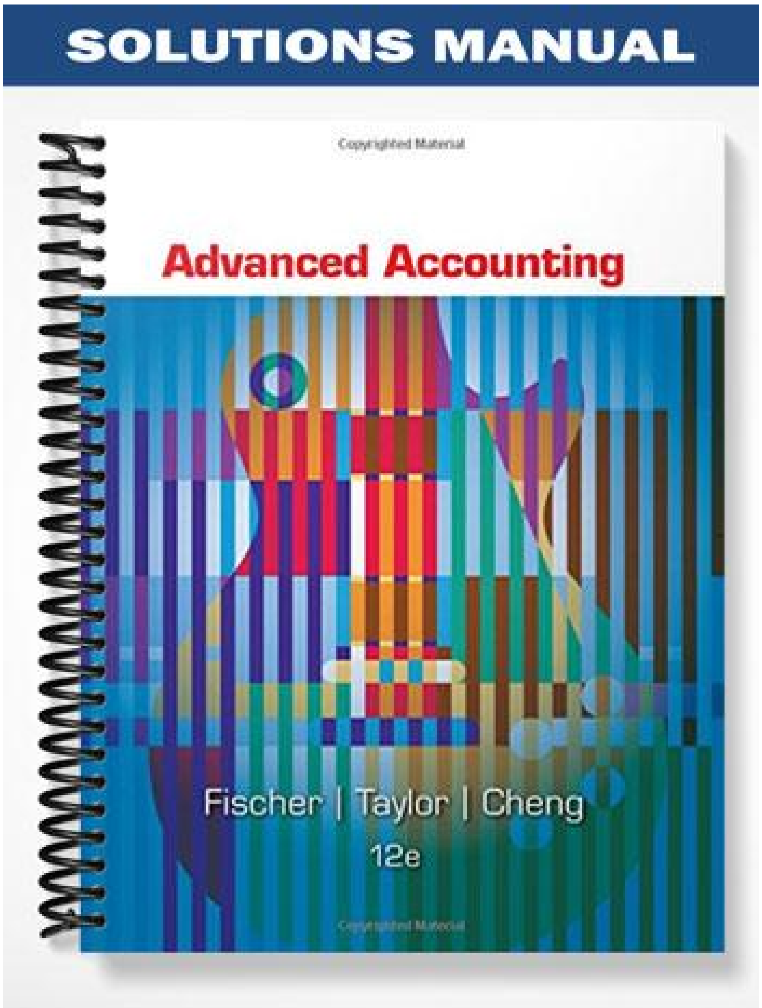
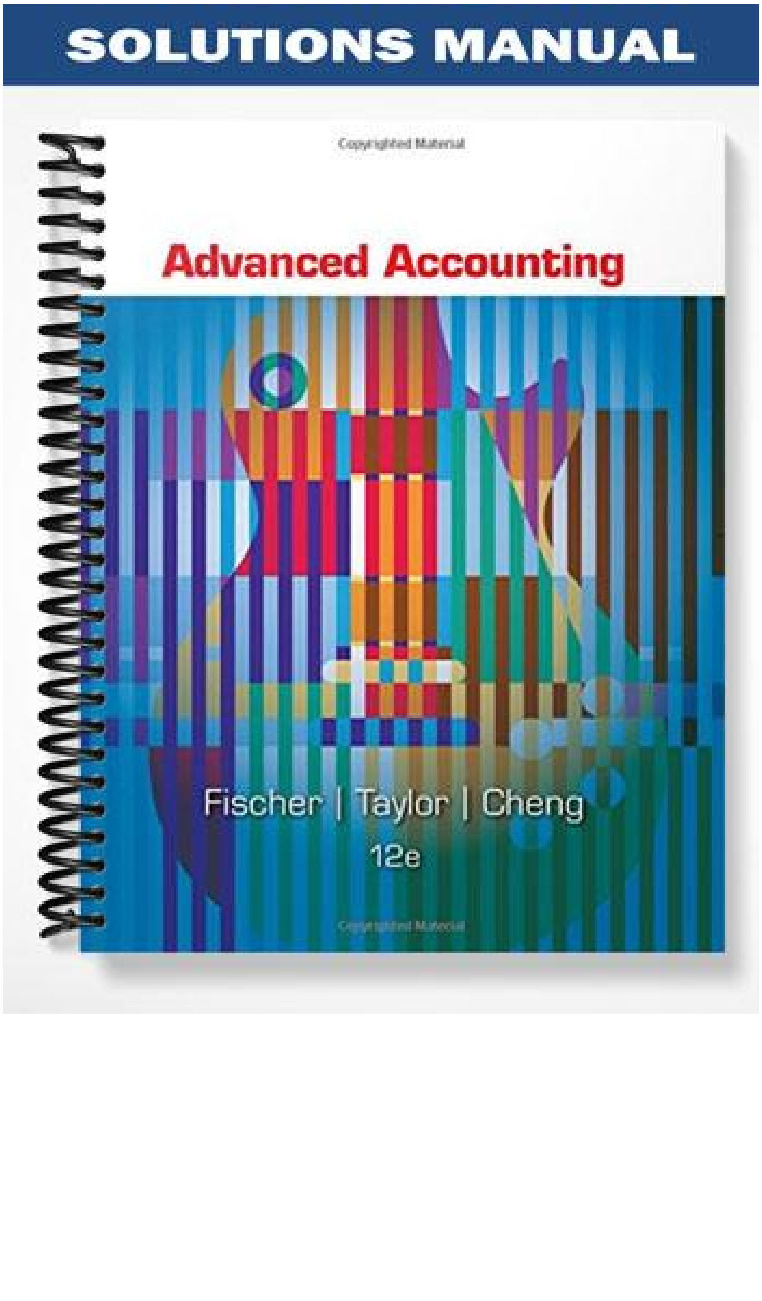

SOLUTIONS MANUAL
Copyrighted Material
Advanced Accounting
Fischer | Taylor | Cheng
12e
Copyrighted Material


SOLUTIONS MANUAL
Copyrighted Material
Advanced Accounting
Fischer | Taylor | Cheng
12e
Copyrighted Material

CHAPTER 2

UNDERSTANDING THE ISSUES

1. (a) Jacobson has a passive level of ownership and in future periods will record dividend income of only 15% of Biltrite's declared dividends. Jacobson will also have to adjust the investment to market value at the end of each period.

(b) Jacobson has an influential level of ownership and in future periods will record investment income of 40% of Biltrite's net income. Any dividends declared by Biltrite will reduce the investment account but will not affect the investment income amount.

(c) Jacobson has a controlling level of ownership and in future periods will add 100% of Biltrite's net income to its own net income. Biltrite's nominal account balances will be added to Jacobson's nominal accounts. Any dividends declared by Biltrite will not affect Jacobson's income.

(d) Jacobson has a controlling level of ownership and in future periods will add 100% of Biltrite's net income to its own net income. All (100%) of Biltrite's nominal account balances will be added to Jacobson's nominal account balances. This will result in consolidated net income, followed by a distribution to the non-controlling interest equal to 20% of Biltrite's income. Any dividends declared by Biltrite will not affect Jacobson's income.

2. The elimination process serves to make the consolidated financial statements appear as though the parent had purchased the net assets of the subsidiary. The investment account and the subsidiary equity accounts are eliminated and replaced by the subsidiary's net assets.

3. (a)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$1,200,000	$1,200,000	N/A
Fair value of net assets excluding goodwill	800,000	800,000	
Goodwill	$ 400,000	$ 400,000	

Net Assets—marked up 300,000 ($800,000 fair value – $500,000 book value)
Goodwill—$400,000 ($1,200,000 – $800,000)

(b)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$1,200,000	$960,000	$240,000
Fair value of net assets excluding goodwill	800,000	640,000	160,000
Goodwill	$ 400,000	$320,000	$ 80,000

Net Assets—marked up $300,000 ($800,000 fair value – $500,000 book value)
Goodwill—$400,000 ($1,200,000 – $800,000)
The NCI would be valued at $240,000 (20% of the implied company value) to allow the full recognition of fair values.

4. (a)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$1,000,000	$1,000,000	N/A
Fair value of net assets excluding goodwill	850,000	850,000	
Goodwill	$ 150,000	$ 150,000	

The determination and distribution of excess schedule would make the following adjustments:
$1,000,000 price – $350,000 net book value = $650,000 excess to be allocated as follows:

Current assets	$ 50,000
Fixed assets	450,000
Goodwill	150,000
	$650,000

(b)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$ 500,000	$ 500,000	N/A
Fair value of net assets excluding goodwill	850,000	850,000	
Gain on acquisition	$ (350,000)	$ (350,000)	

The determination and distribution of excess schedule would make the following adjustments:

$500,000 price – $350,000 net book value = $150,000 excess to be allocated as follows:

Current assets	$ 50,000
Fixed assets	450,000
Gain on acquisition	(350,000)
	$ 150,000

5. (a)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$1,000,000*	$800,000	$200,000
Fair value of net assets excluding goodwill	850,000	680,000	170,000
Goodwill	$ 150,000	$120,000	$ 30,000

*$800,000/80% = $1,000,000.

