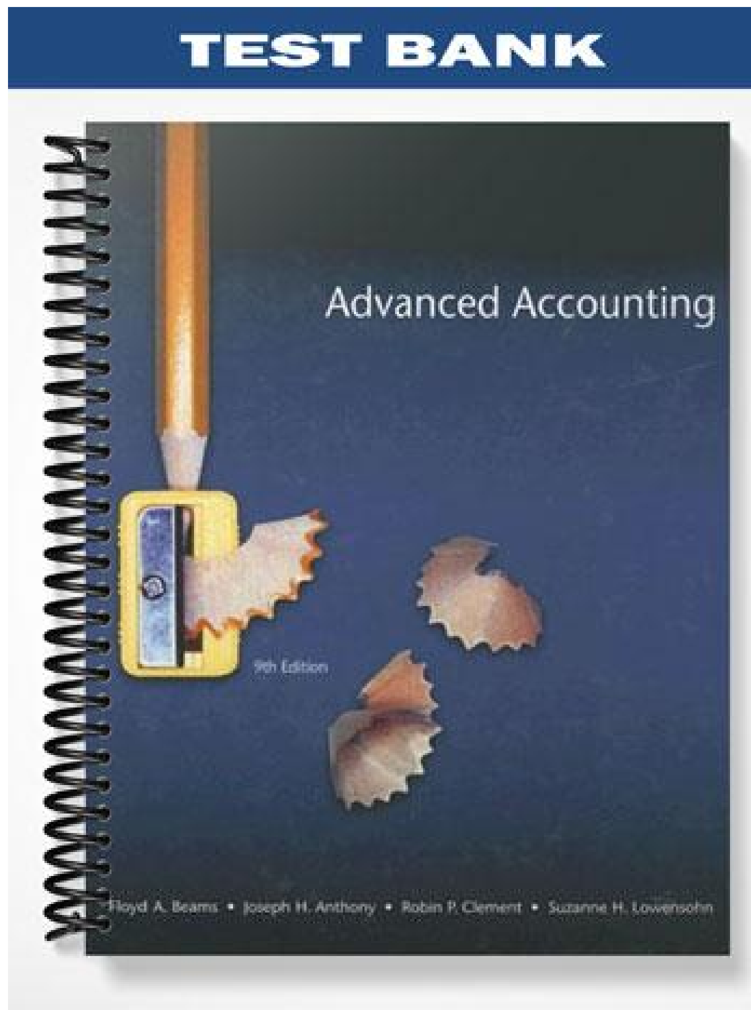
TEST BANK
Advanced Accounting
9th Edition
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Chapter 2 Test Bank

STOCK INVESTMENTS-INVESTOR ACCOUNTING AND REPORTING

Multiple Choice Questions

1. State Corporation is a 30%-owned equity investee of Pico Corporation. During 2003, State declared $50,000 in dividends to be paid in 2004. How does the dividend declaration affect Pico's balance sheet at December 31, 2003?

   a. It decreases current assets.
   b. It increases current assets.
   c. It increases the *Investment in State* account.
   d. It decreases the *Investment in State* account.

2. An investor uses the cost method of accounting for its investment in common stock. During the current year, the investor received $25,000 in dividends, an amount that exceeded the investor's share of the investee company's undistributed income since the investment was acquired. Accordingly, the investor should report dividend income of:

   a. $25,000.
   b. $25,000 less the amount in excess of its share of undistributed income since the investment was acquired.
   c. $25,000 less the amount that is not in excess of its share of undistributed income since the investment was acquired.
   d. None of the above are correct.

