Ch7

Student: ____

1. The CEO, as head of the company, is ultimately responsible for the firm's accounting.

   True False

2. We record a long-term asset at its cost less all expenditures necessary to get the asset ready for use.

   True False

3. We use the term capitalize to describe recording an expenditure as an expense.

   True False

4. Cash received from the sale of salvaged materials increases the total cost of land.

   True False

5. Land improvements are recorded separately from the land itself because, unlike land, these assets are subject to depreciation.

   True False

6. Capitalized interest refers to interest costs we add to the asset account rather than recording as interest expense.

   True False

7. Many intangible assets are not recorded on the balance sheet at their estimated market values.

   True False

8. We record purchased intangible assets at their original cost plus all other costs necessary to get the asset ready for use.

   True False

9. Most of the costs associated with internally developed intangible assets are recorded as intangible assets on the balance sheet.

   True False

10. Research and development costs incurred in developing a patent internally are not recorded as an intangible asset in the balance sheet, but rather are expensed directly in the income statement.

    True False

11. International accounting standards allow firms to record development costs that benefit future periods as an intangible asset.

    True False

12. Advertising costs that increase the value of trademarks are recorded to the asset account entitled Trademarks.

    True False

13. We expense internally generated intangible assets, such as research and development and advertising costs, as we incur them.

    True False

14. A patent is an exclusive right to a published work such as a song, film, or painting.

    True False

15. A copyright is an exclusive right of protection given to the creator of a published work such as a song, film, painting, photograph, book, or computer software.

    True False

16. A trademark is a word, slogan, or symbol that distinctively identifies a company, product, or service.

    True False

17. When a firm develops a trademark internally through advertising, it does not record the advertising costs as an intangible asset, but rather expenses them in the income statement.

    True False

18. The franchisee's initial fee is recorded as an expense on the income statement.

    True False

19. We record goodwill as an intangible asset in the balance sheet only when we purchase it as part of the acquisition of another company.

    True False

20. The acquiring company records goodwill equal to the purchase price less the book value of the net assets acquired.

    True False

21. We capitalize repairs and maintenance expenditures because they maintain a given level of benefits.

    True False

22. If a firm successfully defends an intangible right, it should expense the litigation costs as incurred.

    True False

23. If the defense of an intangible right is unsuccessful, then the firm should expense the litigation costs as incurred because they provide no future benefit.

    True False

24. Depreciation in accounting is the process of allocating to expense the cost of an asset over its service life.

True False

25. Depreciation in accounting records the decrease in value of an asset.

True False

26. Accumulated Depreciation is a liability account that is increased by credits.

True False

27. Book value is equal to the original cost of the asset minus the current balance in Accumulated Depreciation.

True False

28. The Accumulated Depreciation account allows us to reduce the carrying value of assets through depreciation, while maintaining the original cost of each asset in the accounting records.

True False

29. The service life of an asset is always equal to the full life of the asset.

True False

30. Residual value, also referred to as salvage value, is the amount the company expects to receive from selling the asset at the end of its service life.

True False

31. With the straight-line depreciation method, we allocate an equal amount of the depreciable cost to each year of the asset's service life.

True False

32. When a change in estimate is required, the company changes depreciation in prior, current and future years.

True False

33. Straight-line depreciation assumes that the benefits we derive from the use of an asset are the same each year.

True False

34. Declining-balance depreciation will be lower than straight-line depreciation in earlier years, but higher in later years.

True False

35. In an activity-based depreciation method, we allocate an asset's cost based on its use.

True False

36. We allocate natural resources to expense through a process known as "depletion."

True False

37. Straight-line produces a lower net income than accelerated methods in the earlier years of an asset's life.

True False

38. Straight-line, declining-balance, and activity-based depreciation all are acceptable depreciation methods for both financial reporting and tax reporting.

True False

39. Most companies use straight-line amortization for intangibles and credit the amount of amortization to the intangible asset account itself rather than to Accumulated Amortization.

True False

40. Goodwill is amortized over its estimated useful life.

True False

41. Intangible assets with an indefinite useful life (goodwill and most trademarks) are not amortized.

True False

42. We record a gain if we sell an asset for less than book value.

True False

43. We record a loss if we sell an asset for less than book value.

True False

44. A more comparable measure of profitability than income is return on assets, which equals net income divided by average total assets.

True False

45. Profit margin is net income divided by net sales.

True False

46. Asset turnover is net sales divided by ending total assets.

True False

47. Management must review long-term assets for impairment when events or changes in circumstances indicate that book value might not be recoverable.

True False

48. Impairment occurs when the future cash flows generated for a long-term asset fall below its fair value.

True False

49. An impairment loss is equal to the amount by which book value exceeds the fair value of a long-term asset.

True False

50. Taking a "big bath" is recording all losses in one year to make a bad year even worse.

True False

51. Real Angus Steakhouse purchased land for $75,000 cash. They also incurred commissions of $4,500, property taxes of $5,000, and title insurance of $800. The $5,000 in property taxes includes $4,000 in back taxes paid by Real Angus on behalf of the seller and $1,000 due for the current year after the purchase date. For what amount should Real Angus Steakhouse record the land?

a. $83,500.
b. $84,300.
c. $85,300.
d. $75,000.

A. Option a
B. Option b
C. Option c
D. Option d

52. Which of the following would be recorded as land improvements?

A. Property taxes.
B. Title insurance.
C. Real estate commissions.
D. Adding a parking lot.

53. Bad Brads BBQ purchased a piece of equipment by paying $5,000 cash. They also incurred a shipping cost of $400 to get the equipment to its factory. The fair value of this equipment is $7,000. For what amount should Bad Brads BBQ record the equipment?

a. $5,000.
b. $5,400.
c. $7,000.
d. $7,400.

A. Option a
B. Option b
C. Option c
D. Option d

54. Wiley Company purchased new equipment for $60,000. Wiley paid cash for the equipment. Other costs associated with the equipment were: transportation costs, $1,000; sales tax paid $3,000; and installation cost, $2,500. The cost recorded for the equipment was:

a. $60,000.
b. $61,000.
c. $64,000.
d. $66,500.

A. Option a
B. Option b
C. Option c
D. Option d

55. Cowboy Development incurred the following costs associated with the purchase of a piece of land that it will use to re-build an office building:

Sale price of the land	$400,000
Sale of salvaged parts already on land	$20,000
Demolition of the old building	$30,000
Ground breaking ceremony (food and supplies)	$1,500
Land preparation and leveling	$7,500

What amount should be recorded for the purchase of the land?

a. $437,500.
b. $417,500.
c. $439,000.
d. $419,000.

