

# TEST BANK

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## advanced **accounting**

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# Chapter 2--Consolidated Statements: Date of Acquisition

Student: \_\_\_\_\_

1. An investor receives dividends from its investee and records those dividends as dividend income because:

- A. The investor has a controlling interest in its investee.
- B. The investor has a passive interest in its investee.
- C. The investor has an influential interest in its investee.
- D. The investor has an active interest in its investee.

2. An investor prepares a single set of financial statements which encompasses the financial results for both it and its investee because:

- A. The investor has a controlling interest in its investee.
- B. The investor has a passive interest in its investee.
- C. The investor has an influential interest in its investee.
- D. The investor has an active interest in its its investee.

3. An investor records its share of its investee's income as a separate source of income because:

- A. The investor has a controlling interest in its investee.
- B. The investor has a passive interest in its investee.
- C. The investor has an influential interest in its investee.
- D. The investor has an active interest in its investee.

4.

<u>Account</u>	<u>Investor</u>	<u>Investee</u>
Sales	\$500,000	\$300,000
Cost of Goods Sold	<u>230,000</u>	<u>170,000</u>
Gross Profit	\$270,000	\$130,000
Selling & Admin. Expenses	<u>120,000</u>	<u>100,000</u>
Net Income	<u>\$150,000</u>	<u>\$ 30,000</u>
Dividends paid	50,000	10,000

Assuming Investor owns 70% of Investee. What is the amount that will be recorded as Net Income for the Controlling Interest?

- A. \$164,000
- B. \$171,000
- C. \$178,000
- D. \$180,000

5. Consolidated financial statements are designed to provide:

- A. informative information to all shareholders.
- B. the results of operations, cash flow, and the balance sheet in an understandable and informative manner for creditors.
- C. the results of operations, cash flow, and the balance sheet as if the parent and subsidiary were a single entity.
- D. subsidiary information for the subsidiary shareholders.

6. Which of the following statements about consolidation is **not** true?

- A. Consolidation is not required when control is temporary.
- B. Consolidation may be appropriate in some circumstances when an investor owns less than 51% of the voting common stock.
- C. Consolidation is not required when a subsidiary's operations are not homogeneous with those of its parent.
- D. Unprofitable subsidiaries may not be obvious when combined with other entities in consolidation.

7. Consolidated financial statements are appropriate even without a majority ownership if which of the following exists:

- A. the subsidiary has the right to appoint members of the parent company's board of directors.
- B. the parent company has the right to appoint a majority of the members of the subsidiary's board of directors because other ownership interests are widely dispersed.
- C. the subsidiary owns a large minority voting interest in the parent company.
- D. the parent company has an ability to assume the role of general partner in a limited partnership with the approval of the subsidiary's board of directors.

8. Consolidation might **not** be appropriate even when the majority owner has control if:

- A. The subsidiary is in bankruptcy.
- B. A manufacturing-based parent has a subsidiary involved in banking activities.
- C. The subsidiary is located in a foreign country.
- D. The subsidiary has a different fiscal-year end than the parent.

9. Which of the following is true of the consolidation process?

- A. Even though the initial accounting for asset acquisitions and 100% stock acquisitions differs, the consolidation process should result in the same balance sheet.
- B. Account balances are combined when recording a stock acquisition so the consolidation is automatic.
- C. The assets of the noncontrolling interest will be predominately displayed on the consolidated balance sheet.
- D. The investment in subsidiary account will be displayed on the consolidated balance sheet.

10. In an asset acquisition:

- A. A consolidation must be prepared whenever financial statements are issued.
- B. The acquiring company deals only with existing shareholders, not the company itself.
- C. The assets and liabilities are recorded by the acquiring company at their book values.
- D. Statements for the single combined entity are produced automatically and no consolidation process is needed.

11. Which of the following is **not** true of the consolidation process for a stock acquisition?

- A. Journal entries for the elimination process are made to the parent's or subsidiary's books.
- B. The investment account balance on the parent's books will be eliminated.
- C. The balance sheets of two companies are combined into a single balance sheet.
- D. The shareholder equity accounts of the subsidiary are eliminated.

12. A subsidiary was acquired for cash in a business combination on December 31, 20X1. The purchase price exceeded the fair value of identifiable net assets. The acquired company owned equipment with a fair value in excess of the book value as of the date of the combination. A consolidated balance sheet prepared on December 31, 20X1, would

- A. report the excess of the fair value over the book value of the equipment as part of goodwill.
- B. report the excess of the fair value over the book value of the equipment as part of the plant and equipment account.
- C. reduce retained earnings for the excess of the fair value of the equipment over its book value.
- D. make no adjustment for the excess of the fair value of the equipment over book value. Instead, it is an adjustment to expense over the life of the equipment.

13. Parr Company purchased 100% of the voting common stock of Super Company for \$2,000,000. There are no liabilities. The following book and fair values pertaining to Super Company are available:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$300,000	\$600,000
Land and building	600,000	900,000
Machinery	500,000	600,000
Goodwill	100,000	?

The amount of machinery that will be included in on the consolidated balance sheet is:

- A. \$560,000
- B. \$860,000
- C. \$600,000
- D. \$900,000

14. Pagach Company purchased 100% of the voting common stock of Rage Company for \$1,800,000. The following book and fair values are available:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$150,000	\$300,000
Land and building	280,000	280,000
Machinery	400,000	700,000
Bonds payable	(300,000)	(250,000)
Goodwill	150,000	?

The bonds payable will appear on the consolidated balance sheet

- A. at \$300,000 (with no premium or discount shown).
- B. at \$300,000 less a discount of \$50,000.
- C. at \$0; assets are recorded net of liabilities.
- D. at an amount less than \$250,000 since it is a bargain purchase.

15. Which of the following is **not** an advantage of the parent issuing shares of stock in exchange for the subsidiary common shares being acquired?

- A. It is not necessary to determine the fair values of the subsidiary's net assets.
- B. It may allow the subsidiary's shareholders to have a tax free exchange.
- C. It avoids the depletion of cash.
- D. If the parent is publicly held, the share price is readily determinable.

16. When it purchased Sutton, Inc. on January 1, 20X1, Pavin Corporation issued 500,000 shares of its \$5 par voting common stock. On that date the fair value of those shares totaled \$4,200,000. Related to the acquisition, Pavin had payments to the attorneys and accountants of \$200,000, and stock issuance fees of \$100,000. Immediately prior to the purchase, the equity sections of the two firms appeared as follows:

	<u>Pavin</u>	<u>Sutton</u>
Common stock	\$ 4,000,000	\$ 700,000
Paid-in capital in excess of par	7,500,000	900,000
Retained earnings	<u>5,500,000</u>	<u>500,000</u>
Total	<u>\$17,000,000</u>	<u>\$2,100,000</u>

Immediately after the purchase, the consolidated balance sheet should report paid-in capital in excess of par of

- A. \$8,900,000
- B. \$9,100,000
- C. \$9,200,000
- D. \$9,300,000

17. Pinehollow acquired all of the outstanding stock of Stonebriar by issuing 100,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. The journal entry to record the purchase of Stonebriar would include a

- A. credit to common stock for \$1,500,000.
- B. credit to paid-in capital in excess of par for \$1,100,000.
- C. debit to investment for \$1,500,000.
- D. debit to investment for \$1,525,000.

18. When it purchased Sutton, Inc. on January 1, 20X1, Pavin Corporation issued 500,000 shares of its \$5 par voting common stock. On that date the fair value of those shares totaled \$4,200,000. Related to the acquisition, Pavin had payments to the attorneys and accountants of \$200,000, and stock issuance fees of \$100,000. Immediately prior to the purchase, the equity sections of the two firms appeared as follows:

	<u>Pavin</u>	<u>Sutton</u>
Common stock	\$ 4,000,000	\$ 700,000
Paid-in capital in excess of par	7,500,000	900,000
Retained earnings	<u>5,500,000</u>	<u>500,000</u>
Total	<u>\$17,000,000</u>	<u>\$2,100,000</u>

Immediately after the purchase, the consolidated balance sheet should report retained earnings of:

- A. \$6,000,000
- B. \$5,800,000
- C. \$5,500,000
- D. \$5,300,000

19. Pinehollow acquired all of the outstanding stock of Stonebriar by issuing 100,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of goodwill that will be included in the consolidated balance sheet immediately following the acquisition?

- A. \$100,000
- B. \$125,000
- C. \$300,000
- D. \$325,000

20. On April 1, 20X1, Paape Company paid \$950,000 for all the issued and outstanding stock of Simon Corporation. The recorded assets and liabilities of the Simon Corporation on April 1, 20X1, follow:

Cash	\$ 80,000
Inventory	240,000
Property and equipment (net of accumulated depreciation of \$320,000)	480,000
Liabilities	(180,000)

On April 1, 20X1, it was determined that the inventory of Simon had a fair value of \$190,000, and the property and equipment (net) had a fair value of \$560,000. What is the amount of goodwill resulting from the business combination?

- A. \$0
- B. \$120,000
- C. \$300,000
- D. \$230,000

21. On April 1, 20X1, Paape Company paid \$950,000 for all the issued and outstanding stock of Simon Corporation. The recorded assets and liabilities of the Simon Corporation on April 1, 20X1, follow:

Cash	\$ 80,000
Inventory	240,000
Property and equipment (net of accumulated depreciation of \$320,000)	480,000
Liabilities	(180,000)

On April 1, 20X1, it was determined that the inventory of Simon had a fair value of \$190,000, and the property and equipment (net) had a fair value of \$560,000. The entry to distribute the excess of fair value over book value will include:

- A. A debit to inventory of \$50,000
- B. A credit to the investment in Simon Corporation of \$620,000
- C. A debit to goodwill of \$330,000
- D. A credit to the investment in Simon Corporation of \$330,000

22. On June 30, 20X1, Naeder Corporation purchased for cash at \$10 per share all 100,000 shares of the outstanding common stock of the Tedd Company. The total fair value of all identifiable net assets of Tedd was \$1,400,000. The only noncurrent asset is property with a fair value of \$350,000. The consolidated balance sheet of Naeder and its wholly owned subsidiary on June 30, 20X1, should report

- A. a retained earnings balance that is inclusive of a gain of \$400,000.
- B. goodwill of \$400,000.
- C. a retained earnings balance that is inclusive of a gain of \$350,000.
- D. a gain of \$400,000

23. Pinehollow acquired 80% of the outstanding stock of Stonebriar by issuing 80,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of goodwill that will be included in the consolidated balance sheet immediately following the acquisition?