3. Bart Company purchased a 30% interest in Dak Corporation on January 1, 2001, and Bart accounted for its investment in Dak under the equity method for the next 3 years. On January 1, 2004, Bart sold one-half of its interest in Dak after which it could no longer exercise significant influence over Dak. Bart should:

   a. continue to account for its remaining investment in Dak under the equity method for the sake of consistency.
   b. adjust the investment in Dak account to one-half of its original amount and account for the remaining 15% interest using the equity method.
   c. account for the remaining investment under the cost method, using the investment in Dak account balance immediately after the sale as the new cost basis.
   d. adjust the investment account to one-half of its original amount (one-half of the purchase price in 2001), and account for the remaining 15% investment under the cost method.

4. The income from an equity investee is reported on one line of the investor company's income statement except when:

   a. the cost method is used.
   b. the investee has extraordinary or other "below the line" items.
   c. the investor company is amortizing cost-book value differentials.
   d. the investor company changes from the cost to the equity method.

5. Weylan Corporation acquired a 30% interest in ArtWork Corporation in 2002 at a cost of $15,000 in excess of ArtWork's book value. The excess purchase cost was attributable to Artwork's undervalued equipment. In 2003, the excess will:

   a. appear on Weylan's balance sheet as an intangible asset.
   b. increase Weylan's earnings, but not affect the earnings of ArtWork.
   c. decrease Weylan's earnings, but not affect the earnings of ArtWork.
   d. decrease the earnings of both Weylan and ArtWork.

6. Penny Corporation paid $200,000 for a 25% interest in Cindy Corporation's common stock on January 1, 2002, but was not able to exercise significant influence over Cindy. During 2003, Penny reported income of $120,000, excluding its income from Cindy, and paid dividends of $50,000. Cindy reported net income of $40,000 during 2003 and paid dividends of $20,000. Penny should report net income for 2003 in the amount of:

   a. $115,000.
   b. $120,000.
   c. $125,000.
   d. $130,000.

7. Toller Corporation acquired a 30% interest in Kelly Heating Corporation at book value several years ago. Kelly declared $50,000 dividends in 2003 and reported its income for the year as follows:

Income from continuing operations	$350,000
Loss on discontinued division	(50,000)
Net income	$300,000

Toller's Investment in Kelly Heating account for 2003 should increase by:

a. $ 75,000
b. $ 80,000
c. $ 90,000
d. $105,000

8. Trent Corporation purchased 150,000 previously unissued shares of Jared Corporation's $10 par value common stock directly from Jared for $3,400,000. Jared's stockholder's equity immediately before the investment by Trent consisted of $3,000,000 of capital stock and $2,600,000 in retained earnings. What is the book value of Trent's investment in Jared?

a. $1,500,000.
b. $1,680,000.
c. $2,800,000.
d. $3,000,000.

Use the following information in answering questions 9 and 10.

On January 1, 2003, Norton Corporation acquired a 15% interest in Liddy Corporation for $120,000 when Liddy's stockholder's equity consisted of $600,000 capital stock and $200,000 retained earnings. Book values of Liddy's net assets equaled their fair values on this date. Liddy's net income and dividends for 2003 through 2005 are as follows:

	2003	2004	2005
Net income	$ 12,000	$ 15,000	$ 25,000
Dividends paid	10,000	10,000	10,000

9. Assume that Norton uses the cost method of accounting for its investment in Liddy. The balance in the *Investment in Liddy* account at December 31, 2005 will be:

   a. $118,000.
   b. $120,000.
   c. $121,800.
   d. $130,800.

10. Assume that Norton has significant influence and uses the equity method of accounting for its investment in Liddy. The balance in the *Investment in Liddy* account at December 31, 2005 will be:

   a. $118,000.
   b. $120,000.
   c. $121,800.
   d. $123,300.

11. Kirkland Corporation paid $1,600,000 for a 40% interest in Rio Corporation on January 1, 2002 when Rio's stockholder's equity was as follows:

10% cumulative preferred stock, $100 par	$1,000,000
Common stock, $10 par value	600,000
Other paid-in capital	800,000
Retained earnings	1,600,000
Total stockholders' equity	$4,000,000

On this date, the book values of Rio's assets and liabilities equaled their fair values and there were no dividends in arrears. Goodwill from the investment is:

   a. $0.
   b. $300,000.
   c. $400,000.
   d. None of the above are correct.

