Accounting for Corporate Combinations and Associations Australian 8th Edition Arthur Test Bank
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Accounting for Corporate Combinations and Associations, 8th edition

Test Bank: Chapter 2: Principles of consolidation

Multiple Choice Questions

1. The general purpose financial statements (GPFS) of a parent entity are prepared from the viewpoint of the:
    a) group.
    b) parent entity.
    c) subsidiary.
    d) non-controlling interest.

    Answer: A
    Difficulty: 1
    AACSB: Written and Oral Communication
    Learning Objective: LO 2.1 Explain the objectives of consolidated financial statements.
    Topic: 2.1 Introduction

2. (T/F): The purpose of consolidated financial statements is to provide information to shareholders of the parent company.

    Answer: F
    Difficulty: 2
    AACSB: Analytical Thinking
    Learning Objective: LO 2.1 Explain the objectives of consolidated financial statements.
    Topic: 2.1 Introduction

3. A company adopting the replaceable rules included in the *Corporations Act* announces a dividend to be paid after the balance date. The company:
    a) must recognise a liability in its financial statements.
    b) must not recognise a liability.
    c) has the choice of whether to recognise a liability or not.
    d) none of the above.

    Answer: B
    Difficulty: 1
    AACSB: Written and Oral Communication
    Learning Objective: LO 2.1 Explain the objectives of consolidated financial statements.
    Topic: 2.2.1 Recognition of dividends payable and receivable

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4. A company with a constitution that provides for the declaration of dividends will recognise a liability for dividends payable if:

   a) the dividend is recommended before the balance date but not declared.
   b) the dividend is declared before the balance date.
   c) the dividend is recommended and declared after the balance date.
   d) none of the above.

   Answer: B
   Difficulty: 2
   AACSB: Analytical Thinking
   Learning Objective: LO 2.1 Explain the objectives of consolidated financial statements.
   Topic: 2.2.1 Recognition of dividends payable and receivable

5. (T/F): The declaration date of a dividend determines whether it will be recorded as a liability in the financial statements.

   Answer: T
   Difficulty: 1
   AACSB: Analytical Thinking
   Learning Objective: LO 2.2 Understand the regulations relating to the recognition of dividends.
   Topic: 2.2.1 Recognition of dividends payable and receivable

6. Discuss the changes in the accounting rules for recognition of liabilities for dividends payable after 1 January 2005.

   Answer: Recognition of liability for dividend payable:
   - Since 2005 Accounting Standard AASB 110 *Events after the Reporting Period* prevents the recognition of a liability for dividends payable unless the dividend is 'declared' by the reporting date
   - 'Declared' means authorised and no longer at discretion of the entity
   Difficulty: 2
   AACSB: Written and Oral Communication
   Learning Objective: LO 2.2 Understand the regulations relating to the recognition of dividends.
   Topic: 2.2.1 Recognition of dividends payable and receivable

7. Consolidation worksheet adjusting entries are recorded:

   a) in the general ledger of the parent entity.
   b) in the general ledger of the subsidiary.
   c) in the consolidation working papers.
   d) none of the above.

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Answer: C
Difficulty: 1
AACSB: Written and Oral Communication
Learning Objective: LO 2.1 Explain the objectives of consolidated financial statements.
Topic: 2.2.2 The consolidation worksheet

8. (T/F): Totals and subtotals in a consolidation worksheet are derived by adding/subtracting down the group column.

Answer: T
Difficulty: 1
AACSB: Written and Oral Communication
Learning Objective: LO 2.2 Understand the regulations relating to the recognition of dividends.
Topic: 2.2.2 The consolidation worksheet

9. (T/F): All consolidation adjusting entries must be repeated in subsequent accounting periods.

Answer: F
Difficulty: 2
AACSB: Written and Oral Communication
Learning Objective: LO 2.2 Understand the regulations relating to the recognition of dividends.
Topic: 2.2.3 Consolidation worksheet adjustments

10. (T/F): Where a subsidiary's financial reporting period ends on a different date to that of the parent company, the subsidiary must prepare additional financial statements

Answer: T
Difficulty: 1
AACSB: Written and Oral Communication
Learning Objective: LO 2.2 Understand the regulations relating to the recognition of dividends.
Topic: 2.2.3 Consolidation worksheet adjustments

11. A parent and its subsidiary adopt different bases for measuring property plant and equipment assets. Upon consolidation, the financial statements must reflect:

    a) the accounting policy of the group.
    b) the accounting policy of the subsidiary.
    c) either the accounting policy of the parent or the subsidiary.

