Advanced Accounting, 12e **(Beams et al.)**
Chapter 3 An Introduction to Consolidated Financial Statements

3.1 Multiple Choice Questions

1) What method must be used if FASB Statement No. 94 prohibits full consolidation of a 70% owned subsidiary?
A) The cost method
B) The Liquidation value
C) Market value
D) Equity method
Answer: D
Objective: LO2
Difficulty: Easy

2) From the standpoint of accounting theory, which of the following statements is the best justification for the preparation of consolidated financial statements?
A) In substance the companies are separate, but in form the companies are one entity.
B) In substance the companies are one entity, but in form they are separate.
C) In substance and form the companies are one entity.
D) In substance and form the companies are separate entities.
Answer: B
Objective: LO2
Difficulty: Easy

3) Panini Corporation owns 85% of the outstanding voting stock of Strathmore Company and Malone Corporation owns the remaining 15% of Strathmore's voting stock. On the consolidated financial statements of Panini Corporation and Strathmore, Malone is
A) an affiliate.
B) a noncontrolling interest.
C) an equity investee.
D) a related party.
Answer: B
Objective: LO2
Difficulty: Easy

4) A subsidiary can be excluded from consolidation if
A) control does not rest with the majority owner.
B) the subsidiary is in legal reorganization.
C) the subsidiary is operating under severe foreign-exchange restrictions.
D) All of the above are correct.
Answer: D
Objective: LO2
Difficulty: Easy

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5) Pregler Inc. has 70% ownership of Sach Company, but should exclude Sach from its consolidated financial statements if

A) Sach is in a regulated industry.
B) Pregler uses the equity method for Sach.
C) Sach is in legal reorganization.
D) Sach is in a foreign country and records its books in a foreign currency.
Answer: C
Objective: LO2
Difficulty: Moderate

6) Subsequent to an acquisition, the parent company and consolidated financial statement amounts would not be the same for

A) investments in unconsolidated subsidiaries.
B) investments in consolidated subsidiaries.
C) capital stock.
D) ending retained earnings.
Answer: B
Objective: LO4
Difficulty: Easy

7) On June 1, 2014, Puell Company acquired 100% of the stock of Sorrell Inc. On this date, Puell had Retained Earnings of $100,000 and Sorrell had Retained Earnings of $50,000. On December 31, 2014, Puell had Retained Earnings of $120,000 and Sorrell had Retained Earnings of $60,000. The amount of Retained Earnings that appeared in the December 31, 2014 consolidated balance sheet was

A) $120,000.
B) $130,000.
C) $170,000.
D) $180,000.
Answer: A
Explanation: A) (the parent's retained earnings)
Objective: LO4
Difficulty: Moderate

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8) Perth Corporation acquired a 100% interest in Sansone Company for $1,600,000 when Sansone had no liabilities. The book values and fair values of Sansone's assets were:

	Book Value	Fair Value
Current assets	$350,000	$400,000
Equipment	150,000	210,000
Land & buildings	570,000	590,000
Total assets	$1,070,000	$1,200,000

Immediately following the acquisition, equipment will be included on the consolidated balance sheet at
A) $150,000.
B) $200,000.
C) $210,000.
D) $280,000.
Answer: C
Explanation: C) The assets will be recorded at fair value. When investment cost ($1,600,000) exceeds the fair value of net assets ($1,200,000), the difference is goodwill.
Objective: LO6
Difficulty: Moderate

9) A newly acquired subsidiary had pre-existing goodwill on its books. The parent company's consolidated balance sheet will
A) not show any value for the subsidiary's pre-existing goodwill.
B) treat the goodwill similarly to other intangible assets of the acquired company.
C) not show any value for the pre-existing goodwill unless all other assets of the subsidiary are stated at their full fair value.
D) always show the pre-existing goodwill of the subsidiary at its book value.
Answer: A
Objective: LO6
Difficulty: Moderate

10) The unamortized excess account is
A) a contra-equity account.
B) used in allocating the amounts paid for recorded balance sheet accounts that are above or below their fair values.
C) used in allocating the amounts paid for each asset and liability that are above or below their book values, especially when numerous assets or liabilities are involved.
D) the excess purchase cost that is attributable to goodwill.
Answer: C
Objective: LO6
Difficulty: Easy

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11) On January 1, 2014, Packaging International purchased 90% of Shipaway Corporation's outstanding shares for $135,000 when the fair value of Shipaway's net assets were equal to the book values. The balance sheets of Packaging and Shipaway Corporations at year-end 2013 are summarized as follows:

	Packaging	Shipaway
Assets	$590,000	$180,000
Liabilities	$70,000	$30,000
Capital stock	360,000	90,000
Retained earnings	160,000	60,000

If a consolidated balance sheet was prepared immediately after the business combination, the noncontrolling interest would be
A) $9,000.
B) $13,500.
C) $15,000.
D) $16,667.
Answer: C
Explanation: C) $135,000 / 90% = $150,000 × 10% = $15,000.
Objective: LO5
Difficulty: Moderate

12) On July 1, 2014, when Salaby Company's total stockholders' equity was $360,000, Pogana Corporation purchased 14,000 shares of Salaby's common stock at $30 per share. Salaby had 20,000 shares of common stock outstanding both before and after the purchase by Pogana, and the book value of Salaby's net assets on July 1, 2014 was equal to the fair value. On a consolidated balance sheet prepared at July 1, 2014, goodwill would be
A) $60,000.
B) $85,714.
C) $100,000.
D) $240,000.
Answer: D
Explanation: D)

Salaby's cost = 14,000 × $30	$420,000
Implied fair value of Salaby($420,000/0.70)	600,000
Less: Book value	(360,000)
Consolidated Goodwill	$240,000

Objective: LO5
Difficulty: Moderate

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13) Percy Inc. acquired 80% of the outstanding stock of Sillson Company in a business combination. The book values of Sillson's net assets are equal to the fair values except for the building, whose net book value and fair value are $500,000 and $800,000, respectively. At what amount is the building reported on the consolidated balance sheet?
A) $400,000
B) $500,000
C) $640,000
D) $800,000
Answer: D
Objective: LO6
Difficulty: Moderate

14) In the preparation of consolidated financial statements, which of the following intercompany transactions must be eliminated as part of the preparation of the consolidation working papers?
A) All revenues, expenses, gains, losses, receivables, and payables
B) All revenues, expenses, gains, and losses but not receivables and payables
C) Receivables and payables but not revenues, expenses, gains, and losses
D) Only sales revenue and cost of goods sold
Answer: A
Objective: LO8
Difficulty: Easy

