Taxation of Business Entities 2020 Edition 11th edition Spilker Test Bank

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Taxation of Business Entities, 11e **(Spilker)**
Chapter 2 Property Acquisition and Cost Recovery

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 2 Medium
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Analyze
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AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 2 Medium
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 2 Medium
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Explanation: Taxpayers use the recovery periods outlined in Revenue Procedure 87-56.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Explanation: For personal property, taxpayers use either the half-year or mid-quarter convention.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
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10) If a taxpayer places only one asset (a building) in service during the fourth quarter of the year, the mid-quarter convention must be used.

Answer: FALSE
Explanation: All real property is depreciated using the mid-month convention. The mid-quarter convention for personal property is not applicable to real property.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
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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 by 50 percent to calculate the depreciation expense properly.

Answer: TRUE
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
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16) All taxpayers may use the §179 immediate expensing election on certain property.

Answer: FALSE
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Explanation: The §179 phase-out is based upon the amount of property placed in service during the year.
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
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19) Property expensed under the §179 immediate expensing election is not included in the 40 percent test to determine whether the mid-quarter convention must be used.

Answer: TRUE
Difficulty: 3 Hard
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

22) Used property is eligible for bonus depreciation.

Answer: TRUE
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
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23) Business assets that tend to be used for both business and personal purposes are referred to as listed property.

Answer: TRUE
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Explanation: The property is subject to depreciation recapture for any excess depreciation over the straight-line method using the ADS recovery period over the entire time.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

25) Limits are placed on the depreciation of luxury automobiles.

Answer: TRUE
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
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26) To increase their depreciation deduction on automobiles, taxpayers should elect §179 expense.

Answer: FALSE
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Apply
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Apply
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
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30) Goodwill and customer lists are examples of §197 amortizable assets.

Answer: TRUE
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Explanation: After 2021, companies will no longer be able to immediately expense research and experimentation expenditures.
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze
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34) Depletion is the method taxpayers use to recover their capital investment in natural resources.

Answer: TRUE
Difficulty: 1 Easy
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: FALSE
Explanation: Depletion of timber and major integrated oil companies must be calculated using only the cost depletion method (no percentage depletion is available).
Difficulty: 2 Medium
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Analyze
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: TRUE
Difficulty: 2 Medium
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
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37) Businesses deduct percentage depletion when they sell the natural resource and they deduct cost depletion in the year they produce or extract the natural resource.

Answer: TRUE
Difficulty: 2 Medium
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Analyze
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: B
Explanation: Amortization, depletion, and depreciation are cost recovery methods as a result of asset capitalization.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

39) Which of the following business assets is not depreciated?
A) Automobile.
B) Building.
C) Patent.
D) Machinery.
E) All of the assets are depreciated.

Answer: C
Explanation: Patents are amortized rather than depreciated.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
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40) An office desk is an example of:
A) Personal property.
B) Personal-use property.
C) Real property.
D) Business property.
E) Personal property and business property.

Answer: E
Explanation: An office desk is both business property and personal property. It is not personal-use or real property.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Remember
AACSB: Reflective Thinking
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41) An example of an asset that is both personal-use and personal property is:
A) A computer used solely to email company employees regarding company activities.
B) A storage building used by the CEO to store personal records.
C) A computer used solely to monitor the CEO's investments and to complete her Form 1040.
D) A company airplane used by the CEO for business travel.
E) All of the assets are personal-use and personal property.

Answer: C
Explanation: A computer is personal property, and when used by the CEO for nonbusiness activities, is also personal-use property.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
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42) Which of the following is not usually included in an asset's tax basis?
A) Purchase price.
B) Sales tax.
C) Shipping.
D) Installation costs.
E) All of the choices are included in an asset's tax basis.

Answer: E
Explanation: The purchase price, sales tax, shipping, and installation costs are all included in an asset's tax basis.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: B
Explanation: The engine overhaul is an improvement because it restores a major component of an asset, while the other items are routine maintenance.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
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44) Tax depreciation is currently calculated under what system?
A) Sum-of-the-years'-digits.
B) Accelerated cost recovery system.
C) Modified Accelerated Cost Recovery System.
D) Straight-line system.
E) None of the choices are correct.

Answer: C
Explanation: The Modified Accelerated Cost Recovery System (MACRS) is the current tax depreciation system.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

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

Answer: D
Explanation: The sum-of-the-years'-digits method is not an allowable method under MACRS.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
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46) Which of the allowable methods allows the most accelerated depreciation?
A) 150 percent declining balance.
B) 200 percent declining balance.
C) Straight-line.
D) Sum-of-the-years'-digits.
E) None of the methods would allow accelerated depreciation.

Answer: B
Explanation: The 200 percent declining balance method allows the most depreciation expense in earlier periods.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

47) How is the recovery period of an asset determined?
A) Estimated useful life.
B) Treasury regulation.
C) Revenue Procedure 87-56.
D) Revenue Ruling 97-56.
E) None of the choices are correct.

