l. Bartman, Inc., purchased a tract of land, a small office building, and some equipment for $1,900,000. The appraised value of the land was $1,380,000, the building $575,000, and the equipment $345,000. What value will the land be recorded at?

a. $633,333

b. $1,140,000

c. $1,380,000

d. $1,900,000

Answer: B  
Explanation: [$1,380,000/($1,380,000+$575,000+$345,000)] x $1,900,000 = $1,140,000

2. Which statement is false?

1. Depreciation is the process of allocating the cost of a PP&E over its useful life.
2. Depreciation is based on the matching principle because it matches the cost of the  
   asset with the revenue generated with the asset over the asset's useful life.
3. The cost of a PP&E minus accumulated depreciation equals the asset's net asset value.
4. Depreciation creates a fund to replace the asset at the end of its useful life.

Answer: D  
Explanation: Refer to slides or textbook!

3. On July 1, 20X6, Johnson Communications (JC) purchased a new piece of equipment that cost $45,000. The estimated useful life is 10 years and estimated residual value is $5,000.

What is the depreciation expense for 20X6 if JC uses the straight-line method?

a. $4,000

b. $2,000

c. $4,500

d. $2,250

Answer: B   
Explanation: ($45,000 - $5,000)/10 x 6/12 = $2,000

4. On January 1, 20X6, Johnson Communications (JC) purchased a new piece of equipment that cost $45,000. The estimated useful life is 10 years and estimated residual value is $5,000.

If JC uses the straight-line method for depreciation, what is the asset's net asset value at the end of 20X7?

a. $42,000

b. $36,000

c. $32,000

d. $37,000

Answer: D   
Explanation: ($45,000 - $5,000)/10 x 2 = $8,000  
$45,000 - $8,000 = $37,000

5. On January 1, 20X6, Johnson Communications (JC) purchased a new piece of equipment that cost $45,000. The estimated useful life is 10 years and estimated residual value is $5,000.

If JC uses the double-declining-balance method, what is the depreciation for 20X7?

a. $9,000

b. $6,400

c. $16,200

d. $7,200

Answer: D  
Explanation: $45,000 x 0.2 = $9,000  
($45,000 - $9,000) x 0.2 = $7,200

6. On July 1, 20X6, Johnson Communications (JC) purchased a new piece of equipment that cost $45,000. The estimated useful life is 10 years and estimated residual value is $5,000.

Assume that JC uses the straight-line method of depreciation and sells the equipment for $36,500 on July 1, 20X9. The result of the sale of the equipment is a gain (loss) of

a. $(3,500)

b. $3,500

c. $2,500

d. $0

Answer: B  
Explanation: [($45,000 - $5,000)/5x3 = $12,000  
$45,000 - $12,000 = $33,000  
$36,500 - $33,000 = $3,500 (Gain)

7. Which of the following is *least likely* to bea capital expenditure?

a. The addition of a building wing

b. A regular tune-up of a company vehicle

c. A complete overhaul of an air-conditioning system

d. Replacement of an old motor with a new one in a piece of equipment

e. The cost of installing a piece of equipment

Answer: B  
Explanation: Anything that doesn’t increase useful life of PP&E is not a capital expenditure.

8. A company purchased an oil well for $270,000. It estimates that the well contains 90,000 barrels of oil, has an eight-year life, and no salvage value. If the company extracts and sells 10,000 barrels of oil in the first year, how much depletion expense should be recorded?

a. $33,750

b. $135,000

c. $27,000

d. $30,000

Answer: D  
Explanation: [$270,000 x (3,000/90,000) = $30,000]. For depletion we only factor in the amount of resources extracted.