

**McGraw-Hill's Taxation of Business Entities, 2018 Edition, 9e (Spilker)**  
**Chapter 2 Property Acquisition and Cost Recovery**

- 1) Like financial accounting, most acquired business property must be capitalized for tax purposes.
- 2) Tax cost recovery methods include depreciation, amortization, and depletion.
- 3) If a business mistakenly claims too little depreciation, the business must only reduce the asset's basis by the depreciation actually taken rather than the amount of the allowable depreciation.
- 4) An asset's capitalized cost basis includes only the actual purchase price; whereas expenses to purchase, prepare the asset for use, and begin using the asset are immediately expensed.
- 5) The basis for a personal use asset converted to business use is the lesser of the asset's cost basis or fair market value on the date of the transfer or conversion.
- 6) Depreciation is currently computed under the Modified Accelerated Cost Recovery System (MACRS).
- 7) The 200 percent or double declining balance method is allowable for five- and seven-year property.
- 8) Taxpayers may use historical data to determine the recovery period for tax depreciation.
- 9) Taxpayers use the half-year convention for all assets.
- 10) If a taxpayer places only one asset (a building) in service during the fourth quarter of the year, the mid-quarter convention must be used.
- 11) The MACRS depreciation tables automatically switch to the straight-line method when the straight-line method yields a higher annual depreciation amount than the declining balance method.
- 12) If tangible personal property is depreciated using the half-year convention and is disposed of during the first quarter of a subsequent year, the taxpayer must use the mid-quarter convention for the year of disposition.
- 13) If a machine (seven-year property) being depreciated using the half-year convention is disposed of during the seventh year, a taxpayer must multiply the appropriate depreciation percentage from the MACRS table percentage by 50 percent to calculate the depreciation expense properly.
- 14) Real property is always depreciated using the straight-line method.
- 15) The mid-month convention applies to real property in the year of acquisition and disposition.
- 16) All taxpayers may use the §179 immediate expensing election on certain property.

- 17) The §179 immediate expensing election phases out based upon a taxpayer's taxable income.
- 18) The §179 immediate expensing election phases out based upon the amount of tangible personal property a taxpayer places in service during the year.
- 19) Property expensed under the §179 immediate expensing election is not included in the 40 percent test to determine whether the mid-quarter convention must be used.
- 20) In general, a taxpayer should select longer-lived property for the §179 immediate expensing election.
- 21) Occasionally bonus depreciation is used as a stimulus tool by tax policy makers.
- 22) Business assets that tend to be used for both business and personal purposes are referred to as listed property.
- 23) If the business use percentage for listed property falls below 50 percent, the only adjustment is all future depreciation must be calculated under the straight-line method.
- 24) Significant limits are placed on the depreciation of luxury automobiles.
- 25) The alternative depreciation system requires both a slower method of recovery and longer recovery periods.
- 26) The method for tax amortization is always the straight-line method.
- 27) All assets subject to amortization have the same recovery period.
- 28) Goodwill and customer lists are examples of §197 amortizable assets.
- 29) Taxpayers may always expense a portion of start-up costs and organizational expenditures.
- 30) Businesses may immediately expense research and experimentation expenditures or they may elect to capitalize these costs and amortize them using the straight-line method over a period of not less than 60 months.
- 31) The manner in which a business amortizes a patent or copyright is the same whether the business directly purchases the patent or copyright or whether it self-creates the intangible.
- 32) Depletion is the method taxpayers use to recover their capital investment in natural resources.
- 33) In general, major integrated oil and gas producers may take the greater of cost or percentage depletion.
- 34) Cost depletion is available to all natural resource producers.

35) Businesses deduct percentage depletion when they sell the natural resource and they deduct cost depletion in the year they produce or extract the natural resource.

36) Tax cost recovery methods do NOT include:

- A) Amortization.
- B) Capitalization.
- C) Depletion.
- D) Depreciation.
- E) All of the choices are tax cost recovery methods.

37) Which of the following business assets is NOT depreciated?

