

**Problem 2.** On 1/1/2019, Beverly Incense Company (BevIn) acquired Bradley-Allen Company (B-A) by acquiring all of its outstanding stock. During the fiscal year 2019 the following items applied to the parent and subsidiary. (Note: assume that B-A management has not judged any unrealized loss as being “other than temporary” for any asset.)

(1) On 1/1/2019, B-A had inventories with book values of \$902 and fair values of \$1,124. B-A sold \$508 in book value of this beginning inventory to external customers during the year; the sold inventory’s fair value on 1/1/2019 was \$633. The remaining \$394 in book value still in ending inventory had a fair value of \$491 on 1/1/2019.

(2) On 1/1/2019, B-A had property, plant and equipment (PP&E, net) of \$7,918. The fair value of it was \$8,102. Right after the acquisition, B-A disposed of (hailed out to the trash) equipment that had a book value of \$382 and a fair value of \$15. B-A used the rest of the PP&E in operations in 2019. The PP&E had an estimated useful life of 7 years as of the acquisition date.

(3) On 1/1/2019, B-A’s investments had a book value of \$2,744 and a fair value of \$3,318. Subsequent to the acquisition, the FTC ordered them to sell their investment in Beagle Enterprises. This investment had a book value of \$873 and a fair value of \$1,031 on 1/1/2019. B-A sold the investment for \$1,027.

(4) On 1/1/2019, B-A had intangible assets on the books for \$2,579; these had a fair value of \$3,001 on 1/1/2019. Of the \$2,579, \$1,644 was for amortizable (finite-lived) assets and \$935 was for assets with indefinite lives. The amortizable assets had a useful life of 17 years and a fair value of \$1,550 on 1/1/2019. The indefinite-lived assets had a fair value on 1/1/2019 of \$1,452.

(5) B-A sold the indefinite-lived intangible assets shown in (5) above to an external company in a different industry during the year for \$1,396.

- (a) Show how B-A would have recorded each of the transactions, under GAAP, on its own corporate books in 2019.
- (b) Show the consolidating books entries that BevIn should make for each item as part of making the consolidated income statement and balance sheet for 2019.

For both requirements, show your work.