Chapters 10 – 11 Multiple Choice (2 ½ points each)

1. The book value of a plant asset from an accounting perspective is equal to the
   a. asset’s market value less its historical cost.
   b. blue book value relied on by secondary markets.
   c. replacement cost of the asset.
   d. asset’s cost less accumulated depreciation.
   e. asset’s cost less estimated salvage value

2. A company purchased factory equipment on April 1, 2009 for $32,000. It is estimated that the equipment will have a $4,000 salvage value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation for the time period ended December 31, 2009 is:
   a. $3,200.
   b. $2,800.
   c. $2,100.
   d. $2,400.

3. A factory machine was purchased for $25,000 on January 1, 2009. It was estimated that it would have a $5,000 salvage value at the end of its 5-year useful life. It was also estimated that the machine would be run 40,000 hours in the 5 years. If the actual number of machine hours ran in 2009 was 4,000 hours and the company uses the units-of-activity method of depreciation, the amount of depreciation expense for 2009 would be
   a. $2,500
   b. $4,000
   c. $5,000
   d. $2,000

d. $2,000

4. Kara Company recently sold some office furniture for $3,800 cash. The furniture cost $19,600 and had accumulated depreciation through the date of sale totaling $17,300. The journal entry to record the sale of the furniture is:
   a. Dr. Cash $3,800
      Dr. Accumulated Depreciation - Office Furniture 17,300
      Cr. Office Furniture 19,600
      Cr. Gain on Sale of Furniture 1,500
   b. Dr. Cash 3,800
      Cr. Office Furniture 3,800
   c. Dr. Cash 3,800
      Cr. Office Furniture 2,300
      Cr. Gain on Sale of Furniture 1,500
   d. Dr. Cash 3,800
      Dr. Accumulated Depreciation - Office Furniture 15,800
      Cr. Office Furniture 19,600
   e. none of the above entries are correct.
5. The chief purpose of depreciation accounting for financial reporting purposes is to:
   a. provide a fund for financing the replacement of depreciable assets.
   b. provide a deduction for income tax purposes.
   c. revalue assets whose value has declined.
   d. systematically allocate the service potential of depreciable assets, usually measured in terms of cost, against the revenue produced over the estimated useful lives on those assets.

6. All of the following long-lived assets are depreciated except:
   a. equipment
   b. buildings
   c. land
   d. land improvements
   e. Answers c and d are both correct.

7. What is the term used to describe the expected cash value of an asset at the end of its useful life?
   a. accumulated depreciation
   b. book value
   c. estimated useful life
   d. estimated salvage value

8. The declining-balance method of depreciation produces
   a. larger amounts at depreciation in the early years of the plant asset's life.
   b. smaller amounts of depreciation in the early years of the plant asset's life.
   c. a declining percentage rate each period.
   d. a constant amount of depreciation expense each period.

Use the following information for questions 9 and 10.

Grey Company purchased a new van for floral deliveries on January 1, 2009. The van cost $32,000 with an estimated life of 4 years and $8,000 salvage value at the end of its useful life. The double-declining-balance method of depreciation will be used.

9. What is the depreciation expense for 2009?
   a. $8,000
   b. $12,000
   c. $16,000
   d. None of the above

10. What is the balance of the Accumulated Depreciation account at the end of 2010?
    a. $8,000
    b. $24,000
    c. $20,480
    d. none of the above
11. If a fully depreciated plant asset is still used by a company, the
   a. estimated remaining useful life must be revised to calculate the correct revised
      depreciation.
   b. asset is removed from the books.
   c. accumulated depreciation account is removed from the books but the asset
      account remains.
   d. asset and the accumulated depreciation continue to be reported on the balance
      sheet until the asset is disposed of.

12. Which of the following statements is true?
   a. Accumulated depreciation is that portion of a plant asset's cost that has already
      been recorded as an expense.
   b. Depreciation is a process of valuation.
   c. Depreciation means that a business sets aside cash to replace assets as they
      become fully depreciated.
   d. Accumulated depreciation represents a growing amount of cash.
   e. None of the above

13. Expenditures that maintain the operating efficiency and expected productive life of a
    plant asset are generally
    a. expensed when incurred
    b. capitalized as a part of the cost of the asset
    c. debited to the Accumulated Depreciation account
    d. not recorded until they become material in amount

14. Which one of the following is not an asset:
    a. land
    b. equipment
    c. land improvements
    d. patent
    e. all of the above are assets

15. A truck with a cost of $24,000 and estimated salvage value of $2,000 is still being used
    but has already been “fully” depreciated. The balance in the Accumulated Depreciation
    account is:
    a. cannot be determined without knowing the estimated life and depreciation
       method.
    b. $2,000.
    c. $24,000.
    d. $22,000.