- A) Automobile
- B) Building
- C) Patent
- D) Machinery
- E) All of the assets are depreciated.

38) An office desk is an example of:

- A) Personal property.
- B) Personal-use property.
- C) Real property.
- D) Business property.
- E) Personal property and business property.

39) An example of an asset that is both personal-use and personal property is:

- A) A computer used solely to email company employees regarding company activities.
- B) A storage building used by the CEO to store personal records.
- C) A computer used solely to monitor the CEO's investments and to complete her Form 1040.
- D) A company airplane used by the CEO for business travel.
- E) All of the assets are personal-use and personal property.

40) Which of the following is NOT usually included in an asset's tax basis?

- A) Purchase price
- B) Sales tax
- C) Shipping
- D) Installation costs
- E) All of the choices are included in an asset's tax basis.

41) Which of the following would be considered an improvement rather than a routine maintenance?

- A) Oil change
- B) Engine overhaul
- C) Wiper blade replacement
- D) Air filter change

- 42) Tax depreciation is currently calculated under what system?
- A) Sum of the years digits
  - B) Accelerated cost recovery system
  - C) Modified accelerated cost recovery system
  - D) Straight line system
  - E) None of the choices are correct.
- 43) Which is not an allowable method under MACRS?
- A) 150 percent declining balance
  - B) 200 percent declining balance
  - C) Straight line
  - D) Sum of the years digits
  - E) All of the choices are allowable methods under MACRS.
- 44) Which of the allowable methods allows the most accelerated depreciation?
- A) 150 percent declining balance
  - B) 200 percent declining balance
  - C) Straight line
  - D) Sum of the years digits
  - E) None of the methods would allow accelerated depreciation.
- 45) How is the recovery period of an asset determined?
- A) Estimated useful life
  - B) Treasury regulation
  - C) Revenue Procedure 87-56
  - D) Revenue Ruling 87-56
  - E) None of the choices are correct.
- 46) Which of the following depreciation conventions are not used under MACRS?
- A) Full-month
  - B) Half-year
  - C) Mid-month
  - D) Mid-quarter
  - E) All of the choices are used under MACRS.
- 47) Which depreciation convention is the general rule for tangible personal property?
- A) Full-month
  - B) Half-year
  - C) Mid-month
  - D) Mid-quarter
  - E) None of the choices are conventions for tangible personal property.

48) The MACRS recovery period for automobiles and computers is:

- A) 3 years.
- B) 5 years.
- C) 7 years.
- D) 10 years.
- E) None of the choices are correct.

49) Lax, LLC purchased only one asset during the current year (a full 12-month tax year). Lax placed in service computer equipment (5-year property) on August 26 with a basis of \$20,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

- A) \$2,000.
- B) \$2,858.
- C) \$3,000.
- D) \$4,000.
- E) None of the choices are correct.

50) Sairra, LLC purchased only one asset during the current year (a full 12-month tax year). Sairra placed in service furniture (7-year property) on April 16 with a basis of \$25,000. Calculate the maximum depreciation expense for the current year? (ignoring §179 and bonus depreciation). (Use MACRS Table 1) **(Round final answer to the nearest whole number)**

- A) \$1,786.
- B) \$3,573.
- C) \$4,463.
- D) \$5,000.
- E) None of the choices are correct.

51) Beth's business purchased only one asset during the current year (a full 12-month tax year). Beth placed in service machinery (7-year property) on December 1 with a basis of \$50,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

- A) \$1,785.
- B) \$2,500.
- C) \$7,145.
- D) \$10,000.
- E) None of the choices are correct.

52) Deirdre's business purchased two assets during the current year (a full 12-month tax year). Deirdre placed in service computer equipment (5-year property) on January 20 with a basis of \$15,000 and machinery (7-year property) on October 1 with a basis of \$15,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2) **(Round final answer to the nearest whole number)**

- A) \$1,286.
- B) \$5,144.
- C) \$5,786.
- D) \$6,000.
- E) None of the choices are correct.

