

CPA-FAR-ASSETS

Post-Acquisition Expenditures

**Question #1** (AICPA.900516FAR-P1-FA)

On June 18, 2005, Dell Printing Co. incurred the following costs for one of its printing presses:

Purchase of collating and stapling attachment	\$84,000
Installation of attachment	36,000
Replacement parts for overhaul of press	26,000
Labor and overhead in connection with overhaul	14,000

The overhaul resulted in a significant increase in production. Neither the attachment nor the overhaul increased the estimated useful life of the press. What amount of the above costs should be capitalized?

- A. \$0
- B. \$84,000
- C. \$120,000
- D. \$160,000

All four costs should be capitalized because they result in an increase in the productivity of the asset. Costs that increase EITHER the life OR productivity are capitalized. Either type of increase results in enhanced asset values. \$160,000 is the sum of the four costs listed.

**Question #2** (AICPA.930526FAR-TH-FA)

A building suffered uninsured fire damage. The damaged portion of the building was refurbished with higher quality materials. The cost and related accumulated depreciation of the damaged portion are identifiable. To account for these events, the owner should:

- A. Reduce accumulated depreciation equal to the cost of refurbishing.
- B. Record a loss in the current period equal to the sum of the cost of refurbishing and the carrying amount of the damaged portion of the building.
- C. Capitalize the cost of refurbishing, and record a loss in the current period equal to the carrying amount of the damaged portion of the building.

When the cost and accumulated depreciation of a component or portion of a larger asset is identifiable, and that component or portion is replaced, the replacement is treated as two separate transactions:

- (1) disposal of the old component (for zero proceeds in this case, due to the fire damage) and
- (2) purchase of the new component.

Thus, a loss equal to the book value of the old component is recognized for (1) and the amount paid to purchase the new component is capitalized as a separate purchase for (2).

- D. Capitalize the cost of refurbishing by adding the cost to the carrying amount of the building.

**Question #3** (AICPA.901113FAR-TH-FA)

A building suffered uninsured water and related damage. The damaged portion of the building was refurbished with upgraded materials. The cost and related accumulated depreciation of the damaged portion are identifiable.

To account for these events, the owner should:

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- A. Capitalize the cost of refurbishing and record a loss in the current period equal to the carrying amount of the damaged portion of the building.

**When the portion of an asset that is removed from a larger asset has identifiable costs and accumulated depreciation amounts, those amounts are removed from the books. The difference between these two amounts is the carrying value of the damaged portion of the larger asset. There is no insurance. Therefore, the carrying value of the damaged portion is written off as a loss. The replacement assets are capitalized at cost. The entries are:**

	Portion removed	New materials
	Loss	Asset
	Accumulated depreciation	Cash
	Asset	

- B. Capitalize the cost of refurbishing by adding the cost to the carrying amount of the building.
- C. Record a loss in the current period equal to the cost of refurbishing, and continue to depreciate the original cost of the building.
- D. Record a loss in the current period equal to the sum of the cost of refurbishing and the carrying amount of the damaged portion of the building.

**Question #4** (AICPA.083734FAR-SIM)

**Many years after constructing a plant asset, management spent a significant sum on the asset. Which of the following types of expenditures should be capitalized in this instance:**

- (1) an expenditure for routine maintenance that increases the useful life compared with deferring the maintenance,
- (2) an expenditure that increases the useful life of the asset compared with the original estimate assuming normal maintenance at the required intervals,
- (3) an expenditure that increases the utility of the asset.

	(1)	(2)	(3)
<input type="checkbox"/>	Yes	Yes	Yes
<input checked="" type="checkbox"/>	No	Yes	Yes

**Post-acquisition expenditures, which increase the useful life (assuming normal maintenance) or the utility (usefulness or productivity) of the asset, are capitalized. Such expenditures provide value for more than one year. The original useful life of an asset assumes regular maintenance. Therefore, regular maintenance does not increase the intended useful life of the asset.**

<input type="checkbox"/>	No	No	Yes
<input type="checkbox"/>	No	Yes	No

**Question #5** (AICPA.911115FAR-P1-FA)

**On January 1, 2005, Dix Co. replaced its old boiler. The following information was available on that date:**

Carrying amount of old boiler	\$ 8,000
Fair value of old boiler	2,000
Purchase and installation price of new boiler	100,000

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**The old boiler was sold for \$2,000. What amount should Dix capitalize as the cost of the new boiler?**

- A. \$92,000
- B. \$94,000
- C. \$98,000
- D. \$100,000

**The disposal of the old boiler and purchase of the new boiler are separate transactions. The loss on disposal has no effect on the capitalized cost of the new boiler, which is recorded at its \$100,000 purchase cost.**