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Chapter 01 Test Bank

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

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 2024 and paid dividends of $70,000 on October 1, 2024. How much income should Baker recognize on this investment in 2024?
   A) $18,000
   B) $10,500
   C) $28,500
   D) $7,500
   E) $50,000

2) Loeffler Company owns 35% of the common stock of Tetter Company and uses the equity method to account for the investment. During 2024, Tetter reported income of $260,000 and paid dividends of $90,000. There is no amortization associated with the investment. During 2024, how much income should Loeffler recognize related to this investment?
   A) $90,000
   B) $91,000
   C) $122,500
   D) $31,500
   E) $59,500

3) On January 1, 2024, Lee Company paid $1,870,000 for 80,000 shares of Thomas Company'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 2024 and reported net income of $720,000. What was the balance in the *Investment in Thomas Company* account found in the financial records of Lee as of December 31, 2024?
   A) $2,114,000.
   B) $2,194,000
   C) $2,354,000
   D) $2,158,000
   E) $2,034,000

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

5) On January 1, 2022, Dermot Company purchased 15% of the voting common stock of Horne Corporation. On January 1, 2024, Dermot purchased 28% of Horne's voting common stock. If Dermot achieves significant influence with this new investment, how must Dermot account for the change to the equity method?
   A) It must use the equity method for 2024 but should make no changes in its financial statements for 2023 and 2022.
   B) It should prepare consolidated financial statements for 2024.
   C) It must restate the financial statements for 2023 and 2022 as if the equity method had been used for those two years.
   D) It should record a prior period adjustment at the beginning of 2024 but should not restate the financial statements for 2023 and 2022.
   E) It must restate the financial statements for 2023 as if the equity method had been used then.

6) During January 2023, Nelson, Incorporated acquired 30% of the outstanding common stock of Fuel Company 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 2023, Fuel reported net income of $650,000. For 2024, 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 Company* at December 31, 2024?
   A) $1,793,000
   B) $1,885,000
   C) $1,943,000
   D) $1,977,000
   E) $1,054,300

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7) On January 1, 2024, Bangle Company purchased 30% of the voting common stock of Sleat Corporation for $1,000,000. Any excess of cost over book value was assigned to goodwill. During 2024, 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, 2024?
   A) $950,800
   B) $958,000
   C) $836,000
   D) $990,100
   E) $956,400

8) On January 1, 2024, Halpert Incorporated acquired 30% of Schrute Corporation. Halpert used the equity method to account for the investment. On January 1, 2025, 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?
   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 2024.
   C) Halpert has the option of using either the equity method or the fair-value method for 2024 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 2025 and future years, but should not make a retrospective adjustment to the investment account.

9) Kane Incorporated owns 30% of Woodhouse Company 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?
   A) $9,000
   B) $4,050
   C) $13,500
   D) $17,550
   E) $5,600

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10) On January 4, 2024, Snow Company purchased 40,000 shares (40%) of the common stock of Walker Corporation, paying $900,000. There was no goodwill or other cost allocation associated with the investment. Snow has significant influence over Walker. During 2024, Walker reported income of $240,000 and paid dividends of $75,000. On January 2, 2025, Snow sold 5,000 shares for $125,000. What was the balance in the investment account after the shares had been sold?

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

11) On January 3, 2024, Madison Corporation purchased 30% of the voting common stock of Huntsville Company, 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.
What is the amount of goodwill associated with the investment?

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

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12) On January 3, 2024, Madison Corporation purchased 30% of the voting common stock of Huntsville Company, 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 2024, what is the total amount of excess amortization for Madison's 30% investment in Huntsville?

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

13) Town Company appropriately uses the equity method to account for its investment in Country Corporation. As of the end of 2024, 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?

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 2024 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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14) An *upstream* sale of inventory is a sale:

A) Between subsidiaries owned by a common parent.
B) With the transfer of goods scheduled by contract to occur on a specified future date.
C) In which the goods are physically transported by boat from a subsidiary to its parent.
D) Made by the investor to the investee.
E) Made by the investee to the investor.

15) Borgin Incorporated owns 30% of the outstanding voting common stock of Burkes Company and has the ability to significantly influence the investee's operations and decision-making. On January 1, 2024, the balance in the *Investment in Burkes Company* account was $402,000. Amortization associated with the purchase of this investment is $8,000 per year. During 2024, Burkes earned income of $108,000 and paid cash dividends of $36,000. Previously in 2023, Burkes had sold inventory costing $28,800 to Borgin for $48,000. All but 25% of this merchandise was consumed by Borgin during 2023. The remainder was used during the first few weeks of 2024. Additional sales were made to Borgin in 2024; inventory costing $33,600 was transferred at a price of $60,000. Of this total, 40% was not consumed until 2025. What amount of *equity income* would Borgin have recognized in 2024 from its ownership interest in Burkes?