53) Suvi, Inc. purchased two assets during the current year (a full 12-month tax year). Suvi placed in service computer equipment (5-year property) on August 10 with a basis of \$20,000 and machinery (7-year property) on November 18 with a basis of \$10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1) **(Round final answer to the nearest whole number)**

- A) \$857.
- B) \$3,357.
- C) \$5,429.
- D) \$6,000.
- E) None of the choices are correct.

54) Wheeler LLC purchased two assets during the current year (a full 12-month tax year). Wheeler placed in service computer equipment (5-year property) on November 16 with a basis of \$15,000 and furniture (7-year property) on April 20 with a basis of \$11,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2) **(Round final answer to the nearest whole number)**

- A) \$1,285.
- B) \$2,714.
- C) \$4,572.
- D) \$5,200.
- E) None of the choices are correct.

55) Tasha LLC purchased furniture (7-year property) on April 20 for \$20,000 and used the mid-quarter convention. Tasha did not take §179 or bonus depreciation in the year it acquired the furniture. During the current year, which is the fourth year Tasha LLC owned the property, the property was disposed of on December 15. Calculate the maximum depreciation expense. (Use MACRS Table 2) EXHIBIT 2-6 **(Round final answer to the nearest whole number)**

- A) \$898.
- B) \$2,095.
- C) \$2,461.
- D) \$2,394.
- E) None of the choices are correct.

56) Anne LLC purchased computer equipment (5-year property) on August 29 for \$30,000 and used the half-year convention. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1)

- A) \$432.
- B) \$1,728.
- C) \$1,874.
- D) \$3,456.
- E) None of the choices are correct.

57) Poplock LLC purchased a warehouse and land during the current year for \$350,000. The purchase price was allocated as follows: \$275,000 to the building and \$75,000 to the land. The property was placed in service on August 12. Calculate Poplock's maximum depreciation for this first year. (Use MACRS Table 5) **(Round final answer to the nearest whole number)**

- A) \$2,648.
- B) \$3,371.
- C) \$3,751.
- D) \$4,774.
- E) None of the choices are correct.

58) Tom Tom LLC purchased a rental house and land during the current year for \$150,000. The purchase price was allocated as follows: \$100,000 to the building and \$50,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3)

- A) \$1,605.
- B) \$2,273.
- C) \$2,408.
- D) \$3,410.
- E) None of the choices are correct.

59) Simmons LLC purchased an office building and land several years ago for \$250,000. The purchase price was allocated as follows: \$200,000 to the building and \$50,000 to the land. The property was placed in service on October 2. If the property is disposed of on February 27 during the 10<sup>th</sup> year, calculate Simmons' maximum depreciation in the 10<sup>th</sup> year. (Use MACRS Table 5)  
EXHIBIT 2-6

- A) \$641.
- B) \$909.
- C) \$5,128.
- D) \$7,346.
- E) None of the choices are correct.

60) Which of the following assets are eligible for §179 expensing?

- A) Used office machinery
- B) Qualified leasehold improvements
- C) A new delivery truck
- D) Used office furniture
- E) All of the choices are correct.

61) Lenter LLC placed in service on April 29, 2017 machinery and equipment (7-year property) with a basis of \$600,000. Assume that Lenter has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including section 179 expensing (but ignoring bonus expensing). (Use MACRS Table 1)

- A) \$85,740.
- B) \$120,000.
- C) \$522,861.
- D) \$585,740.
- E) None of the choices are correct.

62) Littman LLC placed in service on July 29, 2017 machinery and equipment (7-year property) with a basis of \$600,000. Littman's income for the current year before any depreciation expense was \$100,000. Which of the following statements is true to maximize Littman's total depreciation expense for 2017? (Use MACRS Table 1)

- A) Littman should take §179 expense equal to the maximum \$510,000.
- B) Littman should take no §179 expense.
- C) Littman's §179 expense will be greater than \$100,000.
- D) Littman's §179 expense will be less than \$100,000.
- E) None of the choices are correct.

