Chapter 5– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. **Topic: Valuation of goodwill at acquisition, U.S. GAAP**
   LO 1
   Answer: d

   Rationale: $100,000,000 + $20,000,000 – ($15,000,000 + $4,000,000) = $101,000,000

2. **Topic: Valuation of goodwill at acquisition, IFRS**
   LO 4
   Answer: a

   Rationale: Using the IFRS alternative method, the noncontrolling interest does not share in the goodwill. Total goodwill is the parent's goodwill.

   $100,000,000 – [80% x ($15,000,000 + $4,000,000)] = $84,800,000

3. **Topic: Goodwill to noncontrolling interest, U.S. GAAP**
   LO 1
   Answer: b

   Rationale: Total goodwill is $40,000,000 + $10,000,000 – ($8,000,000 – $30,000,000 + $25,000,000) = $47,000,000.

   Goodwill to the controlling interest is $40,000,000 – [75% x ($8,000,000 – $30,000,000 + $25,000,000)] = $37,750,000.

   Goodwill to the noncontrolling interest = $47,000,000 – $37,750,000 = $9,250,000.

4. **Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP**
   LO 2
   Answer: c

   Rationale: Elimination (C) eliminates the equity in net income account and the controlling interest's share of the subsidiary's dividends account, and brings the investment back to its beginning-of-year value. *Alternative c* does this correctly.

5. **Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP**
    LO 2
    Answer: a

    Rationale: Elimination (E) eliminates the subsidiary's beginning equity accounts and splits the total between the investment and the noncontrolling interest, according to ownership percentages. *Alternative a* does this correctly.

6. **Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP**
    LO 2
    Answer: d

    Rationale: Elimination (R) sets up the beginning-of-year revaluations and allocates them to the investment and noncontrolling interest.

    Goodwill is calculated as follows:
    Total goodwill: $38,000,000 + $3,000,000 − ($22,500,000 − $2,000,000 − $10,000,000 + $14,000,000) = $16,500,000.

    Goodwill to the controlling interest is $38,000,000 − [90% x ($22,500,000 − $2,000,000 − $10,000,000 + $14,000,000)] = $15,950,000.

    Allocation of the revaluations to the controlling interest = [90% x ($14,000,000 − $2,000,000 − $10,000,000)] + $15,950,000 = $17,750,000.

    Goodwill to the noncontrolling interest = $16,500,000 − $15,950,000 = $550,000.

    Allocation of the revaluations to the noncontrolling interest = [10% x ($14,000,000 − $2,000,000 − $10,000,000)] + $550,000 = $750,000.

7. **Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, U.S. GAAP**
    LO 2
    Answer: c

    Rationale: Elimination (N) records the noncontrolling interest in Codberry's 2016 income, eliminates the noncontrolling interest's share of dividends, and updates the noncontrolling interest in Codberry for the current year.

    Noncontrolling interest in 2016 net income = 10% x ($3,000,000 + $2,000,000 + $500,000 − $2,800,000) = $270,000.

8. **Topic: Consolidation working paper, noncontrolling interest, one year after acquisition, IFRS**
   LO 4
   Answer: a

   Rationale: Elimination (R) sets up the beginning-of-year revaluations and allocates them to the investment and noncontrolling interest.

   Goodwill is calculated as follows:
   $38,000,000 – [90% x ($22,500,000 – $2,000,000 – $10,000,000 + $14,000,000)] = $15,950,000.

   There is no goodwill to the noncontrolling interest.

   Allocation of the revaluations to the noncontrolling interest = [10% x ($14,000,000 – $2,000,000 – $10,000,000)] = $200,000.

9. **Topic: Noncontrolling interests and bargain purchases**
   LO 3
   Answer: b

   Rationale: $8,000,000 + $6,000,000 – $12,000,000 – $500,000 = $1,500,000

10. **Topic: Consolidated statement of cash flows**
    LO 5
    Answer: d

    Rationale:
    Cash inflow from operating activities = $5,000,000 + (20% x $2,000,000) + $15,000,000 = $20,400,000.
    Cash outflow for financing activities = $1,000,000 + (20% x $300,000) = $1,060,000.