A. Option a
B. Option b
C. Option c
D. Option d

56. Bahama Catering purchased a commercial dishwasher by paying cash of $5,000. The dishwasher's fair value on the date of the purchase was $5,600. The company incurred $400 in transportation costs, $300 installation fees, and paid a $200 fine for illegal parking while the dishwasher was being delivered. For what amount will Bahama record the dishwasher?

a. $5,600.
b. $5,700.
c. $5,900.
d. $6,300.

A. Option a
B. Option b
C. Option c
D. Option d

57. The following financial information is from Cook Company:

Accounts Payable	$55,000
Land	$90,000
Inventory	$10,500
Accounts Receivable	$7,500
Equipment	$8,000
Unearned Revenue	$58,500
Short-term Investments	$20,000
Notes Receivable (due in 8 months)	$45,500
Interest Payable	$2,000
Patents	$75,000

What is the amount of long-term assets assuming the accounts above reflect normal activity?

a. $342,500.
b. $173,000.
c. $273,500.
d. $98,000.

A. Option a
B. Option b
C. Option c
D. Option d

58. Capital Construction purchased a 3-acre tract of land for a building site for $350,000. The company demolished the old building at a cost of $12,000, but was able to sell scrap from the building for $1,500. The cost of title insurance was $900 and attorney fees for reviewing the contract was $500. Property taxes paid were $3,000, of which $250 covered the period after the purchase date. The capitalized cost of the land is:

A. $366,400.
B. $366,150.
C. $364,650.
D. $231,150.

59. On July 1, 2012, Landon Co. purchased a $500,000 tract of land that is intended to be the site of a new office complex. Landon incurred additional costs and realized salvage proceeds during 2012 as follows:

Demolition of existing building on site	$75,000
Legal and other fees to close escrow	15,000
Proceeds from sale of demolition scrap	10,000

What would be the capitalized cost of the land?

A. $500,000.
B. $575,000.
C. $580,000.
D. $590,000.

60. Fruitasia purchased land, a building, and equipment for $800,000. The estimated fair values of the land, building, and equipment are $100,000, $700,000, and $200,000, respectively. At what amount would the company record the land?

A. $80,000.
B. $90,000.
C. $100,000.
D. $800,000.

61. Productive assets that are physically used up, or depleted are:

A. Equipment.
B. Land.
C. Land improvements.
D. Natural resources.

62. The legal life of a patent is:

A. Forty years.
B. Twenty years.
C. Life of the inventor plus fifty years.
D. Indefinite.

63. An exclusive 20-year right to manufacture a product or to use a process is a:

A. Patent.
B. Copyright.
C. Trademark.
D. Franchise.

64. The exclusive right to benefit from a creative work, such as a film, is a:

A. Patent.
B. Copyright.
C. Trademark.
D. Franchise.

65. A word, slogan, or symbol that distinctively identifies a company, product, or service is a:

A. Patent.
B. Copyright.
C. Trademark.
D. Franchise.

66. Research and development costs should be:

A. Expensed in the period incurred.
B. Expensed in the period they are determined to be unsuccessful.
C. Deferred pending determination of success.
D. Expensed if unsuccessful, capitalized if successful.

67. Morgan Pharmaceutical spends $50,000 this year in research and development for a new drug to cure liver damage. By the end of the year, management feels confident that the new drug will gain FDA approval and lead to higher future sales. What impact will the $50,000 spending have on this year's financial statements?

a. Increase Assets.
b. Decrease Revenues.
c. Increase Expenses.
d. Increase Revenues.

A. Option a
B. Option b
C. Option c
D. Option d

68. Aspen, Inc. developed a new horse transport device and incurred research and development costs of $250,000. Rather than continue with their own research, Aspen decided to purchase a patent for a similar design from Vail, Inc. for $350,000. What are the total assets and expenses for these developments?

a. Assets $600,000; Expenses $0.
b. Assets $250,000; Expenses $350,000.
c. Assets $350,000; Expenses $250,000.
d. Assets $0; Expenses $600,000.

A. Option a
B. Option b
C. Option c
D. Option d

69. Research and development costs should be capitalized when the:

   a. Future benefit is probable and the amount can be reasonably estimated.
   b. Future benefit is reasonably possible and the amount can be reasonably estimated.
   c. Future benefit is probable and the amount cannot be reasonably estimated.
   d. None of the above is correct as research and development costs are never capitalized under U.S. accounting rules.

   A. Option a
   B. Option b
   C. Option c
   D. Option d

70. Bio-Lab Pharmaceuticals carried on a project to develop a new drug that dramatically shortened the recovery period for flu infection. The project cost the company $150,000 before Bio-Lab abandoned the project due to the slim possibility to gain FDA approval. Bio-Lab then spent $300,000 on another project developing a kind of shot that achieves the same goal for flu recovery, and the company is confident in gaining FDA approval for the new shot and in making profits out of the shot. What amount would be expensed?

   a. $0.
   b. $150,000.
   c. $300,000.
   d. $450,000.

   A. Option a
   B. Option b
   C. Option c
   D. Option d

71. Goodwill is:

   a. Amortized over the greater of its estimated life or forty years.
   b. Only recorded by the seller of a business.
   c. The excess of the fair value of a business as a whole over the fair value of all net identifiable assets.
   d. Recorded when created internally through advertising expense.

   Answer: c

72. In accounting, goodwill

   a. May be recorded whenever a company achieves a level of net income that exceeds the industry average.
   b. Is amortized over its useful life.
   c. May be recorded when a company purchases another business.
   d. Must be expensed in the period it is recorded because benefits from goodwill are difficult to identify.

   A. Option a
   B. Option b
   C. Option c
   D. Option d

73. In accounting, goodwill

a. Is never recorded.
b. May be recorded when a company's level of net income exceeds the industry average.
c. Must be expensed in the period when it is acquired.
d. May be recorded when the company purchases another business.

A. Option a
B. Option b
C. Option c
D. Option d

74. The balance sheet of Cattleman's Steakhouse shows assets of $86,400 and liabilities of $15,000. The fair value of the assets is $90,000 and the fair value of its liabilities is $15,000. Longhorn paid Cattleman's $95,000 to acquire it. Longhorn should record goodwill on this purchase of:

a. $3,600.
b. $5,000.
c. $ 20,000.
d. $ 23,600.

