

Student name: _____

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

1) Baker Company owns 15% of the common stock of Charlie Corporation and used the fair-value method to account for this investment. Charlie reported net income of \$120,000 for 2021 and paid dividends of \$70,000 on October 1, 2021. How much income should Baker recognize on this investment in 2021?

- | | |
|--------------|--------------|
| A) \$18,000. | C) \$28,500. |
| B) \$10,500. | D) \$7,500. |
| | E) \$50,000. |

2) Loeffler Company owns 35% of the common stock of Tetter Co. and uses the equity method to account for the investment. During 2021, Tetter reported income of \$260,000 and paid dividends of \$90,000. There is no amortization associated with the investment. During 2021, how much income should Loeffler recognize related to this investment?

- | | |
|--------------|---------------|
| A) \$90,000. | C) \$122,500. |
| B) \$91,000. | D) \$31,500. |
| | E) \$59,500. |

3) On January 1, 2021, Lee Company paid \$1,870,000 for 80,000 shares of Thomas Co.'s voting common stock

which represents a 45% investment. No allocation to goodwill or other specific account was necessary. Significant influence over Thomas was achieved by this acquisition. Thomas distributed a dividend of \$2.00 per share during 2021 and reported net income of \$720,000. What was the balance in the

- A) \$2,114,000.
- B) \$2,194,000.

Investment in Thomas Co.
account found in the financial records of Lee as of December 31, 2021?

- C) \$2,354,000.
- D) \$2,158,000.
- E) \$2,034,000.

4) An investor should always use the equity method to account for an investment if:

- A) It has the ability to exercise significant influence over the operating policies of the investee.
- B) It owns 30% of an investee's stock.
- C) It has a controlling interest (more than 50%) of an investee's stock.
- D) The investment was made primarily to earn a

return on excess cash.

- E) It does not have the ability to exercise significant influence over the operating policies of the investee.

5) On January 1, 2019, Dermot Company purchased 15% of the voting common stock of Horne Corp. On January 1, 2021, Dermot purchased 28% of Horne's voting common stock. If Dermot achieves significant influence with this new

investment, how must Dermot account for the change to the equity method?

- A) It must use the equity method for 2021 but should make no changes in its financial statements for 2020 and 2019.
- B) It should prepare consolidated financial statements for 2021.
- C) It must restate the financial statements for 2020 and 2019 as if the equity method had been used for those two years.
- D) It should record a prior period adjustment at the

beginning of 2021 but should not restate the financial statements for 2020 and 2019.

- E) It must restate the financial statements for 2020 as if the equity method had been used then.

6) During January 2020, Nelson, Inc. acquired 30% of the outstanding common stock of Fuel Co. for \$1,600,000. This investment gave Nelson the ability to exercise significant influence over Fuel. Fuel's assets on that date were recorded at \$7,200,000 with liabilities of \$3,400,000. Any excess of cost over book value of Nelson's investment was attributed to unrecorded patents having a remaining useful life of ten years. In 2020, Fuel reported net income of \$650,000. For 2021, Fuel reported net income of \$800,000. Dividends of

- A) \$1,793,000.
- B) \$1,885,000.

\$250,000 were paid in each of these two years. What was the reported balance of Nelson's *Investment in Fuel Co.* at December 31, 2021?

- C) \$1,943,000.
- D) \$1,977,000.
- E) \$1,054,300.

7) On January 1, 2021, Bangle Company purchased 30% of the voting common stock of Sleat Corp. for \$1,000,000. Any excess of cost over book value was assigned to goodwill. During 2021, Sleat paid dividends of \$24,000 and reported a

- A) \$950,800.
- B) \$958,000.

net loss of \$140,000. What is the balance in the investment account on December 31, 2021?

- C) \$836,000.
- D) \$990,100.
- E) \$956,400.

8) On January 1, 2021, Halpert Inc. acquired 30% of Schrute Corp. Halpert used the equity method to account for the investment. On January 1, 2022, Halpert sold two-thirds of its investment in Schrute. It no longer had the ability to exercise significant influence over the operations of Schrute.

- A) Halpert should continue to use the equity method to maintain consistency in its financial statements.
- B) Halpert should restate the prior years' financial statements and change the balance in the investment account as if the fair-value method had been used since 2021.
- C) Halpert has the option of using either the equity method or the fair-value method for 2021 and future years.

How should Halpert account for this change?

- D) Halpert should report the effect of the change from the equity to the fair-value method as a retrospective change in accounting principle.
- E) Halpert should use the fair-value method

for 2022 and future years, but should not make a retrospective adjustment to the investment account.

9) Kane Inc. owns 30% of Woodhouse Co. and applies the equity method. During the current year, Kane bought inventory costing \$71,500 and then sold it to Woodhouse for \$130,000. At year-end, only \$30,000 of merchandise was still

- A) \$9,000.
- B) \$4,050.

being held by Woodhouse. What amount of intra-entity gross profit must be deferred by Kane?

- C) \$13,500.
- D) \$17,550.
- E) \$5,600.

10) On January 4, 2021, Snow Co. purchased 40,000 shares (40%) of the common stock of Walker Corp., paying \$900,000. There was no goodwill or other cost allocation associated with the investment. Snow has significant influence over Walker. During 2021, Walker reported income of \$240,000 and paid dividends of \$75,000. On January 2,

- A) \$871,500.
- B) \$845,250.

2022, Snow sold 5,000 shares for \$125,000. What was the balance in the investment account after the shares had been sold?

- C) \$761,250.
- D) \$897,250.
- E) \$950,250.

11) On January 3, 2021, Madison Corp. purchased 30% of the voting common stock of Huntsville Co., paying \$3,000,000. Madison decided to use the equity method to account for this investment. At the time of the investment, Huntsville's total stockholders' equity was \$8,000,000.

Madison gathered the following information about Huntsville's assets and liabilities:

Book Value	Fair Value	
Buildings (10-year life)	\$ 400,000	\$ 600,000
Equipment (5-year life)	1,200,000	1,400,000

Franchises (8-year life) \$

For all other assets and liabilities, book value and fair value were equal. Any excess of cost over fair value was attributed to goodwill, which has not been impaired. What is the amount

- A) \$600,000.
- B) \$264,000.

of goodwill associated with the investment?

- C) \$0.
- D) \$336,000.
- E) \$480,000.

12) On January 3, 2021, Madison Corp. purchased 30% of the voting common stock of Huntsville Co., paying \$3,000,000. Madison decided to use the equity method to account for this investment. At the time of the investment, Huntsville's total stockholders' equity was \$8,000,000.

Book Value	Fair Value	
Buildings (10-year life)	\$ 400,000	\$ 600,000
Equipment (5-year life)	1,200,000	1,400,000
Franchises (8-year life)	\$ 0	\$ 480,000

- A) \$36,000.
- B) \$20,000.

Madison gathered the following information about Huntsville's assets and liabilities:

For all other assets and liabilities, book value and fair value were equal. Any excess of cost over fair value was attributed to goodwill, which has not been impaired. For 2021, what is the total amount of excess amortization for Madison's 30% investment in Huntsville?

- C) \$40,000.
- D) \$120,000.
- E) \$60,000.

13) Town Co. appropriately uses the equity method to account for its investment in Country Corp. As of the end of 2021, Country's common stock had suffered a significant decline in fair value, which is expected to recover over the

- A) Town should switch to the fair-value method.
- B) No accounting because the decline in fair value is

next several months. How should Town account for the decline in value?

temporary.

- C) Town should decrease the balance in the

investment account to the current value and recognize a loss on the income statement.

D) Town should not record its share of Country's 2021 earnings until the decline in the fair value of the stock has been recovered.

E) Town should decrease the balance in the

investment account to the current value and recognize an unrealized loss on the balance sheet.

14) An *upstream* sale of inventory is a sale:

A) Between subsidiaries owned by a common parent.

B) With the transfer of goods scheduled by contract to occur on a specified future date.

C) In which the goods are physically transported by

boat from a subsidiary to its parent.

D) Made by the investor to the investee.

E) Made by the investee to the investor.

15) Borgin Inc. owns 30% of the outstanding voting common stock of Burkes Co. and has the ability to significantly influence the investee's operations and decision-making. On January 1, 2021, the balance in the *Investment in Burkes Co.* account was \$402,000. Amortization associated with the purchase of this investment is \$8,000 per year. During 2021, Burkes earned income of \$108,000 and paid cash dividends of \$36,000. Previously in 2020, Burkes had sold inventory costing \$28,800 to Borgin for \$48,000. All but 25% of this merchandise was consumed by Borgin during 2020. The remainder was used during the first few weeks of 2021. Additional sales were made to Borgin in 2021; inventory costing \$33,600 was transferred at a price of \$60,000. Of this total, 40% was not consumed until 2022. What amount of *equity income* would Borgin have recognized in 2021 from its ownership interest in Burkes?

A) \$19,792.

B) \$27,640.

C) \$22,672.

D) \$24,400.

E) \$21,748.

16) Borgin Inc. owns 30% of the outstanding voting common stock of Burkes Co. and has the ability to significantly influence the investee's operations and decision-making. On January 1, 2021, the balance in the *Investment in Burkes Co.* account was \$402,000. Amortization associated with the purchase of this investment is \$8,000 per year. During 2021, Burkes earned income of \$108,000 and paid cash dividends of \$36,000. Previously in 2020, Burkes had sold inventory costing \$28,800 to Borgin for \$48,000. All but 25% of this merchandise was consumed by Borgin during 2020. The remainder was used during the first few weeks of

- A) \$401,136.
- B) \$413,872.

2021. Additional sales were made to Borgin in 2021; inventory costing \$33,600 was transferred at a price of \$60,000. Of this total, 40% was not consumed until 2022. What was the balance in the *Investment in Burkes Co.* account at the end of 2021?

- C) \$418,840.
- D) \$412,432.
- E) \$410,148.

17) On January 1, 2021, Corzine Inc. acquired 15% of Hammon Co.'s outstanding common stock for \$62,400 and did not exercise significant influence. Hammon earned net income of \$96,000 in 2021 and paid dividends of \$36,000. The fair value of Corzine's investment was \$80,000 at December 31, 2021. On January 3, 2022, Corzine bought an additional 10% of Hammon for \$54,000. This second purchase gave Corzine the ability to significantly influence the decision making of Hammon. During 2022, Hammon earned \$120,000 and paid \$48,000 in dividends. As of December 31, 2022, Hammon reported a net book value of \$468,000. At the date of the second purchase, Corzine

- A) \$117,000.
- B) \$143,400.

concluded that Hammon Co.'s book values approximated fair values and attributed any excess cost to goodwill. On Corzine's December 31, 2022 balance sheet, what balance was reported for the *Investment in Hammon Co.* account?

- C) \$152,000.
- D) \$134,400.
- E) \$141,200.

18) On January 1, 2021, Corzine Inc. acquired 15% of Hammon

Co.'s outstanding common stock for \$62,400 and did not exercise significant influence. Hammon earned net income of \$96,000 in 2021 and paid dividends of \$36,000. The fair value of Corzine's investment was \$80,000 at December 31, 2021. On January 3, 2022, Corzine bought an additional 10% of Hammon for \$54,000. This second purchase gave Corzine the ability to significantly influence the decision making of Hammon. During 2022, Hammon earned \$120,000 and paid \$48,000 in dividends. As of December 31, 2022, Hammon reported a net book value of \$468,000. At the date of the

second purchase, Corzine concluded that Hammon Co.'s book values approximated fair values and attributed any excess cost to goodwill. What amount of *equity income* should Corzine have reported for 2022?

