

CHAPTER 4

CONSOLIDATION OF WHOLLY OWNED SUBSIDIARIES ACQUIRED AT MORE THAN BOOK VALUE

ANSWERS TO QUESTIONS

Q4-1 The carrying value of the investment is reduced under equity method reporting when (a) a dividend is received from the investee, (b) a differential is amortized, (c) an impairment of goodwill occurs, and (d) the market value of the investment declines and is less than the carrying value and it is concluded the decline is other than temporary.

Q4-2 A differential occurs when an investor pays more than or less than underlying book value in acquiring ownership of an investee.

(a) In the case of the cost method, no adjustments are made for amortization of the differential on the investor's books.

(b) Under equity-method reporting the difference between the amount paid and book value must be assigned to appropriate asset and liability accounts of the acquired company. If any portion of the differential is assigned to an amortizable or depreciable asset, that amount must be charged against income from the investee over the remaining economic life of the asset.

Q4-3 Amortization of a differential is the most common reason for investment income to be lower than a proportionate share of reported income of the investee. If Turner Company has paid more than book value for the shares of Straight Lace Company, the differential must be assigned to identifiable assets and liabilities of the investee, or to goodwill. Those amounts assigned to depreciable and identifiable intangible assets must be amortized and will reduce equity-method income over the remaining economic lives of the underlying assets. Amounts attributable to other items such as land or inventories must be treated as a reduction of income in the period in which Straight Lace disposes of the item. Income also will be lower if the investee has been involved in sales to related companies during the period and there are unrealized profits from those intercompany sales; the income of the selling affiliate must be reduced by the unrealized profits before equity-method income is computed. Finally, if Straight Lace has preferred stock outstanding, preferred dividends must be deducted before assigning earnings to common shareholders.

Q4-4 The differential represents the difference between the acquisition-date fair value of the acquiree and the book value of the net identifiable assets.

Q4-5 A company must acquire a subsidiary at a price equal to the subsidiary's fair value, and that subsidiary must have a total acquisition-date fair value less than its book value.

Q4-6 Current consolidation standards require recognition of the fair value of the subsidiary's individual assets and liabilities at the date of acquisition. Generally, this will be all of the book value plus an additional amount (the differential). At least some portion of the book value would not be included if the fair value of a particular asset or liability was less than book value.

Q4-7 One hundred percent of the fair value of the subsidiary's assets and liabilities at the date of acquisition should be included. The type of asset or liability will determine whether a change in its value will be recognized following the date of acquisition.

Q4-8 During consolidation, the differential is eliminated from the investment account and distributed to the appropriate asset and liability accounts. This same process is followed each time consolidated statements are prepared. The eliminating entries do not actually remove the balance in the investment account from the parent's books; thus, there is no need to re-establish the balance in the parent company's records. The differential continues to be a part of the investment account balance until fully amortized, if appropriate.

Q4-9 The investment account in the financial statements of the parent company shows its investment in the subsidiary as a single total and therefore does not provide information on the individual assets and liabilities held by the subsidiary, nor their relative values. The existence of a large differential indicates the parent paid well over book value to acquire ownership of the subsidiary. When the differential is assigned to identifiable assets or liabilities of the subsidiary, both the consolidated balance sheet and consolidated income statement are likely to provide information not available in the financial statements of the individual companies. The consolidated statements are likely to provide a better picture of the assets actually being used and the resulting income statement charges that should be reported.

Q4-10 Consolidated net income is equal to the parent's income from its own operations, excluding any investment income from consolidated subsidiaries, plus the income of each of the consolidated subsidiaries, adjusted for any differential write-off.

Q4-11 An additional eliminating entry normally must be entered in the worksheet to expense (depreciate) an appropriate portion of the amount assigned to buildings and equipment. Normally, depreciation expense is debited and accumulated depreciation is credited.

Q4-12 If the differential arises because the fair value of land, or some other non-depreciable asset, held by the subsidiary is greater than book value, the amount assigned to the differential will remain constant so long as the subsidiary continues to hold the land. When the differential arises because the fair value of depreciable or amortizable assets is greater than book value, the amount debited to the related assets each period will decrease as the parent amortizes an appropriate portion of the differential against investment income.

Q4-13 Push-down accounting occurs when the assets and liabilities of the subsidiary are revalued on the subsidiary's books as a result of the purchase of shares by the parent company. The basis of accountability that the parent company would use in accounting for its investment in the various assets and liabilities is used to revalue the subsidiary's assets and liabilities; thereby pushing down the parent's basis of accountability onto the books of the subsidiary.

Q4-14 Push-down accounting is considered appropriate when a subsidiary is substantially wholly owned by the parent.

Q4-15 When the assets and liabilities of the subsidiary are revalued at the date of acquisition there will no longer be a differential. The parent's portion of the revised carrying value of the net assets on the books of the subsidiary will agree with the balance in the investment account reported by the parent.

SOLUTIONS TO CASES

C4-1 Reporting Significant Investments in Common Stock

Answers to this case can be found in the annual reports to stockholders of the companies mentioned and in their 10-K filings with the SEC (available at www.sec.gov).

a. Before 1998, Harley-Davidson reported its investment in the common stock of Buell Motorcycle Company using the equity method. The 49 percent investment that Harley held since 1993 gave it the ability to significantly influence Buell. In 2003, Harley purchased all remaining shares of Buell and, therefore, Harley fully consolidates Buell in its general-purpose financial statements. In 2009, Harley-Davidson announced the discontinuation of Buell in order to focus on the Harley-Davidson brand.

b. Chevron fully consolidates its controlled subsidiaries that are majority owned and variable interest entities of which it is the primary beneficiary. The company uses pro rata consolidation in reporting its undivided interests in oil and gas joint ventures. Chevron uses the equity method to report its investments in affiliates over which the company exercises significant influence or has an ownership interest of 20 to 50 percent. In applying the equity method, Chevron recognizes in income gains and losses from changes in its proportionate dollar share of an affiliate's equity resulting from issuance of additional stock by the affiliate.

