

Coastal Pine Corporation acquired 40% of the stock of Delta Shipping. Coastal Pine's investment is a long-term strategic investment. Coastal Pine anticipates that its investment will permit it to elect certain board members and otherwise exercise influence over the plans and policies implemented by Delta.

Coastal Pine paid \$20,000,000 for its 40% interest. The acquisition occurred on January 1, 20X4. On that date, Delta Shipping had total stockholders' equity of \$50,000,000. During 20X4, Delta earned \$13,000,000 and paid \$3,000,000 in dividends. Both companies have December 31 year ends.

- (a) Prepare Coastal's entries to account for the activity pertaining to the investment in Delta Shipping.
- (b) Calculate the change in Delta's total equity during the year, and compare this to the change in Coastal's Investment in Delta account. Are they correlated, and does this help explain the term "equity" method of accounting?