MARK THE LETTER OF THE BEST ANSWER ON YOUR SCANTRON FORM.

1.___ A business combination is accounted for appropriately as a pooling of interests. Costs of furnishing the information to the stockholders related to effecting the business combination should be

a. capitalized and subsequently amortized over a period not exceeding 40 years.
b. capitalized but not amortized.
c. deducted directly from retained earnings of the combined corporation.
d. deducted in the determination of net income of the combined corporation for the period in which the costs were incurred.

2.___ Company B acquired the assets (net of liabilities) of Company S in exchange for cash. The acquisition price exceeds the fair value of the net assets acquired. How should Company B determine the amounts to be reported for the plant and equipment, and for long-term debt of the acquired Company S?

	Plant and Equipment	Long-Term Debt
a.	Fair value	S's carrying amount
b.	Fair value	Fair value
c.	S's carrying amount	Fair value
d.	S's carrying amount	S's carrying amount

3.___ Prescott Company acquired the assets (net of liabilities) of Sundown Company during 199X. The purchase price was $650,000. On the date of the transaction, Sundown had no long-term investments in marketable equity securities and $200,000 in liabilities. The fair value of Sundown's assets on the acquisition date were as follows:

Current assets..................................	$ 600,000
Noncurrent assets................................	400,000

	$1,000,000
	==========

How should Prescott account for the $150,000 difference between the fair value of the assets acquired, $800,000, and the cost, $650,000?

a. Retained earnings should be reduced by $150,000.
b. Current assets should be recorded at $510,000 and noncurrent assets recorded at $340,000.
c. The noncurrent assets should be recorded at $250,000.
d. A deferred credit of $150,000 should be set up and subsequently amortized to future net income over a period not to exceed 40 years.

4.___ Sammie Company offered to exchange two shares of Sammie common stock for each share of Davis Company common stock. On the initiation date, Sammie held 3,000 shares of Davis common stock, and Davis held 500 shares of Sammie common stock. In later cash transactions, Sammie purchased an additional 2,000 shares of Davis common stock, and Davis purchased 2,500 additional shares of Sammie common stock. At all times, the number of common shares was 1,000,000 for Sammie and 100,000 for Davis. After consummation, Sammie held 100,000 common shares of Davis. The number of Davis shares considered exchanged in determining whether the combination should be accounted for by the pooling of interests method is

a. 100,000.
b. 95,000.
c. 93,500.
d. 89,000.

5.___ Which of the following types of transactions or situations would preclude a company from accounting for a business combination as a pooling of interests?

a. Immediately after the combination, the acquiring corporation reacquires the stock issued to effect the combination.
b. The combined company sells assets that were acquired in the combination that represent duplicate facilities.
c. The acquiring corporation acquires only 90% of the voting common stock of the other corporation in exchange for its voting common stock.
d. The combination is effected within 9 months of the initiation of the plan of combination.

6.___ Goodwill represents the excess cost of an acquisition over the

a. sum of the fair values assigned to identifiable assets less liabilities assumed.
b. sum of the fair values assigned to tangible assets acquired less liabilities assumed.
c. sum of the fair values assigned to intangibles acquired less liabilities assumed.
d. book value of an acquired company.

7.___ X Company acquires Y Company in a combination correctly accounted for as a pooling. Y has $150,000 of goodwill on their books from a previous combination. The goodwill should be

a. capitalized at an appropriate discount rate and recorded on X's books.
b. ignored by both parties in the combination.
c. distributed on a pro rata basis among Y's long-term assets (excluding long-term marketable equity securities).
d. recorded on the books of X at $150,000.

8.___ The combiner firm in a pooling has the following stockholders' equity:

Common stock, $1 par.............................	$100,000
Paid-in excess of par............................	60,000
Retained earnings................................	50,000

The issuer is exchanging 200,000 $2 par value shares for the 100,000 shares of the combiner. The issuer has paid-in capital in excess of par of $100,000 and retained earnings of $300,000. The retained earnings of the issuer after the pooling of interests will be

a. $350,000.
b. $300,000.
c. $210,000.
d. $110,000.