Answer: C
Explanation: Revenue Procedure 87-56 helps taxpayers to determine the recovery period for assets.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
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48) Which of the following depreciation conventions is not used under MACRS?
A) Full-month.
B) Half-year.
C) Mid-month.
D) Mid-quarter.
E) All of the choices are used under MACRS.

Answer: A
Explanation: The full-month convention is used for tax amortization, which does not fall under MACRS depreciation.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: B
Explanation: The half-year convention is the general rule for tangible personal property, while the mid-quarter convention is the exception.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
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50) The MACRS recovery period for automobiles and computers is:
A) Three years.
B) Five years.
C) Seven years.
D) 10 years.
E) None of the choices are correct.

Answer: B
Explanation: These assets' recovery period is five years.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember
AACSB: Reflective Thinking
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51) Lax LLC purchased only one asset during the current year (a full 12-month tax year). On August 26 Lax placed in service computer equipment (five-year property) with a basis of $20,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)
A) $2,000.
B) $2,858.
C) $3,000.
D) $4,000.
E) None of the choices are correct.

Answer: D
Explanation: The asset's recovery period is five years and the half-year convention applies. The calculation is $20,000 × 0.20 = $4,000.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
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52) Sairra LLC purchased only one asset during the current year (a full 12-month tax year). On April 16 Sairra placed in service furniture (seven-year property) with a basis of $25,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**
A) $1,786.
B) $3,573.
C) $4,463.
D) $5,000.
E) None of the choices are correct.

Answer: B
Explanation: The asset's recovery period is seven years and the half-year convention applies. The calculation is $25,000 × 0.1429 = $3,573.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

53) Beth's business purchased only one asset during the current year (a full 12-month tax year). On December 1 Beth placed in service machinery (seven-year property) with a basis of $50,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)
A) $1,785.
B) $2,500.
C) $7,145.
D) $10,000.
E) None of the choices are correct.

Answer: A
Explanation: The asset's recovery period is seven years, and the mid-quarter convention applies because the property was placed in service during the fourth quarter. The calculation is $50,000 × 0.0357 = $1,785.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
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54) Deirdre's business purchased two assets during the current year (a full 12-month tax year). On January 20 Deirdre placed in service computer equipment (five-year property) with a basis of $15,000 and on September 1 placed in service machinery (seven-year property) with a basis of $15,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention Table.) **(Round final answer to the nearest whole number.)**
A) $1,286.
B) $5,144.
C) $5,786.
D) $6,000.
E) None of the choices are correct.

Answer: B
Explanation: The half-year convention applies. The calculations are $15,000 × 0.20 = $3,000 and $15,000 × 0.1429 = $2,144. The total is $5,144 ($3,000 + $2,144).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

55) Suvi, Inc. purchased two assets during the current year (a full 12-month tax year). On August 10 Suvi placed in service computer equipment (five-year property) with a basis of $20,000 and on November 18 placed in service machinery (seven-year property) with a basis of $10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**
A) $857.
B) $3,357.
C) $5,429.
D) $6,000.
E) None of the choices are correct.

Answer: C
Explanation: The half-year convention applies. The calculations are $20,000 × 0.20 = $4,000 and $10,000 × 0.1429 = $1,429. The total is $5,429 ($4,000 + $1,429).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

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56) Wheeler LLC purchased two assets during the current year (a full 12-month tax year). On November 16 Wheeler placed in service computer equipment (five-year property) with a basis of $15,000 and on April 20 placed in service furniture (seven-year property) with a basis of $11,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.) **(Round final answer to the nearest whole number.)**
A) $1,285.
B) $2,714.
C) $4,572.
D) $5,200.
E) None of the choices are correct.

Answer: B
Explanation: The mid-quarter convention applies because more than 40 percent of the years' assets were placed in service in the fourth quarter of the tax year. The computer is fourth-quarter property and the furniture is second-quarter property. The calculations are $15,000 × 0.05 = $750 and $11,000 × 0.1785 = $1,964. The total is $2,714 ($750 + $1,964).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
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57) Tasha LLC purchased furniture (seven-year property) on April 20 for $20,000 and used the half-year convention to depreciate it. 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 and Exhibit 10-6.) **(Round final answer to the nearest whole number.)**
A) $898.
B) $2,095.
C) $1,249.
D) $2,498.
E) None of the choices are correct.

Answer: C
Explanation: The half-year convention applies. The calculations are $20,000 × 0.1249 = $2,498 × 1/2 = $1,249.
Difficulty: 3 Hard
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

58) Anne LLC purchased computer equipment (five-year property) on August 29 for $30,000 and used the half-year convention to depreciate it. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1.)
A) $432.
B) $1,728.
C) $1,874.
D) $3,456.
E) None of the choices are correct.

