On January 9, 2006, Company X, reporting under U.S. GAAP, purchased $1,000,000 of government bonds at par and 100,000 shares of stock in Company S for $2,000,000. The company intends on holding the stock for the foreseeable future and holding the bonds to maturity. As of December 31, the bonds were valued at $900,000, and the stocks were valued at $2,200,000. The bonds paid $50,000 of interest and the stocks paid $20,000 of dividends. In 2006, Company S had earnings per share of $0.90.

Question #1 of 117

The marketable securities balance amount shown on the balance sheet is:

A) $3,100,000.00

B) $3,000,000.00

C) $3,200,000.00

Question #2 of 117

The impact of the marketable securities on net income is:

A) $70,000.

B) $270,000.

C) $140,000.

Question #3 of 117

In late 2006, Company X decided to reclassify the investments in stock as trading securities. What is the impact of this change in status on the value of the assets of Company X?

A) $200,000.

B) $70,000.

C) $0.

Question #4 of 117

Assuming that the company would report under IFRS 9, the appropriate classification for the investment in government bonds would be:

A) Amortized cost only.

B) Amortized cost or Available for Sale only.

C) Amortized cost or held for trading security.

Question #5 of 117

Assuming that the company would report under IFRS 9 and that the investments were initially classified as fair value through profit or loss. The company can reclassify:

A) Equity security but only into fair value through OCI.

B) Both debt and equity securities into fair value through OCI.

C) Debt security only if the business model has changed.

Question #6 of 117

In 2010 the company recorded an impairment loss on their investment in government bonds. Two years later, the bonds recovered. Under U.S. GAAP a reversal of impairment loss:

A) Is not allowed.

B) Is only allowed if the reversal is other than temporary.

C) Not exceeding the original loss is allowed.

Assume that on the balance sheet date shown below TME Corporation acquires 70% of Abcor, Inc. common stock for $25,000 in cash.

Pre-acquisition Balance SheetsDecember 31, 2001		
	TME Corp.	***Abcor, Inc.***
Current assets	$80,000	$38,000

Other assets	28,000	15,000
Total assets	$108,000	$53,000
Current liabilities	$60,000	$32,000
Common stock	15,000	14,000
Retained earnings	33,000	7,000
Total liabilities and equity	$108,000	$53,000

Question #7 of 117

What will be the post-acquisition current ratio, using both the acquistion method and the equity method, respectively, for TME? *The choices below represent Acquisition and Equity, respectively.*

A) 1.04, 1.11.

B) 1.21, 1.02.

C) 1.01, 0.92.

Question #8 of 117

Using the acquistion method to account for the acquisition, what will be the post-acquisition current assets of TME?

A) $93,000.

B) $105,000.

C) $118,000.

Question #9 of 117

Using the acquistion method to account for the acquisition, which of the following is *closest* to the post-acquisition amount that will be recorded as the minority interest under US GAAP?

A) $10,700.

B) $21,000.

C) $6,300.

Question #10 of 117

Barrett Inc. is advised by its banker to create a special purpose entity (SPE) to convert its existing $15 million loan off-balance sheet. Under the terms of the deal, SPE would obtain a loan for $15 million from the bank with Barrett providing loan guarantee. Barrett would then sell $15 million of accounts receivable to the SPE and use the proceeds to pay off the current loan. Barrett prepares its financial statements under U.S. GAAP. Which of the following statements is *most accurate* regarding the impact of such an arrangement on Barrett's ratios?

A) Barrett's leverage as well as receivables turnover would remain the same.

B) Barrett's leverage would remain the same while receivable turnover would increase.

C) Barrett's leverage would decrease and receivable turnover would increase.

Question #11 of 117

When comparing companies that hold equity investments in other corporations, which of the following statements is *most* accurate? All else being equal, leverage measures for a firm using consolidation will appear:

A) less favorable than those for a comparable firm using the equity method.

B) more favorable than those for a comparable firm using the equity method.

C) more or less favorable depending on the leverage of the investee company.

Question #12 of 117

Accounting standards for intercorporate investments establish different categories of securities with distinct ways of treating them on the financial statements of the company. One category requires the securities to be carried at fair value on the balance sheet with unrealized gains and losses excluded from the income statement. This category of security classification is called debt:

A) securities held-to-maturity.

B) and equity securities available-for-sale.

C) and equity trading securities.

Question #13 of 117

Harter Company recently acquired a 40% stake in Compton Corp. for $40 million in cash by borrowing at 10%. Harter will account for this acquisition using which of the following methods:

A) Acquisition Method.

B) Held to maturity debt securities method.

C) Equity method.

Question #14 of 117

Maverick Incorporated formed a special purpose entity (SPE) to purchase and lease a 50,000 acre ranch. The SPE financed 95% of the purchase price with debt. The remaining 5% was financed with equity capital received from two separate independent investors. The lender would not make the loan without Maverick's guarantee. How should Maverick treat the SPE in its financial statements if Maverick is the lessee?

A) Maverick must consolidate the SPE.

B) No firm must consolidate the SPE.

C) Each equity investor must proportionately consolidate the SPE.

Question #15 of 117

Milburne Company purchased 1,000 shares of Marino Co. for $20 per share on January 1. By December 31, shares of Marino were trading at $15 per share in the open market. Marino Co. has 100,000 shares outstanding with a dividend yield of 2% at year end. Milburne plans to hold the shares of Marino for near-term trading purposes. The impact of the Marino holding on the Milburne income statement is:

A) −$5,000.

B) −$4,700.

C) −$5,300.

Question #16 of 117

Which of the following statements regarding securities classified as held to maturity is *most* accurate?

A) Equity securities can be classified as "held to maturity" if the security pays a large and consistent dividend and management has decided to hold the security for more than

B) Equity securities can be classified as "held to maturity" if the firm's management has decided to hold the security for more than five years.

C) Only debt securities can be classified as "held to maturity" securities.

Question #17 of 117

Which of the following statements about special purpose entities (SPE) are correct or incorrect?

Statement #1:	The sponsor usually maintains the decision-making power and voting control over the SPE.
Statement #2:	The equity owners of an SPE usually receive a rate of return that is tied to the performance of the SPE.

A) Both are incorrect.

B) Only one is correct.

C) Both are correct.

Question #18 of 117

Which of the following statements regarding special purpose entities (SPEs) is *least* accurate?

A) According to U.S. GAAP, a special purpose entity is classified as a variable interest entity (VIE) if it has at-risk equity that is sufficient to finance its own activities without

B) According to U.S. GAAP, if a SPE is considered a VIE, it must be only consolidated by the primary beneficiary.

C) Under IFRS, a special purpose entity must be consolidated by the entity which exercises control over that entity.

Question #19 of 117

Under which of the following is a minority interest account *most likely* to appear on the consolidated balance sheet?

I. The acquisition method.
II. Equity method.

A) I only.

B) Both I and II.

C) II only.

Question #20 of 117

Under U.S. GAAP rules, where an investor owns 41% of the voting shares of an investee and is able to control the investee, which of the following methods of accounting is *most* appropriate to use?

A) Acquistion method.

B) Proportionate consolidation method.

C) Equity method.

Question #21 of 117

Accounting standards for passive intercorporate investments include a category of securities that is carried on the company balance sheet at amortized cost. This category of securities is called debt:

A) securities held-to-maturity.

B) and equity securities available-for-sale.

C) and equity trading securities.

