3) Prepare the entry to recognize the proportionate share of Slash's **dividends** on the parent's books. **(2 points)**

2

Account	DR	CR
Cash	80,000	
investment in slash Corp. c.s		80,000

4) Prepare the entry to record the **amortization** (write off) of the **differential** on the parent's books on December 31, 2019. **(2 points)**

2

Account	DR	CR
Income from Slash Corp.	41,500	
investment in Slash Corp. c.s		41,500

5) Use the **T-accounts** below to show the changes related to these accounts. ***(2 points)***

2

Investment in Slash	
Debit	**Credit**
II. 1,312,500	Div. 80,000
N.I 120,000	Diff. 41,500
$1,311,000	

Income from Slash	
Debit	**Credit**
Diff. 41,500	120,000
	$78,500

26

Question 2 (26 points)

Point Company acquired 100 percent of the stock of Slash Corp. on January 1, 2019. The stockholders' equity section of Slash's balance sheet at that date is as follows:

Stockholders' Equity Section	
Common Stock	$300,000
Additional Paid in Capital	500,000
Retained Earnings	400,000
Total Stockholders' Equity	$1,200,000

Point financed the acquisition by using $1,000,000 cash and giving a note payable for $312,500. Book value approximated fair value for all of Slash's assets and liabilities except for:

- Buildings which had a fair value of $40,000 more than its book value and a remaining useful life of 10 years.
- Land which had a fair value of $20,000 more than its book value.
- Merchandise Inventory which had a fair value of 10,000 more than its book value, and was sold during 2019.
- Any remaining differential was related to goodwill. Goodwill is deemed to be impaired and worth only $15,000.
- Slash has an account payable to Point in the amount of $20,000.

During 2019, Slash had the following:

1. Declared cash dividends	$ 80,000
2. Earned net income	120,000

Required

1) Prepare the **initial investment** entry on the parent's books on January 1, 2019. **(3 points)**

Account	DR	CR
investment in slash Corp. C.S	1,312,500	
Cash		1,000,000
notes Payable		312,500

3

2) Prepare the entry to recognize the proportionate share of Slash 's **net income** on the parent's books on December 31, 2019. **(2 points)**

Account	DR	CR
investment in slash Corp, C.S	120,000	
income from slash Corp.		120,000

2

12

Assets		Liabilities & SHE	
Account	**Amount**	**Account**	**Amount**
current assets	346,000	current liabilities	87,000
Plant assets	475,000	Long-Term debt	165,000
ess: Accumulated depreciation	145,000	Common stock	100,000
		APIC	30,000
		Retained Earnings	247,500
		noncontrolling interest in net assets of sub.	46,500
Total assets	$ 676,000	**Total Liabilities & SHE**	$ 676,000

b) Determine the following for 2021: **(2 points)**

Non-controlling interest in net income. $ 7,500

Consolidated net income attributable to controlling interest. $ 187,500

4 | Givenup | FMV of net assets | BV of net assets

750,000 | 1000,000 | 1000,000

$\underbrace{750,000 \quad 1000,000}_{250,000}$

5 Finders fee + legal fee ⇒ 40,000 + 13000 = 53,000

6 10,000 + 5000 + 4000 = 19,000

أي تكلفة بتتعلق بإصدار الأسهم :

وتطرح من ال APIC

7 Buiding $180,000 and Acc. dep 18,000

180,000 / 30 years = 6000 كل سنة

6000 * 3 years = 18,000

E FMV of shares issued at Business compination date :-

C.S + APIC + Deffend stock issuance costs.

21,000 + [553,000 - 234,000] + 24,000

21,000 + 319,000 + 24,000 = 364,000

G Cash + A/R + inventory + Building and EQP - [A/P + Bonds payable]

15,000 + 30,000 + 110,000 + 293,000 - [22,000 + 120,000]

= 306,000

H consideration givien up ⟷ FMV of net identafiable assets

364,000 ⟷ 306,000

58,000 G.W

I 293,000 / 10 years = 29,300

J R.E of Paper ⇒ 194,000

مو دائرة

1 Dr. investment in son ?? => $\boxed{138,000}$ C

Dr. A/P 14,000

Dr. Acc. dep 33,000

Cr. cash 3000

Cr. A/R 16,000

Cr. inventory 27,000

Cr. land 9000

Cr. Building 130,000

2 cash 3000

A/R 16,000

inventory 27000

land 9000

Building 130,000

$\boxed{A}$

A/P 14,000

Acc. dep 33,000

C.S 40,000 (8000 * 5)

APIC 98,000

3 Total R.B.U <-> Total CV Test 1

1,185,000 < 1,190,000 Yes, impairment

Total R.B.U > Total fmv of net identifiable Test 2

1,185,000 > 1,120,000 => by 65000 implied G.W

implied G.W < Recorded G.W Additional step

65,000 < 138,000

$\boxed{69,000}$

PART ONE - ESSAY QUESTIONS (38 POINTS)

Question 1 (12 points)

On January 1, 2021, Power Corporation acquired 70% of Star Company's voting stock, at underlying book value. The fair value of the noncontrolling interest was equal to 30% of the book value of Star. On Dec.31, 2021, the trial balances of the two companies are as follows:

Item	Power		Star	
	Debit	Credit	Debit	Credit
Current Assets	$226,000		$120,000	
Plant Assets	300,000		225,000	
Investment in Star	108,500			
Depreciation Expense	30,000		25,000	
Other Expenses	100,000		60,000	
Dividends Declared	30,000		10,000	
Accumulated Depreciation		$120,000		$75,000
Current Liabilities		62,000		25,000
Long-Term Debt		75,000		90,000
Common Stock		100,000		75,000
APIC		30,000		15,000
Retained Earnings		90,000		50,000
Sales		300,000		110,000
Income from Star		17,500		
Total	$794,500	$794,500	$440,000	$440,000

Required

a) Prepare the consolidated balance sheet as of December 31, 2021, using the table on the next page. **(10 points)**

15

6) Prepare the elimination entry needed on December 31, 2019. **(15 points)**
Note: Optional entry is not required.

Elimination Entry

Account	DR	CR
Common stock – S	300,000	
Additional paid in capital – S	500,000	
Retained earnings – S	400,000	
income from slash Corp. – P	78,500	
Building – S	40,000	
Land – S	20,000	
GoodWill – S	15,000	
impairment loss – S	27,500	
Depreciation expense – S	4,000	
COGS – S	10,000	
A/P – S	20,000	
Dividends declared – S		80,000
investment in slash Corp. C.S		1,311,000
Accumulated depreciation – S		4000
A/R – P		20,000

B) True / False Questions (5 points)

For each of the following statements, indicate whether the statement is true (T) or false (F). If the statement is false, give the correct answer.

Statement
1. The consolidated statement amounts are identical whether the parent uses the cost method or the equity method.
2. A spin-off occurs when the subsidiary's shares are exchanged for shares of the parent, thereby leading to a reduction in the outstanding shares of the parent company
3. In a statutory merger, both combining companies are dissolved and the assets and liabilities are transferred to a newly created company.

C) Multiple Choice Questions (7 points)

The following information relates to questions 1 & 2.

Papa Corporation established Son Company as a wholly owned subsidiary. Papa transferred assets and accounts payable to Son in exchange for 8,000 shares of $5 par value stock of Son:

Item	Cost	Book Value	Fair Value
Cash	3,000	3,000	3,000
Account Receivables	16,000	16,000	16,000
Inventory	27,000	27,000	22,000
Land	9,000	9,000	15,000
Buildings & Equipment	130,000	97,000	120,000
Accounts Payable	14,000	14,000	15,000

1. What amount did Papa report as its investment in Son after the transfer of assets and liabilities?
A. $161,000
B. $171,000
C. $138,000
D. $150,000

97,000 = 130,000 - ACC.
ACC =

2. Which of the following would be included in the journal entry made by son?
A. Cr. Account Payable 14,000; Cr. Accumulated Depreciation 33,000; Cr. Common Stock 40,000; Cr. APIC 98,000.

B. Dr. Cash 3,000; Dr. Accounts Receivables 16,000; Dr. Inventory 27,000; Dr. Land 9,000; Dr. Buildings & Equipment 97,000.

C. Dr. Cash 3,000; Dr. Accounts Receivables 16,000; Dr. Inventory 22,000; Dr. Land 15,000; Dr. Buildings & Equipment 120,000.

D. Cr. Account Payable 15,000; Cr. Accumulated Depreciation 33,000; Cr. Common Stock 40,000; Cr. APIC 121,000.

6. Based on the preceding information, under the acquisition method:

A. $72,000 of stock issue costs are treated as goodwill.
B. $19,000 of stock issue costs are treated as a reduction in the additional paid-in capital.
C. $19,000 of stock issue costs are expensed.
D. $72,000 of stock issue costs are expensed.

7. During its inception, Pam Company purchased land for $100,000 and a building for $180,000. After exactly 3 years, it transferred these assets and cash of $50,000 to a newly created subsidiary, Sam Company, in exchange for 15,000 shares of Sam's $10 par value stock. Pam uses straight-line depreciation. Useful life for the building is 30 years, with zero residual value. An appraisal revealed that the building has a fair value of $200,000.

Based on the information provided, at the time of the transfer, Sam Company should record:

A. Building at $180,000 and no accumulated depreciation.
B. Building at $162,000 and no accumulated depreciation.
C. Building at $200,000 and accumulated depreciation of $24,000.
D. Building at $180,000 and accumulated depreciation of $18,000.

سؤال الاحتياطي

A $\frac{\text{C.S of scissor}}{\text{Par value}} = \frac{70,000}{5} = \boxed{14,000 \text{ shares.}}$

B $\frac{\text{FMV of scissor C.S}}{\text{\# of shares}} = \frac{\text{C.S + APIC}}{14,000}$

$= \frac{70,000 + 42,000}{14,000} = \boxed{\$8}$

C Paper C.S after compination − Paper C.S befor compination = new shares issued

\$117,000 − \$96,000 = \$21,000.

$\text{\# of shares} = \frac{\text{New C.S}}{\text{Par Value}} = \frac{21,000}{3} = \boxed{7,000 \text{ shares}}$

D Paper cash + scissors cash = Total

65,000 + 15,000 = 80,000*

* 80,000 − compined cash = cash paid
80,000 − 56,000 = $\boxed{\$24,000}$ ⇒ Deffered stock issuance cost. مصاريف

F 210,000 + FMV of scissors inventory = 320,000

FMV of scissors inventory = 320,000 − 210,000 = $\boxed{110,000}$

PART TWO – OBJECTIVE QUESTIONS (22 POINTS)

A) Incomplete Data (10 points)

On January 1, 2021, Paper Corp. acquired all of Scissors Co.'s assets and liabilities by issuing shares of its $3 par value stock to the owners of Scissors Co. in a business combination. Paper also made a cash payment to Banker Corp. for stock issued costs. Partial balance sheet data for Paper and Scissor, before the cash payment and issuance of shares, and a combined balance sheet following the business combination are as follows:

Item	Paper Corp.	Scissor Corporation		Combined Entity
	Book Value	Book Value	Fair Value	
Cash	$65,000	$15,000	$15,000	$56,000
Accounts Receivable	105,000	30,000	30,000	135,000
Inventory	210,000	90,000	? 110,000	320,000
Buildings& Equipment (net)	400,000	210,000	293,000	693,000
Goodwill				?
Total Assets	$780,000	$345,000	$448,000	$?
Accounts Payable	56,000	22,000	22,000	78,000
Bonds Payable	200,000	120,000	120,000	320,000
Common Stock	96,000	70,000		117,000
APIC	234,000	42,000		553,000
Retained Earnings	194,000	91,000		?
Total Liabilities & S.H.E	$780,000	$345,000	$142,000	$?

