

On January 1, 20X1, LGM Company purchased 80% of the outstanding common stock of MEL Company for \$296,000. On this date, the book value of MEL's net asset was equal to \$370,000. LGM uses the equity method to account for investments. Below is the trial balance for both LGM and MEL as of December 31, 20X1

	LGM	MEL
Cash	191,000	46,000
Accounts Receivable	140,000	60,000
Inventory	190,000	120,000
Investment in MEL	350,400	0
Land	250,000	125,000
Buildings & Equipment	875,000	250,000
Cost of Goods Sold	250,000	155,000
Depreciation Expense	65,000	12,000
Selling & Adm. Expense	280,000	50,000
Dividends Declared	80,000	25,000
Accumulated Depreciation	565,000	36,000
Accounts Payable	77,000	27,000
Bonds Payable	250,000	100,000
Common Stock	625,000	250,000
Retained Earnings	280,000	120,000
Sales	800,000	310,000
Income from MEL	74,400	0

Required:

1. Prepare all necessary journal entries to record the investment in MEL.
2. Prepare the book value calculations.
3. Prepare all necessary elimination entries for the consolidating worksheet of December 31, 20X1.
4. Complete the consolidating worksheet for December 31, 20X1.
5. Prepare the following financial statements:
 - a. Balance Sheet
 - b. Income Statement
6. Determine the amount of total revenue, total expense and net income to be reported as of December 31, 20X1 under the following consolidation alternatives:
 - a. Proprietary theory
 - b. Parent company theory
 - c. Entity theory
 - d. Current accounting practice