A. Option a
B. Option b
C. Option c
D. Option d

75. Northern purchased the entire business of Southern including all its assets and liabilities for $600,000. Below is information related to the two companies:

	Northern	Southern
Fair value of assets	1,050,000	800,000
Fair value of liabilities	575,000	300,000
Reported assets	800,000	650,000
Reported liabilities	500,000	250,000
Net Income for the year	60,000	50,000

How much goodwill did Northern pay for acquiring Southern?

a. $100,000.
b. $300,000.
c. $200,000.
d. $150,000.

A. Option a
B. Option b
C. Option c
D. Option d

76. Lake Incorporated purchased all of the outstanding stock of Huron Company paying $850,000 cash. Lake assumed all of the liabilities. Book values and fair values of acquired assets and liabilities were:

	Book Value	Fair Value
Current assets (net)	$130,000	$125,000
Property, plant, equip. (net)	600,000	750,000
Liabilities	175,000	175,000

Lake would record goodwill of:
a. $0.
b. $150,000.
c. $345,000.
d. $850,000.
Answer: b

77. Which of the following subsequent expenditures would be capitalized?
a. Ordinary repair.
b. Costs that increase the service life of an asset.
c. Routine maintenance.
d. Both a. and c.

A. Option a
B. Option b
C. Option c
D. Option d

78. Which of the following subsequent expenditures would be capitalized?
a. Ordinary repairs and maintenance.
b. Additions.
c. Improvements.
d. Both b. and c.

A. Option a
B. Option b
C. Option c
D. Option d

79. The purchase of a new cooling system for $150,000 to upgrade an office building owned by the company would be accounted for as:
a. Goodwill.
b. An addition in the Buildings account.
c. An expense in the period incurred.
d. A patent.

A. Option a
B. Option b
C. Option c
D. Option d

80. Woods Company made an ordinary repair to a delivery truck at a cost of $500. Woods' accountant debited the asset account, Equipment. Was this treatment an error, and if so, what will be the effect on the financial statements of Woods?

a. No, the repair was accounted for correctly.
b. Yes, the error overstated assets and net income.
c. Yes, in the years following, net income will be overstated.
d. Yes, the error understated net income.

A. Option a
B. Option b
C. Option c
D. Option d

81. The replacement of a major component increased the productive capacity of equipment from 10 units per hour to 18 units per hour. The expenditure for the replacement component should be debited to:

A. Repairs Expense.
B. Maintenance Expense.
C. Equipment.
D. Gain from Repairs.

82. Which one of the following regarding the book value of an asset is correct?

a. It is the fair value of the asset if the asset is sold.
b. It reflects the original cost of the asset less accumulated depreciation.
c. It is the original cost of the asset minus the depreciation expense for that asset during the year.
d. It is the original cost at which the asset was purchased.

A. Option a
B. Option b
C. Option c
D. Option d

83. Which of the following is considered a "contra" account?

a. Unearned Revenue.
b. Goodwill.
c. Accumulated Depreciation.
d. Costs of Good Sold.

A. Option a
B. Option b
C. Option c
D. Option d

84. The factors used to compute depreciation expense are an asset's:

A. Cost, residual value, and physical life.
B. Cost, residual value, and service life.
C. Fair market value, residual value, and economic life.
D. Cost, replacement value, and service life.

85. The depreciable cost used in calculating depreciation expense is:

A. Its service life.
B. The amount allowable under tax depreciation methods.
C. The difference between its replacement value and cost.
D. The asset's cost minus its estimated residual value.

Use the following information for the next 6 questions:
Kansas Enterprises purchased equipment for $60,000 on January 1, 2012. The equipment is expected to have a five-year life, with a residual value of $5,000 at the end of five years.

86. Using the straight-line method, depreciation expense for 2012 would be:

A. $12,000.
B. $11,000.
C. $60,000.
D. None of the other answers are correct.

87. Using the straight-line method, the book value at December 31, 2012 would be:

A. $44,000.
B. $49,000.
C. $55,000.
D. $60,000.

88. Using the straight-line method, depreciation expense for 2013 and the book value at December 31, 2013 would be:

A. $12,000 and $36,000.
B. $12,000 and $31,000.
C. $11,000 and $33,000.
D. $11,000 and $38,000.

89. Using the double-declining balance method, depreciation expense for 2012 would be:

A. $24,000.
B. $22,000.
C. $19,000.
D. $20,000.

90. Using the double-declining balance method, depreciation expense for 2013 would be:

A. $22,000.
B. $13,200.
C. $14,400.
D. $24,000.

91. Using the double-declining balance method, the book value at December 31, 2013 would be:

A. $21,600.
B. $24,800.
C. $36,000.
D. $45,600.

92. A machine has a cost of $15,000, an estimated residual value of $3,000, and an estimated useful life of four years. The machine is being depreciated on a straight-line basis. At the end of the second year, what amount will be reported for accumulated depreciation?

a. $9,000.
b. $6,000.
c. $7,500.
d. $3,000.

A. Option a
B. Option b
C. Option c
D. Option d

93. A building was purchased for $50,000. The asset has an expected useful life of 6 years and depreciation expense each year is $8,000 using the straight-line method. What is the residual value of the building?

a. $0.
b. $2,000.
c. $4,000.
d. $6,000.

A. Option a
B. Option b
C. Option c
D. Option d

94. Bricker Enterprises purchased a machine for $100,000 on October 1, 2012. The estimated service life is ten years with a $10,000 residual value. Bricker records partial-year depreciation based on the number of months in service. Depreciation expense for 2012, using straight-line, is:

A. $1,500.
B. $7,500.
C. $2,250.
D. $2,500.

95. Schager Company purchased a computer system on January 1, 2012, at a cost of $40,000. The estimated useful life is 10 years, and the estimated residual value is $5,000. Assuming the company will use the double-declining-balance method, what is the depreciation expense for the second year?

a. $8,000.
b. $7,000.
c. $5,600.
d. $6,400.

A. Option a
B. Option b
C. Option c
D. Option d

96. Shasta Exploring purchases a piece of equipment on January 1, 2012, for $50,000 and the equipment has an expected useful life of five years. Its residual value is estimated to be $4,000. Assuming Shasta uses the double-declining balance depreciation method, what is the depreciation expense for the equipment for 2013?

   a. $9,200.
   b. $9,040.
   c. $12,000.
   d. $11,040.

   A. Option a
   B. Option b
   C. Option c
   D. Option d

97. During 2012 and 2013, Supplies, Inc. drove the truck 15,000 and 22,000 miles, respectively, to deliver merchandise to its customers. The company originally purchased the truck at the beginning of 2012 for $175,000. If the truck has an estimated life of 10 years and 300,000 miles, with an estimated residual value of $25,000, what amount of deprecation expense should Supplies, Inc. record in 2013 using the activity method?

   a. $11,000.
   b. $18,500.
   c. $7,500.
   d. $16,000.

