

Chapter 5 Consolidation of Less-than-Wholly-Owned Subsidiaries Acquired at More than Book Value

Multiple Choice Questions

The following information applies to Questions 1-6

Bristle Corporation acquired 75 percent of Silver Corporation's common stock on December 31, 20X8, for \$300,000. The fair value of the noncontrolling interest at that date was determined to be \$100,000. Silver's balance sheet immediately before the combination reflected the following balances:

Cash and Receivables	\$40,000
Inventory	70,000
Land	90,000
Buildings and Equipment (net)	<u>250,000</u>
Total Assets	<u>\$450,000</u>
Accounts Payable	\$30,000
Income Taxes Payable	40,000
Bonds Payable	100,000
Common Stock	100,000
Retained Earnings	<u>180,000</u>
Total Liabilities and Stockholders' Equity	<u>\$450,000</u>

A careful review of the fair value of Silver's assets and liabilities indicated that inventory, land, and buildings and equipment (net) had fair values of \$65,000, \$100,000, and, \$300,000 respectively. Goodwill is assigned proportionately to Bristle and the noncontrolling shareholders.

1. Based on the preceding information, what amount of inventory will be included in the consolidated balance sheet immediately following the acquisition?

- A. \$0
- B. \$65,000
- C. \$70,000
- D. \$60,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 1 Easy

2. Based on the preceding information, what amount of land will be included in the consolidated balance sheet immediately following the acquisition?

- A. \$0
- B. \$10,000
- C. \$90,000
- D. \$100,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 1 Easy

3. Based on the preceding information, what amount of buildings and equipment (net) will be included in the consolidated balance sheet immediately following the acquisition?

- A. \$0
- B. \$50,000
- C. \$250,000
- D. \$300,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 1 Easy

4. Based on the preceding information, what amount of goodwill will be reported in the consolidated balance sheet immediately following the acquisition?

- A. \$0
- B. \$120,000
- C. \$65,000
- D. \$20,000

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

5. Based on the preceding information, what amount will be reported as investment in Silver Corporation stock in the consolidated balance sheet immediately following the acquisition?

- A. \$0
- B. \$210,000
- C. \$300,000
- D. \$400,000

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

6. Based on the preceding information, what amount will be reported as noncontrolling interest in the consolidated balance sheet immediately following the acquisition?

- A. \$0
- B. \$70,000
- C. \$83,750
- D. \$100,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 7-13

On January 1, 20X9, Gulliver Corporation acquired 80 percent of Sea-Gull Company's common stock for \$160,000 cash. The fair value of the noncontrolling interest at that date was determined to be \$40,000. Data from the balance sheets of the two companies included the following amounts as of the date of acquisition:

	Gulliver Corp.	Sea-Gull Corp.
Cash	\$ 60,000	\$ 20,000
Accounts Receivable	80,000	30,000
Inventory	90,000	40,000
Land	100,000	40,000
Buildings and Equipment	200,000	150,000
Less: Accumulated Depreciation	(80,000)	(50,000)
Investment in Sea-Gull Corp.	160,000	
Total Assets	\$ 610,000	\$ 230,000
Accounts Payable	\$ 110,000	\$ 30,000
Bonds Payable	95,000	40,000
Common Stock	200,000	40,000
Retained Earnings	205,000	120,000
Total Liabilities and Equity	\$ 610,000	\$ 230,000

At the date of the business combination, the book values of Sea-Gull's net assets and liabilities approximated fair value except for inventory, which had a fair value of \$45,000, and land, which had a fair value of \$60,000.

7. Based on the preceding information, what amount of total inventory will be reported in the consolidated balance sheet prepared immediately after the business combination?
- A. \$130,000
 B. \$135,000
 C. \$90,000
 D. \$45,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

8. Based on the preceding information, what amount of goodwill will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$0
- B. \$40,000
- C. \$20,000
- D. \$15,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

9. Based on the preceding information, what amount of total assets will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$720,000
- B. \$840,000
- C. \$825,000
- D. \$865,000

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

10. Based on the preceding information, what amount of total liabilities will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$395,000
- B. \$280,000
- C. \$275,000
- D. \$195,000

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

11. Based on the preceding information, what amount will be reported as noncontrolling interest in the consolidated balance sheet prepared immediately after the business combination?

- A. \$0
- B. \$15,000
- C. \$40,000
- D. \$46,000

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 1 Easy

12. Based on the preceding information, what amount of consolidated retained earnings will be reported immediately after the business combination?

- A. \$205,000
- B. \$120,000
- C. \$325,000
- D. \$310,000

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

13. Based on the preceding information, what amount will be reported as total stockholders' equity in the consolidated balance sheet prepared immediately after the business combination?

