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

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?

$18,000

$10,500

$28,500

$7,500

$50,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Topic : Accounting for Investments&#8213;Various Methods  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-01 Baker Company owns 15% of the common stock...

1. 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?

$90,000

$91,000

$122,500

$31,500

$59,500

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-02 Loeffler Company owns 35% of the common stock of...

1. 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?

$2,114,000.

$2,194,000

$2,354,000

$2,158,000

$2,034,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-03 On January 1, 2024, Lee Company paid...

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

have the ability to exercise significant influence over the operating and financial policies of the investee.

own at least 30% of the investee's voting stock.

possess a controlling interest in the investee's voting stock.

not have the ability to exercise significant influence over the operating and financial policies of the investee.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Gradable : automatic  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-04 A necessary condition to use the equity method...

1. 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?

It must use the equity method for 2024 but should make no changes in its financial statements for 2023 and 2022.

It should prepare consolidated financial statements for 2024.

It must restate the financial statements for 2023 and 2022 as if the equity method had been used for those two years.

It should record a prior period adjustment at the beginning of 2024 but should not restate the financial statements for 2023 and 2022.

It must restate the financial statements for 2023 as if the equity method had been used then.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-05 On January 1, 2022, Dermot Company purchased...

1. 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?

$1,793,000

$1,885,000

$1,943,000

$1,977,000

$1,054,300

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-06 During January 2023, Nelson, Incorporated acquired...

1. 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?

$950,800

$958,000

$836,000

$990,100

$956,400

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.  
Topic : Report Investee Losses  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-07 On January 1, 2024, Bangle Company purchased...

1. 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?

Halpert should continue to use the equity method to maintain consistency in its financial statements.

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.

Halpert has the option of using either the equity method or the fair-value method for 2024 and future years.

Halpert should report the effect of the change from the equity to the fair-value method as a retrospective change in accounting principle.

Halpert should use the fair-value method for 2025 and future years, but should not make a retrospective adjustment to the investment account.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-08 On January 1, 2024, Halpert Incorporated acquired...

1. 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?

$9,000

$4,050

$13,500

$17,550

$5,600

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-09 Kane Incorporated owns 30% of Woodhouse...

1. 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?

$871,500

$845,250

$761,250

$897,250

$950,250

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-10 On January 4, 2024, Snow Company purchased...

1. 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?

$600,000

$264,000

$0

$336,000

$480,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Excess Purchase Price  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-11 On January 3, 2024, Madison Corporation purchased...

1. 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?

$36,000

$20,000

$40,000

$120,000

$60,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-12 On January 3, 2024, Madison Corporation purchased...

1. 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?

Town should switch to the fair-value method.

No accounting because the decline in fair value is temporary.

Town should decrease the balance in the investment account to the current value and recognize a loss on the income statement.

Town should not record its share of Country’s 2024 earnings until the decline in the fair value of the stock has been recovered.

Town should decrease the balance in the investment account to the current value and recognize an unrealized loss on the balance sheet.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Gradable : automatic  
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.  
Topic : Report Investee Losses  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-13 Town Company appropriately uses the equity...

1. An *upstream* sale of inventory is a sale:

Between subsidiaries owned by a common parent.

With the transfer of goods scheduled by contract to occur on a specified future date.

In which the goods are physically transported by boat from a subsidiary to its parent.

Made by the investor to the investee.

Made by the investee to the investor.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-14 An upstream sale of inventory is a sale:

1. 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?

$19,792

$27,640

$22,672

$24,400

$21,748

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-15 Borgin Incorporated owns 30% of the outstanding...

1. 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?

$401,136

$413,872

$418,840

$412,432

$410,148

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-16 Borgin Incorporated owns 30% of the outstanding...

1. 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?

$117,000

$143,400

$152,000

$134,400

$141,200

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Topic : Accounting for Investments&#8213;Various Methods  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-17 On January 1, 2024, Corzine Incorporated acquired...

1. 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?

$30,000

$16,420

$38,340

$18,000

$32,840

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-18 On January 1, 2024, Corzine Incorporated acquired...

1. 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?

Debit to the Investment account, and a Credit to the Equity in Investee Income account.

Debit to Cash (for dividends received from the investee), and a Credit to Investment Income account.

Debit to Cash (for dividends received from the investee), and a Credit to the Dividend Receivable.

Entries I and II.

Entries II and III.

Entry I only.

Entry II only.

Entry III only.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-19 In a situation where the investor exercises...

1. All of the following would require use of the equity method for investments *except*:

material intra-entity transactions.

investor participation in the policy-making process of the investee.

valuation at fair value.

technological dependency.

interchange of managerial personnel.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Gradable : automatic  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-20 All of the following would require use...

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

the investment is recorded at cost.

dividends received are recorded as revenue.

net income of investee increases the investment account.

dividends received reduce the investment account.

amortization of fair value over cost reduces the investment account.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-21 All of the following statements regarding...

1. 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 cumulative effect change in accounting principle must occur.

A prospective change in accounting principle must occur.

A retrospective change in accounting principle must occur.

The investor will not receive future dividends from the investee.

Future dividends will continue to be recorded as revenue.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-22 A company has been using the fair-value...

1. 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 cumulative effect change in accounting principle must occur.

A prospective change in accounting principle must occur.

A retrospective change in accounting principle must occur.

The investor will not receive future dividends from the investee.

Future dividends will continue to reduce the investment account.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-23 A company has been using the equity method...

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

Under the equity method, the investor only recognizes its share of investee’s income from continuing operations.

The OCI would reduce the investment.

The OCI would increase the investment.

The OCI would be ignored but shown in the investor’s notes to the financial statements.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06b Understand the financial reporting consequences for investee's other comp  
Topic : Report Investee OCI  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-24 When an investor appropriately applies...

1. How should a permanent loss in value of an investment using the equity method be treated?

The equity in investee income is reduced.