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d) none of the above.

Answer: A
Difficulty: 2
AACSB: Written and Oral Communication
Learning Objective: LO 2.1 Explain the objectives of consolidated financial statements.
Topic: 2.2.4 Consistent reporting periods and consistent accounting policies

12. Explain the consequences of distinguishing between pre-acquisition and post-acquisition equity of a subsidiary in the consolidation process.

Answer:
Pre-acquisition and post-acquisition equity:
- Pre-acquisition equity is equity of a subsidiary at acquisition date.
- Pre-acquisition equity is eliminated on consolidation to avoid double counting of net assets of a subsidiary at acquisition date.
- Post-acquisition equity of a subsidiary are profits and reserve changes after acquisition.
- Post-acquisition equity forms part of the group equity reported in consolidated financial statements.
- Goodwill is measured as the difference between the cost of the investment and the pre-acquisition equity acquired.
- The dividing line between pre-acquisition and post-acquisition equity is the acquisition date.

Difficulty: 3
AACSB: Reflective Thinking
Learning Objectives: LO 2.2 Understand the regulations relating to the recognition of dividends; LO 2.3 Outline the consolidation process.

Topics: 2.2.4 Consistent reporting periods and consistent accounting policies; 2.3.1 Pre-acquisition versus post-acquisition profits and reserves

13. (T/F): In a consolidation, it would be double counting to record the net assets of a subsidiary and the parent company's investment in subsidiary asset.

Answer: T
Difficulty: 1
AACSB: Analytical Thinking
Learning Objective: 2.3 Outline the consolidation process.
Topic: 2.3 Elimination of the parent's investment in subsidiary asset

14. It is important to distinguish between pre-acquisition and post-acquisition equity of a subsidiary to allow:

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a) post-acquisition equity to be eliminated on consolidation.
b) goodwill or gain on bargain purchase to be calculated.
c) avoidance of double counting of pre-acquisition equity.
d) none of the above.

Answer: C
Difficulty: 2
AACSB: Analytical Thinking
Learning Objective: LO 2.3 Outline the consolidation process.
Topic: 2.3.1 Pre-acquisition versus post-acquisition profits and reserves

15. (T/F): The investment date and the acquisition date of a subsidiary will always be the same.

Answer: F
Difficulty: 1
AACSB: Analytical Thinking
Learning Objective: LO 2.3 Outline the consolidation process.
Topic: 2.3.1 Pre-acquisition versus post-acquisition profits and reserves

16. (T/F): Post-acquisition changes in the composition of pre-acquisition equity can be ignored for the purposes of consolidation adjustments.

Answer: F
Difficulty: Moderate
AACSB: Analytical Thinking
Learning Objective: LO 2.3 Outline the consolidation process.
Topic: 2.3.2 Post-acquisition changes in the composition of pre-acquisition equity

17. Where a subsidiary has declared but not paid a dividend on a cum-dividend basis on acquisition date, the amount of the dividend must be recorded by the parent company as:
    a) revenue.
    b) a reduction in the cost of the investment.
    c) a reduction in the amount of goodwill on consolidation.
    d) none of the above,

Answer: A
Difficulty: 3
AACSB: Application of Knowledge
Learning Objective: LO 2.3 Outline the consolidation process
Topic: 2.3.3 Dividends declared but not paid at acquisition date

18. (T/F): Dividends payable by a subsidiary on an ex-dividend basis will be ignored for the purposes of consolidation.

Answer: T

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Difficulty: Difficult
AACSB: Analytical Thinking
Learning Objective: LO 2.3 Outline the consolidation process.
Topic: 2.3.3 Dividends declared but not paid at acquisition date

19. Goodwill on acquisition is recorded when:
    a) the cost of the acquisition of the subsidiary is less than the fair value of the subsidiary's equity.
    b) the cost of the acquisition is more than the fair value of the subsidiary's equity.
    c) the cost of the acquisition is equal to the fair value of the subsidiary's equity.
    d) none of the above.

Answer: B
Difficulty: 1
AACSB: Analytical Thinking
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4 Introduction to goodwill or gain on bargain purchase

20. (T/F): Goodwill is not an identifiable intangible asset because it is not separable.

Answer: T
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4 Introduction to goodwill or gain on bargain purchase

21. Explain why the existence of goodwill enables an entity to generate higher future cash flows or profits than would otherwise occur.