- A. \$300,000
- B. \$100,000
- C. \$200,000
- D. \$240,000



24. Paro Company purchased 80% of the voting common stock of Sabon Company for \$900,000. There are no liabilities. The following book and fair values are available for Sabon:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$100,000	\$200,000
Land and building	200,000	200,000
Machinery	300,000	600,000
Goodwill	100,000	?

The machinery will appear on the consolidated balance sheet at \_\_\_\_\_.

- A. \$600,000
- B. \$540,000
- C. \$480,000
- D. \$300,000

25. Pinehollow acquired 70% of the outstanding stock of Stonebriar by issuing 70,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
 <u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of the noncontrolling interest that will be included in the consolidated balance sheet immediately after the acquisition?

- A. \$450,000
- B. \$360,000
- C. \$315,000
- D. \$420,000

26. How is the noncontrolling interest treated in the consolidated balance sheet?

- A. It is included in long-term liabilities.
- B. It appears between the liability and equity sections of the balance sheet.
- C. It is included in total as a component of shareholders' equity.
- D. It is included in shareholders' equity and broken down into par, paid-in capital in excess of par and retained earnings.

27. Pinehollow acquired all of the outstanding stock of Stonebriar by issuing 100,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of property, plant and equipment that will be included in the consolidated balance sheet immediately after the acquisition?

- A. \$2,570,000
- B. \$2,750,000
- C. \$2,850,000
- D. \$2,650,000

28. Pesto Company paid \$10 per share to acquire 80% of Sauce Company's 100,000 outstanding shares; however the market price of the remaining shares was \$8.50. The fair value of Sauce's net assets at the time of the acquisition was \$850,000. In this case, where Pesto paid a premium to achieve control:

- A. The total value assigned to the NCI at the date of the acquisition may be less than the NCI percentage of the fair value of the net assets.
- B. Goodwill is assigned 80% to Pesto and 20% to the NCI.
- C. The NCI share of goodwill would be reduced to zero.
- D. Pesto would recognize a gain on the acquisition.

29. Pesto Company paid \$8 per share to acquire 80% of Sauce Company's 100,000 outstanding shares. The fair value of Sauce's net assets at the time of the acquisition was \$850,000. In this case:

- A. The total value assigned to the NCI at the date of the acquisition may be less than the NCI percentage of the fair value of the net assets.
- B. Goodwill will be recognized by Pesto.
- C. Pesto and the NCI would both recognize a gain on the acquisition.
- D. Pesto only would recognize a gain on the acquisition.

30. When a company purchases another company that has existing goodwill and the transaction is accounted for as a stock acquisition, the goodwill should be treated in the following manner:

- A. The goodwill on the books of an acquired company should be written off.
- B. Goodwill is recorded prior to recording fixed assets.
- C. The fair value of the goodwill is ignored in the calculation of goodwill of the new acquisition.
- D. Goodwill is treated in a manner consistent with tangible assets.

31. The SEC requires the use of push-down accounting in some specific situations. Push-down accounting results in:

- A. goodwill be recorded in the parent company separate accounts.
- B. eliminating subsidiary retained earnings and paid-in capital in excess of par.
- C. reflecting fair values on the subsidiary's separate accounts.
- D. changing the consolidation worksheet procedure because no adjustment is necessary to eliminate the investment in subsidiary account.

32. Supernova Company had the following summarized balance sheet on December 31 of the current year:

<u>Assets</u>	
Accounts receivable	\$ 350,000
Inventory	450,000
Property and plant (net)	<u>600,000</u>
Total	<u>\$1,400,000</u>
 <u>Liabilities and Equity</u>	
Notes payable	\$ 600,000
Common stock, \$5 par	300,000
Paid-in capital in excess of par	400,000
Retained earnings	<u>100,000</u>
Total	<u>\$1,400,000</u>

The fair value of the inventory and property and plant is \$600,000 and \$850,000, respectively.

Assume that Redstar Corporation exchanges 75,000 of its \$3 par value shares of common stock, when the fair price is \$20 per share, for 100% of the common stock of Supernova Company. Redstar incurred acquisition costs of \$5,000 and stock issuance costs of \$5,000.

Required:

- a. What journal entries will Redstar Corporation record for the investment in Supernova and issuance of stock?
- b. Prepare a supporting value analysis and determination and distribution of excess schedule
- c. Prepare Redstar's elimination and adjustment entry for the acquisition of Supernova.

33. Supernova Company had the following summarized balance sheet on December 31 of the current year:

<u>Assets</u>	
Accounts receivable	\$ 200,000
Inventory	450,000
Property and plant (net)	600,000
Goodwill	<u>150,000</u>
Total	<u>\$1,400,000</u>
<u>Liabilities and Equity</u>	
Notes payable	\$ 600,000
Common stock, \$5 par	300,000
Paid-in capital in excess of par	400,000
Retained earnings	<u>100,000</u>
Total	<u>\$1,400,000</u>

The fair value of the inventory and property and plant is \$600,000 and \$850,000, respectively.

Assume that Redstar Corporation exchanges 75,000 of its \$3 par value shares of common stock, when the fair price is \$20 per share, for 100% of the common stock of Supernova Company. Redstar incurred acquisition costs of \$5,000 and stock issuance costs of \$5,000.

Required:

- What journal entries will Redstar Corporation record for the investment in Supernova and issuance of stock?
- Prepare a supporting value analysis and determination and distribution of excess schedule
- Prepare Redstar's elimination and adjustment entry for the acquisition of Supernova.

34. On December 31, 20X1, Priority Company purchased 80% of the common stock of Subsidiary Company for \$1,550,000. On this date, Subsidiary had total owners' equity of \$650,000 (common stock \$100,000; other paid-in capital, \$200,000; and retained earnings, \$350,000). Any excess of cost over book value is due to the under or overvaluation of certain assets and liabilities. Assets and liabilities with differences in book and fair values are provided in the following table:

	<u>Book</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
Current assets	\$500,000	\$800,000
Accounts receivable	200,000	150,000
Inventory	800,000	800,000
Land	100,000	600,000
Buildings and equipment, net	700,000	900,000
Current liabilities	800,000	875,000
Bonds payable	850,000	930,000

Remaining excess, if any, is due to goodwill.

Required:

- a. Using the information above and on the separate worksheet, prepare a schedule to determine and distribute the excess of cost over book value.
- b. Complete the Figure 2-3 worksheet for a consolidated balance sheet as of December 31, 20X1.

<b>Figure 2-3</b>					
	Trial Balance	Eliminations and	Adjustment		
	Priority	Sub.	s		
Account Titles	Company	Company	Debit	Credit	
Assets:					
Current Assets	425,000	500,000			
Accounts Receivable	530,000	200,000			
Inventory	1,600,000	800,000			
Investment in Sub Co.	1,550,000				
Land	225,000	100,000			
Buildings and Equipment	400,000	700,000			
Total	4,730,000	2,300,000			
Liabilities and Equity:					
Current Liabilities	2,100,000	800,000			
Bonds Payable	1,000,000	850,000			
Common Stock – P Co.	900,000				
Paid-in Cap. in Excess – P Co.	670,000				
Retained Earnings – P Co.	60,000				
Common Stock – S Co.		100,000			
Paid-in Cap. in Excess – S Co.		200,000			
Retained Earnings – S Co.		350,000			
NCI					
Total	4,730,000	2,300,000			
<b>(continued)</b>					

		Consolidated	
		Balance Sheet	
Account Titles	NCI	Debit	Credit
Assets:			
Current Assets			
Accounts Receivable			
Inventory			
Investment in Sub Co.			
Land			
Buildings and Equipment			
Total			
Liabilities and Equity:			
Current Liabilities			
Bonds Payable			
Common Stock – P Co.			
Paid-in Cap. in Excess – P Co.			
Retained Earnings – P Co.			
Common Stock – S Co.			
Paid-in Cap. in Excess – S Co.			
Retained Earnings – S Co.			
NCI			
Total			

35. On December 31, 20X1, Parent Company purchased 80% of the common stock of Subsidiary Company for \$280,000. On this date, Subsidiary had total owners' equity of \$250,000 (common stock \$20,000; other paid-in capital, \$80,000; and retained earnings, \$150,000). Any excess of cost over book value is due to the under or overvaluation of certain assets and liabilities. Inventory is undervalued \$5,000. Land is undervalued \$20,000. Buildings and equipment have a fair value which exceeds book value by \$30,000. Bonds payable are overvalued \$5,000. The remaining excess, if any, is due to goodwill.

Required:

- Prepare a value analysis schedule for this business combination.
- Prepare the determination and distribution schedule for this business combination
- Prepare the necessary elimination entries in general journal form.

36. On January 1, 20X1, Parent Company purchased 100% of the common stock of Subsidiary Company for \$280,000. On this date, Subsidiary had total owners' equity of \$240,000.

On January 1, 20X1, the excess of cost over book value is due to a \$15,000 undervaluation of inventory, to a \$5,000 overvaluation of Bonds Payable, and to an undervaluation of land, building and equipment. The fair value of land is \$50,000. The fair value of building and equipment is \$200,000. The book value of the land is \$30,000. The book value of the building and equipment is \$180,000.

Required:

- a. Using the information above and on the separate worksheet, complete a value analysis schedule
- b. Complete schedule for determination and distribution of the excess of cost over book value.
- c. Complete the Figure 2-5 worksheet for a consolidated balance sheet as of January 1, 20X1.

**Figure 2-5**

	Trial Balance Trial Balance	Eliminations and				
	Parent	Sub.	Adjustment s			
Account Titles	Company	Company	Debit	Credit		
Assets:						
Inventory	50,000	30,000				
Other Current Assets	239,000	165,000				
Investment in Subsidiary	280,000					
Land	120,000	30,000				
Buildings	350,000	230,000				
Accumulated Depreciation	(100,000)	(50,000)				
Other Intangibles	40,000					
Total	979,000	405,000				
Liabilities and Equity:						
Current Liabilities	191,000	65,000				
Bonds Payable		100,000				
Common Stock – P Co.	100,000					
Paid-in Cap. in Exc. - P Co.	150,000					
Retained Earnings – P Co.	538,000					
Common Stock – S Co.		50,000				
Paid-in Cap. in Exc. - S Co.		70,000				
Retained Earnings – S Co.		120,000				
NCI						
Total	979,000	405,000				
<b>(continued)</b>						



		Consolidated Consolidated	
		Balance Sheet	
Account Titles	NCI	Debit	Credit
Assets:			
Inventory			
Other Current Assets			
Investment in Subsidiary			
Land			
Buildings			
Accumulated Depreciation			
Other Intangibles			
Total			
Liabilities and Equity:			
Current Liabilities			
Bonds Payable			
Common Stock – P Co.			
Paid-in Cap. in Exc. - P Co.			
Retained Earnings – P Co.			
Common Stock – S Co.			
Paid-in Cap. in Exc. - S Co.			
Retained Earnings – S Co.			
NCI			
Total			

37. On January 1, 20X1, Parent Company purchased 90% of the common stock of Subsidiary Company for \$252,000. On this date, Subsidiary had total owners' equity of \$240,000 consisting of \$50,000 in common stock, \$70,000 additional paid-in capital, and \$120,000 in retained earnings.

On January 1, 20X1, the excess of cost over book value is due to a \$15,000 undervaluation of inventory, to a \$5,000 overvaluation of Bonds Payable, and to an undervaluation of land, building and equipment. The fair value of land is \$50,000. The fair value of building and equipment is \$200,000. The book value of the land is \$30,000. The book value of the building and equipment is \$180,000.

Required:

- a. Complete the valuation analysis schedule for this combination.
- b. Complete the determination and distribution schedule for this combination.
- c. Prepare, in general journal form, the elimination entries required to prepare a consolidated balance sheet for Parent and Subsidiary on January 1, 20X1.

38. The following consolidated financial statement was prepared immediately following the acquisition of Salt, Inc. by Pepper Co.

	<u>Individual Balance</u>	Consolidated	
	<u>Sheets</u>	Financial	
	<u>Pepper Co.</u>	<u>Salt Inc.</u>	<u>Statements</u>
Cash	\$ 26,000	\$ 20,000	\$ 46,000
Accounts Receivable, net	20,000	30,000	50,000
Inventory	125,000	110,000	270,000
Land	30,000	80,000	124,000
Building and Equipment	320,000	160,000	459,000
Investment in Subsidiary	279,000	-	-
Goodwill	-	-	41,000
Total Assets	<u>\$800,000</u>	<u>\$400,000</u>	<u>\$990,000</u>
Accounts Payable	\$ 40,000	\$ 40,000	\$ 80,000
Other Liabilities	70,000	60,000	130,000
Common Stock	400,000	200,000	400,000
Retained Earnings	290,000	100,000	290,000
Noncontrolling Interest	-	-	90,000
Total Liabilities & Stockholders' Equity	<u>\$800,000</u>	<u>\$400,000</u>	<u>\$990,000</u>

Answer the following based upon the above financial statements:

- a. How much did Pepper Co. pay to acquire Salt Inc.?
- b. What was the fair value of Salt's Inventory at the time of acquisition?
- c. Was the book value of Salt's Building and Equipment overvalued or undervalued relative to the Building and Equipment's fair value at the time of acquisition?

39. Supernova Company had the following summarized balance sheet on December 31, 20X1:

<u>Assets</u>	
Accounts receivable	\$ 200,000
Inventory	450,000
Property and plant (net)	600,000
Goodwill	<u>150,000</u>
Total	<u>\$1,400,000</u>

<u>Liabilities and Equity</u>	
Notes payable	\$ 600,000
Common stock, \$5 par	300,000
Paid-in capital in excess of par	400,000
Retained earnings	<u>100,000</u>
Total	<u>\$1,400,000</u>

The fair value of the inventory and property and plant is \$600,000 and \$850,000, respectively.

Required:

- a. Assume that Redstar Corporation purchases 100% of the common stock of Supernova Company for \$1,800,000. What value will be assigned to the following accounts of the Supernova Company when preparing a consolidated balance sheet on December 31, 20X1?

- |     |                         |       |
|-----|-------------------------|-------|
| (1) | Inventory               | _____ |
| (2) | Property and plant      | _____ |
| (3) | Goodwill                | _____ |
| (4) | Noncontrolling interest | _____ |

- b. Prepare a valuation schedule
- c. Prepare a supporting determination and distribution of excess schedule.

40. Fortuna Company issued 70,000 shares of \$1 par stock, with a fair value of \$20 per share, for 80% of the outstanding shares of Acappella Company. The firms had the following separate balance sheets *prior* to the acquisition:

<u>Assets</u>	<u>Fortuna</u>	<u>Acappella</u>
Current assets	\$2,100,000	\$ 960,000
Property, plant, and equipment (net)	4,600,000	1,300,000
Goodwill	-	240,000
Total assets	<u>\$6,700,000</u>	<u>\$2,500,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities	\$3,000,000	\$ 800,000
Common stock (\$1 par)	800,000	
Common stock (\$5 par)		200,000
Paid-in capital in excess of par	2,200,000	300,000
Retained earnings	700,000	1,200,000
Total liabilities and equity	<u>\$6,700,000</u>	<u>\$2,500,000</u>

Book values equal fair values for the assets and liabilities of Acappella Company, except for the property, plant, and equipment, which has a fair value of \$1,600,000.

Required:

- a. Prepare a value analysis schedule
- b. Prepare a determination and distribution of excess schedule.
- c. Provide all eliminations on the partial balance sheet worksheet provided in Figure 2-9 and complete the noncontrolling interest column.



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Balance Sheet	

A c c o u n t I t e m s	Fortuna	Acappella
u r r e n t A s s e t s	2,100,000	960,000
P r o p e r t y P l a n t a n d		
E q u i p m e n t	4,600,000	1,300,000



I n v e s t m e n t i n A c c a p p e l l a	1,400,000
C o o d w i l l	240,000
L i a b i l i t i e s	(3,000,000)
C o n n o n S t o c k F o r t u n a	(870,000)

P a i d - i n C a p i t a l i n E x c e s s	
(3,530,000)	
o f P a r F o r t u n a R e t a i n e d E a r n i n g s F o r t u n a	

C o n n o n S t o c k A c c a p p e l l a P a i d - i n C a p i t a l i n E x c e s s o f P a r A c c a p p e l l a	(200,000)
	(300,000)



41. Mans Company is about to purchase the net assets of Eagle Incorporated, which has the following balance sheet:

<u>Assets</u>		
Accounts receivable		\$ 60,000
Inventory		100,000
Equipment	\$ 90,000	
Accumulated depreciation	<u>(50,000)</u>	40,000
Land and buildings	\$300,000	
Accumulated depreciation	<u>(100,000)</u>	200,000
Goodwill		<u>60,000</u>
Total assets		<u>\$460,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Bonds payable		\$ 80,000
Common stock, \$10 par		200,000
Paid-in capital in excess of par		100,000
Retained earnings		<u>80,000</u>
Total liabilities and equity		<u>\$460,000</u>

Mans has secured the following fair values of Eagle's accounts:

Inventory	\$130,000
Equipment	60,000
Land and buildings	260,000
Bonds payable	60,000

Acquisition costs were \$20,000.

Required:

Record the entry for the purchase of the net assets of Eagle by Mans at the following cash prices:

- \$450,000
- \$310,000
- \$480,000

42. Discuss the conditions under which the SEC would assume a presumption of control. Additionally, under what circumstances might consolidation be required even though the parent does not control the subsidiary? When would it not be appropriate to consolidate when more than 50% of the voting stock is held?

43.  
A parent company purchases an 80% interest in a subsidiary at a price high enough to revalue all assets and allow for goodwill on the interest purchased. If "push down accounting" were used in conjunction with the "economic entity concept," what unique procedures would be used?

## Chapter 2--Consolidated Statements: Date of Acquisition **Key**

1. An investor receives dividends from its investee and records those dividends as dividend income because:

- A. The investor has a controlling interest in its investee.
- B.** The investor has a passive interest in its investee.
- C. The investor has an influential interest in its investee.
- D. The investor has an active interest in its investee.

2. An investor prepares a single set of financial statements which encompasses the financial results for both it and its investee because:

- A.** The investor has a controlling interest in its investee.
- B. The investor has a passive interest in its investee.
- C. The investor has an influential interest in its investee.
- D. The investor has an active interest in its its investee.

3. An investor records its share of its investee's income as a separate source of income because:

- A. The investor has a controlling interest in its investee.
- B. The investor has a passive interest in its investee.
- C.** The investor has an influential interest in its investee.
- D. The investor has an active interest in its investee.

4.

<u>Account</u>	<u>Investor</u>	<u>Investee</u>
Sales	\$500,000	\$300,000
Cost of Goods Sold	<u>230,000</u>	<u>170,000</u>
Gross Profit	\$270,000	\$130,000
Selling & Admin. Expenses	<u>120,000</u>	<u>100,000</u>
Net Income	<u>\$150,000</u>	<u>\$ 30,000</u>
Dividends paid	50,000	10,000

Assuming Investor owns 70% of Investee. What is the amount that will be recorded as Net Income for the Controlling Interest?