Chevron analyses any difference between the carrying value of an equity-method investment and its underlying book value and, to the extent that it can, assigns that differential to specific assets and liabilities. The company adjusts quarterly its equity-method income recognized from affiliates for any write-off or amortization of the differential.

Chevron assesses its equity investments for possible impairment when events indicate a possible impairment. If an investment has declined in value, the company evaluates the situation to determine if the decline is other than temporary. If the decline in value is judged to be other than temporary, the investment is written down to its fair value and a loss recognized in income. Subsequent recoveries in value are not recognized.

c. Sears has investments in the voting securities of a number of companies that it accounts for using the equity method. Where these investments are reported is difficult to tell from the financial statements and notes. Apparently the amounts involved are relatively small, and the investments are included in other assets on the balance sheet, with the income reported in other income on the income statement.

C4-2 Assigning an Acquisition Differential

It may be difficult to determine the amount of the differential to be assigned to the manufacturing facilities of Ball Corporation. The equipment is relatively old and may be in varying states of repair or operating condition. Some units may be technologically obsolete or of little value because production needs have changed. The \$600,000 estimated fair value of net assets therefore may be difficult to document and even more difficult to assign to specific assets and liabilities.

Inventories should be compared to sales to determine if Ball has excess balances on hand. Factors such as the degree of salability, physical condition, and expected sales prices should be examined as well in determining the portion of the differential to be assigned to inventory. The

LIFO inventory balances are likely to be below fair value while the FIFO balances may be relatively close to fair value. The amount of differential assigned to inventory will be significantly affected by the rate of change in inventory costs since the LIFO inventory method was adopted and the relative magnitude of inventory on hand under each method.

No mention is made of patents or other intangible assets developed by Ball Corporation. While Ball Corporation could not record as assets its expenditures on research and development, the buyer should recognize all tangible and intangible assets at fair value before goodwill is computed. Goodwill normally is measured as the excess of the sum of the consideration given in the acquisition and the fair value of the noncontrolling interest over the fair value of the identifiable net assets of the acquired company.

C4-3 Negative Retained Earnings

Net assets of the subsidiary increase when positive earnings results occur and decrease when negative results occur. A negative retained earnings balance indicates that the other stockholders' equity balances of the subsidiary exceed the reported net assets of the subsidiary assuming the company is solvent.

a. The negative retained earnings balance of the subsidiary is eliminated in the consolidation process and does not affect the dollar amounts reported in the consolidated stockholders' equity accounts.

b. The consolidation process does not change in any substantive manner. Rather than debiting retained earnings in the entry to eliminate the stockholders' equity balances of the subsidiary in the consolidation worksheet, the account must be credited.

c. Goodwill is recorded whenever the fair value of the acquired company as a whole, as evidenced by the fair value of the consideration given in the acquisition and the fair value of the noncontrolling interest, exceeds the fair value of the net identifiable assets acquired. In this case it is not known whether the fair value is above or below book value. Sloan Company recorded losses in prior periods and may have written down all assets that had decreased in value. On the other hand, management may have been reluctant to recognize such losses in order to avoid reducing earnings even further. In the extreme, it may even have sold all assets that had appreciated in value. Many factors, including the future earning power of the company, will affect the purchase price and it is therefore difficult to determine whether goodwill will be recorded in a situation such as this.

C4-4 Balance Sheet Reporting Issues

a. Under the first two alternatives, the cars and associated debt would appear on Crumple's consolidated balance sheet. In the first case the debt is recorded directly by Crumple. In the second case, the leasing subsidiary should be fully consolidated.

b. Crumple apparently has not considered selling additional common or preferred shares. The sale of additional shares or use of convertible securities would be one set of options to consider. If Crumple is willing to lease the automobiles, other leasing companies or automobile manufacturers may be interested in participating. If the availability of rental cars is considered important in the economic development of the states into which Crumple intends to expand, the company may be able to negotiate low cost loans or partially forgivable loans in acquiring the facilities and automobiles needed for expansion.

c. Some individuals may focus on the fact that Crumple will not get any residual amounts if the trust is dissolved. However, through management charges and selection of lease rates, Crumple is likely to be able to leave as large or small a balance in the trust as it wishes. Students may wish to look at the financial statements of one or more leasing companies in arriving at their recommendation(s).

From a financial reporting perspective, all three alternatives now should be reported in essentially the same manner in the consolidated financial statements. Thus, the financial reporting aspects of the three alternatives have become irrelevant. However, even when different alternatives lead to different reporting treatments, the choice of an alternative should be based on economic considerations rather than on the financial reporting effects. Even though the three financing alternatives Crumple is considering are reported in the same manner, they each may have different legal, tax, and economic aspects that should be considered by Crumple's management.

C4-5 Subsidiary Ownership: AMR Corporation and International Lease

- (1) International Lease Finance Corporation leases aircraft to airlines.
- (2) American International Group, Inc. is the direct owner of International Lease.
- (3) Los Angeles, California
- (4) California
- (5) International Lease's common stock is not publicly traded because the company is an indirect wholly owned subsidiary of American International Group.
- (6) American International Group, Inc., is the parent of the consolidated group. American International is a holding company with businesses that include insurance, and related products, financial services, and asset management.

