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| Question 1  |     |     |
|   | Trademarks or trade names  |  |  |  |  |
| Question 1 answers

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|  |  | must be renewed every 40 years  |
|  |  | can be considered intangibles with indefinite lives  |
|  |  | are developed internally and thus should not have any related costs capitalized and amortized  |
|  |  | are synonymous with internally developed goodwill  |

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| Question 2 text  Question 2  |     |     |
|   | The factors involved in computing periodic depreciation charges for an asset do not include the  |  |  |  |  |
| Question 2 answers

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|  |  | method of cost allocation  |
|  |  | current value of the asset  |
|  |  | service life  |
|  |  | residual value of the asset  |

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| Question 3 text  Question 3  |     |     |
|   | Which of the following statements concerning internally developed goodwill is true?  |  |  |  |  |
| Question 3 answers

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|  |  | it is a separately identifiable asset  |
|  |  | it is capitalized at its cost  |
|  |  | the costs associated with its development are expensed as incurred  |
|  |  | measuring its value is relatively easy and reliable  |

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| Question 4 text  Question 4  |     |     |
|   | Software production costs related to computer software that is to be sold, leased, or otherwise marketed should be accounted for in which of the following ways:  |  |  |  |  |
| Question 4 answers

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|  |  | all software production costs should be recorded as R&D expense  |
|  |  | all software production costs should be capitalized  |
|  |  | all software production costs should be recorded in R&D expense until technological feasibility is established  |
|  |  | all software production costs should be recorded in R&D expense until the product is available for general release to customers  |

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| Question 5 text  Question 5  |     |     |
|   | Which one of the following statements is true?  |  |  |  |  |
| Question 5 answers

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|  |  | The activity method of computing depreciation could result in zero depreciation expense in some periods of time.  |
|  |  | If the activity method is in use, residual value should not be subtracted from cost to determine the depreciation base.  |
|  |  | The activity method produces a constant unit cost of depreciation.  |
|  |  | The activity method should be used when the service life of the asset is affected mostly by the passage of time.  |

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| Question 6 text  Question 6  |     |     |
|   | On January 1, 2004, Central Products, Inc., purchased 500 condensers for line use at a cost of $2,000 each. In 2005, two condensers had to be replaced at a cost of $2,500 each. Which one of the following statements is not true?  |  |  |  |  |
| Question 6 answers

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|  |  | in 2005, there will be depreciation expense of $5,000 if the replacement depreciation method is in use  |
|  |  | in 2004, there will not be any depreciation expense recorded if the retirement depreciation method is in use  |
|  |  | in 2005, there will be $4,000 of depreciation expense if the replacement depreciation method is in use  |
|  |  | in 2005, the retirement depreciation method will result in less depreciation expense than the replacement depreciation method  |

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| Question 7 text  Question 7  |     |     |
|   | During 2006, Rockon Company, Inc. incurred $240,000 in legal fees in defending a patent against an infringement with a carrying value of $2,500,000. Rockon¿s lawyers were not successful with the defense of the patent. The legal fees should be  |  |  |  |  |
| Question 7 answers

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|  |  | expensed in 2006 and classified as ordinary expense  |
|  |  | classified as an extraordinary item on the income statement for 2006  |
|  |  | capitalized and amortized over the remaining legal life of the patent  |
|  |  | capitalized and amortized over the remaining economic life or legal life of the patent, whichever is shorter  |

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| Question 8 text  Question 8  |     |     |
|   | FASB Statement No. 2 requires that research and development costs be  |  |  |  |  |
| Question 8 answers

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|  |  | capitalized  |
|  |  | expensed as incurred  |
|  |  | accumulated until the existence of future benefits is determined  |
|  |  | expensed in part and capitalized in part  |

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| Question 9 text  Question 9  |     |     |
|   | Which depreciation method calculates annual depreciation expense based on the book value of an asset?  |  |  |  |  |
| Question 9 answers

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|  |  | double-declining balance  |
|  |  | sum-of-the-years'-digits  |
|  |  | inventory systems  |
|  |  | group depreciation  |

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| Question 10 text  Question 10  |     |     |
|   | Which amortization method should be used for intangibles that are amortized?  |  |  |  |  |
| Question 10 answers