The determination and distribution of excess schedule would make the following adjustments:

$800,000 parent's price – (80% × $350,000 net book value)	$520,000	
NCI adjustment, $200,000 – (20% × $350,000 net book value)	130,000	
Total adjustment to be allocated	$650,000	as follows:
Current assets	$ 50,000	
Fixed assets	450,000	
Goodwill	150,000	
	$650,000	

(b)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$770,000**	$600,000	$170,000*
Fair value of net assets excluding goodwill	850,000	680,000	170,000
Gain on acquisition	$ (80,000)	$ (80,000)	N/A

*Cannot be less than the NCI share of the fair value of net assets excluding goodwill.
**$600,000 parent price + $170,000 minimum allowable for NCI = $770,000.

$600,000 parent's price – (80% × $350,000 book value)	$320,000	
NCI adjustment, $170,000 – (20% × $350,000 net book value)	100,000	
Total adjustment to be allocated	$420,000	as follows:
Current assets	$ 50,000	
Fixed assets	450,000	
Gain on acquisition	(80,000)	
	$420,000	

6.

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$1,000,000*	$800,000	$200,000
Fair value of net assets excluding goodwill	850,000	680,000	170,000
Goodwill	$ 150,000	$120,000	$ 30,000

*$800,000/80% = $1,000,000

The NCI will be valued at $200,000, which is 20% of the implied company value. The NCI account will be displayed on the consolidated balance sheet as a subdivision of equity. It is shown as a total, not broken down into par, paid-in capital in excess of par, and retained earnings.

EXERCISES

EXERCISE 2-1

Santos Corporation
Pro Forma Income Statement
Ownership Levels

	10%	30%	80%
Sales	$700,000	$700,000	$1,150,000
Cost of goods sold	300,000	300,000	600,000
Gross profit	$400,000	$400,000	$ 550,000
Selling and administrative expenses	120,000	120,000	200,000
Operating income	$280,000	$280,000	$ 350,000
Dividend income (10% × $15,000 dividends)	1,500		
Investment income (30% × $70,000 reported income)		21,000	
Net income	$281,500	$301,000	$ 350,000
Noncontrolling interest (20% × $70,000 reported income)			14,000
Controlling interest			$ 336,000

EXERCISE 2-2

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$530,000	$530,000	N/A
Fair value of net assets excluding goodwill ($280,000 book value + $20,000)	300,000	300,000	
Goodwill	$230,000	$230,000	

1. (a)

Cash	20,000*	
Accounts Receivable	70,000	
Inventory	100,000	
Property, Plant, and Equipment ($270,000 + $20,000)	290,000	
Goodwill	230,000	
Current Liabilities		80,000
Bonds Payable		100,000
Cash		530,000*

*Cash may be shown as a net credit of $510,000.

Exercise 2-2, Concluded

(b)

Glass Company
Balance Sheet

Assets

Current assets:		
Cash	$ 30,000	
Accounts receivable	120,000	
Inventory	150,000	$ 300,000
Property, plant, and equipment (net)		520,000
Goodwill		230,000
Total assets		$1,050,000

Liabilities and Stockholders' Equity

Liabilities:		
Current liabilities	$220,000	
Bonds payable	350,000	$ 570,000
Stockholders' equity:		
Common stock ($100 par)	$200,000	
Retained earnings	280,000	480,000
Total liabilities and stockholders' equity		$1,050,000

2. (a)

Investment in Plastic	530,000	
Cash		530,000

(b) Investment in Plastic appears as a long-term investment on Glass's unconsolidated balance sheet.

(c) The balance sheet would be identical to that which resulted from the asset acquisition of part (1).

EXERCISE 2-3

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value		To be determined	N/A
Fair value of net assets excluding goodwill	$580,000*	$580,000	
Goodwill			
Gain on acquisition			

*$420,000 net asset book value + $40,000 inventory increase + $20,000 land increase + $100,000 building increase = $580,000 fair value.

(1) Goodwill will be recorded if the price is above $580,000.

(2) A gain will be recorded if the price is below $580,000.

EXERCISE 2-4

(1)

Investment in Paint, Inc.	980,000	
Cash		980,000
Acquisition Costs Expense	10,000	
Cash		10,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$980,000	$980,000	N/A
Fair value of net assets excluding goodwill	900,000*	900,000	
Goodwill	$80,000	$80,000	

*$700,000 net book value + $50,000 inventory increase + $150,000 depreciable fixed assets increase = $900,000 fair value.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$980,000	$980,000	N/A
Less book value of interest acquired:			
Common stock ($10 par)	$300,000		
Paid-in capital in excess of par	380,000		
Retained earnings	20,000		
Total stockholders' equity	$700,000	$700,000	
Interest acquired		100%	
Book value		$700,000	
Excess of fair value over book value	$280,000	$280,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($250,000 fair – $200,000 book value)	$ 50,000	debit D1
Depreciable fixed assets ($750,000 fair – $600,000 book value)	150,000	debit D2
Goodwill	80,000	debit D3
Total	$280,000	

Exercise 2-4, Concluded

(3) Elimination entries:

Common Stock ($10 par)—Paint	300,000	
Paid-In Capital in Excess of Par—Paint	380,000	
Retained Earnings—Paint	20,000	
Investment in Paint, Inc.		700,000
Inventory	50,000	
Depreciable Fixed Assets	150,000	
Goodwill	80,000	
Investment in Paint, Inc.		280,000

EXERCISE 2-5

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$ 700,000	$ 700,000	N/A
Fair value of net assets excluding goodwill	885,000	885,000	
Goodwill			
Gain on acquisition	$(185,000)	$(185,000)	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Price paid for investment	$700,000	$700,000	N/A
Less book value of interest acquired:			
Common stock ($5 par)	$200,000		
Paid-in capital in excess of par	300,000		
Retained earnings	175,000		
Total equity	$675,000	$675,000	
Interest acquired		100%	
Book value		$675,000	
Excess of fair value over book value	$ 25,000	$ 25,000	

Exercise 2-5, Concluded

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($215,000 fair – $200,000 book value)	$ 15,000	debit D1
Property, plant, and equipment ($700,000 fair – $500,000 book value)	200,000	debit D2
Computer software ($130,000 fair – $125,000 book value)	5,000	debit D3
Premium on bonds payable ($200,000 fair – $210,000 book value)	(10,000)	credit D4
Gain on acquisition	(185,000)	credit D5
Total	$ 25,000	

(2) Elimination entries:

Common Stock ($5 par)—Genall	200,000	
Paid-In Capital in Excess of Par—Genall	300,000	
Retained Earnings—Genall	175,000	
Investment in Genall Company		675,000
Inventory	15,000	
Property, Plant, and Equipment	200,000	
Computer Software	5,000	
Gain on Acquisition		185,000
Premium on Bonds Payable		10,000
Investment in Genall Company		25,000

EXERCISE 2-6

(1) (a) Value of NCI implied by price paid by parent

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$1,000,000*	$800,000	$200,000**
Fair value of net assets excluding goodwill	820,000	656,000	164,000
Goodwill	$ 180,000	$144,000	$ 36,000

*$800,000/80% = $1,000,000.
**$1,000,000 × 20% = $200,000.

Exercise 2-6, Continued

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$1,000,000	$800,000	$200,000
Less book value of interest acquired:			
Common stock ($5 par)	$ 100,000		
Paid-in capital in excess of par	150,000		
Retained earnings	250,000		
Total equity	$ 500,000	$500,000	$500,000
Interest acquired		80%	20%
Book value		$400,000	$100,000
Excess of fair value over book value	$ 500,000	$400,000	$100,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($250,000 fair – $200,000 book value)	$ 50,000	debit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Building ($650,000 fair – $450,000 book value)	200,000	debit D3
Equipment ($200,000 fair – $230,000 book value)	(30,000)	credit D4
Goodwill	180,000	debit D5
Total	$500,000	

(b) NCI = 4,000 shares at $45

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$980,000	$800,000	$180,000*
Fair value of net assets excluding goodwill	820,000	656,000	164,000
Goodwill	$160,000	$144,000	$ 16,000

*4,000 shares × $45.