A loss is reported in the same manner as a loss in value of other long-term assets.

The investor’s stockholders’ equity is reduced.

No adjustment is necessary.

Record an offset to cash.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.  
Topic : Report Investee Losses  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-25 How should a permanent loss in value of an...

1. 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?

The investor should change to the fair-value method to account for its investment.

The investor should suspend applying the equity method until the investee reports income.

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.

The cumulative losses should be reported as a prior period adjustment.

The investor should report these as equity method losses in its income statement.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.  
Topic : Report Investee Losses  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-26 Under the equity method...

1. When an investor sells shares of its investee company, which of the following statements is true?

A recognized gain or loss is reported as the difference between selling price and original cost.

A recognized gain or loss is reported as the difference between carrying value and original cost.

A recognized gain or loss is reported as the difference between selling price and carrying value.

An unrealized gain or loss is reported as the difference between selling price and carrying value.

Any gain or loss is reported as part of comprehensive income.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-27 When an investor sells shares of its...

1. When applying the equity method, how is the excess of cost over book value calculated and accounted for?

The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of current assets.

The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of total assets.

The excess is allocated to the difference between fair value and book value multiplied by the percent ownership of net assets.

The excess is allocated to goodwill.

The excess is ignored.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Cost of Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-28 When applying the equity method, how...

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

Cost of goods sold

Property, plant, & equipment

Patents

Goodwill

Bonds payable

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-29 After allocating cost in excess of book...

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

The investee must defer upstream ending inventory profits.

The investee must defer upstream beginning inventory profits.

The investor must defer downstream ending inventory profits.

The investor must defer downstream beginning inventory profits.

The investor must defer upstream beginning inventory profits.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-30 Which statement is true concerning unrecognized...

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

The investor and investee make reciprocal entries to defer and recognize inventory profits.

The same adjustments are made for upstream and downstream sales.

Different adjustments are made for upstream and downstream sales.

No adjustments are necessary.

Adjustments will be made only when profits are known upon sale to outsiders.

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-31 Which statement is true concerning unrecognized...

1. 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

$25,000.

$13,000.

$9,000.

$16,000.

$10,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Excess Purchase Price  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-32 On January 1, 2023, Archer, Incorporated...

1. 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

$9,000.

$13,500.

$15,000.

$7,500.

$50,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-33 On January 1, 2023, Archer, Incorporated...

1. 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

$22,500.

$21,000.

$12,000.

$13,500.

$75,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-34 On January 1, 2023, Archer, Incorporated...

1. 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

$100,000.

$112,000.

$106,000.

$107,500.

$140,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-35 On January 1, 2023, Archer, Incorporated...

1. 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

$119,500.

$125,500.

$116,500.

$118,000.

$100,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-36 On January 1, 2023, Archer, Incorporated...

1. 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

$7,500.

$22,500.

$15,000.

$100,000.

$150,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Topic : Accounting for Investments&#8213;Various Methods  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-37 Jones, Incorporated acquires 15%...

1. 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

$80,000.

$30,000.

$50,000.

$15,000.

$75,000.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-38 Jones, Incorporated acquires 15%...

1. 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?

Jones must record an adjustment to additional paid-in capital for $200,000.

Jones must record a debit to additional paid-in capital for $15,000.

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.

Jones must debit the Investment in Anderson account for $200,000.

Jones must record a credit of $15,000 to the Investment in Anderson account.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-39 Jones, Incorporated acquired 15%...

1. 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?

$320,000

$351,250

$370,000

$412,500

$445,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-40 Jones, Incorporated acquired 15%...

1. 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?

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **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 |

Entry A.

Entry B.

Entry C.

Entry D.

No entry is necessary.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-41 Chase Incorporated sold $260,000 of its inventory...

1. 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?

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **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 |

Entry A.

Entry B.

Entry C.

Entry D.

No entry is necessary.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-42 Chase Incorporated sold $260,000 of its inventory...

1. 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?

$150,000

$172,500

$180,000

$157,500

$170,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Topic : Accounting for Investments&#8213;Various Methods  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-43 On January 1, 2023, Mehan, Incorporated...

1. 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?

$30,000

$22,500

$7,500

$0

$50,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Topic : Accounting for Investments&#8213;Various Methods  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-44 On January 1, 2023, Mehan, Incorporated...

1. 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?

$90,000

$110,000

$67,500

$87,500

$78,750

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Report Change to Equity Method  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Allocate Cost of Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-45 On January 1, 2023, Mehan, Incorporated...

1. 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?

$517,500

$537,500

$520,000

$540,000

$211,250

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Report Change to Equity Method  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-46 On January 1, 2023, Mehan, Incorporated...

1. 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?

$447,500

$468,750

$535,875

$555,000

$624,375

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-47 On January 1, 2023, Mehan, Incorporated...

1. 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?

$61,750

$81,250

$72,500

$59,250

$75,000

**Question Details**AACSB : Reflective Thinking  
AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-48 On January 1, 2023, Mehan, Incorporated...

1. 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?

$140,000

$220,000

$240,000

$360,000

$600,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-49 On January 3, 2023, Baxter, Incorporated. acquired...

1. 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?

$150,000

$220,000

$240,000

$360,000

$600,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-50 On January 3, 2023, Baxter, Incorporated acquired...

1. 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?

$2,420,000

$2,800,000

$2,900,000

$3,040,000

$3,180,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-51 On January 3, 2023, Baxter, Incorporated acquired...

1. 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?

$2,400,000

$2,800,000

$2,900,000

$3,120,000

$3,260,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-52 On January 3, 2023, Baxter, Incorporated acquired...

1. 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?

$1,900,000

$1,960,000

$2,000,000

$2,016,000

$2,028,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-53 On January 1, 2024, Anderson Company...

1. 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?

$12,000 income

$12,000 loss

$16,000 loss

$28,000 income

$28,000 loss

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-54 On January 1, 2024, Anderson Company...

1. 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?

