

On December 31, 1984, Lee, Inc., reported as available for sale securities (all long-term investments) the following marketable equity securities:

Dale Corp., 5,000 shares of common stock (@ 1% interest)	\$125,000
Ewing Corp., 10,000 shares of common stock (@2% interest)	160,000
Fox Corp., 25,000 shares of common stock (@ 10% interest)	<u>700,000</u>
Marketable equity securities at cost	985,000
Less valuation allowance to reduce long-term investments in marketable equity securities to market value	<u>50,000</u>
Marketable equity securities at market	<u><u>\$935,000</u></u>

Additional Information:

1. On May 1, 1985, Dale issued a 10% stock dividend, when the market price of its stock was \$24 per share.
2. On November 1, 1985, Dale paid a cash dividend of \$0.75 per share.
3. On August 5, 1985, Ewing issued, to all shareholders, stock rights on the basis of one right per share. Market prices at date of issue were \$13.50 per share (ex-rights) of stock and \$1.50 per right. Lee sold all rights on December 16, 1985, for net proceeds of \$18,800.
4. On July 1, 1985, Lee paid \$1,520,000 for 50,000 additional shares of Fox Corp.'s common stock which represented a 20% investment in Fox. The fair value of all of Fox's identifiable assets net of liabilities was equal to their carrying amount of \$6,350,000. As a result of this transaction, Lee owns 30% of Fox and can exercise significant influence over Fox's operating and financial policies. Any excess of the price paid for Fox over fair value of underlying equity is considered to be goodwill. Lee will adhere to the provisions of FAS Statement No. 142 with regard to the goodwill.
5. Lee's initial 10% interest of 25,000 shares of Fox's common stock was acquired on January 2, 1984, for \$700,000. At that date, the net assets of Fox totaled \$5,800,000 and the fair value of Fox's identifiable assets net of liabilities was equal to their carrying amount.
6. Market prices per share of the marketable equity securities, all listed on a national securities exchange, were as follows:

	December 31,	
	1984	1985
Dale Corp. – common	\$22	\$23
Ewing Corp. – common	15	14
Fox Corp. – common	27	29

**Handout Problem No. F-159** (continued, p. 2)

7. Fox reported net income and paid dividends of:

	<u>Net income</u>	<u>Dividends per share</u>
Year ended 12/31/84	\$350,000	None
Six months ended 6/30/85	200,000	None
Six months ended 12/31/85	370,000	\$1.30

(Dividend was paid 10/1/85)

8. There were no other intercompany transactions between Lee and Fox.

**Required:**

- a. Prepare a schedule setting forth for each investment the transactions and computations necessary to determine the ending balance in Lee's December 31, 1985, balance sheet:
  1. For available for sale investments.
  2. For investments carried under the equity method of accounting.
- b. Prepare a schedule showing all income, gains, and losses relating to Lee's long-term investments for the year ended December 31, 1985.