

ACCY493-Fall 2003
10/01/2003
Prof. Doogar

QUIZ #2

NAME: _____

Section: D1 D2 MSA

Question 1

Heinrich Company purchased an influential 25% interest in Fink Company on January 1, 20X6, for \$320,000. At that time, Fink's stockholders equity was \$1,000,000.

Fink Company assets had fair value similar to book value except for a building that was undervalued by \$40,000. The building had an estimated remaining life of 20 years. Any remaining excess was attributed to goodwill.

The following additional information is available:

- a. On July 1, 20X6, Heinrich sold a machine to Fink for \$24,000. The cost of the machine to Heinrich was \$16,000. The machine is being depreciated on a straight-line basis over 10 years.
- b. Heinrich provides management services to Fink at a billing rate of \$15,000 per year. This arrangement started in 20X6.
- c. Fink has sold merchandise to Heinrich since 20X7. Sales were \$10,000 in 20X7 and \$25,000 in 20X8. The merchandise is sold to provide a gross profit rate of 25%. Heinrich had \$2,000 of these goods in its December 31, 20X7 inventory and \$3,000 of such goods in its December 31, 20X8 inventory.
- d. The income earned and the dividend paid by Fink are as follows:

<u>Year</u>	<u>Income</u>	<u>Dividends</u>
20X6	\$48,000	\$10,000
20X7	50,000	10,000
20X8	65,000	10,000

Required:

Prepare all entries necessitated by Heinrich's investment in Fink Company for 20X6 through 20X8 using the equity method for an influential investment (i.e. the sophisticated equity method). Supporting schedules should be in good form. Ignore taxes.

Scratch Paper