$0

$8,400

$28,000

$52,000

$80,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-55 Luffman Incorporated owns 30% of Bruce Incorporated...

1. 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?

$1,560,000

$1,600,000

$1,700,000

$1,800,000

$1,860,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Report Sale of Equity Investment  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-56 On January 3, 2024, Roberts Company purchased...

1. 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?

$0

$10,000 gain

$12,000 loss

$15,000 loss

$20,000 gain

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-57 On January 3, 2024, Roberts Company purchased...

1. 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?

$750,000

$760,000

$780,000

$790,000

$800,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-58 On January 3, 2024, Roberts Company purchased...

1. 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?

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **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 |

Entry A

Entry B

Entry C

Entry D

Entry E

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-59 On January 3, 2024, Roberts Company purchased...

1. 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?

$520,000

$544,000

$560,000

$604,000

$620,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-60 On January 4, 2024, Mason Company purchased...

1. 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?

$20,000 gain

$10,000 gain

$1,000 gain

$1,000 loss

$10,000 loss

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-61 On January 4, 2024, Mason Company purchased...

1. 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?

$390,000

$420,000

$453,000

$454,000

$465,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-62 On January 4, 2024, Mason Company purchased...

1. 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?

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **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 |

Entry A

Entry B

Entry C

Entry D

Entry E

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-63 On January 4, 2024, Mason Company purchased...

1. 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?

($2,000,000)

$800,000

$1,000,000

$2,000,000

$3,000,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Excess Purchase Price  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-64 On January 2, 2024, Barley Corporation purchased...

1. 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?

($500,000)

$0

$100,000

$200,000

$2,000,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Excess Purchase Price  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-65 On January 2, 2024, Barley Corporation purchased...

1. 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?

$0

$84,000

$100,000

$160,000

$400,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-66 On January 2, 2024, Barley Corporation purchased...

1. 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?

($1,000,000)

$400,000

$800,000

$1,000,000

$1,100,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Excess Purchase Price  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-67 On January 1, 2024, Jackie Corporation purchased...

1. 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?

($500,000)

$0

$650,000

$1,000,000

$2,000,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Excess Purchase Price  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-68 On January 1, 2024, Jackie Corporation purchased...

1. 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?

$0

$30,000

$40,000

$55,000

$60,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-69 On January 1, 2024, Jackie Corporation purchased...

1. 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?

$2,000,000

$2,005,000

$2,060,000

$2,090,000

$2,200,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-70 On January 1, 2024, Jackie Corporation purchased...

1. 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?

$1,600

$4,000

$8,000

$15,000

$20,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-71 Acker Incorporated bought 40% of Howell Company ...

1. 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?

$1,600

$8,000

$15,000

$20,000

$40,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-72 Acker Incorporated bought 40% of Howell Company ...

1. 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?

$10,000

$24,000

$36,000

$38,400

$40,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-73 Acker Incorporated bought 40% of Howell Company...

1. 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?

$576,000

$598,400

$614,400

$606,000

$616,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-74 Acker Incorporated bought 40% of Howell Company on...

1. 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?

$32,000

$41,600

$48,000

$49,600

$50,600

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-75 Acker Incorporated bought 40% of Howell Company on...

1. 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?

$624,000

$636,000

$646,000

$656,000

$666,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-76 Acker Incorporated bought 40% of Howell Company on...

1. 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?

$900

$3,000

$4,500

$6,000

$9,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-77 Cayman Incorporated bought 30% of...

1. 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?

$1,500

$2,400

$3,600

$4,000

$8,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-78 Cayman Incorporated bought 30% of Maya Company on...

1. 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?

$17,100

$18,000

$25,500

$29,100

$30,900

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-79 Cayman Incorporated bought 30% of Maya Company...

1. 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?

$463,500

$467,100

$468,000

$468,900

$480,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-80 Cayman Incorporated bought 30% of Maya Company on...

1. 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?

$34,200

$34,800

$34,500

$36,000

$37,800

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-81 Cayman Incorporated bought 30% of Maya Company...

1. 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?

$488,700

$489,600

$492,000

$494,400

$514,500

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-82 Cayman Incorporated bought 30% of Maya Company ...

1. Which of the following results in a decrease in the investment account when applying the equity method?

Dividends paid by the investor.

Net income of the investee.

Net income of the investor.

Share of gross profit on intra-entity inventory sales for the current year.

Purchase of additional common stock by the investor during the current year.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-83 Which of the following results in a decrease...

1. Which of the following results in an increase in the investment account when applying the equity method?

Investor’s share of gross profit from intra-entity inventory sales for the prior year.

Investor’s share of gross profit from intra-entity inventory sales for the current year.

Dividends paid by the investor.

Dividends paid by the investee.

Sale of a portion of the investment during the current year.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-84 Which of the following results in an increase...

1. Which of the following results in a decrease in the Equity in Investee Income account when applying the equity method?

Dividends paid by the investor.

Net income of the investee.

Investor’s share of gross profit from intra-entity inventory sales for the current year.

Investor’s share of gross profit from intra-entity inventory sales for the prior year.

Other Comprehensive Income of the investee.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-85 Which of the following results in a decrease...

1. Which of the following results in an increase in the Equity in Investee Income account when applying the equity method?

Amortizations of purchase price over book value on date of purchase.

Amortizations, since date of purchase, of purchase price over book value on date of purchase.

Sale of a portion of the investment at a gain to the investor.

Investor’s share of gross profit from intra-entity inventory sales for the prior year.

Sale of a portion of the investment at a loss.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : automatic  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-86 Which of the following results in an increase...

1. 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 debit of $16,500.

A debit of $21,500.

A debit of $90,000.

A debit of $165,000.

There is no adjustment.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-87 Renfroe, Incorporated acquired 10% of Stanley...

1. 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?

$415,000

$512,500

$523,000

$539,500

$544,500

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-88 Renfroe, Incorporated acquired 10% of Stanley...

