no change in residual or useful lives regardless of impairment losses.

192. Discuss accounting for intangible assets.

193. On January 4, 2015, SportsWorld purchased a patent for $35,000 with a useful life of 10 years. Prepare the journal entry to amortize the patent for the calendar year 2015.

194. Hawaii Kai purchased a leasehold property for $8,500,000. The leasehold expires in 15 years. Prepare the journal entry to record the first year's depreciation expense.

195. GenX Music purchased a music distributor's collection of songs for $1,423,000. The copyrights are expected to last another 34 years. Prepare the journal entry to record the amortization expense for the first year.

196. Explain what could cause the impairment of goodwill. How often should goodwill be tested to see if it is impaired?

197. _____ are costs that increase the usefulness of land, but have limited useful lives and are thus depreciated.

_____

198. Replacement of a roof or renovation of a plant are examples of _____.

_____

199. The three factors in calculating depreciation are: _____, _____, _____.

_____

200. _____ is the Income Tax Act equivalent for depreciation.

_____

201. _____ depreciation provides for equal amounts of annual depreciation over the life of an asset.

_____

202. _____ is the process of systematically allocating the cost of an intangible asset to expense over its estimated useful life.

_____

203. Revising estimates of the useful life or residual value of property, plant and equipment is referred to as a(n) _____.

_____

204. The three means for disposal of an asset include: _____, _____, or _____.

_____

205. Match each of the following terms with the appropriate definition.

1. Accelerated depreciation	A depreciation method in which an asset's depreciation expense for the period is determined by applying a constant depreciation rate to the asset's book value at the beginning of the year.	____
2. Leasehold	An expenditure that should appear on the current income statement as an expense and be deducted from the period's revenues because it does not provide a material benefit in future periods.	____

3. (Ordinary) repairs	Depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years.	____
4. Change in accounting estimate	Repairs made to keep property, plant and equipment in normal, good operating condition	____
5. Subsequent capital expenditure	A change in a calculated amount used in the financial statements resulting from new information or subsequent developments and from better insight or improved judgment.	____
6. Intangible assets	A name for	____

	the rights granted to the lessee by the lessor in a lease.	
7. Revenue expenditure	The amount by which the value of a company exceeds the fair market value of the company's net assets if purchased separately.	____
8. Double-declining-balance method	Rights, privileges, and competitive advantages to the owner of long-term assets used in operations that have no physical substance.	____
9. Goodwill	An expenditure to make a property, plant and equipment more efficient or productive.	____
10. Depreciation.	The process of matching	____

the depreciable cost of a tangible asset in a rational and systematic manner over the asset's useful life.

206. Match each of the following terms with the appropriate definition.

1. Obsolescence	Management's estimate of the amount that will be recovered at the end of a property, plant and equipment item's useful life through a sale or as a trade-in allowance on the purchase of a new asset.	____
2. Subsequent capital expenditure	A process of systematically allocating the cost of an intangible asset to expense over its estimated useful life.	____
3. Patent	Major repairs that extend the useful life of property, plant and equipment beyond original expectatio	____

	ns.	
4. Copyright	Assets that increase the usefulness of land but that have a limited useful life and are subject to depreciation.	____
5. Depreciation	The original cost of a property, plant and equipment item less its accumulated depreciation.	____
6. Inadequacy	A condition in which, because of new inventions and improvements, property, plant and equipment can no longer be used to produce goods or services with a competitive advantage.	____
7. Book value	An exclusive	____

	right granted to its owner by the federal governmen nt to manufactu re and sell a machine or device, or to use a process, for 20 years.	
8. Land improvem ents	The process of matching the depreciabl e cost of a tangible asset in a rational and systematic manner over the asset's useful life.	____
	A right granted by the federal governmen nt or by internation al agreemen t giving the owner the exclusive privilege to publish and sell musical, literary, or artistic work	
9. Residu al value	during the	____

	life of the creator plus 50 years.	
10. Amortization	A condition in which the capacity of property, plant and equipment is too small to meet the company's productive demands.	____

Chapter 10 Key

1. Property, plant and equipment are assets held for sale.

FALSE

Difficulty: Easy
Larson - Chapter 10 #1
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

2. Non-current assets are any liabilities that are used in the operations of a business.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #2
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

3. Non-current assets can be divided into two groups including tangible and intangible assets. These assets are generally used in operations of a business and have useful lives extending over more than one accounting period.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #3
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

4. Land purchased as a building site is a tangible asset called property, plant and equipment and is classified under the "Long-term Investments" section on the balance sheet.

FALSE

Difficulty: Hard
Larson - Chapter 10 #4
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

5. The cost of an asset includes all normal and reasonable expenditures necessary to get it in place and ready for its intended use.

TRUE

Difficulty: Easy
Larson - Chapter 10 #5
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

6. If a machine is damaged during unpacking, the repairs are added to its cost.

FALSE

Difficulty: Easy
Larson - Chapter 10 #6
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

7. To be charged to and reported as part of the cost of property, plant and equipment, an expenditure must be normal, reasonable, and necessary in preparing the asset for its intended use.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #7
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

8. The purchase of real estate that includes land, building, and land improvements is called a lump-sum purchase.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #8
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

9. Any expenditures for legal fees, surveying, and accrued property taxes should not be included in the cost of land.

FALSE

Difficulty: Hard
Larson - Chapter 10 #9
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

10. Revenue expenditures are additional costs of property, plant and equipment that provide material benefits extending beyond the current period.

FALSE

Difficulty: Easy
Larson - Chapter 10 #10
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

11. Revenue expenditures are expenditures to keep assets in normal operating condition.

TRUE

Difficulty: Easy
Larson - Chapter 10 #11
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

12. Capital expenditures are also called balance sheet expenditures.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #12
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

13. SportsWorld spent $17,000 to remodel its store. This cost will be recognized with a debit to Store Building.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #13
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

14. Treating small-dollar-amount capital expenditures as revenue expenditures is likely to mislead users of financial statements.

FALSE

Difficulty: Hard
Larson - Chapter 10 #14
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

15. The cost principle requires that an asset be recorded at the cash or cash equivalent amount given in exchange.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #15
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

16. Subsequent expenditures are purchases made after the acquisition of equipment to operate, maintain, repair, and improve it.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #16
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.

Type: Knowledge

17. Depreciation is the process of allocating the cost of a tangible asset in a rational and systematic manner over the asset's estimated useful life.

TRUE

Difficulty: Easy
Larson - Chapter 10 #17
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

18. Residual value is an estimate of an asset's value at the end of its useful life.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #18
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

19. Inadequacy refers to the condition where the capacity of a property, plant and equipment item is too small to meet the company's productive demands.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #19
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

20. Depreciation should always be recorded as soon as an asset is purchased.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #20
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

21. Depreciation measures the decline in market value of an asset.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #21
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

22. Because depreciation is based on predictions of residual value and useful life, depreciation is an estimate.

TRUE

Difficulty: Easy
Larson - Chapter 10 #22
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

23. On the balance sheet, it is not necessary to report both the cost and the accumulated depreciation of an asset.

FALSE

Difficulty: Easy
Larson - Chapter 10 #23
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

24. Accumulated depreciation represents funds set aside to buy new assets when the assets currently owned are replaced.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #24
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

25. The relevance principle requires that property, plant and equipment be reported at book value rather than at market value.

FALSE

Difficulty: Hard
Larson - Chapter 10 #25
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

26. Regardless of the method of depreciation, total depreciation expense will be the same over an asset's useful life.

TRUE

Difficulty: Easy
Larson - Chapter 10 #26
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

27. Financial accounting and tax accounting require the same recordkeeping; therefore, there should be no difference in results between the two accounting systems.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #27
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

28. Companies are required to use the straight line depreciation method for tax purposes because this method yields the lowest depreciation expense and results in the highest payment of tax.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #28
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

29. The Income Tax Act generally requires that companies use a double-declining-balance method of cost allocation called Capital Cost Allowance to determine the maximum amount of deduction for a taxation year.

TRUE

Difficulty: Hard
Larson - Chapter 10 #29
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

30. Because land has unlimited life, it is not subject to depreciation. Therefore, items that increase the usefulness of the land such as parking lots are also not depreciated.

FALSE

Difficulty: Hard
Larson - Chapter 10 #30
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

31. The most frequently used method of depreciation is the straight-line method.

TRUE

Difficulty: Easy
Larson - Chapter 10 #31
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.

Type: Knowledge

32. The cost of an asset plus its accumulated depreciation equals the asset's book value.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #32
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

33. The units of production method of depreciation charges a varying amount of expense for each period of an asset's useful life depending on its usage.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #33
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

34. An accelerated depreciation method yields smaller depreciation expense in the early years of an asset's life and larger charges in later years.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #34
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

35. The double-declining balance method is applied by (1) calculating the asset's straight-line depreciation rate, (2) doubling it, (3) subtracting residual value from cost, and (4) multiplying the rate times the cost.

FALSE

Difficulty: Hard
Larson - Chapter 10 #35
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

36. SportsWorld purchased store equipment for $65,000. The equipment has an estimated residual value of $6,000, with an estimated useful life of 10 years. The annual depreciation using the straight-line method will be $3,900 per year.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #36

Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

37. A company is required to purchase all assets at the beginning of an accounting period so that a full year's worth of depreciation can be taken.

