LO.a: Distinguish between costs that are capitalized and costs that are expensed in the period in which they are incurred.

1. A company recently purchased a warehouse property and related equipment for €20 million. The company incurred the following additional costs:
   • €1.0 million for repairs to the building's roof
   • €0.3 million to modify the interior layout to meet their needs (moving walls and doors, inserting and removing partitions, etc.)
   • €0.2 million on an orientation and training session for employees to familiarize them with the facility
   The cost to be capitalized (in millions) for accounting purposes is *closest* to:
   A. €20.0.
   B. €21.3.
   C. €21.5.

2. Energy Unlimited, Inc., a vertically integrated power company, borrows capital from a consortium of banks to finance the construction and commissioning of an electricity generation plant. The loan has the following terms:

Borrowing date	10 November 2013
Borrowed amount	¥750 million
Annual interest rate	10 percent
Term of the loan	5 years
Payment method	Annual interest payments only. Entire principal is due at the end of the loan term.

   The construction and commissioning of the plant take three years, during which time Energy Unlimited earned ¥25 million by temporarily investing the proceeds of the loan. The amount of interest related to construction and commissioning (in ¥ million) that can be capitalized in Energy Unlimited balance sheet under IFRS is *closest* to:
   A. 200.
   B. 225.
   C. 350.

3. Capital Inc. incurred the following costs recently on purchasing a machine for its car manufacturing plant:

Purchase price	$15,790
Delivery charges and taxes	$1,320
Installation and testing	$900
Reinforcement of factory floor to accommodate machine	$150
Maintenance staff training costs	$650

   The total cost of the machine that will appear on Capital's balance sheet is *closest* to:

A. $18,010.
B. $18,160.
C. $18,810.

4. The information on a company's financing for construction of a manufacturing facility is given below:
   - Borrowed NZD12,000,000 at a rate of 11%
   - Issued NZD2,000,000 of preferred shares with a cumulative dividend rate of 8%
   - Temporarily invested NZD1,000,000 of the loan proceeds for the first six months of construction and earned 8% on that account

   Under IFRS, the amount of financing costs to be capitalized in the first year is *closest* to:
   A. NZD1,280,000.
   B. NZD1,440,000.
   C. NZD1,480,000.

5. The information on a company's financing for construction of a manufacturing facility is given below:
   - Borrowed USD12,000,000 at a rate of 11%
   - Issued USD2,000,000 of preferred shares with a cumulative dividend rate of 8%
   - Temporarily invested USD1,000,000 of the loan proceeds for the first six months of construction and earned 8% on that account

   Under US GAAP, the amount of financing costs to be capitalized in the first year is *closest* to:
   A. $1,280,000.
   B. $1,320,000.
   C. $1,480,000.

LO.b: Compare the financial reporting of the following types of intangible assets: purchased, internally developed, acquired in a business combination.

6. Under IFRS, which of the following conditions is a criterion for an asset to be classified as an intangible asset? It must:
   A. have an indefinite useful life.
   B. be expected to generate future economic benefits.
   C. be obtained through a business combination.

7. On the statement of cash flow, an internally developed intangible asset will most likely be classified as a:
   A. Operating cash flow.
   B. Investing cash flow.
   C. Financing cash flow.

8. Under US GAAP, the costs related to the development of a software for sale are *most likely:*
   A. Expensed.
   B. Capitalized.
   C. Expensed until feasibility is established and capitalized thereafter.

9. Two companies develop, X and Y, develop scanners and software for editing the scanned images. X follows IFRS, while Y follows US GAAP. Which of the following statements is most accurate regarding the development of scanners and the editing software?
   A. Company X can capitalize the software development costs if it meets certain criteria.
   B. Company Y can capitalize the development costs related to making scanners if its meets certain criteria.
   C. Both companies must expense all development costs related to these intangible assets.

LO.c: Explain and evaluate how capitalising versus expensing costs in the period in which they are incurred affects financial statements and ratios.

10. Capitalizing expenditures, rather than expensing them:
    A. results in lower profitability in the initial years and higher profitability in subsequent years.
    B. results in higher profitability in the initial years and lower profitability in subsequent years.
    C. has no impact, both methods give the same profitability.

11. Capitalising an expenditure, rather than expensing it:
    A. results in greater amount reported as cash flow from operations.
    B. results in lower amount reported as cash flow from operations.
    C. has no impact, both methods report the same cash flow from operations.

LO.d: Describe the different depreciation methods for property, plant, and equipment and calculate depreciation expense.

