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Accountancy 21 (Silliman University)

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1. The excess of fair value over implied value must be allocated to reduce proportionally the fair values initially assigned to
   a. Current assets
   b. Noncurrent assets
   c. Both current and noncurrent assets
   d. None of the above

2. The SEC requires the use of push down accounting when the ownership change is greater than
   a. 50%
   b. 80%
   c. 90%
   d. 95%

3. Under push down accounting, the work paper entry to eliminate the investment account includes a
   a. Debit to Goodwill
   b. Debit to Revaluation Capital
   c. Credit to Revaluation Capital
   d. Debit to Revaluation Assets

4. Which of the following statements applying to the use of 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 worksheet.

5. In a mid-year purchase when the subsidiary's books are not closed until the end of the year, the purchased income account contains the parent's share of the
   a. Subsidiary's income earned for the entire year.
   b. Subsidiary's income earned from the beginning of the year to the date of acquisition.
   c. Subsidiary's income earned from the date of acquisition to the end of the year.
   d. Consolidated Net Income.

6. A 70% owned subsidiary company declares and pays a cash dividend. What effect does the dividend have on the retained earnings and non-controlling interest balances in the parent company's consolidated balance sheet?
   a. No effect on either retained earnings or non-controlling interest.
   b. No effect on retained earnings and a decrease in non-controlling interest.
   c. Decreases in both retained earnings and non-controlling interest.
   d. A decrease in retained earnings and no effect in non-controlling interest.

7. How is the portion of consolidated earnings to be assigned to the non-controlling interest in consolidated financial statements determined?
   a. The parent's net income is subtracted from the subsidiary's net income to determine the non-controlling interest.
   b. The subsidiary's net income is extended to the non-controlling interest.
   c. The amount of the subsidiary's earnings recognized for consolidation purposes is multiplied by the non-controlling interest's percentage of ownership.
   d. The amount of consolidated earnings on the consolidated work papers is multiplied by the non-controlling interest percentage on the balance sheet date.

8. Which of the following observations is NOT consistent with the use of push-down accounting?
   a. The revaluation capital account is part of the subsidiary's stockholders' equity.
   b. No differential arises in the consolidation process.
   c. Revaluation Capital account is eliminated in preparing consolidated statements.
   d. Eliminating entries related to the differential are needed in the work papers.

9. When companies employ push-down accounting:
   a. The consolidated financial statements will appear exactly as if push-down accounting had not been used.
   b. A special account called Revaluation Capital will appear in the consolidated balance sheet.
   c. All consolidation elimination entries are made on the books of the subsidiary rather than in consolidated work papers.
   d. It means that the subsidiary is not substantially wholly owned by the parent.

10. Which of the following statements is false regarding push-down accounting?
   a. Push-down accounting simplifies the consolidated process.
   b. Push-down accounting provides better information for internal evaluation.
   c. Push-down accounting must be applied for combinations under a pooling of interests.
   d. Push-down proponents argue that a change in ownership creates a new basis for subsidiary assets and liabilities.

11. The investment in a subsidiary should be recorded on the parent's books at the
   a. Underlying book value of the subsidiary's net assets.
   b. Fair value of the subsidiary's net identifiable assets.
   c. Fair value of the consideration given.
   d. Fair value of the consideration given plus an estimated value for goodwill.

12. Which of the following costs of a business combination can be included in the value charged to paid-in-capital in excess of par?
   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. Stock issue costs if stock is issued as consideration

13. A newly acquired subsidiary has pre-existing goodwill on its books. The parent company's consolidated balance sheet will:
   a. Treat the goodwill the same as other intangible assets of the acquired company.
   b. Will always show the pre-existing goodwill of the subsidiary at its book value.
   c. Not show any value for the subsidiary's pre-existing goodwill.
   d. Do an impairment test to see if any of it has been impaired

14. One reason a parent company may pay an amount less than the book value of the subsidiary's stock acquired is
   a. An undervaluation of the subsidiary's assets
   b. The existence of unrecorded goodwill
   c. An overvaluation of the subsidiary's liabilities
   d. The existence of unrecorded contingent liabilities

15. On the consolidated balance sheet, consolidated stockholder's equity is
   a. Equal to the sum of the parent and subsidiary stockholder's equity
   b. Greater than the parent's stockholders' equity
   c. Less than the parent's stockholders' equity
   d. Equal to the parent's stockholders' equity

Problem 1. AA Co. bought the net assets of BB Co. by issuing 120,000 shares at P10 par. The fair value of the shares was P 2,550,000. Immediately before acquidsition, the following balances were ascertained for BB Co.