9.___ A business combination is recorded as a purchase. A deferred credit is recorded as part of the purchase entry. This happened because the price paid was

a. less than the book value of the seller's assets.
b. less than the market value of the seller's assets.
c. less than the market value of the seller's current assets.

d. negative.

10.___ Consolidated financial statements are not appropriate if the

a. parent and subsidiary are in dissimilar lines of business.
b. subsidiary is in legal reorganization.
c. minority interest is large.
d. subsidiary has significant outstanding debt.

11.___ Which of the following costs of a business combination are included in the value assigned to net assets in a purchase?

a. Direct and indirect acquisition costs.
b. Direct acquisition costs.
c. Direct acquisition costs and stock issue costs if stock is issued as consideration.
d. No acquisition or issue costs.

12.___ Which of the following costs of a business combination are included in the value assigned to net assets in a pooling of interests?

a. Direct and indirect acquisition costs.
b. Direct acquisition costs.
c. Direct acquisition costs and stock issue costs if stock is issued as consideration.
d. No acquisition or issue costs.

13.___ Ownership of 51% of the outstanding voting common stock of a company would usually result in

a. the use of the cost method.
b. the use of the lower of cost or market method.
c. the use of the equity method for financial reporting.
d. consolidation of the subsidiary.

14.___ On December 31, 19X1, Sapp Corporation was merged into the Palos Corporation. In the business combination, Palos issued 200,000 of its $10 par common stock, with a market value of $18 per share, for all of Sapp's common stock. The stockholders' equity section of each company's balance sheet immediately before the combination was as follows:

	Palos	Sapp
Common stock......................	$3,000,000	$1,500,000
Additional paid-in capital.........	1,300,000	150,000
Retained earnings.................	2,500,000	2,500,000
Total	$6,800,000	$4,150,000

Assume that the merger is considered a purchase. In the December 31, 19X1 consolidated balance sheet, additional paid-in capital should be reported at

a. $950,000.
b. $1,300,000.
c. $1,450,000.
d. $2,900,000.

15.___ On December 31, 19X1, Sapp Corporation was merged into the Palos Corporation. In the business combination, Palos issued 200,000 of its $10 par common stock, with a market value of $18 per share, for all of Sapp's common stock. The stockholders' equity section of each company's balance sheet immediately before the combination was as follows:

	Palos	Sapp
Common stock......................	$3,000,000	$1,500,000
Additional paid-in capital.........	1,300,000	150,000
Retained earnings.................	2,500,000	2,500,000
Total	$6,800,000	$4,150,000

Assume that the merger qualifies as a pooling of interests. In the December 31, 19X1 consolidated balance sheet, additional paid-in capital should be reported at

a. $950,000.
b. $1,300,000.
c. $1,450,000.
d. $2,900,000.

16.___ On April 1, 19X9, Petro Company paid $850,000 for all the issued and outstanding stock of Prime Corporation in a transaction properly recorded as a purchase. The recorded assets and liabilities of the Prime Corporation on April 1, 19X9, follow:

Cash................................	$ 80,000
Inventory............................	240,000
Property and equipment (net of accumulated depreciation of $320,000).....................	480,000
Liabilities..........................	(180,000)

On April 1, 19X9, it was determined that the inventory of Prime had a fair market value of $190,000, and the property and equipment (net) had a fair market value of $560,000. What is the amount of goodwill resulting from the business combination?

a. $0.
b. $20,000.
c. $200,000.
d. $230,000.

