# *Advanced Accounting 14th edition Hoyle Test Bank*

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# Advanced Accounting 14th Hoyle Chapter 01

Correct answers are located at the 2nd half this document

**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?

1) _____

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

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—Various Methods

**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?

2) _____



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

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

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

3) _____

A) $2,114,000.
B) $2,194,000.
C) $2,354,000.
D) $2,158,000.
E) $2,034,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**4)** A necessary condition to use the equity method of reporting for an equity investment is that the investor company must

4) _____

A) have the ability to exercise significant influence over the operating and financial policies of the investee.
B) own at least 30% of the investee's voting stock.
C) possess a controlling interest in the investee's voting stock.
D) not have the ability to exercise significant influence over the operating and financial policies of the investee.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Remember
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Gradable : automatic
Difficulty : 1 Easy
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion



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**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?

5) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Understand
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 2 Medium
AACSB : Analytical Thinking
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible

**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 $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?

6) _____



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A) $1,793,000.
B) $1,885,000.
C) $1,943,000.
D) $1,977,000.
E) $1,054,300.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

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

7) _____

A) $950,800.
B) $958,000.
C) $836,000.
D) $990,100.
E) $956,400.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Investee Losses
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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. How should Halpert account for this change?

8) _____

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.

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.



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible

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

9) _____

A) $9,000.
B) $4,050.
C) $13,500.
D) $17,550.
E) $5,600.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory



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

10) _____

A) $871,500.
B) $845,250.
C) $761,250.
D) $897,250.
E) $950,250.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible

**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) | $ 0 | $ 480,000 |



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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 of goodwill associated with the investment?

11) _____

A) $600,000.
B) $264,000.
C) $0.
D) $336,000.
E) $480,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Allocate Excess Purchase Price

**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. 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) | $ 0 | $ 480,000 |

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?



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12) _____

A) $36,000.
B) $20,000.
C) $40,000.
D) $120,000.
E) $60,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Amortize Allocations

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

13) _____

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



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Remember
AACSB : Reflective Thinking
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.
Gradable : automatic
Difficulty : 1 Easy
Topic : Report Investee Losses
Accessibility : Screen Reader Compatible

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

14) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Remember
AACSB : Reflective Thinking
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 1 Easy
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory



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**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?

15) _____

A) $19,792.
B) $27,640.
C) $22,672.
D) $24,400.
E) $21,748.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations



Advanced Accounting 14th edition Hoyle Test Bank

**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 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?

16) _____

A) $401,136.
B) $413,872.
C) $418,840.
D) $412,432.
E) $410,148.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations



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**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 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?

17) _____

A) $117,000.
B) $143,400.
C) $152,000.
D) $134,400.
E) $141,200.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—Various Methods
Topic : Equity Method—Investment Account Balance



Advanced Accounting 14th edition Hoyle Test Bank

**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?

18) _____

A) $30,000.
B) $16,420.
C) $38,340.
D) $18,000.
E) $32,840.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

**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.



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19) _____

A) Entries I and II.
B) Entries II and III.
C) Entry I only.
D) Entry II only.
E) Entry III only.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

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

20) _____

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.



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Remember
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Gradable : automatic
Difficulty : 1 Easy
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

**21)** All of the following statements regarding the investment account using the equity method are true *except*:

21) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Investment Account Balance

**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?

22) _____



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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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible

**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 following statements is true?

23) _____

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 reduce the investment account.



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible

**24)** When an investor appropriately applies the equity method, how should it account for any investee Other Comprehensive Income (OCI)?

24) _____

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 be ignored but shown in the investor's notes to the financial statements.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06b Understand the financial reporting consequences for investee's other comp
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Investee OCI
Accessibility : Screen Reader Compatible

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

25) _____



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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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Investee Losses
Accessibility : Screen Reader Compatible

**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, which of the following statements is true?

26) _____

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.
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.



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Investee Losses
Accessibility : Screen Reader Compatible

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

27) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 2 Medium
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible



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**28)** When applying the equity method, how is the excess of cost over book value calculated and accounted for?

28) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Gradable : automatic
Difficulty : 2 Medium
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Allocate Cost of Investment

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

29) _____

A) Cost of goods sold.
B) Property, plant, & equipment.
C) Patents.
D) Goodwill.
E) Bonds payable.



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Remember
AACSB : Reflective Thinking
Gradable : automatic
Difficulty : 1 Easy
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Amortize Allocations

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

30) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

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

31) _____



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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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 2 Medium
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

**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

32) _____

A) $25,000.
B) $13,000.
C) $9,000.
D) $16,000.
E) $10,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Allocate Excess Purchase Price

**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 ability to significantly influence the operations of Harley.

The equity in income of Harley for 2020, is

33) _____

A) $9,000.
B) $13,500.
C) $15,000.
D) $7,500.
E) $50,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Amortize Allocations

**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

34) _____

A) $22,500.
B) $21,000.
C) $12,000.
D) $13,500.
E) $75,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Amortize Allocations

**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. 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

35) _____

A) $100,000.
B) $112,000.
C) $106,000.
D) $107,500.
E) $140,000.



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Investment Account Balance

**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 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

36) _____

A) $119,500.
B) $125,500.
C) $116,500.
D) $118,000.
E) $100,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Investment Account Balance

**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 $75,000.

The income reported by Jones for 2020 with regard to the Anderson investment is

37) _____

A) $7,500.
B) $22,500.
C) $15,000.
D) $100,000.
E) $150,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—Various Methods

**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 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

38) _____

A) $80,000.
B) $30,000.
C) $50,000.
D) $15,000.
E) $75,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

**39)** Jones, Incorporated acquired 15% of Anderson Corporation on January 1, 2020, for $105,000 when the Anderson's book value was $600,000. During 2020 Anderson reported net income of $150,000 and declared dividends of $50,000. By January 1, 2021, the fair value of Jones' 15% investment in Anderson had increased to $120,000.