12. Hightower Corporation's stockholder's equity at December 31, 2003 included the following:

8% Preferred stock, $10 par value	$ 1,000,000
Common stock, no par	10,000,000
Additional paid-in capital	4,000,000
Retained earnings	4,000,000
	$ 19,000,000

Micro Corporation purchases a 30% interest in Hightower's common stock from other shareholders on January 1, 2004 for $5,800,000. What is the book value of Micro's investment in Hightower?

a. $5,400,000
b. $5,700,000
c. $7,140,000
d. $7,440,000

13. Jerome Corporation purchased a 20% interest in Mack Corporation common stock on January 1, 2000 for $300,000. This investment is accounted for using the complete equity method and the correct balance in the *Investment in Mack* account on December 31, 2002 is $440,000. The original excess purchase transaction included $60,000 for a patent amortized at a rate of $6,000 per year. In 2003, Mack Corporation has net income of $4,000 per month earned uniformly throughout the year and pays $20,000 of dividends in May. If Jerome sells one-half of its investment in Mack on August 1, 2003 for $500,000, how much gain will be recognized on this transaction?

a. $278,950
b. $280,000
c. $280,950
d. $282,000

14. Which one of the following items, originally recorded in the *Investment in XYZ Co.* account under the equity method, would not be systematically charged to income on a periodic basis?

a. amortization expense of goodwill
b. depreciation expense on the excess fair value attributed to machinery
c. amortization expense on the excess fair value attributed to lease agreements
d. interest expense on the excess fair value attributed to long-term bonds payable

15. An investor corporation accounts for its 30% investment in an investee using the equity method. On the date of the original investment, fair values were equal to the book values except for a patent, which cost the investor an additional $50,000. The patent had an estimated life of 10 years. The investee has a steady net income of $20,000 per year and its dividend payout ratio is 40%. Which one of the following statements is correct?

    a. The net change in the investment account for each full year will be a debit of $1,400.
    b. The net change in the investment account for each full year will be a debit of $3,600.
    c. The net change in the investment account for each full year will be a credit of $1,400.
    d. The net change in the investment account for each full year will be a credit of $3,600.

16. Which one of the following statements is correct?

    a. Once the balance in the *Investment in XYZ Co.* account reaches zero, it will not be reduced any further.
    b. Under the equity method, the balance in the *Investment in XYZ Co.* account can be negative if the investee corporation operates at a loss.
    c. Under the cost method, the balance in the *Investment in XYZ Co.* account can be negative if the investee corporation operates at a loss.
    d. Under the equity method, any goodwill inherent or contained in the *Investment in XYZ Co.* account will be amortized to the income earned from the investee.

17. When the ownership percentage in an investee is low, which one of the following reasons might explain the accounting procedure whereby all excess of purchase cost over fair value is treated as goodwill instead of being separately traced to specific assets and liabilities?

    a. The investor cannot exercise significant influence over the investee.
    b. The investee may be hostile toward the investor’s attempts to acquire its stock.
    c. The investee may not wish to incur the cost of having its assets and liabilities appraised.
    d. All of the above reasons might account for this particular accounting procedure.

18. According to FASB Statement 130, comprehensive income may be reported as follows:

a. only as a separate line or section on the income statement.
b. only as a separate line or section in the statement of retained earnings.
c. only as a separate line or section in the statement of changes in equity.
d. either as a separate line or section in either the income statement or the statement of changes in equity.

