***McGraw-Hill's Taxation of Business Entities 2019, 10e* (Spilker)**

**Chapter 02 Property Acquisition and Cost Recovery**

1) Like financial accounting, most acquired business property must be capitalized for tax purposes.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

2) Tax cost recovery methods include depreciation, amortization, and depletion.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

3) If a business mistakenly claims too little depreciation, the business must only reduce the asset's basis by the depreciation actually taken rather than the amount of the allowable depreciation.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

4) An asset's capitalized cost basis includes only the actual purchase price; whereas expenses to purchase, prepare the asset for use, and begin using the asset are immediately expensed.

Answer: FALSE

Difficulty: 2 Medium

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

5) The basis for a personal use asset converted to business use is the lesser of the asset's cost basis or fair market value on the date of the transfer or conversion.

Answer: TRUE

Difficulty: 2 Medium

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

6) Depreciation is currently computed under the Modified Accelerated Cost Recovery System (MACRS).

Answer: TRUE

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

7) The 200 percent or double declining balance method is allowable for five and seven-year property.

Answer: TRUE

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

8) Taxpayers may use historical data to determine the recovery period for tax depreciation.

Answer: FALSE

Explanation: Taxpayers use the recovery periods outlined in Revenue Procedure 87-56.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

9) Taxpayers use the half-year convention for all assets.

Answer: FALSE

Explanation: For personal property, taxpayers use either the half-year or mid-quarter convention.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

10) If a taxpayer places only one asset (a building) in service during the fourth quarter of the year, the mid-quarter convention must be used.

Answer: FALSE

Explanation: All real property is depreciated using the mid-month convention and does not factor into applicability of the mid-quarter convention for personal property.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

11) The MACRS depreciation tables automatically switch to the straight-line method when the straight-line method yields a higher annual depreciation amount than the declining balance method.

Answer: TRUE

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

12) If tangible personal property is depreciated using the half-year convention and is disposed of during the first quarter of a subsequent year, the taxpayer must use the mid-quarter convention for the year of disposition.

Answer: FALSE

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

13) If a machine (seven-year property) being depreciated using the half-year convention is disposed of during the seventh year, a taxpayer must multiply the appropriate depreciation percentage from the MACRS table percentage by 50 percent to calculate the depreciation expense properly.

Answer: TRUE

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

14) Real property is always depreciated using the straight-line method.

Answer: TRUE

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

15) The mid-month convention applies to real property in the year of acquisition and disposition.

Answer: TRUE

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

16) All taxpayers may use the §179 immediate expensing election on certain property.

Answer: FALSE

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

17) The §179 immediate expensing election phases out based upon a taxpayer's taxable income.

Answer: FALSE

Explanation: The §179 phase out is based upon the amount of property placed in service during the year.

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

18) The §179 immediate expensing election phases out based upon the amount of tangible personal property a taxpayer places in service during the year.

Answer: TRUE

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

19) Property expensed under the §179 immediate expensing election is not included in the 40 percent test to determine whether the mid-quarter convention must be used.

Answer: TRUE

Difficulty: 3 Hard

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

20) In general, a taxpayer should select longer-lived property for the §179 immediate expensing election.

Answer: TRUE

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

21) Bonus depreciation is used as a stimulus tool by tax policy makers.

Answer: TRUE

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

22) Used property is eligible for bonus depreciation.

Answer: TRUE

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

23) Business assets that tend to be used for both business and personal purposes are referred to as listed property.

Answer: TRUE

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

24) If the business use percentage for listed property falls below 50 percent, the only adjustment is all future depreciation must be calculated under the straight-line method.

Answer: FALSE

Explanation: The property is subject to depreciation recapture for any excess depreciation over the straight-line method using the ADS recovery period over the entire time.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

25) Significant limits are placed on the depreciation of luxury automobiles.

Answer: TRUE

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

26) To increase their depreciation deduction on automobiles, taxpayers should elect §179 expense.

Answer: FALSE

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

27) The alternative depreciation system requires both a slower method of recovery and longer recovery periods.

Answer: FALSE

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

28) The method for tax amortization is always the straight-line method.

Answer: TRUE

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

29) All assets subject to amortization have the same recovery period.

Answer: FALSE

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

30) Goodwill and customer lists are examples of §197 amortizable assets.

Answer: TRUE

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

31) Taxpayers may always expense a portion of start-up costs and organizational expenditures.

Answer: FALSE

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

32) Businesses may immediately expense research and experimentation expenditures or they may elect to capitalize these costs and amortize them using the straight-line method over a period of not less than 60 months.

Answer: TRUE

Explanation: After 2021, companies will no longer be able to immediately expense research and experimentation expenditures.

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

33) The manner in which a business amortizes a patent or copyright is the same whether the business directly purchases the patent or copyright or whether it self-creates the intangible.

Answer: FALSE

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

34) Depletion is the method taxpayers use to recover their capital investment in natural resources.

Answer: TRUE

Difficulty: 1 Easy

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

35) In general, major integrated oil and gas producers may take the greater of cost or percentage depletion.

Answer: FALSE

Explanation: Depletion of timber and major integrated oil companies must be calculated using only the cost depletion method (no percentage depletion is available).

Difficulty: 2 Medium

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

36) Cost depletion is available to all natural resource producers.

Answer: TRUE

Difficulty: 2 Medium

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

37) Businesses deduct percentage depletion when they sell the natural resource and they deduct cost depletion in the year they produce or extract the natural resource.

Answer: TRUE

Difficulty: 2 Medium

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

38) Tax cost recovery methods do not include:

A) Amortization.

B) Capitalization.

C) Depletion.

D) Depreciation.

E) All of the choices are tax cost recovery methods.

Answer: B

Explanation: Amortization, depletion, and depreciation are cost recovery methods as a result of asset capitalization.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

39) Which of the following business assets is not depreciated?

A) Automobile.

B) Building.

C) Patent.

D) Machinery.

E) All of the assets are depreciated.

Answer: C

Explanation: Patents are amortized rather than depreciated.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

40) An office desk is an example of:

A) Personal property.