FALSE

Difficulty: Easy
Larson - Chapter 10 #37
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

38. Machinery having a four-year useful life and a residual value of $5,000 was acquired for $65,000 cash on June 28. Using the nearest whole month method, the company would recognize $11,250 for depreciation expense at the end of the first year, December 31.

FALSE

Difficulty: Hard
Larson - Chapter 10 #38
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

39. A depreciable asset that is purchased on March 18 would be depreciated for nine months of the first year, if the fiscal year ends on December 31 using nearest whole month method.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #39
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

40. The half year rule is the partial-year depreciation method that calculates depreciation by determining if the asset was used for more than half of the month.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #40
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Knowledge

41. Machinery after two years worth of depreciation has an opening book value of $6,400. At the beginning of the third year, the predicted number of years remaining in its useful life changes from three years to four years and its estimated residual value changes from the original $1,000 to $400. The revised annual depreciation using the straight-line method is $1,500.

TRUE

Difficulty: Hard
Larson - Chapter 10 #41
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

42. An asset that cost $5,000 has a current book value of $2,000. A revision of the useful life of the asset estimates the asset has a remaining useful life of four years and will have a residual value of $400. Using the straight-line method, the revised depreciation will be $500 per year.

FALSE

Difficulty: Hard
Larson - Chapter 10 #42
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

43. When the cost of the asset changes because of a subsequent capital expenditure, revised depreciation for current and future periods must be calculated and adjusted.

TRUE

Difficulty: Hard
Larson - Chapter 10 #43
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

44. Depreciation amounts can be revised because of changes in the estimates for residual value, useful life or because of subsequent revenue expenditures.

FALSE

Difficulty: Hard
Larson - Chapter 10 #44
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

45. An asset with a current book value of $5,000 has a current market value of $2,000. The company should recognize an impairment loss of $3,000.

TRUE

Difficulty: Hard
Larson - Chapter 10 #45
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

46. If the book value of a property, plant and equipment item is less than the amount to be recovered through the asset's use or sale, the difference is an impairment loss and the asset is described as impaired.

FALSE

Difficulty: Easy
Larson - Chapter 10 #46
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

47. Impairment can result from a variety of situations that include a significant decline in an asset's market value or a major adverse effect caused by technological, economic, or legal factors.

TRUE

Difficulty: Easy
Larson - Chapter 10 #47
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

48. Impairment losses must be assessed by companies on an annual basis.

TRUE

Difficulty: Easy
Larson - Chapter 10 #48
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

49. The gain or loss from disposal of property, plant and equipment is the difference between an asset's book value and the value received.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #49
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

50. Property, plant and equipment can be disposed of by discarding, sale, or exchange of the asset.

TRUE

Difficulty: Easy
Larson - Chapter 10 #50
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

51. The first step in accounting for the disposal of property, plant and equipment is calculating the gain or loss on disposal.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #51
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

52. Equipment costing $14,000 with accumulated depreciation of $10,000 was sold for $3,000. The company should recognize a $1,000 loss on disposal of the equipment.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #52
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

53. At the time a plant asset is being discarded or sold, it is necessary to update the accumulated depreciation of the plant asset to the date of disposal.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #53
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

54. When accumulated depreciation equals the asset's cost, the asset is fully depreciated. The entry to record the removal of the asset is called exchanging the equipment.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #54
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

55. When assigning values to an exchange of assets you should use the fair value of the asset given up.

TRUE

Difficulty: Easy
Larson - Chapter 10 #55
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

56. When assigning values to an exchange of assets you should always use the fair value of the asset received.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #56
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

57. A patent is an exclusive right granted to its owner to manufacture and sell a patented machine or device, or to use a process, for a specified period of time.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #57
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

58. Intangible assets should be amortized over their anticipated legal, regulatory, contractual, competitive or economic life.

TRUE

Difficulty: Easy
Larson - Chapter 10 #58
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

59. Amortization is the process of allocating the cost of intangibles over their estimated useful life.

TRUE

Difficulty: Easy
Larson - Chapter 10 #59
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

60. Drilling rights are legal permissions to extract natural resources from the earth and are treated as intangible assets.

TRUE

Difficulty: Moderate
Larson - Chapter 10 #60
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

61. Intangible assets provide rights, privileges, and competitive advantages to the owner, are used in operations, and have no physical substance.

TRUE

Difficulty: Easy
Larson - Chapter 10 #61
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

62. A copyright gives its owner the exclusive right to publish and sell a musical, literary, or artistic work during the life of the creator plus 20 years.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #62
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

63. The cost of developing, maintaining, or enhancing the value of a trademark is capitalized, or added to the value of the asset when incurred.

FALSE

Difficulty: Hard
Larson - Chapter 10 #63
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

64. Goodwill is an intangible asset.

FALSE

Difficulty: Easy
Larson - Chapter 10 #64
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

65. Goodwill is not depreciated or amortized but is instead decreased only if its value has been determined by management to be impaired .

TRUE

Difficulty: Moderate
Larson - Chapter 10 #65
Learning Objective: 10-07 Account for intangible assets and their amortization.

Type: Knowledge

66. Goodwill is depreciated over its useful life as estimated by the business's management.

FALSE

Difficulty: Moderate
Larson - Chapter 10 #66
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

67. Goodwill is written down to its fair value if the fair value is less than its carrying value.

TRUE

Difficulty: Hard
Larson - Chapter 10 #67
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

68. The impairment of goodwill appears directly on the statement of changes in equity and not on the income statement.

FALSE

Difficulty: Hard
Larson - Chapter 10 #68
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

69. Property, plant and equipment are:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #69
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

70. A main accounting issue for property, plant and equipment is:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #70
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

71. Property, plant and equipment are:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #71
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

72. Property, plant and equipment include:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #72
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

73. Land improvements are:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #73
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

74. The cost of land can include:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #74
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

75. SportsWorld paid $140,000 for a property. The property included land appraised at $67,500, land improvements appraised at $25,000, and a building appraised at $55,500. What should be the allocation of costs in the accounting records **(round calculations to 3 decimals)**?

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #75
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

76. SportsWorld purchased property for a building site. The costs associated with the property were:

Purchase price:	$175,000
Real estate commissions:	$ 15,000
Legal fees:	$ 800
Expense of clearing the land:	$ 2,000
Expense to remove old building:	$ 1,000

What portion of these costs should be allocated to the cost of the land and what portion should be allocated to the cost of the new building?

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #76
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

77. SportsWorld purchased property for $100,000. The property included a building, parking lot, and land. The building was appraised at $65,000; the land at $40,000; and the parking lot at $10,000. To the nearest dollar, the value of the land to be recorded in the books should be:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #77
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

78. Revenue expenditures:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #78
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

79. Additional subsequent expenditures that result in future economic benefits and can be reliably measured should be treated as a(n):

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #79
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

80. Treating low-cost asset purchases as expenses is allowed by which principle?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #80
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

81. Ordinary repairs:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #81
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

82. Subsequent capital expenditures:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #82
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

83. The relevant factor(s) in calculating depreciation is(are):

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #83
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

84. Residual value is:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #84
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

85. Depreciation:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #85
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

86. The useful life of a property, plant and equipment asset is:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #86
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

87. Inadequacy refers to:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #87

Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

88. Obsolescence:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #88
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

89. Capital cost allowance:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #89
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

90. The straight-line method and the double-declining-balance method of depreciation:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #90
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

91. The formula for calculating straight-line depreciation is:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #91
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

92. The original cost of an asset minus accumulated depreciation is called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #92
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

93. A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each accounting period during its useful life is called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #93
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

94. A method that allocates an equal portion of the total depreciation for a property, plant and equipment asset to each unit produced is called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #94
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

95. A depreciation method in which a property, plant and equipment asset's depreciation expense for the period is determined by applying a constant depreciation rate each year to the asset's beginning book value is called:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #95
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

96. A depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years is:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #96
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

97. On January 1 of this year, SportsWorld purchased a new cash register for $5,400. This register has a useful life of 10 years and a residual value of $400. Using the double-declining-balance method, how much depreciation expense should SportsWorld recognize for next year?

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #97
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

98. SportsWorld purchased a machine for $190,000. The machine has a useful life of 8 years and a residual value of $10,000. SportsWorld estimates that the machine could produce 750,000 units of product over its useful life. In the first year, 95,000 units were produced. In the second year, production increased to 111,000 units. Using the units-of-production method, what is the amount of depreciation that should be recorded for the second year?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #98
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

99. SportsWorld purchased equipment costing $10,000. The equipment has a residual value of $1,000, and an estimated useful life of 5 years or 36,000 shoes. Actual units produced during the year were 7,000 units. Calculate annual depreciation using the straight line method.

