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

Solutions to Practice Quiz

1. **Topic: Criteria for consolidation**
   LO 1
   Answer: c

   Rationale: U.S. GAAP requires consolidation of majority owned investments in voting equity securities.

2. **Topic: Motivations for off-balance-sheet financing**
   LO 1
   Answer: b

   Rationale:

   Consolidated Balance Sheet

(in millions)	
Current assets	$ 205
Noncurrent assets	2,300
Goodwill	98
	$2,603
Liabilities	$ 403
Equity	2,200
Total	$2,603

   Consolidated debt to total assets is $403 / $2,603 = 15%

3. **Topic: Consolidation of non-equity investments**
   LO 3
   Answer: d

   Rationale: Items a, b and c are stated in Codification paragraph 810-10-15-14 and section 810-10-25, as criteria for an entity to be subject to the guidance of the variable interest entities subsections of the Codification.

4. **Topic: Consolidation working paper**
LO 4
Answer: c

Rationale: Elimination (E) is:

Capital stock	4,000,000	
Retained earnings	46,000,000	
Investment in Solo		50,000,000

5. **Topic: Consolidation working paper**
LO 4
Answer: a

Rationale: Elimination (R) revalues Solo's identifiable assets and liabilities to fair value, and eliminates the excess of acquisition cost over book value ($95,000,000 - $49,000,000) from the investment account. Alternative a. does this correctly.

6. **Topic: Consolidation working paper**
LO 4
Answer: d

Rationale: Elimination (E) is:

Common stock	100,000	
Additional paid-in capital	400,000	
Retained earnings	150,000	
Accumulated other comprehensive income	170,000	
Treasury stock		20,000
Investment in Solo		800,000

7. **Topic: Consolidation working paper**
LO 4
Answer: b

Rationale: Goodwill equals the acquisition cost less the fair value of the identifiable net assets acquired, or $10,000,000 – ($300,000 + $3,800,000 – $2,400,000) = $8,300,000

Elimination (R) is:

Current assets	100,000	
Plant assets	800,000	
Goodwill	8,300,000	
Investment in Solo		9,200,000

8. **Topic: Consolidation working paper and bargain purchase**
LO 4
Answer: c

Rationale: Elimination (E) removes Stuckey's equity accounts, crediting the investment by $25,000,000. Elimination (R) eliminates the remainder of the investment with a debit of $1,000,000, and revalues the identifiable net assets from book to fair value. The gain on investment is the price paid less the fair value of the identifiable net assets acquired, or $24,000,000 – ($6,500,000 + $60,000,000 + $35,000,000 – $4,000,000 – $67,000,000) = $6,500,000.

9. **Topic: IFRS vs. U.S. GAAP, consolidation policy**
LO 5
Answer: b

Rationale: U.S. GAAP and IFRS both require consolidation of investments where the investor has control. However, in application U.S. GAAP is more likely to define control as majority stock ownership, while IFRS has a more flexible interpretation of control, allowing minority-owned investments to be consolidated.

10. **Topic: IFRS vs. U.S. GAAP, consolidation policy**
LO 5
Answer: d

Rationale: IFRS uses the same concept of control for consolidation of all investments, including equity and non-equity investments.