Answer:

Goodwill:

- Goodwill represents future economic benefits arising from unidentified assets acquired in a business combination.
- The future economic benefits include such things as customer base, employees and superior manufacturing processes that make the parent willing to pay more than the value of the identified assets and liabilities.

Difficulty: 2
AACSB: Reflective Thinking

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Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4 Introduction to goodwill or gain on bargain purchase

22. During June 20X5, Cassius Ltd acquired all the issued capital of Cicero Ltd in exchange for 1,000,000 shares with a market value of $10 per share, $5 000 000 cash payable on June 30 20X5 plus a further $6 050 000 payable on June 30 20X7. Assume an interest rate of 10%. A consultation fee of $1 000 000 was paid to an independent firm for their assistance in the acquisition. A special department was set up in Cassius Ltd to oversee the acquisition and the estimated costs of this department that were reliably attributable to the acquisition amounted to $300 000. The cost of acquisition was (rounded to the nearest $1 000):
    a) $21 000 000.
    b) $22 350 000.
    c) $22 050 000.
    d) $21 300 000.

Answer: D
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.1 Measurement of the cost of a business combination

23. In August 20X6, Caesar Ltd acquired the issued ordinary shares of Alesia Ltd in a one-for-one share exchange. Immediately prior to the acquisition, the shares of Caesar Ltd and Alesia Ltd were being traded on the ASX for $12 and $10 per share respectively. Immediately following the offer to purchase the shares, the shares in Alesia Ltd were being traded at $13 per share. From this information, the cost of acquisition would be recorded at:
    a) $12 per share since this is the market assessment of the fair value of the shares issued by Caesar Ltd.
    b) $10 per share since this is the fair value of the shares of Alesia Ltd and thus a reliable measure of the fair value of the shares issued by Caesar Ltd.
    c) $13 per share since the shareholders of Alesia Ltd have a choice between accepting the offer of Caesar Ltd or selling their shares in the market, and $13 per share is the most objective measure of the fair value of the shares in Caesar Ltd.
    d) none of the above.

Answer: A
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.1 Measurement of the cost of a business combination

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24. During August 20X5, Tiberius Ltd acquired the issued capital of Capri Ltd in exchange for 1 000 000 shares in Tiberius Ltd with a fair value of $10 per share. Share issue costs amounted to $400 000. Tiberius Ltd also took over the loan payable by Capri Ltd to Ethereal Finance Ltd of $2 000 000. The cost of the investment is:
    a) $10 000 000.
    b) $10 300 000.
    c) $12 000 000.
    d) none of the above.

Answer: A
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.1 Measurement of the cost of a business combination

25. During August 20X5, Atticus Ltd acquired the issued capital of Finch Pty Ltd in exchange for 1 000 000 shares in Atticus Ltd with a fair value of $10 per share. Share issue costs amounted to $400 000 and an amount of $400 000 was paid to consultants. Atticus Ltd also took over the loans payable to the shareholders of Finch Pty Ltd by that company of $2 000 000. The cost of the investment is:
    a) $12 400 000.
    b) $8 400 000.
    c) $12 800,000.
    d) none of the above.

Answer: A
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.1 Measurement of the cost of a business combination

26. (T/F): In a business combination. share issue costs are not included as part of the cost of acquisition.

Answer: T
Difficulty: 1
AACSB: Analytical Thinking
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.1 Measurement of the cost of a business combination

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27. (T/F): Changes in fair value of contingent consideration in a business combination will affect the calculation of any goodwill or gain on bargain purchase.

Answer: F
Difficulty: 2
AACSB: Analytical Thinking
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.1 Measurement of the cost of a business combination

28. Any goodwill arising on a business combination is required to be tested at least annually for impairment. This requirement arises from the operation of:
    a) AASB 116 *Property, Plant and Equipment*.
    b) AASB 3 *Business Combinations*.
    c) AASB 138 *Intangible Assets*.
    d) AASB 136 *Impairment of Assets*.

Answer: D
Difficulty: 2
AACSB: Analytical Thinking
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.3 Accounting for goodwill

29. For the year ended 30 June 20X6, the following financial statements were prepared for the two companies Arkle Ltd and Red Rum Ltd (amounts in thousands). At that date, the net assets of Red Rum Ltd approximated their fair value.