On January 1, 2021, Jones purchased an additional 25% of Anderson for $200,000. Any excess cost over book value was 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 $180,000, and declared dividends of $55,000.

How would Jones record its January 1, 2021 investment in Anderson under the equity method?

39) _____

A) Jones must record an adjustment 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 adjust its retained earnings for the difference between 2020 equity method income and income recognized under the fair-value method for its investment in Anderson account.
D) Jones must debit the Investment in Anderson account for $200,000.
E) Jones must record a credit of $15,000 to the Investment in Anderson account.



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Bloom's : Analyze
Gradable : automatic
Difficulty : 3 Hard
AACSB : Analytical Thinking
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible

**40)** Jones, Incorporated acquired 15% of Anderson Corporation on January 1, 2020, for $105,000 when the Anderson's book value was $600,000. During 2020 Anderson reported net income of $150,000 and declared dividends of $50,000. By January 1, 2021, the fair value of Jones' 15% investment in Anderson had increased to $120,000.

On January 1, 2021, Jones purchased an additional 25% of Anderson for $200,000. Any excess cost over book value was 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 $180,000, and declared dividends of $55,000.

What is the balance in Jones' Investment in Anderson account at December 31, 2021?

40) _____

A) $320,000.
B) $351,250.
C) $370,000.
D) $412,500.
E) $445,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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 Bartlett | $35,000 | |
| | Investment in Bartlett | | 35,000 |
| B) | Investment in Bartlett | $35,000 | |
| | Equity in income of Bartlett | | $35,000 |
| C) | Equity in income of Bartlett | $12,250 | |
| | Investment in Bartlett | | $12,250 |
| D) | Investment in Bartlett | $12,250 | |
| | Equity in income of Bartlett | | $12,250 |

41) _____



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

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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 Bartlett | $35,000 | |
| | Investment in Bartlett | | $35,000 |
| B) | Investment in Bartlett | $35,000 | |
| | Equity in income of Bartlett | | $35,000 |
| C) | Equity in income of Bartlett | $12,250 | |
| | Investment in Bartlett | | $12,250 |
| D) | Investment in Bartlett | $12,250 | |
| | Equity in income of Bartlett | | $12,250 |



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42) _____

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

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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:

| | Net Income | Dividends |
|---|---|---|
| 2020 | $ 200,000 | $ 50,000 |
| 2021 | 225,000 | 50,000 |
| 2022 | 250,000 | 60,000 |



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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?

43) _____

A) $150,000.
B) $172,500.
C) $180,000.
D) $157,500.
E) $170,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Accounting for Investments—Various Methods

**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:

| | Net Income | Dividends |
|---|---|---|
| 2020 | $ 200,000 | $ 50,000 |
| 2021 | 225,000 | 50,000 |
| 2022 | 250,000 | 60,000 |



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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?

44) _____

A) $30,000.
B) $22,500.
C) $7,500.
D) $0.
E) $50,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Accounting for Investments—Various Methods

**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:

| | Net Income | Dividends |
|---|---|---|
| 2020 | $ 200,000 | $ 50,000 |
| 2021 | 225,000 | 50,000 |



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| | | |
|---|---|---|
| 2022 | 250,000 | 60,000 |

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?

45) _____

A) $90,000.
B) $110,000.
C) $67,500.
D) $87,500.
E) $78,750.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Allocate Cost of Investment

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

| | Net Income | Dividends |
|---|---|---|



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| | | |
|---|---|---|
| 2020 | $ 200,000 | $ 50,000 |
| 2021 | 225,000 | 50,000 |
| 2022 | 250,000 | 60,000 |

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?

46) _____

A) $517,500.
B) $537,500.
C) $520,000.
D) $540,000.
E) $211,250.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Investment Account Balance



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

| | Net Income | Dividends |
|---|---|---|
| 2020 | $ 200,000 | $ 50,000 |
| 2021 | 225,000 | 50,000 |
| 2022 | 250,000 | 60,000 |

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?

47) _____

A) $447,500.
B) $468,750.
C) $535,875.
D) $555,000.
E) $624,375.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment



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**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:

| | Net Income | Dividends |
|---|---|---|
| 2020 | $ 200,000 | $ 50,000 |
| 2021 | 225,000 | 50,000 |
| 2022 | 250,000 | 60,000 |

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?

48) _____

A) $61,750.
B) $81,250.
C) $72,500.
D) $59,250.
E) $75,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment

**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?

49) _____

A) $140,000.
B) $220,000.
C) $240,000.
D) $360,000.
E) $600,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries



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**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. 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?

50) _____

A) $150,000.
B) $220,000.
C) $240,000.
D) $360,000.
E) $600,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

**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. 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?

51) _____



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A) $2,420,000.
B) $2,800,000.
C) $2,900,000.
D) $3,040,000.
E) $3,180,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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 of these two years.

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

52) _____

A) $2,400,000.
B) $2,800,000.
C) $2,900,000.
D) $3,120,000.
E) $3,260,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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?

53) _____

A) $1,900,000.
B) $1,960,000.
C) $2,000,000.
D) $2,016,000.
E) $2,028,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance



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**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 recognize in 2021 from its ownership interest in Barney?

54) _____

A) $12,000 income.
B) $12,000 loss.
C) $16,000 loss.
D) $28,000 income.
E) $28,000 loss.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

**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 intra-entity sales must be deferred by Luffman?

55) _____

A) $0.
B) $8,400.
C) $28,000.
D) $52,000.
E) $80,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

**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 $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?

56) _____

A) $1,560,000.
B) $1,600,000.
C) $1,700,000.
D) $1,800,000.
E) $1,860,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance



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**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?

