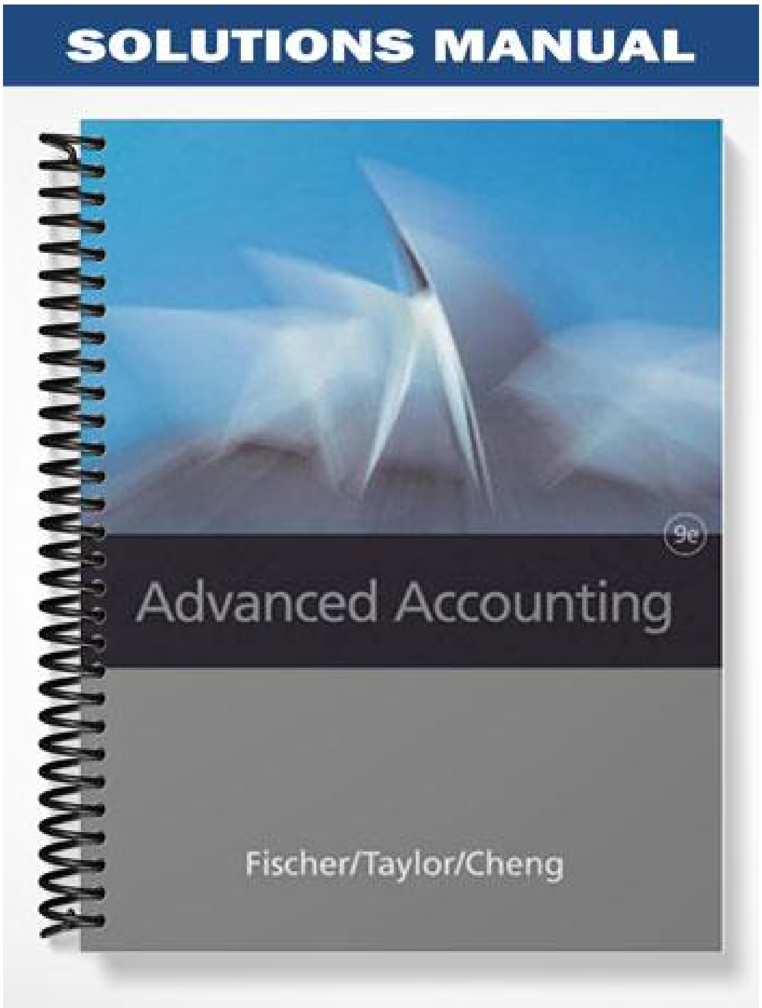
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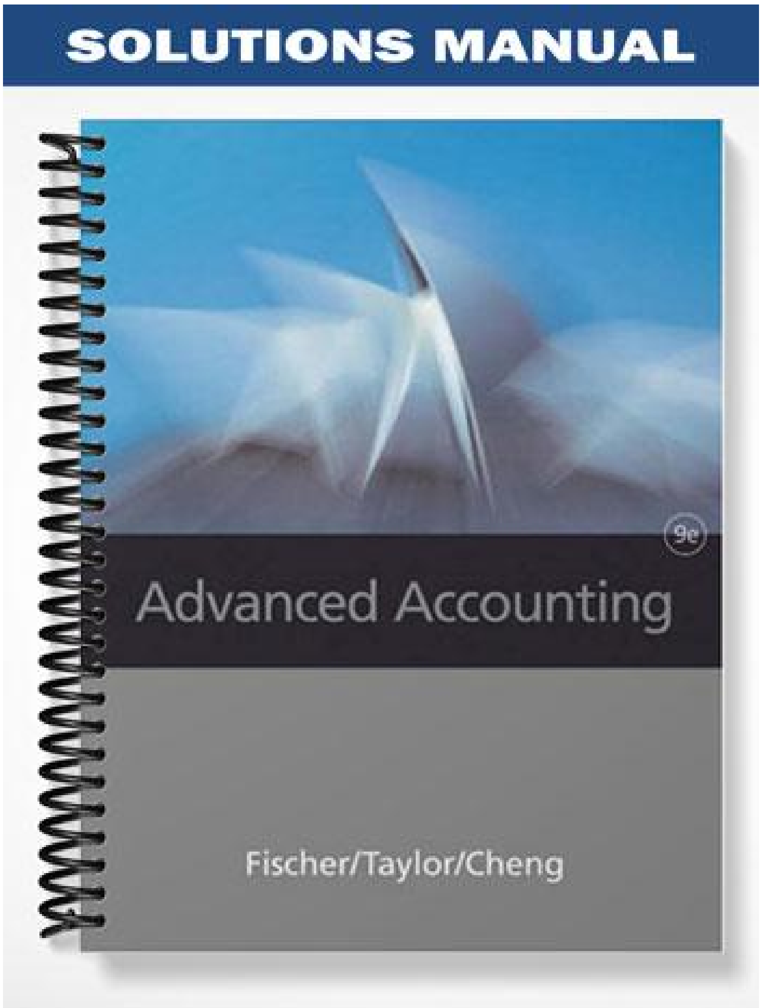
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CHAPTER 2

UNDERSTANDING THE ISSUES

1. a. Johnson has a passive level of ownership and in future periods will record dividend income of only 10% of Bickler's declared dividends.

b. Johnson has an influential level of ownership and in future periods will record investment income of 30% of Bickler's net income.

c. Johnson has a controlling level of ownership and in future periods will add 100% of Bickler's net income to its own net income. Bickler's nominal account balances will be added to Johnson's nominal account balances, which results in consolidated net income.

d. Johnson has a controlling level of ownership and in future periods will add 80% of Bickler's net income to its own net income. Bickler's nominal account balances will be added to Johnson's nominal account balances. This will result in consolidated net income with a distribution to the noncontrolling interest equal to 20% of Bickler's income.

2. Corporation: The parent must have the right to appoint or elect a majority of the board members. Aside from majority ownership, the parent could gain control by holding securities that can be converted into common stock. Also, if the parent holds a large noncontrolling interest that is three times larger than any other owner or group, the parent is deemed to have control. Finally, the corporate charter, bylaws, or some other agreement may grant control to the parent.

Partnership: Two things must be true: (1) The parent is the only general partner in a limited partnership or has the unilateral right to assume this role. (2) No other partner or group of partners has the power to dissolve the partnership or remove the general partner.

3. 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.

4. a. Net Assets – marked up \$200,000 (\$600,000 – \$400,000)
Goodwill – \$300,000 (\$900,000 – \$600,000)

b. Net Assets – marked up \$160,000 [(\$600,000 – \$400,000) × 80%]
Goodwill – \$240,000 [\$720,000 – (80% × \$600,000)]

5. Zone Analysis

	Group Total	Cumulative Total
Priority	\$ 50,000	\$ 50,000
Nonpriority	800,000	850,000

a. \$1,000,000 – \$350,000 = \$650,000 excess

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

b. \$500,000 – \$350,000 = \$150,000 excess

Current Assets	\$ 50,000
Fixed assets	100,000
	\$150,000

5. (Concluded)

c. $30,000 – $350,000 = ($320,000) shortage

Current Assets	$ 50,000
Fixed Assets	(350,000)
Extraordinary Gain	(20,000)
	$(320,000)

6. Zone Analysis

	Group Total	Ownership Share	Cumulative Total
Priority	$ 50,000	$ 40,000	$ 40,000
Nonpriority	800,000	640,000	680,000

a. $800,000 – (80% × $350,000) = $520,000 excess

Current Assets ($50,000 difference × 80%)	$ 40,000
Fixed Assets ($450,000 difference × 80%)	360,000
Goodwill	120,000
	$520,000

b. $600,000 – (80% × $350,000) = $320,000 excess

Current Assets ($50,000 difference × 80%)	$ 40,000
Depreciable Assets (balance)	280,000 (maximum = $360,000)
	$320,000

c. $30,000 – (80% × $350,000) = ($250,000) shortage

Current Assets ($50,000 × 80%)	$ 40,000
Fixed Assets ($350,000 × 80%)	(280,000)
Extraordinary Gain	(10,000)
	$(250,000)

7. NCI = $70,000 [($200,000 + $50,000 + $300,000 – $200,000) × 20%]. 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, and retained earnings.

