

Determination and Distribution of Excess Schedule

Price paid for investment in Fink.....		\$320,000
Less interest acquired:		
Total stockholders' equity	\$1,000,000	
Interest acquired	<u>25%</u>	<u>250,000</u>
Excess of cost over book value (debit balance).....		\$ 70,000
Attributable to long-lived assets:		
Less undervaluation of building		
(\$40,000 × 0.25, 20 years, \$500 per year)		<u>10,000</u> Dr.
Goodwill.....		<u>\$ 60,000</u> Dr.

20X6 Income Distribution for Investment in Fink Company

	Reported net income.....	\$48,000
	Adjusted net income	\$48,000
	Ownership interest.....	<u>25%</u>
	Share of income.....	\$12,000
	Less excess amortization	<u>500</u>
	Net share of income.....	<u>\$11,500</u>

20X6 Entries:

Cash (\$10,000 × 25%)	2,500	
Investment in Fink (\$11,500 – \$2,500 dividends)	9,000	
Investment Income.....		11,500
Sales (\$8,000 × 25%).....	2,000	
Realized Gross Profit (1/20 × \$2,000).....		100
Deferred Gross Profit		1,900

20X7 Income Distribution for Investment in Fink Company

Profit in ending inventory (\$2,000 × 25%).....	Reported net income.....	\$50,000
\$500		
	Adjusted net income	\$49,500
	Ownership interest.....	<u>25%</u>
	Share of income.....	\$12,375
	Less excess amortization	<u>500</u>
	Net share of income.....	<u>\$11,875</u>

Quiz 2 Solution continued

20X7 Entries:

Cash (\$10,000 × 25%)	2,500	
Investment in Fink (\$11,875 – \$2,500 dividends)	9,375	
Investment Income		11,875
Deferred Gross Profit	200	
Realized Gross Profit		200

20X8 Income Distribution for Investment in Fink Company

Profit in ending inventory (\$3,000 × 25%)..... \$750	Reported net income.....	\$65,000
	Beginning inventory profit (\$2,000 × 25%).....	500
	Adjusted net income	\$64,750
	Ownership interest.....	<u>25%</u>
	Share of income.....	\$16,187
	Less excess amortization	<u>500</u>
	share of income	<u>\$15,687</u>

20X8 Entries:

Cash (\$10,000 × 25%)	2,500	
Investment in Fink (\$15,687 – \$2,500 dividends)	13,187	
Investment Income		15,687
Deferred Gross Profit	200	
Realized Gross Profit		200