15) Pardo Corporation paid $140,000 for a 70% interest in Spedeal Inc. on January 1, 2014, when Spedeal had Capital Stock of $50,000 and Retained Earnings of $100,000. Fair values of identifiable net assets were the same as recorded book values. During 2014, Spedeal had income of $40,000, declared dividends of $15,000, and paid $10,000 of dividends. On December 31, 2014, the consolidated financial statements will show
A) investment in Spedeal account of $170,000.
B) investment in Spedeal account of $165,000.
C) consolidated goodwill of $50,000.
D) consolidated dividends receivable of $5,000.
Answer: C
Explanation: C)

Implied fair value of Spedeal($140,000/0.70)	$200,000
Less: Book value	(150,000)
Consolidated Goodwill	$50,000

Objective: LO6
Difficulty: Moderate

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16) Pental Corporation bought 90% of Sedacor Company's common stock at its book value of $400,000 on January 1, 2014. During 2014, Sedacor reported net income of $130,000 and paid dividends of $40,000. At what amount should Pental's Investment in Sedacor account be reported on December 31, 2014?
A) $400,000
B) $481,000
C) $490,000
D) $530,000
Answer: B
Objective: LO6
Difficulty: Moderate

17) Pomograte Corporation bought 75% of Sycamore Company's common stock, with a book value of $900,000, on January 2, 2014 for $750,000. The law firm of Dewey, Cheatam and Howe was paid $55,000 to facilitate the purchase. At what amount should Pomograte's Investment in Sycamore account be reported on January 2, 2014?
A) $675,000
B) $695,000
C) $750,000
D) $845,000
Answer: C
Objective: LO6
Difficulty: Moderate

18) Pinata Corporation acquired an 80% interest in Smackem Inc. for $130,000 on January 1, 2014, when Smackem had Capital Stock of $125,000 and Retained Earnings of $25,000. Assume the fair value and book value of Smackem's net assets were equal on January 1, 2014. Pinata's separate income statement and a consolidated income statement for Pinata and Subsidiary as of December 31, 2014, are shown below.

	Pinata	Consolidated
Sales revenue	$145,850	$234,750
Income from Smackem	12,600	
Cost of sales	(60,000)	(100,000)
Other expenses	(20,000)	(50,000)
Noncontrolling interest share		(3,150)
Net income	$ 78,450	$ 81,600

Smackem's separate income statement must have reported net income of
A) $13,750.
B) $14,750.
C) $15,750.
D) $15,250.
Answer: C
Explanation: C) Noncontrolling interest share $3,150 / 20% = $15,750
Objective: LO8
Difficulty: Moderate

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19) In the consolidated income statement of Wattlebird Corporation and its 85% owned Forest subsidiary, the noncontrolling interest share was reported at $45,000. Assume the book value and fair value of Forest's net assets were equal at the acquisition date. What amount of net income did Forest have for the year?
A) $52,941
B) $38,250
C) $235,000
D) $300,000
Answer: D
Explanation: D) $45,000 / 15% = $300,000
Objective: LO8
Difficulty: Moderate

20) Push-down accounting
A) requires a subsidiary to use the same accounting principles as its parent company.
B) is required when the parent company uses the equity method to account for its investment in a subsidiary.
C) is required when the parent company uses the cost method to account for its investment in a subsidiary.
D) is the process of recording the effects of the purchase price assignment directly on the books of the subsidiary.
Answer: D
Objective: LO8
Difficulty: Easy

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3.2 Exercises

1) Passerby International purchased 80% of Standaround Company's outstanding common stock for $200,000 on January 2, 2014. At that time, the fair value of Standaround's net assets were equal to the book values. The balance sheets of Passerby and Standaround at January 2, 2014 are summarized as follows:

	Passerby	Standaround
Assets	$1,600,000	$470,000
Liabilities	$840,000	$230,000
Capital stock	360,000	50,000
Retained earnings	400,000	190,000

Required: Determine the consolidated balances as of January 2, 2014 for the following five balance sheet line items: Goodwill, Liabilities, Capital Stock, Retained Earnings, and Noncontrolling Interest.

Answer:

Goodwill:

Implied fair value of company ($200,000/0.80)	$250,000
Less: Fair value of Identifiable Net Assets	(240,000)
Consolidated Goodwill	$ 10,000

Liabilities: $840,000 + 230,000 = 1,070,000

Capital Stock: $360,000

Retained Earnings: $400,000

Noncontrolling interest: Implied fair value of Standaround at date of purchase (see Goodwill calculation) = $250,000 × 20% = $50,000

Objective: LO5

Difficulty: Moderate

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2) Parrot Inc. acquired an 85% interest in Sparrow Corporation on January 2, 2014 for $42,500 cash when Sparrow had Capital Stock of $15,000 and Retained Earnings of $25,000. Sparrow's assets and liabilities had book values equal to their fair values except for inventory that was undervalued by $2,000. Balance sheets for Parrot and Sparrow on January 2, 2014, immediately after the business combination, are presented in the first two columns of the consolidated balance sheet working papers.

	Parrot	Sparrow	Eliminations		Consoli-dated Balance Sheet
			Debit	Credit	
ASSETS Cash	$ 63,500	$ 4,000			
Accounts Receivable-net	75,000	9,000			
Inventories	39,000	10,000			
Plant assets-net	170,000	35,000			
Investment in Sparrow	42,500				
Total Assets	$ 390,000	$58,000			
EQUITIES Payables	$ 120,000	$18,000			
Capital stock	100,000	15,000			
Retained Earnings	170,000	25,000			
Noncontrolling Interest					
TOTAL EQUITIES	$ 390,000	$58,000			

Required:
Complete the consolidation balance sheet working papers for Parrot and subsidiary at January 1, 2014.