1. 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?

Reduce investment in Inkblot by $280,000.

Increase Investment in Inkblot by $280,000.

Reduce Investment in Inkblot by $120,000.

Increase Investment in Inkblot by $120,000.

Increase Dividend Income by $120,000.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-08 Explain the rationale and reporting implications of fair-value accounting  
Topic : Report Using Fair-Value Accounting Option  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-89 On January 3, 2023, Trycker, Incorporated acquired...

1. 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?

$2,400,000

$2,280,000

$2,480,000

$2,800,000

$7,000,000

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : automatic  
Learning Objective : 01-08 Explain the rationale and reporting implications of fair-value accounting  
Topic : Report Using Fair-Value Accounting Option  
Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-90 On January 3, 2023, Trycker, Incorporated acquired ...

1. 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.

**Question Details**AACSB : Analytical Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Report Change to Equity Method  
Topic : Report Sale of Equity Investment  
Topic : Accounting for Investments&#8213;Various Methods  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-91 For each of the following numbered situations...

1. 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?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Accounting for Investments&#8213;Various Methods  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-92 Jarmon Company owns twenty-three percent (23%)...

1. 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?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-06c Understand the financial reporting consequences for investee losses.  
Topic : Report Investee Losses  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-93 Idler Company has an investment in...

1. 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?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-94 Which types of transactions, exchanges, or...

1. You are auditing a company that owns twenty percent of the voting common stock of another corporation and uses the equity method to account for the investment. How would you verify that the equity method is appropriate in this case?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-95 You are auditing a company that owns twenty...

1. How does the use of the equity method affect the investor’s financial statements?

**Question Details**AACSB : Analytical Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-96 How does the use of the equity method affect...

1. What is the primary objective of the equity method of accounting for an investment?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-97 What is the primary objective of the equity...

1. What is the justification for the timing of recognition of income under the equity method?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-98 What is the justification for the timing of...

1. What argument could be made against the equity method?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-99 What argument could be made against the...

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

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Analyze  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-100 How would a change be made from the equity...

1. How should an investor account for, and report, an investee’s other comprehensive income (or loss)?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-06b Understand the financial reporting consequences for investee's other comp  
Topic : Report Investee OCI  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-101 How should an investor account for, and...

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

**Question Details**AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Gradable : manual  
Learning Objective : 01-03 Identify the sole criterion for applying the equity method of accounting a  
Topic : Equity Method&#8213;Significant Influence Criterion  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-102 When should an investor not use the equity...

1. What is the primary objective of the fair value method of accounting for an investment?

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Topic : Accounting for Investments&#8213;Various Methods  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-103 What is the primary objective of the fair...

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

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-104 How would a change be made from the fair...

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

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Understand  
Difficulty : 2 Medium  
Gradable : manual  
Learning Objective : 01-08 Explain the rationale and reporting implications of fair-value accounting  
Topic : Report Using Fair-Value Accounting Option  
Source : Chapter 01 Test Bank - Static > TB ES Qu. 01-105 When the fair value option is elected for...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-106 Franklin Company owns 40% of the voting...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Topic : Equity Method&#8213;Basic Journal Entries  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-107 Tinker Company owns 25% of the common...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Equity Method&#8213;Allocate Cost of Investment  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-108 Farah Corporation purchased 35% of the...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Allocate Cost of Investment  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-109 On January 3, 2024, Heinreich Company paid...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-110 On January 4, 2024, Colton Corporation acquired...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-111 On January 1, 2024, Spark Corporation acquired...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-112 Wathan Incorporated sold $180,000 in inventory...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-113 Jager Incorporated holds 30% of the...

1. 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:**

Prepare the journal entry to record the sale of the 12,000 shares.

After the sale has been recorded, what is the balance in the investment account?

What percentage of Oliver stock does Hull own after selling the 12,000 shares?

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?

Prepare Hull’s journal entries related to the investment for the rest of 2024.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Learning Objective : 01-06d Understand the financial reporting consequences for sales of equity metho  
Topic : Report Sale of Equity Investment  
Topic : Accounting for Investments&#8213;Various Methods  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-114 On January 4, 2023, Hull Corporation paid...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-115 On January 2, 2024, Jolley Corporation paid...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Allocate Cost of Investment  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-116 On January 2, 2023, Pond Company acquired...

1. 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?

**Question Details**AACSB : Knowledge Application  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-06a Understand the financial reporting consequences for a change to the equit  
Topic : Report Change to Equity Method  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-117 Pursley, Incorporated acquires 10% of Ritz Corporation...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-118 Steven Company owns 40% of the outstanding...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-119 Steven Company owns 40% of the outstanding...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-120 Steven Company owns 40% of the outstanding...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Topic : Equity Method&#8213;Investment Account Balance  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-121 Steven Company owns 40% of the outstanding...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-122 On January 4, 2023, Nelson Corporation purchased...

1. 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?

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Topic : Intra&#8211;Entity Sales of Inventory  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-123 On January 4, 2023, Nelson Corporation purchased...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-124 On January 4, 2023, Nelson Corporation purchased...

1. 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.

**Question Details**AACSB : Knowledge Application  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-04 Describe the financial reporting for equity method investments and prepare  
Learning Objective : 01-07 Describe the rationale and computations to defer the investor's share of g  
Learning Objective : 01-05 Allocate the cost of an equity method investment and compute amortization  
Topic : Equity Method&#8213;Basic Journal Entries  
Topic : Intra&#8211;Entity Sales of Inventory  
Topic : Equity Method&#8213;Amortize Allocations  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-125 On January 4, 2023, Nelson Corporation purchased...

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

**Question Details**AACSB : Reflective Thinking  
AACSB : Communication  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Apply  
Difficulty : 3 Hard  
Gradable : manual  
Learning Objective : 01-02 Describe in general the various methods of accounting for an investment in  
Topic : Accounting for Investments&#8213;IFRS  
Source : Chapter 01 Test Bank - Static > TB SA Qu. 01-126 How does the equity method of accounting...