Answer: B
Explanation: The calculations are $30,000 × 0.1152 = $3,456 × 0.5 = $1,728, since the property is considered to be owned for half the year in the year of disposition.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
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59) Poplock LLC purchased a warehouse and land during the current year for $350,000. The purchase price was allocated as follows: $275,000 to the building and $75,000 to the land. The property was placed in service on August 12. Calculate Poplock's maximum depreciation for this first year. (Use MACRS Table 5.) **(Round final answer to the nearest whole number.)**
A) $2,648.
B) $3,371.
C) $3,751.
D) $4,774.
E) None of the choices are correct.

Answer: A
Explanation: The mid-month convention applies. Nonresidential property has a 39-year recovery period. The depreciation is $2,648 ($275,000 × 0.963%).
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

60) Tom Tom LLC purchased a rental house and land during the current year for $150,000. The purchase price was allocated as follows: $100,000 to the building and $50,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3.)
A) $1,605.
B) $2,273.
C) $2,408.
D) $3,410.
E) None of the choices are correct.

Answer: B
Explanation: The mid-month convention applies. Residential property has a 27.5-year recovery period. The depreciation is $2,273 ($100,000 × 2.273%).
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze
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61) Simmons LLC purchased an office building and land several years ago for $250,000. The purchase price was allocated as follows: $200,000 to the building and $50,000 to the land. The property was placed in service on October 2. If the property is disposed of on February 27 during the 10th year, calculate Simmons's maximum depreciation in the 10th year. (Use MACRS Table 5 and Exhibit 10-6.)
A) $641.
B) $909.
C) $5,128.
D) $7,346.
E) None of the choices are correct.

Answer: A
Explanation: The mid-month convention applies. Nonresidential property has a 39-year recovery period. The depreciation is $641 ($200,000 × 2.564% × 1.5/12).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

62) Which of the following assets is eligible for §179 expensing?
A) Used office machinery.
B) Qualified improvement property.
C) A new delivery truck.
D) Used office furniture.
E) All of the choices are correct.

Answer: E
Explanation: All of the assets are eligible. Tangible personal property is eligible for §179 expensing whether it is new or used. Qualified improvement property is also eligible for §179 expensing.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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63) Lenter LLC placed in service on April 29, 2019, machinery and equipment (seven-year property) with a basis of $1,600,000. Assume that Lenter has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction including §179 expensing (but ignoring bonus expensing). (Use MACRS Table 1.)
A) $228,640.
B) $1,020,000.
C) $1,102,882.
D) $1,228,640.
E) None of the choices are correct.

Answer: C
Explanation: The $1,020,000 §179 expense is not limited. The half-year convention applies. The expense is $1,102,882, which is depreciation of $580,000 × 0.1429 = $82,882 plus $1,020,000 of §179 expense.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

64) Littman LLC placed in service on July 29, 2019, machinery and equipment (seven-year property) with a basis of $600,000. Littman's income for the current year before any depreciation deduction was $100,000. Which of the following statements is true to maximize Littman's total depreciation deduction for 2019? (Use MACRS Table 1.)
A) Littman should take §179 expense equal to the maximum $1,000,000.
B) Littman should take no §179 expense.
C) Littman's §179 expense will be greater than $100,000.
D) Littman's §179 expense will be less than $100,000.
E) None of the choices are correct.

Answer: D
Explanation: The $1,020,000 maximum §179 expense is limited by the amount of property placed in service and to income after regular MACRS depreciation but before §179 expense. The $100,000 income amount is before any cost recovery. Thus, to maximize its cost recovery, Littman should first elect $16,637 of §179 expense. Littman's regular MACRS amount will be $83,363 for a total of $100,000 of cost recovery.
Difficulty: 3 Hard
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
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65) Crouch LLC placed in service on May 19, 2019, machinery and equipment (seven-year property) with a basis of $3,200,000. Assume that Crouch has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1.)
A) $457,280.
B) $370,000.
C) $774,407.
D) $1,020,000.
E) None of the choices are correct.

Answer: C
Explanation: The $1,020,000 §179 expense is reduced to $370,000 because of the property placed in service limitation ($3,200,000 − $2,550,000 threshold). The half-year convention applies. The expense is $774,407, which is depreciation of $2,830,000 × 0.1429 = $404,407 plus $370,000 of §179 expense.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

66) Clay LLC placed in service machinery and equipment (seven-year property) with a basis of $3,450,000 on June 6, 2019. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**
A) $1,020,000.
B) $493,005.
C) $455,857.
D) $595,857.
E) None of the choices are correct.

Answer: D
Explanation: The $1,020,000 §179 expense is reduced to $120,000 because of the property placed in service limitation ($3,450,000 − $2,550,000 threshold). The half-year convention applies. The expense is $595,857, which is depreciation of $3,330,000 × 0.1429 = $475,857 plus $120,000 of §179 expense.
Difficulty: 3 Hard
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze; Apply
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67) Bonnie Jo purchased a used camera (five-year property) for use in her sole proprietorship. The basis of the camera was $2,400. Bonnie Jo used the camera in her business 60 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation deduction during the first year, assuming the sole proprietorship had a loss during the year. (Bonnie did not place the property in service in the last quarter.) (Use MACRS Table 1.)
A) $240.
B) $288.
C) $480.
D) $2,400.
E) None of the choices are correct.