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Answer:

Preliminary computations

Implied fair value of Sparrow ($42,500 / 85%)	$50,000
Book value of Sparrow's net assets	(40,000)
Excess fair value over book value acquired =	$ 10,000

Allocation of excess of fair value over book value:

Inventory	$2,000
Remainder to goodwill	8,000
Excess of fair value over book value	$ 10,000

		Parrot	Sparrow	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	63,500	$ 4,000					$67,500
Accounts Receivable-net		75,000	9,000					84,000
Inventories		39,000	10,000	a	$2,000			51,000
Plant assets-Net		170,000	35,000					205,000
Investment in Sparrow		42,500				a	$42,500	
Goodwill				a	8,000			8,000
Total Assets	$	390,000	$58,000					$415,500
EQUITIES Payables	$	120,000	$18,000					$138,000
Capital stock		100,000	15,000	a	$15,000			100,000
Retained Earnings		170,000	25,000	a	25,000			170,000
Noncontrolling Interest						a	7,500	7,500
Total equities	$	390,000	$58,000					$415,500
					$50,000		$50,000	

Objective: LO4

Difficulty: Moderate

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3) On January 1, 2014, Myna Corporation issued 10,000 shares of its own $10 par value common stock for 9,000 shares of the outstanding stock of Berry Corporation in an acquisition. Myna common stock at January 1, 2014 was selling at $70 per share. Just before the business combination, balance sheet information of the two corporations was as follows:

	Myna Book Value	Berry Book Value	Berry Fair Value
Cash	$25,000	$12,000	$12,000
Inventories	55,000	32,000	36,000
Other current assets	110,000	90,000	110,000
Land	100,000	30,000	90,000
Plant and equipment-net	660,000	250,000	375,000
	$950,000	$414,000	$623,000
Liabilities	$220,000	$50,000	$50,000
Capital stock, $10 par value	500,000	100,000	
Additional paid-in capital	170,000	40,000	
Retained earnings	60,000	224,000	
	$950,000	$414,000	

Required:
1. Prepare the journal entry on Myna Corporation's books to account for the investment in Berry Company.
2. Prepare a consolidated balance sheet for Myna Corporation and Subsidiary immediately after the business combination.

Answer:

Requirement 1:

	Debit	Credit
Investment in Berry Co.	700,000	
Capital stock		100,000
Additional paid-in capital		600,000

Requirement 2:

Preliminary computations

Fair value (purchase price) of 90% interest acquired	$700,000
Implied fair value of Berry ($700,000 / 90%)	$777,778
Book value of Berry's net assets	(364,000)
Excess fair value over book value acquired =	$413,778

Allocation of excess of fair value over book value:

Inventory	$4,000
Other current assets	20,000
Land	60,000
Plant assets	125,000
Remainder to goodwill	204,778
Excess of fair value over book value	$413,778

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		Myna	Berry	Eliminations				Consoli-dated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	25,000	$ 12,000					$ 37,000
Inventories		55,000	32,000	b	$ 4,000			91,000
Other current Assets		110,000	90,000	b	20,000			220,000
Land		100,000	30,000	b	60,000			190,000
Plant assets		660,000	250,000	b	125,000			1,035,000
Goodwill				b	204,778			204,778
Investment in Berry		700,000				a	700,000	
Unamortized Excess				a	413,778	b	413,778	
Total Assets	$	1,650,000	$414,000					$1,777,778
EQUITIES Liabilities	$	220,000	$ 50,000					$270,000
Capital stock		600,000	100,000	a	100,000			600,000
Additional paid-in capital		770,000	40,000	a	40,000			770,000
Retained Earnings		60,000	224,000	a	224,000			60,000
Noncontrolling Interest						a	77,778	77,778
Total equities	$	1,650,000	$414,000					$1,777,778

Objective: LO4
Difficulty: Moderate

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4) On July 1, 2014, Polliwog Incorporated paid cash for 21,000 shares of Salamander Company's $10 par value stock, when it was trading at $22 per share. At that time, Salamander's total stockholders' equity was $597,000, and they had 30,000 shares of stock outstanding, both before and after the purchase. The book value of Salamander's net assets is believed to approximate the fair values.

Requirement 1: Prepare the journal entry that Polliwog would record at the date of acquisition on their general ledger.

Requirement 2: Calculate the balance of the goodwill that would be recorded on Polliwog's general ledger, on Salamander's general ledger, and in the consolidated financial statements.

Answer:

Requirement 1:

Investment in Salamander	462,000	
Cash		462,000

Requirement 2:

There is no goodwill recorded on the general ledger of the Polliwog or Salamander. The goodwill is recorded in consolidation only, as calculated below:

Polliwog's cost = 21,000 × $22 =	$462,000
Divided by percentage(21,000/30,000)	70%
Implied fair value of Salamander	660,000
Less: Book Value	(597,000)
Consolidated Goodwill	$63,000

Objective: LO5

Difficulty: Moderate

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5) The consolidated balance sheet of Pasker Corporation and Shishobee Farm, its 80% owned subsidiary, as of December 31, 2014, contains the following accounts and balances:

Pasker Corporation and Subsidiary
Consolidated Balance Sheet
at December 31, 2014

	Balances
Cash	$57,000
Accounts receivable-net	210,000
Inventories	330,000
Other current assets	255,000
Plant assets-net	870,000
Goodwill from consolidation	117,000
	$1,839,000
Accounts payable	$219,000
Other liabilities	210,000
Capital stock	1,050,000
Retained earnings	240,000
Noncontrolling interest	120,000
	$1,839,000

Pasker Corporation acquired its interest in Shishobee Farm on January 1, 2014, when Shishobee Farm had $450,000 of Capital Stock and $210,000 of Retained Earnings. Shishobee Farm's net assets had fair values equal to their book values when Pasker acquired its interest. No changes have occurred in the amount of outstanding stock since the date of the business combination. Pasker uses the equity method of accounting for its investment.

Required: Determine the following amounts:

1. The balance of Pasker's Capital Stock and Retained Earnings accounts at December 31, 2014.

2. Cost of Pasker's purchase of Shishobee Farm on January 1, 2014.

Answer:

Requirement 1:

On the consolidated balance sheet, the balance in the Capital Stock and Retained Earnings accounts will be those of the parent, so the Capital Stock balance is $1,050,000, and the Retained Earnings balance is $240,000.