   A. Option a
   B. Option b
   C. Option c
   D. Option d

98. Crestview Estates purchased a tractor on January 1, 2012, for $65,000. The tractor's useful life is estimated to be 30,000 miles and has a residual value of $5,000. If Crestview used the tractor 5,000 miles in 2012 and 3,000 miles in 2013, what is the balance for *accumulated depreciation* at the end of 2013 using the activity method?

   a. $38,000.
   b. $6,000.
   c. $16,000.
   d. $10,000.

   A. Option a
   B. Option b
   C. Option c
   D. Option d

99. Nanki Corporation purchased equipment at the beginning of 2012 for $650,000. In 2012 and 2013, Nanki depreciated the asset on a straight-line basis with an estimated useful life of 8 years and a $10,000 residual value. In 2014, due to changes in technology, Nanki revised the useful life to a total of six years (four more years) with zero residual value. What depreciation expense would Nanki record for the year 2014 on this equipment?

   A. $108,333.
   B. $106,667.
   C. $122,500.
   D. $81,667.

100. Which of the following intangible assets is not amortized?

A. Patents.
B. Copyrights.
C. Franchises.
D. Goodwill.

101. Which of the following statements is *true* regarding the amortization of intangible assets?

A. The expected residual value of most intangible assets is zero.
B. The service life of an intangible asset is always equal to its legal life.
C. Intangible assets with a limited useful life are not amortized.
D. In recording amortization, an accumulated amortization account is always used.

102. Bricktown Exchange purchases a copyright on January 1, 2012, for $50,000. The copyright has a remaining legal life of 25 years, but only an expected useful life of five years with no residual value. Assuming the company uses the straight-line method, what is the amortization expense for the year ended December 31, 2012?

a. $0.
b. $2,000.
c. $3,333.
d. $10,000.

A. Option a
B. Option b
C. Option c
D. Option d

103. Berry Co. purchases a patent on January 1, 2012, for $40,000 and the patent has an expected useful life of five years with no residual value. Assuming Berry Co. uses the straight-line method, what is the *amortization expense* for the year ended December 31, 2013?

a. $0.
b. $8,000.
c. $16,000.
d. $40,000.

A. Option a
B. Option b
C. Option c
D. Option d

104. Berry Co. purchases a patent on January 1, 2012, for $40,000 and the patent has an expected useful life of five years with no residual value. Assuming Berry Co. uses the straight-line method, what is the *carrying value* of the patent on December 31, 2013?

a. $21,000
b. $33,000
c. $24,000
d. $26,000

A. Option a
B. Option b
C. Option c
D. Option d

105. Gains on the sale of fixed assets for cash:

A. Are the excess of the book value over the cash received.
B. Are recorded as a debit.
C. Are reported on a net-of-tax basis if material.
D. Are the excess of the cash received over the book value.

106. Abbott Company purchased a computer that cost $10,000. It had an estimated useful life of 5 years and no residual value. The computer was depreciated by the straight-line method and was sold at the end of the fourth year of use for $3,000 cash. Abbott should record:

a. a gain of $1,000.
b. a loss of $1,000.
c. neither a gain nor a loss - the computer was sold at its book value.
d. neither a gain nor a loss - the gain that occurred in this case would not be recognized.

A. Option a
B. Option b
C. Option c
D. Option d

107. On January 1, 2010, Jacob Inc. purchased a commercial truck for $48,000 and uses the straight-line depreciation method. The truck has a useful life of eight years and an estimated residual value of $8,000. On December 31, 2012, Jacob Inc. sold the truck for $30,000. What amount of gain or loss should Jacob Inc. record on December 31, 2012?

a. Gain, $22,000.
b. Loss, $18,000.
c. Gain, $5,000.
d. Loss, $3,000.

A. Option a
B. Option b
C. Option c
D. Option d

108. Alliance Products purchased equipment that cost $120,000. It had an estimated useful life of four years and no residual value. The equipment was depreciated by the straight-line method and was sold at the end of the third year of use for $25,000 cash. Abbott should record:

a. a gain of $5,000.
b. a loss of $5,000.
c. neither a gain or a loss since the computer was sold at its book value.
d. neither a gain nor a loss since the gain would not be recognized.

A. Option a
B. Option b
C. Option c
D. Option d

109. Career Services, Incorporated sold some office equipment for $52,000 on December 31, 2012. The journal entry to record the sale would include which of the following if the original cost of the equipment was $80,000 with a residual value of $5,000 and a useful life of 10 years? Assume the machine was purchased on January 1, 2009 and depreciated using the straight-line method.

a. Gain of $2,000.
b. Loss of $9,500.
c. Gain of $9,500.
d. Loss of $2,000.

A. Option a
B. Option b
C. Option c
D. Option d

110. ABO purchased a truck at the beginning of 2012 for $140,000. They sold the truck at the end of 2013 for $95,000. If the expected life of the truck was six years with a residual value of $20,000 and ABO uses straight-line depreciation, which of the following is true regarding the entry to record the sale of the truck?

a. Credit Gain $5,000.
b. Debit Loss $5,000.
c. Credit Accumulated Depreciation $40,000.
d. Credit Truck $100,000.

A. Option a
B. Option b
C. Option c
D. Option d

111. Oregon Adventures purchased equipment at the beginning of 2012 for $80,000. They sold the equipment at the end of 2014 for $45,000. If the expected life of the equipment was seven years with a residual value of $10,000, and they use straight-line depreciation, which of the following is true regarding the entry to record the sale of the equipment?

a. Debit Loss $5,000.
b. Credit Gain $5,000.
c. Credit Accumulated Depreciation $40,000.
d. Credit Equipment $5,000.

A. Option a
B. Option b
C. Option c
D. Option d

112. The return on assets is calculated as:

A. Net Income divided by total assets.
B. Net Income divided by average total assets.
C. Net Income divided by ending total assets.
D. Ending total assets divided by net income.

113. The return on assets is equal to the:

A. Profit margin plus asset turnover.
B. Profit margin minus asset turnover.
C. Profit margin times asset turnover.
D. Profit margin divided by asset turnover.

114. The balance sheet of Hidden Valley Farms reports total assets of $450,000 and $550,000 at the beginning and end of the year, respectively. Net income and sales for the year are $100,000 and $800,000, respectively. What is Hidden Valley's return on assets?

a. 10%.
b. 20%.
c. 160%.
d. 18%.

