Student name:__________

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) If Push Company owned 51 percent of the outstanding common stock of Shove Company, which method would be appropriate for financial reporting purposes?

A) Cost method
B) Full consolidation method
C) Equity method
D) Fair value method

Question Details
Learning Objective : 02-01 Understand and explain how ownership and control can influence the account
Topic : Accounting for Investments in Common Stock
Bloom's : Remember
AACSB : Reflective Thinking
AICPA : FN Reporting
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a

2) Usually, an investment of 20 to 50 percent in another company's voting stock is reported under the:

A) cost method.
B) full consolidation method.
C) equity method.
D) fair value method.

Question Details
Learning Objective : 02-01 Understand and explain how ownership and control can influence the account
Topic : Accounting for Investments in Common Stock
Bloom's : Remember
AACSB : Reflective Thinking
AICPA : FN Reporting
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a

3) In the case of an investment in equity securities where the investor does not have significant influence and the investment is carried at fair value, a dividend from the investee is:

A) A reduction of the carrying amount of the investment.

B) Income to the investor in the period of declaration.

C) An expense to the investor in the period of declaration.

D) A direct increase to retained earnings of the investor to offset the direct decrease to retained earnings of the investee.

Question Details

Bloom's : Remember
AACSB : Reflective Thinking
Difficulty : 1 Easy
AICPA : FN Decision Making
Accessibility : Keyboard Navigation
Learning Objective : 02-02 Prepare journal entries for investments carried at fair value.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a
Topic : Securities Carried at Fair Value

4) Which of the following observations is NOT consistent with the accounting for investments in equity securities where there is no significant influence?

A) Changes in the number of investment shares resulting from stock dividends, stock splits, or reverse splits must be formally recorded by the investor.

B) Investments are carried by the investor at fair value.

C) The investor recognizes income from the investment as dividends are declared by the investee.

D) When the securities are remeasured to fair value as of the end of each period, any resulting difference is an unrealized gain or loss to be recognized in income.

Question Details
Bloom's : Remember
AACSB : Reflective Thinking
Difficulty : 1 Easy
AICPA : FN Decision Making
Accessibility : Keyboard Navigation
Learning Objective : 02-02 Prepare journal entries for investments carried at fair value.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a
Topic : Securities Carried at Fair Value

5) On January 1, 20X9 Pathlon Company acquired 30 percent of the common stock of Sopteron Corporation, at underlying book value. For the same year, Sopteron reported net income of $55,000, which includes a gain from discontinued operations of $40,000. It did not pay any dividends during the year. By what amount would Pathlon's investment in Sopteron Corporation increase for the year, if Pathlon used the equity method?

A) $0
B) $16,500
C) $4,500
D) $12,000

Question Details
Topic : The Equity Method
Topic : Investor's Share of Other Comprehensive Income
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a
Learning Objective : Appendix 2A

6) A change from carrying securities at fair value to the equity method of accounting for an investment in common stock resulting from an increase in the number of shares held by the investor requires:

A) only a footnote disclosure.

B) that the cumulative amount of the change be shown as a line item on the income statement, net of tax.

C) retroactive restatement as if the investor always had used the equity method.

D) that the investor begins accruing income earned by the investee under the equity method at the date of acquisition of the new shares.

Question Details
Bloom's : Remember
AACSB : Reflective Thinking
AICPA : FN Reporting
Difficulty : 1 Easy
Topic : Changes in the Number of Shares Held
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.

7) Under the equity method of accounting for a stock investment, the investment initially should be recorded at:

A) cost.

B) cost minus any differential.

C) proportionate share of the fair value of the investee company's net assets.

D) proportionate share of the book value of the investee company's net assets.

Question Details
Bloom's : Remember
AACSB : Reflective Thinking
Difficulty : 1 Easy
AICPA : FN Decision Making
Topic : The Equity Method
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.

8) On July 1, 20X4, Pillow Corp. obtained significant influence over Sleep Co. through the purchase of 3,000 shares of Sleep's 10,000 outstanding shares of common stock for $20 per share. On December 15, 20X4, Sleep paid $40,000 in dividends to its common stockholders. Sleep's net income for the year ended December 31, 20X4, was $120,000, earned evenly throughout the year. In its 20X4 income statement, what amount of income from this investment should Pillow report?