EXERCISES

1.

Solara Corporation
Pro Forma Income Statement

	10%	20%	70%
Sales	$640,000	$640,000	$1,010,000
Cost of Goods Sold	300,000	300,000	530,000
Gross Profit	340,000	340,000	480,000
Selling and Administrative Expenses	120,000	120,000	195,000
Operating Income	220,000	220,000	
Dividend Income (10% × $15,000 dividends)	1,500		
Investment Income (20% × $65,000 reported income)		13,000	
Net Income	$221,500	$233,000	285,000
Noncontrolling Interest (30% × $65,000 reported income)			19,500
Controlling Interest			$ 265,500

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2. (1) (a)

Cash	40,000*	
Accounts Receivable	70,000	
Inventory	100,000	
Property, Plant, and Equipment (net)	270,000	
Goodwill	230,000	
Current Liabilities		80,000
Bonds Payable		100,000
Cash		530,000*

*Cash may be shown as a net credit of $490,000.

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	$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).

3. Common information: 100% Purchase

Ownership interest	100%

Vase Company's Balance Sheet before Purchase

	Book Value	Fair Value		Book Value	Fair Value
Priority assets:					
Cash equivalents	60,000	60,000	Current liabilities	60,000	60,000
Inventory	120,000	160,000			
Total priority assets	**180,000**	**220,000**	**Total liabilities**	**60,000**	**60,000**
Nonpriority assets:					
Land	50,000	100,000	Stockholders equity:		
Building (net)	200,000	300,000	Common stock	100,000	
			Paid-in capital in excess of par	150,000	
			Retained earnings	120,000	
Total nonpriority assets	**250,000**	**400,000**	Total equity	370,000	
Existing goodwill					
Total assets	**430,000**	**620,000**	**Value of net assets**	**370,000**	**560,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$160,000	$160,000	$160,000
Nonpriority accounts	400,000	400,000	560,000

1. Goodwill will be recorded if the price is above $560,000.
2. The fixed assets will be recorded at less than fair value if the price is below $560,000.
3. An extraordinary gain will be recorded if the price is below $160,000.

4.

(1)

Investment in Pine Inc.	960,000	
Cash		960,000
Indirect Costs Expense	3,000	
Cash		3,000

(2)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$150,000	$150,000	$150,000
Nonpriority accounts	700,000	700,000	850,000

Exercise 2-4, Concluded

Price Analysis

Price	$960,000	
Assign to priority accounts	150,000	full value
Assign to nonpriority accounts	700,000	full value
Goodwill	110,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$960,000	
Less book value interest acquired:			
Common stock	$300,000		
Paid-in capital in excess of par	380,000		
Retained earnings	20,000		
Total equity	$700,000		
Interest acquired	100%	700,000	
Excess of cost over book value (debit)		$260,000	
Adjustments:			
Inventory		$ 50,000	debit D1
Land		—	
Bonds payable		—	
Depreciable fixed assets (net)		100,000	debit D2
Goodwill		110,000	debit D3
Extraordinary gain		—	
Total adjustments		$260,000	

(3) Elimination entries:

Common Stock ($10 par)	300,000	
Paid-In Capital in Excess of Par	380,000	
Retained Earnings	20,000	
Investment in Pine Inc.		700,000
Inventory	50,000	
Depreciable Fixed Assets	100,000	
Goodwill	110,000	
Investment in Pine Inc.		260,000

5.

(1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 55,000	$ 55,000	$ 55,000
Nonpriority accounts	830,000	830,000	885,000

Goodwill would be recorded if the price is above $885,000.

Exercise 2-5, Continued

(2) An extraordinary gain would be recorded if the price is below $55,000.

(3) Price Analysis

Price	$1,000,000	
Assign to priority accounts	55,000	full value
Assign to nonpriority accounts	830,000	full value
Goodwill	115,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$ 1,000,000	
Less book value interest acquired:			
Common stock	$200,000		
Paid-in capital in excess of par	300,000		
Retained earnings	175,000		
Total equity	$675,000		
Interest acquired	100%	675,000	
Excess of cost over book value (debit)		$ 325,000	
Adjustments:			
Inventory		$ 15,000	debit D1
Land		—	
Bonds payable		(10,000)	credit D2
Depreciable fixed assets		200,000	debit D3
Computer software		5,000	debit D4
Goodwill		115,000	debit D5
Extraordinary gain		—	
Total adjustments		$ 325,000	

Elimination entries:

Common Stock ($5) Par	200,000	
Paid-In Capital in Excess of Par	300,000	
Retained Earnings	175,000	
Investment in Gemini Company		675,000
Inventory	15,000	
Depreciable Fixed Assets	200,000	
Computer Software	5,000	
Goodwill	115,000	
Premium on Bonds Payable		10,000
Investment in Gemini Company		325,000

Exercise 2-5, Concluded

(4)

Price Analysis		
Price	$810,000	
Assign to priority accounts	55,000	full value
Assign to nonpriority accounts	755,000	allocate
Goodwill	—	
Extraordinary gain	—	

Determination and Distribution of Excess Schedule

Price paid for investment		$810,000	
Less book value interest acquired:			
Common stock	$200,000		
Paid-in capital in excess of par	300,000		
Retained earnings	175,000		
Total equity	$675,000		
Interest acquired	100%	675,000	
Excess of cost over book value (debit)		$135,000	
Adjustments:			
Inventory		$ 15,000	debit D1
Bonds payable		(10,000)	credit D2
Depreciable fixed assets		136,747	debit D3
Computer software		(6,747)	credit D4
Goodwill		—	
Extraordinary gain		—	
Total adjustments		$135,000	

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Depreciable fixed assets	700,000	84%	755,000	636,747	500,000	136,747
Computer software	130,000	16%	755,000	118,253	125,000	(6,747)
Total to other fixed assets	830,000	100%		755,000	625,000	130,000

Elimination entries:

Common Stock ($5) Par	200,000	
Paid-In Capital in Excess of Par	300,000	
Retained Earnings	175,000	
Investment in Gemini Company		675,000
Inventory	15,000	
Depreciable Fixed Assets	136,747	
Premium on Bonds Payable		10,000
Computer Software		6,747
Investment in Gemini Company		135,000

6. (1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts....................	$(140,000)	$(140,000)	$(140,000)
Nonpriority accounts..............	800,000	830,000	660,000

Price Analysis

Price..	$ 620,000	
Assign to priority accounts......................................	(140,000)	full value
Assign to nonpriority accounts................................	760,000	allocate
Goodwill	—	
Extraordinary gain	—	

Determination and Distribution of Excess Schedule

Price paid for investment..................		$620,000	
Less book value interest acquired:			
Common stock	$100,000		
Paid-in capital in excess of par ...	300,000		
Retained earnings	(50,000)		
Total equity...........................	$350,000		
Interest acquired.........................	100%	350,000	
Excess of cost over book value (debit).......................................		$270,000	
Adjustments:			
Inventory		$ (40,000)	debit D1
Equipment (net)..........................		(55,000)	credit D2
Mineral rights.............................		415,000	debit D3
Goodwill		(50,000)	credit D4
Extraordinary gain		—	
Total adjustments		$270,000	

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Equipment (net).......................	100,000	13%	760,000	95,000	150,000	(55,000)
Mineral rights..........................	700,000	88%	760,000	665,000	250,000	415,000
Total to other fixed assets..	800,000	100%		760,000	400,000	360,000

Exercise 2-6, Concluded

(2) Elimination entries:

Common Stock ($5 par)	100,000	
Paid-In Capital in Excess of Par	300,000	
Retained Earnings		50,000
Investment in Villard Company		350,000
Mineral Rights	415,000	
Inventory		40,000
Equipment		55,000
Goodwill		50,000
Investment in Villard Company		270,000

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7. (1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (180,000)	$(144,000)	$(144,000)
Nonpriority accounts	1,000,000	800,000	656,000

Price Analysis

Price	$ 730,000	
Assign to priority accounts	(144,000)	full value
Assign to nonpriority accounts	800,000	full value
Goodwill	74,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$730,000	
Less book value interest acquired:			
Common stock	$100,000		
Paid-in capital in excess of par	150,000		
Retained earnings	250,000		
Total equity	$500,000		
Interest acquired	80%	400,000	
Excess of cost over book value (debit)		$330,000	
Adjustments:			
Inventory		$ 80,000	debit D1
Land		80,000	debit D2
Building (net)		120,000	debit D3
Equipment (net)		(24,000)	credit D4
Goodwill		74,000	debit D5
Extraordinary gain		—	
Total adjustments		$330,000	

Exercise 2-7, Concluded

(2) Elimination entries:

Common Stock ($5 par)	80,000	
Paid-In Capital in Excess of Par	120,000	
Retained Earnings	200,000	
Investment in Cooker		400,000
Inventory	80,000	
Land	80,000	
Building	120,000	
Goodwill	74,000	
Equipment		24,000
Investment in Cooker		330,000

8.

