BE10-6 Mohave Inc. purchased land, building, and equipment from Laguna Corporation for a cash payment of $315,000. The estimated fair values of the assets are land $60,000, building $220,000, and equipment $80,000. At what amounts should each of the three assets be recorded?

	Fair Value	% of Total		Cost	Recorded Amount
Land	$ 60,000	60/360	X	$315,000	$ 52,500
Building	220,000	220/360	X	$315,000	192,500
Equipment	80,000	80/360	X	$315,000	70,000
	$360,000				$315,000

BE10-8 Navajo Corporation traded a **used truck** (cost $20,000, accumulated depreciation $18,000) for a small **computer** worth $3,300. Navajo also paid $500 in the transaction. Prepare the journal entry to record the exchange.

Equipment	3,300	
Accumulated Depreciation—Trucks	18,000	
Trucks		20,000
Cash		500
Gain on Disposal of Trucks		800

BE10-9 Use the information for Navajo Corporation from BE10-8. Prepare the journal entry to record the exchange, assuming the company traded a used truck for an another truck

New truck($3,300 – $800)	2,500	
Accumulated Depreciation—Trucks	18,000	
Trucks		20,000
Cash		500

BE10-13 Indicate which of the following costs should be expensed when incurred.

(a) $13,000 paid to rearrange and reinstall machinery.

(b) $200,000 paid for addition to building.

(c) $200 paid for tune-up and oil change on delivery truck.

(d) $7,000 paid to replace a wooden floor with a concrete floor.

(e) $2,000 paid for a major overhaul on a truck, which extends the useful life.

Answer: Only cost (c) is expensed when incurred

BE10-14 Ottawa Corporation owns machinery that cost $20,000 when purchased on July 1, 2011. Depreciation has been recorded at a rate of $2,400 per year, resulting in a balance in accumulated depreciation of $8,400 at December 31, 2014. The machinery is **sold** on September 1, 2015, for $10,500. Prepare journal entries to (a) update depreciation for 2015 and (b) record the sale.

(a)	Depreciation Expense ($2,400 X 8/12)	1,600	
	Accumulated Depreciation—Machinery		1,600
(b)	Cash	10,500	
	Accumulated Depreciation—Machinery ($8,400 + $1,600)	10,000	
	Machinery		20,000
	Gain on Disposal of Machinery		500

BE10-15 Use the information presented for Ottawa Corporation in BE10-14, but assume the machinery is sold for $5,200 instead of $10,500. Prepare journal entries to (a) update depreciation for 2015 and (b) record the sale.

(a)	Depreciation Expense ($2,400 X 8/12)	1,600	
	Accumulated Depreciation—Machinery		1,600
(b)	Cash	5,200	
	Loss on Disposal of Machinery	4,800	
	Accumulated Depreciation—Machinery ($8,400 + $1,600)	10,000	
	Machinery		20,000

Which of the following items should be depleted?

A. Intangible property	B. Land
C. Natural resources	D. Tangible property, plant, and equipment other than land

Which of the following is the expense resulting from a decline in the utility of natural resource?

A. Depletion	B. Amortization	C. Depreciation	D. Obsolescence

Which of the following accounting methods is the method used to compute depletion?

A. Straight-line	B. Declining-balance	**C. Units-of-production**	D. None of the above

Navajo Mining Company purchased a mine in 2011 for $3,400,000. It was estimated that the mine contained 200,000 tons of ore and that the mine would be worthless after all of the ore was extracted. The company extracted 25,000 tons of are in 2011 and 30,000 tons of ore in 2012.

What is depletion expense for 2011?

Calculation: (3,400,000 x 1/ 200,000)* 25000

What is depletion expense for 2012?

Calculation: (3,400,000 x 1/200,000) * 30,000

What is the book value of the mine at the end of 2012?

Calculation: 3,400,000 – 425,000 – 510,000= 2,465,000

Which would not be written-off by the depletion method?

A. Oil reserves	B. Timber reserves	**C. Land**	D. Coal reserves

A mine is purchased for $4,000,000. There will be a salvage value of $300,000 when the land is restored after mining is completed. The mine has an estimated 250,000 tons of coal. What is the depletable cost per ton of coal?

Calculation: (4,000,000 – 300,000) x 1/250,000 = $14.80/ton

During 2009, there were 35,000 tons of coal removed What is the depletion expense for 2009?

Calculation: (4,000,000 – 300,000) x 1/250,000 = 14.80* 35,000 = 518,000

Pioneer Mining Company purchased a mineral deposit for $490,000. The residual value of the deposit will be zero after the ore is removed. A geological report estimated the mineral deposit contained 140,000 tons of ore. During the current year (2009), 40,000 tons of ore were mined. Prepare a journal entry to record depletion for the year.

Date	Accounts		Debit	Credit
2009	Depletion expense		140,000	
Dec. 31		Accumulated depletion (or Mineral ore A/c)		140,000

Which of the following items should be amortized?

A. Natural resources	B. Land
C. Intangible property	D. Tangible property, plant, and equipment other than land

Which of the following is the expense resulting from a decline in the utility of an intangible asset?

A. Depreciation	B. Depletion	C. Obsolescence	**D. Amortization**

Which of the following accounting methods is the method used to compute amortization?

A. Declining-balance	B. Units-of-production	**C. Straight-line**	D. None of the above

Goodwill of $20,000 was recorded upon the purchase of Smith Repair Parts. The company has been very successful and has increased in value during its first year of operation under its new management. How much amortization should be recorded for the first year?

A. $4,000	**B. $-0-**	C. $1,000	D. $2,000

Which of the following is the proper accounting treatment for research and development costs?

A. Research and development costs must be capitalized and amortized over 70 years or less.
B. Research and development costs must be capitalized and amortized over 20 years or less.
C. Research and development costs must be capitalized and expensed each year to the extent that their value has declined.
D. **Research and development costs must be expensed.**

Which of the following is the proper accounting treatment for purchased goodwill?

A. Purchased goodwill must be capitalized and amortized over 70 years or less.
B. Purchased goodwill must be capitalized and amortized over 20 years or less.
C. Purchased goodwill must be expensed.
D. **Purchased goodwill must be capitalized and expensed each year to the extent that the value has declined.**

Which of the following is the proper accounting treatment for a purchased patent?

A. A purchased patent must be expensed.
B. A purchased patent must be capitalized and expensed each year to the extent that the value has declined.
C. **A purchased patent must be capitalized and amortized over 20 years or less.**
D. A purchased patent must be capitalized and amortized over 70 years or less.

To write-off the cost of a copyright is an example of:

A. depreciation.	**B. amortization.**	C. depletion.	D. deterioration.

Which of the following assets is not an intangible asset?

A. Patent	B. Goodwill	**C. Building**	D. Trademark

The intangible asset related to original music and media is:

A. goodwill.	B. trademark.	**C. copyright**	D. patent.

On July 31, 2008 an existing patent was acquired for $340,000. The remaining legal life of the patent is 13 years. However, management thinks the patent will provide an economic benefit to the company for only seven more years. Prepare journal entries for the acquisition of the patent and for amortization for the year ended December 31, 2008 using the straight line method.

Date	Accounts	Debit	Credit
2008			
July 31	Patent	340,000	
	Cash		340,000
Dec. 31	Amortization expense	20,238	
	Patent		20,328