63) Crouch LLC placed in service on May 19, 2017 machinery and equipment (7-year property) with a basis of \$2,200,000. Assume that Crouch has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but ignoring bonus expensing). (Use MACRS Table 1)

- A) \$314,380.
- B) \$340,000.
- C) \$605,794.
- D) \$742,930.
- E) None of the choices are correct.

64) Clay LLC placed in service machinery and equipment (7-year property) with a basis of \$2,450,000 on June 6, 2016. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus expensing) (Use MACRS Table 1) (**Round final answer to the nearest whole number**)

- A) \$350,105
- B) \$427,244
- C) \$778,070
- D) \$860,105
- E) None of the choices are correct.

65) Bonnie Jo purchased a used computer (5-year property) for use in her sole proprietorship. The basis of the computer was \$2,400. Bonnie Jo used the computer in her business 60 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation expense during the first year assuming the sole proprietorship had a loss during the year (Bonnie did not place the property in service in the last quarter). (Use MACRS Table 1)

- A) \$240.
- B) \$288.
- C) \$480.
- D) \$2,400.
- E) None of the choices are correct.

66) Billie Bob purchased a used computer (5-year property) for use in his sole proprietorship in the prior year. The basis of the computer was \$2,400. Billie Bob used the computer in his business 60 percent of the time during the first year. During the second year, Billie Bob used the computer 40 percent for business use. Calculate Billie Bob's depreciation expense during the second year assuming the sole proprietorship had a loss during the year (Billie Bob did not place the asset in service in the last quarter). (Use MACRS Table 1)

- A) \$0.
- B) \$48.
- C) \$192.
- D) \$336.
- E) None of the choices are correct.

67) Which of the following assets is eligible for bonus depreciation?

- A) Used office machinery
- B) Qualified leasehold improvements
- C) A new delivery truck
- D) Used office furniture
- E) All of the choices are correct.

68) Potomac LLC purchased an automobile for \$30,000 on August 5, 2017. What is Potomac's depreciation expense for 2017 (ignore any possible bonus depreciation)? Exhibit 2-8

- A) \$3,160
- B) \$4,287
- C) \$6,000
- D) \$30,000
- E) None of the choices are correct.

69) Arlington LLC purchased an automobile for \$40,000 on July 5, 2017. What is Arlington's depreciation expense for 2017 if its business use percentage is 75 percent (ignore any possible bonus depreciation)? Exhibit 2-8

- A) \$2,370
- B) \$3,160
- C) \$6,000
- D) \$8,000
- E) None of the choices are correct.

70) Assume that Bethany acquires a competitor's assets on March 31<sup>st</sup>. The purchase price was \$150,000. Of that amount, \$125,000 is allocated to tangible assets and \$25,000 is allocated to goodwill (a §197 intangible asset). What is Bethany's amortization expense for the current year? **(Round final answer to the nearest whole number)**

- A) \$0
- B) \$1,250
- C) \$1,319
- D) \$1,389
- E) None of the choices are correct.

71) Assume that Brittany acquires a competitor's assets on September 30<sup>th</sup> of year 1 for \$350,000. Of that amount, \$300,000 is allocated to tangible assets and \$50,000 is allocated equally to two \$197 intangible assets (goodwill and a 1-year non-compete agreement). Given, that the non-compete agreement expires on September 30<sup>th</sup> of year 2, what is Brittany's amortization expense for the second year? **(Round final answer to the nearest whole number)**

- A) \$0
- B) \$1,667
- C) \$2,917
- D) \$3,333
- E) None of the choices are correct.

72) Jasmine started a new business in the current year. She incurred \$10,000 of start-up costs. How much of the start-up costs can be immediately expensed (excluding amounts amortized over 180 months) for the year?

- A) \$0
- B) \$2,500
- C) \$5,000
- D) \$10,000
- E) None of the choices are correct.

73) Racine started a new business in the current year. She incurred \$52,000 of start-up costs. If her business started on November 23<sup>rd</sup> of the current year, what is the total expense she may deduct with respect to the start-up costs for her initial year, rounded to the nearest whole number?

- A) \$2,555
- B) \$3,544
- C) \$5,522
- D) \$52,000
- E) None of the choices are correct.