- A. \$445,000
- B. \$205,000
- C. \$565,000
- D. \$550,000

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 14 – 20

On January 1, 20X6, Interstate Corporation acquired 70 percent of Catapult Company's common stock for \$210,000 cash. The fair value of the noncontrolling interest at that date was determined to be \$90,000. Data from the balance sheets of the two companies included the following amounts as of the date of acquisition:

	<u>Interstate</u>	<u>Catapult</u>
Cash	\$50,000	\$15,000
Accounts Receivable	70,000	25,000
Inventory	30,000	20,000
Land	150,000	80,000
Buildings and Equipment	250,000	200,000
Less: Accumulated Depreciation	(70,000)	(20,000)
Investment in Catapult Co.	<u>210,000</u>	
Total Assets	<u>\$690,000</u>	<u>\$320,000</u>
Accounts Payable	\$40,000	\$10,000
Bonds Payable	150,000	40,000
Common Stock	300,000	90,000
Retained Earnings	<u>200,000</u>	<u>180,000</u>
Total Liabilities and Equity	<u>\$690,000</u>	<u>\$320,000</u>

At the date of the business combination, the book values of Catapult's assets and liabilities approximated fair value except for inventory, which had a fair value of \$30,000, and land, which had a fair value of \$95,000.

14. Based on the preceding information, what amount of total inventory will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$20,000
- B. \$30,000
- C. \$50,000
- D. \$60,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

15. Based on the preceding information, what amount of goodwill will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$0
- B. \$5,000
- C. \$25,000
- D. \$30,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

16. Based on the preceding information, what amount of total assets will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$800,000
- B. \$830,000
- C. \$1,010,000
- D. \$1,040,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

17. Based on the preceding information, what amount of total liabilities will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$190,000
- B. \$230,000
- C. \$240,000
- D. \$440,000

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

18. Based on the preceding information, what amount will be reported as noncontrolling interest in the consolidated balance sheet prepared immediately after the business combination?

- A. \$0
- B. \$81,000
- C. \$90,000
- D. \$96,000

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 1 Easy

19. Based on the preceding information, what amount of consolidated retained earnings will be reported in the consolidated balance sheet prepared immediately after the business combination?

- A. \$180,000
- B. \$200,000
- C. \$300,000
- D. \$380,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

20. Based on the preceding information, what amount will be reported as total stockholders' equity in the consolidated balance sheet prepared immediately after the business combination?

- A. \$360,000
- B. \$590,000
- C. \$770,000
- D. \$860,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 21-26

On December 31, 20X8, X Company acquired controlling ownership of Y Company. A consolidated balance sheet was prepared immediately. Partial balance sheet data for the two companies and the consolidated entity at that date follow:

X Company and Y Company Balance Sheet Data December 31, 2008			
	X Company	Y Company	Consolidated Entity
Cash	\$80,000	\$30,000	\$110,000
Accounts Receivable	50,000	?	78,000
Inventory	60,000	50,000	115,000
Buildings and Equipment	200,000	140,000	365,000
Less: Accumulated Depreciation	(50,000)	(28,000)	(78,000)
Investment in Y Company Stock	?		
Goodwill			15,000
Total Assets	\$464,000	\$230,000	\$605,000
Accounts Payable	\$60,000	\$32,000	\$82,000
Wages Payable	?	?	78,000
Notes Payable	100,000	60,000	160,000
Common Stock	100,000	50,000	?
Retained Earnings	154,000	60,000	?
Noncontrolling Interest			31,000
Total Liabilities and Equities	?	\$230,000	\$605,000

During 20X8, X Company provided consulting services to Y Company and has not yet paid for them. There were no other receivables or payables between the companies at December 31, 20X8.

21. Based on the information given, what is the amount of unpaid consulting services at December 31, 20X8, on work done by X Company for Y Company?

- A. \$0
- B. \$10,000
- C. \$5,000
- D. \$15,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

22. Based on the information given, what balance in accounts receivable did Y Company report at December 31, 20X8?

- A. \$28,000
- B. \$48,000
- C. \$40,000
- D. \$38,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

23. Based on the information given, X Company and Y Company reported wages payable of

- A. \$50,000 and \$28,000 respectively.
- B. \$60,000 and \$32,000 respectively.
- C. \$40,000 and \$35,000 respectively.
- D. \$28,000 and \$60,000 respectively.

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

24. Based on the information given, what was the fair value of Y Company as a whole at the date of acquisition?

- A. \$155,000
- B. \$110,000
- C. \$115,000
- D. \$135,000

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

25. Based on the information given, what percentage of Y Company's shares were acquired by X Company?

- A. 100 percent
- B. 60 percent
- C. 80 percent
- D. 75 percent

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

26. Based on the information given, what amount will be reported as total controlling interest in the consolidated balance sheet?

- A. \$254,000
- B. \$285,000
- C. \$364,000
- D. \$395,000

Answer: A

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

27. Rohan Corporation holds assets with a fair value of \$150,000 and a book value of \$125,000 and liabilities with a book value and fair value of \$50,000. What balance will be assigned to the noncontrolling interest in the consolidated balance sheet if Helms Company pays \$90,000 to acquire 75 percent ownership in Rohan and goodwill of \$20,000 is reported?