A. Option a
B. Option b
C. Option c
D. Option d

115. The balance sheet of Hidden Valley Farms reports total assets of $450,000 and $550,000 at the beginning and end of the year, respectively. Net income and sales for the year are $100,000 and $800,000, respectively. What is Hidden Valley's profit margin?

a. 10%.
b. 12.5%.
c. 18%.
d. 22%.

A. Option a
B. Option b
C. Option c
D. Option d

116. The balance sheet of Hidden Valley Farms reports total assets of $450,000 and $550,000 at the beginning and end of the year, respectively. Net income and sales for the year are $100,000 and $800,000, respectively. What is Hidden Valley's asset turnover?

a. 1.6 times.
b. 1.8 times.
c. 1.5 times.
d. 0.2 times.

A. Option a
B. Option b
C. Option c
D. Option d

117. The balance sheet of Hidden Valley Farms reports total assets of $450,000 and $550,000 at the beginning and end of the year, respectively. The return on assets for the year is 10%. What is Hidden Valley's net income for the year?

a. $5,000,000.
b. $55,000.
c. $5,500,000.
d. $50,000.

A. Option a
B. Option b
C. Option c
D. Option d

118. Recognition of impairment for long-term assets is required if book value exceeds:

A. Original cost.
B. Fair value.
C. Future cash flows.
D. Accumulated depreciation.

119. The amount of impairment loss is the excess of book value over:

A. Carrying value.
B. Future cash flows.
C. Fair value.
D. Future revenues.

120. Accounting for impairment losses:

A. Involves a two-step process for recoverability and measurement.
B. Applies only to depreciable, operational assets.
C. Applies only to assets with finite lives.
D. All of the other answers are correct.

121. In testing for recoverability of an operational asset, an impairment loss is required if the:

A. Asset's book value exceeds the present value of its expected future cash flows.
B. Expected future cash flows exceeds the asset's book value.
C. Present value of expected future cash flows exceeds its carrying value.
D. Asset's book value exceeds the expected future cash flows.

122. Wilson Inc. owns equipment for which it paid $70 million. At the end of 2012, it had accumulated depreciation on the equipment of $12 million. Due to adverse economic conditions, Wilson's management determined that it should assess whether an impairment should be recognized for the equipment. The estimated future cash flows to be provided by the equipment total $60 million, and its fair value at that point totals $50 million. Under these circumstances, Wilson:

A. Would record no impairment loss on the equipment.
B. Would record an $8 million impairment loss on the equipment.
C. Would record a $20 million impairment loss on the equipment.
D. Would record a $2 million impairment loss on the equipment.

123. Leonard's Jewelry owns a patent with a carrying value of $50 million at the end of 2012. Due to adverse economic conditions, Leonard's management determined that it should assess whether an impairment should be recognized for the patent. The estimated future cash flows to be provided by the patent total $43 million, and its fair value at that point totals $35 million. Under these circumstances, Leonard:

A. Would record no impairment loss on the patent.
B. Would record a $7 million impairment loss on the patent.
C. Would record a $15 million impairment loss on the patent.
D. Would record a $31 million impairment loss on the patent.

124. C-Stop reports the following information at year-end:

	Book Value	Estimated Cash Flows	Fair Value
Building	$500,000	$380,000	$360,000
Patent	$35,000	$40,000	$38,000
Copyright	$40,000	$38,000	$39,000
Machine	$100,000	$120,000	$85,000

Based on the above information, what is the total amount of impairment loss that C-Stop should record at year end?

a. $141,000.
b. $126,000.
c. $123,000.
d. $122,000.

A. Option a
B. Option b
C. Option c
D. Option d

125. Maple Inc. has the following information regarding its assets:

	Book Value	Estimated Cash Flows	Fair Value
Equipment	$35,000	$30,000	$28,000
Building	$68,000	$70,000	$65,000
Patent	$30,000	$34,000	$32,000

What amount of loss should be recorded due to asset impairments?

a. $10,000
b. $9,000
c. $8,000
d. $7,000

A. Option a
B. Option b
C. Option c
D. Option d

126. Soccer Wholesale purchased land and a warehouse for $800,000. In addition to the purchase price, Soccer Wholesale makes the following expenditures related to the acquisition: broker's commission, $48,000; title insurance, $3,000; and miscellaneous closing costs, $8,000. The warehouse is immediately demolished at a cost of $80,000 in anticipation of building a new warehouse. Determine the amount Soccer Wholesale should record as the cost of the land.

127. Holiday Laboratories purchased a high speed industrial centrifuge at a cost of $420,000. Shipping costs totaled $15,000. Foundation work to house the centrifuge cost $8,000. An additional water line had to be run to the equipment at a cost of $3,000. Labor and testing costs totaled $6,000. Materials used up in testing cost $3,000. What is the total cost of the equipment? How much of this amount should be expensed immediately?

128. In 2012, Sam's Salads had the following expenditures related to developing its trademark.

General advertising costs	$ 300,000
Advertising specifically focused on trademark development	120,000
Legal fees to register trademark	52,000
Registration and design fees for the trademark	38,000
Legal fees for successful defense of the new trademark	33,000
Total	$ 543,000

During your year-end review of the accounts related to intangibles, you discover that the company has capitalized all the above as costs of the trademark. Management contends that all of the costs increase the value of the trademark; therefore, all the costs should be capitalized.

Which of the above costs should Sam's capitalize to the Trademark account in the balance sheet?

Which of the above costs should Sam's report as expense in the income statement?

129. On March 31, 2012, the New Harvest Bakery acquired all the outstanding common stock of Red Rock Bakery for $68,000 in cash. The book values and market values of Red Rock's assets and liabilities were as follows:

	Book Value	Fair Value
Current assets	$ 24,000	$ 30,000
Property, plant, and equipment	44,000	56,000
Other assets	4,000	6,000
Current liabilities	16,000	16,000
Long-term liabilities	24,000	22,000

Calculate the amount paid for goodwill.

130. Western Wholesale Foods incurs the following expenditures during the current fiscal year: (1) Salaries for the repair technicians, $155,000; (2) remodeling of the executive offices, $84,000; (3) annual maintenance costs related to its machinery, $72,900; (4) improvement of the production line resulting in an increase in productivity, $38,000; and (5) addition of a sprinkler system to the manufacturing facility to reduce the risk of fire damage, $35,000. How should Western account for each of these expenditures?