74) Daschle LLC completed some research and development during June of the current year. The related costs were \$60,000. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization expense Daschle may deduct during the current year?

- A) \$0
- B) \$6,500
- C) \$7,000
- D) \$12,000
- E) None of the choices are correct.

75) Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15<sup>th</sup> and the purchase price was \$75,000. If the patent has a remaining life of 75 months, what is the total amortization expense Jorge may deduct during the current year?

- A) \$0
- B) \$5,500
- C) \$6,000
- D) \$12,000
- E) None of the choices are correct.

76) Geithner LLC patented a process it developed in the current year. The patent is expected to create benefits for Geithner over a 10-year period. The patent was issued on April 15<sup>th</sup> and the legal costs associated with the patent were \$43,000. In addition, Geithner had unamortized research expenditures of \$15,000 related to the process. What is the total amortization expense Geithner may deduct during the current year?

- A) \$2,417
- B) \$2,174
- C) \$4,108
- D) \$4,350
- E) None of the choices are correct.

77) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid \$300,000 for extraction rights. A geologist estimates that Santa Fe will recover 5,000 pounds of turquoise. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for \$200,000. What is Santa Fe's cost depletion expense for the current year?

- A) \$60,000
- B) \$90,000
- C) \$110,000
- D) \$300,000
- E) None of the choices are correct.

78) Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid \$300,000 for extraction rights. A geologist estimated that Santa Fe will recover 5,000 pounds of turquoise. During the past several years, 4,000 pounds were extracted. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for \$250,000. What is Santa Fe's cost depletion expense for the current year?

- A) \$60,000
- B) \$90,000
- C) \$190,000
- D) \$160,000
- E) None of the choices are correct.

79) Lucky Strike Mine (LLC) purchased a silver deposit for \$1,500,000. It estimated it would extract 500,000 ounces of silver from the deposit. Lucky Strike mined the silver and sold it reporting gross receipts of \$1.8 million, \$2.5 million, and \$2 million for years 1 through 3, respectively. During years 1 - 3, Lucky Strike reported net income (loss) from the silver deposit activity in the amount of (\$100,000), \$400,000, and \$100,000, respectively. In years 1 - 3, Lucky Strike actually extracted 300,000 ounces of silver as follows:

Ounces extracted per year		
Year 1	Year 2	Year 3
50,000	150,000	100,000

What is Lucky Strike's depletion expense for year 2 if the applicable percentage depletion for silver is 15 percent?

- A) \$200,000
- B) \$375,000
- C) \$400,000
- D) \$450,000
- E) None of the choices are correct.

80) Janey purchased machinery on April 8<sup>th</sup> of the current year. The relevant costs for the year are as follows: machinery for \$10,000, \$800 shipping, \$50 for delivery insurance, \$500 for installation, \$750 for sales tax, \$150 for the annual tune up, and \$200 of property taxes (an annual tax on business property). What is Janey's tax basis for the machinery?

81) Jaussi purchased a computer several years ago for \$2,200 and used it for personal purposes. On November 10<sup>th</sup> of the current year, when the fair market value of the computer was \$800, Jaussi converted it to business use. What is Jaussi's tax basis for the computer?

82) Flax, LLC purchased only one asset this year. Flax placed in service a computer (5-year property) on January 16 with a basis of \$14,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

83) Roth, LLC purchased only one asset during the current year. Roth placed in service computer equipment (5-year property) on November 1<sup>st</sup> with a basis of \$42,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

84) Eddie purchased only one asset during the current year. Eddie placed in service furniture (7-year property) on May 1<sup>st</sup> with a basis of \$26,500. Calculate the maximum depreciation expense, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

85) Teddy purchased only one asset during the current year. Teddy placed in service machinery (7-year property) on October 1<sup>st</sup> with a basis of \$76,500. Calculate the maximum depreciation expense, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

86) Amit purchased two assets during the current year. Amit placed in service computer equipment (5-year property) on April 16<sup>th</sup> with a basis of \$5,000 and furniture (7-year property) on September 9<sup>th</sup> with a basis of \$20,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1)