Answer: B
Explanation: The asset's recovery period is five years and the half-year convention applies. The calculation is $2,400 × 0.20 × 60% = $288.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze; Apply
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68) Billie Bob purchased a used camera (five-year property) for use in his sole proprietorship in the prior year. The basis of the camera was $2,400. Billie Bob used the camera in his business 60 percent of the time during the first year. During the second year, Billie Bob used the camera 40 percent for business use. Calculate Billie Bob's depreciation deduction during the second year, assuming the sole proprietorship had a loss during the year. (Billie Bob did not place the asset in service in the last quarter.) (Use MACRS Table 1.)
A) $0.
B) $48.
C) $192.
D) $336.
E) None of the choices are correct.

Answer: B
Explanation: Because the listed property's business use drops below 50 percent, the straight-line method must be used and all prior years' excess depreciation must be recaptured. The asset's recovery period is five years and the half-year convention applies. The calculation for the current year's depreciation before adjusting for the prior year is $2,400 × 0.20 × 40% = $192. But he must recapture prior depreciation of $144 ($2,400 × 0.20 × 60% = $288 taken less $144 (straight-line, ½ year)) that would have been taken. Therefore, the current-year depreciation deduction is $192 − $144 = $48.
Difficulty: 3 Hard
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

69) Which of the following assets is not eligible for bonus depreciation?
A) Used office machinery
B) Qualified improvement property
C) A new delivery truck
D) Used office furniture
E) All of the choices are correct.

Answer: B
Explanation: New and used personal property is eligible for bonus depreciation as long as the property has not been used by the taxpayer before. Qualified improvement property is not currently eligible.
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
AACSB: Reflective Thinking
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70) Potomac LLC purchased an automobile for $30,000 on August 5, 2019. What is Potomac's depreciation deduction for 2019? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)
A) $10,000.
B) $4,287.
C) $6,000.
D) $30,000.
E) None of the choices are correct.

Answer: C
Explanation: A luxury auto's maximum depreciation in the first year is the lesser of $10,000 or its MACRS amount of $6,000 ($30,000 × 20 percent) for 2019.
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

71) Arlington LLC purchased an automobile for $55,000 on July 5, 2019. What is Arlington's depreciation deduction for 2019 if its business-use percentage is 75 percent? (Ignore any possible bonus depreciation.) (Use Exhibit 10-10.)
A) $4,250.
B) $5,500.
C) $7,500.
D) $8,250.
E) None of the choices are correct.

Answer: C
Explanation: A luxury auto's maximum depreciation in the first year is the lesser of $10,000 or its MACRS amount of $11,000 ($55,000 × 20%). That amount is then multiplied by the business-use percentage to obtain $7,500 ($10,000 × 75%).
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze; Apply
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72) Taylor LLC purchased an automobile for $55,000 on July 5, 2019. What is Taylor's maximum depreciation deduction for 2019 (including bonus depreciation) if its business use percentage is 100 percent?
A) $10,000.
B) $11,000.
C) $18,000.
D) $55,000.
E) None of the choices are correct.

Answer: C
Explanation: A luxury auto's maximum depreciation in the first year is the lesser of $10,000 or its MACRS amount of $11,000 ($55,000 × 20%). However, the limitation is increased by $8,000 when bonus depreciation is taken. Taylor's maximum depreciation on the automobile is $18,000 ($10,000 limitation + $8,000 bonus).
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

73) Assume that Bethany acquires a competitor's assets on March 31st. The purchase price was $150,000. Of that amount, $125,000 is allocated to tangible assets and $25,000 is allocated to goodwill (a §197 intangible asset). What is Bethany's amortization deduction for the current year? **(Round final answer to the nearest whole number.)**
A) $0.
B) $1,250.
C) $1,319.
D) $1,389.
E) None of the choices are correct.

Answer: D
Explanation: The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $1,389 ($25,000/180) × 10.
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze; Apply
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74) Assume that Brittany acquires a competitor's assets on September 30th of Year 1 for $350,000. Of that amount, $300,000 is allocated to tangible assets and $50,000 is allocated equally to two §197 intangible assets (goodwill and a one-year noncompete agreement). Given that the noncompete agreement expires on September 30th of Year 2, what is Brittany's amortization deduction for the second year? **(Round final answer to the nearest whole number.)**
A) $0
B) $1,667
C) $2,917
D) $3,333
E) None of the choices are correct.

