# *Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank*

SKU: 9781260007572-TEST-BANK

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

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

2) Tax cost recovery methods include depreciation, amortization, and depletion.
Answer: True False

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: True False

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: True False

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 False

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

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

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

9) Taxpayers use the half-year convention for all assets.
Answer: True False

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: True False

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 False

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: True False



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

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 False

14) Real property is always depreciated using the straight-line method.
Answer: True False

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

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

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

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 False

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 False

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

21) Occasionally bonus depreciation is used as a stimulus tool by tax policy makers.
Answer: True False

22) Business assets that tend to be used for both business and personal purposes are referred to as listed property.
Answer: True False

23) 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: True False

24) Significant limits are placed on the depreciation of luxury automobiles.
Answer: True False

25) The alternative depreciation system requires both a slower method of recovery and longer recovery periods.
Answer: True False



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

26) The method for tax amortization is always the straight-line method.
Answer: True False

27) All assets subject to amortization have the same recovery period.
Answer: True False

28) Goodwill and customer lists are examples of §197 amortizable assets.
Answer: True False

29) Taxpayers may always expense a portion of start-up costs and organizational expenditures.
Answer: True False

30) 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 False

31) 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: True False

32) Depletion is the method taxpayers use to recover their capital investment in natural resources.
Answer: True False

33) In general, major integrated oil and gas producers may take the greater of cost or percentage depletion.
Answer: True False

34) Cost depletion is available to all natural resource producers.
Answer: True False

35) 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 False

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

36) Tax cost recovery methods do NOT include:
A) Amortization.
B) Capitalization.
C) Depreciation.
D) Depletion.
E) All of the choices are tax cost recovery methods.
Answer: B



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

37) Which of the following business assets is NOT depreciated?
A) Patent
B) Automobile
C) Building
D) Machinery
E) All of the assets are depreciated.
Answer: A

38) An office desk is an example of:
A) Business property.
B) Personal-use property.
C) Personal property.
D) Real property.
E) Personal property and business property.
Answer: E

39) An example of an asset that is both personal-use and personal property is:
A) A storage building used by the CEO to store personal records.
B) A company airplane used by the CEO for business travel.
C) A computer used solely to monitor the CEO's investments and to complete her Form 1040.
D) A computer used solely to email company employees regarding company activities.
E) All of the assets are personal-use and personal property.
Answer: C

40) Which of the following is NOT usually included in an asset's tax basis?
A) Shipping
B) Sales tax
C) Purchase price
D) Installation costs
E) All of the choices are included in an asset's tax basis.
Answer: E

41) Which of the following would be considered an improvement rather than a routine maintenance?
A) Wiper blade replacement
B) Oil change
C) Engine overhaul
D) Air filter change
Answer: C

42) Tax depreciation is currently calculated under what system?
A) Modified accelerated cost recovery system
B) Sum of the years digits
C) Accelerated cost recovery system
D) Straight line system
E) None of the choices are correct.
Answer: A



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

43) Which is not an allowable method under MACRS?
A) 150 percent declining balance
B) Sum of the years digits
C) 200 percent declining balance
D) Straight line
E) All of the choices are allowable methods under MACRS.
Answer: B

44) Which of the allowable methods allows the most accelerated depreciation?
A) Straight line
B) 200 percent declining balance
C) 150 percent declining balance
D) Sum of the years digits
E) None of the methods would allow accelerated depreciation.
Answer: B

45) How is the recovery period of an asset determined?
A) Treasury regulation
B) Revenue Ruling 87-56
C) Revenue Procedure 87-56
D) Estimated useful life
E) None of the choices are correct.
Answer: C

46) Which of the following depreciation conventions are not used under MACRS?
A) Full-month
B) Mid-month
C) Mid-quarter
D) Half-year
E) All of the choices are used under MACRS.
Answer: A

47) Which depreciation convention is the general rule for tangible personal property?
A) Full-month
B) Mid-month
C) Half-year
D) Mid-quarter
E) None of the choices are conventions for tangible personal property.
Answer: C



