3-26 Following are selected accounts for Mergaronite Company and Hill, Inc., as of December 31, 2013. Several of Mergaronite’s accounts have been omitted. Credit balances are indicated by parenthesis.

  **Mergaronite Hill**

Revenues…………………………………….. (600,000) (250,000)

Cost of Goods sold……………………….. 280,000 100,000

Depreciation Expense…………………. 120,000 50,000

Investment income…………… not given N/A

Retained earnings , 1/1/13…. (900,000) (600,000)

Dividends paid…………………… 130,000 40,000

Current assets………………….. 200,000 690,000

Land …………………………………. 300,000 90,000

Buildings (Net)………………… 500,000 140,000

Equipment (Net)……………... 200,000 250,000

Liabilities………………………….. (400,000) (310,000)

Common stock………………… (300,000) (40,000)

Additional paid in capital… (50,000) (160,000)

Assume that Mergonite took over Hill on January 1, 2009, by issuing 7,000 shares of common stock having a par value of $10 per share but a fair value of $100 each. ON January 1, 2009, Hill’s land was undervalued by $20,000, its buildings were overvalued by $30,000, and equipment was undervalued by $60,000. The buildings had a 10-year life; the equipment had a 5-year life. A customer list with an appraised value of $100,000 was developed internally by Hill and was to be written off over a 20-year period.

1. Determine and explain the December 31, 2013, consolidated totals for the following accounts:

Revenues

Cost of Goods Sold

Depreciation Expense

Amortization Expense

Buildings

Equipment

Customer list

Common Stock

Additional Paid-in-Capital

1. In requirement (a) why can the consolidated totals be determined without knowing which method the parent used to account for the subsidiary?
2. If he parent uses the equity method, what consolidation entries would be used on a 2013 worksheet?