Question #1 of 66

The *most likely* result of increasing the estimated useful life of a depreciable asset is that:

A) return on assets will decrease.

B) net profit margin will increase.

C) asset turnover will increase.

Question #2 of 66

This information pertains to equipment owned by Brigade Company.

- Cost of equipment: $10,000.
- Estimated residual value: $2,000.
- Estimated useful life: 5 years.
- Depreciation method: straight-line.

The accumulated depreciation at the end of year 3 is:

A) $5,200.

B) $1,600.

C) $4,800.

Question #3 of 66

Lakeside Co. recently determined that one of its processing machines has become obsolete after 7 years of use and, unexpectedly, has no salvage value. The machine was being depreciated over a useful economic life of 10 years. Which of the following statements is *most* consistent with this discovery?

A) Historically, economic depreciation was understated in the financial statements.

B) Historically, economic depreciation was overstated in the financial statements.

C) Lakeside Co. will owe back taxes.

Question #4 of 66

Novak, Inc. owns equipment with a historical cost of $20,000, a useful life of 5 years, and an estimated salvage value of $5,000. Using the double declining balance method, depreciation expense in Year 3 for this equipment is:

A) $2,880.00

B) $3,000.00

C) $2,200.00

Question #5 of 66

Compared to a firm that purchases a PP&E asset for cash and capitalizes the asset, a firm that leases the same asset with an operating lease will have lower:

A) long-term liabilities.

B) current liabilities.

C) long-lived assets.

Question #6 of 66

Cash flows from an operating lease are recognized as:

A) CFF by the lessee and CFO by the lessor.

B) CFO by both the lessor and the lessee.

C) CFO by the lessee and CFI by the lessor.

Question #7 of 66

In accounting for PP&E using the cost model, companies are required to disclose both gross asset value and accumulated depreciation under:

A) IFRS but not U.S. GAAP.

B) both IFRS and U.S. GAAP.

C) U.S. GAAP but not IFRS.

Question #8 of 66

A firm revalues its long-lived assets upward. All other things equal, which of the following financial impacts is *least likely* to occur?

A) Lower solvency ratios.

B) Higher profitability in the periods after revaluation.

C) Higher earnings in the revaluation period.

Question #9 of 66

On January 1, 2004, JME purchased a truck that cost $24,000. The truck had an estimated useful life of 5 years and $4,000 salvage value. The amount of depreciation expense recognized in 2006 assuming that JME uses the double declining balance method is:

A) $3,456.

B) $5,760.

C) $4,000.

Question #10 of 66

Mammoth, Inc. reports under U.S. GAAP. Mammoth has begun a long-term project to develop inventory control software for external sale. On its financial statements, Mammoth should:

A) capitalize all costs of this project.

B) expense all costs of this project in the periods incurred.

C) expense all costs of this project until technological feasibility has been established.

Question #11 of 66

With an operating lease, the leased asset appears on the balance sheet of:

A) the lessor.

B) the lessee.

C) neither the lessor nor the lessee.

Question #12 of 66

Under IFRS, if a firm reports investment property using the fair value model, unrealized gains and losses on investment property are:

A) disclosed in the financial statement notes.

B) recognized in other comprehensive income.

C) recognized on the income statement.

Question #13 of 66

Under normal circumstances, intangible assets with indefinite lives are:

A) amortized over a reasonable period and subject to impairment.

B) not amortized but subject to impairment.

C) amortized over a reasonable period but not subject to impairment.

Question #14 of 66

An analyst determined the following information concerning Franklin, Inc.'s stamping machine:

- Acquired seven years ago for $22 million
- Straight line method used for depreciation
- Useful life estimated to be 12 years
- Salvage value originally estimated to be $4 million

The stamping machine is expected to generate $1,500,000 per year for five more years and will then be sold for $1,000,000. Under U.S. GAAP, the stamping machine is:

A) impaired because expected salvage value has declined.

B) impaired because its carrying value exceeds expected future cash flows.

C) not impaired.

Question #15 of 66

Taking an impairment of long-lived assets will result in:

A) a lower debt-to-equity ratio.

