

## Chapter 3– Advanced Accounting, 3<sup>rd</sup> 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 1

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>	<u>Plummer</u>	<u>Stratton</u>
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 3

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

- The voting rights of some investors are not proportional to their obligations to absorb the organization's expected losses
- Substantially all of the organization's activities are conducted on behalf of an entity with few voting rights
- The organization's equity investment is not sufficient to absorb the risks to creditors, without additional subordinated support
- There is a greater than 50% probability that the company will report a negative retained earnings balance

### 4. Topic: Consolidation working paper

#### LO 4

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:

- \$46,000,000
- \$75,000,000
- \$50,000,000
- \$76,000,000

## 5. Topic: Consolidation working paper

### LO 4

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 4**

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.

	<u>Pringle Co.</u>	<u>Spoth Co.</u>
	<u>Dr (Cr)</u>	
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 4**

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.

	<u>Pringle Co.</u>	<u>Spoth Co.</u>
	<u>Dr (Cr)</u>	
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 4**

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:

	<u>Book Value</u>	<u>Fair Value</u>
	<u>Dr (Cr)</u>	
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 5**

Which statement is *false* concerning current 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 rare to see consolidation of a minority equity investment under U.S. GAAP.

**10. Topic: IFRS vs. U.S. GAAP, consolidation policy**

**LO 5**

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.