57) _____

A) $0.
B) $10,000 gain.
C) $12,000 loss.
D) $15,000 loss.
E) $20,000 gain.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible

**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, 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?

58) _____



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A) $750,000.
B) $760,000.
C) $780,000.
D) $790,000.
E) $800,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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 | |



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| | | | |
|---|---|---|---|
| | 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 |

59) _____

A) A Above.
B) B Above.
C) C Above.
D) D Above.
E) E Above.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Bloom's : Analyze
Gradable : automatic
Difficulty : 3 Hard
AACSB : Analytical Thinking
Topic : Report Sale of Equity Investment



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**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?

60) _____

A) $520,000.
B) $544,000.
C) $560,000.
D) $604,000.
E) $620,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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?

61) _____



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A) $20,000 gain.
B) $10,000 gain.
C) $1,000 gain.
D) $1,000 loss.
E) $10,000 loss.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible

**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 $150,000.

What is the balance in the investment account after the sale of the 10,000 shares?

62) _____

A) $390,000.
B) $420,000.
C) $453,000.
D) $454,000.
E) $465,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

**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 |



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

63) _____

A) A Above
B) B Above
C) C Above
D) D Above
E) E Above

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Bloom's : Analyze
Gradable : automatic
Difficulty : 3 Hard
AACSB : Analytical Thinking
Topic : Report Sale of Equity Investment

**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 |



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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?

64) _____

A) $(2,000,000).
B) $800,000.
C) $1,000,000.
D) $2,000,000.
E) $3,000,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Allocate Excess Purchase Price

**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) | 0 | 700,000 |



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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.

How much goodwill is associated with this investment?

65) _____

A) $(500,000).
B) $0.
C) $100,000.
D) $200,000.
E) $2,000,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Allocate Excess Purchase Price

**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 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 |



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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?

66) _____

A) $0.
B) $84,000.
C) $100,000.
D) $160,000.
E) $400,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Amortize Allocations

**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 whose book values and fair values differed:

| | 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 |

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?



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67) _____

A) $(1,000,000.)
B) $400,000.
C) $800,000.
D) $1,000,000.
E) $1,100,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Allocate Excess Purchase Price

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

| | 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 |

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?

68) _____



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A) $(500,000.)
B) $0.
C) $650,000.
D) $1,000,000.
E) $2,000,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Allocate Excess Purchase Price

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

| | 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 |

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?

69) _____



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A) $0.
B) $30,000.
C) $40,000.
D) $55,000.
E) $60,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Amortize Allocations

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

| | 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 |

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?

70) _____



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A) $2,000,000.
B) $2,005,000.
C) $2,060,000.
D) $2,090,000.
E) $2,200,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Investment Account Balance

**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:

| Year | Cost to Acker | Transfer Price | Amount Held by Howell at Year-End |
|---|---|---|---|
| 2020 | $ 55,000 | $ 75,000 | $15,000 |
| 2021 | $ 70,000 | $ 110,000 | $55,000 |

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?

71) _____

A) $1,600.
B) $4,000.
C) $8,000.
D) $15,000.
E) $20,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Acker | Transfer Price | Amount Held by Howell at Year-End |
|---|---|---|---|
| 2020 | $ 55,000 | $ 75,000 | $15,000 |
| 2021 | $ 70,000 | $ 110,000 | $55,000 |

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?

72) _____

A) $1,600.
B) $8,000.
C) $15,000.
D) $20,000.
E) $40,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Acker | Transfer Price | Amount Held by Howell at Year-End |
|---|---|---|---|
| 2020 | $ 55,000 | $ 75,000 | $15,000 |
| 2021 | $ 70,000 | $ 110,000 | $55,000 |

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?

73) _____

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



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Acker | Transfer Price | Amount Held by Howell at Year-End |
|---|---|---|---|
| 2020 | $ 55,000 | $ 75,000 | $15,000 |
| 2021 | $ 70,000 | $ 110,000 | $55,000 |

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?

74) _____

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



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Investment Account Balance

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

| Year | Cost to Acker | Transfer Price | Amount Held by Howell at Year-End |
|---|---|---|---|
| 2020 | $ 55,000 | $ 75,000 | $15,000 |
| 2021 | $ 70,000 | $ 110,000 | $55,000 |

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?

75) _____

A) $32,000.
B) $41,600.
C) $48,000.
D) $49,600.
E) $50,600.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory

**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 inventory to Howell as follows:

| Year | Cost to Acker | Transfer Price | Amount Held by Howell at Year-End |
|---|---|---|---|
| 2020 | $ 55,000 | $ 75,000 | $15,000 |
| 2021 | $ 70,000 | $ 110,000 | $55,000 |

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, 2021?

76) _____

A) $624,000.
B) $636,000.
C) $646,000.
D) $656,000.
E) $666,000.



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Investment Account Balance

**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:

| Year | Cost to Maya | Transfer Price | Amount Held by Cayman at Year-End |
|---|---|---|---|
| 2021 | $ 30,000 | $ 45,000 | $ 9,000 |
| 2022 | $ 48,000 | $ 80,000 | $ 20,000 |

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?

77) _____

A) $900.
B) $3,000.
C) $4,500.
D) $6,000.
E) $9,000.



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Maya | Transfer Price | Amount Held by Cayman at Year-End |
|---|---|---|---|
| 2021 | $ 30,000 | $ 45,000 | $ 9,000 |
| 2022 | $ 48,000 | $ 80,000 | $ 20,000 |

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, 2022?

78) _____

A) $1,500.
B) $2,400.
C) $3,600.
D) $4,000.
E) $8,000.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Maya | Transfer Price | Amount Held by Cayman at Year-End |
|---|---|---|---|
| 2021 | $ 30,000 | $ 45,000 | $ 9,000 |
| 2022 | $ 48,000 | $ 80,000 | $ 20,000 |

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?

79) _____

A) $17,100.
B) $18,000.
C) $25,500.
D) $29,100.
E) $30,900.



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Maya | Transfer Price | Amount Held by Cayman at Year-End |
|---|---|---|---|
| 2021 | $ 30,000 | $ 45,000 | $ 9,000 |
| 2022 | $ 48,000 | $ 80,000 | $ 20,000 |

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 balance in Cayman's Investment in Maya account at December 31, 2021?