B) higher deferred tax liabilities.

C) higher future return on assets.

Question #16 of 66

Which of the following statements regarding capitalizing versus expensing costs is *least* accurate?

A) Cash flow from investing is higher with expensing than with capitalization.

B) Total cash flow is higher with capitalization than expensing.

C) Capitalization results in higher profitability initially.

Question #17 of 66

Stannum Records obtains two intangible assets in a business acquisition: legal rights to reproduce songs, valued at $5 million, and a trademark valued at $1 million. The trademark expires in 10 years and can be renewed at a minimal cost. Stannum estimates a 5-year useful life for the song rights. Because much of the songs' economic value is realized in their early years, Stannum uses double-declining balance amortization. Amortization expense in the first year after the acquisition is *closest* to:

A) $2.2 million.

B) $2.1 million.

C) $2.0 million.

Question #18 of 66

For impaired long-lived assets, a firm reporting under IFRS is *least likely* required to disclose the:

A) estimated probabilities of reversing impairment losses.

B) amounts of impairment losses and reversals by asset class.

C) circumstances that caused the impairment losses or reversals.

Question #19 of 66

The average age of a firm's property, plant, and equipment can be estimated by dividing:

A) net PP&E by depreciation expense.

B) gross PP&E by depreciation expense.

C) accumulated depreciation by depreciation expense.

Question #20 of 66

In the early years of an asset's life, a firm that chooses an accelerated depreciation method instead of using straight-line depreciation will tend to have:

A) higher return on equity and higher return on assets.

B) lower net income and lower equity.

C) lower depreciation expense and lower turnover ratios.

Question #21 of 66

A building owned by a firm is *most likely* to be classified as investment property if:

A) space in the building is rented to other firms.

B) the firm uses the building for its corporate headquarters.

C) the building is a manufacturing plant or distribution center.

Question #22 of 66

An impairment write-down is *least likely* to decrease a company's:

A) assets.

B) debt-to-equity ratio.

C) future depreciation expense.

Question #23 of 66

Under IFRS, the principal portion of a finance lease payment:

A) is recognized as CFF by the lessee and CFI by the lessor.

B) may be recognized as CFO by either the lessor or the lessee.

C) is recognized as CFI by both the lessor and the lessee.

Question #24 of 66

Capitalized interest costs are typically reported in the cash flow statement as an outflow from:

A) financing.

B) operating.

C) investing.

Question #25 of 66

The amortized cost of a trademark is *least likely* to appear on a firm's balance sheet if the trademark was:

A) obtained in the acquisition of another firm.

B) purchased from another firm.

C) developed internally.

Question #26 of 66

Which of the following items is *least likely* an example of an intangible asset with an indefinite life?

A) Goodwill.

B) Acquired patents.

C) Trademarks that can be renewed at minimal cost.

Question #27 of 66

For a firm that uses the cost basis for valuing its long-lived assets, fair value is a consideration when calculating a gain or loss on:

A) selling an asset.

B) abandoning an asset.

C) exchanging an asset.

Question #28 of 66

Allocating an intangible asset's cost to the income statement over time is known as:

A) depletion.

B) depreciation.

C) amortization.

Question #29 of 66

For a firm to use the revaluation model for balance sheet reporting of long-lived assets:

A) an active market must exist for the assets.

B) the firm must report under U.S. GAAP.

C) the firm must choose which assets of each type to revalue, and which to report at cost.

Question #30 of 66

Intangible assets with finite useful lives are:

A) amortized over their actual lives.

B) not amortized, but are tested for impairment at least annually.

C) amortized over their expected useful lives.

Question #31 of 66

Blocher Company is evaluating the following methods of accounting for depreciation of long-lived assets and inventory:

- Depreciation: straight-line; double-declining balance (DDB)
- Inventory: first in, first out (FIFO); last in, first out (LIFO)

Assuming a deflationary environment (prices are falling), which of the following combinations will result in the highest net income in year 1?

A) Straight-line; FIFO.

B) Straight-line; LIFO.

C) DDB; FIFO.

Question #32 of 66

Component depreciation is required under:

A) U.S. GAAP, but not IFRS.

