

Chapter 3– Advanced Accounting, 1st edition by Hamlen, Huefner, and Largay

Practice Quiz

1. Topic: Criteria for consolidation
LO 1
Park Corporation invests in Sunder Company. Under U.S. GAAP, Park should consolidate the financial records of Sunder in which one of the following circumstances?
 - a. Park invests in a majority of the debt securities of Sunder
 - b. Sunder is not a variable interest entity, but Park is the primary beneficiary
 - c. Park invests in a majority of the voting stock of Sunder
 - d. Sunder supplies the majority of Park's merchandise needs

2. Topic: Motivations for off-balance-sheet financing
LO 2
Plummer Company pays \$100 million in cash to acquire all of the stock of Stratton Company. The balance sheets of Plummer and Stratton just after the acquisition are as follows:

<i>(in millions)</i>	Plummer	Stratton
Current assets	\$ 200	\$ 5
Noncurrent assets	2,000	300
Investment in S	<u>100</u>	<u>--</u>
	<u>\$2,300</u>	<u>\$305</u>
Liabilities	\$ 100	\$303
Equity	<u>2,200</u>	<u>2</u>
Total	<u>\$2,300</u>	<u>\$305</u>

Stratton's assets and liabilities are reported at amounts that approximate fair value at the date of acquisition, and there are no unreported net assets.

What is Plummer's debt to total assets ratio if it consolidates Stratton? Round to the nearest percent.

- a. 4%
- b. 15%
- c. 16%
- d. 19%

3. Topic: Consolidation of non-equity investments

LO 4

According to U.S. GAAP, criteria for classification of an organization as a variable interest entity include all of the following *except*:

- a. The voting rights of some investors are not proportional to their obligations to absorb the organization's expected losses
- b. Substantially all of the organization's activities are conducted on behalf of an entity with no voting rights
- c. The organization's equity investment is not sufficient to absorb the risks to creditors, without additional subordinated support
- d. There is a greater than 50% probability that the company will report a negative retained earnings balance

4. Topic: Consolidation working paper

LO 5

Pell Company acquires all of Solo Company's voting stock for \$75,000,000 in cash. Solo's balance sheet at the date of acquisition is as follows:

	Book value Dr(Cr)	Fair value Dr(Cr)
Current assets	\$ 5,000,000	\$ 4,000,000
Land, buildings and equipment (net)	125,000,000	150,000,000
Liabilities	(80,000,000)	(78,000,000)
Capital stock	(4,000,000)	
Retained earnings	(46,000,000)	

In addition, Solo has unrecorded identifiable intangible assets, meeting the criteria for capitalization, with an estimated fair value of \$60,000,000.

In elimination entry (E) on the consolidation working paper at the date of acquisition, the credit to Investment in Solo is:

- a. \$46,000,000
- b. \$75,000,000
- c. \$50,000,000
- d. \$76,000,000

5. Topic: Consolidation working paper
LO 5

Pell Company acquires all of Solo Company's voting stock for \$95,000,000 in cash. Solo's balance sheet at the date of acquisition is as follows:

	Book value Dr(Cr)	Fair value Dr(Cr)
Current assets	\$ 5,000,000	\$ 4,000,000
Plant assets	125,000,000	129,000,000
Liabilities	(81,000,000)	(78,000,000)
Capital stock	(4,000,000)	
Retained earnings	(45,000,000)	

In addition, Solo has unrecorded identifiable intangible assets, meeting the criteria for capitalization, with an estimated fair value of \$10,000,000.

Elimination entry (R) on the consolidation working paper at the date of acquisition is:

a.

Plant assets	4,000,000	
Intangible assets	10,000,000	
Liabilities	3,000,000	
Goodwill	30,000,000	
Current assets		1,000,000
Investment in Solo		46,000,000

b.

Current assets	1,000,000	
Plant assets	4,000,000	
Intangible assets	10,000,000	
Goodwill	34,000,000	
Liabilities		3,000,000
Investment in Solo		46,000,000

c.

Current assets	4,000,000	
Plant assets	129,000,000	
Intangible assets	10,000,000	
Goodwill	30,000,000	
Liabilities		78,000,000
Investment in Solo		95,000,000

d.

Plant assets	4,000,000	
Intangible assets	10,000,000	
Goodwill	30,000,000	
Current assets		1,000,000
Liabilities		3,000,000
Investment in Solo		40,000,000

6. Topic: Consolidation working paper
LO 5

Pringle Company purchased all of the shares of Spoth Company for \$10,000,000. At the date of acquisition, fair values of Spoth's current assets totaled \$300,000, fair values of Spoth's plant assets totaled \$3,800,000, and fair values of Spoth's liabilities were the same as reported values. There are no previously unreported intangible assets. The balance sheets of Pringle and Spoth immediately following the acquisition appear below.