12. A company has purchased a machine for $1 million with an overall useful life of 20 years and has two significant components:
    Component A costs $ 500,000 and has an expected useful life of 20 years
    Component B costs $ 500,000 and has an expected useful life of 10 years
    Assuming that the company's objective is to maximize income and it uses the straight line method of depreciation, the depreciation expense for the first year computed under IFRS compared with under U.S. GAAP will *most likely* be:
    A. the same.
    B. $25,000 higher.
    C. $25,000 lower.

13. A Russian corporation is computing the depreciation expense of a piece of manufacturing equipment for the fiscal year ended December 31, 2013 using the information below. The company takes a full year's depreciation in the year of acquisition.

Date of purchase	January 1, 2013
Cost of equipment	RUB 5,000,000
Estimated residual value	RUB 500,000
Expected useful life	15 years
Total productive capacity	15,000,000 units

Production in 2013	1,100,000 units

The depreciation expense (in RUB) will *most likely* be:

A. 300,000 lower using the straight-line method compared with the double-declining balance method.
B. 66,667 higher using the units-of-production method compared with the straight-line.
C. 336,667 higher using the double-declining balance method compared with the units-of-production method.

14. At the start of the year, a company acquired new equipment at a cost of €80,000, estimated to have a five year life and a residual value of €5,000. If the company depreciates the asset using the double declining balance method, the depreciation expense that the company will report for the third year is *closest* to:

A. €11,520.
B. €17,280.
C. €19,200.

15. An analyst has gathered the following information about a company's capital assets:

Year ending	**2012**	**2011**
Property, plant, and equipment	4750	4750
Accumulated depreciation	575	420
Net book value	4175	4330

As of the end of 2012, the expected remaining life of the assets, in years, is *closest* to:

A. 24 years.
B. 27 years.
C. 31 years.

LO.e: Describe how the choice of depreciation method and assumptions concerning useful life and residual value affect depreciation expense, financial statements, and ratios.

16. A research analyst is analyzing the effect of two alternative methods of depreciation for a newly purchased machine on a company's income statement. She has collected the following information about the machine's expected production life and use:

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Units of production	1,550	1,750	1,750	1,500	1,500	8,050

If the company uses the straight-line method to depreciate the machine instead of the units-of-production method of depreciation, its net income in Year 2 will *most likely* be:

A. the same.
B. lower.
C. higher.

17. Jonathan Hollis, CFO of Alexander Oil Company, is selecting the depreciation method to use for new equipment with an expected useful life of four years. Production is expected to be relatively slow initially, but will gradually increase over time. The method chosen for tax

reporting must be the same as the method used for financial reporting. Which of the following depreciation methods would you *most strongly* recommend to Hollis, if he wants to minimize tax payments in the first year of equipment's life?

A. Straight-line method.
B. Units-of-production method.
C. Double-declining balance method.

The following information relates to Questions 18 - 19

Anna Judd of Blue Chip Limited, an Australian corporation, is computing the depreciation expense of a manufacturing plant for the fiscal year ended 31 March 2014. The plant was acquired on 1 April 2013. Judd gathers the following information (currency in Australian dollars, AUD):

Plant cost	AUD 2,500,000
Estimated residual value	AUD 250,000
Expected useful life	10 years
Total productive capacity	1,900,000 units
Production in FY 2014	100,000 units
Expected production for the next 9 years	200,000 units each year

18. The amount of depreciation expense (in AUD) reported on Blue Chip's income statement related to the manufacturing plant based on straight-line method is *closest* to:

A. 118,421.
B. 225,000.
C. 250,000.

19. The amount of depreciation expense (in AUD) reported on Blue Chip's income statement related to the manufacturing plant based on units-of-production method is *closest* to:

A. 118,421.
B. 225,000.
C. 250,000.

20. KESC's objective is to maximize income; it had spent $3,000,000 for equipment with two significant components as mentioned below. The machine is expected to have an overall useful life of 16 years and the company uses the straight line method of depreciation.

Component	Cost	Useful Life
X	$1,000,000	10 years
Y	$ 2,000,000	16 years

The depreciation expense for the first year computed under U.S. GAAP relative to IFRS will *most likely* be:

A. the same.
B. $37,500 higher.

C. $37,500 lower.

21. A company prepares its statements according to US GAAP. It *most likely* reports long-lived assets using:
    A. the revaluation model at fair value.
    B. the cost model at acquisition cost less accumulated depreciation.
    C. the revaluation model at historical cost.

22. What is the effect of a higher expected residual value and a longer useful life on depreciation expense?
    A. Lower.
    B. Higher.
    C. No effect.