87) Yasmin purchased two assets during the current year. Yasmin placed in service computer equipment (5-year property) on May 26<sup>th</sup> with a basis of \$10,000 and machinery (7-year property) on December 9<sup>th</sup> with a basis of \$10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2)

88) Bonnie Jo used two assets during the current year. The first was computer equipment with an original basis of \$15,000, currently in the second year of depreciation, and under the half-year convention. This asset was disposed of on October 1st of the current year. The second was furniture with an original basis of \$24,000 placed in service during the first quarter, currently in the fourth year of depreciation, and under the mid-quarter convention. What is Bonnie Jo's depreciation expense for the current year? **(Round final answer to the nearest whole number)** (Use MACRS Table 1 and Table 2)

89) Kristine sold two assets on March 20th of the current year. The first was machinery with an original basis of \$51,000, currently in the fourth year of depreciation, and under the half-year convention. The second was furniture with an original basis of \$16,000 placed in service during the fourth quarter, currently in the third year of depreciation, and under the mid-quarter convention. What is Kristine's depreciation expense for the current year if the depreciation recovery period is 7-years? (Use MACRS Table 1 and Table 2) EXHIBIT 2-6 **(Round final answer to the nearest whole number)**

90) Timothy purchased a new computer for his consulting practice on October 15<sup>th</sup> of the current year. The basis of the computer was \$4,000. During the Thanksgiving holiday, he decided the computer didn't meet his business needs and gave it to his college-aged son in another state. The computer was never used for business purposes again. Timothy had \$50,000 of taxable income before depreciation. What is Timothy's total cost recovery expense with respect to the computer during the current year?

91) During August of the prior year, Julio purchased an apartment building that he used as a rental property. The basis was \$1,400,000. Calculate the maximum depreciation expense during the current year. (Use MACRS Table 3)

92) During April of the current year, Ronen purchased a warehouse that he used for business purposes. The basis was \$1,600,000. Calculate the maximum depreciation expense during the current year. (Use MACRS Table 5)

93) An office building was purchased on December 9<sup>th</sup> several years ago for \$2,500,000. The purchase price was allocated as follows: building \$1,900,000, landscaping \$100,000, and land \$500,000. During the current year, the 10<sup>th</sup> year, the building was sold on March 10<sup>th</sup>. Calculate the maximum depreciation expense for the real property during the current year, rounded to the nearest whole number. (Use MACRS Table 5)

94) Olney LLC only purchased one asset this year. Olney LLC placed in service on July 19, 2017 machinery and equipment (7-year property) with a basis of \$850,000. Assume that Olney has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing, (but ignoring bonus expensing). (Use MACRS Table 1) **(Round final answer to the nearest whole number)**

95) Columbia LLC only purchased one asset this year. Columbia LLC placed in service on October 9, 2017 machinery and equipment (7-year property) with a basis of \$2,150,000. Assume that Columbia has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but ignoring bonus expensing) for the year. (Use MACRS Table 2) **(Round final answer to the nearest whole number)**

96) Northern LLC only purchased one asset this year. In 2017, Northern LLC placed in service on September 6<sup>th</sup> machinery and equipment (7-year property) with a basis of \$2,200,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1) **(Round final answer to the nearest whole number)**

97) Reid acquired two assets in 2017: computer equipment (5-year property) acquired on August 6<sup>th</sup> with a basis of \$510,000 and machinery (7-year property) on November 9<sup>th</sup> with a basis of \$510,000. Assume that Reid has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (but not bonus expensing). (Use MACRS Table 1)

98) Phyllis purchased \$8,000 of specialized audio equipment that she uses in her business regularly. Occasionally, she uses the equipment for personal use. During the first year, Phyllis used the equipment for business use 70 percent of the time; however, during the current (second) year the business use fell to 40 percent. Assume that the equipment is seven-year MACRS property and is under the half-year convention. Assume the ADS recovery period is 10 years. What is the depreciation allowance for the current year? (Use MACRS Table 1) **(Round final answer to the nearest whole number)**