- A. \$164,000
- B.** \$171,000
- C. \$178,000
- D. \$180,000

5. Consolidated financial statements are designed to provide:

- A. informative information to all shareholders.
- B. the results of operations, cash flow, and the balance sheet in an understandable and informative manner for creditors.
- C.** the results of operations, cash flow, and the balance sheet as if the parent and subsidiary were a single entity.
- D. subsidiary information for the subsidiary shareholders.

6. Which of the following statements about consolidation is **not** true?

- A. Consolidation is not required when control is temporary.
- B. Consolidation may be appropriate in some circumstances when an investor owns less than 51% of the voting common stock.
- C.** Consolidation is not required when a subsidiary's operations are not homogeneous with those of its parent.
- D. Unprofitable subsidiaries may not be obvious when combined with other entities in consolidation.

7. Consolidated financial statements are appropriate even without a majority ownership if which of the following exists:

- A. the subsidiary has the right to appoint members of the parent company's board of directors.
- B.** the parent company has the right to appoint a majority of the members of the subsidiary's board of directors because other ownership interests are widely dispersed.
- C. the subsidiary owns a large minority voting interest in the parent company.
- D. the parent company has an ability to assume the role of general partner in a limited partnership with the approval of the subsidiary's board of directors.

8. Consolidation might **not** be appropriate even when the majority owner has control if:

- A.** The subsidiary is in bankruptcy.
- B. A manufacturing-based parent has a subsidiary involved in banking activities.
- C. The subsidiary is located in a foreign country.
- D. The subsidiary has a different fiscal-year end than the parent.

9. Which of the following is true of the consolidation process?

- A.** Even though the initial accounting for asset acquisitions and 100% stock acquisitions differs, the consolidation process should result in the same balance sheet.
- B. Account balances are combined when recording a stock acquisition so the consolidation is automatic.
- C. The assets of the noncontrolling interest will be predominately displayed on the consolidated balance sheet.
- D. The investment in subsidiary account will be displayed on the consolidated balance sheet.



10. In an asset acquisition:

- A. A consolidation must be prepared whenever financial statements are issued.
- B. The acquiring company deals only with existing shareholders, not the company itself.
- C. The assets and liabilities are recorded by the acquiring company at their book values.
- D.** Statements for the single combined entity are produced automatically and no consolidation process is needed.

11. Which of the following is **not** true of the consolidation process for a stock acquisition?

- A.** Journal entries for the elimination process are made to the parent's or subsidiary's books.
- B. The investment account balance on the parent's books will be eliminated.
- C. The balance sheets of two companies are combined into a single balance sheet.
- D. The shareholder equity accounts of the subsidiary are eliminated.

12. A subsidiary was acquired for cash in a business combination on December 31, 20X1. The purchase price exceeded the fair value of identifiable net assets. The acquired company owned equipment with a fair value in excess of the book value as of the date of the combination. A consolidated balance sheet prepared on December 31, 20X1, would

- A. report the excess of the fair value over the book value of the equipment as part of goodwill.
- B.** report the excess of the fair value over the book value of the equipment as part of the plant and equipment account.
- C. reduce retained earnings for the excess of the fair value of the equipment over its book value.
- D. make no adjustment for the excess of the fair value of the equipment over book value. Instead, it is an adjustment to expense over the life of the equipment.

13. Parr Company purchased 100% of the voting common stock of Super Company for \$2,000,000. There are no liabilities. The following book and fair values pertaining to Super Company are available:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$300,000	\$600,000
Land and building	600,000	900,000
Machinery	500,000	600,000
Goodwill	100,000	?

The amount of machinery that will be included in on the consolidated balance sheet is:

- A. \$560,000
- B. \$860,000
- C.** \$600,000
- D. \$900,000

14. Pagach Company purchased 100% of the voting common stock of Rage Company for \$1,800,000. The following book and fair values are available:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$150,000	\$300,000
Land and building	280,000	280,000
Machinery	400,000	700,000
Bonds payable	(300,000)	(250,000)
Goodwill	150,000	?

The bonds payable will appear on the consolidated balance sheet

- A. at \$300,000 (with no premium or discount shown).
- B.** at \$300,000 less a discount of \$50,000.
- C. at \$0; assets are recorded net of liabilities.
- D. at an amount less than \$250,000 since it is a bargain purchase.

15. Which of the following is **not** an advantage of the parent issuing shares of stock in exchange for the subsidiary common shares being acquired?

- A.** It is not necessary to determine the fair values of the subsidiary's net assets.
- B. It may allow the subsidiary's shareholders to have a tax free exchange.
- C. It avoids the depletion of cash.
- D. If the parent is publicly held, the share price is readily determinable.

16. When it purchased Sutton, Inc. on January 1, 20X1, Pavin Corporation issued 500,000 shares of its \$5 par voting common stock. On that date the fair value of those shares totaled \$4,200,000. Related to the acquisition, Pavin had payments to the attorneys and accountants of \$200,000, and stock issuance fees of \$100,000. Immediately prior to the purchase, the equity sections of the two firms appeared as follows:

	<u>Pavin</u>	<u>Sutton</u>
Common stock	\$ 4,000,000	\$ 700,000
Paid-in capital in excess of par	7,500,000	900,000
Retained earnings	<u>5,500,000</u>	<u>500,000</u>
Total	<u>\$17,000,000</u>	<u>\$2,100,000</u>

Immediately after the purchase, the consolidated balance sheet should report paid-in capital in excess of par of

- A. \$8,900,000
- B.** \$9,100,000
- C. \$9,200,000
- D. \$9,300,000

17. Pinehollow acquired all of the outstanding stock of Stonebriar by issuing 100,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. The journal entry to record the purchase of Stonebriar would include a

- A. credit to common stock for \$1,500,000.
- B. credit to paid-in capital in excess of par for \$1,100,000.
- C. debit to investment for \$1,500,000.**
- D. debit to investment for \$1,525,000.

18. When it purchased Sutton, Inc. on January 1, 20X1, Pavin Corporation issued 500,000 shares of its \$5 par voting common stock. On that date the fair value of those shares totaled \$4,200,000. Related to the acquisition, Pavin had payments to the attorneys and accountants of \$200,000, and stock issuance fees of \$100,000. Immediately prior to the purchase, the equity sections of the two firms appeared as follows:

	<u>Pavin</u>	<u>Sutton</u>
Common stock	\$ 4,000,000	\$ 700,000
Paid-in capital in excess of par	7,500,000	900,000
Retained earnings	<u>5,500,000</u>	<u>500,000</u>
Total	<u>\$17,000,000</u>	<u>\$2,100,000</u>

Immediately after the purchase, the consolidated balance sheet should report retained earnings of:

- A. \$6,000,000
- B. \$5,800,000
- C. \$5,500,000
- D. \$5,300,000**

19. Pinehollow acquired all of the outstanding stock of Stonebriar by issuing 100,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of goodwill that will be included in the consolidated balance sheet immediately following the acquisition?

- A.** \$100,000
- B. \$125,000
- C. \$300,000
- D. \$325,000

20. On April 1, 20X1, Paape Company paid \$950,000 for all the issued and outstanding stock of Simon Corporation. The recorded assets and liabilities of the Simon Corporation on April 1, 20X1, follow:

Cash	\$ 80,000
Inventory	240,000
Property and equipment (net of accumulated depreciation of \$320,000)	480,000
Liabilities	(180,000)

On April 1, 20X1, it was determined that the inventory of Simon had a fair value of \$190,000, and the property and equipment (net) had a fair value of \$560,000. What is the amount of goodwill resulting from the business combination?

- A. \$0
- B. \$120,000
- C.** \$300,000
- D. \$230,000

21. On April 1, 20X1, Paape Company paid \$950,000 for all the issued and outstanding stock of Simon Corporation. The recorded assets and liabilities of the Simon Corporation on April 1, 20X1, follow:

Cash	\$ 80,000
Inventory	240,000
Property and equipment (net of accumulated depreciation of \$320,000)	480,000
Liabilities	(180,000)

On April 1, 20X1, it was determined that the inventory of Simon had a fair value of \$190,000, and the property and equipment (net) had a fair value of \$560,000. The entry to distribute the excess of fair value over book value will include:

- A. A debit to inventory of \$50,000
- B. A credit to the investment in Simon Corporation of \$620,000
- C. A debit to goodwill of \$330,000**
- D. A credit to the investment in Simon Corporation of \$330,000

22. On June 30, 20X1, Naeder Corporation purchased for cash at \$10 per share all 100,000 shares of the outstanding common stock of the Tedd Company. The total fair value of all identifiable net assets of Tedd was \$1,400,000. The only noncurrent asset is property with a fair value of \$350,000. The consolidated balance sheet of Naeder and its wholly owned subsidiary on June 30, 20X1, should report

- A. a retained earnings balance that is inclusive of a gain of \$400,000.**
- B. goodwill of \$400,000.
- C. a retained earnings balance that is inclusive of a gain of \$350,000.
- D. a gain of \$400,000

23. Pinehollow acquired 80% of the outstanding stock of Stonebriar by issuing 80,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of goodwill that will be included in the consolidated balance sheet immediately following the acquisition?

- A. \$300,000
- B. \$100,000**
- C. \$200,000
- D. \$240,000

24. Paro Company purchased 80% of the voting common stock of Sabon Company for \$900,000. There are no liabilities. The following book and fair values are available for Sabon:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$100,000	\$200,000
Land and building	200,000	200,000
Machinery	300,000	600,000
Goodwill	100,000	?

The machinery will appear on the consolidated balance sheet at \_\_\_\_\_.

- A.** \$600,000
- B. \$540,000
- C. \$480,000
- D. \$300,000

25. Pinehollow acquired 70% of the outstanding stock of Stonebriar by issuing 70,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
 <u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of the noncontrolling interest that will be included in the consolidated balance sheet immediately after the acquisition?

- A.** \$450,000
- B. \$360,000
- C. \$315,000
- D. \$420,000

26. How is the noncontrolling interest treated in the consolidated balance sheet?

- A. It is included in long-term liabilities.
- B. It appears between the liability and equity sections of the balance sheet.
- C.** It is included in total as a component of shareholders' equity.
- D. It is included in shareholders' equity and broken down into par, paid-in capital in excess of par and retained earnings.

