1. Which cost is *not* recorded as part of the cost of a building?

- **A.** Real estate commission paid to buy the building
- **B.** Construction materials and labor
- **C.** Concrete for the building's foundation
- **D.** Annual building maintenance

2. How should you record a capital expenditure?

- **A.** Debit a liability
- **B.** Debit capital
- **C.** Debit an expense
- **D.** Debit an asset

3. Which method almost always produces the most depreciation in the first year?

- **A.** Units-of-production
- **B.** Straight-line
- **C.** Double-declining-balance
- **D.** All produce the same depreciation in the first year.

4. A Celty Airline jet costs $28,000,000 and is expected to fly 200,000,000 miles during its 10-year life. Residual value is expected to be zero because the plane was used when acquired. If the plane travels 1,000,000 miles the first year, how much depreciation should Celty Airline record under the units-of-production method? (Round the depreciation per unit to two decimal places.)

*Review Only*

**Click the icon to see the Worked Solution.**

- **A.** $2,800,000
- **B.** $140,000
- **C.** $560,000
- **D.** Cannot be determined from the data given

5. A copy machine cost $45,000 when new and has accumulated depreciation of $44,000. Suppose Print and Photo Center junks this machine, receiving nothing. What is the result of the disposal transaction?

*Review Only*

**Click the icon to see the Worked Solution.**

- **A.** No gain or loss
- **B.** Gain of $1,000
- **C.** Loss of $1,000
- **D.** Loss of $45,000

6. A copy machine cost $45,000 when new and has accumulated depreciation of $44,000. Suppose Print and Photo Center sold the machine for $1,000. What is the result of this disposal transaction?

*Review Only*

**Click the icon to see the Worked Solution.**

- **A.** Loss of $1,000
- **B.** Gain of $1,000
- **C.** Loss of $44,000
- **D.** No gain or loss

7. Which method is used to compute depletion?

- **A.** Double-declining-balance method
- **B.** Straight-line method
- **C.** Depletion method
- **D.** Units-of-production method

8. Which intangible asset is recorded only as part of the acquisition of another company?

- **A.** Patent
- **B.** Goodwill
- **C.** Copyright
- **D.** Franchise

9. Liberty Corporation reported beginning and ending total assets of $25,000 and $22,000, respectively. Its net sales for the year were $18,800. What was Liberty's asset turnover ratio?

*Review Only*

**Click the icon to see the Worked Solution.**

- **A.** 0.80
- **B.** 0.85
- **C.** 0.75
- **D.** 1.25

10. A truck costs $50,000 when new and has accumulated depreciation of $35,000. Suppose Wilson Towing exchanges the truck for a new truck. The new truck has a market value of $60,000, and Wilson pays cash of $40,000. Assume the exchange has commercial substance. What is the result of this exchange?

*Review Only*

**Click the icon to see the Worked Solution.**

- **A.** No gain or loss
- **B.** Gain of $5,000
- **C.** Loss of $5,000
- **D.** Gain of $45,000

11. Oakwood Properties bought three lots in a subdivision for a lump-sum price. An independent appraiser valued the lots as follows:

| Lot | Appraised Value |
|---|---|
| 1 | $ 73,500 |
| 2 | 269,500 |
| 3 | 147,000 |

Oakwood paid $210,000 in cash. Record the purchase in the journal, identifying each lot's cost in a separate Land account. Round decimals to two places, and use the computed percentages throughout. (Record a single compound journal entry. Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

*Review Only*

**Click the icon to see the Worked Solution.**

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| | (1) | | |
| | (2) | | |
| | (3) | | |
| | (4) | | |
| | (5) | | |

12. Hearty Fried Chicken bought equipment on January 2, 2016, for $33,000. The equipment was expected to remain in service for four years and to perform 6,750 fry jobs. At the end of the equipment's useful life, Hearty estimates that its residual value will be $6,000. The equipment performed 675 jobs the first year, 2,025 the second year, 2,700 the third year, and 1,350 the fourth year.

**Requirements**

1. Prepare a schedule of *depreciation expense, accumulated depreciation,* and *book value* per year for the equipment under the three depreciation methods. Show your computations. *Note:* Three depreciation schedules must be prepared.
2. Which method tracks the wear and tear on the equipment most closely?

*Review Only*

**Click the icon to see the Worked Solution.**

**Requirement 1.** Prepare a schedule of *depreciation expense, accumulated depreciation,* and *book value* per year for the equipment under the three depreciation methods. Show your computations. *Note:* Three depreciation schedules must be prepared.

Begin by preparing a depreciation schedule using the straight-line method.