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #99
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

100. On October 1 of this year, SportsWorld purchased a delivery van for $23,000 with a residual value of $3,000. The van has an estimated useful life of 5 years. Using straight-line depreciation and the half-year rule, how much depreciation expense should SportsWorld recognize on December 31 of this year?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #100
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

101. Depreciation is usually recorded:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #101
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Knowledge

102. A change in accounting estimate is:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #102
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Knowledge

103. When originally purchased, a vehicle had cost $23,000, with an estimated residual value of $1,500, and an estimated useful life of 8 years. After 4 years of straight-line depreciation, the estimated useful life was revised from 8 to 6 years, but with zero residual value. The depreciation expense in year 5 should be:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #103
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

104. A machine originally had an estimated service life of 5 years, and after 3 years, it was decided that the original estimate should have been for 10 years. The remaining cost to be depreciated should be allocated over the next:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #104
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

105. SportsWorld uses straight-line depreciation for a piece of equipment that cost $12,000, had a trade-in value of $2,000, and a five-year service life. At the end of the third year, the trade-in value was revised to $1,200 and the useful life increased to a total of 6 years. Calculate the amount of depreciation expense for each of the remaining years of the asset's useful life.

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #105
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

106. Once the estimated depreciation for an asset is calculated:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #106
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Knowledge

107. At the end of the year, SportsWorld completed an asset impairment test and noted that a piece of equipment, with a book value of 12,000, has a recoverable value of $2,000. Calculate the amount of impairment loss on the equipment.

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #107
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

108. SportsWorld uses straight-line depreciation for a piece of equipment that cost $12,000, had a salvage value of $2,000, and a five-year service life. At the end of the first year, an impairment loss of $2,000 was recognized on the asset. Calculate the amount of depreciation expense for each of the remaining years of the asset's useful life.

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #108
Learning Objective: 10-04 Explain and calculate revised depreciation.
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

109. If the book value (or carrying amount) of a PPE item is greater than the amount to be recovered through the asset's use or sale, the asset is said to be:

A.
B.
C.
D.
E.

Difficulty: Hard
Larson - Chapter 10 #109
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

110. An asset can be disposed of by:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #110
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

111. Sports Med sold an X-ray machine that originally cost $100,000 for $60,000. The accumulated depreciation on the machine to the date of sale was $40,000. On this sale, Sports Med should recognize:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #111
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

112. SportsWorld discarded a display case it had purchased for $8,000. $7,200 in accumulated depreciation had been recorded to the date of sale. SportsWorld should recognize a gain or loss on disposal of:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #112
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

113. Creek Construction owned a bulldozer which was destroyed by fire. The bulldozer originally cost $38,000. The accumulated depreciation recorded to the date of loss was $20,000. The proceeds from the insurance company were $20,000. Creek Construction should recognize:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #113
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

114. A machine that cost $40,000 and had accumulated depreciation of $30,000 was traded in on a new machine, which had an estimated 20-year life and a cash price of $50,000. If a $7,000 trade-in allowance was received on the old machine, the new machine should be valued at:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #114
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

115. SportsWorld bought a new display case for $12,000 and was given a trade-in of $2,000 on an old display case. The old case had an original cost of $7,000 and accumulated depreciation of $4,000 to the date of trade-in. SportsWorld should record the new display case at:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #115
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

116. Creek Construction purchased a machine for $26,000. It traded in an old machine and received a $4,200 trade-in allowance. The old machine cost $24,000 and had accumulated depreciation of $16,000 to the date of trade-in. At what value should be new asset be recorded?

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #116
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

117. Natural resources:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #117
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

118. Legal permissions for the extraction of oil and gas from the earth are known as:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #118
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

119. Factor(s) that might limit an intangible asset's useful life include:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #119
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

120. Intangible assets do not include:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #120
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

121. Intangible assets:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #121
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

122. A patent:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #122
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

123. A copyright:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #123
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

124. A leasehold:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #124
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

125. On April 3, 2015, Rainbow Studios purchased a patent for $56,000. Its remaining legal life is 7 years and Rainbow Studios estimates that the patent will be useful for another 4 years. The correct adjusting entry to record amortization of the patent on December 31, 2015 is:

A.

B.

C.

D.

Difficulty: Moderate
Larson - Chapter 10 #125
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Application

126. The appropriate way to amortize goodwill is:

A.
B.
C.
D.
E.

Difficulty: Easy
Larson - Chapter 10 #126
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

127. Each year goodwill is examined to see if its value has been impaired. If the value has been impaired goodwill will:

A.
B.
C.
D.
E.

Difficulty: Moderate
Larson - Chapter 10 #127
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

128. Discuss the four issues in accounting for property, plant and equipment.

Property, plant and equipment are tangible assets used in the operations of a company and have a useful life of more than one accounting period. The four main accounting issues include

(1) calculating their costs
(2) allocating their costs to the periods they benefit
(3) accounting for subsequent expenditures such as repairs and improvements, and
(4) recording their disposal.

Difficulty: Moderate
Larson - Chapter 10 #128
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

129. Explain the difference between revenue and capital expenditures and how they are recorded in the accounting system.

Revenue expenditures such as repairs expire in the current accounting period. They are debited to expense and are thus matched with current revenues.
Capital expenditures such as subsequent capital expenditures benefit future periods. They are debited to asset accounts and are matched with future periods through depreciation expense. Immaterial long-term expenditures are treated as current period expenses (materiality principle).

Difficulty: Moderate
Larson - Chapter 10 #129
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

130. Mandy Manufacturing purchased a machine on August 1, 2014, and it was installed and ready to run on January 1, 2015. The following costs were incurred in the purchase and installation of the machine.

Invoice price
Freight costs
Purchase discount
Installation costs
Electrical and power connections
Repairs to correct damage incurred during uncrating
Adjustment costs
Spare parts for future use
Provincial sales tax
Fines incurred during the transport and unloading of the
Cost of special foundation for the machine

Calculate the depreciable cost of the machine.

Invoice price
Freight costs
Purchase discount
Installation costs
Electrical and power connections
Adjustment costs
Provincial sales tax
Cost of special foundation for the machine
Total

NOTE ALL OTHER COSTS WOULD BE EXPENSED.

Difficulty: Moderate
Larson - Chapter 10 #130
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

131. Primadonna Company paid $870,000 plus $10,000 in legal costs for a parcel of real estate. This included land appraised at $350,000; land improvements appraised at $80,000; and a building appraised at $370,000. The plan is to use the building as a manufacturing plant. Determine the amounts that should be debited to:

(a) Land $_____
(b) Land Improvements $_____
(c) Building $_____

Take all percentages to two decimals, e.g. 12.35%

		Appraised Cost	Percent Total	
(a)	Land	350,000	43.75%	(350,000
(b)	Land Improvements	80,000	10.00%	(80,000/
(c)	Building	370,000	46.25%	(370,000
	Total	800,000	100%	

Difficulty: Moderate
Larson - Chapter 10 #131
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

132. Prepare journal entries to record the following transactions of Salem Sales Co. during the current year:

Mar 1	Purchased a truck for $50,000 with a 5 year useful life ar Salem also paid 7% provincial sales tax, a $500 annual tı truck and $1,300 for spare parts. All payments were in ca
May 12	Purchased a garage from a neighbouring business with a seller's book value for the garage was $47,000 and the ga The estimated useful life is 12 years. Salem also paid $3, commission.
Jun 5	Paid $550 to replace garage windows broken during a ha
Aug 23	Purchase used office equipment for $12,500 plus provinc 2/10, n30 from Great West Office Supplies. As well, Sal reconditioning costs of $950 on credit. Estimated useful l value of $1,000.
Sep 12	Paid for office equipment purchased on August 23.
Oct 5	Purchased store equipment for $26,700 plus $1,869 prov paid $750 for repairs incurred from an accident during in base for the equipment and $3,700 of supplies to be used maintenance. Estimated useful life is 9 years and residua

Mar 1	Trucks Spare Parts Inventory Licence Expense Cash $50,000 + (50,000 x 7%) + 3,000 = $56,500
May12	Garage Notes Payable Cash
Jun 5	Repairs and Maintenance Expense Cash
Aug 23	Office Equipment Accounts Payable $12,500+875+200+950= $14,525
Sep 12	Accounts Payable Cash
Oct 05	Store Equipment Repairs and Maintenance Expense Supplies Cash $26,700+1,869+4,200=$32,769

Difficulty: Moderate
Larson - Chapter 10 #132
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

133. Shady Lanes installed automatic sprinkler systems. The electrical work for the installation was $24,000. The invoice price of the sprinkler equipment was $280,000. Additional costs were $5,000 for delivery and $800 for insurance during transportation. During installation a sprinkler line was punctured and was replaced for $200. What is the cost of the sprinkler equipment?

$24,000 + 280,000 + 5,000 + 800 = $309,800

Difficulty: Moderate
Larson - Chapter 10 #133
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

134. Twin Investments purchased land with a building for a total cost of $5,500,000 ($500,000 paid in cash and the balance on a long-term note). The appraised cost of the land and building were $3,000,000 and $2,100,000, respectively. Calculate the costs to be allocated to the land and the building and prepare the appropriate journal entry to record the acquisition. (Round all calculations to two decimals)

	Appraised Cost	Percent Total
Land	3,000,000	58.82% (3,000,000/5,
Building	2,100,000	41.18% (2,100,000/5,
Total	5,100,000	100.00%

Land	3,235,100	
Building	2,264,900	
Cash		500,000
Notes Payable		5,000,000

Difficulty: Moderate
Larson - Chapter 10 #134
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

135. Pink Lady Co needed a new building, and found a suitable piece of land which had an old building on it. Pink Lady made an agreement to buy the land and the building for $960,000 cash. The old building was demolished to make way for the new building.
The following is information regarding the demolishing of the old building and construction of the new one:

Cost of construction of new building, which included parking lot	$700,000
Demolition of old building	
Proceeds from salvage materials	

Prepare a single journal entry to record the above costs (assume all paid cash).

