

MULTIPLE CHOICE – CPA ADAPTED

- On July 1, 2016, Wenn Co. purchased 600 of the \$1,000 face value, 8% bonds of Loy, Inc., for \$630,000 (a 7% effective interest rate). The bonds, which mature on July 1, 2021, pay interest semiannually on January 1 and July 1. Wenn used the effective interest method of amortization and appropriately recorded the bonds as non-trading. On Wenn's December 31, 2016 statement of financial position, the carrying value of the bonds is
 - \$630,000
 - \$625,800
 - \$626,100
 - \$628,050
- Valet Corp. began operations in 2016. An analysis of Valet's equity investments portfolio acquired in 2016 shows the following totals at December 31, 2016 for trading and non-trading investments:

	Trading Investments	Non-trading Investments
Aggregate cost	\$90,000	\$110,000
Aggregate fair value	65,000	95,000

What amount should Valet report in its 2016 income statement for unrealized holding loss?

- \$40,000
 - \$10,000
 - \$15,000
 - \$25,000
- At December 31, 2016, Jeter Corp. had the following equity investments that were purchased during 2016, its first year of operation:

		Cost	Fair Value	Unrealized Gain (Loss)
Trading Investments:				
Security	A	\$ 90,000	\$ 60,000	\$(30,000)
	B	<u>15,000</u>	<u>20,000</u>	<u>5,000</u>
Totals		\$105,000	\$ 80,000	\$(25,000)
Non-trading Investments:				
Security	Y	\$ 70,000	\$ 80,000	\$ 10,000
	Z	<u>85,000</u>	<u>55,000</u>	<u>(30,000)</u>
Totals		\$155,000	\$135,000	\$(20,000)

All market declines are considered temporary. Fair value adjustments at December 31, 2016 should be established with a corresponding charge against

	Income	Equity
a.	\$45,000	\$ 0
b.	\$30,000	\$30,000
c.	\$25,000	\$20,000
d.	\$25,000	\$ 0

4. On December 29, 2016, James Co. sold an equity investment that had been purchased on January 4, 2015. James owned no other equity investments. An unrealized holding loss was reported in the 2015 income statement. A realized gain was reported in the 2016 income statement. Was the equity investment classified as non-trading and did its 2015 market price decline exceed its 2016 market price recovery?

	Non-trading	2015 Market Price Decline Exceeded 2016 Market Price Recovery
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

Use the following information for questions 5 through 7.

Rich, Inc. acquired 30% of Doane Corp.'s ordinary shares on January 1, 2015 for \$400,000. During 2015, Doane earned \$160,000 and paid dividends of \$100,000. Rich's 30% interest in Doane gives Rich the ability to exercise significant influence over Doane's operating and financial policies. During 2016, Doane earned \$200,000 and paid dividends of \$60,000 on April 1 and \$60,000 on October 1. On July 1, 2016, Rich sold half of its shares in Doane for \$264,000 cash.

5. Before income taxes, what amount should Rich include in its 2015 income statement as a result of the investment?
- \$160,000
 - \$100,000
 - \$48,000
 - \$30,000

6. The carrying amount of this investment in Rich's December 31, 2015 statement of financial position should be
- a. \$400,000
 - b. \$418,000
 - c. \$448,000
 - d. \$460,000
7. What should be the gain on sale of this investment in Rich's 2016 income statement?
- a. \$64,000
 - b. \$55,000
 - c. \$49,000
 - d. \$40,000
8. On January 1, 2016, Reston Co. purchased 25% of Ace Corp.'s ordinary shares; no goodwill resulted from the purchase. Reston appropriately carries this investment at equity and the balance in Reston's investment account was \$720,000 at December 31, 2016. Ace reported net income of \$450,000 for the year ended December 31, 2016, and paid ordinary share dividends totaling \$180,000 during 2016. How much did Reston pay for its 25% interest in Ace?
- a. \$652,500
 - b. \$765,000
 - c. \$787,500
 - d. \$877,500