## V – AUDIT OF PROPERTY, PLANT AND EQUIPMENT

### PROBLEM NO. 1

Aliaga Corporation was incorporated on January 2, 2006. The following items relate to the Aliaga’s property and equipment transactions:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of land, which included an old apartment building appraised at P300,000</td>
<td>P3,000,000</td>
</tr>
<tr>
<td>Apartment building mortgage assumed, including related interest due at the time of purchase</td>
<td>80,000</td>
</tr>
<tr>
<td>Delinquent property taxes assumed by the Aliaga</td>
<td>30,000</td>
</tr>
<tr>
<td>Payments to tenants to vacate the apartment building</td>
<td>20,000</td>
</tr>
<tr>
<td>Cost of razing the apartment building</td>
<td>40,000</td>
</tr>
<tr>
<td>Proceeds from sale of salvaged materials</td>
<td>10,000</td>
</tr>
<tr>
<td>Architects fee for new building</td>
<td>60,000</td>
</tr>
<tr>
<td>Building permit for new construction</td>
<td>40,000</td>
</tr>
<tr>
<td>Fee for title search</td>
<td>25,000</td>
</tr>
<tr>
<td>Survey before construction of new building</td>
<td>20,000</td>
</tr>
<tr>
<td>Excavation before construction of new building</td>
<td>100,000</td>
</tr>
<tr>
<td>Payment to building contractor</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Assessment by city for drainage project</td>
<td>15,000</td>
</tr>
<tr>
<td>Cost of grading and leveling</td>
<td>50,000</td>
</tr>
<tr>
<td>Temporary quarters for construction crew</td>
<td>80,000</td>
</tr>
<tr>
<td>Temporary building to house tools and materials</td>
<td>50,000</td>
</tr>
<tr>
<td>Cost of changes during construction to make new building more energy efficient</td>
<td>90,000</td>
</tr>
<tr>
<td>Interest cost on specific borrowing incurred during construction</td>
<td>360,000</td>
</tr>
<tr>
<td>Payment of medical bills of employees accidentally injured while inspecting building construction</td>
<td>18,000</td>
</tr>
<tr>
<td>Cost of paving driveway and parking lot</td>
<td>60,000</td>
</tr>
<tr>
<td>Cost of installing lights in parking lot</td>
<td>12,000</td>
</tr>
<tr>
<td>Premium for insurance on building during construction</td>
<td>30,000</td>
</tr>
<tr>
<td>Cost of open house party to celebrate opening of new building</td>
<td>50,000</td>
</tr>
<tr>
<td>Cost of windows broken by vandals distracted by the celebration</td>
<td>12,000</td>
</tr>
</tbody>
</table>

**QUESTIONS:**

Based on the above and the result of your audit, determine the following:

1. Cost of Land
   a. P2,980,000  
   b. P3,270,000  
   c. P3,185,000  
   d. P3,205,000
2. Cost of Building
   a. P10,810,000  c. P10,875,000
   b. P10,895,000  d. P11,110,000

3. Cost of Land Improvements
   a. P12,000  c. P122,000
   b. P72,000  d. P0

4. Amount that should be expensed when incurred
   a. P 80,000  c. P62,000
   b. P110,000  d. P50,000

5. Total depreciable property and equipment
   a. P11,182,000  c. P10,947,500
   b. P10,967,000  d. P10,882,000

Suggested Solution:

PAS 16 par. 6 defines “Property, plant and equipment” as tangible items that:
   i. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
   ii. are expected to be used during more than one period.

Par. 15 and 16 further state that an item of property, plant and equipment that qualifies for recognition of an asset shall be measured at its cost. The cost of an item of PPE comprises:
   a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
   b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
   c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Question No. 1

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of land</td>
<td>P3,000,000</td>
</tr>
<tr>
<td>Apartment building mortgage assumed, including related interest due at the</td>
<td>80,000</td>
</tr>
<tr>
<td>time of purchase</td>
<td></td>
</tr>
<tr>
<td>Delinquent property taxes assumed by the Aliaga</td>
<td>30,000</td>
</tr>
<tr>
<td>Payments to tenants to vacate the apartment building</td>
<td>20,000</td>
</tr>
<tr>
<td>Cost of razing the apartment building</td>
<td>40,000</td>
</tr>
</tbody>
</table>
Proceeds from sale of salvaged materials $(10,000)$
Fee for title search $25,000$
Survey before construction of new building $20,000$
Assessment by city for drainage project $15,000$
Cost of grading and leveling $50,000$
Total cost of Land $\text{P3,270,000}$

**Question No. 2**

Architects fee for new building $\text{P60,000}$
Building permit for new construction $40,000$
Excavation before construction of new building $100,000$
Payment to building contractor $10,000,000$
Temporary quarters for construction crew $80,000$
Temporary building to house tools and materials $50,000$
Cost of changes during construction to make new building more energy efficient $90,000$
Interest cost on specific borrowing incurred during construction $360,000$
Premium for insurance on building during construction $30,000$
Total cost of Building $\text{P10,810,000}$

**Question No. 3**

Cost of paving driveway and parking lot $\text{P60,000}$
Cost of installing lights in parking lot $12,000$
Total cost of Land Improvements $\text{P72,000}$

**Question No. 4**

Payment of medical bills of employees $\text{P18,000}$
Cost of open house party $50,000$
Cost of windows broken by vandals $12,000$
Total cost amount that should be expensed $\text{P80,000}$

**Question No. 5**

Building (see no. 2) $\text{P10,810,000}$
Land improvements (see no. 3) $72,000$
Total depreciable PPE $\text{P10,882,000}$

*Answers: 1) B; 2) A; 3) B; 4) A; 5) D*
PROBLEM NO. 2

The following items relate to the acquisition of a new machine by Bongabon Corporation in 2006:

- Invoice price of machinery: P2,000,000
- Cash discount not taken: 40,000
- Freight on new machine: 10,000
- Cost of removing the old machine: 12,000
- Loss on disposal of the old machine: 150,000
- Gratuity paid to operator of the old machine who was laid off: 70,000
- Installation cost of new machine: 60,000
- Repair cost of new machine damaged in the process of installation: 8,000
- Testing costs before machine was put into regular operation: 15,000
- Salary of engineer for the duration of the trial run: 40,000
- Operating cost during first month of regular use: 250,000
- Cash allowance granted because the new machine proved to be of inferior quality: 100,000

**Question:**

How much should be recognized as cost of the new machine?