23. Assume an asset is in its early years and ignore the effect of taxes. An accelerated method of depreciation, relative to straight-line depreciation, will most likely result in a decrease of:
    A. Asset turnover ratio.
    B. Shareholders' equity.
    C. Cash flow from operations.

LO.f: Describe the different amortisation methods for intangible assets with finite lives and calculate amortisation expense.

24. The following information is available on a company for the year 2011:
    - Purchased a customer list for $200,000, which is expected to provide equal annual benefits for the next 4 years
    - Recorded $200,000 of goodwill in the acquisition of a competitor. It is estimated that the acquisition would provide substantial benefits for the company for at least the next 10 years
    - Spent $300,000 on media placements announcing the company had donated products and services to the community. The CEO believes the firm's reputation was enhanced substantially and the company will likely benefit from it for the next 5 years

    Based on those events, the amortization expense that the company should report in 2011 is *closest* to:
    A. $50,000.
    B. $70,000.
    C. $130,000.

25. A financial analyst at Mahsud Financial Corporation, a middle-eastern financial firm, is computing the amortization of a bank accountholders list, an intangible asset, for the fiscal year ended 31 March 2014. She has collected the following information about the asset:

Acquisition cost	AED 1,800,000
Acquisition date	1 April 2011
Expected residual value at time of acquisition	AED 350,000

The accountholder list is expected to result in additional revenues for five years after acquisition. The present value of these expected additional revenues exceeds the cost of the list.

Based on the straight-line method, the amount of accumulated amortization related to the accountholder list as of 31 March 2014 is *closest* to:

A. AED 290,000.
B. AED 870,000.
C. AED 1,080,000.

26. A research analyst is analyzing the amortization of a product patent acquired by A-One Digital Printing, a Canadian corporation. She collects the following information about the patent:

Acquisition cost	CAD 7,200,000
Acquisition date	1 April 2013
Patent expiration date	31 March 2019
Total plant capacity of patented product	55,000 units per year
Production of patented product in fiscal year ended 31 March 2014	32,000 units
Expected production of patented product during life of the patent	264,000 units

The amortization expense on the patent for the fiscal year 2014 using the units-of-production method is *closest* to:

A. CAD 551,742.
B. CAD 698,182.
C. CAD 872,727.

27. Which of the following statements is *least likely* correct?

A. Acceptable amortization methods are the same as acceptable depreciation methods.
B. Intangible assets with finite lives are amortized.
C. Intangible assets in indefinite useful lives are amortized.

28. With respect to accounting treatment, intangible assets with finite useful lives *mainly* differ from those with infinite useful lives in terms of:

A. Impairment.
B. Amortization.
C. Revaluation.

LO.g: Describe how the choice of amortisation method and assumptions concerning useful life and residual value affect amortisation expense, financial statements, and ratios.

29. Which of the following items will cause a company to report a lower amount of amortization expense of intangible assets in the first year after acquisition?

A. A higher amortization rate.
B. A lower residual value.
C. A longer useful life.

30. Which of the following amortization methods is *most likely* to equally distribute the cost of an intangible asset over its useful life?
    A. Units-of-production method.
    B. Straight-line method.
    C. Double-declining balance method.

LO.h: Describe the revaluation model.

31. SHM enterprise, a hypothetical company, owns several investment properties on which it earns rental income. It values the properties using the fair value model based on prevailing rental markets. SHM prepares its financial statements according to IFRS. After two years of increases the market softened in 2010 and values decreased. A summary of the properties' valuations is as follows:
    - Original cost (acquired in 2008) $100.0 million
    - Fair value valuation as of December 31, 2008 $102.0 million
    - Fair value valuation as of December 31, 2009 $110.0 million
    - Fair value valuation as of December 31, 2010 $98.00 million

    What will be the impact of the revaluation on the 2010 financial statements?
    A. $12 million charge to net income.
    B. $10 million charge to revaluation surplus and €2.0 million charge to net income.
    C. $12 million charge to revaluation surplus.

32. Mega Retail, a British corporation that follows IFRS, has elected to use the revaluation model for its property, plant and equipment. One of Mega Retail's lifter was purchased for £1,200,000 at the beginning of the fiscal year ended 31 December 2012. As of 31 December 2012, the lifter has a fair value of £2,100,000. Should Mega Retail show a profit for the revaluation of the lifter?
    A. No, because increase in value resulting from revaluation can never be recognized as a profit.
    B. No, because this value increase is recorded directly in equity.
    C. Yes.