80) _____

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



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Investment Account Balance

**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:

| Year | Cost to Maya | Transfer Price | Amount Held by Cayman at Year-End |
|---|---|---|---|
| 2021 | $ 30,000 | $ 45,000 | $ 9,000 |
| 2022 | $ 48,000 | $ 80,000 | $ 20,000 |

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 2022?

81) _____

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



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory

**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:

| Year | Cost to Maya | Transfer Price | Amount Held by Cayman at Year-End |
|---|---|---|---|
| 2021 | $ 30,000 | $ 45,000 | $ 9,000 |
| 2022 | $ 48,000 | $ 80,000 | $ 20,000 |

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 balance in Cayman's Investment in Maya account at December 31, 2022?

82) _____

A) $488,700.
B) $489,600.
C) $492,000.
D) $494,400.
E) $514,500.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Investment Account Balance

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

83) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Understand
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 2 Medium
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

**84)** Which of the following results in an increase in the investment account when applying the equity method?

84) _____



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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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Understand
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 2 Medium
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

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

85) _____

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.



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Understand
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 2 Medium
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

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

86) _____

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.

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Understand
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : automatic
Difficulty : 2 Medium
AACSB : Analytical Thinking
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory



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**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 $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?

87) _____

A) A debit of $16,500.
B) A debit of $21,500.
C) A debit of $90,000.
D) A debit of $165,000.
E) There is no adjustment.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible

**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 life. During 2021, Stanley 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?

88) _____



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A) $415,000.
B) $512,500.
C) $523,000.
D) $539,500.
E) $544,500.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
Accessibility : Screen Reader Compatible
Topic : Equity Method—Investment Account Balance

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

89) _____

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



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Analyze
Gradable : automatic
Difficulty : 3 Hard
AACSB : Analytical Thinking
Learning Objective : 01-08 Explain the rationale and reporting implications of fair-value accounting
Accessibility : Screen Reader Compatible
Topic : Report Using Fair-Value Accounting Option

**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 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?

90) _____

A) $2,400,000.
B) $2,280,000.
C) $2,480,000.
D) $2,800,000.
E) $7,000,000.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Gradable : automatic
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-08 Explain the rationale and reporting implications of fair-value accounting
Accessibility : Screen Reader Compatible
Topic : Report Using Fair-Value Accounting Option



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**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?

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Investment Account Balance

**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.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Equity Method—Basic Journal Entries

**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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Allocate Cost of Investment

**94)** On January 3, 2021, Heinreich 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 Heinreich's investment account at December 31, 2021.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Allocate Cost of Investment
Topic : Equity Method—Investment Account Balance

**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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Investment Account Balance



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**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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations

**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.



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory

**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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Intra–Entity Sales of Inventory



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**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.

**Question Details**

Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Sale of Equity Investment
Topic : Accounting for Investments—Various Methods



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**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. Jolly 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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations



Advanced Accounting 14th edition Hoyle Test Bank

# Advanced Accounting 14th Hoyle Chapter 01

**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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Allocate Cost of Investment

**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?



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Topic : Report Change to Equity Method
AACSB : Communication

**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?

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory



Advanced Accounting 14th edition Hoyle Test Bank

**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?

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory



Advanced Accounting 14th edition Hoyle Test Bank

**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?

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory

**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?



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations
Topic : Equity Method—Investment Account Balance

**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?



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**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory

**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?

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Accessibility : Screen Reader Compatible
Topic : Intra–Entity Sales of Inventory



Advanced Accounting 14th edition Hoyle Test Bank

**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 ten 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.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations



Advanced Accounting 14th edition Hoyle Test Bank

**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 ten 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 $10,000.

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 $90,000 to Christopher for $120,000. Christopher sold 80% of that inventory to outsiders during 2021.

Prepare all of Nelson′s journal entries for 2021 to apply the equity method.

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Knowledge Application
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Amortize Allocations

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



Advanced Accounting 14th edition Hoyle Test Bank

# Advanced Accounting 14th Hoyle Chapter 01

**Question Details**
Accessibility : Keyboard Navigation
Bloom's : Apply
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
AACSB : Reflective Thinking
Gradable : manual
Difficulty : 3 Hard
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—IFRS

**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.



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Bloom's : Analyze
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g
Gradable : manual
Difficulty : 3 Hard
AACSB : Analytical Thinking
Topic : Report Change to Equity Method
Topic : Report Sale of Equity Investment
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—Various Methods
Topic : Equity Method—Basic Journal Entries
Topic : Intra–Entity Sales of Inventory
Topic : Equity Method—Significant Influence Criterion

**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?



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—Various Methods
Topic : Equity Method—Significant Influence Criterion

**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?

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.
Gradable : manual
Difficulty : 2 Medium
Topic : Report Investee Losses
AACSB : Communication
Accessibility : Screen Reader Compatible

**115)** Which types of transactions, exchanges, or events would indicate that an investor has the ability to exercise significant influence over the operations of an investee?