17.___ Troy Corporation was organized to consolidate the net assets of Able and Baker companies in a pooling of interests. On January 1, 19X1, Troy issued 70,000 shares of its $10 par voting common stock in exchange for all the voting common stock of Able and Baker. The equity account balances of Able and Baker on this date were as follows:

	Able	Baker	Total
Par value of common stock...	$150,000	$400,000	$550,000
Additional paid-in capital..	20,000	55,000	75,000
Retained earnings...........	110,000	210,000	320,000
	--------	--------	--------
Total equity..............	$280,000	$665,000	$945,000
	========	========	========

What is the balance in Troy's additional paid-in capital account immediately after the business combination?

a. $0.
b. ($25,000).
c. $75,000.
d. $395,000.

18.___ On January 1, 19X1, Neal Co. issued 100,000 shares of its $10 par value common stock for all of Frey Inc.'s outstanding common stock in a pooling of interests. The fair value of Neal's common stock was $19 per share. The book and fair market values of Frey's assets and liabilities were as follows:

	Book Value	Market Value
Cash............................	$ 240,000	$ 240,000
Receivables......................	270,000	270,000
Inventory........................	435,000	405,000
Property and plant...............	1,305,000	1,440,000

Liabilities......................	(525,000)	(525,000)
	----------	----------
Net assets.....................	$1,725,000	$1,830,000
	==========	==========

What is the amount of goodwill resulting from the business combination?

a. $175,000.
b. $105,000.
c. $70,000.
d. $0.

19.___ What is the most theoretically correct method of presenting the minority interest on a consolidated balance sheet?

a. As a separate item between liabilities and equity.
b. As a deduction from goodwill.
c. In the footnotes to the balance sheet.
d. As a separate item within stockholders' equity.

20.___ Pedro purchased 100% of the common stock of the Sanburn Company on January 1, 19X1, for $500,000. On that date, the stockholders' equity of Sanburn Company was $380,000. On the purchase date, inventory of Sanburn Company, which was sold during 19X1, was understated by $20,000. Any remaining excess of cost over book value is attributable to goodwill with a 20-year life. The reported income and dividends paid by Sanburn Company were as follows:

	19X1	19X2
Net income..........................	$80,000	$90,000
Dividends paid......................	10,000	10,000

Using the simple equity method, which of the following amounts are correct?

	Investment Income 19X1	Investment Account Balance, December 31, 19X1
a.	$80,000	$570,000
b.	70,000	570,000
c.	70,000	550,000
d.	80,000	550,000

21.___ Which of the following methods is used to show the minority interest in consolidated net income?

a. Show it as a distribution of consolidated net income.
b. Treat it as a dividend.
c. Do not include it on the consolidated income statement, but show it on the subsidiary's separate statements.
d. Treat it as an expense.
e. Eliminate it.

22.___ Which of the following statements applying to the use of the equity method versus the cost method is true?

a. The equity method is required when one firm owns 20% or more of the common stock of another firm.
b. If no dividends were paid by the subsidiary, the investment account would have the same balance under both methods.
c. The method used has no significance to consolidated statements.
d. An advantage of the equity method is that no amortization of excess adjustments needs to be made on the consolidated work sheet.

23.___ How is the portion of consolidated earnings to be assigned to minority interest in consolidated financial statements determined?

a. The net income of the parent is subtracted from the subsidiary's net income to determine the minority interest.
b. The subsidiary's net income is extended to the minority interest.
c. The amount of the subsidiary's earnings recognized for consolidation purposes is multiplied by the minority's percentage ownership.
d. The amount of consolidated earnings determined on the consolidated working papers is multiplied by the minority

interest percentage at the balance-sheet date.

24.___ On January 1, 1992, Ritt Corp. purchased 80% of Shaw Corp.'s $10 par common stock for $975,000. On this date, the carrying amount of Shaw's net assets was $1,000,000. The fair values of Shaw's identifiable assets and liabilities were the same as their carrying amounts except for plant assets (net), which were $100,000 in excess of the carrying amount. For the year ended December 31, 1992, Shaw had net income of $190,000 and paid cash dividends totaling $125,000.

