The Horstmeyer Corporation commenced operations early in 2011. A number of expenditures were made during 2011 that were debited to one account called *intangible asset.* A recap of the $644,000 balance in this account at the end of 2011 is as follows:

Date Transaction Amount

2/3/11 State incorporation fees and legal costs related to organizing the corporation $ 7,000

3/1/11 Fire insurance premium for three-year period 6,000

3/15/11 Purchased a copyright 20,000

4/30/11 Research and development costs 40,000

6/15/11 Legal fees for filing a patent on a new product resulting from an R&Dv project 3,000

9/30/11 Legal fee for successful defense of patent developed above 12,000

10/13/11 Entered into a 1O-year franchise agreement with franchisor 40,000

Various Advertising costs 16,000

11/30/11 Purchase of all of the outstanding common stock of Stiltz Corp. 500,000

Total $644,000

16,000

500,000

$644,000

The total purchase price of the Stiltz Corp. stock was debited to this account. The fair values of Stiltz Corp.'s

assets and liabilities on the date of the purchase were as follows:

Receivables $100,000

Equipment 350,000

Patent 150,000

TotaI assets 600,00

Note payable assumed (220,000)

Fair value of net assets $ 380,000

Required:

Prepare the necessary journal entries to clear the intangible asset account and to set up accounts for separate

intangible assets, other types of assets, and expenses indicated by the transactions. Company, plaintiff, paid $12,000 in legal fees in November, in connection with a successful infringement suit

Case A. Kapono Farms exchanged an old tractor for a newer model. The old tractor had a book value of $12,000

(original cost of $28,000 less accumulated depreciation of $16,000) and a fair value of $9,000. Kapono paid

$20,000 cash to complete the exchange. The exchange has commercial substance.

Required:

1. What is the amount of gain or loss that Kapono would recognize on the exchange? What is the initial valur

the new tractor?

2. Repeat requirement 1 assuming that the fair value of the old tractor is $14,000 instead of $9,000.

Case B. Kapono Farms exchanged 100 acres of farmland for similar land. The farmland given had a book value

of $500,000 and a fair value of $700,000. Kapono paid $50,000 cash to complete the exchange. The exchange

has commercial substance.

Required:

1. What is the amount of gain or loss that Kapono would recognize on the exchange? What is the initial value of

the new land?

2. Repeat requirement 1 assuming that the fair value of the farmland given is $400,000 instead of $700,000.

3. Repeat requirement 1 assuming that the exchange lacked commercial substance.