SOLUTIONS TO EXERCISES**E4-1 Cost versus Equity Reporting**

a. Cost-method journal entries recorded by Roller Corporation:

20X5	Investment in Steam Company Stock	270,000	
	Cash		270,000
	Record purchase of Steam Company stock.		
	Cash	5,000	
	Dividend Income		5,000
	Record dividend income from Steam Company		
20X6	Cash	15,000	
	Dividend Income		15,000
	Record dividend income from Steam Company		
20X7	Cash	35,000	
	Dividend Income		35,000
	Record dividend income from Steam Company		
	Note: Cumulative dividends do not exceed cumulative earnings to date.		

b. Equity-method journal entries recorded by Roller Corporation:

20X5	Investment in Steam Company Stock	270,000	
	Cash		270,000
	Record purchase of Steam Company stock.		
	Cash	5,000	
	Investment in Steam Company Stock		5,000
	Record dividend from Steam Company.		
	Investment in Steam Company Stock	20,000	
	Income from Steam Company		20,000
	Record equity-method income.		
	Income from Steam Company	7,000	
	Investment in Steam Company Stock		7,000
	Amortize differential: $(\$270,000 - \$200,000) / 10$ years		
20X6	Cash	15,000	
	Investment in Steam Company Stock		15,000
	Record dividend from Steam Company.		
	Investment in Steam Company Stock	40,000	
	Income from Steam Company		40,000
	Record equity-method income.		
	Income from Steam Company	7,000	
	Investment in Steam Company Stock		7,000

Amortize differential.

20X7	Cash	35,000	
	Investment in Steam Company Stock		35,000
	Record dividend from Steam Company.		
	Investment in Steam Company Stock	20,000	
	Income from Steam Company		20,000
	Record equity-method income.		
	Income from Steam Company	7,000	
	Investment in Steam Company Stock		7,000
	Amortize differential.		

E4-2 Differential Assigned to Patents

Journal entries recorded by Power Corporation:

20X2	Investment in Snow Corporation Stock	1,080,000	
	Common Stock		270,000
	Additional Paid-In Capital		810,000
Record purchase of Snow Corporation stock			
	Cash	20,000	
	Investment in Snow Corporation Stock		20,000
	Record dividend from Snow Corporation		
	Investment in Snow Corporation Stock	56,000	
	Income from Snow Corporation		56,000
	Record equity-method income		
	Income from Snow Corporation	12,500	
	Investment in Snow Corporation Stock		12,500
	Amortize differential: $(\$1,080,000 - \$980,000) / 8 \text{ years}$		
20X3	Cash	10,000	
	Investment in Snow Corporation Stock		10,000
	Record dividend from Snow Corporation		
	Income from Snow Corporation	44,000	
	Investment in Snow Corporation Stock		44,000
	Record equity-method loss		
	Income from Snow Corporation	12,500	
	Investment in Snow Corporation Stock		12,500
	Amortize differential		

E4-3 Differential Assigned to Copyrights

Journal entries recorded by Best Corporation:

20X7	Investment in Flair Company Stock	694,000	
	Cash		24,000
	Bonds Payable		670,000
	Record purchase of Flair Company stock.		
	Cash	24,000	
	Investment in Flair Company Stock		24,000
	Record dividend from Flair Company		
	Income from Flair Company	88,000	
	Investment in Flair Company Stock		88,000
	Record equity-method loss		
	Income from Flair Company	9,750	
	Investment in Flair Company Stock		9,750
	Amortize differential:		
	Book value of assets	\$740,000	
	Book value of liabilities	(140,000)	
	Net book value	\$600,000	
	Land fair value increment	16,000	
	Fair value of net assets	\$616,000	
	Amount paid	694,000	
	Differential	\$ 78,000	
	Period of amortization (years)	÷ 8	
	Amortization per period	<u>\$ 9,750</u>	
20X8	Cash	24,000	
	Investment in Flair Company Stock		24,000
	Record dividend from Flair Company		
	Investment in Flair Company Stock	120,000	
	Income from Flair Company		120,000
	Record equity-method income		
	Income from Flair Company	9,750	
	Investment in Flair Company Stock		9,750
	Amortize differential		

E4-4 Differential Attributable to Depreciable Assets

a. Journal entries recorded by Capital Corporation using the equity method:

20X4	Investment in Cook Company Stock	340,000	
	Cash		340,000
	Record purchase of Cook Company Stock.		
	Cash	6,000	
	Investment in Cook Company Stock		6,000
	Record dividend from Cook Company		
	Investment in Cook Company Stock	10,000	
	Income from Cook Company		10,000
	Record equity-method income		
	Income from Cook Company	4,000	
	Investment in Cook Company Stock		4,000
	Amortize differential: $(340,000 - 300,000) / 10$ years		
20X5	Cash	9,000	
	Investment in Cook Company Stock		9,000
	Record dividend from Cook Company		
	Investment in Cook Company Stock	20,000	
	Income from Cook Company		20,000
	Record equity-method income		
	Income from Cook Company	4,000	
	Investment in Cook Company Stock		4,000
	Amortize differential		

b. Journal entries recorded by Capital Corporation using the cost method:

20X4	Investment in Cook Company Stock	340,000	
	Cash		340,000
	Record purchase of Cook Company Stock.		
	Cash	6,000	
	Dividend Income		6,000
	Record dividend income from Cook Company.		
20X5	Cash	9,000	
	Dividend Income		9,000
	Record dividend income from Cook Company.		

E4-5 Investment Income

Brindle Company reported equity-method income of \$52,000, computed as follows:

Proportionate share of reported income		\$68,000
Amortization of differential:		
Land (\$108,000: not amortized)	\$ -0-	
Equipment (\$80,000 / 5 years)	16,000	
Goodwill (\$0: not amortized)	<u>-0-</u>	<u>(16,000)</u>
Investment Income		<u>\$52,000</u>

Assignment of differential

Purchase price	\$648,000
Proportionate share of book value of net assets (\$690,000 - \$230,000)	<u>(460,000)</u>
Differential	\$ 188,000
Differential assigned to land	<u>(108,000)</u>
Differential assigned to equipment	<u>(80,000)</u>
Differential assigned to goodwill	<u>\$ 0</u>

E4-6 Determination of Purchase Price

Investment account balance December 31, 20X6		\$161,000
Increase in account balance during 20X5:		
Proportionate share of income	\$ 33,000	
Amortize differential (\$28,000 / 8 years)	<u>(3,500)</u>	
Dividend received	<u>(15,000)</u>	(14,500)
Decrease in account balance during 20X6:		
Proportionate share of income	\$ 6,000	
Amortize differential (\$28,000 / 8 years)	<u>(3,500)</u>	
Dividend received	<u>(12,000)</u>	<u>9,500</u>
Investment account balance at date of purchase		<u>\$156,000</u>