Exercise 2-6, Continued

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$980,000	$800,000	$180,000
Less book value of interest acquired:			
Common stock ($5 par)	$100,000		
Paid-in capital in excess of par	150,000		
Retained earnings	250,000		
Total equity	$500,000	$500,000	$500,000
Interest acquired		80%	20%
Book value		$400,000	$100,000
Excess of fair value over book value	$480,000	$400,000	$ 80,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($250,000 fair – $200,000 book value)	$ 50,000	debit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Building ($650,000 fair – $450,000 book value)	200,000	debit D3
Equipment ($200,000 fair – $230,000 book value)	(30,000)	credit D4
Goodwill	160,000	debit D5
Total	$480,000	

(c) NCI = 20% of fair value of net tangible assets

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$964,000	$800,000	$164,000*
Fair value of net assets excluding goodwill	820,000	656,000	164,000
Goodwill	$144,000	$144,000	$ 0

*Equal to 20% of fair value of net identifiable assets.

Exercise 2-6, Continued

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$964,000	$800,000	$164,000
Less book value of interest acquired:			
Common stock ($5 par)	$100,000		
Paid-in capital in excess of par	150,000		
Retained earnings	250,000		
Total equity	$500,000	$500,000	$500,000
Interest acquired		80%	20%
Book value		$400,000	$100,000
Excess of fair value over book value	$464,000	$400,000	$ 64,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($250,000 fair – $200,000 book value)	$ 50,000	debit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Building ($650,000 fair – $450,000 book value)	200,000	debit D3
Equipment ($200,000 fair – $230,000 book value)	(30,000)	credit D4
Goodwill	144,000	debit D5
Total	$464,000	

(2) Elimination entries:

(a) Value of NCI implied by price paid by parent

Common Stock ($5 par)—Commo (80%)	80,000	
Paid-In Capital in Excess of Par—Commo (80%)	120,000	
Retained Earnings—Commo (80%)	200,000	
Investment in Commo Company		400,000
Inventory	50,000	
Land	100,000	
Building	200,000	
Goodwill	180,000	
Equipment		30,000
Investment in Commo Company (excess remaining)		400,000
Noncontrolling Interest (to adjust to fair value)		100,000

Exercise 2-6, Concluded

(b) NCI = 4,000 shares at $45

Common Stock ($5 par)—Commo (80%)	80,000	
Paid-In Capital in Excess of Par—Commo (80%)	120,000	
Retained Earnings—Commo (80%)	200,000	
Investment in Commo Company		400,000
Inventory	50,000	
Land	100,000	
Building	200,000	
Goodwill	160,000	
Equipment		30,000
Investment in Commo Company (excess remaining)		400,000
Noncontrolling Interest (to adjust to fair value)		80,000

(c) NCI = 20% of fair value of net tangible assets

Common Stock ($5 par)—Commo (80%)	80,000	
Paid-In Capital in Excess of Par—Commo (80%)	120,000	
Retained Earnings—Commo (80%)	200,000	
Investment in Commo Company		400,000
Inventory	50,000	
Land	100,000	
Building	200,000	
Goodwill	144,000	
Equipment		30,000
Investment in Commo Company (excess remaining)		400,000
Noncontrolling Interest (to adjust to fair value)		64,000

EXERCISE 2-7

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$646,000	$512,000**	$134,000*
Fair value of net assets excluding goodwill	670,000	536,000	134,000
Gain on acquisition	$ (24,000)	$ (24,000)	N/A

*Must at least equal fair value of assets.
**8,000 shares × $64.

Exercise 2-7, Concluded

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Price paid for investment	$646,000	$512,000	$134,000
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	130,000		
Retained earnings	370,000		
Total equity	$550,000	$550,000	$550,000
Interest acquired		80%	20%
Book value		$440,000	$110,000
Excess of fair value over book value	$ 96,000	$ 72,000	$ 24,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($400,000 fair – $280,000 book value)	$ 120,000	debit D1
Property, plant, and equipment ($500,000 fair – $400,000 book value)	100,000	debit D2
Goodwill ($0 fair – $100,000 book value)	(100,000)	credit D3
Gain on acquisition	(24,000)	credit D4
Total	$ 96,000	

(2) Elimination entries:

Common Stock ($5 par) (80%)	40,000	
Paid-In Capital in Excess of Par (80%)	104,000	
Retained Earnings (80%)	296,000	
Investment in Sundown Company		440,000
Inventory	120,000	
Property, Plant, and Equipment	100,000	
Goodwill		100,000
Gain on Acquisition (Venus retained earnings)		24,000
Investment in Sundown Company (excess remaining)		72,000
Noncontrolling Interest (to adjust to fair value)		24,000

EXERCISE 2-8

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$500,000	$400,000*	$100,000
Fair value of net assets excluding goodwill	390,000	312,000	78,000
Goodwill	$110,000	$ 88,000	$22,000

*1,000 prior shares included at $50 ($350,000/7,000 shares) per share, the market value on January 1, 2020. $350,000 + $50,000 = $400,000.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$500,000	$400,000	$100,000
Less book value of interest acquired:			
Common stock ($10 par)	$100,000		
Retained earnings	240,000		
Total equity	$340,000	$340,000	$340,000
Interest acquired		80%	20%
Book value		$272,000	$ 68,000
Excess of fair value over book value	$160,000	$128,000	$ 32,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Equipment ($150,000 fair – $100,000 book value)	$ 50,000	debit D1
Goodwill	110,000	debit D2
Total	$160,000	

(2)

Investment in Delta	350,000	
Cash		350,000
Investment in Delta (1,000 × $50)	50,000	
Available-for-Sale Investment		42,000
Unrealized Gain on Investment		8,000

Note: Applicable allowance for any market value adjustment would also be reversed.

EXERCISE 2-9

(1)

Investment in Craig Company	950,000	
Cash		950,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$950,000	$950,000	N/A
Fair value of net assets excluding goodwill	900,000		
Goodwill	$ 50,000		

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$950,000	$950,000	N/A
Less book value of interest acquired:			
Common stock ($10 par)	$300,000		
Retained earnings	420,000		
Total equity	$720,000	$720,000	
Interest acquired		100%	
Book value		$720,000	
Excess of fair value over book value	$230,000	$230,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Land ($250,000 fair – $200,000 book value)	$ 50,000	debit D1
Building ($700,000 fair – $600,000 book value)	100,000	debit D2
Discount on bonds payable ($280,000 fair – $300,000 book value)	20,000	debit D3
Deferred tax liability ($40,000 fair – $50,000 book value)	10,000	debit D4
Goodwill	50,000	debit D5
Total	$230,000	

Exercise 2-9, Concluded

(3) Adjustments on Craig books:

Land	50,000	
Building	100,000	
Discount on Bonds Payable	20,000	
Goodwill	50,000	
Deferred Tax Liability	10,000	
Paid-In Capital in Excess of Par		230,000

(4) Elimination entries:

Common Stock	300,000	
Paid-In Capital in Excess of Par	230,000	
Retained Earnings	420,000	
Investment in Craig Company		950,000

APPENDIX EXERCISE

EXERCISE 2A-1

Value Analysis Schedule	Big Company Implied Fair Value	Parent Price (60%)[b]	NCI Value (40%)[c]
Company fair value	$5,000[a]	$5,000	
Fair value of net assets excluding goodwill	3,000	3,000	
Goodwill	$2,000	$2,000	

[a]Values are prior to acquisition (200 shares × $25 market value).

Determination and Distribution of Excess Schedule

	Big Company Implied Fair Value	Parent Price (100%)	NCI Value
Fair value of subsidiary	$5,000	$5,000 Less book value of interest	
acquired:			
Common stock ($1 par)	$ 200		
Paid-in capital in excess of par	800		
Retained earnings	1,000		
Total equity	$2,000	$2,000	
Interest acquired		100%	
Book value		$2,000	
Excess of fair value over book value	$3,000	$3,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Fixed assets ($3,000 fair – $2,000 book value)	$1,000	debit D1
Goodwill	2,000	debit D2
Total	$3,000	

PROBLEMS

PROBLEM 2-1

(1)

Investment in Downes Company	810,000*	
Common Stock ($1 par)		18,000
Paid-In Capital in Excess of Par ($810,000 – $18,000 par)		792,000

*18,000 shares × $45.