Land **	1,290,
Building *	4,860,
Land Improvements	700,
Cash	

* 5,560,000- 700,000
** 960,000+350,000-20,000

Difficulty: Moderate
Larson - Chapter 10 #135
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

136. Alpha Co paid $180,000 to purchase a piece of land on which to build a new building. Additional costs incurred were:

Real estate broker's commissions
Legal fees of purchasing the real estate
Landscaping expenses
Expense to demolish old house located on land
Proceeds from selling materials salvaged from old house

What dollar amount of the above costs should be allocated to Land and what amount should be allocated to the new Building?

$180,000 + $10,800 + $1,400 + $6,000 + $1,500 - $900 = $198,800 to Land; $-0- to the new Building account.

Difficulty: Moderate
Larson - Chapter 10 #136
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

137. SASA Company made the following expenditures in connection with the construction of its new soccer facility:

Architect's fees
Cash paid for land and old building
Removal of old building
Survey to site the new building
Legal fees for title search
Excavation for construction of basement
Machinery purchased
Storage charges on machinery because building was ready when machinery was delivered
Freight on machinery purchased
Hauling charges to deliver machinery from storage to building
Construction costs of new building
Landscaping
Installation of machinery

Prepare a schedule showing the amounts to be recorded as Land, Building, and Machinery and Equipment and Expenses.

	Land	Build
Architect's fees		8,00
Cash paid for land and old building	130,000	
Removal of old building	19,000	
Survey to site the new building	(6,000)	
Legal fees for title search	900	
Excavation for construction of basement		1,50
Machinery purchased		
Storage charges on machinery because building was not ready when machinery was delivered		
Freight on machinery purchased		
Hauling charges to deliver machinery from storage to new building		
Construction costs of new building		612,0
Landscaping	6,500	
Installation of machinery		
	150,400	621,5

Difficulty: Hard
Larson - Chapter 10 #137
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

138. How is the cost principle applied to property, plant and equipment?

Property, plant and equipment should be recorded at cost when acquired. Cost includes all normal and reasonable expenditures necessary to get the asset in place and ready for its intended use. The cost of a lump-sum purchase is allocated among its individual assets based on their relative market values.

Difficulty: Moderate
Larson - Chapter 10 #138
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

139. RoboCop Company paid $31,400 for a machine that was expected to last 5 years and have a residual value of $5,000.
During the third year of the machine's life, $3,700 was paid for replacement parts that were expected to increase the machine's productivity by 20% each year. Prepare the general journal entry to record this transaction.

Machinery	3,700	
Cash		3,700

Difficulty: Easy
Larson - Chapter 10 #139
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

140. RoboCop Company paid $31,400 for a machine that was expected to last 5 years and have a residual value of $5,000.
During the fourth year of the machine's life, $5,400 was paid for repairs that were expected to increase the service life of the machine from 5 to 7 years. Prepare the general journal entry to record this transaction.

Machinery	5,400	
Cash		5,400

Difficulty: Easy
Larson - Chapter 10 #140
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Application

141. Xeno Co. incurred the following transactions concerning its machinery:

8-Jan-14	Purchased a machine for $55,000 cash, and also paid $3,000 cash to
	life is 10 years and residual value is $5,000. Straight line depreciatic
1-Jan-15	The machine's useful life was changed from 10 years to 9.
5-Jan-15	General maintenance on the machine was completed for $800.
1-Jan-16	Paid $3,800 to replace a motor in the machine. This was considered
	alter the machine's useful life

Xeno Co uses the calendar year as its fiscal year.

Prepare the journal entry to record depreciation expense for 2014.
Prepare the journal entry to record depreciation expense for 2015.
Prepare the journal entry to record depreciation expense for 2016.
Round all values to the nearest dollar.

31-Dec-14 Depreciation Expense, Machine
Accumulated Depreciation, Machine
($58,000-5,000)/10 years

31-Dec-15 Depreciation Expense, Machine
Accumulated Depreciation, Machine
(58,000-5,300-5,000)/8 years

31-Dec-16 Depreciation Expense, Machine
Accumulated Depreciation, Machine
[(58,000-5,300-5,963+3,800)-5,000]/7

Difficulty: Hard
Larson - Chapter 10 #141
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

142. On January 1, 2014, Friar Company purchased a machine for $175,000 that was expected to last 6 years and have a residual value of $16,000. On January 4, 2017, Friar Company paid $25,000 for improvements to the machine, which increased the total estimated useful life from 6 to 10 years and increased the residual value to $19,500. Friar uses straight-line depreciation.

(1) What account should be debited in the journal entry to record the $25,000 improvements?
(2) What amount of depreciation expense should be recorded for 2017?

(1) Machinery

(2) ($175,000- (3x (175,000-16,000)/6)+ $25

($120,500-19,500)/7=

Difficulty: Moderate
Larson - Chapter 10 #142
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

143. Explain depreciation and the elements affecting its calculation.

Depreciation is the process of allocating to expense the cost of property, plant and equipment over the accounting periods benefiting from the use of the assets. Three factors determine depreciation: cost, residual value, and useful life.

Difficulty: Moderate
Larson - Chapter 10 #143
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

144. Compare the three different depreciation methods: straight-line, units of production, and double-declining balance.

The amount of depreciation expense per period is usually different for different methods. Yet total depreciation expense is the same for all methods. The straight-line method results in the same amount of depreciation for each accounting period. The units-of-production method results in depreciation expense that increases or decreases with the amount of asset usage. The double-declining-balance method is an accelerated method and yields more depreciation expense in the first years of ownership and less in later years than straight-line depreciation.

Difficulty: Moderate
Larson - Chapter 10 #144
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

145. Explain how each of the following depreciation methods is calculated: straight-line, units-of-production, and double-declining-balance.

Straight-line depreciation is calculated by subtracting residual value from the cost of a property, plant and equipment item and dividing the result by the useful life in years. The resulting amount is the annual depreciation expense for the asset.
Units-of-production depreciation is calculated by subtracting residual value from the cost of a property, plant and equipment item and dividing the result by the estimated number of units to be produced. The resulting amount is the depreciation expense per unit. That amount is multiplied by the number of units used during each accounting period in order to determine the total amount of depreciation expense for the period.
The double-declining-balance method uses twice the straight-line percent times the beginning book value of the asset. The resulting amount is the annual depreciation expense.

Difficulty: Hard

Larson - Chapter 10 #145
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

146. Chervinski Industries recently paid $460,000 to buy a building that has an estimated useful life of 40 years and a residual value of $116,000. Calculate the depreciation expense for the third year after acquisition using double-declining-balance depreciation. Assume a full year of depreciation in the first year.

Annual rate is 2/40 x 100= 5%

Year	Annual Depreciation Calculation	Annual Depreci Expense
1	460,000 x 0.05	23,000.00
2	437,000 x 0.05	21,850.00
3	415,150 x 0.05	20,757.50

Difficulty: Moderate
Larson - Chapter 10 #146
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

147. Dersch Co. purchased a machine on January 1, 2014, for $1,500,000. Using the table below, calculate the annual depreciation expense for each year of the machine's life (estimated at 5 years or 50,000 hours with a residual value of $150,000). During the machine's life it was used 15,000; 14,000; 10,000; 9,000; and 6,000 hours.

Year	Straight Line	Units of Productio
2014		
2015		
2016		
2017		
2018		

	(a)	(b)	
Year	Straight Line	Units of Production	D Dec Ba
2014	$270,000	$405,000	$6
2015	270,000	378,000	36
2016	270,000	270,000	21
2017	270,000	243,000	12
2018	270,000	54,000	4
Totals	$1,350,000	$1,350,000	$1,3

(a) ($1,500,000-150,000)/5 years= 270,000

(b) Rate=($1,500,000-150,000)/50,000 hours= $

Year	Annual Depreciation Calculation	Annual Depreciation Expense
2014	15,000 hrs x $27/hr	405,000
2015	14,000 hrs x $27/hr	378,000
2016	10,000 hrs x $27/hr	270,000
2017	9,000 hrs x $27/hr	243,000
2018	6,000 hrs x $27/hr	Max 54,000

(c) Rate= 2/5 x 100= 40%

Year	Annual Depreciation Calculation	Annual Depreciation Expense
2014	1,500,000 x 0.40	600,000
2015	900,000 x 0.40	360,000
2016	540,000 x 0.40	216,000
2017	324,000 x 0.40	129,600
2018	194,400 x 0.40	Max 44,400

Difficulty: Hard
Larson - Chapter 10 #147
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

148. Twilight Manufacturing's property, plant and equipment records reveal the following information:

Equipment	Cost	Residual Value	Purchase Date	Depreciation Method
(1)	50,000	12,000	Dec 1, 2013	Straight Line
(2)	60,000	8,000	Oct 18, 2014	Units of Production
(3)	120,000	none	June 12, 2014	Double Declining Balan
(4)	90,000	10,000	May 3, 2014	Straight Line

Calculate the depreciation expense for each equipment item for the year ended December 31, 2014, using the nearest whole month method.

