**ACC-405**

**Module Two Practice Problems and Solutions**

**Problem 1.** P Company purchased 80% of the outstanding common stock of S Company on January 2, 2020, for $380,000. Balance sheets for P Company and S Company immediately after the stock acquisition were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | P Company |  | S Company |
| Current assets | $ 166,000 |  | $ 96,000 |
| Investment in S Company | 380,000 |  | -0- |
| Plant and equipment (net) | 560,000  |  | 224,000 |
| Land  | 40,000 |  | 120,000 |
|  | $1,146,000 |  | $440,000 |
|  |  |  |  |
| Current liabilities | $ 120,000 |  | $ 44,000 |
| Long-term notes payable | -0- |  | 36,000 |
| Common stock | 480,000  |  | 160,000 |
| Other contributed capital | 244,000  |  | 64,000 |
| Retained earnings | 302,000 |  | 136,000 |
|  | $1,146,000 |  | $440,000 |

S Company owed P Company $16,000 on open account on the date of acquisition.

**Required:**

Prepare a consolidated balance sheet for P and S Companies on the date of acquisition. Any difference between the value implied by the purchase price of the investment and the book value of net assets acquired relates to subsidiary land. The book values of S Company's other assets and liabilities are equal to their fair values.

**Answer:**

|  |
| --- |
| P COMPANY AND SUBSIDIARYConsolidated Balance SheetJanuary 2, 2020 |
| Current assets | $246,000 |
| Plant and equipment (net) | 784,000 |
| Land ($160,000 + $115,000 excess cost)  | 275,000 |
| Total  | $1,305,000 |
|  |  |
| Current liabilities | $ 148,000 |
| Long-term notes payable | 36,000 |
| Common stock  | 480,000 |
| Noncontrolling interest  | 95,000 |
| Other contributed capital | 244,000 |
| Retained earnings | 302,000 |
| Total  | $1,305,000 |

**Problem 2** On January 2, 2020, Pope Company acquired 90% of the outstanding common stock of Smithwick Company for $480,000 cash. Just before the acquisition, the balance sheets of the two companies were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Pope |  | Smithwick |
| Cash | $ 650,000 |  | $ 160,000 |
| Accounts Receivable (net) | 360,000 |  | 60,000 |
| Inventory | 290,000 |  | 140,000 |
| Plant and Equipment (net) | 970,000  |  | 240,000 |
| Land  | 150,000 |  | 80,000 |
|  Total Assets | $2,420,000 |  | $680,000 |
|  |  |  |  |
| Accounts Payable | $ 260,000 |  | $ 120,000 |
| Mortgage Payable | 180,000  |  | 100,000 |
| Common Stock, $2 par value | 1,000,000 |  | 170,000 |
| Other Contributed Capital | 520,000  |  | 50,000 |
| Retained Earnings | 460,000 |  | 240,000 |
|  Total Equities | $2,420,000 |  | $680,000 |

The fair values of Smithwick's assets and liabilities are equal to their book values with the exception of land.

**Required:**

A. Prepare the journal entry necessary to record the purchase of Smithwick's common stock.

B. Prepare a consolidated balance sheet at the date of acquisition.

**Answer:**

A.

|  |  |  |
| --- | --- | --- |
| Investment in Smithwick Company | 480,000 |  |
|  Cash |  | 480,000 |

|  |
| --- |
| B. |
| POPE COMPANY AND SUBSIDIARYConsolidated Balance SheetJanuary 2, 2020 |
| Assets |  |  |
| Cash (650,000 + 160,000 - $480,000) | $330,000 |  |
| Accounts Receivable | 420,000 |  |
| Inventory | 430,000 |  |
| Plant and Equipment (net) | 1,210,000 |  |
| Land ($150,000 + $80,000 + $73,333\*) | 303,333 |  |
| Total Assets | $2,693,333 |  |
|  |  |  |
| Liabilities and Stockholders’ Equity |  |  |
| Accounts Payable | $380,000 |  |
| Mortgage Payable | 280,000 |  |
| Total liabilities | $660,000 |  |
|  |  |  |
| Noncontrolling Interest |  |  |
| ($170,000 + $50,000 + $240,000 + 73,333) × .10 | $ 53,333 |  |
| Common Stock  | $1,000,000 |  |
| Other Contributed Capital | 520,000 |  |
| Retained Earnings  | 460,000 |  |
|  Total Stockholders’ Equity  |  | 1,980,000 |
|  Total Liabilities and Stockholders’ Equity  |  | $2,693,333 |
| \* $480,000/.9 - ($170,000 + $50,000 + $240,000) |  |  |

**Problem 3.** On December 31, 2020, Priestly Company purchased a controlling interest in Shelter Company for $1,060,000. The consolidated balance sheet on December 31, 2020 reported noncontrolling interest in Shelter Company of $265,000.