Acquisition Expense (close to Retained Earnings)	40,000	
Cash		40,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$810,000	$810,000	N/A
Fair value of net assets excluding goodwill	430,000	430,000	
Goodwill	$380,000	$380,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$810,000	$810,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$ 20,000		
Paid-in capital in excess of par	180,000		
Retained earnings	140,000		
Total equity	$340,000	$340,000	
Interest acquired		100%	
Book value		$340,000	
Excess of fair value over book value	$470,000	$470,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($80,000 fair – $60,000 book value)	$ 20,000	debit D1
Land ($90,000 fair – $40,000 book value)	50,000	debit D2
Building ($150,000 fair – $120,000 book value)	30,000	debit D3
Equipment ($100,000 fair – $110,000 book value)	(10,000)	credit D4
Goodwill	380,000	debit D5
Total	$470,000	

Problem 2-1, Concluded

(3) Roland Company and Subsidiary Downes Company
Consolidated Balance Sheet
July 1, 2016

Assets

Current assets:		
Other assets	$ 80,000*	
Inventory (including $20,000 adjustment)	200,000	
		$ 280,000
Long-lived assets:		
Land (including $50,000 increase)	$190,000	
Building (including $30,000 increase)	450,000	
Equipment (including $10,000 decrease)	530,000	
Goodwill	380,000	1,550,000
Total assets		$1,830,000

Liabilities and Stockholders' Equity

Current liabilities		$ 240,000
Stockholders' equity:		
Common stock, par	$ 58,000	
Paid-in capital in excess of par	1,152,000	
Retained earnings	380,000**	
Total stockholders' equity		1,590,000
Total liabilities and stockholders' equity		$1,830,000

*$50,000 + $70,000 less $40,000 acquisition costs.
**$420,000 less $40,000 acquisition costs.

PROBLEM 2-2

(1) Investment in Downes Company	630,000*	
Common Stock ($1 par)		14,000
Paid-In Capital in Excess of Par ($630,000 – $14,000 par)		616,000

*14,000 shares × $45.

Acquisition Expense (close to Retained Earnings)	40,000	
Cash		40,000

Problem 2-2, Continued

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$787,500*	$630,000	$157,500
Fair value of net assets excluding goodwill	430,000	344,000	86,000
Goodwill	$357,500	$286,000	$ 71,500

*$630,000/80%.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$787,500	$630,000	$157,500
Less book value of interest acquired:			
Common stock ($10 par)	$ 20,000		
Paid-in capital in excess of par	180,000		
Retained earnings	140,000		
Total equity	$340,000	$340,000	$340,000
Interest acquired		80%	20%
Book value		$272,000	$ 68,000
Excess of fair value over book value	$447,500	$358,000	$ 89,500

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($80,000 fair – $60,000 book value)	$ 20,000	debit D1
Land ($90,000 fair – $40,000 book value)	50,000	debit D2
Building ($150,000 fair – $120,000 book value)	30,000	debit D3
Equipment ($100,000 fair – $110,000 book value)	(10,000)	credit D4
Goodwill	357,500	debit D5
Total	$447,500	

Problem 2-2, Concluded

(3) Roland Company and Subsidiary Downes Company
Consolidated Balance Sheet
July 1, 2016

Assets

Current assets:		
Other assets	$ 80,000*	
Inventory (including $20,000 adjustment)	200,000	
		$ 280,000
Long-lived assets:		
Land (including $50,000 increase)	$190,000	
Building (including $30,000 increase)	450,000	
Equipment (including $10,000 decrease)	530,000	
Goodwill	357,500	1,527,500
Total assets		$1,807,500

Liabilities and Stockholders' Equity

Current liabilities		$ 240,000
Stockholders' equity:		
Common stock (par)	$ 54,000	
Paid-in capital in excess of par	976,000	
Retained earnings	380,000**	
Total controlling interest		$1,410,000
Noncontrolling interest		157,500
Total stockholders' equity		$1,567,500
Total liabilities and stockholders' equity		$1,807,500

*$50,000 + $70,000 less $40,000 acquisition costs.
**$420,000 less $40,000 acquisition costs.

PROBLEM 2-3

(1) Investment in Entro Corporation	400,000	
Cash		400,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$400,000	$400,000	N/A
Fair value of net assets excluding goodwill	420,000	420,000	
Gain on acquisition (retained earnings)	$ (20,000)	$ (20,000)	

Problem 2-3, Concluded

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Price paid for investment	$400,000	$400,000	N/A
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	250,000		
Retained earnings	70,000		
Total equity	$370,000	$370,000	
Interest acquired		100%	
Book value		$370,000	
Excess of fair value over book value	$ 30,000	$ 30,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $80,000 book value)	$ 20,000	debit D1
Land ($40,500 fair – $40,000 book value)	500	debit D2
Building ($202,500 fair – $180,000 net book value)	22,500	debit D3
Equipment ($162,000 fair – $160,000 net book value)	2,000	debit D4
Discount on bonds payable ($95,000 fair – $100,000 book value)	5,000	debit D5
Gain on acquisition	(20,000)	credit D6
Total	$ 30,000	

(3) Elimination entries:

Common Stock—Entro	50,000	
Paid-In Capital in Excess of Par—Entro	250,000	
Retained Earnings—Entro	70,000	
Investment in Entro Corporation		370,000
Inventory	20,000	
Land	500	
Building	22,500	
Equipment	2,000	
Discount on Bonds Payable	5,000	
Retained Earnings, Carlson (controlling gain)		20,000
Investment in Entro Corporation		30,000

PROBLEM 2-4

(1)

Investment in Express Corporation	320,000	
Cash		320,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$405,400**	$320,000	$85,400*
Fair value of net assets excluding goodwill	427,000	341,600	85,400
Gain on acquisition (retained earnings)	$ (21,600)	$ (21,600)	$ 0

*NCI minimum allowed is equal to fair value of net assets.
**Parent's 80% + NCI's minimum.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Price paid for investment	$405,400	$320,000	$ 85,400
Less book value of interest acquired:			
Common stock ($10 par)	$ 50,000		
Paid-in capital in excess of par	250,000		
Retained earnings	70,000		
Total equity	$370,000	$370,000	$370,000
Interest acquired		80%	20%
Book value		$296,000	$ 74,000
Excess of fair value over book value	$ 35,400	$ 24,000	$ 11,400

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $80,000 book value)	$ 20,000	debit D1
Land ($50,000 fair – $40,000 book value)	10,000	debit D2
Buildings ($200,000 fair – $180,000 net book value)	20,000	debit D3
Equipment ($162,000 fair – $160,000 net book value)	2,000	debit D4
Discount on bonds payable ($95,000 fair – $100,000 book value)	5,000	debit D5
Gain on acquisition	(21,600)	credit D6
Total	$ 35,400	

Problem 2-4, Concluded

(3) Elimination entries:

Common Stock—Express ($50,000 × 80%)	40,000	
Paid-In Capital in Excess of Par—Express ($250,000 × 80%)	200,000	
Retained Earnings—Express ($70,000 × 80%)	56,000	
Investment in Express Corporation		296,000
Inventory	20,000	
Land	10,000	
Buildings	20,000	
Equipment	2,000	
Discount on Bonds Payable	5,000	
Retained Earnings—Penson (controlling gain)		21,600
Investment in Express Corporation		24,000
Retained Earnings—Express (NCI equity share)		11,400

PROBLEM 2-5

(1)

Investment in Robby Corporation	480,000	
Cash		480,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$480,000	$480,000	N/A
Fair value of net assets excluding goodwill	417,000	417,000	
Goodwill	$ 63,000	$ 63,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$480,000	$480,000	N/A
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	250,000		
Retained earnings	70,000		
Total equity	$370,000	$370,000	
Interest acquired		100%	
Book value		$370,000	
Excess of fair value over book value	$110,000	$110,000	

Problem 2-5, Concluded

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $80,000 book value)	$ 20,000	debit D1
Land ($55,000 fair – $40,000 book value)	15,000	debit D2
Buildings ($200,000 fair – $180,000 net book value)	20,000	debit D3
Equipment ($150,000 fair – $160,000 net book value)	(10,000)	credit D4
Discount on bonds payable ($98,000 fair – $100,000 book value)	2,000	debit D5
Goodwill	63,000	debit D6
Total	$110,000	

(3)

Inventory	20,000	
Land	15,000	
Buildings	20,000	
Discount on Bonds Payable	2,000	
Goodwill	63,000	
Equipment		10,000
Paid-In Capital in Excess of Par		110,000

PROBLEM 2-6

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$450,000	$450,000	N/A
Fair value of net assets excluding goodwill	335,000	335,000	
Goodwill	$115,000	$115,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$450,000	$450,000	N/A
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	70,000		
Retained earnings	130,000		
Total equity	$250,000	$250,000	
Interest acquired		100%	
Book value		$250,000	
Excess of fair value over book value	$200,000	$200,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($140,000 fair – $120,000 book value)	$ 20,000	debit D1
Land ($45,000 fair – $35,000 book value)	10,000	debit D2
Building and equipment ($225,000 fair – $180,000 net book value)	45,000	debit D3
Copyright ($25,000 fair – $10,000 book value)	15,000	debit D4
Premium on bonds payable ($105,000 fair – $100,000 book value)	(5,000)	credit D5
Goodwill ($450,000 – $335,000)	115,000	debit D6
Total	$200,000	

Problem 2-6, Concluded

(2)

Aron Company and Subsidiary Shield Company
Worksheet for Consolidated Balance Sheet
December 31, 2015