16. The land account would include all of the following except:
    a. purchase price
    b. cost of clearing the land
    c. back property taxes
    d. cost of fencing the land
    e. All of the above are included in the cost of the land.
17. Which of the following items is properly classifiable as a plant asset?
   a. Land owned and on which a factory building has been constructed.
   b. A factory building owned and used by a manufacturing company.
   c. A typewriter purchased by an office supply company to resell to customers.
   d. a and b above are correct.
   e. All of the above are properly classified as a plant asset.

18. Unearned Rental Revenue is:
   a. A contra account to Rental Revenue.
   b. A revenue account.
   c. A liability account.
   d. Debited when rent is received in advance.

19. Costs incurred to increase the operating efficiency or useful life of a plant asset beyond its original capacity are referred to as
   a. capital expenditures.
   b. expense expenditures.
   c. ordinary repairs.
   d. revenue expenditures.

20. A cash register tape shows sales of $2,000 and sales taxes of $100. The journal entry to record this information is:

   a. Cash 2,000
      Sales 2,000
   b. Cash 2,100
      Sales Tax Revenue 100
      Sales 2,000
   c. Cash 2,000
      Sales Tax Expense 100
      Sales 2,100
   d. None of the above are correct

21. The Stanley Company typically sells subscriptions on an annual basis and publishes 6 times a year. The magazine sells 30,000 subscriptions in January at $15 each. What entry is made by Stanley in January to record the sale of the subscriptions?
   a. Subscriptions Receivable 450,000
      Subscription Revenue 450,000
   b. Cash 450,000
      Unearned Subscriptions Revenue 450,000
   c. Subscription Receivable 75,000
      Unearned Subscriptions Revenue 75,000
   d. Prepaid Subscriptions 450,000
      Cash 450,000
   e. Cash 450,000
      Subscription Revenue 450,000
22. Maria Rodriguez works as a staff accountant receiving $480 for a 40-hour work week. She is paid time-and-one-half for anything over 40 hours. If Maria works 47 hours, her total gross pay is:
   a. $480
   b. $564
   c. $606
   d. $702

23. All of the following could be withheld from an employee's gross pay except
   a. Employees' Federal Income Tax
   b. FICA Tax
   c. Federal Unemployment Tax
   d. Both a and b
   e. All of the above can be withheld from an employee.

24. A loss on disposal of a plant asset is reported in the financial statements
   a. in the Other Revenues and Gains section of the income statement.
   b. in the Other Expenses and Losses section of the income statement.
   c. In the Other Expenses and Losses section of the balance sheet.
   d. as a direct decrease to the capital account on the balance sheet.
   e. as an operating expense.

25. The entry to record the employer's payroll tax expense would include among other items:
   a. a credit to State Income Taxes Payable.
   b. a credit to Federal Income Taxes Payable.
   c. a credit to FICA Taxes Payable.
   d. a credit to Wages Payable.

26. An employee has gross earnings of $250 and withholdings of $15 for FICA and $30 for income taxes. The employer pays $15 for FICA and $10 for FUTA (Federal Unemployment Tax). The total expense or cost of this employee to the employer is
   a. $250
   b. $260
   c. $275
   d. $320
   e. none of the above

27. The amount of federal income tax withheld from an employee's gross pay is recorded by the employer as
   a. payroll expense.
   b. contra account.
   c. current asset.
   d. current liability.
Use the following information to answer questions 28 – 29:

The Costello Company has the following information for the pay period of January 1 - 15, 2007. Payment occurs on January 20. (Assume no employee has reached any of the limits for any of the applicable taxes).

<table>
<thead>
<tr>
<th>Gross Payroll</th>
<th>$6000</th>
<th>Federal Income Tax Withheld</th>
<th>$500</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICA Rate</td>
<td>7.0%</td>
<td>Federal Unemployment Tax Rate</td>
<td>.8%</td>
</tr>
<tr>
<td>State Unemployment Rate</td>
<td>2.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

28. The employer would record **payroll tax expenses** of
   a. $210
   b. $420
   C. $630
   d. $1,130

29. The entry to the **Salaries Payable account** for the **payroll entry** on January 15 would be
   a. $5,500
   b. $4,870
   C. $5,080
   d. $5,000.