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

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16) Borgin Incorporated owns 30% of the outstanding voting common stock of Burkes Company and has the ability to significantly influence the investee's operations and decision-making. On January 1, 2024, the balance in the *Investment in Burkes Company* account was $402,000. Amortization associated with the purchase of this investment is $8,000 per year. During 2024, Burkes earned income of $108,000 and paid cash dividends of $36,000. Previously in 2023, Burkes had sold inventory costing $28,800 to Borgin for $48,000. All but 25% of this merchandise was consumed by Borgin during 2023. The remainder was used during the first few weeks of 2024. Additional sales were made to Borgin in 2024; inventory costing $33,600 was transferred at a price of $60,000. Of this total, 40% was not consumed until 2025.
What was the balance in the *Investment in Burkes Company* account at the end of 2024?

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

17) On January 1, 2024, Corzine Incorporated acquired 15% of Hammon Company's outstanding common stock for $62,400 and did not exercise significant influence. Hammon earned net income of $96,000 in 2024 and paid dividends of $36,000. The fair value of Corzine's investment was $80,000 at December 31, 2024. On January 3, 2025, 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 2025, Hammon earned $120,000 and paid $48,000 in dividends. As of December 31, 2025, Hammon reported a net book value of $468,000. At the date of the second purchase, Corzine concluded that Hammon Company's book values approximated fair values and attributed any excess cost to goodwill.
On Corzine's December 31, 2025 balance sheet, what balance was reported for the *Investment in Hammon Company* account?

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

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18) On January 1, 2024, Corzine Incorporated acquired 15% of Hammon Company's outstanding common stock for $62,400 and did not exercise significant influence. Hammon earned net income of $96,000 in 2024 and paid dividends of $36,000. The fair value of Corzine's investment was $80,000 at December 31, 2024. On January 3, 2025, 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 2025, Hammon earned $120,000 and paid $48,000 in dividends. As of December 31, 2025, Hammon reported a net book value of $468,000. At the date of the second purchase, Corzine concluded that Hammon Company's book values approximated fair values and attributed any excess cost to goodwill.

What amount of *equity income* should Corzine have reported for 2025?

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

19) In a situation where the investor exercises significant influence over the investee, which of the following entries is *not* actually posted to the books of the investor?

1. Debit to the Investment account, and a Credit to the Equity in Investee Income account.
2. Debit to Cash (for dividends received from the investee), and a Credit to Investment Income account.
3. Debit to Cash (for dividends received from the investee), and a Credit to the Dividend Receivable.

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

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

A) material intra-entity transactions.
B) investor participation in the policy-making process of the investee.
C) valuation at fair value.
D) technological dependency.
E) interchange of managerial personnel.

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21) All of the following statements regarding the investment account using the equity method are true *except*:
A) the investment is recorded at cost.
B) dividends received are recorded as revenue.
C) net income of investee increases the investment account.
D) dividends received reduce the investment account.
E) amortization of fair value over cost reduces the investment account.

22) A company has been using the fair-value method to account for its investment. The company now has the ability to significantly influence the investee and the equity method has been deemed appropriate. Which of the following statements is true?
A) A cumulative effect change in accounting principle must occur.
B) A prospective change in accounting principle must occur.
C) A retrospective change in accounting principle must occur.
D) The investor will not receive future dividends from the investee.
E) Future dividends will continue to be recorded as revenue.

23) A company has been using the equity method to account for its investment. The company sells shares and does not continue to have significant influence. Which of the following statements is true?
A) A cumulative effect change in accounting principle must occur.
B) A prospective change in accounting principle must occur.
C) A retrospective change in accounting principle must occur.
D) The investor will not receive future dividends from the investee.
E) Future dividends will continue to reduce the investment account.

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

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25) How should a permanent loss in value of an investment using the equity method be treated?
A) The equity in investee income is reduced.
B) A loss is reported in the same manner as a loss in value of other long-term assets.
C) The investor's stockholders' equity is reduced.
D) No adjustment is necessary.
E) Record an offset to cash.

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

27) When an investor sells shares of its investee company, which of the following statements is true?
A) A recognized gain or loss is reported as the difference between selling price and original cost.
B) A recognized gain or loss is reported as the difference between carrying value and original cost.
C) A recognized gain or loss is reported as the difference between selling price and carrying value.
D) An unrealized gain or loss is reported as the difference between selling price and carrying value.
E) Any gain or loss is reported as part of comprehensive income.

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28) When applying the equity method, how is the excess of cost over book value calculated and accounted for?
A) The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of current assets.
B) The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of total assets.
C) The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of net assets.
D) The excess is allocated to goodwill.
E) The excess is ignored.

29) After allocating cost in excess of book value, which asset or liability would not be amortized over a useful life?
A) Cost of goods sold
B) Property, plant, & equipment
C) Patents
D) Goodwill
E) Bonds payable

30) Which statement is true concerning unrecognized profits in intra-entity inventory sales when an investor uses the equity method?
A) The investee must defer upstream ending inventory profits.
B) The investee must defer upstream beginning inventory profits.
C) The investor must defer downstream ending inventory profits.
D) The investor must defer downstream beginning inventory profits.
E) The investor must defer upstream beginning inventory profits.