131. Little King Sandwiches made the following expenditures related to its restaurant:
1. Replaced the heating and air conditioning system at a cost of $15,000.
2. Remodeled the restaurant building. The total cost of the project was $150,000.
3. Performed annual building maintenance at a cost of $47,000.
4. Paid annual insurance premium on the property for the coming year, $7,700.
5. Purchased a new delivery truck, $22,500.
6. Landscaped the property and added outdoor lights, $9,000.

Little King credits cash for each of these expenditures. Indicate the account to be debited for each expenditure.

132. Taco Hut purchased equipment on May 1, 2012, for $15,000. Residual value at the end of an estimated 8 year service life is expected to be $3,000. Calculate depreciation expense using the straight-line method for 2012 and 2013, assuming a December 31 year-end.

133. China Dragon purchased new restaurant equipment on September 1, 2012, for $8,000. Residual value at the end of an estimated 5 year service life is expected to be $2,000. Calculate depreciation expense using the straight-line method for 2012 and 2013, assuming a December 31 year-end.

134. Stephan's Resorts purchased equipment for $40,000. Residual value at the end of an estimated four-year service life is expected to be $8,000. The machine operated for 2,200 hours in the first year and the company expects the machine to operate for a total of 10,000 hours over its four year life. Calculate depreciation expense for the first year using each of the following depreciation methods: (1) straight-line, (2) double-declining-balance, and (3) activity-based.

135. Chubbyville purchases a delivery van for $23,500. Chubbyville estimates that at the end of its four-year service life, the van will be worth $2,500. During the four-year period, the company expects to drive the van 105,000 miles. Calculate annual depreciation for the four-year life of the van using each of the following methods. Round all amounts to the nearest dollar.
1. Straight line.
2. Double-declining-balance.
3. Activity-based. Actual miles driven each year were 24,000 miles in Year 1; 26,000 miles in Year 2; 22,000 miles in Year 3; and 25,000 miles in Year 4. Note that actual total miles of 97,000 fall short of expectations by 8,000 miles.

136. Burger Chef acquired a delivery truck on March 1, 2012 for $26,000. The company estimates a residual value of $2,000 and a 6-year service life. It expects to drive the truck 80,000 miles. Actual mileage was 12,000 miles in 2012 and 16,000 miles in 2013. Calculate depreciation expense using the activity-based method for 2012 and 2013, assuming a December 31 year-end.

137. At the beginning of the year, Big Time Tires acquired 100% of the common stock of Discount Tires. The purchase price allocation included the following items: $800,000, patent; $300,000, trademark considered to have an indefinite useful life; and $2 million, goodwill. Big Time Tire's policy is to amortize intangible assets with finite useful lives using the straight-line method, no residual value, and a five-year service life. What is the total amount of amortization expense that would appear in Big Time Tire's income statement for the first year related to these items?

138. On January 1, 2012, The Donut Stop purchased a patent for $80,000. The remaining legal life is 20 years, but the company estimates the patent will be useful for only five more years. In January 2013, the company incurred legal fees of $25,000 in successfully defending a patent infringement suit. The successful defense did not change the company's estimate of useful life. The Donut Stop's year end is December 31st. Record the purchase and amortization in 2012 and the legal fees and amortization in 2013. What is the balance in the Patents account at the end of 2013?

139. The Bomb Pop Corporation sold ice cream equipment for $16,000. They originally purchased the equipment for $40,000, and depreciation through the date of sale totaled $25,000. What was the gain or loss on the sale of the equipment? Record the sale of the equipment.

140. Strawberry Fields purchased a tractor at a cost of $38,000 and sold it two years later for $25,000. Strawberry Fields recorded depreciation using the straight-line method, a five-year service life, and an $8,000 residual value. What was the gain or loss on the sale? Record the sale.

141. Nate's Hot Dogs exchanges long-term assets with Lizzy's Lemonade. Nate receives a delivery truck and gives up a piece of machinery. The fair value and book value of the machinery were $27,000 and $25,000 (original cost of $35,000 less accumulated depreciation of $10,000), respectively. Since the delivery truck was worth $32,000, Nate paid an additional $5,000 in cash to Lizzy. Record the exchange for Nate's Hot Dogs.

142. New World Deli exchanged land for a more suitable parcel of land to be used for a new restaurant. New World Deli reported the old land at its original cost of $85,000. According to an independent appraisal, the old land currently is worth $110,000. New World Deli paid $15,000 in cash to complete the transaction. Record the exchange.

143. Allied Construction and Axis Construction reported the following information in their annual financial statements ($ in millions):

Allied Construction	2012	2011
Sales	$48,283	$46,927
Net income	2,809	3,105
Total assets	30,869	27,767

Required:

1. Calculate Allied Construction's return on assets, profit margin, and asset turnover ratio for 2012.
2. Calculate Axis Construction's return on assets, profit margin, and asset turnover ratio for 2012.
3. Which company has the better profit margin and which company has the better asset turnover?

144. ACME Drilling is evaluating an off-shore oil drilling platform for possible impairment. They estimate the following: book value, $18.5 million; fair value, $12 million; sum of estimated future cash flows generated from the oil drilling platform, $16 million. What amount of impairment loss, if any, should they record?

145. Northwest Catering owns and operates several restaurant services in Oregon, Washington, and Idaho. One restaurant chain has experienced sharply declining profits. The company's management has decided to test the operational assets of the restaurants for possible impairment. The relevant information for these assets is presented below:

Book value	$4.5 million
Estimated total future cash flows	5.0 million
Fair value	3.5 million

Determine the amount of the impairment loss, if any.

146. If a company initially records an expense incorrectly as an asset, explain how this mistake affects the income statement and the balance sheet.

147. Why don't we depreciate land? What are land improvements? Why do we record land and land improvements separately?

148. Explain how the accounting treatment differs between purchased and internally developed intangible assets.

149. Contrast the effects of the straight-line, declining-balance, and activity-based depreciation methods on annual depreciation expense.

150. Which depreciation method is most common for financial reporting? Which depreciation method is most common for tax reporting? Why do companies choose these methods?

151. Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

1. Franchise 2. Trademark	An exclusive right of protection given to the creator of a published work such as a song, film, painting, photograph, book, or computer software.	__
	Payment for the exclusive right to use the company's name and to sell its products within a specified geographical area.	__
3. Patent 4. Goodwill	The purchase price of a company less the fair value of the net assets acquired.	__
		__
5. Copyright	An exclusive right to manufacture a product or to use a process.	__
	A word, slogan, or symbol that distinctively identifies a company, product, or service.	__

152. Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

1. Capitalize	Occurs when we add a new major component to an existing asset.	__
2. Improvement	The cost of replacing a major component of an asset.	__
3. Addition	Large enough to influence an investor or creditor's decision.	__
4. Repairs and maintenance	Recording an expenditure as an asset.	__
5. Materiality	Expenses after acquisition that maintain a given level of benefits.	__

153. Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.
Answer: d; c; b; a; e

1. Depreciation	Also referred to as salvage value, is the amount the company expects to receive from selling the asset at the end of its service life.	__
2. Service life	Allocating the cost of a tangible asset over its service life.	__
3. Accumulated depreciation	Equal to the original cost of the asset minus the current balance in accumulated depreciation.	__
4. Book value	A contra-asset account representing the total depreciation taken to date.	__
5. Residual value	How long the company expects to receive benefits from the asset before disposing of it.	__

154. Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

1. Declining-balance method	The process of recording expense for natural resources.	__
2. Amortization	Allocates an asset's cost based on its use.	__
3. Activity-based method	An accelerated depreciation method that records more depreciation in earlier years and less depreciation in later years.	__
4. Straight-line method	Allocating the cost of an intangible asset over its service life.	__
5. Depletion	Allocates an equal amount of depreciation to each year of the asset's service life.	__

155. Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

1. Asset turnover	Net sales divided by average total assets; which measures the sales per dollar of assets invested.	__
2. Return on assets	Net income divided by net sales; indicates the earnings per dollar of sales.	__
3. Profit margin	Net income divided by average total assets; measures the amount of net income generated for each dollar invested in assets.	__
4. Big bath	Recording all losses in one year to make a bad year even worse.	__
5. Impairment	Occurs when the future cash flows (future benefits) generated for a long-term asset fall below its book value (cost minus accumulated depreciation).	__

Ch7 Key

1. TRUE
2. FALSE
3. FALSE
4. FALSE
5. TRUE
6. TRUE
7. TRUE
8. TRUE
9. FALSE
10. TRUE
11. TRUE
12. FALSE
13. TRUE
14. FALSE
15. TRUE
16. TRUE
17. TRUE
18. FALSE
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42. FALSE

43. TRUE

44. TRUE

45. TRUE

46. FALSE

47. TRUE

48. FALSE

49. TRUE

50. TRUE

51. B

52. D

53. B

54. D

55. B

56. B

57. B

58. C

59. C

60. A

61. D

62. B

63. A

64. B

65. C

66. A

67. C

68. C

69. D

70. D

71. *no correct answer*

72. C

73. D

74. C

75. A

76. *no correct answer*

77. B

78. D

79. B

80. B

81. C

82. B

83. C

84. B

85. D

86. B

87. B

88. D

89. A

90. C

91. A

92. B

93. B

94. C

95. D

96. C

97. A

98. C

99. C

100. D

101. A

102. D

103. B

104. C

105. D

106. A

107. D

108. B

109. A

110. B

111. A

112. B

113. C

114. B

115. B

116. A

117. D

118. C

119. C

120. A

121. D

122. A

123. C

124. A

125. D

126.

Purchase price of land (and warehouse to be removed)	$800,000
Broker's Commission	48,000
Title insurance	3,000
Closing costs	8,000
Cost of removing the warehouse	80,000
Total cost of the land	$939,000

127.

Purchase price	$420,000
Shipping Costs	15,000
Foundation work	8,000
Water line	3,000
Labor and testing	6,000
Materials used in testing	3,000
Total cost of equipment	$455,000
Immediately expensed	$0

128.

1. Trademark account in the balance sheet:

Legal fees to register trademark	$52,000
Registration and design fees for the trademark	38,000
Legal fees for successful defense of the new trademark	33,000
Total costs capitalized	$123,000

2. Expense in the income statement:

General advertising costs	$ 300,000
Advertising specifically focused on trademark development	120,000
Total costs expensed	$420,000

129.

Purchase price		$68,000
Less:		
Fair value of assets acquired	92,000	
Less: fair value of liabilities assumed	(38,000)	
Fair value of identifiable net assets		54,000
Goodwill		$14,000

130. (1) Expense in the period incurred.

(2) Capitalize and depreciate over the useful life of the asset.

(3) Expense in the period incurred.

(4) Capitalize and depreciate over the useful life of the asset.

(5) Capitalize and depreciate over the useful life of the asset.

131.

1. Building
2. Building
3. Maintenance Expense
4. Prepaid Insurance
5. Equipment
6. Land Improvements

132.

Year					
2012	$\frac{(15,000 - 3,000)}{8}$	=	1,500 x 8/12	=	$1,000
2013	$\frac{(15,000 - 3,000)}{8}$	=			$1,500

133.

Year					
2012	$\frac{(\$8,000 - \$2,000)}{5}$	=	$1,200 x 4/12	=	$400
2013	$\frac{(\$8,000 - \$2,000)}{5}$	=			$1,200

134. (1) ($40,000 - $8,000) 4 = $8,000.

(2) $40,000 x 2/4 = $20,000.

(3) ($40,000 - $8,000) 10,000 hours = $3.20 per hour x 2,200 hours = $7,040.

135.

Straight-line Depreciation Expense	=	$\frac{\$23{,}500 - \$2{,}500}{4 \text{ years}}$	=	$5,250 per year

Double-declining Balance

	Calculation				End of Year Amounts		
Year	Beginning Book Value	X	Depreciation Rate*	=	Depreciation Expense	Accumulated Depreciation	Book Value**
1	$23,500		0.50		$11,750	$11,750	$11,750
2	11,750		0.50		5,875	17,625	5,875
3	5,875		0.50		2,938	20,563	2,937
4	2,937				437***	21,000	2,500
Total					$21,000		

* 2 / 4 years = 0.50 per year
** $23,500 cost minus accumulated depreciation
*** Amount needed to reduce book value to residual value.

136.

$$\frac{(\$26{,}000 - \$2{,}000)}{80{,}000 \text{ miles}} = .30/\text{mile}$$

Year				
2012	12,000	x	.30	$3,600
2013	16,000	x	.30	$4,800

137. The patent would have amortization expense of $160,000 ($800,000 5 years). The trademark and goodwill would not be amortized because they have an indefinite life.

138.

	Debit	Credit
January 1, 2012		
Patents	$80,000	
Cash		80,000
December 31, 2012		
Amortization Expense ($80,000 / 5 years)	16,000	
Patents		16,000
January, 2013		
Patents	25,000	
Cash		25,000
December 31, 2013		
Amortization Expense*	22,250	
Patents		22,250

*($80,000 - $16,000 + $25,000) / 4 remaining years = $22,250.