B) both IFRS and U.S. GAAP.

C) IFRS, but not U.S. GAAP.

Question #33 of 66

An analyst will *most likely* use the average age of depreciable assets to estimate the company's:

A) cash flows.

B) near-term financing requirements.

C) earnings potential.

Question #34 of 66

Meyer Investment Advisory and Smith Brothers Investments are operationally identical except that Meyer capitalizes some costs that Smith expenses. Compared to Smith, Meyer is likely to have:

A) lower profitability (ROA and ROE) in early years and higher in later years.

B) higher debt/equity ratio and higher debt/assets ratio.

C) higher cash flows from operations and lower cash flow from investing.

Question #35 of 66

Davis Inc. is a large manufacturing company operating in several European countries. Davis has long-lived assets that are valued on the balance sheet at $600 million. This includes previously recognized revaluation losses of $80 million. In the most recent accounting period, the fair value of these assets in an active market is $690 million. Which of the following entries will Davis record under the IFRS revaluation model?

A) Revaluation surplus only.

B) Gain on income statement only.

C) Gain on income statement and a revaluation surplus.

Question #36 of 66

Marcel Inc. is a large manufacturing company based in the U.S. but also operating in several European countries. Marcel has long-lived assets currently in use that are valued on the balance sheet at $600 million. This includes previously recognized impairment losses of $80 million. The original cost of the assets was $750 million. The fair value of the assets was determined in a professional appraisal to be $690 million. Assuming that Marcel reports under U.S. GAAP, the new appraisal of the assets' value most likely results in:

A) an $80 million gain on income statement and $10 million gain in other comprehensive income.

B) no change to Marcel's financial statements.

C) a $90 million gain in other comprehensive income.

Question #37 of 66

A company is switching from straight-line depreciation to an accelerated method of depreciation. Assuming all other revenue and expenses are at the same levels for the next period, switching to an accelerated method will *most likely* increase the company's:

A) fixed asset turnover ratio.

B) total assets on the balance sheet.

C) net income/sales ratio.

Question #38 of 66

Czernezyk Company buys a delivery vehicle for €60,000. Czernezyk expects to drive the vehicle 400,000 kilometers over 4 years, at the end of which the firm expects to be able to sell the vehicle for €10,000. At the end of Year 2, the vehicle has been driven 250,000 kilometers. If Czernezyk depreciates the vehicle by the units of production method, its carrying value at the end of Year 2 is:

A) €15,000.

B) €31,250.

C) €28,750.

Question #39 of 66

Slovac Company purchased a machine that has an estimated useful life of eight years for $7,500. Its salvage value is estimated at $500.

What is the depreciation expense for the second year, assuming Slovac uses the double-declining balance method of depreciation?

A) $1,438.

B) $1,406.

C) $1,875.

Question #40 of 66

Accelerated depreciation methods for financial reporting are *most likely* to have which of the following effects on a company's financial ratios during the early years of an asset's life?

A) Higher asset turnover ratio.

B) Lower debt-to-equity ratio.

C) Lower current ratio.

Question #41 of 66

Compared to firms that expense costs, firms that capitalize expenses will have:

A) lower cash flow from operations.

B) higher leverage ratios.

C) lower variability of income.

Question #42 of 66

Capitalizing interest costs related to a company's construction of assets for its own use is *required* by:

A) IFRS only.

B) both IFRS and U.S. GAAP.

C) U.S. GAAP only.

Question #43 of 66

With a finance lease, which party recognizes depreciation expense on the leased asset?

A) Both the lessor and the lessee.

B) The lessor.

C) The lessee.

Question #44 of 66

A company acquires an intangible asset for $100,000 and expects it to have a value of $20,000 at the end of its 5-year useful life. If the company amortizes the asset using the double-declining balance method, amortization expense in year 4 of the asset's useful life is *closest* to:

A) $6,910.

B) $1,600.

C) $8,640.

Question #45 of 66

Spenser Inc. owns a piece of specialized machinery with a current fair value of $400,000. The original cost of the machinery was $500,000 and to date has generated accumulated depreciation of $140,000. Which of the following must Spenser record on the income statement if it decides to abandon the asset?