31) Which statement is true concerning unrecognized profits in intra-entity inventory sales when an investor uses the equity method?
A) The investor and investee make reciprocal entries to defer and recognize inventory profits.
B) The same adjustments are made for upstream and downstream sales.
C) Different adjustments are made for upstream and downstream sales.
D) No adjustments are necessary.
E) Adjustments will be made only when profits are known upon sale to outsiders.

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32) On January 1, 2023, 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 2023, Harley reported net income of $50,000 and paid dividends of $20,000 while in 2024 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, 2023, is

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

33) On January 1, 2023, 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 2023, Harley reported net income of $50,000 and paid dividends of $20,000 while in 2024 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 2023, is

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

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34) On January 1, 2023, 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 2023, Harley reported net income of $50,000 and paid dividends of $20,000 while in 2024 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 2024, is

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

35) On January 1, 2023, 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 2023, Harley reported net income of $50,000 and paid dividends of $20,000 while in 2024 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, 2023, is

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

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36) On January 1, 2023, 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 2023, Harley reported net income of $50,000 and paid dividends of $20,000 while in 2024 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, 2024, is

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

37) Jones, Incorporated acquires 15% of Anderson Corporation on January 1, 2023, for $105,000 when the book value of Anderson was $600,000. During 2023 Anderson reported net income of $150,000 and paid dividends of $50,000. On January 1, 2024, 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 2023 but Jones has deemed it necessary to change to the equity method after the second purchase. During 2024 Anderson reported net income of $200,000, and reported dividends of $75,000.
The income reported by Jones for 2023 with regard to the Anderson investment is

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

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38) Jones, Incorporated acquires 15% of Anderson Corporation on January 1, 2023, for $105,000 when the book value of Anderson was $600,000. During 2023 Anderson reported net income of $150,000 and paid dividends of $50,000. On January 1, 2024, 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 2023 but Jones has deemed it necessary to change to the equity method after the second purchase. During 2024 Anderson reported net income of $200,000, and reported dividends of $75,000.
The income reported by Jones for 2024 with regard to the Anderson investment is

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

39) Jones, Incorporated acquired 15% of Anderson Corporation on January 1, 2023, for $105,000 when the Anderson's book value was $600,000. During 2023, Anderson reported net income of $150,000 and declared dividends of $50,000. By January 1, 2024, the fair value of Jones' 15% investment in Anderson had increased to $120,000.
On January 1, 2024, 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 2023 but Jones has deemed it necessary to change to the equity method after the second purchase. During 2024, Anderson reported net income of $180,000, and declared dividends of $55,000.
How would Jones record its January 1, 2024, investment in Anderson under the equity method?

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 2023 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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40) Jones, Incorporated acquired 15% of Anderson Corporation on January 1, 2023, for $105,000 when the Anderson's book value was $600,000. During 2023, Anderson reported net income of $150,000 and declared dividends of $50,000. By January 1, 2024, the fair value of Jones' 15% investment in Anderson had increased to $120,000.

On January 1, 2024, 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 2023, but Jones has deemed it necessary to change to the equity method after the second purchase. During 2024, 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, 2024?

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

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41) Chase Incorporated sold $260,000 of its inventory to Bartlett Company during 2024 for $400,000. Bartlett sold $300,000 of this merchandise in 2024 with the remainder to be disposed of during 2025. 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 2024 to defer the recognition of the investor's share of the intra-entity gross profits?

Event	Account Title	Debit	Credit
A)	**Equity in income of Bartlett**	$ 35,000	
A)	**Investment in Bartlett**		$ 35,000
B)	**Investment in Bartlett**	$ 35,000	
B)	**Equity in income of Bartlett**		$ 35,000
C)	**Equity in income of Bartlett**	$ 12,250	
C)	**Investment in Bartlett**		$ 12,250
D)	**Investment in Bartlett**	$ 12,250	
d)	**Equity in income of Bartlett**		$ 12,250

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

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42) Chase Incorporated sold $260,000 of its inventory to Bartlett Company during 2024 for $400,000. Bartlett sold $300,000 of this merchandise in 2024 with the remainder to be disposed of during 2025. Assume Chase owns 35% of Bartlett and accounts for its investment using the equity method.
What journal entry will be recorded in 2025 to recognize its share of the intra-entity gross profit that was deferred in 2024?

Event	Account Title	Debit	Credit
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

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

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43) On January 1, 2023, 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, 2024, 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, 2023, was $1,000,000. The book value of Cook on January 1, 2024, 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
2023	$ 200,000	$ 50,000
2024	225,000	50,000
2025	250,000	60,000

On April 1, 2025, 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, 2024?

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

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44) On January 1, 2023, 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, 2024, 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, 2023, was $1,000,000. The book value of Cook on January 1, 2024, 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
2023	$ 200,000	$ 50,000
2024	225,000	50,000
2025	250,000	60,000

On April 1, 2025, just after its first dividend receipt, Mehan sells 10,000 shares of its investment.