A) $12,000
B) $36,000
C) $18,000
D) $6,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.

9) On January 2, 20X5, Park Co. purchased 10 percent of Sky, Inc.'s outstanding common shares for $400,000. Park is the largest single shareholder in Sky, and Park's officers are a majority on Sky's board of directors. As a result, Park is able to exercise significant influence over Sky. Sky reported net income of $500,000 for 20X5, and paid dividends of $150,000. In its December 31, 20X5, balance sheet, what amount should Park report as investment in Sky?

A) $385,000
B) $450,000
C) $400,000
D) $435,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Bloom's : Apply
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

10) The Salmon Corporation (Salmon) reported net income for the current year of $200,000 and paid cash dividends of $30,000. The Pond Company (Pond) holds 22 percent of the outstanding voting stock of Salmon. However, another corporation holds the other 78 percent ownership and does not take Pond's input into consideration when making financing and operating decisions for Salmon. What investment income should Pond recognize for the current year?

A) $6,600
B) $0
C) $44,000
D) $50,600

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

11) Slide Corporation reported net income for the current year of $370,000 and paid cash dividends of $50,000. Power Company holds 40 percent of the outstanding voting stock of Slide. However, another corporation holds the other 60 percent ownership and does not take Power's input into consideration when making financing and operating decisions for Slide. What investment income should Power recognize for the current year?

A) $0
B) $20,000
C) $128,000
D) $148,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

12) What account balances in the subsidiary stockholders' equity accounts should be eliminated in preparing a consolidated balance sheet?

A) Common stock
B) Additional paid-in capital
C) Retained Earnings
D) All of these account balances are eliminated

Question Details
Bloom's : Remember
AACSB : Reflective Thinking
Difficulty : 1 Easy
AICPA : FN Decision Making
Topic : Overview of the Consolidation Process
Accessibility : Keyboard Navigation
Learning Objective : 02-05 Make calculations and prepare basic consolidation entries for a simple con

13) The consolidation process consists of all the following except:

A) Combining the financial statements of two or more legally separate companies.

B) Eliminating intercompany transactions and holdings.

C) Closing the individual subsidiary's revenue and expense accounts into the parent's retained earnings.

D) Combining the accounts of separate companies, creating a single set of financial statements.

Question Details
Bloom's : Remember
AACSB : Reflective Thinking
Difficulty : 1 Easy
AICPA : FN Decision Making
Topic : Overview of the Consolidation Process
Accessibility : Keyboard Navigation
Learning Objective : 02-05 Make calculations and prepare basic consolidation entries for a simple con

14) The main guidance on equity-method reporting, found in ASC 323 and 325 requires all of the following except:

A) The investor's share of the investee's discontinued operations should be reported.

B) The investor's share of the investee's prior-period adjustments should be reported.

C) Continued use of the equity-method even if continued losses result in a zero or negative balance in the investment account.

D) Preferred dividends of the investee should be deducted from net income before the investor computes its share of investee earnings.

Question Details
Bloom's : Remember
AACSB : Reflective Thinking
AICPA : FN Reporting
Difficulty : 1 Easy
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2A
Topic : Additional Requirements of ASC 323

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

15) Pocket Corporation acquired 100 percent of the voting shares of Sleeve Inc. by issuing 10,000 new shares of $5 par value common stock with a $30 market value.

Required:

1. Which company is the parent and which is the subsidiary?
2. Define a subsidiary corporation.
3. Define a parent corporation.
4. Which entity prepares the consolidated worksheet?
5. Why are consolidation entries used?