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|  |  | a method based on the expected pattern of benefits to be produced by the asset  |
|  |  | a method based on an annual review for impairment  |
|  |  | the straight-line method; all others are inappropriate  |
|  |  | any method is appropriate  |

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| Question 11 text  Question 11  |     |     |
|   | Which one of the following statements is not a disclosure requirement for depreciation?  |  |  |  |  |
| Question 11 answers

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|  |  | the balance of major classes of depreciable assets  |
|  |  | a general description of the method(s) used for depreciation  |
|  |  | the accumulated depreciation for each major class of depreciable asset  |
|  |  | the useful lives for each major class of depreciable asset  |

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| Question 12 text  Question 12  |     |     |
|   | Which statement regarding goodwill is true?  |  |  |  |  |
| Question 12 answers

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|  |  | goodwill is an unidentifiable intangible asset  |
|  |  | internally developed goodwill should be capitalized while purchased goodwill should be expensed  |
|  |  | goodwill can be defined as the value attached to the ability of a company to earn a higher than normal rate of return on the book value of its identifiable assets  |
|  |  | in some situations, FASB Statement No. 141 requires that negative goodwill be recorded  |

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| Question 13 text  Question 13  |     |     |
|   | What effect does depreciation have on the calculation of the rate of return on total assets?  |  |  |  |  |
| Question 13 answers

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|  |  | affects both the numerator and denominator  |
|  |  | no effect  |
|  |  | increases it  |
|  |  | decreases it  |

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| Question 14 text  Question 14  |     |     |
|   | Concerning computer software to be sold, leased, or otherwise marketed, which of the following costs are inventoriable and thus included in cost of goods sold?  |  |  |  |  |
| Question 14 answers

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|  |  | maintenance and customer support costs  |
|  |  | design, coding, and testing costs incurred before technological feasibility is established  |
|  |  | costs of software developed for internal use  |
|  |  | costs of disks, software duplication, and training materials  |

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| Question 15 text  Question 15  |     |     |
|   | The Pecan Street Ice Cream Company discovers that depreciation expense was overstated last year. How should this discovery be reported in the current year?  |  |  |  |  |
| Question 15 answers

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|  |  | as a reduction in the current year's depreciation expense  |
|  |  | as an increase to the retained earnings beginning balance  |
|  |  | as a miscellaneous item in the Other Revenue/Expense section of the income statement  |
|  |  | as a footnote only to the current year's financial statements  |

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| Question 16 text  Question 16  |     |     |
|   | Which of the following expenditures cannot be included in R&D costs?  |  |  |  |  |
| Question 16 answers

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|  |  | indirect costs  |
|  |  | intangibles purchased from others  |
|  |  | personnel costs  |
|  |  | contract services performed for others  |

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| Question 17 text  Question 17  |     |     |
|   | Which of the following is not a required disclosure regarding goodwill for each period a company presents a balance sheet?  |  |  |  |  |
| Question 17 answers

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|  |  | the amount of goodwill acquired  |
|  |  | the amount of goodwill sold  |
|  |  | the amount of any impairment loss recognized  |
|  |  | the amount of any goodwill included in the disposal of a reporting unit  |

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| Question 18 text  Question 18  |     |     |
|   | Related to in-process R&D the acquiring company may:  |  |  |  |  |
| Question 18 answers

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|  |  | capitalize it.  |
|  |  | treat it as an intangible asset.  |
|  |  | increase the amount of goodwill.  |
|  |  | establish a patent in the name of the purchased company.  |

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| Question 19 text  Question 19  |     |     |
|   | Which one of the following disclosures is required by generally accepted accounting principles?  |  |  |  |  |
| Question 19 answers

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|  |  | depreciation expense for each major class of asset  |
|  |  | balances of major classes of depreciable assets, by nature or function  |
|  |  | accumulated depreciation on each depreciable asset  |
|  |  | an explanation of why the depreciation method used was selected by management  |

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| Question 20 text  Question 20  |     |     |
|   | Which of the following methods is used to amortize intangible assets over their useful lives?  |  |  |  |  |
| Question 20 answers

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|  |  | a declining balance method  |
|  |  | straight line  |
|  |  | annual review for impairment  |
|  |  | intangible assets are not amortized |

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