Patents	
80,000	16,000
25,000	22,250
66,750	

Sale amount		$16,000
Less:		
Cost of the ice cream equipment	40,000	
Less: Accumulated depreciation	(25,000)	
Book value		15,000
Gain on sale		$1,000

139.

	Debit	Credit
Cash	16,000	
Accumulated Depreciation	25,000	
Equipment		40,000
Gain		1,000

Sale amount		$25,000
Less:		
Cost of tractor	38,000	
Less: Accumulated depreciation*	(12,000)	
Book value		26,000
Loss on sale		($1,000)

140.

* ($38,000 - $8,000) 5 years = $6,000 per year x 2 years = $12,000.

	Debit	Credit
Cash	25,000	
Accumulated Depreciation	12,000	
Loss	1,000	
Equipment		38,000

	Debit	Credit
Delivery Truck	$32,000	
Accumulated Depreciation	10,000	
Cash		5,000
Machinery		35,000
Gain on exchange		2,000

141.

Fair value of the old land	$110,000
Cash paid to complete the purchase	15,000
Fair value of the new land	$125,000

142.

143. Allied Construction:

Net Income	÷	Average Total Assets	=	Return on Assets
$2,809	÷	($30,869 + $27,767) / 2	=	9.6%

Net Income	÷	Sales	=	Profit Margin
$2,809	÷	$48,283	=	5.8%

Sales	÷	Average Total Assets	=	Asset Turnover
$48,283	÷	($30,869 + $27,767) / 2	=	1.65 times

Axis Construction:

Net Income	÷	Average Total Assets	=	Return on Assets
$4,395	÷	($44,324 + $52,263) / 2	=	9.1%

Net Income	÷	Sales	=	Profit Margin
$4,395	÷	$77,349	=	5.7%

Sales	÷	Average Total Assets	=	Asset Turnover
$77,349	÷	($44,324 + $52,263) / 2	=	1.60 times

Allied has a slightly better (higher) profit margin and a slightly better (higher) asset turnover resulting in a higher return on assets.

144. Step 1: Test for Impairment

The long-term asset is impaired since future cash flows ($16 million) are less than book value ($18.5 million).

Step 2: If Impaired, Record Loss

The impairment loss is $6.5 million calculated as the amount by which book value ($18.5 million) exceeds fair market value ($12 million).

145. Step 1: Test for Impairment

The long-term asset is not impaired since future cash flows ($5.0 million) exceed book value ($4.5 million).

Step 2: If Impaired, Record Loss

Since the asset does not meet the first test for impairment, no impairment loss is recorded.

146. This mistake will overstate net income on the income statement and overstate assets and retained earnings on the balance sheet. If a company initially records an expense incorrectly as an asset, expenses are understated or too small. Since expenses are subtracted from revenues in arriving at net income, understating expenses will overstate net income reported on the income statement. Similarly, recording an expense as an asset will overstate assets on the balance sheet. Retained earnings on the balance sheet will also be overstated due to the overstatement of net income.

147. We don't depreciate land because its service life never ends. Land improvements are additional amounts spent to improve the land such as a parking lot, paving, temporary landscaping, lighting systems, fences, sprinkler systems, and similar additions. We record land improvements separately from land because, unlike land, these assets are subject to depreciation.

148. We value *purchased* intangible assets at their original cost plus all other costs, such as legal and filing fees, necessary to get the asset ready for use. Reporting intangible assets *developed internally* is quite different. Rather than recording these as an intangible asset on the balance sheet, we expense most of the costs for internally developed intangible assets to the income statement as we incur them.

149. Straight-line creates an equal amount of depreciation each year. Double-declining-balance creates more depreciation in earlier years and less depreciation in later years. Activity-based depreciation varies depending on the use of the asset each year.

150. Most companies use the straight-line method for financial reporting and the Internal Revenue Service's prescribed accelerated method (called MACRS) for income tax purposes. Companies choose straight-line for financial reporting for several reasons. Many probably believe they realize benefits from their plant assets approximately evenly over these assets' useful lives. Another contributing factor is that straight-line is the easiest method to understand and apply. One more important motivation is the positive effect on reported income. Straight-line produces a higher net income than accelerated methods in the earlier years of an asset's life. Most companies choose MACRS for tax reporting to reduce taxable income. MACRS combines declining-balance methods in earlier years with straight-line in later years to allow for a more advantageous tax depreciation deduction.

151. Copyright :: An exclusive right of protection given to the creator of a published work such as a song, film, painting, photograph, book, or computer software. *and* Franchise :: Payment for the exclusive right to use the company's name and to sell its products within a specified geographical area. *and* Goodwill :: The purchase price of a company less the fair value of the net assets acquired. *and* Patent :: An exclusive right to manufacture a product or to use a process. *and* Trademark :: A word, slogan, or symbol that distinctively identifies a company, product, or service.

152. Addition :: Occurs when we add a new major component to an existing asset. *and* Improvement :: The cost of replacing a major component of an asset. *and* Materiality :: Large enough to influence an investor or creditor's decision. *and* Capitalize :: Recording an expenditure as an asset. *and* Repairs and maintenance :: Expenses after acquisition that maintain a given level of benefits.

153. Residual value :: Also referred to as salvage value, is the amount the company expects to receive from selling the asset at the end of its service life. *and* Depreciation :: Allocating the cost of a tangible asset over its service life. *and* Book value :: Equal to the original cost of the asset minus the current balance in accumulated depreciation. *and* Accumulated depreciation :: A contra-asset account representing the total depreciation taken to date. *and* Service life :: How long the company expects to receive benefits from the asset before disposing of it.

154. Depletion :: The process of recording expense for natural resources. *and* Activity-based method :: Allocates an asset's cost based on its use. *and* Declining-balance method :: An accelerated depreciation method that records more depreciation in earlier years and less depreciation in later years. *and* Amortization :: Allocating the cost of an intangible asset over its service life. *and* Straight-line method :: Allocates an equal amount of depreciation to each year of the asset's service life.

155. Asset turnover :: Net sales divided by average total assets; which measures the sales per dollar of assets invested. *and* Profit margin :: Net income divided by net sales; indicates the earnings per dollar of sales. *and* Return on assets :: Net income divided by average total assets; measures the amount of net income generated for each dollar invested in assets. *and* Big bath :: Recording all losses in one year to make a bad year even worse. *and* Impairment :: Occurs when the future cash flows (future benefits) generated for a long-term asset fall below its book value (cost minus accumulated depreciation).

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