B) Personal-use property.

C) Real property.

D) Business property.

E) Personal property and business property.

Answer: E

Explanation: An office desk is both business property and is personal property. It is not personal-use or real property.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

41) An example of an asset that is both personal-use and personal property is:

A) A computer used solely to email company employees regarding company activities.

B) A storage building used by the CEO to store personal records.

C) A computer used solely to monitor the CEO's investments and to complete her Form 1040.

D) A company airplane used by the CEO for business travel.

E) All of the assets are personal-use and personal property.

Answer: C

Explanation: A computer is personal property and when used by the CEO for non-business activities is also personal-use.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

42) Which of the following is not usually included in an asset's tax basis?

A) Purchase price.

B) Sales tax.

C) Shipping.

D) Installation costs.

E) All of the choices are included in an asset's tax basis.

Answer: E

Explanation: The purchase price, sales tax, shipping, and installation costs are all included in an assets tax basis.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

43) Which of the following would be considered an improvement rather than a routine maintenance?

A) Oil change.

B) Engine overhaul.

C) Wiper blade replacement.

D) Air filter change.

Answer: B

Explanation: The engine overhaul is an improvement because it restores a major component of an asset while the other items are routine maintenance.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

44) Tax depreciation is currently calculated under what system?

A) Sum-of-the-years-digits.

B) Accelerated cost recovery system.

C) Modified accelerated cost recovery system.

D) Straight-line system.

E) None of the choices are correct.

Answer: C

Explanation: The modified accelerated cost recovery system (MACRS) is the current tax depreciation system.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

45) Which is not an allowable method under MACRS?

A) 150 percent declining balance.

B) 200 percent declining balance.

C) Straight-line.

D) Sum-of-the-years-digits.

E) All of the choices are allowable methods under MACRS.

Answer: D

Explanation: The sum-of-the-years-digits is not an allowable method under MACRS.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

46) Which of the allowable methods allows the most accelerated depreciation?

A) 150 percent declining balance.

B) 200 percent declining balance.

C) Straight-line.

D) Sum-of-the-years-digits.

E) None of the methods would allow accelerated depreciation.

Answer: B

Explanation: The 200 percent declining balance method allows the most depreciation expense in earlier periods.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

47) How is the recovery period of an asset determined?

A) Estimated useful life.

B) Treasury regulation.

C) Revenue Procedure 87-56.

D) Revenue Ruling 97-56.

E) None of the choices are correct.

Answer: C

Explanation: Revenue Procedure 87-56 helps taxpayers to determine the recovery period for assets.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

48) Which of the following depreciation conventions are not used under MACRS?

A) Full-month.

B) Half-year.

C) Mid-month.

D) Mid-quarter.

E) All of the choices are used under MACRS.

Answer: A

Explanation: The full-month convention is used for tax amortization, which does not fall under MACRS depreciation.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

49) Which depreciation convention is the general rule for tangible personal property?

A) Full-month.

B) Half-year.

C) Mid-month.

D) Mid-quarter.

E) None of the choices are conventions for tangible personal property.

Answer: B

Explanation: The half-year convention is the general rule for tangible personal property, while the mid-quarter convention is the exception.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

50) The MACRS recovery period for automobiles and computers is:

A) 3 years.

B) 5 years.

C) 7 years.

D) 10 years.

E) None of the choices are correct.

Answer: B

Explanation: These assets' recovery period is 5 years.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

51) Lax, LLC purchased only one asset during the current year (a full 12-month tax year). Lax placed in service computer equipment (5-year property) on August 26 with a basis of $20,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

A) $2,000.

B) $2,858.

C) $3,000.

D) $4,000.

E) None of the choices are correct.

Answer: D

Explanation: The asset's recovery period is 5 years and the half-year convention applies. The calculation is $20,000 × 0.20 = $4,000.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

52) Sairra, LLC purchased only one asset during the current year (a full 12-month tax year). Sairra placed in service furniture (7-year property) on April 16 with a basis of $25,000. Calculate the maximum depreciation expense for the current year? (ignoring §179 and bonus depreciation). (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

A) $1,786.

B) $3,573.

C) $4,463.

D) $5,000.

E) None of the choices are correct.

Answer: B

Explanation: The asset's recovery period is 7 years and the half-year convention applies. The calculation is $25,000 × 0.1429 = $3,573.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

53) Beth's business purchased only one asset during the current year (a full 12-month tax year). Beth placed in service machinery (7-year property) on December 1 with a basis of $50,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

A) $1,785.

B) $2,500.

C) $7,145.

D) $10,000.

E) None of the choices are correct.

Answer: A

Explanation: The asset's recovery period is 7 years and the mid-quarter convention applies because the property was placed in service during the fourth quarter. The calculation is $50,000 × 0.0357 = $1,785.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

54) Deirdre's business purchased two assets during the current year (a full 12-month tax year). Deirdre placed in service computer equipment (5-year property) on January 20 with a basis of $15,000 and machinery (7-year property) on September 1 with a basis of $15,000. Calculate the maximum depreciation expense, (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention) **(Round final answer to the nearest whole number.)**

A) $1,286.

B) $5,144.

C) $5,786.

D) $6,000.

E) None of the choices are correct.

Answer: B

Explanation: The half-year convention applies. The calculations are $15,000 × 0.20 = $3,000 and $15,000 × 0.1429 = $2,144. The total is $5,144 ($3,000 + $2,144).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

55) Suvi, Inc. purchased two assets during the current year (a full 12-month tax year). Suvi placed in service computer equipment (5-year property) on August 10 with a basis of $20,000 and machinery (7-year property) on November 18 with a basis of $10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

A) $857.

B) $3,357.

C) $5,429.

D) $6,000.

E) None of the choices are correct.