(1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$170,000	$136,000	$136,000
Nonpriority accounts	500,000	400,000	536,000

Price Analysis

Price	$656,000	
Assign to priority accounts	136,000	full value
Assign to nonpriority accounts	400,000	full value
Goodwill	120,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$656,000	
Less book value interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	130,000		
Retained earnings	370,000		
Total equity	$550,000		
Interest acquired	80%	440,000	
Excess of cost over book value (debit)		$216,000	
Adjustments:			
Inventory		$ 96,000	debit D1
Property, Plant, and Equipment		80,000	debit D2
Goodwill [$120,000 – (80% × 100,000)]		40,000	debit D3
Extraordinary gain		—	
Total adjustments		$216,000	

Exercise 2-8, Concluded

(2) Elimination entries:

Common Stock ($5) Par	40,000	
Paid-In Capital in Excess of Par	104,000	
Retained Earnings	296,000	
Investment in Saturn Company		440,000
Inventory	96,000	
Property, Plant, and Equipment	80,000	
Goodwill	40,000	
Investment in Saturn Company		216,000

(3) Price Analysis

Price	$512,000	
Assign to priority accounts	136,000	full value
Assign to nonpriority accounts	376,000	allocate
Goodwill	—	
Extraordinary gain	—	

Determination and Distribution of Excess Schedule

Price paid for investment		$512,000	
Less book value interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	130,000		
Retained earnings	370,000		
Total equity	$550,000		
Interest acquired	80%	440,000	
Excess of cost over book value (debit)		$ 72,000	
Adjustments:			
Inventory		$ 96,000	debit D1
Property, Plant, and Equipment [376,000 – (80% × 400,000)]		56,000	debit D2
Goodwill		(80,000)	credit D3
Extraordinary gain		—	
Total adjustments		$ 72,000	

Elimination entries:

Common Stock ($5) Par	40,000	
Paid-In Capital in Excess of Par	104,000	
Retained Earnings	296,000	
Investment in Saturn Company		440,000
Inventory	96,000	
Property, Plant, and Equipment	56,000	
Goodwill		80,000
Investment in Saturn Company		72,000

9.

(1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (30,000)	$ (30,000)	$ (30,000)
Nonpriority accounts	930,000	930,000	900,000

Price Analysis		
Price	$950,000	
Assign to priority accounts	(30,000)	full value
Assign to nonpriority accounts	930,000	full value
Goodwill	50,000	

Investment in Craig Company	950,000	
Cash		950,000

(2)

Accounts Receivable	20,000	
Land	30,000	
Building	100,000	
Discount on Bonds Payable	20,000	
Goodwill	50,000	
Deferred Tax Liability	10,000	
Retained Earnings	420,000	
Paid-In Capital in Excess of Par		650,000

(3) Elimination entries:

Common Stock	300,000	
Paid-In Capital in Excess of Par	650,000	
Investment in Craig Company		950,000

PROBLEMS

PROBLEM 2-1

(1)

Investment in Daisy Company	650,000	
Common Stock ($10 par)		180,000
Paid-In Capital in Excess of Par		450,000
Cash (direct acquisition costs)		20,000
Paid-In Capital in Excess of Par	5,000	
Cash		5,000

(2)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 75,000	$ 75,000	$ 75,000
Nonpriority accounts	325,000	325,000	400,000

Price Analysis

Price	$650,000	
Assign to priority accounts	75,000	full value
Assign to nonpriority accounts	325,000	full value
Goodwill	250,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$ 650,000	
Less book value interest acquired:			
Common stock	$200,000		
Paid-in capital in excess of par	—		
Retained earnings	140,000		
Total equity	$340,000		
Interest acquired	100%	340,000	
Excess of cost over book value (debit)		$ 310,000	
Adjustments:			
Inventory		$ 5,000	debit D1
Land		60,000	debit D2
Buildings		30,000	debit D3
Equipment		(35,000)	credit D4
Goodwill		250,000	debit D5
Extraordinary gain		—	
Total adjustments		$ 310,000	

Problem 2-1, Concluded

(3) Rose Company and Subsidiary Daisy Company
Consolidated Balance Sheet
July 1, 20X6

Assets

Current assets:		
Other assets (including $5,000 cash adjustment for issue costs and $20,000 direct acquisition costs)	$ 95,000	
Inventory (including $5,000 adjustment)	185,000	
		$ 280,000
Long-lived assets:		
Land (including $60,000 increase)	$200,000	
Building (including $30,000 increase)	450,000	
Equipment (including $35,000 decrease)	505,000	
Goodwill	250,000	1,405,000
Total assets		$1,685,000

Liabilities and Stockholders' Equity

Current liabilities		$ 240,000
Stockholders' equity:		
Common stock	$580,000	
Paid-in capital in excess of par*	445,000	
Retained earnings	420,000	
Total stockholders' equity		1,445,000
Total liabilities and stockholders' equity		$1,685,000

*$450,000 – $5,000 stock issuance costs.

PROBLEM 2-2

(1)	Investment in Daisy Company	650,000	
	Common Stock ($10 par)		180,000
	Paid-In Capital in Excess of Par		450,000
	Cash (direct acquisition costs)		20,000
	Paid-In Capital in Excess of Par	5,000	
	Cash		5,000

Problem 2-2, Continued

(2)

Rose Company and Subsidiary Daisy Company
Determination and Distribution of Excess Schedule
July 1, 20X6

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 75,000	$ 60,000	$ 60,000
Nonpriority accounts	325,000	260,000	320,000

Price Analysis

Price	$650,000	
Assign to priority accounts	60,000	full value
Assign to nonpriority accounts	260,000	full value
Goodwill	330,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$ 650,000	
Less book value interest acquired:			
Common stock	$200,000		
Paid-in capital in excess of par	—		
Retained earnings	140,000		
Total equity	$340,000		
Interest acquired	80%	272,000	
Excess of cost over book value (debit)		$ 378,000	
Adjustments:			
Inventory		$ 4,000	debit D1
Land		48,000	debit D2
Buildings		24,000	debit D3
Equipment		(28,000)	credit D4
Goodwill		330,000	debit D5
Extraordinary gain		—	
Total adjustments		$ 378,000	

Problem 2-2, Concluded

(3)

Rose Company and Subsidiary Daisy Company
Consolidated Balance Sheet
July 1, 20X6

Assets

Current assets:		
Other assets (including $5,000 cash adjustment for issue costs and $20,000 direct acquisition costs)	$ 95,000	
Inventory (including $4,000 adjustment)	184,000	
		$ 279,000
Long-lived assets:		
Land (including $48,000 increase)	$188,000	
Building (including $24,000 increase)	444,000	
Equipment (including $28,000 decrease)	512,000	
Goodwill	330,000	
		1,474,000
Total assets		$1,753,000

Liabilities and Stockholders' Equity

Current liabilities		$ 240,000
Stockholders' equity:		
Noncontrolling Interest*		68,000
Controlling Interest:		
Common stock	$580,000	
Paid-in capital in excess of par**	445,000	
Retained earnings	420,000	
Total stockholders' equity		1,445,000
Total liabilities and stockholders' equity		$1,753,000

* $68,000 (20% of Daisy's stockholders' equity).
** $450,000 – $5,000 stock issuance costs.

