BU 487: Business_Advanced Accounting

On January 1, 2020, ADE Ltd. Acquired 80% of the shares that LVE Inc. had, and paid $160,000. The balance sheets of the Parent and the Sub as well as the fair values of the Sub's assets and liabilities right before the transaction were as follows:

	Parent	Sub	Sub FV-Jan.1
Cash	$ 340,000	$ 30,000	$ 30,000
Accounts Receivable	60,000	75,000	75,000
Inventory	80,000	80,000	70,000
Equipment (net)	120,000	100,000	110,000
Building	40,000	20,000	10,000
Goodwill	20,000	5,000	
	$ 660,000	$ 310,000	
Accounts payable	$ 40,000	30,000	29,000
Bonds payable	100,000	60,000	65,000
Common stock	400,000	150,000 (10, 000 shares)	
Retained earnings	120,000	70,000	
	$ 660,000	$ 310,000	

Required:

1. Prepare consolidated balance sheet for the acquisition date using the fair value enterprise theory (entity theory)

2. Based on the acquisition differentials, show how you adjust expenses for the consolidated income statement of year 2020.

Solution:

1.
BV= (310,000-5000)-30000-60000=215000
Implied value = 160000/80%=200000
Total AD= 200000-215000= -15000
NCI= 200,000*20%= 40,000

Acquisition differential

Inventory	(10,000)	Cr
Equipment	10,000	Dr
Building	(10,000)	Cr
A/P	1,000	Dr
Bonds payable	(5,000)	Cr
Total	(14,000)	Cr

Goodwill= -15,000-(-14,000) = - 1,000

Balance sheet
Assets

Cash	340,000-160,000) +30,000	210,000
A/R	80,000+75,000	155,000
Inventory	80,000+80,000-10,000	150,000
Equipment	120,000+100,000+10,000	230,000
Building	40,000+20,000-10,000	50,000
Total		795,000

Liabilities

A/P	40,000+30,000-1000	69,000
B/P	100,000+60,000+5000	165,000

S/E

Common shares	400,000
Retained earnings (120,000+1000)	121,000

NCI	40,000
Total L+S/E	795,000

2.

COGS: -10,000

Amortization expense: + 10,000/useful life of PPE - 50,000/useful life of building

Interest expense: +1000

bond payable: - (reported interest expense – 65000* market interest rate at t=0)