How much income did Mehan report from Cook during 2023?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

45) On January 1, 2023, 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, 2024, 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, 2023, was $1,000,000. The book value of Cook on January 1, 2024, 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
2023	$ 200,000	$ 50,000
2024	225,000	50,000
2025	250,000	60,000

On April 1, 2025, just after its first dividend receipt, Mehan sells 10,000 shares of its investment.

How much income did Mehan report from Cook during 2024?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

46) On January 1, 2023, 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, 2024, 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, 2023, was $1,000,000. The book value of Cook on January 1, 2024, 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
2023	$ 200,000	$ 50,000
2024	225,000	50,000
2025	250,000	60,000

On April 1, 2025, 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, 2024?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

47) On January 1, 2023, 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, 2024, 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, 2023, was $1,000,000. The book value of Cook on January 1, 2024, 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
2023	$ 200,000	$ 50,000
2024	225,000	50,000
2025	250,000	60,000

On April 1, 2025, 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, 2025 just before the sale of shares?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

48) On January 1, 2023, 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, 2024, 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, 2023, was $1,000,000. The book value of Cook on January 1, 2024, 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
2023	$ 200,000	$ 50,000
2024	225,000	50,000
2025	250,000	60,000

On April 1, 2025, 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 2025?

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

49) On January 3, 2023, Baxter, Incorporated acquired 40% of the outstanding common stock of Anchor Company 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 2023, Anchor reported net income of $600,000. For 2024, 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 2023?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

50) On January 3, 2023, Baxter, Incorporated acquired 40% of the outstanding common stock of Anchor Company 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 2023, Anchor reported net income of $600,000. For 2024, 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 2024?

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

51) On January 3, 2023, Baxter, Incorporated acquired 40% of the outstanding common stock of Anchor Company 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 2023, Anchor reported net income of $600,000. For 2024, 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 Company at December 31, 2023?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

52) On January 3, 2023, Baxter, Incorporated acquired 40% of the outstanding common stock of Anchor Company 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 2023, Anchor reported net income of $600,000. For 2024, 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 Company at December 31, 2024?

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

53) On January 1, 2024, Anderson Company purchased 40% of the voting common stock of Barney Company for $2,000,000, which approximated book value. During 2024, 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, 2024?

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

54) On January 1, 2024, Anderson Company purchased 40% of the voting common stock of Barney Company for $2,000,000, which approximated book value. During 2024, Barney paid dividends of $30,000 and reported a net loss of $70,000.
What amount of equity income would Anderson recognize in 2024 from its ownership interest in Barney?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

55) Luffman Incorporated owns 30% of Bruce Incorporated 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?

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

56) On January 3, 2024, 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 2024, Thomas reported net income of $300,000 and paid dividends of $100,000. On January 4, 2025, Roberts sold 15,000 shares for $800,000.
What was the balance in the investment account before the shares were sold?

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

57) On January 3, 2024, 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 2024, Thomas reported net income of $300,000 and paid dividends of $100,000. On January 4, 2025, Roberts sold 15,000 shares for $800,000.
What is the gain or loss on the sale of the 15,000 shares?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

58) On January 3, 2024, 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 2024, Thomas reported net income of $300,000 and paid dividends of $100,000. On January 4, 2025, Roberts sold 15,000 shares for $800,000.
What is the balance in the investment account after the sale of the 15,000 shares?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

59) On January 3, 2024, 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 2024, Thomas reported net income of $300,000 and paid dividends of $100,000. On January 4, 2025, Roberts sold 15,000 shares for $800,000.
What is the appropriate journal entry to record the sale of the 15,000 shares?

Event	Account Title	Debit	Credit
A)	Cash	800,000	
	Investment in Thomas		800,000
B)	Cash	800,000	
	Investment in Thomas		780,000
	Gain on sale of investment		20,000
C)	Cash	800,000	
	Loss on investment	12,000	
	Investment in Thomas		812,000
D)	Cash	800,000	
	Investment in Thomas		790,000
	Gain on sale of investment		10,000
E)	Cash	800,000	
	Loss on sale of investment	15,000	
	Investment in Thomas		815,000

A) Entry A
B) Entry B
C) Entry C
D) Entry D
E) Entry E

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

60) On January 4, 2024, Mason Company purchased 40,000 shares (40%) of the common stock of Hefly Corporation, 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 2024, Hefly reported income of $150,000 and paid dividends of $40,000. On January 2, 2025, Mason sold 10,000 shares for $150,000. What was the balance in the investment account before the shares were sold?

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

61) On January 4, 2024, Mason Company purchased 40,000 shares (40%) of the common stock of Hefly Corporation, 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 2024, Hefly reported income of $150,000 and paid dividends of $40,000. On January 2, 2025, Mason sold 10,000 shares for $150,000. What is the gain or loss on the sale of the 10,000 shares?

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

62) On January 4, 2024, Mason Company purchased 40,000 shares (40%) of the common stock of Hefly Corporation, 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 2024, Hefly reported income of $150,000 and paid dividends of $40,000. On January 2, 2025, Mason sold 10,000 shares for $150,000. What is the balance in the investment account after the sale of the 10,000 shares?

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

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63) On January 4, 2024, Mason Company purchased 40,000 shares (40%) of the common stock of Hefly Corporation, 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 2024, Hefly reported income of $150,000 and paid dividends of $40,000. On January 2, 2025, Mason sold 10,000 shares for $150,000. What is the appropriate journal entry to record the sale of the 10,000 shares?

Event	Account Title	Debit	Credit
A)	Cash	150,000	
	Investment in Hefly		150,000
B)	Cash	150,000	
	Investment in Hefly		130,000
	Gain on sale of investment		20,000
C)	Cash	150,000	
	Loss on sale of investment	1,000	
	Investment in Hefly		151,000
D)	Cash	150,000	
	Investment in Hefly		149,000
	Gain on sale of investment		1,000
E)	Cash	150,000	
	Loss on sale of investment	10,000	
	Investment in Hefly		160,000

A) Entry A
B) Entry B
C) Entry C
D) Entry D
E) Entry E

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64) On January 2, 2024, Barley Corporation purchased 40% of the voting common stock of Wheat Company, paying $3,000,000. Barley properly accounts for this investment using the equity method. At the time of the investment, Wheat's total stockholders' equity was $5,000,000. Barley gathered the following information about Wheat's assets and liabilities whose book values and fair values differed:

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

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Wheat reported net income of $400,000 for 2024, and paid dividends of $200,000 during that year.

What is the amount of the excess of purchase price over book value?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

65) On January 2, 2024, Barley Corporation purchased 40% of the voting common stock of Wheat Company, paying $3,000,000. Barley properly accounts for this investment using the equity method. At the time of the investment, Wheat's total stockholders' equity was $5,000,000. Barley gathered the following information about Wheat's assets and liabilities whose book values and fair values differed:

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

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Wheat reported net income of $400,000 for 2024, and paid dividends of $200,000 during that year.

How much goodwill is associated with this investment?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

66) On January 2, 2024, Barley Corporation purchased 40% of the voting common stock of Wheat Company, paying $3,000,000. Barley properly accounts for this investment using the equity method. At the time of the investment, Wheat's total stockholders' equity was $5,000,000. Barley gathered the following information about Wheat's assets and liabilities whose book values and fair values differed:

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

Any excess of cost over fair value was attributed to goodwill, which has not been impaired. Wheat reported net income of $400,000 for 2024, 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?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

67) On January 1, 2024, Jackie Corporation purchased 30% of the voting common stock of Rob Company, 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 reported net income of $300,000 for 2024, and paid dividends of $100,000 during that year.

What is the amount of the excess of purchase price over book value?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

68) On January 1, 2024, Jackie Corporation purchased 30% of the voting common stock of Rob Company, 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 reported net income of $300,000 for 2024, and paid dividends of $100,000 during that year.

How much goodwill is associated with this investment?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

69) On January 1, 2024, Jackie Corporation purchased 30% of the voting common stock of Rob Company, 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 reported net income of $300,000 for 2024, and paid dividends of $100,000 during that year.

What is the amount of excess amortization expense for Jackie's investment in Rob for year 2024?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

70) On January 1, 2024, Jackie Corporation purchased 30% of the voting common stock of Rob Company, 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 reported net income of $300,000 for 2024, and paid dividends of $100,000 during that year.

What is the balance in Jackie's *Investment in Rob Company* account at December 31, 2024?

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

71) Acker Incorporated bought 40% of Howell Company on January 1, 2023, 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
2023	$ 55,000	$ 75,000	$ 15,000
2024	$ 70,000	$ 110,000	$ 55,000

Howell reported net income of $100,000 in 2023 and $120,000 in 2024 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, 2023?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

72) Acker Incorporated bought 40% of Howell Company on January 1, 2023, 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
2023	$ 55,000	$ 75,000	$ 15,000
2024	$ 70,000	$ 110,000	$ 55,000

Howell reported net income of $100,000 in 2023 and $120,000 in 2024 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, 2024?

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

73) Acker Incorporated bought 40% of Howell Company on January 1, 2023, 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
2023	$ 55,000	$ 75,000	$ 15,000
2024	$ 70,000	$ 110,000	$ 55,000

Howell reported net income of $100,000 in 2023 and $120,000 in 2024 while paying $40,000 in dividends each year.

What is the Equity in Howell Income that should be reported by Acker in 2023?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

74) Acker Incorporated bought 40% of Howell Company on January 1, 2023, 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
2023	$ 55,000	$ 75,000	$ 15,000
2024	$ 70,000	$ 110,000	$ 55,000

Howell reported net income of $100,000 in 2023 and $120,000 in 2024 while paying $40,000 in dividends each year.

What is the balance in Acker's Investment in Howell account at December 31, 2023?

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

75) Acker Incorporated bought 40% of Howell Company on January 1, 2023, 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
2023	$ 55,000	$ 75,000	$ 15,000
2024	$ 70,000	$ 110,000	$ 55,000

Howell reported net income of $100,000 in 2023 and $120,000 in 2024 while paying $40,000 in dividends each year.

