

Chapter 1– Advanced Accounting, 1st edition by Hamlen, Huefner, and Largay

Practice Quiz

1. Topic: Motivations for intercorporate investments
LO 1
Coca-Cola Company owns 300 shares of Cisco Systems, and classifies the investment as a current asset, trading securities. The *most* likely reason Coca-Cola made this investment is to:
 - a. Earn investment income and capital gains
 - b. Establish a joint venture with Cisco Systems
 - c. Exert a significant influence on Cisco Systems
 - d. Facilitate activity along Coca-Cola’s supply chain

2. Topic: Motivations for intercorporate investments
LO 1
Which category below is *not* one of the reporting categories for intercorporate *equity* investments?
 - a. Available-for-sale investments
 - b. Subsidiaries
 - c. Held-to-maturity investments
 - d. Trading investments.

3. Topic: Trading and available-for-sale investments
LO 2
A company buys stock in Acme Industries for \$35,000 on August 1, 2012. The fair value of the investment on December 31, 2012, the company’s year-end, is \$32,000. The company sells the stock for \$40,000 on February 1, 2013. How will the company’s income statements for 2012 and 2013 be affected by the investment, if it is categorized as (1) trading, or (2) available-for-sale?

	2012	2013
a. (1)	\$0	\$5,000 gain
(2)	\$3,000 loss	\$8,000 gain
b. (1)	\$3,000 loss	\$5,000 gain
(2)	\$3,000 loss	\$8,000 gain
c. (1)	\$3,000 loss	\$8,000 gain
(2)	\$0	\$5,000 gain
d. (1)	\$0	\$5,000 gain
(2)	\$0	\$5,000 gain

4. Topic: Held-to-maturity investments
LO 2
At the beginning of the year, a U.S. company invests in a \$10,000,000 face value 4% coupon corporate bond, and pays \$9,727,675, a price that yields 5%. Interest is paid at the end of the year. The bond is classified as held-to-maturity. At the end of the year, the fair value of the bond is determined to be only \$7,000,000. The decline in value is other than temporary. What is the impairment loss for the year?
- \$3,000,000
 - \$2,727,675
 - \$2,641,291
 - \$2,814,059
5. Topic: Equity method investments
LO 3
Eton Corporation acquires 30% of the voting stock of Fairfield Company for \$60,000,000 on January 1, 2012, and classifies the investment as an equity method investment. At the time, the book value of the company was \$200,000,000. During 2012 Fairfield reported net income of \$2,400,000 and declared and paid dividends of \$1,000,000. Both companies have December 31 year-ends. At what amount will Eton report its investment in Fairfield on its December 31, 2012 balance sheet?
- \$60,000,000
 - \$61,400,000
 - \$60,420,000
 - \$60,720,000
6. Topic: Equity method investments
LO 3
Eton Corporation acquires 30% of the voting stock of Fairfield Company for \$60,000,000 on January 1, 2012, and classifies the investment as an equity method investment. At the time, the book value of the company was \$200,000,000. Eton determined that the book value of Fairfield's plant assets (15 year life, straight-line) were overstated by \$10,000,000, and Fairfield had unreported intangible assets (5 year life, straight-line) with a fair value of \$8,000,000. During 2012 Fairfield reported net income of \$2,400,000 and declared and paid dividends of \$1,000,000. Both companies have December 31 year-ends. At what amount will Eton report its investment in Fairfield on its December 31, 2012 balance sheet?
- \$60,000,000
 - \$60,140,000
 - \$60,540,000
 - \$60,040,000

7. Topic: Controlling investments

LO 4

Gigo Company acquires all of the voting stock of Hanna Corporation for \$100,000,000 on January 1, 2012, in a statutory merger. Hanna's January 1, 2012 book value is \$10,000,000. Its plant and equipment is overvalued by \$8,000,000 and it has unreported intangibles with a fair value of \$25,000,000. How much goodwill is reported for this acquisition?

- a. \$73,000,000
- b. \$60,000,000
- c. \$57,000,000
- d. \$83,000,000

8. Topic: Controlling investments

LO 4

Gigo Company acquires all of the voting stock of Hanna Corporation for \$100,000,000 in cash on January 1, 2012, in a statutory merger. Hanna's balance sheet at the date of acquisition is as follows:

	Dr (Cr)
Current assets	\$ 25,000,000
Plant and equipment	400,000,000
Liabilities	(415,000,000)
Capital stock	(1,000,000)
Retained earnings	(9,000,000)

Hanna's plant and equipment is overvalued by \$8,000,000 and it has unreported intangibles with a fair value of \$25,000,000. Gigo's entry to record its acquisition of Hanna Corporation will include a:

- a. Credit of \$1,000,000 to capital stock
- b. Debit of \$415,000,000 to liabilities
- c. Debit of \$392,000,000 to plant and equipment
- d. Debit of \$81,000,000 to goodwill

9. Topic: IFRS for intercorporate investments

LO 5

At the beginning of 2012, Nokia enters a joint venture with another company to develop a communications network. Each company invests €6,000,000 for a 50% interest in the joint venture. During the year, the joint venture reports income of €1,000,000 and pays no dividends. At the end of 2012, the joint venture's balance sheet reports €16,000,000 in assets and €3,000,000 in liabilities. Nokia reports €100,000,000 in assets and €70,000,000 in liabilities from its own operations. Using proportionate consolidation, Nokia's total assets at the end of 2012 are

- a. €100,000,000
- b. €106,000,000
- c. €106,500,000
- d. €108,000,000

10. Topic: IFRS for intercorporate investments

LO 5

At the beginning of 2012, Nokia enters a joint venture with another company to develop a communications network. Each company invests €6,000,000 for a 50% interest in the joint venture. During the year, the joint venture reports income of €1,000,000 and pays no dividends. At the end of 2012, the joint venture's balance sheet reports €16,000,000 in assets and €3,000,000 in liabilities. Nokia reports €100,000,000 in assets and €70,000,000 in liabilities from its own operations. Nokia follows IFRS and has a choice of using the equity method or proportionate consolidation to report its joint venture. A comparison of the two methods reveals that Nokia's:

- a. Total liabilities are higher using the equity method
- b. Net income is higher using proportionate consolidation
- c. Total assets are higher using proportionate consolidation
- d. Equity is higher using the equity method