

# 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