Answer: C

Explanation: The half-year convention applies. The calculations are $20,000 × 0.20 = $4,000 and $10,000 × 0.1429 = $1,429. The total is $5,429 ($4,000 + $1,429).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

56) Wheeler LLC purchased two assets during the current year (a full 12-month tax year). Wheeler placed in service computer equipment (5-year property) on November 16 with a basis of $15,000 and furniture (7-year property) on April 20 with a basis of $11,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2) **(Round final answer to the nearest whole number.)**

A) $1,285.

B) $2,714.

C) $4,572.

D) $5,200.

E) None of the choices are correct.

Answer: B

Explanation: The mid-quarter convention applies because more than 40% of the years' assets were placed in service in the fourth quarter of the tax year. The computer is 4th quarter property and the furniture is 2nd quarter property. The calculations are $15,000 × 0.05 = $750 and $11,000 × 0.1785 = $1,964. The total is $2,714 ($750 + $1,964).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

57) Tasha LLC purchased furniture (7-year property) on April 20 for $20,000 and used the half-year convention. Tasha did not take §179 or bonus depreciation in the year it acquired the furniture. During the current year, which is the fourth year Tasha LLC owned the property, the property was disposed of on December 15. Calculate the maximum depreciation expense. (Use MACRS Table 2) EXHIBIT 10-6  **(Round final answer to the nearest whole number.)**

A) $898.

B) $2,095.

C) $1,249.

D) $2,498.

E) None of the choices are correct.

Answer: C

Explanation: The half-year convention applies. The calculations are $20,000 × 0.1249 = $2,498 × 1/2 = $1,249.

Difficulty: 3 Hard

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

58) Anne LLC purchased computer equipment (5-year property) on August 29 for $30,000 and used the half-year convention. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1)

A) $432.

B) $1,728.

C) $1,874.

D) $3,456.

E) None of the choices are correct.

Answer: B

Explanation: The calculations are $30,000 × 0.1152 = $3,456 × 0.5 = $1,728 since the property is considered to be owned for half the year in the year of disposition.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

59) Poplock LLC purchased a warehouse and land during the current year for $350,000. The purchase price was allocated as follows: $275,000 to the building and $75,000 to the land. The property was placed in service on August 12. Calculate Poplock's maximum depreciation for this first year. (Use MACRS Table 5) **(Round final answer to the nearest whole number.)**

A) $2,648.

B) $3,371.

C) $3,751.

D) $4,774.

E) None of the choices are correct.

Answer: A

Explanation: The mid-month convention applies. Non-residential property has a 39-year recovery period. The depreciation is $2,648 ($275,000 × 0.963%).

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

60) Tom Tom LLC purchased a rental house and land during the current year for $150,000. The purchase price was allocated as follows: $100,000 to the building and $50,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3)

A) $1,605.

B) $2,273.

C) $2,408.

D) $3,410.

E) None of the choices are correct.

Answer: B

Explanation: The mid-month convention applies. Residential property has a 27.5-year recovery period. The depreciation is $2,273 ($100,000 × 2.273%).

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

61) Simmons LLC purchased an office building and land several years ago for $250,000. The purchase price was allocated as follows: $200,000 to the building and $50,000 to the land. The property was placed in service on October 2. If the property is disposed of on February 27 during the 10th year, calculate Simmons' maximum depreciation in the 10th year. (Use MACRS Table 5)  EXHIBIT 10-6

A) $641.

B) $909.

C) $5,128.

D) $7,346.

E) None of the choices are correct.

Answer: A

Explanation: The mid-month convention applies. Non-residential property has a 39-year recovery period. The depreciation is $641 ($200,000 × 2.564% × 1.5/12).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

62) Which of the following assets are eligible for §179 expensing?

A) Used office machinery.

B) Qualified improvement property.

C) A new delivery truck.

D) Used office furniture.

E) All of the choices are correct.

Answer: E

Explanation: All of the assets are eligible. Tangible personal property is eligible for §179 expensing whether it is new or used. Qualified improvement property is also eligible for §179 expensing.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

63) Lenter LLC placed in service on April 29, 2018 machinery and equipment (7-year property) with a basis of $1,600,000. Assume that Lenter has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but ignoring bonus expensing). (Use MACRS Table 1)

A) $228,640.

B) $1,000,000.

C) $1,085,740.

D) $1,120,000.

E) None of the choices are correct.

Answer: C

Explanation: The $1,000,000 §179 expense is not limited. The half-year convention applies. The expense is $1,085,740 which is depreciation of $600,000  × .1429 = $85,740 plus $1,000,000 of §179 expense.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

64) Littman LLC placed in service on July 29, 2018 machinery and equipment (7-year property) with a basis of $600,000. Littman's income for the current year before any depreciation expense was $100,000. Which of the following statements is true to maximize Littman's total depreciation expense for 2018? (Use MACRS Table 1)

A) Littman should take §179 expense equal to the maximum $1,000,000.

B) Littman should take no §179 expense.

C) Littman's §179 expense will be greater than $100,000.

D) Littman's §179 expense will be less than $100,000.

E) None of the choices are correct.

Answer: D

Explanation: The $1,000,000 maximum §179 expense is limited by the amount of property placed in service and to income after regular MACRS depreciation but before §179 expense. The $100,000 income amount is before any cost recovery. Thus to maximize its cost recovery, Littman should first elect $16,637 of §179 expense. Littman's regular MACRS amount will be $83,363 for a total of $100,000 of cost recovery.

Difficulty: 3 Hard

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

65) Crouch LLC placed in service on May 19, 2018 machinery and equipment (7-year property) with a basis of $3,200,000. Assume that Crouch has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1)

A) $457,280.

B) $300,000.

C) $714,410.

D) $760,072.

E) None of the choices are correct.

Answer: C

Explanation: The $1,000,000 §179 expense is reduced to $300,000 because of the property placed in service limitation ($3,200,000 − $2,500,000 threshold). The half-year convention applies. The expense is $714,410 which is depreciation of $2,900,000 × .1429 = $414,410 plus $300,000 of §179 expense.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

66) Clay LLC placed in service machinery and equipment (7-year property) with a basis of $3,450,000 on June 6, 2018. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus depreciation.) (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

A) $690,000.

B) $493,005.

C) $485,860.