Equipment	
(1)	(50,000-12,000)/5 years =
(2)	(60,000-8,000)/50,000 x 5,000 units=
(3)	2/10 x 120,000 x 7/12=
(4)	(90,000-10,000)/8 years x 8/12 =

Difficulty: Moderate
Larson - Chapter 10 #148
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

149.

On January 2, 2014, Far Co. purchased a machine for $525,000. The company expects the machine to last for 10 years or 50,000 hours of operation, with an estimated residual value of $15,000. During 2014 the machine was operated for 3,000 hours, while in 2015 it was operated for 2,600 hours. Calculate the depreciation expense for the machine for 2014 and 2015 using the following depreciation methods:

(a) Straight-line.
(b) Double-declining-balance.
(c) Units-of-production.

(a) ($525,000 - 15,000)/10 years = $51,000
(b) Double Declining Rate is 2/10 = 20%

Year	Annual Depreciation Calculation	Annual Depreciation Expense	R
2014	525,000 x 0.20	105,000	4
2015	420,000 x 0.20	84,000	3

(c) ($525,000 - 15,000)/50,000 hours = $10.20/hour

Year	Annual Depreciation Calculation	Annual Depreciation Expense	R
2014	3,000 hrs x $10.20/hr	30,600	4
2015	2,600 hrs x $10.20/hr	26,520	4

Difficulty: Moderate
Larson - Chapter 10 #149
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

150. On January 1, 2014, a machine costing $230,000 with a 4-year service life and an estimated $3,000 residual value was purchased. It was also estimated that the machine would produce 50,000 units during its life. The actual units produced during its first 2 years of operation were 9,000 and 10,000 respectively. Calculate the amount of depreciation expense for calendar years 2014 and 2015 under each of the following assumptions:

(a) The company uses the straight-line method of depreciation.
(b) The company uses the units-of-production method of depreciation.
(c) The company uses the double-declining-balance method of depreciation.

(a) ($230,000-3,000)/4 years= $56,750

(b) Double Declining Rate is 2/4= 50%

Year	Annual Depreciation Calculation	Annual Depreciation Expense
2014	230,000 x 0.50	115,000
2015	115,000 x 0.50	57,500

(c) ($230,000-3,000)/50,000 units= $4.54/unit

Year	Annual Depreciation Calculation	Annual Depreciation Expense
2014	9,000 hrs x $4.54/unit	40,860
2015	10,000 hrs x $4.54/unit	45,400

Difficulty: Moderate
Larson - Chapter 10 #150
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

151. On October 1, 2014, Fisherman Company purchased a light truck, at a cost of $62,000. The truck is expected to last six years and have a residual value of $5,200. Fisherman Company uses the calendar year as their fiscal year, and the nearest whole month method for depreciation.

(a) What is the depreciation expense for 2014, assuming the straight-line method is used?
(b) What is the depreciation expense for 2014 and 2015, assuming the double-declining-balance method is used (round double declining rate to 4 decimals)?

(a) ($62,000-5,200)/6 years x 3/12 = $2,366.67

(b) Double Declining Rate is 2/6= 33.33%

Year	Annual Depreciation Calculation	Annual Depreciation Expense
2014	62,000 x 0.3333 x 3/12	5,166
2015	56,834 x 0.3333	18,943

Difficulty: Moderate
Larson - Chapter 10 #151
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

152. A new machine is expected to produce 60,000 units of product during its 5-year life. The machine cost $180,000 and is estimated to have a $20,000 residual value.
If the machine produces 7,200 units of product during its first year, what is the depreciation for the year calculated by the units-of-production method (round rate to 2 decimals)?

Rate is ($180,000-20,000)/60,000units= $2.67/unit
$2.67/unit × 7,200 units = $19,224 depreciation for the first year

Difficulty: Easy
Larson - Chapter 10 #152
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-

balance.
Type: Application

153. A new machine is expected to produce 40,000 units of product during its 5-year life. The machine cost $180,000 and is estimated to have a $20,000 residual value.
If depreciation on the machine is calculated by the double-declining-balance method, what is the depreciation for the first year?

2/5 × 100 = 40% $180,000 × 40% = $72,000 depreciation for the first year

Difficulty: Easy
Larson - Chapter 10 #153
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

154. A new machine is expected to produce 40,000 units of product during its 5-year life. The machine cost $38,000 and is estimated to have a $6,000 residual value.
What is the first year's depreciation on the machine calculated by the straight-line method?

($38,000-6,000)/5 years= $6,400

Difficulty: Easy
Larson - Chapter 10 #154
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

155. On January 1, 2014, High Flying Airways acquired and placed in service a plane that cost $8,000,000. The plane's service life and residual value were estimated at 5 years and $1,500,000, respectively. Calculate depreciation for 2014-2018, assuming the following alternative depreciation methods are used:

(a) Straight-line.
(b) Double-declining-balance.

(a) ($8,000,000-1,500,000)/5 years = 1,300,000

(b) Double Declining Rate is 2/5= 40%

Year	Annual Depreciation Calculation	Annual Depreciation Expense
2014	8,000,000 x 0.40	3,200,000
2015	4,800,000 x 0.40	1,920,000
2016	2,880,000 x 0.40	1,152,000
2017	1,728,000 x 0.40	Max 228,000
2018	0	Max 0

Difficulty: Hard
Larson - Chapter 10 #155
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Application

156. On July 1, 2014, Delta Company purchased and placed in service a machine that cost $360,000. Delta estimated the service life to be 5 years or 25,000 units of output, with an estimated residual value of $6,000. During 2014, 2,600 units were produced.
Prepare the necessary December 31, 2014, adjusting journal entry to record depreciation assuming Delta uses:

(a) The straight-line method of depreciation.
(b) The units-of-production method of depreciation.

(a) ($360,000-6,000)/5 years x 6/12= 35,400
31-Dec-14 Depreciation Expense, Machine
Accumulated Depreciation, Machine

(b) ($360,000-6,000)/25,000 units= $14.16/unit
2,600 units x $14.16/unit= 36,816
31-Dec-14 Depreciation Expense, Machine
Accumulated Depreciation, Machine

Difficulty: Moderate
Larson - Chapter 10 #156
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

157. On July 1, 2014, Delta Company purchased and placed in service a machine with a cost of $340,000. Delta estimated the service life to be 6 years or 60,000 units of output, with an estimated residual value of $80,000. During 2014, 15,000 units were produced.
Prepare the necessary December 31, 2014, adjusting journal entry to record depreciation for 2014 assuming Delta uses the double-declining-balance method to the nearest whole month.

31-Dec-14 Depreciation Expense, Machine
Accumulated Depreciation, Machine
($340,000x 2/6) x 6/12= 56,666.67

Difficulty: Moderate
Larson - Chapter 10 #157
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

158. On September 30, 2014, Sabena Industries acquired and placed in service a machine that cost $850,000. It was estimated that the machine has a service life of five years and a residual value of $69,400.
Using the double-declining-balance method of depreciation, prepare a schedule showing the depreciation amounts for the years 2014 through 2019 (use the nearest whole month method and round answers to the nearest dollar). Sabena closes its books on December 31 of every year.

Rate = 2/5 x 100 = 40%

Year	Annual Depreciation Calculation	Annual Depreciati Expense
2014	850,000 x 0.40 x 3/12	85,000
2015	765,000 x 0.40	306,000
2016	459,000 x 0.40	183,600
2017	275,400 x 0.40	110,160
2018	165,240 x 0.40	66,096
2019	99,144 x 0.40 x 9/12	29,744

Difficulty: Hard
Larson - Chapter 10 #158
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

159. Jelly Bean had the following property, plant and equipment purchases during 2014:

(1) On April 4, equipment costing $150,000 with a 5-year service life and an estimated $40,000 residual value was purchased.
(2) On October 4, a machine costing $230,000 with a 5 year service life and an estimated $50,000 residual value was purchased.
Assuming Jelly Bean has a December 31 year end, prepare the necessary adjusting journal entries at December 31, 2014 to record depreciation under the following depreciation methods (using the nearest whole month method):

(a) Straight-line.
(b) Double-declining-balance.

(a) ($150,000-40,000)/5 years x 9/12= 16,500
31-Dec-14 Depreciation Expense, Equipment
Accumulated Depreciation, Equipment

($230,000-50,000)/5 year x 3/12= 9,000
31-Dec-14 Depreciation Expense, Machine
Accumulated Depreciation, Machine

(b) Rate is 2/5 x 100 = 40%
150,000 x .40 x 9/12= 45,000
31-Dec-14 Depreciation Expense, Equipment
Accumulated Depreciation, Equipment

Rate is 2/5 x 100 = 40%
230,000 x .40 x 3/12= 23,000
31-Dec-14 Depreciation Expense, Machine
Accumulated Depreciation, Machine

Difficulty: Moderate
Larson - Chapter 10 #159
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Type: Application

160. On January 1, 2014, Boone Company purchased a machine for $75,000 that had a 6-year life and a residual value of $6,000. After 3 years of use, on January 1, 2017, Boone Company paid $7,500 to improve the efficiency of the machine. The effect of the expenditure was to increase the productivity of the machine without increasing its remaining useful life or changing its residual value. Boone uses straight-line depreciation.