- A. \$50,000
- B. \$30,000
- C. \$40,000
- D. \$20,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

28. When a parent owns less than 100% of a subsidiary, the noncontrolling interest shareholders are allocated their ownership percentage of income or net assets in all of the following consolidating entries except for:

- A. The basic investment account consolidation entry
- B. The excess value (differential) reclassification entry
- C. The optional accumulated depreciation consolidation entry
- D. The amortized excess value reclassification entry

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

Difficulty: 1 Easy

The following information applies to Questions 29-31

On January 1, 20X6, Climber Corporation acquired 90 percent of Wisden Corporation for \$180,000 cash. Wisden reported net income of \$30,000 and dividends of \$10,000 for 20X6, 20X7, and 20X8. On January 1, 20X6, Wisden reported common stock outstanding of \$100,000 and retained earnings of \$60,000, and the fair value of the noncontrolling interest was \$20,000. It held land with a book value of \$30,000 and a market value of \$35,000 and equipment with a book value of \$50,000 and a market value of \$60,000 at the date of combination. The remainder of the differential at acquisition was attributable to an increase in the value of patents, which had a remaining useful life of five years. All depreciable assets held by Wisden at the date of acquisition had a remaining economic life of five years. Climber uses the equity method in accounting for its investment in Wisden.

29. Based on the preceding information, the increase in the fair value of patents held by Wisden is:

- A. \$20,000
- B. \$25,000
- C. \$15,000
- D. \$5,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

30. Based on the preceding information, what balance would Climber report as its investment in Wisden at January 1, 20X8?

- A. \$230,400
- B. \$180,000
- C. \$234,000
- D. \$203,400

Answer: D

Learning Objective: 05-02

Topic: Second year of ownership

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

31. Based on the preceding information, what balance would Climber report as its investment in Wisden at January 1, 20X9?

- A. \$251,100
- B. \$224,100
- C. \$215,100
- D. \$234,000

Answer: C

Learning Objective: 05-02

Topic: Second year of ownership

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

The following information applies to Questions 32 – 34

On January 1, 20X2, Ephraim Corporation acquired 80 percent of Lilac Corporation for \$200,000 cash. Lilac reported net income of \$25,000 each year and dividends of \$5,000 each year for 20X2, 20X3, and 20X4. On January 1, 20X2, Lilac reported common stock outstanding of \$160,000 and retained earnings of \$40,000, and the fair value of the noncontrolling interest was \$50,000. It held land with a book value of \$90,000 and a market value of \$100,000, and equipment with a book value of \$40,000 and a market value of \$48,000 at the date of combination. The remainder of the differential at acquisition was attributable to an increase in the value of patents, which had a remaining useful life of eight years. All depreciable assets held by Lilac at the date of acquisition had a remaining economic life of eight years. Ephraim uses the equity method in accounting for its investment in Lilac.

32. Based on the preceding information, the increase in the fair value of patents held by Lilac is
- A. \$10,000
 - B. \$18,000
 - C. \$32,000
 - D. \$50,000

Answer: C

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

33. Based on the preceding information, what balance would Ephraim report as its investment in Lilac at January 1, 20X4?
- A. \$200,000
 - B. \$224,000
 - C. \$232,000
 - D. \$240,000

Answer: B

Learning Objective: 05-02

Topic: Second year of ownership

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

34. Based on the preceding information, what balance would Ephraim report as its investment in Lilac at January 1, 20X5?
- A. \$236,000
 - B. \$248,000
 - C. \$260,000
 - D. \$300,000

Answer: A

Learning Objective: 05-02

Topic: Second year of ownership

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

The following information applies to Questions 35-26

On December 31, 20X8, Melkor Corporation acquired 80 percent of Sydney Company's common stock for \$160,000. At that date, the fair value of the noncontrolling interest was \$40,000. Of the \$75,000 differential, \$10,000 related to the increased value of Sydney's inventory, \$20,000 related to the increased value of its land, and \$25,000 related to the increased value of its equipment that had a remaining life of 10 years from the date of combination. Sydney sold all inventory it held at the end of 20X8 during 20X9. The land to which the differential related was also sold during 20X9 for a large gain. At the date of combination, Sydney reported retained earnings of \$75,000 and common stock outstanding of \$50,000. In 20X9, Sydney reported net income of \$60,000, but paid no dividends. Melkor accounts for its investment in Sydney using the equity method.

35. Based on the preceding information, the amount of goodwill reported in the consolidated financial statements prepared immediately after the combination is:
- A. \$0
 - B. \$32,500
 - C. \$26,000
 - D. \$20,000

Answer: D

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

36. Based on the preceding information, what is the amount of write-off of differential associated with this acquisition recorded by Melkor during 20X9?

- A. \$0
- B. \$32,500
- C. \$26,000
- D. \$20,000

Answer: C

Learning Objective: Appendix 5A

Topic: Subsidiary's Disposal of Differential-Related Assets

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 37 – 38

On December 31, 20X5, Paris Corporation acquired 60 percent of Sanlo Company's common stock for \$180,000. At that date, the fair value of the noncontrolling interest was \$120,000. Of the \$45,000 differential, \$5,000 related to the increased value of Sanlo's inventory, \$15,000 related to the increased value of its land, and \$10,000 related to the increased value of its equipment that had a remaining life of five years from the date of combination. Sanlo sold all inventory it held at the end of 20X5 during 20X6. The land to which the differential related was also sold during 20X6 for a large gain. In 20X6, Sanlo reported net income of \$40,000 but paid no dividends. Paris accounts for its investment in Sanlo using the equity method.