- a. P1,985,000
- b. P1,993,000
- c. P1,930,000
- d. P2,025,000

**Suggested Solution:**

- Invoice price of machinery: P2,000,000
- Cash discount not taken: (40,000)
- Freight on new machine: 10,000
- Installation cost of new machine: 60,000
- Testing costs: 15,000
- Salary of engineer for the duration of the trial run: 40,000
- Cash allowance: (100,000)
- Cost of the new machine: P1,985,000

**Answer:** A
PROBLEM NO. 3

On January 1, 2005, Cabiao Corporation purchased a tract of land (site number 101) with a building for P1,800,000. Additionally, Cabiao paid a real state broker’s commission of P108,000, legal fees of P18,000 and title guarantee insurance of P54,000. The closing statement indicated that the land value was P1,500,000 and the building value was P300,000. Shortly after acquisition, the building was razed at a cost of P225,000.

Cabiao entered into a P9,000,000 fixed-price contract with Cabanatuan Builders, Inc. on March 1, 2005 for the construction of an office building on the land site 101. The building was completed and occupied on September 30, 2006. Additional construction costs were incurred as follows:

- Plans, specifications and blueprints: P36,000
- Architect’s fees for design and supervision: P285,000

The building is estimated to have a forty-year life from date of completion and will be depreciated using the 150%-declining-balance method.

To finance the construction cost, Cabiao borrowed P9,000,000 on March 1, 2005. The loan is payable in ten annual installments of P900,000 plus interest at the rate of 14%. Cabiao used part of the loan proceeds for working capital requirements. Cabiao’s average amounts of accumulated building construction expenditures were as follows:

- For the period March 1 to December 31, 2005: P2,700,000
- For the period January 1 to September 31, 2006: P6,900,000

Cabiao is using the allowed alternative treatment for borrowing cost.

**QUESTIONS:**

Based on the above and the result of your audit, determine the following:

1. Cost of land site number 101
   a. P1,905,000   c. P2,205,000
   b. P1,800,000   d. P2,151,000

2. Cost of office building
   a. P10,581,000   c. P10,329,000
   b. P10,360,500   d. P10,960,500

3. Depreciation of office building for 2006
   a. P96,800   c. P102,800
   b. P97,130   d. P99,197
**Suggested Solution:**

**Question No. 1**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost</td>
<td>P1,800,000</td>
</tr>
<tr>
<td>Real estate broker’s commission</td>
<td>108,000</td>
</tr>
<tr>
<td>Legal fees</td>
<td>18,000</td>
</tr>
<tr>
<td>Title guarantee insurance</td>
<td>54,000</td>
</tr>
<tr>
<td>Cost of razing the existing building</td>
<td>225,000</td>
</tr>
<tr>
<td><strong>Total cost of land site 101</strong></td>
<td><strong>P2,205,000</strong></td>
</tr>
</tbody>
</table>

**Question No. 2**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-price contract cost</td>
<td>P 9,000,000</td>
</tr>
<tr>
<td>Plans, specifications and blueprints</td>
<td>36,000</td>
</tr>
<tr>
<td>Architect’s fees and design supervision</td>
<td>285,000</td>
</tr>
<tr>
<td>Capitalizable borrowing cost:</td>
<td></td>
</tr>
<tr>
<td>Mar. 1 to Dec. 31, 2005</td>
<td>P315,000</td>
</tr>
<tr>
<td>((P2,700,000 \times 14% \times 10/12))</td>
<td>P315,000</td>
</tr>
<tr>
<td>Jan. 1 to Sept. 30, 2006</td>
<td>724,500</td>
</tr>
<tr>
<td>((P6,900,000 \times 14% \times 9/12))</td>
<td>1,039,500</td>
</tr>
<tr>
<td><strong>Total cost of office building</strong></td>
<td><strong>P10,360,500</strong></td>
</tr>
</tbody>
</table>

**Question No. 3**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation expense [P10,360,500 \times (1/40 \times 1.5) \times 3/12]</td>
<td>P97,130</td>
</tr>
</tbody>
</table>

**Answers:** 1) **C**; 2) **B**; 3) **B**

**PROBLEM NO. 4**

You noted during your audit of the Carranglan Company that the company carried out a number of transactions involving the acquisition of several assets. All expenditures were recorded in the following single asset account, identified as Property and equipment:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property and equipment</strong></td>
<td></td>
</tr>
<tr>
<td>Acquisition price of land and building</td>
<td>P 960,000</td>
</tr>
<tr>
<td>Options taken out on several pieces of property</td>
<td>16,000</td>
</tr>
<tr>
<td>List price of machinery purchased</td>
<td>318,400</td>
</tr>
<tr>
<td>Freight on machinery purchased</td>
<td>5,000</td>
</tr>
<tr>
<td>Repair to machinery resulting from damage during shipment</td>
<td>1,480</td>
</tr>
<tr>
<td>Cost of removing old machinery</td>
<td>4,800</td>
</tr>
<tr>
<td>Driveways and sidewalks</td>
<td>102,000</td>
</tr>
<tr>
<td>Building remodeling</td>
<td>400,000</td>
</tr>
</tbody>
</table>
Based on property tax assessments, which are believed to fairly represent the relative values involved, the building is worth twice as much as the land. The machinery was subject to a 2% cash discount, which was taken and credited to Purchases Discounts. Of the two options, P6,000 is related to the building and land purchased and P10,000 related to those not purchased. The old machinery was sold at book value.

