Chapter 4– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. **Topic: Goodwill impairment loss: U.S. GAAP**
   LO 4
   Answer: a

   Rationale: Do steps 1 and 2 of the impairment test. Goodwill impairment is possible for the Asia segment only (BV>FV). Fair value of goodwill = $17,280,000 – $15,040,000 = $2,240,000. Impairment loss = $2,560,000 – $2,240,000 = $320,000

2. **Topic: Goodwill impairment loss: IFRS**
   LO 5
   Answer: c

   Rationale: Goodwill impairment is as follows:

Netherlands	$20,480,000 – $19,200,000 =	$1,280,000
China	10,900,000 – 9,600,000 =	1,300,000
Total		$2,580,000

3. **Topic: Consolidation working paper, one year after acquisition**
   LO 1, 4
   Answer: b

   Rationale: Elimination (C) eliminates the equity in net income account (calculated as subsidiary's net income +/– adjustments for revaluation write-offs) and the subsidiary's dividends account, and brings the investment back to its beginning-of-year value. Alternative b. does this correctly.

4. **Topic: Consolidation working paper, one year after acquisition**
   LO 1, 4
   Answer: a

   Rationale: Elimination (E) eliminates the subsidiary's beginning equity accounts against the investment account. Alternative a. does this correctly.

5. **Topic: Consolidation working paper, one year after acquisition**
   LO 1, 4
   Answer: d

   Rationale: Elimination (R) sets up the beginning of year revaluations and eliminates the remainder of the investment account. Alternative d. does this correctly.

6. **Topic: Consolidation working paper, one year after acquisition**
   LO 1, 3, 4
   Answer: c

   Rationale: Elimination (O) records the current year write-offs of the revaluations. In the first year, the inventory on hand at the date of acquisition is sold, so all of the inventory revaluation is written off as a reduction in cost of goods sold. The first year write-off of the property and equipment revaluation is \$10,000,000 / 20 = \$500,000, a reduction in operating expenses. The write-off of identifiable intangibles is \$14,000,000 / 5 = \$2,800,000, an increase in operating expenses. The goodwill impairment loss of \$1,000,000 adds to operating expenses. *Alternative c* does this correctly.

7. **Topic: Impairment testing, identifiable intangibles, U.S. GAAP**
   LO 4
   Answer: a

   Rationale:
   Book values at June 30, 2016:
   Customer lists: \$60 – [2 x (\$60/3)] = \$20
   Favorable leaseholds: \$200 – [2 x (\$200/5)] = \$120

   Customer lists are not impaired (\$20 < \$23)
   Favorable leaseholds are impaired (\$120 > \$100); the loss is \$120 – \$70 = \$50

8. **Topic: Impairment testing, identifiable intangibles, IFRS**
   LO 5
   Answer: b

   Rationale:
   Book values at June 30, 2016:
   Customer lists: \$60 – [2 x (\$60/3)] = \$20
   Favorable leaseholds: \$200 – [2 x (\$200/5)] = \$120

   Customer lists impairment: \$20 – \$18 = \$2
   Favorable leaseholds impairment: \$120 – \$70 = \$50
   Total impairment loss = \$2 + \$50 = \$52

9. **Topic: Equity method and consolidated balances**
   LO 2
   Answer: d

   Rationale: In consolidation, the subsidiary's dividends are eliminated. So the parent's dividends equal consolidated dividends.

10. **Topic: Reporting revaluations in subsequent years**
LO 1, 3, 4
Answer: c

Rationale: Using LIFO, the inventory at the date of acquisition is still on hand, so it is not written off. The intangibles revaluations have been completely written off. The bonds payable revaluation is still being written off; the amount is $10,000,000 / 5 = $2,000,000, and since its fair value is less than its book value, the write-off increases interest expense.