

Assignment 1 (50 marks; 10%)

Instructions

Before you complete this assignment, make sure you have completed all module activities and read the Assignment instructions. Save your file as a Word document.

Question 1 (6 marks)

Complete the following. Marks are allocated for before tax unrealized profit and after tax unrealized profit. Show calculations for possible part marks.

- a) P Company sold merchandise to a subsidiary for \$64,000. Gross profit rate is 40%. At year end, 20% of this remains unsold. The tax rate is 30%. What is the before tax and after-tax unrealized profit in ending inventory? Please highlight the after-tax unrealized profit in yellow. (2 marks)

Clearly indicate your answers as shown below:

Calculations:

Before tax unrealized profit:

After tax unrealized profit:

- b) P Company sold merchandise to a subsidiary for \$63,000. The mark-up on cost is 50%. At year end, 20% of this remains unsold. The tax rate is 30%. What is the before tax and after tax unrealized profit in ending inventory? Please highlight the after-tax unrealized profit in yellow. (2 marks)

Clearly indicate your answers as indicated below:

Calculations:

Before tax unrealized profit:

After tax unrealized profit:

- c) AB Company issued a 10 year, 5%, \$2,000,000 bond paying interest twice a year at a market rate of 4.2%. What was the issue price? Please highlight the issue price in yellow. (2 marks)

Question 2 (17 marks)

On January 1, Year 1, Head Ltd. purchased 50,000 common shares, representing 40% of the outstanding shares, of Toe Ltd. for \$800,000. The assets of Toe included a building with a market value \$300,000 greater than book value. The building had a remaining useful life of 10 years.

During Year 1, Toe had a net income of \$200,000 and paid dividends of \$80,000. During Year 1, Head sold Toe merchandise for \$240,000 at a gross profit rate of 40%. At year end, 50% of this merchandise remained in Toe's inventory. Head's tax rate is 30%.

During Year 2, Toe had a net income of \$240,000 and paid dividends of \$140,000. At year end, the market price of the shares was \$18.

Required:

- a) Provide all the necessary Year 1 journal entries for Head Ltd. from purchase to all year-end adjustments, assuming they have significant influence. Your journal entries must be in standard form.
- b) Show all calculations necessary to determine the end of Year 2 balance in Head's "Investment in Toe" account. Use a table format with one line per item and label each item. Provide the ending balance. Please highlight your final figure in yellow.

Question 3 (12 marks)

On December 31, 2017, PCP Ltd. purchased bonds of ACP Ltd. The bonds mature on December 31, 2022, and have a maturity value of \$1,000,000. The stated interest rate on the bonds is 4% (yearly rate). Interest is paid each June 30 and December 31. The bonds were purchased to yield 3.4% (yearly rate). The bonds will be accounted for as **FVTPL**.

- a) What was the purchase price of the bonds (to the nearest dollar)? Please highlight your final figure in yellow.
- b)
 - i) How much bond **interest income** (round to the nearest dollar) should PCP report on June 30, 2018? (Please highlight your final figure in yellow.)
 - ii) How much bond **interest income** (round to the nearest dollar) should PCP report on December 31, 2018? (Please highlight your final figure in yellow.)
- c) On December 31, 2018, the bonds were available in the secondary market at a yield rate of 3.6%.
 - i) Should PCP report an unrealized gain or loss, a realized gain or loss, or no gain or loss? Explain why.
 - ii) Regardless of your answer to i), assume they should report some kind of gain or loss. What would be the amount of the gain or loss? Show calculations for possible part marks. Please highlight your final figure in yellow, and clearly indicate if it is a gain or a loss.

Question 4 (15 marks)

On January 1, 2017, Happy Inc. purchased 80% of the outstanding common shares of Sad Co. for \$400,000. Happy will account for Sad using the Fair Value Enterprise method. The balance sheets for both companies immediately after the transaction appear below.

	Happy Inc.	Sad Co.	
		Book value	Fair value
Cash	\$ 115,000	\$ 30,000	\$ 30,000
Accounts receivable	205,000	90,000	90,000
Inventory	160,000	130,000	140,000
Plant and Equipment	700,000	560,000	540,000
Land	80,000	90,000	150,000
Investment in Sad Co.	400,000	—	—
Goodwill	<u>—</u>	<u>25,000</u>	—
	<u>\$ 1,660,000</u>	<u>\$ 925,000</u>	
Accounts payable	\$ 250,000	\$ 170,000	\$ 170,000
Bonds payable	640,000	450,000	460,000
Common shares	350,000	240,000	
Retained earnings	<u>420,000</u>	<u>65,000</u>	
	<u>\$ 1,660,000</u>	<u>\$ 925,000</u>	

Required:

- a) Calculate goodwill using fair values. Please highlight the goodwill amount in yellow. (2 marks)
- b) Calculate goodwill using net book values, including allocation of the acquisition differential. You must also calculate the value of non-controlling interest in this calculation. Please highlight the NCI amount in yellow. (2 marks)
- c) Prepare a consolidated balance sheet. Your statement must be in good form. Marks will be deducted for poor presentation. Please note that the above balance sheets are for your information and are not considered to be “good form.” (11 marks)