33. A company has two types of long-lived assets: land and machinery. The company prepares its financial statements as per IFRS, which allows the company to use:
    A. The cost model for land and revaluation model for machinery.
    B. Only the revaluation model for both land and machinery.
    C. Only the revaluation model for land and the cost model for machinery.

34. Assume a revaluation initially decreases the carrying amount of the asset which resulted in a loss. Subsequently, the carrying amount of the asset increases. This increase is *most likely*:
    A. recognized as a profit or loss on the income statement.
    B. increase equal to reversal is recorded in income statement and any excess of the reversal amount is recorded directly to equity.
    C. recorded as part of equity under the heading of revaluation surplus in the balance sheet.

35. Investment property differs from property, plant and equipment as it:
    A. is long-lived.
    B. earns rent.
    C. is tangible.

36. If a company uses the fair value model to value investment property, changes in the fair value of the asset are *least likely* to impact:
    A. net income.
    B. net operating income.
    C. other comprehensive income.

37. Investment property is *least likely* to:
    A. be held for capital appreciation.
    B. be used in the production of goods and services.
    C. earn rent.

38. Under the fair value model, an increase in the value of an asset:
    A. increases net income.
    B. is shown as part of other comprehensive income and does not impact net income.
    C. is not reflected in the financial statements.

39. Assume a revaluation initially increases the carrying amount of the asset. This increase *most likely*:
    A. is recognized as a profit or loss on the income statement.
    B. has no effect on the income statement or the balance sheet.
    C. is recorded as part of equity under the heading of revaluation surplus in the balance sheet.

LO.i: Explain the impairment of property, plant, and equipment and intangible assets.

40. Which of the following assets should *most likely* be tested for impairment at least annually?
    A. Land.
    B. A patent with a legal life of 20 years.
    C. A trademark with an expected indefinite life.

41. An analyst is analyzing the impairment of the production equipment of Omega Corp., a German corporation that follows IFRS. He collects following information about the equipment:

Fair value	€20,100,000
Costs to sell	€695,000
Value in use	€15,600,000
Net carrying amount	€22,300,000

The amount of impairment loss on Omega Corp.'s income statement related to production equipment is *closest* to:

A. 2,200,000.
B. 2,895,000.
C. 6,700,000.

42. An analyst identified the following intangible assets while reviewing the financial statements and footnotes of a listed company that follows IFRS:
- Product patent with no expiration date;
- Copyright expiring in 25 years; and
- Goodwill acquired 5 years ago in an M&A transaction.

Which of these assets is an intangible asset with a finite useful life?

	Product Patent	**Copyright**	**Goodwill**
A.	Yes	Yes	No
B.	Yes	No	No
C.	No	Yes	No

43. Boston Inc. preparers financial statement using US GAAP and reports the following information related to a piece of equipment on 31 December 2015:
- Carrying value = $100,000
- Undiscounted expected cash flows = $102,000
- Fair value = $98,000

What is *most likely* to be the reported value of the equipment after it is assessed for recoverability?
A. $98,000.
B. $100,000.
C. $102,000.

44. An Australian printing company which prepares its financial statements according to IFRS has experienced a decline in the demand for its products. The following information relates to the company's printing equipment as of 31 December 2013:

	AUD
Carrying value of equipment (net book value)	300,000
Undiscounted expected future cash flows	330,000
Fair Value	280,000
Costs to sell	40,000
Value in use	250,000

The impairment loss (in AUD) is *closest* to:
A. 0.
B. 50,000.
C. 60,000.

LO.j: Explain the derecognition of property, plant, and equipment and intangible assets.

45. A company plans to either exchange or abandon a long-lived asset. Until it does so, the asset will *least likely* be:
A. Classified as held-for-use until disposal.
B. Depreciated and tested for impairment if the carrying amount is greater than zero.

C. Removed from the financial statements as it is derecognized.

46. Mus Inc, a wellness chain, sells outdated equipment from across its centers. The following data is available about the sale:
Gain on sale of the equipment: $1.8 million
Carrying amount of the equipment: $2.5 million (original cost of $4 million - $1.5 of accumulated depreciation)
The price at which Mus Inc. sold the equipment was *closest* to:
A. $4.3 million.
B. $2.2 million.
C. $0.7 million.

