GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

Model Paper

M. Com. **Part –II** Course Code: **MC-607**

Course Title : **Advanced Accounting** & **Financial Reporting**

OBJECTIVE PART Time Allowed: 30 minutes Marks :20

Note: This question No. 1 is compulsory and its all parts carry equal marks. Please attempt the questions on the same paper and return it to the Center Superintendent with in the time allowed.

Q. No. 1 Tick the correct choice
(20X1)

1- A business combination is accounted for as a purchase. Which of the following expenses related to the business combination should be included, in total, in the determination of net income of the combined corporation for the period in which the expenses are incurred?

	Fee of finders and consultants	Registration fees for equity securities issued
(a)	Yes	Yes
(b)	Yes	No
(c)	No	Yes
(d)	No	No

2-Consolidated financial statements are typically prepared when one company has a controlling financial interest in another unless

(a) The subsidiary is a finance company
(b) The fiscal year ends of the two companies are more than three months apart.
(c) Such control is likely to be temporary.
(d) The two companies are in unrelated industries, such as manufacturing and real estate

3-With respect to business combination, SFAS 141 provides that

(a) The polling of interest method must be used for all combinations.
(b) The pooling of interest method may be used only when specific requirements are met.
(c) The purchase method may be used for all combinations.
(d) The purchase method may be used only when specific requirements are met.

4-In accounting for a business combination, which of the following intangibles should be recognized as an asset apart from goodwill?

(a) Trademark
(b) Lease agreements
(c) Employee quality
(d) Patents

5-With respect to allocation of the cost of a business acquisition , SFAS 141 requires

(a) Cost to be allocated to the assets based on their carrying values
(b) Cost to be allocated based on their fair values.
(c) Cost to be allocated based on original costs.
(d) None of the above.

6-It is generally presumed that an equity is a variable interest entity subject to consolidation if its equity is

(a) Less than 50% of total assets
(b) Less than 25% of total assets
(c) Less than 10% of total assets
(d) Less than 10% of total liabilities

7-The determination of whether an interest holder must consolidate a variable interst entity is made

(a) Each reporting period
(b) When the interest holder initially gets involved with the variable variable interest entity.
(c) Every time the cash flows of the variable interest entity change.
(d) Interests in variable interest entities are never consolidated.

8-Which of the following items should be treated in the same manner in both combined financial statements and consolidated statements?

	Income Taxes	Minority interest
(a)	No	No
(b)	No	Yes
(c)	Yes	Yes
(d)	Yes	No

9-Interim Financial Reporting should be viewed primarily in which of the following ways?

(a) A useful only if activity is spread evenly through out the year.
(b) As if the interim period were an annual accounting period.
(c) As reporting for an integral part of an annual period.
(d) As reporting under a comprehensive basis of accounting other than GAAP.

10-Conceptually, interim financial statements can be determined as emphasizing

(a) Timeliness over reliability
(b) Reliability over relevance
(c) Relevance over comparability
(d) Comparability over neutrality

11-Kale Co. purchased bonds at a discount on the open market as an investment and intends to hold these bonds to maturity. Kale should account for these bond at

(a) Cost
(b) Amortized cost
(c) Fair value
(d) Lower of cost or market

12-For a marketable debt securities portfolio classified as held-to-maturity, which of the following amounts should be included in the period's net income?

I. Unrealized temporary losses during the period
II. Realized gains during the period.
II. changes in the valuation allowance during the period

(a) III only
(b) II only
(c) I and II
(d) I, II and III

13-Moss Corp. owns 20% of Durbo Corp.'s preferred stock and 80% of its common stock. Durbo's stock outstanding at December 31, 2003, is as follows:

10% commutative preferred stock	$100000

Common stock $700000

Durbo reported net income of $60000 for the year ended December 31, 2003. what amount should Moss record as equity in earnings of Durbo for the year ended December 31, 2033?

(a) $42000
(b) $48000
(c) $48400
(d) $50000

14-An increase in the cash surrender value of a life insurance policy owned by a company would be recorded by

(a) Decreasing annual insurance expense
(b) Increasing investment income
(c) Recording a memorandum entry only
(d) Decreasing a deferred charge.

15-Under current GAAP, which approach is used to determine income tax expense?

