

7 Lecture - MGT401

Important Mcqs

1. **Which of the following assets are typically considered as Property, Plant & Equipment (PP&E)?**
- A) Investments in stocks
 - B) Accounts receivables
 - C) Land
 - D) Cash and cash equivalents

Answer: C) Land

2. **How should a company account for the cost of improvements to its PP&E?**
- A) As an expense in the period incurred
 - B) As an addition to the cost of the PP&E asset
 - C) As a separate line item in the income statement
 - D) As a reduction in the carrying amount of the PP&E asset

Answer: B) As an addition to the cost of the PP&E asset

3. **Which of the following would NOT be considered as borrowing costs?**
- A) Interest on loans used to finance the construction of a new factory
 - B) Fees paid to arrange a loan for the acquisition of PP&E
 - C) Interest on a bank overdraft used to purchase inventory
 - D) Interest on a loan used to purchase a building that will be leased out to tenants

Answer: C) Interest on a bank overdraft used to purchase inventory

4. **How should a company account for borrowing costs related to qualifying assets?**
- A) As an expense in the period incurred
 - B) As a reduction in the carrying amount of the qualifying asset
 - C) As a separate line item in the income statement
 - D) As an addition to the cost of the qualifying asset

Answer: D) As an addition to the cost of the qualifying asset

5. **What is the purpose of depreciating PP&E assets?**
- A) To report the market value of the assets
 - B) To allocate the cost of the assets over their useful lives
 - C) To reduce the carrying amount of the assets
 - D) To increase the marketability of the assets

Answer: B) To allocate the cost of the assets over their useful lives

6. **Which of the following depreciation methods results in a higher depreciation expense in the early years of an asset's life?**
- A) Straight-line method
 - B) Double-declining balance method
 - C) Units-of-production method
 - D) Sum-of-the-years'-digits method

Answer: B) Double-declining balance method

7. **How should a company account for the disposal of a PP&E asset?**
- A) Record the sale price as revenue and reduce the carrying amount of the asset
 - B) Record the sale price as revenue and leave the carrying amount of the asset unchanged
 - C) Record a gain or loss on disposal in the income statement
 - D) Ignore the disposal and continue to depreciate the asset

Answer: C) Record a gain or loss on disposal in the income statement

8. **How should a company account for borrowing costs that do not relate to qualifying assets?**
- A) As an expense in the period incurred
 - B) As a reduction in the carrying amount of the qualifying asset
 - C) As a separate line item in the income statement
 - D) As an addition to the cost of the qualifying asset

Answer: A) As an expense in the period incurred

9. **How should a company account for repairs and maintenance costs to its PP&E?**
- A) As an expense in the period incurred
 - B) As an addition to the cost of the PP&E asset
 - C) As a reduction in the carrying amount of the PP&E asset
 - D) As a separate line item in the income statement

Answer: A) As an expense in the period incurred

10. **Which of the following is NOT a factor that determines the amount of borrowing costs that can be capitalized?**
- A) The amount of interest incurred on the borrowing
 - B) The