Questions 2 & 3 are based on the following information. Harper is contemplating exchanging a machine used in its operation for a similar machine on May 31. Harper will exchange machines with either Austin Corporation or Lubin Company. The data relating to the machines are presented below. Assume the exchanges would have commercial substance.

 Harper Austin Lubin

Original cost of machine $162,500 $180,000 $150,000

Accumulated depreciation thru May 31 98,500 70,000 65,000

Fair value 80,000 95,000 60,000

2.

If Harper exchanges its used machine and $15,000 cash for Austin’s used machine, the gain that Harper should recognize from this transaction for financial reporting purposes would be;

1. $0
2. $2,526
3. $15,000
4. $16,000

3.

If Harper exchanges its used machine for Lubin’s used machine and also receives $20,000 cash, the gain that Harper should recognize from this transaction for financial reporting would be

1. $0
2. $4,000
3. $16,000
4. $25,000