**QUESTIONS:**

Based on the above and the result of your audit, determine the adjusted balance of the following:

1. Land
   a. P644,000  
   b. P322,000  
   c. P326,000  
   d. P424,000

2. Building
   a. P 644,000  
   b. P1,040,000  
   c. P1,044,000  
   d. P 722,000

3. Machinery
   a. P317,032  
   b. P318,512  
   c. P323,400  
   d. P321,832

**Suggested Solution:**

**Questions No. 1 and 2**

<table>
<thead>
<tr>
<th>Allocation of acquisition price:</th>
<th>Land</th>
<th>Building</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (P960,000 x 1/3)</td>
<td>P320,000</td>
<td></td>
</tr>
<tr>
<td>Building (960,000 x 2/3)</td>
<td>P 640,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option paid on property acquired:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (6,000 x 1/3)</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Building (6,000 x 2/3)</td>
<td>4,000</td>
<td></td>
</tr>
</tbody>
</table>

| Cost of building remodelling      | 400,000 |
| Adjusted balances                 | P322,000 | P1,044,000 |

**Question No. 3**

| Net purchase price of machinery (P318,400 x .98) | P312,032 |
| Freight on machinery purchased                | 5,000   |
| Adjusted balance                               | P317,032 |
Answers: 1) B; 2) C; 3) A

PROBLEM NO. 5

In connection with your audit of Cuyapo Company’s financial statements for the year 2006, you noted the following transactions affecting the property and equipment items of the company:

Jan. 1 Purchased real property for P5,026,000, which included a charge of P146,000 representing property tax for 2006 that had been prepaid by the vendor; 20% of the purchase price is deemed applicable to land and the balance to buildings. A mortgage of P3,000,000 was assumed by Cuyapo on the purchase. Cash was paid for the balance.

Jan. 15 Previous owners had failed to take care of normal maintenance and repair requirements on the buildings, necessitating current reconditioning at a cost of P236,800.

Feb. 15 Demolished garages in the rear of the building, P36,000 being recovered on the lumber salvage. The company proceeded to construct a warehouse. The cost of such warehouse was P540,800, which was P90,000 less than the average bids made on the construction by independent contractors. Upon completion of construction, city inspectors ordered extensive modifications to the building as a result of failure on the part of the company to comply with building safety code. Such modifications, which could have been avoided, cost P76,800.

Mar. 1 The company exchanged its own stock with a fair value of P320,000 (par P24,000) for a patent and a new equipment. The equipment has a fair value of P200,000.

Apr. 1 The new machinery for the new building arrived. In addition, a new franchise was acquired from the manufacturer of the machinery. Payment was made by issuing bonds with a face value of P400,000 and by paying cash of P144,000. The value of the franchise is set at P160,000, while the machine’s fair value is P360,000.

May 1 The company contracted for parking lots and waiting sheds at a cost P360,000 and P76,800, respectively. The work was completed and paid for on June 1.
Dec. 31  The business was closed to permit taking the year-end inventory. During this time, required redecorating and repairs were completed at a cost of P60,000.

QUESTIONS:

Based on the above and the result of your audit, determine the cost of the following:

1. Land
   a. P 940,000
   b. P1,005,200
   c. P 976,000
   d. P1,052,800

2. Buildings
   a. P4,645,600
   b. P5,005,600
   c. P4,762,400
   d. P4,681,600

3. Machinery and equipment
   a. P360,000
   b. P560,000
   c. P576,615
   d. P659,692

4. Land improvements
   a. P360,000
   b. P 76,800
   c. P436,800
   d. P  0

5. Total property, plant and equipment
   a. P6,764,400
   b. P6,731,200
   c. P6,718,092
   d. P6,618,400

Suggested Solution:

Question No. 1

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total contract price</td>
<td>P5,026,000</td>
</tr>
<tr>
<td>Less property taxes for 2006</td>
<td>146,000</td>
</tr>
<tr>
<td>Adjusted cost of land and building</td>
<td>4,880,000</td>
</tr>
<tr>
<td>Percentage applicable to land</td>
<td>20%</td>
</tr>
<tr>
<td>Cost of Land</td>
<td>P 976,000</td>
</tr>
</tbody>
</table>

Question No. 2

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost allocated to building (P4,880,000 x 80%)</td>
<td>P3,904,000</td>
</tr>
<tr>
<td>Reconditioning costs prior to use</td>
<td>236,800</td>
</tr>
<tr>
<td>Salvage proceeds from demolition of garages</td>
<td>(36,000)</td>
</tr>
<tr>
<td>Construction cost of warehouse</td>
<td>540,800</td>
</tr>
<tr>
<td>Cost of Buildings</td>
<td>P4,645,600</td>
</tr>
</tbody>
</table>
Notes:
1) The savings on construction of P90,000 should be ignored.
2) The modification costs of P76,800 and the redecorating and repair costs of P60,000 should be expensed.

Question No. 3

Fair value of equipment acquired on Mar. 1  P200,000
Fair value of machine acquired on Apr. 1  P360,000
Cost of Machinery and equipment  P560,000

Question No. 4

Parking lots  P360,000
Waiting sheds  76,800
Cost of Land improvements  P436,800

Question No. 5

Land  P 976,000
Buildings  4,645,600
Machinery and equipment  560,000
Land improvements  436,800
Total cost of property, plant and equipment  P6,618,400

Answers: 1) C; 2) A; 3) B; 4) C; 5) D

PROBLEM NO. 6

Gabaldon Company’s property, plant and equipment and accumulated depreciation balances at December 31, 2005 are:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>P1,380,000</td>
<td>P 367,500</td>
</tr>
<tr>
<td>Automobiles and trucks</td>
<td>210,000</td>
<td>114,326</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>432,000</td>
<td>108,000</td>
</tr>
</tbody>
</table>

Additional information follows:
Depreciation methods and useful lives:
Machinery and equipment – straight line; 10 years.
Automobiles and trucks – 150% declining balance; 5 years, all acquired after 2001.
Leasehold improvements – straight line
Depreciation is computed to the nearest month.