Required

Use the table on the cover page to fill your answers to the following questions.

	Statement
A	What number of its $5 par value shares did Scissor has outstanding on January1, 2021?
B	Assuming that all of Scissor's shares were issued when the company was started, what was the price per share received at the time of issue?
C	How many shares of Paper were issued at the date of combination?
D	What amount of cash did Paper pay as stock issue costs?
E	What was the total fair value of Paper's shares issued at the date of combination?
F	What was the fair value of Scissor's inventory at the date of combination?
G	What was the fair value of Scissor's net assets at the date of combination?
H	What amount of goodwill is reported in the combined balance sheet following the combination?
I	If the depreciable assets held by Scissor had an average remaining life of 10 years at the date of acquisition, what amount of depreciation expense will be reported on those assets in 2021?
J	What balance in retained earnings will the combined entity report immediately following the combination?

21,000

~~CS 63,000~~

65 21,000
319,000
(24) +24,000
15 364,000
E

CS 21,000
APIC 319,000

Pursuing an inorganic growth strategy, Wilson Company acquired Venus Company's net assets and assigned them to four separate reporting divisions. Wilson assigned total goodwill of $134,000 to the four reporting divisions as given below:

	Alpha	Beta	Gamma	Delta
Carrying Value	$200,000	$320,000	$370,000	$300,000
Goodwill included in carrying value	20,000	34,000	50,000	30,000
Fair Value of Net identifiable assets at year end	150,000	300,000	390,000	280,000
Fair value of reporting unit at year end	180,000	350,000	360,000	295,000

3. Based on the preceding information, what would be the total amount of goodwill that Wilson should report at year-end?

A. $0
B. $94,000
C. $79,000
D. $69,000

4. Palm Company acquired the net assets of Sand Company during 2021. The purchase price was $750,000. On the date of the transaction, Sand had no long-term investments in marketable equity securities and $400,000 in liabilities, of which the fair value approximated book value. The fair value of Sand's assets on the acquisition date was as follows:

Current assets	$ 800,000
Noncurrent assets	600,000
	$1,400,000

750,000 ~~1,140,000~~ 1,140,000

750,000 | 1,400,000 - 400,000 | 1,400,000 - 400,000

How should Palm account for the difference between the fair value of the net assets acquired and the acquisition price of $750,000?

A Retained earnings should be reduced by $650,000.
B $250,000 gain on bargain purchase of business should be recognized.
C. $650,000 gain on bargain purchase of business should be recognized.
D. deferred credit of $250,000 should be set up and subsequently amortized to future net income over a period not to exceed 40 years.

750,000 1000,000

250,000 Gain

The following information relates to questions 5 & 6.
Purple Corporation and Sky Company merged as of January 1, 2009. To effect the merger, Purple paid finder's fees of $40,000, legal fees of $13,000, audit fees related to the stock issuance of $10,000, stock registration fees of $5,000, and stock listing application fees of $4,000.

5. Based on the preceding information, under the acquisition method, what amount relating to the business combination would be expensed?

~~40~~ 53
10

A. $72,000
B. $19,000
C. $53,000
D. $63,000

Incomplete Data		
A	14,000	
B	8	
C	[illegible]	7000
D	24,000	
E	~~34?,000~~	364,000
F	110,000	
G	306,000	
H	~~34,000~~	58,000
I	29,300	
J	194,000	

8

Multiple Choices		
1	C	
2	A	
3	D	
4	~~C~~	B
5	C	
6	B	
7	D	

6

True/False	T	Correct Answer for False Answers
1	~~F~~	~~Amounts deffrent between cost method and equity method, Not identical.~~
2	F	A split-off, Not a spin-off
3	F	in a statutory cosolidation, Not statutory merger.

4

	For Instructor's Use Only		
Part	Question	Grade	
1	Question 1	12	12
	Question 2	26	26
2	A) Incomplete Data	8	10
	B) True/False	4	5
	C) MCQ	6	7
Total		56	60