Module 9 – Financial & Managerial Accounting for MBAs, 4th Edition
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Solutions to Practice Quiz

LO: 1
1. Answer: c

   Berkshire Hathaway's 2005 balance sheet reports the equity securities investment portfolio at the current market value of $46,721 million.

LO: 2
2. Answer: a

   The equity of the affiliated companies is $1,475 million (assets of $3,072 – liabilities of $1,597 = $1,475). DuPont's investment balance of $844 million includes advances to the affiliates of $55 million. The investment balance, net of these advances, is, therefore, $789 million. This is 53.5%, on average, of the $1,475 million net equity of the investee companies. This suggests that DuPont paid more than book value for the investments. DuPont does not control these investments (or they would be consolidated) and thus, must own less than 50% of the voting common shares.

LO: 1
3. Answer: d

   Unrealized holding losses of $12,500 will appear in the 2014 income statement. These losses relate to the trading securities; specifically— Barth: $32,000 - $27,000 = $5,000; Foster: $175,500 – $168,000 = $7,500; total of $5,000 + $7,500 = $12,500 in unrealized losses reported in income.

LO: 3
4. Answer: a

   The investment is initially recorded on Hatlen's balance sheet at the purchase price of $19.2 million, including $1.6 million of goodwill. Since the market value of Wolf is less than the carrying amount of the investment on Hatlen's balance sheet, the goodwill might be impaired. To determine impairment, the imputed value of the goodwill is determined to be $16.0 million – $14.7 million = $1.3 million. Since this is less than the carrying amount, the goodwill is impaired by $300,000.

LO: 3
5. Answer: c

($ millions)		
Current assets, principally cash and marketable securities	$ 1,619.1	
Deferred tax assets	200.2	
Property, plant, and equipment	571.6	
Other assets	26.2	
Total tangible assets	$ 2,417.1	12.1%
In-process research and development	$ 2,991.8	
Identifiable intangible assets, principally developed product technology and core technology	4,803.2	
Goodwill	9,774.2	
Total intangible assets	$17,569.2	87.9%

LO: 1
6. Answer: b

Available-for-sale investments are reported at market value on the balance sheet. Thus, MetLife's bond investments are reported at $230,050 million as of 2005.

Net unrealized gains for 2005 are $6,124 million ($8,329 million – $2,205 million).

LO: 2
7. Answer: c

If acquired at book value, the investment balance is always equal to the investor's proportionate share of the stockholders' equity of the investee company. In the case of General Mills, the combined net assets (stockholders' equity) of all joint ventures is $514 million ($604 million current assets + $612 million noncurrent assets – $695 million current liabilities – $7 million noncurrent liabilities); these details are in the table for "Combined Financial Information—Joint Ventures—100% Basis." Since the investment balance is equal to $223 million, General Mills owns approximately 43% ($223 million / $514 million) if the investments have been acquired at book value.

LO: 3
8. Answer: a

The Investment in Financial Products Subsidiaries is reported on the parent's (Machinery and Engine's) balance sheet at $3,253 million. This is the same balance as reported for stockholders' equity of the Financial Products subsidiary. This relation will always exist so long as the investment is originally purchased at book value.

LO: 1
9. Answer: b

Pfizer reports available-for-sale securities at their market value on the balance sheet. For 2005, this is equal to the original cost ($270 million) plus unrecognized gains ($189 million) and less unrealized losses ($12 million), or $447 million.

LO: 2
10. Answer: c

Equity income on this investment is computed as Tangle's earnings multiplied by the 40% percent that Square owns. In this case, equity earnings equal:

$$\$700{,}000 \times 40\% = \underline{\underline{\$280{,}000}}$$

Note that dividends are treated as a return of investment. Square reduces the investment balance by $120,000, computed as $300,000 × 40%. Dividends are not income to Square. Also, Square records the investment at adjusted cost, not at market value, and unrealized gains (losses) are neither recognized on the balance sheet nor in the income statement.