27. Pinehollow acquired all of the outstanding stock of Stonebriar by issuing 100,000 shares of its \$1 par value stock. The shares have a fair value of \$15 per share. Pinehollow also paid \$25,000 in direct acquisition costs. Prior to the transaction, the companies have the following balance sheets:

<u>Assets</u>	<u>Pinehollow</u>	<u>Stonebriar</u>
Cash	\$ 150,000	\$ 50,000
Accounts receivable	500,000	350,000
Inventory	900,000	600,000
Property, plant, and equipment (net)	<u>1,850,000</u>	<u>900,000</u>
Total assets	<u>\$3,400,000</u>	<u>\$1,900,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	\$ 300,000	\$ 100,000
Bonds payable	1,000,000	600,000
Common stock (\$1 par)	300,000	100,000
Paid-in capital in excess of par	800,000	900,000
Retained earnings	<u>1,000,000</u>	<u>200,000</u>
Total liabilities and equity	<u>\$3,400,000</u>	<u>\$1,900,000</u>

The fair values of Stonebriar's inventory and plant, property and equipment are \$700,000 and \$1,000,000, respectively. What is the amount of property, plant and equipment that will be included in the consolidated balance sheet immediately after the acquisition?

- A. \$2,570,000
- B. \$2,750,000
- C. \$2,850,000**
- D. \$2,650,000

28. Pesto Company paid \$10 per share to acquire 80% of Sauce Company's 100,000 outstanding shares; however the market price of the remaining shares was \$8.50. The fair value of Sauce's net assets at the time of the acquisition was \$850,000. In this case, where Pesto paid a premium to achieve control:

- A. The total value assigned to the NCI at the date of the acquisition may be less than the NCI percentage of the fair value of the net assets.
- B. Goodwill is assigned 80% to Pesto and 20% to the NCI.
- C. The NCI share of goodwill would be reduced to zero.**
- D. Pesto would recognize a gain on the acquisition.

29. Pesto Company paid \$8 per share to acquire 80% of Sauce Company's 100,000 outstanding shares. The fair value of Sauce's net assets at the time of the acquisition was \$850,000. In this case:

- A. The total value assigned to the NCI at the date of the acquisition may be less than the NCI percentage of the fair value of the net assets.
- B. Goodwill will be recognized by Pesto.
- C. Pesto and the NCI would both recognize a gain on the acquisition.
- D. Pesto only would recognize a gain on the acquisition.**

30. When a company purchases another company that has existing goodwill and the transaction is accounted for as a stock acquisition, the goodwill should be treated in the following manner:

- A. The goodwill on the books of an acquired company should be written off.
- B. Goodwill is recorded prior to recording fixed assets.
- C.** The fair value of the goodwill is ignored in the calculation of goodwill of the new acquisition.
- D. Goodwill is treated in a manner consistent with tangible assets.

31. The SEC requires the use of push-down accounting in some specific situations. Push-down accounting results in:

- A. goodwill be recorded in the parent company separate accounts.
- B. eliminating subsidiary retained earnings and paid-in capital in excess of par.
- C.** reflecting fair values on the subsidiary's separate accounts.
- D. changing the consolidation worksheet procedure because no adjustment is necessary to eliminate the investment in subsidiary account.

32. Supernova Company had the following summarized balance sheet on December 31 of the current year:

<u>Assets</u>	
Accounts receivable	\$ 350,000
Inventory	450,000
Property and plant (net)	<u>600,000</u>
Total	<u>\$1,400,000</u>
 <u>Liabilities and Equity</u>	
Notes payable	\$ 600,000
Common stock, \$5 par	300,000
Paid-in capital in excess of par	400,000
Retained earnings	<u>100,000</u>
Total	<u>\$1,400,000</u>

The fair value of the inventory and property and plant is \$600,000 and \$850,000, respectively.

Assume that Redstar Corporation exchanges 75,000 of its \$3 par value shares of common stock, when the fair price is \$20 per share, for 100% of the common stock of Supernova Company. Redstar incurred acquisition costs of \$5,000 and stock issuance costs of \$5,000.

Required:

- a. What journal entries will Redstar Corporation record for the investment in Supernova and issuance of stock?
- b. Prepare a supporting value analysis and determination and distribution of excess schedule
- c. Prepare Redstar's elimination and adjustment entry for the acquisition of Supernova.



a.	Investment in Supernova (75,000 x \$20)	1,500,000	
	Common Stock (75,000 x \$3)		225,000
	Paid-in Capital in Excess of Par		1,275,000
	Acquisition Expense	5,000	
	Paid-in Capital in Excess of Par	5,000	
	Cash		10,000

b)

<u>Value Analysis</u>			
	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	\$1,500,000	\$1,500,000	N/A
Fair value identifiable net assets *	<u>1,200,000</u>	<u>1,200,000</u>	
Goodwill	<u>\$ 300,000</u>	<u>\$ 300,000</u>	

Determination & Distribution Schedule

	Company Implied Fair Value	(10 0%) Parent Price	0 % NCI Value
Fair value of subsidiary	<u>\$1,500,000</u>	<u>\$1,500,000</u>	
Less book value:			
Common stock	\$ 300,000		
Paid-in capital in excess of par	400,000		
Retained earnings	<u>100,000</u>		
Total equity	<u>\$ 800,000</u>	\$ 800,000	
Interest Acquired		<u>100%</u>	
Book value		<u>\$ 800,000</u>	
Excess of FV over BV	<u>\$ 700,000</u>	<u>\$ 700,000</u>	
Adjustment of identifiable accounts:			
	<u>Adjustment</u>		
Inventory (\$600,000 - \$450,000)	\$ 150,000		
Property, plant and equipment (\$850,000 - \$600,000)	250,000		
Goodwill	<u>300,000</u>		
Total	<u>\$ 700,000</u>		

\* Fair value of net assets:

Accounts receivable	\$ 350,000
Inventory	600,000
Property, plant and equipment	850,000
Notes payable	<u>(600,000)</u>
	<u>\$1,200,000</u>

c.	Elimination entries		
<b>EL</b>	Common Stock \$5 Par – Sub	300,000	
	Paid-in Capital in Excess of Par – Sub	400,000	
	Retained Earnings – Sub	100,000	
	Investment in Supernova		800,000
<b>D</b>	Inventory	150,000	
	Property and Plant	250,000	
	Goodwill	300,000	
	Investment in Supernova		700,000

33. Supernova Company had the following summarized balance sheet on December 31 of the current year:

<u>Assets</u>		
Accounts receivable		\$ 200,000
Inventory		450,000
Property and plant (net)		600,000
Goodwill		<u>150,000</u>
Total		<u>\$1,400,000</u>
<u>Liabilities and Equity</u>		
Notes payable		\$ 600,000
Common stock, \$5 par		300,000
Paid-in capital in excess of par		400,000
Retained earnings		<u>100,000</u>
Total		<u>\$1,400,000</u>

The fair value of the inventory and property and plant is \$600,000 and \$850,000, respectively.

Assume that Redstar Corporation exchanges 75,000 of its \$3 par value shares of common stock, when the fair price is \$20 per share, for 100% of the common stock of Supernova Company. Redstar incurred acquisition costs of \$5,000 and stock issuance costs of \$5,000.

Required:

- What journal entries will Redstar Corporation record for the investment in Supernova and issuance of stock?
- Prepare a supporting value analysis and determination and distribution of excess schedule
- Prepare Redstar's elimination and adjustment entry for the acquisition of Supernova.

a.	Investment in Supernova (75,000 × \$20)	1,500,000	
	Common Stock (75,000 × \$3)		225,000
	Paid-in Capital in Excess of Par		1,275,000
	Acquisition Expense	5,000	
	Paid-in Capital in Excess of Par	5,000	
	Cash		10,000

b)

<u>Value Analysis</u>			
	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	\$1,500,000	\$1,500,000	N/A
Fair value identifiable net assets *	<u>1,050,000</u>	<u>1,050,000</u>	
Goodwill	<u>\$ 450,000</u>	<u>\$ 450,000</u>	

Determination & Distribution Schedule

	Company Implied Fair Value	(10 0%) Par ent Price	0 % N CI Va lue
Fair value of subsidiary	\$1,500,000	\$1,500,000	
Less book value:			
Common stock	\$ 300,000		
Paid-in capital in excess of par	400,000		
Retained earnings	<u>100,000</u>		
Total equity	<u>\$ 800,000</u>	\$ 800,000	
Interest Acquired		<u>100%</u>	
Book value		<u>\$ 800,000</u>	
Excess of FV over BV	<u>\$ 700,000</u>	<u>\$ 700,000</u>	
Adjustment of identifiable accounts:			
	<u>Adjustment</u>		
Inventory (\$600,000 - \$450,000)	\$ 150,000		
Property, plant and equipment (\$850,000 - \$600,000)	250,000		
Goodwill (increase over \$150,000)	<u>300,000</u>		
Total	<u>\$ 700,000</u>		

\* Fair value of net assets:

Accounts receivable	\$ 200,000
Inventory	600,000
Property, plant and equipment	850,000
Notes payable	<u>(600,000)</u>
	<u>\$1,050,000</u>

c. Elimination entries

<b>EL</b>	Common Stock \$5 Par – Sub	300,000	
	Paid-in Capital in Excess of Par – Sub	400,000	
	Retained Earnings – Sub	100,000	
	Investment in Supernova		800,000
<b>D</b>	Inventory	150,000	
	Property and Plant	250,000	
	Goodwill	300,000	
	Investment in Supernova		700,000

34. On December 31, 20X1, Priority Company purchased 80% of the common stock of Subsidiary Company for \$1,550,000. On this date, Subsidiary had total owners' equity of \$650,000 (common stock \$100,000; other paid-in capital, \$200,000; and retained earnings, \$350,000). Any excess of cost over book value is due to the under or overvaluation of certain assets and liabilities. Assets and liabilities with differences in book and fair values are provided in the following table:

	Book Value	Fair Value
Current assets	\$500,000	\$800,000
Accounts receivable	200,000	150,000
Inventory	800,000	800,000
Land	100,000	600,000
Buildings and equipment, net	700,000	900,000
Current liabilities	800,000	875,000
Bonds payable	850,000	930,000

Remaining excess, if any, is due to goodwill.