E4-7 Correction of Error

Required correcting entry:

Investment in Case Products Stock	44,000	
Dividend Income	8,000	
Income from Case Products		30,000
Retained Earnings		22,000

Computation of correction of investment account

Addition to account for investment income:

20X6: \$16,000	\$16,000	
20X7: \$24,000	24,000	
20X8: \$32,000	<u>32,000</u>	\$72,000

Deduction for dividends received:

20X6: \$6,000	\$ 6,000	
20X7: \$8,000	8,000	
20X8: \$8,000	<u>8,000</u>	(22,000)

Amortization of differential:

Purchase price	\$56,000	
Proportionate share of book value of net assets (\$10,000 + \$30,000)	<u>(40,000)</u>	
Amount of differential	<u>\$16,000</u>	
Amortization for 3 years $[(\$16,000 / 8) \times 3]$		<u>(6,000)</u>
Required correction of investment account		<u>\$44,000</u>

Computation of correction of retained earnings of Grand Corporation

Dividend income recorded in 20X6: \$6,000	\$ 6,000	
20X7: \$8,000	<u>8,000</u>	(\$14,000)
Equity-method income in 20X6: $(\$16,000 - \$2,000)$	\$14,000	
20X7: $(\$24,000 - \$2,000)$	<u>22,000</u>	36,000
Required correction of retained earnings		<u>\$22,000</u>

E4-8 Differential Assigned to Land and Equipment

Journal entries recorded by Rod Corporation:

- | | | | |
|-----|--|--------|--------|
| (1) | Investment in Stafford Corporation Stock | 65,000 | |
| | Cash | | 65,000 |
| | Record purchase of Stafford Stock. | | |
| (2) | Cash | 4,500 | |
| | Investment in Stafford Corporation Stock | | 4,500 |
| | Record dividend from Stafford | | |
| (3) | Investment in Stafford Corporation Stock | 12,000 | |
| | Income from Stafford | | 12,000 |
| | Record equity-method income | | |
| (4) | Income from Stafford | 1,000 | |
| | Investment in Stafford Corporation Stock | | 1,000 |
| | Amortize differential assigned to equipment. | | |

E4-9 Equity Entries with Goodwill

Journal entries recorded following purchase:

- | | | | |
|-----|--|---------|---------|
| (1) | Investment in Turner Corporation Stock | 437,500 | |
| | Cash | | 437,500 |
| | Record purchase of Turner stock. | | |
| (2) | Cash | 3,200 | |
| | Investment in Turner Corporation Stock | | 3,200 |
| | Record dividend from Turner | | |
| (3) | Investment in Turner Corporation Stock | 16,000 | |
| | Income from Turner Corporation | | 16,000 |
| | Record equity-method income | | |
| (4) | Income from Turner Corporation Stock | 10,000 | |
| | Investment in Turner Corporation | | 10,000 |
| | Write off differential assigned to inventory carried on FIFO basis | | |
| (5) | Income from Turner Corporation Stock | 9,000 | |
| | Investment in Turner Corporation | | 9,000 |
| | Amortize differential assigned to buildings and equipment:
[\$240,000 - (\$300,000 - \$150,000)] / 10 years | | |

E4-10 Multiple-Choice Questions on Consolidation Process

- c** – Goodwill is the difference between the fair value of the acquire (what someone is willing to pay for the company) and the fair value of the net identifiable assets.
 - (a) *Incorrect.* Goodwill can be measured in business combinations, and is always recorded regardless of difficulty.
 - (b) *Incorrect.* Goodwill is the excess of the purchase price over the fair value of the net identifiable assets, not the book value.
 - (d) *Incorrect.* The size of the company acquired has no direct correlation with the amount of goodwill that may or may not be recorded.
- d** – Consolidated financial statements will never report intercompany receivables. The intercompany receivables would show up on the individual books of the companies involved, but the amounts would be eliminated prior to consolidation. [AICPA Adapted]
 - (a) *Incorrect.* No intercompany receivables should exist in the consolidated financials.
 - (b) *Incorrect.* No intercompany receivables should exist in the consolidated financials.
 - (c) *Incorrect.* No intercompany receivables should exist in the consolidated financials.
- d** – The consolidated stockholder's equity balance is always equal to the balance of total equity from the parent's books.
 - (a) *Incorrect.* The only amount that should appear in the consolidated balance is the amount from the parent's books.

- (b) *Incorrect*. The only amount that should appear in the consolidated balance is the amount from the parent's books.
- (c) *Incorrect*. The equity balances from parent and sub are not added together, but rather only the balance from the parent's books appears in the consolidated statements.
4. **b** - $\$550,000 = \$1,500,000 - [(100,000 + 200,000 + 450,000 + 1,000,000) - (300,000 + 500,000)]$
5. **a** - The consolidated balance sheet should only show the retained earnings balance of the parent company.
- (b) *Incorrect*. Consolidated retained earnings should equal the parent's retained earnings.
- (c) *Incorrect*. Consolidated retained earnings should equal the parent's retained earnings.
- (d) *Incorrect*. Consolidated retained earnings should equal the parent's retained earnings.

E4-11 Multiple-Choice Questions on Consolidation [AICPA Adapted]

1. **c** - Goodwill is not amortized, but instead is tested for impairment at least annually.
- (a) *Incorrect*. Goodwill is not amortized.
- (b) *Incorrect*. Goodwill is not amortized.
- (d) *Incorrect*. Because the subsidiary has recognized more depreciation than it should have, depreciation expense should be decreased, not increased.
2. **a** - Goodwill is not amortized, thus no amortization expense is recorded. Because goodwill was found to be unimpaired, the entire amount of the existing goodwill would be reported.
- (b) *Incorrect*. Goodwill is not amortized.
- (c) *Incorrect*. Goodwill is not amortized.
- (d) *Incorrect*. Goodwill was unimpaired, and still exists at the end of 20X8. Thus, goodwill should be recorded.
3. **d** - All intercompany loans and profits must be eliminated in a consolidation, thus the entire balances should be eliminated.
- (b) *Incorrect*. All intercompany loans and profits must be eliminated.
- (c) *Incorrect*. All intercompany loans and profits must be eliminated.
- (d) *Incorrect*. All intercompany loans and profits must be eliminated.
4. **c** - $\$400,000 = \$1,700,000 - \$1,300,000$

E4-12 Eliminating Entries with Differential

a.