What is the Equity in Howell Income that should be reported by Acker in 2024?

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

Fundamentals of Advanced Accounting 9th edition Hoyle Test Bank

76) Acker Incorporated bought 40% of Howell Company on January 1, 2023, 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
2023	$ 55,000	$ 75,000	$ 15,000
2024	$ 70,000	$ 110,000	$ 55,000

Howell reported net income of $100,000 in 2023 and $120,000 in 2024 while paying $40,000 in dividends each year.

What is the balance in Acker's Investment in Howell account at December 31, 2024?

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

77) Cayman Incorporated bought 30% of Maya Company on January 1, 2024, 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
2024	$ 30,000	$ 45,000	$ 9,000
2025	$ 48,000	$ 80,000	$ 20,000

Maya reported net income of $100,000 in 2024 and $120,000 in 2025 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, 2024?

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

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78) Cayman Incorporated bought 30% of Maya Company on January 1, 2024, 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
2024	$ 30,000	$ 45,000	$ 9,000
2025	$ 48,000	$ 80,000	$ 20,000

Maya reported net income of $100,000 in 2024 and $120,000 in 2025 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, 2025?

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

79) Cayman Incorporated bought 30% of Maya Company on January 1, 2024, 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
2024	$ 30,000	$ 45,000	$ 9,000
2025	$ 48,000	$ 80,000	$ 20,000

Maya reported net income of $100,000 in 2024 and $120,000 in 2025 while paying $40,000 in dividends each year.

What is the Equity in Maya Income that should be reported by Cayman in 2024?

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

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80) Cayman Incorporated bought 30% of Maya Company on January 1, 2024, 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
2024	$ 30,000	$ 45,000	$ 9,000
2025	$ 48,000	$ 80,000	$ 20,000

Maya reported net income of $100,000 in 2024 and $120,000 in 2025 while paying $40,000 in dividends each year.

What is the balance in Cayman's Investment in Maya account at December 31, 2024?

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

81) Cayman Incorporated bought 30% of Maya Company on January 1, 2024, 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
2024	$ 30,000	$ 45,000	$ 9,000
2025	$ 48,000	$ 80,000	$ 20,000

Maya reported net income of $100,000 in 2024 and $120,000 in 2025 while paying $40,000 in dividends each year.

What is the Equity in Maya Income that should be reported by Cayman in 2025?

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

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82) Cayman Incorporated bought 30% of Maya Company on January 1, 2024, 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
2024	$ 30,000	$ 45,000	$ 9,000
2025	$ 48,000	$ 80,000	$ 20,000

Maya reported net income of $100,000 in 2024 and $120,000 in 2025 while paying $40,000 in dividends each year.

What is the balance in Cayman's Investment in Maya account at December 31, 2025?

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

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

A) Dividends paid by the investor.
B) Net income of the investee.
C) Net income of the investor.
D) Share of gross profit on intra-entity inventory sales for the current year.
E) Purchase of additional common stock by the investor during the current year.

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

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

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85) Which of the following results in a decrease in the Equity in Investee Income account when applying the equity method?
A) Dividends paid by the investor.
B) Net income of the investee.
C) Investor's share of gross profit from intra-entity inventory sales for the current year.
D) Investor's share of gross profit from intra-entity inventory sales for the prior year.
E) Other Comprehensive Income of the investee.

86) Which of the following results in an increase in the Equity in Investee Income account when applying the equity method?
A) Amortizations of purchase price over book value on date of purchase.
B) Amortizations, since date of purchase, of purchase price over book value on date of purchase.
C) Sale of a portion of the investment at a gain to the investor.
D) Investor's share of gross profit from intra-entity inventory sales for the prior year.
E) Sale of a portion of the investment at a loss.

87) Renfroe, Incorporated acquired 10% of Stanley Corporation on January 4, 2023, for $90,000 when the book value of Stanley was $1,000,000. During 2023, 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, 2024, 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 2024, 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, 2024?
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.

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88) Renfroe, Incorporated acquired 10% of Stanley Corporation on January 4, 2023, for $90,000 when the book value of Stanley was $1,000,000. During 2023, 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, 2024, 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 2024, 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, 2024?

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

89) On January 3, 2023, Trycker, Incorporated acquired 40% of the outstanding common stock of Inkblot Company 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 2023, Inkblot reported net income of $500,000 and paid dividends of $300,000. The fair value of Inkblot at December 31, 2023, 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 2023?

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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90) On January 3, 2023, Trycker, Incorporated acquired 40% of the outstanding common stock of Inkblot Company 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 2023, Inkblot reported net income of $500,000 and paid dividends of $300,000. The fair value of Inkblot at December 31, 2023, 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, 2023 balance sheet?

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

91) Franklin Company owns 40% of the voting common stock of Academic Services Incorporated. Franklin uses the equity method to account for its investment. On January 1, 2024, the balance in the investment account was $726,000. During 2024, 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, 2024?

92) Tinker Company owns 25% of the common stock of Harbor Company and uses the equity method to account for the investment. During 2024, 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 2024 related to this investment.