Required:

- Using the information above and on the separate worksheet, prepare a schedule to determine and distribute the excess of cost over book value.
- Complete the Figure 2-3 worksheet for a consolidated balance sheet as of December 31, 20X1.

<b>Figure 2-3</b>					
	Trial Balance	Eliminations and	Adjustment		
	Priority	Sub.	Debit	Credit	
Account Titles	Company	Company			
<b>Assets:</b>					
Current Assets	425,000	500,000			
Accounts Receivable	530,000	200,000			
Inventory	1,600,000	800,000			
Investment in Sub Co.	1,550,000				
Land	225,000	100,000			
Buildings and Equipment	400,000	700,000			
Total	4,730,000	2,300,000			
<b>Liabilities and Equity:</b>					
Current Liabilities	2,100,000	800,000			
Bonds Payable	1,000,000	850,000			
Common Stock – P Co.	900,000				
Paid-in Cap. in Excess – P Co.	670,000				
Retained Earnings – P Co.	60,000				
Common Stock – S Co.		100,000			
Paid-in Cap. in Excess – S Co.		200,000			
Retained Earnings – S Co.		350,000			
NCI					
Total	4,730,000	2,300,000			
<b>(continued)</b>					

Account Titles	NCI	Consolidated	
		Debit	Credit
Balance Sheet			
Assets:			
Current Assets			
Accounts Receivable			
Inventory			
Investment in Sub Co.			
Land			
Buildings and Equipment			
Total			
Liabilities and Equity:			
Current Liabilities			
Bonds Payable			
Common Stock – P Co.			
Paid-in Cap. in Excess – P Co.			
Retained Earnings – P Co.			
Common Stock – S Co.			
Paid-in Cap. in Excess – S Co.			
Retained Earnings – S Co.			
NCI			
Total			

a. Determination and Distribution Schedule:

	Company Implied Fair Value	Parent Price	NCI Value
Fair value of subsidiary	<u>\$1,937,500</u>	<u>\$1,550,000</u>	<u>\$387,500</u>
Less book value:			
Common stock	\$ 100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	<u>350,000</u>		
Total equity	<u>\$ 650,000</u>	\$ 650,000	\$650,000
Interest Acquired		<u>80%</u>	<u>20%</u>
Book value		<u>\$ 520,000</u>	<u>\$130,000</u>
Excess of FV over BV	<u>\$1,287,500</u>	<u>\$1,030,000</u>	<u>\$257,500</u>
<b>Adjust identifiable accounts:</b>			
Current assets	\$ 300,000		
Accounts receivable	(50,000)		
Land	500,000		
Buildings and equipment (net)	200,000		
Current liabilities	(75,000)		
Premium on bonds payable	(80,000)		
Goodwill	<u>492,500</u>		
Total	<u>\$1,287,500</u>		

b. For the worksheet solution, please refer to Answer 2-3.

<b>Answer 2-3</b>						
	Trial Balance		Eliminations and Adjustments			
	Priority	Sub.				
Account Titles	Company	Company	Debit	Credit		
<b>Assets:</b>						
Current Assets	425,000	500,000	(D)	300,000		
Accounts Receivable	530,000	200,000			(D)	50,000
Inventory	1,600,000	800,000				
Investment in Sub. Co.	1,550,000				(EL)	520,000
					(D)	1,030,000
Land	225,000	100,000	(D)	500,000		
Buildings and Equipment	400,000	700,000	(D)	200,000		
Goodwill			(D)	492,500		
<b>Total</b>	<b>4,730,000</b>	<b>2,300,000</b>				
<b>Liabilities and Equity:</b>						
Current Liabilities	2,100,000	800,000			(D)	75,000
Bonds Payable	1,000,000	850,000				
Premium on Bonds Pay					(D)	80,000
Common Stock – P Co.	900,000					
Paid-in Cap. in Exc. – P Co.	670,000					
Ret. Earnings – P Co.	60,000					
Common Stock – S Co.		100,000	(EL)	80,000		
Paid-in Cap. in Exc. – S Co.		200,000	(EL)	160,000		
Ret. Earnings – S Co.		350,000	(EL)	280,000	(D)	257,500
<b>NCI</b>						
<b>Total</b>	<b>4,730,000</b>	<b>2,300,000</b>		<b>2,012,500</b>		<b>2,012,500</b>
<b>(continued)</b>						

Account Titles	NCI	Consolidated	
		Debit	Credit
		Balance Sheet	
Assets:			
Current Assets		1,225,000	
Accounts Receivable		680,000	
Inventory		2,400,000	
Investment in Sub. Co.		-	
Land		825,000	
Buildings and Equipment		1,300,000	
Goodwill		492,500	
Liabilities and Equity:			
Current Liabilities			2,975,000
Bonds Payable			1,850,000
Premium on Bonds Pay			80,000
Common Stock – P Co.			900,000
Paid-in Cap. in Exc. – P Co.			670,000
Ret. Earnings – P Co.			60,000
Common Stock – S Co.	20,000		
Paid-in Cap. in Exc. – S Co.	40,000		
Ret. Earnings – S Co.	327,500		
NCI	387,500		387,500
Total		6,922,500	6,922,500

Elimination  
s and  
Adjustment  
s:

- (EL) Eliminate 80% of the subsidiary's equity accounts against the investment in subsidiary account.
- (D) Allocate the excess of cost over book value to net assets as required by the determination and distribution of excess schedule.

35. On December 31, 20X1, Parent Company purchased 80% of the common stock of Subsidiary Company for \$280,000. On this date, Subsidiary had total owners' equity of \$250,000 (common stock \$20,000; other paid-in capital, \$80,000; and retained earnings, \$150,000). Any excess of cost over book value is due to the under or overvaluation of certain assets and liabilities. Inventory is undervalued \$5,000. Land is undervalued \$20,000. Buildings and equipment have a fair value which exceeds book value by \$30,000. Bonds payable are overvalued \$5,000. The remaining excess, if any, is due to goodwill.

Required:

- a. Prepare a value analysis schedule for this business combination.
- b. Prepare the determination and distribution schedule for this business combination
- c. Prepare the necessary elimination entries in general journal form.

a) Value analysis schedule

	Company Implied <u>Fair Value</u>	<u>Parent Price</u>	<u>NCI Value</u>
Company fair value	\$ 350,000	\$ 280,000	\$ 70,000
Fair value identifiable net assets	<u>310,000</u>	<u>248,000</u>	<u>62,000</u>
Goodwill	<u>\$ 40,000</u>	<u>\$ 32,000</u>	<u>\$ 8,000</u>

b) Determination and distribution schedule:

	Company Implied <u>Fair Value</u>	<u>Parent Price</u>	<u>NCI Value</u>
Fair value of subsidiary	<u>\$ 350,000</u>	<u>\$ 280,000</u>	<u>\$ 70,000</u>
Less book value:			
Common stock	\$ 20,000		
Paid-in capital in excess of par	80,000		
Retained earnings	<u>150,000</u>		
Total Equity	<u>\$ 250,000</u>	\$ 250,000	\$250,000
Interest Acquired		80%	20%
Book value		<u>\$ 200,000</u>	<u>\$ 50,000</u>
Excess of FV over BV	<u>\$ 100,000</u>	<u>\$ 80,000</u>	<u>\$ 20,000</u>
Adjust identifiable accounts:			
Inventory	\$ 5,000		
Land	20,000		
Buildings & equipment	30,000		
Discount on bonds payable	5,000		
Goodwill	<u>40,000</u>		
Total	<u>\$ 100,000</u>		

c) Elimination entries:

**ELIMINATION ENTRY 'EL'**

Common Stock - Sub	16,000	
Paid-in Capital in Excess - Sub	64,000	
Retained Earnings - Sub	120,000	
Investment in Subsidiary		200,000
	<u>200,000</u>	<u>200,000</u>

**ELIMINATION ENTRY 'D'**

Inventory	\$ 5,000	
Land	20,000	
Buildings & Equipment	30,000	
Discount on Bonds Payable	5,000	
Goodwill	40,000	
Investment in Sub		80,000
Retained Earnings-Sub (NCI)		20,000
	<u>100,000</u>	<u>100,000</u>



36. On January 1, 20X1, Parent Company purchased 100% of the common stock of Subsidiary Company for \$280,000. On this date, Subsidiary had total owners' equity of \$240,000.

On January 1, 20X1, the excess of cost over book value is due to a \$15,000 undervaluation of inventory, to a \$5,000 overvaluation of Bonds Payable, and to an undervaluation of land, building and equipment. The fair value of land is \$50,000. The fair value of building and equipment is \$200,000. The book value of the land is \$30,000. The book value of the building and equipment is \$180,000.

Required:

- Using the information above and on the separate worksheet, complete a value analysis schedule
- Complete schedule for determination and distribution of the excess of cost over book value.
- Complete the Figure 2-5 worksheet for a consolidated balance sheet as of January 1, 20X1.