(1) What account should be debited in recording the $7,500 expenditure?
(2) What amount of depreciation expense should be reported for 2017?

(1) Machinery
(2) ($75,000 - [(75,000-6,000)/6 x 3] + $7,500) = $48,000 (NBV at Jan 1/17)
($48,000-6,000)/3 = $14,000

Difficulty: Moderate
Larson - Chapter 10 #160
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

161. Explain (1) depreciation for partial years and (2) revision of depreciation when estimates change.

(1) Partial years' depreciation is often required because assets are bought and sold throughout the year. Depreciation for assets owned for less than one year can be based on the number of months owned during the year (nearest whole month method) or the half-year convention may be used.
(2). Depreciation is revised when changes in estimates such as residual value and useful life occur. For example, if the useful life of a property, plant and equipment item changes, the remaining cost to be depreciated is spread over the remaining revised useful life of the asset.

Difficulty: Hard
Larson - Chapter 10 #161
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Knowledge

162. A machine was purchased for $37,000 and depreciated for 5 years on a straight-line basis under the assumption it would have a 10-year life and a $1,000 residual value. At the beginning of the machine's sixth year, it was recognized that it had 3 years of remaining life left, instead of five, and that at the end of the 3 years its residual value would be $1,600. What should the annual depreciation be for the machine's remaining years?

($37,000 - $1,000)/10 =	$ 3,600
$3,600 × 5 =	$18,000
$37,000 - $18,000 =	$19,000
($19,000 - $1,600)/3 =	$ 5,800

Difficulty: Moderate
Larson - Chapter 10 #162
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

163. On January 1, 2015, Bailey Company purchased a machine for $106,000 that was expected to last five years and has a residual value of $6,000. At the beginning of 2018, Bailey decided that the machine's estimated useful life should be revised to a total of 6 years instead of 5. Also, the residual value was now estimated to be $5,500. Straight-line depreciation was used. Calculate the depreciation expense for 2018.

($106,000 - $6,000)/5 = $20,000 (annual depreciation)
$106,000 - (3 × $20,000) = $46,000 (NBV at Jan 1/18)
($46,000 - $5,500)/3 = $13,500

Difficulty: Moderate
Larson - Chapter 10 #163
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

164. Wildcat Company purchased a heating system on January 2, 2003, for $625,000. The system had an estimated useful life of 15 years, with no residual value. On January 2, 2015, the company paid $33,000 cash for a complete renovation of the system, and now expects the system to last 5 years beyond the original estimate. The company uses the straight-line method of depreciation.

(a) Prepare the journal entry at January 2, 2015, to record the renovation of the heating system.
(b) Prepare the journal entry at December 31, 2015, to record the depreciation for 2015.

(a)

2-Jan-15	Heating System	
	Cash	

(b)

31-Dec-15	Depreciation Expense, Heating System	
	Accumulated Depreciation, Heating	

Annual Depreciation 2003-2014 = 625,000/15 years x 12 years = 500,000
At January 2, 2015, book value is 625,000 + 33,000 - 500,000 = 158,000
New annual depreciation 158,000/8 years = 19,750
(15 years - 12 years + 5 years) = 8 years remaining

Difficulty: Moderate
Larson - Chapter 10 #164
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Application

165. At December 31, 2015, Great Coast Coffee Company's adjusted trial balance shows an espresso machine with a book value of $12,000. As part of the year end procedures GCC completed the asset impairment test on the machine and noted that the recoverable value of the machine was $6,000. Record the impairment loss on the asset.

Dec-31	Impairment Loss	6,000	
	Machine		6,000
	(12,000-6,000)		

Difficulty: Easy
Larson - Chapter 10 #165
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

166. Great Coast Construction (GCC) exchanged a three-year-old excavator for a new excavator that had a list price of $160,000. The old excavator originally cost $175,000 and had accumulated depreciation of $45,000 to the date of exchange. In addition to the $145,000 trade-in given for the old excavator (which was the old asset's fair value), GCC paid $10,000 cash to complete the deal. The list price for the new excavator is considered unreliable.
Record the asset exchange.

Equipment (new) (145,000 + 10,000)	155,0(	
Accumulated depreciation, equipment (old)	45,0(	
Equipment (old)		
Cash		
Gain on asset exchange		
(145,000 trade in - 130,000 book value)		

Difficulty: Hard
Larson - Chapter 10 #166
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

167. Great Coast Construction (GCC) exchanged a three-year-old excavator for a new excavator that had a list price of $63,000, which was its fair value. The old excavator originally cost $85,000 and has accumulated depreciation of $45,000 to the date of exchange. In addition to the $45,000 trade-in given for the old excavator, GCC paid $8,000 cash to complete the deal.

Equipment (new)	63,000
Accumulated depreciation, equipment (old)	45,000
Equipment (old)	
Cash	
Gain on asset exchange*	

* Gain = Fair Value of new excavator- assets given up
Gain= 63,000 (list price) - 40,000 (book value of old

Difficulty: Moderate
Larson - Chapter 10 #167
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

168. Discuss the accounting procedures involved for asset disposal through discarding, selling, or exchanging an asset.

When an asset is disposed of through discarding or selling, the depreciation must first be brought up to date. Then the cost of the asset and its related accumulated depreciation are removed from the books, along with recording any cash involved in the transaction and any gain or loss from the disposal.
When a new asset is purchased by trading in an old asset, assuming the transaction has commercial substance, depreciation to date is recorded, the cost of the old asset and its related accumulated depreciation are removed from the books, the new asset is recorded at its fair value, and any cash paid or received and any gain or loss on disposal is recognized.

Difficulty: Moderate
Larson - Chapter 10 #168
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

169. Five years ago, Sanford and Sons purchased equipment for $108,000 which had an estimated useful life of 10 years with an expected residual value of $15,000. At the end of five years, the equipment's accumulated depreciation is $46,500. Prepare the journal entry to record the sale of the equipment at the end of the fifth year for $45,000 cash.

Cash	45,00
Loss on Sale of Equipment	16,50
Accumulated Depreciation	46,50
Equipment	

Difficulty: Easy
Larson - Chapter 10 #169
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

170. Vroom Company sold for $60,000 a machine that originally cost $100,000. The accumulated depreciation on this machine to date of sale was $47,000. What was Vroom Company's gain or loss on this sale?

Machine Book Value $100,000-47,000 = $53,000
Cash Received = $60,000
Gain on Sale = $7,000

Difficulty: Easy
Larson - Chapter 10 #170
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

171. Aye Company's computer was destroyed by fire. The computer originally cost $5,000, and accumulated depreciation to the date of the fire was $900. The company received $2,000 from an insurance policy that covered the computer and will use that money to help pay for a new computer. Prepare the general journal entry to record the loss of the computer and the receipt of cash from the insurance company.

Cash	2,00
Accumulated Depreciation, Computer	90
Loss from fire	2,10
Computer	

Difficulty: Moderate
Larson - Chapter 10 #171
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

172. The $60,000 original cost of a machine is recorded in an account called Old Machine. After $45,000 of depreciation was recorded, the machine was traded in on a new machine with a cash price of $85,000. A $10,500 trade-in allowance was received on the old machine and the balance was paid in cash. This transaction has commercial substance. Prepare the general journal entry to record the trade; the cost of the new machine should be debited to a New Machine account.

New Machine	85,0(
Accumulated Depreciation, Old Machine	45,0(
Loss on Asset Exchange	4,5(
Old Machine	
Cash	

Difficulty: Moderate
Larson - Chapter 10 #172
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

173. Robertson Company exchanged a used machine for a new machine. The old machine cost $80,000, and the new one had a cash price of $95,000. Robertson had recorded a total of $75,000 depreciation on the old machine and was allowed a $4,500 trade-in allowance. This transaction has commercial substance. What gain or loss should be recorded on the exchange?

Cost	80,000
Accumulated Depreciation	75,000
Book Value	5,000
Less Trade in allowance	4,500
Loss	500

Difficulty: Moderate
Larson - Chapter 10 #173
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

174. Wilkins Company exchanged its old computer for a newer model. The Old Computer was purchased for $22,000, with related accumulated depreciation of $15,500 to the date of the exchange. The new computer had a cash price of $30,200, and Wilkins Company was given a $7,500 trade-in allowance. This transaction has commercial substance. Prepare the general journal entry to record the exchange, recording the new computer in an account called New Computer.

New Computer	30,2(
Accumulated depreciation, Old Computer	15,5(
Old Computer	
Cash ($30,200 - $7,500)	
Gain on Asset Exchange	

Difficulty: Moderate
Larson - Chapter 10 #174
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

175.

On January 2, 2015, Mullins Company purchased a delivery truck for $45,000 cash. The truck had an estimated useful life of seven years and an estimated residual value of $3,000. Straight-line depreciation was used.
Assuming the transactions have commercial substance, prepare the journal entries to record the disposition of the truck on September 1, 2019, under each of the following assumptions:

(a) The truck and $55,000 cash were exchanged for equipment that had a fair value of $70,000.
|(b) The truck and $40,000 cash were exchanged for a new delivery truck that had a fair value of $70,000.