D) $535,860.

E) None of the choices are correct.

Answer: D

Explanation: The $1,000,000 §179 expense is reduced to $50,000 because of the property placed in service limitation ($3,450,000 − $2,500,000 threshold). The half-year convention applies. The expense is $535,860 which is depreciation of $3,400,000 × 0.1429 = $485,860 plus $50,000 of §179 expense.

Difficulty: 3 Hard

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

67) Bonnie Jo purchased a used camera (5-year property) for use in her sole proprietorship. The basis of the camera was $2,400. Bonnie Jo used the camera in her business 60 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation expense during the first year assuming the sole proprietorship had a loss during the year (Bonnie did not place the property in service in the last quarter). (Use MACRS Table 1)

A) $240.

B) $288.

C) $480.

D) $2,400.

E) None of the choices are correct.

Answer: B

Explanation: The asset's recovery period is 5 years and the half-year convention applies. The calculation is $2,400 × 0.20 × 60% = $288.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

68) Billie Bob purchased a used camera (5-year property) for use in his sole proprietorship in the prior year. The basis of the camera was $2,400. Billie Bob used the camera in his business 60 percent of the time during the first year. During the second year, Billie Bob used the camera 40 percent for business use. Calculate Billie Bob's depreciation expense during the second year assuming the sole proprietorship had a loss during the year (Billie Bob did not place the asset in service in the last quarter). (Use MACRS Table 1)

A) $0.

B) $48.

C) $192.

D) $336.

E) None of the choices are correct.

Answer: B

Explanation: Because the listed property's business use drops below 50%, the straight-line method must be used and all prior years' excess depreciation must be recaptured. The asset's recovery period is 5 years and the half-year convention applies. The calculation for the current year's depreciation before adjusting for the prior year is $2,400 × 0.20 × 40% = $192. But he must recapture prior depreciation of $144 ($2,400 × 0.20 × 60% = $288 taken less $144 (straight-line, ½ year)) that would have been taken. Therefore, the current year depreciation expense is $192 − $144 = $48.

Difficulty: 3 Hard

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

69) Which of the following assets is not eligible for bonus depreciation?

A) Used office machinery

B) Qualified improvement property

C) A new delivery truck

D) Used office furniture

E) All of the choices are correct.

Answer: B

Explanation: New and used personal property is eligible for bonus depreciation as long as the property has not been used by the taxpayer before. Qualified improvement property is not currently eligible.

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

70) Potomac LLC purchased an automobile for $30,000 on August 5, 2018. What is Potomac's depreciation expense for 2018 (ignore any possible bonus depreciation)? (Use MACRS Table 1, and Exhibit 10-10)

A) $10,000.

B) $4,287.

C) $6,000.

D) $30,000.

E) None of the choices are correct.

Answer: C

Explanation: A luxury auto's maximum depreciation in the first year is the lesser of $10,000 or its MACRS amount of $6,000 ($30,000 × 20 percent) for 2018.

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

71) Arlington LLC purchased an automobile for $55,000 on July 5, 2018. What is Arlington's depreciation expense for 2018 if its business use percentage is 75 percent (ignore any possible bonus depreciation)?  Exhibit 10-10

A) $4,250.

B) $5,500.

C) $7,500.

D) $8,250.

E) None of the choices are correct.

Answer: C

Explanation: A luxury auto's maximum depreciation in the first year is the lesser of $10,000 or its MACRS amount of $11,000 ($55,000 × 20%). That amount is then multiplied by the business use percentage to obtain $7,500 ($10,000 × 75%).

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

72) Taylor LLC purchased an automobile for $55,000 on July 5, 2018. What is Taylor's maximum depreciation expense for 2018 if its business use percentage is 100 percent?

A) $10,000.

B) $11,000.

C) $18,000.

D) $55,000.

E) None of the choices are correct.

Answer: C

Explanation: A luxury auto's maximum depreciation in the first year is the lesser of $10,000 or its MACRS amount of $11,000 ($55,000 × 20%). However, the limitation is increased by $8,000 when bonus depreciation is taken. Taylor's maximum depreciation on the automobile is $18,000 ($10,000 limitation + $8,000 bonus).

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

73) Assume that Bethany acquires a competitor's assets on March 31st. The purchase price was $150,000. Of that amount, $125,000 is allocated to tangible assets and $25,000 is allocated to goodwill (a §197 intangible asset). What is Bethany's amortization expense for the current year? **(Round final answer to the nearest whole number.)**

A) $0.

B) $1,250.

C) $1,319.

D) $1,389.

E) None of the choices are correct.

Answer: D

Explanation: The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $1,389 ($25,000/180) × 10.

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

74) Assume that Brittany acquires a competitor's assets on September 30th of year 1 for $350,000. Of that amount, $300,000 is allocated to tangible assets and $50,000 is allocated equally to two §197 intangible assets (goodwill and a 1-year non-compete agreement). Given, that the non-compete agreement expires on September 30th of year 2, what is Brittany's amortization expense for the second year? **(Round final answer to the nearest whole number.)**

A) $0

B) $1,667

C) $2,917

D) $3,333

E) None of the choices are correct.

Answer: D

Explanation: The full-month convention applies. If a §197 asset is disposed of before it is fully recovered, the remaining basis is added to the remaining §197 assets acquired at the same time. §197 assets have a recovery period of 180 months. The amortization is $3,333 ($50,000/180) × 12. The result is as if the asset never expired.

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

75) Jasmine started a new business in the current year. She incurred $10,000 of start-up costs. How much of the start-up costs can be immediately expensed (excluding amounts amortized over 180 months) for the year?

A) $0.

B) $2,500.

C) $5,000.

D) $10,000.

E) None of the choices are correct.

Answer: C

Explanation: $5,000 of start-up expenses can be immediately expensed. The $5,000 maximum phases out dollar for dollar if more than $50,000 of start-up costs are incurred.

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

76) Racine started a new business in the current year. She incurred $52,000 of start-up costs. If her business started on November 23rd of the current year, what is the total expense she may deduct with respect to the start-up costs for her initial year, rounded to the nearest whole number?

