

**Advanced Accounting,
5th Edition
by Susan S. Hamlen**

**Complete Chapter Solutions Manual are
included (Ch 1 to 16)**

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CHAPTER 1

SOLUTIONS TO MULTIPLE CHOICE QUESTIONS, EXERCISES AND PROBLEMS

MULTIPLE CHOICE QUESTIONS

1. c

$$\begin{array}{rcl} \$180,000 - \$160,000 & = & \$20,000 \\ \$125,000 - \$100,000 & = & \underline{25,000} \\ \text{Total gain} & & \underline{\$45,000} \end{array}$$

2. a

$$\$29,000 - \$26,000 = \underline{\$3,000}$$

3. a

$$\$207,544 - [(6\% \times \$200,000) - (4\% \times \$207,544)] = \underline{\$203,846}$$

4. d

Reclassification of unrealized loss on AFS securities sold	\$1,000 credit
Unrealized gain on AFS securities held at year-end	<u>6,000</u> credit (1)
Total amount reported in OCI	<u>\$7,000</u> credit

$$(1) \$81,000 - (\$100,000 - \$25,000) = \$6,000 \text{ unrealized gain}$$

5. d

$$\$5,000,000 + [40\% \times (\$600,000 - \$200,000)] = \underline{\$5,160,000}$$

6. b

7. b

Reported net income; 35% x \$7,000,000 =	\$ 2,450,000
Less unconfirmed profit on ending inventory	
35% x [\$6,000,000 – (\$6,000,000/1.25)] =	<u>(420,000)</u>
Equity in net income	\$ 2,030,000
Less dividends; 35% x \$2,000,000	(700,000)
Plus beginning investment balance	<u>50,000,000</u>
Ending investment balance	<u>\$51,330,000</u>

8. d

Fizzy's entry to record the acquisition is:

Current assets	25,000	
Property	2,500,000	
Goodwill	25,475,000	
Liabilities		3,000,000
Cash		25,000,000

9. b

10. a

11. b

The entry to record the sale is:

Cash	410,000	
Loss on sale of AFS securities	15,000	
Investment in AFS securities		400,000
Other comprehensive income		25,000

The reclassification of the loss increases OCI, and the loss reported in income is the difference between the original cost (\$400,000 + \$25,000) and sales proceeds (\$410,000).

12. b

$$\$285,000 - \$300,000 = \$15,000 \text{ loss}$$

13. d

Investment balance at the beginning of 2023 is \$203,883 ($=\$205,768 - (\$6,000 - (2\% \times \$205,768))$; $2\% \times \$203,883 = \$4,078$

14. c

Investment balance at the end of 2022 is \$203,827 ($=\$205,657 - (\$8,000 - (3\% \times \$205,657))$); $\$190,000 - \$203,827 = \$13,827$ loss

15. c

$\$510,000 - \$500,000 = \$10,000$; unrealized gains are reported in income.

16. b

The basis difference is \$180,000 ($=\$3,000,000 - (30\% \times \$9,400,000)$)
 $(30\% \times \$100,000) - \$180,000/10 = \$12,000$

17. d

Investment balance, beginning of 2020	\$10,000,000
$(\$2,400,000 - \$2,000,000) \times 40\% =$	160,000
$(\$150,000 - \$200,000) \times 40\% =$	(20,000)
$(\$60,000 + \$10,000 - \$25,000) \times 40\% =$	<u>18,000</u>
Investment balance, end of 2025	<u>\$10,158,000</u>

18. b

$\$10,000,000 - (\$400,000 + \$5,000,000 - \$6,000,000) = \$10,600,000$

19. c

$\$25,000,000 - (\$500,000 + \$8,000,000 + \$1,000,000 - \$6,000,000) = \$21,500,000$

20. c

EXERCISES

E1.1 Investment in Trading Securities

(in millions)

a. $\$38 - 2 = \underline{\$36}$

b. Unrealized gains and losses on trading securities are reported in income.

c.

Investment in trading securities	36	
Cash		36

Investment in trading securities	2	
Gain on trading securities (income)		2

d.

Cash	35	
Loss on trading securities (income)	3	
Investment in trading securities		38

E1.2 Investment in Trading and AFS Securities

		Income	OCI
a.	End of 2022	\$(2,000)	\$ 5,000
	2023	9,000 (1)	(5,000)
b.	End of 2022	\$ 5,000	\$ (4,000)
	2023	5,000 (2)	4,000

(1) $(\$43,000 - \$38,000) + (\$64,000 - \$60,000) = \$9,000$

(2) $(\$42,000 - \$45,000) + (\$68,000 - \$60,000) = \$5,000$

E1.3 Investment in Trading and Available-for-Sale Securities

a. 2022 entries

Investment in trading securities	500,000	
Cash		500,000

Investment in trading securities	20,000	
Gains on trading securities (income)		20,000

2023 entries

Cash	525,000	
Investment in trading securities		520,000
Gains on trading securities (income)		5,000

Investment in trading securities	700,000	
Cash		700,000

Losses on trading securities (income)	100,000	
Investment in trading securities		100,000

b. (1) 2022 entries

Investment in AFS securities	500,000	
Cash		500,000

Investment in AFS securities	20,000	
Gains on AFS securities (OCI)		20,000

2023 entries

Cash	525,000	
Reclassification of gains on AFS securities (OCI)	20,000	
Investment in AFS securities		520,000
Gains on AFS securities (income)		25,000

Investment in AFS securities	700,000	
Cash		700,000

Losses on AFS securities (income)	100,000	
Investment in AFS securities		100,000

(2) 2022 entries are the same as in (1).

