1. Award: **10.00 points**

On January 1, Year 7, the Vine Company purchased 60,000 of the 80,000 ordinary shares of the Devine Company for $80 per share. On that date, Devine had ordinary shares of $3,460,000, and retained earnings of $2,120,000. When acquired, Devine had inventories with fair values $80,000 less than carrying amount, a parcel of land with a fair value $220,000 greater than the carrying amount, and equipment with a fair value $220,000 less than carrying amount. There were also internally generated patents with an estimated market value of $420,000 and a five-year remaining life. A long-term liability had a market value $120,000 greater than carrying amount; this liability was paid off December 31, Year 10. All other identifiable assets and liabilities of Devine had fair values equal to their carrying amounts. Devine's accumulated depreciation on the plant and equipment was $520,000 at the date of acquisition.

At the acquisition date, the equipment had an expected remaining useful life of ten years. Both companies use the straight-line method for all depreciation and amortization calculations and the FIFO inventory cost flow assumption. Assume a 40% income tax rate on all applicable items and that there were no impairment losses for goodwill.

On September 1, Year 11, Devine sold a parcel of land to Vine and recorded a total non-operating gain of $420,000.

Sales of finished goods from Vine to Devine totalled $1,020,000 in Year 10 and $2,020,000 in Year 11. These sales were priced to provide a gross profit margin on selling price of 33 1/3% to the Vine Company. Devine's December 31, Year 10, inventory contained $306,000 of these sales; December 31, Year 11, inventory contained $606,000 of these sales.

Sales of finished goods from Devine to Vine were $820,000 in Year 10 and $1,220,000 in Year 11. These sales were priced to provide a gross profit margin on selling price of 40% to the Devine Company. Vine's December 31, Year 10, inventory contained $120,000 of these sales; the December 31, Year 11, inventory contained $520,000 of these sales.

Vine's investment in Devine's account is carried in accordance with the cost method and includes advances to Devine of $220,000, which are also included in current liabilities.

There are no intercompany amounts other than those noted, except for the dividends of $500,000 (total amount) declared and paid by Devine.

INCOME STATEMENTS
for year ending December 31, Year 11
(in thousands of dollars)

	Vine	Devine
Sales	$ 12,000	$ 3,400
Dividends, investment income, and gains	800	1,400
Total income	12,800	4,800
Cost of goods sold	8,600	1,900
Other expenses	500	500
Income taxes	200	200
Total expenses	9,300	2,600
Profit	$ 3,500	$ 2,200

STATEMENTS OF FINANCIAL POSITION
December 31, Year 11
(in thousands of dollars)

	Vine	Devine
Land	$ 6,000	$ 2,500
Plant and equipment	19,200	12,200
Accumulated depreciation	(5,400)	(4,600)
Investment in Devine, cost	5,020	
Inventories	5,000	2,800
Cash and current receivables	1,340	700
Total assets	$ 31,160	$ 13,600
Ordinary shares	$ 10,000	$ 3,460
Retained earnings	11,600	6,600
Long-term liabilities	7,000	1,500
Deferred income taxes	600	100
Current liabilities	1,960	1,940
Total equity and liabilities	$ 31,160	$ 13,600

Required:

(a) The allocation of the acquisition cost at acquisition and the related amortization schedule. (Leave no cells blank - be certain to enter "0" wherever required. Enter your answers in dollars, not in thousands of dollars. Input all values as positive numbers. Do not round gross profit percentage for intermediate computations.)

Acquisition cost Allocation
Acquisition January 1, Year 7

Cost		$
Implied value of 100% investment		
Current Assets: Ordinary Shares	$	
Retained Earnings		

Acquisition differential	$

Allocation:		Life
Inventory	Cr	1
Land	Dr	
Equipment	Cr	10
Patents	Dr	5
Long - term Liability	Cr	4
Subtotal	Dr	
Balance: Goodwill	Dr	
	Dr	

Amortization Table:

	Allocation		Life	YR 7 – YR 10		Amortization YR 11		Balance Dec. 3, YR 11	
Inventory		Cr	1		Cr				
Land		Dr							Dr
Equipment		Cr	10		Cr		Cr		Cr
Patents		Dr	5		Dr		Dr		
Long - term liability		Cr	4		Cr				
Goodwill		Dr							Dr
		Dr			Dr		Dr		Dr

(b) Prepare a consolidated income statement with expenses classified by function. (Enter your answers in dollars, not in thousands of dollars. Input all values as positive numbers. Do not round gross profit percentage for intermediate computations.)