A) $2,555.

B) $3,544.

C) $5,522.

D) $52,000.

E) None of the choices are correct.

Answer: B

Explanation: The maximum immediate expense amount of $5,000 phases out dollar for dollar if more than $50,000 of start-up costs are incurred. Thus, the immediate expensing is $3,000 ($5,000 − ($52,000 − $50,000)). The remaining amount is amortized over 180 months and results in an additional deduction of $544 [($49,000/180) × 2 months] for the year.

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

77) Daschle LLC completed some research and development during June of the current year. The related costs were $60,000. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization expense Daschle may deduct during the current year?

A) $0.

B) $6,500.

C) $7,000.

D) $12,000.

E) None of the choices are correct.

Answer: C

Explanation: The amortization when capitalization is elected is $7,000 ($60,000/60) × 7 months. The amortization period on capitalized research and development is not less than 60 months—and 60 months is the most often elected.

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

78) Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15th and the purchase price was $75,000. If the copyright has a remaining life of 75 months, what is the total amortization expense Jorge may deduct during the current year? (Assume not in an asset acquisition to which §197 applies)

A) $0.

B) $5,500.

C) $6,000.

D) $12,000.

E) None of the choices are correct.

Answer: C

Explanation: The amortization is $6,000 ($75,000/75) × 6. The amortization period on a purchased copyright is the asset's remaining useful life.

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

79) Gessner LLC patented a process it developed in the current year. The patent is expected to create benefits for Gessner over a 10-year period. The patent was issued on April 15th and the legal costs associated with the patent were $43,000. In addition, Gessner had unamortized research expenditures of $15,000 related to the process. What is the total amortization expense Gessner may deduct during the current year?

A) $2,417.

B) $2,174.

C) $4,108.

D) $4,350.

E) None of the choices are correct.

Answer: D

Explanation: The amortization is $4,350 ($58,000/120) × 9 months. The amortization period is the shorter of the patent's legal (20 years for utility patents) or useful life (10 years).

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

80) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimates that Santa Fe will recover 5,000 pounds of turquoise. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $200,000. What is Santa Fe's cost depletion expense for the current year?

A) $60,000.

B) $90,000.

C) $110,000.

D) $300,000.

E) None of the choices are correct.

Answer: B

Explanation: The depletion expense is $90,000 ($300,000/5,000) × 1,500.

Difficulty: 1 Easy

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

81) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimated that Santa Fe will recover 5,000 pounds of turquoise. During the past several years, 4,000 pounds were extracted. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $250,000. What is Santa Fe's cost depletion expense for the current year?

A) $60,000.

B) $90,000.

C) $190,000.

D) $160,000.

E) None of the choices are correct.

Answer: A

Explanation: The depletion expense is $60,000 ($300,000/5,000) × 1,000. Cost depletion is limited to the taxpayer's basis. As a result, even though 1,500 pounds were extracted, only 1,000 pounds can be expensed under cost depletion.

Difficulty: 1 Easy

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

82) Lucky Strike Mine (LLC) purchased a silver deposit for $1,500,000. It estimated it would extract 500,000 ounces of silver from the deposit. Lucky Strike mined the silver and sold it reporting gross receipts of $1.8 million, $2.5 million, and $2 million for years 1 through 3, respectively. During years 1 - 3, Lucky Strike reported net income (loss) from the silver deposit activity in the amount of ($100,000), $400,000, and $100,000, respectively. In years 1 - 3, Lucky Strike actually extracted 300,000 ounces of silver as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Ounces extracted per year | | | |
| Year 1 | Year 2 | Year 3 |
| 50,000 | 150,000 | 100,000 |

What is Lucky Strike's depletion expense for year 2 if the applicable percentage depletion for silver is 15 percent?

A) $200,000

B) $375,000

C) $400,000

D) $450,000

E) None of the choices are correct.

Answer: D

Explanation: The depletion expense is $450,000, the greater of cost or percentage depletion. Cost depletion is $450,000 ($1,500,000 ÷ 500,000) × 150,000. Percentage depletion is $200,000; the lesser of the statutory percentage $375,000 ($2,500,000 × .15) or $200,000 [($400,000 × 50%) = 50 percent of net income].

Difficulty: 2 Medium

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

83) Janey purchased machinery on April 8th of the current year. The relevant costs for the year are as follows: machinery for $10,000, $800 shipping, $50 for delivery insurance, $500 for installation, $750 for sales tax, $150 for the annual tune up, and $200 of property taxes (an annual tax on business property). What is Janey's tax basis for the machinery?

Answer: $12,100.

An asset's basis consists of all of the costs to purchase, install, and place the asset in service. The annual tune up is routine maintenance and the annual property tax is a general business expense. ($10,000 + $800 + $50 + $500 + $750)

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

84) Jaussi purchased a computer several years ago for $2,200 and used it for personal purposes. On November 10th of the current year, when the fair market value of the computer was $800, Jaussi converted it to business use. What is Jaussi's tax basis for the computer?

Answer: $800.

When personal property is converted to business use, the basis is the lesser of the cost basis of the property or the fair market value on the date of the conversion.

Difficulty: 1 Easy

Topic: Cost Recovery and Tax Basis for Cost Recovery

Learning Objective: 10-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

85) Flax, LLC purchased only one asset this year. Flax placed in service a computer (5-year property) on January 16 with a basis of $14,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

Answer: $2,800.

The asset's recovery period is 5 years and the half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculation is $14,000 × 0.20 = $2,800.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

86) Roth, LLC purchased only one asset during the current year. Roth placed in service office equipment (7-year property) on August 1st with a basis of $42,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention) **(Round final answer to the nearest whole number.)**

Answer: $6,073.

The asset's recovery period is 7 years and the half-year convention applies. The calculation is $42,500 × 0.1429 = $6,073.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

87) Eddie purchased only one asset during the current year. Eddie placed in service furniture (7-year property) on May 1st with a basis of $26,500. Calculate the maximum depreciation expense, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

Answer: $3,787.