On the date of acquisition, the stockholders' equity section of Shelter Company's balance sheet was as follows:

|  |  |
| --- | --- |
| Common stock  | $520,000 |
| Other contributed capital | 380,000 |
| Retained earnings | 280,000 |
| Total  | 1,180,000 |

**Required:**

1. Compute the noncontrolling interest percentage on December 31, 2020.

B. Prepare the investment elimination entry made to prepare a consolidated balance sheet workpaper. Any difference between book value and the value implied by the purchase price relates to subsidiary land.

**Answer:**

A. 265,000/(1,060,000 +265,000) = 20% Noncontrolling interest

B.

|  |  |  |
| --- | --- | --- |
| Common Stock – Shelter | 520,000 |  |
| Other Contributed Capital – Shelter | 380,000 |  |
| Retained Earnings – Shelter | 280,000 |  |
| Difference between Implied and Book Values  | 145,000 |  |
| Investment in Shelter Company |  | 1,060,000 |
| Noncontrolling Interest in Equity |  | 265,000 |

**Problem 4.** On February 1, 2019, Punto Company purchased 95% of the outstanding common stock of Sara Company and 85% of the outstanding common stock of Rob Company. Immediately before the two acquisitions, balance sheets of the three companies were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Punto** | **Sara** | **Rob** |
| Cash | $165,000  | $45,000  | $17,000  |
| Accounts receivable | 35,000 | 35,000 | 26,000 |
| Notes receivable | 18,000 | —0— | —0— |
| Merchandise inventory | 106,000 | 35,500 | 14,000 |
| Prepaid insurance | 13,500 | 2,500 | 500 |
| Advances to Sara Company | 10,000 |  |  |
| Advances to Rob Company | 5,000 |  |  |
| Land | 248,000 | 43,000 | 15,000 |
| Buildings (net) | 100,000 | 27,000 | 16,000 |
| Equipment (net) |   35,000 |   10,000 |   2,500 |
|  Total | $735,500  | $198,000  | $91,000  |
| Accounts payable | $ 25,500 | $ 20,000 | $10,500  |
| Income taxes payable | 30,000 | 10,000 | —0— |
| Notes payable | —0— | 6,000 | 10,500 |
| Bonds payable | 100,000 | —0— | —0— |
| Common stock, $10 par value | 300,000 | 144,000 | 42,000 |
| Other contributed capital | 150,000 | 12,000 | 38,000 |
| Retained earnings (deficit) |  130,000 | 6,000 |  (10,000) |
|  Total | $735,500  | $198,000  | $91,000  |

The following additional information is relevant.

One week before the acquisitions, Punto Company had advanced $10,000 to Sara Company and $5,000 to Rob Company. Sara Company recorded an increase to Accounts Payable for its advance, but Rob Company had not recorded the transaction.

On the date of acquisition, Punto Company owed Sara Company $12,000 for purchases on account, and Rob Company owed Punto Company $3,000 and Sara Company $6,000 for such purchases. The goods purchased had all been sold to outside parties prior to acquisition.

Punto Company exchanged 13,400 shares of its common stock with a fair value of $12 per share for 95% of the outstanding common stock of Sara Company. In addition, stock issue fees of $4,000 were paid in cash. The acquisition was accounted for as a purchase.

Punto Company paid $50,000 cash for the 85% interest in Rob Company.

Three thousand dollars of Sara Company's notes payable and $9,500 of Rob Company's notes payable were payable to Punto Company.

Assume that for Sara, any difference between book value and the value implied by the purchase price relates to subsidiary land. However, for Rob, assume that any excess of book value over the value implied by the purchase price is due to overvalued buildings.

**Required:**

Give the book entries to record the two acquisitions in the accounts of Punto Company.

Prepare a consolidated balance sheet workpaper immediately after acquisition.

Prepare a consolidated balance sheet at the date of acquisition for Punto Company and its subsidiaries.

**Answer:**

**Part A** Investment in Sara Co. (13,400 × $12) 160,800

 Common Stock (13,400 × $10) 134,000

 Other Contributed Capital ($26,800 – $4,000) 22,800

 Cash 4,000

 Investment in Rob Co. 50,000

 Cash 50,000

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Part B** | PuntoCompany |  | SaraCompany |  | RobCompany |  | Eliminations | NoncontrollingInterest |  | ConsolidatedBalance |
|  |  |  | Dr. |  |  Cr.  |  |  |
| Cash |  111,000 |  |  45,000 |  |  17,000 |  | (a) 5,000 |  |  |  |  |  |  178,000  |
| Account Receivable |  35,000 |  |  35,000 |  |  26,000 |  |   |  | (2) 21,000 |  |  |  |  75,000  |
| Notes Receivable |  18,000 |  |   |  |  |  |  |  | (3) 12,500 |  |  |  |  5,500  |
| Merchandise Inventory |  106,000 |  |  35,500 |  |  14,000 |  |  |  |   |  |  |  |  155,500  |
| Prepaid Insurance |  13,500 |  |  2,500 |  |  500 |  |  |  |  |  |  |  |  16,500  |
| Investment in Sara Company |  160,800 |  |  |  |  |  |  |  | (4) 160,800 |  |  |  |   |
| Investment in Rob Company |  50,000 |  |  |  |  |  |  |  | (5) 50,000 |  |  |  |   |
| Difference between Implied and  |  |  |  |  |  |  | (4) 7,263 | \*\* | (5) 11,176 |  |  |  |  |
|  Book Value |  |  |  |  |  |  | (7) 11,176 |  | (6) 7,263 6,900\* |  |  |  |  |
| Advances to Sara Company |  10,000 |  |  |  |  |  |  |  | (1) 10,000 |  |  |  |  |
| Advances to Rob Company |  5,000 |  |  |  |  |  |  |  | (1) 5,000 |  |  |  |  |
| Land |  248,000 |  |  43,000 |  |  15,000 |  | (6) 7,263 |  |  |  |  |  | 313,263  |
| Buildings (net) |  100,000 |  |  27,000 |  |  16,000 |  |   |  | (7) 11,176 |  |  |  |  131,824  |
| Equipment (net) |  35,000 |  |  10,000 |  |  2,500 |  |   |  |  |  |  |  |  47,500  |
| Total Assets | 892,300 |  |  198,000 |  |  91,000 |  |   |  |   |  |  |  | 923,087  |
|  |  |  |  |  |  |  |   |  |  |  |  |  |   |
| Accounts Payable |  25,500 |  |  20,000 |  |  10,500 |  | (1) 15,000 |  |  |  |  |  |   |
|  |  |  |  |  |  |  | (2) 21,000 |  | (a) 5,000 |  |  |  |  25,000  |
| Income Taxes Payable |  30,000 |  |  10,000 |  |  |  |  |  |  |  |  |  |  40,000  |
| Notes Payable  |  |  |  6,000 |  |  10,500 |  | (3) 12,500 |  |  |  |  |  |  4,000  |
| Bonds Payable |  100,000 |  |   |  |  |  |  |  |  |  |  |  |  100,000  |
| Common Stock: |   |  |   |  |  |  |   |  |  |  |  |  |   |
| Punto Company |  434,000 |  |   |  |  |  |   |  |   |  |  |  |  434,000  |
| Sara Company |   |  |  144,000 |  |  |  | (4) 144,000 |  |  |  |  |  |  |
| Rob Company |   |  |  |  |  42,000 |  | (5) 42,000 |  |  |  |  |  |   |
| Other Contributed Capital: |  |  |   |  |  |  |   |  |  |  |   |  |  |
| Punto Company |  172,800 |  |  |  |   |  |   |  |  |  |   |  |  172,800  |
| Sara Company |  |  |  12,000 |  |  |  | (4) 12,000 |  |  |  |  |  |  |
| Rob Company |   |  |  |  | 38,000 |  | (5) 38,000 |  |  |  |  |  |   |
| Retained Earnings |  |  |   |  |  |  |   |  |  |  |   |  |  |
| Punto Company |  130,000 |  |  |  |  |  |   |  |  |  |   |  | 130,000  |
| Sara Company |  |  |  6,000 |  |  |  | (4) 6,000 |  |  |  |   |  |  |
| Rob Company |   |  |  |  | (10,000) |  |  |  | (5) 10,000 |  |  |  |   |
| Noncontrolling Interest |  |  |  |  |  |  |  |  | (4)(5)17,287  | \* |  17,287  |  |  17,287  |
| Total Liabilities and Equity |  892,300 |  |  198,000 |  | 91,000 |  | 321,202 |  | 321,202 |  |  |  | 923,087  |

**Problem 4 (continued)**

(a) To adjust for cash in transit from Punto to Rob

(1) To eliminate intercompany advances

(2) To eliminate intercompany accounts receivable and accounts payable

(3) To eliminate intercompany notes receivable and notes payable

(4) To eliminate investment in Sara Company and create noncontrolling interest account of $8,463

(5) To eliminate investment in Rob Company and create noncontrolling interest account of $8,824

(6) To allocate the difference between implied and book value to the under-valuation of Sara’s land

(7) To allocate the difference between implied and book value to the over-valuation of Rob’s buildings

\* [$160,800/.95 x .05] = $8,463

$8,463 (entry 4) + $8,824 (entry 5) = $17,287

\*\* $160,800/.95 – ($144,000 + $12,000 + $6,000)

Computation and Allocation of Difference

 Parent Non- Entire

 Share Controlling Value

 Share

Purchase price and implied value **50,000 8,824** 58,824\*

Less: Book value of equity acquired 59,500 10,500 **70,000**

Difference between implied and book value (9,500) (1,676) **(11,176)**

Decrease buildings to fair value 9,500 1,676 **11,176**

Balance - 0 - - 0 - - 0 -

\* $50,000/.85

**Part C** PUNTO COMPANY AND SUBSIDIARIES

 Consolidated Balance Sheet

 February 1, 2024

 Assets

 Current Assets:

 Cash $178,000

 Accounts Receivable 75,000

 Notes Receivable 5,500

 Merchandise Inventory 155,500

 Prepaid Insurance 16,500

 Total Current Assets $ 430,500

 Long-Term Assets:

 Land 313,263

 Buildings(net) 131,824

 Equipment(net) 47,500

 Total Assets $ 923,087

Liabilities and Stockholders' Equity

 Current Liabilities:

 Accounts Payable $25,000

 Income Tax Payable 40,000

 Notes Payable 4,000

 Total Current Liabilities $ 69,000

 Bonds Payable 100,000

 Total Liabilities 169,000

 Stockholders’ Equity:

 Noncontrolling Interest in Subsidiaries 17,287

 Common Stock 434,000

 Other Contributed Capital 172,800

 Retained Earnings 130,000

 Total Stockholders’ Equity 754,087

 Total Liabilities and Stockholders’ Equity $ 923,087

**Problem 5**. On January 2, 2019, Prunce Company acquired 90% of the outstanding common stock of Sun Company for $192,000 cash. Just before the acquisition, the balance sheets of the two companies were as follows:

|  |  |  |
| --- | --- | --- |
|  | Prunce | Sun |
| Cash | $260,000  | $64,000  |
| Accounts receivable (net) | 142,000 | 23,000 |
| Inventory | 117,000 | 54,000 |
| Plant and equipment (net) | 386,000 | 98,000 |
| Land |  63,000 |  32,000 |
|  Total asset | $968,000  | $271,000  |
| Accounts payable | $104,000  | $47,000  |
| Mortgage payable | 72,000 | 39,000 |
| Common stock, $2 par value | 400,000 | 70,000 |
| Other contributed capital | 208,000 | 20,000 |
| Retained earnings |  184,000 |  95,000 |
|  Total equities | $968,000  | $271,000  |

The fair values of Sun Company's assets and liabilities are equal to their book values with the exception of land.

**Required:**

Prepare a journal entry to record the purchase of Sun Company's common stock.

Prepare a consolidated balance sheet at the date of acquisition.

**Answer**

**Part A** Investment in Sun Company 192,000

 Cash 192,000

**Part B** PRUNCE COMPANY AND SUBSIDIARY

 Consolidated Balance Sheet

 January 2, 2024

 Assets

 Cash ($260,000 + $64,000 – $192,000) $132,000

 Accounts Receivable 165,000

 Inventory 171,000

 Plant and Equipment (net) 484,000

 Land ($63,000 + $32,000 + $28,333\*) 123,333

 Total Assets $1,075,333

 Liabilities and Stockholders’ Equity

 Accounts Payable $151,000

 Mortgage Payable 111,000

 Total Liabilities 262,000

 Noncontrolling Interest ($192,000/0.9 × 0.1) $21,333

 Common Stock 400,000

 Other Contributed Capital 208,000

 Retained Earnings 184,000

 Total Stockholders’ Equity 813,333

 Total Liabilities and Stockholders’ Equity $1,075,333

 \* [$192,000/0.9 – ($70,000 + $20,000 + $95,000)] = $28,333

**Problem 6. No sample**