

## Chapter 5– Advanced Accounting, 1<sup>st</sup> edition by Hamlen, Huefner, and Largay

### Solutions to Practice Quiz

1. Topic: Valuation of goodwill at acquisition, U.S. GAAP  
LO 1  
Bishop Company pays \$100,000,000 for 80 percent of the voting stock of Callay Corporation. The fair value of the noncontrolling interest at the date of acquisition is \$20,000,000, and Callay's book value is \$15,000,000. Callay's assets and liabilities are reported at amounts approximating fair value, but it has previously unreported favorable leases with a fair value of \$4,000,000. Following U.S. GAAP, what is the total goodwill for this acquisition?
- a. \$ 84,800,000
  - b. \$ 81,000,000
  - c. \$116,000,000
  - d. \$101,000,000

ANS: d

Rationale:  $\$100,000,000 + \$20,000,000 - (\$15,000,000 + \$4,000,000) = \$101,000,000$

2. Topic: Valuation of goodwill at acquisition, IFRS  
LO 4  
Use the same information as in question 1, but assume Bishop uses IFRS and the alternative method for valuing goodwill when there is a noncontrolling interest. Following IFRS, what is the total goodwill for this acquisition?
- a. \$ 84,800,000
  - b. \$ 81,000,000
  - c. \$116,000,000
  - d. \$101,000,000

ANS: a

Rationale: Using the IFRS alternative method, the noncontrolling interest does not share in the goodwill. Total goodwill is the parent's goodwill.

$\$100,000,000 - [80\% \times (\$15,000,000 + \$4,000,000)] = \$84,800,000$

3. Topic: Goodwill to noncontrolling interest, U.S. GAAP

LO 1

Porter Corporation pays \$40,000,000 for a 75 percent interest in Stanley Company. The fair value of the noncontrolling interest is \$10,000,000. Stanley's book value is \$8,000,000. Its plant assets are overvalued by \$30,000,000 and it has previously unreported identifiable intangibles, meeting the criteria for capitalization, with a fair value of \$25,000,000. Following U.S. GAAP, what is the goodwill to the noncontrolling interest?

- a. \$8,650,000
- b. \$9,250,000
- c. \$3,250,000
- d. \$5,350,000

ANS: b

Rationale: Total goodwill is  $\$40,000,000 + \$10,000,000 - (\$8,000,000 - \$30,000,000 + \$25,000,000) = \$47,000,000$ .

Goodwill to the controlling interest is  $\$40,000,000 - [75\% \times (\$8,000,000 - \$30,000,000 + \$25,000,000)] = \$37,750,000$ .

Goodwill to the noncontrolling interest =  $\$47,000,000 - \$37,750,000 = \$9,250,000$ .

Use the following information to answer questions 4 – 8 below:

Kroft Foods, a U.S. company, acquired a 90 percent interest in Codberry Inc. on January 1, 2012, for \$38,000,000. The fair value of the noncontrolling interest in Codberry is \$3,000,000. Codberry's acquisition-date assets and liabilities were reported at amounts approximating fair value, except its inventories (FIFO) were overvalued by \$2,000,000, its property and equipment (20-year remaining life, straight-line) was overvalued by \$10,000,000, and it had previously unreported identifiable intangibles (5-year remaining life, straight-line) with a fair value of \$14,000,000. There is no goodwill impairment during 2012. Here are the December 31, 2012 trial balances of Kroft and Codberry:

	Dr (Cr)	
	Kroft	Codberry
Current assets	\$ 9,950,000	\$ 6,200,000
Property and equipment, net	110,000,000	65,000,000
Investment in Codberry	39,980,000	--
Liabilities	(87,500,000)	(46,200,000)
Capital stock	(39,000,000)	(2,000,000)
Retained earnings, January 1	(16,000,000)	(20,500,000)
Dividends	--	500,000
Sales revenue	(50,000,000)	(20,000,000)
Equity in income of Codberry	(2,430,000)	--
Cost of goods sold	30,000,000	15,000,000
Operating expenses	5,000,000	2,000,000

4. Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP

LO 2

Working paper elimination entry (C) is:

a.	Equity in net income of Codberry	2,430,000	
	Investment in Codberry		2,430,000
b.	Equity in net income of Codberry	2,430,000	
	Dividends		500,000
	Investment in Codberry		1,930,000
c.	Equity in net income of Codberry	2,430,000	
	Dividends		450,000
	Investment in Codberry		1,980,000
d.	Investment in Codberry	2,930,000	
	Equity in net income of Codberry		2,430,000
	Dividends		500,000

ANS: c

Rationale: Elimination (C) eliminates the equity in net income account and the controlling interest's share of the subsidiary's dividends account, and brings the investment back to its beginning-of-year value. Alternative c. does this correctly.

5. Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP

LO 2

Working paper elimination entry (E) is:

a.	Capital stock	2,000,000	
	Retained earnings, January 1	20,500,000	
	Investment in Codberry		20,250,000
	Noncontrolling interest in Codberry		2,250,000
b.	Capital stock	2,000,000	
	Retained earnings, January 1	20,500,000	
	Investment in Codberry		22,500,000
c.	Capital stock	2,000,000	
	Investment in Codberry		1,800,000
	Noncontrolling interest in Codberry		200,000
d.	Capital stock	1,800,000	
	Retained earnings, January 1	18,450,000	
	Investment in Codberry		20,250,000

ANS: a

Rationale: Elimination (E) eliminates the subsidiary's beginning equity accounts and splits the total between the investment and the noncontrolling interest, according to ownership percentages. Alternative a. does this correctly.

6. Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP

LO 2

Working paper elimination entry (R) is:

a.	Identifiable intangible assets	14,000,000	
	Goodwill	15,950,000	
	Current assets		2,000,000
	Property and equipment, net		10,000,000
	Investment in Codberry		17,750,000
	Noncontrolling interest in Codberry		200,000
b.	Identifiable intangible assets	14,000,000	
	Goodwill	16,500,000	
	Current assets		2,000,000
	Property and equipment, net		10,000,000
	Investment in Codberry		16,650,000
	Noncontrolling interest in Codberry		1,850,000
c.	Identifiable intangible assets	14,000,000	
	Goodwill	13,500,000	
	Current assets	2,000,000	
	Property and equipment, net		10,000,000
	Investment in Codberry		15,500,000
d.	Identifiable intangible assets	14,000,000	
	Goodwill	16,500,000	
	Current assets		2,000,000
	Property and equipment, net		10,000,000
	Investment in Codberry		17,750,000
	Noncontrolling interest in Codberry		750,000

ANS: d

Rationale: Elimination (R) sets up the beginning-of-year revaluations and allocates them to the investment and noncontrolling interest.

Goodwill is calculated as follows:

Total goodwill:  $\$38,000,000 + \$3,000,000 - (\$22,500,000 - \$2,000,000 - \$10,000,000 + \$14,000,000) = \$16,500,000$ .

Goodwill to the controlling interest is  $\$38,000,000 - [90\% \times (\$22,500,000 - \$2,000,000 - \$10,000,000 + \$14,000,000)] = \$15,950,000$ .

Allocation of the revaluations to the controlling interest =  $[90\% \times (\$14,000,000 - \$2,000,000 - \$10,000,000)] + \$15,950,000 = \$17,750,000$ .

Goodwill to the noncontrolling interest =  $\$16,500,000 - \$15,950,000 = \$550,000$ .

Allocation of the revaluations to the noncontrolling interest =  $[10\% \times (\$14,000,000 - \$2,000,000 - \$10,000,000)] + \$550,000 = \$750,000$ .

7. Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP

LO 2

Working paper elimination entry (N) is:

a.	Noncontrolling interest in net income	170,000	
	Noncontrolling interest in Codberry		170,000
b.	Noncontrolling interest in net income	170,000	
	Dividends		50,000
	Noncontrolling interest in Codberry		120,000
c.	Noncontrolling interest in net income	270,000	
	Dividends		50,000
	Noncontrolling interest in Codberry		220,000
d.	Noncontrolling interest in net income	300,000	
	Dividends		50,000
	Noncontrolling interest in Codberry		250,000

ANS: c

Rationale: Elimination (N) records the noncontrolling interest in Codberry's 2012 income, eliminates the noncontrolling interest's share of dividends, and updates the noncontrolling interest in Codberry for the current year.

