

SELF STUDY QUESTIONS

Fill in the Blank

Section 5

Module 1

In the space provided, write the word or words to either replace the question mark or answer the question.

1. According to APB Opinion No. 17, intangible assets should be systematically amortized or written off to expense accounts over their estimated useful lives, which in no case should exceed ? years. 

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2. A(n) ? is an exclusive right granted by the government to an inventor enabling the inventor to control the manufacture, sale, or other use of the invention for a specified period of time. 

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3. Patents have a legal life of ? years. 

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4. A ? is granted by the federal government and gives its owner the exclusive right to publish and sell a musical, literary, or artistic work. 

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5. The current copyright law provides for a legal life for a copyright consisting of the author's life plus an added ? years. 

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Circle the letter of the best answer.

1. The balance sheet category intangible assets includes
  - A. patents, trademarks, franchises
  - B. equipment, land, and building
  - C. investments, receivables, and prepaid insurance
  - D. goodwill, inventory, and furnishings
  
2. Which of the following accounts is generally not classified as an intangible asset?
  - A. patents
  - B. goodwill
  - C. land
  - D. franchises
  
3. Costs incurred by a company to develop its goodwill should be
  - A. capitalized and amortized over the useful life of the goodwill
  - B. capitalized and amortized over a period not to exceed 40 years
  - C. capitalized and amortized as the company profits increase
  - D. expensed when incurred as a current operating expense
  - E. none of the above
  
4. Which of the following intangible assets should be amortized?
  - A. copyrights, purchased from another company
  - B. goodwill, with an expected unlimited life
  - C. patents, purchased from another company
  - D. all of the above
  
5. Under current GAAP, the maximum period over which an intangible asset can be amortized is
  - A. unspecified
  - B. 99 years
  - C. 40 years
  - D. 28 years
  - E. none of the above
  
6. Intangible assets are usually amortized using
  - A. the straight line method
  - B. the units of production method
  - C. a declining balance method
  - D. the sum of the years' digits method
  
7. A consideration in determining the useful life of an intangible asset is not the
  - A. legal, regulatory, or contractual provisions
  - B. provisions for renewal or extension
  - C. expected actions of competitors
  - D. initial cost

8. On January 1, 20x5, an intangible asset with a forty-five year useful life was acquired. The original cost at January 1, 20x5 should be amortized over a
- thirty-year life
  - forty-year life
  - forty-five year life
  - fifty-year life
9. The intangible asset goodwill may be
- capitalized only when purchased
  - capitalized either when purchased or created internally
  - capitalized only when created internally
  - written off directly to retained earnings
  - none of the above
10. Purchased goodwill should be written off
- as soon as possible against retained earnings
  - as soon as possible as an expense in the income statement
  - by systematic charges against retained earnings over the period benefited, but not more than 40 years
  - none of the above
11. During January 20x1, the Zero Company purchased a patent that cost \$7,380. At the time of purchase, the patent was valid for fifteen years. In view of developments in the company laboratory, it was expected that the patent will be superseded by other patents within six years of purchase. Patent amortization expense for 20x2 will be
- \$1,230
  - \$ 492
  - \$ 369
  - \$ 264
  - none of the above
12. In January 20x4 Tracy Corporation purchased a patent for a new consumer product for \$180,000. At the time of purchase, the patent was valid for fifteen years. Due to the competitive nature of the product however, the patent was estimated to have a useful life of only ten years. What amount should Tracy charge to expense during 20x7, assuming amortization is recorded at the end of each year?
- \$ 4,500
  - \$12,000
  - \$18,000
  - none of the above

13. Sherwood Corporation incurred \$68,000 of research and development costs in its laboratory to develop a patent which was granted on January 2, 20x1. Legal fees and other costs associated with registration of the patent totaled \$13,600. Sherwood estimates that the economic life of the patent will be eight years. What amount should Sherwood charge to patent amortization expense for the year ended December 31, 20x1?
- A. \$ 0
  - B. \$ 800
  - C. \$ 1,700
  - D. \$10,200
14. Most research and development costs should be
- A. expensed as incurred
  - B. capitalized and amortized over the period which will be benefited
  - C. capitalized for successful projects and expensed for unsuccessful projects
  - D. treated differently depending on the industry
  - E. none of the above
15. How should research and development costs usually be accounted for according to a Financial Accounting Standards Board Statement?
- A. must be capitalized when incurred and then amortized over their estimated useful lives
  - B. must be expensed in the period incurred unless it can be clearly demonstrated that the expenditure will have significant future benefits
  - C. must be expensed in the period incurred
  - D. the FASB has not issued a statement discussing research and development costs

16. In 20x5, the RBA Corporation incurred research and development costs as follows:

Materials and equipment .....	\$ 50,000
Personnel .....	50,000
Additional miscellaneous, indirect expenditures .....	<u>25,000</u>
	\$125,000

These costs relate to a product that will be marketed in 20x6. It is estimated that these costs will be recouped by December 31, 20x9. What is the amount of research and development costs that should be expensed in 20x5?

- A. \$ 0
- B. \$ 25,000
- C. \$100,000
- D. \$125,000
- E. none of the above

1. What are the characteristics of an intangible asset?
2. How should one account for the costs of an internally developed patent resulting from the company's own research and development activities?
3. The Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs," discusses two factors deemed significant by members of the Board in reaching the conclusion that all research and development costs should be charged to expense when incurred. What were the two factors?
4. Briefly indicate the practical and conceptual reasons for the conclusion reached by the Financial Accounting Standards Board on accounting and reporting practices for research and development costs.
5. What factors should determine whether or not an intangible asset is amortized (written off) and over what span of time?
6. The 20x6 annual report for McCormick & Company, Incorporated contains the following note:

Research and Development

Research and development costs are charged to operations as incurred. Such costs were \$6,610,000 in 20x6; \$7,203,000 in 20x5, and \$6,400,000 in 20x4.

- a. The matching concept requires that against the revenues of a time period the related expenses should be matched. If future benefits are to be derived, then such expenditures should be capitalized. Based on the handling of the research and development expenses by McCormick, would it be correct to assume that there are no future benefits to be derived from such expenditures? Explain.
- b. What are the practical and theoretical reasons for the immediate expensing of such expenditures by McCormick?