Answer: D
Explanation: The full-month convention applies. If a §197 asset is disposed of before it is fully recovered, the remaining basis is added to the remaining §197 assets acquired at the same time. §197 assets have a recovery period of 180 months. The amortization is $3,333 ($50,000/180) × 12. The result is as if the asset never expired.
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

75) Jasmine started a new business in the current year. She incurred $10,000 of start-up costs. How much of the start-up costs can be immediately deducted (excluding amounts amortized over 180 months) for the year?
A) $0.
B) $2,500.
C) $5,000.
D) $10,000.
E) None of the choices are correct.

Answer: C
Explanation: $5,000 of start-up expenses can be immediately deducted. The $5,000 maximum phases out dollar for dollar if more than $50,000 of start-up costs are incurred.
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
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76) Racine started a new business in the current year. She incurred $52,000 of start-up costs. If her business started on November 23rd of the current year, what is the total amount she may deduct with respect to the start-up costs for her initial year, rounded to the nearest whole number?
A) $2,555.
B) $3,544.
C) $5,522.
D) $52,000.
E) None of the choices are correct.

Answer: B
Explanation: The maximum immediate deduction of $5,000 phases out dollar for dollar if more than $50,000 of start-up costs are incurred. Thus, the immediate deduction is $3,000 ($5,000 − ($52,000 − $50,000)). The remaining amount is amortized over 180 months and results in an additional deduction of $544 [($49,000/180) × 2 months] for the year.
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

77) Daschle LLC completed some research and development during June of the current year. The related costs were $60,000. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization amount Daschle may deduct during the current year?
A) $0.
B) $6,500.
C) $7,000.
D) $12,000.
E) None of the choices are correct.

Answer: C
Explanation: The amortization when capitalization is elected is $7,000 [($60,000/60) × 7 months]. The amortization period on capitalized research and development is not less than 60 months—and 60 months is the most often elected.
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze
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78) Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15th and the purchase price was $75,000. If the copyright has a remaining life of 75 months, what is the total amortization amount Jorge may deduct during the current year? (Assume this is not an asset acquisition to which §197 applies.)
A) $0.
B) $5,500.
C) $6,000.
D) $12,000.
E) None of the choices are correct.

Answer: C
Explanation: The amortization is $6,000 ($75,000/75) × 6.0 The amortization period on a purchased copyright is the asset's remaining useful life.
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

79) Gessner LLC patented a process it developed in the current year. The patent is expected to create benefits for Gessner over a 10-year period. The patent was issued on April 15th and the legal costs associated with the patent were $43,000. In addition, Gessner had unamortized research expenditures of $15,000 related to the process. What is the total amortization amount Gessner may deduct during the current year?
A) $2,417.
B) $2,174.
C) $4,108.
D) $4,350.
E) None of the choices are correct.

Answer: D
Explanation: The amortization is $4,350 ($58,000/120) × 9 months. The amortization period is the shorter of the patent's legal (20 years for utility patents) or useful life (10 years).
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

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80) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimates that Santa Fe will recover 5,000 pounds of turquoise. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $200,000. What is Santa Fe's cost depletion deduction for the current year?
A) $60,000.
B) $90,000.
C) $110,000.
D) $300,000.
E) None of the choices are correct.

Answer: B
Explanation: The depletion deduction is $90,000 ($300,000/5,000) × 1,500.
Difficulty: 1 Easy
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

81) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimated that Santa Fe will recover 5,000 pounds of turquoise. During the past several years, 4,000 pounds were extracted. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $250,000. What is Santa Fe's cost depletion deduction for the current year?
A) $60,000.
B) $90,000.
C) $190,000.
D) $160,000.
E) None of the choices are correct.

Answer: A
Explanation: The depletion deduction is $60,000 [($300,000/5,000) × 1,000]. Cost depletion is limited to the taxpayer's basis. As a result, even though 1,500 pounds were extracted, only 1,000 pounds can be expensed under cost depletion.
Difficulty: 1 Easy
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking

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82) Lucky Strike Mine (LLC) purchased a silver deposit for $1,500,000. It estimated it would extract 500,000 ounces of silver from the deposit. Lucky Strike mined the silver and sold it, reporting gross receipts of $1.8 million, $2.5 million, and $2 million for Years 1 through 3, respectively. During Years 1 through 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 through 3, Lucky Strike actually extracted 300,000 ounces of silver as follows:

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

What is Lucky Strike's depletion deduction for Year 2 if the applicable percentage depletion for silver is 15 percent?
A) $200,000.
B) $375,000.
C) $400,000.
D) $450,000.
E) None of the choices are correct.

Answer: D
Explanation: The depletion deduction is $450,000, the greater of cost or percentage depletion. Cost depletion is $450,000 [($1,500,000 ÷ 500,000) × 150,000]. Percentage depletion is $200,000; the lesser of the statutory percentage $375,000 ($2,500,000 × 0.15) or $200,000 [($400,000 × 50%) = 50 percent of net income].
Difficulty: 2 Medium
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

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

Answer: $12,100.

An asset's basis consists of all of the costs to purchase and install the asset and place it in service. The annual tune-up is routine maintenance and the annual property tax is a general business expense. ($10,000 + $800 + $50 + $500 + $750)
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: $800.

