

Question 1 (33.5 Marks)

A- On January 1, 2020 Porto Corporation paid \$81,000 for a 90% interest in Sardinia Corporation. On that date Sardinia capital stock was \$50,000 and its Retained Earnings was \$15,000. Any excess will be assigned to goodwill.

Further information:

1. During 2020, Porto's sales to Sardinia were \$24,000, Sardinia managed to sell 50% of this merchandise. (The other half was sold in 2021.)
2. During 2021, Porto's sales to Sardinia were \$30,000 of which Sardinia managed to sell 40% of this merchandise. At year-end 2021, Sardinia owed Porto \$7,500 for the inventory purchased during 2021. Porto sells merchandise to Sardinia at a markup 20% of cost.
3. Sardinia's dividends in 2021 was \$10,000

Presented below are several figures reported for Porto Corporation and Sardinia as of December 31, 2021

	Porto	Sardinia
Inventory	\$50,000	\$22,500
Sales	300,000	70,000
Cost of Goods Sold	130,000	22,000
Expenses	140,000	18,000

Required:

- 1- Calculate the following:
 - A. Goodwill from business combination
 - B. Parent's share of subsidiary net income in 2021
 - C. Non-controlling interest share of subsidiary net income in 2021. (3.6 Marks)
 - 2- Prepare the elimination entries required for consolidation on December 31, 2021. (Parent entries are not required). (11.4 Marks)
 - 3- Prepare consolidated income statement worksheet for Porto Corporation and Subsidiary at December 31, 2021. (4.5 Marks)
 - 4- In your opinion, what will be the effect on the consolidated net income in 2021, 2022, and 2023, if the elimination entry of unrealized profit in inventories at the end of 2021 was not prepared? (4 Marks)
- B- List and discuss the four basic types of hedging instruments. (10 Marks)

Question 2 (37 Marks)

A- Solo Inc. is a 70% owned subsidiary of Polo corporation, which was acquired at book value several years ago. Separate company income statements for 2021 is shown below:

	Polo	Solo
Sales	15,000,000	6,400,000
Gain on sale of machine	-	???
Cost of goods sold	(10,000,000)	(4,000,000)
Operating expenses	(2,000,000)	(1,300,000)

On January 1, 2021 Solo sold a machine to Polo for \$900,000 , the cost of machine was \$700,000 and its accumulated depreciation \$200,000 with a remaining useful life 10 years.

Required:

1. Calculate the gain on sale of the machine.
2. Record journal entries prepared by the parent during 2021
3. Prepare a working paper for consolidated income statement for 2021 and the required elimination entries. *Show all necessary calculations.* (18 Marks)

B- Charin Corporation, a U.S. corporation, imports and exports small electronics. On December 1, 2021, Charin purchased components from an Egyptian manufacturer amounting to 500,000 Egyptian pounds. The purchase is payable in Egyptian pounds. At December 30, Charin wanted to take advantage of favorable exchange rates, but did not have the full amount required to pay off the entire amount. Charin wired the funds to pay off half of the balance owed, and expected to pay the remaining balance on January 3, 2022. Charin paid the remaining balance on January 3, 2022.

The respective exchange rates were as follows:

December 1, 2021	1 pound = \$.170
December 30, 2021	1 pound = \$.165
December 31, 2021	1 pound = \$.175
January 3, 2022	1 pound = \$.180

Required:

- 1- Prepare the journal entries related to these transactions for the four dates shown in the accounting records of the American and the Egyptian companies. If no entry is required, record "no entry."
- 2- Did the U.S. dollar strengthen or weaken from December 1, 2021 to January 3, 2022 and what are the implications for Charin Corporation? (19 Marks)



Question 3 (29.5 Marks)

A- The following transactions occurred between the home office and the Mason Branch of Smaldino Company:

1. Cash of \$1,000 was forwarded by the home office to Mason Branch.
2. Merchandise with a home office cost of \$60,000 was shipped by the home office to Mason Branch.
3. Equipment was acquired by Mason Branch for \$500, to be carried in the home office accounting records.
4. Credit sales by Mason Branch amounted to \$80,000; the branch's cost of the merchandise sold was \$45,000.
5. Collections of trade accounts receivable by Mason Branch amounted to \$62,000.
6. Payments for operating expenses by Mason Branch totaled \$20,000.
7. Cash of \$37,500 was remitted by Mason Branch to the home office.
8. Operating expenses incurred by the home office and charged to Mason Branch totaled \$3,000.

Required:

Prepare journal entries for these transactions in the accounting records of the Home office and the Mason Branch. (15.5 Marks)

B- On May 31, 2022, Portland Street Branch (the only branch) of Trapp Company reported a net income of \$16,000 for May 2022, and a \$48,000 ending inventory at billed price of merchandise received from the home office at a 25% markup on billed price. Prior to adjustment, the May 31, 2022, balance of the home office's Allowance for Overvaluation of Inventories: Portland Street Branch was \$40,000 credit.

Required:

Prepare journal entries (omit explanations) on May 31, 2022, for the home office of Trapp Company to reflect the foregoing facts. (14 Marks)

[END OF QUESTIONS]

GOOD LUCK