Balance Sheets as at 30 June 20X6

	Arkle Ltd	**Red Rum Ltd**
Assets		
Sundry assets	$10 000	$2 000
Investment in Subsidiary	2 000	
	--------	-------
Total assets	$12 000	$2 000
Less liabilities	2 000	500
	--------	-------
Net assets	$10 000	$1 500
	=====	====
Shareholders' equity		
Issued capital	$ 2 000	$1 000
Retained earnings	8 000	500
	--------	-------
Total shareholders' equity	$10 000	$1 500
	=====	====

Income Statements for the Year ended 30 June 20X6

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	Arkle Ltd	Red Rum Ltd
Sales revenue	$20 000	$2 000
Less cost of goods sold	12 000	1 200
	--------	-------
Gross profit	$ 8 000	$ 800
Less sundry expenses	4 000	100
	--------	-------
Profit from continuing activities before tax	$ 4 000	$ 700
Less income tax expense	1 500	350
	--------	-------
Profit for the year	$ 2 500	$ 350
	=====	====

Statements of Movements in Retained Earnings Year ended June 30 20X6

	Arkle Ltd	Red Rum Ltd
Retained earnings 1 July 20X5	$ 6 000	$ 400
Add profit for the year	2 500	350
Less dividend paid	500	250
	--------	-------
Retained earnings 30 June 20X6	$ 8 000	$ 500
	=====	====

On 1 July 20X5, Arkle Ltd acquired all the issued capital for $2 250 000 cash. Immediately subsequent to acquisition, Red Rum Ltd paid a dividend of $250 000 out of retained earnings at 1 July 20X5. The goodwill paid on the investment was:

a) $850 000.
b) $750 000.
c) $600,000.
d) none of the above.

Answer: A
Difficulty: 1
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.3 Accounting for goodwill

30. Assume the same data as in Question 14. Any goodwill element in the cost of acquisition had not been impaired. The consolidated shareholders' equity of Arkle Ltd and its subsidiary at 30 June 20X6 is:

a) $10 080 000.
b) $10 100 000.
c) $10 350 000.
d) none of the above.

Answer: C
Difficulty: 2

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AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.3 Accounting for goodwill

31. Outline the regulatory basis for the requirement to measure goodwill at cost less accumulated impairment losses.

Answer:
Measurement of goodwill:
- Under current accounting standards, goodwill is not required to be amortised.
- This situation arises from the interaction of a number of accounting standards.
AASB116 excludes goodwill from the requirement to depreciate as the standard only covers tangible assets.
AASB 3 does not cover accounting for goodwill subsequent to initial recognition.
AASB136 requires goodwill to be tested annually for impairment.
Difficulty: 2
AACSB: Written and Oral Communication
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.3 Accounting for goodwill

32. (T/F): A gain on bargain purchase will be recognised in the financial statements of the acquiring company in a business combination relating to the acquisition of a controlling interest in a company.

Answer: F
Difficulty: 1
AACSB: Analytical Thinking
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.4 Accounting for gain on bargain purchase

33. A subsidiary that is identified as a single cash-generating unit (CGU) has property, plant and equipment assets with a carrying amount of $100 000 and a recoverable amount of $80 000. On acquisition of the subsidiary, goodwill of $60 000 was recognised. The amount to be identified as goodwill impairment loss is:
    a) $100 000.
    b) $80 000.
    c) $20 000.
    d) $60 000.

Answer: C
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.

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Topic: 2.4.5 Impairment testing of goodwill

34. (T/F): There is no limit to the amount of impairment loss write-down of the assets of a cash-generating unit (CGU).

Answer: F
Difficulty: 2
AACSB: Analytical Thinking
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.5 Impairment testing of goodwill

35. On 1 July 20X5, Helios Ltd acquired all the issued capital of Havers Pty Ltd (100 000 shares) for $10 per share. During the year ended 30 June 20X6, Helios Ltd received a dividend from Havers Ltd of $60 000; a dividend which had been declared by the directors of Havers Ltd in the year ended 30 June 20X5 and was not subject to ratification by the shareholders of Havers Ltd. During the year ended 30 June 20X6, Helios Ltd received an interim dividend of $40 000 from Havers Ltd and the directors of Havers Ltd declared a final dividend of $60 000. At 30 June 20X6, the directors estimated that the fair value of the shares in Havers Ltd was only $9 per share at that date, but the estimated fall in value was considered to be only temporary and the carrying amount of the investment had not been impaired.