Prior to 2007, Company X (reporting under U.S. GAAP) had never made any acquisitions of other companies. However, on January 2, 2007, it went on a buying spree, purchasing 10% of Company A for $10,000; 30% of Company B for $20,000; 40% of Company C for $80,000; and 70% of Company D for $168,000.

Below are the balance sheets for the five companies (in thousands) just prior to the purchase.

Company	*X*	*A*	*B*	*C*	*D*
Cash	400	10	20	30	40
Other assets	1,600	90	180	270	360
Total assets	2,000	100	200	300	400
Liabilities	300	40	80	120	160
Equity	1,700	60	120	180	240
Total	2,000	100	200	300	400

During 2007, the companies generated the following sales, income, and dividends:

Company	*X*	*A*	*B*	*C*	*D*
Revenue	2,000	100	200	300	400
Net income	200	10	20	30	40

Dividends		4	8	12	16

The company accounts for the acquisitions based on typical ownership proportion guidelines.

Question #22 of 117

After the acquisitions, the other assets reported by Company X will be:

A) $1,878,000.00

B) $1,962,000.00

C) $2,070,000.00

Question #23 of 117

After the acquisitions, the liabilities reported by company X will be:

A) $460,000.

B) $480,000.

C) $300,000.

Question #24 of 117

After the acquisitions, minority interest reported by Company X will be:

A) $168,000.

B) $0.

C) $72,000.

Question #25 of 117

Company X will report revenue for 2007 of:

A) $2,000,000.

B) $2,280,000.

C) $2,400,000.

Question #26 of 117

Company X will report income for 2007 of:

A) $247,000.

B) $246,400.

C) $258,400.

Question #27 of 117

The change in the investment account (the account that reflects all non-consolidated investments in other companies) between January 3 and December 31 is:

A) $27,600.

B) $11,400.

C) $10,800.

Question #28 of 117

Mustang Corporation formed a special purpose entity (SPE) for purposes of providing research and development. An unrelated firm absorbs the expected losses of the SPE and the independent shareholders of the SPE receive the expected residual returns. Is the SPE considered a variable interest entity (VIE) according to FASB Interpretation No. 46(R) and is consolidation required by Mustang, respectively?

A) Yes ; No.

B) No ; No.

C) Yes ; Yes.

Question #29 of 117

Which of the following securities is *most likely* to be characterized as a held-to-maturity security?

A) Preferred stock that a company has a positive intent and ability to hold indefinitely.

B) Perpetual bonds.

C) Commercial paper.

Evergreen Brothers is a large producer of bedding plants and shrubs that are sold to various retail nurseries and home improvement stores located across the western coast of the United States with approximately $85 million in annual sales. Evergreen grows its products at two facilities, one in Northern California and the other in the Southern part of the state. Each production facility currently distributes its products within an approximate 150 mile radius of its location. All aspects of the shipping and delivery of products have historically been provided by an independent, third-party distribution company.

Because of impressive growth in the company's sales over the past several years, management has decided to pursue plans to bring "in-house" the distribution of the company's products. They believe that the projected decreased freight costs as well as the increased efficiencies in more actively managing the distribution of their production should immediately yield increased profit margins. As an initial step, Evergreen has negotiated the price for ten delivery trucks, which could provide all distribution capacity needed for the company's Northern production facility for the upcoming season. Current plans are to continue the use of the independent distribution company for the needs of the firm's Southern facility for at least the next several years.

Under advice from the company's CFO, Evergreen has created a new special purpose entity (SPE), QuickTime, Inc., which will serve as the entity that will purchase the trucks from the dealer. The purchase will be financed through a combination of debt and equity, with the dealer lending 75% of the total cost. The loan is collateralized by both the trucks and Evergreen's guarantee of the debt, as required by the dealer.

Evergreen has arranged for an outside investor to provide the remaining 25% of the upfront costs of the equipment in exchange for 100% of QuickTime's nonvoting stock. In addition, the outside investor is guaranteed an 8% annual return for the life of the financing term. At the end of seven years, QuickTime will be liquidated and Evergreen will have the option of purchasing the equipment for its fair value at that time. The proceeds of the liquidation will be used to repurchase the outside investor's stock at par value. In the event that the liquidation value is insufficient to buy back the outside investor's stock, Evergreen has committed to fund the shortfall.

Management has given its tentative approval of the project and the proposed structure. Questions remain, however, as to the effect of the creation of QuickTime on Evergreen's financial statements. With the relatively recent issuance of FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" (FIN 46(R)), the management of Evergreen has not had prior experience with the new consolidation requirements for SPEs.

Question #30 of 117

Which of the following statements regarding special purpose entities (SPEs) is *least* accurate?

A) In general, the equity investors in an SPE can expect to receive a limited rate of return on their investment in exchange for limited risk exposure.

B) An SPE can be formed to isolate specific assets from the sponsor, thus lowering the cost of capital by protecting the assets of the SPE in the event the sponsor experiences

C) An SPE can be established as one of several legal forms, such as corporations, partnerships, or trusts, but must establish separate management from that of the

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Question #31 of 117

In exchange for providing lower-cost financing to an SPE, lenders typically require additional financial support from a sponsor, which may be in the form of additional collateral or guarantees. In return, the sponsor will typically receive which of the following risk and return profiles?

A) Pro-rata share of the actual risks and returns on the project.

B) Pro-rata share of the actual returns on the project and a pre-determined fixed level of risk on the project.

C) Pro-rata share of the actual risk and a pre-determined fixed rate of return on the project.

Question #32 of 117

According to FIN 46(R), if an SPE is to be considered a variable interest entity (VIE), it must meet which of the following conditions?

A) The equity investors in the VIE must bear all of the SPE's risk up to a pre-determined level as outlined in the governing documents.

B) The total at-risk equity of the SPE is not sufficient to finance the entity's activities without additional subordinated financial support.

C) The SPE must be consolidated by the primary beneficiary, whose status as primary beneficiary is defined by the level of the firm's percentage of voting control.

Question #33 of 117

In order to be considered a VIE under FIN 46(R), an entity must meet certain conditions. Which of the following statements about QuickTime is *most* accurate? Under FIN 46(R), QuickTime is:

A) considered a VIE because outside investors share the residual gains and losses at liquidation with Evergreen.

B) considered a VIE because the outside investor's capital contribution is not sufficient to finance QuickTime's operations.

C) not considered a VIE because the outside investor does not have any decision making rights.

Question #34 of 117

As outlined in FIN 46(R), the primary beneficiary of a VIE is that entity which meets which of the following conditions?

A) Has exposure to the majority of the loss risks or receives the majority of the residual benefits of the VIE.

B) Holds the majority voting control of the VIE and has separate management from the VIE.

C) Holds the majority voting control of the VIE and shares management with the VIE.

Question #35 of 117

Assuming that QuickTime is considered a VIE in accordance with FIN 46(R), which of the following statements regarding the consolidation of QuickTime on Evergreen's financial statements is *most* accurate?

A) The truck dealer is supplying the financing for the majority (75%) of QuickTime's debt, so Evergreen may not consolidate QuickTime on its financial statements.

B) Evergreen is exposed to the majority of QuickTime's risks and rewards, so Evergreen must consolidate QuickTime on its financial statements.

C) Because the outside investor holds only nonvoting stock, Evergreen holds the majority controlling financial interest in QuickTime and must consolidate QuickTime on its

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James White works in the compliance and reporting department of Linnekt Inc., a large transportation company based on the west coast of the U.S.A. Linnekt has a small investment division which holds U.S. equities as a source of income. Linnekt's has no clear investment strategy, holding some stocks long term aiming for capital growth, and some short term with a view to turning a quick profit.