When personal property is converted to business use, the basis is the lesser of the cost basis of the property or the fair market value on the date of the conversion.
Difficulty: 1 Easy
Topic: Cost Recovery and Tax Basis for Cost Recovery
Learning Objective: 02-01 Describe the cost recovery methods for recovering the cost of personal property, real property, intangible assets, and natural resources.
Bloom's: Analyze
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85) Flax LLC purchased only one asset this year. On January 16 Flax placed in service a computer (five-year property) with a basis of $14,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

Answer: $2,800.

The asset's recovery period is five years and the half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculation is $14,000 × 0.20 = $2,800.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: $6,073.

The asset's recovery period is seven years and the half-year convention applies. The calculation is $42,500 × 0.1429 = $6,073.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
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87) Eddie purchased only one asset during the current year. On May 1st Eddie placed in service furniture (seven-year property) with a basis of $26,500. Calculate the maximum depreciation deduction, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

Answer: $3,787.

The asset's recovery period is seven years and the half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculation is $26,500 × 0.1429 = $3,787.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: $3,858.

The half-year convention applies since less than 40 percent of the property was placed in service during the fourth quarter. The calculations are $5,000 × 0.20 = $1,000 and $20,000 × 0.1429 = $2,858. The total is $3,858 ($1,000 + $2,858).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze; Apply
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89) Yasmin purchased two assets during the current year. On May 26th Yasmin placed in service computer equipment (five-year property) with a basis of $10,000 and on December 9th placed in service machinery (seven-year property) with a basis of $10,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)

Answer: $2,857.

The mid-quarter convention applies since more than 40 percent of the property was placed in service during the fourth quarter. The calculations are $10,000 × 0.25 = $2,500 and $10,000 × 0.0357 = $357. The total is $2,857 ($2,500 + $357).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

90) Bonnie Jo used two assets during the current year. The first was computer equipment with an original basis of $15,000, currently in the second year of depreciation and depreciated 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 depreciated under the mid-quarter convention. What is Bonnie Jo's depreciation deduction for the current year? **(Round final answer to the nearest whole number.)** (Use MACRS Table 1 and Table 2.)

Answer: $5,023.

The depreciation deduction for the current year is $5,023. The calculations are $15,000 × 0.32 × ½ year = $2,400 and $24,000 × 0.1093 = $2,623. The total is $5,023 ($2,400 + $2,623).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
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91) Kristine sold two assets on March 20th of the current year. The first was machinery with an original basis of $51,000, currently in the fourth year of depreciation, and depreciated 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 depreciated under the mid-quarter convention. What is Kristine's depreciation deduction for the current year if the depreciation recovery period is seven years? (Use MACRS Table 1 and Table 2 and Exhibit 10-6.) **(Round final answer to the nearest whole number.)**

Answer: $3,579.

The depreciation on those assets are $51,000 × 0.1249 × ½ year = $3,185 and $16,000 × 0.1968 × 1.5/12 = $394. The total is $3,579 ($3,185 + $394).
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: $0.

No depreciation deduction or §179 expense may be taken on an asset that is acquired and disposed of during the same taxable year.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
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93) During August of the prior year, Julio purchased an apartment building that he used as a rental property. The basis was $1,400,000. Calculate the maximum depreciation deduction during the current year. (Use MACRS Table 3.)

Answer: $50,904.

The asset's recovery period is 27.5 years and the mid-month convention applies for real property. The calculation is $1,400,000 × 0.03636 = $50,904.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: $29,104.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is $1,600,000 × 0.01819 = $29,104.
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
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95) An office building was purchased several years ago on December 9th 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 deduction for the real property during the current year, rounded to the nearest whole number. (Use MACRS Table 5.)

Answer: $10,149.

The asset's recovery period is 39 years and the mid-month convention applies for real property. The calculation is $1,900,000 × 0.02564 × (2.5 ÷ 12) = $10,149. Depreciation is allowed for 2.5 months in the year of disposal. The land improvements are not considered to be real property. The land is nondepreciable.
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

96) Olney LLC only purchased one asset this year. Olney LLC placed in service on July 19, 2019, machinery and equipment (seven-year property) with a basis of $1,330,000. Assume that Olney has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

Answer: $1,064,299.

The $1,020,000 §179 expense is not limited. The half-year convention applies. The expense is $1,064,299, which is depreciation of $310,000 × 0.1429 = $44,299 plus $1,020,000 of §179 expense.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember; Analyze
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97) Columbia LLC only purchased one asset this year. Columbia LLC placed in service on July 9, 2019, machinery and equipment (seven-year property) with a basis of $2,750,000. Assume that Columbia has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but ignoring bonus depreciation) for the year. (Use MACRS Table 2.) **(Round final answer to the nearest whole number.)**

Answer: $1,095,797.

