

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 1

A company buys stock in Acme Industries for \$35,000 on August 1, 2016. The fair value of the investment on December 31, 2016, the company's year-end, is \$32,000. The company sells the stock for \$40,000 on February 1, 2017.

How will the company's income statements for 2016 and 2017 be affected by the investment, if it is categorized as (1) trading, or (2) available-for-sale?

	<u>2016</u>	<u>2017</u>
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 1**

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?

- a. \$3,000,000
- b. \$2,727,675
- c. \$2,641,291
- d. \$2,814,059

**5. Topic: Equity method investments**

**LO 2**

Eton Corporation acquires 30% of the voting stock of Fairfield Company for \$60,000,000 on January 1, 2016, and classifies the investment as an equity method investment. At the time, the book value of the company was \$200,000,000. During 2016 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, 2016 balance sheet?

- a. \$60,000,000
- b. \$61,400,000
- c. \$60,420,000
- d. \$60,720,000

**6. Topic: Equity method investments**

**LO 2**

Eton Corporation acquires 30% of the voting stock of Fairfield Company for \$60,000,000 on January 1, 2016, 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 2016 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, 2016 balance sheet?

- a. \$60,000,000
- b. \$60,140,000
- c. \$60,540,000
- d. \$60,040,000

**7. Topic: Controlling investments**

**LO 3**

Gigo Company acquires all of the voting stock of Hanna Corporation for \$100,000,000 on January 1, 2016, in a merger. Hanna's January 1, 2016 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 3**

Gigo Company acquires all of the voting stock of Hanna Corporation for \$100,000,000 in cash on January 1, 2016, in a merger. Hanna's balance sheet at the date of acquisition is as follows:

	<b>Dr (Cr)</b>
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 4**

At the beginning of 2016, 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 dividends of €100,000.

Following IFRS effective in 2016, what is the effect of the joint venture on Nokia's 2016 net income?

- a. + €1,000,000
- b. No effect
- c. + €500,000
- d. + €450,000

## 10. Topic: IFRS for intercorporate investments

### LO 4

At the beginning of 2016, 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 dividends of €100,000. At the end of 2016, 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.

Following IFRS effective in 2016, Nokia's total assets at the end of 2016 are:

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