PROBLEM 2-3

(1)

Investment in Express Corporation	400,000	
Cash		400,000

(2)

Enterprises Company and Subsidiary Express Corporation
Determination and Distribution Schedule
March 1, 20X5

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 15,000	$ 15,000	$ 15,000
Nonpriority accounts	405,000	405,000	420,000

Price Analysis		
Price	$400,000	
Assign to priority accounts	15,000	full value
Assign to nonpriority accounts	385,000	allocate
Goodwill	—	
Extraordinary gain	—	

Determination and Distribution of Excess Schedule

Price paid for investment		$400,000	
Less book value interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	250,000		
Retained earnings	70,000		
Total equity	$370,000		
Interest acquired	100%	370,000	
Excess of cost over book value (debit)		$ 30,000	
Adjustments:			
Inventory		$ 20,000	debit D1
Bonds payable		5,000	debit D2
Land		(1,500)	credit D3
Buildings		12,500	debit D4
Equipment		(6,000)	credit D5
Goodwill		—	
Extraordinary gain		—	
Total adjustments		$ 30,000	

Problem 2-3, Concluded

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Land	40,500	10%	385,000	38,500	40,000	(1,500)
Buildings	202,500	50%	385,000	192,500	180,000	12,500
Equipment	162,000	40%	385,000	154,000	160,000	(6,000)
Total to other fixed assets	405,000	100%		385,000	385,000	5,000

(3) Elimination entries:

Common Stock	50,000	
Paid-In Capital in Excess of Par	250,000	
Retained Earnings	70,000	
Investment in Express Corporation		370,000
Inventory	20,000	
Discount on Bonds Payable	5,000	
Building	12,500	
Land		1,500
Equipment		6,000
Investment in Express Corporation		30,000

PROBLEM 2-4

(1)

Investment in Robby Corporation	480,000	
Cash		480,000

(2)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 12,000	$ 12,000	$ 12,000
Nonpriority accounts	405,000	405,000	417,000

Price Analysis

Price	$480,000	
Assign to priority accounts	12,000	full value
Assign to nonpriority accounts	405,000	full value
Goodwill	63,000	

Problem 2-4, Concluded

Determination and Distribution of Excess Schedule

Price paid for investment		$480,000	
Less book value interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	250,000		
Retained earnings	70,000		
Total equity	$370,000		
Interest acquired	100%	370,000	
Excess of cost over book value (debit)		$110,000	
Adjustments:			
Inventory		$ 20,000	debit D1
Bonds payable		2,000	debit D2
Land		15,000	debit D3
Buildings		20,000	debit D4
Equipment		(10,000)	credit D5
Goodwill		63,000	debit D6
Extraordinary gain		—	
Total adjustments		$110,000	

(3)

Retained Earnings	70,000	
Inventory	20,000	
Land	15,000	
Discount on Bonds Payable	2,000	
Building	20,000	
Goodwill	63,000	
Equipment		10,000
Paid-In Capital in Excess of Par*		180,000

*$70,000 retained earnings + $110,000 excess of cost.

PROBLEM 2-5

(1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 40,000	$ 40,000	$ 40,000
Nonpriority accounts	295,000	295,000	335,000

Price Analysis

Price	$475,000	
Assign to priority accounts	40,000	full value
Assign to nonpriority accounts	295,000	full value
Goodwill	140,000	

Problem 2-5, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$475,000	
Less book value interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	70,000		
Retained earnings	130,000		
Total equity	$250,000		
Interest acquired	100%	250,000	
Excess of cost over book value (debit)		$225,000	
Adjustments:			
Inventory		$ 20,000	debit D1
Bonds payable		(5,000)	credit D2
Land		10,000	debit D3
Building and Equipment		45,000	debit D4
Copyrights		15,000	debit D5
Goodwill		140,000	debit D6
Extraordinary gain		—	
Total adjustments		$225,000	

(2)

Adam Company and Subsidiary Scott Company
Worksheet for Consolidated Balance Sheet
December 31, 20X1

	Balance Sheet		Eliminations				Consolidated Balance Sheet
	Adam	Scott		Debit		Credit	
Cash	160,000	40,000					200,000
Accounts receivable	70,000	30,000					100,000
Inventory	130,000	120,000	(D1)	20,000			270,000
Land	50,000	35,000	(D3)	10,000			95,000
Investment in Scott	475,000				(EL)	250,000	
					(D)	225,000	
Building and equipment	350,000	230,000	(D4)	45,000			625,000
Accumulated depreciation	(100,000)	(50,000)					(150,000)
Copyrights	40,000	10,000	(D5)	15,000			65,000
Goodwill			(D6)	140,000			140,000
Current liabilities	(192,000)	(65,000)					(257,000)
Bonds payable		(100,000)					(100,000)
Discount (premium)					(D2)	5,000	(5,000)
Common stock—Scott		(50,000)	(EL)	50,000			
Paid-in capital in excess of par—Scott		(70,000)	(EL)	70,000			
Retained earnings—Scott		(130,000)	(EL)	130,000			
Common stock—Adam	(100,000)						(100,000)
Paid-in capital in excess of par—Adam	(250,000)						(250,000)
Retained earnings—Adam	(633,000)						(633,000)
Totals	0	0		480,000		480,000	0

Problem 2-5, Concluded

Eliminations and Adjustments:

- (EL) Eliminate investment in subsidiary against subsidiary equity accounts.
- (D) Distribute $225,000 excess of cost over book value to:
- (D1) Inventory, $20,000.
- (D2) Premium on bonds payable ($5,000).
- (D3) Land, $10,000.
- (D4) Building and Equipment, $45,000.
- (D5) Copyrights, $15,000.
- (D6) Goodwill, $140,000.

PROBLEM 2-6

(1)

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ 40,000	$ 32,000	$ 32,000
Nonpriority accounts	295,000	236,000	268,000

Price Analysis		
Price	$475,000	
Assign to priority accounts	32,000	full value
Assign to nonpriority accounts	236,000	full value
Goodwill	207,000	

Determination and Distribution of Excess Schedule

Price paid for investment		$475,000	
Less book value interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	70,000		
Retained earnings	130,000		
Total equity	$250,000		
Interest acquired	80%	200,000	
Excess of cost over book value (debit)		$275,000	
Adjustments:			
Inventory		$ 16,000	debit D1
Bonds payable		(4,000)	credit D2
Land		8,000	debit D3
Building and Equipment		36,000	debit D4
Copyrights		12,000	debit D5
Goodwill		207,000	debit D6
Extraordinary gain		—	
Total adjustments		$275,000	

Problem 2-6, Concluded

(2)

Adam Company and Subsidiary Scott Company
Worksheet for Consolidated Balance Sheet
December 31, 20X1

	Balance Sheet		Eliminations					Consol.
	Adam	Scott		Debit		Credit	NCI	Balance Sheet
Cash	160,000	40,000						200,000
Accounts receivable	70,000	30,000						100,000
Inventory	130,000	120,000	(D1)	16,000				266,000
Land	50,000	35,000	(D3)	8,000				93,000
Investment in Scott	475,000				(EL)	200,000		
					(D)	275,000		
Building and equipment	350,000	230,000	(D4)	36,000				616,000
Accumulated depreciation	(100,000)	(50,000)						(150,000)
Copyrights	40,000	10,000	(D5)	12,000				62,000
Goodwill			(D6)	207,000				207,000
Current liabilities	(192,000)	(65,000)						(257,000)
Bonds payable		(100,000)						(100,000)
Discount (premium)					(D2)	4,000		(4,000)
Common stock—Scott		(50,000)	(EL)	40,000			(10,000)	
Paid-in capital in excess of par—Scott		(70,000)	(EL)	56,000			(14,000)	
Retained earnings—Scott		(130,000)	(EL)	104,000			(26,000)	
Common stock—Adam	(100,000)							(100,000)
Paid-in capital in excess of par—Adam	(250,000)							(250,000)
Retained earnings—Adam	(633,000)							(633,000)
Noncontrolling interest							(50,000)	(50,000)
Totals	0	0		479,000		479,000	(100,000)	0

Eliminations and Adjustments:

- (EL) Eliminate investment in subsidiary against 80% of the subsidiary equity accounts.
- (D) Distribute $275,000 excess of cost over book value to:
- (D1) Inventory, $16,000.
- (D2) Premium on bonds payable ($4,000).
- (D3) Land, $8,000.
- (D4) Building and equipment, $36,000.
- (D5) Copyrights, $12,000.
- (D6) Goodwill, $207,000.