Question Details
AACSB : Reflective Thinking
Difficulty : 1 Easy
AICPA : FN Decision Making
Bloom's : Understand
Topic : Overview of the Consolidation Process
Accessibility : Keyboard Navigation
Learning Objective : 02-05 Make calculations and prepare basic consolidation entries for a simple con

16) On January 1, 20X9, Peery Company acquired 100 percent of Standard Company's common shares at underlying book value. Peery uses the equity method in accounting for its ownership of Standard. On December 31, 20X9, the trial balances of the two companies are as follows:

	Peery Co.		Standard Co.	
Item	Debit	Credit	Debit	Credit
Current Assets	$ 238,000		$ 95,000	
Depreciable Assets	300,000		170,000	
Investment in Standard Co.	100,000			
Other Expenses	90,000		70,000	

Depreciation Expense	30,000		17,000	
Dividends Declared	32,000		10,000	
Accumulated Depreciation		$ 120,000		$ 85,000
Current Liabilities		50,000		30,000
Long-Term Debt		120,000		50,000
Common Stock		100,000		50,000
Retained Earnings		175,000		35,000
Sales		200,000		112,000
Income from Standard Co.		25,000		
	$ 790,000	$ 790,000	$ 362,000	$ 362,000

Required:

1. Prepare the consolidation entries needed as of December 31, 20X9, to complete a consolidation worksheet.
2. Prepare a three-part consolidation worksheet as of December 31, 20X9.

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

17) In the absence of other evidence, common stock ownership of between 20 and 50 percent is viewed as indicating that the investor is able to exercise significant influence over the investee. What are some of the other factors that could constitute evidence of the ability to exercise significant influence?

Question Details
Bloom's : Remember
Difficulty : 1 Easy
AICPA : FN Decision Making
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2A
AACSB : Communication
Topic : Determination of Significant Influence

18) On January 1, 20X7, Plimsol Company acquired 100 percent of Shipping Corporation's voting shares, at underlying book value. Plimsol uses the cost method in accounting for its investment in Shipping. Shipping's reported retained earnings of $75,000 on the date of acquisition. The trial balances for Plimsol Company and Shipping Corporation as of December 31, 20X8, follow:

	Plimsol Co.		Shipping Corp.	
Item	Debit	Credit	Debit	Credit
Current Assets	$ 160,000		$ 115,000	
Depreciable Assets (net)	180,000		135,000	
Investment in Shipping Corp.	125,000			
Other Expenses	85,000		60,000	
Depreciation Expense	20,000		15,000	
Dividends Declared	30,000		15,000	
Current Liabilities		$ 25,000		$ 20,000

Long-Term Debt		75,000		50,000
Common Stock		100,000		50,000
Retained Earnings		210,000		100,000
Sales		175,000		120,000
Dividend Income		15,000		
	$ 600,000	$ 600,000	$ 340,000	$ 340,000

Required:

1.Provide all consolidating entries required to prepare a full set of consolidated statements for 20X8.

2.Prepare a three-part consolidation worksheet in good form as of December 31, 20X8.

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol
Learning Objective : Appendix 2B

SECTION BREAK. Answer all the part questions.

19) On January 1, 20X8, Pullman Company acquired 30 percent of Skate Company's common stock, at underlying book value of $100,000. Skate has 100,000 shares of $2 par value, 5 percent cumulative preferred stock outstanding. No dividends are in arrears. Skate reported net income of $150,000 for 20X8 and paid total dividends of $72,000. Pullman uses the equity method to account for this investment.

Question Details

19.1) Based on the preceding information, what amount would Pullman Company receive as dividends from Skate for the year?

A) $62,000
B) $21,600
C) $18,600
D) $54,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Additional Requirements of ASC 323-10
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

19.2) Based on the preceding information, what amount of investment income will Pullman Company report from its investment in Skate for the year?

A) $45,000
B) $42,000
C) $62,000
D) $35,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Additional Requirements of ASC 323-10
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

19.3) Based on the preceding information, what amount would be reported by Pullman Company as the balance in its investment account on December 31, 20X8?

A) $100,000
B) $123,400
C) $120,400
D) $142,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Additional Requirements of ASC 323-10
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

20) On January 1, 20X4, Pony Company acquired 25% of Stallion Company’s common stock at underlying book value of $200,000. Stallion has 80,000 shares of $10 par value, 6 percent cumulative preferred stock outstanding. No dividends are in arrears. Stallion reported net income of $270,000 for 20X4 and paid total dividends of $140,000. Pony uses the equity method to account for this investment.

Question Details

20.1) Based on the preceding information, what amount would Pony Company receive as dividends from Stallion for the year?