White is currently putting together a presentation for the investment department to show the impact of different accounting treatments on the group accounts.

White is considering the securities shown in Exhibit 1, all of which are currently held by GLI.

Exhibit 1 – Security Information

Security	Cost	2005 Value	2006 Value

ABC	$80	$75	$85
HIJ	$20	$30	$35
XYZ	$40	$20	$45

Linnekt holds 100,000 shares of each security. None of the holdings represents more than a 1% ownership in the respective company. As a result Linnekt has no significant influence over the any of the companies.

In addition to the securities shown in Exhibit 1, Linnekt purchased 40,000 shares in Trackite Inc. on the first day of this period. White has been tasked with deciding on the correct accounting treatment for this holding.

Trackite is a supplier of materials to several of Linnekt's divisions and the investment was initially made with a view to gaining significant influence over Trackite's operations through further share purchases. This plan was put hold, however, due to tough economic conditions during the year.

However, Linnekt intends to hold the shares permanently and may revisit increasing the holding to gain significant influence in the future.

White's supervisor, Dan Gatuso believes that the treatment of the shares is straightforward and sent White an email with the following recommendations:

Recommendation 1

As the shares are to be held permanently they should be valued at cost

Recommendation 2

Dividends should be taken to the income statement

Question #36 of 117

Which of the following statements regarding the income statement and balance sheet treatment of securities classified as held-to-maturity is *most* accurate? They are carried at:

A) cost on the balance sheet and realized and unrealized gains are taken to the income statement.

B) fair market value on the balance sheet with unrealized gains and losses excluded from income and reported as a separate component of shareholders' equity.

C) cost on the balance sheet and coupon receipts are considered income.

Question #37 of 117

How many of Gatuso's recommendations are *most likely* accurate?

A) Recommendation one only

B) Both recommendations

C) Recommendation two only

Question #38 of 117

Which of the following statements regarding the income statement and balance sheet treatment of securities classified as available-for-sale is *most* accurate? They are carried at:

A) cost on the balance sheet and coupon receipts are considered income.

B) fair market value on the balance sheet with unrealized gains and losses excluded from income and reported as a separate component of shareholders' equity.

C) fair market value on the balance sheet with unrealized gains and losses reported in income.

Question #39 of 117

Which of the following statements regarding the income statement and balance sheet treatment of securities classified as trading securities is *most* accurate? They are carried at:

A) fair market value on the balance sheet with unrealized gains and losses excluded from income and reported as separate component of shareholders' equity.

B) fair market value on the balance sheet with unrealized gains and losses reported in income.

C) cost on the balance sheet with unrealized gains and losses reported in income.

Question #40 of 117

If the securities are classified as trading securities the balance sheet value for the portfolio at year-end 2005 is:

A) $12,500,000 and record no gains or losses.

B) $12,500,000 and record an unrealized loss of $1,500,000.

C) $14,000,000 and record no gains or losses.

Question #41 of 117

If the securities are classified as trading securities the balance sheet value for the portfolio at year-end 2006 is:

A) $14,000,000 and record an unrealized gain over the past year of $2,500,000.

B) $16,500,000 and record an unrealized gain over the past year of $2,500,000.

C) $16,500,000 and record an unrealized gain over the past year of $4,000,000.

Question #42 of 117

Under IFRS rules, which of the following accounting treatments is *most* preferred for joint ventures where there is shared control?

A) Acquisition method.

B) Proportionate consolidation method.

C) Equity method.

Luna Life Insurance is a publicly traded corporation with total assets in excess of $500 million. Joy Manning, CFA, has served as Luna's chief investment officer for the past decade. Recent poor performance of Luna investment portfolio has led to the formation of a special task force to review Luna's investment holdings as well as its operating policies. The task force is composed of two current Luna board members (who are not employees of Luna) and three independent investment professionals. Their assignment is to thoroughly review Luna's financial statements for evidence of impropriety or mishandling of corporate assets. The task force is expected to complete their review within one month and report back to Luna's board of directors shortly thereafter.

Luna's most recent financial statements reflect approximately $200 million in various equity holdings and $100 million in debt instruments. A broad classification of the portfolio (in millions of $) as of December 31, 2006 is as follows:

	Held-to-Maturity	*Available-for-Sale*	*Trading*
Equity	$0	$125	$75
Debt	$50	$25	$25

In the footnotes, there is a reference to $10 million of available-for-sale securities that were transferred to the held-to-maturity portfolio last year. The securities were transferred at fair market value, and an unrealized loss of $1 million was included in that period's income. Several members of the task force believe the transaction deserves further analysis to determine if the securities' transfer between portfolios was executed in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" as Manning has represented.

Also, in 2006, Luna transferred $5 million of shares in ABC Corp from the available-for-sale portfolio to the trading portfolio. In association with this transaction, $1 million in unrealized gains were included in the year's income. The task force observes that after the transfer, there are $2.5 million of ABC Corp remaining in the available-for-sale portfolio. Manning has stated that the firm's desire to reduce exposure to the equity market was the reason for selling only a portion of the position in ABC Corp.

In addition, the group is performing its own analysis on the impact of last year's acquisition of a 20% stake in Instate, a regional provider of commercial insurance. Instate reported $15 million in earnings for the year ending December 31, 2006, and paid approximately $1 million in dividends. Manning directed Luna's accountants to record the purchase using the equity method, and thus has included a proportional share of Instate's net income for the year. The acquisition was effective as of January 1st of 2006, and operating results for the investment stake in Instate are incorporated into Luna's 2006 financial statements. The group will perform basic analysis both with and without the operating results of Instate in order to better evaluate what financial impact the inclusion of Luna's results had on Instate's overall performance.

Question #43 of 117

With regard to the $50 million of debt securities currently classified as held-to-maturity on Luna's financial statements:

A) they are carried at their amortized cost and cannot be sold prior to maturity except under unusual circumstances.

B) the cost method of accounting should be used on the income statement while the market method should be used on the balance sheet.

C) unrealized gains and losses are excluded from income but reported as a separate component of shareholders' equity.

Question #44 of 117

Although the appropriate classification of investments is determined at the purchase date, management can reevaluate the classifications at the end of each financial period and adjust accordingly. When transferring debt securities from the available-for-sale portfolio to held-to-maturity, which of the following rules is *most likely* in accordance with SFAS 115? Available-for-sale securities transferred to held-to-maturity are transferred at:

A) their amortized cost, and any unrealized gains or losses remain in equity but are subsequently amortized over the remaining life of the security.

B) fair market value, and any unrealized gains or losses remain in equity but are subsequently amortized over the remaining life of the security.

C) fair market value, and any unrealized gains or losses are included in income in the period of transfer.

Question #45 of 117

Analysts should be wary of which of the following equity transactions a company may use to manipulate its reported earnings to reflect a higher net income? A company can move shares that have appreciated in value from:

A) available-for-sale to the trading portfolio.

B) trading to the available-for-sale portfolio.

C) held-to-maturity to the trading portfolio.

Question #46 of 117

Which of the following investments would *most likely* be reported under the equity method?

A) An investment in 80% of the equity of an entity that gives the owner control over that entity.

B) An investment in 5% of the equity of an entity that gives the owner significant influence over that entity.

C) An investment in 40% of the equity of an entity that gives the owner control over that entity.