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

**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?

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

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



Advanced Accounting 14th edition Hoyle Test Bank

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Bloom's : Analyze
Gradable : manual
Difficulty : 3 Hard
AACSB : Analytical Thinking
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries
Topic : Equity Method—Investment Account Balance

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

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

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



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

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

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

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



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare
Bloom's : Analyze
Gradable : manual
Difficulty : 3 Hard
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Equity Method—Basic Journal Entries

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

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06b Understand the financial reporting consequences for investee's other comp
Gradable : manual
Difficulty : 2 Medium
Topic : Report Investee OCI
AACSB : Communication
Accessibility : Screen Reader Compatible

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



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Bloom's : Remember
AACSB : Reflective Thinking
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a
Gradable : manual
Difficulty : 1 Easy
Accessibility : Screen Reader Compatible
Topic : Equity Method—Significant Influence Criterion

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

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in
AACSB : Reflective Thinking
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Accessibility : Screen Reader Compatible
Topic : Accounting for Investments—Various Methods

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



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**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit
Gradable : manual
Difficulty : 2 Medium
Topic : Report Change to Equity Method
AACSB : Communication
Accessibility : Screen Reader Compatible

**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?

**Question Details**
Accessibility : Keyboard Navigation
AICPA : BB Critical Thinking
AICPA : FN Measurement
AACSB : Reflective Thinking
Bloom's : Understand
Gradable : manual
Difficulty : 2 Medium
AACSB : Communication
Learning Objective : 01-08 Explain the rationale and reporting implications of fair-value accounting
Accessibility : Screen Reader Compatible
Topic : Report Using Fair-Value Accounting Option



Advanced Accounting 14th edition Hoyle Test Bank

# Advanced Accounting 14th Hoyle Chapter 01

# Answer Key

Test name: CH01

1) B
$70,000 × 0.15 = $10,500
2) B
$260,000 × 0.35 = $91,000
3) E
$1,870,000 + ($720,000 × 0.45) − ($2.00 × 80,000) = $2,034,000
4) A
5) A
6) A
$7,200,000 − $3,400,000 = $3,800,000 × 30% = $1,140,000
$1,600,000 − $1,140,000 = $460,000 ÷ 10yrs = $46,000 Unrecorded Patents Amortization
$1,600,000 + $195,000 − $75,000 − $46,000 + $240,000 − $75,000 − $46,000 = $1,793,000
7) A
$1,000,000 − $42,000 − $7,200 = $950,800
8) E
9) B
$130,000 − $71,500 = $58,500
$58,500 ÷ $130,000 = 45% × $30,000 = $13,500 × 30% = $4,050
10) B
$900,000 + $96,000 − $30,000 = $966,000 − (5,000 ÷ 40,000 × $966,000) = $845,250
11) D



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Buildings $600,000 − $400,000 = $200,000 FV > BV
Equipment $1,400,000 − $1,200,000 = $200,000 FV > BV
Franchises $480,000 − 0 = $480,000 FV > BV
$200,000 + $200,000 + $480,000 = $880,000 × 30% = $264,000 Identifiable Excess Paid
$8,000,000 × 30% = $2,400,000 BV
($3,000,000 Paid) − ($2,400,000 BV) = ($600,000 FV > BV) − ($264,000 Identifiable Excess Paid) = $336,000 Unidentifiable Excess Paid (Goodwill)

12) A
$600,000 − $400,000 = $200,000 ÷ 10yrs = $20,000
$1,400,000 − $1,200,000 = $200,000 ÷ 5yrs = $40,000
$480,000 − 0 = $480,000 ÷ 8yrs = $60,000
$20,000 + $40,000 + $60,000 = $120,000 × 30% = $36,000

13) B

14) E

15) C
2021 Income $108,000 × 30% = $32,400
2020 Inventory Profit Recognized $48,000 − $28,800 = $19,200 × 25% = $4,800 × 30% = $1,440
2021 Inventory Profit Deferred $60,000 − $33,600 = $26,400 × 40% = $10,560 × 30% = $3,168
2021 Purchase Amortization $8,000
$32,400 + $1,440 − $3,168 − $8,000 = $22,672 Equity Income 2021

16) B



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2021 Beginning Balance = $402,000
2021 Income Recognized = $22,672
2021 Income $108,000 × 30% = $32,400
2020 Inventory Profit Recognized $48,000 − $28,800 = $19,200 × 25% = $4,800 × 30% = $1,440
2021 Inventory Profit Deferred $60,000 − $33,600 = $26,400 × 40% = $10,560 × 30% = $3,168
2021 Purchase Amortization $8,000
$32,400 + $1,440 − $3,168 − $8,000 = $22,672 Equity Income 2021
2021 Dividend Received = ($36,000 × 30%) = $10,800
2021 Ending Balance = ($402,000 + $22,672 − $10,800) = $413,872
17) C
2021 Purchase = $62,400. The investment was increased to fair value of $80,000 at 12/31/21.
2022 Income = ($120,000 × 25%) = $30,000
2022 Dividend = ($48,000 × 25%) = $12,000
Ending 2022 Balance = ($80,000 + $54,000 + $30,000 − $12,000) = $152,000
18) A
2022 Income = ($120,000 × 25%) = $30,000
19) D
20) C
21) B
22) B
23) B
24) C
25) B
26) C
27) C
28) C



Advanced Accounting 14th edition Hoyle Test Bank

29) D
30) C
31) B
32) D
Book value purchased = ($550,000 − $300,000) = $250,000 × 30% = $75,000
Excess: $100,000 − $75,000 = $25,000
Allocated to patent: $30,000 × 30% = $9,000
Remainder to goodwill: $25,000 − $9,000 = $16,000.
33) B
2020 Equity Income = ($50,000 × 30%) = $15,000
2020 Excess Patent Amortization = ($30,000 ÷ 6 = $5,000) × 30%) = $1,500
$15,000 − $1,500 = $13,500
34) B
2021 Equity Income = ($75,000 × 30%) = $22,500
2021 Excess Patent Amortization = ($30,000 ÷ 6 = $5,000) × 30%) = $1,500
$22,500 − $1,500 = $21,000
35) D
$100,000 + $13,500 − ($20,000 × 30%) = $107,500
36) A
$107,500 + $21,000 − ($30,000 × 30%) = $119,500
37) A
($50,000 × 15% = $7,500) = Dividends received by Jones in 2020
38) A
$200,000 × 40% = $80,000
39) D



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ASU No. 2016-07 eliminated retrospective application of equity method and requires prospective treatment. Thus, the acquisition cost of the Anderson shares acquired on January 1, 2021 is added to the current fair value of the previous investment.