2023 entries

Cash	525,000	
Reclassification of gains on AFS securities (OCI)	20,000	
Investment in AFS securities		520,000
Gains on AFS securities (income)		25,000

Investment in AFS securities	700,000	
Cash		700,000

Losses on AFS securities (income)	100,000	
Allowance for credit losses on AFS securities (contra to investment account)		100,000

(3) 2022 entries are the same as in (1).

2023 entries

Cash	525,000	
Reclassification of gains on AFS securities (OCI)	20,000	
Investment in AFS securities		520,000
Gains on AFS securities (income)		25,000

Investment in AFS securities	700,000	
Cash		700,000

Losses on AFS securities (OCI)	100,000	
Investment in AFS securities		100,000

E1.4 Financial Statement Display of AFS Debt Securities

a. The loss is a direct reduction in the investment balance and is reported in income.

Investment in AFS securities..... \$185,000

b.

(1) The loss is reported in an allowance account, and is reported in income.

Investment in AFS securities	\$200,000	
Less: Allowance for expected credit losses	(15,000)	
Net investment in AFS securities.....		\$185,000

- (2) The credit-related loss is reported in an allowance account, and is reported in income. The market-related loss is a direct reduction in the investment balance, and is reported in OCI.

Investment in AFS securities (\$200,000 - \$6,000)	\$194,000
Less: Allowance for expected credit losses	<u>(9,000)</u>
Net investment in AFS securities.....	\$185,000

E1.5 Investment in AFS Securities

- a. $\$460,000 - \$65,000 = \$395,000$. Historical cost = fair value less unrealized gains.
- b. Cash received = \$85,000, derived by reconstructing the summary entry to record sales of AFS securities:

Cash	85,000	
Reclassification of unrealized gains on AFS securities (OCI)	10,000	
Gains on sale of AFS securities (income)		20,000
Investment in AFS securities		75,000

The credit to investment in AFS securities is \$75,000, because the investment balance declined by \$60,000 in 2020, but \$15,000 in unrealized gains was recorded in OCI. $\$520,000 + \$15,000 - X = \$460,000$; $X = \$75,000$. The amount of cash received is the number that balances the entry. The other numbers are given in the exercise.

E1.6 Held-to-Maturity Investments

Amortization schedule (supports numbers in entries below)

	Interest Income (3% x Beginning investment balance)	Amortization (\$200,000 – Interest income)	Investment Balance (Beginning balance – amortization)
1/1/2022			\$5,141,431
12/31/2022	\$154,243	\$45,757	5,095,674
12/31/2023	152,870	47,130	5,048,544
12/31/2024	151,456	48,544	5,000,000

January 1, 2022

Investment in HTM securities	5,141,431	
Cash		5,141,431

December 31, 2022

Cash	200,000	
Interest income		154,243
Investment in HTM securities		45,757

December 31, 2023

Cash	200,000	
Interest income		152,870
Investment in HTM securities		47,130

December 31, 2024

Cash	200,000	
Interest income		151,456
Investment in HTM securities		48,544

Cash	5,000,000	
Investment in HTM securities		5,000,000

E1.7 Investment in Equity Securities with No Significant Influence

a.

December 31, 2021

Investment in Becker Corporation	\$ 380,000
Investment in Corey Corporation	<u>640,000</u>
Total	<u>\$1,020,000</u>

December 31, 2022

Investment in Corey Corporation	<u>\$ 510,000</u>
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b.

2021

Gain on investment in Allen Corporation = \$210,000 - \$200,000 =	\$ 10,000
Loss on investment in Becker Corporation = \$380,000 - \$400,000 =	(20,000)
Gain on investment in Corey Corporation = \$640,000 - \$600,000 =	<u>40,000</u>
Net gain	<u>\$30,000</u>

2022

Gain on investment in Becker Corporation = \$405,000 - \$380,000 =	\$ 25,000
Loss on investment in Corey Corporation = \$510,000 - \$640,000 =	<u>(130,000)</u>
Net loss	<u>\$(105,000)</u>

2023

Loss on investment in Corey Corporation = \$500,000 - \$510,000 =	<u>\$ (10,000)</u>
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E1.8 Equity Method Investment

- a. $\$1,000,000 - (40\% \times \$2,000,000) = \$200,000$ basis difference
- b.

Investment cost		\$1,000,000
Plus 40% reported income 2022-25	$40\% \times (\$100,000 - \$40,000 + \$25,000 + \$80,000)$	66,000
Less 40% reported dividends 2022-25	$40\% \times (\$5,000 + \$2,000 + \$20,000)$	(10,800)
Investment, December 31, 2025		<u>\$1,055,200</u>

E1.9 Equity Method Investment with Intercompany Sales

Calculation of equity in Coca-Cola FEMSA's net income:

Coca-Cola's share of Coca-Cola FEMSA's reported income (28% x \$5 million).....	\$ 1,400,000
+ Realized profit on intercompany sales [28% x (\$1,350,000 – (\$1,350,000/1.35))].....	98,000
- Unrealized profit on intercompany sales [28% x (\$1,215,000 – (\$1,215,000/1.35))].....	(88,200)
Equity in net income of Coca-Cola FEMSA	<u>\$ 1,409,800</u>

Entry to record equity in Coca-Cola FEMSA's net income:

Investment in Coca-Cola FEMSA	1,409,800	
Equity in net income of Coca-Cola FEMSA (income)		1,409,800

E1.10 Equity Method Investment with Basis Differences

Analysis of acquisition cost (not required):

Acquisition cost		\$ 15,000,000
35% x book value (35% x \$10,000,000)	\$ 3,500,000	
Excess of fair value over book value:		
Patents (35% x \$2,000,000)	700,000	
Technology (35% x \$4,000,000)	<u>1,400,000</u>	<u>5,600,000</u>
Goodwill		<u>\$ 9,400,000</u>