Requirement 2:

Shishobee Farm's equity on January 1, 2014 =	
($450,000 + $210,000) =	$660,000
Consolidated (original) Goodwill =	117,000
Original implied value =	777,000
Ownership	× 80%
Amount paid at time of acquisition =	$621,600

Objective: LO6, 7
Difficulty: Difficult

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6) Polaris Incorporated purchased 80% of The Solar Company on January 2, 2014, when Solar's book value was $800,000. Polaris paid $700,000 for their acquisition, and the fair value of noncontrolling interest was $175,000. At the date of acquisition, the fair value and book value of Solar's identifiable assets and liabilities were equal. At the end of the year, the separate companies reported the following balances:

	Polaris	Solar
Current assets	5,700,000	1,250,000
Plant & equipment	15,200,000	3,400,000
Investment in Solar	780,000	0
Goodwill	0	0
Current liabilities	3,600,000	950,000
Long-term debt	11,680,000	2,800,000
Stockholder's Equity	6,400,000	900,000

Requirement 1: Calculate consolidated balances for each of the accounts as of December 31, 2014.

Requirement 2: Assuming that Solar has paid no dividends during the year, what is the ending balance of the noncontrolling interest in the subsidiary?
Answer:
Requirement 1:
Current Assets = 5,700,000 + 1,250,000 = 6,950,000
Plant & Equipment = 15,200,000 + 3,400,000 = 18,600,000
Investment in Solar = 0 (eliminated in consolidation)
Goodwill = Paid $700,000 for 80% ownership, so implied fair value of company is $875,000. If Book Value of net assets at that date was $800,000, implied Goodwill amounts to $75,000.
Current Liabilities = $3,600,000 + 950,000 = $4,550,000
Long-term debt = 11,680,000 + 2,800,000 = $14,480,000
Stockholders' Equity = 6,400,000 (consolidated balance equals balance in parent's account)

Requirement 2:
Solar equity = $900,000, then noncontrolling interest should be $900,000 × 20% = $180,000 + Goodwill attributed to noncontrolling interest of ($75,000 × 20%) $15,000 = $195,000

Check this calculation by comparing to balance sheet information calculated above. Total assets calculated = $25,625,000; Total liabilities calculated = $19,030,000; Owners' equity = $6,400,000 + noncontrolling interest of $195,000 = $6,595,000.
Objective: LO5, 6
Difficulty: Difficult

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7) Park Corporation paid $180,000 for a 75% interest in Stem Co.'s outstanding Capital Stock on January 1, 2014, when Stem's stockholders' equity consisted of $150,000 of Capital Stock and $50,000 of Retained Earnings. Book values of Stem's net assets were equal to their fair values on this date. The adjusted trial balances of Park and Stem on December 31, 2014 were as follows:

	Park	Stem
Cash	$8,250	$35,000
Dividends receivable	7,500	
Other current assets	40,000	50,000
Land	50,000	30,000
Plant assets-net	100,000	150,000
Investment in Stem	195,000	
Cost of sales	225,000	125,000
Other expenses	45,000	25,000
Dividends	25,000	20,000
	$695,750	$435,000
Accounts payable	$40,750	$35,000
Dividends payable		10,000
Capital stock	150,000	150,000
Retained earnings	75,000	50,000
Sales revenue	400,000	190,000
Income from Stem	30,000	
	$695,750	$435,000

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Required: Complete the partially prepared consolidated balance sheet working papers that appear below.

	Park	Stem	Eliminations		Consoli-dated Balance Sheet
			Debit	Credit	
ASSETS Cash	$ 8,250	$ 35,000			
Dividends Receivable	7,500				
Other current Assets	40,000	50,000			
Land	50,000	30,000			
Plant assets	100,000	150,000			
Investment in Stem	195,000				
Total Assets	$ 400,750	$265,000			
EQUITIES Accounts payable	$ 40,750	$ 35,000			
Dividends Payable		10,000			
Capital stock	150,000	150,000			
Retained Earnings	210,000	70,000			
TOTAL EQUITIES	$ 400,750	$265,000			

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Answer:

Preliminary computations

Fair value (purchase price) of 75% interest acquired	$180,000
Implied fair value of Stem ($180,000 / 75%)	$240,000
Book value of Stem's net assets	$(200,000)
Excess fair value over book value acquired	$40,000
Initial investment cost	$180,000
Income from Stem: (75%)($40,000)=	30,000
Dividends ($20,000)(75%) =	-15,000
Balance in Investment in Stem at December 31,2014	$195,000

Park Corporation and Subsidiary
Consolidated Balance Sheet Working Papers
at December 31, 2011

		Park	Stem	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	8,250	$ 35,000					$ 43,250
Dividends Receivable		7,500				b	$ 7,500	
Other current Assets		40,000	50,000					90,000
Land		50,000	30,000					80,000
Plant assets		100,000	150,000					250,000
Investment in Stem		195,000				a	195,000	
Goodwill				a	$ 40,000			40,000
Total Assets	$	400,750	$265,000					$503,250
EQUITIES Accounts payable	$	40,750	$ 35,000					$75,750
Dividends Payable			10,000	b	7,500			2,500
Capital stock		150,000	150,000	a	150,000			150,000
Retained Earnings		210,000	70,000	a	70,000			210,000
Noncontrolling Interest						a	65,000	65,000
Total equities	$	400,750	$265,000					$503,250
					$267,500		$267,500	

Objective: LO5, 6
Difficulty: Difficult

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8) Patterson Company acquired 90% of Starr Corporation on January 1, 2014 for $2,250,000. Starr had net assets at that time with a fair value of $2,500,000. At the time of the acquisition, Patterson computed the annual excess fair-value amortization to be $20,000, based on the difference between Starr's net book value and net fair value. Assume the fair value exceeds the book value, and $20,000 pertains to the whole company. Separate from any earnings from Starr, Patterson reported net income in 2014 and 2015 of $550,000 and $575,000, respectively. Starr reported the following net income and dividend payments:

	2014	2015
Net Income	$150,000	$180,000
Dividends	$30,000	$30,000

Required: Calculate the following:

- Investment in Starr shown on Patterson's ledger at December 31, 2014 and 2015.
- Investment in Starr shown on the consolidated statements at December 31, 2014 and 2015.
- Consolidated net income for 2014 and 2015.
- Noncontrolling interest balance on Patterson's ledger at December 31, 2014 and 2015.
- Noncontrolling interest balance on the consolidated statements at December 31, 2014 and 2015.

Answer:
Investment in Starr on Patterson's ledger:
December 31, 2014 = $2,250,000 + Starr Net Income ($150,000 × 90%) $135,000 - Dividends received ($30,000 × 90%) $27,000 - Excess fair-value amortization ($20,000 × 90%) $18,000 = $2,340,000
December 31, 2015 = $2,340,000 + Starr Net Income ($180,000 × 90%) $162,000 - Dividends received ($30,000 × 90%) $27,000 - Excess fair-value amortization ($20,000 × 90%) $18,000 = $2,457,000

Investment in Starr shown on consolidated statements:
Will be -0- at the end of all years in consolidation, as the investment account is eliminated in consolidation.