37. Based on the preceding information, the amount of goodwill reported in the consolidated financial statements prepared immediately after the combination is

- A. \$9,000
- B. \$15,000
- C. \$27,000
- D. \$45,000

Answer: B

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

38. Based on the preceding information, what amount of differential would Paris amortize during 20X6 in its equity method journal entries?

- A. \$13,200
- B. \$15,000
- C. \$22,000
- D. \$30,000

Answer: A

Learning Objective: Appendix 5A

Topic: Subsidiary's Disposal of Differential-Related Assets

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 39-40

On January 1, 20X8, Ramon Corporation acquired 75 percent of Tester Company's voting common stock for \$300,000. At the time of the combination, Tester reported common stock outstanding of \$200,000 and retained earnings of \$150,000, and the fair value of the noncontrolling interest was \$100,000. The book value of Tester's net assets approximated market value except for patents that had a market value of \$50,000 more than their book value. The patents had a remaining economic life of ten years at the date of the business combination. Tester reported net income of \$40,000 and paid dividends of \$10,000 during 20X8.

39. Based on the preceding information, what balance will Ramon report as its investment in Tester at December 31, 20X8, assuming Ramon uses the equity method in accounting for its investment?

- A. \$318,750
- B. \$317,500
- C. \$330,000
- D. \$326,250

Answer: A

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

40. Based on the preceding information, which of the following is an consolidating entry needed to prepare a full set of consolidated financial statements at December 31, 20X8:

A)

Common Stock	200,000	
Retained Earnings	150,000	
Income from Tester Co.	40,000	
Dividends declared		10,000
Investment in Tester Co.		285,000
NCI in NA of Tester Co.		95,000

B)

Depreciation Expense	5,000	
Income from Tester Co.		4,000
NCI in NI of Tester Co.		1,000

C)

Common Stock	200,000	
Retained Earnings	150,000	
Income from Tester Co.	30,000	
NCI in NI of Tester Co.	10,000	
Dividends declared		10,000
Investment in Tester Co.		285,000
NCI in NA of Tester Co.		95,000

D)

Patents	50,000	
Accumulated Depreciation		10,000
Investment in Tester Co.		30,000
NCI in NA of Tester Co.		10,000

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

Answer: C

Learning Objective: 05-02

Topic: Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

The following information applies to Questions 41-45

On January 1, 20X6, Polka Co. (Polka) and Strauss Co. (Strauss) had condensed balance sheets as follows:

	<u>Polka</u>	<u>Strauss</u>
Current assets	\$70,000	\$20,000
Noncurrent assets	\$90,000	\$40,000
Current liabilities	\$30,000	\$10,000
Long-term debt	\$50,000	\$0
Stockholders' equity	\$80,000	\$50,000

On January 2, 20X6, Polka borrowed \$90,000 and used the proceeds to acquire 90% of the outstanding common shares of Strauss. This debt is payable in ten equal annual principal and accrued interest payments beginning December 30, 20X6. On the acquisition date, the fair value of Strauss was \$100,000, and the excess cost of the investment over Strauss's carrying amount of acquired net assets should be allocated 60% to inventory and 40% to goodwill.

(Note: This is a Kaplan CPA Review Question)

41. Current assets on the January 2, 20X6, consolidated balance sheet should be:

- A. \$79,000
- B. \$120,000
- C. \$90,000
- D. \$96,000

Answer: B

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

(Note: This is a Kaplan CPA Review Question)

42. Noncurrent assets on the January 2, 20X6, consolidated balance sheet should be:

- A. \$130,000
- B. \$150,000
- C. \$134,000
- D. \$136,000

Answer: B

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

(Note: This is a Kaplan CPA Review Question)

43. Current liabilities on the January 2, 20X6, consolidated balance sheet should be:

- A. \$49,000
- B. \$30,000
- C. \$40,000
- D. \$50,000

Answer: A

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

(Note: This is a Kaplan CPA Review Question)

44. Noncurrent liabilities on the January 2, 20X6, consolidated balance sheet should be:

- A. \$109,000
- B. \$55,000
- C. \$104,000
- D. \$131,000

Answer: D

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

(Note: This is a Kaplan CPA Review Question)

45. Stockholders' equity on the January 2, 20X6, consolidated balance sheet should be:

- A. \$85,000
- B. \$80,000
- C. \$90,000
- D. \$130,000

Answer: C

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

46. All of the following are examples of how a parent company may lose control over a subsidiary and discontinue future consolidation, except:

- A. The parent sells some of its interest in the subsidiary.
- B. The subsidiary issues additional common stock.
- C. The subsidiary comes under the control of the government or other regulator.
- D. The subsidiary issues a stock dividend or a stock split.

