

Date: 7/28/17 ND  
Time Start: 2:15 pm ND  
Time End: 3:10 pm ND

### Statement of Academic Honesty

The following form is standard procedure for an exam that may be offered multiple times. Read the material below, then complete the form and return it with your completed exam. Your exam will not be graded unless a completed copy of this form is on file.

Course: IEM 3503/3513 Summer 2017

Test: Weekly Test # 7

There are others who may be taking this exam or a similar exam at a later date. You are in no way to have any form of direct or indirect communications regarding this exam with anyone. If someone asks something as simple as "How was it?" your best response is "I cannot talk about the exam." Any violation of the letter or spirit of the above will be treated as an act of academic dishonesty.

By completing the information below, I acknowledge that I have read and understood the Statement of Academic Honesty above.

Name (signature)

(b)(6)

Name (print):

(b)(6)

Student ID:

(b)(6)

Today's Date:

7/28/17

NAME:

(b)(6)

DR. B. COLLINS

TEST #7 (ON-LINE SECTION ONLY)

TIME LIMIT: 75 MINUTES

TEST TIME WINDOW: THURSDAY, JULY 27, 2017 (8:00AM) TO MONDAY  
JULY 31 2017 (5:00PM)(OPEN BOOK, ONE PAGE OF NOTES – 8 ½ X 11)Attach Notes Page to back of Test when submitted for gradeABSOLUTELY NO CELL PHONES OR BACKPACKS IN TESTING AREA!!!

Multiple Choice Questions: For each Multiple Choice question below select the most nearest answer from choices A – D. Properly write your selected answer in the blank beside the corresponding question. Each M/C question is worth 10 points each.

Upon graduation, Mr. Maximillem Barton, Mr. Ali Almahfoudh, and Mr. Zachary Dallen decide to form an LLC called "BAD Company Investments," with a potential purchase of a 40-unit apartment building in Stillwater close to the OSU campus. Before signing the contract BAD Company Investments wants to determine the depreciation for the property using the MACRS depreciation method. The asking price is \$500,000 for the land and \$1,500,000 for the apartment building for a total of \$2,000,000. If the purchase takes place in June, and assuming BAD Company Investments plans to sell the apartment building in March of the fourth year, answer questions 1 – 4 below.

(10) B 1. Using MACRS, what is the depreciation write-off for year 1 (d<sub>1</sub>)?

- A. \$39,400  
B. \$29,550  
C. \$24,125  
D. \$18,300

$$(.0197)(1500000)$$

$$\left(\frac{100}{29.5}\right)\left(\frac{6.5}{12}\right) \approx 1.969\%$$

(10) A 2. Using MACRS, what is the depreciation write-off for year 2 (d<sub>2</sub>)?

- A. \$54,500  
B. \$63,600  
C. \$72,700  
D. \$81,300

$$0.03636(1500000)$$

$$\left(\frac{100}{27.5}\right)\left(\frac{2.5}{12}\right)$$

- (10) B 3. Using MARCS, what is the depreciation write-off for year 4 (d<sub>4</sub>)?
- A. \$ 7,500  
 B. \$11,400  
 C. \$15,200  
 D. \$18,700

$$.007575 (1500000)$$

$$.00758 (1500000)$$

- (10) D 4. Using MACRS, what is the book value at the time the property is sold in year four (B<sub>4</sub>)?

- A. \$1,800,000  
 B. \$1,750,000  
 C. \$1,575,000  
 D. \$1,350,000

$$1500000 - d_1 - d_2 - d_3 - d_4$$

$$29550 - 54500 - 54500 - 11400$$

An Elevator Leg and Transfer Conveyor used in the manufacture of grain are purchased and installed for \$250,000. The equipment is placed into service on June 1<sup>st</sup> and is removed on December 15<sup>th</sup> approximately 4.5 years from the date placed in service. Salvage value is \$15,000. Answer questions 5-7 below using the MACRS depreciation method.

- (10) C 5. Using MACRS, what is the depreciation write-off for year 2 (d<sub>2</sub>)?
- A. \$75,650  
 B. \$58,500  
 C. \$45,000  
 D. \$32,400

$$d_2 = (.18)(250000) =$$

- (10) C 6. Using MACRS, what is the book value for year 3 (B<sub>3</sub>)?

- A. \$ 91,600  
 B. \$103,600  
 C. \$144,000  
 D. \$187,200

$$B_3 = 250000 - d_1 - d_2 - d_3$$

$$- 25000 - 45000 - 36000$$

- (10) A 7. Using MACRS, what is the depreciation write-off for year 5 (d<sub>5</sub>)?

- A. \$11,500  
 B. \$14,900  
 C. \$20,750  
 D. \$25,900

$$.0461 (250000)$$

$$9.22\% = 4.61\%$$

$$d_t = \frac{P-F}{n} \quad P=590000 \quad n=12$$

$$F=50000$$

International Paper has expanded their pulp & paper operations in Southeastern Oklahoma with the purchase of a new high technology saw mill. The saw mill was purchased for \$590,000. International Paper expects the saw mill to have a life of 12 years, and have a salvage value is \$50,000.

Using the information above answer questions 8-10 below:

- D 8. Using the Straight Line Method (SL), what is the depreciation write-off for year 4 ( $d_4$ )?

A. \$59,300  
B. \$54,600  
C. \$52,375  
D. \$45,000

$$\frac{590000 - 50000}{12}$$

- A 9. Using the Declining Balance method (DB), what is the depreciation write-off for year 8 ( $d_8$ )?

A. \$25,950  
B. \$32,800  
C. \$37,350  
D. \$41,950

$$P = 1 - \left(\frac{F}{P}\right)^{1/n} = 1 - \left(\frac{50000}{590000}\right)^{1/12} \approx 0.185902$$

$$d_8 = P(P)(1-P)^{t-1}$$

$$= (0.185902)(590000)(1-0.185902)^{8-1}$$

$$= 25994$$

- D 10. Using the Double Declining Balance method (DDB), what is the book value for year 6 ( $B_6$ )?

A. \$143,700  
B. \$164,100  
C. \$175,200  
D. \$197,600

$$f = \frac{2}{n} = \frac{2}{12} = 0.16667$$

$$(1-f) = 0.8333$$

$$B_6 = P(1-f)^t = 590000(0.8333)^6$$

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no notes

SCORE: \_\_\_\_\_