A) $23,000
B) $35,000
C) $37,500
D) $92,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Additional Requirements of ASC 323-10
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

20.2) Based on the preceding information, what amount of investment income will Pony Company report from its investment in Stallion for the year?

A) $140,000
B) $67,500
C) $55,500
D) $35,000

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Additional Requirements of ASC 323-10
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

20.3) Based on the preceding information, what amount would be reported by Pony Company as the balance in its investment account on December 31, 20X4?

A) $200,000
B) $220,500
C) $232,500
D) $255,500

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Additional Requirements of ASC 323-10
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : Appendix 2A

21) On January 1, 20X7, Poke Corporation acquired 25 percent of the outstanding shares of Shove Corporation for $100,000 cash. Shove Company reported net income of $75,000 and paid dividends of $30,000 for both 20X7 and 20X8. The fair value of shares held by Poke was $110,000 and $105,000 on December 31, 20X7 and 20X8 respectively.

Question Details

21.1) Based on the preceding information, what amount will be reported by Poke as income from its investment in Shove for 20X8, if it used the equity method of accounting?

A) $7,500
B) $11,250
C) $18,750
D) $26,250

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Bloom's : Apply
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a

21.2) Based on the preceding information, what amount will be reported by Poke as balance in investment in Shove on December 31, 20X8, if it used the equity method of accounting?

A) $108,250
B) $118,750
C) $100,000
D) $122,500

Question Details
Topic : The Equity Method
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Bloom's : Apply
Accessibility : Keyboard Navigation
Learning Objective : 02-03 Prepare journal entries for investments using the equity method.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a

21.3) If instead, Poke could not exercise significant influence over the investee, by what amount will Poke’s 20X7 income increase due to its investment in Shove?

A) $17,500
B) $12,500
C) $11,250
D) $7,500

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-02 Prepare journal entries for investments carried at fair value.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a
Topic : Securities Carried at Fair Value

21.4) If instead, Poke could not exercise significant influence over the investee, by what amount will Poke’s 20X8 income increase due to its investment in Shove?

A) $11,250
B) $2,500
C) $6,250
D) $7,500

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : 02-02 Prepare journal entries for investments carried at fair value.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a
Topic : Securities Carried at Fair Value

21.5) If instead, Poke could not exercise significant influence over the investee, what amount will be reported by Poke as balance in investment in Shove on December 31, 20X8?

A) $105,000
B) $118,750
C) $100,000
D) $122,500

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Bloom's : Apply
Accessibility : Keyboard Navigation
Learning Objective : 02-02 Prepare journal entries for investments carried at fair value.
Learning Objective : 02-04 Understand and explain differences in accounting for investments carried a
Topic : Securities Carried at Fair Value

22) Prime Company acquired 100 percent of the voting common shares of Standard Video Corporation, its bitter rival, by issuing bonds with a par value and fair value of $150,000. Immediately prior to the acquisition, Prime reported total assets of $500,000, liabilities of $280,000, and stockholders' equity of $220,000. At that date, Standard Video reported total assets of $400,000, liabilities of $250,000, and stockholders' equity of $150,000. Included in Standard's liabilities was an account payable to Prime in the amount of $20,000, which Prime included in its accounts receivable.

Question Details

22.1) Based on the preceding information, what amount of total assets did Prime report in its separate balance sheet immediately after the acquisition before any consolidation with Standard Video?

A) $500,000
B) $650,000
C) $750,000
D) $900,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Bloom's : Apply
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

22.2) Based on the preceding information, what amount of total assets was reported in the consolidated balance sheet immediately after acquisition?

A) $650,000
B) $880,000
C) $920,000
D) $750,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

22.3) Based on the preceding information, what amount of total liabilities was reported in the consolidated balance sheet immediately after acquisition?

A) $500,000
B) $530,000
C) $280,000
D) $660,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

22.4) Based on the preceding information, what amount of stockholders' equity was reported in the consolidated balance sheet immediately after acquisition?

