This is a continuation of Exercise Six-5.

4. The goodwill measured at the time Parco acquired Subco has been tested for impairment in each subsequent year. No impairment has been found.
5. During 2007, the Subco Company sells Land to the Parco Company for cash of $200,000. The carrying value of this Land on the books of the Subco Company was $400,000. There were no purchases or sales of Plant and Equipment.
6. During 2007, the Subco Company sells merchandise to the Parco Company at a sales price of $400,000. On December 31, 2007, $100,000 of this merchandise is in the Inventories of the Parco Company and this merchandise contains a gross profit in the amount of $40,000. In addition, at this year end date, Parco Company still owes Subco Company $100,000 on open account. During 2006, there were no intercompany sales of merchandise.

Required:

A. Calculate consolidated Net Income for the Parco Company and its subsidiary, the Subco Company, for the year ending December 31, 2007.

B. Prepare a consolidated Cash Flow Statement for the Parco Company and its subsidiary, the Subco Company, for the year ending December 31, 2007. Your solution should comply with all of the requirements of the *CICA Handbook*.

End Of Exercise Six-5

Step-By-Step Acquisitions

6-145. As was the case with the consolidated Cash Flow Statement, basic procedures for step-by-step acquisitions were covered in Chapter 5. While there is no need for further discussion of this type of acquisition in this Chapter, we believe that it is useful to include an Exercise to illustrate the required procedures when unrealized intercompany profits are included. As with the other Exercises in this Chapter, Exercise Six-6 is an extension of the similar Exercise in Chapter 5.

Exercise Six-6 deals with step-by-step acquisitions.

Exercise Six-6 correction

Second paragraph, second line, $3,500,000 should be $820,000.

Exercise Six-6

(This is identical to Exercise Five-6 except for the unrealized intercompany profits.)

On December 31, 2002, the Best Company purchases 40 percent of the outstanding shares of the Worst Company for $1,875,000. On this date, the carrying values of the Worst Company's net identifiable assets amount to $3,250,000 (Common Stock of $2,000,000, plus Retained Earnings of $1,250,000). All of the fair values of the individual identifiable assets and liabilities of the Worst Company have carrying values that are equal to their fair values except for Plant And Equipment. Specialized machinery with a remaining useful life of four years has a carrying value of $2,000,000 and a fair value of $2,725,000.

On December 31, 2003, the Best Company purchases an additional 15 percent of the outstanding shares of the Worst Company for $820,000. On this date, the carrying values of the Worst Company's net identifiable assets total $4,250,000 (Common Stock of $2,000,000, plus Retained Earnings of $2,250,000). All of the fair values of the identifiable assets and liabilities of the Worst Company have carrying values that are equal to their fair values except for Plant And Equipment. The specialized machinery now has a useful life of three years, a carrying value of $1,600,000, and a fair value of $2,300,00.

There has been no impairment of goodwill in either 2003 or 2004.

During 2003, Worst sold Land to Best for $250,000. The carrying value of the Land on Worst's books was $200,000.