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

48) The MACRS recovery period for automobiles and computers is:
A) 7 years.
B) 3 years.
C) 10 years.
D) 5 years.
E) None of the choices are correct.
Answer: D

49) 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) $3,000.
B) $4,000.
C) $2,000.
D) $2,858.
E) None of the choices are correct.
Answer: B

50) 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) $5,000.
B) $3,573.
C) $1,786.
D) $4,463.
E) None of the choices are correct.
Answer: B

51) 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) $10,000.
C) $7,145.
D) $2,500.
E) None of the choices are correct.
Answer: A



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

52) 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 October 1 with a basis of $15,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2) **(Round final answer to the nearest whole number)**

A) $1,286.
B) $6,000.
C) $5,144.
D) $5,786.
E) None of the choices are correct.

Answer: D

53) 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) $3,357.
B) $6,000.
C) $857.
D) $5,429.
E) None of the choices are correct.

Answer: D

54) 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) $5,200.
C) $4,572.
D) $2,714.
E) None of the choices are correct.

Answer: D



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

55) Tasha LLC purchased furniture (7-year property) on April 20 for $20,000 and used the mid-quarter 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 2-6 **(Round final answer to the nearest whole number)**

A) $2,394.
B) $2,095.
C) $2,461.
D) $898.
E) None of the choices are correct.

Answer: B

56) 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) $1,874.
B) $3,456.
C) $432.
D) $1,728.
E) None of the choices are correct.

Answer: D

57) 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) $3,371.
B) $4,774.
C) $3,751.
D) $2,648.
E) None of the choices are correct.

Answer: D

58) 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) $3,410.
D) $2,408.
E) None of the choices are correct.

Answer: B



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

59) 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 2-6

A) $909.
B) $641.
C) $7,346.
D) $5,128.
E) None of the choices are correct.

Answer: B

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

A) A new delivery truck
B) Used office machinery
C) Used office furniture
D) Qualified leasehold improvements
E) All of the choices are correct.

Answer: E

61) Lenter LLC placed in service on April 29, 2017 machinery and equipment (7-year property) with a basis of $600,000. Assume that Lenter has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including section 179 expensing (but ignoring bonus expensing). (Use MACRS Table 1)

A) $85,740.
B) $522,861.
C) $585,740.
D) $120,000.
E) None of the choices are correct.

Answer: B

62) Littman LLC placed in service on July 29, 2017 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 2017? (Use MACRS Table 1)

A) Littman's §179 expense will be greater than $100,000.
B) Littman should take no §179 expense.
C) Littman's §179 expense will be less than $100,000.
D) Littman should take §179 expense equal to the maximum $510,000.
E) None of the choices are correct.

Answer: C



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

63) Crouch LLC placed in service on May 19, 2017 machinery and equipment (7-year property) with a basis of $2,200,000. Assume that Crouch has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but ignoring bonus expensing). (Use MACRS Table 1)

A) $314,380.
B) $605,794.
C) $742,930.
D) $340,000.
E) None of the choices are correct.

Answer: B

64) Clay LLC placed in service machinery and equipment (7-year property) with a basis of $2,450,000 on June 6, 2016. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus expensing) (Use MACRS Table 1) **(Round final answer to the nearest whole number)**

A) $427,244
B) $350,105
C) $778,070
D) $860,105
E) None of the choices are correct.

Answer: A

65) Bonnie Jo purchased a used computer (5-year property) for use in her sole proprietorship. The basis of the computer was $2,400. Bonnie Jo used the computer 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) $480.
B) $2,400.
C) $288.
D) $240.
E) None of the choices are correct.

Answer: C



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

66) Billie Bob purchased a used computer (5-year property) for use in his sole proprietorship in the prior year. The basis of the computer was $2,400. Billie Bob used the computer in his business 60 percent of the time during the first year. During the second year, Billie Bob used the computer 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) $336.
B) $192.
C) $48.
D) $0.
E) None of the choices are correct.

Answer: C

67) Which of the following assets is eligible for bonus depreciation?

A) A new delivery truck
B) Used office machinery
C) Qualified leasehold improvements
D) Used office furniture
E) All of the choices are correct.

Answer: A

68) Potomac LLC purchased an automobile for $30,000 on August 5, 2017. What is Potomac's depreciation expense for 2017 (ignore any possible bonus depreciation)? Exhibit 2-8

A) $3,160
B) $30,000
C) $6,000
D) $4,287
E) None of the choices are correct.

Answer: A

69) Arlington LLC purchased an automobile for $40,000 on July 5, 2017. What is Arlington's depreciation expense for 2017 if its business use percentage is 75 percent (ignore any possible bonus depreciation)? Exhibit 2-8

A) $6,000
B) $3,160
C) $8,000
D) $2,370
E) None of the choices are correct.

Answer: D



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

70) 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) $1,389
C) $1,319
D) $1,250
E) None of the choices are correct.

Answer: B

71) 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) $2,917
C) $3,333
D) $1,667
E) None of the choices are correct.

Answer: C

72) 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) $10,000
C) $2,500
D) $5,000
E) None of the choices are correct.

Answer: D

73) 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) $52,000
B) $3,544
C) $5,522
D) $2,555
E) None of the choices are correct.

Answer: B



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

74) 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) $12,000
D) $7,000
E) None of the choices are correct.
Answer: D

75) 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 patent has a remaining life of 75 months, what is the total amortization expense Jorge may deduct during the current year?
A) $0
B) $6,000
C) $5,500
D) $12,000
E) None of the choices are correct.
Answer: B

76) Geithner LLC patented a process it developed in the current year. The patent is expected to create benefits for Geithner 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, Geithner had unamortized research expenditures of $15,000 related to the process. What is the total amortization expense Geithner may deduct during the current year?
A) $4,350
B) $2,417
C) $4,108
D) $2,174
E) None of the choices are correct.
Answer: A

77) 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) $300,000
B) $90,000
C) $110,000
D) $60,000
E) None of the choices are correct.
Answer: B



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

78) 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) $190,000
B) $90,000
C) $60,000
D) $160,000
E) None of the choices are correct.

Answer: C

79) 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 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 percent?

A) $400,000
B) $375,000
C) $450,000
D) $200,000
E) None of the choices are correct.

Answer: C

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

80) 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. Tl tune up is routine maintenance and the annual property tax is a general business expense. ($10, $800 + $50 + $500 + $750)



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

81) 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 property or the fair market value on the date of the conversion.

82) 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 pe the property was placed in service during the fourth quarter. The calculation is $14,000 × 0.20 =

83) Roth, LLC purchased only one asset during the current year. Roth placed in service computer equipment (5-year property) on November 1st with a basis of $42,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

Answer: $2,125

The asset's recovery period is 5 years and the mid-quarter convention applies since more than 4 percent of the property was placed in service during the fourth quarter. The calculation is $42,5 = $2,125.

84) 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 pe the property was placed in service during the fourth quarter. The calculation is $26,500 × 0.142 $3,787.

85) Teddy purchased only one asset during the current year. Teddy placed in service machinery (7-year property) on October 1st with a basis of $76,500. Calculate the maximum depreciation expense, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

Answer: $2,731

The asset's recovery period is 7 years and the mid-quarter convention applies since more than 4 percent of the property was placed in service during the fourth quarter. The calculation is $76,5 0.0357 = $2,731.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

86) 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 servic the fourth quarter. The calculations are $5,000 × 0.20 = $1,000 and $20,000 × 0.1429 = $2,858 is $3,858 ($1,000 + $2,858).

87) 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 se during the fourth quarter. The calculations are $10,000 × 0.25 = $2,500 and $10,000 × 0.0357 = total is $2,857 ($2,500 + $357).

88) 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 × = $2,400 and $24,000 × 0.1093 = $2,623. The total is $5,023 ($2,400 + $2,623).