47. A senior analyst at Silk Road Capital Management is studying the result of sale of a vehicle for GBP 82,000 on 31 March 2012. The analyst gathers the following information about the vehicle:

Acquisition cost of the vehicle	GBP 120,000
Acquisition date	1 April 2009
Estimated residual value at acquisition date	GBP 8,000
Expected useful life	8 years
Depreciation method	Straight-line

The sale of the vehicle *most likely* resulted in:
A. a gain of GBP 12,000.
B. a loss of GBP 4,000.
C. a gain of GBP 4,000.

48. Stonebridge Inc. sells an intangible asset with a historical acquisition of £17 million and an accumulated depreciation of £3 million and reports a loss on the sale of £4.2 million. Which of the following amounts is *most likely* the sale price of the asset?
A. £9.8 million.
B. £12.2 million.
C. £18.2 million.

49. The proceeds from the sale of a long-lived asset is most likely shown on the cash flow statement under:
A. Operating activities.
B. Investing activities.
C. Financing activities.

50. Which of the following *best* explains the balance sheet treatment when an asset is exchanged?
A. Add the fair value of the asset acquired and no changes made for the asset given up.
B. Subtract the carrying amount of the asset given up, add the fair value of the asset acquired.
C. Subtract the fair value of the asset given up and add the fair value of the asset acquired.

51. What is the *most likely* accounting treatment for a retired asset?
    A. The carrying value of the asset is removed from the balance sheet but the income statement is not impacted.
    B. There is no impact on the financial statements.
    C. The carrying value of the asset is removed from the balance sheet and the loss is recognized on the income statement.

LO.k: Explain and evaluate how impairment, revaluation, and derecognition of property, plant, and equipment and intangible assets affect financial statements and ratios.

52. Impairment charges reflect:
    A. allocation of the cost of a long-lived asset over its useful life.
    B. an unexpected decline in the fair value of an asset to an amount lower than its carrying amount.
    C. an unexpected increase in the fair value of an asset to an amount higher than its carrying amount.

53. Analyst 1: US GAAP permits impairment losses to be reversed, with reversal reported in profit.
    Analyst 2: IFRS does not permit the reversal of impairment losses.
    A. Analyst 1 is correct.
    B. Analyst 2 is correct.
    C. Both analysts are incorrect.

54. Which of the following statements is *least* accurate?
    A. IFRS permits the use of the revaluation model while US GAAP does not.
    B. If an asset is revalued upwards the gain will be reflected on the income statement.
    C. Under the revaluation model, carrying amounts are the fair values at the date of revaluation minus any subsequent accumulated depreciation or amortisation.

LO.l: Describe the financial statement presentation of and disclosures relating to property, plant, and equipment and intangible assets.

55. According to IFRS, all of the following pieces of information about property, plant and equipment must be disclosed in a company's financial statements and footnotes *except for*:
    A. amount of disposals.
    B. acquisition dates.
    C. useful lives.

56. According to IFRS, under the cost method all of the following pieces of information about intangible assets must be disclosed in a company's financial statements and footnotes *except for*:
    A. impairment loss.
    B. amortization rate.
    C. fair value.

57. Which of the following statements is *most accurate*? Under:
    A. U.S. GAAP, intangibles can be valued using the cost model or the revaluation model.
    B. IFRS, intangibles must be valued using the cost model.
    C. IFRS, intangibles can be valued using the cost model or the revaluation model.

LO.m: Analyze and interpret financial statement disclosures regarding property, plant, and equipment and intangible assets.

58. Stern Holding Company uses the revaluation model to value land. At the end of the current year, the value of the land has increased and will be adjusted on the balance sheet. If the company prepares its financial statements in accordance with IFRS, which of the following statements is *most accurate*? In the current period, the revaluation of the land will:
    A. decrease the debt to equity ratio.
    B. increase return on assets.
    C. increase return on sales.

59. Analyst 1: The gains and losses arising in the year on asset revaluation are reported in the notes to the financial statement only.
    Analyst 2: The gains and losses arising in the year on asset revaluation are recognised directly in equity.
    A. Analyst 1 is incorrect.
    B. Analyst 2 is incorrect.
    C. Both analysts are incorrect.

LO.n: Compare the financial reporting of investment property with that of property, plant, and equipment.

60. Builders Co. owns several investment properties on which it earns rental income. It values the properties using the fair value model based on prevailing rental markets and prepares its financial statements according to IFRS. A summary of the properties' valuations is as follows:
    - Original cost (acquired in 2010) €100.0 million
    - Fair value valuation as at December 31, 2010 €102.0 million
    - Fair value valuation as at December 31, 2011 €105.0 million
    - Fair value valuation as at December 31, 2012 €101.0 million

    Which of the following *best* describes the impact of the revaluation on the 2012 financial statements?
    A. €4 million charge to net income.
    B. €4 million charge to revaluation surplus.
    C. €2 million charge to revaluation surplus and €2 million charge to net income.

