

**STUDY GUIDE QUESTIONS****PART 1 True/False**

For each of the following statements, circle T if the statement is true and F if the statement is false.

- |   |   |  |
|---|---|--|
| T | F | 1. When equipment is sold for an amount more than its book value, a gain will be recorded.   |
| T | F | 2. The straight-line method is classified as an accelerated depreciation method.   |
| T | F | 3. If the cost of construction goes up 12 percent in one year, the amount of depreciation on a building already owned will be increased by 12 percent.                               |
| T | F | 4. Depreciation amounts are estimates of the decrease in the market value of an asset over a period of time.   |
| T | F | 5. When a business entity buys land, the cost of the land that is entered in the books should include the closing costs.   |
| T | F | 6. The estimated useful life of a plant asset is the number of years the asset is expected to be used before it wears out, becomes outdated, or is no longer needed by the business. |
| T | F | 7. The cost of an extraordinary repair of an asset should be recorded as a debit to the accumulated depreciation account.  |
| T | F | 8. The cost of installing new equipment should be charged to that asset account.   |
| T | F | 9. The account Gain on Disposal of Plant and Equipment should be included in the Revenue from Sales section of an income statement.  |
| T | F | 10. Land improvements are not subject to depreciation.   |

**PART 2 Completion—Language of Business**

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- When a firm sells or trades in an asset and receives an amount less than the book value for that asset, the loss is recorded in an expense account called \_\_\_\_\_.
- The total cost of an asset less the trade-in or salvage value is called the \_\_\_\_\_.
- When relatively large amounts of depreciation are recorded during the early years of an asset's use, the depreciation is said to be \_\_\_\_\_.

4. An asset account covering the cost of expenditures for improvements that are not as permanent as the land or not directly associated with a building is called \_\_\_\_\_.
5. \_\_\_\_\_ are costs incurred to maintain the operation of assets, such as normal repair expenses and fuel expenses.
6. Costs incurred for the purchase of plant and equipment, as well as the cost of increasing the capacity of assets, are called \_\_\_\_\_.
7. \_\_\_\_\_ are costs incurred for a major overhaul or reconditioning of assets that significantly prolongs the life of the assets or increases their estimated salvage value.
8. When a firm sells or trades an asset and receives an amount in excess of the book value for that asset, the firm credits an account called \_\_\_\_\_.

### **PART 3      Recording Expenditures in Accounts**

The following expenditures are related to the Land, Land Improvements, and Building accounts of Morgensen's Market. Record the number and amount of each expenditure under the appropriate heading.

1. Cost of land bought for store site, including an old building that is to be torn down: land, \$28,500; building, \$8,600.
2. Attorney's fee for title search, \$970.
3. Architect's fees for plans and supervision, \$32,000.
4. Cost of grading the land, \$1,860.
5. Cost of removing existing building, less revenue from sale of salvage materials, \$4,620.
6. Cost of constructing new building, \$603,000.
7. Cost of trees and shrubbery, \$1,920.
8. Special assessment paid to city for sewer line, \$3,600.
9. Cost of paving parking lot, \$2,475.
10. Premium for liability insurance during construction, \$2,350.
11. Real estate taxes on property after land was acquired, \$1,545.
12. Cost of lighting for parking lot, \$1,676.
13. Interest on building loan during the period of construction, \$27,135.

	<b>Land</b>	<b>Land Improvements</b>	<b>Building</b>	<b>Other Accounts</b>
1.	_____	_____	_____	_____
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____
7.	_____	_____	_____	_____
8.	_____	_____	_____	_____
9.	_____	_____	_____	_____
10.	_____	_____	_____	_____
11.	_____	_____	_____	_____
12.	_____	_____	_____	_____
13.	_____	_____	_____	_____

**PART 4     Matching**

For each numbered item, choose the matching term and write the identifying letter in the answer column.

- |          |   |    |                          |
|----------|---|----|--------------------------|
| _____ 1. | When the book value of an asset equals its estimated salvage value.   | A. | Extraordinary repair     |
| _____ 2. | A method of computing depreciation in which the same amount is recorded each year over the useful life of the asset.                                      | B. | Book value               |
| _____ 3. | A maintenance cost of an asset.   | C. | Capital expenditure      |
| _____ 4. | Cost less trade-in value.   | D. | Double-declining balance |
| _____ 5. | A method of computing depreciation that is based on how much the asset is used.   | E. | Depreciation base        |
| _____ 6. | A method of computing depreciation in which the trade-in value is not used in the computation of depreciation until the end of the depreciation schedule. | F. | Straight-line            |
| _____ 7. | A cost incurred that will either prolong the life of an asset or increase its estimated value.  | G. | Revenue expenditure      |
| _____ 8. | The payment of a charge for installation of new equipment.  | H. | Units-of-production      |
| _____ 9. | The systematic write-off of the cost of equipment over its useful life.   | I. | Depreciation             |
|          |   | J. | Fully depreciated        |