A) $220,000
B) $150,000
C) $370,000
D) $350,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

23) Pickup Company acquired 100 percent of the voting common shares of Sedan Corporation by issuing bonds with a par value and fair value of $200,000. Immediately prior to the acquisition, Pickup reported total assets of $600,000, liabilities of $370,000, and stockholders’ equity of $230,000. At that date, Sedan reported total assets of $500,000, liabilities of $300,000, and stockholders’ equity of $200,000. Included in Sedan’s liabilities was an account payable to Pickup in the amount of $50,000, which Pickup included in its accounts receivable.

Question Details

23.1) Based on the preceding information, what amount of total assets did Pickup report in its balance sheet immediately after the acquisition?

A) $1,100,000
B) $1,000,000
C) $800,000
D) $1,600,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Bloom's : Apply
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

23.2) Based on the preceding information, what amount of total assets was reported in the consolidated balance sheet immediately after acquisition?

A) $600,000
B) $800,000
C) $1,050,000
D) $1,150,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

23.3) Based on the preceding information, what amount of total liabilities was reported in the consolidated balance sheet immediately after the acquisition?

A) $370,000
B) $670,000
C) $820,000
D) $870,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

23.4) Based on the preceding information, what amount of stockholders' equity was reported in the consolidated balance sheet immediately after acquisition?

A) $200,000
B) $230,000
C) $380,000
D) $430,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Topic : Consolidation Worksheets
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

24) Parent Co. purchases 100 percent of Son Company on January 1, 20X1, when Parent's retained earnings balance is $520,000 and Son's is $150,000. During 20X1, Son reports $15,000 of net income and declares $6,000 of dividends. Parent reports $105,000 of separate operating earnings plus $15,000 of equity-method income from its 100 percent interest in Son; Parent declares dividends of $40,000.

Question Details

24.1) Based on the preceding information, what is Parent's post-closing retained earnings balance on December 31, 20X1?

A) $485,000
B) $505,000
C) $525,000
D) $600,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Topic : Consolidation Subsequent to Acquisition
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

24.2) Based on the preceding information, what is Son's post-closing retained earnings balance on December 31, 20X1?

A) $141,000
B) $150,000
C) $159,000
D) $165,000

Question Details
Difficulty : 1 Easy
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Consolidation Subsequent to Acquisition
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

24.3) Based on the preceding information, what is the consolidated retained earnings balance on December 31, 20X1?

A) $470,000
B) $585,000
C) $600,000
D) $759,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Topic : Consolidation Subsequent to Acquisition
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

25) Phips Co. purchases 100 percent of Sips Company on January 1, 20X2, when Phips' retained earnings balance is $320,000 and Sips' is $120,000. During 20X2, Sips reports $20,000 of net income and declares $8,000 of dividends. Phips reports $125,000 of separate operating earnings plus $20,000 of equity-method income from its 100 percent interest in Sips; Phips declares dividends of $35,000.

Question Details

25.1) Based on the preceding information, what is Phips' post-closing retained earnings balance on December 31, 20X2?

A) $305,000
B) $410,000
C) $430,000
D) $465,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Topic : Consolidation Subsequent to Acquisition
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

25.2) Based on the preceding information, what is Sips' post-closing retained earnings balance on December 31, 20X2?

A) $108,000
B) $120,000
C) $132,000
D) $140,000

Question Details
Difficulty : 1 Easy
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Topic : Consolidation Subsequent to Acquisition
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

25.3) Based on the preceding information, what is the consolidated retained earnings balance on December 31, 20X2?

A) $402,000
B) $410,000
C) $430,000
D) $562,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Topic : Consolidation Subsequent to Acquisition
Accessibility : Keyboard Navigation
Learning Objective : 02-06 Prepare a consolidation worksheet.