Salvage values are immaterial except for automobiles and trucks which have estimated salvage values equal to 15% of cost.

*Other additional information:*

a. Gabaldon entered into a 12-year operating lease starting January 1, 2003. The leasehold improvements were completed on December 31, 2002 and the facility was occupied on January 1, 2003.

b. On July 1, 2006, machinery and equipment were purchased at a total invoice cost of P325,000. Installation cost of P44,000 was incurred.

c. On August 30, 2006, Gabaldon purchased new automobile for P25,000.

d. On September 30, 2006, a truck with a cost of P48,000 and a carrying amount of P30,000 on December 31, 2005 was sold for P23,500.

e. On December 20, 2006, a machine with a cost of P17,000, a carrying amount of P2,975 on date of disposition, was sold for P4,000.

*QUESTIONS:*

Based on the above and the result of your audit, answer the following:

1. The gain on sale of truck on September 30 is
   a. P2,680
   b. P6,500
   c. P250
   d. P 0

2. The gain on sale of machinery on December 20, 2006 is
   a. P1,025
   b. P2,725
   c. P13,000
   d. P 0

3. The adjusted balance of the property, plant and equipment as of December 31, 2006 is
   a. P1,919,000
   b. P2,388,500
   c. P2,307,000
   d. P2,351,000

4. The total depreciation expense for the year ended December 31, 2006 is
   a. P185,402
   b. 245,065
   c. P138,000
   d. P221,402

5. The carrying amount of the property, plant and equipment as of December 31, 2006 is
   a. P1,567,497
   b. P1,290,547
   c. P1,578,547
   d. P1,617,322
Suggested Solution:

Question No. 1

Sales proceeds P23,500
Less carrying value of truck
Cost P48,000
Less accumulated dep.:
Balance, 1/1/06 P18,000
(P48,000 - P30,000) 6,750
Depreciation for 2006
(P30,000 x 30% x 9/12) 24,750
Gain on sale of truck 23,250

Question No. 2

Sales proceeds P4,000
Less carrying value of machine sold 2,975
Gain on sale of machine P1,025

Question No. 3

Machinery and equipment:
Balance, 1/1 P1,380,000
Acquired, 7/1 (P325,000 + P44,000) 369,000
Machine sold, 12/20 (17,000) P1,732,000
Automobiles and trucks:
Balance, 1/1 210,000
Acquired, 8/30 25,000
Truck sold, 9/30 (48,000) 187,000
Leasehold improvements 432,000
Property, plant & equipment, 12/31/06 P2,351,000

Question No. 4

Machinery and equipment:
Remaining beginning balance
[[P1,380,000 - 17,000] x 10%] P136,300
Machine sold, 12/20 (P17,000 x 10%) 1,700
Acquired, 7/1/06
[[P325,000 + P44,000] x 10% x 6/12] 18,450 P156,450
Automobiles and trucks
Remaining beginning balance
[[P210,000-114,326-P30,000] x 30%] 19,702
Truck sold, 9/30 (P30,000x30%x9/12) 6,750
Acquired, 8/30 (P25,000 x 30% x 4/12) 2,500 28,952
Leasehold improvements (P432,000/12) 36,000
Total depreciation expense for 2006 P221,402

Question No. 5

Total cost of PPE, 12/31/06 (see no. 3) P2,351,000
Less accumulated depreciation, 12/31/06:

Machinery and equipment:
Balance, 1/1 P367,500
Depreciation expense for 2006 156,450
Machine sold, 12/20
(P17,000 - P2,975) (14,025) P509,925

Automobiles and trucks:
Balance, 1/1 114,326
Depreciation expense for 2006 28,952
Truck sold, 9/30 (see no. 1) (24,750) 118,528

Leasehold improvements
Balance, 1/1 108,000
Depreciation expense for 2006 36,000 144,000

Carrying value, 12/31/06 P1,578,547

Answers: 1) C; 2) A; 3) D; 4) D, 5) C

PROBLEM NO. 7

Your new audit client, Guimba Company, prepared the trial balance below as of December 31, 2006. The company started its operations on January 1, 2005. Your examination resulted in the necessity of applying the adjusting entries indicated in the additional data below.

Guimba Company
TRIAL BALANCE
December 31, 2006

<table>
<thead>
<tr>
<th>Account</th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>P510,000</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable – net</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Inventories, December 31, 2005</td>
<td>669,000</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>660,000</td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>990,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation, building</td>
<td></td>
<td>P19,800</td>
</tr>
<tr>
<td>Machinery</td>
<td>444,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation, machinery</td>
<td></td>
<td>45,000</td>
</tr>
<tr>
<td>Sinking fund assets</td>
<td>75,000</td>
<td></td>
</tr>
</tbody>
</table>
Guimba Company
TRIAL BALANCE
December 31, 2006