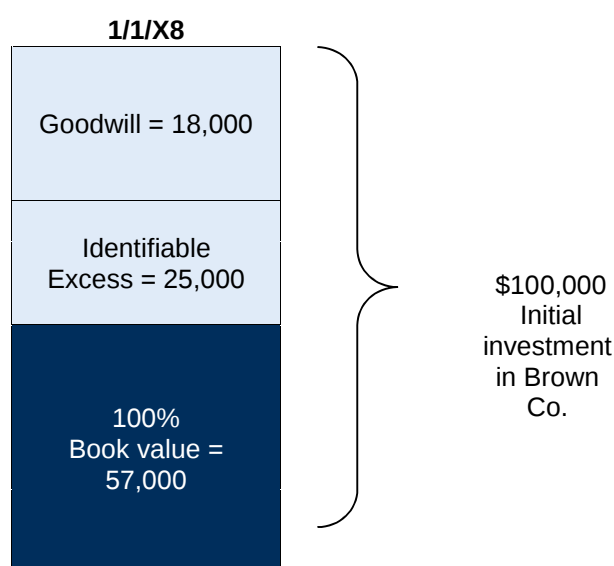
Equity Method Entries on Tower Corp.'s Books:

Investment in Brown Co.	100,000
Cash	100,000

Record the initial investment in Brown Co.

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Book value at acquisition	57,000		20,000		37,000

**Basic Elimination Entry**

Common stock	20,000
Retained earnings	37,000
Investment in Brown Co.	57,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Inventory</u>	+	<u>Buildings & Equipment</u>	+	<u>Goodwill</u>
Balances	43,000		5,000		20,000		18,000

Excess value (differential) reclassification entry:

Inventory	5,000
Buildings & Equipment	20,000
Goodwill	18,000
Investment in Brown Co.	43,000

E4-12 (continued)

	Investment in Brown Co.	
Acquisition Price	100,000	
		57,000
		43,000
	0	

**Basic
Excess Reclass.**

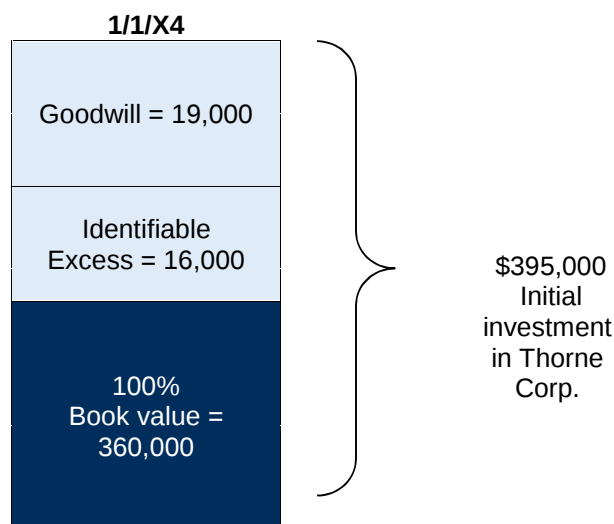
- b. Journal entries used to record transactions, adjust account balances, and close income and revenue accounts at the end of the period are recorded in the company's books and change the recorded balances. On the other hand, eliminating entries are entered only in the consolidation worksheet to facilitate the preparation of consolidated financial statements. As a result, they do not change the balances recorded in the company's accounts and must be reentered each time a consolidation worksheet is prepared.

E4-13 Balance Sheet Consolidation**Equity Method Entries on Reed Corp.'s Books:**

Investment in Thorne Corp.	395,000
Cash	395,000

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Book value at acquisition	360,000		120,000		240,000



Basic Elimination Entry

Common stock	120,000	
Retained earnings	240,000	
Investment in Thorne Corp.		360,000

Excess Value (Differential) Calculations:

	Total	=	Buildings	+	Inventory	+	Goodwill
Balances	35,000		(20,000)		36,000		19,000

Excess value (differential) reclassification entry:

Inventory	36,000	
Goodwill	19,000	
Buildings		20,000
Investment in Thorne Corp.		35,000

			Investment in Thorne Corp.	
Acquisition Price	395,000			
		360,000		Basic
		35,000		Excess Reclass.
	0			

E4-14 Acquisition with Differential

a. Goodwill is \$60,000, computed as follows:

Book value of Conger's net assets:		
Common stock outstanding	\$ 80,000	
Retained earnings	<u>130,000</u>	\$210,000
Fair value increment:		
Land (\$100,000 - \$80,000)	\$ 20,000	
Buildings (\$400,000 - \$220,000)	<u>180,000</u>	<u>200,000</u>
Fair value of net assets		\$410,000
Fair value of consideration given		<u>(470,000)</u>
Goodwill		<u>\$ 60,000</u>

b.

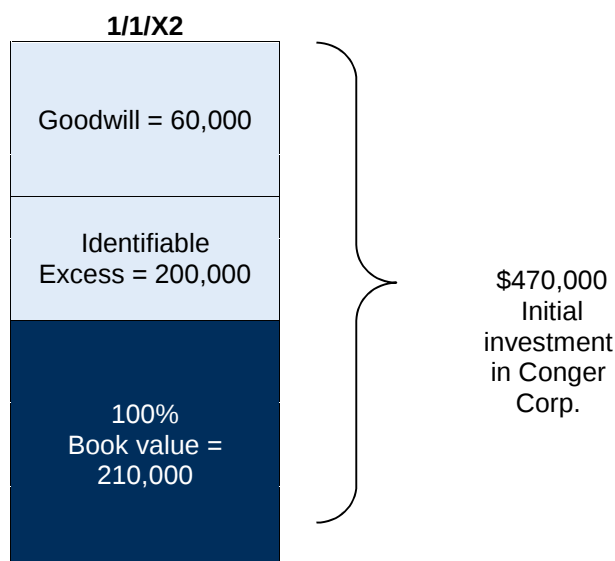
Equity Method Entries on Road Corp.'s Books:

Investment in Conger Corp.	470,000	
Cash		470,000

Record the initial investment in Conger Corp.