**Straight-Line Depreciation Schedule**

| | | Depreciation for the Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | **Asset Cost** | **Depreciable Cost** | | **Depreciation Rate** | | **Depreciation Expense** | **Accumulated Depreciation** | **Book Value** |
| 1-2-2016 | | | | | | | | |
| 12-31-2016 | | | / | (1) | = | | | |
| 12-31-2017 | | | / | (2) | = | | | |
| 12-31-2018 | | | / | (3) | = | | | |
| 12-31-2019 | | | / | (4) | = | | | |

Before completing the units-of-production depreciation schedule, calculate the depreciation expense per unit.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ( | (5) | - | (6) | ) / | (7) | = | Depreciation per unit |
| ( | | - | | ) / | | = | |

Prepare a depreciation schedule using the units-of-production method.

**Units-of-Production Depreciation Schedule**

| | | Depreciation for the Year | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Date** | **Asset Cost** | **Depreciation Per Unit** | | **Number of Units** | | **Depreciation Expense** | **Accumulated Depreciation** | **Book Value** |
| 1-2-2016 | | | | | | | | |
| 12-31-2016 | | | x | | = | | | |
| 12-31-2017 | | | x | | = | | | |
| 12-31-2018 | | | x | | = | | | |
| 12-31-2019 | | | x | | = | | | |

Prepare a depreciation schedule using the double-declining-balance (DDB) method. (Enter a "0" for any items with a zero value.)

**Double-Declining-Balance Depreciation Schedule**

| | | Depreciation for the Year | | | | | |
|---|---|---|---|---|---|---|---|
| **Date** | **Asset Cost** | **Book Value** | | **DDB Rate** | **Depreciation Expense** | **Accumulated Depreciation** | **Book Value** |
| 1-2-2016 | | | | | | | |
| 12-31-2016 | | | x | (8) | = | | |
| 12-31-2017 | | | x | (9) | = | | |
| 12-31-2018 | | | | | = | | |
| 12-31-2019 | | | | | = | | |

**Requirement 2.** Which method tracks the wear and tear on the equipment most closely?

The (10) ____________ method tracks wear and tear most closely.

13. Budget Hardware Consultants purchased a building for $557,000 and depreciated it on a straight-line basis over a 35-year period. The estimated residual value is $102,000. After using the building for 15 years, Budget realized that wear and tear on the building would wear it out before 35 years and that the estimated residual value should be $86,000. Starting with the 16th year, Budget began depreciating the building over a revised total life of 20 years using the new residual value. Journalize depreciation expense on the building for years 15 and 16. (Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

*Review Only*

**Click the icon to see the Worked Solution.**

Begin by journalizing the depreciation on the building for year 15.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| | (1) | | |
| | (2) | | |
| | (3) | | |
| | (4) | | |
| | (5) | | |

Now, journalize the depreciation on the building for year 16.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| | (6) | | |
| | (7) | | |
| | (8) | | |
| | (9) | | |
| | (10) | | |

14. During 2016, Tivora Corporation completed the following transactions:
[1](Click the icon to view transactions.)

Record the transactions in the journal of Tivora Corporation. (Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

*Review Only*

**Click the icon to see the Worked Solution.**

Jan. 1: Traded in old office equipment with book value of $25,000 (cost of $92,000 and accumulated depreciation of $67,000) for new equipment. Tivora also paid $65,000 in cash. Fair value of new equipment is $98,000. Assume the exchange had commercial substance. (Record a single compound journal entry.)

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Jan. 1 | (1) | | |
| | (2) | | |
| | (3) | | |
| | (4) | | |
| | (5) | | |
| | (6) | | |
| | (7) | | |

Apr. 1: Sold equipment that cost $24,000 (accumulated depreciation of $18,000 through December 31 of the preceding year). Tivora received $4,000 cash from the sale of the equipment. Depreciation is computed on a straight-line basis. The equipment has a five-year useful life and a residual value of $0.

Before we record the sale of the equipment, we must record depreciation on the equipment through April 1, 2016.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Apr. 1 | (8) | | |
| | (9) | | |
| | (10) | | |
| | (11) | | |
| | (12) | | |

Now record the sale of the equipment on April 1.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Apr. 1 | (13) | | |
| | (14) | | |
| | (15) | | |
| | (16) | | |
| | (17) | | |

Dec. 31: Recorded depreciation on the office equipment. Office equipment is depreciated using the double-declining-balance method over four years with a $7,000 residual value.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Dec. 31 | (18) | | |
| | (19) | | |
| | (20) | | |
| | (21) | | |
| | (22) | | |

1: More Info

| | |
|---|---|
| Jan. 1 | Traded in old office equipment with book value of $25,000 (cost of $92,000 and accumulated depreciation of $67,000) for new equipment. Tivora also paid $65,000 in cash. Fair value of new equipment is $98,000. Assume the exchange had commercial substance. |
| Apr. 1 | Sold equipment that cost $24,000 (accumulated depreciation of $18,000 through December 31 of the preceding year). Tivora received $4,000 cash from the sale of the equipment. Depreciation is computed on a straight-line basis. The equipment has a five-year useful life and a residual value of $0. |
| Dec. 31 | Recorded depreciation as follows: |
| | Office equipment is depreciated using the double-declining-balance method over four years with a $7,000 residual value. |