Answer: D

Learning Objective: 05-03

Topic: Discontinuance of consolidation

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

Difficulty: 1 Easy

47. Pink Inc. sells half of its 70% interest in Brown Co. on January 1, 20X6. On that date, the fair value of Brown as a whole is \$940,000 and the carrying amount of Pink's 70% share of Brown is \$320,000. What, if any, is the gain on the sale of half of Pink's interest in Brown?
- A. \$0
 - B. \$9,000
 - C. \$169,000
 - D. \$338,000

Answer: D

Learning Objective: 05-03

Topic: Discontinuance of consolidation

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 48-51:

On January 1, 20X8, Bristol Company acquired 80 percent of Animation Company's common stock for \$280,000 cash. At that date, Animation reported common stock outstanding of \$200,000 and retained earnings of \$100,000, and the fair value of the noncontrolling interest was \$70,000. The book values and fair values of Animation's assets and liabilities were equal, except for other intangible assets which had a fair value \$50,000 greater than book value and an 8-year remaining life. Animation reported the following data for 20X8 and 20X9:

Animation Corporation			
Year	Net Income	Comprehensive Income	Dividends Paid
20X8	\$25,000	\$30,000	\$5,000
20X9	35,000	45,000	10,000

Bristol reported net income of \$100,000 and paid dividends of \$30,000 for both the years.

48. Based on the preceding information, what is the amount of consolidated comprehensive income reported for 20X8?
- A. \$125,000
 - B. \$123,750
 - C. \$118,750
 - D. \$130,000

Answer: B

Learning Objective: 05-04

Topic: Treatment of OCI

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

49. Based on the preceding information, what is the amount of consolidated comprehensive income reported for 20X9?

- A. \$145,000
- B. \$135,000
- C. \$138,750
- D. \$128,750

Answer: C

Learning Objective: 05-04

Topic: Treatment of OCI

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

50. Based on the preceding information, what is the amount of comprehensive income attributable to the controlling interest for 20X8?

- A. \$123,750
- B. \$118,750
- C. \$119,000
- D. \$104,000

Answer: C

Learning Objective: 05-04

Topic: Treatment of OCI

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

51. Based on the preceding information, what is the amount of comprehensive income attributable to the controlling interest for 20X9?

- A. \$138,750
- B. \$131,000
- C. \$128,750
- D. \$135,000

Answer: B

Learning Objective: 05-04

Topic: Treatment of OCI

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

The following information applies to Questions 52-53

On January 1, 20X8, Colorado Corporation acquired 75 percent of Denver Company's voting common stock for \$90,000 cash. At that date, the fair value of the noncontrolling interest was \$30,000. Denver's balance sheet at the date of acquisition contained the following balances:

Denver Company			
Balance Sheet			
January 1, 20X8			
Cash	\$10,000	Accounts Payable	\$35,000
Accounts Receivable	20,000	Notes Payable	50,000
Land	40,000	Common Stock	100,000
Building and Equipment	165,000	Additional Paid-In Capital	20,000
Less: Accumulated Depreciation	<u>(50,000)</u>	Retained Earnings	<u>(20,000)</u>
Total Assets	<u>\$185,000</u>	Total Liabilities and Equity	<u>\$185,000</u>

At the date of acquisition, the reported book values of Denver's assets and liabilities approximated fair value. Consolidating entries are being made to prepare a consolidated balance sheet immediately following the business combination.

52. Based on the preceding information, in the entry to eliminate the investment balance,
- A. retained earnings will be credited for \$20,000.
 - B. additional paid-in-capital will be credited for \$20,000.
 - C. retained earnings will be credited for \$10,000.
 - D. noncontrolling interest will be debited for 30,000.

Answer: A

Learning Objective: Appendix 5A

Topic: Negative Retained Earnings of Subsidiary

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

53. Based on the preceding information, the amount of goodwill reported is:
- A. \$0.
 - B. \$10,000.
 - C. \$15,000.
 - D. \$20,000.

Answer: D

Learning Objective: Appendix 5A

Topic: Negative Retained Earnings of Subsidiary

Blooms: Understand

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 2 Medium

54. Which of the following stockholders equity accounts are eliminated during the consolidation process?
- A. Common Stock of the subsidiary
 - B. Preferred Stock of the subsidiary
 - C. Additional Paid-in Capital of the subsidiary
 - D. All of the above

Answer: D

Learning Objective: Appendix 5A

Topic: Other Stockholders' Equity Accounts

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

Difficulty: 1 Easy

Essay Questions

55. On December 31, 20X8, Defoe Corporation acquired 80 percent of Crusoe Company's common stock for \$104,000 cash. The fair value of the noncontrolling interest at that date was determined to be \$26,000. Data from the balance sheets of the two companies included the following amounts as of the date of acquisition:

	Defoe Corporation	Crusoe Company
Cash	\$90,000	\$20,000
Accounts Receivable	80,000	35,000
Inventory	100,000	40,000
Land	40,000	60,000
Buildings and Equipment	300,000	100,000
Less: Accumulated Depreciation	(100,000)	(40,000)
Investment in Crusoe Company Stock	104,000	
Total Assets	<u>\$614,000</u>	<u>\$215,000</u>
Accounts Payable	\$120,000	\$30,000
Mortgage Payable	200,000	100,000
Common Stock	50,000	25,000
Retained Earnings	244,000	60,000
Total Liabilities and Stockholders' Equity	<u>\$614,000</u>	<u>\$215,000</u>

On that date, the book values of Crusoe's assets and liabilities approximated fair value except for inventory, which had a fair value of \$45,000, and buildings and equipment, which had a fair value of \$100,000. At December 31, 20X8, Defoe reported accounts payable of \$15,000 to Crusoe, which reported an equal amount in its accounts receivable.