In the January 1, 1992, consolidated balance sheet, goodwill should be reported at

a. $0.
b. $75,000.
c. $95,000.
d. $175,000.

25.___ Schiff Company owns 100% of the outstanding common stock of the Viel Company. During 19X1, Schiff sold merchandise to Viel that Viel, in turn, sold to unrelated firms. There were no such goods in Viel's ending inventory. However, some of the intercompany purchases from Schiff had not yet been paid. Which of the following amounts will be incorrect in the consolidated statements if no adjustments are made?

a. Inventory, accounts payable, net income.
b. Inventory, sales, cost of goods sold, accounts receivable.
c. Sales, cost of goods sold, accounts receivable.
d. Sales, accounts receivable, accounts payable.

26.___ Hinrich Inc. owns 80% of the common stock of Lowrey Corporation. During 19X2, Lowrey sold Hinrich $100,000 of merchandise at cost plus 25% during 19X1. Hinrich had goods purchased from Lowrey for $10,000 in its ending inventory on December 31, 19X1. Hinrich applied the lower of cost or market method and reduced the inventory to $9,000. How much intercompany inventory profit must be removed from consolidated net income when preparing a consolidated worksheet on December 31, 19X1?

a. $25,000.
b. $2,000.
c. $2,500.
d. $1,000.

27.___ Company P owns 75% of the outstanding common stock of Company S. During 19X5, Company P's profits on its inventory sales to Company S were $50,000. All merchandise purchased by Company S has been sold to outside parties. The elimination for intercompany profit on the transaction is

a. not necessary.
b. $50,000.
c. $37,500.
d. allocated between Company P and the minority stockholders.

28.___ Keller owns 80% of Lando Company common stock. During October 19X7, Lando sold merchandise to Keller for $200,000. On December 31, 19X7, one-half of this merchandise remained in Keller's inventory. For 19X7, gross profit percentages were 30% for Keller and 40% for Lando. The amount of unrealized profit in the ending inventory on December 31, 19X7 that should be eliminated in consolidation is

a. $80,000.
b. $40,000.
c. $32,000.
d. $30,000.

29.___ Porch Company owns a 90% interest in the Screen Company. Porch sold Screen a milling machine on January 1, 19X1, for $50,000 when the book value of the machine on Porch's books was $40,000. Porch financed the sale with Screen signing a 3-year, 8% interest, level payment, monthly payment loan for the entire $50,000. The machine will be used for 10 years and depreciated using the straight-line method. The gain on the machine sale will appear in the consolidated income statement

a. never.

b. in the year of the sale.
c. spread over 3 years.
d. spread over 10 years.

30.___ Marnes Company acquired the Nance Company in a pooling of interests. On January 1, 19X3, Marnes sold Nance a machine with a book value of $50,000 for $40,000. The machine had a fair market value of $70,000 and a 5-year remaining life. It will be depreciated using the straight-line method. On December 31, 19X4, the machine should appear on the consolidated balance sheet at a net book value of

a. $24,000.
b. $30,000.
c. $40,000.
d. $42,000.

WRITE YOUR SOLUTION(S) IN THE SPACE PROVIDED.

(31.)
The Delta Company purchased an 80% interest in the Midwest Company for $550,000 on January 1, 19X1, when Midwest had the following balance sheet:

Assets	
Accounts receivable	$ 50,000
Inventory	120,000
Land	80,000
Building	270,000
Equipment	80,000
Total	$600,000

Liabilities and Equity	
Current liabilities	$100,000
Common stock, $5 par	50,000
Paid-in excess of par	150,000
Retained earnings	300,000
Total	$600,000

The inventory is understated by $20,000 and is sold during 19X1. The building has a market value of $300,000 and a 10-year remaining life. The equipment has a market value of $120,000 and a remaining life of 5 years. Any remaining excess is attributed to goodwill with a 20-year life.