19. Under the equity method of accounting, which one of the following events would not affect the *Investment in XYZ Co.* account?

a. investee losses
b. investee dividend payments
c. investee dividend declarations
d. all of the above would affect the *Investment in XYZ Co.* account

20. Marble Corporation owns 25% of the outstanding voting common stock of Exeter Corporation. At the beginning of the current year, Exeter sells a tract of land to Marble for $50,000 in cash representing a $10,000 gain to Exeter. Exeter includes this gain in its current net income. At the end of the year, Marble still holds the land. Marble's *Investment in Exeter* account will:

a. be decreased by the full amount of gain.
b. be decreased by 25% of the amount of gain.
c. include a 25% unadjusted share of the gain.
d. None of the above are correct.

Exercises

Exercise 1

Alt Corporation paid $200,000 cash for 40% of the voting common stock of Biden Corporation on January 1, 2003. Book value and fair value information for Biden Corporation on this date is as follows:

Assets	Book Values	Fair Values
Cash	$ 60,000	$ 60,000
Accounts receivable	120,000	120,000
Inventories	80,000	100,000
Equipment	340,000	400,000
	$ 600,000	$ 680,000
Liabilities & Equities		
Accounts payable	$ 200,000	$ 200,000
Note payable	120,000	100,000
Capital stock	200,000	
Retained earnings	80,000	
	$ 600,000	$ 300,000

Required:

Prepare an allocation schedule for Alt's investment in Biden Corporation.

Exercise 2

Warner Corporation paid $64,000 for a 40% interest in Fortner Corporation on January 2, 2003, at which time Fortner's assets, liabilities and equities were as follows:

Assets	Book Values	Fair Values
Cash	$ 10,000	$ 10,000
Accounts receivable-net	15,000	15,000
Inventories	30,000	25,000
Other current assets	20,000	10,000
Equipment-net	50,000	65,000
Buildings-net	25,000	40,000
Total	$ 150,000	$ 165,000
Liabilities & Equities		
Accounts payable	$ 30,000	$ 30,000
Other liabilities	20,000	15,000
Capital stock	80,000	
Retained earnings	20,000	
Total	$ 150,000	$ 45,000

Required:

1. Calculate the cost-book differential of Warner's investment in Fortner.

2. Prepare a schedule to allocate the cost-book value differential to identifiable and unidentifiable assets and liabilities.

Exercise 3

Ponka Corporation acquired a 30% interest in Scotia Corporation for $25,000 cash on January 1, 2003, when Scotia's stockholders' equity consisted of $30,000 of capital stock and $20,000 of retained earnings. Scotia Corporation reported net income of $15,000 for 2003. The allocation of the $10,000 excess of cost over book value acquired on January 1 is shown below, along with information relating to the useful lives of the items:

Overvalued receivables (collected in 2003)	$	(600)
Undervalued inventories (sold in 2003)		2,400
Undervalued building (6 years' useful life remaining at January 1, 2003)		3,600
Undervalued land		900
Unrecorded patent (4 years' economic life remaining at January 1, 2003)		1,200
Undervalued accounts payable (paid in 2003)		(300)
Total of excess allocated to identifiable assets and liabilities		7,200
Goodwill		2,800
Excess cost over book value acquired	$	10,000

Required:

Determine Ponka's investment income from Scotia for 2003.

Exercise 4

Bender Corporation paid $50,000 for a 10% interest in Andy Corporation on January 1, 2002, when Andy's stockholders' equity consisted of $400,000 of $10 par value common stock and $100,000 retained earnings. On December 31, 2003, Bee paid $96,000 for an additional 20% interest in Andy Corporation. Both of Bender's investments were made when Andy's book values equaled their fair values. Andy's net income and dividends for 2002 and 2003 were as follows:

	2002	2003
Net income	$30,000	$70,000
Dividends	$10,000	$20,000

Required:

1. Prepare journal entries for Bender Corporation to account for its investment in Andy Corporation for 2002 and 2003.

2. Calculate the balance of Bender's investment in Andy at December 31, 2003.

Exercise 5

Burpee Corporation purchased a 40% interest in the common stock of Coty Corporation for $2,660,000 on January 1, 2003, when the book value of Coty's net assets was $6,000,000. Coty's book values equaled their fair values except for the following items:

	Book Value	Fair Value	Difference
Inventories	$ 450,000	$ 500,000	$ 50,000
Land	100,000	450,000	350,000
Building-net	400,000	200,000	(200,000)
Equipment-net	350,000	400,000	50,000

Required:

Prepare a schedule to allocate any excess purchase cost to identifiable assets and goodwill.