Question #47 of 117

Luna has recorded its investment in Instate utilizing the equity method of accounting for intercorporate investments. According to FASB, which of the following statements *most* accurately reflects the impact on an investor's financial statements by using the equity method?

A) The investing firm can include a proportionate share of the investee's income in its earnings, regardless of whether or not there are actual cash flows (i.e. dividends).

B) The investing firm will not make any adjustments to its financial statements to reflect its proportionate share of the investee's net assets, but will reference the investment in the

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C) Market values can be compared with the carrying amount for analysis purposes, but only market values may be used in the financial statements.

Question #48 of 117

Suppose Luna had accounted for the Instate acquisition using the passive method for investments in financial assets rather than the equity method of accounting for intercorporate investments. Explain how the different methods would *most likely* impact Luna's financial statements? Under the equity method, Luna will report:

A) lower net income than under the passive method for investments in financial assets.

B) improved debt coverage than under the passive method for investments in financial assets.

C) higher return on investment than under the passive method for investments in financial assets.

Question #49 of 117

Which of the following statements about the various classifications of securities held by a firm is *least* accurate?

A) Trading securities are, by definition, current assets because the firm intends to trade these securities in the near term.

B) Equity securities of other companies cannot be classified as "held to maturity" under SFAS 115.

C) A firm which invests in the debt securities of another firm cannot classify these securities as "held to maturity" if they have the positive intent and ability to hold the

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Omricon Capital Associates specializes in making investments in the small cap market sector. In some cases the firm operates as a supplier of private equity for restructurings. In this instance, the firm views itself as having a value investment focus. In others, it acts as a venture capital firm. Here, the investment focus is usually growth. Finally, in some cases it simply takes passive investment positions in publicly-traded firms. The positions in marketable securities are sometimes considered trading positions, and other times the view is to hold for a longer period until valuation parameters are met or exceeded.

Omricon's chief compliance officer, Raymond "Buzz" Richards has recently become concerned that the firm may not be correctly following the relevant accounting standards for these investments. To ensure that the rules are being effectively adhered to, he is seeking advice from the accounting firm of Merz-Brokaw and Associates on the matter. Sally Lee is the Merz-Brokaw partner heading up the consulting team assigned to review the situation.

The size of the investments ranges from a few percent of the firm's outstanding equity, to positions of greater than 50%. Richards says that it has always been his understanding that the percentage of the equity held is the major determinant with respect to which accounting method applies. Lee reminds him that the firm's intent for its investments also plays a role in determining how they are accounted for.

Some of the firm's investments have not worked out as planned. Richards has conferred with the firm's portfolio managers regarding securities being held by the firm that are worth less than when they were acquired, and has presented a list of these investments to Lee. His concern is what this implies for the accounting for these investments. Lee tells him that the issue here is whether or not the security can be considered impaired, and that designating a security as impaired implies that the decline in value is permanent.

Top managers at Omricon have asked Lee to help them evaluate the impact of the choice of accounting method on the firm's profitability. Some members of the management team are of the belief that the accounting method does not affect financial measures because these are driven by underlying economic factors. Others believe that these measures can be affected by the accounting method chosen.

Question #50 of 117

Assuming no significant influence exists, which of the following statements concerning percentage ownership and accounting method is *most* accurate?

A) When the ownership is less than 20%, both US GAAP and IFRS require the equity method.

B) When the ownership is less than 20%, US GAAP requires the investment in financial assets method, IFRS the equity method.

C) When the ownership is less than 20%, both US GAAP and IFRS require the investment in financial assets method.

Question #51 of 117

For instances in which Omricon holds exactly 50% of the outstanding equity of the investee firm's equity (i.e., the investee firm is a joint venture), which of the following statements is *most* accurate?

A) IFRS and US GAAP both permit a choice between the equity method and proportional consolidation.

B) IFRS requires that the equity method be used; US GAAP permits a choice between the equity method and proportional consolidation.

C) Both US GAAP and IFRS require that the equity method be used.

Question #52 of 117

The three classifications for passive investments in securities that trade in secondary markets are:

A) trading securities, marketable securities, held-to-maturity securities.

B) marketable securities, available-for-sale securities, held-to-maturity securities.

C) trading securities, available-for-sale securities, held-to-maturity securities.

Question #53 of 117

When a passive investment in marketable equity securities is classified as available-for-sale:

A) US GAAP requires that unrealized gains and losses are reported on the income statement, while under IFRS the firm can elect to report on either the income statement

B) IFRS requires that unrealized gains and losses are reported in comprehensive income on the balance sheet, while under US GAAP the firm can elect to report on either the

C) US GAAP and IFRS require that unrealized gains and losses are reported as equity in other comprehensive income on the balance sheet.

Question #54 of 117

With respect to Lee's statement concerning securities that are currently worth less than when they were acquired, a security should be considered impaired when the:

A) decline in value is other than temporary, its value should be written down to the new fair value, and a loss reported in comprehensive income in equity on the balance sheet.

B) decline in value is other than temporary, its value should be written down to the new fair value, and a loss reported on the income statement.

C) decline in value is permanent, its value should be written down to the new fair value, and a loss reported on the income statement.

Question #55 of 117

Relative to consolidation, using the equity method of accounting for investments results in:

A) ROA being higher than under consolidation.

B) ROA being higher and leverage being higher than under consolidation.

C) ROA being lower and leverage being higher than under consolidation.

Question #56 of 117

Company A acquired a 50% stake in Company T on January 1, 2003 by paying T's shareholders $100,000 in cash. Pre-acquisition balance sheets for the two firms are presented below:

Balance Sheet		
	Company A	***Company T***
Current assets	$400,000	$60,000
Fixed assets	600,000	100,000
Total	$1,000,000	$160,000
Current liabilities	$50,000	$ 30,000
Common stock	350,000	60,000
Retained earnings	600,000	70,000
Total	$1,000,000	$160,000

The fair values of company T assets and liabilities was same as the book value. Company A reports under U.S. GAAP. What are the post-acquisition balance sheet values for total assets for Company A under the equity and acquisition methods of accounting respectively?

A) $1,060,000 and $1,095,000.

B) $1,000,000 and $1,095,000.

C) $1,000,000 and $1,130,000.

Question #57 of 117

On December 31, 2008 Company P invests $5,000 in Company S in exchange for 25% of the company. During 2009, Company S earns $2,000 and pays a dividend of $500. If Company P uses the equity method of accounting, what values will be reported on the balance sheet and income statement? How much cash will be recognized from the investment?

	Balance Sheet	Income Statement	Cash
A)	$5,375	$500	$125
B)	$5,375	$125	$125

C) $5,500 $0 $0

Question #58 of 117

Which of the following statements about variable interest entities (VIE) are correct or incorrect?

Statement #1:	One potential benefit of a VIE is a lower cost of capital since the assets and liabilities of the VIE are isolated in the event the sponsor experiences financial difficulties.
Statement #2:	The organizational form of a VIE must be either a partnership or a joint venture and it is necessary for the VIE to have separate management and employees.

A) Only one is correct.

B) Both are incorrect.

C) Both are correct.

Question #59 of 117

The factors that determine the required accounting methods for intercorporate investments under both U.S. GAAP and IFRS rules are:

A) percentage of ownership and/or degree of influence.

B) purchase cost compared with book value of the interest purchased.

C) degree of influence and whether the acquiring firm has the intent and ability to hold the securities to maturity.

