

CONCEPT: LUMP-SUM (BASKET) PURCHASES OF ASSETS

- A company can purchase multiple assets with one payment, such as land with a building attached to it.
 - We usually get a _____ from the fair value of each separate asset when we make a lump-sum purchase
 - We must split up the money spent between the different assets using the ***relative-sales-value-method***
 1. Find the Total Fair Market Value of the assets purchased in the lump-sum transaction
 2. Find the percentage of the total Fair Market Value for each asset purchased
 3. Multiply each percentage by the total amount outlaid for the assets.

EXAMPLE: Buy It All Company purchased a plot of land with a building attached to it at a combined purchase price of \$2,800,000. The appraiser indicated that the fair market value of the land was \$300,000 and the building's fair market value was \$2,700,000. What is the journal entry to record the combined purchase of the land and building?

Asset	Fair Market Value (FMV)	Percentage of Total FMV	Total Payment Made	Initial Cost of Each Asset

PRACTICE: The Cutting Corner paid \$640,000 for a basket purchase of land, building, and equipment. At the time of the purchase, the land had a market value of \$224,000, the building's market value was \$455,000 and the equipment's market value was \$21,000. If the business put \$240,000 as a down payment while signing a note payable for the remainder of the \$640,000 purchase price, what would be the journal entry to record the basket purchase?