Exercise 6

Munroe Corporation paid $100,000 on January 1, 2002 for a 20% interest in Stir Corporation. On January 1, 2002, Stir's stockholders' equity consisted of $200,000 of common stock and $200,000 of retained earnings. All the excess purchase cost over book value was attributable to a patent with an estimated life of 8 years. During 2002 and 2003, Stir paid $5,000 of dividends each quarter and reported net income of $60,000 for 2002 and $40,000 for 2003.

Required:

1. Calculate Munroe's income from Stir for 2002.
2. Calculate Munroe's income from Stir for 2003.
3. Determine the balance of Munroe's *Investment in Stir* account on December 31, 2003.

Exercise 7

Turner Corporation had $300,000 of $10 par value common stock outstanding on January 1, 2001, and retained earnings of $100,000 on the same date. During 2001, 2002, and 2003, Turner earned net incomes of $40,000, $70,000, and $30,000, respectively, and paid dividends of $30,000, $55,000, and $10,000, respectively.

On January 1, 2001, Albion purchased 21% of Turner's outstanding common stock for $124,000. On January 1, 2002, Albion purchased 9% of Turner's outstanding stock for $51,000, and on January 1, 2003, Albion purchased another 5% of Turner's outstanding stock for $32,000. All payments made by Albion that are in excess of the appropriate book values were attributed to equipment, with each block depreciable over 10 years under the straight-line method.

Required:

1. How much depreciation expense will Albion record in 2001, 2002, and 2003?

2. What will be the December 31, 2003 balance in the *Investment in Turner* account after all adjustments have been made?

Exercise 8

For 2001, 2002, and 2003, Jones Corporation earned net incomes of $40,000, $70,000, and $100,000, respectively, and paid dividends of $24,000, $32,000, and $44,000, respectively. At the beginning of 2001, Jones had $500,000 of $10 par value common stock outstanding and $100,000 of retained earnings.

On January 1 of each of these years, Tripp Corporation bought 5% of the outstanding common stock of Jones paying $37,000 per 5% block on January 1, 2001, 2002, and 2003. All payments made by Tripp in excess of book value were attributable to equipment, which is depreciated over five years on a straight-line basis.

Required:

1. Assuming that Tripp uses the cost method of accounting for its investment in Jones, how much dividend income will Tripp recognize for each of the three years and what will be the balance in the investment account at the end of each year?

2. Assuming that Tripp has significant influence and uses the equity method of accounting (even though its ownership percentage is less than 20%), how much net investee income will Tripp recognize for each of the three years?

Exercise 9

On January 1, 2003, Owens, Inc. purchased 80% of the outstanding voting common stock of Wayward, Inc., for $2,850,000. The book value of Wayward's net assets on that date was $3,100,000. Book values were equal to fair values except as follows:

Assets & Liabilities	Book Values	Fair Values
Equipment	$ 250,000	$ 190,000
Building	600,000	700,000
Note payable	270,000	240,000

Required:

Prepare a schedule to allocate any excess purchase cost to specific assets and liabilities.

Exercise 10

On January 1, 2003, Bosco, Inc. purchased 60% of the outstanding voting common stock of Elsie, Inc., for $2,040,000. The book value of Wayward's net assets on that date was $3,400,000. Book values were equal to fair values except as follows:

Assets & Liabilities	Book Values	Fair Values
Inventory	$ 200,000	$ 225,000
Building	850,000	750,000
Note payable	300,000	320,000

Required:

Prepare a schedule to allocate any excess purchase cost to specific assets and liabilities.