(a) Sept 1 New Equipment

Accumulated Deprec

Loss on Exchange

Old Delivery Truck

Cash

(b) Sept 1 New Delivery Truck

Accumulated Deprec

Gain on Exchange

Old Delivery Truck

Cash

Accumulated Depreciation: (45,00

Difficulty: Moderate
Larson - Chapter 10 #175
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

176. On April 1, 2015, Hogan Industries scrapped a machine that cost $10,000 and had accumulated depreciation through December 31, 2014, of $10,000. Prepare the journal entry to record the disposal of the machine.

01-Apr	Accumulated Depreciation, Machine	
	Machine	

Difficulty: Moderate
Larson - Chapter 10 #176
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

177. On April 1, 2015, Lockhart Company discarded equipment that cost $80,000, had a useful life of 5 years, a residual value of $14,000, and, under straight-line depreciation, accumulated depreciation as of December 31, 2014 of $26,400.

(a) Prepare the journal entry to record depreciation up to the date of disposal of the equipment.
(b) Prepare the journal entry to record the disposal of the equipment.

(a) ($80,000-14,000)/5 years x 3/12= 3,300

01-Apr-15	Depreciation Expense, Equipment	
	Accumulated Depreciation, Equipment	

(b)

01-Apr-15	Accumulated Depreciation, Equipment	
	Loss on Disposal of Equipment	
	Equipment	

Difficulty: Moderate
Larson - Chapter 10 #177
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

178. On April 1, 2015, Sagan Realty disposed of an automobile that had cost $50,000 on January 1, 2013. The automobile had a residual value of $8,000, and a useful life of 5 years. The accounting records showed accumulated depreciation for this asset of $16,800 at December 31, 2014. The asset was discarded after an accident, and $11,500 was received from an insurance claim.
Prepare the journal entry to record the disposal of the automobile.

01-Apr-15	Accumulated Depreciation, Automobile		
	Cash		
	Loss on Disposal of Automobile		
	Automobile		

Depreciation Expense= (50,000-8,000)/5 = $8,4

2013	
2014	
2015	
Total	

Difficulty: Moderate
Larson - Chapter 10 #178
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

179. On April 1, 2015, Thunderbird Co sold a piece of equipment that had cost $35,000 on January 1, 2011. The equipment had a residual value of $5,000, a useful life 10 years, and double-declining-balance depreciation at twice the straight-line rate was used. On December 31, 2014, accumulated depreciation was $20,664. The asset was sold for $14,200.
Prepare the journal entry to record depreciation up to the date of disposal of the equipment, and the journal entry to record the disposal of the equipment.

Apr-01	Depreciation Expense		
	Accumulated Depreciation, Equip.		
	($35,000-$20,664) x0.2 x 3/12= $716.80		
1	Accumulated Depreciation, Equip	21,3	
	Cash	14,3	
	Equipment		
	Gain on Sale of Equipment		

Difficulty: Moderate
Larson - Chapter 10 #179
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

180. During 2016, Melanie's Emporium exchanged an old truck costing $18,000 with accumulated depreciation of $13,000 to the date of exchange for a new truck. The new truck had a cash price of $30,000 and Melanie received a $6,000 trade-in allowance on the old truck. This transaction has commercial substance. Prepare the journal entry to record the exchange.

Truck (new)			
Accumulated Depreciation, Truck (old)			
	Truck (old)		
	Cash (30,000-6,000)		
	Gain on Asset Exchange		

Difficulty: Moderate

Larson - Chapter 10 #180
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

181. During 2014, Storey Company acquired a new computer with a cash price of $12,800 by exchanging an old one on which Storey received a $1,500 trade-in. The old computer had cost $9,000 and its accumulated depreciation to the date of exchange was $5,500. This transaction has commercial substance. Prepare the journal entry to record the exchange.

Computer (new)
Accumulated Depreciation, Computer (old)
Loss on Asset Exchange
    Computer (old)
    Cash (12,800-1,500)

Difficulty: Moderate
Larson - Chapter 10 #181
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

182. Upside Down Company purchased new office equipment for $4,300, by trading in old equipment with a cost of $2,000 and accumulated depreciation to the date of trade of $1,900. Upside Down received a $50 trade-in allowance for the old equipment. This transaction has commercial substance. Prepare the journal entry to record the transaction.

Office Equipment (new)
Accumulated Depreciation, Office Equipment
Loss on Asset Exchange
    Office Equipment (old)
    Cash

Difficulty: Moderate
Larson - Chapter 10 #182
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

183. On April 1, Fog Company traded an old machine that originally cost $32,000 and had been depreciated $24,000 for a new machine that had a cash price of $40,000.
Assuming that this transaction has commercial substance,

(1) Prepare the journal entry to record the exchange under the assumption that a $5,000 trade-in allowance was received and the balance was paid in cash.
(2) Prepare the journal entry to record the exchange under the assumption that instead of a $5,000 trade-in allowance, a $12,500 trade-in allowance was received and the balance was paid in cash.

(1)

Apr-01	Machinery		
	Accumulated Depreciation, Machinery		
	Loss on Asset Exchange		
		Machinery	
		Cash ($40,000-$5,000)	

(2)

Apr-01	Machinery		
	Accumulated Depreciation, Machinery		
		Gain on Asset Exchange	
		Machinery	
		Cash ($40,000-$12,500)	

Difficulty: Moderate
Larson - Chapter 10 #183
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

184. Natsuko Company traded an old forklift for a new forklift, receiving a $10,500 trade-in allowance and paying the remaining $37,200 in cash. The old forklift cost $39,000, and straight-line depreciation of $27,200 had been recorded to the date of trade under the assumption it would last 5 years and have a $5,000 residual value. At the date of trade, the fair value of the old forklift is $11,000, however the fair value of the new forklift is not known.

(1) What was the book value of the old forklift?
(2) At what amount should the new forklift be recorded?

(1) $39,000 - $27,200 = $11,800
(2) $11,000 + 37,200 = 48,200
(fair value of old asset plus cash paid)

Difficulty: Moderate
Larson - Chapter 10 #184
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

185. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.
Assuming the machine was sold for $22,000, prepare the general journal entry to record the disposal

Jul-31	Cash	
	Accumulated Depreciation, Machinery	
	Gain on Disposal of Equipment	
	Machinery	
	$72,000/5 x 3.5 years = $50,400	

Difficulty: Moderate
Larson - Chapter 10 #185
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

186. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.
Assuming the machine was sold for $15,000, prepare the general journal entry to record the disposal.

Jul-31	Cash		
	Loss on Disposal of Equipment		
	Accumulated Depreciation, Machinery		
	Machinery		
	$72,000/5 x 3.5 years = $50,400		

Difficulty: Moderate
Larson - Chapter 10 #186
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

187. Hertzog Company purchased and installed a machine on February 1, 2014, at a total cost of $72,000. Straight-line depreciation was calculated based on the assumption of a five-year life and no residual value. The machine was disposed of on July 31, 2017.
Assuming the machine was totally destroyed in a fire and the insurance company settled the claim for $18,000 cash, prepare the general journal entry to record the disposal.

Jul-31	Cash		
	Loss from Fire		
	Accumulated Depreciation, Machinery		
	Machinery		

Difficulty: Moderate
Larson - Chapter 10 #187
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

188. Danner Co. purchased a computer on January 1, 2014, for $1,600,000. The straight-line method of depreciation was used, based on an expected life of 6 years and a residual value of $130,000. Prepare the journal entries to record depreciation for the first 6 months of 2016 and the sale of the computer on July 1, 2016, for $1,000,000.

Jul-01	Depreciation Expense*		
	Accumulated Depreciation, Computer		
1	Cash		
	Accumulated depreciation, Computer **		
	Computer Equipment		
	Gain on Disposal of Equipment ***		

*(($1,600,000-$130,000) / 6) x 1/2

**(($1,600,000-$130,000)/6) x 2.5 years = $612,

*** Original Cost	$	1,(
Accumulated depreciation		(
Book Value	$	9
Sales Price		1,(
Gain	$	

Difficulty: Moderate
Larson - Chapter 10 #188
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Application

189. Discuss accounting for an impairment of property, plant and equipment.

If the book value or carrying amount of a PPE item is greater than the amount to be recovered through the asset's use or sale, the difference is an impairment loss and the asset is described as impaired. To account for the impairment of an asset a company must record a debit to impairment loss and a credit to the impaired asset. When a loss is recorded, revised depreciation must be calculated and recorded in future periods because of the decrease in the carrying amount of the asset caused by the impairment loss.

Difficulty: Moderate
Larson - Chapter 10 #189
Learning Objective: 10-05 Explain and record impairment losses.
Type: Knowledge

190. Matador & Company was preparing the annual financial statements and, as part of its year-end procedures, prepared the following schedule based on adjusted values at March 31, 2015:

Asset	Cost	Accumulated Depreciation
Furniture	$ 25,000	$ 20,000
Computer	$ 2,000	$ 1,000
Land	$ 105,000	$ -
Machine	$ 90,000	$ 25,000

Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.

