Chapter 1– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. **Topic: Motivations for intercorporate investments**
   LO 1
   Answer: a

   Rationale: Trading securities are held as investments of temporarily idle cash, to provide investment income and gains in value.

2. **Topic: Motivations for intercorporate investments**
   LO 1
   Answer: c

   Rationale: Held-to-maturity investments are debt securities, not equity securities.

3. **Topic: Trading and available-for-sale investments**
   LO 1
   Answer: c

   Rationale: The change in value of trading securities is reported in income as incurred. The change in value of AFS securities is reported in income when the securities are sold.

4. **Topic: Held-to-maturity investments**
   LO 1
   Answer: d

   Rationale:
   Investment book value, end of year: $9,727,675 + [(5% x $9,727,675) – $400,000] = $9,814,059
   Loss = $9,814,059 – $7,000,000 = $2,814,059

5. **Topic: Equity method investments**
   LO 2
   Answer: c

   Rationale: $60,000,000 + 30% x ($2,400,000 – $1,000,000) = $60,420,000

6. Topic: Equity method investments
LO 2
Answer: b

Rationale:

Equity in net income for 2016	30% x $2,400,000 =	$720,000
Revaluation write-offs:		
Overstated plant assets	30% x ($10,000,000/15) =	200,000
Unreported intangible assets	30% x [($8,000,000)/5] =	(480,000)
Equity in net income		$440,000

$60,000,000 + $440,000 – (30% x $1,000,000) = $60,140,000

7. Topic: Controlling investments
LO 3
Answer: a

Rationale: $100,000,000 – ($10,000,000 – 8,000,000 + $25,000,000) = $73,000,000

8. Topic: Controlling investments
LO 3
Answer: c

Rationale: Gigo's acquisition entry is as follows:

Current assets	25,000,000	
Plant and equipment	392,000,000	
Intangibles	25,000,000	
Goodwill	73,000,000	
Liabilities		415,000,000
Cash		100,000,000

9. Topic: IFRS for intercorporate investments
LO 4
Answer: c

Rationale: IFRS requires that joint ventures be reported using the equity method. Equity in net income for 2016 is 50% x €1,000,000 = €500,000. It reports its share of the joint venture's income as a component of its income. Dividends do not affect Nokia's income.

10. Topic: IFRS for intercorporate investments
LO 4
Answer: c

Rationale: €100,000,000 + (€6,000,000 + €500,000) = €106,500,000