Global Life Insurance (GLI) holds a wide range of assets in a range of different portfolios across its various divisions. Some of these assets are held long term to meet future liabilities, whereas others are held short term to make profits and meet shorter term liquidity needs.

GLI set up a small portfolio of U.S. equities in one of its smaller divisions last year. GLI's chief investment officer has recently contacted the accounting department to discuss the correct treatment of the portfolio in the group accounts.

Details of the portfolio's transactions and results for the previous period are shown below in Exhibit 1.

Exhibit 1 - Equity Portfolio Results

	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Shares purchased (sold)	1,000	(200)	700	0
Total shares quarter-end	1,000	800	1,500	1,500
Purchase price	50.00		45.00	
Sale price		45.00		
Quarter-end market price	52.00	43.00	52.00	60.00
Total dividends	500	400	750	750

The chief investment officer's also provides the following extract from the portfolio's investment policy statement:

IPS Extract

1. The portfolio should consist solely of U.S. mid-cap equities.
2. The number of transactions in the portfolio should be kept to a minimum. Shares should not be purchased on a speculative basis for short term profits.
3. The anticipated average holding period for securities in the portfolio is 3.5 – 4 years.
4. Securities should only be sold to meet urgent liquidity needs.

Another reporting issue the accounting department is looking at concerns a fixed income portfolio. An overview of the portfolio is given in Exhibit 2:

Exhibit 2 – Fixed Income Portfolio

Par Value	$25,000,000
Coupon rate	5% (paid semi-annually)
Current Market Value	$27,000,000

The portfolio consists of $1000 par value, 5 year bonds issued by RTF Inc. They were purchased on the date of issue 1st January 2012 for $25,893,577. For the year ending 31st December the bonds were classed as held to maturity.

The chief investment officer believes a more appropriate classification would be available for sale, as he is not convinced the bonds will be held for the remaining 3 years.

Question #60 of 117

What is the income from the equity portfolio if the securities are classified as trading or available-for-sale?

	Trading	Available-for-sale
A)	-$6,600	$1,400
B)	$19,900	$19,900
C)	$19,900	$1,400

Question #61 of 117

What is the balance sheet carrying value of the securities under each of the classifications at year-end?

	Trading	Available-for-sale
A)	$71,500	$71,500
B)	$90,000	$90,000
C)	$90,000	$71,500

Question #62 of 117

What is the rate of return (income/year-end carrying value) under each of the three methods?

Trading ; Available-for-sale

A) 22.11% 1.56%

B) 23.22% 23.22%

C) 2.67% 2.67%

Question #63 of 117

Given the information regarding the equity portfolio in the IPS extract, which of the following treatments for the securities in the portfolio detailed in Exhibit 1 is *most likely* correct?

A) Held to maturity

B) Trading

C) Available for sale

Question #64 of 117

If the fixed income portfolio outlined in Exhibit 2 is remains classified as held to maturity, which of the following is *closest* to the interest income reported in the income statement for the year ending 31st December 2013?

A) $1,086,000

B) $1,079,000

C) $1,088,000

Question #65 of 117

If the bonds are reclassified as suggested by the chief investment officer, which of the following statements is *most likely* correct?

A) The difference between the amortized cost and fair value will be shown in other comprehensive income.

B) The difference between the amortized cost and fair value will be shown in net income.

C) The difference between the purchase price and fair value will be shown in other comprehensive income.

Question #66 of 117

Trading securities are defined as:

A) equity securities representing 20% to 50% ownership in a public firm.

B) debt and equity securities that are very liquid and easy to sell.

C) debt and equity securities acquired with the intent of selling them in the near future.

Rocky Mountain Air Cargo is a privately held commercial aviation company serving the western United States. It publishes financial statements in accordance with U.S. GAAP and uses a fiscal year that matches the calendar year.

Rocky Mountain was in good financial shape heading into 2003, with assets of $50 million at the beginning of the fiscal year. That year, it earned $3 million in net income and was easily able to maintain its traditional 50% dividend payout ratio. However, Rocky Mountain had a very difficult year in 2004, reporting a loss of $800,000. It managed to pay $1 million in dividends, but the decision to pay dividends in such a weak financial year further undermined the company's fiscal stability.

Flitenight Air Lines, a publicly-traded aviation firm serving the central and Midwestern United States, wanted to expand its range of service by coordinating its flight schedule with airlines serving different geographic regions of North America. One of these airlines was Rocky Mountain Air Cargo.

To cement the relationship, Flitenight's CEO, John "Bulldog" Basten, decided to make a significant investment in Rocky Mountain Air Cargo. He was easily able to convince both boards of the wisdom of the deal, and, in his usual brash style, personally negotiated the terms with his counterpart at Rocky Mountain, Buck Matthews. Flitenight Air Lines acquired a 20% stake in Rocky Mountain Air Cargo (with an option to purchase 40% more) for $10 million cash. The deal closed on January 1, 2003 and Flitenight accounted for the investment using the equity method.

Basten was not happy to find that he had invested right at the peak of Rocky Mountain's profitability and wound up with a money-losing airline. He had a difficult conversation with

Matthews in early 2005, complaining about the impact of the Rocky Mountain investment on Flitenight's financials. Basten pointed out that he had a loss on his books: the original $10 million investment in Rocky Mountain was carried at only $9,940,000 on Flitenight's December 31, 2004 balance sheet. Matthews countered that this was just an accounting entry: on a cash basis, Flitenight had a gain of 5% on its investment over the two years.

Matthews' insistence that the investment had earned money for Flitenight did not sit well with Basten. Basten decided that Rocky Mountain was clearly being mismanaged and concluded it was time to gain control of the company.

Basten assured Neil Glenn, the Chairman of Flitenight's board, that he could turn Rocky Mountain around. He promised Glenn that, in 2005, Rocky Mountain would once again achieve $3 million in earnings and a 50% payout ratio. "With those results," Basten promised Glenn, "our asset accounts will value the Rocky Mountain investment at $10,240,000 on our December 31, 2005 balance sheet – so we'll show a gain on our original investment." Glenn was skeptical of anyone's ability to turn the airline around so quickly. Even so, Glenn assured Basten, "If it takes you longer to turn it around, at least we'll have the dividend income on our 2005 cash flow statements."

Basten notified Matthews and Rocky Mountain's board that Flitenight intended to exercise its option. At the direction of Basten and Glenn, Flitenight purchased the additional shares for cash and gained control of Rocky Mountain on December 31, 2004.

Question #67 of 117

In 2003, Flitenight would reflect its investment in Rocky Mountain on its income statement by recording:

A) −$200,000.

B) $600,000.00

C) $300,000.00

Question #68 of 117

If Flitenight were to account for its Rocky Mountain investment as an investment in financial assets instead of the equity method, Flitenight's 2004 income statement would reflect its investment in Rocky Mountain by including which of the following?

A) Nothing, since the cost of the acquisition is not adjusted until the asset is sold.

B) Only income of $200,000.

C) Only a loss of $160,000.

Question #69 of 117

Under the acquisition method, minority interest is considered:

A) equity under IFRS and a liability under US GAAP.

B) equity under IFRS and US GAAP.

C) a liability under IFRS and US GAAP.

Question #70 of 117

Regarding Basten's and Matthews' statements about the gain/loss that Flitenight had at the end of 2004 on its investment in Rocky Mountain, which is *most* accurate?

A) Basten's statement is incorrect and Matthews' statement is correct.

