

Condensed Balance Sheets		
December 31, 2017	Ponon	Santo
<b>Assets</b>		
Cash and receivables . . . . .	\$ 4,500,000	\$ 3,100,000
Inventory . . . . .	5,000,000	5,200,000
Plant assets, net . . . . .	8,000,000	12,000,000
Investment in Santo . . . . .	26,365,000	—
Total assets . . . . .	\$43,865,000	\$20,300,000
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities . . . . .	\$ 5,100,000	\$ 2,000,000
Long-term debt . . . . .	20,000,000	3,260,000
Capital stock . . . . .	8,000,000	6,000,000
Retained earnings . . . . .	10,225,000	8,840,000
Accumulated other comprehensive income . . . . .	540,000	200,000
Total liabilities and stockholders' equity . . . . .	\$43,865,000	\$20,300,000

Condensed Statements of Comprehensive Income		
For Year Ended December 31, 2017	Ponon	Santo
Sales . . . . .	\$30,000,000	\$13,200,000
Equity in net income of Santo . . . . .	1,325,000	—
Total revenues . . . . .	31,325,000	13,200,000
Cost of goods sold . . . . .	18,000,000	4,000,000
Depreciation and amortization expense . . . . .	2,000,000	3,200,000
Interest and other expenses . . . . .	5,400,000	1,000,000
Total expenses . . . . .	25,400,000	8,200,000
Net Income . . . . .	5,925,000	5,000,000
Other comprehensive income . . . . .	100,000	40,000
Comprehensive income . . . . .	\$ 6,025,000	\$ 5,040,000

*Required*

- Prepare a schedule to compute the 2017 equity in net income of Santo.
- Use a working paper to consolidate the trial balances of Ponon and Santo at December 31, 2017.
- Prepare the December 31, 2017, consolidated balance sheet and 2017 consolidated statement of comprehensive income.

**P4.2 Equity Method and Eliminating Entries Three Years After Acquisition** Puffin Industries acquired all of Sunset Coast Digital's stock on January 1, 2014, for \$3,500,000, \$2,100,000 in excess of book value. At that time, Sunset Coast's inventory (LIFO) was overvalued by \$500,000 and its plant assets (10-year life) were overvalued by \$1,000,000. The remaining excess of cost over book value is attributed to undervalued identifiable intangible assets being amortized over 20 years. Sunset Coast depreciates plant assets and amortizes intangibles by the straight-line method. During the next three years Sunset Coast reported total net income of \$850,000 and paid out 50 percent in dividends. Puffin carries its investment in Sunset Coast using the complete equity method. Sunset Coast's inventory increased each year since it was acquired by Puffin, and Sunset Coast's reported net income for 2016 was \$200,000.

**LO 1, 2, 3** ✓*Required*

- Compute Puffin's 2016 equity in net income of Sunset Coast.
- Compute the balance in the Investment in Sunset Coast account at December 31, 2016, after all equity method entries have been booked.
- Prepare the working paper eliminating entries needed in consolidation at December 31, 2016.
- If Puffin reports \$600,000 net income from its own operations in 2016, what is consolidated net income for 2016?

**LO 1, 3 P4.3**

**Consolidation at End of First Year, Preacquisition Contingency** On January 2, 2016, Perkins Company acquired all of Sanders Corporation's stock for \$4,000,000 cash, when the book value of Sanders' stockholders' equity was \$2,200,000. Sanders reported \$500,000 of net income and declared and paid dividends of \$150,000 in 2016. Data related to the acquisition at January 2, 2016, appear below:

Out-of-pocket merger costs paid in cash by Perkins .....	\$ 50,000
Excess of fair value of Sanders' inventory over book value. ....	80,000
Excess of fair value of Sanders' equipment over book value (10-year life, straight-line). . .	200,000
Fair value of Sanders' previously unrecorded lawsuit liability .....	70,000
Fair value of Sanders' previously unrecorded in-process research and development . . . .	300,000
Acquisition-related restructuring costs paid in cash by Perkins .....	100,000

Sanders uses FIFO, and all of its beginning inventory was sold in 2016. The fair value of the previously unrecorded lawsuit liability increased to \$85,000 by December 31, 2016, within the measurement period. Impairment tests show \$100,000 in impairment for the in-process R&D and no impairment for the goodwill during 2016.

*Required*

- Prepare a schedule to compute Perkins' equity in net income of Sanders Corporation for 2016 using the complete equity method, and prepare all entries related to the investment made by Perkins during 2016.
- Compute the goodwill for this acquisition, after the measurement period adjustment.
- Prepare the eliminating entries made in consolidation at December 31, 2016.

**LO 1, 3 P4.4**

**Consolidated Balance Sheet Working Paper, Bargain Purchase (see related P3.4)** On January 1, 2016, Paxon Corporation acquired all of the outstanding common stock of Saxon Company for \$1.8 billion cash. Paxon uses the complete equity method to report its investment. The trial balances of Paxon and Saxon at December 31, 2016, are shown below: Table corrections highlighted in yellow

(in millions)	Dr (Cr)	
	Paxon	Saxon
Cash and receivables .....	\$ 3,100	\$ 800
Inventory .....	2,260	940
Long-term investments .....	—	—
Investment in Saxon .....	2,158	—
Land .....	650	300
Buildings and equipment, net .....	3,600	1,150
Current liabilities .....	(2,020)	(1,200)
Long-term debt .....	(5,000)	(450)
Common stock, par value .....	(500)	(100)
Additional paid-in capital .....	(1,200)	(350)
Retained earnings, January 1 .....	(2,410)	(845)
Dividends .....	500	100
Sales revenue .....	(30,000)	(10,000)
Equity in net income of Saxon .....	(258)	—
Gain on sale of securities .....	—	(10)
Gain on acquisition .....	(200)	--
Cost of goods sold .....	26,000	8,000
Depreciation expense .....	300	40
Interest expense .....	250	25
Other operating expenses .....	2,770	1,600
Totals .....	\$ 0	\$ 0

Several of Saxon's assets and liabilities had fair values different from their book values at the acquisition date, as follows: