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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS & ECONOMICS
ACCOUNTING DEPARTMENT
ADVANCED ACCOUNTING 432
MID-TERM EXAM 19/11/2017

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For Instructor's Use	
Question	**Points**
Question 1	12
Question 2	10
Question 3	10
Question 4	7
Question 5	8
Matching	12
MCQ	9
TOTAL	68

Matching	
1	I
2	E
3	L
4	A
5	F
6	J
7	C
8	D
9	H
10	B
11	G
12	K

Multiple Choices	
1	C
2	A
3	D
4	C
5	A
6	A
7	B
8	B
9	D
10	C

PART ONE - ESSAY QUESTIONS

Question 1 (12 points)

On January 2, 2013 Carolina Clothing issued 100,000 new shares of its $5 par value common stock valued at $19 a share for all of Dakota Dressing Company's outstanding common shares in an acquisition. Carolina paid $15,000 for registering and issuing securities and $10,000 for legal and appraisal costs of the business combination. The fair value and book value of Dakota's identifiable assets and liabilities were the same. Assume Dakota Company is dissolved on the date of the acquisition. Summarized balance sheet information for both companies just before the acquisition on January 2, 2013 is as follows:

cash
goodwill 190000
liab.
C.S
paid in ca

	Carolina	Dakota
Cash	$150,000	$120,000
Inventories	320,000	400,000
Other current assets	500,000	500,000
Land	350,000	250,000
Plant assets-net	4,000,000	1,500,000
Total Assets	$5,320,000	$2,770,000
Accounts payable	$1,000,000	$300,000
Notes payable	1,300,000	660,000
Capital stock, $5 par	2,000,000	500,000 x
Additional paid-in capital	1,000,000	100,000 x
Retained Earnings	20,000	1,210,000 x
Total Liabilities & Equities	$5,320,000	$2,770,000

1810 000

20.000
-10.000

12

Required

Complete the below balance sheet for Carolina Clothing immediately after the business combination.

Carolina Clothing
Balance Sheet
January 2, 2013

Assets:		Liabilities:	$1300000
Cash	$ 245000	Accounts payable $	
Inventory	720 000	Notes payable	1960 000
Other current assets	1000 000	Total liabilities	3260 000
Total current assets	1965000		
Land	600 000	Equity:	
Plant assets-net	5500000	Common stock ($5 par)	2500000
Goodwill	$ 90000	Additional paid-in capital	2385 000
Total Long-term Assets	6 190 000	Retained earnings	10000
		Total equity	$ 4895000
Total assets	81 55000	Total liabilities & equity	8155 000

Paid in Capital = 1000000 + 1400000
Direct costs.
− 15000

Question 2 (11 points)

Pike Corporation paid $100,000 for a 10% interest in Salmon Corp. on January 1, 2013, when Salmon's stockholders' equity consisted of $800,000 of $10 par value common stock and $200,000 retained earnings. On December 31, 2014, after receipt of the year's dividends from Salmon, Pike paid $192,000 for an additional 20% interest in Salmon Corp. Both of Pike's investments were made when Salmon's book values equaled their fair values. Salmon's net income and dividends for 2013 and 2014 were as follows:

	2013	2014
Net income	$60,000	$140,000
Dividends	$20,000	$40,000

equity
6000 + 14000 = 20,000
cost
6000

Cost method
10%

Required

a) Prepare the journal entry for Pike Corporation to record the receipt of 2014 dividends. (4 points)

10

Account	DR	CR
Cash	4000	
Income from Dividends		4000

Dividends Income from Salmon Corp.

b) Prepare the journal entry for Pike Corporation to account for the change from the cost method to the equity method. (4 points)

Account	DR	CR
Investment in Salmon Corp.	14000	
Income from ~~Salmon~~ Corp.		14000

c) Calculate the balance of Pike's investment in Salmon at December 31, 2014. (3 points)

$\boxed{\# 306000}$

Investment

10% ← 1/1/2013 100000

change from cost to equity ← 14000

20% ← Dec 31/2014 192000

306000 ✓

100% → 250000

Question 3 (10 points)

Passerby International purchased 80% of Standaround Company's outstanding common stock for $200,000 on January 2, 2014. At that time, the fair value of Standaround's net assets were equal to the book values. The balance sheets of Passerby and Standaround at January 2, 2014 are summarized as follows:

	Passerby	Standaround
Assets	$1,600,000	$470,000
Liabilities	$840,000	$230,000
Capital stock	360,000	50,000
Retained earnings	400,000	190,000

240.000

Required

Determine the consolidated balances as of January 2, 2014 for the following five balance sheet line items:

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Item	Balance
Goodwill	10000
Liabilities	1070 000
Capital Stock	360 000
Retained Earnings	400 000
Noncontrolling Interest	50 000