B) Basten's statement is correct and Matthews' statement is incorrect.

C) Basten's statement is correct and Matthews' statement is correct.

Question #71 of 117

Regarding Basten's and Glenn's statements about the impact of Rocky Mountain on Flitenight's 2005 balance sheet and cash flow statement, which is *most* accurate?

A) Basten's statement is incorrect and Glen's statement is correct.

B) Basten's statement is correct and Glen's statement is correct.

C) Basten's statement is incorrect and Glen's statement is incorrect.

Question #72 of 117

GTH Corporation has just purchased 18% of the common stock of Pittor Corporation, one of their major suppliers, making GTH the largest single shareholder in Pittor. The primary motivation for the purchase is that managerial problems at Pittor have resulted in quality control difficulties, thereby affecting the reliability of several critical component parts for GTH products. At the time of the purchase, GTH management announced they plan to be an active investor and exercise significant influence on Pittor so the quality problems can be resolved. Given these circumstances, the accounting method used to record the intercorporate investment will *most likely* be the:

A) equity method.

B) investment in financial assets method.

C) acquisition method.

Question #73 of 117

Which of the following statements regarding asset securitizations and special purpose entities (SPEs) is *most* accurate?

A) The SPE usually issues debt to purchase receivables from the sponsor.

B) If the sponsor has no recourse, then the transaction is nothing more than a collateralized borrowing.

C) When receivables are securitized, the sponsor reports the cash inflow as an investing activity in the cash flow statement.

Question #74 of 117

Milburne Company purchased 1,000 shares of Marino Co. for $20 per share on January 1. By December 31, shares of Marino were trading at $15 per share in the open market. Marino Co. has 100,000 shares outstanding with a dividend yield of 2% at year end. Milburne plans to hold the shares of Marino for longer-term investment and liquidity purposes. The impact of the Marino holding on the Milburne income statement is:

A) -$4,700.

B) $300.

C) -$5,000.

Question #75 of 117

Company X owns 15% of company S and exerts significant influence over the operations of the company. The book value of the investment on December 31, 2001, is $48,000. In 2002, company S earned $100,000 and paid dividends of $20,000. The value of the investment account on December 31, 2002, is:

A) $60,000.

B) $63,000.

C) $48,000.

Question #76 of 117

Cosmo Inc. (Cosmo) invests in two portfolios – Portfolio 1 and Portfolio 2. Portfolio 1 contains securities with an overall intent to profit within a month or two. Portfolio 2 contains equity securities with a moderate amount of acquisition and disposition activity. Which of the following treatments of Cosmo's reporting of the investments in Portfolios 1 and 2, respectively, is *most* accurate?

	Portfolio 1	Portfolio 2
A)	Unrealized amounts reported on	Assets reported at
B)	Unrealized amounts reported on	Assets reported at
C)	Unrealized amounts reported on	Assets reported at fair value

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Question #77 of 117

When comparing companies that hold equity investments in other corporations, which of the following statements is *most* accurate? All else being equal, return on asset measures for a firm using consolidation will appear:

A) more favorable than those for a comparable firm using the equity method.

B) less favorable than those for a comparable firm using the equity method.

C) same as for a comparable firm using the equity method.

Question #78 of 117

Which of the following methods of accounting for investments will reflect the highest net income on a company's income statement?

A) Acquisition method.

B) Both methods report the same net income.

C) Equity method.

Question #79 of 117

Acme Corporation purchases a 3% interest in Bandy Company to become the single largest shareholder of Bandy. Acme will hold a seat on the Board of Directors of Bandy. Acme will account for its investment in Bandy using the:

A) acquisition method.

B) lower of cost or market method.

C) equity method.

Question #80 of 117

Firm A recently leased equipment used in its manufacturing plant. If the leased asset is worth less than $100,000 at the end of the lease, Firm A will pay the lessor the difference.

Firm B provided debt financing to an unrelated entity. The debt has a provision whereby Firm B cannot be repaid until all other senior debt is satisfied.

Do Firm A and Firm B have a variable interest?

A) Neither have a variable interest.

B) Both have a variable interest.

C) Only one has a variable interest.

Question #81 of 117

The consolidation method results in:

A) same net income and shareholders' equity as the equity method.

B) same net income as the equity method but different shareholders' equity.

C) same equity as the cost method.

Question #82 of 117

Which of the following statements is INCORRECT regarding the classification of debt and equity security investments?

A) If equity and debt securities are available-for-sale securities, any realized and unrealized gains and losses are reported in the income statement.

B) If equity and debt securities are trading securities, any realized and unrealized gains and losses are reported in the income statement.

C) Debt held-to-maturity is reported in the balance sheet at amortized cost.

Question #83 of 117

Which of the following methods of accounting for investments will reflect the highest assets and liabilities on a company's balance sheet?

A) Both methods result in reporting the same balances for assets and liabilities.

B) Acquisition method.

C) Equity method.

Question #84 of 117

Fiduciary Investors held two portfolios of marketable equity securities:

- $50 million in Portfolio A was accounted for as available-for-sale.
- $50 million in Portfolio B was accounted for as trading securities.

Assume that Fiduciary reclassified securities ($10 million carrying value, $8 million market value) from Portfolio B into Portfolio A under U.S. GAAP. If no previous write downs were made, Fiduciary must:

A) do nothing to its income statement or equity section of its balance sheet.

B) charge $2 million to its income statement.

C) charge $2 million to the equity section of its balance sheet.

On December 15, 2009, the Zeisler Company faces a financial crisis. Zeisler's industry has gone into recession and net income has declined to nearly zero. Jeremiah Welch, the company's CFO, is extremely concerned that, when the final figures for 2009 come in, the poor operating results will throw the firm into violation of its debt covenants, which specify that it must meet a certain return on assets (ROA) and not exceed a certain debt-to-asset ratio. A violation of either covenant would trigger a provision in the lending agreement allowing lenders to put Zeisler's debt back to the firm and likely force Zeisler into bankruptcy.

With only two weeks before the close of the firm's fiscal year on December 31, there is no way to avoid bankruptcy through improved operations. Welch calls an emergency meeting with Olivia Dupree, the firm's controller, to come up with a plan of action to keep Zeisler out of bankruptcy. He explains to Dupree that they need to increase Zeigler's reported ROA and reduce its reported debt-to-assets ratio relative to the numbers that would otherwise be reported for 2009.

Dupree suggests that Zeisler's equity investments might be useful in staving off bankruptcy. Zeisler acquired 100,000 shares of the Market Square Corporation on January 1, 2009, at $25 per share. Market Square paid dividends during 2009 of $1.50 per share and was expected to have earnings for 2009 of $2.50 per share. Zeisler also holds 250,000 shares of General Nuclear, purchased for $72 per share. General Nuclear has no dividends and is expected to report a loss for 2009. Both securities are classified on the financial statements as available-for-sale.

Dupree added that Zeisler also holds several million dollars of Market Square's debt securities, classified as a held-to-maturity investment. The holding in Market Square represents a small fraction of Zeisler's total fixed-income investments, all of which are also classified as held-to-maturity. The investment in Market Square's debt differs significantly from Zeisler's other investments in fixed-income securities in that Market Square's debt is trading slightly above Zeisler's cost while Zeisler's other fixed-income investments are all trading significantly below Zeisler's cost because of a general increase in market interest rates. Welch points out, however, that even if the firm were to sell all its marketable securities, the proceeds would not be sufficient to pay off the debt and avert bankruptcy.