**Answer Key**Test name: Advanced Accounting 15 Chapter 01 Test Bank

B

$70,000 × 0.15 = $10,500

B

$260,000 × 0.35 = $91,000

E

$1,870,000 + ($720,000 × 0.45) − ($2.00 × 80,000) = $2,034,000

A

A

A

$7,200,000 − $3,400,000 = $3,800,000 × 30% = $1,140,000  
$1,600,000 − $1,140,000 = $460,000 ÷ 10years = $46,000 Unrecorded Patents Amortization  
$1,600,000 + $195,000 − $75,000 − $46,000 + $240,000 − $75,000 − $46,000 = $1,793,000

A

$1,000,000 − $42,000 − $7,200 = $950,800

E

B

$130,000 − $71,500 = $58,500  
$58,500 ÷ $130,000 = 45% × $30,000 = $13,500 × 30% = $4,050

B

$900,000 + $96,000 − $30,000 = $966,000 − (5,000 ÷ 40,000 × $966,000) = $845,250

D

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

A

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

B

E

C

2024 Income $108,000 × 30% = $32,400  
2023 Inventory Profit Recognized $48,000 − $28,800 = $19,200 × 25% = $4,800 × 30% = $1,440  
2024 Inventory Profit Deferred $60,000 − $33,600 = $26,400 × 40% = $10,560 × 30% = $3,168  
2024 Purchase Amortization $8,000  
$32,400 + $1,440 − $3,168 − $8,000 = $22,672 Equity Income 2024

B

2024 Beginning Balance = $402,000  
2024 Income Recognized = $22,672  
2024 Income $108,000 × 30% = $32,400  
2023 Inventory Profit Recognized $48,000 − $28,800 = $19,200 × 25% = $4,800 × 30% = $1,440  
2024 Inventory Profit Deferred $60,000 − $33,600 = $26,400 × 40% = $10,560 × 30% = $3,168  
2024 Purchase Amortization $8,000  
$32,400 + $1,440 − $3,168 − $8,000 = $22,672 Equity Income 2024  
2024 Dividend Received = ($36,000 × 30%) = $10,800  
2024 Ending Balance = ($402,000 + $22,672 − $10,800) = $413,872

C

2024 Purchase = $62,400. The investment was increased to fair value of $80,000 at 12/31/24.  
2025 Income = ($120,000 × 25%) = $30,000  
2025 Dividend = ($48,000 × 25%) = $12,000  
Ending 2025 Balance = ($80,000 + $54,000 + $30,000 − $12,000) = $152,000

A

2025 Income = ($120,000 × 25%) = $30,000

D

C

B

B

B

C

B

C

C

C

D

C

B

D

Book value purchased = ($550,000 − $300,000) = $250,000 × 30% = $75,000  
Excess: $100,000 − $75,000 = $25,000  
Allocated to patent: $30,000 × 30% = $9,000  
Remainder to goodwill: $25,000 − $9,000 = $16,000.

B

2023 Equity Income = ($50,000 × 30%) = $15,000  
2023 Excess Patent Amortization = ($30,000 ÷ 6 = $5,000) × 30%) = $1,500  
$15,000 − $1,500 = $13,500

B

2024 Equity Income = ($75,000 × 30%) = $22,500  
2024 Excess Patent Amortization = ($30,000 ÷ 6 = $5,000) × 30%) = $1,500  
$22,500 − $1,500 = $21,000

D

$100,000 + $13,500 − ($20,000 × 30%) = $107,500

A

$107,500 + $21,000 − ($30,000 × 30%) = $119,500

A

($50,000 × 15% = $7,500) = Dividends received by Jones in 2023

A

$200,000 × 40% = $80,000

D

ASU Number 2016-07 eliminated retrospective application of equity method and requires prospective treatment. Thus, the acquisition cost of the Anderson shares acquired on January 1, 2024 is added to the current fair value of the previous investment.

C

Investment in Anderson balance 2024 year end:  
January 1, 2024 fair value = $120,000 + $200,000 = $320,000  
40% of 2024 Anderson net income less dividends = $72,000 − $22,000 = $50,000  
December 31, 2024 equity method balance = $320,000 + $50,000 = $370,000

C

$400,000 − $260,000 = $140,000 × (1 − ($300,000 ÷ $400,000)) = $35,000 × 35% = $12,250 Recognition of its share of intra-entity gross profits by reduction in the Investment in Bartlett Account

D

Reversal of the deferral entry in 2024, thus recognizing the profit in 2025 income:  
$400,000 − $260,000 = $140,000 × (1 − ($300,000 ÷ $400,000)) = $35,000 × 35% = $12,250

A

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

C

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

D

Share of net income: $225,000 × 40% = $90,000  
Fair value of 40% acquired: $150,000 + $300,000 = $450,000.  
Book value of 40% acquired: $1,100,000 × 40% = $440,000  
$450,000 − $440,000 = $10,000 attributable to database  
$10,000 ÷ 4 = $2,500  
$90,000 − $2,500 = $87,500

A

$150,000 = $150,000 Balance at date of changing to equity method.  
$150,000 + $300,000 + ($90,000 − $2,500) − $20,000 = $517,500 Balance 2024 Year End

C

$517,500 + ($25,000 − $625) − $6,000 = $535,875  
2025 Beginning Investment Account Balance + (40% of 1st Quarter Income − 1st Quarter Amortization) − 1st Quarter Dividend

B

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

C

$600,000 × 40% = $240,000

D

$900,000 × 40% = $360,000

C

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

D

December 31, 2023: $2,800,000 + ($600,000 × 40%) − ($350,000 × 40%) = $2,900,000  
December 31, 2024: $2,900,000 + ($900,000 × 40%) − ($350,000 × 40%) = $3,120,000