61. Under IFRS, which of the following will *least likely* be classified as an investment property?
    A. A property that is held for sale.
    B. A property that will earn rent.
    C. Properties held for sale by a housing construction company.

62. Which one of the following statements about investment property is *most* accurate?
    A. Investment property is presented as part of the long-lived assets on the balance sheet.
    B. A company must use the same model for all of its investment property even if comparability becomes less frequent.
    C. Once classified as investment property, a company is not allowed to change it to property, plant and equipment or as part of inventory.

LO.o: Explain and evaluate how leasing rather than purchasing assets affects financial statements and ratios.

63. Which of the following options will *most likely* result in the lowest debt-to-asset ratio?
    A. Buying an equipment and seeking to finance it.
    B. Using a finance lease to obtain the equipment.
    C. Using an operating lease to obtain the equipment.

64. Which of the following options will *most likely* result in the highest return on asset?
    A. Buying an equipment and seeking to finance it.
    B. Using a finance lease to obtain the equipment.
    C. Using an operating lease to obtain the equipment.

LO.p: Explain and evaluate how finance leases and operating leases affect financial statements and ratios from the perspective of both the lessor and the lessee.

65. When a lessee reports a lease as an operating lease rather than a finance lease:
    A. it appears more leveraged over the entire lease period.
    B. it usually appears more profitable in the early years of the lease.
    C. It usually appears more profitable in the later years of the lease.

66. When a lessor reports a lease as a finance lease rather than an operating lease:
    A. it usually appears more profitable in the early years of the lease.
    B. it usually appears more profitable in the later years of the lease.
    C. there is no impact on profitability, both methods give the same profitability.

Solutions

1. B is correct. The capitalized amount = purchase price + costs that are involved in extending asset's life or getting it ready to use = 20 + 1 + 0.3 = 21.3. Orientation and training costs are expensed during the period.

2. A is correct. Borrowing costs can be capitalized under IFRS until the tangible asset is ready for use. Also, under IFRS, income earned on temporarily investing the borrowed money decreases the amount of borrowing costs eligible for capitalization. Therefore, total capitalized interest = (750 million * 10% * 3 years) – 25 million = 200 million.

3. B is correct. The costs necessary for the machine to be ready to use can be capitalized. Therefore, total capitalized costs = 15,790 + 1,320 + 900 + 150 = $18,160.

4. A is correct. Under IFRS, any amounts earned by temporarily investing the funds are deducted from the interest cost. The costs related to the preferred shares cannot be capitalized.
   Total capitalized costs = Interest cost – Interest income = 12,000,000 * 11% - 1,000,000 *8% * 0.5 = 1,280,000.

5. B is correct. Under US GAAP, amounts earned by temporarily investing the funds are not deducted from the interest amount. Hence capitalized interest cost = 12,000,000 * 11% = $1,320,000.

6. B is correct. The three criteria to identify intangible assets under IFRS are that they must be: 1) identifiable, 2) under the control of the company and 3) expected to generate future economic benefits.

7. A is correct. The cost of an internally developed intangible asset is classified as an operating cash flow while the cost of an acquired intangible asset is classified as an investing cash flow.

8. C is correct. Under US GAAP, the costs related to the development of a software for sale are expensed until feasibility is established and capitalized thereafter.

9. A is correct. IFRS allows capitalization of development costs if certain criteria are met.

10. B is correct. Capitalising expenditures, rather than expensing them, results in higher reported profitability in the initial year, it results in lower profitability in subsequent years.

11. A is correct. Capitalising an expenditure rather than expensing it results in a greater amount reported as cash from operations because capitalised expenditures are classified as an investing cash outflow rather than an operating cash outflow.

12. B is correct.

Under IFRS: the company must use the component method of depreciation expense:
$\left(\frac{500000}{20}\right) + \left(\frac{500000}{10}\right)$ = 75,000
Under U.S. GAAP, the company would not use component deprecation because it would prefer to minimize depreciation expense in order maximize income:
1,000,000/20 = 50,000
Under IFRS, depreciation in first year is: $25,000 higher

13. C is correct.
Depreciation expense under:
Straight line: $\frac{5{,}000{,}000 - 500{,}000}{15}$ = 300,000
Double-declining balance: 1/15 * 2 *5,000,000 = 666,666.67
Units of Production: $(5{,}000{,}000 - 500{,}000) * \left(\frac{1{,}100{,}000}{15{,}000{,}000}\right)$= 330,000