<table>
<thead>
<tr>
<th></th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond discount</td>
<td>75,000</td>
<td></td>
</tr>
<tr>
<td>Treasury stock, common</td>
<td>105,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td>567,000</td>
</tr>
<tr>
<td>Accrued bond interest</td>
<td></td>
<td>11,250</td>
</tr>
<tr>
<td>First mortgage, 6% sinking fund bonds</td>
<td></td>
<td>679,500</td>
</tr>
<tr>
<td>Common stock</td>
<td></td>
<td>1,500,000</td>
</tr>
<tr>
<td>Premium on common stock</td>
<td></td>
<td>150,000</td>
</tr>
<tr>
<td>Stock donation</td>
<td></td>
<td>180,000</td>
</tr>
<tr>
<td>Retained earnings, December 31, 2005</td>
<td></td>
<td>222,450</td>
</tr>
<tr>
<td>Net sales</td>
<td></td>
<td>2,625,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>850,500</td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>507,000</td>
<td></td>
</tr>
<tr>
<td>Factory operating expenses</td>
<td>364,500</td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>105,000</td>
<td></td>
</tr>
<tr>
<td>Bond interest</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>P6,000,000</strong></td>
<td><strong>P6,000,000</strong></td>
</tr>
</tbody>
</table>

Additional data are as follows:

1. The 1,500,000 common stock was issued at a 10 percent premium to the owners of the land and buildings on December 31, 2004, the date of organization. Stock with a par value of 180,000 was donated back by the vendors. The following entry was made:

   Treasury stock P180,000
   Stock donation P180,000

   The stock was donated because the proceeds from its subsequent sale were to be considered as an allowance on the purchase price of land and buildings in proportion to their values as first recorded. The treasury stock was sold in 2006 for P75,000, which was credited to Treasury Stock.

2. On December 31, 2006, a machine costing P15,000 when the business started was removed. The machine had been depreciated at 10 percent during the first year. The only entry made was one crediting the Machinery account with its sales price of P6,000.

3. Depreciation is to be provided on the straight-line basis, as follows: buildings, 2 percent of cost; machinery, 10 percent of cost. Ignore salvage values.
QUESTIONS:

Based on the above and the result of your audit, you are to provide the answers to the following:

1. The correct balance of Land account as of December 31, 2006 is
   a. P660,000     c. P630,000
   b. P588,000     d. P 0

2. The adjusted carrying value of Building as of December 31, 2006 is
   a. P907,200     c. P905,400
   b. P950,400     d. P945,000

3. The adjusted carrying value of Machinery as of December 31, 2006 is
   a. P399,000     c. P354,000
   b. P345,000     d. P348,000

4. The adjusted depreciation expense for 2006 is
   a. P648,000     c. P63,900
   b. P62,400      d. P63,000

5. How much is the gain or loss on sale of machinery on December 31, 2006?
   a. P6,000 loss     c. P6,000 gain
   b. P7,500 loss     d. P7,500 gain

Suggested Solution:

**Question No. 1**

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Building</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unadjusted balances</td>
<td>P660,000</td>
<td>P990,000</td>
<td>P1,650,000</td>
</tr>
<tr>
<td>Proceeds from sale of donated stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applied as deduction to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land (P75,000 x 660/1,650)</td>
<td>(30,000)</td>
<td>(30,000)</td>
<td></td>
</tr>
<tr>
<td>Bldg. (P75,000 x 990/1,650)</td>
<td>(45,000)</td>
<td>(45,000)</td>
<td></td>
</tr>
<tr>
<td>Adjusted balances                     P630,000</td>
<td>P945,000</td>
<td>P1,575,000</td>
<td></td>
</tr>
</tbody>
</table>

Note: The proceeds received from sale of donated shares will not be credited to Donated Capital account since this involves "Treasury stock subterfuge". This occurs when excessive shares are issued for a property with the understanding that the stockholders shall subsequently donate a portion of their shares.
Question No. 2

Adjusted cost of building (see no. 1) P945,000
Less accumulated depreciation, 12/31/06 (P945,000 x 2% x 2) 37,800
Carrying value of building, 12/31/06 P907,200

Question No. 3

Machinery, 1/1/06 (P444,000 + P6,000) P450,000
Less machinery sold on 12/31/06 15,000
Machinery, 12/31/06 435,000
Less accumulated depreciation, 12/31/06 (P435,000 x 10% x 2) 87,000
Carrying value of Machinery, 12/31/06 P348,000

Question No. 4

Depreciation on Building (P945,000 x 2%) P18,900
Depreciation on Machinery (P450,000 x 10%) 45,000
Total depreciation expense for 2006 P63,900

Question No. 5

Sales proceeds P 6,000
Less carrying value, 12/31/06:
Cost P15,000
Less accumulated depreciation (P15,000 x 10% x 2) 3,000 12,000
Loss on sale of machinery P 6,000

Answers: 1) C; 2) A; 3) D; 4) C, 5) A

PROBLEM NO. 5

Jaen Corporation, a manufacturer of steel products, began operation on October 1, 2004. The accounting department of Jaen has started the fixed-asset and depreciation presented below.

JAEN CORPORATION
Fixed Asset and Depreciation Schedule
For Fiscal Years Ended September 30, 2005, and September 30, 2006
You have been asked to assist in completing this schedule. In addition in ascertaining that the data already on the schedule are correct, you have obtained the following information from the Company’s records and personnel:

a. Land A and Building A were acquired from a predecessor corporation. Jaen paid PhP6,560,000 for the land and building together. At the time of acquisition, the land had an appraised value of PhP720,000, and the building had an appraised value of PhP6,480,000.

b. Land B was acquired on October 2, 2004, in exchange for 20,000 newly issued shares of Jaen’s common stock. At the date of acquisition, the stock had a par value of PhP5 per share and a fair value of PhP30 per share. During October 2004, Jaen paid PhP128,000 to demolish an existing building on this land so it could construct new building.

c. Construction of building B on the newly acquired land began on October 1, 2005. By September 30, 2006, Jaen has paid PhP2,560,000 of the estimated total construction costs of PhP3,600,000. It is estimated that the building will be completed and occupied by July 2007.

d. Certain equipment was donated to the corporation by a local university. An independent appraisal of the equipment when donated placed the fair market value at PhP240,000 and the salvage value at PhP24,000.

e. Machinery A’s total cost of PhP1,319,200 includes installation expense of PhP4,800 and normal repairs and maintenance of PhP119,200. Salvage value is estimated at PhP48,000. Machinery A was sold on February 1, 2006.
f. On October 1, 2005, Machinery B was acquired with a down payment of P 45,920 and the remaining payments to be made in 11 annual installments of P 48,000 each beginning October 1, 2005. The prevailing interest rate was 8%.

QUESTIONS:

Based on the above and the result of your audit, answer the following:

1. The cost of Building A is
   a. P 5,904,000
   b. P 6,560,000
   c. P 656,000
   d. P 0

2. The cost of Land B is
   a. P 600,000
   b. P 728,000
   c. P 228,000
   d. P 0

3. The cost of Machine B is
   a. P 370,080
   b. P 416,000
   c. P 388,592
   d. P 389,776

4. The total depreciation expense for the year ended September 30, 2006 is
   a. P 264,296
   b. P 415,000
   c. P 265,667
   d. P 262,608

Suggested Solution:

Question No. 1

Cost of building A (P 6,560,000 x 6,480/7,200) = P 5,904,000

Question No. 2

Fair value of common stock (20,000 x P 30) = P 600,000
Demolition costs = P 128,000
Cost of Land B = P 728,000

Question No. 3

Down payment = P 45,920
Add present value of installment payments (P 48,000 x 7.710) = P 370,080
Cost of Machine B = P 416,000
Question No. 4

Building A (same in 2005 since it is straight-line depreciation)  P139,600
Building B (under construction) -
Donated equipment (P240,000 x 85% x 15%)  30,600
Machine A 

\[ \frac{(P1,319,200 - P119,200 - P48,000) \times 7/36 \times 4/12}{ } \]

74,667
Machine B (P416,000/20)  20,800
Total depreciation expense  P265,667

Answers: 1) A; 2) B; 3) B; 4) C

PROBLEM NO. 9

The following data relate on the Plant Assets account of Licab, Inc. at December 31, 2005:

<table>
<thead>
<tr>
<th>Plant Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>L</td>
</tr>
<tr>
<td>Original cost</td>
</tr>
<tr>
<td>Year Purchased</td>
</tr>
<tr>
<td>Useful life</td>
</tr>
<tr>
<td>Salvage value</td>
</tr>
<tr>
<td>Depreciation method</td>
</tr>
</tbody>
</table>

Note: In the year an asset is purchased, Licab, Inc. does not record any depreciation expense on the asset.

In the year an asset is retired or traded in, Licab, Inc. takes a full year depreciation on the asset.

The following transaction occurred during 2006:

(a) On May 5, Asset L was sold for P32,500 cash.

(b) On December 31, it was determined that asset A had been used 5,250 hours during 2006.

(c) On December 31, before computing depreciation expense on Asset R, the management of Licab, Inc. decided the useful life remaining from 1/1/06 was 10 years.
(d) On December 31, it was discovered that a plant asset purchased in 2005 had been expensed completely in that year. This asset costs P55,000 and has useful life of 10 years and no salvage value. Management has decided to use the double-declining balance for this asset, which can be referred to as “Asset S.”

QUESTIONS:

Based on the above and the result of your audit, answer the following:
(Disregard tax implications)

1. How much is the gain or loss on sale of Asset L?
   a. P10,250 loss
   b. P10,250 gain
   c. P16,050 gain
   d. P16,050 loss

2. How much is the depreciation of Asset R for 2006?
   a. P15,000
   b. P21,429
   c. P16,250
   d. P23,214

3. The adjusting entry to correct the error of failure to capitalize Asset S would include a debit/credit to Retained Earnings of
   a. P55,000 debit
   b. P55,000 credit
   c. P44,000 credit
   d. P0

4. How much is the adjusted balance of Plant Assets as of December 31, 2006?
   a. P670,000
   b. P527,500
   c. P615,000
   d. P582,500

5. How much is the total depreciation expense for 2006?
   a. P83,300
   b. P88,479
   c. P82,050
   d. P80,600

*Suggested Solution:*

*Question No. 1*

Sales proceeds P32,500
Less carrying value:
  Cost P87,500
  Less accumulated depreciation 
  \[([P87,500-P7,750] \times 45/55)\]
  \[65,250\] 22,250
  Gain on sale of Asset L \[P10,250\]
**Question No. 2**

Cost: P200,000

Less accumulated depreciation, 1/1/05

\[([P200,000 - P12,500] \times 3/15] \quad 37,500

Carrying value, 1/1/06 \quad 162,500

Less residual value \quad 12,500

Remaining depreciable amount \quad 150,000

Divide by remaining life \quad 10

Depreciation of Asset R for 2006 \quad P 15,000

**Question No. 3**

*Adjusting entry:*

Asset S \quad P55,000

Retained earnings \quad P55,000

**Question No. 4**

- Asset L (Sold) \quad P -
- Asset A \quad 127,500
- Asset R \quad 200,000
- Asset E \quad 200,000
- Asset S \quad 55,000

Plant Assets, 12/31/06 \quad P582,500

**Question No. 5**

- Asset L \quad [(P87,500 - P7,750) \times 5/55] \quad P 7,250
- Asset A \quad [(P127,500 - P7,750)/37,500 \times 5,250] \quad 16,800
- Asset R (see no. 2) \quad 15,000
- Asset E \quad [(P200,000 \times 80\%)] \quad 32,000
- Asset S \quad (P55,000 \times 20\%) \quad 11,000

Total depreciation expense for 2006 \quad P82,050

*Answers: 1) B; 2) A; 3) B; 4) D; 5) C*

**Problem No. 10**

Your audit of Llanera Corporation for the year 2006 disclosed the following property dispositions:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Acc. Dep.</th>
<th>Proceeds</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>P4,800,000</td>
<td>-</td>
<td>3,720,000</td>
<td>3,720,000</td>
</tr>
<tr>
<td>Building</td>
<td>1,800,000</td>
<td>-</td>
<td>288,000</td>
<td>-</td>
</tr>
</tbody>
</table>

159
<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Acc. Dep.</th>
<th>Proceeds</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse</td>
<td>8,400,000</td>
<td>1,320,000</td>
<td>8,880,000</td>
<td>8,880,000</td>
</tr>
<tr>
<td>Machine</td>
<td>960,000</td>
<td>384,000</td>
<td>108,000</td>
<td>864,000</td>
</tr>
<tr>
<td>Delivery truck</td>
<td>1,200,000</td>
<td>570,000</td>
<td>564,000</td>
<td>564,000</td>
</tr>
</tbody>
</table>

**Land**

On January 15, a condemnation award was received as consideration for the forced sale of the company’s land and building, which stood in the path of a new highway.

