

**Question #1** (AICPA.110579FAR)

Four years ago on January 2, Randall Co. purchased a long-lived asset. The purchase price of the asset was \$250,000, with no salvage value. The estimated useful life of the asset was 10 years. Randall used the straight-line method to calculate depreciation expense. An impairment loss on the asset of \$30,000 was recognized on December 31 of the current year. The estimated useful life of the asset at December 31 of the current year did not change. What amount should Randall report as depreciation expense in its income statement for the next year?

A. \$20,000.

The net book value of the asset at the time of impairment was \$150,000: \$250,000 cost less \$100,000 accumulated depreciation (4 years of depreciation at \$25,000 a year). After the impairment of \$30,000, the net book value is \$120,000 (\$150,000 - 30,000). The remaining life is 6 years and annual depreciation is \$20,000.

B. \$22,000.

C. \$25,000.

D. \$30,000.

**Question #2** (AICPA.110570FAR)

Restorations of carrying value for long-lived assets are permitted if an asset's fair value increases subsequent to recording an impairment loss for which of the following?

|                                     | Held for use | Held for disposal |
|-------------------------------------|--------------|-------------------|
| <input type="checkbox"/>            | Yes          | Yes               |
| <input type="checkbox"/>            | Yes          | No                |
| <input checked="" type="checkbox"/> | No           | Yes               |

If an asset is held for disposal, previous losses can be recovered. The logic is that the recovery will be realized in the near future if the asset is in the process of being disposed. In contrast, an asset held for use CANNOT recover previous impairment because there is no certainty regarding the ultimate realization of those losses.

|                          |    |    |
|--------------------------|----|----|
| <input type="checkbox"/> | No | No |
|--------------------------|----|----|

**Question #3** (AICPA.920545FAR-P1-FA)

On July 1, 2004, one of Rudd Co.'s delivery vans was destroyed in an accident. On that date, the van's carrying value was \$2,500.

On July 15, 2004, Rudd received and recorded a \$700 invoice for a new engine installed in the van in May 2004, and another \$500 invoice for various repairs. In August, Rudd received \$3,500 under its insurance policy on the van, which it plans to use to replace the van.

What amount should Rudd report as gain (loss) on disposal of the van in its 2004 income statement?

A. \$1,000

B. \$300

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The gain of \$300 is the difference between the insurance proceeds and the sum of the carrying value of the van plus the cost of the new engine. The repair cost is expensed. It does not increase the value of the van.  $\$300 = \$3,500 - \$2,500 - \$700$ .

- C. \$0  
 D. \$(200)

**Question #4** (AICPA.090654.FAR.II.D)

A company has a long-lived asset with a carrying value of \$120,000, expected future cash flows of \$130,000, present value of expected future cash flows of \$100,000, and a market value of \$105,000. What amount of impairment loss should be reported?

- A. \$0

The recoverable cost (expected future cash flows) of \$130,000 exceeds the \$120,000 book value. Therefore, the asset is not impaired, and no loss is recorded. Although both the market value and present value of the future cash flows are less than book value, as long as the nominal sum of future cash flows (\$130,000) exceeds book value, no impairment is recorded. The firm is expected to recover its book value.

- B. \$5,000  
 C. \$15,000  
 D. \$20,000

**Question #5** (AICPA.911119FAR-P1-FA)

A state government condemned Cory Co.'s parcel of real estate. Cory will receive \$750,000 for this property, which has a carrying amount of \$575,000. Cory incurred the following costs as a result of the condemnation:

|  |         |
|--|---------|
| Appraisal fees to support a \$750,000 value                      | \$2,500 |
| Attorney fees for the closing with the state                     | 3,500   |
| Attorney fees to review contract to acquire replacement property | 3,000   |
| Title insurance on replacement property                          | 4,000   |

What amount of cost should Cory use to determine the gain on the condemnation?

- A. \$581,000

The total value to be compared to the amount received from the government in computing the gain:

|   |           |
|---|-----------|
| Carrying amount   | \$575,000 |
| Plus appraisal fees to support a \$750,000 value              | 2,500     |
| Plus attorney fees for the closing with the state             | 3,500     |
| Equals total cost to compare to \$750,000 received from state | \$581,000 |

The second and third items in the above list essentially reduce the net proceeds from the state and thus decrease the gain. The \$3,000 and \$4,000 amounts pertaining to the replacement property are not associated with the existing property and do not affect the gain on its condemnation.

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- B. \$582,000
- C. \$584,000
- D. \$588,000

**Question #6** (AICPA.061212FAR)

**Which of the following conditions must exist in order for an impairment loss to be recognized?**

**I. The carrying amount of the long-lived asset is less than its fair value.**

**II. The carrying amount of the long-lived asset is not recoverable.**

- A. I only.
- B. II only.