30. The total cost to the employer of employing an employee is equal to:
   a. net pay plus employee withholdings.
   b. gross pay plus employer’s share of FICA taxes.
   C. net pay plus employer payroll taxes and fringe benefits.
   d. gross pay plus employer payroll taxes and fringe benefits.
Use the following information for questions 31 and 32.

Coffey County Bank agrees to lend Acme Brick Company $200,000 on January 1. Acme Brick Company signs a $200,000, 8%, 9-month note.

31. The entry made by Acme Brick Company on January 1 to record the proceeds and issuance of the note is
   a. Interest Expense 12,000
      Cash 188,000
      Notes Payable 200,000
   b. Cash 200,000
      Notes Payable 200,000
   c. Cash 200,000
      Interest Expense 12,000
      Notes Payable 212,000
   d. Cash 200,000
      Interest Expense 12,000
      Notes Payable 200,000
      Interest Payable 12,000
   e. None of the above are correct entries.

32. What is the adjusting entry required if Acme Brick Company prepares financial statements on June 30? (Assume June 30 is Acme Brick Company's year-end.)
   a. Interest Expense 8,000
      Interest Payable 8,000
   b. Interest Expense 8,000
      Cash 8,000
   c. Interest Receivable 8,000
      Interest Revenue 8,000
   d. Interest Payable 8,000
      Interest Expense 8,000
   e. Interest Expense 12,000
      Interest Payable 12,000
33. Identify the item below where the terms are not related.
   a. Equipment – depreciation
   b. Patent – depreciation
   c. Copyright – amortization
   d. Oil well – depletion

34. The current portion of long-term debt should
   a. be paid immediately.
   b. be reclassified as a current liability.
   c. be classified as a long-term liability.
   d. not be separated from the long-term portion of debt.

35. A term that is not synonymous with property, plant, and equipment is
   a. plant assets.
   b. Fixed assets.
   c. Intangible assets.

36. Which one of the following items is *not* considered a part of the cost of a truck purchased for business use?
   a. Sales tax
   b. Truck license
   c. Freight charges
   d. Cost of lettering on side of truck

37. Depreciable cost is the
   a. Book value of an asset less its salvage value
   b. Cost of an asset less its salvage value
   c. Cost of an asset less accumulated depreciation
   d. Book value of an asset

38. Which one of the following items is not a factor to consider when recording periodic depreciation expense on plant assets?
   a. Salvage value
   b. Estimated useful life
   c. Cash needed to replace the plant asset
   d. Cost of plant asset
Short answer question (2 points)

Refer to Question #2 on first page of test.

What journal entry would you record on December 31, 2009? You do not need to record the dollar amount of this journal entry.

\[ \text{Dr.} \quad \text{Expenses} \quad \text{xx} \]
\[ \text{Accumulated Depreciation - Equipment} \quad \text{xx} \]

Short answer question (2 points)

Explain how you compute a gain or loss on the sale of a depreciable plant asset?

\[
\begin{align*}
\text{Sale Price} - \text{Book Value} &= \text{Gain or Loss on Sale} \\
\text{or} \\
\text{Lost on Sale} &\quad \text{Cost of Plant Asset} - \text{Accumulated Depreciation} = \text{Book Value}
\end{align*}
\]
Bonus Questions (5 points) (1 point for each bonus question) Put answers to bonus questions on test itself (not on scantron).

1. What entry will Acme Brick Company make to pay off the note and interest at maturity? (Relates to Questions #31 & #32)
   a. Notes Payable 212,000
      Cash 212,000
   b. Notes Payable 200,000
      Interest Payable 12,000
      Cash 212,000
   c. Interest Expense 12,000
      Notes Payable 200,000
      Cash 212,000
   d. **Interest Payable 8,000**
      Notes Payable 200,000
      Interest Expense 4,000
      Cash 212,000
   e. Interest Expense 8,000
      Interest Payable 4,000
      Note Payable 200,000
      Cash 212,000

2. The current FICA tax rate for the year 2009 is **7.65%**.

3. The Modified Accelerated Cost Recovery System (MACRS) is a depreciation method which
   a. **is used for tax purposes**
   b. must be used for financial statement purposes
   c. is required by the SEC
   d. expenses an asset over a single year because capital acquisitions must be expensed in the year purchased.
   e. none of the above are correct.

4. True/False Question:
   **True**  Revenues – Expenses + Gains on sales – Losses on sales = Net Income or Net Loss.