The asset's recovery period is 7 years and the half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculation is $26,500 × 0.1429 = $3,787.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

88) Amit purchased two assets during the current year. Amit placed in service computer equipment (5-year property) on April 16th with a basis of $5,000 and furniture (7-year property) on September 9th with a basis of $20,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

Answer: $3,858.

The half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculations are $5,000 × 0.20 = $1,000 and $20,000 × 0.1429 = $2,858. The total is $3,858 ($1,000 + $2,858).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

89) Yasmin purchased two assets during the current year. Yasmin placed in service computer equipment (5-year property) on May 26th with a basis of $10,000 and machinery (7-year property) on December 9th with a basis of $10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

Answer: $2,857.

The mid-quarter convention applies since more than 40 percent of the property was placed in service during the fourth quarter. The calculations are $10,000 × 0.25 = $2,500 and $10,000 × 0.0357 = $357. The total is $2,857 ($2,500 + $357).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

90) Bonnie Jo used two assets during the current year. The first was computer equipment with an original basis of $15,000, currently in the second year of depreciation, and under the half-year convention. This asset was disposed of on October 1st of the current year. The second was furniture with an original basis of $24,000 placed in service during the first quarter, currently in the fourth year of depreciation, and under the mid-quarter convention. What is Bonnie Jo's depreciation expense for the current year? **(Round final answer to the nearest whole number)** (Use MACRS Table 1 and Table 2)

Answer: $5,023.

The depreciation expense for the current year is $5,023. The calculations are $15,000 × 0.32 × ½ year = $2,400 and $24,000 × 0.1093 = $2,623. The total is $5,023 ($2,400 + $2,623).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

91) Kristine sold two assets on March 20th of the current year. The first was machinery with an original basis of $51,000, currently in the fourth year of depreciation, and under the half-year convention. The second was furniture with an original basis of $16,000 placed in service during the fourth quarter, currently in the third year of depreciation, and under the mid-quarter convention. What is Kristine's depreciation expense for the current year if the depreciation recovery period is 7-years? (Use MACRS Table 1, Table 2, and EXHIBIT 10-6) **(Round final answer to the nearest whole number.)**

Answer: $3,579.

The depreciation on those assets are $51,000 × 0.1249 × ½ year = $3,185 and $16,000 × 0.1968 × 1.5/12 = $394, the total is $3,579 ($3,185 + $394).

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

92) Timothy purchased a new computer for his consulting practice on October 15th of the current year. The basis of the computer was $4,000. During the Thanksgiving holiday, he decided the computer didn't meet his business needs and gave it to his college-aged son in another state. The computer was never used for business purposes again. Timothy had $50,000 of taxable income before depreciation. What is Timothy's total cost recovery expense with respect to the computer during the current year?

Answer: $0.

No depreciation expense or §179 expense may be taken on an asset which is acquired by and disposed of during the same taxable year.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

93) During August of the prior year, Julio purchased an apartment building that he used as a rental property. The basis was $1,400,000. Calculate the maximum depreciation expense during the current year. (Use MACRS Table 3)

Answer: $50,904.

The asset's recovery period is 27.5 years and the mid-month convention applies for real property. The calculation is $1,400,000 × 0.03636 = $50,904.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

94) During April of the current year, Ronen purchased a warehouse that he used for business purposes. The basis was $1,600,000. Calculate the maximum depreciation expense during the current year. (Use MACRS Table 5)

Answer: $29,104.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is $1,600,000 × 0.01819 = $29,104.

Difficulty: 1 Easy

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

95) An office building was purchased on December 9th several years ago for $2,500,000. The purchase price was allocated as follows: building $1,900,000, landscaping $100,000, and land $500,000. During the current year, the 10th year, the building was sold on March 10th. Calculate the maximum depreciation expense for the real property during the current year, rounded to the nearest whole number. (Use MACRS Table 5)

Answer: $10,149.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is $1,900,000 × 0.02564 × (2.5 ÷ 12) = $10,149. Depreciation is allowed for 2.5 months in the year of disposal. The land improvements are not considered to be real property. The land is non-depreciable.

Difficulty: 2 Medium

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

96) Olney LLC only purchased one asset this year. Olney LLC placed in service on July 19, 2018 machinery and equipment (7-year property) with a basis of $1,330,000. Assume that Olney has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing, (but ignoring bonus expensing). (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

Answer: $1,047,157.

The $1,000,000 §179 expense is not limited. The half-year convention applies. The expense is $1,047,157 which is depreciation of $330,000 × .1429 = $47,157 plus $1,000,000 of §179 expense.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

97) Columbia LLC only purchased one asset this year. Columbia LLC placed in service on July 9, 2018 machinery and equipment (7-year property) with a basis of $2,750,000. Assume that Columbia has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but ignoring bonus expensing) for the year. (Use MACRS Table 2) **(Round final answer to the nearest whole number.)**

Answer: $1,035,800.

The $1,000,000 §179 expense is limited to $750,000 because of the property placed in service limitation ($1,000,000 − ($2,750,000 − $2,500,000)). The half-year convention applies. The expense is $1,035,800 which is depreciation of $2,000,000 × 0.1429 = $285,800 plus $750,000 of §179 expense.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

98) Northern LLC only purchased one asset this year. In 2018, Northern LLC placed in service on September 6th machinery and equipment (7-year property) with a basis of $3,150,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

Answer: $750,120.

The $1,000,000 §179 expense is reduced to $350,000 because of the property placed in service limitation ($1,000,000 − ($3,150,000 − $2,500,000)). The half-year convention applies. The expense is $750,120 which is depreciation of $2,800,000 × 0.1429 = $400,120 plus $350,000 of §179 expense.

Difficulty: 3 Hard

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

99) Reid acquired two assets in 2018: computer equipment (5-year property) acquired on August 6th with a basis of $1,000,000 and machinery (7-year property) on November 9th with a basis of $1,000,000. Assume that Reid has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but not bonus expensing). (Use MACRS Table 1)

Answer: $1,200,000.

