Advanced Accounting

Select the best answer for each of the following questions.

1) ABC Corporation acquired XYZ Company and took over its assets, at the same time dissolving XYZ Company. This type of business combination is considered as a:

   a) Consolidation
   b) Merger
   c) Pooling of interests
   d) Subsidiary

2) In a business combination, the direct costs paid to accountants and lawyers to negotiate and complete the acquisition are:

   a) Charged against additional paid-in capital of the combined entity
   b) Added to the investor company's investment account
   c) Deducted from investor company's income in the period of combination
   d) None of these

3) Pop Corporation agrees to issue additional shares of capital stock to its acquired entity, Son Corporation, on the condition that Son Corporation meet a certain earnings goal in the future. This contingency is:

   a) Classified as contingent liability
   b) Measured at its fair value on each reporting date until it resolved
   c) Not remeasured
   d) None of these

4) In a business combination, the excess of the price paid over the fair value of net assets acquired is:

   a) Reported as a gain from a bargain purchase
   b) Subject to annual impairment tests
   c) Amortized according to its useful life
   d) None of these

5) Noncontrolling interest (NCI), appearing in the consolidated balance sheet, refers to:

   a) Owners of less than 50% of the parent company's stock
   b) Parent's interest in subsidiary companies
   c) Interest expense on subsidiary's bonds payable
   d) Equity in the subsidiary's net assets held by shareholders other than the parent

6) The noncontrolling interest (NCI) share that appears in the consolidated income statement is computed as follows:

   a) Consolidated net income is multiplied by the NCI percentage.
   b) The subsidiary's income less amortization of fair/book value differentials is multiplied by the NCI percentage.

c) Subsidiary net income is subtracted from consolidated net income.
d) Subsidiary income determined for consolidated statement purposes is multiplied by the NCI percentage.

7) The retained earnings appearing on the consolidated financial statements of a parent company and its 70% owned subsidiary are:

   a) Parent company's retained earnings plus 100% of the subsidiary's retained earnings
   b) Parent company's retained earnings plus 70% of the subsidiary's retained earnings
   c) Parent company's retained earnings
   d) Pooled retained earnings

8) Blue Corporation's current receivables from affiliated companies at the end of 2019 are (i) a $50,000 cash advance to Red Corporation (Red is 30% owned by Blue and Blue accounts for that investment by the equity method), (ii) a $230,000 receivable from Green Corporation for products sales on credit (Green is a 75% owned, unconsolidated subsidiary of Blue and is accounted for by the equity method), and (iii) a $180,000 receivable from Yellow Corporation for administrative services (Yellow is 80% owned by Blue and is included in Blue's consolidated financial statements). In the current assets section of its 31 December 2019 consolidated balance sheet, Blue should report accounts receivable from investees in the amount of:

   a) $180,000
   b) $185,000
   c) $280,000
   d) $460,000

<u>Use the following information in answering questions (9) and (10).</u>

On 1 January 2019, Fast Corporation acquired all of Slow Corporation's common stock for €2,400,000. On the date of acquisition, the fair values of Slow's assets and liabilities equaled their carrying amounts of €2,640,000 and €640,000, respectively. Fast's policy is to amortize intangibles other than goodwill over 10 years. During 2019, Slow paid cash dividends of €40,000.

Selected information from the separate balance sheets and income statements of Fast Corporation and subsidiary as of 31 December 2019, and for the year then ended follows (in thousands):

	Fast	Slow
Balance Sheet Accounts		
Investment in subsidiary	€2,640	—
Retained earnings	2,480	€ 1,120
Total stockholders' equity	5,240	2,240
Income Statement Accounts		
Operating income	€ 840	€ 400
Equity in earnings of Slow	280	—
Net income	800	280

9) What amount should be reported for amortization of goodwill in Fast's 2019 consolidated income statement?

a) €0 b) €24,000
c) €36,000 d) €40,000

10) What amount should be reported as total retained earnings in Fast's 31 December 2019 consolidated balance sheet?

a) €2,480,000 b) €2,720,000
c) €2,760,000 d) €3,600,000

Use the following information to answer questions (11) - (15):

Pas Corporation acquired an 70% interest in Sal Corporation on January 1, 2017, for $1,225,000. On this date the assets and liabilities of Son were stated at fair values equal to book values. Pas uses the equity method to account for its investment in Sal.

Selected information for the affiliated companies during 2017 were as follows (in thousands):

	Pas	Sal
Capital stock	$3,600	$1,000
Retained earnings Jan 1, 2017	1,600	200
Net income	$600	$180
Dividends declared	360	100
Dividends payable Dec 31, 2017	180	50

At which value the following items should appear in the consolidated balance sheet on December 31, 2017.

11) Consolidated capital stock

a) $3,600,000 b) $4,300,000
c) $4,600,000 d) $4,825,000

12) Goodwill

a) $0
b) $25,000
c) $385,000
d) $550,000

13) Consolidated retained earnings

a) $1,600,000
b) $1,800,000
c) $1,840,000
d) $2,096,000

14) Noncontrolling interest

a) $366,000
b) $525,000
c) $549,000
d) $564,000

15) Dividends payable

a) $180,000
b) $195,000
c) $215,000
d) $230,000

Use the following information in answering questions (16) - (27):
Aladdin Corporation acquired 80% of Jasmine Corporation's common stock on 1 January 2019, for €840,000 cash. The stockholders' equity of Jasmine at this time consisted of €200,000 retained earnings and €600,000 common stock. The difference between the fair value of Jasmine and the underlying equity acquired in Jasmine was due to a €50,000 undervaluation of Jasmine's inventory (sold in 2019), a €100,000 undervaluation of Jasmine's equipment with a 5-year remaining life, and unrecorded patents with a 20-year remaining life.