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

94) On January 3, 2024, Heinreich Company paid $500,000 for 25% of the voting common stock of Jones Corporation. At the time of the investment, Jones had net assets with a book value and fair value of $1,800,000. During 2024, 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, 2024.

95) On January 4, 2024, Colton Corporation acquired 30% of the outstanding common stock of Hicks Company 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, 2024, 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 Company at December 31, 2024.

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96) On January 1, 2024, Spark Corporation acquired a 40% interest in Cranston Incorporated for $250,000. On that date, Cranston's balance sheet disclosed net assets of $430,000. During 2024, Cranston reported net income of $100,000 and paid cash dividends of $30,000. Spark sold inventory costing $40,000 to Cranston during 2024 for $50,000. Cranston used all of this merchandise in its operations during 2024. 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 2024 to apply the equity method to this investment.

97) Wathan Incorporated sold $180,000 in inventory to Miller Company during 2023, for $270,000. Miller resold $108,000 of this merchandise in 2023 with the remainder to be disposed of during 2024.
Required: Assuming Wathan owns 25% of Miller and applies the equity method, prepare the journal entry Wathan should have recorded at the end of 2023 to defer gross profit on intra-entity inventory sales.

98) Jager Incorporated holds 30% of the outstanding voting shares of Kinson Company and appropriately applies the equity method of accounting. Amortization associated with this investment equals $11,000 per year. For 2024, Kinson reported earnings of $100,000 and paid cash dividends of $40,000. During 2024, Kinson acquired inventory for $62,400, which was then sold to Jager for $96,000. At the end of 2024, 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 2024.

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99) On January 4, 2023, Hull Corporation paid $516,000 for 24% (48,000 shares) of the outstanding common stock of Oliver Company. Hull used the equity method to account for the investment. At the end of 2023, the balance in the investment account was $620,000. On January 3, 2024, Hull sold 12,000 shares of Oliver stock for $12 per share. For 2024, 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 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 2024.

100) On January 2, 2024, Jolley Corporation paid $250,000 for 25% of the voting common stock of Wonder Company. 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 2024, 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 2024. This amount included a gain of $35,000. Wonder paid dividends totaling $40,000.

Required: Prepare all of Jolley's journal entries for 2024 in relation to Wonder Company. Assume the equity method is appropriate for use.

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101) On January 2, 2023, Pond Company acquired 40% of the outstanding voting common shares of Ramp Company 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 2023 and a loss of $120,000 in 2024. In each of these two years, Ramp paid a cash dividend of $70,000 to its stockholders.

During 2023, 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 2023 and the remainder was sold during 2024. In 2024, Ramp sold inventory to Pond for $180,000. This inventory had cost only $108,000. Pond resold $120,000 of the inventory during 2024 and the rest during 2025.

Required: For 2023 and then for 2024, calculate the equity income to be reported by Pond for external reporting purposes.

102) Pursley, Incorporated acquires 10% of Ritz Corporation on January 2, 2023, 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, 2023. During 2023, Ritz reported net income of $125,000 and paid dividends of $30,000. On January 7, 2024, 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, 2024?

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103) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corporation and has the ability to significantly influence the investee's operations. On January 4, 2024, the balance in the *Investment in Nicholas Corporation* account was $503,000. Amortization associated with this acquisition is $12,000 per year. During 2024, Nicholas earned net income of $120,000 and paid cash dividends of $40,000. Previously in 2023, 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 2023; the remainder was sold in 2024. Additional sales were made to Steven in 2024 at an intra-entity selling price of $75,000. The goods in the intra-entity sales cost Nicholas $54,000. Only 10% of the 2024 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2024. What amount of gross profit on 2023 intra-entity sales should Steven defer at December 31, 2023?

104) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corporation and has the ability to significantly influence the investee's operations. On January 4, 2024, the balance in the *Investment in Nicholas Corporation* account was $503,000. Amortization associated with this acquisition is $12,000 per year. During 2024, Nicholas earned net income of $120,000 and paid cash dividends of $40,000. Previously in 2023, 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 2023; the remainder was sold in 2024. Additional sales were made to Steven in 2024 at an intra-entity selling price of $75,000. The goods in the intra-entity sales cost Nicholas $54,000. Only 10% of the 2024 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2024. What amount of gross profit on 2024 intra-entity sales should Steven defer at December 31, 2024?

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105) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corporation and has the ability to significantly influence the investee's operations. On January 4, 2024, the balance in the *Investment in Nicholas Corporation* account was $503,000. Amortization associated with this acquisition is $12,000 per year. During 2024, Nicholas earned net income of $120,000 and paid cash dividends of $40,000. Previously in 2023, 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 2023; the remainder was sold in 2024. Additional sales were made to Steven in 2024 at an intra-entity selling price of $75,000. The goods in the intra-entity sales cost Nicholas $54,000. Only 10% of the 2024 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2024. What amount of equity income would Steven have recognized in 2024 from its ownership interest in Nicholas?