Noncontrolling interest in 2012 net income =  $10\% \times (\$3,000,000 + \$2,000,000 + \$500,000 - \$2,800,000) = \$270,000$ .

8. Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, IFRS  
 LO 4  
 Now assume Kroft follows IFRS and uses the alternative method for valuing goodwill. Working paper elimination entry (R) is:

a.	Identifiable intangible assets	14,000,000	
	Goodwill	15,950,000	
	Current assets		2,000,000
	Property and equipment, net		10,000,000
	Investment in Codberry		17,750,000
	Noncontrolling interest in Codberry		200,000
b.	Identifiable intangible assets	14,000,000	
	Goodwill	16,500,000	
	Current assets		2,000,000
	Property and equipment, net		10,000,000
	Investment in Codberry		16,650,000
	Noncontrolling interest in Codberry		1,850,000
c.	Identifiable intangible assets	14,000,000	
	Goodwill	13,500,000	
	Current assets	2,000,000	
	Property and equipment, net		10,000,000
	Investment in Codberry		15,500,000
d.	Identifiable intangible assets	14,000,000	
	Goodwill	16,500,000	
	Current assets		2,000,000
	Property and equipment, net		10,000,000
	Investment in Codberry		17,750,000
	Noncontrolling interest in Codberry		750,000

ANS: a

Rationale: Elimination (R) sets up the beginning-of-year revaluations and allocates them to the investment and noncontrolling interest.

Goodwill is calculated as follows:

$$\begin{aligned} & \$38,000,000 - [90\% \times (\$22,500,000 - \$2,000,000 - \$10,000,000 + \$14,000,000)] \\ & = \$15,950,000. \end{aligned}$$

There is no goodwill to the noncontrolling interest.

$$\begin{aligned} \text{Allocation of the revaluations to the noncontrolling interest} &= [10\% \times \\ & (\$14,000,000 - \$2,000,000 - \$10,000,000)] = \$200,000. \end{aligned}$$

9. Topic: Noncontrolling interests and bargain purchases  
LO 3

Admiral Casino acquired a 90 percent interest in Golden Nugget for \$12,000,000. The fair value of the noncontrolling interest at the date of acquisition was \$500,000. Golden Nugget's book value at the date of acquisition was \$8,000,000, and it had previously unreported favorable leaseholds valued at \$6,000,000. Admiral's gain on acquisition is:

- a. \$2,000,000
- b. \$1,500,000
- c. \$4,000,000
- d. \$1,800,000

ANS: b

Rationale:  $\$8,000,000 + \$6,000,000 - \$12,000,000 - \$500,000 = \$1,500,000$

10. Topic: Consolidated statement of cash flows  
LO 5

The following information relates to the 2012 consolidated financial statements of Parker Corporation and its 80 percent interest in Sporling Company. Parker acquired its interest in Sporling at book value.

- Consolidated net income to the controlling interest is \$5,000,000.
- Sporling's book income for 2012 is \$2,000,000.
- Sporling declared and paid dividends of \$300,000 in 2012.
- Consolidated depreciation and amortization expense for 2012 was \$15,000,000.
- Parker declared and paid \$1,000,000 in dividends in 2012.

How would the above information be reflected in the consolidated statement of cash flows for 2012?

- |                                |                             |
|--------------------------------|-----------------------------|
| a. <b>Operating Activities</b> | <b>Financing Activities</b> |
| \$20,400,000                   | \$(1,000,000)               |
| b. <b>Operating Activities</b> | <b>Financing Activities</b> |
| \$22,400,000                   | \$(1,000,000)               |
| c. <b>Operating Activities</b> | <b>Financing Activities</b> |
| \$20,000,000                   | \$(1,060,000)               |
| d. <b>Operating Activities</b> | <b>Financing Activities</b> |
| \$20,400,000                   | \$(1,060,000)               |

10. *Continued*

ANS: d

Rationale:

Cash inflow from operating activities = \$5,000,000 + (20% x \$2,000,000) + \$15,000,000 = \$20,400,000.

Cash outflow for financing activities = \$1,000,000 + (20% x \$300,000) = \$1,060,000.