**Question 1 (31.4 Marks)**

**A-** Pickles Corporation purchased 70% of Salad Industries' common stock on January 2, 2019. On January 1, 2020, Salad sold equipment to Pickles that had a net book value of $80,000 and an original cost of $120,000 for $100,000. On January 1, 2020, Pickles sold a building to Salad that had a net book value of $1,000,000 and an original cost of $1,250,000 for $1,500,000. The equipment had a remaining useful life of 8 years, and the building had a remaining useful life of 20 years. Neither asset had salvage value. Both companies use straight-line depreciation.

Selected account balances are shown below for Pickles and Salad for the year ended December 31, 2020:

Pickles Salad

Sales $1,400,000 $1,380,000

Cost of Goods Sold 900,000 500,000

Other Expenses 300,000 150,000

Building - net 2,800,000 1,425,000

Equipment - net 1,580,000 935,000

***Required:***

1. Calculate the following balances for the year ended December 31, 2020:

a. Consolidated "Other Expenses"

b. Consolidated Buildings

c. Consolidated Equipment

2. Calculate consolidated net income and controlling share of consolidated net income for 2020.

3. Prepare consolidation working paper entry to eliminate Income from subsidiary-parent share. No dividends were declared or paid. **(15.4 Marks)**

**B-** Habiba Company has a single branch in Southwest. On March 1, 2020, the home ofﬁce accounting records included an Allowance for Overvaluation of Inventories: Southwest Branch ledger account with a credit balance of $32,000. During March, the following transactions occurred:

1. On March 4, the home office shipped merchandise costing $66,000 to the Southwest Branch and billed it at a price representing a 25% markup on the billed price.
2. On March 8, the branch sold 70% of the merchandise received from the home office on March 4 for $90,000 cash.
3. On March 15, the branch sold 20% of the merchandise received from the home office on March 4 to Hope company for $30,000 on credit.
4. On March 22, the home office informed the branch that it had collected 50% of the amount owed by Hope company.
5. On March 28, the branch paid operating expenses of $10,000 cash.
6. On March 29, Hope company paid the remaining amount due to Southwest branch,
7. On March 30, the home office allocated operating expenses of $4,000 to the branch.

***Required:***

1. Prepare a working paper for the home office to analyze the flow of merchandise to Southwest branch during March 2020.
2. Prepare all required entries, including closing and adjusting entries, for the foregoing intracompany transactions in the accounting records of (a) the home office and (b) the Southwest Branch.
3. Reconstruct a three-column ledger account Allowance for overvaluation of inventories: Southwest branch for the home office of Habiba Company.  **(16 Marks)**

**Question 2 (34.6 Marks)**

**A-** Nour company (a U.S. company) began operations on December 1, 2020, when Nour Invested $150,000 of her cash savings in the business. In the first month of operations, Nour had the following transactions:

December 3, 2020 Bought inventory for 100,000 foreign currency units (FCU) on account. Must be paid with foreign currency units.

December 8, 2020 Sold 60% of inventory acquired on 1/12/20 for 32,000 British pounds on account. Invoice denominated in British pounds

December 10, 2020 Paid $3,000 in other operating expenses

December 23, 2020 Acquired and paid half of the foreign currency units. owed to the foreign supplier

December 28, 2020 Collected half of the 32,000 pounds from the customer in Great Britain and immediately converted them into U.S. dollars

The following exchange rates apply:

Date Rate Rate

December 3 $.6260 = 1 FCU $1.5950 = 1 pound

December 8 $.6230 = 1 FCU $1.5760 = 1 pound

December 10 $.6210 = 1 FCU $1.5880 = 1 pound

December 23 $.6250 = 1 FCU $1.5610 = 1 pound

December 28 $.6330 = 1 FCU $1.5570 = 1 pound

December 31 $.6180 = 1 FCU $1.5720 = 1 pound

***Required:***

1. Prepare the required journal entries (Including the adjusting entries) at Nour company to record the previous transactions.
2. Assuming there were no other transactions, Calculate the net income for the month ended December 31, 2020 and Calculate the amounts that should appear in the balance sheet of Nour company on December 31, 2020, for the following items:
3. Cash
4. Accounts Receivable
5. Inventory
6. Accounts Payable. (**18 Marks)**

**B-** Phantom Corporation acquired an 80% interest in Speed Corporation at a cost equal to 80% of the book value of Speed's net assets several years ago. At the time of purchase, the fair value and book value of Speed's assets and liabilities were equal. Phantom purchases its entire inventory from Speed at 150% of Speed's cost. During 2020, Speed sold $1,470,000 of merchandise to Phantom. Phantom's beginning and ending inventories for 2020 were $216,000 and $198,000, respectively. Income statement information for both companies for 2020 is as follows:

Phantom Speed

Sales Revenue $ 2,460,000 $1,320,000

Income from Speed 436,800

Cost of Goods Sold (1,380,000) (495,000)

Expenses (360,000) (285,000)

Net Income $ 1,156,800 $ 540,000

***Required:***

1. Prepare a consolidated income statement for Phantom Corporation and Subsidiary for 2020.
2. Determine which consolidated income statement items would (or would not) change if Phantom were the seller and Speed, was the buyer. Explain why. **(16.6 Marks)**

**Question 3 (34 Marks)**

**A-** Assume that an Italian corporation exports electronic equipment to USA in a transaction denominated in dollar. Is this transaction a foreign currency transaction? Is it a foreign transaction? Explain the difference between these two concepts and their application here. (**5 Marks)**

**B-** “Exchange losses arise from foreign import activities, and exchange gains arise from foreign export activities.”. Discuss the accuracy of this statement and support your answer with a numerical example.**(5 Marks)**

**C-** Penguin Corporation paid $16,200 for a 90% interest in Seagull Corporation on January 1, 2019, when Seagull stockholders' equity consisted of $10,000 Capital Stock and $3,000 of Retained Earnings. The excess cost over book value was attributable to goodwill.

Additional information:

1. All intercompany sales of inventory are made at 120% of cost. During 2019, Seagull 's sales to Penguin were $4,800, of which half of the merchandise remained in Penguin 's inventory at December 31, 2019. (The 2019 ending inventory was sold in 2020.) During 2020, Penguin's sales to Seagull were $6,000 of which 60% remained in Seagull's inventory at December 31, 2020. At year-end 2020, Seagull owed Penguin $1,500 for the inventory purchased during 2020.

2. Penguin Corporation sold equipment with a book value of $2,000 and a remaining useful life of four years and no salvage value to Seagull Corporation on January 1, 2020 for $2,800. Straight-line depreciation is used.

3. Separate company financial statements for Penguin Corporation and Subsidiary at December 31, 2020 are summarized in the first two columns of the consolidation working papers.

4. The following information is available for 2019:

Seagull's income $4,000 - Seagull's dividends received by Penguin $1,800

***Required:***

1) Prepare all elimination entries in 2020 (Including the entries not affecting the consolidated Income statement). *Show all your calculations.*

2) Complete the working papers to consolidate the financial statements of Penguin Corporation and subsidiary for the year ended December 31, 2020.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Penguin | Seagull | Eliminations | | | | Consolidated |
|  |  |  |  | Debit |  | Credit |  |
| INCOME STATEMENT  Sales | $60,000 | $14,000 |  |  |  |  |  |
| income from Seagull | 3,920 |  |  |  |  |  |  |
| Gain on equipment sale | 800 |  |  |  |  |  |  |
| Cost of Sales | (26,000) | (4,400) |  |  |  |  |  |
| Other Expenses | (28,000) | (3,600) |  |  |  |  |  |
| Noncontrolling interest share |  |  |  |  |  |  |  |
| Net income | $10,720 | $6,000 |  |  |  |  |  |
| Retained Earnings 1/1 | $ 9,500 | $5,000 |  |  |  |  |  |
| Add: Net income | 10,720 | 6,000 |  |  |  |  |  |
| Dividends | (7,000) | (2,000) |  |  |  |  |  |
| Retained Earnings 12/31 | $ 13,220 | $9,000 |  |  |  |  |  |
| BALANCE SHEET  Cash | $5,500 | $ 3,000 |  |  |  |  |  |
| Receivables | 7,000 | 4,000 |  |  |  |  |  |
| Inventories | 10,000 | 4,500 |  |  |  |  |  |
| Equipment-net | 24,000 | 9,000 |  |  |  |  |  |
| Land | 4,000 | 3,500 |  |  |  |  |  |
| Investment in Seagull | 19,800 |  |  |  |  |  |  |
| Goodwill |  |  |  |  |  |  |  |
| TOTAL ASSETS | $70,300 | $24,000 |  |  |  |  |  |
| LIAB. & EQUITY  Accounts payable | $7,080 | $ 5,000 |  |  |  |  |  |
| Capital Stock | 50,000 | 10,000 |  |  |  |  |  |
| Retained Earnings | 13,220 | 9,000 |  |  |  |  |  |
| 1/1 Noncntrl. Interest |  |  |  |  |  |  |  |
| 12/31 Noncntrl. Interest |  |  |  |  |  |  |  |
| TOTAL LIAB. *&* EQUITIES | $ 70,300 | $24,000 |  |  |  |  |  |

**(24 Marks)**

**[ END OF QUESTIONS]**

**GOOD LUCK**