

Practice Quiz

1. Topic: Intercompany loans

LO 1

A parent loaned \$1,000,000 to its 90 percent-owned subsidiary in 2015. The subsidiary reported interest expense on this loan of \$4,000 in 2015, and \$3,500 in 2016. At the end of 2016, the loan is still outstanding and the subsidiary owes \$300 in interest to the parent.

The eliminating entries (I) on the 2016 consolidation working paper include all of the following *except*:

- a. Debit to interest payable of \$300
- b. Debit to the subsidiary's beginning retained earnings of \$4,000
- c. Credit to loan receivable of \$1,000,000
- d. Credit to interest expense of \$3,500

2. Topic: Intercompany services

LO 1

A subsidiary provides consulting services to its parent during 2016, and charges the parent \$5,000,000. The parent records the cost of the services in its general expenses. The services cost the subsidiary \$3,000,000, and are included in the subsidiary's cost of services sold account. The parent still owes the subsidiary \$400,000 for these services at the end of 2016.

The eliminating entries (I) on the 2016 consolidation working paper include all of the following *except*:

- a. Credit to cost of services sold, \$3,000,000
- b. Debit to accounts payable, \$400,000
- c. Debit to service revenues, \$5,000,000
- d. Credit to general expenses, \$5,000,000

**3. Topic: Intercompany profits on merchandise sales, noncontrolling interest in net income calculation
LO 2, 4**

A parent owns an 80 percent interest in its subsidiary. The following information relates to intercompany merchandise transactions for 2016:

The parent's beginning inventory includes \$180,000 purchased from the subsidiary. The parent's ending inventory includes \$300,000 purchased from the subsidiary. The subsidiary sells to the parent at a markup of 20% on cost.

How does this information affect the 2016 noncontrolling interest in net income?

- a. Reduction of \$4,800
- b. Increase of \$4,800
- c. Increase of \$4,000
- d. Reduction of \$4,000

**4. Topic: Intercompany profits on depreciable assets, equity in net income calculation
LO 2, 5**

A parent owns a 100 percent interest in its subsidiary. The following information relates to intercompany equipment sales:

At the beginning of 2014, the subsidiary sold equipment with a book value of \$10,000 to the parent for \$50,000. The equipment had a remaining life of five years, straight-line. It is now the end of 2016, three years later, and the parent still has the equipment. The parent uses the complete equity method to report its investment on its own books.

How is its 2016 equity in net income affected by the intercompany equipment sale?

- a. No effect
- b. Decrease of \$32,000
- c. Decrease of \$16,000
- d. Increase of \$8,000

5. Topic: Intercompany transfers of land

LO 3

In 2014, a parent sold land with a book value of \$100,000 to its subsidiary for \$600,000. It is now the end of 2016, and the subsidiary still owns the land.

On the consolidation working paper, the eliminating entry for this intercompany transaction is:

a.	Retained earnings, beginning	500,000	
	Land		500,000
b.	No entry		
c.	Investment in subsidiary	500,000	
	Land		500,000
d.	Gain on sale of land	500,000	
	Land		500,000

6. Topic: Intercompany transfers of land

LO 3

In 2015, a subsidiary sold land with a book value of \$3,000,000 to its parent for \$2,000,000. During 2017 the parent sold the land to an outside party for \$3,600,000.

On the 2017 consolidated income statement, the gain on sale of land is:

- a. \$1,600,000
- b. \$ 600,000
- c. \$1,000,000
- d. \$0

7. Topic: Intercompany transfers of inventory

LO 4

During 2016, a parent sold inventory costing \$6,000,000 to its subsidiary at a markup of 20% on cost. The subsidiary's ending inventory includes \$600,000 of this inventory (at the subsidiary's cost).

The 2016 consolidation working paper eliminations needed to reflect the above information reduces cost of goods sold by a net amount of:

- a. \$6,000,000
- b. \$7,200,000
- c. \$5,900,000
- d. \$7,100,000

8. Topic: Intercompany transfers of inventory

LO 4

A subsidiary sells inventory to its parent at a markup of 25% on cost. During 2016, a subsidiary sells inventory to its parent, charging the parent \$5,000,000. The parent's beginning inventory includes \$500,000 of this inventory (at the parent's cost). By the end of 2016, the parent has sold the entire inventory it purchased from the subsidiary.

The 2016 consolidation working paper eliminations needed to reflect the above information reduce cost of goods sold by a net amount of:

- a. \$4,900,000
- b. \$5,125,000
- c. \$5,100,000
- d. \$5,000,000

9. Topic: Intercompany transfers of depreciable assets

LO 5

At the beginning of 2016, a parent sold equipment with a book value of \$4,000,000 to its subsidiary for \$7,000,000. At the time of the transfer, the equipment had a remaining life of 5 years, straight-line.

The consolidation working paper eliminations at the end of 2016 reduce the net equipment account (cost less accumulated depreciation) by a net amount of:

- a. \$3,000,000
- b. \$2,400,000
- c. \$ 600,000
- d. \$3,600,000

10. Topic: Intercompany transfers of depreciable assets

LO 5

At the beginning of 2014, a subsidiary sold equipment, on its books for \$8,000,000 cost less \$3,000,000 accumulated depreciation, to its parent for \$6,000,000. At the time of the transfer, the equipment had a remaining life of 5 years, straight-line.

The consolidation working paper eliminations at the end of 2016 include a debit to the beginning balance of retained earnings in the amount of:

- a. \$ 600,000
- b. \$1,000,000
- c. \$ 800,000
- d. \$ 400,000