Asset	Cost	Accumulated Depreciation	Book Value	R
Furniture	$ 25,000	$ 20,000	$ 5,000	$
Computer	$ 2,000	$ 1,000	$ 1,000	$
Land	$ 105,000	$ -	$ 105,000	$
Machine	$ 90,000	$ 25,000	$ 65,000	$

Impairment Loss		21,000	
	Computer		1,000
	Machine		20,000

Difficulty: Easy
Larson - Chapter 10 #190
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

191. Matador & Company was preparing the annual financial statements and, as part of its year-end procedures, prepared the following schedule based on adjusted values at March 31, 2015:

Asset	Cost	Accumulated Depreciation	Recoverable Amount	Residual Value	D
Furniture	$ 25,000	$ 20,000	$ 10,000	$ 500	S
Computer	$ 2,000	$ 1,000	$ 500	$ -	Dou
Land	$ 105,000	$ -	$ 90,000	N/A	
Machine	$ 90,000	$ 25,000	$ 35,000	$ 5,000	S

1. Record the entry for any impairment loss assuming that Matador & Company recorded no impairment losses in previous years.
2. Record the entry for depreciation on each of the assets at March 31, 2015. Assume there was no change in residual or useful lives regardless of impairment losses.

1.

Asset	Cost	Accumulated Depreciation	Recoverable Amount
Furniture	$ 25,000	$ 20,000	$ 10,000
Computer	$ 2,000	$ 1,000	$ 500
Land	$ 105,000	$ -	$ 90,000
Machine	$ 90,000	$ 25,000	$ 35,000

Mar-31	Impairment Loss		45,500
	Computer		
	Land		
	Machine		

2.

Asset	Cost	Accumulated Depreciation	Impairment Loss	Adjusted Book Value after loss	Residual
Furniture	$ 25,000	$ 20,000	$ -	$ 5,000	$
Computer	$ 2,000	$ 1,000	$ 500	$ 500	$
Land	$ 105,000	$ -	$ 15,000	$ 90,000	
Machine	$ 90,000	$ 25,000	$ 30,000	$ 35,000	$ 5

Asset	Depreciation Expense
Furniture	($5,000-$500)/3 years= $1,500
Computer	2/5 x 500 = $200
Land	N/A
Machine	($35,000-$5,000)/3 years= $10,000

Mar-31	Depreciation expense, Furniture	$ 1,500	
	Depreciation expense, Computer	200	
	Depreciation expense, Machine	10,000	
	Accumulated Depreciation, Furniture		1,500
	Accumulated Depreciation, Computer		200
	Accumulated Depreciation, Machine		10,000

Difficulty: Hard
Larson - Chapter 10 #191
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-05 Explain and record impairment losses.
Type: Application

192. Discuss accounting for intangible assets.

Intangible assets are recorded at acquisition cost and are debited to asset accounts. Allocation of the cost of an intangible asset to expense is done by using the straight-line method and is called amortization. Theoretically, a contra account should be used for the accumulated amortization (as with tangible property, plant and equipment and accumulated depreciation), but a credit directly to the asset account is also done in practice.

Difficulty: Moderate
Larson - Chapter 10 #192
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

193. On January 4, 2015, SportsWorld purchased a patent for $35,000 with a useful life of 10 years. Prepare the journal entry to amortize the patent for the calendar year 2015.

Amortization Expense, Patent (35,000/10)
Accumulated Amortization, Patent

Difficulty: Easy
Larson - Chapter 10 #193
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

194. Hawaii Kai purchased a leasehold property for $8,500,000. The leasehold expires in 15 years. Prepare the journal entry to record the first year's depreciation expense.

Rent Expense	566,667	
Leasehold		566,667

Difficulty: Easy
Larson - Chapter 10 #194
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Application

195. GenX Music purchased a music distributor's collection of songs for $1,423,000. The copyrights are expected to last another 34 years. Prepare the journal entry to record the amortization expense for the first year.

Amortization Expense, Copyrights	41
Accumulated Amortization, Copyrights	

$1,423,000/34 = 41,853 rounded

Difficulty: Easy
Larson - Chapter 10 #195
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Application

196. Explain what could cause the impairment of goodwill. How often should goodwill be tested to see if it is impaired?

Goodwill could be impaired by an ongoing past or potential cash flow losses or negative changes in variables supporting original calculations of goodwill. Testing for impairment should be done at least annually.

Difficulty: Moderate
Larson - Chapter 10 #196
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

197. _____ are costs that increase the usefulness of land, but have limited useful lives and are thus depreciated.

Land improvements

Difficulty: Easy
Larson - Chapter 10 #197
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

198. Replacement of a roof or renovation of a plant are examples of _____.

Capital expenditures

Difficulty: Moderate
Larson - Chapter 10 #198
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Type: Knowledge

199. The three factors in calculating depreciation are: _____, _____, _____.

Cost; residual value; useful or service life

Difficulty: Easy
Larson - Chapter 10 #199
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

200. _____ is the Income Tax Act equivalent for depreciation.

Capital Cost Allowance (CCA)

Difficulty: Easy
Larson - Chapter 10 #200
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

201. _____ depreciation provides for equal amounts of annual depreciation over the life of an asset.

Straight-line

Difficulty: Easy
Larson - Chapter 10 #201
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Type: Knowledge

202. _____ is the process of systematically allocating the cost of an intangible asset to expense over its estimated useful life.

Amortization

Difficulty: Easy
Larson - Chapter 10 #202
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

203. Revising estimates of the useful life or residual value of property, plant and equipment is referred to as a(n) _____.

Change in accounting estimate

Difficulty: Moderate
Larson - Chapter 10 #203
Learning Objective: 10-04 Explain and calculate revised depreciation.
Type: Knowledge

204. The three means for disposal of an asset include: _____, _____, or _____.

Discarding; selling; exchanging

Difficulty: Moderate
Larson - Chapter 10 #204
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Type: Knowledge

205. Match each of the following terms with the appropriate definition.

1. Accelerated depreciation	A depreciation method in which an asset's depreciation expense for the period is determined by applying a constant depreciation rate to the asset's book value at the beginning of the year.	**8**
2. Leasehold	An expenditure that should appear on the current income statement as an expense and be deducted from the period's revenues because it does not provide a material benefit in future periods.	**7**

3. (Ordinary) repairs	Depreciation method that produces larger depreciation charges during the early years of an asset's life and smaller charges in the later years.	**1**
4. Change in accounting estimate	Repairs made to keep property, plant and equipment in normal, good operating condition	**3**
5. Subsequent capital expenditure	A change in a calculated amount used in the financial statements resulting from new information or subsequent developments and from better insight or improved judgment.	**4**
6. Intangible assets	A name for	**2**

	the rights granted to the lessee by the lessor in a lease.	
7. Revenue expenditure	The amount by which the value of a company exceeds the fair market value of the company's net assets if purchased separately.	**9**
8. Double-declining-balance method	Rights, privileges, and competitive advantages to the owner of long-term assets used in operations that have no physical substance.	**6**
9. Goodwill	An expenditure to make a property, plant and equipment more efficient or productive.	**5**
10. Depreciation.	The process of matching	**10**

the depreciable cost of a tangible asset in a rational and systematic manner over the asset's useful life.

Difficulty: Moderate
Larson - Chapter 10 #205
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Learning Objective: 10-05 Explain and record impairment losses.
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

206. Match each of the following terms with the appropriate definition.

1. Obsolescence	Management's estimate of the amount that will be recovered at the end of a property, plant and equipment item's useful life through a sale or as a trade-in allowance on the purchase of a new asset.	**9**
2. Subsequent capital expenditure	A process of systematically allocating the cost of an intangible asset to expense over its estimated useful life.	**10**
3. Patent	Major repairs that extend the useful life of property, plant and equipment beyond original expectatio	**2**

	ns. Assets that increase the usefulness of land but that have a limited useful life and are subject to	
4. Copyright	depreciation.	**8**
	The original cost of a property, plant and equipment item less its accumulated	
5. Depreciation	depreciation.	**7**
	A condition in which, because of new inventions and improvements, property, plant and equipment can no longer be used to produce goods or services with a competitive	
6. Inadequacy	advantage.	**1**
7. Book value	An exclusive	**3**

	right granted to its owner by the federal governme nt to manufactu re and sell a machine or device, or to use a process, for 20 years.	
8. Land improvem ents	The process of matching the depreciabl e cost of a tangible asset in a rational and systematic manner over the asset's useful life.	**5**
9. Residu al value	A right granted by the federal governme nt or by internation al agreemen t giving the owner the exclusive privilege to publish and sell musical, literary, or artistic work during the	**4**

10. Amortization	life of the creator plus 50 years. A condition in which the capacity of property, plant and equipment is too small to meet the company's productive demands.	**6**

Difficulty: Moderate
Larson - Chapter 10 #206
Learning Objective: 10-01 Describe property; plant and equipment (PPE) and calculate their cost.
Learning Objective: 10-02 Explain; record; and calculate depreciation using the methods of straight-line; units-of production; and double declining-balance.
Learning Objective: 10-03 Explain and calculate depreciation for partial years.
Learning Objective: 10-04 Explain and calculate revised depreciation.
Learning Objective: 10-05 Explain and record impairment losses.
Learning Objective: 10-06 Account for asset disposal through discarding; selling; or exchanging an asset.
Learning Objective: 10-07 Account for intangible assets and their amortization.
Type: Knowledge

Chapter 10 Summary