99) Alexandra purchased a \$35,000 automobile during 2017. The business use was 70 percent. What is the allowable depreciation for the current year (ignore any possible bonus depreciation)? Exhibit 2-8

100) Boxer LLC has acquired various types of assets recently used 100% in its trade or business. Below is a list of assets acquired during 2016 and 2017:

Asset	Cost Basis	Convention	Date Placed in Service
Machinery	25,000	Half year	January 24, 2016
Warehouse	800,000	Mid-month	August 1, 2016
Furniture	100,000		October 5, 2017
Computer equipment	65,000		October 10, 2017
Office equipment	34,000		September 28, 2017
Automobile	35,000		July 15, 2017
Office building	800,000		September 24, 2017

Boxer did not elect §179 expense and elected out of bonus depreciation in 2016, but would like to elect §179 expense for 2017 (assume that taxable income is sufficient). Calculate Boxer's maximum depreciation expense for 2017, (ignore bonus depreciation for 2017). If necessary, use the 2016 luxury automobile limitation amount for 2017. (Use MACRS Table 1 and Use MACRS Table 5) Exhibit 2-8 **(Round final answer to the nearest whole number)**

101) Assume that Yuri acquires a competitor's assets on May 1<sup>st</sup>. The purchase price was \$500,000. Of the amount, \$325,000 is allocated to tangible assets and \$175,000 is allocated to goodwill (a §197 intangible asset). What is Yuri's amortization expense for the current year? **(Round final answer to the nearest whole number)**

102) Assume that Cannon LLC acquires a competitor's assets on June 15<sup>th</sup> of a prior year. The purchase price was \$450,000. Of the amount, \$196,200 is allocated to tangible assets and \$253,800 is allocated to three §197 intangible assets: \$153,000 to goodwill, \$50,400 to a customer list with an expected life of 8 years, and \$50,400 to a 3 year non-compete agreement. On May 30<sup>th</sup> of the second year, the customer list is sold for \$10,000. (e.g., .1234 as 12%). **(Round final answer to the nearest whole number. Round your allocation percentage to the nearest whole percentage)**

- 1) What is Cannon's amortization expense for the second year?
- 2) What is the basis of the intangibles at the end of the second year?

103) Oksana started an LLC on November 2 of the current year. She incurred \$30,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

104) Patin Corporation began business on September 23<sup>rd</sup> of the current year. It incurred \$40,000 of start-up costs and \$60,000 of organizational expenditures. How much total amortization may be deducted in the first year? **(Round final answer to the nearest whole number)**

105) Paulsen incurred \$55,000 of research and experimental expenses and began amortizing them over 60 months during June of year 1. During May of year 3, Paulsen received a patent based upon the research being amortized. \$36,000 of legal expenses for the patent was incurred. The patent is expected to have a remaining useful life of 17 years.

1) What is the basis of the patent, rounding amortization for each year to the nearest whole number?

2) What is the amortization expense with respect to the patent during the year it was issued, rounded to the nearest whole number?

106) Sequoia purchased the rights to cut timber on several tracts of land over a fifteen-year period. It paid \$500,000 for cutting rights. A timber engineer estimates that 500,000 board feet of timber will be cut. During the current year, Sequoia cut 45,000 board feet of timber, which it sold for \$900,000. What is Sequoia's cost depletion expense for the current year?

107) PC Mine purchased a platinum deposit for \$3,500,000. It estimated it would extract 17,000 ounces of platinum from the deposit. PC mined the platinum and sold it reporting gross receipts of \$500,000 and \$8 million for years 1 and 2, respectively. During years 1 and 2, PC reported net income (loss) from the platinum deposit activity in the amount of (\$100,000) and \$3,800,000, respectively. In years 1 and 2, PC actually extracted 2,000 and 8,000 ounces of platinum. What is PC's depletion expense for years 1 and 2 if the applicable percentage depletion for platinum is 22 percent? **(Round final answer to the nearest whole number)**