On December 31, 19X4, Midwest has the following stockholders' equity:

Common stock, $5 par	$ 50,000
Paid-in excess of par	150,000
Retained earnings	550,000

During 19X5, Midwest had a net income of $100,000 and paid $10,000 in dividends.

Assume that Delta uses the sophisticated equity method to record its investment in Midwest.

Required:
a. Prepare a determination and distribution of excess schedule as of January 1, 19X1.
b. Prepare the eliminations and adjustments that would be made on the December 31, 19X5, consolidated worksheet to eliminate the investment in Midwest. Distribute and amortize any excess.

(32.)
On January 1, 19X1, Parent Company acquired 80% of the common stock of Subsidiary Company for $480,000. On this date, Subsidiary had total owners' equity of $400,000.

Any excess of cost over book value is attributable to goodwill, which is to be amortized over the maximum period permitted.

During 19X1 and 19X2, Parent has appropriately accounted for its investment in Subsidiary using the simple equity method.

On January 1, 19X2, Subsidiary held merchandise acquired from Parent for $20,000. During 19X2, Parent sold merchandise to Subsidiary for $80,000, of which one-half is held by Parent on December 31, 19X2. Parent's usual gross profit on affiliated sales is 40%.

On December 31, 19X2, Subsidiary still owes Parent $12,000 for merchandise acquired in December.

Required:
Complete the worksheet for consolidated financial statements for the year ended December 31, 19X2.

ANSWER KEY Page 1 ID: 1
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ANSWERS TO MULTIPLE CHOICE QUESTIONS:

1. D
2. B
3. C
4. D
5. A
6. A
7. D
8. C
9. C
10. B
11. B
12. D
13. D
14. D R: AICPA adapted
15. A R: AICPA adapted
16. C
17. A
18. D R: AICPA adapted
19. D
20. A
21. A
22. C
23. C
24. C
25. C
26. D
27. A
28. B
29. D
30. B

ANSWER KEY Page 2 ID: 1
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ANSWERS TO PROBLEM QUESTIONS:

(31.)
a. Determination and distribution of excess schedule:

Price paid.................................	$550,000	
Stockholders' equity of Midwest............	$500,000	
Ownership interest..........................	80%	400,000
	--------	--------
Excess of cost over book value............		$150,000
Adjust inventory, 8 x $20,000..............		16,000

Excess available for fixed assets.........		$134,000
Adjust fixed assets:		
Building, .8 x $30,000, 10-year life......		(24,000)
Equipment, .8 x $40,000, 5-year life......		(32,000)

Goodwill, 20-year life......................		$ 78,000
		========

b.

Investment Income..........................	67,300	
Investment in Midwest....................		59,300
Dividends Declared.......................		8,000
Common Stock, $5 par.......................	40,000	
Paid-in Excess of Par......................	120,000	
Retained Earnings..........................	440,000	
Investment in Midwest....................		600,000
Building...................................	24,000	
Equipment..................................	32,000	
Goodwill ($78,000 - [4 x $3,900])...........	62,400	
Accumulated Depreciation--Building (4 x $2,400).............................		9,600
Accumulated Depreciation--Equipment (4 x $6,400).............................		25,600
Investment in Midwest....................		83,200
Depreciation Expense.......................	2,400	
Accumulated Depreciation, Building........		2,400
Depreciation Expense........................	6,400	
Accumulated Depreciation.................		6,400
Goodwill Amortization Expense...............	3,900	
Goodwill.................................		3,900

ANSWER KEY Page 3 ID: 1
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(32.)
(100% Purchase)
For the worksheet solution, please refer to pages 126-127 of the ADVANCED ACCOUNTING EXAMINATION BOOK.

NOTE: Question 7A (80% purchase; simple equity) is not included
in MicroSWAT).
Question 7B (80% purchase; cost method) is not included
in MicroSWAT.
G1: FIG04_02

FIGURES

Page 1

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Figure List:

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