	Carrying Amount	Fair Value
Current Assets	P 1,000,000	P 1,100,000
Noncurrent Assets	1,500,000	2,200,000
Liabilities	300,000	300,000
Ordinary shares	2,000,000	
Retained Earnings	200,000	

AA Co. also incurred the following costs:
- Professional fees to arrange business combination P 27,000
- SEC registration P 12,000
- Printing and issuing of stock c

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1. What is the result of the business combination?
2. What is the share premium recorded by AA Co.?
3 What is the net increase (decrease) in the retained earnings of AA Co.?
(450,000) – 1,335,000 – 423,000

Problem 2. On January 1, 2016, Parent Company purchased 8,000 of the 10,000 ordinary shares of Subsidiary Company at underlying carrying amount. Parent and Subsidiary's retained earnings on that date were P 1,000,000 and P 200,000 respectively. During 2016? The following data were ascertained:

a. *Consolidated net income was P 400,000*
b. *Parent Co. declared dividends of P 100,000*
c. *Subsidiary Co. had net income of P 80,000 and declared dividends of P 40,000*

What is the amount of consolidated retained earnings at December 31, 2016?
1,284,000

Problem 3. On January 2, 2016, P Corporation purchase 80% of S Company's outstanding shares for P 648,000. P 30,000 of the excess is attributable to goodwill and the balance to an equipment with an economic life of ten years. NCI is measured at its fair value on date of acquisition. On the date of acquisition, stockholders' equity of the two companies were as follows:

	P Corporation	*S Company*
Ordinary shares	*P 1,050,000*	*P 240,000*
Retained earnings	*1,560,000*	*420,000*

On December 31, 2016, S Company reported net income of P 105,000 and paid dividends of P 36,000 to P. P reported earnings from separate operations of P 285,000 and paid dividends of P 138,000. Goodwill had been impaired and should be reported at P 6,000 on December 31, 2016.

1. *What is the non-controlling interest in profit of S Company on December 31, 2016?*
2. *What is the consolidated profit attributable to parent shareholders on December 31, 2016?*
3. *What is the consolidated retained earnings attributable to parent's shareholders equity on December 31, 2016?*
4. *What amount of non-controlling interest is to be presented in the consolidated statement of financial position on December 31, 2016?*

13,800 - 340,200 – 1,762,200 – 166,800

Problem 4. On January 2, 2015, D Corporation purchased 80% of the outstanding shares of C Company for P 4,750,000. At that date, C had P 4,000,000 of ordinary shares outstanding and retained earnings of P 1,600,000.

- *C's equipment with a remaining life of 5 years had a book value of P 2,250,000 and a fair value of P 2,630,000. C's remaining assets had book value equal to their fair values.*
- *All intangibles except goodwill are expected to have remaining lives of 8 years.*
- *The income and dividend figures for both D and C are as follows: Net income of D in 2015 is P 900,000; 2016 is P 1,100,000. Net income of C in 2015 is P 340,000; 2016 is P 510,000.*
- *Dividends of D in 2015 is P 220,000; 2016 is P 390,000. Dividends of C in 2015 is P 70,000; 2016 is P 130,000.*
- *D's retained earnings balance at the date of acquisition was P 3,450,000.*

1. *How much is the consolidated retained earnings attributable to controlling interest in 2016?*
2. *Share of D Corporation in the adjusted and undistributed earnings of C Company in 2015?*
3. *How much is the consolidated profit in 2016?*
4. *How much is the non-controlling interest in net assets in 2016?*

5,272,400 – 155,200 – 1,430,000 – 1,295,600

Problem 5. The statement of financial position of Luster Corporation on June 30, 2016 is presented below:

Current assets	*32,500*
Land	*220,000*
Building	*110,000*
Equipment	*87,500*
Total Assets	*450,000*
Liabilities	*87,500*
Capital stock, 5 par	*150,000*
Additional paid-in capital	*137,500*
Retained earnings	*75,000*
Total equities	*450,000*

All the assets and liabilities of Luster assumed to approximate their fair values except for land and building. It is estimated that the land have a fair value of P 350,000 and the fair value of the building increased by P 80,000. Kernel Corporation acquired 80% of Luster's capital stock for P 500,000.

1. *Assuming the consideration paid includes control premium of P 142,000, how much is the goodwill on the consolidated financial statement?*
2. *Assuming the consideration paid excludes control premium of P 23,000 and the fair value of the non-controlling interest is P 122,750, how much is the goodwill on the consolidated financial statement?*
3. *Assuming the consideration paid includes control premium of P 37,000, how much is the goodwill on the consolidated financial statement?*

42,000 – 73,250 – 43,250

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