The $1,020,000 §179 expense is limited to $820,000 because of the property placed in service limitation ($1,020,000 − ($2,750,000 − $2,550,000)). The half-year convention applies. The expense is $1,095,797, which is depreciation of $1,930,000 × 0.1429 = $275,797 plus $820,000 of §179 expense.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

98) Northern LLC only purchased one asset this year. In 2019, Northern LLC placed in service on September 6th machinery and equipment (seven-year property) with a basis of $3,150,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

Answer: $810,117.

The $1,020,000 §179 expense is reduced to $420,000 because of the property placed in service limitation ($1,020,000 − ($3,150,000 − $2,550,000)). The half-year convention applies. The expense is $810,117, which is depreciation of $2,730,000 × 0.1429 = $390,117 plus $420,000 of §179 expense.
Difficulty: 3 Hard
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
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99) Reid acquired two assets in 2019: on August 6th he acquired computer equipment (five-year property) with a basis of $1,020,000 and on November 9th he acquired machinery (seven-year property) with a basis of $1,020,000. Assume that Reid has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but not bonus depreciation). (Use MACRS Table 1.)

Answer: $1,224,000.

The $1,020,000 §179 expense should be used for the asset with the lowest first-year depreciation percentage; therefore, Reid expenses the machinery using §179 of $1,020,000. The mid-quarter convention will no longer apply once the machinery is expensed because the determination of the convention occurs after the basis reduction from the §179 expensing. Reid then uses the half-year convention to depreciate the computer equipment. The cost recovery for the equipment is $204,000 ($1,020,000 × 0.20), resulting in a total depreciation deduction of $1,224,000 ($1,020,000 machinery + $204,000 computer equipment). Choosing to use the §179 immediate expensing option on the seven-year property results in accelerated depreciation compared to choosing the five-year property.
Difficulty: 2 Medium
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
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100) Phyllis purchased $8,000 of specialized audio equipment that she uses in her business regularly. Occasionally, she uses the equipment for personal use. During the first year, Phyllis used the equipment for business use 70 percent of the time; however, during the current (second) year, the business use fell to 40 percent. Assume that the equipment is seven-year MACRS property and is under the half-year convention. Assume the ADS recovery period is 10 years. What is the depreciation allowance for the current year? (Use MACRS Table 1.) **(Round final answer to the nearest whole number.)**

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

Because the business use fell below 50 percent for the listed property, the depreciation for all years must be recalculated under the straight-line method over the ADS recovery period. During the first year depreciation was $800 ($8,000 × 0.1429 × 70%). Using the straight-line method over the ADS recovery period the depreciation for Year 1 would be $280 ($8,000/10 years × 70% × ½ year). Depreciation for Year 2 would be $320 ($8,000/10 years × 40%). Because the actual depreciation taken in Year 1 exceeds the sum of the depreciation for Years 1 and 2 under the ADS method, Phyllis must recapture $200 into income during the current year.
Difficulty: 3 Hard
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

101) Alexandra purchased a $55,000 automobile during 2019. The business use was 70 percent. What is the allowable depreciation for the current year? (Ignore any possible bonus depreciation.) (Use Exhibit 10-10.)

Answer: $7,000.

The maximum depreciation for a luxury automobile during 2019 is the lesser of the automobile limitation of $10,000 or MACRS depreciation of $11,000 ($55,000 × 0.20). The lower amount of $10,000 is then reduced for the business percentage use of 70 percent. Depreciation is $7,000 ($10,000 × 70%).
Difficulty: 1 Easy
Topic: Special Rules Relating to Cost Recovery
Learning Objective: 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Analyze
AACSB: Analytical Thinking
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102) Boxer LLC has acquired various types of assets recently used 100 percent in its trade or business. Below is a list of assets acquired during 2018 and 2019:

Asset	Cost Basis	Convention	Date Placed in Service
Machinery	25,000	Half-year	January 24, 2018
Warehouse	800,000	Mid-month	August 1, 2018
Furniture	100,000		October 5, 2019
Computer equipment	65,000		October 10, 2019
Office equipment	34,000		September 28, 2019
Automobile	35,000		July 15, 2019
Office building	800,000		September 24, 2019

Boxer did not elect §179 expense and elected out of bonus depreciation in 2018, but would like to take advantage of the §179 expense and bonus depreciation for 2019 (assume that taxable income is sufficient). Calculate Boxer's maximum depreciation deduction for 2019.
(Use MACRS Table 1, MACRS Table 5, and Exhibit 10-10.) **(Round final answer to the nearest whole number.)**

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Answer: $249,627.

§179 allows expensing of all the 2019 tangible personal property ($199,000 = $100,000 + $65,000 + $34,000), with the exception of the automobile. The maximum depreciation for 2019 on luxury automobiles is $10,000 plus $8,000 of bonus depreciation. The depreciation of the remaining assets is as follows: 2018 machinery ($25,000 × 0.2449 = $6,123), 2018 warehouse ($800,000 × 0.02564 = $20,512), and the 2019 office building ($800,000 × 0.00749 = $5,992).