Consolidated net income:
2014: $550,000 + 150,000 - excess fv amortization $20,000 = $680,000
2015: $575,000 + 180,000 - excess fv amortization $20,000 = $735,000

Noncontrolling interest balance on Patterson's ledger:
Will be -0- at the end of all years on Patterson's ledger, because the noncontrolling owners only have interest in the subsidiary balances and therefore have no interest to be shown on the parent's stand-alone statements.

Noncontrolling interest balance to be shown on the consolidated financial statements:
December 31, 2014: Acquisition date fair value $2,500,000 × 10% = 250,000 + interest in 2014 net income ($150,000 × 10%) 15,000 - fv amortization ($20,000 × 10%) $2,000 - dividends($30,000 × 10%) = $260,000
December 31, 2015: $260,000 + interest in 2015 net income ($180,000 × 10%) 18,000 - fv amortization ($20,000 × 10%) $2,000 - dividends($30,000 × 10%) = $273,000
Objective: LO8
Difficulty: Moderate

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9) Pool Industries paid $540,000 to purchase 75% of the outstanding stock of Swimmin Corporation, on December 31, 2014. Any excess fair value over the identified assets and liabilities is attributed to goodwill. The following year-end information was available just before the purchase:

	Pool Book Value	Swimmin Book Value	Swimmin Fair Value
Cash	$756,000	$80,000	$80,000
Accounts Receivable	260,000	152,000	152,000
Inventory	480,000	100,000	120,000
Land	440,000	160,000	140,000
Plant and equipment-net	1,320,000	400,000	430,000
	$3,256,000	$892,000	$922,000
Accounts Payable	$880,000	$22,000	$22,000
Bonds Payable	936,000	200,000	180,000
Capital stock, $10 par value	400,000		
Capital stock, $15 par value		450,000	
Additional paid-in capital	400,000	160,000	
Retained earnings	640,000	60,000	
	$3,256,000	$892,000	

Required:
1. Prepare Pool's consolidated balance sheet on December 31, 2014.

Answer:

Requirement 1:

Preliminary computations

Fair value (purchase price) of 75% interest acquired on December 31, 2014	$540,000
Implied fair value of Swimmin ($540,000 / 75%)	$720,000
Fair value of Swimmin's net assets	$(720,000)
Excess implied fair value over fair value acquired	$0

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		Pool	Swimmin	Eliminations				Consoli-dated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	216,000	$80,000					$ 296,000
Accounts Receivable		260,000	152,000					412,000
Inventory		480,000	100,000	a	$ 20,000			600,000
Land		440,000	160,000			a	$20,000	580,000
PP&E		1,320,000	400,000	a	30,000			1,750,000
Investment in Swimmin		540,000				a	540,000	-0-
Total Assets	$	3,256,000	$892,000					$3,638,000
EQUITIES Accounts Payable	$	880,000	$ 22,000					$ 902,000
Bonds Payable		936,000	200,000	a	20,000			1,116,000
Capital stock		400,000	450,000	a	450,000			400,000
Additional paid-in capital		400,000	160,000	a	160,000			400,000
Retained earnings		640,000	60,000	a	60,000			640,000
Noncontrolling Interest						a	180,000	180,000
Total equities	$	3,256,000	$892,000					$3,638,000
					$740,000		$740,000	

Objective: LO5, 6
Difficulty: Moderate

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10) Pool Industries paid $540,000 to purchase 75% of the outstanding stock of Swimmin Corporation, on December 31, 2014. Any excess fair value over the identified assets and liabilities is attributed to goodwill. The following year-end information was available just before the purchase:

	Pool Book Value	Swimmin Book Value	Swimmin Fair Value
Cash	$756,000	$80,000	$80,000
Accounts Receivable	260,000	152,000	152,000
Inventory	480,000	100,000	120,000
Land	440,000	160,000	140,000
Plant and equipment-net	1,320,000	400,000	430,000
	$3,256,000	$892,000	$922,000
Accounts Payable	$880,000	$22,000	$22,000
Bonds Payable	936,000	200,000	180,000
Capital stock, $10 par value	400,000		
Capital stock, $15 par value		450,000	
Additional paid-in capital	400,000	160,000	
Retained earnings	640,000	60,000	
	$3,256,000	$892,000	

Using the data provided above, assume that Pool decided rather than paying $540,000 cash, Pool issued 10,000 shares of their own stock to the owners of Swimmin. At the time of issue, the $10 par value stock had a market value of $60 per share.

Required: Prepare Pool's consolidated balance sheet on December 31, 2014.

Answer:

Requirement 1:

Preliminary computations

Fair value (purchase price) of 75% interest acquired on December 31, 2014	$600,000
Implied fair value of Swimmin ($600,000 / 75%)	$800,000
Fair value of Swimmin's net assets	$(720,000)
Excess implied fair value over fair value acquired (goodwill)	$80,000

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		Pool	Swimmin	Eliminations				Consoli-dated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	756,000	$80,000					$ 836,000
Accounts Receivable		260,000	152,000					412,000
Inventory		480,000	100,000	a	$ 20,000			600,000
Land		440,000	160,000			a	$20,000	580,000
PP&E		1,320,000	400,000	a	30,000			1,750,000
Investment in Swimmin		600,000				a	600,000	-0-
Goodwill				a	80,000			80,000
Total Assets	$	3,856,000	$892,000					$4,258,000
EQUITIES Accounts Payable	$	880,000	$ 22,000					$ 902,000
Bonds Payable		936,000	200,000	a	20,000			1,116,000
Capital stock		500,000	450,000	a	450,000			500,000
Additional paid-in capital		900,000	160,000	a	160,000			900,000
Retained Earnings		640,000	60,000	a	60,000			640,000
Noncontrolling Interest						a	200,000	200,000
Total equities	$	3,856,000	$892,000					$4,258,000
					$820,000		$820,000	

Objective: LO5, 6
Difficulty: Moderate

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11) On July 1, 2014, Piper Corporation issued 23,000 shares of its own $2 par value common stock for 40,000 shares of the outstanding stock of Sector Inc. in an acquisition. Piper common stock at July 1, 2014 was selling at $16 per share. Just before the business combination, balance sheet information of the two corporations was as follows:

	Piper Book Value	Sector Book Value	Sector Fair Value
Cash	$25,000	$17,000	$17,000
Inventories	55,000	42,000	47,000
Other current assets	110,000	40,000	30,000
Land	100,000	45,000	35,000
Plant and equipment-net	660,000	220,000	280,000
	$950,000	$364,000	$409,000
Liabilities	$220,000	$70,000	$75,000
Capital stock, $2 par value	500,000	100,000	
Additional paid-in capital	170,000	90,000	
Retained earnings	60,000	104,000	
	$950,000	$364,000	

Required:
1. Prepare the journal entry on Piper Corporation's books to account for the investment in Sector Inc.

