

Accy 493 Fall 2002 UIUC Midterm 1

8. ANS:

Bonus method:

	<u>Martel</u>	<u>Tusk</u>	<u>Davis</u>	<u>Frank</u>
Original capital balance.....	\$40,000	\$50,000	\$20,000	
Asset revaluation.....	(18,000)	(9,000)	(3,000)	
Investment of new partner:				
Bonus*.....	6,000	3,000	1,000	
Capital balance*.....				<u>\$30,000</u>
Total.....	<u>\$28,000</u>	<u>\$44,000</u>	<u>\$18,000</u>	<u>\$30,000</u>
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* New Partnership Capital:	Capital-Old Partnership	\$110,000
	Asset Writedown	(30,000)
	Frank Consideration	<u>40,000</u>
	Capital-New Partnership	\$120,000

Frank's Capital = 25% * 120,000 = 30,000

Bonus = 40,000 - 30,000 = 10,000

Goodwill method:

Original capital balance.....	\$40,000	\$50,000	\$20,000	
Asset Write Down.....	(18,000)	(9,000)	(3,000)	
Asset Write Up.....	15,000	7,500	2,500	
Goodwill**.....	9,000	4,500	1,500	
Investment of new partner....				<u>\$40,000</u>
Total.....	<u>\$46,000</u>	<u>\$53,000</u>	<u>\$21,000</u>	<u>\$40,000</u>
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** \$40,000 ÷ 25% = \$160,000;

\$160,000 - (\$110,000 - \$30,000 + \$25,000 + 40,000) = \$15,000 goodwill

9. ANS:

a. Determination and Distribution of Excess Schedule:

Price paid for investment in Subsidiary Company.....		\$360,000	
Less book value of interest acquired:			
Common stock.....	\$ 50,000		
Paid-in capital in excess of par.....	100,000		
Retained earnings.....	<u>150,000</u>		
Total stockholders' equity.....	\$300,000		
Interest acquired.....	<u>100%</u>	<u>300,000</u>	
Excess of cost over book value (debit balance).....		\$ 60,000	
Allocable to:			
Inventory (10,000 x 90%).....		10,000	Dr.
Land.....		22,000	Dr.
Building.....		<u>28,000</u>	Dr.
(to Accumulated Depreciation).....			
Patent.....		\$ 0	
		=====	

	Fair Value	Fraction of Fair Value	Total Assigned Value*	Allocated Assigned Value	Book Value	Increase (Decrease)
Land	\$ 80,000	1/5	\$360,000	\$ 72,000	\$ 50,000	\$22,000
Building	<u>320,000</u>	4/5	\$360,000	<u>288,000</u>	<u>260,000</u>	<u>28,000</u>
	<u>\$400,000</u>			<u>\$360,000</u>	<u>\$310,000</u>	<u>\$50,000</u>
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* Total assigned value is book value of land (\$50,000) and building (260,000) plus remaining excess of cost over book value of \$50,000.

b.

Minority interest: 0
Investment in subsidiary: 0
Consolidated Net Income: 100,000 + 100%(90,000) - 2,800 = 187,200 (to controlling interest)