B

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

E

$70,000 Loss × 40% = $28,000 Loss

A

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

A

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

E

Investment account balance prior to sale: $1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000  
$1,560,000 × (15,000 ÷ 30,000) = $780,000 Cost of Shares Sold  
$800,000 Sales Price − $780,000 Cost of Shares Sold = $20,000 Gain on Sale of Shares

C

Investment account balance prior to sale: $1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000  
$1,560,000 × (15,000 ÷ 30,000) = $780,000 Cost of shares Sold  
$1,560,000 − $780,000 Cost of Shares Sold = $780,000 Balance in the Investment Account

B

Investment account balance prior to sale: $1,500,000 + ($300,000 × 30%) − ($100,000 × 30%) = $1,560,000  
$1,560,000 × (15,000 ÷ 30,000) = $780,000 Cost of Shares Sold  
$800,000 Sales Price − $780,000 Cost of Shares Sold = $20,000 Gain on Sale of Shares

D

$560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000

D

Investment account balance prior to sale: $560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000  
$604,000 × (10,000 ÷ 40,000) = $151,000 Cost of Shares Sold  
$150,000 Sales Price − $151,000 Cost of Shares Sold = $1,000 Loss on Sale of Shares

C

Investment account balance prior to sale: $560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000  
$604,000 × (10,000 ÷ 40,000) = $151,000 Cost of Shares Sold  
$150,000 Sales Price − $151,000 Cost of Shares Sold = $1,000 Loss on Sale of Shares  
$604,000 − $151,000 = $453,000

C

Investment account balance prior to sale: $560,000 + ($150,000 × 40%) − ($40,000 × 40%) = $604,000  
$604,000 × (10,000 ÷ 40,000) = $151,000 Cost of Shares Sold  
$150,000 Sales Price − $151,000 Cost of Shares Sold = $1,000 Loss on Sale of Shares

C

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

D

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

B

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

E

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

C

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

D

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

B

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

A

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

B

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

D

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

B

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

B

$120,000 × 40 % = $48,000 + ($1,600 in 2023 Recognized intra-entity gross profit) − ($8,000 in 2024 Deferred intra-entity gross profit) = $41,600

A

($598,400 Balance 2023) + ($41,600 Income from 2024) − ($16,000 Dividend from 2024) = $624,000

A

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

B

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

D

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

B

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

C

$120,000 × 30% = $36,000 + ($900 from 2024) − ($2,400 from 2025 Deferral) = $34,500

B

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

D

A

C

D

E

The change is prospective only.

C

$90,000 2023 Cost + $325,000 2024 Cost + ($320,000 Income × 40%) − ($50,000 Dividends × 40%) = $523,000

E

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

D

$7,000,000 Fair Value × 40 % = $2,800,000 at December 31, 2023

Essay

(1) A; (2) D; (3) B; (4) D; (5) D; (6) D; (7) D; (8) D; (9) B; (10) C; (11) A; (12) B

Essay

The fair-value method should be used. Generally, ownership of more than twenty percent (20%) of the voting common stock would be presumed to carry significant influence and would require use of the equity method. The equity method is not appropriate in this case because of the lack of the ability to exercise significant influence.

Essay

Idler should discontinue the use of the *equity method*. The investment would have a *zero balance* until investee profits eliminate unrecognized losses.

Essay

When an investor has the ability to exercise significant influence over the operations of an investee, the investor should use the equity method to account for the investment. GAAP suggests several events or conditions which would indicate such influence: (1) investor representation on the investee’s board of directors; (2) material transactions between investor and investee; (3) interchange of managerial personnel; (4) technological dependency between investor and investee; (5) the extent of investor ownership and the concentration of other ownership interests in the investee; and (6) investor participation in the policy-making process of the investee. All of these conditions should be examined to determine whether the investor has the ability to exercise significant influence over the investee.

Essay

In order to verify that the equity method is appropriate, the auditor should determine whether the investor is able to exercise significant influence over the operations of the investee. The ability to influence the investee’s operations is the most important criterion for adopting the equity method. The auditor should look for such evidence of significant influence such as: (1) frequent or material intercompany transactions; (2) exchange of managerial personnel; (3) technological interdependency; and (4) investor participation in the decision-making process of the investee.

Essay

The use of the equity method influences the investor’s income statement and balance sheet. On the income statement, the investor’s net income will be increased by its share of the investee’s earnings reduced by any amortization of cost in excess of fair value of depreciable net assets. On the balance sheet, the investor’s total assets will include the investment account. The balance of the investment account is increased by the investor’s share of the investee’s income and decreased by investee losses and dividends paid and amortization of depreciable allocations. The investor’s retained earnings are influenced by the investee’s income or loss reported on the investor’s income statement.

Essay

The objective of the equity method is to reflect the special relationship between investor and investee. The equity method is used when the investor holds a relatively large share of the investee, but not a controlling interest. The large ownership percentage indicates that the investor has the ability to influence the decision-making processes of the investee. Use of the fair-value method would not reflect the relationship between the two parties.

Essay

According to the equity method, the investor should recognize its share of the investee’s income in the same period in which it is earned by the investee. The equity method applies accrual accounting when the investor could exercise significant influence over the investee.

Essay

An argument could be made against the recognition of income under the equity method. The investor is required to recognize its share of the investee’s income even when it is unlikely that the investor will ever receive the entire amount in cash dividends.

Essay

A change to the fair value method is appropriate when the investor can no longer exercise significant influence over the operations of the investee. No retrospective adjustment of previous years’ financial statements or the balance in the investment account is required. The balance in the investment account at the time of the change would be treated prospectively as the cost of the investment.

Essay

The investor should account for other comprehensive income or loss by including it in an Other Comprehensive Income statement account that is separate from the Equity in Investee Income account. The investor should record its share of investee Other Comprehensive Income, which should be included in its balance sheet as Accumulated Other Comprehensive Income (Accumulated Other Comprehensive Income).