A) Loss of $100,000.

B) Loss of $360,000.

C) Gain of $40,000.

Question #46 of 66

As part of a major restructuring of business units, General Security (an industrial conglomerate operating solely in the U.S. and subject to U.S. GAAP) recognizes significant impairment losses. The Investor Relations group is preparing an informational packet for shareholders, employees, and the media. Which of the following statements is *least* accurate?

A) Write-downs taken on asset values can be reversed in later years if market conditions improve.

B) During the year of the write-downs, retained earnings and deferred taxes will decrease.

C) The write-downs are reported as a component of income from continuing operations.

Question #47 of 66

La Crosse Partners LLC has a franchise agreement with Arnolds Crispy Fry that expires in seven years, but is renewable at each expiration date for a nominal fee. If the franchise agreement is initially valued at $60,000:

A) an accelerated amortization method is more appropriate than the straight-line method.

B) amortization expense in the first year will be one-seventh of $60,000.

C) amortization expense in the sixth year will be zero.

Question #48 of 66

U.S. GAAP *least likely* requires property, plant, and equipment to be tested for impairment:

A) at least annually.

B) when events indicate the firm may not recover the asset's carrying value.

C) when an asset is reclassified as held-for-sale.

Question #49 of 66

Which of the following is *best* estimated by the ratio of net PP&E to annual depreciation expense?

A) Average age.

B) Total useful life.

C) Remaining useful life.

Question #50 of 66

Compared with firms that expense costs, firms that capitalize costs can be expected to report:

A) higher asset levels and higher equity levels in the early years of the asset's life.

B) lower asset levels and higher equity levels in the early years of the asset's life.

C) higher asset levels and lower equity levels in the early years of the asset's life.

Question #51 of 66

Under U.S. GAAP, an asset is impaired when:

A) the present value of future cash flows exceeds the carrying amount of the asset.

B) the firm can no longer fully recover the carrying amount of the asset.

C) accumulated depreciation plus salvage value exceeds acquisition costs.

Question #52 of 66

Schubert, Inc. acquires 100% of another firm. As a result of the acquisition, Schubert reports on its balance sheet 1) a patent with five years remaining and a carrying value of $2 million and 2) goodwill with a carrying value of $4 million. Using the straight-line method, total amortization expense in the first year for these two intangible assets is:

A) $400,000.

B) $800,000.

C) $1,200,000.

Question #53 of 66

Compared to a firm that purchases a long-lived asset for cash and capitalizes the asset, a firm that leases the same asset with a finance lease will have:

A) lower expenses in the period the asset is acquired.

B) higher long-lived assets.

C) higher liabilities.

Question #54 of 66

Walsh Furniture has purchased a machine with a 7-year useful life for $250,000. At the end of its life it will have an estimated salvage value of $15,000. Using the double-declining balance (DDB) method, depreciation expense in year 2 is *closest* to:

A) $58,750.

B) $51,020.

C) $71,430.

Question #55 of 66

Which set of accounting standards requires firms to disclose estimated amortization expense for the next five years on intangible assets?

A) Both IFRS and U.S. GAAP.

B) IFRS.

C) U.S. GAAP.

Question #56 of 66

The revaluation model for investment property is permitted under:

A) IFRS, but not U.S. GAAP.

B) both IFRS and U.S. GAAP.

C) neither IFRS nor U.S. GAAP.

Question #57 of 66

A firm acquires investment property for €3 million and chooses the fair value model for financial reporting. In Year 1 the market value of the investment property decreases by €150,000. In Year 2 the market value of the investment property increases by €200,000. On its financial statements for Year 2, the firm will recognize a:

A) €200,000 gain on its income statement.

B) €150,000 gain on its income statement and a €50,000 revaluation surplus in shareholders' equity.

C) €150,000 increase in shareholders' equity.

Question #58 of 66

An IFRS-reporting firm reclassifies a building it owns from "owner-occupied" to "investment property." The fair value of the building is greater than its carrying value. Under the fair value model for investment property, the firm will recognize a gain:

A) only if it reverses a previously recognized loss.

