

# LONG-LIVED ASSETS

## Key Topics to Know

### Accounting for Long-Term Assets

- Determining the cost of long-term assets.
- Classify fixed asset costs as either capital expenditures or revenue expenditures (operating expenses).
- Intangible vs. tangible assets
- Different type of long-lived assets: land, land improvements, buildings and equipment

### Buying vs. Leasing Assets

### Intangible Assets

- No physical existence
- Grants rights or privileges to the owner
- Patents have a useful life of 20 years
- Copyrights have a useful life of 70 years
- Trademarks, if renewed, have an infinite useful life
- Franchise may have a definite useful life or an infinite useful life
- Goodwill has an infinite useful life and is subject to impairment of value
- Research and development costs are expensed as incurred

### Disposal of fixed assets:

- Discarding and retiring assets
- Selling assets
- Gain vs. loss on sale of asset

**Compute return on Assets, Asset Turnover and return on Assets ratios.**

## Problems

### **Problem #1 - Disposal of fixed asset**

A metal stamping machine acquired on January 1 at a cost of \$ 55,000 had an estimated residual value of \$ 5,000 and an estimated life of 10 years. It was sold 7 years later on July 1 for \$ 10,000 when accumulated depreciation was \$35,000

- Required:
- a) What was the book value on July 1 when it was sold?
  - b) Journalize the entry to record the sale.

### **Problem #2 – Acquisition of Assets**

On January 6, the J Company purchased a tract of land for a factory site for \$1,500,000. One of two existing buildings on the site was demolished and the new factory was completed on October 11. In August, the company spent \$1,200 to repair the sidewalk in front of the building. During November, J Company spent \$50,000 to repair and refurbish the other existing building, \$25,000 to add a parking lot and \$5,000 on additional landscaping. Additional cost data are shown below:

Construction cost or new building	\$1,760,000
Real estate and attorney fees	15,400
Architect fees	138,000
Cost to demolish old building	133,200
Salvage recovery from old building	(11,000)

- Required:                      Journalize the entries to record these transactions

## Multiple Choice Questions

1. Which of the following assets is not considered to have indefinite useful lives?
  - a) Copyrights
  - b) Goodwill
  - c) Renewable franchises
  - d) Trademarks
  
2. Goodwill may be recorded in which of the following circumstances
  - a) When the property, plant and equipment of a business increase in value.
  - b) When a business earns a very high net income.
  - c) When one business purchases another business.
  - d) When a business sells property for more than its book value.
  
3. Which of the following would be classified as a tangible asset?
  - a) Land
  - b) Goodwill
  - c) Copyright
  - d) Trademark
  
4. Which of the following assets is depreciated?
  - a) Land improvements
  - b) Land
  - c) Goodwill
  - d) Copyright
  
5. Which of the following intangible assets does **not** convey a specific legal right or privilege?
  - a) Copyrights
  - b) Franchises
  - c) Goodwill
  - d) Trademarks

## Solutions to Problems

### Problem #1- Disposal of fixed asset

a) $\$55,000 - \$35,000 = \$20,000$		
b) Accumulated depreciation	35,000	
Cash	10,000	
Loss on disposal	5,000	
Equipment		55,000

### Problem #2 – Acquisition of Assets

Land:		
Purchase price	\$1,500,000	
Real estate and attorney fees	15,400	
Cost to demolish old building	133,200	
Salvage recovery from old building	<u>(11,000)</u>	
Total land cost	1,637,600	
Building:		
Construction cost of new building	\$1,760,000	
Architect fees	<u>138,000</u>	
	\$1,898,000	
Land	1,637,600	
Cash		1,637,600
Building – new	1,898,000	
Cash		1,898,000
Repair expense	1,200	
Cash		1,200
Building - old	50,000	
Cash		50,000
Land improvements	30,000	
Cash		30,000

**Solutions to Multiple Choice Questions**

- 1. A
- 2. C
- 3. A
- 4. A
- 5. C