Dupree left the meeting with Welch for a moment to check the stock market. She found that Market Square was trading at $35 per share and General Nuclear was at $43. This new information gave Dupree an idea.

Dupree suggested to Welch, "We could reclassify our equity investment in Market Square as trading before year-end. That will help raise our ROA for this year." Welch pointed out that a reclassification of the equity investment from available-for-sale to trading would reduce Zeisler's reported net income because the firm would be required to stop including the dividends it receives from Market Square in net income.

Welch suggested that, instead of reclassifying Market Square's equity, they sell Market Square's debt. That would reduce Zeisler's debt-to-assets ratio because the unrealized gain in the market value of the Market Square debt would be realized when the security was sold. Dupree added that the firm could also liquidate the General Nuclear investment to raise cash without affecting the firm's reported ROA for 2009. Welch and Dupree decided to liquidate the two assets to help improve the firm's financial position.

Question #85 of 117

What is the investment income that Zeisler Company will report for the year 2009 on its investment in Market Square Corporation shares if it continues to account for the shares as an available-for-sale investment?

A) $250,000.

B) $200,000.00

C) $150,000.

Question #86 of 117

If Zeisler were to account for the Market Square Corporation shares as trading securities, assuming that the securities do not change in value between the December 15th meeting and the end of the year, the carrying amount of these shares on Zeisler's December 31, 2009 balance sheet would be:

A) $2.75 million.

B) $2.50 million.

C) $3.50 million.

Question #87 of 117

If Zeisler reclassified the common stock of General Nuclear as a trading security, what effect would it have on Zeisler's 2009 income statement?

A) Net income would increase.

B) Net income would decline.

C) Reclassifying the security would have no effect on the income statement because gains and losses would be recognized in equity.

Question #88 of 117

Regarding the statements made by Dupree and Welch about reclassifying Zeisler's equity investment in Market Square to trading:

A) Welch's statement is incorrect; Dupree's statement is incorrect.

B) Welch's statement is correct; Dupree's statement is incorrect.

C) Welch's statement is incorrect; Dupree's statement is correct.

Question #89 of 117

If Zeisler were to account for the Market Square Corporation shares using the equity method, assuming that the securities do not change in value between the December 15th meeting and the end of the year, the carrying amount of these shares on Zeisler's December 31, 2009 balance sheet would be:

A) $3.50 million.

B) $2.60 million.

C) $2.75 million.

Question #90 of 117

Regarding the statements made by Welch about reclassifying Zeisler's debt investment in Market Square to trading, and Dupree's statement on General Nuclear:

A) Welch's statement is correct; Dupree's statement is incorrect.

B) Welch's statement is correct; Dupree's statement is correct.

C) Welch's statement is incorrect; Dupree's statement is incorrect.

Question #91 of 117

Mashburn Company acquired 25% of the 100,000 outstanding shares of Humm Co. on January 1 for $250,000 in cash. Humm Co. earned $1 per share and had a dividend payout ratio of 40%. As of December 31, Humm Co. shares were trading in the open market at $12 per share. Calculate the income statement treatment of the Humm Co. investment as of December 31.

A) $25,000.

B) $75,000.

C) $10,000.

Question #92 of 117

Under U.S. GAAP rules, where an investor owns a significant number (39%) of the voting shares of an investee but has no involvement in policy making and no Board of Directors' representation, which of the following investment classifications is *most* appropriate to characterize the situation?

A) Investment in financial assets.

B) Significant influence.

C) Investment in associates.

Birch Corporation is a large conglomerate based in the U.S. that has grown primarily through acquisition. On the first day of this reporting year, January 1, 2012, Birch acquired 1,500,000 shares of the common stock of TRQ Inc. TRQ Inc. produces high quality fabrics for use in the fashion industry. Exhibit 1 shows key numbers from TRQ Inc.'s accounts.

Exhibit 1 - TRQ Financial Statement Extracts

TRQ Inc	
Income – year ending 31 Dec 12	$700,000
Dividend paid	$210,000
Number of common shares in issue	6,000,000
Number preferred shares in issue	3,000,000

Total number of shares in issue	9,000,000

Both Birch and TRQ prepare their accounts using US GAAP.

Dan Fitzroy is the CFO of Birch, and is currently preparing with a meeting with the auditors to discuss the correct treatment of the TRQ investment in Birch's group accounts. Fitzroy is of the opinion that the equity method of accounting should be used for the following reasons:

1. The proportion of TRQ's common shares owned by Birch suggests that Birch has significant influence over TRQ's operations
2. The lack of ownership of preferred shares suggests that Birch has no significant influence over TRQ's operations
3. The proportion of TRQ's total shares owned by Birch suggests that Birch has significant influence over TRQ's operations

Fitzroy has to present to the board on the implications of the decision once he has spoken to the auditors. He intends to discuss the following impacts on the financial statements:

Impact One

If the auditors rule that the TRQ investment should be accounted for as a subsidiary rather than an associate, the group's liquidity ratios will be unaffected

Impact Two

If the auditors rule that the TRQ investment should be accounted for as a subsidiary rather than an associate, the group's net profit margin will be lower

Fitzroy also intends to ask the auditors about another potential acquisition that Birch may potentially make this year. The company under consideration is Tyrobin Inc., a small U.S. based company in the pharmaceutical industry.

Fitzroy has observed the note shown in exhibit two in the company's footnotes for last year. He is unsure how it would be accounted for in the event of a 100% acquisition of Tyrobin's share capital by Birch.

Exhibit Two – Tyrobin Footnote

Note 45 Contingent Liabilities

Tyrobin is involved in various legal proceedings considered typical to its business, including actual or threatened litigation and/or actual or potential government investigations relating to product liability, infringement of IP rights, the validity of certain patents and competition laws. All of the claims involve highly complex issues.

Often these issues are subject to substantial uncertainties and, therefore, the probability of a loss, if any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings.

Question #93 of 117

Assuming the equity method of accounting is used, what will be the reported investment income for Birch?

A) $60,000.00

B) $175,000.00

C) $115,000.00

Question #94 of 117

Assuming the equity method of accounting is used, what will be the cash flow received by Birch, due to their investment in TRQ?

A) $227,500.

B) $65,400.

C) $52,500.

Question #95 of 117

If the consolidation method is used, how much of TRQ's net income will Birch recognize in the group income statement?

A) $175,000

B) $700,000

C) $122,500

Question #96 of 117

Which of Fitzroy's reasons would most likely support the equity accounting method being appropriate for TRQ?

A) Reason 3

B) Reason 1

C) Reason 2

Question #97 of 117

Which of the impacts Fitzroy intends to present to the board is most likely correct?

A) Neither impact is correct

B) Impact two only

C) Impact one only

Question #98 of 117

If Birch were to acquire 100% of the share capital of Tyrobin, how would the issues detailed in Exhibit 1 be treated when accounting for the business acquisition?

A) The contingent liabilities would not be recognized in the balance sheet or income statement on acquisition.

B) The contingent liabilities would be charged immediately as an expense to the group income statement.

C) The contingent liabilities would be measured at their fair value and shown as a liability in the group accounts.

Question #99 of 117

Sawbuck Corporation recently acquired a 60% stake in Rawboard Inc. for $70 million in newly issued common stock. Given this information, which of the following methods should be used to account for the acquisition of Rawboard?

A) The pooling of interest method.

B) Proportionate consolidation.

C) Acquisition.