Required:

- 1) Provide the consolidating entries needed to prepare a consolidated balance sheet immediately following the business combination.
- 2) Prepare a consolidated balance sheet worksheet.

Problem 55 (continued):

Answer:

1)

Book Value Calculations:

	<u>NCI 20%</u>	+	<u>Defoe Corp. 80%</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Beg. Book Value	17,000		68,000		25,000		60,000

Basic consolidation entry:

Common Stock	25,000
Retained Earnings	60,000
Investment in Crusoe Co.	68,000
NCI in NA of Crusoe Co.	17,000

Excess Value (Differential) Calculations:

	<u>NCI 20%</u>	+	<u>Defoe Corp. 80%</u>	=	<u>Inventory</u>	+	<u>Buildings and Equipment</u>
Balance	9,000		36,000		5,000		40,000

Excess value (differential) reclassification entry:

Inventory	5,000
Buildings and Equipment	40,000
Investment in Crusoe Co.	36,000
NCI in NA of Crusoe Co.	9,000

Eliminate Intercompany Accounts:

Accounts Payable	15,000
Accounts Receivable	15,000

Optional accumulated depreciation consolidation entry:

Accumulated Depreciation	40,000
Buildings and Equipment	40,000

Problem 55 (continued):
2)

	Defoe Corp.	Crusoe Co.	Consolidation Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash	90,000	20,000			110,000
Accounts Receivable	80,000	35,000		15,000	100,000
Inventory	100,000	40,000	5,000		145,000
Land	40,000	60,000			100,000
Buildings and Equipment	300,000	100,000	40,000	40,000	400,000
Less: Accumulated Depreciation	(100,000)	(40,000)	40,000		(100,000)
Investment in Crusoe Co.	104,000	0		68,000	0
				36,000	
Total Assets	614,000	215,000	85,000	159,000	755,000
Accounts Payable	120,000	30,000	15,000		135,000
Mortgage Payable	200,000	100,000			300,000
Common Stock	50,000	25,000	25,000		50,000
Retained Earnings	244,000	60,000	60,000		244,000
NCI in NA of Crusoe Co.				17,000	26,000
				9,000	
Total Liabilities & Equity	614,000	215,000	100,000	26,000	755,000

Learning Objective: 05-01

Topic: Basic consolidated info with NCI (at acquisition)

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

56. Magellan Corporation acquired 80 percent ownership of Dipper Corporation on January 1, 20X8, for \$200,000. At that date, Dipper reported common stock outstanding of \$75,000 and retained earnings of \$150,000. The fair value of the noncontrolling interest was \$50,000. The differential is assigned to equipment, which had a fair value \$25,000 greater than book value and a remaining economic life of five years at the date of the business combination. Dipper reported net income of \$40,000 and paid dividends of \$20,000 in 20X8.

Required:

- 1) Provide the journal entries recorded by Magellan during 20X8 on its books if it accounts for its investment in Dipper using the equity method.
- 2) Give the consolidating entries needed at December 31, 20X8, to prepare consolidated financial statements.

Problem 56 (continued):

Answer:

1)

Equity Method Entries on Magellan Corp.'s Books:

Investment in Dipper Corp.	200,000	
Cash		200,000

Record investment in Dipper Corp.

Investment in Dipper Corp.	32,000	
Income from Dipper Corp.		32,000

Record Magellan Corp.'s 80% share of Dipper Corp.'s 20X8 income

Cash	16,000	
Investment in Dipper Corp.		16,000

Record Magellan Corp.'s 80% share of Dipper Corp.'s 20X8 dividend

Income from Dipper Corp.	4,000	
Investment in Dipper Corp.		4,000

Record amortization of excess acquisition price

2)

Book Value Calculations:

	NCI 20%	+	Magellan Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning Book Value	45,000		180,000		75,000		150,000
+ Net Income	8,000		32,000				40,000
- Dividends	(4,000)		(16,000)				(20,000)
Ending Book Value	49,000		196,000		75,000		170,000

Basic consolidation entry:

Common Stock	75,000
Retained Earnings	150,000
Income from Dipper Corp.	32,000
NCI in NI of Dipper Corp.	8,000
Dividends declared	20,000
Investment in Dipper Corp.	196,000
NCI in NA of Dipper Corp.	49,000

Problem 56 (continued):

Excess Value (Differential) Calculations:

	NCI 20%	+	Magellan Corp. 80%	=	Equipment	+	Accumulated Depreciation
Beginning balance	5,000		20,000		25,000		0
Changes	(1,000)		(4,000)				(5,000)
Ending balance	4,000		16,000		25,000		(5,000)

Amortized excess value reclassification entry:

Depreciation Expense	5,000	
Income from Dipper Corp.		4,000
NCI in NI of Dipper Corp.		1,000

Excess value (differential) reclassification entry:

Equipment	25,000	
Accumulated Depreciation		5,000
Investment in Dipper Corp.		16,000
NCI in NA of Dipper Corp.		4,000

Learning Objective: 05-02

Topic: Complex differential; no OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Difficulty: 3 Hard

57. On January 1, 20X8, Vector Company acquired 80 percent of Scalar Company's ownership on for \$120,000 cash. At that date, the fair value of the noncontrolling interest was \$30,000. The book value of Scalar's net assets at acquisition was \$125,000. The book values and fair values of Scalar's assets and liabilities were equal, except for buildings and equipment, which were worth \$15,000 more than book value. Buildings and equipment are depreciated on a 10-year basis. Although goodwill is not amortized, the management of Vector concluded at December 31, 20X8, that goodwill from its acquisition of Scalar shares had been impaired and the correct carrying amount was \$5,000. Goodwill and goodwill impairment were assigned proportionately to the controlling and noncontrolling shareholders. No additional impairment occurred in 20X9.

Trial balance data for Vector and Scalar on December 31, 20X9, are as follows:

Item	Vector Co.		Scalar Co.	
	Debit	Credit	Debit	Credit
Cash	\$ 100,000		\$ 30,000	
Accounts Receivable	60,000		25,000	
Inventory	80,000		30,000	
Land	150,000		50,000	
Buildings and Equipment	300,000		150,000	
Investment in Scalar Co.	144,800			
Cost of Goods Sold	180,000		100,000	
Wage Expense	50,000		34,000	
Depreciation Expense	30,000		15,000	
Interest Expense	25,000		6,000	
Other Expenses	40,000		21,000	
Dividends Declared	40,000		10,000	
Accumulated Depreciation		\$ 150,000		\$ 36,000
Accounts Payable		90,000		26,000
Wages Payable		30,800		9,000
Notes Payable		180,000		50,000
Common Stock		150,000		100,000
Retained Earnings		181,000		50,000
Sales		400,000		200,000
Income from Scalar		18,000		
	<u>\$1,199,800</u>	<u>\$1,199,800</u>	<u>\$471,000</u>	<u>\$471,000</u>

Required:

- 1) Provide all consolidating entries needed to prepare a three-part consolidation worksheet as of December 31, 20X9.
- 2) Prepare a three-part consolidation worksheet for 20X9 in good form.

Problem 57 (continued):

Answer:

1)

Book Value Calculations:

	NCI 20%	+	Vector Co. 80%	=	Common Stock	+	Retained Earnings
Beginning Book Value	30,000		120,000		100,000		50,000
+ Net Income	4,800		19,200				24,000
- Dividends	(2,000)		(8,000)				(10,000)
Ending Book Value	<u>32,800</u>		<u>131,200</u>		<u>100,000</u>		<u>64,000</u>

Basic consolidation entry:

Common Stock	100,000
Retained Earnings	50,000
Income from Scalar Co.	19,200
NCI in NI of Scalar Co.	4,800
Dividends declared	10,000
Investment in Scalar Co.	131,200
NCI in NA of Scalar Co.	32,800

Excess Value (Differential) Calculations:

	NCI 20%	+	Vector Co. 80%	=	Building and Equipment	+	Accumulated Depreciation	+	Goodwill
Beginning balance	3,700		14,800		15,000		(1,500)		5,000
Changes	(300)		(1,200)				(1,500)		
Ending balance	<u>3,400</u>		<u>13,600</u>		<u>15,000</u>		<u>(3,000)</u>		<u>5,000</u>

Amortized excess value reclassification entry:

Depreciation Expense	1,500
Income from Scalar Co.	1,200
NCI in NI of Scalar Co.	300

Excess value (differential) reclassification entry:

Building and Equipment	15,000
Goodwill	5,000
Accumulated Depreciation	3,000
Investment in Scalar Co.	13,600
NCI in NA of Scalar Co.	3,400

Problem 57 (continued):

2)

