

2. (1)	Current assets	100,000	
	Land	75,000	
	Building.....	300,000	
	Equipment	275,000	
	Goodwill.....	167,000	
	Liabilities		102,000
	Cash (includes direct acquisition costs).....		815,000
(2)	Cash	800,000	
	Liabilities.....	100,000	
	Accumulated depreciation—building	200,000	
	Accumulated depreciation—equipment.....	100,000	
	Current assets		80,000
	Land		50,000
	Building		450,000
	Equipment.....		300,000
	Gain on sale of business		320,000

Note: Seller does not receive direct acquisition costs.

(3)	Investment in Cardinal Company	815,000	
	Cash.....		815,000

Note: At year-end, Cardinal would be consolidated with Benz, as explained in Chapter 2.

5. Purchase price:

Cash	\$180,000
Direct acquisition costs incurred.....	<u>10,000</u>
Total purchase price	<u>\$190,000</u>

Zone Analysis	Group Total	Cumulative Group Total
Priority accounts	\$140,000	\$140,000
Nonpriority accounts	55,000	195,000
Price paid.....	\$190,000	
Assign to priority	140,000	
Assign to nonpriority	50,000	
Goodwill	—	
Extraordinary gain.....	—	

Journal Entry:

Accounts Receivable*	200,000	
Inventory*.....	270,000	
Equipment [(40 ÷ 55) × \$50,000].....	36,364	
Brand-name Copyright [(15 ÷ 55) × \$50,000]	13,636	
Cash		190,000
Current Liabilities*		80,000
Mortgage Payable*		250,000
*Fair value		
Dr = Cr check amounts	520,000	520,000
Acquisition Expense**.....	15,000	
Cash		15,000

**Indirect acquisition costs

6. Purchase price:

Cash	\$125,000
Direct acquisition costs incurred.....	<u>10,000</u>
Total purchase price	<u>\$135,000</u>

Zone Analysis	Group Total	Cumulative Group Total
Priority accounts	\$140,000	\$140,000
Nonpriority accounts	55,000	195,000
Price paid.....	\$135,000	
Assign to priority	140,000	
Assign to nonpriority	—	
Goodwill.....	—	
Extraordinary gain.....	5,000	

Journal Entry:

Accounts Receivable*	200,000	
Inventory*	270,000	
Cash		135,000
Current Liabilities*		80,000
Mortgage Payable*		250,000
Extraordinary Gain		5,000

*Fair value

Dr = Cr check amount	470,000	470,000
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Note: There is no amount available to allocate to the nonpriority assets (equipment and brand-name copyrights).

Acquisition Expense**	15,000	
Cash		15,000

**Indirect acquisition costs