40) C

Investment in Anderson balance 2021 year end:

January 1, 2021 fair value = $120,000 + $200,000 = $320,000

40% of 2021 Anderson net income less dividends = $72,000 − $22,000 = $50,000

December 31, 2021 equity method balance = $320,000 + $50,000 = $370,000

41) C

$400,000 − $260,000 = $140,000 × (1 − ($300,000 ÷ $400,000)) = $35,000 × 35% = $12,250

Recognition of its share of intra-entity gross profits by reduction <CR> in the Investment in Bartlett Account

42) D

Reversal of the deferral entry in 2021, thus recognizing the profit in 2022 income:

$400,000 − $260,000 = $140,000 × (1 − ($300,000 ÷ $400,000)) = $35,000 × 35% = $12,250

43) A

$150,000; The fair value is the same as the carrying value so there is no adjustment to the investment account. Thus, the account is carried at the original cost of the investment.

44) C

$7,500 Dividends Received = 15% × (Dividends Declared $50,000)

45) D

Share of net income: $225,000 × 40% = $90,000

Fair value of 40% acquired: $150,000 + $300,000 = $450,000.

Book value of 40% acquired: $1,100,000 × 40% = $440,000

$450,000 − $440,000 = $10,000 attributable to database

$10,000 ÷ 4 = $2,500

$90,000 − $2,500 = $87,500

46) A

$150,000 = $150,000 Balance at date of changing to equity method.

$150,000 + $300,000 + ($90,000 − $2,500) − $20,000 = $517,500 Balance 2021 Year End

47) C



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$517,500 + ($25,000 − $625) − $6,000 = $535,875

2022 Beginning Investment Account Balance + (40% of 1st Quarter Income − 1st Quarter Amortization) − 1st Quarter Dividend

48) B

(First Quarter Income × 40%) + (2nd thru 4th Qtr Income × 30%) = ($250,000/4 × 40%) + [($250,000/4 × 30%) × 3] = $25,000 + ($18,750 × 3) = $25,000 + $56,250 = $81,250

49) C

$600,000 × 40% = $240,000

50) D

$900,000 × 40% = $360,000

51) C

$2,800,000 + ($600,000 × 40%) − ($350,000 × 40%) = $2,900,000

52) D

December 31, 2020: $2,800,000 + ($600,000 × 40%) − ($350,000 × 40%) = $2,900,000

December 31, 2021: $2,900,000 + ($900,000 × 40%) − ($350,000 × 40%) = $3,120,000

53) B

$2,000,000 − ($70,000 × 40%) − ($30,000 × 40%) = $1,960,000

54) E

$70,000 Loss × 40% = $28,000 Loss

55) A

$80,000 − $52,000 = $28,000 Income Recognized; None Deferred

56) A

$1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000

57) E

Investment account balance prior to sale: $1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000

$1,560,000 × (15,000 ÷ 30,000) = $780,000 Cost of Shares Sold

$800,000 Sales Price − $780,000 Cost of Shares Sold = $20,000 Gain on Sale of Shares



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58) C
Investment account balance prior to sale: $1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000
$1,560,000 × (15,000 ÷ 30,000) = $780,000 Cost of shares Sold
$1,560,000 − $780,000 Cost of Shares Sold = $780,000 Balance in the Investment Account
59) B
Investment account balance prior to sale: $1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000
$1,560,000 × (15,000 ÷ 30,000) = $780,000 Cost of Shares Sold
$800,000 Sales Price − $780,000 Cost of Shares Sold = $20,000 Gain on Sale of Shares
60) D
$560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000
61) D
Investment account balance prior to sale: $560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000
$604,000 × (10,000 ÷ 40,000) = $151,000 Cost of Shares Sold
$150,000 Sales Price − $151,000 Cost of Shares Sold = $1,000 Loss on Sale of Shares
62) C
Investment account balance prior to sale: $560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000
$604,000 × (10,000 ÷ 40,000) = $151,000 Cost of Shares Sold
$150,000 Sales Price − $151,000 Cost of Shares Sold = $1,000 Loss on Sale of Shares
$604,000 − $151,000 = $453,000
63) C
Investment account balance prior to sale: $560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000
$604,000 × (10,000 ÷ 40,000) = $151,000 Cost of Shares Sold
$150,000 Sales Price − $151,000 Cost of Shares Sold = $1,000 Loss on Sale of Shares
64) C



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$5,000,000 × 40% = $2,000,000 BV for 40% of the Shares
$3,000,000 Price Paid − $2,000,000 BV = $1,000,000 Excess

65) D

$800,000 Buildings + $500,000 Equipment + $700,000 Franchises = $2,000,000 FV > BV of Assets
$2,000,000 × 40% = $800,000 FV Identified to Purchaser
$1,000,000 Price Paid − $800,000 FV > BV = $200,000 Excess Unidentified (Goodwill)

66) B

$800,000 ÷ 20 = $40,000 per year Buildings × 40% = $16,000
$500,000 ÷ 5 = $100,000 per year Equipment × 40% = $40,000
$700,000 ÷ 10 = $70,000 per year Franchises × 40% = $28,000
$16,000 + $40,000 + $28,000 = $84,000 Annual Excess Amortization

67) E

$2,000,000 − ($3,000,000 × 30%) = $1,100,000 Price Paid > BV

68) C

$500,000 Buildings + $500,000 Equipment + $500,000 Franchises = ($1,500,000 FV > BV) × 30% = $450,000
($1,100,000 Total > BV) − ($450,000 Identified) = $650,000 Unidentified (Goodwill)

69) D

$500,000 ÷ 15 = $33,333 per year Buildings × 30% = $10,000
$500,000 ÷ 5 = $100,000 per year Equipment × 30% = $30,000
$500,000 ÷ 10 = $50,000 per year Franchises × 30% = $15,000
$10,000 + $30,000 + $15,000 = $55,000 Annual Excess Amortization

70) B

$2,000,000 + ($300,000 × 30%) − ($100,000 × 30%) − $55,000 = $2,005,000

71) A

$75,000 − $55,000 = $20,000 × ($15,000 ÷ $75,000) = $4,000 × 40% = $1,600 Deferred intra-entity gross profit

72) B

$110,000 − $70,000 = $40,000 × ($55,000 ÷ $110,000) = $20,000 × 40% = $8,000 Deferred intra-entity gross profit

73) D

$100,000 × 40 % = $40,000 − ($1,600 Deferred intra-entity gross profit) = $38,400

74) B

$576,000 + ($100,000 × 40%) − ($40,000 × 40%) − ($1,600 Deferred intra-entity gross profit) = $598,400



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75) B

$120,000 × 40 % = $48,000 + ($1,600 in 2020 Recognized intra-entity gross profit) − ($8,000 in 2021 Deferred intra-entity gross profit) = $41,600

76) A

($598,400 Balance 2020) + ($41,600 Income from 2021) − ($16,000 Dividend from 2021) = $624,000

77) A

$45,000 − $30,000 = $15,000 × ($9,000 ÷ $45,000) = $3,000 × 30% = $900 Deferred intra-entity gross profit

78) B

$80,000 − $48,000 = $32,000 × ($20,000 ÷ $80,000) = $8,000 × 30% = $2,400 Deferred intra-entity gross profit

79) D

$100,000 × 30% = $30,000 − $900 Share of Deferred gross profit on intra-entity inventory sales = $29,100

80) B

$450,000 + ($100,000 × 30% = $30,000 − $900 Deferred) − ($40,000 Dividends × 30%) = $467,100

81) C

$120,000 × 30% = $36,000 + ($900 from 2021) − ($2,400 from 2022 Deferral) = $34,500

82) B

$467,100 + ($34,500 net income) − ($12,000 dividends) = $489,600

83) D

84) A

85) C

86) D

87) E

The change is prospective only.

88) C

$90,000 2020 Cost + $325,000 2021 Cost + ($320,000 Income × 40%) − ($50,000 Dividends × 40%) = $523,000

89) E

$300,000 × 40% = $120,000 Credit to the Dividend Income Account



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90) D
$7,000,000 FV × 40 % = $2,800,000 at December 31, 2020
91)

| Investment in Academic Services Inc.: | |
|---|---|
| Balance at January 1, 2021 | $ 726,000 |
| 2021 equity income accrual ($150,000 × 40%) | 60,000 |
| 2021 dividends ($40,000 × 40%) | (16,000) |
| Balance at December 31, 2021 | $ 770,000 |

92)

| | |
|---|---|
| 2021 equity income accrual ($120,000 × 25%) | $ 30,000 |
| 2021 amortization on purchase ($80,000 ÷ 20 × 25%) | (1,000) |
| 2021 equity income | $ 29,000 |

93) The journal entry is:

| | | |
|---|---|---|
| Investment in Dastan Co | 625,000 | |
| Cash | | 625,000 |

The amount of goodwill does not affect the journal entry used to record the investment.
94) 1)



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| | |
|---|---|
| Purchase price | $ 500,000 |
| Net book value ($1,800,000 × 25%) | (450,000) |
| Goodwill | $ 50,000 |

2)

Investment in Jones Corp.:

| | |
|---|---|
| Acquisition price | $ 500,000 |
| 2021 equity loss accrual ($60,000 × 25%) | (15,000) |
| 2021 dividends ($100,000 × 25%) | (25,000) |
| Balance at December 31, 2021 | $ 460,000 |

95)

Investment in Hicks Co.:

| | |
|---|---|
| Acquisition price | $ 1,300,000 |
| Equity income ($368,000 × 30%) | 110,400 |
| Dividends ($107,000 × 30%) | (32,100) |
| Excess copyright amortization (($1,300,000 – $1,175,000) ÷ 10) | (12,500) |
| Balance at December 31, 2021 | $ 1,365,800 |

96)

| | |
|---|---|
| Purchase price of Cranston Inc. stock | $ 250,000 |



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| | | |
|---|---|---|
| Equivalent book value of Cranston Inc. stock ($430,000 × 40%) | | (172,000) |
| Trademark | | 78,000 |
| Life in years | ÷ | 20 |
| Annual amortization | $ | 3,900 |

| | | |
|---|---|---|
| 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 | | |
| Equity in Investee Income | 3,900 | |
| Investment in Cranston Inc. | | 3,900 |
| To reflect amortization of trademark excess over book value acquired. | | |

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

97)



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| | | |
|---|---|---|
| Ending inventory ($270,000 – $108,000) | $ | 162,000 |
| Gross profit markup ($90,000 ÷ $270,000) | × | 1/3 |
| Gross profit on intra-entity inventory sales | $ | 54,000 |
| Ownership percentage | × | 25% |
| Wathan's share intra-entity inventory gross profit to defer to subsequent year | $ | 13,500 |

| | | |
|---|---|---|
| Equity Income—Investment in Miller Co. | 13,500 | |
| Investment in Miller Co. | | 13,500 |

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 |



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99) A)

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

Calculation of loss:

| | |
|---|---|
| (12,000 × $12) − [($620,000 ÷ 48,000) × 12,000] | $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 | 18% |



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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:

| | |
|---|---|
| $30,000 × 18% (from part C above) | $5,400 |

100)

Required journal entries:

| | | |
|---|---|---|
| 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 | |
| Cash | | 90,000 |
| To record the purchase of inventory from Wonder Co. | | |
| Investment in Wonder Co. | 50,000 | |
| Equity in Wonder Co. Income | | 41,250 |
| Gain of Wonder Co. | | 8,750 |
| To record share of Wonder Co.'s income. | | |
| Cash | 10,000 | |