<b>Figure 2-5</b>					
	Trial Balance Trial Balance	Eliminations and			
	Parent	Sub.	Adjustment s		
Account Titles	Company	Company	Debit	Credit	
<b>Assets:</b>					
Inventory	50,000	30,000			
Other Current Assets	239,000	165,000			
Investment in Subsidiary	280,000				
Land	120,000	30,000			
Buildings	350,000	230,000			
Accumulated Depreciation	(100,000)	(50,000)			
Other Intangibles	40,000				
Total	979,000	405,000			
<b>Liabilities and Equity:</b>					
<b>Current Liabilities</b>	191,000	65,000			
Bonds Payable		100,000			
Common Stock – P Co.	100,000				
Paid-in Cap. in Exc. - P Co.	150,000				
Retained Earnings – P Co.	538,000				
Common Stock – S Co.		50,000			
Paid-in Cap. in Exc. - S Co.		70,000			
Retained Earnings – S Co.		120,000			
<b>NCI</b>					
Total	979,000	405,000			
<b>(continued)</b>					

		Consolidated Consolidated	
		Balance Sheet	
Account Titles	NCI	Debit	Credit
Assets:			
Inventory			
Other Current Assets			
Investment in Subsidiary			
Land			
Buildings			
Accumulated Depreciation			
Other Intangibles			
Total			
Liabilities and Equity:			
Current Liabilities			
Bonds Payable			
Common Stock – P Co.			
Paid-in Cap. in Exc. - P Co.			
Retained Earnings – P Co.			
Common Stock – S Co.			
Paid-in Cap. in Exc. - S Co.			
Retained Earnings – S Co.			
NCI			
Total			

a. Value analysis schedule:

	Company Implied <u>Fair Value</u>	<u>Parent Price</u>
Company fair value	\$280,000	\$280,000
Fair value identifiable net assets	<u>300,000</u>	<u>300,000</u>
Gain on acquisition	<u>\$(20,000)</u>	<u>\$(20,000)</u>

b. Determination and Distribution Schedule:

	Company Implied <u>Fair Value</u>	<u>Parent Price</u>
Fair value of subsidiary	\$ 280,000	\$ 280,000
Less book value:		
Common stock	\$ 50,000	
Paid-in capital in excess of par	70,000	
Retained earnings	<u>120,000</u>	
Total equity	\$ 240,000	\$ 240,000
Interest Acquired		<u>100%</u>
Book value		\$ 240,000
Excess of fair over book value	\$ 40,000	\$ 40,000
Adjust identifiable accounts:		
Inventory	\$ 15,000	
Land	20,000	
Buildings and equipment	20,000	
Discount on bonds payable	5,000	
Gain on acquisition	<u>(20,000)</u>	
Total	\$ 40,000	

c. For the worksheet solution, please refer to Answer 2-5.

Answer 2-5						
	Trial Balance	Eliminations and				
	Trial Balance		Adjustment			
	Parent	Sub.	s			
Account Titles	Company	Company	Debit	Credit		
<b>Assets:</b>						
Inventory	50,000	30,000	(D)	15,000		
Other Current Assets	239,000	165,000				
Investment in Subsidiary	280,000				(EL)	240,000
					(D)	40,000
Land	120,000	30,000	(D)	20,000		
Buildings	350,000	230,000	(D)	20,000		
Accumulated Depreciation	(100,000)	(50,000)				
Other Intangibles	40,000					
Goodwill						
Total	979,000	405,000				
<b>Liabilities and Equity:</b>						
Current Liabilities	191,000	65,000				
Bonds Payable		100,000				
Discount on Bonds Payable			(D)	5,000		
Common Stock – P Co.	100,000					
Paid-in Cap. in Exc. – P Co.	150,000					
Retained Earnings – P Co.	538,000				(D)	20,000
Common Stock – S Co.		50,000	(EL)	50,000		
Paidn-in Cap. in Exc. – S Co.		70,000	(EL)	70,000		
Retained Earnings – S Co.		120,000	(EL)	120,000		
NCI						
Total	979,000	405,000		300,000		300,000
<b>(continued)</b>						

		Consolidated	
		Consolidated	
		Balance Sheet	
Account Titles	NCI	Debit	Credit
<b>Assets:</b>			
Inventory		95,000	
Other Current Assets		404,000	
Investment in Subsidiary		-	
Land		170,000	
Buildings		600,000	
Accumulated Depreciation			150,000
Other Intangibles		40,000	
Goodwill			
Total			
<b>Liabilities and Equity:</b>			
Current Liabilities			256,000
Bonds Payable			100,000
Discount on Bonds Payable		5,000	
Common Stock – P Co.			100,000
Paid-in Cap. in Exc. – P Co.			150,000
Retained Earnings – P Co.			558,000
Common Stock – S Co.	0		
Paid-in Cap. in Exc. – S Co.	0		
Retained Earnings – S Co.	0		
NCI	0		0
Total		1,314,000	1,314,000

Elimination  
s and  
Adjustment  
s:

- (EL) Eliminate 100% of the subsidiary's equity accounts against the investment in subsidiary account.
- (D) Allocate the excess of cost over book value to net assets as required by the determination and distribution of excess schedule; gain on acquisition closed to parent's Retained Earnings account

37. On January 1, 20X1, Parent Company purchased 90% of the common stock of Subsidiary Company for \$252,000. On this date, Subsidiary had total owners' equity of \$240,000 consisting of \$50,000 in common stock, \$70,000 additional paid-in capital, and \$120,000 in retained earnings.

On January 1, 20X1, the excess of cost over book value is due to a \$15,000 undervaluation of inventory, to a \$5,000 overvaluation of Bonds Payable, and to an undervaluation of land, building and equipment. The fair value of land is \$50,000. The fair value of building and equipment is \$200,000. The book value of the land is \$30,000. The book value of the building and equipment is \$180,000.

Required:

- a. Complete the valuation analysis schedule for this combination.
- b. Complete the determination and distribution schedule for this combination.
- c. Prepare, in general journal form, the elimination entries required to prepare a consolidated balance sheet for Parent and Subsidiary on January 1, 20X1.

- a. Value analysis schedule

	Company Implied Fair Value	<u>Parent Price</u>	<u>NCI Value</u>
Company fair value	\$ 282,000**	\$ 252,000	\$ 30,000*
Fair value identifiable net assets	<u>300,000</u>	<u>270,000</u>	<u>30,000</u>
Gain on acquisition	<u>\$ (18,000)</u>	<u>\$ (18,000)</u>	<u>\$ —</u>

\*Cannot be less than the NCI share of the fair value of net assets

\*\*Sum of parent price + minimum allowable for NCI value

- b. Determination and distribution schedule

	Company Implied Fair Value	Parent Price	N CI Valu e
Fair value of subsidiary	\$ <u>282,000</u>	\$ <u>252,000</u>	\$ <u>30,000</u>
Less book value:			
Common stock	\$ 50,000		
Paid-in capital in excess of par	70,000		
Retained earnings	<u>120,000</u>		
Total Equity	\$ <u>240,000</u>	\$ 240,000	\$240,000
Interest Acquired		<u>90%</u>	<u>10%</u>
Book value		\$ <u>216,000</u>	\$ <u>24,000</u>
Excess of fair over book value	\$ <u>42,000</u>	\$ <u>36,000</u>	\$ <u>6,000</u>
Adjust identifiable accounts:			
Inventory	\$ 15,000		
Land	20,000		
Buildings and equipment	20,000		
Discount on bonds payable	5,000		
Gain on acquisition	<u>(18,000)</u>		
Total	\$ <u>42,000</u>		

c. Elimination entries

**ELIMINATION ENTRY 'EL'**

Common Stock-Sub	45,000	
Paid-in Capital in Exc. -Sub	63,000	
Retained Earnings-Sub	108,000	
Investment in Subsidiary		216,000
	<u>216,000</u>	<u>216,000</u>

**ELIMINATION ENTRY 'D'**

Inventory	\$ 15,000	
Land	20,000	
Buildings & Equipment	20,000	
Discount on Bonds Payable	5,000	
Gain on Acquisition		18,000
Investment in Subsidiary		36,000
Retained Earnings-Sub (NCI)		6,000
	<u>60,000</u>	<u>60,000</u>

38. The following consolidated financial statement was prepared immediately following the acquisition of Salt, Inc. by Pepper Co.

	<u>Individual Balance</u>	Consolidated	
	<u>Sheets</u>	Financial	
	<u>Pepper Co.</u>	<u>Salt Inc.</u>	<u>Statements</u>
Cash	\$ 26,000	\$ 20,000	\$ 46,000
Accounts Receivable, net	20,000	30,000	50,000
Inventory	125,000	110,000	270,000
Land	30,000	80,000	124,000
Building and Equipment	320,000	160,000	459,000
Investment in Subsidiary	279,000	-	-
Goodwill	-	-	<u>41,000</u>
Total Assets	<u>\$800,000</u>	<u>\$400,000</u>	<u>\$990,000</u>
Accounts Payable	\$ 40,000	\$ 40,000	\$ 80,000
Other Liabilities	70,000	60,000	130,000
Common Stock	400,000	200,000	400,000
Retained Earnings	290,000	100,000	290,000
Noncontrolling Interest	-	-	<u>90,000</u>
Total Liabilities & Stockholders' Equity	<u>\$800,000</u>	<u>\$400,000</u>	<u>\$990,000</u>

Answer the following based upon the above financial statements:

- How much did Pepper Co. pay to acquire Salt Inc.?
- What was the fair value of Salt's Inventory at the time of acquisition?
- Was the book value of Salt's Building and Equipment overvalued or undervalued relative to the Building and Equipment's fair value at the time of acquisition?

a.	Investment in subsidiary	\$27 9,00 0
b.	Consolidated inventory	\$27 0,00 0
	Pepper Co. inventory	<u>125,000</u>
	Fair value attributable to Salt	\$145,000
c.	Consolidated buildings and equipment	\$45 9,00 0
	Pepper Co. buildings and equipment	<u>320,000</u>
	Fair value attributable to Salt	\$139,000
c.	The Building and Equipment's book value was overvalued \$21,000 relative to the fair value. The book value was \$160,000 vs. \$139,000 fair value.	

39. Supernova Company had the following summarized balance sheet on December 31, 20X1:

Assets

Accounts receivable	\$ 200,000
Inventory	450,000
Property and plant (net)	600,000
Goodwill	<u>150,000</u>
Total	<u>\$1,400,000</u>

Liabilities and Equity

Notes payable	\$ 600,000
Common stock, \$5 par	300,000
Paid-in capital in excess of par	400,000
Retained earnings	<u>100,000</u>
Total	<u>\$1,400,000</u>



The fair value of the inventory and property and plant is \$600,000 and \$850,000, respectively.

