EXERCISE 12-4 (15–20 minutes)

1. Alatorre should report the patent at $600,000 (net of $400,000 accumulated amortization) on the balance sheet. The computation of accumulated amortization is as follows.

\[
\begin{align*}
\text{Amortization for 2005 and 2006 ($1,000,000/10) X 2} & \quad $200,000 \\
2007 amortization: ($1,000,000 – $200,000) ÷ (6 – 2) & \quad 200,000 \\
\text{Accumulated amortization, 12/31/07} & \quad $400,000
\end{align*}
\]

2. Alatorre should amortize the franchise over its estimated useful life. Because it is uncertain that Alatorre will be able to retain the franchise at the end of 2015, it should be amortized over 10 years. The amount of amortization on the franchise for the year ended December 31, 2007, is $40,000: ($400,000/10).

3. These costs should be expensed as incurred. Therefore $275,000 of organization expense is reported in income for 2007.

4. Because the license can be easily renewed (at nominal cost), it has an indefinite life. Thus, no amortization will be recorded. The license will be tested for impairment in future periods.

EXERCISE 12-5 (15–20 minutes)

Research and Development Expense ........................................... 940,000
Patents .............................................................................................. 75,000
Rent Expense \([(5 \div 7) \times $91,000]\) ............................................. 65,000
Prepaid Rent \([(2 \div 7) \times $91,000]\) ............................................... 26,000
Advertising Expense ................................................................. 207,000
Income Summary ........................................................................... 241,000
Discount on Bonds Payable ...................................................... 82,950*
Interest Expense ........................................................................... 1,050

\[
\begin{align*}
\text{Paid in Capital in Excess of Par on Common Stock} & \quad 250,000 \\
\text{Intangible Assets} & \quad 1,388,000
\end{align*}
\]

*\[84,000 \div 240 \text{ months} = $350; \quad $350 \times 3 = $1,050; \quad $84,000 – $1,050 = $82,950\]

Patent Amortization Expense \([(75,000 \div 10) \times 1/2]\) ... 3,750

\[
\begin{align*}
\text{Patents (or Accumulated Amortization)} & \quad 3,750
\end{align*}
\]
EXERCISE 12-8 (10–15 minutes)

(a) Attorney’s fees in connection with organization of the company $15,000
Costs of meetings of incorporators to discuss organizational activities 7,000
State filing fees to incorporate 1,000
Total organization costs $23,000

Drafting and design equipment, $10,000, should be classified as part of fixed assets, rather than as organization costs.

(b) Organization Cost Expense ......................................... 23,000
Cash (Payables) .......................................................... 23,000

EXERCISE 12-9 (15–20 minutes)

(a) Jimmy Carter Company

INTANGIBLES SECTION OF BALANCE SHEET
December 31, 2007

Patent from Ford Company, net of accumulated amortization of $560,000 (Schedule 1) $1,440,000
Franchise from Reagan Company, net of accumulated amortization of $48,000 (Schedule 2) 432,000
Total intangibles $1,872,000

Schedule 1 Computation of Patent from Ford Company
Cost of patent at date of purchase $2,000,000
Amortization of patent for 2006 ($2,000,000 ÷ 10 years) (200,000)
Amortization of patent for 2007 ($1,800,000 ÷ 5 years) (360,000)
Patent balance $1,440,000

Schedule 2 Computation of Franchise from Reagan Company
Cost of franchise at date of purchase $ 480,000
Amortization of franchise for 2007 ($480,000 ÷ 10) (48,000)
Franchise balance $ 432,000
EXERCISE 12-9 (Continued)

(b) Jimmy Carter Company
Income Statement Effect
For the year ended December 31, 2007

Patent from Ford Company:
Amortization of patent for 2007
($1,800,000 ÷ 5 years) $360,000

Franchise from Reagan Company:
Amortization of franchise for 2007
($480,000 ÷ 10) $ 48,000
Payment to Reagan Company
($2,500,000 X 5%) 125,000 173,000

Research and development costs
Total charged against income $966,000

EXERCISE 12-10 (15–20 minutes)

(a) 2003 Research and Development Expense ...... 170,000
    Cash ........................................................... 170,000

    Patents ............................................................ 18,000
    Cash ........................................................... 18,000

    Patent Amortization Expense .................. 450
    Patents [($18,000 ÷ 10) X 3/12] ............... 450

2004 Patent Amortization Expense ............ 1,800
    Patents ($18,000 ÷ 10) ......................... 1,800
EXERCISE 12-12

Net assets of Zweifel as reported $225,000
Adjustments to fair value
   Increase in land value 30,000
   Decrease in equipment value (5,000) 25,000
Net assets of Zweifel at fair value 250,000
Selling price 350,000
Amount of goodwill to be recorded $100,000

The journal entry to record this transaction is as follows:

Cash.............................................................................................100,000
Land .............................................................................................100,000
Building.......................................................................................200,000
Equipment..................................................................................170,000
Copyright....................................................................................30,000
Goodwill......................................................................................100,000

Accounts Payable........................................................................50,000
Long-term Notes Payable .........................................................300,000
Cash .................................................................................. 350,000

EXERCISE 12-13 (10–15 minutes)

(a) Cash.............................................................................................50,000
    Receivables ...........................................................................90,000
    Inventory .............................................................................125,000
    Land ......................................................................................60,000
    Buildings .............................................................................75,000
    Equipment ............................................................................70,000
    Trademarks ..........................................................................15,000
    Goodwill................................................................................65,000*

    Accounts Payable ...................................................................200,000
    Notes Payable ........................................................................100,000
    Cash .................................................................................. 250,000

*$365,000 – [$235,000 + $20,000 + $25,000 + $5,000]

Note that the building and equipment would be recorded at the 7/1/06 cost to Brigham; accumulated depreciation accounts would not be recorded.
EXERCISE 12-13 (Continued)

(b) Trademark Amortization Expense................................. 1,500
Trademarks ([$15,000 – $3,000] X 1/4 X 6/12)....... 1,500

EXERCISE 12-14 (15–20 minutes)

(a) December 31, 2007
Loss on Impairment ................................................. 1,100,000*
Copyrights........................................................ 1,100,000

*Carrying amount $4,300,000
Fair value 3,200,000
Loss on impairment $1,100,000

Note: Asset fails recoverability test.

(b) Copyright Amortization Expense ........................ 320,000*
Copyrights........................................................ 320,000

*New carrying amount $3,200,000
Useful life ÷ 10 years
Amortization per year $ 320,000

(c) No entry is necessary. Restoration of any impairment loss is not permitted for assets held for use.

EXERCISE 12-15 (15–20 minutes)

(a) December 31, 2007
Loss on Impairment .................................... 15,000,000
Goodwill ............................................... 15,000,000

The fair value of the reporting unit ($335 million) is below its carrying value ($350 million). Therefore, an impairment has occurred. To determine the impairment amount, we first find the implied goodwill. We then compare this implied fair value to the carrying value of the goodwill to determine the amount of the impairment to record.