Essay

When the investor does not have significant influence with regard to the investee.

Essay

The investor possesses only a small percentage of an investee and cannot expect to have a significant impact on the operations or decision-making of the investee. Since the shares are bought in anticipation of cash dividends or appreciation of stock market values, dividends received are accounted for as income and the investment is reflected at each balance sheet date at its fair value which is generally the market value at that date.

Essay

According to GAAP, when there is a change from the fair value method to the equity method for investments, the change should be incorporated prospectively.

Essay

In the balance sheet, the Investment in Investee account will be at fair value at the balance sheet date. In the income statement, any change in fair value from period to period would be reflected as investment Income (increase in fair value) or loss (decrease in fair value). Also in the income statement, the dividends received would be reflected as dividend income.

Short Answer

|  |  |
| --- | --- |
| **Investment in Academic Services Incorporated:** |  |
| **Balance at January 1, 2024** | $ 726,000 |
| **2024 equity income accrual ($150,000 × 40%)** | 60,000 |
| **2024 dividends ($40,000 × 40%)** | (16,000) |
| **Balance at December 31, 2024** | $ 770,000 |

Short Answer

|  |  |
| --- | --- |
| **2024 equity income accrual ($120,000 × 25%)** | $ 30,000 |
| **2024 amortization on purchase ($80,000 ÷ 20 × 25%)** | (1,000) |
| **2024 equity income** | $ 29,000 |

Short Answer

The journal entry is:

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Dastan Company** | 625,000 |  |
| **Cash** |  | 625,000 |

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

Short Answer

1)

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

2)

|  |  |
| --- | --- |
| **Investment in Jones Corporation:** |  |
| **Acquisition price** | $ 500,000 |
| **2024 equity loss accrual ($60,000 × 25%)** | (15,000) |
| **2024 dividends ($100,000 × 25%)** | (25,000) |
| **Balance at December 31, 2024** | $ 460,000 |

Short Answer

|  |  |
| --- | --- |
| **Investment in Hicks Company:** |  |
| **Acquisition price** | $ 1,300,000 |
| **Equity income ($368,000 × 30%)** | 110,400 |
| **Dividends ($107,000 × 30%)** | (32,100) |
| **Excess copyright amortization (($1,300,000 − $1,175,000) ÷ 10)** | (12,500) |
| **Balance at December 31, 2024** | $ 1,365,800 |

Short Answer

|  |  |
| --- | --- |
| **Purchase price of Cranston stock** | $ 250,000 |
| **Equivalent book value of Cranston stock ($430,000 × 40%)** | (172,000) |
| **Trademark** | 78,000 |
| **Life in years** | ÷ 20 |
| **Annual amortization** | $ 3,900 |

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Cranston** | 250,000 |  |
| **Cash (or liability)** |  | 250,000 |

To record acquisition of a 40% interest in Cranston.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Cranston** | 40,000 |  |
| **Equity in Investee Income** |  | 40,000 |

To recognize forty percent of income earned during the period by Cranston, an investment recorded using the equity method.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash** | 12,000 |  |
| **Investment in Cranston Incorporated** |  | 12,000 |

To record collection of dividend from investee using the equity method.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Investee Income** | 3,900 |  |
| **Investment in Cranston** |  | 3,900 |

To reflect amortization of trademark excess over book value acquired.  
\*\*Note: All merchandise was used, so no deferral entry is needed.

Short Answer

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

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity Income—Investment in Miller** | 13,500 |  |
| **Investment in Miller** |  | 13,500 |

Short Answer

|  |  |
| --- | --- |
| **Equity in investee income:** |  |
| **Equity income accrual ($100,000 × 30%)** | $ 30,000 |
| **Deferral of share of intra-entity gross profit (below)** | (5,250) |
| **Amortization (given)** | (11,000) |
| **Equity in investee income** | $ 13,750 |

|  |  |
| --- | --- |
| **Deferral of its share of intra-entity gross profit:** |  |
| **Remaining inventory — end of year** | $ 50,000 |
| **Gross profit percentage ($33,600 ÷ $96,000)** | × 35% |
| **Profit within remaining inventory** | $ 17,500 |
| **Ownership percentage** | × 30% |
| **Share of intra-entity gross profit** | $ 5,250 |

Short Answer

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash** | 144,000 |  |
| **Loss on Sale of Investment** | 11,000 |  |
| **Investment in Oliver** |  | 155,000 |

|  |  |
| --- | --- |
| **48,000 shares =** | 24% |
| **Sell 1/4 of investment** | (6)% |
| **Remaining ownership of Oliver** | 18% |

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash** | 5,400 |  |
| **Dividend Revenue** |  | 5,400 |

Short Answer

Required journal entries:

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Wonder** | 250,000 |  |
| **Cash** |  | 250,000 |

To record the initial investment in Wonder.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investor Cost of Intra-Entity Inventory** | 90,000 |  |
| **Cash** |  | 90,000 |

To record the purchase of inventory from Wonder.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Wonder** | 50,000 |  |
| **Equity in Wonder Income** |  | 41,250 |
| **Gain of Wonder** |  | 8,750 |

To record share of Wonder income.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash** | 10,000 |  |
| **Investment in Wonder** |  | 10,000 |

To record the receipt of dividend.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Wonder Income** | 1,875 |  |
| **Investment in Wonder** |  | 1,875 |

To record amortizations.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Wonder Income** | 2,750 |  |
| **Investment in Wonder** |  | 2,750 |

To defer its share of gross profit on intra-entity sales.