Required:

- a. Assume that Redstar Corporation purchases 100% of the common stock of Supernova Company for \$1,800,000. What value will be assigned to the following accounts of the Supernova Company when preparing a consolidated balance sheet on December 31, 20X1?

(1)	Inventory	_____
(2)	Property and plant	_____
(3)	Goodwill	_____
(4)	Noncontrolling interest	_____

- b. Prepare a valuation schedule

- c. Prepare a supporting determination and distribution of excess schedule.

a.	(1)	Inventory	\$600,000	(\$450,000 BV + \$150,000)
	(2)	Property and plant	\$850,000	(\$600,000 BV + \$250,000)
	(3)	Goodwill	\$750,000	
	(4)	Noncontrolling interest	0	No NCI - 100% acquisition

b. Valuation schedule

	Company Implied Fair Value	<u>Parent Price</u>
Company fair value	\$ 1,800,000	\$ 1,800,000
Fair value identifiable net assets	<u>1,050,000</u>	<u>1,050,000</u>
Goodwill	<u>\$ 750,000</u>	<u>\$ 750,000</u>

c.

	Company Implied Fair Value	<u>Parent Price</u>
Fair value of subsidiary	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>
Less book value:		
Common Stock	\$ 300,000	
Paid-in capital in excess of par	400,000	
Retained earnings	<u>100,000</u>	
Total Equity	<u>\$ 800,000</u>	\$ 800,000
Interest Acquired		<u>100%</u>
Book value		<u>800,000</u>
Excess of fair over book value	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Adjust identifiable accounts:		
Inventory	\$ 150,000	
Property & plant (net)	250,000	
Goodwill (increase from \$150,000)	<u>600,000</u>	
Total	<u>\$ 1,000,000</u>	

40. Fortuna Company issued 70,000 shares of \$1 par stock, with a fair value of \$20 per share, for 80% of the outstanding shares of Acappella Company. The firms had the following separate balance sheets *prior* to the acquisition:

<u>Assets</u>	<u>Fortuna</u>	<u>Acappella</u>
Current assets	\$2,100,000	\$ 960,000
Property, plant, and equipment (net)	4,600,000	1,300,000
Goodwill	<u>-</u>	<u>240,000</u>
Total assets	<u>\$6,700,000</u>	<u>\$2,500,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities	\$3,000,000	\$ 800,000
Common stock (\$1 par)	800,000	
Common stock (\$5 par)		200,000
Paid-in capital in excess of par	2,200,000	300,000
Retained earnings	<u>700,000</u>	<u>1,200,000</u>
Total liabilities and equity	<u>\$6,700,000</u>	<u>\$2,500,000</u>

Book values equal fair values for the assets and liabilities of Acappella Company, except for the property, plant, and equipment, which has a fair value of \$1,600,000.

Required:

- Prepare a value analysis schedule
- Prepare a determination and distribution of excess schedule.
- Provide all eliminations on the partial balance sheet worksheet provided in Figure 2-9 and complete the noncontrolling interest column.



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Balance Sheet	

A c c o u n t I t e m s	Fortuna	Acappella
u r r e n t A s s e t s	2,100,000	960,000
P r o p e r t y P l a n t a n d		
E q u i p m e n t	4,600,000	1,300,000

I n v e s t m e n t i n A c c a p p l e a	1,400,000
C o o d w i l l	240,000
L i a b i l i t i e s	(3,000,000)
C o n n o n S t o c k F o r t u n a	(870,000)

P a i d - i n C a p i t a l i n E x c e s s o f P a r t F o r t u n a R e t a i n e d E a r n i n g s F o r t u n a		
(3,530,000)		
R(700,000)		

C o n n o n S t o c k A c c a p p e l l a P a i d - i n C a p i t a l i n E x c e s s o f P a r A c c a p p e l l a	(200,000)
	(300,000)





a. Value analysis schedule:

	<u>Company Implied Fair Value</u>	<u>Parent Price</u>	<u>NCI Value</u>
Company fair value	\$ 1,752,000	\$1,400,000	\$ 352,000*
Fair value identifiable net assets	<u>1,760,000</u>	<u>1,408,000</u>	<u>352,000</u>
Gain on acquisition	<u>\$ (8,000)</u>	<u>(8,000)</u>	<u>\$ -</u>

\*Cannot be less than NCI share of identifiable net assets; company fair value is sum of parent price and NCI value.

b. Determination and distribution of excess schedule:

	<u>Company Implied Fair Value</u>	<u>Parent Price</u>	<u>NCI Value</u>
Fair value subsidiary	<u>\$1,752,000</u>	<u>\$1,400,000</u>	<u>\$352,000</u>
Less book value:			
Comm Stock	200,000		
APIC	300,000		
Ret Earn	<u>1,200,000</u>		
Total S/E	1,700,000	1,700,000	1,700,000
Interest acquired		<u>80%</u>	<u>20%</u>
Book value		<u>1,360,000</u>	<u>340,000</u>
Excess of fair over book	<u>52,000</u>	<u>40,000</u>	<u>12,000</u>
Adjust identifiable accounts:			
Plant and equipment	300,000	DR	
Goodwill	(240,000)	CR	
Gain on acquisition	<u>(8,000)</u>	CR	
Total	<u>52,000</u>		

c. For the worksheet solution, please refer to Answer 2-9.



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Balance Sheet	

Account Titles	Fortuna	Acappella
Current Assets	2,100,000	960,000
Property, Plant, and Equipment	4,600,000	1,300,000

I n v e s t m e n t i n A c c a p p e ll a	1,400,000
C o o d w il l	240,000
L i a b il it i e s	(3,000,000)
C o m m o n S t o c k F o r t u n a	(800,000)

P a i d - i n C a p i t a l i n E x c e s s	
o f P a r - F o r t u n a 	
R e t a i n e d E a r n i n g s - F o r t u n a	

(3,530,000)

R(700,000)

C o n n o n S t o c k - A c c a p p e l l a	(200,000)
P a i d - i n C a p i t a l i n E x c e s s	
o f P a r - A c c a p p e l l a	(300,000)





Elimination  
s and  
Adjustment  
s:

- (EL) Eliminate 80% of subsidiary equity against the investment account.  
(D) Distribute excess according to the determination and distribution of excess schedule.

41. Mans Company is about to purchase the net assets of Eagle Incorporated, which has the following balance sheet:

<u>Assets</u>		
Accounts receivable		\$ 60,000
Inventory		100,000
Equipment	\$ 90,000	
Accumulated depreciation	<u>(50,000)</u>	40,000
Land and buildings	\$300,000	
Accumulated depreciation	<u>(100,000)</u>	200,000
Goodwill		<u>60,000</u>
Total assets		<u>\$460,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Bonds payable		\$ 80,000
Common stock, \$10 par		200,000
Paid-in capital in excess of par		100,000
Retained earnings		<u>80,000</u>
Total liabilities and equity		<u>\$460,000</u>

Mans has secured the following fair values of Eagle's accounts:

Inventory	\$130,000
Equipment	60,000
Land and buildings	260,000
Bonds payable	60,000

Acquisition costs were \$20,000.

Required:

Record the entry for the purchase of the net assets of Eagle by Mans at the following cash prices:

- a. \$450,000  
b. \$310,000  
c. \$480,000

NOTE: In all scenarios, the pre-existing goodwill on Mans' balance sheet is disregarded when measuring the goodwill inherent in Eagle's purchase transaction.

Fair value of acquired net assets:

Accounts receivable	\$ 60,000
Inventory	130,000
Equipment	60,000
Land and buildings	260,000
Bonds payable	<u>(60,000)</u>
	<u>\$450,000</u>

a.	Accounts Receivable	60,000	
	Inventory	130,000	
	Equipment	60,000	
	Land and Buildings	260,000	
	Discount on Bonds Payable	20,000	
	Acquisition Expenses	20,000	
	Bonds Payable		80,000
	Cash (includes acquisition costs)		470,000

There is no goodwill since the acquisition price is equal to the fair value of the net assets acquired, excluding goodwill.

b.	Accounts Receivable	60,000	
	Inventory	130,000	
	Equipment	60,000	
	Land and Buildings	260,000	
	Discount on Bonds Payable	20,000	
	Acquisition Expenses	20,000	
	Gain on Acquisition of Business (\$310,000 - \$450,000)		140,000
	Bonds Payable		80,000
	Cash (includes acquisition costs)		330,000

c.	Accounts Receivable	60,000	
	Inventory	130,000	
	Equipment	60,000	
	Land and Buildings	260,000	
	Discount on Bonds Payable	20,000	
	Acquisition Expenses	20,000	
	Goodwill (\$480,000 - \$450,000)	30,000	
	Bonds Payable		80,000
	Cash (includes acquisition costs)		500,000

42. Discuss the conditions under which the SEC would assume a presumption of control. Additionally, under what circumstances might consolidation be required even though the parent does not control the subsidiary? When would it not be appropriate to consolidate when more than 50% of the voting stock is held?

SEC Regulation S-X defines control in terms of power to direct or cause the direction of management and policies of a person, whether through the ownership of voting securities, by contract or otherwise. Thus, control has been said to exist when less than 51% ownership exists, but there are no other large ownership interest that can exert influence on management.

The exception to consolidating when control exists is if control is only temporary or does not exist with the majority owner. This could occur when the subsidiary is in bankruptcy, in legal organization, or when foreign exchange restrictions or foreign government controls cast doubt on the ability of the parent to exercise control over the subsidiary.

43.

A parent company purchases an 80% interest in a subsidiary at a price high enough to revalue all assets and allow for goodwill on the interest purchased. If "push down accounting" were used in conjunction with the "economic entity concept," what unique procedures would be used?

All assets including goodwill would be adjusted to full fair value. The method differs in that the asset adjustments would be made directly on the books of the subsidiary rather than on the consolidated worksheet.