

# TEST BANK FOR

Advanced Accounting 14th Edition by Joe Ben Hoyle, Thomas Schaefer,  
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**Answers Are At The End Of Each Chapter**

Student name: \_\_\_\_\_

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

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

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

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

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

3) On January 1, 2021, Lee Company paid \$1,870,000 for 80,000 shares of Thomas Co.'s voting common stock which represents a 45% investment. No allocation to goodwill or other specific account was necessary. Significant influence over Thomas was achieved by this acquisition. Thomas distributed a dividend of \$2.00 per share during 2021 and reported net income of \$720,000. What was the balance in the *Investment in Thomas Co.* account found in the financial records of Lee as of December 31, 2021?

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

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, 2019, Dermot Company purchased 15% of the voting common stock of Horne Corp. On January 1, 2021, Dermot purchased 28% of Horne's voting common stock. If Dermot achieves significant influence with this new investment, how must Dermot account for the change to the equity method?

- A) It must use the equity method for 2021 but should make no changes in its financial statements for 2020 and 2019.
- B) It should prepare consolidated financial statements for 2021.
- C) It must restate the financial statements for 2020 and 2019 as if the equity method had been used for those two years.
- D) It should record a prior period adjustment at the beginning of 2021 but should not restate the financial statements for 2020 and 2019.
- E) It must restate the financial statements for 2020 as if the equity method had been used then.

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

In 2020, Fuel reported net income of \$650,000. For 2021, Fuel reported net income of \$800,000. Dividends of \$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?

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

7) On January 1, 2021, Bangle Company purchased 30% of the voting common stock of Sleat Corp. for \$1,000,000. Any excess of cost over book value was assigned to goodwill. During 2021, Sleat paid dividends of \$24,000 and reported a net loss of \$140,000. What is the balance in the investment account on December 31, 2021?

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

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

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?

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

10) On January 4, 2021, Snow Co. purchased 40,000 shares (40%) of the common stock of Walker Corp., paying \$900,000. There was no goodwill or other cost allocation associated with the investment. Snow has significant influence over Walker. During 2021, Walker reported income of \$240,000 and paid dividends of \$75,000. On January 2, 2022, 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, 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.

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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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?

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

**13)** Town Co. appropriately uses the equity method to account for its investment in Country Corp. As of the end of 2021, Country's common stock had suffered a significant decline in fair value, which is expected to recover over the 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 2021 earnings until the decline in the fair value of the stock has been recovered.
- E) Town should decrease the balance in the investment account to the current value and recognize an unrealized loss on the balance sheet.

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

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

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

What amount of *equity income* would Borgin have recognized in 2021 from its ownership interest in Burkes?

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

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

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

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

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

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

What amount of *equity income* should Corzine have reported for 2022?

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

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

- (I) Debit to the Investment account, and a Credit to the Equity in Investee Income account.
- (II) Debit to Cash (for dividends received from the investee), and a Credit to Investment Income account.
- (III) Debit to Cash (for dividends received from the investee), and a Credit to the Dividend Receivable.