**The test for impairment for an asset in use is whether the carrying value (book value) is less than its recoverable cost. An asset's recoverable cost is the sum of its estimated net cash inflows projected for its remaining life.**

**When book value > recoverable cost, the carrying value is not recoverable. In other words, the asset is booked at more than the sum of its future net cash inflows.**

**For example, if an asset's carrying value is \$100 and its recoverable cost is \$80, then its carrying value is not recoverable (only \$80 is recoverable). The AMOUNT of the loss recognized is the difference between carrying value and fair value, but that difference is not used for TESTING whether an asset is impaired.**

**That difference is not the condition leading to the impairment loss.**

- C. Both I and II.
- D. Neither I nor II.

**Question #7** (AICPA.910526FAR-P1-FA)

**In January 2002, Winn Corp. purchased equipment at a cost of \$500,000.**

**The equipment had an estimated salvage value of \$100,000, an estimated 8-year useful life, and was being depreciated by the straight-line method. Two years later, it became apparent to Winn that this equipment suffered a permanent impairment of value.**

**In January 2004, management determined the carrying amount should be only \$175,000, with a 2-year remaining useful life, and the salvage value should be reduced to \$25,000.**

**In Winn's December 31, 2004, balance sheet, the equipment should be reported at a carrying amount of:**

- A. \$350,000
- B. \$175,000
- C. \$150,000
- D. \$100,000

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The post-impairment carrying value is \$175,000 at the beginning of 2004. This amount is the new basis for depreciation. Depreciation in 2004 is \$75,000 [(\$175,000 - \$25,000)/2].

The revised salvage value is used. After deducting the 2004 depreciation expense of \$75,000 from the \$175,000 beginning book value, the ending 2004 book value is \$100,000.

**Question #8** (AICPA.101075FAR)

**When should a long-lived asset be tested for recoverability?**

- A. When external financial statements are being prepared.
- B. When events or changes in circumstances indicate that its carrying amount may not be recoverable.

**Long-lived assets need to be tested for impairment when facts or circumstances indicate that the carrying amount may not be recoverable. An indication that the carrying value is no longer recoverable includes innovations in technology which may make the product or process obsolete.**

- C. When the asset's carrying amount is less than its fair value.
- D. When the asset's fair value has decreased, and the decrease is judged to be permanent.

**Question #9** (AICPA.101074FAR)

Last year, Katt Co. reduced the carrying amount of its long-lived assets used in operations from \$120,000 to \$100,000 in connection with its annual impairment review. During the current year, Katt determined that the fair value of the same assets had increased to \$130,000. What amount should Katt record as restoration of previously recognized impairment loss in the current year's financial statements?

- A. \$0

**Recovery of impairment losses is prohibited under U.S. GAAP.**

- B. \$10,000
- C. \$20,000
- D. \$30,000

**Question #10** (AICPA.901137FAR-TH-FA)

**Gown, Inc. sold a warehouse and used the proceeds to acquire a new warehouse. The excess of the proceeds over the carrying amount of the warehouse sold should be reported as a(an):**

- A. Extraordinary gain, net of income taxes.
- B. Part of continuing operations.

**The excess of proceeds over the carrying value increases the net assets of the firm, is recorded as an ordinary gain, and is included in income from continuing operations. The purchase of the new warehouse is an unrelated transaction.**

- C. Gain from discontinued operations, net of income taxes.
- D. Reduction of the cost of the new warehouse.

**Question #11** (AICPA.900519FAR-P1-FA)

**On December 31, 2004, a building owned by Pine Corp. was totally destroyed by fire. The building had fire insurance coverage up to \$500,000.**

**Other pertinent information as of December 31, 2004, follows:**

|                             |           |
|-----------------------------|-----------|
| Building, carrying amount   | \$520,000 |
| Building, fair market value | 550,000   |
| Removal and cleanup cost    | 10,000    |

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**During January 2005, before the 2004 financial statements were issued, Pine received insurance proceeds of \$500,000. On what amount should Pine base the determination of its loss on involuntary conversion?**

- A. \$520,000
- B. \$530,000

**The sum of the carrying value (\$520,000) and removal/cleanup cost (\$10,000) is the amount to compare to the insurance proceeds when computing the loss. The fire caused the latter costs to be incurred; therefore, the cleanup costs should be included in the loss.**

**The fair value of the property would not figure into the recorded loss because the building account does not reflect this amount.**

- C. \$550,000
- D. \$560,000