- A) \$30,000.
- B) \$16,420.

- C) \$38,340.
- D) \$18,000.
- E) \$32,840.

19) In a situation where the investor exercises significant influence over the investee, which of the following entries is *not* actually posted to the books of the investor?(I) Debit to the Investment account, and a Credit to the Equity in Investee Income account.(II) Debit to Cash (for dividends received from the investee), and a Credit to Investment Income

account.(III) Debit to Cash (for dividends received from the investee), and a Credit to the Dividend Receivable.

- A) Entries I and II.
- B) Entries II and III.

- C) Entry I only.
- D) Entry II only.
- E) Entry III only.

20) All of the following would require use of the equity method for investments *except*:

- A) Material intra-entity transactions.
- B) Investor participation in the policy-making process of the investee.
- C) Valuation at fair value.

- D) Technological dependency.
- E) Interchange of managerial personnel.

21) All of the following statements regarding the investment account using

- A) The investment is recorded at cost.
- B) Dividends received are reported as revenue.
- C) Net income of investee increases the investment account.
- D) Dividends received reduce the investment account.
- E) Amortization of fair value over cost reduces the investment account.

22) A company has been using the fair-value method to account for its investment. The company now has the ability to significantly influence the investee and the equity method has been deemed appropriate. Which of the following statements is true?

- A) A cumulative effect change in accounting principle must occur.
- B) A prospective change in accounting principle must occur.
- C) A retrospective change in accounting principle must occur.

- D) The investor will not receive future dividends from the investee.
- E) Future dividends will continue to be recorded as revenue.

23) A company has been using the equity method to account for its investment. The company sells shares and does not continue to have significant influence. Which of the

- A) A cumulative effect change in accounting principle must occur.
- B) A prospective change in accounting principle must occur.
- C) A retrospective change in accounting principle must occur.
- D) The investor will not receive future dividends

following statements is true?

- from the investee.
- E) Future dividends will continue to reduce the investment account.

24) When an investor appropriately applies the equity method, how should it account for any investee Other

- A) Under the equity method, the investor only recognizes its share of investee's income from continuing operations.
- B) The OCI would reduce the investment.
- C) The OCI would increase the investment.
- D) The OCI would not appear on the investor's

Comprehensive Income (OCI)?

- income statement but would be a component of comprehensive income.
- E) The OCI would be ignored but shown in the investor's notes to the financial

statements.

25) How should a permanent loss in value of an investment using the equity method be treated?

- A) The equity in investee income is reduced.
- B) A loss is reported in the same manner as a loss in value of other long-term assets.
- C) The investor's stockholders' equity is reduced.

D) No adjustment is necessary.

E) Record an offset to cash.

26) Under the equity method, when the company's share of cumulative losses equals its investment and the company has no obligation or intention to fund such additional losses,

- A) The investor should change to the fair-value method to account for its investment.
- B) The investor should suspend applying the equity method until the investee reports income.
- C) The investor should suspend applying the equity method and not record any equity in income of investee until its share of future profits is sufficient to recover losses that have not previously been recorded.

which of the following statements is true?

D) The cumulative losses should be reported as a prior period adjustment.

E) The investor should report these as equity method losses in its income statement.

27) When an investor sells shares of its investee company, which of the following statements is true?

- A) A recognized gain or loss is reported as the difference between selling price and original cost.
- B) A recognized gain or loss is reported as the difference between carrying value and original cost.
- C) A recognized gain or loss is reported as the difference between selling price and carrying value.
- D) An unrealized gain or loss is reported as the

difference between selling price and carrying value.

E) Any gain or loss is reported as part of comprehensive income.

A) The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of current assets.

B) The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of total assets.

C) The excess is allocated to the difference between

fair value and book value multiplied by the percent ownership of net assets.

D) The excess is allocated to goodwill.

E) The excess is ignored.

29) After allocating cost in excess of book value, which asset or liability would not be amortized over a useful life?

A) Cost of goods sold.

B) Property, plant, & equipment.

C) Patents.

D) Goodwill.

E) Bonds payable.

30) Which statement is true concerning unrecognized profits in intra-entity inventory sales when an investor uses the equity method?

A) The investee must defer upstream ending inventory profits.

B) The investee must defer upstream beginning inventory profits.

C) The investor must defer downstream ending inventory profits.

D) The investor must defer downstream beginning

inventory profits.

E) The investor must defer upstream beginning inventory profits.

31) Which statement is true concerning unrecognized profits in intra-entity inventory sales when an investor uses the equity method?

A) The investor and investee make reciprocal entries to defer and recognize inventory profits.

B) The same adjustments are made for upstream and downstream

sales.

C) Different adjustments are made for upstream and downstream sales.

D) No adjustments are necessary.

E) Adjustments will be made only when profits are known upon sale to outsiders.

32) On January 1, 2020, Archer, Incorporated, paid \$100,000 for a 30% interest in Harley Corporation. This investee had assets with a book value of \$550,000 and liabilities of \$300,000. A patent held by Harley having a book value of \$10,000 was actually worth \$40,000 with a six-year remaining life. Any goodwill associated with this acquisition is considered to have an indefinite life. During 2020, Harley reported net income of \$50,000 and paid dividends of \$20,000 while in 2021 it reported net income of \$75,000 and dividends of \$30,000. Assume Archer has the ability to significantly influence the operations of Harley. The amount allocated to goodwill at January 1, 2020, is

A) \$25,000.

B) \$13,000.

C) \$9,000.

D) \$16,000.

E) \$10,000.

33) On January 1, 2020, Archer, Incorporated, paid \$100,000 for a 30% interest in Harley Corporation. This investee had assets with a book value of \$550,000 and liabilities of \$300,000. A patent held by Harley

having a book value of \$10,000 was actually worth \$40,000 with a six-year remaining life. Any goodwill associated with this acquisition is considered to have an indefinite life. During 2020, Harley reported net income of \$50,000 and paid dividends of \$20,000 while in 2021 it reported net income of \$75,000 and dividends of \$30,000. Assume Archer has the

- A) \$9,000.
- B) \$13,500.

ability to significantly influence the operations of Harley. The equity in income of Harley for 2020, is

- C) \$15,000.
- D) \$7,500.
- E) \$50,000.

34) On January 1, 2020, Archer, Incorporated, paid \$100,000 for a 30% interest in Harley Corporation. This investee had assets with a book value of \$550,000 and liabilities of \$300,000. A patent held by Harley having a book value of \$10,000 was actually worth \$40,000 with a six-year remaining life. Any goodwill associated with this acquisition is considered to have an indefinite life. During 2020, Harley reported net income of \$50,000 and paid dividends of \$20,000 while in 2021 it reported net income of \$75,000 and dividends of \$30,000. Assume Archer has the ability to significantly influence the operations of Harley. The equity in income of Harley for 2021, is

- A) \$22,500.
- B) \$21,000.

- C) \$12,000.
- D) \$13,500.
- E) \$75,000.

35) On January 1, 2020, Archer, Incorporated, paid \$100,000 for a 30% interest in Harley Corporation. This investee had assets with a book

value of \$550,000 and liabilities of \$300,000. A patent held by Harley having a book value of \$10,000 was actually worth \$40,000 with a six-year remaining life. Any goodwill associated with this acquisition is considered to have an indefinite life. During 2020, Harley reported net income of \$50,000 and paid dividends of \$20,000 while in 2021 it reported net income of \$75,000 and dividends of \$30,000.

- A) \$100,000.
- B) \$112,000.

Assume Archer has the ability to significantly influence the operations of Harley. The balance in the Investment in Harley account at December 31, 2020, is

- C) \$106,000.
- D) \$107,500.
- E) \$140,000.

36) On January 1, 2020, Archer, Incorporated, paid \$100,000 for a 30% interest in Harley Corporation. This investee had assets with a book value of \$550,000 and liabilities of \$300,000. A patent held by Harley having a book value of \$10,000 was actually worth \$40,000 with a six-year remaining life. Any goodwill associated with this acquisition is considered to have an indefinite life. During 2020, Harley reported net income of \$50,000 and paid dividends of \$20,000 while in 2021 it reported net income of \$75,000 and dividends

- A) \$119,500.
- B) \$125,500.

of \$30,000. Assume Archer has the ability to significantly influence the operations of Harley. The balance in the Investment in Harley account at December 31, 2021, is

- C) \$116,500.
- D) \$118,000.
- E) \$100,000.

37) Jones, Incorporated acquires 15% of Anderson Corporation on January 1, 2020, for \$105,000 when the book value of Anderson was \$600,000. During 2020 Anderson reported net income of \$150,000 and paid dividends of \$50,000. On January 1, 2021, Jones

purchased an additional 25% of Anderson for \$200,000. Any excess cost over book value is attributable to goodwill with an indefinite life. The fair-value method was used during 2020 but Jones has deemed it necessary to change to the equity method after the second purchase. During 2021 Anderson reported net income of \$200,000, and reported dividends of

- A) \$7,500.
- B) \$22,500.

\$75,000. The income reported by Jones for 2020 with regard to the Anderson investment is

- C) \$15,000.
- D) \$100,000.
- E) \$150,000.

38) Jones, Incorporated acquires 15% of Anderson Corporation on January 1, 2020, for \$105,000 when the book value of Anderson was \$600,000. During 2020 Anderson reported net income of \$150,000 and paid dividends of \$50,000. On January 1, 2021, Jones purchased an additional 25% of Anderson for \$200,000. Any excess cost over book value is attributable to goodwill with an indefinite life. The fair-value method was used during 2020 but Jones has deemed it necessary to change to the equity method after the

- A) \$80,000.
- B) \$30,000.

second purchase. During 2021 Anderson reported net income of \$200,000, and reported dividends of \$75,000. The income reported by Jones for 2021 with regard to the Anderson investment is

- C) \$50,000.
- D) \$15,000.
- E) \$75,000.

39) Jones, Incorporated acquires 15% of Anderson Corporation on January 1, 2020, for \$105,000 when the book value of Anderson was \$600,000. During 2020 Anderson reported net income of \$150,000 and paid dividends of \$50,000. On January 1, 2021, Jones purchased an additional

25% of Anderson for \$200,000. Any excess cost over book value is attributable to goodwill with an indefinite life. The fair-value method was used during 2020 but Jones has deemed it necessary to change to the equity method after the second purchase. During 2021 Anderson reported net income of \$200,000, and reported dividends of \$75,000. Which of the

- A) Jones must record a debit to additional paid-in capital for \$200,000.
- B) Jones must record a debit to additional paid-in capital for \$15,000.
- C) Jones must retrospectively apply the equity method to interests reported under the fair-value method.
- D) Jones must record a debit of \$200,000 to the

following is true regarding the change from the fair-value method to the equity method?

Investment in Anderson Account.

- E) Jones must record a credit of \$15,000 to the Investment in Anderson Account.

