

# Problem 7

Warrick Corporation purchased all of the stock of London Corporation on July 1. Warrick paid \$6,000,000 for this investment. London's buildings had a fair value of \$3,100,000. All other assets and liabilities of London had fair values that were equivalent to their recorded amounts. Any excess purchase differential is attributable to goodwill. The separate balance sheets of Warrick and London follow. Prepare the consolidated balance sheet that would be reported to Warrick's shareholders.

<b>WARRICK CORPORATION</b>			
<b>Balance Sheet</b>			
<b>July 1, 20X3</b>			
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$	1,130,000	
Accounts receivable		467,578	
Inventories		511,818	\$ 2,109,396
<b>Long-term Investments</b>			
Investment in London			6,000,000
<b>Property, plant &amp; equipment</b>			
Land	\$	757,580	
Building (net of accumulated depreciation)		1,723,838	
Equipment (net of accumulated depreciation)		952,272	3,433,690
<b>Intangible assets</b>			
Patent			1,080,000
Total assets			<u>\$ 12,623,086</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$	475,550	
Salaries payable		250,000	\$ 726,350
<b>Long-term liabilities</b>			
Loan payable			5,000,000
Total liabilities			<u>\$ 5,726,350</u>
<b>Stockholders' equity</b>			
Capital stock	\$	4,600,000	
Retained earnings		2,296,736	
Total stockholders' equity			<u>6,896,736</u>
Total Liabilities and equity			<u>\$ 12,623,086</u>

<b>LONDON CORPORATION</b>			
<b>Balance Sheet</b>			
<b>July 1, 20X3</b>			
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$	69,090	
Accounts receivable		361,600	
Inventories		687,374	\$ 1,118,067
<b>Property, plant &amp; equipment</b>			
Land	\$	275,552	
Building (net of accumulated depreciation)		1,376,198	
Equipment (net of accumulated depreciation)		1,315,774	2,967,524
Total assets			<u>\$ 4,085,588</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$	237,996	
Salaries payable		46,882	\$ 284,878
<b>Long-term liabilities</b>			
Loan payable			1,264,358
Total liabilities			<u>\$ 1,549,236</u>
<b>Stockholders' equity</b>			
Capital stock	\$	1,600,000	
Retained earnings		936,352	
Total stockholders' equity			2,536,352
Total Liabilities and equity			<u>\$ 4,085,588</u>

Worksheet

<b>WARRICK CORPORATION AND CONSOLIDATED SUBSIDIARY</b>			
<b>Balance Sheet</b>			
<b>July 1, 20X3</b>			
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$	-	
Accounts receivable		-	
Inventories		-	\$ -
<b>Property, plant &amp; equipment</b>			
Land	\$	-	
Building (net of accumulated depreciation)		-	
Equipment (net of accumulated depreciation)		-	-
<b>Intangible assets</b>			
Goodwill	\$	-	
Patent		-	-
Total assets			\$ -
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$	-	
Salaries payable		-	\$ -
<b>Long-term liabilities</b>			
Loan payable			-
Total liabilities			\$ -
<b>Stockholders' equity</b>			
Capital stock	\$	-	
Retained earnings		-	
Total stockholders' equity			-
Total Liabilities and equity			\$ -

## Solution

The following are summed from the separate statements except:

Building is the parent's building + \$3,100,000 (fair value of sub's building).

Goodwill is the excess of the \$6,000,000 purchase price over the equity of the sub (\$2,536,352) and additional amount assigned to the building (\$3,100,000 fair value - \$1,376,198 book value of sub's building).

Equity is the parent's equity only.

<b>WARRICK CORPORATION AND CONSOLIDATED SUBSIDIARY</b>			
<b>Balance Sheet</b>			
<b>July 1, 20X3</b>			
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$	1,199,090	
Accounts receivable		829,178	
Inventories		1,199,192	\$ 3,227,460
<b>Property, plant &amp; equipment</b>			
Land	\$	1,033,132	
Building (net of accumulated depreciation)		4,823,838	
Equipment (net of accumulated depreciation)		2,268,046	8,125,016
<b>Intangible assets</b>			
Goodwill	\$	1,739,846	
Patent		1,080,000	2,819,846
Total assets			<u>\$ 14,172,322</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$	713,546	
Salaries payable		297,682	\$ 1,011,228
<b>Long-term liabilities</b>			
Loan payable			6,264,358
Total liabilities			<u>\$ 7,275,586</u>
<b>Stockholders' equity</b>			
Capital stock	\$	4,600,000	
Retained earnings		2,296,736	
Total stockholders' equity			6,896,736
Total Liabilities and equity			<u>\$ 14,172,322</u>