At the date of acquisition, 1 July 20X5, the shareholders' equity of Havers Ltd was (amounts in thousands):

Shareholders' equity	
Issued capital	$200
Retained earnings	400

Total shareholders' equity	$600
	===

At the date of acquisition, the carrying amounts of the net assets of Havers Ltd approximated fair value. If a consolidated balance sheet were to be prepared for Helios Ltd and its subsidiaries at the date of acquisition, the consolidation adjustment to eliminate the investment in the subsidiary would be:

a)	Issued Capital	$200 000	
	Retained Earnings	400 000	
	Goodwill	400 000	
	Investment in Subsidiary		$1 000 000
b)	Issued Capital	$200 000	
	Retained Earnings	400 000	
	Dividend Payable	60 000	
	Goodwill	340 000	
	Investment in Subsidiary		$1 000 000
c)	Issued Capital	$200 000	
	Retained Earnings	340 000	
	Dividend Payable	60 000	
	Goodwill	340 000	

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	Investment in Subsidiary		$ 940 000

d) none of the above.

Answer: B
Difficulty: 2
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.6 Preparation of consolidated financial statements

36. Assume the same data as in Question 17. In preparing the consolidated financial statements in the year ended 30 June 20X6, the consolidation adjustment to eliminate the investment in the subsidiary would be:

a)	Issued Capital	$200 000	
	Retained Earnings	340 000	
	Goodwill	400 000	
	Investment in Subsidiary		$940 000
b)	Issued Capital	$200 000	
	Retained Earnings	400 000	
	Dividend Payable		$ 60 000
	Goodwill	400 000	
	Investment in Subsidiary		$940 000
c)	Issued Capital	$200 000	
	Retained Earnings	400 000	
	Goodwill	340 000	
	Investment in Subsidiary		$940 000

d) none of the above.

Answer: C
Difficulty: 1
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.6 Preparation of consolidated financial statements

37. (T/F): One purpose of the consolidation worksheet is to eliminate the effect of intragroup dividends.

Answer: T
Difficulty: 2
Learning Objective: LO 2.10 Prepare consolidation worksheet adjustments to eliminate the effect of intragroup dividends.
Topic: 2.5 Elimination of intragroup dividends

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38. Under current accounting standards, a dividend declared by a subsidiary from pre-acquisition equity will be recognised by the parent company as:
    a) revenue.
    b) a reduction in the investment in subsidiary asset.
    c) not recognised.
    d) none of the above.

Answer: A
Difficulty: Moderate
AACSB: Analytical Thinking
Learning Objective: LO 2.5 Prepare consolidation adjustments to eliminate the parent's investment assets against the subsidiary's equity acquired on the acquisition date.
Topic: 2.5.1 Accounting for intragroup dividends

39. (T/F): A dividend paid by a subsidiary out of pre-acquisition profits will always result in the parent company's investment in subsidiary asset being impaired.

Answer: F

Difficulty: 3
AACSB: Analytical Thinking
Learning Objective: LO 2.5 Prepare consolidation adjustments to eliminate the parent's investment assets against the subsidiary's equity acquired on the acquisition date.
Topic: 2.5.1 Accounting for intragroup dividends

40. Explain why dividends paid by subsidiaries out of pre-acquisition profits will result in impairment of the parent company's investment in subsidiary asset.

Answer:

Dividends paid by subsidiaries:

- Where a subsidiary pays a dividend, it must be treated as revenue (previously dividends paid out of pre-acquisition profits were treated as a reduction in the cost of the investment).
- AASB136 now requires the investment in subsidiary to be tested for impairment when a dividend is paid and it is expected to result in impairment.
- Recording an impairment loss resulting from a payment of a dividend out of pre-acquisition profits will have the same effect as the previous treatment of such dividends as a reduction in the cost of the investment.

Difficulty: Difficult
AACSB: Reflective Thinking
Learning Objective: LO 2.5 Prepare consolidation adjustments to eliminate the parent's investment assets against the subsidiary's equity acquired on the acquisition date.

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Topic: 2.5.1 Accounting for intragroup dividends

41. When a dividend declared by a subsidiary results in an adjustment for impairment of the parent company's investment in subsidiary asset, the following consolidation worksheet adjustment is required:
    a) Dr. Impairment loss Investment in Subsidiary
       Cr. Accumulated Impairment Loss
    b) Dr. Accumulated Impairment Loss
       Cr. Impairment Loss Investment in Subsidiary
    c) Dr. Impairment Loss Investment in Subsidiary
       Cr. Investment in Subsidiary
    d) none of the above.

Answer: B
Difficulty: Difficult
AACSB: Application of Knowledge
Learning Objective: LO 2.5 Prepare consolidation adjustments to eliminate the parent's investment assets against the subsidiary's equity acquired on the acquisition date.
Topic: 2.5.2 Accounting for impairment of investment in subsidiary asset

42. (T/F): When testing goodwill for impairment, the original goodwill recognised at the acquisition date is the starting point.

Answer: F
Difficulty: 3
Learning Objective: LO 2.11 Understand the accounting procedures relating to impairment of the parent's investment in a subsidiary asset.
Topic: 2.5.2 Accounting for impairment of investment in subsidiary asset

43. On 1 July 20X5, Helios Ltd acquired all of the issued capital of Havers Pty Ltd (100 000 shares) for $10 per share. Immediately subsequent to acquisition, the directors of Havers Ltd declared and paid a dividend of $60 000 from the retained earnings at 30 June 20X5. During the year ended 30 June 20X6, Helios Ltd received an interim dividend of $40 000 from Havers Ltd and the directors of Havers Ltd declared a final dividend of $60 000. At the date of acquisition, 1 July 20X5, the shareholders' equity of Havers Ltd was (amounts in thousands):

Shareholders' equity	
Issued capital	$200
Retained earnings	400

Total shareholders' equity	$600
	===

At the date of acquisition, the carrying amounts of the net assets of Havers Ltd approximated fair value. If a consolidated balance sheet were to be prepared for

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Helios Ltd and its subsidiaries at the date of acquisition, the consolidation adjustment to eliminate the investment in the subsidiary would be:

a)	Issued Capital	$200 000	
	Retained Earnings	400 000	
	Goodwill	400 000	
	Investment in Subsidiary		$1 000 000
b)	Issued Capital	$200 000	
	Retained Earnings	400 000	
	Dividend Payable	60 000	
	Goodwill	340 000	
	Investment in Subsidiary		$1 000 000
c)	Issued Capital	$200 000	
	Retained Earnings	340 000	
	Dividend Payable	60 000	
	Goodwill	340 000	
	Investment in Subsidiary		$ 940 000
d)	none of the above.		

Answer: A
Difficulty: 1
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.5 Impairment testing of goodwill

44. Which items are listed first on a consolidated worksheet?
a) Statement of financial position items
b) Profit or loss items
c) Intra-entity transactions
d) Retained earnings items

Answer: B
Difficulty: 2
AACSB: Written and Oral Communication
Learning Objective: LO 2.6 Explain the meaning and significance of a subsidiary's pre-acquisition and post-acquisition equities in the preparation of consolidated financial statements.
Topic: 2.4.6 Preparation of consolidated financial statements.

45. (T/F): The investment elimination entry to eliminate the investment in subsidiary asset is a standing consolidation worksheet adjustment and will not alter from year to year.

Answer: T

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Difficulty: 1
AACSB: Application of Knowledge
Learning Objective: LO 2.4 Understand the function of the consolidation worksheet in the consolidation process.
Topic: 2.4.6 Preparation of consolidated financial statements

46. Which item is eliminated when preparing a consolidated worksheet?
    a) Goodwill
    b) Issued capital
    c) Equipment acquisitions
    d) Intragroup dividends

Answer: D
Difficulty: 1
Learning Objective: LO 2.7 Prepare consolidation worksheet adjustments for changes in the composition of a subsidiary's pre-acquisition equity.
Topic: 2.5 Elimination of intragroup dividends

47. On the acquisition date, the fair value of Slate's identifiable net assets was $750 000, which was represented by issued capital of $550 000 and retained earnings of $200 000. If Pristine Company paid $825 000 to acquire all of the issued shares of Slate, what amount of goodwill will be recognised by the group?
    a) $200 000
    b) $0
    c) $75 000
    d) $275 000

Answer: C
Difficulty: 2
Learning Objective: LO 2.8 Calculate the amount of any goodwill acquired on acquisition of a subsidiary and understand the accounting procedures relating to goodwill and goodwill impairment.
Topic: 2.7.2 Consolidation—goodwill, impairment of goodwill, intragroup dividends, impairment of investment asset

48. Where can the investment in a subsidiary be found in a group's consolidated financial statements?
    a) Statement of cash flows
    b) Statement of financial position
    c) Consolidation worksheet
    d) Income statement

Answer: B
Difficulty: 2
Learning Objective: LO 2.9 Use the completed consolidation worksheet to prepare consolidated financial statements.
Topic: 2.7 Comprehensive examples

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