The $1,000,000 §179 expense should be used for the asset with the lowest first year depreciation percentage; therefore, Reid expenses the machinery using §179 of $1,000,000. The mid-quarter convention will no longer apply once the machinery is expensed because the determination of the convention occurs after the basis reduction from the §179 expensing. Reid then uses the half-year convention to depreciate the computer equipment. The cost recovery for the equipment is $200,000 ($1,000,000 × 0.20) resulting in a total depreciation expense of $1,200,000 ($1,000,000 machinery + $200,000 computer equipment). Choosing to use the §179 immediate expensing option on the 7-year property results in accelerated depreciation compared to choosing the 5-year property.

Difficulty: 2 Medium

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

100) Phyllis purchased $8,000 of specialized audio equipment that she uses in her business regularly. Occasionally, she uses the equipment for personal use. During the first year, Phyllis used the equipment for business use 70 percent of the time; however, during the current (second) year the business use fell to 40 percent. Assume that the equipment is seven-year MACRS property and is under the half-year convention. Assume the ADS recovery period is 10 years. What is the depreciation allowance for the current year? (Use MACRS Table 1) **(Round final answer to the nearest whole number.)**

Answer: Phyllis must recapture $200 into income this year.

Because the business use fell below 50 percent for the listed property, the depreciation for all years must be recalculated under the straight-line method over the ADS recovery period. During the first year depreciation was $800 ($8,000 × 0.1429 × 70%). Using the straight-line method over the ADS recovery period the depreciation for year 1 would be $280 ($8,000/10 years × 70% × ½ year). Depreciation for year 2 would be $320 ($8,000/10 years × 40%). Because the actual depreciation taken in year 1 exceeds the sum of the depreciation for years 1 and 2 under the ADS method, Phyllis must actually recapture $200 into income during the current year.

Difficulty: 3 Hard

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

101) Alexandra purchased a $55,000 automobile during 2018. The business use was 70 percent. What is the allowable depreciation for the current year (ignore any possible bonus depreciation)? (Use Exhibit 10-10)

Answer: $7,000

The maximum depreciation for a luxury automobile during 2018 is the lesser of the automobile limitation of $10,000 or MACRS depreciation of $11,000 ($55,000 × 0.20). The lower amount of $10,000 is then reduced for the business percentage use of 70%. Depreciation is $7,000 ($10,000 × 70%).

Difficulty: 1 Easy

Topic: Special Rules Relating to Cost Recovery

Learning Objective: 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

102) Boxer LLC has acquired various types of assets recently used 100% in its trade or business. Below is a list of assets acquired during 2017 and 2018:

|  |  |  |  |
| --- | --- | --- | --- |
| Asset | Cost Basis | Convention | Date Placed in Service |
| Machinery | 25,000 | Half year | January 24, 2017 |
| Warehouse | 800,000 | Mid month | August 1, 2017 |
| Furniture | 100,000 |  | October 5, 2018 |
| Computer equipment | 65,000 |  | October 10, 2018 |
| Office equipment | 34,000 |  | September 28, 2018 |
| Automobile | 35,000 |  | July 15, 2018 |
| Office building | 800,000 |  | September 24, 2018 |

Boxer did not elect §179 expense and elected out of bonus depreciation in 2017, but would like to take advantage of the §179 expense and bonus depreciation for 2018 (assume that taxable income is sufficient). Calculate Boxer's maximum depreciation expense for 2018. (Use MACRS Table 1, Table 5 and Exhibit 10-10 ) **(Round final answer to the nearest whole number.)**

Answer: $249,627.

§179 allows expensing of all the 2018 tangible personal property ($199,000 = $100,000 + $65,000 + $34,000), with the exception of the automobile. The maximum depreciation for 2018 on luxury automobiles is  $10,000 plus $8,000 of bonus depreciation. The depreciation of the remaining assets is as follows: 2017 machinery ($25,000 × 0.2449 = $6,123), 2017 warehouse ($800,000 × 0.02564 = $20,512), and the 2018 office building ($800,000 × 0.00749 = $5,992).

|  |  |
| --- | --- |
| Asset | 2018 Depreciation |
| Machinery | 6,123 |
| Warehouse | 20,512 |
| Furniture | 100,000 |
| Computer equipment | 65,000 |
| Office equipment | 34,000 |
| Automobile | 18,000 |
| Office building | 5,992 |
| Total | $249,627 |

Difficulty: 3 Hard

Topic: Depreciation

Learning Objective: 10-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.; 10-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

103) Assume that Yuri acquires a competitor's assets on May 1st. The purchase price was $500,000. Of the amount, $325,000 is allocated to tangible assets and $175,000 is allocated to goodwill (a §197 intangible asset). What is Yuri's amortization expense for the current year? **(Round final answer to the nearest whole number.)**

Answer: $7,778.

The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $7,778 = ($175,000 ÷ 180) × 8.

Difficulty: 1 Easy

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze

AACSB: Reflective Thinking; Analytical Thinking

AICPA: BB Critical Thinking

104) Assume that Cannon LLC acquires a competitor's assets on June 15th of a prior year. The purchase price was $450,000. Of the amount, $196,200 is allocated to tangible assets and $253,800 is allocated to three §197 intangible assets: $153,000 to goodwill, $50,400 to a customer list with an expected life of 8 years, and $50,400 to a 3 year non-compete agreement. On May 30th of the second year, the customer list is sold for $10,000. **(Round your amortization and final answer to the nearest whole number. Round your allocation percentage to the nearest whole percentage e.g., 0.1234 as 12%.)**

1) What is Cannon's amortization expense for the second year?

2) What is the basis of the intangibles at the end of the second year?