Consolidated Income Statement for the year ending December 31, Year 11

(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
Total expenses	
(Click to select)	$
Attributable to:	
Shareholders of Vine	
Non-controlling interests	
	$

(c) Calculate consolidated retained earnings at December 31, Year 11. (Enter your answer in dollars, not in thousands of dollars. Do not round gross profit percentage for intermediate computations.)

Consolidated retained earnings $

(d) Prepare a consolidated statement of financial position for Vine Company at December 31, Year 11. (Negative amount should be indicated by a minus sign. Enter your answers in dollars, not in thousands of dollars. Do not round gross profit percentage for intermediate computations.)

Consolidated Statement of Financial Position
December 31, Year 11

Assets	
(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
	$
Equities and Liabilities	
(Click to select)	$
(Click to select)	

(Click to select)
(Click to select)
(Click to select)
(Click to select)
$

(e) Assume that Devine's shares were trading at $75 per share shortly before and after the date of acquisition, and that this data was used to value non-controlling interest at the date of acquisition. Calculate goodwill and non-controlling interest at December 31, Year 11. (Enter your answers in dollars, not in thousands of dollars. Do not round gross profit percentage for intermediate computations.)

Non-controlling interest, December 31, Year 11	$
Goodwill at December 31, Year 11	$

(f) Prepare the consolidated financial statements using the worksheet approach. (Values in the first two columns and last column (the "parent", "subsidiary" and "consolidated" balances) that are to be deducted should be indicated with a minus sign, while all values in the "Elimination" entries columns should be entered as positive values. For accounts where multiple adjusting entries are required, combine all debit entries into one amount and enter this amount in the debit column of the worksheet. Similarly, combine all credit entries into one amount and enter this amount in the credit column of the worksheet. Leave no cells blank - be certain to enter "0" wherever required. Enter your answers in dollars. Round your answer to nearest whole dollars.)

Consolidated Financial Statement Working Paper
Vine Company
Consolidated Financial Statement
December 31, Year 11
In thousands of dollars

	Post	Sage	Eliminations Dr.	Eliminations Cr.	Cons
Income Statements - Year 11					
Sales	$	$	$		$
Dividend, Investment Income, and Gains					
Total income					
Cost of goods sold				$	
Other expenses					
Income taxes					
Total expenses	$				
Profit	$				$
Attributable to:					
Shareholders of Peter					$
Non-controlling interest					
Total			$	$	
Year 11 retained earnings statements					
Balance, January 1	$	$			$
Profit					
Dividends					
Balance, December 31	$	$	$	$	$
Statements of Financial Position - December 31, Year 11					
Land	$	$			$
Plant and equipment					
Accumulated depreciation					
Patents					
Goodwill					
Investment in Devine, cost					
Deferred income tax					
Inventories					
Cash and current receivables					
Total assets	$	$			$
Ordinary shares	$	$			$
Retained earnings					
Non-controlling interest					
Long term liabilities					
Deferred income taxes					
Current liabilities					
Total Shareholders' equity & liabilities	$	$	$	$	$

References

Worksheet	Learning Objective: 06-04 Prepare consolidated financial statements that reflect the elimination and subsequent realization of upstream and downstream intercompany profits in land.
Learning Objective: 06-02 Prepare consolidated financial statements that reflect the elimination and subsequent realization of upstream and downstream intercompany profits in inventory.	Learning Objective: 06-06 Analyze and interpret financial statements involving intercompany transactions.

2. Award: **10.00 points**

The following balance sheets have been prepared as at December 31, Year 6, for Kay Corp. and Adams Ventures:

	Kay	*Adams*
Cash	$ 70,000	$ 35,000
Accounts receivable	100,000	185,000
Inventory	625,000	415,000
Property and plant	1,420,000	915,000
Investment in Adams	370,000	–
	$ 2,585,000	$ 1,550,000
Current liabilities	$ 410,000	$ 160,000
Bonds payable	512,500	610,000
Common shares	940,000	470,000
Retained earnings	722,500	310,000
	$ 2,585,000	$ 1,550,000

Additional Information

- Kay acquired its 40% interest in Adams for $370,000 in Year 2, when Adams's retained earnings amounted to $180,000. The acquisition differential on that date was fully amortized by the end of Year 6.
- In Year 5, Kay sold land to Adams and recorded a gain of $70,000 on the transaction. Adams is still using this land.
- The December 31, Year 6, inventory of Kay contained a profit recorded by Adams amounting to $45,000.
- On December 31, Year 6, Adams owes Kay $39,000.
- Kay has used the cost method to account for its investment in Adams.
- Use income tax allocation at a rate of 40%, but ignore income tax on the acquisition differential.

Required:

(a) Prepare *three* separate balance sheets for Kay as at December 31, Year 6.

(i) Assuming that the investment in Adams is a control investment.

Kay Corp.
Consolidated Balance Sheet
at December 31, Year 6

(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
	$
(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	

	$

(ii) Assuming that the investment in Adams is a joint operation and is reported using proportionately adjusted financial statements.

Kay Corp.
Consolidated Balance Sheet
at December 31, Year 6

(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
	$
(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
	$

(iii) Assuming that the investment in Adams is a significant influence investment

Kay Corp.
Consolidated Balance Sheet
at December 31, Year 6

(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
(Click to select)	
	$
(Click to select)	$
(Click to select)	
(Click to select)	
(Click to select)	
	$

(b) Calculate the debt-to-equity ratio for each of the balance sheets in Part (a). (Round your answers to 2 decimal places.)

	Debt to equity ratio
(i)	:
(ii)	:
(iii)	:

(c) Prepare the financial statements required for part (a) using the worksheet approach. (Input all amounts as positive values. For accounts where multiple adjusting entries are required, combine all debit entries into one amount and enter this amount in the debit column of the worksheet. Similarly, combine all credit entries into one amount and enter this amount in the credit column of the worksheet. Leave no cells blank - be certain to enter "0" wherever required.)

i) Control investment

CONSOLIDATED FINANCIAL STATEMENT WORKING PAPER
KAY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, YEAR 6

			Eliminations		
Statement of Financial Position	Kay	Adams	Dr.	Cr.	Consolidated
Cash	$	$		$	$
Accounts receivable			$		
Inventory					
Property and plant					
Investment in Adams					
Deferred income taxes					
	$	$			$
Current liabilities	$	$			$
Bonds payable					
Common shares					

Retained earnings					
Non-controlling interest					
	$	$			$
			$	$	

ii) Joint Operation Investment

Statement of Financial Position	Kay	Adams (100%)	Adams (40%)	Eliminations Dr.	Eliminations Cr.	Consolidated
Cash	$	$	$	$	$	$
Accounts receivable						
Inventory						
Investment in Adams		$				
Deferred income taxes						
Property and plant	$	$	$		$	
	$	$	$			$
Current liabilities	$		$			$
Bonds payable						
Common shares						
Retained earnings						
	$	$	$			$
				$	$	

iii) Significant Influence Investment

Statement of Financial Position	Kay Cost Method	Adams (100%)	Eliminations Dr.	Eliminations Cr.	Kay - Equity Method
Cash	$	$	$	$	$
Accounts receivable					
Inventory					
Property and plant					
Investment in Adams					
	$	$			$
Current liabilities	$	$			$
Bonds payable					
Common shares					
Retained earnings					
	$	$			$
			$	$	

References

Worksheet

Learning Objective: 09-02 Describe and apply the current accounting standards that govern the reporting of interests in joint arrangements.

Learning Objective: 09-05 Analyze and interpret financial statements involving other consolidation reporting issues.

3. Award: 10.00 points

Hull Manufacturing Corp. (HMC), a Canadian company, manufactures instruments used to measure the moisture content of barley and wheat. The company sells primarily to the domestic market, but in Year 3, it developed a small market in Argentina. In Year 4, HMC began purchasing semi-finished components from a supplier in Romania. The management of HMC is concerned about the possible adverse effects of foreign exchange fluctuations. To deal with this matter, all of HMC's foreign-currency-denominated receivables and payables are hedged with contracts with the company's bank. The year-end of HMC is December 31.

The following transactions occurred late in Year 4:

- On October 15, Year 4, HMC purchased components from its Romanian supplier for 803,000 Romanian leus (RL). On the same day, HMC entered into a forward contract for RL803,000 at the 60-day forward rate of RL1 = $0.411. The Romanian supplier was paid in full on December 15, Year 4.
- On December 1, Year 4, HMC made a shipment to a customer in Argentina. The selling price was 2,503,000 Argentinean pesos (AP), with payment to be received on January 31, Year 5. HMC immediately entered into a forward contract for AP2,503,000 at the two-month forward rate of AP1 = $0.229.

During this period, the exchange rates were as follows:

	Spot rates	*Forward rates*
October 15, Year 4	RL1 = $0.398	
December 1, Year 4	AP1 = $0.252	
December 15, Year 4	RL1 = $0.390	
December 31, Year 4	AP1 = $0.236	AP1 = $0.225

Hedge accounting is not adopted.

Required:

(a) Prepare the Year 4 journal entries to record the transactions described above and any adjusting entries necessary.

Date	General Journal	Debit	Credit
October 15, Year 4	(Click to select)		
	(Click to select)		
	Record the purchase of inventory.		
	(Click to select)		
	(Click to select)		
	Record the forward contract.		
December 1, Year 4	(Click to select)		
	(Click to select)		
	Record the sales transaction.		
	(Click to select)		
	(Click to select)		
	Record the forward contact.		
December 15, Year 4	(Click to select)		
	(Click to select)		
	Record the exchange gain and losses adjusted to Accounts payable.		
	(Click to select)		
	(Click to select)		
	Record the exchange gain and losses adjusted to Forward contract.		
	(Click to select)		
	(Click to select)		
	(Click to select)		
	Record the receipt from bank.		
	(Click to select)		
	(Click to select)		
	Record the payment to accounts payable.		
December 31, Year 4	(Click to select)		
	(Click to select)		
	Record the exchange gain and losses.		
	(Click to select)		
	(Click to select)		
	Record the exchange gain and losses.		

(b) Prepare the December 31, Year 4, balance sheet presentation of the receivable from the Argentinean customer, and the accounts associated with the forward contract.

Hull Manufacturing Corp.
Balance Sheet
as at December 31, Year 4

Assets	
Account receivable	$
Forward contract	$

References

Worksheet	Learning Objective: 10-02 Prepare journal entries and subsequent financial statement presentation for forward exchange contracts that are entered into for speculative purposes.
Learning Objective: 10-01 Translate foreign currency transactions and balances into the functional currency.	Learning Objective: 10-04 Prepare journal entries and subsequent financial statement presentation for forward exchange contracts that hedge existing monetary positions.

4. Award: **10.00 points**

The OPI Care Centre is an NFPO funded by government grants and private donations. It prepares its annual financial statements using the deferral method of accounting for contributions; and it uses only the operations fund to account for all activities.

The following summarizes some of the transactions made in Year 6:

1. The founding member of OPI contributed $100,000 on the conditions that the principal amount be invested in marketable securities and that only the income earned from the investment is spent on operations.
2. During the year, a public campaign was held to raise funds for daily operations for the current year. Cash of $800,000 was collected, and pledges for an additional $100,000 were received by the end of the year. It is estimated that approximately 95% of these pledges will be collected early in the new year.
3. The provincial government pledged $600,000 for the year to cover operating costs and an additional $1,000,000 to purchase equipment and furniture. All of the grant money was received by the end of the year, except for the last $50,000 to cover operating costs for December.
4. OPI used the $1,000,000 received from the provincial government to purchase equipment and furniture for the care facility. The amortization of these assets amounted to $100,000 for the year. A purchase order had not been issued for this purchase.
5. Invoices totalling $1,450,000 were received for goods and contracted services. Of these invoices, 90% were paid by the end of the fiscal year.

Required:

In accordance with the requirements of the *CPA Canada Handbook*, prepare the journal entries necessary to reflect the transactions.

	General Journal	Debit	Credit
1.	(Click to select)		
	(Click to select)		
	Record contribution by the founding member and investment of the same in marketable securities.		
2.	(Click to select)		
	(Click to select)		
	(Click to select)		
	Record cash collected and pledges receivable during the year.		
3.	(Click to select)		
	(Click to select)		
	(Click to select)		
	(Click to select)		
	Record grant money received and receivable.		
4.	(Click to select)		
	(Click to select)		
	Record purchase of equipment and furniture.		
	(Click to select)		
	(Click to select)		
	Record amortization expense.		
	(Click to select)		
	(Click to select)		
	Record recognition of revenue.		
5.	(Click to select)		
	(Click to select)		
	(Click to select)		
	Record invoices received for goods and services.		

References

Worksheet	Learning Objective: 12-02 Describe and apply the not-for-profit accounting and reporting practices currently mandated in the CPA Canada Handbook.	Learning Objective: 12-05 Prepare journal entries and financial statements under the deferral method.