40) Jones, Incorporated acquires 15% of Anderson Corporation on January 1, 2020, for \$105,000 when the book value of Anderson was \$600,000. During 2020 Anderson reported net income of \$150,000 and paid dividends of \$50,000. On January 1, 2021, Jones purchased an additional 25% of Anderson for \$200,000. Any excess cost over book value is attributable to goodwill with an indefinite life. The fair-value method was used during 2020 but Jones has deemed it necessary to change to the equity method after the second purchase. During 2021 Anderson reported net income of \$200,000, and reported dividends of \$75,000. The balance in the investment account at December 31, 2021, is

- A) \$335,000.
- B) \$355,000.
- C) \$400,000.
- D) \$412,500.
- E) \$480,000.

41) Chase Incorporated sold \$260,000 of its inventory to Bartlett Company during 2021 for \$400,000. Bartlett sold

\$300,000 of this merchandise in 2021 with the remainder to be disposed of during 2022. Assume Chase owns 35% of Bartlett and accounts for its investment using the equity method. What journal entry will be recorded at the end of

2021 to defer the recognition of the investor's share of the intra-entity gross profits?

- A) Equity in income of \$35,00
Bartlett 0
Investment in Bartlett 35,000
- B) Investment in Bartlett \$35,00
0
Equity in income of \$35,00
Bartlett 0
- C) Equity in income of \$12,25
Bartlett 0
Investment in Bartlett \$12,25
0
- D) Investment in Bartlett \$12,25
0

Equity \$1
in 2,
income 25
of 0
Bartlett

- A) Entry A.
B) Entry B.
C) Entry C.
D) Entry D.
E) No entry is necessary.

42) Chase Incorporated sold \$260,000 of its inventory to Bartlett Company during 2021 for \$400,000. Bartlett sold \$300,000 of this merchandise in 2021 with the remainder to be disposed of during 2022. Assume Chase owns 35% of Bartlett and accounts for its investment using the equity method. What journal entry will be recorded in 2022 to recognize its share of the intra-entity gross profit that was deferred in 2021?

- A) Equity in income of \$35,00
Bartlett 0
Investment in Bartlett \$35,00
0
- B) Investment in Bartlett \$35,00
0
Equity in income of \$35,00
Bartlett 0

C Equity in \$1
) income of 2,
Bartlett 25
0
Investme \$1
nt in 2,
Bartlett 25
0
D Investment \$1
) in 2,
Bartlett 25

	0
Equity in income of	\$12,25
Bartlett	0

- A) Entry A.
- B) Entry B.
- C) Entry C.
- D) Entry D.
- E) No entry is necessary.

43) On January 1, 2020, Mehan, Incorporated purchased 15,000 shares of Cook Company for \$150,000 giving Mehan a 15% ownership of Cook. The fair value of the 15% investment was the same as the carrying value of the investment when, on January 1, 2021, Mehan purchased an additional 25,000 shares (25%) of Cook for \$300,000. This last purchase gave Mehan the ability to apply significant influence over Cook. The book value of Cook on January 1, 2020 was \$1,000,000. The book value of Cook on January 1, 2021, was \$1,100,000. Any excess of cost over book value for

this second transaction is assigned to a database and amortized over four years. Cook reports net income and dividends as follows. These amounts are assumed to have occurred evenly throughout the years:

N	Dividen
e	ds
t	
I	
n	
c	
o	
m	
e	
2	\$ 20 \$50
0	0, ,0
2	00 00
0	0
2	22 50
0	5, ,0
2	00

1	0	00
2	25	60
0	0,	,0
2	00	00
2	0	

- A) \$150,000.
- B) \$172,500.

On April 1, 2022, just after its first dividend receipt, Mehan sells 10,000 shares of its investment. What is the balance in the investment account for the 15% ownership interest, at January 1, 2021?

- C) \$180,000.
- D) \$157,500.
- E) \$170,000.

44) On January 1, 2020, Mehan, Incorporated purchased 15,000 shares of Cook Company for \$150,000 giving Mehan a 15% ownership of Cook. The fair value of the 15% investment was the same as the carrying value of the investment when, on January 1, 2021, Mehan purchased an additional 25,000 shares (25%) of Cook for \$300,000. This last purchase gave Mehan the ability to apply significant influence over Cook. The book value of Cook on January 1, 2020 was \$1,000,000. The book value of Cook on January 1, 2021, was \$1,100,000. Any excess of cost over book value for

this second transaction is assigned to a database and amortized over four years. Cook reports net income and dividends as follows. These amounts are assumed to have occurred evenly throughout the years:

N Dividen
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On April 1, 2022, just after its first dividend receipt, Mehan sells 10,000 shares of its investment. How much income did Mehan report from Cook during 2020?

- A) \$30,000.
- B) \$22,500.

- C) \$7,500.
- D) \$0.
- E) \$50,000.

45) On January 1, 2020, Mehan, Incorporated purchased 15,000 shares of Cook Company for \$150,000 giving Mehan a 15% ownership of Cook. The fair value of the 15%

investment was the same as the carrying value of the investment when, on January 1, 2021, Mehan purchased an additional 25,000 shares (25%) of Cook for \$300,000. This last purchase gave Mehan the ability to apply significant influence over Cook. The book value of Cook on January 1, 2020 was \$1,000,000. The book value of Cook on January 1, 2021, was \$1,100,000. Any excess of cost over book value for this second transaction is assigned to a database and

amortized over four years. Cook reports net income and dividends as follows. These amounts are assumed to have occurred evenly throughout the years:

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On April 1, 2022, just after its first dividend receipt, Mehan sells 10,000 shares of its investment. How much income did Mehan report from Cook during 2021?

- A) \$90,000.
- B) \$110,000.

- C) \$67,500.
- D) \$87,500.
- E) \$78,750.

46) On January 1, 2020, Mehan, Incorporated purchased 15,000 shares of Cook Company for \$150,000 giving Mehan a 15% ownership of Cook. The fair value of the 15% investment was the same as the carrying value of the investment when, on January 1, 2021, Mehan

purchased an additional 25,000 shares (25%) of Cook for \$300,000. This last purchase gave Mehan the ability to apply significant influence over Cook. The book value of Cook on January 1, 2020 was \$1,000,000. The book value of Cook on January 1, 2021, was \$1,100,000. Any excess of cost over book value for this second transaction is assigned to a database and amortized over four years. Cook reports net

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- A) \$517,500.
- B) \$537,500.

income and dividends as follows. These amounts are assumed to have occurred evenly throughout the years:

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On April 1, 2022, just after its first dividend receipt, Mehan sells 10,000 shares of its investment. What was the balance in the investment account at December 31, 2021?

- C) \$520,000.
- D) \$540,000.
- E) \$211,250.

47) On January 1, 2020, Mehan, Incorporated purchased 15,000 shares of Cook Company for \$150,000 giving Mehan a 15% ownership of Cook. The fair value of the 15% investment was the same as the carrying value of the investment when, on January 1, 2021, Mehan purchased an additional

25,000 shares (25%) of Cook for \$300,000. This last purchase gave Mehan the ability to apply significant influence over Cook. The book value of Cook on January 1, 2020 was \$1,000,000. The book value of Cook on January 1, 2021, was \$1,100,000. Any excess of cost over book value for this second transaction is assigned to a database and amortized over four years. Cook reports net income and dividends as

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- A) \$447,500.
- B) \$468,750.

follows. These amounts are assumed to have occurred evenly throughout the years:

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On April 1, 2022, just after its first dividend receipt, Mehan sells 10,000 shares of its investment. What was the balance in the investment account at April 1, 2022 just before the sale of shares?

- C) \$535,875.
- D) \$555,000.
- E) \$624,375.

48) On January 1, 2020, Mehan, Incorporated purchased 15,000 shares of Cook Company for \$150,000 giving Mehan a 15% ownership of Cook. The fair value of the 15% investment was the same as the carrying value of the investment when, on January 1, 2021, Mehan

purchased an additional 25,000 shares (25%) of Cook for \$300,000. This last purchase gave Mehan the ability to apply significant influence over Cook. The book value of Cook on January 1, 2020 was \$1,000,000. The book value of Cook on January 1, 2021, was \$1,100,000. Any excess of cost over book value for this second transaction is assigned to a database and amortized over four years. Cook reports net

income and dividends as follows. These amounts are assumed to have occurred evenly throughout the years:

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2	25	60
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2	00	00
2	0	

On April 1, 2022, just after its first dividend receipt, Mehan sells 10,000 shares of its investment. How much of Cook's net income did Mehan report for the year 2022?

- A) \$61,750.
- B) \$81,250.

- C) \$72,500.
- D) \$59,250.
- E) \$75,000.

49) On January 3, 2020, Baxter, Inc. acquired 40% of the outstanding common stock of Anchor Co. for \$2,800,000. This investment gave Baxter the ability to exercise significant influence over Anchor. Anchor's assets on that date were recorded at \$11,700,000 with liabilities of \$4,700,000. There were no other differences between book and fair values. During 2020, Anchor reported net income of \$600,000. For 2021, Anchor reported net income of \$900,000. Dividends of \$350,000 were paid in each of these two years. How much income did Baxter report from Anchor for 2020?

- A) \$140,000.
- B) \$220,000.

- C) \$240,000.
- D) \$360,000.
- E) \$600,000.

50) On January 3, 2020, Baxter, Inc. acquired 40% of the outstanding common stock of Anchor Co. for \$2,800,000. This investment gave Baxter the ability to exercise significant influence over Anchor. Anchor's assets on that date were recorded at \$11,700,000 with liabilities of \$4,700,000. There were no other differences between book and fair values. During 2020, Anchor reported net income of \$600,000.

- A) \$150,000.
- B) \$220,000.

For 2021, Anchor reported net income of \$900,000. Dividends of \$350,000 were paid in each of these two years. How much income did Baxter report from Anchor for 2021?

- C) \$240,000.
- D) \$360,000.
- E) \$600,000.

51) On January 3, 2020, Baxter, Inc. acquired 40% of the outstanding common stock of Anchor Co. for \$2,800,000. This investment gave Baxter the ability to exercise significant influence over Anchor. Anchor's assets on that date were recorded at \$11,700,000 with liabilities of \$4,700,000. There were no other differences between book and fair values. During 2020, Anchor reported net income of \$600,000. For 2021, Anchor reported net income of \$900,000.

- A) \$2,420,000.
- B) \$2,800,000.

Dividends of \$350,000 were paid in each of these two years. What was the reported balance of Baxter's Investment in Anchor Co. at December 31, 2020?

- C) \$2,900,000.
- D) \$3,040,000.
- E) \$3,180,000.

52) On January 3, 2020, Baxter, Inc. acquired 40% of the outstanding common stock of Anchor Co. for \$2,800,000. This investment gave Baxter the

ability to exercise significant influence over Anchor. Anchor's assets on that date were recorded at \$11,700,000 with liabilities of \$4,700,000. There were no other differences between book and fair values. During 2020, Anchor reported net income of \$600,000. For 2021, Anchor reported net income of \$900,000. Dividends of \$350,000 were paid in each

- A) \$2,400,000.
- B) \$2,800,000.

of these two years. What was the reported balance of Baxter's Investment in Anchor Co. at December 31, 2021?

- C) \$2,900,000.
- D) \$3,120,000.
- E) \$3,260,000.

53) On January 1, 2021, Anderson Company purchased 40% of the voting common stock of Barney Company for \$2,000,000, which approximated book value. During 2021, Barney paid dividends of \$30,000 and reported a net loss of \$70,000. What is the balance in the investment account on December 31, 2021?

- A) \$1,900,000.
- B) \$1,960,000.