PROBLEM 2-7

(1)

100% Purchase with Goodwill

Common information:	
Ownership interest	100%
Price paid (including direct acquisition costs)	$410,000

Sader Company's Balance Sheet before Purchase

	Book Value	Fair Value	Life		Book Value	Fair Value
Priority assets:						
Accounts receivable	20,000	20,000		Current liabilities	40,000	40,000
Inventory	50,000	55,000		Bonds payable	100,000	100,000
Total priority assets	**70,000**	**75,000**		**Total liabilities**	**140,000**	**140,000**
Nonpriority assets:						
Land	40,000	70,000				
Buildings	200,000	250,000		Stockholders' equity:		
Accumulated depreciation	(50,000)			Common stock	10,000	
Equipment	60,000	60,000		Paid-in capital in		
Accumulated depreciation	(20,000)			excess of par	90,000	
Copyright		50,000		Retained earnings	60,000	
Total nonpriority assets	**230,000**	**430,000**		Total equity	160,000	
Existing goodwill						
Total assets	**300,000**	**505,000**		**Value of net assets**	**160,000**	**365,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (65,000)	$ (65,000)	$ (65,000)
Nonpriority accounts	430,000	430,000	365,000

Price Analysis

Price	$410,000	
Assign to priority accounts	(65,000)	full value
Assign to nonpriority accounts	430,000	full value
Goodwill	45,000	

Problem 2-7, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$410,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000		
Interest acquired	100%	160,000	
Excess of cost over book value (debit)		$250,000	
Existing goodwill		—	
Excess available		$250,000	
Adjustments:			
Inventory	$ 5,000		debit D1
Land	30,000		debit D2
Bonds payable	—		
Buildings	100,000		debit D3
Equipment	20,000		debit D4
Copyright	50,000		debit D5
Goodwill	45,000		debit D6
Extraordinary gain	—		
Total	$250,000		

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Land	70,000	0.16	430,000	70,000	40,000	30,000
Buildings (net)	250,000	0.58	430,000	250,000	150,000	100,000
Equipment (net)	60,000	0.14	430,000	60,000	40,000	20,000
Copyright	50,000	0.12	430,000	50,000	—	50,000
Total to other fixed assets	430,000	1.00		430,000	230,000	200,000

Problem 2-7, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations					Consol. Balance
	Pantera	Sader		Debit		Credit	NCI	Sheet
Cash	51,000							51,000
Accounts receivable	65,000	20,000						85,000
Inventory	80,000	50,000	(D1)	5,000				135,000
Land	100,000	40,000	(D2)	30,000				170,000
Investment in Sader	410,000				(EL)	160,000		
					(D)	250,000		
Buildings	250,000	200,000	(D3)	100,000				550,000
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)	45,000				45,000
Current liabilities	(80,000)	(40,000)						(120,000)
Bonds payable	(200,000)	(100,000)						(300,000)
Common stock—Sader		(10,000)	(EL)	10,000				
Paid-in capital in excess of par—Sader		(90,000)	(EL)	90,000				
Retained earnings—Sader		(60,000)	(EL)	60,000				
Common stock—Pantera	(20,000)							(20,000)
Paid-in capital in excess of par—Pantera	(180,000)							(180,000)
Retained earnings—Pantera	(446,000)							(446,000)
Totals	0	0		410,000		410,000		
Noncontrolling interest							0	
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

- (EL) Eliminate 80% subsidiary equity against investment account.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Land
- (D3) Building
- (D4) Equipment
- (D5) Copyright
- (D6) Goodwill

PROBLEM 2-8

(1)

100% Bargain Purchase

Common information:

Ownership interest	100%
Price paid (including direct acquisition costs)	$250,000

Acquired Company's Balance Sheet before Purchase

	Book Value	Fair Value	Life		Book Value	Fair Value
Priority assets:						
Accounts receivable	20,000	20,000		Current liabilities	40,000	40,000
Inventory	50,000	55,000		Bonds payable	100,000	100,000
Total priority assets	**70,000**	**75,000**		**Total liabilities**	**140,000**	**140,000**
Nonpriority assets:						
Land	40,000	70,000				
Buildings	200,000	250,000		Stockholders' equity:		
Accumulated depreciation	(50,000)			Common stock	10,000	
Equipment	60,000	60,000		Paid-in capital in		
Accumulated depreciation	(20,000)			excess of par	90,000	
Copyright		50,000		Retained earnings	60,000	
Total nonpriority assets	**230,000**	**430,000**		Total equity	160,000	
Existing goodwill						
Total assets	**300,000**	**505,000**		**Value of net assets**	**160,000**	**365,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (65,000)	$ (65,000)	$ (65,000)
Nonpriority accounts	430,000	430,000	365,000

Price Analysis

Price	$250,000	
Assign to priority accounts	(65,000)	full value
Assign to nonpriority accounts	315,000	allocate
Goodwill	—	
Extraordinary gain	—	

Problem 2-8, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$250,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000		
Interest acquired	100%	160,000	
Excess of cost over book value (debit)		$ 90,000	
Existing goodwill		—	
Excess available		$ 90,000	
Adjustments:			
Inventory	$ 5,000		debit D1
Land	11,279		debit D2
Bonds payable	—		
Buildings	33,140		debit D3
Equipment	3,953		debit D4
Copyright	36,628		debit D5
Goodwill	—		
Extraordinary gain	—		
Total	$ 90,000		

Allocation Tables

	Market	Percent*	Available	Assign	Book	Adjust
Land	70,000	0.16	315,000	51,279	40,000	11,279
Buildings (net)	250,000	0.58	315,000	183,140	150,000	33,140
Equipment (net)	60,000	0.14	315,000	43,953	40,000	3,953
Copyright	50,000	0.12	315,000	36,628	—	36,628
Total to other fixed assets	430,000	1.00		315,000	230,000	85,000

*Rounded

Problem 2-8, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations					Consol.
	Pantera	Sader		Debit		Credit	NCI	Balance Sheet
Cash	211,000							211,000
Accounts receivable	65,000	20,000						85,000
Inventory	80,000	50,000	(D1)	5,000				135,000
Land	100,000	40,000	(D2)	11,279				151,279
Investment in Sader	250,000				(EL)	160,000		
					(D)	90,000		
Buildings	250,000	200,000	(D3)	33,140				483,140
Accumulated depreciation	(80,000)	(50,000)						(130,000)
Equipment	90,000	60,000	(D4)	3,953				153,953
Accumulated depreciation	(40,000)	(20,000)						(60,000)
Copyright			(D5)	36,628				36,628
Goodwill								
Current liabilities	(80,000)	(40,000)						(120,000)
Bonds payable	(200,000)	(100,000)						(300,000)
Common stock—Sader		(10,000)	(EL)	10,000				
Paid-in capital in excess of par—Sader		(90,000)	(EL)	90,000				
Retained earnings—Sader		(60,000)	(EL)	60,000				
Common stock—Pantera	(20,000)							(20,000)
Paid-in capital in excess of par—Pantera	(180,000)							(180,000)
Retained earnings—Pantera	(446,000)							(446,000)
Totals	0	0		250,000		250,000		
Noncontrolling interest							0	
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

- (EL) Eliminate 80% subsidiary equity against investment account.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Land
- (D3) Building
- (D4) Equipment
- (D5) Copyright
- (D6) Goodwill

PROBLEM 2-9

(1)

80% Purchase with Goodwill

Common information:	
Ownership interest	80%
Price paid (including direct acquisition costs)	$360,000

Sader Company's Balance Sheet before Purchase

	Book Value	Fair Value	Life		Book Value	Fair Value
Priority assets:						
Accounts receivable	20,000	20,000		Current liabilities	40,000	40,000
Inventory	50,000	55,000		Bonds payable	100,000	100,000
Total priority assets	**70,000**	**75,000**		**Total liabilities**	**140,000**	**140,000**
Nonpriority assets:						
Land	40,000	70,000				
Buildings	200,000	250,000		Stockholders' equity:		
Accumulated depreciation	(50,000)			Common stock	10,000	
Equipment	60,000	60,000		Paid-in capital in		
Accumulated depreciation	(20,000)			excess of par	90,000	
Copyright		50,000		Retained earnings	60,000	
Total nonpriority assets	**230,000**	**430,000**		Total equity	160,000	
Existing goodwill						
Total assets	**300,000**	**505,000**		**Value of net assets**	**160,000**	**365,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (65,000)	$ (52,000)	$ (52,000)
Nonpriority accounts	430,000	344,000	292,000

