

Winsloe Corporation obtained an investment in the stock of Southern Rail. The intent of the investment was not to obtain control or to exert significant influence. Winsloe has no plans to trade the investment for near-term profits. Following is a description of the activity related to the investment in Southern Rail:

- Aug. 5 Purchased 10,000 shares of Southern Rail at \$9 per share.
- Aug. 31 The fair value of Southern Rail's stock was \$10 per share.
- Sept. 30 The fair value of Southern Rail's stock was \$8.50 per share.
- Oct. 15 Received a dividend from Southern Rail of \$0.25 per share.
- Oct. 31 The fair value of Southern Rail's stock was \$9.50 per share.

- (a) What method should be used to account for this investment? Does management intent influence this decision? If the investment were obtained with the objective of near-term trading for profit, what would be done differently?
- (b) Prepare journal entries for the activity pertaining to the investment in Southern Rail.

Princeton Corporation purchased all of the stock of Stanford Corporation on July 1. Princeton paid \$3,000,000 for this investment. Stanford's buildings had a fair value of \$1,550,000. All other assets and liabilities of Stanford had fair values that were equivalent to their recorded amounts. Any excess purchase differential is attributable to goodwill. The separate balance sheets of Princeton and Stanford follow. Prepare the consolidated balance sheet that would be reported to Princeton's shareholders.

PRINCETON CORPORATION			
Balance Sheet			
July 1, 20X5			
Assets			
Current assets			
Cash	\$ 565,000		
Accounts receivable	233,789		
Inventories	<u>255,909</u>	\$ 1,054,698	
Long-term Investments			
Investment in Stanford		3,000,000	
Property, plant & equipment			
Land	\$ 378,790		
Building (net of accumulated depreciation)	861,919		
Equipment (net of accumulated depreciation)	<u>476,136</u>	1,716,845	
Intangible assets			
Patent		<u>540,000</u>	
Total assets		<u>\$ 6,311,543</u>	
Liabilities			
Current liabilities			
Accounts payable	\$ 237,775		
Salaries payable	<u>125,400</u>	\$ 363,175	
Long-term liabilities			
Loan payable		<u>2,500,000</u>	
Total liabilities		\$ 2,863,175	
Stockholders' equity			
Capital stock	\$ 2,300,000		
Retained earnings	<u>1,148,368</u>		
Total stockholders' equity		<u>3,448,368</u>	
Total Liabilities and equity		<u>\$ 6,311,543</u>	

STANFORD CORPORATION			
Balance Sheet			
July 1, 20X5			
Assets			
Current assets			
Cash	\$	34,545	
Accounts receivable		180,800	
Inventories		<u>343,687</u>	\$ 559,032
Property, plant & equipment			
Land	\$	137,776	
Building (net of accumulated depreciation)		688,099	
Equipment (net of accumulated depreciation)		<u>657,887</u>	<u>1,483,762</u>
Total assets			<u>\$ 2,042,794</u>
Liabilities			
Current liabilities			
Accounts payable	\$	118,998	
Salaries payable		<u>23,441</u>	\$ 142,439
Long-term liabilities			
Loan payable			<u>632,179</u>
Total liabilities			\$ 774,618
Stockholders' equity			
Capital stock	\$	800,000	
Retained earnings		<u>468,176</u>	
Total stockholders' equity			<u>1,268,176</u>
Total Liabilities and equity			<u>\$ 2,042,794</u>