89) 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 and Table 2) EXHIBIT 2-6 **(Round final answer to the nearest whole number)**

Answer: $3,579

The depreciation on those assets are $51,000 × 0.1249 × 1/2 year = $3,185 and $16,000 × 0.19( = $394, the total is $3,579 ($3,185 + $394).



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

90) 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 di of during the same taxable year.

91) 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 propert calculation is $1,400,000 × 0.03636 = $50,904.

92) 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. calculation is $1,600,000 × 0.01819 = $29,104.

93) 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. calculation is $1,900,000 × 0.02564 × (2.5/12) = $10,149. Depreciation is allowed for 2.5 mon year of disposal. The land improvements are not considered to be real property. The land is non-depreciable.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

94) Olney LLC only purchased one asset this year. Olney LLC placed in service on July 19, 2017 machinery and equipment (7-year property) with a basis of $850,000. 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: $558,586.

The $510,000 §179 expense is not limited. The half year convention applies. The expense is $5
which is depreciation of $340,000 × 0.1429 = $48,586 plus $510,000 of §179 expense.

95) Columbia LLC only purchased one asset this year. Columbia LLC placed in service on October 9, 2017 machinery and equipment (7-year property) with a basis of $2,150,000. 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: $452,832.

The $510,000 §179 expense is limited to $390,000 because of the property placed in service lir
($510,000 − ($2,150,000 − $2,030,000)). The mid-quarter convention applies. The expense is $452,832
which is depreciation of $1,760,000 × 0.0357 = $62,832 plus $390,000 of §179 expense.

96) Northern LLC only purchased one asset this year. In 2017, Northern LLC placed in service on September 6th machinery and equipment (7-year property) with a basis of $2,200,000. 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: $605,794

The $510,000 §179 expense is reduced to $340,000 because of the property placed in service li
($510,000 − ($2,200,000 − $2,030,000)). The half-year convention applies. The expense is $605,794
which is depreciation of $1,860,000 × 0.1429 = $265,794 plus $340,000 of §179 expense.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

97) Reid acquired two assets in 2017: computer equipment (5-year property) acquired on August 6th with a basis of $510,000 and machinery (7-year property) on November 9th with a basis of $510,000. 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: $612,000

The $510,000 §179 expense should be used for the asset with the lowest first year depreciation percentage; therefore, Reid expenses the machinery using §179 of $510,000. The mid-quarter convention will no longer apply once the machinery is expensed because the determination of t convention occurs after the basis reduction from the §179 expensing. Reid then uses the half-ye convention to depreciate the computer equipment. The cost recovery for the equipment is $102,000 ($510,000 × 0.20) resulting in a total depreciation expense of $612,000 ($510,000 machinery + $102,000 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.

98) 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 y must be recalculated under the straight-line method over the ADS recovery period. During the depreciation was $800 ($8,000 × 0.1429 × 70%). Using the straight-line method over the ADS period the depreciation for year 1 would be $280 ($8,000/10 years × 70% × 1/2 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.

99) Alexandra purchased a $35,000 automobile during 2017. The business use was 70 percent. What is the allowable depreciation for the current year (ignore any possible bonus depreciation)? Exhibit 2-8

Answer: $2,212

The maximum depreciation for a luxury automobile during 2017 is $3,160. Because the busine was 70 percent, depreciation is $2,212 ($3,160 × 70%).



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

100) Boxer LLC has acquired various types of assets recently used 100% in its trade or business. Below is assets acquired during 2016 and 2017:

| Asset | Cost Basis | Convention | Date Placed in Service |
|---|---|---|---|
| Machinery | 25,000 | Half year | January 24, 2016 |
| Warehouse | 800,000 | Mid month | August 1, 2016 |
| Furniture | 100,000 | | October 5, 2017 |
| Computer equipment | 65,000 | | October 10, 2017 |
| Office equipment | 34,000 | | September 28, 2017 |
| Automobile | 35,000 | | July 15, 2017 |
| Office building | 800,000 | | September 24, 2017 |