Price Analysis

Price	$360,000	
Assign to priority accounts	(52,000)	full value
Assign to nonpriority accounts	344,000	full value
Goodwill	68,000	

Problem 2-9, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$360,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000		
Interest acquired	80%	128,000	
Excess of cost over book value (debit)		$232,000	
Existing goodwill		—	
Excess available		$232,000	
Adjustments:			
Inventory	$ 4,000		debit D1
Land	24,000		debit D2
Bonds payable	—		
Buildings	80,000		debit D3
Equipment	16,000		debit D4
Copyright	40,000		debit D5
Goodwill	68,000		debit D6
Extraordinary gain	—		
Total	$232,000		

Allocation Tables

	Market	Percent*	Available	Assign	Book	Adjust
Land	70,000	0.16	344,000	56,000	32,000	24,000
Buildings (net)	250,000	0.58	344,000	200,000	120,000	80,000
Equipment (net)	60,000	0.14	344,000	48,000	32,000	16,000
Copyright	50,000	0.12	344,000	40,000	—	40,000
Total to other fixed assets	430,000	1.00		344,000	184,000	160,000

*Rounded

Problem 2-9, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations					Consol.
	Pantera	Sader		Debit		Credit	NCI	Balance Sheet
Cash	101,000							101,000
Accounts receivable	65,000	20,000						85,000
Inventory	80,000	50,000	(D1)	4,000				134,000
Land	100,000	40,000	(D2)	24,000				164,000
Investment in Sader	360,000				(EL)	128,000		
					(D)	232,000		
Buildings	250,000	200,000	(D3)	80,000				530,000
Accumulated depreciation	(80,000)	(50,000)						(130,000)
Equipment	90,000	60,000	(D4)	16,000				166,000
Accumulated depreciation	(40,000)	(20,000)						(60,000)
Copyright			(D5)	40,000				40,000
Goodwill			(D6)	68,000				68,000
Current liabilities	(80,000)	(40,000)						(120,000)
Bonds payable	(200,000)	(100,000)						(300,000)
Common stock—Sader		(10,000)	(EL)	8,000			(2,000)	
Paid-in capital in excess of par—Sader		(90,000)	(EL)	72,000			(18,000)	
Retained earnings—Sader		(60,000)	(EL)	48,000			(12,000)	
Common stock—Pantera	(20,000)							(20,000)
Paid-in capital in excess of par—Pantera	(180,000)							(180,000)
Retained earnings—Pantera	(446,000)							(446,000)
Totals	0	0		360,000		360,000		
NCI							(32,000)	(32,000)
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

- (EL) Eliminate 80% subsidiary equity against investment account.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Land
- (D3) Building
- (D4) Equipment
- (D5) Copyright
- (D6) Goodwill

PROBLEM 2-10

(1)

80% Bargain Purchase

Common information:	
Ownership interest	80%
Price paid (including direct acquisition costs)	$200,000

Sader Company's Balance Sheet before Purchase

	Book Value	Fair Value	Life		Book Value	Fair Value
Priority assets:						
Accounts receivable	20,000	20,000		Current liabilities	40,000	40,000
Inventory	50,000	55,000		Bonds payable	100,000	100,000
Total priority assets	**70,000**	**75,000**		**Total liabilities**	**140,000**	**140,000**
Nonpriority assets:						
Land	40,000	70,000				
Buildings	200,000	250,000		Stockholders' equity:		
Accumulated depreciation	(50,000)			Common stock	10,000	
Equipment	60,000	60,000		Paid-in capital in		
Accumulated depreciation	(20,000)			excess of par	90,000	
Copyright		50,000		Retained earnings	60,000	
Total nonpriority assets	**230,000**	**430,000**		Total equity	160,000	
Existing goodwill						
Total assets	**300,000**	**505,000**		**Value of net assets**	**160,000**	**365,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$(65,000)	$(52,000)	$(52,000)
Nonpriority accounts	430,000	344,000	292,000

Price Analysis

Price	$200,000	
Assign to priority accounts	(52,000)	full value
Assign to nonpriority accounts	252,000	allocate
Goodwill	—	
Extraordinary gain	—	

Problem 2-10, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$200,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	60,000		
Total equity	$160,000		
Interest acquired	80%	128,000	
Excess of cost over book value (debit)		$ 72,000	
Existing goodwill		—	
Excess available		$ 72,000	
Adjustments:			
Inventory	$ 4,000		debit D1
Land	9,023		debit D2
Bonds payable	—		
Buildings	26,512		debit D3
Equipment	3,163		debit D4
Copyright	29,302		debit D5
Goodwill	—		
Extraordinary gain	—		
Total	$ 72,000		

Allocation Tables

	Market	Percent*	Available	Assign	Book	Adjust
Land	70,000	0.16	252,000	41,023	32,000	9,023
Buildings (net)	250,000	0.58	252,000	146,512	120,000	26,512
Equipment (net)	60,000	0.14	252,000	35,163	32,000	3,163
Copyright	50,000	0.12	252,000	29,302	—	29,302
Total to other fixed assets	430,000	1.00		252,000	184,000	68,000

*Rounded

Problem 2-10, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations					Consol. Balance Sheet
	Pantera	Sader		Debit		Credit	NCI	Sheet
Cash	261,000							261,000
Accounts receivable	65,000	20,000						85,000
Inventory	80,000	50,000	(D1)	4,000				134,000
Land	100,000	40,000	(D2)	9,023				149,023
Investment in Sader	200,000				(EL)	128,000		
					(D)	72,000		
Buildings	250,000	200,000	(D3)	26,512				476,512
Accumulated depreciation	(80,000)	(50,000)						(130,000)
Equipment	90,000	60,000	(D4)	3,163				153,163
Accumulated depreciation	(40,000)	(20,000)						(60,000)
Copyright			(D5)	29,302				29,302
Goodwill								
Current liabilities	(80,000)	(40,000)						(120,000)
Bonds payable	(200,000)	(100,000)						(300,000)
Common stock—Sader		(10,000)	(EL)	8,000			(2,000)	
Paid-in capital in excess of par—Sader		(90,000)	(EL)	72,000			(18,000)	
Retained earnings—Sader		(60,000)	(EL)	48,000			(12,000)	
Common stock—Pantera	(20,000)							(20,000)
Paid-in capital in excess of par—Pantera	(180,000)							(180,000)
Retained earnings—Pantera	(446,000)							(446,000)
Totals	0	0		200,000		200,000		
NCI							(32,000)	(32,000)
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

- (EL) Eliminate 80% subsidiary equity against investment account.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Land
- (D3) Building
- (D4) Equipment
- (D5) Copyright
- (D6) Goodwill

PROBLEM 2-11

(1)

100% Purchase with Goodwill

Common information:	
Ownership interest	100%
Price paid (including direct acquisition costs)	$1,200,000

Soma Corporation's Balance Sheet before Purchase

	Book Value	Fair Value		Book Value	Fair Value
Priority assets:					
Accounts receivable	50,000	50,000	Current liabilities	90,000	90,000
Inventory	120,000	150,000	Bonds payable	200,000	210,000
Total priority assets	**170,000**	**200,000**	**Total liabilities**	**290,000**	**300,000**
Nonpriority assets:					
Land	100,000	200,000			
Buildings	300,000	400,000			
Accumulated depreciation	(100,000)				
Equipment	140,000	200,000	Stockholders' equity:		
Accumulated depreciation	(50,000)		Common stock	10,000	
Patent (net)	10,000	150,000	Paid-in capital in		
Computer software		50,000	excess of par	190,000	
Total nonpriority assets	**400,000**	**1,000,000**	Retained earnings	140,000	
			Total equity	340,000	
Existing goodwill	60,000				
Total assets	**630,000**	**1,200,000**	**Value of net assets**	**340,000**	**900,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (100,000)	$ (100,000)	$(100,000)
Nonpriority accounts	1,000,000	1,000,000	900,000