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Book value at acquisition	210,000		80,000		130,000

**Basic Elimination Entry**

Common stock	80,000
Retained earnings	130,000
Investment in Conger Corp.	210,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Land</u>	+	<u>Buildings</u>	+	<u>Goodwill</u>
Balances	260,000		20,000		180,000		60,000

Excess value (differential) reclassification entry:

Land	20,000
Buildings	180,000
Goodwill	60,000
Investment in Conger Corp.	260,000

E4-15 Balance Sheet Worksheet with Differential

a.

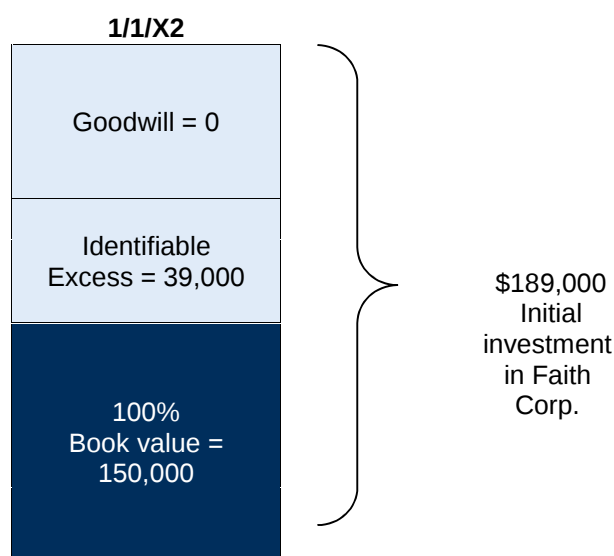
Equity Method Entries on Blank Corp.'s Books:

Investment in Faith Corp.	189,000
Cash	189,000

Record the initial investment in Faith Corp.

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Book value at acquisition	150,000		60,000		90,000

**Basic Elimination Entry**

Common stock	60,000
Retained earnings	90,000
Investment in Faith Corp.	150,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Inventory</u>	+	<u>Buildings & Equipment</u>
Balances	39,000		24,000		15,000

Excess value (differential) reclassification entry:

Inventory	24,000
Buildings & Equipment	15,000
Investment in Faith Corp.	39,000

E4-15 (continued)

	Investment in Faith Corp.		
Acquisition Price	189,000		
		150,000	Basic
		39,000	Excess Reclass.
	0		

b.

	Blank Corp.	Faith Corp.	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash	26,000	18,000			44,000
Accounts Receivable	87,000	37,000			124,000
Inventory	110,000	60,000	24,000		194,000
Buildings & Equipment (net)	220,000	150,000	15,000		385,000
Investment in Faith Corp.	189,000			150,000	0
				39,000	
Goodwill					0
Total Assets	632,000	265,000	39,000	189,000	747,000
Accounts Payable	92,000	35,000			127,000
Notes Payable	150,000	80,000			230,000
Common Stock	100,000	60,000	60,000		100,000
Retained Earnings	290,000	90,000	90,000		290,000
Total Liabilities & Equity	632,000	265,000	150,000	0	747,000

E4-16 Worksheet for Wholly Owned Subsidiary

a.

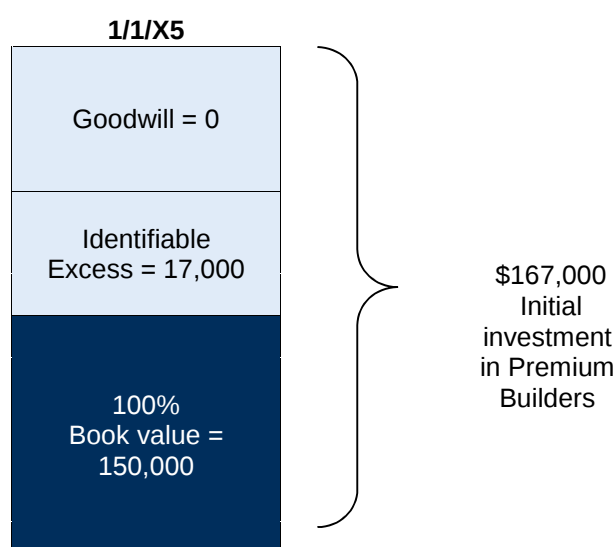
Equity Method Entries on Gold Enterprises' Books:

Investment in Premium Builders	167,000
Cash	167,000

Record the initial investment in Premium Builders

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Book value at acquisition	150,000		140,000		10,000

**Basic Elimination Entry**

Common stock	140,000
Retained earnings	10,000
Investment in Premium Builders	150,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Cash and Receivables</u>	+	<u>Inventory</u>	+	<u>Buildings & Equipment</u>
Balances	17,000		(2,000)		7,000		12,000

	Investment in Premium Builders		
Acquisition Price	167,000		
		150,000	Basic
		17,000	Excess Reclass.
	0		

Excess value (differential) reclassification entry:

Inventory	7,000	
Buildings & Equipment	12,000	
Cash and Receivables		2,000
Investment in Premium Builders		17,000

E4-16 (continued)

b.