Boxer did not elect §179 expense and elected out of bonus depreciation in 2016, but would like to ele expense for 2017 (assume that taxable income is sufficient). Calculate Boxer's maximum depreciatio expense for 2017, (ignore bonus depreciation for 2017). If necessary, use the 2016 luxury automobile limitation amount for 2017. (Use MACRS Table 1 and Use MACRS Table 5) Exhibit 2-8 **(Round final answer to the nearest whole number)**

Answer: $234,787

§179 allows expensing of all the 2017 tangible personal property ($199,000 = $100,000 + $65,( $34,000), with the exception of the automobile. The maximum depreciation for 2017 on luxury automobiles is $3,160. The depreciation of the remaining assets is as follows: 2016 machinery × 0.2449 = $6,123), 2016 warehouse ($800,000 × 0.02564 = $20,512), and the 2017 office buil ($800,000 × 0.00749 = $5,992).

| Asset | 2017 Depreciation |
|---|---|
| Machinery | 6,123 |
| Warehouse | 20,512 |
| Furniture | 100,000 |
| Computer equipment | 65,000 |
| Office equipment | 34,000 |
| Automobile | 3,160 |
| Office building | 5,992 |
| Total | $234,787 |

101) 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 am is $7,778 = ($175,000/180) × 8.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

102) 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. (e.g., .1234 as 12%). **(Round final answer to the nearest whole number. Round your allocation percentage to the nearest whole percentage)**

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 |



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

103) 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 amortization may be deducted.

104) 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 r immediately expense the organizational costs because the immediate expensing is phased out d dollar for organization expenditures exceeding $50,000. As a result when the expenses exceed 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.

105) Paulsen incurred $55,000 of research and experimental expenses and began amortizing them over 60 during June of year 1. During May of year 3, Paulsen 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 re useful life of 17 years.

1) What is the basis of the patent, rounding 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, rounded 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 mont is a full year of $11,000, and 5 months in year 3 is $4,583. Total research expensed is $22,000 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.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

106) 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.

107) 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 in year 1, there is no percentage depletion. PC has percentage depletion of $1,760,000 in year 2 lesser of $1,760,000 ($8 million × 22 percent) or $1,900,000 ($3.8 million × 50 percent). Cost was $1,647,059 ($3,500,000/17,000) × 8,000 and is less than percentage depletion.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

1) TRUE
2) TRUE
3) FALSE
4) FALSE
5) TRUE
6) TRUE
7) TRUE
8) FALSE
9) FALSE
10) FALSE
11) TRUE
12) FALSE
13) TRUE
14) TRUE
15) TRUE
16) FALSE
17) FALSE
18) TRUE
19) TRUE
20) TRUE
21) TRUE
22) TRUE
23) FALSE
24) TRUE
25) FALSE
26) TRUE
27) FALSE
28) TRUE
29) FALSE
30) TRUE
31) FALSE
32) TRUE
33) FALSE
34) TRUE
35) TRUE
36) B
37) A
38) E
39) C
40) E
41) C
42) A
43) B
44) B
45) C
46) A
47) C
48) D
49) B
50) B



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

51) A
52) D
53) D
54) D
55) B
56) D
57) D
58) B
59) B
60) E
61) B
62) C
63) B
64) A
65) C
66) C
67) A
68) A
69) D
70) B
71) C
72) D
73) B
74) D
75) B
76) A
77) B
78) C
79) C
80) $12,100

An asset's basis consists of all of the costs to purchase, install, and place the asset in service. The annual tu
routine maintenance and the annual property tax is a general business expense. ($10,000 + $800 + $50 + $5
81) $800

When personal property is converted to business use, the basis is the lesser of the cost basis of the property
market value on the date of the conversion.
82) $2,800

The asset's recovery period is 5 years and the half-year convention applies since less than 40 percent of the
was placed in service during the fourth quarter. The calculation is $14,000 × 0.20 = $2,800.
83) $2,125

The asset's recovery period is 5 years and the mid-quarter convention applies since more than 40 percent of
property was placed in service during the fourth quarter. The calculation is $42,500 × 0.05 = $2,125.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

84) $3,787

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

85) $2,731

The asset's recovery period is 7 years and the mid-quarter convention applies since more than 40 percent of property was placed in service during the fourth quarter. The calculation is $76,500 × 0.0357 = $2,731.