2. Prepare a consolidated balance sheet for Piper Corporation and Subsidiary immediately after the business combination.

Answer:
Requirement 1:

Investment in Sector Inc.	368,000	
Capital stock		46,000
Additional paid-in capital		322,000

Requirement 2:
Preliminary computations

Sector stock outstanding	$100,000
$100,000 / $2 par value = 50,000 shares o/s	
40,000 purchased / 50,000 =	80%
Fair value (purchase price) of 80% interest acquired	$368,000
Implied fair value of Sector ($368,000 / 80%)	460,000
Book value of Sector's net assets	(294,000)
Excess fair value over book value acquired =	$166,000

Allocation of excess of fair value over book value:

Inventory	$5,000
Other current assets	(10,000)

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Land	(10,000)
Plant and Equipment	60,000
Liabilities	(5,000)
Remainder to goodwill	126,000
Excess of fair value over book value	$166,000

Piper Corporation and Subsidiary
Consolidated Balance Sheet Working Papers
July 1, 2014

		Piper	Sector	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	25,000	$ 17,000					$ 42,000
Inventories		55,000	42,000	b	$ 5,000			102,000
Other current Assets		110,000	40,000			b	$ 10,000	140,000
Land		100,000	45,000			b	10,000	135,000
Plant and equipment--net		660,000	220,000	b	60,000			940,000
Goodwill				b	126,000			126,000
Investment in Sector		368,000				a	368,000	
Unamortized Excess				a	166,000	b	166,000	
Total Assets	$	1,318,000	$364,000					$1,485,000
EQUITIES Liabilities	$	220,000	$ 70,000			b	5,000	$ 295,000
Capital stock		546,000	100,000	a	100,000			546,000
Additional paid-in capital		492,000	90,000	a	90,000			492,000
Retained Earnings		60,000	104,000	a	104,000			60,000
Noncontrolling Interest						a	92,000	92,000
Total equities	$	1,318,000	$364,000					$1,485,000
				$	651,000	$	651,000	

Objective: LO5
Difficulty: Moderate

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12) Passcode Incorporated acquired 90% of Safe Systems International for $540,000, the market value at that time. On the date of acquisition, Safe Systems showed the following balances on their ledger:

	Book Value	Fair Value
Current Assets	$200,000	$200,000
Buildings	290,000	320,000
Equipment	410,000	430,000
Liabilities	(350,000)	(360,000)

Safe Systems has determined that their buildings have a remaining life of 10 years, and their equipment has a remaining useful life of 8 years.

Requirement 1: Calculate the amount of goodwill that will appear on the general ledger of Passcode and Safe Systems, as well as the amount that will appear on the consolidated financial statements.

Requirement 2: Calculate the amount of amortization that will appear on the consolidated financial statements for buildings and equipment, and explain how this amortization of excess fair value is shown on the separate general ledgers of Passcode and Safe Systems.

Answer:
Requirement 1:
The consolidated financial statements will show consolidated goodwill of $10,000.
Amount paid = $540,000 / 90% = implied fair value of $600,000.
Book value = $550,000. Excess payment of $50,000 allocated as follows:

Buildings	30,000
Equipment	20,000
Liabilities	(10,000)
Goodwill	10,000
	50,000

No goodwill relating to this transaction will appear on the separate general ledger of either Passcode or Safe Systems.

Requirement 2:
The consolidated financial statements will show amortization of these excess fair value amounts:

Buildings = $30,000 / 10 years =	$3,000 per year
Equipment = 20,000 / 8 years =	2,500 per year
Total	$5,500 per year

Passcode's ledger will show $4,950 ($5,500 × 90%) of amortization as a reduction of the Investment in Safe Systems account and a reduction of their interest in the income of Safe Systems.

Safe Systems' ledger will not show any amount of this amortization, unless Passcode chose to employ the push-down method of accounting and record these fair values on the separate ledger of Safe Systems.
Objective: LO4
Difficulty: Moderate

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13) Pamula Corporation paid $279,000 for 90% of Shad Corporation's $10 par common stock on December 31, 2014, when Shad Corporation's stockholders' equity was made up of $200,000 of Common Stock, $60,000 Additional Paid-in Capital and $40,000 of Retained Earnings. Shad's identifiable assets and liabilities reflected their fair values on December 31, 2014, except for Shad's inventory which was undervalued by $5,000 and their land which was undervalued by $2,000. Balance sheets for Pamula and Shad immediately after the business combination are presented in the partially completed working papers.

	Pamula	Shad	Eliminations		Consolidated Balance Sheet
			Debit	Credit	
ASSETS					
Cash	$ 26,000	$ 20,000			
Accounts receivable-net	20,000	30,000			
Inventories	125,000	110,000			
Land	30,000	80,000			
Plant assets –net	320,000	160,000			
Investment in Shad	279,000				
Total Assets	$ 800,000	$400,000			
EQUITIES					
Current liabilities	$ 110,000	$100,000			
Capital stock	400,000	200,000			
Additional paid-in capital	100,000	60,000			
Retained Earnings	190,000	40,000			
TOTAL EQUITIES	$ 800,000	$400,000			

Required:
Complete the consolidated balance sheet working papers for Pamula Corporation and Subsidiary.

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Answer:

Preliminary computations

Fair value (purchase price) of 90% interest acquired	$279,000
Implied fair value of Shad ($279,000 / 90%)	$310,000
Book value of Shad's net assets	(300,000)
Excess fair value over book value acquired	$ 10,000

Allocation of excess of fair value over book value:

Inventory	$5,000
Land	2,000
Remainder to goodwill	3,000
Excess of fair value over book value	$ 10,000

Pamula Corporation and Subsidiary
Consolidated Balance Sheet Working Papers
at December 31, 2014

		Pamula	Shad	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Cash	$	26,000	$ 20,000					$ 46,000
Receivables-net		20,000	30,000					50,000
Inventories		125,000	110,000	a	$ 5,000			240,000
Land		30,000	80,000	a	2,000			112,000
Plant assets – net		320,000	160,000					480,000
Investment in Shad		279,000				a	279,000	
Goodwill				a	3,000			3,000
Total Assets	$	800,000	$400,000					$931,000
EQUITIES Curr.liabilities	$	110,000	$100,000					$210,000
Capital Stock		400,000	200,000	a	200,000			400,000
Additional paid-In capital		100,000	60,000	a	60,000			100,000
Retained Earnings		190,000	40,000	a	40,000			190,000
Noncontrolling Interest						a	31,000	31,000
Total equities	$	800,000	$400,000		310,000		310,000	$931,000

Objective: LO5
Difficulty: Difficult

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14) On January 2, 2014, Power Incorporated paid $630,000 for a 90% interest in Smallsen Company. Smallsen's equity at that time amounted to $600,000, and their book values for assets and liabilities recorded approximated their fair values. Smallsen did not issue any additional stock in 2014. At December 31, 2014, the two companies' balance sheets are summarized as follows:

Power Incorporated and Subsidiary
Consolidated Balance Sheet Working Papers
at December 31, 2014

		Power	Smallsen	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Current assets	$	1,675,000	$ 550,000					
Fixed assets		2,350,000	900,000					
Investment in Smallsen		666,000						
Goodwill								
Total Assets	$	4,691,000	$1,450,000					
EQUITIES Liabilities	$	2,800,000	$ 810,000					
Capital stock		1,200,000	100,000					
Retained Earnings		691,000	540,000					
Noncontrolling Interest								
Total equities	$	4,691,000	$1,450,000					

Required: Complete the consolidation worksheet for Power Incorporated and Subsidiary at December 31, 2014.

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Answer:

Power Incorporated and Subsidiary
Consolidated Balance Sheet Working Papers
at December 31, 2014

		Power	Smallsen	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Current assets	$	1,675,000	$ 550,000					$2,225,000
Fixed assets		2,350,000	900,000					3,250,000
Investment in Smallsen		666,000				a	666,000	
Goodwill				a	$100,000			100,000
Total assets	$	4,691,000	$1,450,000					$5,575,000
EQUITIES Liabilities	$	2,800,000	$ 810,000					$3,610,000
Capital stock		1,200,000	100,000	a	100,000			1,200,000
Retained earnings		691,000	540,000	a	540,000			691,000
Noncontrolling Interest						a	74,000	74,000
Total equities	$	4,691,000	$1,450,000					$5,575,000
					$740,000		$740,000	

Objective: LO6
Difficulty: Moderate

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15) Pal Corporation paid $5,000 for a 60% interest in Sonny Inc. on January 1, 2014 when Sonny's stockholders' equity consisted of $5,000 Capital Stock and $2,500 Retained Earnings. The fair value and book value of Sonny's assets and liabilities were equal on this date. Two years later, on December 31, 2015, the balance sheets of Pal and Sonny are summarized as follows:

	Pal	Sonny	Eliminations		Consoli-dated Balance Sheet
			Debit	Credit	
ASSETS Current assets	$ 12,550	$ 4,000			
Fixed assets	21,550	6,500			
Investment in Sonny	5,900				
Total Assets	$ 40,000	$10,500			
EQUITIES Liabilities	$ 10,000	$ 1,500			
Capital stock	20,000	5,000			
Retained Earnings	10,000	4,000			
TOTAL EQUITIES	$ 40,000	$10,500			

Required:
Complete the consolidated balance sheet working papers for Pal Corporation and Subsidiary at December 31, 2015.

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Answer:
<u>Preliminary computations</u>

Fair value (purchase price) of 60% interest acquired January 1, 2014	$5,000
Implied fair value of Sonny ($5,000 / 60%)	$8,333
Book value of Sonny's net assets	(7,500)
Excess fair value over book value acquired	$ 833

Allocation of excess of fair value over book value:

Remainder to goodwill	833
Excess of fair value over book value	$ 833

		Pal	Sonny	Eliminations				Consolidated Balance Sheet
					Debit		Credit	
ASSETS Current assets	$	12,550	$ 4,000					$16,550
Fixed assets		21,550	6,500					28,050
Investment in Sonny		5,900				a	$5,900	
Goodwill				a	$ 833			833
Total Assets	$	40,000	$10,500					$45,433
EQUITIES Liabilities	$	10,000	$ 1,500					$11,500
Capital stock		20,000	5,000	a	5,000			20,000
Retained Earnings		10,000	4,000	a	4000			10,000
Noncontrolling Interest						a	3,933	3,933
Total equities	$	40,000	$10,500					$45,433
					$9,833		$9,833	

Objective: LO6
Difficulty: Moderate

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16) Petra Corporation paid $500,000 for 80% of the outstanding voting common stock of Sizable Corporation on January 2, 2014 when the book value of Sizable's net assets was $460,000. The fair values of Sizable's identifiable net assets were equal to their book values except as indicated below.

	Book Value	Fair Value
Inventories (sold in 2014)	$80,000	$112,000
Buildings-net (15-year life)	200,000	170,000
Note Payable (paid in 2014)	20,000	21,250

Sizable reported net income of $75,000 during 2014; dividends of $35,000 were declared and paid during the year.

Required:

1. Prepare a schedule to allocate the fair value/book value differential to the specific identifiable assets and liabilities.