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

|  |  |
| --- | --- |
| **Calculation of deferred gross profit on intra-entity inventory sales:** |  |
| **Cost + 50% cost = $60,000 + $30,000** | $ 90,000 |
| **Cost** | (60,000) |
| **Gross profit** | $ 30,000 |
| **GP % = 30,000/90,000 =** | 1/3 |
| **Remaining inventory** | $ 33,000 |
| **= Intra-entity gross profit remaining in ending inventory** | $ 11,000 |
| **Jolley’s ownership %** | × 25% |
| **Deferred gross profit on intra-entity inventory sales** | $ 2,750 |

Short Answer

|  |  |
| --- | --- |
| **Equity Income-2023:** |  |
| **Basic equity accrual ($300,000 × 40%)** | $ 120,000 |
| **Amortization (Schedule 1)** | (6,000) |
| **Deferred intra-entity gross profit (Schedule 2)** | (3,600) |
| **Equity income – 2023** | $ 110,400 |

|  |  |
| --- | --- |
| **Equity Income (Loss) – 2024:** |  |
| **Basic equity accrual [$120,000 × 40%]** | $ (48,000) |
| **Amortization (Schedule 1)** | (6,000) |
| **Recognition of 2023 deferred intra-entity gross profit (Schedule 2)** | 3,600 |
| **Deferral of 2024 gross profit on intra- entity inventory sales (Schedule 3)** | (9,600) |
| **Equity income (loss) – 2024** | $ (60,000) |

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

|  |  |
| --- | --- |
| **Schedule 2** | |
| **Inventory remaining at December 31, 2023 ($96,000 − $72,000)** | $ 24,000 |
| **Gross profit percentage ($36,000 ÷ $96,000)** | × 37.5% |
| **Total gross profit on intra-entity sales** | $ 9,000 |
| **Investor ownership percentage** | × 40.0% |
| **Deferred intra-entity gross profit 12/31/23 (to be deferred until recognized in 2024)** | $ 3,600 |

|  |  |
| --- | --- |
| **Schedule 3** | |
| **Inventory remaining at December 31, 2024 ($180,000 − $120,000)** | $ 60,000 |
| **Gross profit percentage ($72,000 ÷ $180,000)** | × 40.0% |
| **Gross profit on intra-entity inventory sales** | $ 24,000 |
| **Investor ownership percentage** | × 40.0% |
| **Deferred intra-entity gross profit - 12/31/24 (to be deferred until recognized in 2025)** | $ 9,600 |

Short Answer

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Ritz** | 325,000 |  |
| **Cash** |  | 325,000 |

To record the purchase of an additional 20% share in Ritz Corporation.  
Additionally, if the fair value of the original 10% shares differed on January 7, 2024, than it did on December 31, 2023, Pursley would record the adjustment to the investment account so that the proper allocation of excess payment to goodwill could be prepared when the ownership percentage required use of the equity method of accounting on January 7, 2024.

Short Answer

[($50,000 − $35,000) × 0.25 × 0.40] = $1,500

Short Answer

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

Short Answer

[($50,000 − $35,000) × 0.25 × 0.40] = $1,500  
[($75,000 − $54,000) × 0.10 × 0.40] = $840  
[($120,000 × 0.4) − $12,000 − $840 + $1,500] = $36,660

Short Answer

[($50,000 − $35,000) × 0.25 × 0.40] = $1,500  
[($75,000 − $54,000) × 0.10 × 0.40] = $840  
[($120,000 × 0.4) − $12,000 − $840 + $1,500] = $36,660  
[$503,000 + $36,660 − ($40,000 × 0.4)] = $523,660

Short Answer

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

Short Answer

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

Short Answer

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

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Christopher Company** | 560,000 |  |
| **Cash (or liability)** |  | 560,000 |

To record the purchase of 35% interest in Christopher Company.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Christopher Company** | 87,500 |  |
| **Equity in Investee Income** |  | 87,500 |

To accrue earnings of Christopher ($250,000 × 35%).

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Dividend Receivable** | 19,250 |  |
| **Investment in Christopher Company** |  | 19,250 |

To record a dividend declaration by Christopher ($55,000 × 35%).

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash** | 19,250 |  |
| **Dividend Receivable** |  | 19,250 |

To record collection of the cash dividend.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Investee Income** | 7,000 |  |
| **Investment in Christopher Company** |  | 7,000 |

To record amortization of excess payment allocated to patent.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Investee Income** | 1,750 |  |
| **Investment in Christopher Company** |  | 1,750 |

To defer gross profit on sale of inventory to Christopher Company. ($80,000 − $60,000) × 25% × 35% = $1,750

Short Answer

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

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Christopher Company** | 105,000 |  |
| **Equity in Investee Income** |  | 105,000 |

To accrue earnings of Christopher ($300,000 × 35%).

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Dividend Receivable** | 3,500 |  |
| **Investment in Christopher Company** |  | 3,500 |

To record a dividend declaration by Christopher ($10,000 × 35%).

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash** | 3,500 |  |
| **Dividend Receivable** |  | 3,500 |

To record collection of the cash dividend.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Investee Income** | 7,000 |  |
| **Investment in Christopher Company** |  | 7,000 |

To record amortization of excess payment allocated to patent.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investment in Christopher Company** | 1,750 |  |
| **Equity in Investee Income** |  | 1,750 |

To recognize income on intra-entity sale from 2023 that can now be recognized after sales to outsiders. ($80,000 − $60,000) × 25% × 35% = $1,750

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Equity in Investee Income** | 2,100 |  |
| **Investment in Christopher Company** |  | 2,100 |

To defer the investor's share of gross profit on intra-entity sales/purchases remaining in Christopher's ending inventory. ($120,000 − $90,000) × 20% × 35% = $2,100

Short Answer

The equity method concepts and applications described in IAS 28 are virtually identical to those prescribed by the FASB ASC. However, some differences do exist. First, the FASB allows a fair-value reporting option for investments that otherwise are accounted for under the equity method. IAS 28 does not provide for a fair-value reporting option. Second, if the investee employs accounting policies that differ from those of the investor, IAS 28 requires the financial statements of the investee to be adjusted to reflect the investor’s accounting policies for the purpose of applying the equity method. U.S. GAAP does not have a similar conformity requirement.