

# Balance sheet essay sample



**ASSIGN  
BUSTER**

1) Assuming a 25 percent tax rate, compute the after-tax cost of \$23, 000 worth of advertising costs. (part c) a) \$23, 000

b) \$20, 125

c) \$17, 250

Because the advertising cost is deductible, its after-tax cost is \$17, 250 ( $\$23, 000 - [\$23, 000 \times 25\%]$ ). d) \$27, 500

2) In 2013, Firm A paid \$50, 000 cash to purchase a tangible business asset. In 2013 and 2014, it deducted \$3, 140 and \$7, 200 depreciation with respect to the asset. Firm A's marginal tax rate in both years was 35 percent.

Compute Firm A's adjusted basis in the asset at the end of each year. (part

b) a) 2013: \$39, 660; 2014: \$29, 320

b) 2013: \$46, 860; 2014: \$39, 660

Initial cost basis \$50, 000

Year 1 depreciation (3, 140)

Adjusted basis at end of 2013 \$46, 860

Year 2 depreciation (7, 200)

Adjusted basis at end of 2014 \$39, 660

c) 2013: \$50, 000; 2014: \$50, 000

d) 2013: \$47, 959; 2014: \$43, 279

3) Refer to the facts in problem 2 above. Now assume that Firm A borrowed \$50, 000 to purchase the asset. In each year, it paid \$3, 800 annual interest on the debt. The interest payments were deductible. How does this change in facts affect Firm A's adjusted basis in the asset at the end of each year? (part b) a) It decreases the basis by \$3, 800 each year.

b) It decreases the basis by \$2, 470 ( $\$3, 800 - [\$3, 800 \times 35\% \text{ tax rate}]$ ). c) It increases the basis by \$3, 800 each year.

d) It has no effect on the basis.

The use of leverage has no effect on Firm A's adjusted basis in the asset. 4)

Company XYZ manufactures a tangible product and sells the product at wholesale. In its first year of operations, XYZ manufactured 1, 000 units of product and incurred \$200, 000 direct material cost and \$130, 000 direct labor

costs. For financial statement purposes, XYZ capitalized \$85, 000 indirect costs to inventory. For tax purposes, it had to capitalize \$116, 000 indirect costs to inventory under the unicap rules. At the end of its first year, XYZ held 260 units in inventory. Compute XYZ's cost of goods sold for book purposes and for tax purposes. a) Book: \$415, 000; Tax: \$446, 000

b) Book: \$307, 100; Tax: \$330, 040

Company XYZ's cost of goods sold for its first year of operations is computed as follows. BookTax

Direct material cost\$200, 000\$200, 000

Direct labor cost130, 000130, 000

Indirect costs 85, 000116, 000

Total cost of 1, 000 units\$415, 000\$446, 000

Cost of ending inventory (260 units)(107, 900)(115, 960)

Cost of goods sold (740 units)\$307, 100\$330, 040

[\$415, 000/1, 000 = \$415 each unit of inventory (book)]

[\$446, 000/1, 000 = \$446 each unit of inventory (tax)]

c) Book: \$107, 900; Tax: \$115, 960

d) Book: \$350, 400; Tax: \$298, 700

5) Herelt Inc., a calendar year taxpayer, purchased equipment for \$383, 600 and placed it in service on April 1, 2014. The equipment was seven-year recovery property, and Herelt used the half-year convention to compute MACRS depreciation. Compute Herelt's MACRS depreciation for 2016 if it disposes of the equipment on February 9, 2016. (part c) a) \$25, 483

b) \$67, 092

c) \$42, 421

d) \$33, 546

Herelt's MACRS depreciation for the year of disposition is based on the half-year convention. Thus, 2016 depreciation is \$33, 546 (50% [ $\$383, 600 \times 17.49\%$ ]).

6) The Section 179 expense election applies to what type of assets? a) Only startup expenses.

b) Intangible assets.

c) Depreciable personalty.

d) Only residential real property.

7) Start-up costs may be only partially deductible in the year incurred, but expansion costs are fully deductible in the year incurred. a) True

b) False

8) Bonus depreciations allows the purchaser of qualified tangible personal property to take an extra depreciation deduction in the year acquired. a)

True

b) False

9) What are two tax recovery methods used frequently in the natural

resource industry? a) Allocable & non-allocable recovery.

b) Cost & percentage depletion.

c) Going-concern value & goodwill impairment.

d) Leasehold costs & leasehold improvements.

10) For both financial reporting purposes and tax purposes, goodwill is

capitalized and only expensed when impaired. a) True

b) False