1. Answer: C – Inventory and accounts receivable are current assets, not long-term assets. A patent is an intangible long-term operational asset, a grain elevator is a tangible long-term operational asset, and a natural gas deposit is a natural resource long-term operational asset.

2. Answer: B – Self-explanatory.

3. Answer: D – ($15,000 cost - $3,000 salvage value)/5 years = $2,400 annual depreciation expense; At the end of 2016 (year 2), accumulated depreciation will be $4,800.

4. Answer: A – Canton will include the list price, less the discount, plus the extra for the bed lining and sales tax, in the cost of the truck. However, the $1,200 cost of insurance is an expense since it is a recurring cost each year.

5. Answer: B - $200,000 cost/8-year useful life = $25,000 amortization expense; Intangible assets are amortized over the shorter of their useful or legal lives.

6. Answer: A - $200,000 cost/8-year useful life = $25,000 annual amortization expense; $25,000 x 2 = $50,000 total amortization by the end of 2016; Amortization, unlike depreciation, is subtracted directly from the asset, in this case, patent.

7. Answer: D – Assets are depreciated down to their salvage value at the end of their useful lives, regardless of which depreciation method is used. Most companies use the straight-line method to depreciate assets.

8. Answer: D – The land represents 25% of the total appraised value ($125,000/$500,000); therefore, 25% of the $430,000 cost, or $107,500, will be assigned to the land account. The remaining 75%, or $322,500, will be assigned to the building.

9. Answer: A – ($32,000 cost - $2,000 salvage value)/100,000 units = $0.30 depreciation expense/unit; Depreciation expense in 2015 = 25,000 units x $0.30 = $7,500; Depreciation expense in 2016 = 22,000 units x $0.30 = $6,600.

10. Answer: B – Depreciation expense year 1: $30,000 x 40% = $12,000; depreciation expense year 2: ($30,000 - $12,000) x 40% = $7,200; depreciation expense year 3: ($18,000 - $7,200) x 40% = $4,320; In year 4, depreciation expense can only be $1,480 because the machine’s book value cannot go below the $5,000 salvage value.

11. Answer: D – When depletion expense is recorded (a debit), the natural resource itself is reduced with a credit. There is no accumulated depletion account.

12. Answer: C – When depreciation expense is recorded (a debit), the accumulated depreciation account, a contra-asset, is increased (a credit). The delivery truck account is unaffected.

13. Answer: A – In a basket purchase, the appraised value is only used to determine the percentage of the purchase price that is assigned to each asset. Each asset in purchase is increased by its cost, and cash is reduced by the amount paid, so total assets are unaffected.

14. Answer: D – When Fallon sold the building, it recorded a $40,000 gain on the sale (the difference between the $200,000 sales price and the $160,000 book value). The journal entry included a debit to cash for $200,000, a debit to accumulated depreciation for $60,000, a credit to building for $220,000, and a credit to gain on sale of building for $40,000.

15. Answer: D – Goodwill is recorded for the difference between the price paid for a company and the fair value of that company’s net assets. In this case, the fair value of the company’s net assets is $220,000 ($270,000 appraised value of assets, less $50,000 liabilities). $300,000 purchase price - $220,000 = $80,000 goodwill.

16. Answer: B – When a company sells an asset for more than its book value, it will record a gain on the sale. Gains are reported on the income statement below operating income, so while net income increases, operating income is unaffected.

17. Answer: B – Trademarks have indefinite lives because, unlike patents and copyrights, they can be renewed indefinitely. A diamond mine is a tangible natural resource.

18. Answer: C – Goodwill is not amortized, but it is tested annually for impairment. The $10,000 decrease in value in 2015 is such an impairment, and is recorded as a debit to impairment loss and a credit to goodwill.

19. Answer: D – After 4 years, the system’s book value is $120,000 ($200,000 minus 4 years of $20,000 annual depreciation expense). Solartec’s revision of useful life increases the remaining years from 4 to 10 years. Beginning in year 5, annual depreciation expense will be $8,000 ($120,000, minus $40,000 salvage value, divided by 10 years).

20. Answer: C – Routine maintenance and repairs are not added to the asset. Instead they are recorded as expenses. The $20,000 maintenance cost will increase the maintenance expense account and decrease cash, decreasing both assets and equity.