1. D. Annual building maintenance

2. D. Debit an asset

3. C. Double-declining-balance

4. B. $140,000

5. C. Loss of $1,000

6. D. No gain or loss

7. D. Units-of-production method

8. B. Goodwill

9. A. 0.80

10. B. Gain of $5,000

11.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| | Land—Lot 1 | 31,500 | |
| | Land—Lot 2 | 115,500 | |
| | Land—Lot 3 | 63,000 | |
| | Cash | | 210,000 |
| | *To record purchase of the lots with cash.* | | |

12. **Straight-Line Depreciation Schedule**

| | | Depreciation for the Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | **Asset Cost** | **Depreciable Cost** | | **Depreciation Rate** | | **Depreciation Expense** | **Accumulated Depreciation** | | **Book Value** |
| 1-2-2016 | $ 33,000 | | | | | | | $ | 33,000 |
| 12-31-2016 | | $ 27,000 | / | 4 years | = | $ 6,750 | $ 6,750 | | 26,250 |
| 12-31-2017 | | 27,000 | / | 4 years | = | 6,750 | 13,500 | | 19,500 |
| 12-31-2018 | | 27,000 | / | 4 years | = | 6,750 | 20,250 | | 12,750 |
| 12-31-2019 | | 27,000 | / | 4 years | = | 6,750 | 27,000 | | 6,000 |

| ( | Cost | - | Residual value | ) / | Useful life in units | = | Depreciation per unit |
|---|---|---|---|---|---|---|---|
| ( | $ 33,000 | - | $ 6,000 | ) / | 6,750 | = | $ 4 |

**Units-of-Production Depreciation Schedule**

| | | Depreciation for the Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | **Asset Cost** | **Depreciation Per Unit** | | **Number of Units** | | **Depreciation Expense** | **Accumulated Depreciation** | | **Book Value** |
| 1-2-2016 | $ 33,000 | | | | | | | $ | 33,000 |
| 12-31-2016 | | $ 4 | x | 675 | = | $ 2,700 | $ 2,700 | | 30,300 |
| 12-31-2017 | | 4 | x | 2,025 | = | 8,100 | 10,800 | | 22,200 |
| 12-31-2018 | | 4 | x | 2,700 | = | 10,800 | 21,600 | | 11,400 |
| 12-31-2019 | | 4 | x | 1,350 | = | 5,400 | 27,000 | | 6,000 |

**Double-Declining-Balance Depreciation Schedule**

| | | Depreciation for the Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | **Asset Cost** | **Book Value** | | **DDB Rate** | | **Depreciation Expense** | **Accumulated Depreciation** | | **Book Value** |
| 1-2-2016 | $ 33,000 | | | | | | | $ | 33,000 |
| 12-31-2016 | | $ 33,000 | x | 2 x (1/4) | = | $ 16,500 | $ 16,500 | | 16,500 |
| 12-31-2017 | | 16,500 | x | 2 x (1/4) | = | 8,250 | 24,750 | | 8,250 |
| 12-31-2018 | | | | | = | 2,250 | 27,000 | | 6,000 |
| 12-31-2019 | | | | | = | 0 | 27,000 | | 6,000 |

(10) units-of-production

13.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| | Depreciation Expense—Building | 13,000 | |
| | Accumulated Depreciation—Building | | 13,000 |
| | *To record depreciation on building.* | | |

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| | Depreciation Expense—Building | 55,200 | |
| | Accumulated Depreciation—Building | | 55,200 |
| | *To record depreciation on building.* | | |

14.

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Jan. 1 | Office Equipment (new) | 98,000 | |
| | Accumulated Depreciation—Office Equipment | 67,000 | |
| | Office Equipment (old) | | 92,000 |
| | Cash | | 65,000 |
| | Gain on Disposal | | 8,000 |
| | *Exchanged old office equipment and cash for new office equipment.* | | |

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Apr. 1 | Depreciation Expense—Equipment | 1,200 | |
| | Accumulated Depreciation—Equipment | | 1,200 |
| | *To record partial year depreciation on equipment.* | | |

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Apr. 1 | Cash | 4,000 | |
| | Accumulated Depreciation—Equipment | 19,200 | |
| | Loss on Disposal | 800 | |
| | Equipment | | 24,000 |
| | *To record sale of equipment.* | | |

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Dec. 31 | Depreciation Expense—Office Equipment | 49,000 | |
| | Accumulated Depreciation—Office Equipment | | 49,000 |
| | *To record depreciation on office equipment.* | | |