	Vector Co.	Scalar Co.	Consolidation Entries		Consolidated
			DR	CR	
Income Statement					
Sales	400,000	200,000			600,000
Less: COGS	(180,000)	(100,000)			(280,000)
Less: Wage Expense	(50,000)	(34,000)			(84,000)
Less: Depreciation Expenses	(30,000)	(15,000)	1,500		(46,500)
Less: Interest Expense	(25,000)	(6,000)			(31,000)
Less: Other Expenses	(40,000)	(21,000)			(61,000)
Income from Scalar	18,000	0	19,200	1,200	0
Consolidated Net Income	93,000	24,000	20,700	1,200	97,500
NCI in Net Income			4,800	300	(4,500)
Controlling Interest in Net Income					
	<u>93,000</u>	<u>24,000</u>	<u>25,500</u>	<u>1,500</u>	<u>93,000</u>
Statement of Retained Earnings					
Beginning Balance	181,000	50,000	50,000		181,000
Net Income	93,000	24,000	25,500	1,500	93,000
Less: Dividends Declared	(40,000)	(10,000)		10,000	(40,000)
Ending Balance	<u>234,000</u>	<u>64,000</u>	<u>75,500</u>	<u>11,500</u>	<u>234,000</u>
Balance Sheet					
Cash	100,000	30,000			130,000
Accounts Receivable	60,000	25,000			85,000
Inventory	80,000	30,000			110,000
Land	150,000	50,000			200,000
Buildings and Equipment	300,000	150,000	15,000		465,000
Less: Accumulated Depreciation	(150,000)	(36,000)		3,000	(189,000)
Investment in Scalar Co.	144,800	0		131,200	0
				13,600	
Goodwill			5,000		5,000
Total Assets	<u>684,800</u>	<u>249,000</u>	<u>20,000</u>	<u>147,800</u>	<u>806,000</u>
Accounts Payable	90,000	26,000			116,000
Wages Payable	30,800	9,000			39,800
Notes Payable	180,000	50,000			230,000
Common Stock	150,000	100,000	100,000		150,000
Retained Earnings	234,000	64,000	75,500	11,500	234,000
NCI in NA of Scalar Co.				32,800	36,200
				3,400	
Total Liabilities & Equity	<u>684,800</u>	<u>249,000</u>	<u>175,500</u>	<u>47,700</u>	<u>806,000</u>

*Learning Objective: 05-02**Topic: Second year of ownership**Blooms: Apply**AACSB: Analytic**AICPA: FN Measurement**Difficulty: 3 Hard*

58. Top Corporation acquired 80 percent of Bottom Corporation's common stock on January 1, 20X8, for \$520,000. At that date, Bottom reported common stock outstanding of \$250,000 and retained earnings of \$375,000. Assume the fair value of the noncontrolling interest on January 1, 20X8 was \$130,000. The book values and fair values of Bottom's assets and liabilities were equal on the acquisition date, except for other intangible assets, which had a fair value \$25,000 greater than book value and a 5-year remaining life. Top and Bottom reported the following data for 20X8 and 20X9:

Year	Top Co.		Bottom Co.		
	Operating Income	Dividends Paid	Net Income	Comprehensive Income	Dividends Paid
20X8	\$50,000	\$10,000	\$90,000	\$95,000	\$30,000
20X9	\$60,000	\$12,000	\$110,000	\$120,000	\$25,000

- Compute consolidated comprehensive income for 20X8 and 20X9.
- Compute comprehensive income attributable to the controlling interest for 20X8 and 20X9.

Problem 58 (continued):

Answer:

- Consolidated comprehensive income:

	<u>20X8</u>	<u>20X9</u>
Top Co. Operating Income	\$ 50,000	\$ 60,000
Net Income from Bottom Co.	90,000	110,000
Amortization of differential (\$25,000 / 5 Years)	<u>(5,000)</u>	<u>(5,000)</u>
Consolidated net income	135,000	165,000
Comprehensive income reported by Bottom Co.	<u>5,000</u>	<u>10,000</u>
Consolidated comprehensive income	<u>\$ 140,000</u>	<u>\$ 175,000</u>

- Consolidated comprehensive income attributable to controlling interest:

	<u>20X8</u>	<u>20X9</u>
Consolidated comprehensive income	\$ 140,000	\$ 175,000
Less: NCI in Bottom Co. income (\$90,000 x 0.20) - (\$5,000 x 0.20)	(17,000)	
(\$110,000 x 0.20) - (\$5,000 x 0.20)		(21,000)
Less: NCI in comprehensive income reported by Bottom Co. (\$95,000 - \$90,000) x 0.20	(1,000)	
(\$120,000 - \$110,000) x 0.20		(2,000)
Comprehensive income attributable to controlling interest	<u>\$ 122,000</u>	<u>\$ 152,000</u>

Proof of various numbers in calculations to parts “a” and “b”:

Income Statement--20X8					
Operating Income	50,000	90,000	5,000		135,000
Income from	68,000		72,000	4,000	0
Consolidated Net Income	118,000	90,000	77,000	4,000	135,000
NCI in Net Income			18,000	1,000	(17,000)
Controlling Interest in Net Income	118,000	90,000	95,000	5,000	118,000

Income Statement--20X9					
Operating Income	60,000	110,000	5,000		165,000
Income from 90000	84,000		88,000	4,000	0
Consolidated Net Income	144,000	110,000	93,000	4,000	165,000
NCI in Net Income			22,000	1,000	(21,000)
Controlling Interest in Net Income	144,000	110,000	115,000	5,000	144,000

Learning Objective: 05-04

Topic: Treatment of OCI

Blooms: Apply

AACSB: Analytic

AICPA: FN Reporting

Difficulty: 3 Hard