14. A is correct.
Under double declining balance method, the depreciation rate would be 2 * the straight line rate of
20%, i.e., 40% depreciation rate per year. However, the asset should not be depreciated below its assumed residual value in any year.
Year 1: Depreciation = 80,000 *40% = 32,000; Net book value = 48,000
Year 2: Depreciation = 48,000 * 40% = 19,200; Net book value = 28,800
Year 3: Depreciation = 28,800 * 40% = 11,520; Net book value = 17,280

15. B is correct.
Expected remaining useful life = Net PPE / Depreciation expense = $\frac{4175}{575 - 420}$ = 27.

16. C is correct. If the company makes use of the straight-line method, the depreciation expense will be one-fifth (20 percent) of the depreciable cost in Year 2. If it uses the units-of-production method, the depreciation expense will be 21 percent (1,750/8,050) of the depreciable cost in Year 2. Therefore, if the company uses the straight-line method, its depreciation expense will be lower and its net income in Year 2 will be higher.

17. C is correct. If Hollis wants to minimize tax payments in the first year of the equipment's life, he should use an accelerated method, such as the double-declining balance method.

18. B is correct. Using the straight-line method, depreciation expense is equal to
Depreciation expense = $\frac{2{,}500{,}000 - 250{,}000}{10}$ = 225,000.

19. A is correct. Using the units-of-production method, depreciation expense is equal to
Depreciation expense = $(2{,}500{,}000 - 250{,}000) * \left(\frac{100{,}000}{1{,}900{,}000}\right)$ = 118,421.

20. C is correct. Under IFRS: the company must use the component method of depreciation expense:

$\left(\frac{1{,}000{,}000}{10}\right) + \left(\frac{2{,}000{,}000}{16}\right)$ = 225,000 per year for the first 10 years
Under U.S. GAAP, the company would not use component deprecation because it would prefer to minimize depreciation expense in order maximize income.
$\left(\frac{3{,}000{,}000}{16}\right)$ = 187,500 per year

21. B is correct. Revaluation model is not permitted under US GAAP.

22. A is correct. Higher residual value and longer useful life result in lower depreciation expense.

23. B is correct. An accelerated method of depreciation has higher depreciation expense in the early years and lower net income. This, in turn, decreases shareholder's equity.

24. A is correct. The customer list is the only identifiable intangible asset, and it should be amortized on a straight-line basis over its expected future life: $200,000 ÷ 4 = $50,000/year. Goodwill is an unidentifiable intangible and should be tested for impairment but not amortized. All advertising and promotion costs, such as the media placements, are typically expensed. If the reputation of the company has been enhanced as the CEO suggests, this is an internally generated intangible that is not recorded on the balance sheet and is therefore not amortized.

25. B is correct. Using the straight-line method, accumulated amortization is equal to
    Accumulated amortization = [(1,800,000 – 350,000)/5 years] * 3 years = 870,000.

26. C is correct. Using the units-of-production method, depreciation expense is equal to
    Depreciation expense = $7{,}200{,}000 * \left(\frac{32{,}000}{264{,}000}\right)$ = 872,727.

27. C is correct. Statements A and B are true. Statement C is false. Intangible assets with indefinite useful lives are not amortized.

28. B is correct. An intangible asset with a finite useful life is amortized, whereas an intangible asset with an indefinite useful life is not.

29. C is correct. A longer useful life results in a lower amount of amortization in the first year after acquisition (and every year after that).

30. B is correct. The straight-line method equally distributes the cost of an asset over its useful life because amortization is the same amount every year.

31. A is correct. When using the fair value model of revaluing assets, all increases and decreases in the investment prices affect net income.

32. B is correct. In this case, the value increase brought about by the revaluation should be recorded directly in equity. The reason is that under IFRS, an increase in value due to

revaluation can only be recognized as a profit to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement.

33. A is correct. IFRS requires all assets within an asset class to use the same model: either cost or revaluation model.

34. B is correct.

35. B is correct. Investment property earns rent. Investment property and property, plant and equipment are tangible and long-lived.

36. C is correct. When a company uses the fair value model to value investment property, changes in the fair value of the property are reported in the income statement – not in other comprehensive income.

37. B is correct. Investment property earns rent. Inventory is held for resale, and property, plant and equipment are used in the production of goods and services.

38. A is correct. Under the fair value model, all changes in the fair value of the asset affect net income.

39. C is correct. An initial increase in the carrying amount of the asset bypasses the income statement and goes directly to equity.

