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**INTERCORPORATE
INVESTMENTS**

1. Company X owns 15% of company S and exerts significant influence over the operations of the company. The book value of the investment on December 31, 2001, is \$48,000. In 2002, company S earned \$100,000 and paid dividends of \$20,000. The value of the investment account on December 31, 2002, is:
 - (A) \$48,000.
 - (B) \$63,000.
 - (C) \$60,000.

2. Under which of the following is a minority interest account most likely to appear on the consolidated balance sheet?
 - (I) The acquisition method.
 - (II) Equity method.
 - (A) I only.
 - (B) II only.
 - (C) Both I and II.

3. After the acquisitions, the liabilities reported by Company X will be:
 - (A) \$300,000.
 - (B) \$480,000.
 - (C) \$460,000.

4. After the acquisitions, the liabilities reported by Company X will be:
 - (A) \$168,000.
 - (B) \$0.
 - (C) \$72,000.

5. Company X will report revenue for 2007 of:
 - (A) \$2,280,000.
 - (B) \$2,000,000.
 - (C) \$2,400,000.

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6. The change in the investment in the associates account (the account that reflects all non-consolidated investments in other companies) between January 3 and December 31 is:
- (A) \$11,400.
 - (B) \$10,800.
 - (C) \$27,600.
7. Higgs wonders which accounting method Simpson uses to calculate the book value of the BC investment for the year ending December 31, 1999. Which is the correct method?
- (A) Acquisition method.
 - (B) Equity method.
 - (C) Investment in Financial Assets method.
8. Higgs wonders which accounting method Simpson uses to calculate the book value of the BC investment for the year ending December 31, 1998. Which is the correct method?
- (A) Investment in Financial Assets method.
 - (B) Acquisition method.
 - (C) Equity method.
9. Higgs wonders which accounting method Simpson uses to calculate the book value of the BC investment for the year ending December 31, 2000. Which is the correct method?
- (A) Acquisition method.
 - (B) Equity method.
 - (C) Proportional consolidation method.
10. Higgs wants to make sure that he assumes the proper accounting method when he does his analysis. The acquisition of BC stock will lead to Simpson's total net cash flow equaling which of the following for the year ending December 31, 1999?
- (A) \$360,000.
 - (B) \$-3,190,000.
 - (C) \$-2,830,000.
11. Which of the following methods of accounting for investments will reflect the highest net income on a company's income statement?
- (A) Acquisition method.
 - (B) Equity method.
 - (C) Both methods report the same net income.

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12. Cosmo Inc. (Cosmo) invests in two portfolios — Portfolio 1 and Portfolio 2. Portfolio 1 contains securities classified as fair value through P&L. Portfolio 2 contains equity securities classified as fair value through OCI. Which of the following treatments of Cosmo's reporting of the investments in Portfolios 1 and 2, respectively, is most accurate?

Portfolio 1**Portfolio 2**

- (A) Unrealized amounts reported on income statement. Assets reported at cost.
- (B) Unrealized amounts reported on balance sheet. Assets reported at fair value.
- (C) Unrealized amounts reported on income statement. Assets reported at fair value.
13. If Anderson Company accounts for the Birschbach Company shares as classified as fair value through OCI, the carrying amount of these shares on Anderson's balance sheet at the end of 2012 is:
- (A) \$3.5 million.
- (B) \$2.5 million.
- (C) \$2.6 million.
14. If Anderson Company accounts for the Birschbach Company shares using the equity method, the carrying amount of these shares on Anderson's balance sheet at the end of 2012 is closest to:
- (A) \$2.8 million.
- (B) \$2.6 million.
- (C) \$3.5 million.
15. For the year 2012, the investment income that Anderson Company reports on its investment in Birschbach Company shares, if Anderson classifies the shares as fair value through OCI, is:
- (A) \$250,000.
- (B) \$150,000.
- (C) \$100,000.
16. If Anderson Company accounts for the Birschbach Company shares using the equity method, the change in carrying value from 2012 to 2013 is closest to:
- (A) +\$2,650,000.
- (B) +\$50,000.
- (C) +\$225,000.

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17. According to U.S. GAAP, goodwill is most likely to be considered impaired if the reporting unit's:
- (A) carrying value (including goodwill) is greater than its fair value.
 - (B) tangible assets acquired in a business combination decrease in value.
 - (C) implied value of goodwill is less than book value of goodwill.
18. Regarding accounting for joint ventures using the equity method or using proportionate consolidation, it would be most accurate to state that:
- (A) both IFRS and US GAAP require the proportionate consolidation method be used to account for joint ventures.
 - (B) the equity method results in a single line item on the income statement, and a single line item on the balance sheet.
 - (C) total net assets of the investor will differ between proportionate consolidation and the equity method.
19. The consolidation method results in:
- (A) same equity as the cost method.
 - (B) same net income and shareholders' equity as the equity method.
 - (C) same net income as the equity method but different shareholders' equity.
20. Under U.S. GAAP rules, where an investor owns 41% of the voting shares of an investee and is able to control the investee, which of the following methods of accounting is most appropriate to use?
- (A) Proportionate consolidation method.
 - (B) Equity method.
 - (C) Acquisition method.
21. When comparing companies that hold equity investments in other corporations, which of the following statements is most accurate? All else being equal, leverage measures for a firm using consolidation will appear:
- (A) less favorable than those for a comparable firm using the equity method.
 - (B) more favorable than those for a comparable firm using the equity method.
 - (C) more or less favorable depending on the leverage of the investee company.
22. Sawbuck Corporation recently acquired a 60% stake in Rawboard Inc. for \$70 million in newly issued common stock. Given this information, which of the following methods should be used to account for the acquisition of Rawboard?
- (A) Proportionate consolidation.
 - (B) The pooling of interest method.
 - (C) Acquisition.

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23. In 2003, Flitenight would reflect its investment in Rocky Mountain on its income statement by recording:
- (A) \$300,000.
 - (B) \$600,000.
 - (C) -\$200,000.
24. If Flitenight were to account for its Rocky Mountain investment as an investment in financial assets instead of the equity method, Flitenight's 2004 income statement would reflect its investment in Rocky Mountain by including which of the following?
- (A) Nothing, since the cost of the acquisition is not adjusted until the asset is sold.
 - (B) Only income of \$200,000.
 - (C) Only a loss of \$160,000.
25. Under the acquisition method, minority interest is considered:
- (A) a liability under IFRS and US GAAP.
 - (B) equity under IFRS and a liability under US GAAP.
 - (C) equity under IFRS and US GAAP.
26. Regarding Basten's and Matthews' statements about the gain/loss that Flitenight had at the end of 2004 on its investment in Rocky Mountain, which is most accurate?
- (A) Basten's statement is correct and Matthews' statement is incorrect.
 - (B) Basten's statement is incorrect and Matthews' statement is correct.
 - (C) Basten's statement is correct and Matthews' statement is correct.
27. Firm A recently leased equipment used in its manufacturing plant. If the leased asset is worth less than \$100,000 at the end of the lease, Firm A will pay the lessor the difference.
- Firm B provided debt financing to an unrelated entity. The debt has a provision whereby Firm B cannot be repaid until all other senior debt is satisfied.
- Do Firm A and Firm B have a variable interest?
- (A) Both have a variable interest.
 - (B) Only one has a variable interest.
 - (C) Neither have a variable interest.
28. On December 31, 2008 Company P invests \$5,000 in Company S in exchange for 25% of the company. During 2009, Company S earns \$2,000 and pays a dividend of \$500. If Company P uses the equity method of accounting, what values will be reported on the balance sheet and income statement? How much cash will be recognized from the investment?

	Balance Sheet	Income Statement	Cash
(A)	\$5,375	\$125	\$125
(B)	\$5,500	\$0	\$0
(C)	\$5,375	\$500	\$125

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29. Which of the following statements about variable interest entities (VIE) are correct or incorrect?

Statement #1: One potential benefit of a VIE is a lower cost of capital since the assets and liabilities of the VIE are isolated in the event the sponsor experiences financial difficulties.

Statement #2: The organizational form of a VIE must be either a partnership or a joint venture and it is necessary for the VIE to have separate management and employees.

- (A) Only one is correct.
- (B) Both are incorrect.
- (C) Both are correct.

30. When comparing companies that hold equity investments in other corporations, which of the following statements is most accurate? All else being equal, return on asset measures for a firm using the acquisition method will appear:

- (A) less favorable than those for a comparable firm using the equity method.
- (B) same as for a comparable firm using the equity method.
- (C) more favorable than those for a comparable firm using the equity method.

31. Which of the following methods of accounting for investments will reflect the highest assets and liabilities on company's balance sheet?

- (A) Both methods result in reporting the same balances for assets and liabilities.
- (B) Equity method.
- (C) Acquisition method.

32. Which of the following statements about special purpose entities (SPE) are correct or incorrect?

Statement #1: The sponsor usually maintains the decision-making power and voting control over the SPE.

Statement #2: The equity owners of an SPE usually receive a rate of return that is tied to the performance of the SPE.

- (A) Only one is correct.
- (B) Both are correct.
- (C) Both are incorrect.

33. Which of the following statements regarding special purpose entities (SPEs) is least accurate?

- (A) Under IFRS, a special purpose entity must be consolidated by the entity which exercises control over that entity.
- (B) According to U.S. GAAP, if a SPE is considered a VIE, it must be only consolidated by the primary beneficiary.
- (C) According to U.S. GAAP, a special purpose entity is classified as a variable interest entity (VIE) if it has at-risk equity that is sufficient to finance its own activities without additional financial support.

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34. Maverick Incorporated formed a special purpose entity (SPE) to purchase and lease a 50,000 acre ranch. The SPE financed 95% of the purchase price with debt. The remaining 5% was financed with equity capital received from two separate independent investors. The lender would not make the loan without Maverick's guarantee. How should Maverick treat the SPE in its financial statements if Maverick is the lessee?
- (A) Maverick must consolidate the SPE.
 - (B) Each equity investor must proportionately consolidate the SPE.
 - (C) No firm must consolidate the SPE.
35. What will be the post-acquisition current ratio, using both the acquisition method and the equity method, respectively, for TME? The choices below represent Acquisition and Equity, respectively.
- (A) 1.01, 0.92.
 - (B) 1.04, 1.11.
 - (C) 1.21, 1.02.
36. Using the acquisition method to account for the acquisition, what will be the post-acquisition current assets of TME?
- (A) \$105,000.
 - (B) \$93,000.
 - (C) \$118,000.
37. Using the acquisition method to account for the acquisition, which of the following is closest to the post-acquisition amount that will be recorded as the minority interest under US GAAP?
- (A) \$21,000.
 - (B) \$10,700.
 - (C) \$6,300.
38. Last year, Parent Company acquired Sub Company for \$2,000,000. On the date of acquisition, the fair value of Sub's net assets was \$1,700,000. At the end of the year, the fair value of Sub is \$1,950,000, and the fair value of Sub's net assets is \$1,775,000. If the carrying value of Sub is \$1,980,000, the impairment loss under U.S. GAAP is closest to:
- (A) \$30,000.
 - (B) \$125,000.
 - (C) \$0.

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39. What is the impact if the company had originally classified the shares as fair value through P&L on the value of the assets of Company X?
- (A) \$70,000.00
 - (B) \$200,000.00
 - (C) \$0.00
40. If the shares were classified as fair value through P&L, what would have been the impact on the income and the stockholders' equity of Company X?
- (A) Stockholders' equity will rise by \$200,000, but income will not change.
 - (B) Income will rise by \$200,000, but stockholders' equity will not change.
 - (C) Income and stockholder's equity will rise by \$200,000.
41. Under IFRS, where an investor owns a significant number (39%) of the voting shares of an investee but has no involvement in policy making and no Board of Directors' representation, which of the following investment classifications is most appropriate to characterize the situation?
- (A) Investment in associates.
 - (B) Investment in financial assets.
 - (C) Significant influence.
42. Equity method is:
- (A) recommended under U.S. GAAP for jointly controlled entities, but is not normally permitted under IFRS.
 - (B) required under IFRS and under U.S. GAAP for jointly controlled entities.
 - (C) recommended under IFRS and U.S. GAAP for jointly controlled entities.
43. Assuming no significant influence exists, which of the following statements concerning percentage ownership and accounting method is most accurate?
- (A) When the ownership is less than 20%, both US GAAP and IFRS require the investment in financial assets method.
 - (B) When the ownership is less than 20%, US GAAP requires the investment in financial assets method, IFRS the equity method.
 - (C) When the ownership is less than 20%, both US GAAP and IFRS require the equity method.
44. For instances in which Omricon holds exactly 50% of the outstanding equity of the investee firm's equity (i.e., the investee firm is a joint venture), which of the following statements is most accurate?
- (A) IFRS and US GAAP both permit a choice between the equity method and proportional consolidation.
 - (B) IFRS requires that the equity method be used'; US GAAP permits a choice between the equity method and proportional consolidation.
 - (C) Both US GAAP and IFRS require that the equity method be used.

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45. Relative to consolidation, using the equity method of accounting for investments results in:
- (A) ROA being higher than under consolidation.
 - (B) ROA being lower and leverage being higher than under consolidation.
 - (C) ROA being higher and leverage being higher than under consolidation.
46. Barrett Inc. is advised by its banker to create a special purpose entity (SPE) to convert its existing \$15 million loan off-balance sheet. Under the terms of the deal, SPE would obtain a loan for \$15 million from the bank with Barrett providing loan guarantee. Barrett would then sell \$15 million of accounts receivable to the SPE and use the proceeds to pay off the current loan. Barrett prepares its financial statements under U.S. GAAP. Which of the following statements is most accurate regarding the impact of such an arrangement on Barrett's ratios?
- (A) Barrett's leverage would decrease and receivable turnover would increase.
 - (B) Barrett's leverage as well as receivables turnover would remain the same.
 - (C) Barrett's leverage would remain the same while receivable turnover would increase.
47. Harter Company recently acquired a 40% stake in Compton Corp. for \$40 million in cash by borrowing at 10%. Harter will account for this acquisition using which of the following methods:
- (A) Equity method.
 - (B) Acquisition Method.
 - (C) Held to maturity debt securities method.
48. Which of the following statements regarding asset securitizations and special purpose entities (SPEs) is most accurate?
- (A) The SPE usually issues debt to purchase receivables from the sponsor.
 - (B) If the sponsor has no recourse, then the transaction is nothing more than a collateralized borrowing.
 - (C) When receivables are securitized, the sponsor reports the cash inflow as an investing activity in the cash flow statement.
49. What is the income from the equity portfolio if the securities are classified as FVPL?
- (A) \$19,900.
 - (B) \$20,900.
 - (C) -\$6,600.
50. What is the balance sheet carrying value of the securities under each of the classifications at year-end?
- | | FVPL | FVOCI |
|-----|----------|----------|
| (A) | \$71,500 | \$71,500 |
| (B) | \$90,000 | \$71,500 |
| (C) | \$90,000 | \$90,000 |

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51. If the fixed income portfolio outlined in Exhibit 2 is remains classified as amortized cost, which of the following is closest to the interest income reported in the income statement for the year ending 31st December 2013?
- (A) \$1,079,000.
 - (B) \$1,086,000.
 - (C) \$1,088,000.
52. If the bonds are reclassified as suggested by the chief investment officer, which of the following statements is most likely correct?
- (A) The difference between the amortized cost and fair value will be shown in other comprehensive income.
 - (B) The difference between the amortized cost and fair value will be shown in net income.
 - (C) The difference between the purchase price and fair value will be shown in other comprehensive income.
53. Milburne Company purchased 1,000 shares of Marino Co. for \$20 per share on January 1. By December 31, shares of Marino were trading at \$15 per share in the open market. Marino Co. has 100,000 shares outstanding with a dividend yield of 2% at year end. Milburne choose FVOCI classification for these shares. The impact of the Marino holding on the Milburne income statement is:
- (A) -\$4,700.
 - (B) -\$5,000.
 - (C) \$300.
54. The marketable securities balance amount shown on the balance sheet is:
- (A) \$3,000,000.00.
 - (B) \$3,100,000.00.
 - (C) \$3,200,000.00.
55. In late 20X6, Company X decided to reclassify the investments in stock. What classification can the company classify the investment in stocks to?
- (A) Fair value through profit or loss or amortized cost.
 - (B) Reclassification would not be allowed.
 - (C) Fair value through profit or loss only.
56. The appropriate classification for the investment in government bonds would be:
- (A) amortized cost, fair value through OCI, or fair value through profit or loss.
 - (B) amortized cost or fair value through OCI.
 - (C) amortized cost or fair value through profit or loss.

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57. Assuming that the investments were initially classified as fair value through profit or loss. The company can reclassify:
- (A) debt security only if the business model has changed.
 - (B) equity security but only into fair value through OCI.
 - (C) both debt and equity securities into fair value through OCI.
58. Carter Schmitz, Inc. (Schmitz) purchased 200 shares of Intelismart at \$21 a share in June 2006 and classifies 80 shares as fair value through profit or loss securities and holds the remaining 120 shares as classified as fair value through OCI. Intelismart's closing price was \$26 on December 31, 2006, and Schmitz did not sell any of its shares. What amount should Schmitz report on this investment under the income statement?
- (A) \$1,000.
 - (B) \$600.
 - (C) \$400.
59. Under IFRS rules, which of the following accounting treatments is most preferred for joint ventures where there is shared control?
- (A) Acquisition method.
 - (B) Proportionate consolidation method.
 - (C) Equity method.
60. Company X owns 15% of company S and exerts significant influence over the operations of the company. The book value of the investment on December 31, 2008, is \$48,000. In 2009, company S earned \$100,000 and paid dividends of \$20,000. The impact of the investment on the income statement of company X is:
- (A) \$3,000.
 - (B) \$15,000.
 - (C) \$12,000.
61. Alpha Inc. owns 70% of the outstanding shares of Beta Inc. Compared to the debt-to-equity ratio under the partial goodwill method, Alpha's debt-to-equity ratio under the full goodwill method is most likely be:
- (A) higher.
 - (B) lower.
 - (C) the same.
62. Acme Corporation purchases a 3% interest in Bandy Company to become the single largest shareholder of Bandy. Acme will hold a seat on the Board of Directors of Bandy. Acme will account for its investment in Bandy using the:
- (A) acquisition method.
 - (B) equity method.
 - (C) lower of cost or market method.

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63. Fiduciary Investors held two portfolios of marketable securities:
- \$50 million in Portfolio A was accounted for as Fair value through profit or loss.
 - \$50 million in Portfolio B was accounted for as amortized cost securities.
- Assume that Fiduciary reclassified securities (\$10 million carrying value, \$8 million market value) from Portfolio B into Portfolio A. If no previous write downs were made, Fiduciary must:
- (A) do nothing to its income statement or equity section of its balance sheet.
 - (B) charge \$2 million to its income statement.
 - (C) charge \$2 million to the equity section of its balance sheet.
64. Accounting standards for intercorporate investments establish different categories of securities with distinct ways of treating them on the financial statements of the company. One category requires the securities to be carried at fair value on the balance sheet with unrealized gains and losses excluded from the income statement. This category of security classification is called debt:
- (A) securities classified at amortized cost.
 - (B) and equity classified as fair value through P&L securities.
 - (C) and equity securities classified as fair value through OCL.
65. Mashburn Company acquired 25% of the 100,000 outstanding shares of Humm Co. on January 1 for \$250,000 in cash. Humm Co. earned \$1 per share and had a dividend payout ratio of 40%. As of December 31, Humm Co. shares were trading in the open market at \$12 per share. Calculate the income statement treatment of the Humm Co. investment as of December 31.
- (A) \$25,000.
 - (B) \$10,000.
 - (C) \$75,000.
66. Mustang Corporation formed a special purpose entity (SPE) for purposes of providing research and development. An unrelated firm absorbs the expected losses of the SPE and the independent shareholders of the SPE receive the expected residual returns. Is the SPE considered a variable interest entity (VIE) according to FASB Interpretation No. 46(R) and is consolidation required by Mustang, respectively?
- (A) No ; No.
 - (B) Yes ; Yes.
 - (C) Yes ; No.
67. Assuming the equity method of accounting is used, what will be the reported investment income for Birch?
- (A) \$60,000.00.
 - (B) \$175,000.00.
 - (C) \$115,000.00.

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68. Assuming the equity method of accounting is used, what will be the cash flow received by Birch, due to their investment in TRQ?
- (A) \$65,400.
 - (B) \$227,500.
 - (C) \$52,500.
69. If the consolidation method is used, how much of TRQ's net income will Birch recognize in the group income statement?
- (A) \$122,500.
 - (B) \$175,000.
 - (C) \$700,000.
70. Which of Fitzroy's reasons would most likely support the equity accounting method being appropriate for TRQ?
- (A) Reason 2.
 - (B) Reason 1.
 - (C) Reason 3.
71. Milburne Company purchased 1,000 shares of Marino Co. for \$20 per share on January 1 classified as FVPL. By December 31, shares of Marino were trading at \$15 per share in the open market. Marino Co. has 100,000 shares outstanding with a dividend yield of 2% at year end. The impact of the Marino holding on the Milburne income statement is:
- (A) —\$4,700.
 - (B) —\$5,300.
 - (C) —\$5,000.
72. What is the investment income that Zeisler Company will report for the year 2009 on its investment in Market Square Corporation shares if it continues to account for the shares as an FVOCI investment?
- (A) \$150,000.
 - (B) \$200,000.
 - (C) \$250,000.
73. If Zeisler were to account for the Market Square Corporation shares as FVPL, assuming that the securities do not change in value between the December 15th meeting and the end of the year, the carrying amount of these shares on Zeisler's December 31, 2009 balance sheet would be:
- (A) \$2.50 million.
 - (B) \$2.75 million.
 - (C) \$3.50 million.

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74. If Zeisler reclassified the common stock of General Nuclear as FVPL, what effect would it have on Zeisler's 2009 income statement?
- (A) Reclassifying the security would have no effect on the income statement because gains and losses would be recognized in equity.
 - (B) Net income would increase.
 - (C) None, reclassification is prohibited under IFRS 9.
75. If Zeisler were to account for the Market Square Corporation shares using the equity method, assuming that the securities do not change in value between the December 15th meeting and the end of the year, the carrying amount of these shares on Zeisler's December 31, 2009 balance sheet would be:
- (A) \$2.75 million.
 - (B) \$2.60 million.
 - (C) \$3.50 million.
76. Company A acquired a 50% stake in Company T on January 1, 2003 by paying T's shareholders \$100,000 in cash. Pre-acquisition balance sheets for the two firms are presented below:

Balance Sheet		
	Company A	Company T
Current assets	\$400,000	600,000
Fixed assets	600,000	100,000
Total	\$1,000,000	\$160,000
Current liabilities	\$50,000	\$30,000
Common stock	350,000	60,000
Retained earnings	600,000	70,000
Total	\$1,000,000	\$160,000

The fair values of company T assets and liabilities was same as the book value. Company A reports under U.S. GAAP. What are the post-acquisition balance sheet values for total assets for Company A under the equity and acquisition methods of accounting respectively?

- (A) \$1,060,000 and \$1,095,000.
 - (B) \$1,000,000 and \$1,130,000.
 - (C) \$1,000,000 and \$1,095,000.
77. A company reports an intercorporate investment using the acquisition method. Which of the following statements is most accurate?
- (A) The use of the acquisition method by a company will generally report the more favourable results.
 - (B) The use of the acquisition method by a company will generally report the less favourable results.
 - (C) The use of the equity method by a company will generally report the same results.

78. Which of the following statements regarding special purpose entities (SPEs) is least accurate?
- (A) An SPE can be established as one of several legal forms, such as corporations, partnerships, or trusts, but must establish separate management from that of the sponsor.
 - (B) In general, the equity investors in an SPE can expect to receive a limited rate of return on their investment in exchange for limited risk exposure.
 - (C) An SPE can be formed to isolate specific assets from the sponsor, thus lowering the cost of capital by protecting the assets of the SPE in the event the sponsor experiences financial distress.
79. According to US GAAP, if an SPE is to be considered a variable interest entity (VIE), it must meet which of the following conditions?
- (A) The equity investors in the VIE must bear all of the SPE's risk up to a pre-determined level as outlined in the governing documents.
 - (B) The SPE must be consolidated by the primary beneficiary, whose status as primary beneficiary is defined by the level of the firm's percentage of voting control.
 - (C) The total at-risk equity of the SPE is not sufficient to finance the entity's activities without additional subordinated financial support.
80. As outlined in FIN 46(R), the primary beneficiary of a VIE is that entity which meets which of the following conditions?
- (A) Holds the majority voting control of the VIE and has separate management from the VIE.
 - (B) Has exposure to the majority of the loss risks or receives the majority of the residual benefits of the VIE.
 - (C) Holds the majority voting control of the VIE and shares management with the VIE.
81. Assuming that QuickTime is considered a VIE in accordance with FIN 46(R), which of the following statements regarding the consolidation of QuickTime on Evergreen's financial statements is most accurate?
- (A) The truck dealer is supplying the financing for the majority (75%) of QuickTime's debt, so Evergreen may not consolidate QuickTime on its financial statements.
 - (B) Evergreen is exposed to the majority of QuickTime's risks and rewards, so Evergreen must consolidate QuickTime on its financial statements.
 - (C) Because the outside investor holds only nonvoting stock, Evergreen holds the majority controlling financial interest in QuickTime and must consolidate QuickTime on its financial statements.

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82. GTH Corporation has just purchased 18% of the common stock of Pittor Corporation, one of their major suppliers, making GTH the largest single shareholder in Pittor. The primary motivation for the purchase is that managerial problems at Pittor have resulted in quality control difficulties, thereby affecting the reliability of several critical component parts for GTH products. At the time of the purchase, GTH management announced they plan to be an active investor and exercise significant influence on Pittor so the quality problems can be resolved. Given these circumstances, the accounting method used to record the intercorporate investment will most likely be the:
- (A) investment in financial assets method.
 - (B) equity method.
 - (C) acquisition method.
83. Which of the following investments would most likely be reported under the equity method?
- (A) An investment in 40% of the equity of an entity that gives the owner control over that entity.
 - (B) An investment in 80% of the equity of an entity that gives the owner control over that entity.
 - (C) An investment in 5% of the equity of an entity that gives the owner significant influence over that entity.
84. Luna has recorded its investment in Instate utilizing the equity method of accounting for intercorporate investments. According to FASB, which of the following statements most accurately reflects the impact on an investor's financial statements by using the equity method?
- (A) The investing firm can include a proportionate share of the investee's income in its earnings, regardless of whether or not there are actual cash flows (i.e. dividends).
 - (B) The investing firm will not make any adjustments to its financial statements to reflect its proportionate share of the investee's net assets, but will reference the investment in the footnotes.
 - (C) Market values can be compared with the carrying amount for analysis purposes, but only market values may be used in the financial statements.