106) Steven Company owns 40% of the outstanding voting common stock of Nicholas Corporation and has the ability to significantly influence the investee's operations. On January 4, 2024, the balance in the *Investment in Nicholas Corporation* account was $503,000. Amortization associated with this acquisition is $12,000 per year. During 2024, Nicholas earned net income of $120,000 and paid cash dividends of $40,000. Previously in 2023, 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 2023; the remainder was sold in 2024. Additional sales were made to Steven in 2024 at an intra-entity selling price of $75,000. The goods in the intra-entity sales cost Nicholas $54,000. Only 10% of the 2024 intra-entity purchases from Nicholas had not been sold to outsiders by the end of 2024. What was the balance in the *Investment in Nicholas Corporation* account at December 31, 2024?

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107) On January 4, 2023, 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 2023, Christopher reported net income of $250,000 and declared and paid cash dividends of $55,000. In the following year, 2024, Christopher reported net income of $300,000 and declared and paid cash dividends of $70,000.

In 2023, Nelson sold inventory costing $60,000 to Christopher for $80,000. Christopher sold 75% of that inventory to outsiders during 2023 with the remainder being sold in 2024.

During 2024, Nelson sold inventory costing $70,000 to Christopher for $100,000. Christopher sold 80% of that inventory to outsiders during 2024.

What amount of gross profit on 2023 intra-entity sales should Nelson defer at December 31, 2023?

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108) On January 4, 2023, 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 2023, Christopher reported net income of $250,000 and declared and paid cash dividends of $55,000. In the following year, 2024, Christopher reported net income of $300,000 and declared and paid cash dividends of $70,000.

In 2023, Nelson sold inventory costing $60,000 to Christopher for $80,000. Christopher sold 75% of that inventory to outsiders during 2023 with the remainder being sold in 2024.

During 2024, Nelson sold inventory costing $70,000 to Christopher for $100,000. Christopher sold 80% of that inventory to outsiders during 2024.

What amount of gross profit on 2024 intra-entity sales should Nelson defer at December 31, 2024?

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109) On January 4, 2023, 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 2023, Christopher reported net income of $250,000 and declared and paid cash dividends of $55,000. In the following year, 2024, Christopher reported net income of $300,000 and declared and paid cash dividends of $70,000.
In 2023, Nelson sold inventory costing $60,000 to Christopher for $80,000. Christopher sold 75% of that inventory to outsiders during 2023 with the remainder being sold in 2024. During 2024, Nelson sold inventory costing $70,000 to Christopher for $100,000. Christopher sold 80% of that inventory to outsiders during 2024.
Prepare all of Nelson's journal entries for 2023 to apply the equity method.

110) On January 4, 2023, 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 2023, Christopher reported net income of $250,000 and declared and paid cash dividends of $55,000. In the following year, 2024, Christopher reported net income of $300,000 and declared and paid cash dividends of $10,000.
In 2023, Nelson sold inventory costing $60,000 to Christopher for $80,000. Christopher sold 75% of that inventory to outsiders during 2023 with the remainder being sold in 2024. During 2024, Nelson sold inventory costing $90,000 to Christopher for $120,000. Christopher sold 80% of that inventory to outsiders during 2024.
Prepare all of Nelson's journal entries for 2024 to apply the equity method.

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

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.

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

114) Idler Company has an investment in Cowl Corporation 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?

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?

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?

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

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

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

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

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

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

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

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

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

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

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Chapter 01 Test Bank

Answer Key

Test name: Chapter 01 Test Bank

1) B
2) B
3) E
4) A
5) A
6) A
7) A
8) E
9) B
10) B
11) D
12) A
13) B
14) E
15) C
16) B
17) C
18) A
19) D
20) C
21) B
22) B
23) B
24) C
25) B
26) C
27) C
28) C
29) D
30) C
31) B
32) D
33) B
34) B
35) D
36) A
37) A

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38) A
39) D
40) C
41) C
42) D
43) A
44) C
45) D
46) A
47) C
48) B
49) C
50) D
51) C
52) D
53) B
54) E
55) A
56) A
57) E
58) C
59) B
60) D
61) D
62) C
63) C
64) C
65) D
66) B
67) E
68) C
69) D
70) B
71) A
72) B
73) D
74) B
75) B
76) A
77) A

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78) B
79) D
80) B
81) C
82) B
83) D
84) A
85) C
86) D
87) E
88) C
89) E
90) D
91) Short Answer
92) Short Answer
93) Short Answer
94) Short Answer
95) Short Answer
96) Short Answer
97) Short Answer
98) Short Answer
99) Short Answer
100) Short Answer
101) Short Answer
102) Short Answer
103) Short Answer
104) Short Answer
105) Short Answer
106) Short Answer
107) Short Answer
108) Short Answer
109) Short Answer
110) Short Answer
111) Short Answer
112) Essay
113) Essay
114) Essay
115) Essay
116) Essay
117) Essay

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118) Essay
119) Essay
120) Essay
121) Essay
122) Essay
123) Essay
124) Essay
125) Essay
126) Essay

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