86) $3,858

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

87) $2,857

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

88) $5,023

The depreciation expense for the current year is $5,023. The calculations are $15,000 × 0.32 × 1/2 year = $ $24,000 × 0.1093 = $2,623. The total is $5,023 ($2,400 + $2,623).

89) $3,579

The depreciation on those assets are $51,000 × 0.1249 × 1/2 year = $3,185 and $16,000 × 0.1968 × 1.5/12 = total is $3,579 ($3,185 + $394).

90) $0

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

91) $50,904

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

92) $29,104

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



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

93) $10,149

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

94) $558,586.

The $510,000 §179 expense is not limited. The half year convention applies. The expense is $558,586 whic depreciation of $340,000 × 0.1429 = $48,586 plus $510,000 of §179 expense.

95) $452,832.

The $510,000 §179 expense is limited to $390,000 because of the property placed in service limitation ($510,000 − ($2,150,000 − $2,030,000)). The mid-quarter convention applies. The expense is $452,832 which is depreciation of $1,760,000 × 0.0357 = $62,832 plus $390,000 of §179 expense.

96) $605,794

The $510,000 §179 expense is reduced to $340,000 because of the property placed in service limitation ($510,000 − ($2,200,000 − $2,030,000)). The half-year convention applies. The expense is $605,794 which is depreciation of $1,860,000 × 0.1429 = $265,794 plus $340,000 of §179 expense.

97) $612,000

The $510,000 §179 expense should be used for the asset with the lowest first year depreciation percentage; Reid expenses the machinery using §179 of $510,000. The mid-quarter convention will no longer apply onc machinery is expensed because the determination of the convention occurs after the basis reduction from th expensing. Reid then uses the half-year convention to depreciate the computer equipment. The cost recovery for the equipment is $102,000 ($510,000 × 0.20) resulting in a total depreciation expense of $612,000 ($510,000 machinery + $102,000 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.

98) 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 depreciatio $800 ($8,000 × 0.1429 × 70%). Using the straight-line method over the ADS recovery period the depreciati year 1 would be $280 ($8,000/10 years × 70% × 1/2 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.

99) $2,212

The maximum depreciation for a luxury automobile during 2017 is $3,160. Because the business use was 7 depreciation is $2,212 ($3,160 × 70%).



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

100) $234,787

§179 allows expensing of all the 2017 tangible personal property ($199,000 = $100,000 + $65,000 + $34,0( exception of the automobile. The maximum depreciation for 2017 on luxury automobiles is $3,160. The de of the remaining assets is as follows: 2016 machinery ($25,000 × 0.2449 = $6,123), 2016 warehouse ($800 0.02564 = $20,512), and the 2017 office building ($800,000 × 0.00749 = $5,992).

| Asset | 2017 Depreciation |
|---|---|
| Machinery | 6,123 |
| Warehouse | 20,512 |
| Furniture | 100,000 |
| Computer equipment | 65,000 |
| Office equipment | 34,000 |
| Automobile | 3,160 |
| Office building | 5,992 |
| Total | $234,787 |

101) $7,778

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



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

102) 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 |

103) $5,278

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

104) $7,111

Total amortization is $7,111. $5,000 of start-up expenses can be immediately expensed. Patin may not imm expense the organizational costs because the immediate expensing is phased out dollar for dollar for organi expenditures exceeding $50,000. As a result when the expenses exceed $55,000, no immediate expensing c 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.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank

105) 1) $69,000

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

2) $2,368

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

106) $45,000

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

107) 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 ir
there is no percentage depletion. PC has percentage depletion of $1,760,000 in year 2: the lesser of $1,760,(
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.



Taxation of Business Entities 2018 Edition 9th edition Spilker Test Bank