Answer:

1) Cannon's amortization expense for the second year is $16,500. This is calculated as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Goodwill | | Covenant | | | Customer List | | | | Total | | |
| Initial basis | $ | 153,000 | | $ | 50,400 | | $ | 50,400 |  | |  |  | |
| Recovery Period, months |  | 180 | |  | 180 | |  | 180 |  | |  |  | |
| Per month | $ | 850 | | $ | 280 | | $ | 280 |  | |  |  | |
| Year 1, 7 months | $ | 5,950 | | $ | 1,960 | | $ | 1,960 |  | |  |  | |
| Year 2, 5 months | $ | 4,250 | | $ | 1,400 | | $ | 1,400 |  | | $ | 7,050 | |
| Basis, May 30, Year 2 | $ | 142,800 | | $ | 47,040 | | $ | 47,040 |  | |  |  | |
| Selling price |  |  | |  |  | | $ | (10,000 | ) | |  |  | |
| Remaining basis | $ | 142,800 | | $ | 47,040 | | $ | 37,040 |  | |  |  | |
| Reallocation pro-rata on $189,840 (Goodwill and covenant) 75%, 25% | $ | 27,780 | | $ | 9,260 | | $ | (37,040 | ) | |  |  | |
| Reallocated basis | $ | 170,580 | | $ | 56,300 | | $ | 0 |  | |  |  | |
| Remaining months |  | 168 | |  | 168 | |  |  |  | |  |  | |
| Per month, rounded | $ | 1,015 | | $ | 335 | |  |  |  | |  |  | |
| June-Dec (7 months) | $ | 7,105 | | $ | 2,345 | |  |  |  | | $ | 9,450 | |
| 1) Total amortization, Year 2 | $ | 11,355 | | $ | 3,745 | | $ | 1,400 |  | | $ | 16,500 | |

2) The basis of the remaining assets is as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Goodwill | | | Covenant | | |
| Initial basis | $ | 153,000 |  | $ | 50,400 |  | |
| Amortization Year 1, 7 months |  | (5,950 | ) |  | (1,960 | ) | |
| Amortization Year 2, 5 months |  | (4,250 | ) |  | (1,400 | ) | |
| Reallocated basis, May 30, Year 2 |  | 27,780 |  |  | 9,260 |  | |
| Amortization Year 2, 7 months |  | (7,105 | ) |  | (2,345 | ) | |
| Basis, end of Year 2 | $ | 163,475 |  | $ | 53,955 |  | |

Difficulty: 3 Hard

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

105) Oksana started an LLC on November 2 of the current year. She incurred $30,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

Answer: $5,278.

$5,000 of start-up expenses can be immediately expensed and $278 ($25,000 ÷ 180) × 2 months of amortization may be deducted.

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

106) Patin Corporation began business on September 23rd of the current year. It incurred $40,000 of start-up costs and $60,000 of organizational expenditures. How much total amortization may be deducted in the first year? **(Round final answer to the nearest whole number.)**

Answer: $7,111.

Total amortization is $7,111. $5,000 of start-up expenses can be immediately expensed. Patin may not immediately expense the organizational costs because the immediate expensing is phased out dollar for dollar for organization expenditures exceeding $50,000. As a result when the expenses exceed $55,000, no immediate expensing can be taken. In addition, $2,111 ($35,000 ÷ 180) × 4 months = $778 of the start-up costs may be amortized and ($60,000 ÷ 180) × 4 months = $1,333 of the organizational expenditures may be amortized.

Difficulty: 2 Medium

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

107) Paulman incurred $55,000 of research and experimental expenses and began amortizing them over 60 months during June of year 1. During May of year 3, Paulman received a patent based upon the research being amortized. $36,000 of legal expenses for the patent was incurred. The patent is expected to have a remaining useful life of 17 years.

1) What is the basis of the patent? **(Round amortization for each year to the nearest whole number.)**

2) What is the amortization expense with respect to the patent during the year it was issued? **(Round final answer to the nearest whole number.)**

Answer: 1) $69,000.

The basis of the patent is $69,000 ($36,000 of legal costs and $33,000 of unamortized research expenses). The research expense is $55,000/60 months = $916.67. Year 1 is $6,417 for 7 months; year 2 is a full year of $11,000, and 5 months in year 3 is $4,583. Total research expensed is $22,000 and remaining unamortized expense to add to patent capitalization is $33,000.

2) $2,368.

The amortization is $2,368 = ($69,000 ÷ 204 months) × 7 months in year 3.

Difficulty: 3 Hard

Topic: Amortization

Learning Objective: 10-04 Calculate the deduction for amortization.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

108) Sequoia purchased the rights to cut timber on several tracts of land over a fifteen-year period. It paid $500,000 for cutting rights. A timber engineer estimates that 500,000 board feet of timber will be cut. During the current year, Sequoia cut 45,000 board feet of timber, which it sold for $900,000. What is Sequoia's cost depletion expense for the current year?

Answer: $45,000.

The depletion expense is $45,000 ($500,000 ÷ 500,000) × 45,000.

Difficulty: 1 Easy

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

109) PC Mine purchased a platinum deposit for $3,500,000. It estimated it would extract 17,000 ounces of platinum from the deposit. PC mined the platinum and sold it reporting gross receipts of $500,000 and $8 million for years 1 and 2, respectively. During years 1 and 2, PC reported net income (loss) from the platinum deposit activity in the amount of ($100,000) and $3,800,000, respectively. In years 1 and 2, PC actually extracted 2,000 and 8,000 ounces of platinum. What is PC's depletion expense for years 1 and 2 if the applicable percentage depletion for platinum is 22 percent? **(Round final answer to the nearest whole number.)**

Answer: Year 1: $411,765.

Year 2: $1,760,000.

PC has cost depletion expense of $411,765 ($3,500,000 ÷ 17,000) × 2,000 in year 1. Because PC has a loss in year 1, there is no percentage depletion. PC has percentage depletion of $1,760,000 in year 2: the lesser of $1,760,000 ($8 million × 22 percent) or $1,900,000 ($3.8 million × 50 percent). Cost depletion was $1,647,059 ($3,500,000 ÷ 17,000) × 8,000 and is less than percentage depletion.

Difficulty: 2 Medium

Topic: Depletion

Learning Objective: 10-05 Explain cost recovery of natural resources and the allowable depletion methods.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking