

Theory of Account  
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PROPERTY, PLANT & EQUIPMENT  
Multiple Choice –Theory

Questions:

1. Which is not an essential characteristic of property, plant, and equipment?
  - a. The property, plant and equipment are tangible assets.
  - b. The property, plant and equipment are used in production or supply of goods and services, for rental purposes and for administrative purposes.
  - c. The property, plant and equipment are expected to be used over a period of more than one year.
  - d. **The property, plant and equipment are subjected to depreciation.**
  
2. An item of property, plant and equipment shall be recognized as an asset when
  - I. It is probable that future economic benefits associated with the asset will flow to the enterprise.
  - II. The cost of the asset to the enterprise can be measured reliably.
  - a. I only
  - b. II only
  - c. **Both I and II**
  - d. Neither I nor II
  
3. Major spare parts and standby equipment which are expected to be used over a period of more than one year shall be classified as
  - a. **Property, plant and equipment**
  - b. Inventory
  - c. Non-current investment
  - d. Expense

4. Which statement is correct concerning recognition of property of property, plant and equipment?
- I. Most spare parts and servicing equipment are usually carried as inventory and recognized as expense when consumed.
  - II. If the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment and their use is expected to be irregular, they are accounted for as property, plant and equipment and are depreciated over their useful life of the related asset, whichever is shorter.
- a. I only
  - b. II only
  - c. **Both I and II**
  - d. Neither I nor II
5. Under the cost model, subsequent to initial recognition as an asset, an item of property, plant and equipment shall be carried at
- a. Cost
  - b. Revalued amount
  - c. **Cost less accumulated depreciation and any accumulated impairment loss**
  - d. Revalued amount less accumulated depreciation and any accumulated impairment loss
6. The cost of an item of property, plant and equipment comprises all of the following, except
- a. Purchase price
  - b. Import duties and nonrefundable purchase taxes
  - c. Any cost directly attributable in bringing the asset to the location and condition for its intended use
  - d. **Initial estimate of the cost of dismantling and removing the item and restoring the site, the obligation for which the entity does not incur when the item was acquired**
7. Cost directly attributable to bringing the asset to the location and condition for its intended use include all of the following , except

- a. **Cost of employee benefits not arising directly from the construction and acquisition of property, plant and equipment.**
  - b. Cost of site preparation.
  - c. Initial delivery and handling cost.
  - d. Installation and assembly cost.
8. Cost that are not included in the cost of an item of property, plant and equipment but are expensed immediately include all of the following, except
- a. Cost of opening a new facility
  - b. Cost of introducing a new product or service, including cost of advertising and promotional activities
  - c. Cost of conducting business in a new location, including cost of staff training
  - d. **Cost of testing whether the asset is functioning properly**
9. Cost that are not included in the carrying amount of an items or property, plant and equipment but are expensed immediately include all of the following, except
- a. Cost incurred while an item capable of operating in a manner intended b management has yet to be brought into use or is operated at less than full capacity
  - b. Initial operating loss
  - c. Cost of relocating or reorganizing part or all of an entity's operations
  - d. **Professional fee arising directly from the acquisition of an item of property, plant and equipment**
10. It is the present value of the cash flows an entity expects to arise from the continuing use of an asset from its disposal at the end of its useful life or expects to incur when settling a liability.
- a. **Entity-specific value**
  - b. Fair value
  - c. Value in use
  - d. Discounted value

11. When payment for item of property, plant and equipment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payments shall be recognized as
- Interest expense of the current year
  - Component of cost of the property, plant and equipment
  - Interest expense over the credit period**
  - Interest expense over the life of the asset
12. The cost of an item of property, plant and equipment that is acquired in exchange for a combination of monetary and non-monetary asset is measured at the
- Fair value of the asset given up plus the amount of any cash or cash equivalent transferred.**
  - Fair value of the asset received plus the amount of any cash or cash equivalent transferred.
  - Carrying amount of the asset given up plus amount of any cash or cash equivalent transferred.
  - Carrying amount of the asset received plus the amount of any cash equivalent transferred.
13. The cost of an item of property, plant and equipment acquired in a non-monetary exchange is measured at the
- Carrying amount of the asset given up
  - Fair value of the asset given up**
  - Carrying amount of the asset received
  - Fair value of the asset received
14. value of the asset received in an exchange transaction, the cost of the asset acquired is measured at
- Fair value of asset given up**
  - Fair value of asset received
  - Either the fair value of asset received or fair value of asset given up

d. Neither the fair value of asset received nor the fair value of asset given up

15. If an item of property, plant and equipment is acquired in exchange for a non-monetary asset and the exchange lacks commercial substance, the cost of the asset acquired is measured at

- a. Fair value of the asset given up
- b. Fair value of the asset received
- c. **Carrying amount of the asset given up**
- d. Carrying amount of the asset received

16. Which is incorrect concerning acquisition of an item of property, plant and equipment by self-construction?

- a. The cost of self-constructed asset is determined using the same principles as for an acquired asset.
- b. Any internal profit eliminated in arriving at the cost of self-constructed asset.
- c. **The cost of abnormal amount of wasted material, labor and other resources incurred in the production of self-constructed asset is included in the cost of the asset.**
- d. The cost of normal amount of wasted material, labor and other resources incurred in the production of self-constructed asset is included in the cost of the asset.

17. Which of the following terms best describes the removal of an asset from an entity's statement of financial position?

- a. **De recognition**
- b. Impairment
- c. Write off
- d. Depreciation

18. The carrying amount of an item of property, plant and equipment shall be derecognized

- I. On disposal

- II. When no future economic benefits are expected from the use or disposal of the asset.
- a. I only
  - b. II only
  - c. **Either I or II**
  - d. Neither I nor II

19. Gains and losses arising from the de recognition of an item of property, plant and equipment shall be determined as the difference between.

- a. Gross disposal proceeds and the cost of the asset
- b. Gross disposal proceeds and the carrying amount of the asset
- c. Net disposal proceeds and the cost of the asset
- d. **Net disposal proceeds and the carrying amount of the asset**

20. Entities are encouraged to disclose all of the following information in relation to property, plant and equipment, except

- a. The carrying amount of temporarily idle property, plant and equipment.
- b. The gross carrying amount of fully depreciated property, plant and equipment still in use.
- c. The carrying amount of property, plant and equipment classified as held for sale.
- d. **The fair value of property, plant and equipment that is not materially different from carrying amount when the cost model is used.**

21. Which of the following items shall not be capitalized into the cost of property, plant and equipment?

- a. **Cost of excess materials resulting from a purchasing error**
- b. Cost of testing whether the asset works correctly
- c. Initial delivery and handling cost
- d. Cost of preparing the site for installation

22. At the beginning of the current year, an entity purchased a new machinery that it does not have to pay until after three years. The total payment on maturity will include both

principal and interest. The cost of the machine would be the total payment multiple by what time value of money concept?

- a. Present value of annuity of 1
- b. Present value of 1**
- c. Future amount of annuity of 1
- d. Future amount of 1

23. An entity installed a new production facility and incurred a number of expenses at the point of installation. The entity's account is arguing that most expenses do not qualify for capitalization. Included in those expenses are initial operating losses. The initial operating losses shall be

- a. Deferred and amortized over a reasonable period of time.
- b. Expensed and charged to the income statement.**
- c. Capitalized as part of the cost of plant as a directly attributable cost.
- d. Taken to retained earnings since it is unreasonable to present it as part of the current year's income statement.

24. An entity imported machinery to install in its new factory premises before year-end. However, due to circumstances beyond its control, the machinery was delayed by a few months but reached the factory premises before year-end. While this was happening, the entity learned from the bank that it was being charged interest on the loan it had taken to fund the cost of the plant.

What is the proper treatment of freight and interest expense?

- a. Both expenses are capitalized.
- b. Interest may be capitalized but freight is expensed.
- c. Freight is capitalized but interest cannot be capitalized under these circumstances.**
- d. Both expenses are expensed.

25. The following statements relate to the cost of an asset. Which statement is true?

- I. The cost includes cash equivalents paid to acquire an asset.

II. The cost includes the fair value of any nonmonetary consideration given to acquire an asset.

- a. I only
- b. II only
- c. Both I and II**
- d. Neither I nor II

26. When an item of property, plant and equipment is acquired by issuing securities, which of the following is the best basis for establishing the historical cost of the acquired asset?

- a. Historical cost of the asset to the seller
- b. Historical cost of a similar asset acquired in another transaction by the buyer
- c. Fair value of the asset received or the fair value of the securities issued, whichever is more**
- d. readily determinable**
- d. Historical cost of the asset is zero since non-cash is paid in the acquisition

27. When a plant asset is acquired by deferred payment, which of the following conditions generally does not indicate the need to consider the imputation of interest cost in the transaction price?

- a. The interest rate stated on the deferred obligation is significantly different from current market interest rate.
- b. The cash price of the plant asset is significantly different from the deferred obligation assumed by buyer of the asset.
- c. The instrument representing the deferred obligation is non-interest bearing.
- d. The face amount of the instrument representing the deferred obligation is equal to the market value of the plant asset exchanged.**

28. A donated plant asset for which the fair value has been determined, and for which directly attributable costs were incurred, shall be recorded at an amount equal to the

- a. Directly attributable costs incurred.
- b. Fair value and directly attributable costs incurred.**

- c. Carrying amount and directly attributable costs incurred.
- d. Carrying amount.

29. Donated equipment for which the fair value has been determined shall be as a debit to the appropriate equipment account and a credit to

- a. Other comprehensive income
- b. Retained earning
- c. Share capital
- d. Income**

30. Which of the following is the most appropriate policy as regards the allocation of joint overhead cost to plant and equipment constructed by the entity for its own use?

- a. Assign no over head
- b. Assign only variable overhead
- c. Assign overhead equal to the amount that would have been assigned to production that is curtailed because of the construction
- d. Assign a proportionate share of overhead to the construction on the same basis as that used for the assignment to normal production.**

### Multiple choice – Problem

(AICPA Adapted)

1. At the beginning of the current year, Town Company purchased for P5,400,000, including appraiser's fee of P50,000, a warehouse building and the land on which it is located. The following data were available concerning the property.

	Current appraised value	Seller's original cost
Land	2,000,000	1,400,000
Warehouse building	<u>3,000,000</u>	<u>2,800,000</u>

5,000,000

4,200,000

What is the initial measurement of the land?

- a. 2,140,000
- b. 1,800,000
- c. 2,000,000
- d. 2,160,000**

solution:

$$P5,400 \times 2/5 = 2,160$$

ANSWER: **d. 2,160,000**

2. On August 1, 2010, Bamco Company purchased a new machine on a deferred payment basis . A down payment of P100,000 was made and 4 monthly installment of P250,000 each are to be made beginning on September 1, 2010. The cash equivalent price of the machine was P950,000. Bamco Company incurred and paid installation costs amounting to P30,000.

What is the amount to be capitalized as cost of the machine?

- a. 950,000
- b. 980,000**
- c. 1,100,000
- d. 1,130,000

solution:

950,000 (cash equivalent price of the machine)

30,000 ( paid installation cost)

-----  
total: 980,000

ANSWER: **b. 980,000**

3. Grey Company entered into a contract to acquire a new machine for its factory. The machine, which had a cash price of P2,000,000, was paid as follows:

Down Payment	400,000
Note payable in 3 equal annual installments	1,200,000
20,000 shares of Grey Company with A fair value of P40 per share	<u>800,000</u>
	<u>2,400,000</u>

Prior to the machine's use installation cost of P50,000 was incurred. The machine has a residual value of P100,000.

What is the initial measurement of the new machine?

a. 2,000,000	solution: cash price of the machine	2,000,000
b. 2,400,000	installation cost	50,000
<b>c. 2,050,000</b>		-----
d. 2,450,000		2,050,000

ANSWER: **c. 2,050,000**

4. On December 30, 2010, Bart Company purchased a machine from Fell Company in exchange for a noninterest bearing note requiring eight payments of P500,000. The first payment was made on December 30, 2010, and the other are due annually on December 30. At date of issuance, the prevailing rate of interest for this type of note was 11%. Present value factors are as follows:

Period	Present value of ordinary Annuity of 1 at 11%	Present value of annuity in advance of 1 at 11%
7	4.712 (500,000) = 2,356,000	5.231
8	5.146 + 500,000	5.712 (500,000) = 2,856,000
	-----	
	<b>2,856,000</b>	

What is the initial cost of the machine?

- a. **2,856,000**
- b. 2,356,000
- c. 2,615,000
- d. 2,573,000

ANSWER: **a. 2,856,000**

5. Wendy Company acquired several fixtures for its new building, including display cases, shelves and hanging racks. The invoice price of the fixtures was P700,000. The entity received a 2% cash discount by paying within the discount period.

Freight and insurance during shipment totaled P3,000. Costs of assembling and installing fixtures were P5,000. While installing a display case, a new employee carelessly broke a glass top. This top was replaced at a cost of P2,000.

What is the total cost of the fixtures?

- |            |  |         |
|------------|--|---------|
| a. 694,000 | solution: 7,000 x 98% =                | 686,000 |
| b. 696,000 | freight and insurance                  | 3,000   |
| c. 708,000 | assembling and installing fixture cost | 5,000   |
| d. 710,000 |  |         |

ANSWER: a. 694,000

6. Lax Company recently acquired two items of equipment. The transactions are as follows:

Acquired a press at an invoice price of P3,000,000 subjected to a 5% cash discount which was taken. Cost of freight and insurance during shipment were P50,000 and installation cost amounted to P200,000.

Acquired a welding machine at an invoice of P2,000,000 subjected to a 10% cash discount which was not taken. Additional welding supplies were acquired at a cost of P100,000.

What is the increase in the equipment account as a result of the transactions?

- |              |                            |           |
|--------------|----------------------------|-----------|
| a. 4,900,000 | solution 3,000,000 x 95% = | 2,850,000 |
| b. 5,000,000 | cost of freight            | 50,000    |
| c. 5,100,000 | installation cost          | 200,000   |
| d. 5,200,000 |                            | -----     |
|              |                            | 3,100,000 |

Solution 2,000,000 x 98% =	1,800,000
	-----
	4,900,000

ANSWER: a. 4,900,000

Figaro Company acquired land and paid in full by issuing P600,000 of its 10 percent bonds payable and 40,000 ordinary shares with par value of P10. The share was selling at P19 and the bonds were trading at 102.

What is the initial cost of the land?

- a. 988,00
- b. 1,000,000
- c. 1,372,000**
- d. 1,387,200

ANSWER: **c. 1,372,000**

7. Dawson Company has received a donation of land from a rich local philanthropist. The land originally had a cost of P1,000,000. On the date of the donation, the land had a fair value of P1,500,000 and an assessed value of P1,200,000.

How much income should be recognized from the donation?

- a. 1,500,000**
- b. 1,200,000
- c. 1,000,000
- d. 0

ANSWER: **a. 1,500,000**

8. Jazz Company purchased land with a current market value of P2,400,000. The carrying amount of land was P1,305,000. In exchange for the land, Jazz Company issued 20,000 ordinary shares with par value of P100 and an estimated market value of P140 per share. The shares are not traded in an established stock exchange.

What amount should Jazz Company record as cost of the land?

- a. 1,305,000
- b. 2,000,000
- c. **2,400,000**
- d. 2,800,000

ANSWER: c. **2,400,000**

9. On September 1, 2010, Ron Company issued 100,000 treasury share with P25 par value for a parcel of land to be held as a future plant site. The treasury shares were acquired by Ron Company at a cost of P30 per share. Ron Company's share had a fair market value of P40 on September 1, 2010. Ron Company received P50,000 from the sale of scrap when an existing structure on the site was razed.

What is the initial measurement of the land?

- a. 4,000,000
- b. 3,950,000**
- c. 3,000,000
- d. 2,500,000

ANSWER: **b. 3,950,000**

**10.** Tres Company acquired the following plant assets during the current year.

Equipment- Acquired at an invoice price of P600,000, subject to a 5% cash discount which was not taken.

Land- Acquired by issuing 10,000 shares of P50 par value when the market price of the share was P120. The shares issued are treasury shares which had been acquired at a cost of P90 per share. The fair value of the is P1,100,000.

Machinery- Acquired at a cost of P275,000. Installation cost was P7,000, trial run and other testing cost P18,000, and construction of base, P10,000.

What is the total increase in property, plant and equipment as a result of plant asset transactions?

- a. 1,980,000**
- b. 1,970,000
- c. 2,080,000
- d. 1,770,000

ANSWER: **a. 1,980,000**

**11.** At the beginning of the current year, Wing Company an old packaging machine, which cost P1,200,000 and was 50% depreciated, for a used machine and paid a cash difference of P160,000. The fair value of the old packaging machine was determined to be P700,000. What is the cost of the new asset acquired?

- a. 700,000
- b. 860,000**
- c. 660,000
- d. 600,000

ANSWER: **b. 860,000**

**12.** At the beginning of the current year, Bell Company exchanged an old machine, with a carrying amount of P390,000 and a fair value of P350,000, and paid P100,000 cash for another used machine having a list price of P500,000. At what amount should the machine acquired in the exchange be recorded by Bell Company?

- a. 450,000**
- b. 460,000
- c. 490,000
- d. 500,000

ANSWER: a. 450,000

13. At the beginning of the current year , Winn Company traded in an old machine having a carrying amount of P1,680,000 and paid a cash difference of P600,000 for a new machine having a cash price of P2,050,000. What amount of loss should Winn Company recognize on this exchange?

- a. 600,000
- b. 230,000**
- c. 370,000
- d. 0

ANSWER: b. 230,000

14. During the current year, White Company paid P400,000 and exchanged inventory which has a carrying amount of P2,000,000 and a fair value of P2,100,000 for other inventory in the same line of business with fair value of P2,500,000.

What is the initial measurement of the new inventory received by White Company in exchange?

- a. 2,400,000
- b. 2,500,000**
- c. 3,200,000
- d. 2,000,000

ANSWER: **b. 2,500,000**

15. Yola Company and Zero Company are fuel oil distributors. To facilitate the delivery of oil to their consumers, Yola Company and Zero Company exchanged ownership of 1,200 barrels of oil without physically moving the oil. Yola Company and Zero Company P300,000 to compensate for a difference in the grade of oil.

On the date of exchange, cost and market value of the oil were as follows:

	Yola Company	Zero Company
Cost	1,000,000	1,250,000
Market value	1,200,000	1,500,000

In Zero Company's income statement, what amount of gain is reported from the exchange of oil?

- a. 250,000**
- b. 200,000
- c. 50,000
- d. 0

ANSWER: **a. 250,000**

**16.** At the beginning of the current year, Wilbur Company traded in an old machine for a newer model. Data relative to the old and new machines follow:

Old machine

Original cost	800,000
Accumulated depreciation on January 1	600,000
Average published retail value	170,000

New machine

List price	1,000,000
Cash price without trade in	900,000
Cash paid with trade in	780,000

What is the initial cost of the new machine acquired by the Wilbur Company in the exchange?

- a. **900,000**
- b. 950,000
- c. 980,000
- d. 1,000,000

ANSWER: a. **900,000**