- C) \$2,000,000.
- D) \$2,016,000.
- E) \$2,028,000.

54) On January 1, 2021, Anderson Company purchased 40% of the voting common stock of Barney Company for \$2,000,000, which approximated book value. During 2021, Barney paid dividends of \$30,000 and reported a net loss of \$70,000. What amount of equity income would Anderson

- A) \$12,000 income.
- B) \$12,000 loss.
- C) \$16,000 loss.

recognize in 2021 from its ownership interest in Barney?

- D) \$28,000 income.
- E) \$28,000 loss.

55) Luffman Inc. owns 30% of Bruce Inc. and appropriately applies the

equity method. During the current year, Bruce bought inventory costing \$52,000 and then sold it to Luffman for \$80,000. At year-end, all of the merchandise had been sold by Luffman to other customers. What amount of gross profit on

- A) \$0.
- B) \$8,400.

intra-entity sales must be deferred by Luffman?

- C) \$28,000.
- D) \$52,000.
- E) \$80,000.

56) On January 3, 2021, Roberts Company purchased 30% of the 100,000 shares of common stock of Thomas Corporation, paying \$1,500,000. There was no goodwill or other cost allocation associated with the investment. Roberts has significant influence over Thomas. During 2021, Thomas reported net income of \$300,000 and paid dividends of

- A) \$1,560,000.
- B) \$1,600,000.

\$100,000. On January 4, 2022, Roberts sold 15,000 shares for \$800,000. What was the balance in the investment account before the shares were sold?

- C) \$1,700,000.
- D) \$1,800,000.
- E) \$1,860,000.

57) On January 3, 2021, Roberts Company purchased 30% of the 100,000 shares of common stock of Thomas Corporation, paying \$1,500,000. There was no goodwill or other cost allocation associated with the investment. Roberts has significant influence over Thomas. During 2021, Thomas reported net income of \$300,000 and paid dividends of \$100,000. On January 4, 2022, Roberts sold 15,000 shares for \$800,000. What is the gain/loss on the sale of the 15,000 shares?

- A) \$0.
- B) \$10,000 gain.

- C) \$12,000 loss.
- D) \$15,000 loss.
- E) \$20,000 gain.

58) On January 3,

2021, Roberts Company purchased 30% of the 100,000 shares of common stock of Thomas Corporation, paying \$1,500,000. There was no goodwill or other cost allocation associated with the investment. Roberts has significant influence over Thomas. During 2021, Thomas reported net income of \$300,000 and paid dividends of \$100,000. On January 4,

- A) \$750,000.
- B) \$760,000.

2022, Roberts sold 15,000 shares for \$800,000. What is the balance in the investment account after the sale of the 15,000 shares?

- C) \$780,000.
- D) \$790,000.
- E) \$800,000.

59) On January 3, 2021, Roberts Company purchased 30% of the 100,000 shares of common stock of Thomas Corporation, paying \$1,500,000. There was no goodwill or other cost allocation associated with the investment. Roberts has significant influence over Thomas. During 2021, Thomas reported net income of \$300,000 and paid dividends of

\$100,000. On January 4, 2022, Roberts sold 15,000 shares for \$800,000. What is the appropriate journal entry to record the sale of the 15,000 shares?

A) Cash	800,000	
Investment in Thomas		800,000
B) Cash	800,000	
Investment in Thomas		780,000
Gain on sale of investment		20,000
C) Cash	800,000	
Loss on investment	12,000	
Investment in Thomas		812,000
D) Cash	800,000	
Investment in Thomas		790,000

Gain on sale of investment	10,000
E) Cash	800,000
Loss on sale of investment	15,000
Investment in Thomas	815,000

- A) A Above.
- B) B Above.

- C) C Above.
- D) D Above.
- E) E Above.

60) On January 4, 2021, Mason Co. purchased 40,000 shares (40%) of the common stock of Hefly Corp., paying \$560,000. At that time, the book value and fair value of Hefly's net assets was \$1,400,000. The investment gave Mason the ability to exercise significant influence over the operations of Hefly. During 2021, Hefly reported income of \$150,000 and paid dividends of \$40,000. On January 2, 2022,

Mason sold 10,000 shares for \$150,000. What was the balance in the investment account before the shares were sold?

- A) \$520,000.
- B) \$544,000.

- C) \$560,000.
- D) \$604,000.
- E) \$620,000.

61) On January 4, 2021, Mason Co. purchased 40,000 shares (40%) of the common stock of Hefly Corp., paying \$560,000. At that time, the book value and fair value of Hefly's net assets was \$1,400,000. The investment gave Mason the ability to exercise significant influence over the operations of Hefly. During 2021, Hefly reported income of \$150,000 and paid dividends of \$40,000. On January 2, 2022,

Mason sold 10,000 shares for \$150,000. What is the gain/loss on the sale of the 10,000 shares?

- A) \$20,000 gain.
- B) \$10,000 gain.

- C) \$1,000 gain.
- D) \$1,000 loss.
- E) \$10,000 loss.

62) On January 4, 2021, Mason Co. purchased 40,000 shares (40%) of the common stock of Hefly Corp., paying \$560,000. At that time, the book value and

fair value of Hefly's net assets was \$1,400,000. The investment gave Mason the ability to exercise significant influence over the operations of Hefly. During 2021, Hefly reported income of \$150,000 and paid dividends of \$40,000. On January 2, 2022, Mason sold 10,000 shares for

- A) \$390,000.
- B) \$420,000.

\$150,000. What is the balance in the investment account after the sale of the 10,000 shares?

- C) \$453,000.
- D) \$454,000.
- E) \$465,000.

63) On January 4, 2021, Mason Co. purchased 40,000 shares (40%) of the common stock of Hefly Corp., paying \$560,000. At that time, the book value and fair value of Hefly's net assets was \$1,400,000. The investment gave Mason the ability to exercise significant influence over the operations of Hefly. During 2021, Hefly reported income of \$150,000 and paid dividends of \$40,000. On January 2, 2022,

Mason sold 10,000 shares for \$150,000. What is the appropriate journal entry to record the sale of the 10,000 shares?

A) Cash	150,000	
		Investment in Hefly
		150,000
B) Cash	150,000	
		Investment in Hefly
		130,000
		Gain on sale of investment
		20,000
C) Cash	150,000	
		Loss on sale of investment
		1,000
		Investment in Hefly
		151,000
D) Cash	150,000	
		Investment in Hefly
		149,000

	Gain on sale of investment	1,000
E) Cash	150,000	
	Loss on sale of investment	10,000
	Investment in Hefly	160,000

- A) A Above
- B) B Above

- C) C Above
- D) D Above
- E) E Above

64) On January 2, 2021, Barley Corp. purchased 40% of the voting common stock of Wheat Co., paying \$3,000,000. Barley properly accounts for this investment using the equity method. At the time of the investment, Wheat's total stockholders' equity was \$5,000,000. Barley gathered the

following information about Wheat's assets and liabilities whose book values and fair values differed:

Book Value	Fair Value	
Buildings (20-year life)	\$ 1,000,000	\$ 1,800,000
Equipment (5-year life)	1,500,000	2,000,000
Franchises (10-year life)	0	700,000

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Wheat Co. reported net income of \$400,000 for 2021, and paid dividends of \$200,000 during that year. What is the amount of the excess of purchase price over book value?

- A) \$(2,000,000).
- B) \$800,000.

- C) \$1,000,000.
- D) \$2,000,000.
- E) \$3,000,000.

65) On January 2, 2021, Barley Corp. purchased 40% of the voting common stock of Wheat Co., paying \$3,000,000. Barley properly accounts for this investment using the equity method. At the time of the investment, Wheat's total stockholders' equity was \$5,000,000. Barley gathered the

following information about Wheat's assets and liabilities whose book values and fair values differed:

Book Value	Fair Value	
Buildings (20-year life)	\$ 1,000,000	\$ 1,800,000
Equipment (5-year life)	1,500,000	2,000,000

Franchises (10-year life)

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Wheat Co. reported net income of \$400,000 for 2021, and paid dividends of \$200,000 during

- A) \$(500,000).
- B) \$0.

that year. How much goodwill is associated with this investment?

- C) \$100,000.
- D) \$200,000.
- E) \$2,000,000.

66) On January 2, 2021, Barley Corp. purchased 40% of the voting common stock of Wheat Co., paying \$3,000,000. Barley properly accounts for this investment using the equity method. At the time of the investment, Wheat's total stockholders' equity was \$5,000,000. Barley gathered the

Book Value	Fair Value	
Buildings (20-year life)	\$ 1,000,000	\$ 1,800,000
Equipment (5-year life)	1,500,000	2,000,000
Franchises (10-year life)	0	700,000

- A) \$0.
- B) \$84,000.

following information about Wheat's assets and liabilities whose book values and fair values differed:

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Wheat Co. reported net income of \$400,000 for 2021, and paid dividends of \$200,000 during that year. What is the amount of excess amortization expense for Barley's investment in Wheat for the first year?

- C) \$100,000.
- D) \$160,000.
- E) \$400,000.

67) On January 1, 2021, Jackie Corp. purchased 30% of the voting common stock of Rob Co., paying \$2,000,000. Jackie

properly accounts for this investment using the equity method. At the time of the investment, Rob's total stockholders' equity was \$3,000,000. Jackie gathered the following information about Rob's assets and liabilities

Book Value	Fair Value	
Buildings (15-year life)	\$ 1,000,000	\$ 1,500,000
Equipment (5-year life)	2,500,000	3,000,000
Franchises (10-year life)	\$ 0	\$ 500,000

- A) \$(1,000,000.)
- B) \$400,000.

whose book values and fair values differed:

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Rob Co. reported net income of \$300,000 for 2021, and paid dividends of \$100,000 during that year. What is the amount of the excess of purchase price over book value?

- C) \$800,000.
- D) \$1,000,000.
- E) \$1,100,000.

68) On January 1, 2021, Jackie Corp. purchased 30% of the voting common stock of Rob Co., paying \$2,000,000. Jackie properly accounts for this investment using the equity method. At the time of the investment, Rob's total stockholders' equity was \$3,000,000. Jackie gathered the

Book Value	Fair Value	
Buildings (15-year life)	\$ 1,000,000	\$ 1,500,000
Equipment (5-year life)	2,500,000	3,000,000
Franchises (10-year life)	\$ 0	\$ 500,000

- A) \$(500,000.)

following information about Rob's assets and liabilities whose book values and fair values differed:

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Rob Co. reported net income of \$300,000 for 2021, and paid dividends of \$100,000 during that year. How much goodwill is associated with this investment?

- B) \$0.
- C) \$650,000.

D) \$1,000,000.

E) \$2,000,000.

69) On January 1, 2021, Jackie Corp. purchased 30% of the voting common stock of Rob Co., paying \$2,000,000. Jackie properly accounts for this investment using the equity method. At the time of the investment, Rob's total stockholders' equity was \$3,000,000. Jackie gathered the

Book Value	Fair Value	
Buildings (15-year life)	\$ 1,000,000	\$ 1,500,000
Equipment (5-year life)	2,500,000	3,000,000
Franchises (10-year life)	\$ 0	\$ 500,000

- A) \$0.
B) \$30,000.

following information about Rob's assets and liabilities whose book values and fair values differed:

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Rob Co. reported net income of \$300,000 for 2021, and paid dividends of \$100,000 during that year. What is the amount of excess amortization expense for Jackie Corp's investment in Rob Co. for year 2021?