Question #100 of 117

Which of the following securities will *most likely* be characterized as an available-for-sale security?

A) Debt or equity securities that are carried on the balance sheet at fair market value and may be sold for liquidity purposes.

B) Debt securities that a company has a positive intent and ability to hold to maturity.

C) Equity securities representing 30% ownership in another firm.

Question #101 of 117

Equity method is:

A) required under IFRS and under U.S. GAAP for jointly controlled entities.

B) recommended under IFRS and U.S. GAAP for jointly controlled entities.

C) recommended under U.S GAAP for jointly controlled entities, but is not normally permitted under IFRS.

Question #102 of 117

Accounting standards for passive intercorporate investments establish different categories of securities with distinct ways of treating them on the financial statements of the company. Which of the following categories requires realized and unrealized gains and losses to be reported as income? Debt:

A) and equity securities available-for-sale.

B) securities held-to-call.

C) and equity trading securities.

On January 9, 2006, Company X paid $2,000,000 for 100,000 shares of stock in Company S. Originally the company intended on holding the securities for the foreseeable future. As of December 31, the stocks were valued at $2,200,000. In 2006, Company S had earnings per share of $0.90 and paid dividends per share of $0.20. In late December 2006, the company decided to place the securities in their active marketable securities portfolio.

Question #103 of 117

What is the impact of this change in status on the value of the assets of Company X?

A) $70,000.00

B) $0.00

C) $200,000.00

Question #104 of 117

What is the impact of this change in status on the income and the stockholders' equity of Company X?

A) Income and stockholder's equity will rise by $200,000.

B) Stockholders' equity will rise by $200,000, but income will not change.

C) Income will rise by $200,000, but stockholders' equity will not change.

Question #105 of 117

A company reports an intercorporate investment using the acquisition method. Which of the following statements is *most* accurate?

A) The use of the equity method by a company will generally report the same results.

B) The use of the acquisition method by a company will generally report the less favorable results.

C) The use of the acquisition method by a company will generally report the more favorable results.

Joseph Haggs, CFA, is an analyst working for Garvess Jones, a large publicly traded investment-baking firm. Haggs covers the Internet sector. Recently, one of the more successful companies Haggs covers, Simpson Corporation, made an aggressive move to acquire another Internet company, Bailey Corporation (BC). BC is a company specializing in graphics and animation on the World Wide Web and has 1,000,000 shares outstanding. Simpson also holds minimal investments in other technology companies both public and private. In 1999 Simpson saw an opportunity to substantially increase its share in BC. Simpson feels that their sophisticated animation can greatly improve Simpson's market share and sees an acquisition as an opportunity to expand their business. The relevant financial data are in the following tables.

Bailey Corporation			
Selected Financial Data, Years Ended December 31			
(in Thousands)			
Item	**1998**	**1999**	**2000**
Sales	$50,000	$60,000	$70,000
Less: cost of goods sold (COGS)	37,000	43,700	47,250
Earnings before interest & taxes (EBIT)	13,000	16,300	22,750
Less: Interest	10,000	13,000	19,000
EBT	3,000	3,300	3,750
Less: Taxes	1,000	1,100	1,250
Net Income	$2,000	$2,200	$2,500

Dividends Paid	$1,000	$1,200	$1,500
Total Shares Outstanding			1,000,000

Simpson's Purchase Transactions in BC's Stock			
Date	**January 1, 1998**	**January 1, 1999**	**January 1, 2000**
Number of Shares	10,000	290,000	700,000
Price per Share	10	11	15

Because this is the largest acquisition in Simpson's history, Mr. Haggs' supervisor has asked him to prepare a report for Garvess Jones' clients detailing the affects of the acquisition on Simpson's financial statements.

Question #106 of 117

Haggs wonders which accounting method Simpson uses to calculate the book value of the BC investment for the year ending December 31, 1999. Which is the correct method?

A) Investment in Financial Assets method.

B) Equity method.

C) Acquisition method.

Question #107 of 117

Haggs wonders which accounting method Simpson uses to calculate the book value of the BC investment for the year ending December 31, 1998. Which is the correct method?

A) Equity method.

B) Investment in Financial Assets method.

C) Acquisition method.

Question #108 of 117

Haggs wonders which accounting method Simpson uses to calculate the book value of the BC investment for the year ending December 31, 2000. Which is the correct method?

A) Equity method.

B) Proportional consolidation method.

C) Acquisition method.

Question #109 of 117

Haggs wants to make sure that he assumes the proper accounting method when he does his analysis. The acquisition of BC stock will lead to Simpson's total net cash flow equaling which of the following for the year ending December 31, 1999?

A) $−3,190,000.

B) $360,000.

C) $−2,830,000.

Question #110 of 117

Carter Schmitz, Inc. (Schmitz) purchased 200 shares of Intelismart at $21 a share in June 2006 and intends to actively trade 80 shares in the near future and hold the remaining 120 shares as available for sale securities. Intelismart's closing price was $26 on December 31, 2006, and Schmitz did not sell any of its shares.

What amount should Schmitz report on this investment under the income statement?

A) $400.

B) $600.

C) $1,000.

Question #111 of 117

Company X owns 15% of company S and exerts significant influence over the operations of the company. The book value of the investment on December 31, 2008, is $48,000. In 2009, company S earned $100,000 and paid dividends of $20,000. The impact of the investment on the income statement of company X is:

A) $12,000.

B) $3,000.

C) $15,000.

The Anderson Company acquired 100,000 shares of the Birschbach Company on January 1, 2012, at $25 per share. The market price of a share of Birschbach stock on December 31, 2012, was $35 per share. During 2012, Birschbach paid dividends of $1.50 per share and had earnings of $2.50 per share.

The Anderson Company did not buy or sell any additional shares in 2013. The market price of Birschbach stock on December 31, 2013 was $42.50 per share. During 2013 Birschbach paid dividends of $1.75 per share and had earnings of $2.25 per share.

Question #112 of 117

If the Anderson Company accounts for the Birschbach shares as trading securities, the carrying amount of these shares on Anderson's balance sheet at the end of 2012 is:

A) $3.5 million.

B) $2.6 million.

C) $2.5 million.

Question #113 of 117

If Anderson Company accounts for the Birschbach Company shares as securities available-for-sale, the carrying amount of these shares on Anderson's balance sheet at the end of 2012 is:

A) $2.6 million.

B) $3.5 million.

C) \$2.5 million.

Question #114 of 117

If Anderson Company accounts for the Birschbach Company shares using the equity method, the carrying amount of these shares on Anderson's balance sheet at the end of 2012 is *closest* to:

A) \$2.8 million.

B) \$2.6 million.

C) \$3.5 million.

Question #115 of 117

For the year 2012, the investment income that Anderson Company reports on its investment in Birschbach Company shares, if Anderson accounts for the shares as an available-for-sale investment, is:

A) \$250,000.

B) \$100,000.

C) \$150,000.

Question #116 of 117

If the investment in Birschbach Company is treated as held-for-trading securities, transactions that impact the income statement include:

A) earnings of \$250,000 and dividend income of \$150,000.

B) an unrealized gain of \$1,000,000 and dividend income of \$150,000.

C) an unrealized gain of \$1,000,000 and earnings of \$250,000.

Question #117 of 117

If Anderson Company accounts for the Birschbach Company shares using the equity method, the change in carrying value from 2012 to 2013 is *closest* to:

A) +$50,000.

B) +$2,650,000.

C) +$225,000.