(a) Asset and liability approach
(b) A "with and without" approach
(c) Net of tax approach
(d) Periodic expense approach

16-A bond issue on June 1, 2003, has interest payment dates of April 1 and October 1. Bond interest expense for the year ended December 31, 2003, is for a period of

(a) Three months
(b) Four months
(c) Six months
(d) Seven months

17-Which of the following statements is(are) correct regarding the proper accounting treatment for internal-use software costs?

I. Preliminary costs should be capitalized as incurred
II. Application and development costs should be capitalized as incurred

(a) I only
(b) II only
(c) Both I and II
(d) Neither I nor II

18-Financial reporting by a development stage enterprise differs from financial reporting for an established operating enterprise in regard to footnote disclosures

(a) Only
(b) And expense recognition principles only
(c) And revenue recognition principles only
(d) And revenue and expense recognition principles

19-A company decided to change its inventory valuation method from FIFO to LIFO in a period of rising prices. What was the result of the change on ending inventory and net income in the year of the change?

	Ending Inventory	Net income
(a)	Increase	Increase
(b)	Increase	Decrease
(c)	Decrease	Decrease
(d)	Decrease	Increase

20-The following changes in XYZ Corp.'s account balances occurred during 2003.

Assets	$89000	Increased
Liabilities	27000	Increased
Capital stock	60000	Increased
Additional paid-in capital	6000	Increased

Except for a $13000 dividend payment and the year's earnings, there were no changes in retained earnings for 2003. What was XYZ's net income for 2003?

(a) $4000
(b) $9000
(c) $13000
(d) $17000

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SUBJECTIVE PART Time allowed: **02:30** Hours Marks: 80

Note: Attempt any four questions and each question carries equal marks.

Q. No .2 The Wexler Company seeks a sales outlet in Lahore. Articles of incorporation are obtained in Karachi for a company known as the Major Sales Company; authorization is received for the issuance of 10,000 shares of no-par stock.

On April 1, 1967, the Wexler Company acquired all the stock of the Major Sales Company at a price of $250,000; a stated value of $10 per share is assigned to the issue. A balance sheet for the Wexler Company just prior to the formation of the separately incorporated sales office follows:

Assets		Liabilities and Stockholders' Equity		
Cash…………………………	$420,000	Liabilities………………….		$250,000
Other assets…………………	$780,000	Stockholders' equity:		
		Capital stock.	$500,000	
		Additional Paid-In Capital	$150,000	
		Retained earnings	$300,000	950,000
Total Assets………………	$1,200,000	Total liabilities and stock-Holders' equity		$1,200,000

a) Give the entries that will appear on the books of the two companies as a result of the formation of the Major Sales Company.
b) Prepare a separate balance sheet for the parent company and for its subsidiary
c) Prepare a consolidated balance sheet.

Q. No .3 Stockholders of Allen Company, Bay Company and Cook Company agree to a merger. Bay Company and Cook Company are to accept shares of Allen Company in exchange for all of their assets and liabilities on the basis of 1 share for every $125 of net assets transferred. On December 31, 1967, the date of the transfer, balances on the books of separate companies are as follows:

	Allen Co.	Bay Co.	Cook Co.
Assets			
Current assets………………………………	$230,000	$200,000	$230,000
Plant and equipment (net)…………………..	450,000	250,000	370,000
Good will…………………………………...	20,000		50,000
Total assets…………………………………	$700,000	$450,000	$650,000
Liabilities and Stockholders' Equity			
Current liabilities…………………………..	$175,000	$120,000	$190,000
Bonds payable……………………………..		100,000	200,000
Common stock, $100par…………………..	500,000	150,000	200,000
Additional paid-in capital ………………...	45,000	90,000	
Retained earnings (deficit)………………..	(20,000)	(10,000)	60,000
Total liabilities and stockholders' equity…	$700,000	$450,000	$650,000

Following adjustments are to be made in arriving at the net asset contributions of Bay Company and Cook Company for purpose of the merger:

1. The inventory of the Bay Company is presently stated on a lifo basis at $100,000; the inventory is to be recognized at $160,000, representing cost calculated on a fifo basis consistent with the costing producers of the other companies.
2. No value is to be assigned to goodwill reported on the books of the Cook Company.

Assuming that the merger is construed as a pooling of interests and that predecessor companies, assets, liability, and stockholders' equity items are to be continued, give the entries that are required on the books of Allen Company and prepare a balance sheet upon consummation of the merger.