B) in other comprehensive income but not on the income statement.

C) equal to the difference between fair value and carrying value.

Question #59 of 66

JME acquired an asset on January 1, 2004, for $60,000 cash. At that time JME estimated the asset would last 10 years and have no salvage. During 2006 JME estimated the remaining life of the asset to be only three more years with a salvage value of $3,000. If JME uses straight line depreciation, what is the depreciation expense for 2006?

A) $12,000.

B) $15,000.

C) $6,000.

Question #60 of 66

Felker Inc. owns a piece of specialized machinery. The original cost of the machinery was $500,000 and to date there is an accumulated depreciation balance of $140,000. Which of the following will Felker recognize on its income statement if it sells the machinery for $400,000?

A) Gain of $40,000.

B) Loss of $360,000.

C) Loss of $100,000.

Question #61 of 66

Which of the following statements comparing straight-line depreciation methods to alternative depreciation methods is *least* accurate? Companies that use:

A) accelerated depreciation methods will have lower asset turnover ratios than if they used straight line depreciation.

B) accelerated depreciation methods for tax purposes will decrease the amount of taxes paid in early years.

C) straight-line depreciation methods will have higher book values for the assets on the balance sheet than companies that use accelerated depreciation.

Question #62 of 66

On January 1, 20X4, Cayman Corporation bought manufacturing equipment for $30 million. On December 31, 20X6, Cayman determined the equipment was impaired and recognized a $5 million impairment loss in its income statement. As of December 31, 20X7, the fair value of the equipment exceeded the book value by $7 million. Cayman may recognize a gain in its 20X7 income statement if it reports under:

A) either IFRS or U.S. GAAP.

B) IFRS, but not U.S. GAAP.

C) neither IFRS nor U.S. GAAP.

Question #63 of 66

Three years ago, Ranchero Corporation purchased equipment for a process used in production, for £3 million. At the end of last year, Ranchero determined the fair value of the equipment was greater than its book value. No impairment losses have been recognized on the equipment. Assuming Ranchero follows International Financial Reporting Standards, what is the impact on its total asset turnover ratio and return on equity of reporting the value of the equipment on the balance sheet at fair value?

A) Only one will increase.

B) Both will increase.

C) Both will decrease.

Question #64 of 66

Selected information from the financial statements of Salvo Company for the years ended December 31, 20X3 and 20X4 is as follows (in $ millions):

	20X3	**20X4**
Sales	$21	$23
Cost of Goods Sold	(8)	(9)
Gross Profit	13	14
Cost of Franchise	(6)	0
Other Expenses	(6)	(6)
Net Income	$1	$8
Cash	$4	$5
Accounts Receivable	6	5
Inventory	9	7
Property, Plant & Equip. (net)	12	15
Total Assets	$31	$32
Accounts Payable	$7	$5
Long-term Debt	10	5
Common Stock	8	8
Retained Earnings	6	14
Total Liabilities and Equity	$31	$32

If Salvo had amortized the cost of the franchise acquired in 20X3 over six years instead of expensing it, Salvo's return on average total equity for 20X4 would have been *closest* to:

A) 31.1%.

B) 38.9%.

C) 35.6%.

Question #65 of 66

Train, Inc.'s cash flow from operations (CFO) in 20X8 was $14 million. Train paid $8 million cash to acquire a franchise at the beginning of 20X8 that was expensed in 20X8. If Train had elected to amortize the cost of the franchise over eight years, 20X8 cash flow from operations (CFO) would have been:

A) $14 million.

B) $21 million.

C) $22 million.

Question #66 of 66

Lucille Edgewater, CFA, is analyzing Pfaff Company, which reports its long-lived assets using the revaluation model. Edgewater needs to determine 1) what Pfaff's carrying value of property, plant and equipment would be under the historical cost model, and 2) which of Pfaff's intangible assets have finite useful lives. Will these items be disclosed in Pfaff's financial statements?

A) Both of these items are required to be disclosed.

B) Only one of these items is required to be disclosed.

C) Neither of these items is required to be disclosed.