26) On January 1, 20X4, Plimsol Company acquired 100 percent of Shipping Corporation's voting shares, at underlying book value. Plimsol accounts for its investment in Shipping at cost. Shipping's retained earnings was $75,000 on the date of acquisition. On December 31, 20X4, the trial balance data for the two companies are as follows:

	Plimsol Co.		Shipping Corp.	
Item	Debit	Credit	Debit	Credit
Current Assets	$ 100,000		$ 75,000	
Depreciable Assets (net)	200,000		150,000	
Investment in Shipping Corp.	125,000			
Other Expenses	60,000		45,000	
Depreciation Expense	20,000		15,000	
Dividends Declared	25,000		15,000	
Current Liabilities		$ 40,000		$ 25,000
Long-Term Debt		75,000		50,000
Common Stock		100,000		50,000
Retained Earnings		150,000		75,000
Sales		150,000		100,000
Dividend Income, Shipping Corp.		15,000		
	$ 530,000	$ 530,000	$ 300,000	$ 300,000

Question Details

26.1) Based on the information provided, what amount of net income will be reported in the consolidated financial statements prepared on December 31, 20X4?

A) $100,000
B) $85,000
C) $110,000
D) $125,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

26.2) Based on the information provided, what amount of total assets will be reported in the consolidated balance sheet prepared on December 31, 20X4?

A) $425,000
B) $525,000
C) $650,000
D) $630,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

26.3) Based on the information provided, what amount of retained earnings will be reported in the consolidated balance sheet prepared on December 31, 20X4?

A) $235,000
B) $210,000
C) $310,000
D) $225,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

26.4) Based on the information provided, what amount of total liabilities will be reported in the consolidated balance sheet prepared on December 31, 20X4?

A) $525,000
B) $115,000
C) $125,000
D) $190,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

26.5) Based on the information provided, what amount of total stockholders' equity will be reported in the consolidated balance sheet prepared on December 31, 20X4?

A) $190,000
B) $335,000
C) $460,000
D) $310,000

Question Details
AACSB : Analytical Thinking
AICPA : FN Measurement
Bloom's : Apply
Difficulty : 3 Hard
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

27) Parent Company purchased 100 percent of Son Inc. on January 1, 20X2 for $420,000. Son reported earnings of $82,000 and declared dividends of $4,000 during 20X2.

Question Details

27.1) Based on the preceding information and assuming Parent carries its investment in Son at cost, what is the balance in Parent's Investment in Son account on December 31, 20X2, prior to consolidation?

A) $416,000
B) $420,000
C) $424,000
D) $498,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

27.2) Based on the preceding information and assuming Parent uses the equity method to account for its investment in Son, what is the balance in Parent's Investment in Son account on December 31, 20X2, prior to consolidation?

A) $416,000
B) $420,000
C) $424,000
D) $498,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

28) Pone Company purchased 100 percent of Sone Inc. on January 1, 20X9 for $625,000. Sone reported earnings of $76,000 and declared dividends of $8,000 during 20X9.

Question Details

28.1) Based on the preceding information and assuming Pone carries its investment in Sone at cost, what is the balance in Pone’s Investment in Sone account on December 31, 20X9, prior to consolidation?

A) $617,000
B) $625,000
C) $633,000
D) $693,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

28.2) Based on the preceding information and assuming Pone uses the equity method to account for its investment in Sone, what is the balance in Pone's Investment in Sone account on December 31, 20X9, prior to consolidation?

A) $617,000
B) $625,000
C) $633,000
D) $693,000

Question Details
Bloom's : Understand
AACSB : Analytical Thinking
AICPA : FN Measurement
Difficulty : 2 Medium
Accessibility : Keyboard Navigation
Learning Objective : Appendix 2B
Topic : Consolidation When Parent Companies Choose to Carry at Cost Investments That Are to Be Consol

Answer Key

Test name: Accounting 2

1) B
2) C
3) B
4) A
5) B
6) D
7) A
8) C
9) D
10) A
11) B
12) D
13) C
14) C
15) 1.Pocket is the parent and Sleeve is the subsidiary.

2.A subsidiary is an entity in which another entity, the parent company, holds a controlling financial interest.

3.A parent company holds a controlling financial interest in another company.

4.The parent, Pocket, prepares the consolidated worksheet.

5.Consolidation entries are used to adjust the amounts reported by the parent and all of the subsidiaries to reflect the amounts that would be reported if the separate legal entities were a single company.

16) 1.