Invested 200,000

Cash 200,000

C.S 50,000
R.E 190000
gain 10000

Investment 200
NCI in NA 50

177000

C.S 450000
R.E 210000
gain 117000

Investment 621600
NCI in NA 155400

Question 4 (7 points)

The consolidated balance sheet of Pasker Corporation and Shishobee Farm, its 80% owned subsidiary, as of December 31, 2014, contains the following accounts and balances:

Pasker Corporation and Subsidiary
Consolidated Balance Sheet
at December 31, 2014

	Balances
Cash	$57,000
Accounts receivable-net	210,000
Inventories	330,000
Other current assets	255,000
Plant assets-net	870,000
Goodwill from consolidation	117,000
	$1,839,000
Accounts payable	$219,000
Other liabilities	210,000
Capital stock	1,050,000
Retained earnings	240,000
Noncontrolling interest	120,000
	$1,839,000

Investment 621600

Cash 621600

F.V
777000

C.S 450000
RE 210000
NCI 35400

80% 141600

621600

Pasker Corporation acquired its interest in Shishobee Farm on January 1, 2014, when Shishobee Farm had $450,000 of Capital Stock and $210,000 of Retained Earnings. Shishobee Farm's net assets had fair values equal to their book values when Pasker acquired its interest. No changes have occurred in the amount of outstanding stock since the date of the business combination. Pasker uses the equity method of accounting for its investment.

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Required

a) Determine the balances of Pasker's Capital Stock and Retained Earnings accounts at December 31, 2014. (4 points)

Accounts	Balance
Capital Stock	1050000
Retained Earnings	240000

Investment
621600 | 141600
480000

b) Determine the cost of Pasker's purchase of Shishobee Farm stock on January 1, 2014. (3 points)

1/1 2014
Shishobee B.V = 450 000 + 210,000 = 660.000
+ good will 117000
F.V of 100% ← 777000

777000 × .8 = $621600
Cash paid to them

Investment 621600
Cash 621600

Beg Balance
Non Controlling int 155400 → ending 120000 → Change = 35400

Question 5 (8 points)
A cash distribution plan for the Sammi, Tammy, and Udd partnership was as follows:

	Creditors	Sammi	Tammy	Udd
First $250,000	100%			
Next $100,000		70%	30%	
Next $150,000		11/15		4/15
Remainder		20%	35%	45%

Required
If $850,000 of cash was distributed by the partnership, how much was received respectively by the creditors, Sammi, Tammy, and Udd?

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Party/Partner	Amount
Creditors	250000
Sammi	250000
Tammy	152500
Udd	197500

350,000
500,000
~~600 000~~

Sammi: 70,000 + 110000 + 70.000
Tammy 30.000 + 122500
Udd 40000 + 157500

PART TWO - MATCHING & MULTIPLE CHOICE QUESTIONS

MATCHING QUESTION (12 points)

Listed below are a number of terms. Match each term with the appropriate description from the list below, using the item's code (letter).

Terms		
~~A~~. Special purpose entity (SPE)	E. Preselected ratio	~~I~~. Installment liquidation
~~B~~. Statutory merger	~~F~~. Statutory consolidation	~~J~~. Lump-sum liquidation
~~C~~. Tender offer	~~G~~. Bonus method	~~K~~. Safe payments to partners
D. Buyout price	~~H~~. Partner's dissociation	~~L~~. Dissolution

	Descriptions
1	Liquidation in which cash is periodically distributed to partners during the liquidation process. I
2	Are usually the result of negotiations between the partners. E
3	Sale of partnership assets, payment of its liabilities, and distribution of any remaining assets to partners. L
4	A financing vehicle that is not a substantive operating entity, usually one created for a specified reason. A
5	Type of business combination in which both combining companies are dissolved and the assets and liabilities of both companies are transferred to a newly created corporation. F
6	Liquidation in which all assets are converted into cash over a short time period, enabling all creditors to be paid, with any remaining cash being distributed according to the partner's capital balance. J
7	An invitation to the shareholders of the other company to exchange their shares for securities or assets of the acquiring company. C
8	The estimated amount if (1) the assets were sold for a price equal to the higher of the liquidation value or the value based on a sale of the entire business as a going concern without the dissociated partner, and (2) the partnership was wound up at that time with payment of all the partnership's creditors and termination of the business. D
9	The legal description of a partner's withdrawal. H
10	Type of business combination in which only one of the combining companies survives. B
11	Records an increase in the partnership's total capital only for the capital amount the new partner invests, in accordance with GAAP. G
12	Cash payments to partners computed on the assumption that all noncash assets will be sold for nothing. K

MULTIPLE CHOICE QUESTIONS (10 points)

1) Which of the following is a reason to use a partnership as the legal form of a business?
A) Partnerships avoid the issue of mutual agency.
B) Partnerships avoid the issue of unlimited liability.
C) Partnerships avoid the issue of double-taxation faced by corporations.
D) Partnerships avoid the difficulty of raising capital. ✗

2) A business merger differs from a business consolidation because
A) a merger dissolves all but one of the prior entities, but a consolidation dissolves all of the prior entities and forms a new corporation.
B) a consolidation dissolves all but one of the prior entities, but a merger dissolves all of the prior entities.
C) a merger is created when two entities join, but a consolidation is created when more than two entities join.
D) a consolidation is created when two entities join, but a merger is created when more than two entities join.

