1. We need to include opening ceremonies in the cost of our newly purchased assets.

Answer : False

Explanation : We do not include costs from opening ceremonies as there is no increase in useful life from the ceremony, and the ceremony is not necessary to make the asset usable.

2. We need to include installation and assembly costs into purchased PP&E.

Answer : True

Explanation : These are part of setting up the asset up.

3. What is the asset value of a $100,000 building with $200 site preparation fee and $50,000 spent on advertising the opening of the new building?

1) $100,000 2) $100,200 3) $150,000 4) $150,200

Answer : 2

Explanation : Site preparation fees are included in the asset value, while advertising expenses affects the operations and not the asset itself.

4. What is the asset value of a $50,000 machinery with $1000 assembly fee and testing cost is $1000, while making $800 worth of useful inventory.

1) $50,000 2) $52,000 3) $51,200 4) $52,800

Answer : 3

Explanation : Assembly fees and testing costs are included in the asset’s value, while the inventory created must be deducted from the total cost.

5. In basket purchasing, we record the market value of the asset instead of the purchase price.

Answer : False

Explanation : You have to use the market value to calculate the percentage of bundle price paid upfront. Then multiple with the bundle price to get the asset value.

6. Paid $1,000 for maintenance of a building that will help to build up the aesthetic of the building. What is the journal entry for this?

a) Maintenance Expense 1,000

b) Machinery 1,000

c) Utilities Expense 1,000

d) Depreciation Expense 1,000

7. Using straight-line depreciation, calculate the depreciation value for year 3 for a $250,000 machinery with a salvage value of $50,000 and 5 years lifetime.

a) 35,000  b) 40,000 c) 50,000 d) 120,000

Answer : B

Explanation : For straight-line depreciation, you have to deduct away the salvage value ($50,000) and divide by the total life time ( in this case, 5 years). Therefore it is ($250,000-$50,000)/5 = $40,000 each year.

8. Using units of production depreciation, calculate the depreciation value for year 2 for a $320,000 bread machine with a salvage value of $20,000 and 6 years lifetime. The usage is expected to be 20, 30, 40, 60, 80, 100 units for each respective years.

a) $48,484.85   b) $29,909.90 c) $27,272.73 d) $45,454.55

Answer : C

Explanation : For units of production depreciation, you have to deduct away the salvage value ($50,000) and multiply by the ratio of units used over total units. Therefore it is ($320,000-$20,000)\*(30/330) = $27,272.73 in year 2.

9. Using double declining balance depreciation, calculate the depreciation value for year 1 for a $450,000 building with a salvage value of $100,000 and 10 years lifetime.

a) $90,000 b) $70,000 c) $60,000 d) $100,000

Answer : A

Explanation : For DDB depreciation, you do not need to include the salvage value in the base calculation. Thus for this question, the depreciation value = ($450,000) x 2/10 = $90,000.

10. What is the value of the depletion expense for a mineral field that recorded a depletion of 2,000 units at $100 per unit. The cost of the mineral field was $10 million.

a) $200,000 b) $20,000 c) $5,000,000 d) $100

Answer : A

Explanation : To calculate depletion expense, we simply multiply the total units depleted with the cost per unit. Therefore, the answer is 2,000 x $100 = $200,000.

11. Having a zero net asset value means that the asset is not usable anymore.

Answer : False

Explanation : Do remember that net asset value is just asset value minus its accumulated depreciation. It is not necessary that the asset is not usable anymore. However, you should not record depreciation anymore after the asset reaches a 0 net asset value.

12. For double declining balance depreciation, you usually incur a higher depreciation at the start and decrease gradually, in general.

Answer : True

Explanation : For some scenarios, assets tend to be more productive when they are new and productivity gradually decreases. Therefore to match the level of productivity, depreciation will be higher at the start, in general.