Book Value Calculations:

	Total Book Value	= Common Stock	+ Retained Earnings
Beginning Book Value	85,000	50,000	35,000
+ Net Income	25,000		25,000
- Dividends	(10,000)		(10,000)
Ending Book Value	100,000	50,000	50,000

Basic consolidation entry:

Common Stock	50,000	
Retained Earnings	35,000	
Income from Standard Co.	25,000	
Dividends Declared		10,000
Investment in Standard Co.		100,000

Accumulated depreciation consolidation entry:

Accumulated Depreciation	68,000	
Depreciable Assets		68,000

2.

	Peery Co.	Standard Co.	Consolidation Entries DR	Consolidation Entries CR	Consolidated
Income Statement					
Sales	200,000	112,000			312,000

Less: Other Expenses	(90,000)	(70,000)			(160,000)
Less: Depreciation Expense	(30,000)	(17,000)			(47,000)
Income from Standard Co.	25,000	0	25,000		0
Net Income	105,000	25,000	25,000	0	105,000
Statement of Retained Earnings					
Beginning Balance	175,000	35,000	35,000		175,000
Net Income	105,000	25,000	25,000	0	105,000
Less: Dividends Declared	(32,000)	(10,000)		10,000	(32,000)
Ending Balance	248,000	50,000	60,000	10,000	248,000
Balance Sheet					
Current Assets	238,000	95,000			333,000
Depreciable Assets	300,000	170,000		68,000	402,000
Less: Accumulated Depreciation	(120,000)	(85,000)	68,000		(137,000)
Investment in Standard Co.	100,000			100,000	0
Total Assets	518,000	180,000	68,000	168,000	598,000
Current Liabilities	50,000	30,000			80,000
Long-Term Debt	120,000	50,000			170,000
Common Stock	100,000	50,000	50,000		100,000
Retained Earnings	248,000	50,000	60,000	10,000	248,000
Total Liabilities & Equity	518,000	180,000	110,000	10,000	598,000

17) APB stated that these include:

1. Representation on board of directors
2. Participation in policy making
3. Material intercompany transactions
4. Interchange of managerial personnel
5. Technological dependency
6. Size of investment in relation to concentration of other shareholdings

18) 1.

Basic consolidation entry:

Common Stock	50,000	
Retained Earnings	75,000	
Investment in Standard Co.		125,000

Dividend consolidation entry:

Dividend Income	15,000	
Dividends Declared		15,000

2.

	Plimsol Co.	Shipping Corp.	Consolidation Entries DR	Consolidation Entries CR	Consolidated
Income Statement					
Sales	175,000	120,000			295,000
Less: Other Expenses	(85,000)	(60,000)			(145,000)
Less: Depreciation Expense	(20,000)	(15,000)			(35,000)

Dividend Income	15,000		15,000		0
Net Income	85,000	45,000	15,000	0	115,000
Statement of Retained Earnings					
Beginning Balance	210,000	100,000	75,000		235,000
Net Income	85,000	45,000	15,000	0	115,000
Less: Dividends Declared	(30,000)	(15,000)		15,000	(30,000)
Ending Balance	265,000	130,000	90,000	15,000	320,000
Balance Sheet					
Current Assets	160,000	115,000			275,000
Depreciable Assets (net)	180,000	135,000			315,000
Investment in Shipping Corp.	125,000			125,000	0
Total Assets	465,000	250,000	0	125,000	590,000
Current Liabilities	25,000	20,000			45,000
Long-Term Debt	75,000	50,000			125,000
Common Stock	100,000	50,000	50,000		100,000
Retained Earnings	265,000	130,000	90,000	15,000	320,000
Total Liabilities & Equity	465,000	250,000	140,000	15,000	590,000

19) Section Break

19.1) C

19.2) B

19.3) B

20) Section Break

20.1) A

20.2) C
20.3) C
21) Section Break
21.1) C
21.2) D
21.3) A
21.4) B
21.5) A
22) Section Break
22.1) B
22.2) B
22.3) D
22.4) A
23) Section Break
23.1) C
23.2) C
23.3) C
23.4) B
24) Section Break
24.1) D
24.2) C
24.3) C
25) Section Break
25.1) C
25.2) C
25.3) C
26) Section Break
26.1) C
26.2) B
26.3) A

26.4) D
26.5) B
27) Section Break
27.1) B
27.2) D
28) Section Break
28.1) B
28.2) D