

ACCOUNTING 202
CHAPTER 10
TRUE-FALSE STATEMENTS

1. All plant assets (fixed assets) must be depreciated for accounting purposes.
2. When purchasing land, the costs for clearing, draining, filling, and grading should be charged to a Land Improvements account.
3. When purchasing delivery equipment, sales taxes and motor vehicle licenses should be charged to Delivery Equipment.
4. Land improvements are generally charged to the Land account.
5. Once cost is established for a plant asset, it becomes the basis of accounting for the asset unless the asset appreciates in value, in which case, market value becomes the basis for accountability.

Multiple Choice Questions

6. A company purchased land for \$70,000 cash. Real estate brokers' commission was \$5,000 and \$7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the cost principle, the cost of land would be recorded at
 - a. \$77,000.
 - b. \$70,000.
 - c. \$75,000.
 - d. \$82,000.
7. Greene Clinic purchases land for \$120,000 cash. The clinic assumes \$1,500 in property taxes due on the land. The title and attorney fees totaled \$1,000. The clinic has the land graded for \$2,200. What amount does Greene Clinic record as the cost for the land?
 - a. \$122,200.
 - b. \$120,000.
 - c. \$124,700.
 - d. \$122,500.
8. Belle Company buys land for \$50,000 on 12/31/06. As of 3/31/07, the land has appreciated in value to \$50,500. On 12/31/06, the land has an appraised value of \$51,800. By what amount should the Land account be increased in 2007?
 - a. \$0.
 - b. \$500.
 - c. \$1,300.
 - d. \$1,800.

9. Renn Company acquires land for \$56,000 cash. Additional costs are as follows:

Removal of shed	\$ 300
Filling and grading	1,500
Salvage value of lumber of shed	120
Broker commission	1,130
Paving of parking lot	10,000
Closing costs	560

Renn will record the acquisition cost of the land as

- \$56,000.
 - \$57,690.
 - \$59,610.
 - \$59,370.
10. Bailey Company purchases a new delivery truck for \$35,000. The sales taxes are \$2,000. The logo of the company is painted on the side of the truck for \$1,200. The truck license is \$120. The truck undergoes safety testing for \$220. What does Bailey record as the cost of the new truck?
- \$38,540.
 - \$38,420.
 - \$37,000.
 - \$36,420.
11. Equipment was purchased for \$60,000. Freight charges amounted to \$2,800 and there was a cost of \$8,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$12,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be
- \$14,160.
 - \$11,760.
 - \$9,840.
 - \$9,600.
12. A company purchased factory equipment for \$150,000. It is estimated that the equipment will have a \$15,000 salvage value at the end of its estimated 5-year useful life. If the company uses the double-declining-balance method of depreciation, the amount of annual depreciation recorded for the second year after purchase would be
- \$60,000.
 - \$36,000.
 - \$54,000.
 - \$32,400.
13. A factory machine was purchased for \$60,000 on January 1, 2006. It was estimated that it would have a \$12,000 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. The company ran

the machine for 4,000 actual hours in 2006. If the company uses the units-of-activity method of depreciation, the amount of depreciation expense for 2006 would be

- a. \$6,000.
- b. \$9,600.
- c. \$12,000.
- d. \$4,800.

Use the following information for questions 14-15.

On October 1, 2006, Dole Company places a new asset into service. The cost of the asset is \$40,000 with an estimated 5-year life and \$10,000 salvage value at the end of its useful life.

- 14. What is the depreciation expense for 2006 if Dole Company uses the straight-line method of depreciation?
 - a. \$1,500.
 - b. \$8,000.
 - c. \$2,000.
 - d. \$4,000.

- 15. What is the book value of the plant asset on the December 31, 2006, balance sheet assuming that Dole Company uses the double-declining-balance method of depreciation?
 - a. \$26,000.
 - b. \$30,000.
 - c. \$36,000.
 - d. \$38,000.

ANSWERS

True and False

1. F 2. F 3. F 4. F 5. F

Multiple Choice

6. D 7. C 8. A 9. D 10. B 11. B 12. B 13. D 14. A 15. C