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| | | |
|---|---|---|
| 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 |
| To record amortizations. | | |
| Equity in Wonder Co. Income | 2,750 | |
| Investment in Wonder Co. | | 2,750 |
| To defer its share of gross profit on intra-entity sales. | | |

| | |
|---|---|
| Calculation of equity in Wonder Co. income: | |
| ($200,000 – $35,000) × 25% | $ 41,250 |
| Calculation of unusual gain of Wonder Co.: | |
| $35,000 × 25% | $ 8,750 |
| Calculation of amortizations: | |
| Building [($220,000 – $160,000) ÷ 20] x 25%) | $ 750 |
| Trademark [($90,000 × 25%)÷ 20] | 1,125 |
| Total | $ 1,875 |

| | | |
|---|---|---|
| Calculation of deferred gross profit on intra-entity inventory sales: | | |
| Cost + 50% cost = $60,000 + $30,000 | $ | 90,000 |



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| | | |
|---|---|---|
| Cost | | (60,000) |
| Gross profit | $ | 30,000 |
| GP % = 30,000/90,000 = | | 1/3 |
| Remaining inventory | $ | 33,000 |
| = Intra-entity gross profit remaining in ending inventory | $ | 11,000 |
| Jolley's ownership % | × | 25% |
| Deferred gross profit on intra-entity inventory sales | $ | 2,750 |

101)

Equity Income-2020:

| | | |
|---|---|---|
| Basic equity accrual ($300,000 × 40%) | $ | 120,000 |
| Amortization (Schedule 1) | | (6,000) |
| Deferred intra-entity gross profit (Schedule 2) | | (3,600) |
| Equity income – 2020 | $ | 110,400 |

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 | $ | (60,000) |



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Schedule 1

| | | Life | Annual Amortization |
|---|---|---|---|
| Acquisition price | $ 700,000 | | |
| Book value equivalence ($1,500,000 × 40%) | (600,000) | | |
| Payment in excess of book value | $ 100,000 | | |
| Excess payment identified with specific assets | | | |
| Building ($180,000 × 40%) | 72,000 | 12 yrs. | $6,000 |
| Excess payment not identified with specific accounts | $ 28,000 | | |
| | | | $6,000 |

Schedule 2

| | | |
|---|---|---|
| Inventory remaining at December 31, 2020 ($96,000 – $72,000) | $ 24,000 | |
| Gross profit percentage ($36,000 ÷ $96,000) | × 37.5% | |
| Total gross profit on intra-entity sales | $ 9,000 | |
| Investor ownership percentage | × 40.0% | |
| Deferred intra-entity gross profit | | |
| 12/31/20 (to be deferred until recognized in 2021) | $ 3,600 | |

Schedule 3

| | | |
|---|---|---|
| Inventory remaining at December 31, 2021 ($180,000 – $120,000) | $ 60,000 | |
| Gross profit percentage ($72,000÷ $180,000) | × 40.0% | |
| Gross profit on intra-entity inventory sales | $ 24,000 | |
| Investor ownership percentage | × 40.0% | |



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| | |
|---|---|
| Deferred intra-entity gross profit - 12/31/21 | |
| (to be deferred until recognized in 2022) | $ 9,600 |

102)

| | | |
|---|---|---|
| Investment in Ritz | 325,000 | |
| Cash | | 325,000 |
| 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) × 0.25 × 0.40] = $1,500

104) [($75,000− $54,000) × 0.10 × 0.40] = $840

105) [($120,000 × 0.4) − $12,000 − $840 + $1,500] = $36,660

106) [$503,000 + $36,660 − ($40,000 × 0.4)] = $523,660

107) [($80,000 − $60,000) × 0.25 × 0.35] = $1,750

108) [($100,000 − $70,000) × 0.20 × 0.35] = $2,100

109)

| | |
|---|---|
| Purchase price of Christopher Company Stock | $ 560,000 |
| Share of book value acquired [($2,000,000 − $600,000) × 35%] | (490,000) |



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| | | |
|---|---|---|
| Patent | | 70,000 |
| Life in years | | ÷ 10 |
| Annual amortization | $ | 7,000 |

| | | |
|---|---|---|
| Investment in Christopher Company | 560,000 | |
| Cash (or liability) | | 560,000 |
| To record the purchase of 35% interest in Christopher Company. | | |
| Investment in Christopher Company | 87,500 | |
| Equity in Investee Income | | 87,500 |
| 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 |
| To record amortization of excess payment allocated to patent. | | |
| Equity in Investee Income | 1,750 | |
| Investment in Christopher Company | | 1,750 |
| To defer gross profit on sale of inventory to Christopher Company. ($80,000 – $60,000) × 25% | | |



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× 35% = $1,750

110)

| | | |
|---|---|---|
| Purchase price of Christopher Company Stock | | $ 560,000 |
| Share of book value acquired [($2,000,000 – $600,000) × 35%] | | (490,000) |
| Patent | | 70,000 |
| Life in years | | ÷ 10 |
| Annual amortization | | $ 7,000 |

| | | |
|---|---|---|
| Investment in Christopher Company | 105,000 | |
| Equity in Investee Income | | 105,000 |
| To accrue earnings of Christopher ($300,000 × 35%). | | |
| Dividend Receivable | 3,500 | |
| Investment in Christopher Company | | 3,500 |
| To record a dividend declaration by Christopher ($10,000 × 35%). | | |
| Cash | 3,500 | |
| Dividend Receivable | | 3,500 |
| To record collection of the cash dividend. | | |
| Equity in Investee Income | 7,000 | |
| Investment in Christopher Company | | 7,000 |
| To record amortization of excess payment allocated to patent. | | |



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| | | |
|---|---|---|
| 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 outsiders. ($80,000 – $60,000) × 25% × 35% = $1,750 | | |
| Equity in Investee Income | 2,100 | |
| Investment in Christopher Company | | 2,100 |
| To defer the investor's share of gross profit on intra-entity sales/purchases remaining in Christopher's ending inventory. ($120,000 – $90,000) × 20% × 35% = $2,100 | | |

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.



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

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



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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 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.



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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.



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