Asset	2019 Depreciation
Machinery	$6,123
Warehouse	20,512
Furniture	100,000
Computer equipment	65,000
Office equipment	34,000
Automobile	18,000
Office building	5,992
Total	$249,627

Difficulty: 3 Hard
Topic: Depreciation; Special Rules Relating to Cost Recovery
Learning Objective: 02-02 Determine the applicable cost recovery (depreciation) life, method, and convention for tangible personal and real property and the deduction allowable under basic MACRS.; 02-03 Calculate the deduction allowable under the additional special cost recovery rules (§179, bonus, and listed property).
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
AICPA: BB Critical Thinking

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

Answer: $7,778.

The full-month convention applies. §197 assets have a recovery period of 180 months. The amortization is $7,778 = ($175,000 ÷ 180) × 8.
Difficulty: 1 Easy
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Remember; Analyze
AACSB: Reflective Thinking; Analytical Thinking
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104) Assume that Cannon LLC acquires a competitor's assets on June 15th of a prior year. The purchase price was $450,000. Of the amount, $196,200 is allocated to tangible assets and $253,800 is allocated to three §197 intangible assets: $153,000 to goodwill, $50,400 to a customer list with an expected life of eight years, and $50,400 to a three-year noncompete agreement. On May 30th of the second year, the customer list is sold for $10,000. **(Round your amortization and final answer to the nearest whole number. Round your allocation percentage to the nearest whole percentage, e.g., 0.1234 as 12 percent.)**

1) What is Cannon's amortization deduction for the second year?
2) What is the basis of the intangibles at the end of the second year?

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Answer:
1) Cannon's amortization deduction 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, seven months	$ 5,950	$ 1,960	$ 1,960	
Year 2, five 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 percent, 25 percent	$ 27,780	$ 9,260	$ (37,040)	
Reallocated basis	$ 170,580	$ 56,300	$ 0	
Remaining months	168	168		
Per month, rounded	$ 1,015	$ 335		
June to December (seven 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, seven months	(5,950)	(1,960)
Amortization Year 2, five months	(4,250)	(1,400)
Reallocated basis, May 30, Year 2	27,780	9,260
Amortization Year 2, seven months	(7,105)	(2,345)
Basis, end of Year 2	$ 163,475	$ 53,955

Difficulty: 3 Hard
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze; Apply
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105) Oksana started an LLC on November 2 of the current year. She incurred $30,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

Answer: $5,278.

$5,000 of start-up costs can be immediately deducted and $278 [($25,000 ÷ 180) × 2 months] of amortization may be deducted.
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

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

Answer: $7,111.

Total amortization is $7,111. $5,000 of start-up costs can be immediately expensed. Patin may not immediately deduct the organizational costs because the immediate deduction is phased out dollar for dollar for organization expenditures exceeding $50,000. As a result, when the expenses exceed $55,000, no immediate deduction can be taken. In addition, $2,111 ($35,000 ÷ 180) × 4 months = $778 of the start-up costs may be amortized and ($60,000 ÷ 180) × 4 months = $1,333 of the organizational expenditures may be amortized.
Difficulty: 2 Medium
Topic: Amortization
Learning Objective: 02-04 Calculate the deduction for amortization.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA: BB Critical Thinking

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

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

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

Answer:
1) $69,000.

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

2) $2,368.

The amortization is $2,368 = ($69,000 ÷ 204 months) × 7 months in Year 3.
Difficulty: 3 Hard
Topic: Amortization
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108) Sequoia purchased the rights to cut timber on several tracts of land over a 15-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 deduction for the current year?

Answer: $45,000.

The depletion expense is $45,000 ($500,000 ÷ 500,000) × 45,000.
Difficulty: 1 Easy
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
Bloom's: Analyze
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109) PC Mine purchased a platinum deposit for $3,500,000. It estimated it would extract 17,000 ounces of platinum from the deposit. PC mined the platinum and sold it, reporting gross receipts of $500,000 and $8 million for Years 1 and 2, respectively. During Years 1 and 2, PC reported net income (loss) from the platinum deposit activity in the amount of ($100,000) and $3,800,000, respectively. In Years 1 and 2, PC actually extracted 2,000 and 8,000 ounces of platinum. What is PC's depletion deduction 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 a cost depletion deduction of $411,765 [($3,500,000 ÷ 17,000) × 2,000] in Year 1. Because PC has a loss in Year 1, there is no percentage depletion. PC has percentage depletion of $1,760,000 in Year 2: the lesser of $1,760,000 ($8 million × 22 percent) or $1,900,000 ($3.8 million × 50 percent). Cost depletion was $1,647,059 [($3,500,000 ÷ 17,000) × 8,000] and is less than percentage depletion.
Difficulty: 2 Medium
Topic: Depletion
Learning Objective: 02-05 Explain cost recovery of natural resources and the allowable depletion methods.
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