3) Following the accounting concept of a business combination, a business combination occurs when a company acquires an equity interest in another entity and has
A) at least 20% ownership in the entity.
B) more than 50% ownership in the entity.
C) 100% ownership in the entity.
D) control over the entity, irrespective of the percentage owned.

4) Durer Inc. acquired Sea Corporation in a business combination and Sea Corp went out of existence. Sea Corp developed a patent listed as an asset on Sea Corp's books at the patent office filing cost. In recording the combination,
A) fair value is not assigned to the patent because the research and development costs have been expensed by Sea Corp. ✗
B) Sea Corp's prior expenses to develop the patent are recorded as an asset by Durer at purchase. ✗
C) the patent is recorded as an asset at fair market value. ✓
D) the patent's market value increases goodwill.

5) Under the provisions of FASB Statement No. 141R, in a business combination, when the fair value of identifiable net assets acquired exceeds the investment cost, which of the following statements is correct?
A) A gain from a bargain purchase is recognized for the amount that the fair value of the identifiable net assets acquired exceeds the acquisition price.
B) The difference is allocated first to reduce proportionately (according to market value) non-current assets, then to non-monetary current assets, and any negative remainder is classified as a deferred credit.
C) The difference is allocated first to reduce proportionately (according to market value) non-current assets, and any negative remainder is classified as an extraordinary gain.
D) The difference is allocated first to reduce proportionately (according to market value) non-current, depreciable assets to zero, and any negative remainder is classified as a deferred credit.

Use the following information to answer questions 6 - 8 below.

5:5

Bertram and Ernest share profits and losses equally after salary and interest allowances. Bertram and Ernest receive salary allowances of $40,000 and $60,000, respectively, and both partners receive 10% interest on their average capital balances. Average capital balances are calculated at the beginning of each month, regardless of when additional capital contributions or permanent withdrawals are made subsequently within the month. Partners' drawings of $3,000 per month are not used in determining the average capital balances. Total net income for 2014 is $240,000.

	Bertram	Ernest	
January 1 capital balances	$200,000 × $\frac{5}{12}$	$240,000	× $\frac{4}{12}$
Yearly drawings ($3,000 a month)	(36,000)	(36,000) ×	
Permanent withdrawals of capital:			
June 3	(24,000) 176000 × $\frac{1}{12}$		
May 2	80 256 000	(30,000)	210 × $\frac{5}{12}$
Additional investments of capital:			
July 3	80,000 256 × $\frac{6}{12}$		
October 2		100,000	310 × $\frac{3}{12}$

6) What is the weighted-average capital for Bertram and Ernest in 2014? 226
A) $224,000 and $245,000
B) $203,333 and $221,167
C) $221,333 and $239,167
D) $256,000 and $220,000

7) If the average capital for Bertram and Ernest from the above information is $224,000 and $238,000, respectively, what will be the total amount of profit allocated to salary and interest distributions?
A) $ 93,800
B) $146,200
C) $218,200
D) $240,000

100.000
22400
23 800

8) If the average capital balances for Bertram and Ernest are $200,000 and $240,000, what will the total partnership profit allocations be for Bertram and Ernest in 2014?
A) $100,000 and $140,000
B) $108,000 and $132,000
C) $120,000 and $120,000
D) $140,000 and $100,000

100000
48000 ← 20 000
48000 ← 24000
144000 96000

Use the following information to answer questions 9 & 10 below.
Quincy has decided to retire from the partnership of Quincy, Robert, and Sam. The partnership will pay Quincy $400,000. Total partnership capital should be revalued based on the excess payment to Quincy. (Assume the book values of the assets listed below equals fair values.) A summary balance sheet for the Quincy, Robert, and Sam partnership appears below. Quincy, Robert, and Sam share profits and losses in a ratio of 1:1:3, respectively.

$\frac{1}{5}$

Assets	
Cash	$ 150,000
Marketable securities	76,000
Inventory	164,000
Land	300,000
Building-net	510,000
Total assets	$1,200,000
Equities	
Quincy, capital	320,000
Robert, capital	280,000
Sam, capital	600,000
Total equities	$1,200,000

9) What goodwill will be recorded?
A) $ 80,000
B) $240,000
C) $320,000
D) $400,000

10) What partnership capital will Robert have after Quincy retires?
A) $200,000
B) $280,000
C) $360,000
D) $440,000