1. Costa purchased a plot of land, an office space and coffee machines for a total of $4,000,000. The value of each is estimated to be $3,000,000, $1,500,000 and $500,000, respectively. What is the cost of land?
2. $2,000,000
3. $2,400,000
4. $3,000,000
5. $4,500,000

Ans: b. Multiply the ratio of land to total estimated costs by total costs incurred.

1. The cost of PP&E minus accumulated depreciation is the asset’s book value (net asset value). True or false?

Ans: True. Book value of PP&E is amount paid for it less depreciation.

1. Depreciation violates the matching principle because depreciation cost is not matched with any revenue. True or False?

Ans: False. Depreciation costs accumulated over the lifespan of PP&E is matched to the revenue the PP&E generates over its lifespan.

1. Which of the following are not subject to depreciation or amortization?
2. Factory building
3. Store equipment
4. Copyright
5. Goodwill

Ans: d. Goodwill, has indefinite life and therefore is not subject to amortization.

1. Costa purchased a milk frother for $30,000. It’s estimated useful life is 10 years and is salvage value its $5,000. What is the yearly depreciation expense using straight-line depreciation?
2. $3,000
3. $5,000
4. $2,500
5. $500

Ans: c. Straight-line depreciation involves subtracting salvage value from total cost and dividing it by useful life.

1. Costa purchased a coffee grinder for $40,000. It’s estimated useful life is 5 years and is salvage value its $10,000. What is the depreciation expense of the second year of the coffee grinder’s use, using double-declining depreciation?
2. 9,600
3. 16,000
4. 24,000
5. 6,400

Ans: a. Annual depreciation rate = = 40%. Depreciation in year two = Book value in year 1 multiplied by depreciation rate, . DDB ignores salvage value.

1. Costa purchased a coffee processing plant for $1,000,000 in Jan 2000. Its estimated useful life is 30 years and its salvage value is $200,000. In Jan 2018, the plant was sold for $600,000. Assuming straight-line depreciation, the resulting gain/loss is
2. No gain, no loss
3. Gain; 120,000
4. Loss; 120,000
5. Gain; 80,000

Ans: d. Asset book value in 2018 is .   
Gain from sales = 600,000 – 520,000 = 80,000.

1. Costa purchased coffee equipment for $50,000 in Jan 2000. Its estimated useful life is 10 years, with no salvage value. In Jan 2007, the equipment was sold for $10,000. Assuming double-declining depreciation, the resulting gain/loss is
2. Gain; $486
3. Loss; $9,999
4. Gain; $1
5. Loss; $1,611

Ans: a. Depreciation rate = . Asset value in Jan 2007 is .   
Gain = 10486-10000 = 486

1. Costa purchased a lorry for $150,000 at the start of January 2000. Its estimated lifespan was 10 years and its salvage value was $50,000. At the start of January 2005, the truck was re-estimated to be only usable for another 4 years, after which it would have to be retired (0 salvage value). Using straight-line depreciation, the depreciation expense of the truck recorded at the start of January 2006 is
2. $10 000
3. $11 111
4. $16 667
5. $25 000

Ans: d. Book value, Jan 2005: .   
Depreciation, Jan 2006:

1. Suppose Costa acquires 1983 for $400,000, and the value of 1983’s equities is $300,000. The amount of goodwill debited will be:
2. $100,000
3. $700,000
4. Trick question, we need to know the values of assets and liabilities
5. Trick question, there is no goodwill involved

Ans: a. $100 000. Goodwill is price paid less market value of acquired company.

1. The value of Costa’s factory is found to be below its carrying amount of $200,000, such that its market value is $100,000. To record this change, we
2. Credit accumulated amortization
3. Debit depreciation expense
4. Debit impairment loss
5. Credit goodwill

Ans: c. We debit impairment loss to write-down the value of the factory

1. Impairment of tangible assets is reversible, but impairment of goodwill is not. True or False

Ans: True. IFRS allows for impairment of tangible assets to be reversed, but not for goodwill.