Jasmine owed Aladdin €16,000 on accounts payable at 31 December 2019.

The separate financial statements of Aladdin and Jasmine Corporations at and for the year ended 31 December 2019, are as follows (in thousands):

	Aladdin	Jasmine
Combined Income and Retained Earnings Statements for the Year Ended 31 December		
Sales	€ 800	€ 440
Income from Sun	68	—
Cost of sales	(320)	(160)
Depreciation expense	(160)	(80)
Other expenses	(102)	(40)
Net income	286	160
Add: Retained earnings January 1	300	200
Deduct: Dividends	(160)	(80)
Retained earnings December 31	€ 426	€ 280
Balance Sheet at 31 December		
Cash	€ 118	€ 120
Trade receivables—net	112	160
Dividends receivable	32	—
Inventories	160	120
Land	60	120
Buildings—net	260	280
Equipment—net	800	400
Investment in Sun	844	—
Total assets	€2,386	€1,200
Accounts payable	€ 160	€200
Dividends payable	400	40
Other liabilities	200	80
Common stock, €10 par	1,200	600
Retained earnings	426	280
Total equities	€2,386	€1,200

16) What amount of Inventories will be reported on the consolidated statements workpaper on 31 December 2019?

a) €160,000
b) €120,000
c) €280,000
d) €330,000

17) What amount of Equipment (net) will be reported on the consolidated statements workpaper on 31 December 2019?

a) €800,000
b) €400,000
c) €1,300,000
d) €1,280,000

18) What amount of patents will be reported on the consolidated statements workpaper on 31 December 2019?

a) €100,000
b) €5,000
c) €95,000
d) none of these

19) What amount of dividends is included on the consolidated financial statements on 31 December 2019?

a) €160,000
b) €80,000
c) €32,000
d) €40,000

20) what amount will be reported as noncontrolling interest share on the consolidated statements workpaper on 31 December 2019?

a) €0
b) €16,000
c) €17,000
d) €32,000

21) Elimination entry to record noncontrolling interest share of subsidiary income and dividends is

a) NCI share		€17,000	
	NCI		€17,000
b) NCI share		€17,000	
	Dividends		€16,000
	NCI		1,000
c) NCI		€16,000	
	Dividends		€8,000
	NCI share		8,000
d) Income from Sun		€76,500	
	Dividends		€72,000
	Noncontrolling interest		4,500

22) On the consolidated income statement, the amount of depreciation expense reported for the year ended 31 December 2019 is

a) €160,000
b) €80,000
c) €240,000
d) €260,000

23) On the consolidated income statement, the amount of other expenses reported for the year ended 31 December 2019 is

a) €102,000
b) €137,000
c) €142,000
d) €147,000

24) On the consolidated income statement, the amount of cost of sales reported for the year ended 31 December 2019 is

a) €320,000
b) €477,000
c) €480,000
d) €530,000

25) On the consolidated balance sheet, what amount will be reported for "investment in Jasmine" on 31 December 2019?

a) €0
b) €945,000
c) €949,500
d) €1,050,000

26) What amount of total liabilities will be reported in the consolidated balance sheet on 31 December 2019?

a) €1,032,000
b) €2,869,000
c) €2,386,000
d) €1,200,000

27) What is the amount of consolidated total assets on 31 December 2019?

a) €2,386,000
b) €1,200,000
c) €2,869,000
d) none of these

28) King Corporation sells merchandise for $500,000 to its 80%–owned subsidiary, Prince Corporation. The entry needed to eliminate the effect of this intercompany sale will include a debit to sales for:

a) $500,000
b) $400,000
c) The amount remaining in Prince's ending inventory
d) 80% of the amount remaining in Prince's ending inventory

Use the following information in answering questions (29) and (30):

CIA Corporation owns 75% of the KGB Corporation's voting common stock, acquired at book value during 2019. Selected information from the accounts of CIA and KGB for 2020 are as follows:

	CIA	KGB
Sales	$1,800	$1,000
Cost of sales	980	380

During 2020 CIA sold goods to KGB for $100, at a gross profit to CIA of $40. Half of these goods remained in KGB's inventory at 31 December 2020. KGB's 31 December 2019, inventory included unrealized profit of $8 on goods acquired from CIA.

29) In a consolidated income statement for CIA Corporation and its subsidiary for the year 2020, consolidated sales should be:

a) $2,900
b) $2,800
c) $2,725
d) $2,700

30) In a consolidated income statement for CIA Corporation and its subsidiary for the year 2020, consolidated cost of sales should be:

a) $1,372
b) $1,360
c) $1,272
d) $1,248

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31) Horizontal integration is the combination of companies in the same business lines and markets.

a) True
b) False

32) It is frequently less expensive for a company to obtain needed facilities through development than through business combination.

a) True
b) False

33) A merger occurs when one corporation takes over all the operations of another company, and that company is dissolved.

a) True
b) False

34) The first step in recording an acquisition is to determine the fair values of only the liabilities assumed in the combination.

a) True
b) False

35) Under current IFRS, goodwill is amortized over 20 years.

a) True

b) False

36) Under current IFRS, indirect costs of business combination such as costs of maintaining an internal acquisitions department are expensed by the acquirer in the periods in which the costs are incurred.

a) True

b) False

37) Goodwill is defined as the excess of the consideration transferred to the acquire over the fair value of the net assets acquired.

a) True

b) False

38) Business combination is a form of business external expansion.

a) True

b) False

39) Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

a) True

b) False

40) IFRS requires the parent to present non-controlling interests in the consolidated balance sheet within the assets section.

a) True

b) False

Best Wishes