**Building**

On March 12, land and building were purchased at a total cost of P6,000,000, of which 30% was allocated to the building on the corporate books. The real estate was acquired with the intention of demolishing the building, and this was accomplished during the month of August. Cash proceeds received in September represent the net proceeds from demolition of building.

**Warehouse**

On July 4, the warehouse was destroyed by fire. The warehouse was purchased on January 2, 2000. On December 12, the insurance proceeds and other funds were used to purchase a replacement warehouse at a cost of P7,200,000.

**Machine**

On December 15, the machine was exchanged for a machine having a fair value of P756,000 and cash of P108,000 was received.

**Delivery Truck**

On November 13, the delivery truck was sold to a used car dealer.

**QUESTIONS:**

Based on the above and the result of your audit, compute the gain or loss to be recognized for each of the following dispositions:

1. **Land**
   a. P3,720,000 gain
   b. P1,080,000 loss
   c. P4,800,000 loss
   d. P0

2. **Building**
   a. P432,000 gain
   b. P2,232,000 loss
   c. P1,368,000 loss
   d. P0
3. Warehouse
   a. P1,800,000 gain
   b. P 480,000 gain
   c. P5,400,000 loss
   d. P 0

4. Machine
   a. P36,000 gain
   b. P27,000 gain
   c. P288,000 gain
   d. P 0

5. Delivery truck
   a. P636,000 loss
   b. P636,000 gain
   c. P66,000 loss
   d. P66,000 gain

*Suggested Solution:*

*Question No. 1*

Cash received: P3,720,000
Cost of land: 4,800,000
Loss on condemnation of land: P1,080,000

*Question No. 2*

None. The proceeds from demolition of building will be deducted from the cost of the land.

*Question No. 3*

Insurance proceeds: P8,880,000
Carrying value (P8,400,000 - P1,320,000): 7,080,000
Gain on insurance policy settlement: P1,800,000

*Question No. 4*

Fair value of old machine: P864,000
Carrying value (P960,000 - P384,000): 576,000
Gain on exchange: P288,000

*Question No. 5*

Sales proceeds: P564,000
Carrying value (P1,200,000 - P570,000): 630,000
Loss on sale: P 66,000

*Answers: 1) B;  2) D;  3) A;  4) C,  5) C*
PROBLEM NO. 11

In connection with your audit of the Talavera Mining Corporation for the year ended December 31, 2006, you noted that the company purchased for P10,400,000 mining property estimated to contain 8,000,000 tons of ore. The residual value of the property is P800,000.

Building used in mine operations costs P800,000 and have estimated life of fifteen years with no residual value. Mine machinery costs P1,600,000 with an estimated residual value P320,000 after its physical life of 4 years.

Following is the summary of the company’s operations for first year of operations.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons mined</td>
<td>800,000 tons</td>
</tr>
<tr>
<td>Tons sold</td>
<td>640,000 tons</td>
</tr>
<tr>
<td>Unit selling price per ton</td>
<td>P4.40</td>
</tr>
<tr>
<td>Direct labor</td>
<td>640,000</td>
</tr>
<tr>
<td>Miscellaneous mining overhead</td>
<td>128,000</td>
</tr>
</tbody>
</table>
| Operating expenses (excluding 
  depreciation)                        | 576,000  |

Inventories are valued on a first-in, first-out basis. Depreciation on the building is to be allocated as follows: 20% to operating expenses, 80% to production. Depreciation on machinery is chargeable to production.

QUESTIONS:

Based on the above and the result of your audit, answer the following: (Disregard tax implications)

1. How much is the depletion for 2006?
   a. P768,000  
   b. P192,000  
   c. P960,000  
   d. P1,040,000

2. Total inventoriable depreciation for 2006?
   a. P400,000  
   b. P384,000  
   c. P362,667  
   d. P0

3. How much is the Inventory as of December 31, 2006?
   a. P438,400  
   b. P425,600  
   c. P422,400  
   d. P418,133

4. How much is the cost of sales for the year ended December 31, 2005?
   a. P1,689,600  
   b. P1,702,400  
   c. P1,753,600  
   d. P1,672,533
5. How much is the maximum amount that may be declared as dividends at the end of the company’s first year of operations?
   a. P1,494,400  
   b. P1,302,400  
   c. P1,289,600  
   d. P1,319,467

*Suggested Solution:*

**Question No. 1**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost</td>
<td>P10,400,000</td>
</tr>
<tr>
<td>Less residual value</td>
<td>800,000</td>
</tr>
<tr>
<td>Depletable cost</td>
<td>9,600,000</td>
</tr>
<tr>
<td>Divide by total estimated reserves</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Depletion rate</td>
<td>1.20</td>
</tr>
<tr>
<td>Multiply by tons mined in 2006</td>
<td>800,000</td>
</tr>
<tr>
<td>Depletion for 2006</td>
<td>P 960,000</td>
</tr>
</tbody>
</table>

