# 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