SOLUTIONS

Multiple Choice Questions

1 b Dividends receivable is increased

2 b

3 c

4 b

5 c

6 c

Penny's separate income	$	120,000
Dividend income from Cindy equals $20,000 x 25% =		(5,000)
Penny's net income =	$	125,000

7 a

Toller's share of Kelly income equals $300,000 x 30% =	$	90,000
Toller's share of Kelly dividends = $50,000 x 30%		(15,000)
Increase in investment account	$	75,000

8 d

Shares outstanding before new shares are issued		300,000
Shares issued to Trent		150,000
Total shares outstanding		450,000

Percentage owned by Trent equals 150,000/450,000= 33.33%

Stockholders' equity before new shares are issued	$	5,600,000
+Investment by Trent		3,400,000
=Stockholders' equity after Trent investment	$	9,000,000
x Trent's percentage ownership		33.33%
=Book value of Trent's interest	$	3,000,000

9 b Income and dividends are not added or deducted from the investment account under the cost method unless liquidating dividends are received

10	d	Initial Investment in Liddy		$ 120,000
		adjustments:		
		2003: 15% x ($12,000-$10,000)=		300
		2004: 15% x ($15,000-$10,000)=		750
		2005: 15% x ($25,000-$10,000)=		2,250
		Investment balance at 12/31/2005:		$ 123,300
11	c	Cost of Kirkland's investment:		$ 1,600,000
		Less: Rio book value acquired:		
		Total Rio equity	$ 4,000,000	
		Less: Preferred equity	1,000,000	
		Net common equity	3,000,000	
		x percent acquired	40%	
		= Kirkland book value	1,200,000	1,200,000
		Goodwill		$ 400,000
12	a	Total stockholders' equity		$ 19,000,000
		Less: preferred equity		1,000,000
		Equals: common equity		18,000,000
		x Micron's percentage		30%
		Book value of Micro investment		$ 5,400,000
13	c	Dec 31, 2002 investment balance		$ 440,000
		Jerome's interest in Mack's income from Jan 1-July 31: ($4,000 x 7 months x 20%)=		5,600
		Less: Dividends ($20,000 x 20%)=		(4,000)
		Less: Seven months of patent amortization: $500 x 7 =		(3,500)
		Investment account balance at July 31, 2003		438,100
		Amount received from sale:		$ 500,000
		Book value of one-half interest		219,050
		Gain on sale		$ 280,950

14 a

15 c

16 a

17 d

18 d

19 c

20 a

Exercises

Exercise 1

Investment cost	$	200,000
Book value acquired: $280,000 x 40% =		112,000
Excess cost over book value acquired =		88,000

Schedule to Allocate Cost-Book Value Differentials

	Fair value- Book value	Interest		Amount Assigned
Inventories	$20,000	40%	$	8,000
Equipment	60,000	40%		24,000
Notes payable	20,000	40%		8,000
Allocated to specific assets			$	40,000
Remainder allocated to goodwill				48,000
			$	88,000

Exercise 2

Cost of 40% in Fortner	$	64,000
Less: Value of net assets acquired:		
40% x (150,000 assets - 50,000 liabilities) =		(40,000)
Excess cost over book value acquired =	$	24,000

Schedule to Allocate Cost-Book Value Differentials

	Fair value-Book value		Interest	Amount Assigned
Inventories	$(5,000)	x	40%	$ (2,000)
Other current assets	(10,000)	x	40%	(4,000)
Equipment-net	15,000	x	40%	6,000
Buildings-net	15,000	x	40%	6,000
Other liabilities	5,000	x	40%	2,000
Excess allocated to specific assets and liabilities				$ 8,000
Excess allocated to goodwill				16,000
Calculated excess of cost over book value				$ 24,000