**Question No. 2**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation - Building</td>
<td>P 64,000</td>
</tr>
<tr>
<td>([P800,000/8,000,000 \text{ tons}] \times 800,000 \text{ tons} \times 80%)</td>
<td></td>
</tr>
<tr>
<td>Depreciation - Machinery</td>
<td>320,000</td>
</tr>
<tr>
<td>([P1,600,000 - P320,000]/4)</td>
<td></td>
</tr>
<tr>
<td>Total depreciation chargeable to production</td>
<td>P384,000</td>
</tr>
</tbody>
</table>

**Question No. 3**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depletion (see no. 1)</td>
<td>P960,000</td>
</tr>
<tr>
<td>Direct labor</td>
<td>640,000</td>
</tr>
<tr>
<td>Depreciation (see no. 2)</td>
<td>384,000</td>
</tr>
<tr>
<td>Miscellaneous mining overhead</td>
<td>128,000</td>
</tr>
<tr>
<td>Total production cost</td>
<td>2,112,000</td>
</tr>
<tr>
<td>Divide by tons mined</td>
<td>800,000</td>
</tr>
<tr>
<td>Cost per ton</td>
<td>2.64</td>
</tr>
<tr>
<td>Unsold tons (800,000 - 640,000)</td>
<td>160,000</td>
</tr>
<tr>
<td>Inventory, 12/31/06</td>
<td>P422,400</td>
</tr>
</tbody>
</table>

**Question No. 4**

Cost of sales (640,000 tons \times P2.64) | P1,689,600
**Question No. 5**

Sales \((640,000 \times \text{P4.4})\) & P2,816,000 \\
Less cost of sales (see no. 4) & 1,689,600 \\
Gross profit & 1,126,400 \\
Operating expenses & (576,000) \\
Depreciation - Building & (16,000) \\
\([\text{P800,000}/8,000,000 \text{ tons} \times 800,000 \text{ tons} \times 20\%]\) & \\
Net income & 534,400 \\
Realized depletion \((640,000 \text{ tons} \times \text{P1.2})\) & 768,000 \\
Maximum amount that may be declared as dividends & P1,302,400 \\

*Answers: 1) C; 2) B; 3) C; 4) A, 5) B*

**PROBLEM NO. 12**

Select the best answer for each of the following:

1. Which of the following questions would an auditor least likely include on an internal control questionnaire concerning the initiation and execution of equipment transactions?
   a. Are procedures in place to monitor and properly restrict access to equipment?
   b. Are requests for major repairs approved at a higher level than the department initiating the request?
   c. Are prenumbered purchase orders used for equipment and periodically accounted for?
   d. Are requests for purchases of equipment reviewed for consideration of soliciting competitive bids?

2. Property acquisitions that are misclassified as maintenance expense would most likely be detected by internal control procedures that provide for
   a. Review and approval of the monthly depreciation entry by the plant supervisor.
   b. **Investigation of variances within a formal budgeting system.**
   c. Examination by the internal auditor of vendor invoices and canceled checks for property acquisitions.
   d. Segregation of duties of employees in the accounts payable department.
3. A weakness in internal accounting control over recording retirements of equipment may cause the auditor to
   a. Trace additions to the "other assets" account to search for equipment that is still on hand but no longer being used.
   b. Inspect certain items of equipment in the plant and trace those items to the accounting records.
   c. Select certain items of equipment from the accounting records and locate them in the plant.
   d. Review the subsidiary ledger to ascertain whether depreciation was taken on each item of equipment during the year.

4. The most significant audit step in substantiating additions to the office furniture account balance is
   a. Comparison to prior year's acquisitions.
   b. Examination of vendors' invoices and receiving reports for current year's acquisitions.
   c. Review of transactions near the balance sheet date for proper period cutoff.
   d. Calculation of ratio of depreciation expense to gross office equipment cost.

5. An auditor is verifying the existence of newly acquired fixed assets recorded in the accounting records. Which of the following is the best evidence to help achieve this objective?
   a. Oral evidence obtained by discussions with operating management.
   b. Documentary support obtained by vouching entries to subsidiary records and invoices.
   c. Documentary support obtained by reviewing titles and tax returns.
   d. Physical examination of a sample of newly recorded fixed assets.

6. In auditing plant assets and accumulated depreciation for proper valuation, the auditor should do all except the following:
   a. Physically inspect major plant assets additions.
   b. Recalculate depreciation expense on a test basis.
   c. Vouch repairs and maintenance expense on a test basis.
   d. Vouch major additions by reference to underlying documentation.

7. To verify the proper value of costs charged to real property records for improvements to the property, the best source of evidence would be:
   a. A letter signed by the real property manager asserting the propriety of costs incurred.
   b. Original invoices supporting entries into the accounting records.
   c. A comparison of billed amounts to contract estimates.
   d. Inspection by the auditor of real property improvements.
8. To test the accuracy of the current year's depreciation charges, an auditor should rely most heavily on
   a. Comparison of depreciation schedule detail with schedules supporting the income tax return.
   b. Re-computation of depreciation for a sample of plant assets.
   c. Tracing of totals from the depreciation schedule to properly approved journal entries and ledger postings.
   d. Vouching of the current year's fixed asset acquisitions.

9. The audit procedure of analyzing the repairs and maintenance accounts is primarily designed to provide evidence in support of the audit proposition that all
   a. Capital expenditures have been properly authorized.
   b. Expenditures for fixed assets have been recorded in the proper period.
   c. Expenditures for fixed assets have been capitalized.
   d. Non-capitalizable expenditures have been properly expensed.

10. Assets may suffer an impairment in value for a variety of reasons, but not likely as a result of:
    a. A corporate restructuring.
    b. Slumping demand for uncompetitive products.
    c. Significant increases in market share.
    d. Obsolescence.

*Answers: 1) A; 2) B; 3) C; 4) B, 5) D; 6) A; 7) B; 8) B; 9) C; 10) C*