- C) \$40,000.
D) \$55,000.
E) \$60,000.

70) On January 1, 2021, Jackie Corp. purchased 30% of the voting common stock of Rob Co., paying \$2,000,000. Jackie properly accounts for this investment using the equity method. At the time of the investment, Rob's total stockholders' equity was \$3,000,000. Jackie gathered the

Book Value	Fair Value	
Buildings (15-year life)	\$ 1,000,000	\$ 1,500,000
Equipment (5-year life)	2,500,000	3,000,000
Franchises (10-year life)	\$ 0	\$ 500,000

following information about Rob's assets and liabilities whose book values and fair values differed:

life)

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Rob Co. reported net income of \$300,000 for 2021, and paid dividends of \$100,000 during that year. What is the balance in Jackie Corp's *Investment in*

Rob Co. account at December 31, 2021?

- A) \$2,000,000.
- B) \$2,005,000.

- C) \$2,060,000.
- D) \$2,090,000.
- E) \$2,200,000.

71) Acker Inc. bought 40% of Howell Co. on January 1, 2020 for \$576,000. The equity method of accounting was used. The book value and fair value of the net assets of Howell on that date were \$1,440,000. Acker began supplying

inventory to Howell as follows:

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Howell reported net income of \$100,000 in 2020 and \$120,000 in 2021 while paying \$40,000 in dividends each year. What is Acker's share of the intra-entity inventory gross profit that should be deferred on December 31, 2020?

- A) \$1,600.
- B) \$4,000.

- C) \$8,000.
- D) \$15,000.
- E) \$20,000.

72) Acker Inc. bought 40% of Howell Co. on

January 1, 2020 for \$576,000. The equity method of accounting was used. The book value and fair value of the net assets of Howell on that date were \$1,440,000. Acker began

supplying inventory to Howell as follows:

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Howell reported net income of \$100,000 in 2020 and \$120,000 in 2021 while paying \$40,000 in dividends each year. What is Acker's share of the intra-entity inventory gross profit that should be deferred on December 31, 2021?

- A) \$1,600.
- B) \$8,000.

- C) \$15,000.
- D) \$20,000.
- E) \$40,000.

73) Acker Inc. bought 40% of Howell Co. on January 1, 2020 for \$576,000. The equity method of accounting was used. The book value and fair value of the net assets of Howell on that date were \$1,440,000. Acker began supplying

inventory to Howell as follows:

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Howell reported net income of \$100,000 in 2020 and \$120,000 in 2021 while paying \$40,000 in dividends each year. What is the Equity in Howell Income that should be reported by Acker in 2020?

- A) \$10,000.
- B) \$24,000.
- C) \$36,000.
- D) \$38,400.
- E) \$40,000.

74) Acker Inc. bought 40% of Howell Co. on January 1, 2020 for \$576,000. The equity method of accounting was used. The book value and fair value of the net assets of Howell on that date were \$1,440,000. Acker began supplying

inventory to Howell as follows:

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Howell reported net income of \$100,000 in 2020 and \$120,000 in 2021 while paying \$40,000 in dividends each year. What is the balance in Acker's Investment in Howell account at December 31, 2020?

- A) \$576,000.
- B) \$598,400.
- C) \$614,400.
- D) \$606,000.
- E) \$616,000.

75) Acker Inc. bought

40% of Howell Co. on January 1, 2020 for \$576,000. The equity method of accounting was used. The book value and fair value of the net assets of Howell on that date were

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- A) \$32,000.
- B) \$41,600.

\$1,440,000. Acker began supplying inventory to Howell as follows:

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Howell reported net income of \$100,000 in 2020 and \$120,000 in 2021 while paying \$40,000 in dividends each year. What is the Equity in Howell Income that should be reported by Acker in 2021?

- C) \$48,000.
- D) \$49,600.
- E) \$50,600.

76) Acker Inc. bought 40% of Howell Co. on January 1, 2020 for \$576,000. The equity method of accounting was used. The book value and fair value of the net assets of Howell on that date were \$1,440,000. Acker began supplying

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Howell reported net income of \$100,000 in 2020 and \$120,000 in 2021 while paying \$40,000 in dividends each year. What is the balance in Acker's Investment in Howell

- A) \$624,000.
- B) \$636,000.

account at December 31, 2021?

- C) \$646,000.
- D) \$656,000.
- E) \$666,000.

77) Cayman Inc. bought 30% of Maya Company on January 1, 2021 for \$450,000. The equity method of accounting was used. The book value and fair value of the net assets of Maya on that date were \$1,500,000. Maya began

supplying inventory to Cayman as follows:

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- A) \$900.
- B) \$3,000.

Maya reported net income of \$100,000 in 2021 and \$120,000 in 2022 while paying \$40,000 in dividends each year. What is the investor's share of gross profit on intra-entity inventory sales that should be deferred on December 31, 2021?

- C) \$4,500.
- D) \$6,000.
- E) \$9,000.

78) Cayman Inc.

bought 30% of Maya Company on January 1, 2021 for \$450,000. The equity method of accounting was used. The book value and fair value of the net assets of Maya on that

date were \$1,500,000. Maya began supplying inventory to Cayman as follows:

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Maya reported net income of \$100,000 in 2021 and \$120,000 in 2022 while paying \$40,000 in dividends each year. What is the investor's share of gross profit on intra-entity inventory sales that should be deferred on December 31, 2022?

- A) \$1,500.
- B) \$2,400.

- C) \$3,600.
- D) \$4,000.
- E) \$8,000.

79) Cayman Inc. bought 30% of Maya Company on January 1, 2021 for \$450,000. The equity method of accounting was used. The book value and fair value of the net assets of Maya on that date were \$1,500,000. Maya began

supplying inventory to Cayman as follows:

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- A) \$17,100.
- B) \$18,000.

Maya reported net income of \$100,000 in 2021 and \$120,000 in 2022 while paying \$40,000 in dividends each year. What is the Equity in Maya Income that should be reported by Cayman in 2021?

- C) \$25,500.
- D) \$29,100.
- E) \$30,900.

80) Cayman Inc. bought 30% of Maya Company on January 1, 2021 for \$450,000. The equity method of accounting was used. The book value and fair value of the net assets of Maya on that date were \$1,500,000. Maya began

supplying inventory to Cayman as follows:

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Maya reported net income of \$100,000 in 2021 and \$120,000 in 2022 while paying \$40,000 in dividends each year. What is the balance in Cayman's Investment in Maya account at December 31, 2021?

- A) \$463,500.
- B) \$467,100.
- C) \$468,000.
- D) \$468,900.
- E) \$480,000.

81) Cayman Inc. bought 30% of Maya Company on January 1, 2021 for \$450,000. The equity method of accounting was used. The book value and fair value of the net assets of Maya on that date were \$1,500,000. Maya began

supplying inventory to Cayman as follows:

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Maya reported net income of \$100,000 in 2021 and \$120,000 in 2022 while paying \$40,000 in dividends each year. What is the Equity in Maya Income that should be reported by Cayman in 2022?

- A) \$34,200.
- B) \$34,800.
- C) \$34,500.
- D) \$36,000.
- E) \$37,800.

82) Cayman Inc.

bought 30% of Maya Company on January 1, 2021 for \$450,000. The equity method of accounting was used. The book value and fair value of the net assets of Maya on that

date were \$1,500,000. Maya began supplying inventory to Cayman as follows:

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Maya reported net income of \$100,000 in 2021 and \$120,000 in 2022 while paying \$40,000 in dividends each year. What is the balance in Cayman's Investment in Maya account at December 31, 2022?

- A) \$488,700.
- B) \$489,600.

- C) \$492,000.
- D) \$494,400.
- E) \$514,500.

83) Which of the following results in a decrease in the investment account when applying the equity method?

- A) Dividends paid by the investor.
- B) Net income of the investee.
- C) Net income of the investor.
- D) Share of gross profit on intra-entity inventory

sales for the current year.
E) Purchase of additional common stock by the investor during the current year.

84) Which of the

following results in an increase in the investment account when applying the equity method?

- A) Investor's share of gross profit from intra-entity inventory sales for the prior year.
- B) Investor's share of gross profit from intra-entity inventory sales for the current year.
- C) Dividends paid by the investor.
- D) Dividends paid by the investee.
- E) Sale of a portion of the investment during the current year.

85) Which of the following results in a decrease in the Equity in Investee Income account when applying the equity method?

- A) Dividends paid by the investor.
- B) Net income of the investee.
- C) Investor's share of gross profit from intra-entity inventory sales for the current year.
- D) Investor's share of gross profit from intra-entity inventory sales for the prior year.
- E) Other Comprehensive Income of the investee.

86) Which of the following results in an increase in the Equity in Investee Income account when applying the equity method?

- A) Amortizations of purchase price over book value on date of purchase.
- B) Amortizations, since date of purchase, of purchase price over book value on date of purchase.
- C) Sale of a portion of the investment at a gain to the investor.
- D) Investor's share of gross profit from intra-entity inventory sales for the prior year.
- E) Sale of a portion of the investment at a loss.

87) Renfroe, Inc. acquired 10% of Stanley Corporation on January 4, 2020, for \$90,000 when

the book value of Stanley was \$1,000,000. During 2020, Stanley reported net income of \$215,000 and paid dividends of \$50,000. The book value of the 10% investment was the same as the fair value of that investment when, on January 1, 2021, Renfroe purchased an additional 30% of Stanley for \$325,000. Any excess of cost over book value is attributable to goodwill with an indefinite life. During 2021, Renfroe reported net income of \$320,000 and paid dividends of

- A) A debit of \$16,500.
- B) A debit of \$21,500.
- C) A debit of \$90,000.

88) Renfroe, Inc. acquired 10% of Stanley Corporation on January 4, 2020, for \$90,000 when the book value of Stanley was \$1,000,000. During 2020, Stanley reported net income of \$215,000 and paid dividends of \$50,000. The book value of the 10% investment was the same as the fair value of that investment when, on January 1, 2021, Renfroe purchased an additional 30% of Stanley for \$325,000. Any excess of cost over book value is attributable to goodwill with an indefinite

- A) \$415,000.
- B) \$512,500.

\$50,000. How much is the adjustment to the Investment in Stanley Corporation for the change from the fair-value method to the equity method on January 1, 2021?

- D) A debit of \$165,000.
- E) There is no adjustment.

life. During 2021, Renfroe reported net income of \$320,000 and paid dividends of \$50,000. What is the balance in the Investment in Stanley Corporation on December 31, 2021?

- C) \$523,000.
- D) \$539,500.
- E) \$544,500.

89) On January 3, 2020, Trycker, Inc. acquired 40% of the outstanding common stock of Inkblot Co. for \$2,400,000. This investment gave Trycker the ability to exercise significant influence over Inkblot. Inkblot's assets on

that date were recorded at \$8,000,000 with liabilities of \$2,000,000. There were no other differences between book and fair values. During 2020, Inkblot reported net income of \$500,000 and paid dividends of \$300,000. The fair value of Inkblot at December 31, 2020 is \$7,000,000. Trycker elects the fair value option for its investment in Inkblot. How are

- A) Reduce investment in Inkblot by \$280,000.
- B) Increase Investment in Inkblot by \$280,000.
- C) Reduce Investment in Inkblot by \$120,000.
- D) Increase Investment in Inkblot by \$120,000.

dividends received from Inkblot reflected in Trycker's accounting records for 2020?

- E) Increase Dividend Income by \$120,000.

90) On January 3, 2020, Trycker, Inc. acquired 40% of the outstanding common stock of Inkblot Co. for \$2,400,000. This investment gave Trycker the ability to exercise significant influence over Inkblot. Inkblot's assets on that date were recorded at \$8,000,000 with liabilities of \$2,000,000. There were no other differences between book and fair values. During 2020, Inkblot reported net income of \$500,000 and paid dividends of \$300,000. The fair value of Inkblot at

- A) \$2,400,000.
- B) \$2,280,000.

December 31, 2020 is \$7,000,000. Trycker elects the fair value option for its investment in Inkblot. At what amount will Inkblot be reflected in Trycker's December 31, 2020 balance sheet?

- C) \$2,480,000.
- D) \$2,800,000.
- E) \$7,000,000.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

91) Franklin Co. owns 40% of the voting common stock of Academic Services Inc. Franklin uses the equity method to account for its investment. On January 1, 2021, the balance in the investment account was \$726,000. During 2021, Academic Services reported net income of \$150,000 and paid dividends of \$40,000. Any excess of fair value over book value is attributable to goodwill with an indefinite life. What is the balance in the investment account as of December 31, 2021?

92) Tinker Co. owns 25% of the common stock of Harbor Co. and uses the equity method to account for the investment. During 2021, Harbor reported income of \$120,000 and paid dividends of \$40,000. Harbor owns a building with a useful life of twenty years, which was undervalued by \$80,000 at the time that Tinker bought its shares of Harbor's common stock.**Required:** Prepare a schedule to show the equity income Tinker should recognize for 2021 related to this investment.

93) Farah Corp. purchased 35% of the common stock of Dastan Co. by paying \$625,000. Of this amount, \$45,000 is associated with goodwill.**Required:** Prepare the journal entry to record Farah's investment.

94) On January 3,

2021, Heinrich Co. paid \$500,000 for 25% of the voting common stock of Jones Corp. At the time of the investment, Jones had net assets with a book value and fair value of \$1,800,000. During 2021, Jones incurred a net loss of \$60,000 and paid dividends of \$100,000. Any excess cost over book value is attributable to goodwill with an indefinite life.**Required:**1) Prepare a schedule to show the amount of

goodwill from Heinrich's investment in Jones.2) Prepare a schedule to show the balance in Heinrich's investment account at December 31, 2021.

95) On January 4, 2021, Colton Corp. acquired 30% of the outstanding common stock of Hicks Co. for \$1,300,000. This acquisition gave Colton the ability to exercise significant influence over the investee. The book value of the acquired shares was \$1,175,000. Any excess cost over the underlying book value was assigned to a copyright that was undervalued on Hicks's balance sheet. This copyright has a remaining useful life of ten years. For the year ended December 31, 2021, Hicks reported net income of \$368,000 and paid cash dividends of \$107,000.**Required:**Prepare a schedule to show the balance Colton should report as its Investment in Hicks Co. at December 31, 2021.

96) On January 1, 2021, Spark Corp. acquired a 40% interest in Cranston Inc. for \$250,000. On that date, Cranston's balance sheet disclosed net assets of \$430,000. During 2021,

Cranston reported net income of \$100,000 and paid cash dividends of \$30,000. Spark sold inventory costing \$40,000 to Cranston during 2021 for \$50,000. Cranston used all of this merchandise in its operations during 2021. Any excess cost over fair value is attributable to an unamortized trademark with a 20-year remaining life. **Required:** Prepare all of Spark's

journal entries for 2021 to apply the equity method to this investment.

97) Wathan Inc. sold \$180,000 in inventory to Miller Co. during 2020, for \$270,000. Miller resold \$108,000 of this merchandise in 2020 with the remainder to be disposed of during 2021. **Required:** Assuming Wathan owns 25% of Miller and applies the equity method, prepare the journal entry Wathan should have recorded at the end of 2020 to defer gross profit on intra-entity inventory sales.

98) Jager Inc. holds 30% of the outstanding voting shares of Kinson Co. and appropriately applies the equity method of accounting. Amortization associated with this investment equals

\$11,000 per year. For 2021, Kinson reported earnings of \$100,000 and paid cash dividends of \$40,000. During 2021, Kinson acquired inventory for \$62,400, which was then sold to Jager for \$96,000. At the end of 2021, Jager still held some of this inventory at its intra-entity selling price of

\$50,000.**Required:**Determine the amount of Equity in Investee Income that Jager should have reported for 2021.

99) On January 4, 2020, Hull Corp. paid \$516,000 for 24% (48,000 shares) of the outstanding common stock of Oliver Co. Hull used the equity method to account for the investment. At the end of 2020, the balance in the investment account was \$620,000. On January 3, 2021, Hull sold 12,000 shares of Oliver stock for \$12 per share. For 2021, Oliver reported net income of \$118,000 and paid dividends of \$30,000.**Required:**(A) Prepare the journal entry to record the sale of the 12,000 shares.(B) After the sale has been recorded, what is the balance in the investment account?(C) What percentage of Oliver Co. stock does Hull own after selling the 12,000 shares?(D) Because of the sale of stock, Hull can no longer exercise significant influence over the operations of Oliver. What effect will this have on Hull's accounting for the investment?(E) Prepare Hull's journal entries related to the

investment for the rest of 2021.

100) On January 2, 2021, Jolley Corp. paid \$250,000 for 25% of the voting common stock of Wonder Co. On that date, the book value of Wonder was \$850,000. A building with a carrying value of \$160,000 was actually worth \$220,000. The

building had a remaining life of twenty years. Wonder owned a trademark valued at \$90,000 over cost that was to be amortized over 20 years. During 2021, Wonder sold to Jolley inventory costing \$60,000, at a markup of 50% on cost. At the end of the year, Jolley still owned some of these goods with an intra-entity selling price of \$33,000. Jolley uses a perpetual inventory system. Wonder reported net income of \$200,000 during 2021. This amount included a gain of \$35,000.

Wonder paid dividends totaling \$40,000. **Required:** Prepare all of Jolley's journal entries for 2021 in relation to Wonder Co. Assume the equity method is appropriate for use.

101) On January 2, 2020, Pond Co. acquired 40% of the outstanding voting common shares of Ramp Co. for \$700,000. On that date, Ramp reported assets and liabilities with book values of \$2.2 million and \$700,000, respectively. A building owned by Ramp had an appraised value of \$300,000, although it had a book value of only \$120,000. This building had a 12-year remaining life and no salvage value. It was being depreciated on the straight-line basis. Ramp generated net income of \$300,000 in 2020 and a loss of \$120,000 in 2021. In each of these two years, Ramp paid a cash dividend of \$70,000 to its stockholders. During 2020, Ramp sold inventory to Pond that had an original cost of \$60,000. The merchandise was sold to Pond for \$96,000. Of this balance, \$72,000 was resold to outsiders during 2020

and the remainder was sold during 2021. In 2021, Ramp sold inventory to Pond for \$180,000. This inventory had cost only \$108,000. Pond resold \$120,000 of the inventory during 2021 and the rest during 2022. **Required:** For 2020 and then for 2021, calculate the equity income to be reported by Pond for external reporting purposes.

102) Pursley, Inc. acquires 10% of Ritz Corporation on January 2, 2020, for \$80,000 when the book value of Ritz was \$800,000. Pursley adjusted the investment to its fair

value of \$162,500 at December 31, 2020. During 2020 Ritz reported net income of \$125,000 and paid dividends of \$30,000. On January 7, 2021, Pursley purchased an additional 20% of Ritz for \$325,000, giving Pursley the ability to significantly influence the operating policies of Ritz. Any excess of cost over book value is attributable to goodwill with

an indefinite life. What journal entry(ies) is(are) required on January 7, 2021?

103) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corp. and has the ability to significantly influence the investee's operations. On January 4, 2021, the balance in the *Investment in Nicholas Corp.* account was \$503,000. Amortization associated with this acquisition is \$12,000 per year. During 2021, Nicholas earned net income of \$120,000 and paid cash dividends of \$40,000. Previously in 2020, Nicholas had sold inventory costing \$35,000 to Steven for \$50,000. All but 25% of that inventory had been sold to outsiders by Steven during 2020; the remainder was sold in 2021. Additional sales were made to Steven in 2021 at an intra-entity selling price of \$75,000. The goods in the intra-entity sales cost Nicholas \$54,000. Only 10% of the 2021 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2021. What amount of gross profit on 2020 intra-entity sales should Steven defer at December 31, 2020?

104) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corp. and has the ability to significantly influence the

investee's operations. On January 4, 2021, the balance in the *Investment in Nicholas Corp.* account was \$503,000.

Amortization associated with this acquisition is \$12,000 per year. During 2021, Nicholas earned net income of \$120,000 and paid cash dividends of \$40,000. Previously in 2020, Nicholas had sold inventory costing \$35,000 to Steven for \$50,000. All but 25% of that inventory had been sold to outsiders by Steven during 2020; the remainder was sold in 2021. Additional sales were made to Steven in 2021 at an intra-entity selling price of \$75,000. The goods in the intra-

entity sales cost Nicholas \$54,000. Only 10% of the 2021 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2021. What amount of gross profit on 2021 intra-entity sales should Steven defer at December 31, 2021?

105) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corp. and has the ability to significantly influence the investee's operations. On January 4, 2021, the balance in the *Investment in Nicholas Corp.* account was \$503,000. Amortization associated with this acquisition is \$12,000 per year. During 2021, Nicholas earned net income of \$120,000 and paid cash dividends of \$40,000. Previously in 2020, Nicholas had sold inventory costing \$35,000 to Steven for \$50,000. All but 25% of that inventory had been sold to outsiders by Steven during 2020; the remainder was sold in 2021. Additional sales were made to Steven in 2021 at an intra-entity selling price of \$75,000. The

goods in the intra-entity sales cost Nicholas \$54,000. Only 10% of the 2021 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2021. What amount of equity income would Steven have recognized in 2021 from its ownership interest in Nicholas?

106) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corp. and has the ability to significantly influence the

investee's operations. On January 4, 2021, the balance in the *Investment in Nicholas Corp.* account was \$503,000.

Amortization associated with this acquisition is \$12,000 per year. During 2021, Nicholas earned net income of \$120,000 and paid cash dividends of \$40,000. Previously in 2020, Nicholas had sold inventory costing \$35,000 to Steven for \$50,000. All but 25% of that inventory had been sold to outsiders by Steven during 2020; the remainder was sold in 2021. Additional sales were made to Steven in 2021 at an intra-entity selling price of \$75,000. The goods in the intra-

entity sales cost Nicholas \$54,000. Only 10% of the 2021 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2021. What was the balance in the *Investment in Nicholas Corp.* account at December 31, 2021?

107) On January 4, 2020, Nelson Corporation purchased 35% of the outstanding voting common stock of Christopher Company for \$560,000. This purchase gave Nelson the ability to exercise significant influence over the operating and financial policies of Christopher. On the date of purchase, Christopher's books reported assets of \$2,000,000 and liabilities of \$600,000. Any excess of cost over book value of Nelson's investment was attributed to a patent with a remaining useful life of seven years. During 2020, Christopher reported net income of \$250,000 and declared and paid cash dividends of \$55,000. In the following year, 2021, Christopher reported net income of \$300,000 and declared and paid cash dividends of \$70,000. In 2020, Nelson sold inventory costing \$60,000 to Christopher for \$80,000. Christopher sold 75% of that inventory to outsiders during

2020 with the remainder being sold in 2021. During 2021, Nelson sold inventory costing \$70,000 to Christopher for \$100,000. Christopher sold 80% of that inventory to outsiders during 2021. What amount of gross profit on 2020 intra-entity sales should Nelson defer at December 31, 2020?

108) On January 4, 2020, Nelson Corporation purchased 35% of the outstanding voting

common stock of Christopher Company for \$560,000. This purchase gave Nelson the ability to exercise significant influence over the operating and financial policies of Christopher. On the date of purchase, Christopher's books reported assets of \$2,000,000 and liabilities of \$600,000. Any excess of cost over book value of Nelson's investment was attributed to a patent with a remaining useful life of seven years. During 2020, Christopher reported net income of \$250,000 and declared and paid cash dividends of \$55,000. In the following year, 2021, Christopher reported net income of \$300,000 and declared and paid cash dividends of \$70,000. In 2020, Nelson sold inventory costing \$60,000 to Christopher for \$80,000. Christopher sold 75% of that inventory to

outsiders during 2020 with the remainder being sold in 2021. During 2021, Nelson sold inventory costing \$70,000 to Christopher for \$100,000. Christopher sold 80% of that inventory to outsiders during 2021. What amount of gross profit on 2021 intra-entity sales should Nelson defer at December 31, 2021?

109) On January 4, 2020, Nelson Corporation purchased 35% of the outstanding voting common stock of Christopher Company for \$560,000. This purchase gave Nelson the ability to exercise significant influence over the operating and financial policies of Christopher. On the date of purchase, Christopher's books reported assets of \$2,000,000 and liabilities of \$600,000. Any excess of cost over book value of Nelson's investment was attributed to a patent with a remaining useful life of seven years. During 2020, Christopher reported net income of \$250,000 and declared and paid cash dividends of \$55,000. In the following year, 2021, Christopher reported net income of \$300,000 and declared and paid cash dividends of \$70,000. In 2020, Nelson sold inventory costing \$60,000 to Christopher for \$80,000.

Christopher sold 75% of that inventory to outsiders during 2020 with the remainder being sold in 2021. During 2021, Nelson sold inventory costing \$70,000 to Christopher for \$100,000. Christopher sold 80% of that inventory to outsiders during 2021. Prepare all of Nelson's journal entries for 2020 to apply the equity method.

110) On January 4, 2020, Nelson Corporation purchased 35% of the

outstanding voting common stock of Christopher Company for \$560,000. This purchase gave Nelson the ability to exercise significant influence over the operating and financial policies of Christopher. On the date of purchase, Christopher's books reported assets of \$2,000,000 and liabilities of \$600,000. Any excess of cost over book value of Nelson's investment was attributed to a patent with a remaining useful life of seven years. During 2020, Christopher reported net income of \$250,000 and declared and paid cash dividends of \$55,000. In the following year, 2021, Christopher reported net income of \$300,000 and declared and paid cash dividends of \$70,000. In 2020, Nelson sold inventory costing \$60,000 to Christopher for \$80,000. Christopher sold 75% of that inventory to outsiders during

2020 with the remainder being sold in 2021. During 2021, Nelson sold inventory costing \$70,000 to Christopher for \$100,000. Christopher sold 80% of that inventory to outsiders during 2021. Prepare all of Nelson's journal entries for 2021 to apply the equity method.

111) How does the equity method of accounting for investments under International Accounting Standard (IAS) 28 differ from those prescribed by the FASB ASC?

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

112) For each of the following numbered situations below, select the best letter answer concerning accounting for investments: (A) Increase the investment account. (B) Decrease the investment

account.(C) Increase dividend revenue.(D) No adjustment necessary.(1.) Income reported by 40% owned investee.(2.) Income reported by 10% owned investee.(3.) Loss reported by 40% owned investee.(4.) Loss reported by 10% investee.(5.) Change from fair-value method to equity method. Prior income exceeded dividends.(6.) Change from fair-value method to equity method. Prior income was less than dividends.(7.) Change from equity method to fair-value method. Prior income exceeded dividends.(8.) Change from equity method to fair-value method. Prior income was less than dividends.(9.) Dividends received from 40% investee.

(10.) Dividends received from 10% investee.(11.) Purchase of additional shares of investee.(12.) Investor's share of gross profit from intra-entity inventory sales when using the equity method.

113) Jarmon Company owns twenty-three percent (23%) of the voting common stock of Kaleski Corp. Jarmon does not have the ability to exercise significant influence over the operations of Kaleski. What method should Jarmon use to

account for its investment in Kaleski?

114) Idler Co. has an investment in Cowl Corp. for which it uses the equity method. Cowl has suffered large losses for several years, and the balance in the investment account has

been reduced to zero. How should Idler account for this investment?

116) You are auditing a company that owns twenty percent of the voting common stock of another corporation and uses the equity method to account for the investment. How would

you verify that the equity method is appropriate in this case?

117) How does the use of the equity method affect the investor's financial statements?

118) What is the primary objective of the equity method of accounting for an investment?

119) What is the justification for the timing of recognition of income under the equity method?

120) What argument could be made against the equity method?

121) How would a change be made from the equity method to the fair value method of accounting for investments?

122) How should an investor account for, and report, an investee's other comprehensive income (or loss)?

123) When should an investor not use the equity method for an investment of 21% in another corporation?

124) What is the primary objective of the fair value method of accounting for an investment?

125) How would a change be made from the fair value method to the equity method of accounting for investments?

126) When the fair value option is elected for application to an investment in which the investor has significant influence over the investee, how would the investor reflect the use of

the fair value option in its balance sheet and in its income statement?

Answer Key

Test name: chapter 1

- 1) B
- 2) B
- 3) E
- 4) A
- 5) A
- 6) A
- 7) A
- 8) E
- 9) B
- 10) B
- 11) D
- 12) A
- 13) B
- 14) E
- 15) C
- 16) B
- 17) C
- 18) A
- 19) D

20) C

21) B

22) B

23) B

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26) C

27) C

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29) D

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31) B

32) D

33) B

34) B

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37) A

38) A

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40) B

41) C

42) D

43) A

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45) D

46) A

47) C

48) B

49) C

50) D

51) C

52) D

53) B

54) E

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56) A

57) E

58) C

59) B

60) D

61) D

62) C

63) C

64) C

65) D

66) B

67) E

68) C

69) D

70) B

71) A

72) B

73) D

74) B

75) B

76) A

77) A

78) B

79) D

80) B

81) C

82) B

83) D

84) A

85) C

86) D

87) E

88) C

89) E

90) D

91)

Investment in Academic Services
Inc.:

Balance at January 1, 2021	\$ 726, 000
2021 equity income accrual (\$150,000 × 40%)	60,0 00
2021 dividends (\$40,000 × 40%)	(16,) 000
Balance at December 31, 2021	<u>\$ 770,</u> <u>000</u>

92)

2021 equity income accrual (\$120,000 × 25%)	\$ 30,000
2021 amortization on purchase (\$80,000 ÷ 20 × 25%)	(1,000)
2021 equity income	<u>\$ 29,000</u>

Investment in Dastan Co	625,000
Cash	625,000

93) The journal entry is:

The amount of goodwill does not affect the journal entry used to record the investment.

94) 1)

Purchase price	\$ 500,000
Net book value (\$1,800,000 × 25%)	(450,000)
	<u>50,000</u>

Investment in Jones Corp.:

Acquisition price	\$ 500,000
2021 equity loss accrual (\$60,000 × 25%)	(15,000)
2021 dividends (\$100,000 × 25%)	(25,000)
	<u>460,000</u>

Investment in Hicks Co.:

Acquisition price	\$ 1,300,000
Equity income (\$368,000 × 30%)	110,400
Dividends (\$107,000 × 30%)	(32,000)

Goodwill	<u>\$ 50,000</u>
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2)

Balance at December 31, 2021	<u>\$46,000</u>
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95)

Excess copyright amortization (\$1,300,000 - \$1,175,000) ÷	<u>125,000</u>
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10)	00
Balance at December 31, 2021	\$ 1,36
	5,80
	0

Purchase price of Cranston Inc. stock	\$250,000
Equivalent book value of Cranston Inc. stock (\$430,000 × 40%)	(172),000
Trademark	78,000

Investment in Cranston Inc.	250,000	
Cash (or liability)	250,000	

To record acquisition of a 40% interest in Cranston Inc.		
Investment in Cranston Inc.	40,000	
Equity in Investee Income		40,000

To recognize forty percent of income earned during the period by Cranston Inc., an investment recorded using the equity method.		
Cash	12,000	
Investment in Cranston Inc.		12,000

To record collection of dividend from investee using the equity method

96)

Life in years	÷ 2
	0
Annual amortization	\$ 3,900

Equity in Investee Income	3,900
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Investment in Cranston Inc.

To reflect amortization of trademark excess over book value acquired.

****Note: All merchandise was used, so no deferral entry is needed.**

97)

Ending inventory	\$162,
------------------	--------

(\$270,000 - \$108,000)	<u>000</u>
Gross profit markup (\$90,000 ÷ \$270,000)	× 1/3
Gross profit on intra-entity inventory sales	<u>\$ 54,000</u>
Ownership percentage	× 25%
Wathan's share intra-entity	<u>\$ 13,500</u>

inventory
gross profit
to defer to
subsequent
year

0

Equity Income—Investment in Miller Co.	13,500
Investment in Miller Co.	13,50

98)

Equity in investee income:

Equity income accrual (\$100,000 × 30%)	\$ 30,000
Deferral of share of intra-entity gross profit (below)	(5,250)
Amortization (given)	(11,000)

Equity in
investee income

\$ 13,750

Deferral of its share of intra-entity gross profit:

Remaining inventory — end of year	\$ 50,000
Gross profit percentage (\$33,600 ÷ \$96,000)	× 35%
Profit within remaining inventory	\$ 17,500
Ownership percentage	× 30%

Share of intra-
entity gross
profit

\$ 5,250

99) A)

0
0

Cash	144,000
Loss on Sale of Investment	11,000
Investment in Oliver Co.	155,000

Calculation of
loss:

(12,000 × \$

$$\$12) - [(\$620,000 \div 48,000) \times 11,000]$$

B)

Balance in investment:

$$\$620,000 - \$155,000 = \$465,000$$

C)-Before sale, Hull owns 48,000 shares = 24% Oliver (given).-Oliver has 200,000 shares outstanding (48,000/.24).-After sale, Hull owns 36,000 shares (48,000 – 12,000).-After sale, Hull owns 18% of Oliver (36,000/200,000).

Alternate calculation:

48,000 shares =	24 %
Sell 1/4 of investment	(6) %
Remaining ownership of Oliver	<u>18 %</u>

D)To account for the investments, the *fair-value method* should be used.E)

Cash 5,400

Dividend Revenue 5,400

Calculation of dividend revenue:

100)

$$\$30,000 \times 18\% \text{ (from part C above)} = \$5,400$$

Required journal entries:

0

Investment in Wonder Co. 250,000
Cash 250,000

To record the initial investment in Wonder Co.