Price Analysis

Price	$1,200,000	
Assign to priority accounts	(100,000)	full value
Assign to nonpriority accounts	1,000,000	full value
Goodwill	300,000	

Problem 2-11, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$1,200,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par............	190,000		
Retained earnings	140,000		
Total equity...................................	$340,000		
Interest acquired	100%	340,000	
Excess of cost over book value (debit).........		$ 860,000	
Adjustments:			
Inventory	$ 30,000		debit D1
Land..	100,000		debit D2
Bonds payable	(10,000)		credit D3
Buildings	200,000		debit D4
Equipment..	110,000		debit D5
Patent (net)	140,000		debit D6
Computer software.............................	50,000		debit D7
Goodwill	240,000		debit D8
Extraordinary gain	—		
Total adjustments..........................	$860,000		

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Land	200,000	0.20	1,000,000	200,000	100,000	100,000
Buildings (net)..	400,000	0.40	1,000,000	400,000	200,000	200,000
Equipment (net)	200,000	0.20	1,000,000	200,000	90,000	110,000
Patent (net)	150,000	0.15	1,000,000	150,000	10,000	140,000
Computer software	50,000	0.05	1,000,000	50,000	—	50,000
Total to other fixed assets	1,000,000	1.00		1,000,000	400,000	600,000

Problem 2-11, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations					Consol.
	Purnell	Soma		Debit		Credit	NCI	Balance Sheet
Cash	170,000							170,000
Accounts receivable	300,000	50,000						350,000
Inventory	410,000	120,000	(D1)	30,000				560,000
Land	800,000	100,000	(D2)	100,000				1,000,000
Investment in Soma	1,200,000				(EL)	340,000		
					(D)	860,000		
Buildings	2,800,000	300,000	(D4)	200,000				3,300,000
Accumulated depreciation	(500,000)	(100,000)						(600,000)
Equipment	600,000	140,000	(D5)	110,000				850,000
Accumulated depreciation	(230,000)	(50,000)						(280,000)
Patent (net)		10,000	(D6)	140,000				150,000
Computer software			(D7)	50,000				50,000
Goodwill		60,000	(D8)	240,000				300,000
Current liabilities	(150,000)	(90,000)						(240,000)
Bonds payable	(300,000)	(200,000)						(500,000)
Discount (premium)					(D3)	10,000		(10,000)
Common stock—Soma		(10,000)	(EL)	10,000				
Paid-in capital in excess of par—Soma		(190,000)	(EL)	190,000				
Retained earnings—Soma		(140,000)	(EL)	140,000				
Common stock—Purnell	(100,000)							(100,000)
Paid-in capital in excess of par—Purnell	(3,900,000)							(3,900,000)
Retained earnings—Purnell	(1,100,000)							(1,100,000)
Totals	0	0		1,210,000		1,210,000		
NCI							0	
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

(EL) Eliminate subsidiary equity.
(D) Distribute excess to:
(D1) Inventory
(D2) Premium on bonds payable
(D3) Land
(D4) Building
(D5) Equipment
(D6) Patent
(D7) Computer software
(D8) Goodwill

PROBLEM 2-12

(1)

100% Bargain Purchase

Common information:

Ownership interest	100%
Price paid (including direct acquisition costs)	$800,000

Acquired Company's Balance Sheet before Purchase

	Book Value	Fair Value		Book Value	Fair Value
Priority assets:					
Accounts receivable	50,000	50,000	Current liabilities	90,000	90,000
Inventory	120,000	150,000	Bonds payable	200,000	210,000
Total priority assets	**170,000**	**200,000**	**Total liabilities**	**290,000**	**300,000**
Nonpriority assets:					
Land	100,000	200,000			
Buildings	300,000	400,000			
Accumulated depreciation	(100,000)				
Equipment	140,000	200,000	Stockholders' equity:		
Accumulated depreciation	(50,000)		Common stock	10,000	
Patent (net)	10,000	150,000	Paid-in capital in		
Computer software		50,000	excess of par	190,000	
Total nonpriority assets	**400,000**	**1,000,000**	Retained earnings	140,000	
			Total equity	340,000	
Existing goodwill	60,000				
Total assets	**630,000**	**1,200,000**	**Value of net assets**	**340,000**	**900,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (100,000)	$ (100,000)	$(100,000)
Nonpriority accounts	1,000,000	1,000,000	900,000

Price Analysis

Price	$ 800,000	
Assign to priority accounts	(100,000)	full value
Assign to nonpriority accounts	900,000	allocate
Goodwill	—	
Extraordinary gain	—	

Problem 2-12, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$800,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$340,000		
Interest acquired	100%	340,000	
Excess of cost over book value (debit)		$460,000	
Adjustments:			
Inventory	$ 30,000		debit D1
Land	80,000		debit D2
Bonds payable	(10,000)		credit D3
Buildings	160,000		debit D4
Equipment	90,000		debit D5
Patent (net)	125,000		debit D6
Computer software	45,000		debit D7
Goodwill	(60,000)		credit D8
Extraordinary gain	—		
Total adjustments	$460,000		

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Land	200,000	0.20	900,000	180,000	100,000	80,000
Buildings (net)	400,000	0.40	900,000	360,000	200,000	160,000
Equipment (net)	200,000	0.20	900,000	180,000	90,000	90,000
Patent (net)	150,000	0.15	900,000	135,000	10,000	125,000
Computer software	50,000	0.05	900,000	45,000	—	45,000
Total to other fixed assets	1,000,000	1.00		900,000	400,000	500,000

Problem 2-12, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations					Consol.
	Purnell	Soma		Debit		Credit	NCI	Balance Sheet
Cash	170,000							170,000
Accounts receivable	300,000	50,000						350,000
Inventory	410,000	120,000	(D1)	30,000				560,000
Land	800,000	100,000	(D2)	80,000				980,000
Investment in Soma	800,000				(EL)	340,000		
					(D)	460,000		
Buildings	2,800,000	300,000	(D4)	160,000				3,260,000
Accumulated depreciation	(500,000)	(100,000)						(600,000)
Equipment	600,000	140,000	(D5)	90,000				830,000
Accumulated depreciation	(230,000)	(50,000)						(280,000)
Patent (net)		10,000	(D6)	125,000				135,000
Computer software			(D7)	45,000				45,000
Goodwill		60,000			(D8)	60,000		
Current liabilities	(150,000)	(90,000)						(240,000)
Bonds payable	(300,000)	(200,000)						(500,000)
Discount (premium)					(D3)	10,000		(10,000)
Common stock—Soma		(10,000)	(EL)	10,000				
Paid-in capital in excess of par—Soma		(190,000)	(EL)	190,000				
Retained earnings—Soma		(140,000)	(EL)	140,000				
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		870,000		870,000		
NCI							0	
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

- (EL) Eliminate subsidiary equity.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Premium on bonds payable
- (D3) Land
- (D4) Building
- (D5) Equipment
- (D6) Patent
- (D7) Computer software
- (D8) Goodwill

PROBLEM 2-13

(1)

80% Purchase with Goodwill

Common information:

Ownership interest	80%
Price paid (including direct acquisition costs)	$950,000

Acquired Company's Balance Sheet before Purchase

	Book Value	Fair Value		Book Value	Fair Value
Priority assets:					
Accounts receivable	50,000	50,000	Current liabilities	90,000	90,000
Inventory	120,000	150,000	Bonds payable	200,000	210,000
Total priority assets	**170,000**	**200,000**	**Total liabilities**	**290,000**	**300,000**
Nonpriority assets:					
Land	100,000	200,000			
Buildings	300,000	400,000			
Accumulated depreciation	(100,000)				
Equipment	140,000	200,000	Stockholders' equity:		
Accumulated depreciation	(50,000)		Common stock	10,000	
Patent (net)	10,000	150,000	Paid-in capital in		
Computer software		50,000	excess of par	190,000	
Total nonpriority assets	**400,000**	**1,000,000**	Retained earnings	140,000	
			Total equity	340,000	
Existing goodwill	60,000				
Total assets	**630,000**	**1,200,000**	**Value of net assets**	**340,000**	**900,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (100,000)	$ (80,000)	$ (80,000)
Nonpriority accounts	1,000,000	800,000	720,000