	Balance Sheet		Eliminations and Adjustments				Consolidated Balance Sheet
	Aron	Shield		Dr.		Cr.	
Cash	185,000	40,000					225,000
Accounts Receivable	70,000	30,000					100,000
Inventory	130,000	120,000	(D1)	20,000			270,000
Investment in Shield	450,000				(EL)	250,000	
					(D)	200,000	
Land	50,000	35,000	(D2)	10,000			95,000
Buildings and Equipment	350,000	230,000	(D3)	45,000			625,000
Accumulated Depreciation	(100,000)	(50,000)					(150,000)
Copyrights	40,000	10,000	(D4)	15,000			65,000
Goodwill			(D6)	115,000			115,000
Current Liabilities	(192,000)	(65,000)					(257,000)
Bonds Payable		(100,000)					(100,000)
Discount (premium)					(D5)	5,000	(5,000)
Common Stock—Shield		(50,000)	(EL)	50,000			
Paid-In Capital in Excess of Par—Shield		(70,000)	(EL)	70,000			
Retained Earnings—Shield		(130,000)	(EL)	130,000			
Common Stock—Aron	(100,000)						(100,000)
Paid-In Capital in Excess of Par—Aron	(250,000)						(250,000)
Retained Earnings—Aron	(633,000)						(633,000)
Totals	0	0		455,000		455,000	0

Eliminations and Adjustments:

(EL) Eliminate investment in subsidiary against subsidiary equity accounts.
(D) Distribute $200,000 excess of cost over book value to:
(D1) Inventory, $20,000.
(D2) Land, $10,000.
(D3) Buildings and equipment, $45,000.
(D4) Copyrights, $15,000.
(D5) Premium on bonds payable, ($5,000).
(D6) Goodwill, $115,000.

PROBLEM 2-7

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$400,000	$320,000	$80,000
Fair value of net assets excluding goodwill	335,000	268,000	67,000
Goodwill	$65,000	$52,000	$13,000

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$400,000	$320,000	$ 80,000
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	70,000		
Retained earnings	130,000		
Total equity	$250,000	$250,000	$250,000
Interest acquired		80%	20%
Book value		$200,000	$ 50,000
Excess of fair value over book value	$2150000	$120,000	$ 30,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($140,000 fair – $120,000 book value)	$ 20,000	debit D1
Land ($45,000 fair – $35,000 book value)	10,000	debit D2
Buildings and equipment ($225,000 fair – $180,000 net book value)	45,000	debit D3
Copyrights ($25,000 fair – $10,000 book value)	15,000	debit D4
Premium on bonds payable ($105,000 fair – $100,000 book value)	(5,000)	credit D5
Goodwill	65,000	debit D6
Total	$150,000	

Problem 2-7, Concluded

(2)

Aron Company and Subsidiary Shield Company
Worksheet for Consolidated Balance Sheet
December 31, 2015

	Balance Sheet		Eliminations and Adjustments					Consolidated Balance
	Aron	Shield		Dr.		Cr.	NCI	Sheet
Cash	315,000	40,000						355,000
Accounts Receivable	70,000	30,000						100,000
Inventory	130,000	120,000	(D1)	20,000				270,000
Investment in Shield	320,000				(EL)	200,000		
					(D)	120,000		
Land	50,000	35,000	(D2)	10,000				95,000
Buildings and Equipment	350,000	230,000	(D3)	45,000				625,000
Accumulated Depreciation	(100,000)	(50,000)						(150,000)
Copyrights	40,000	10,000	(D4)	15,000				65,000
Goodwill			(D6)	65,000				65,000
Current Liabilities	(192,000)	(65,000)						(257,000)
Bonds Payable		(100,000)						(100,000)
Discount (premium)					(D5)	5,000	(5,000)	
Common Stock—Shield		(50,000)	(EL)	40,000			(10,000)	
Paid-In Capital in Excess of Par—Shield		(70,000)	(EL)	56,000			(14,000)	
Retained Earnings—Shield		(130,000)	(EL)	104,000	(NCI)	30,000	(56,000)	
Common Stock—Aron	(100,000)							(100,000)
Paid-In Capital in Excess of Par—Aron	(250,000)							(250,000)
Retained Earnings—Aron	(633,000)							(633,000)
Noncontrolling Interest							(85,000)	(85,000)
Totals	0	0		355,000		355,000	0	0

Eliminations and Adjustments:

(EL)	Eliminate investment in subsidiary against 80% of the subsidiary equity accounts.
(D)/(NCI)	Distribute $120,000 excess of cost over book value and $30,000 NCI adjustment to:
(D1)	Inventory, $20,000.
(D2)	Land, $10,000.
(D3)	Buildings and equipment, $45,000.
(D4)	Copyrights, $15,000.
(D5)	Premium on bonds payable, ($5,000).
(D6)	Goodwill, $65,000.

PROBLEM 2-8

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$500,000	$500,000	N/A
Fair value of net assets excluding goodwill	450,000	450,000	
Goodwill	$ 50,000	$ 50,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$500,000	$500,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000	$160,000	
Interest acquired		100%	
Book value		$160,000	
Excess of fair value over book value	$340,000	$340,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($60,000 fair – $50,000 book value)	$ 10,000	debit D1
Land ($80,000 fair – $40,000 book value)	40,000	debit D2
Buildings ($320,000 fair – $150,000 net book value)	170,000	debit D3
Equipment ($60,000 fair – $40,000 net book value)	20,000	debit D4
Copyright ($50,000 fair – $0 book value)	50,000	debit D5
Goodwill	50,000	debit D6
Total	$340,000	

Problem 2-8, Concluded

(2)

Palto Company and Subsidiary Saleen Company
Worksheet for Consolidated Balance Sheet
January 1, 2015

	Balance Sheet		Eliminations and Adjustments				Consolidated Balance Sheet
	Palto	Saleen		Dr.		Cr.	
Cash	61,000						61,000
Accounts Receivable	65,000	20,000					85,000
Inventory	80,000	50,000	(D1)	10,000			140,000
Investment in Saleen	500,000				(EL)	160,000	
					(D)	340,000	
Land	100,000	40,000	(D2)	40,000			180,000
Buildings	250,000	200,000	(D3)	170,000			620,000
Accumulated Depreciation	(80,000)	(50,000)					(130,000)
Equipment	90,000	60,000	(D4)	20,000			170,000
Accumulated Depreciation	(40,000)	(20,000)					(60,000)
Copyright			(D5)	50,000			50,000
Goodwill			(D6)	50,000			50,000
Current Liabilities	(80,000)	(40,000)					(120,000)
Bonds Payable	(200,000)	(100,000)					(300,000)
Common Stock ($1 par)—Saleen		(10,000)	(EL)	10,000			
Paid-In Capital in Excess of Par—Saleen		(90,000)	(EL)	90,000			
Retained Earnings—Saleen		(60,000)	(EL)	60,000			
Common Stock—Palto	(20,000)						(20,000)
Paid-In Capital in Excess of Par—Palto	(180,000)						(180,000)
Retained Earnings—Palto	(546,000)						(546,000)
Totals	0	0		500,000		500,000	
Noncontrolling Interest							
Controlling Retained Earnings							
Totals							0

Eliminations and Adjustments:

(EL) Eliminate the investment in the subsidiary against the subsidiary equity accounts.
(D) Distribute $340,000 excess of cost over book value as follows:
(D1) Inventory, $10,000.
(D2) Land, $40,000.
(D3) Buildings, $170,000.
(D4) Equipment, $20,000.
(D5) Copyright, $50,000.
(D6) Goodwill, $50,000.

PROBLEM 2-9

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$400,000	$400,000	N/A
Fair value of net assets excluding goodwill	450,000	450,000	
Gain on acquisition	$ (50,000)	$ (50,000)	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Price paid for investment	$400,000	$400,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000	$160,000	
Interest acquired		100%	
Book value		$160,000	
Excess of fair value over book value	$240,000	$240,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($60,000 fair – $50,000 book value)	$ 10,000	debit D1
Land ($80,000 fair – $40,000 book value)	40,000	debit D2
Buildings ($320,000 fair – $150,000 net book value)	170,000	debit D3
Equipment ($60,000 fair – $40,000 net book value)	20,000	debit D4
Copyright ($50,000 fair – $0 book value)	50,000	debit D5
Gain	(50,000)	debit D6
Total	$240,000	

Problem 2-9, Concluded

(2)

Palto Company and Subsidiary Saleen Company
Worksheet for Consolidated Balance Sheet
January 1, 2015

	Balance Sheet		Eliminations and Adjustments				Consolidated Balance Sheet
	Palto	Saleen		Dr.		Cr.	
Cash	161,000						161,000
Accounts Receivable	65,000	20,000					85,000
Inventory	80,000	50,000	(D1)	10,000			140,000
Investment in Saleen	400,000				(EL)	160,000	
					(D)	240,000	
Land	100,000	40,000	(D2)	40,000			180,000
Buildings	250,000	200,000	(D3)	170,000			620,000
Accumulated Depreciation	(80,000)	(50,000)					(130,000)
Equipment	90,000	60,000	(D4)	20,000			170,000
Accumulated Depreciation	(40,000)	(20,000)					(60,000)
Copyright			(D5)	50,000			50,000
Goodwill							
Current Liabilities	(80,000)	(40,000)					(120,000)
Bonds Payable	(200,000)	(100,000)					(300,000)
Common Stock ($1 par)—Saleen		(10,000)	(EL)	10,000			
Paid-In Capital in Excess of Par—Saleen		(90,000)	(EL)	90,000			
Retained Earnings—Saleen		(60,000)	(EL)	60,000			
Common Stock—Palto	(20,000)						(20,000)
Paid-In Capital in Excess of Par—Palto	(180,000)						(180,000)
Retained Earnings—Palto	(546,000)				(D6)	50,000	(596,000)
Totals	0	0		450,000		450,000	
Noncontrolling Interest							
Controlling Retained Earnings							
Totals							0

Eliminations and Adjustments:

(EL) Eliminate the investment in the subsidiary against the subsidiary equity accounts.
(D) Distribute $240,000 excess of cost over book value as follows:
(D1) Inventory, 10,000.
(D2) Land, $40,000.
(D3) Buildings, $170,000.
(D4) Equipment, $20,000.
(D5) Copyright, $50,000.
(D6) Gain on acquisition (close to Palto's Retained Earnings), $50,000.

PROBLEM 2-10

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$492,000	$400,000	$92,000*
Fair value of net assets excluding goodwill	450,000	360,000	90,000
Goodwill	$ 42,000	$ 40,000	$ 2,000

*2,000 shares × $46.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$492,000	$400,000	$ 92,000
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000	$160,000	$160,000
Interest acquired		80%	20%
Book value		$128,000	$ 32,000
Excess of fair value over book value	$332,000	$272,000	$ 60,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($60,000 fair – $50,000 book value)	$ 10,000	debit D1
Land ($80,000 fair – $40,000 book value)	40,000	debit D2
Buildings ($320,000 fair – $150,000 net book value)	170,000	debit D3
Equipment ($60,000 fair – $40,000 net book value)	20,000	debit D4
Copyright ($50,000 fair – $0 book value)	50,000	debit D5
Goodwill	42,000	debit D6
Total	$332,000	

Problem 2-10, Concluded

(2)

Palto Company and Subsidiary Saleen Company
Worksheet for Consolidated Balance Sheet
January 1, 2015

	Balance Sheet		Eliminations and Adjustments			Consolidated
	Palto	Saleen	Dr.	Cr.	NCI	Balance Sheet
Cash	161,000					161,000
Accounts Receivable	65,000	20,000				85,000
Inventory	80,000	50,000	(D1) 10,000			140,000
Investment in Saleen	400,000			(EL) 128,000		
				(D) 272,000		
Land	100,000	40,000	(D2) 40,000			180,000
Buildings	250,000	200,000	(D3) 170,000			620,000
Accumulated Depreciation	(80,000)	(50,000)				(130,000)
Equipment	90,000	60,000	(D4) 20,000			170,000
Accumulated Depreciation	(40,000)	(20,000)				(60,000)
Copyright			(D5) 50,000			50,000
Goodwill			(D6) 42,000			42,000
Current Liabilities	(80,000)	(40,000)				(120,000)
Bonds Payable	(200,000)	(100,000)				(300,000)
Common Stock ($1 par)—Saleen		(10,000)	(EL) 8,000		(2,000)	
Paid-In Capital in Excess of Par—Saleen		(90,000)	(EL) 72,000		(18,000)	
Retained Earnings—Saleen		(60,000)	(EL) 48,000	(NCI) 60,000	(72,000)	
Common Stock—Palto	(20,000)					(20,000)
Paid-In Capital in Excess of Par—Palto	(180,000)					(180,000)
Retained Earnings—Palto	(546,000)					(546,000)
Totals	0	0	460,000	460,000		
Noncontrolling Interest					(92,000)	(92,000)
Controlling Retained Earnings						
Totals						0

Eliminations and Adjustments:

(EL)	Eliminate the investment in the subsidiary against the subsidiary equity accounts.
(D)/(NCI)	Distribute $272,000 excess and adjust NCI $60,000 (total $332,000 excess) as follows:
(D1)	Inventory, $10,000.
(D2)	Land, $40,000.
(D3)	Buildings, $170,000.
(D4)	Equipment, $20,000.
(D5)	Copyright, $50,000.
(D6)	Goodwill, $42,000.

PROBLEM 2-11

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$390,000	$300,000	$90,000*
Fair value of net assets excluding goodwill	450,000	360,000	90,000
Gain on acquisition	$ (60,000)	$ (60,000)	$ 0

*NCI minimum allowed.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Price paid for investment	$390,000	$300,000	$ 90,000
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000	$160,000	$160,000
Interest acquired		80%	20%
Book value		$128,000	$ 32,000
Excess of fair value over book value	$230,000	$172,000	$ 58,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($60,000 fair – $50,000 book value)	$ 10,000	debit D1
Land ($80,000 fair – $40,000 book value)	40,000	debit D2
Buildings ($320,000 fair – $150,000 net book value)	170,000	debit D3
Equipment ($60,000 fair – $40,000 net book value)	20,000	debit D4
Copyright ($50,000 fair – $0 book value)	50,000	debit D5
Gain on acquisition	(60,000)	credit D6
Total	$230,000	

Problem 2-11, Concluded

(2) Palto Company and Subsidiary Saleen Company
Worksheet for Consolidated Balance Sheet
January 1, 2015

	Balance Sheet		Eliminations and Adjustments				NCI	Consolidated Balance Sheet
	Palto	Saleen		Dr.		Cr.		
Cash	261,000							261,000
Accounts Receivable	65,000	20,000						85,000
Inventory	80,000	50,000	(D1)	10,000				140,000
Investment in Saleen	300,000				(EL)	128,000		
					(D)	172,000		
Land	100,000	40,000	(D2)	40,000				180,000
Buildings	250,000	200,000	(D3)	170,000				620,000
Accumulated Depreciation	(80,000)	(50,000)						(130,000)
Equipment	90,000	60,000	(D4)	20,000				170,000
Accumulated Depreciation	(40,000)	(20,000)						(60,000)
Copyright			(D5)	50,000				50,000
Goodwill								
Current Liabilities	(80,000)	(40,000)						(120,000)
Bonds Payable	(200,000)	(100,000)						(300,000)
Common Stock ($1 par)—Saleen		(10,000)	(EL)	8,000			(2,000)	
Paid-In Capital in Excess of Par—Saleen		(90,000)	(EL)	72,000			(18,000)	
Retained Earnings—Saleen		(60,000)	(EL)	48,000	(NCI)	58,000	(70,000)	
Common Stock—Palto	(20,000)							(20,000)
Paid-In Capital in Excess of Par—Palto	(180,000)							(180,000)
Retained Earnings—Palto	(546,000)				(D6)	60,000		(606,000)
Totals	0	0		418,000		418,000		
Noncontrolling Interest							(90,000)	(90,000)
Controlling Retained Earnings								
Totals								0

Eliminations and Adjustments:

(EL) Eliminate the investment in the subsidiary against the subsidiary equity accounts.
(D)/(NCI) Distribute $172,000 excess and adjust NCI $58,000 (total $230,000 excess) as follows:
(D1) Inventory, $10,000.
(D2) Land, $40,000.
(D3) Buildings, $170,000.
(D4) Equipment, $20,000.
(D5) Copyright, $50,000.
(D6) Gain on acquisition (close to Palto's Retained Earnings), $60,000.

PROBLEM 2-12

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$1,100,000	$1,100,000	N/A
Fair value of net assets excluding goodwill	850,000	850,000	
Goodwill	$ 250,000	$ 250,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$1,100,000	$1,100,000	N/A
Less book value interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$ 340,000	$ 340,000	
Interest acquired		100%	
Book value		$ 340,000	
Excess of fair value over book value	$ 760,000	$ 760,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $120,000 book value)	$(20,000)	credit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Buildings ($400,000 fair – $200,000 net book value)	200,000	debit D3
Equipment ($200,000 fair – $90,000 net book value)	110,000	debit D4
Patent ($150,000 fair – $10,000 book value)	140,000	debit D5
Computer software ($50,000 fair – $0 book value)	50,000	debit D6
Premium on bonds payable ($210,000 fair – $200,000 book value)	(10,000)	credit D7
Goodwill ($250,000 fair – $60,000 book value)	190,000	debit D8
Total	$760,000	

Problem 2-12, Concluded

(2)

Purnell Corporation and Subsidiary Sentinel Corporation
Worksheet for Consolidated Balance Sheet
December 31, 2015

	Balance Sheet		Eliminations and Adjustments				Consolidated Balance Sheet
	Purnell	Sentinel		Dr.		Cr.	
Cash	20,000	....		....		....	20,000
Accounts Receivable	300,000	50,000		....		....	350,000
Inventory	410,000	120,000		....	(D1)	20,000	510,000
Investment in Sentinel	1,100,000	....		....	(EL)	340,000	....
	....	....		....	(D)	760,000	....
Land	800,000	100,000	(D2)	100,000		....	1,000,000
Buildings	2,800,000	300,000	(D3)	200,000		....	3,300,000
Accumulated Depreciation	(500,000)	(100,000)		....		....	(600,000)
Equipment	600,000	140,000	(D4)	110,000		....	850,000
Accumulated Depreciation	(230,000)	(50,000)		....		....	(280,000)
Patent	....	10,000	(D5)	140,000		....	150,000
Computer Software	....	....	(D6)	50,000		....	50,000
Goodwill	....	60,000	(D8)	190,000		....	250,000
Current Liabilities	(150,000)	(90,000)		....		....	(240,000)
Bonds Payable	(300,000)	(200,000)		....		....	(500,000)
Premium on Bonds Payable	....	....		....	(D7)	10,000	(10,000)
Common Stock—Sentinel	....	(10,000)	(EL)	10,000		....	....
Paid-In Capital in Excess of Par—Sentinel	....	(190,000)	(EL)	190,000		....	....
Retained Earnings—Sentinel	....	(140,000)	(EL)	140,000		....	....
Common Stock—Purnell	(95,000)	....		....		....	(95,000)
Paid-In Capital in Excess of Par—Purnell	(3,655,000)	....		....		....	(3,655,000)
Retained Earnings—Purnell	(1,100,000)	....		....		....	(1,100,000)
Totals	0	0		1,130,000		1,130,000	....
NCI							....
Totals							0

Eliminations and Adjustments:

(EL) Eliminate parent ownership interest.
(D) Distribute excess.

Distribute adjustments:

(D1) Inventory.
(D2) Land.
(D3) Buildings.
(D4) Equipment.
(D5) Patent.
(D6) Computer software.
(D7) Premium on bonds payable.
(D8) Goodwill.

PROBLEM 2-13

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$800,000	$800,000	N/A
Fair value of net assets excluding goodwill	850,000	850,000	
Gain on acquisition	$ (50,000)	$ (50,000)	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Price paid for investment	$800,000	$800,000	N/A
Less book value interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$340,000	$340,000	
Interest acquired		100%	
Book value		$340,000	
Excess of fair value over book value	$460,000	$460,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $120,000 book value)	$ (20,000)	credit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Buildings ($400,000 fair – $200,000 net book value)	200,000	debit D3
Equipment ($200,000 fair – $90,000 net book value)	110,000	debit D4
Patent ($150,000 fair – $10,000 book value)	140,000	debit D5
Computer software ($50,000 fair – $0 book value)	50,000	debit D6
Premium on bonds payable ($210,000 fair – $200,000 book value)	(10,000)	credit D7
Goodwill ($0 fair – $60,000 book value)	(60,000)	credit D8
Gain on acquisition	(50,000)	credit D9
Total	$460,000	

Problem 2-13, Concluded

(2)

Purnell Corporation and Subsidiary Sentinel Corporation
Worksheet for Consolidated Balance Sheet
December 31, 2015

	Balance Sheet			Eliminations and Adjustments			Consolidated Balance Sheet
	Purnell	Sentinel		Dr.		Cr.	
Cash	20,000	....		....		....	20,000
Accounts Receivable	300,000	50,000		....		....	350,000
Inventory	410,000	120,000		....	(D1)	20,000	510,000
Investment in Sentinel	800,000	....		....	(EL)	340,000	....
	....	....		....	(D)	460,000	....
Land	800,000	100,000	(D2)	100,000		....	1,000,000
Buildings	2,800,000	300,000	(D3)	200,000		....	3,300,000
Accumulated Depreciation	(500,000)	(100,000)		....		....	(600,000)
Equipment	600,000	140,000	(D4)	110,000		....	850,000
Accumulated Depreciation	(230,000)	(50,000)		....		....	(280,000)
Patent	....	10,000	(D5)	140,000		....	150,000
Computer Software	....	....	(D6)	50,000		....	50,000
Goodwill	....	60,000		....	(D8)	60,000	....
Current Liabilities	(150,000)	(90,000)		....		....	(240,000)
Bonds Payable	(300,000)	(200,000)		....		....	(500,000)
Premium on Bonds Payable	....	....		....	(D7)	10,000	(10,000)
Common Stock—Sentinel	....	(10,000)	(EL)	10,000		....	....
Paid-In Capital in Excess of Par—Sentinel	....	(190,000)	(EL)	190,000		....	....
Retained Earnings—Sentinel	....	(140,000)	(EL)	140,000		....	....
Common Stock—Purnell	(89,000)	....		....		....	(89,000)
Paid-In Capital in Excess of Par—Purnell	(3,361,000)	....		....		....	(3,361,000)
Retained Earnings—Purnell	(1,100,000)	....		....	(D9)	50,000	(1,150,000)
Totals	0	0		940,000		940,000	....
NCI							....
Totals							0

Eliminations and Adjustments:

(EL) Eliminate parent ownership interest.
(D) Distribute excess.

Distribute adjustments:

(D1) Inventory.
(D2) Land.
(D3) Buildings.
(D4) Equipment.
(D5) Patent.
(D6) Computer software.
(D7) Premium on bonds payable
(D8) Goodwill.
(D9) Gain on acquisition (close to parent Retained Earnings).

PROBLEM 2-14

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$1,187,500	$950,000	$237,500
Fair value of net assets excluding goodwill	850,000	680,000	170,000
Goodwill	$ 337,500	$270,000	$ 67,500

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$1,187,500	$950,000	$237,500
Less book value interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$ 340,000	$340,000	$340,000
Interest acquired		80%	20%
Book value		$272,000	$ 68,000
Excess of fair value over book value	$ 847,500	$678,000	$169,500

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $120,000 book value)	$(20,000)	credit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Buildings ($400,000 fair – $200,000 net book value)	200,000	debit D3
Equipment ($200,000 fair – $90,000 net book value)	110,000	debit D4
Patent ($150,000 fair – $10,000 book value)	140,000	debit D5
Computer software ($50,000 fair – $0 book value)	50,000	debit D6
Premium on bonds payable ($210,000 fair – $200,000 book value)	(10,000)	credit D7
Goodwill ($337,500 fair – $60,000 book value)	277,500	debit D8
Total	$847,500	

Problem 2-14, Concluded

(2)

Purnell Corporation and Subsidiary Sentinel Corporation
Worksheet for Consolidated Balance Sheet
December 31, 2015

	Balance Sheet		Eliminations and Adjustments					Consolidated Balance Sheet
	Purnell	Sentinel		Dr.		Cr.	NCI	
Cash	20,000							20,000
Accounts Receivable	300,000	50,000						350,000
Inventory	410,000	120,000			(D1)	20,000		510,000
Investment in Sentinel	950,000				(EL)	272,000		
					(D)	678,000		
Land	800,000	100,000	(D2)	100,000				1,000,000
Buildings	2,800,000	300,000	(D3)	200,000				3,300,000
Accumulated Depreciation	(500,000)	(100,000)						(600,000)
Equipment	600,000	140,000	(D4)	110,000				850,000
Accumulated Depreciation	(230,000)	(50,000)						(280,000)
Patent		10,000	(D5)	140,000				150,000
Computer Software			(D6)	50,000				50,000
Goodwill		60,000	(D8)	277,500				337,500
Current Liabilities	(150,000)	(90,000)						(240,000)
Bonds Payable	(300,000)	(200,000)						(500,000)
Premium on Bonds Payable					(D7)	10,000		(10,000)
Common Stock—Sentinel		(10,000)	(EL)	8,000			(2,000)	
Paid-In Capital in Excess of Par—Sentinel		(190,000)	(EL)	152,000			(38,000)	
Retained Earnings—Sentinel		(140,000)	(EL)	112,000	(NCI)	169,500	(197,500)	
Common Stock—Purnell	(92,000)							(92,000)
Paid-In Capital in Excess of Par—Purnell	(3,508,000)							(3,508,000)
Retained Earnings—Purnell	(1,100,000)							(1,100,000)
Totals	0	0		1,149,500		1,149,500		
NCI							(237,500)	(237,500)
Totals								0

Eliminations:
(EL) Eliminate parent ownership interest.
(D) Distribute excess.
(NCI) Adjust NCI to fair value (credit subsidiary Retained Earnings).

Distribute adjustments:
(D1) Inventory.
(D2) Land.
(D3) Buildings.
(D4) Equipment.
(D5) Patent.
(D6) Computer software.
(D7) Premium on bonds payable.
(D8) Goodwill.

PROBLEM 2-15

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$ 670,000	$ 500,000	$170,000*
Fair value of net assets excluding goodwill	850,000	680,000	170,000
Gain on acquisition	$(180,000)	$(180,000)	$ 0

*Must at least be equal to fair value of net assets.

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Price paid for investment	$670,000	$500,000	$170,000
Less book value interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$340,000	$340,000	$340,000
Interest acquired		80%	20%
Book value		$272,000	$ 68,000
Excess of fair value over book value	$330,000	$228,000	$102,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Inventory ($100,000 fair – $120,000 book value)	$ (20,000)	credit D1
Land ($200,000 fair – $100,000 book value)	100,000	debit D2
Buildings ($400,000 fair – $200,000 net book value)	200,000	debit D3
Equipment ($200,000 fair – $90,000 net book value)	110,000	debit D4
Patent ($150,000 fair – $10,000 book value)	140,000	debit D5
Computer software ($50,000 fair – $0 book value)	50,000	debit D6
Premium on bonds payable ($210,000 fair – $200,000 book value)	(10,000)	credit D7
Goodwill ($0 fair – $60,000 book value)	(60,000)	credit D8
Gain on acquisition	(180,000)	credit D9
Total	$ 330,000	

Problem 2-15, Concluded

(2)

Purnell Corporation and Subsidiary Sentinel Corporation
Worksheet for Consolidated Balance Sheet
December 31, 2015

	Balance Sheet		Eliminations and Adjustments			Consolidated
	Purnell	Sentinel	Dr.	Cr.	NCI	Balance Sheet
Cash	20,000					20,000
Accounts Receivable	300,000	50,000				350,000
Inventory	410,000	120,000		(D1) 20,000		510,000
Investment in Sentinel	500,000			(EL) 272,000		
				(D) 228,000		
Land	800,000	100,000	(D2) 100,000			1,000,000
Buildings	2,800,000	300,000	(D3) 200,000			3,300,000
Accumulated Depreciation	(500,000)	(100,000)				(600,000)
Equipment	600,000	140,000	(D4) 110,000			850,000
Accumulated Depreciation	(230,000)	(50,000)				(280,000)
Patent		10,000	(D5) 140,000			150,000
Computer Software			(D6) 50,000			50,000
Goodwill		60,000		(D8) 60,000		
Current Liabilities	(150,000)	(90,000)				(240,000)
Bonds Payable	(300,000)	(200,000)				(500,000)
Premium on Bonds Payable				(D7) 10,000		(10,000)
Common Stock—Sentinel		(10,000)	(EL) 8,000		(2,000)	
Paid-In Capital in Excess of Par—Sentinel		(190,000)	(EL) 152,000		(38,000)	
Retained Earnings—Sentinel		(140,000)	(EL) 112,000	(NCI) 102,000	(130,000)	
Common Stock—Purnell	(83,000)					(83,000)
Paid-In Capital in Excess of Par—Purnell	(3,067,000)					(3,067,000)
Retained Earnings—Purnell	(1,100,000)			(D9) 180,000		(1,280,000)
Totals	0	0	872,000	872,000		
NCI					(170,000)	(170,000)
Totals						0

Eliminations:
(EL) Eliminate parent ownership interest.
(D) Distribute excess.
(NCI) Adjust NCI to fair value (credit subsidiary retained earnings).

Distribute adjustments:
(D1) Inventory.
(D2) Land.
(D3) Buildings.
(D4) Equipment.
(D5) Patent.
(D6) Computer software.
(D7) Premium on bonds payable.
(D8) Goodwill.
(D9) Gain on acquisition (close to parent Retained Earnings).

APPENDIX PROBLEM

PROBLEM 2A-1

(1)

Value Analysis Schedule	Famous Company Implied Fair Value	Parent Price (100%)[b]	NCI Value
Company fair value	$240,000[a]	$240,000	
Fair value of net assets excluding goodwill	235,000	235,000	
Goodwill	$ 5,000	$ 5,000	
Gain on acquisition			

[a]Values are prior to acquisition (4,000 shares × $60 market value).

Determination and Distribution of Excess Schedule

	Famous Company Implied Fair Value	Parent Price (100%)	NCI Value
Fair value of subsidiary	$240,000	$240,000	
Less book value of interest acquired:			
Common stock ($1 par)	$ 4,000		
Paid-in capital in excess of par	96,000		
Retained earnings	15,000		
Total equity	$115,000	$115,000	
Interest acquired		100%	
Book value		$115,000	
Excess of fair value over book value	$125,000	$125,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key
Building ($200,000 fair – $100,000 book value)	$100,000	debit D1
Equipment ($40,000 fair – $20,000 book value)	20,000	debit D2
Goodwill	5,000	debit D3
Total	$125,000	

PROBLEM 2A-1

(2)

Reverse Acquisition
Famous Company and Subsidiary Unknown Company
Worksheet for Consolidated Balance Sheet
December 31, 2015

(Credits are in parentheses)	Balance Sheet: Unknown	Balance Sheet: Famous		Eliminations and Adjustments: Dr.		Eliminations and Adjustments: Cr.	NCI	Consolidated Balance Sheet
Current Assets	10,000	5,000		....		....	....	15,000
Investment in Unknown Company	....	360,000		....	(EL)	360,000	....	....
Buildings	150,000	100,000	(D1)	100,000		....	....	350,000
Equipment	100,000	20,000	(D2)	20,000		....	....	140,000
Goodwill	....	....	(D3)	5,000		....	....	5,000
Long-Term Liabilities	(5,000)	(10,000)		....		....	....	(15,000)
Common Stock—Unknown	(5,000)	....	(TR)	5,000		....	....	....
Paid-In Capital in Excess of Par—Unknown	(115,000)	....	(TR)	115,000		....	....	....
Retained Earnings—Unknown	(135,000)	....		....		....	....	(135,000)
Common Stock—Famous	....	(10,000)	(EL)	6,000	(TR)	6,000		(10,000)
(4,000 + 6,000)								0
Paid-In Capital in Excess of Par—Famous (96,000 + 354,000)	....	(450,000)	(EL)	354,000	(TR)	254,000	....	(350,000)
Retained Earnings—Famous	....	(15,000)	(TR)	140,000	(D)	125,000	....	....
Totals	0	0		745,000		745,000	....	....
NCI								0
Totals								0

Eliminations and Adjustments:

(EL) Eliminate investment account and the equity recorded at the time of acquisition.

(D) Distribute the excess applicable to the investment and the adjustment to fair value for the NCI as follows:

(D1) Increase building, $100,000.

(D2) Increased equipment, $20,000.

(D3) Record goodwill, $5,000.

(TR) Transfer paid-in equity of Unknown Company and retained earnings of Famous Company to paid-in capital of Famous Company. $260,000 total, $6,000 assigned to par value, and balance to paid-in excess.

CASE

CASE 2-1

(1) Evaluation of price—Fair value of Al's Hardware:

Cash	$180,000		
Accounts receivable	350,000		
Inventory	600,000		
Land	100,000		
Building	300,000		
Equipment	100,000		
Current liabilities	(425,000)		
Mortgage	(600,000)		
Lawsuit	(300,000)		
	$305,000	× 60%	= $183,000
Value given	7,500	× $40	= $300,000

This purchase would not be a bargain, because comparing the fair values (including the lawsuit) to the price would result in goodwill of $117,000 ($300,000 – $183,000).
Note: This analysis would have the same result if done for only 60% interest in the form of the D&D schedule with the same result.

(2) Accounting methods:

(a) GAAP would require that many of the adjustments to recognize fair values must be made directly on Al's books before consolidation:
Adjust accounts receivable to net realizable value.
Decrease inventory to fair value.
Record estimated liability from lawsuit.

(b) There are no major differences between fair and book values of the long-lived assets. Normally, they would not be adjusted to fair value, but this could be done under quasi-reorganization or push-down accounting. The recommendation would be that they be adjusted to fair value to improve future reporting. Noncontrolling interest would have to agree to it as well.

(c) The goodwill on Al's books should be written off because there is no reason to think it exists.

(d) Al's Hardware is a likely candidate for quasi-reorganization, because this procedure adjusts all assets to fair values and decreases paid-in capital in excess of par to provide the amount needed to cover the negative balance in retained earnings.

Summary: Accounts receivable, inventory, estimated liability, and goodwill should be adjusted on the subsidiary's books. The adjustments of long-lived assets could be done on the subsidiary's books under push-down accounting. If the long-lived assets are not adjusted on the subsidiary books, the adjustment relative to the controlling interest would be made in the consolidation process.