Exercise 3

Ponka share of Scotia net income ($15,000 x 30%)	$	4,500
Add: Overvalued accounts receivable collected in 2003		600
Add: Undervalued accounts payable paid in 2003		300
Less: Undervalued inventories sold in 2003		(2,400)
Less: Depreciation on building undervaluation $3,600/6		(600)
Less: Amortization on patent $1,200/4 years		(300)
Income from Scotia	$	1,820

Exercise 4

Requirement 1

Date	Accounts	Debit	Credit
01/01/02	Investment in Andy	50,000	
	Cash		50,000
12/31/02	Cash	1,000	
	Dividend Income		1,000
12/31/03	Cash	2,000	
	Dividend Income		2,000
12/31/03	Investment in Andy	96,000	
	Cash		96,000

Requirement 2

Calculation of investment balance		
Cost of initial purchase of a 10% interest	$	50,000
Cost of second purchase of a 20% interest		96,000
Investment balance, December 31, 2003	$	146,000

Exercise 5

Cost of Burpee's 40% investment in Coty	$	2,660,000
Less: Value of net assets acquired:		
40% x $6,000,000 of net assets =		2,400,000
Excess cost over book value acquired =	$	260,000

Schedule to Allocate Cost-Book Value Differentials

		Fair value-Book value		Interest		Amount Assigned
Inventories	$	50,000	x	40%	$	20,000
Land		350,000	x	40%		140,000
Building-net		(200,000)	x	40%		(80,000)
Equipment-net		50,000	x	40%		20,000
Excess allocated to specific assets and liabilities					$	100,000
Excess allocated to goodwill					$	160,000
Calculated excess of cost over book value					$	260,000

Exercise 6

Cost of Munroe's 20% investment in Stir	$	100,000
Less: Value of net assets acquired:		
20% x $400,000 of net assets =		80,000
Excess cost over book value acquired =	$	20,000

Requirement 1:

Munroe's 2002 income from Stir equals: (20% x $60,000) - $4,000 of dividends - $2,500 of patent amortization	$	5,500

Requirement 2:

Munroe's 2003 income from Stir equals: (20% x $40,000) - $4,000 of dividends received – patent amortization of $2,500 =	$	1,500

Requirement 3:

Initial investment in Stir	$	100,000
Plus: Net change for 2002:		5,500
Plus: Net change for 2003:		1,500
Investment balance at December 31, 2003:	$	107,000

Exercise 7

Calculation of Turner's net assets at the end of each year:

Turner's net assets on January 1, 2001	$	400,000
Plus: 2001 net income minus dividends ($40,000−$30,000)		10,000
Turner's net assets at December 31, 2001	$	410,000
Plus: 2002 net income minus dividends ($70,000-$55,000)		15,000
Turner's net assets at December 31, 2002		425,000
Plus: 2003 net income minus dividends ($30,000-$10,000)	$	20,000
Turner's net assets at December 31, 2003	$	445,000

Albion's adjusted fair value payments for equipment

Albion's January 1, 2001 initial investment cost	$	124,000
Less: Albion's share of Turner's net assets on this date = (21% x $400,000) =		84,000
Equals: fair value adjustment for equipment	$	40,000
Albion's January 1, 2002 investment cost	$	51,000
Less: Albion's share of Turner's net assets on this date = (9% x $410,000) =		36,900
Equals: fair value adjustment for equipment	$	14,100
Albion's January 1, 2003 investment cost	$	32,000
Less: Albion's share of Turner's net assets on this date = (5% x $425,000) =		21,250
Equals: fair value adjustment for equipment	$	10,750

Requirement 1

2001 equipment depreciation ($40,000/10 years)=	$	4,000
2002 equipment depreciation ($40,000/10 years) + ($14,100/10 years)=	$	5,410
2003 equipment depreciation ($40,000/10 years) + ($14,100/10 years) + ($10,750/10 years)=	$	6,485

Requirement 2:

Direct investment costs ($124,000+$51,000+$32,000)=	$	207,000
Plus: 2001 adjustments (21%)x($40,000-$30,000)-$4,000 =		(1,900)
Plus: 2002 adjustments (30%)x($70,000-$55,000)-$5,410 =		(910)
Plus: 2003 adjustments (35%)x($30,000-$10,000)-$6,485 =		515
Equals: December 31, 2003 investment account balance	$	204,705

Exercise 8

Calculation of Jones' net assets at the end of each year:

Jones' net assets on January 1, 2001	$	600,000
Plus: 2001 net income minus dividends ($40,000–$24,000)		16,000
Jones' net assets at December 31, 2001	$	616,000
Plus: 2002 net income minus dividends ($70,000-$32,000)		38,000
Jones' net assets at December 31, 2002	$	654,000
Plus: 2003 net income minus dividends ($100,000-$44,000)		56,000
Jones' net assets at December 31, 2003	$	710,000

Tripp's adjusted fair value payments for equipment

Tripp's January 1, 2001 initial investment cost	$	37,000
Less: Tripp's share of Jones' net assets on this date = (5% x $600,000) =		30,000
Equals: fair value adjustment for equipment	$	7,000
Tripp's January 1, 2002 investment cost	$	37,000
Less: Tripp's 5% share of Jones' net assets on this date = (5% x $616,000) =		30,800
Equals: fair value adjustment for equipment	$	6,200
Tripp's January 1, 2003 investment cost	$	37,000
Less: Tripp's share of Jones' net assets on this date = (5% x $654,000) =		32,700
Equals: fair value adjustment for equipment	$	4,300

Requirement 1

2001 dividend income = 5% x $24,000 of dividends =	$	1,200
2002 dividend income = 10% x $32,000 of dividends =	$	3,200
2003 dividend income = 15% x $44,000 of dividends =	$	6,600

Investment account

Jan 1, 2001 purchase =	$	37,000
Dec 31, 2001 balance =	$	37,000
Jan 1, 2002 purchase =	$	37,000
Dec 31, 2002 balance =	$	74,000
Jan 1, 2003 purchase =	$	37,000
Dec 31, 2003 balance =	$	111,000

Requirement 2:

2001 net change = (5% x 40,000) – (5% x 24,000) – depreciation of $7,000/5 years) = $ 600)

2002 net change = (10% x 70,000) – (10% x 32,000) – depreciation of $1,400 from the 2001 purchase - 2002 depreciation of $6,200/5 years = $ 1,160

2003 net change = (15% x 100,000) – (15% x 44,000) – $1,400 for 2001 depreciation - $1,240 for 2002 depreciation – 2003 depreciation for $4,300/5 years = $ 4,900

Exercise 9

Cost of Owen's 80% investment in Wayward	$	2,850,000
Less: Value of net assets acquired:		
80% x 3,100,000 of net assets =		2,480,000
Excess cost over book value acquired =	$	370,000

Schedule to Allocate Cost-Book Value Differentials

		Fair value-Book value		Interest		Amount Assigned
Equipment	$	(60,000)	x	80%	$	(48,000)
Building		100,000	x	80%		80,000
Note payable		30,000	x	80%		24,000
Excess allocated to specific assets and liabilities					$	56,000
Excess allocated to goodwill						314,000
Calculated excess of cost over book value					$	370,000

Exercise 10

Cost of Bosco's 60% investment in Elsie	$	2,040,000
Less: Value of net assets acquired:		
60% x 3,400,000 of net assets =		2,040,000
Excess cost over book value acquired =	$	0

Schedule to Allocate Cost-Book Value Differentials

		Fair value-Book value		Interest		Amount Assigned
Inventory	$	25,000	x	60%	$	15,000
Building		(100,000)	x	60%		(60,000)
Note payable		(20,000)	x	60%		(12,000)
Excess allocated to specific assets and liabilities					$	(57,000)
Excess allocated to goodwill						57,000
Calculated excess of cost over book value					$	0