40. C is correct. Intangible assets with indefinite lives need to be tested for impairment at least annually. PP&E (including land) and intangibles with finite lives are only tested if there has been a significant change or other indication of impairment.

41. B is correct. The impairment loss equals €2,895,000.
    Recoverable amount = greater of fair value less cost to sell and value in use = 19,405,000
    Impairment loss = Net carrying amount – Recoverable amount = 22,300,000 – 19,405,500 = 2,895,000

42. C is correct. A product patent with no expiration date is an intangible asset with an indefinite useful life. A copyright with a defined expiration date is an intangible asset with a finite useful life. Goodwill is considered to have an indefinite useful life.

43. B is correct. Under US GAAP we first test for recoverability by comparing the carrying value with the undiscounted future cash flows. In this case the undiscounted future cash flow of $102,000 exceeds the carrying value of $100,000, hence there is no impairment. Had the undiscounted future cash flows been lower than the carrying value, the asset would have been written down to the fair value of $98,000 and an impairment loss of $2,000 would have been recognized.

44. B is correct. Under IFRS, an asset is considered to be impaired when its carrying amount exceeds its recoverable amount (the higher of fair value less cost to sell or value in use).

Fair value less costs to sell: 280,000 – 40,000 = 240,000
Value in use = 250,000
Recoverable amount (higher value) = 250,000
Impairment loss under IFRS = Carrying value – recoverable amount = 300,000 – 250,000 = 50,000

45. C is correct. When a long-lived asset is disposed of, it is derecognized and not shown on the financial statements.

46. A is correct.
Gain on sale = Sale price – carrying amount at the time of sale
1.8 = Sale price – 2.5
Sale price = 4.3

47. C is correct. The result of the sale of the vehicle equals
Gain or loss on the sale = Sale proceeds – Carrying amount
= Sale proceeds – (Acquisition cost – Accumulated depreciation)
= 82,000 – {120,000 – [((120,000 – 8,000)/8 years) * 3 years]}
= 4,000.

48. A is correct. Gain or loss on sale = Sale proceeds – Carrying amount. Rearranging this equation, Sale proceeds = Carrying amount + Gain or loss on sale. Thus, Sale price = (17 million – 3 million) + (-4.2 million) = 9.8 million.

49. B is correct. When an asset is disposed of, it is removed from the operating cash flow and shown under investing cash flow.

50. B is correct.

51. C is correct. When an asset is abandoned or retired the carrying value of the asset is removed from the balance sheet and the loss is recognized on the income statement.

52. B is correct. Impairment charges reflect an unexpected decline in the fair value of an asset to an amount lower than its carrying amount.

53. C is correct. IFRS permit impairment losses to be reversed, with the reversal reported in profit. US GAAP do not permit the reversal of impairment losses.

54. B is correct. Statements A and C are true. Statement C is false. If an asset is revalued upwards the revaluation surplus is recorded under equity.

55. B is correct. Under IFRS, acquisition dates are not required to be disclosed.

56. C is correct. IFRS do not require fair value of intangible assets to be disclosed.

57. C is correct. Under U.S. GAAP, intangibles must be valued at historical cost, whereas under IFRS they can be valued at cost or revaluation.

58. A is correct. The increase in the value of the land bypasses the income statement and goes directly to a revaluation surplus account in equity. Equity increases thereby decreasing the debt to equity ratio.

59. C is correct. A revaluation surplus is reflected directly in equity while a revaluation loss flows through the income statement.

60. A is correct. For investment properties, when using the fair value model of revaluing assets, all increases and decreases affect net income.

61. C is correct. These long-lived assets are considered inventory.

62. B is correct. Investment property is presented as a separate line item on the balance sheet. A company can classify a property from investment property to property, plant, and equipment. When doing so, it must change from fair value model to cost model or revaluation model.

63. C is correct. The lowest debt-to-asset ratio is found when the equipment is financed through an operating lease. Buying an asset and seeking to finance it with new debt and leasing it under a finance lease result in the same return on assets.

64. C is correct. The highest return on assets is found when the equipment is leased under an operating lease, because net income is highest and the asset base is lowest. Buying an asset and seeking to finance it with new debt and leasing it under a finance lease result in the same return on assets.

65. B is correct. When a lessee reports a lease as an operating lease rather than a finance lease, it usually appears more profitable in early years of the lease and less so later, and it appears less leveraged over the entire lease period.

66. A is correct. When a lessor reports a lease as a finance lease rather than an operating lease, it usually appears more profitable in early years of the lease.