2. Determine Petra's income from Sizable for 2014.

3. Determine the correct balance in the Investment in Sizable account as of December 31, 2014.

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Answer:

Preliminary computations

Fair value (purchase price) of 80% interest acquired January 2, 2014	$500,000
Implied fair value of Sizable ($500,000 / 80%)	$625,000
Book value of Sizable's net assets	(460,000)
Excess fair value over book value acquired	$165,000

Requirement 1

Allocation of excess of fair value over book value:

Inventory	$32,000
Buildings-net	(30,000)
Note payable	(1,250)
Remainder to goodwill	$164,250
Excess of fair value over book value	$165,000

Requirement 2

Petra's share of Sizable income (all at 80%)	$60,000
Less: Excess allocated in inventory which was sold in the current year	(25,600)
Add: Depreciation adjustment on building ($24,000 / 15 years)	1,600
Add: Excess allocated to Note payable	1,000
Net adjustment to investment account due to Petra's share of Sizable's income	$37,000

Requirement 3

Original cost of investment in Sizable	$500,000
Plus: Petra's share of Sizable's income (from Requirement 2)	37,000
Less: Dividends received (35,000 × 80%)	(28,000)
Investment in Sizable account at December 31, 2014	$509,000

Objective: LO7, 8
Difficulty: Moderate

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17) On January 1, 2014, Parry Incorporated paid $72,000 cash for 80% of Samuel Company's common stock. At that time Samuel had $40,000 capital stock and $30,000 retained earnings. The book values of Samuel's assets and liabilities were equal to fair values, and any excess amount is allocated to goodwill. Samuel reported net income of $18,000 during 2014 and declared $5,000 of dividends on December 31, 2014. At the time the dividends were declared, Parry recorded a receivable for the amount they expected to receive the following month. A summary of the balance sheets of Parry and Samuel are shown below.

		Parry	Samuel	Eliminations				Consoli-dated Balance Sheet
					Debit		Credit	
ASSETS Current assets	$	100,000	$ 50,000					
Fixed assets		180,000	75,000					
Investment in Samuel		82,400						
Goodwill								
Total Assets	$	362,400	$125,000					
EQUITIES Dividend Payable	$	10,000	$ 5,000					
Other Liabilities		112,400	37,000					
Capital stock		200,000	40,000					
Retained Earnings		40,000	43,000					
Noncontrolling Interest								
Total equities	$	362,400	$125,000					

Required:
Complete the consolidated balance sheet working papers for Parry Corporation and Subsidiary at December 31, 2014.

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Answer:
Preliminary computations

Initial investment for 80% ownership of Samuel:	$72,000
Implied fair value of Samuel ($72,000 / 80%)	90,000
Book Value of Samuel	(70,000)
Amount allocated to Goodwill	$20,000

		Parry	Samuel	Eliminations				Consoli-dated Balance Sheet
					Debit		Credit	
ASSETS Current assets	$	100,000	$ 50,000			b	$4,000	$146,000
Fixed assets		180,000	75,000					255,000
Investment in Samuel		82,400				a	82,400	
Goodwill				a	$20,000			20,000
Total assets	$	362,400	$125,000					$421,000
EQUITIES Dividend Payable	$	10,000	$ 5,000	b	4,000			$11,000
Other Liabilities		112,400	37,000					149,400
Capital stock		200,000	40,000	a	40,000			200,000
Retained earnings		40,000	43,000	a	43,000			40,000
Noncontrolling Interest						a	20,600	20,600
Total equities	$	362,400	$125,000		$107,000		$107,000	$421,000

Objective: LO6
Difficulty: Moderate

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18) On January 1, 2014, Pinnead Incorporated paid $300,000 for an 80% interest in Shalle Company. At that time, Shalle's total book value was $300,000. Patents were undervalued in the amount of $10,000. Patents had a 5-year remaining useful life, and any remaining excess value was attributed to goodwill. The income statements for the year ended December 31, 2014 of Pinnead and Shalle are summarized below:

	Pinnead	Shalle
Sales	$800,000	$300,000
Income from Shalle	78,400	
Cost of sales	(100,000)	(100,000)
Depreciation	(70,000)	(30,000)
Other Expenses	(130,000)	(70,000)
Net Income	$578,400	$100,000

Requirements:

1. Calculate the goodwill that will appear in the consolidated balance sheet of Pinnead and Subsidiary at December 31, 2014.
2. Calculate consolidated net income for 2014.
3. Calculate the noncontrolling interest share for 2014.

Answer:

Requirement 1

Pinnead paid to acquire 80% of Shalle	$300,000
Implied fair value of Shalle($300,000 / 80%)	375,000
Book Value of Shalle	300,000
Excess fair value over book value of Shalle	$75,000

Allocation of excess fair value over book value:

Patent	10,000
Goodwill	65,000
Total excess fair value over book value allocated	$75,000

Consolidated Goodwill = $65,000

Requirement 2

Pinnead separate net income ($578,400 - $78,400)	$500,000
Shalle separate net income	100,000
Amortization of patent($10,000 / 5 yrs)	(2,000)
Consolidated Net Income	$598,000

Requirement 3

Shalle separate net income	$100,000
Amortization of excess value ($10,000 / 5 yrs)	(2,000)
Adjusted net income	98,000
Noncontrolling ownership	20%
Noncontrolling interest share	$19,600

Objective: LO8

Difficulty: Moderate

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19) Pattalle Co purchases Senday, Inc. on January 1 of the current year for $70,000 more than the fair value of Senday's net assets. Push-down accounting is used. At that date, the following values exist:

	Pattalle		Senday	
	Book Value	Fair Value	Book Value	Fair Value
Cash	3,000,000	3,000,000	200,000	200,000
A/R	5,000,000	4,500,000	350,000	320,000
Building – net	10,000,000	10,300,000	970,000	950,000
Equipment - net	4,000,000	3,800,000	1,600,000	1,400,000
A/P	(3,000,000)	(3,000,000)	(200,000)	(210,000)
Bonds Payable	(12,000,000)	(11,500,000)		
Common Stock	(1,000,000)		(800,000)	
Retained Earnings	(6,000,000)		(2,120,000)	

Requirement: Determine what amounts will appear in the listed accounts on Pattalle's general ledger, on Senday's general ledger, and on the consolidated balance sheet immediately following the acquisition. Make sure you post the entry to record the investment on Pattalle's books.

Answer:

	Pattalle Ledger	Senday Ledger	Consolidating Entry	Consolidated Statements
Cash	270,000	200,000		470,000
A/R	5,000,000	320,000		5,320,000
Building — net	10,000,000	950,000		10,950,000
Equipment - net	4,000,000	1,400,000		5,400,000
Investment	2,730,000		(2,730,000)	0
Goodwill		70,000		70,000
A/P	(3,000,000)	(210,000)		(3,210,000)
Bonds Payable	(12,000,000)			(12,000,000)
Common Stock	(1,000,000)	(800,000)	800,000	(1,000,000)
Retained Earnings	(6,000,000)			(6,000,000)
Push-down Capital		(1,930,000)	1,930,000	

Objective: LO8

Difficulty: Moderate

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