Price Analysis

Price	$950,000	
Assign to priority accounts	(80,000)	full value
Assign to nonpriority accounts	800,000	full value
Goodwill	230,000	

Problem 2-13, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$950,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$340,000		
Interest acquired	80%	272,000	
Excess of cost over book value (debit)		$678,000	
Adjustments:			
Inventory	$ 24,000		debit D1
Land	80,000		debit D2
Bonds payable	(8,000)		credit D3
Buildings	160,000		debit D4
Equipment	88,000		debit D5
Patent (net)	112,000		debit D6
Computer software	40,000		debit D7
Goodwill	182,000		debit D8
Extraordinary gain	—		
Total adjustments	$678,000		

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Land	200,000	0.20	800,000	160,000	80,000	80,000
Buildings (net)	400,000	0.40	800,000	320,000	160,000	160,000
Equipment (net)	200,000	0.20	800,000	160,000	72,000	88,000
Patent (net)	150,000	0.15	800,000	120,000	8,000	112,000
Computer software	50,000	0.05	800,000	40,000	—	40,000
Total to other fixed assets	1,000,000	1.00		800,000	320,000	480,000

Problem 2-13, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations			Consol.
	Purnell	Soma	Debit	Credit	NCI	Balance Sheet
Cash	170,000					170,000
Accounts receivable	300,000	50,000				350,000
Inventory	410,000	120,000	(D1) 24,000			554,000
Land	800,000	100,000	(D2) 80,000			980,000
Investment in Soma	950,000			(EL) 272,000		
				(D) 678,000		
Buildings	2,800,000	300,000	(D4) 160,000			3,260,000
Accumulated depreciation	(500,000)	(100,000)				(600,000)
Equipment	600,000	140,000	(D5) 88,000			828,000
Accumulated depreciation	(230,000)	(50,000)				(280,000)
Patent (net)		10,000	(D6) 112,000			122,000
Computer software			(D7) 40,000			40,000
Goodwill		60,000	(D8) 182,000			242,000
Current liabilities	(150,000)	(90,000)				(240,000)
Bonds payable	(300,000)	(200,000)				(500,000)
Discount (premium)				(D3) 8,000		(8,000)
Common stock—Soma		(10,000)	(EL) 8,000		(2,000)	
Paid-in capital in excess of par—Soma		(190,000)	(EL) 152,000		(38,000)	
Retained earnings—Soma		(140,000)	(EL) 112,000		(28,000)	
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	958,000	958,000		
NCI					(68,000)	(68,000)
Controlling retained earnings						
Totals						0

Eliminations and Adjustments:

- (EL) Eliminate subsidiary equity.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Premium on bonds payable
- (D3) Land
- (D4) Building
- (D5) Equipment
- (D6) Patent
- (D7) Computer software
- (D8) Goodwill

PROBLEM 2-14

(1)

80% Bargain Purchase

Common information:

Ownership interest	80%
Price paid (including direct acquisition costs)	$500,000

Acquired Company's Balance Sheet before Purchase

	Book Value	Fair Value		Book Value	Fair Value
Priority assets:					
Accounts receivable	50,000	50,000	Current liabilities	90,000	90,000
Inventory	120,000	150,000	Bonds payable	200,000	210,000
Total priority assets	**170,000**	**200,000**	**Total liabilities**	**290,000**	**300,000**
Nonpriority assets:					
Land	100,000	200,000			
Buildings	300,000	400,000			
Accumulated depreciation	(100,000)				
Equipment	140,000	200,000	Stockholders' equity:		
Accumulated depreciation	(50,000)		Common stock	10,000	
Patent (net)	10,000	150,000	Paid-in capital in excess of par	190,000	
Computer software		50,000			
Total nonpriority assets	**400,000**	**1,000,000**	Retained earnings	140,000	
			Total equity	340,000	
Existing goodwill	60,000				
Total assets	**630,000**	**1,200,000**	**Value of net assets**	**340,000**	**900,000**

Zone Analysis	Group Total	Ownership Portion	Cumulative Total
Priority accounts	$ (100,000)	$ (80,000)	$ (80,000)
Nonpriority accounts	1,000,000	800,000	720,000

Price Analysis

Price	$500,000	
Assign to priority accounts	(80,000)	full value
Assign to nonpriority accounts	580,000	allocate
Goodwill	—	
Extraordinary gain	—	

Problem 2-14, Continued

Determination and Distribution of Excess Schedule

Price paid for investment		$500,000	
Less book value interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	190,000		
Retained earnings	140,000		
Total equity	$340,000		
Interest acquired	80%	272,000	
Excess of cost over book value (debit)		$228,000	
Adjustments:			
Inventory	$ 24,000		debit D1
Land	36,000		debit D2
Bonds payable	(8,000)		credit D3
Buildings	72,000		debit D4
Equipment	44,000		debit D5
Patent (net)	79,000		debit D6
Computer software	29,000		debit D7
Goodwill	(48,000)		credit D8
Extraordinary gain	—		
Total adjustments	$228,000		

Allocation Tables

	Market	Percent	Available	Assign	Book	Adjust
Land	200,000	0.20	580,000	116,000	80,000	36,000
Buildings (net)	400,000	0.40	580,000	232,000	160,000	72,000
Equipment (net)	200,000	0.20	580,000	116,000	72,000	44,000
Patent (net)	150,000	0.15	580,000	87,000	8,000	79,000
Computer software	50,000	0.05	580,000	29,000	—	29,000
Total to other fixed assets	1,000,000	1.00		580,000	320,000	260,000

Problem 2-14, Concluded

(2)

Year of Consolidation

	Balance Sheet		Eliminations				NCI	Consol. Balance Sheet
	Purnell	Soma		Debit		Credit		
Cash	170,000							170,000
Accounts receivable	300,000	50,000						350,000
Inventory	410,000	120,000	(D1)	24,000				554,000
Land	800,000	100,000	(D2)	36,000				936,000
Investment in Soma	500,000				(EL)	272,000		
					(D)	228,000		
Buildings	2,800,000	300,000	(D4)	72,000				3,172,000
Accumulated depreciation	(500,000)	(100,000)						(600,000)
Equipment	600,000	140,000	(D5)	44,000				784,000
Accumulated depreciation	(230,000)	(50,000)						(280,000)
Patent (net)		10,000	(D6)	79,000				89,000
Computer software			(D7)	29,000				29,000
Goodwill		60,000			(D8)	48,000		12,000
Current liabilities	(150,000)	(90,000)						(240,000)
Bonds payable	(300,000)	(200,000)						(500,000)
Discount (premium)					(D3)	8,000		(8,000)
Common stock—Soma		(10,000)	(EL)	8,000			(2,000)	
Paid-in capital in excess of par—Soma		(190,000)	(EL)	152,000			(38,000)	
Retained earnings—Soma		(140,000)	(EL)	112,000			(28,000)	
Common stock—Purnell	(86,000)							(86,000)
Paid-in capital in excess of par—Purnell	(3,214,000)							(3,214,000)
Retained earnings—Purnell	(1,100,000)							(1,100,000)
Totals	0	0		556,000		556,000		
NCI							(68,000)	(68,000)
Controlling retained earnings								
Totals								0

Eliminations and Adjustments:

- (EL) Eliminate subsidiary equity.
- (D) Distribute excess to:
- (D1) Inventory
- (D2) Premium on bonds payable
- (D3) Land
- (D4) Building
- (D5) Equipment
- (D6) Patent
- (D7) Computer software
- (D8) Goodwill

CASES

CASE 1 SOLUTION

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

Cash	$ 180,000					
Accounts receivable (net of allowance)	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 could also be 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:

Increase Allowance for Doubtful Accounts.
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) Goodwill should be written off because there is no reason to think it exists.

(d) Also Hardware is a likely candidate for quasi-reorganization, because this procedure adjusts all assets to fair values and decreases Paid-In Capital to provide the amount needed to cover the negative balance in Retained Earnings.

Summary: The 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.