	Pringle Co.	Spoth Co.
	Dr (Cr)	
Current assets	\$ 1,500,000	\$ 200,000
Plant assets	7,000,000	3,000,000
Investment in S Co.	10,000,000	--
Intangible assets	5,000,000	--
Liabilities	(16,000,000)	(2,400,000)
Common stock	(200,000)	(100,000)
Additional paid-in capital	(2,000,000)	(400,000)
Retained earnings	(4,600,000)	(150,000)
Treasury stock	300,000	20,000
Accumulated other comprehensive income	(1,000,000)	(170,000)

In elimination entry (E) on the consolidation working paper at the date of acquisition, the credit to Investment in Spoth is:

- a. \$820,000
- b. \$970,000
- c. \$840,000
- d. \$800,000

7. Topic: Consolidation working paper
LO 5

Pringle Company purchased all of the shares of Spoth Company for \$10,000,000. At the date of acquisition, fair values of Spoth's current assets totaled \$300,000, fair values of Spoth's plant assets totaled \$3,800,000, and fair values of Spoth's liabilities were the same as reported values. There are no previously unreported intangible assets. The balance sheets of Pringle and Spoth immediately following the acquisition appear below.

	Pringle Co.	Spoth Co.
	Dr (Cr)	
Current assets	\$ 1,500,000	\$ 200,000
Plant assets	7,000,000	3,000,000
Investment in S Co.	10,000,000	--
Intangible assets	5,000,000	--
Liabilities	(16,000,000)	(2,400,000)
Common stock	(200,000)	(100,000)
Additional paid-in capital	(2,000,000)	(400,000)
Retained earnings	(4,600,000)	(150,000)
Treasury stock	300,000	20,000
Accumulated other comprehensive income	(1,000,000)	(170,000)

In elimination entry (R) on the consolidation working paper at the date of acquisition, the debit to Goodwill is:

- a. \$8,400,000
- b. \$8,300,000
- c. \$6,000,000
- d. \$9,200,000

8. Topic: Consolidation working paper and bargain purchase
LO 5

Petra Corporation purchased all of the outstanding shares of Stuckey Corporation for \$24,000,000. Stuckey's balance sheet at the date of acquisition is as follows:

	Book value	Fair value
	Dr (Cr)	
Current assets	\$ 8,000,000	\$ 6,500,000
Plant assets	90,000,000	60,000,000
Current liabilities	(4,000,000)	(4,000,000)
Noncurrent liabilities	(69,000,000)	(67,000,000)
Capital stock	(2,000,000)	
Retained earnings	(23,000,000)	

Stuckey has previously unreported intangibles, meeting the criteria for capitalization, with a fair value of 35,000,000. Elimination entry (R) on the consolidation working paper, is:

a.

Noncurrent liabilities	2,000,000	
Intangible assets	35,000,000	
Current assets		1,500,000
Plant assets		30,000,000
Gain on acquisition		5,500,000

b.

Noncurrent liabilities	2,000,000	
Intangible assets	35,000,000	
Current assets		1,500,000
Plant assets		30,000,000
Investment in Stuckey		2,000,000
Gain on acquisition		3,500,000

c.

Noncurrent liabilities	2,000,000	
Intangible assets	35,000,000	
Investment in Stuckey	1,000,000	
Current assets		1,500,000
Plant assets		30,000,000
Gain on acquisition		6,500,000

d.

Intangible assets	35,000,000	
Investment in Stuckey	1,000,000	
Current assets		1,500,000
Plant assets		30,000,000
Noncurrent liabilities		2,000,000
Gain on acquisition		2,500,000

9. Topic: IFRS vs. U.S. GAAP, consolidation policy
LO 6
Which statement is *false* concerning IFRS and U.S. GAAP consolidation policy?
- a. More investments are likely to be consolidated following IFRS standards than following U.S. GAAP.
 - b. More investments are likely to be consolidated following U.S. GAAP than following IFRS.
 - c. Both U.S. GAAP and IFRS use the concept of control to determine whether an entity should be consolidated.
 - d. It is very rare to see consolidation of a minority equity investment under U.S. GAAP.
10. Topic: IFRS vs. U.S. GAAP, consolidation policy
LO 6
Which statement is *true* concerning IFRS for consolidation of non-equity investments?
- a. A company should consolidate a non-equity investment if it meets the criteria as a variable interest entity.
 - b. A company should never consolidate a non-equity investment.
 - c. A company should consolidate a non-equity investment if it owns a majority of its voting stock.
 - d. A company should consolidate a non-equity investment if it has control of the entity.