Q. No .4 The McFarland Corporation, a holding company, carries investments at cost. On July 3,1980, it acquired 32,000 shares of Jessup Co. stock at 15. Comparative balance sheet data for the Jessup Co. revealed that retained earnings had gone up from $50,000 on January 1, 1980 to $75,000 on December 31, 1980, as a result of profit of $40,000 less two dividends of $7,500 each paid on June 1 and December 1. Capital stock and additional paid-in capital balances remained unchanged at $420,000 and $100,000 respectively; 40,000shares of stock were outstanding.
a) What entries are required during the year on the books of the holding company?
b) What eliminations are required at the end of the year in preparing a consolidated balance sheet?
c) What is the cost or book value excess on the investment and the retained earnings accruing to the holding company as a result of subsidiary operations?

Q. No .5 **a)** Explain the meanings and the use of the appraisal capital accounts (1) Undisturbed Earnings of Subsidiary Company and (2) Subsidiary Company Losses and Dividends in Excess of Earnings

b) If these accounts are used in adopting the equity method, what entries would be made on the books of the Company P in recording the following?
1) Company P purchased 80% of the stock of Company S for $220,000 on January 2, 1995. Company S reported capital stock of $150,000 and retained earnings of $100,000 on this date.
2) Company S announced a net loss from operations of $15,000 for 1995.
3) Company S declared and paid a dividend of $10,000 in 1995.
4) Company S announced a net income from operations of $20,000 for 1996.
5) Company S declared and paid a dividend of $10,000 in1996.
6) Company S announced a net income from operations of $30,000 for 1997.
7) Company S declared and paid a dividend of $10,000 in 1997.

Q. No .6 Company P owns 90% of the stock of the Company S1 and 80% of the stock of Company S2. Investments are carried by the equity method. Inter-company sales of merchandise are made at a gross profit of 20% of sales.
a) Give the elimination in each case below to cancel the inter-company profit.
b) Give the elimination in each case if only the profit recognized by the parent is to be canceled.

1) Merchandise held by Company P, acquired from Company S1 for $10,000.
2) Merchandise held by Company S1, acquired from Company P for $10,000.
3) Merchandise held by Company S2, acquired from Company S1 for $10,000.
4) Merchandise held by Company S2, acquired from Company S1 for $10,000; merchandise was originally purchased by Company S1 from Company P for $8,000.
5) Merchandise held by Company P, acquired from Company S1 for $10,000; merchandise was originally purchased by Company S1 from Company S2 for $8,000.

Q. No .7 The following information is available for companies P, A, and B on December 31, 2005:

	Co. P	Co. A	Co. B
Investment in Co. A ……………………	$105,000		
Investment in Co. B ……………………	135,000		
Other assets ……………………………	698,500	$150,000	$265,000
Total assets ……………………………..	$938,500	$150,000	$265,000

	Co. P	Co. A	Co. B
Liabilities ……………………………..	$120,000	$52,500	$95,000
Capital stock (all $10 par)…………….	500,000	100,000	100,000
Additional paid-in capital……………..	150,000		20,000
Retained earnings (deficit) ……………	168,500	(2,500)	50,000
Total liabilities and stockholders' equity…	$938,500	$150,000	$265,000

Investment accounts are carried at cost.
Stock of Co. A was purchased as follows:
September 1, 2004 4,000 shares at 10.
January 1, 2005 2,500 shares at 14.

Stock of Co. B was purchased as follows:
January 1, 2004, 4,000 shares at 15.
April 1, 2005, 5,000 shares at 18.

One thousand shares of Company B stock were sold on July 1, 2005 at 12.
Changes in retained earnings for the three companies were as follows:

	Co. P	Co. A	Co. B
Balance of retained earnings (deficit), January 1, 2004……………………	$222,500	($20,000)	$35,000
Dividends, November, 2004………..	(20,000)		(10,000)
	$202,500	($20,000)	$25,000
Increase (decrease) from operations, for 2004	(45,000)	7,500	15,000
	$157,500	($12,500)	$40,000
Dividends, November, 2005………..	(14,000)		(10,000)
	$143,500	($12,500)	$30,000
Increase from operations, 2005…..	25,000	10,000	20,000
Balance of retained earnings (deficit), December 31, 2005…………………	$168,500	($2,500)	$50,000

Instructions: Prepare working papers and a consolidated balance sheet as of December 31, 2005.