Investor Cost of Intra-Entity Inventory	90,000		75
Cash	90,000	To record amortizations	
To record the purchase of inventory from Wonder Co.		.	
Investment in Wonder Co.	50,000	Equity in Wonder Co. Income	2750
Equity in Wonder Co. Income	41,250	Investment in Wonder Co.	2750
Gain of Wonder Co.	8,750		
To record share of Wonder Co.'s income.			
Cash	10,000	To defer its share of gross profit on intra-entity sales.	
Investment in Wonder Co.	10,000		
To record the receipt of dividend.			
Equity in Wonder Co. Income	1,875		
Investment in Wonder Co.	1,875		
Calculation of equity in Wonder Co. income:		20] x 25%)	
(\$200,000 - \$35,000) x 25%	\$ 41,250	Trademark	1
		[(\$90,000 x 25%) ÷ 20]	,15
Calculation of unusual gain of Wonder Co.:		Total	\$ 1,875
\$35,000 x 25%	\$ 8,750		
Calculation of amortizations:			
Building [(\$220,000 - \$160,000) ÷ 5]	\$ 750		
Calculation of deferred gross profit on intra-entity inventory sales:		Cost	()
Cost + 50% cost = \$60,000 + \$30,000	\$ 90,000		600

	<u>00</u>		
Gross profit	\$ 30,000	Deferred gross profit on intra-entity inventory sales	\$2,750
GP % = 30,000/90,000 =	<u>1/3</u>		
Remaining inventory	\$ 33,000		
= Intra-entity gross profit remaining in ending inventory	\$ 11,000		
Jolley's ownership %	<u>× 25%</u>		
Equity Income-2020:			
Basic equity accrual (\$300,000 × 40%)	\$120,000	Equity income - 2020	\$1,400
Amortization (Schedule 1)	(6,000)		
Deferred intra-entity gross profit (Schedule 2)	(3,600)		
	<u>00</u>		
Equity Income (Loss) - 2021:			
Basic equity accrual [\$120,000 × 40%]	\$(48,000)		
Amortization (Schedule 1)	(6,000)		
Recognition of 2020 deferred intra-entity gross profit (Schedule 2)	3,600		
Deferral of 2021 gross profit on intra- entity inventory sales (Schedule 3)	(9,600)		
Equity income (loss) - 2021	<u>\$(60,000)</u>		

101)

Schedule 1

		Lif e	Annua l		0 y 0
			Amort izati on		0 r 0
				Excess	0 s 0
Acquisition price	\$700			payment not	\$2
	,00			identified	8
	0			with	,
				specific	0
				accounts	0
Book value	(60)				
equivalence (\$1,500,000 ×	0,0				\$
40%)	00				6
Payment in excess of book	\$100				,
value	,00				0
	0				0
Excess payment identified					
with specific assets					
Building (\$180,000 × 40%)	72,	12	\$6,		

Schedule 2

Inventory remaining at December 31,	\$24,			Deferred intra-
2020 (\$96,000 - \$72,000)	000			entity gross
Gross profit percentage (\$36,000 ÷	×37. %			profit
\$96,000)	5			12/31/20 (to \$3
Total gross profit on intra-entity	\$9,0			be deferred ,
sales	00			until 6
Investor ownership percentage	×40. %			recognized 0
	0			in 2021) 0

Schedule 3

Inventory remaining at December 31,	\$60,			12/31/21
2021 (\$180,000 - \$120,000)	000			(to be \$9
Gross profit percentage (\$72,000 ÷	×40. %			deferred until ,
\$180,000)	0			recognized in 6
Gross profit on intra-entity inventory	\$24,			2022) 0
sales	000			0
Investor ownership percentage	×40. %			
	0			
Deferred intra-entity gross profit -				

102)

Investment in Ritz	325,	
	000	
Cash		325,0
		00
To record the purchase of an additional 20% share in Ritz Corporation		

Additionally, if the fair value of the original 10% shares differed on January 7, 2021, than it did on December 31, 2020, Pursley would record the adjustment to the investment account so that the proper allocation of excess payment to goodwill could be prepared when the ownership percentage required use of the equity method of accounting on January 7, 2021.

$$103) [(\$50,000 - \$35,000) \times 0.25 \times 0.40] = \$1,500$$

$$104) [(\$75,000 - \$54,000) \times 0.10 \times 0.40] = \$840$$

$$105) [(\$120,000 \times 0.4) - \$12,000 - \$840 + \$1,500] = \$36,660$$

$$106) [\$503,000 + \$36,660 - (\$40,000 \times 0.4)] = \$523,660$$

$$107) [(\$80,000 - \$60,000) \times 0.25 \times 0.35] = \$1,750$$

$$108) [(\$100,000 - \$70,000) \times 0.20 \times 0.35] = \$2,100$$

109)

			0
Purchase price of Christopher Company Stock	\$ 560,000	Life in years	÷ 10
Share of book value acquired [(\$2,000,000 - \$600,000) × 35%]	(490,000)	Annual amortization	\$7,000
Patent	70,000		
Investment in Christopher Company	560,000	To record amortization of excess payment allocated to patent.	
Cash (or liability)	560,000	Equity in Investee Income	1,750
To record the purchase of 35% interest in Christopher Company.		Investment in Christopher Company	1,750
Investment in Christopher Company	87,500	To defer gross profit on sale of inventory to Christopher Company.	
Equity in Investee Income	87,500	(\$80,000 - \$60,000) × 25% × 35% =	\$1,750
To accrue earnings of Christopher (\$250,000 × 35%).			
Dividend Receivable	19,250		
Investment in Christopher Company	19,250		
To record a dividend declaration by Christopher (\$55,000 × 35%).			
Cash	19,250		
Dividend Receivable	19,250		
To record collection of the cash dividend.			
Equity in Investee Income	7,000		
Investment in Christopher Company	7,000		

110)

		Life in years	$\div$
			1
Purchase price of Christopher Company Stock	\$ 560,000		0
		Annual amortization	\$7,000
Share of book value acquired [(\$2,000,000 - \$600,000) $\times$ 35%]	(49)0,000		0
Patent	70,000		0
Investment in Christopher Company	105,000	outsiders. (\$80,000 - \$60,000) $\times$ 25% $\times$ 35% =	
Equity in Investee Income	105,000	\$1,750	
To accrue earnings of Christopher (\$300,000 $\times$ 35%).		Equity in Investee Income	2,100
Dividend Receivable	24,500		0
Investment in Christopher Company	24,500	Investment in Christopher Company	2,100
To record a dividend declaration by Christopher (\$70,000 $\times$ 35%).			0
Cash	24,500		0
Dividend Receivable	24,500	To defer gross profit on sale of inventory to Christopher Company.	
To record collection of the cash dividend.		(\$100,000 - \$70,000) $\times$ 20% $\times$ 35% =	
Equity in Investee Income	7,000	\$2,100	
Investment in Christopher Company	7,000		
To record amortization of excess payment allocated to patent.			
Investment in Christopher Company	1,750		
Equity in Investee Income	1,750		
To recognize income on intra-entity sale from 2020 that can now be recognized after sales to			

111) The equity method concepts and applications described in IAS 28 are virtually identical to those prescribed by the FASB ASC. However, some differences do exist. First, the FASB allows a fair-value reporting option for investments that otherwise are accounted for under the equity method. IAS 28 does not provide for a fair-value reporting option. Second, if the investee employs accounting policies that differ from those of the investor, IAS 28 requires the financial

statements of the investee to be adjusted to reflect the investor's accounting policies for the purpose of applying the equity method. U.S. GAAP does not have a similar conformity requirement.

112) (1) A; (2) D; (3) B; (4) D; (5) D; (6) D; (7) D; (8) D; (9) B; (10) C; (11) A; (12) B

113) The fair-value method should be used. Generally, ownership of more than twenty percent (20%) of the voting common stock would be presumed to carry significant influence and would require use of the equity method. The equity method is not appropriate

in this case because of the lack of the ability to exercise significant influence.

114) Idler should discontinue the use of the *equity method*. The investment would have a *zero balance* until investee profits eliminate

unrecognized losses.

115) When an investor has the ability to exercise significant influence over the operations of an investee, the investor should use the equity method to account for the investment. GAAP suggests several events or conditions which would indicate such

influence: (1) investor representation on the investee's board of directors; (2) material

transactions between investor and investee; (3) interchange of managerial personnel; (4) technological dependency between investor and investee; (5) the extent of investor ownership and the concentration of other ownership interests in the investee; and (6) investor participation in the policy-making process of the investee. All of these conditions

116) In order to verify that the equity method is appropriate, the auditor should determine whether the investor is able to exercise significant influence over the operations of the investee. The ability to influence the investee's operations is the most important criterion for adopting the equity method. The auditor should look for such evidence of significant influence such as: (1) frequent or material intercompany transactions; (2)

117) The use of the equity method influences the investor's income statement and balance sheet. On the income statement, the investor's net income will be increased by its share of the investee's earnings reduced by any amortization of cost in excess of fair value of depreciable net assets. On the balance sheet, the investor's total assets will include the investment account. The balance of the investment account is increased by the investor's share of the investee's income and

should be examined to determine whether the investor has the ability to exercise significant influence over the investee.

exchange of managerial personnel; (3) technological interdependency; and (4) investor participation in the decision-making process of the investee.

decreased by investee losses and dividends paid and amortization of depreciable allocations. The investor's retained earnings are influenced by the investee's income

or loss reported on the investor's income statement.

118) The objective of the equity method is to reflect the special relationship between investor and investee. The equity method is used when the investor holds a relatively large share of the investee, but not a controlling interest. The large ownership percentage indicates that the investor has the ability to influence the decision-making processes of the

investee. Use of the fair-value method would not reflect the relationship between the two parties.

119) According to the equity method, the investor should recognize its share of the investee's income in the same period in which it is earned by the investee. The equity method applies accrual accounting when the investor

could exercise significant influence over the investee.

120) An argument could be made against the recognition of income under the equity method. The investor is required to recognize its share of the investee's income even when it is unlikely that the investor will ever receive

the entire amount in cash dividends.

121) A change to the fair value method is appropriate when the investor can no longer exercise significant influence over the operations of the investee. No retrospective adjustment of previous years' financial statements or the balance in the investment account is required. The balance in the

investment account at the time of the change would be treated prospectively as the cost of the investment.

122) The investor should account for other comprehensive income or loss by including it in an Other Comprehensive Income statement

account that is separate from the Equity in Investee

Income account. The investor should record its share of investee OCI, which should be included in its balance sheet as Accumulated

Other
Comprehensive
Income (AOCI).

123) When the investor does not have significant influence with regard to the investee.

124) The investor possesses only a small percentage of an investee and cannot expect to have a significant impact on the operations or decision-making of the investee. Since the shares are bought in anticipation of cash dividends or appreciation of stock market values, dividends received are accounted for as income and the investment is reflected at

each balance sheet date at its fair value which is generally the market value at that date.

125) According to GAAP, when there is a change from the fair value method to the equity method for investments, the change

should be incorporated prospectively.

126) In the balance sheet, the Investment in Investee account will be at fair value at the balance sheet date. In the income statement, any change in fair value from period to period would be reflected as investment Income (increase in fair value) or loss (decrease in fair

value). Also in the income statement, the dividends received would be reflected as dividend income.