	Gold Enterprises	Premium Builders	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash and Receivables	80,000	30,000		2,000	108,000
Inventory	150,000	350,000	7,000		507,000
Buildings & Equipment (net)	430,000	80,000	12,000		522,000
Investment in Premium Builders	167,000			150,000	0
				17,000	
Total Assets	827,000	460,000	19,000	169,000	1,137,000
Current Liabilities	100,000	110,000			210,000
Long-Term Debt	400,000	200,000			600,000
Common Stock	200,000	140,000	140,000		200,000
Retained Earnings	127,000	10,000	10,000		127,000
Total Liabilities & Equity	827,000	460,000	150,000	0	1,137,000

c.

Gold Enterprises and Subsidiary
Consolidated Balance Sheet
January 1, 20X5

Cash and Receivables	\$ 108,000	Current Liabilities	\$ 210,000
Inventory	507,000	Long-Term Debt	600,000
Buildings and		Common Stock	\$200,000
Equipment (net)	522,000	Retained Earnings	<u>127,000</u>
			<u>327,000</u>
Total Assets	<u>\$1,137,000</u>	Total Liabilities & Stockholders' Equity	<u>\$1,137,000</u>

E4-17 Computation of Consolidated Balances

- | | | |
|----------------------------|---|---------------------|
| a. Inventory | | <u>\$ 440,000</u> |
| b. Land | | <u>\$ 145,000</u> |
| c. Buildings and Equipment | | <u>\$ 1,750,000</u> |
| d. Goodwill: | Fair value of consideration given | \$ 576,000 |
| | Book value of net assets at acquisition | \$450,000 |
| | Fair value increment for: | |
| | Inventory | 20,000 |
| | Land | (10,000) |
| | Buildings and equipment | <u>70,000</u> |
| | Fair value of net assets at acquisition | <u>(530,000)</u> |
| | Balance assigned to goodwill | <u>\$ 46,000</u> |
- e. Investment in Astor Corporation: Nothing would be reported; the balance in the investment account is eliminated.

E4-18 Multiple-Choice Questions on Balance Sheet Consolidation

- d** – \$215,000 = \$130,000 + \$85,000
- b** – \$23,000 = \$198,000 – (\$405,000 - \$265,000 + \$15,000 + \$20,000)
- c** – \$1,109,000 =

Total Assets of Top Corp.	\$ 844,000
Less: Investment in Sun Corp.	<u>(198,000)</u>
Book value of assets of Top Corp.	\$ 646,000
Book value of assets of Sun Corp.	<u>405,000</u>
Total book value	\$1,051,000
Payment in excess of book value (\$198,000 - \$140,000)	<u>58,000</u>
Total assets reported	<u>\$1,109,000</u>
- c** – \$701,500 = (\$61,500 + \$95,000 + \$280,000) + (\$28,000 + \$37,000 + \$200,000)
- d** – \$257,500 = The amount reported by Top Corporation
- a** – \$407,500 = The amount reported by Top Corporation

E4-19 Wholly Owned Subsidiary with Differential

a.

Equity Method Entries on Winston Corp.'s Books:

Investment in Canton Corp.	178,000	
Cash		178,000

Record the initial investment in Canton Corp.

Investment in Canton Corp.	30,000	
Income from Canton Corp.		30,000

Record Winston Corp.'s 100% share of Canton Corp.'s 20X3 income

Cash	12,000	
Investment in Canton Corp.		12,000

Record Winston Corp.'s 100% share of Canton Corp.'s 20X3 dividend

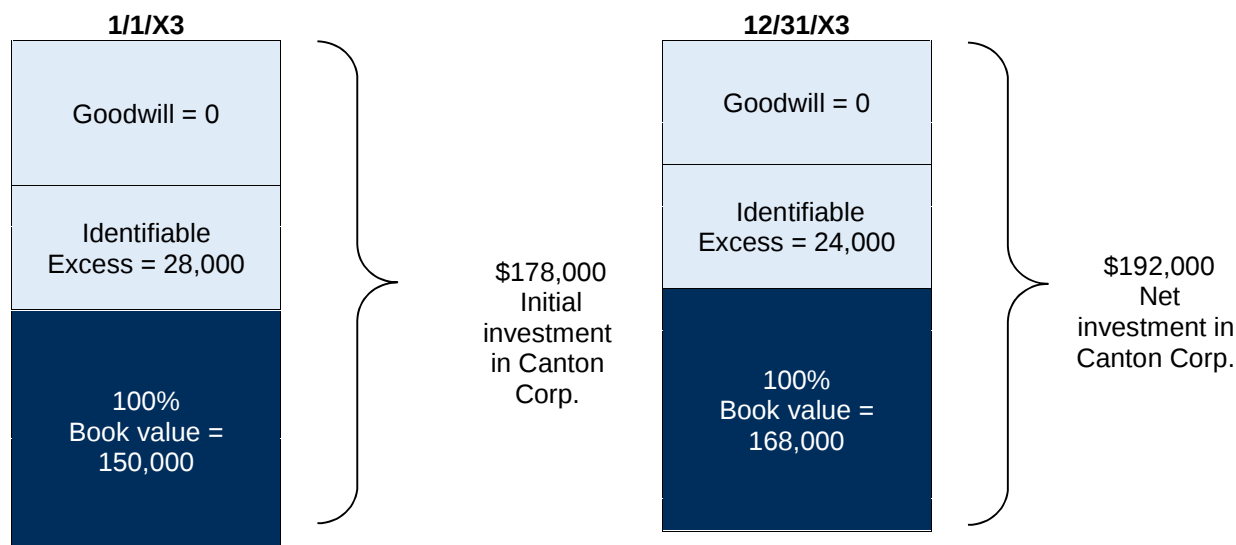
Income from Canton Corp.	4,000	
Investment in Canton Corp.		4,000

Record amortization of excess acquisition price

b.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Beginning book value	150,000		60,000		90,000
+ Net Income	30,000				30,000
- Dividends	(12,000)				(12,000)
Ending book value	168,000		60,000		108,000

**E4-19 (continued)****Basic Elimination Entry**

Common stock	60,000
Retained earnings	90,000
Income from Canton Corp.	30,000
Dividends declared	12,000
Investment in Canton Corp.	168,000

Excess Value (Differential) Calculations:

	Total	=	Equipment	+	Acc. Depr.
Beginning Balances	28,000		28,000		
Changes	(4,000)				(4,000)
Ending Balances	24,000		28,000		(4,000)

Amortized excess value reclassification entry:

Depreciation expense	4,000
Income from Canton Corp.	4,000

Excess value (differential) reclassification entry:

Equipment	28,000
Accumulated depreciation	4,000
Investment in Canton Corp.	24,000

	Investment in Canton Corp.			Income from Canton Corp.		
Acquisition Price	178,000					
100% Net Income	30,000				30,000	100% Net Income
		12,000	100% Dividends			
		4,000	Excess Val. Amort.	4,000		
Ending Balance	192,000				26,000	Ending Balance
		168,000	Basic	30,000		
		24,000	Excess Reclass.		4,000	
	0				0	

E4-20 Basic Consolidation Worksheet

a.

Equity Method Entries on Blake Corp.'s Books:

Investment in Shaw Corp.	150,000	
Cash		150,000

Record the initial investment in Shaw Corp.

Investment in Shaw Corp.	30,000	
Income from Shaw Corp.		30,000

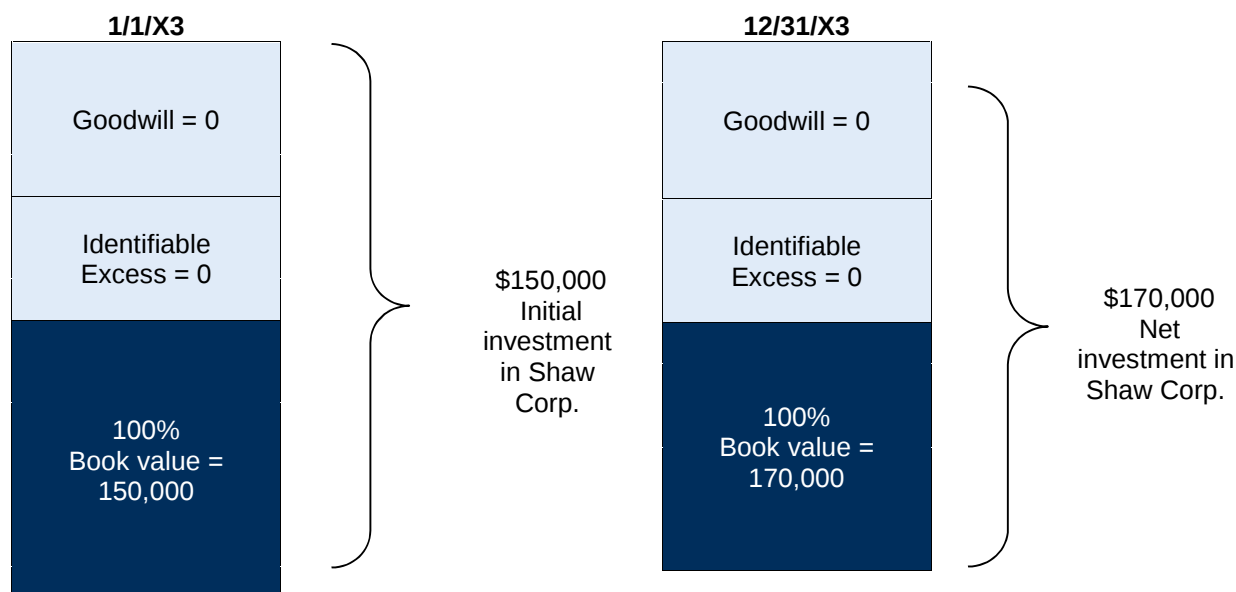
Record Blake Corp.'s 100% share of Shaw Corp.'s 20X3 income

Cash	10,000	
Investment in Shaw Corp.		10,000

Record Blake Corp.'s 100% share of Shaw Corp.'s 20X3 dividend

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Beginning book value	150,000		100,000		50,000
+ Net Income	30,000				30,000
- Dividends	(10,000)				(10,000)
Ending book value	170,000		100,000		70,000



E4-20 (continued)

Basic Elimination Entry

Common stock	100,000
Retained earnings	50,000
Income from Shaw Corp.	30,000
Dividends declared	10,000
Investment in Shaw Corp.	170,000

	Investment in Shaw Corp.			Income from Shaw Corp.	
Acquisition Price	150,000				
100% Net Income	30,000			30,000	100% Net Income
		10,000	100% Dividends		
Ending Balance	170,000			30,000	Ending Balance
		170,000	Basic	30,000	
	0				0

E4-20 (continued)

b.

	Blake Corp.	Shaw Corp.	Elimination Entries		Consolidated
			DR	CR	
Income Statement					
Sales	200,000	120,000			320,000
Less: Depreciation Expense	(25,000)	(15,000)			(40,000)
Less: Other Expenses	(105,000)	(75,000)			(180,000)
Income from Shaw Corp.	30,000		30,000		0
Net Income	100,000	30,000	30,000	0	100,000
Statement of Retained Earnings					
Beginning Balance	230,000	50,000	50,000		230,000
Net Income	100,000	30,000	30,000	0	100,000
Less: Dividends Declared	(40,000)	(10,000)		10,000	(40,000)
Ending Balance	290,000	70,000	80,000	10,000	290,000
Balance Sheet					
Current Assets	145,000	105,000			250,000
Depreciable Assets (net)	325,000	225,000			550,000
Investment in Shaw Corp.	170,000			170,000	0
Total Assets	640,000	330,000	0	170,000	800,000
Current Liabilities	50,000	40,000			90,000
Long-Term Debt	100,000	120,000			220,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	290,000	70,000	80,000	10,000	290,000
Total Liabilities & Equity	640,000	330,000	180,000	10,000	800,000

E4-21 Basic Consolidation Worksheet for Second Year

a.

Equity Method Entries on Blake Corp.'s Books:

Investment in Shaw Corp.	35,000	
Income from Shaw Corp.		35,000

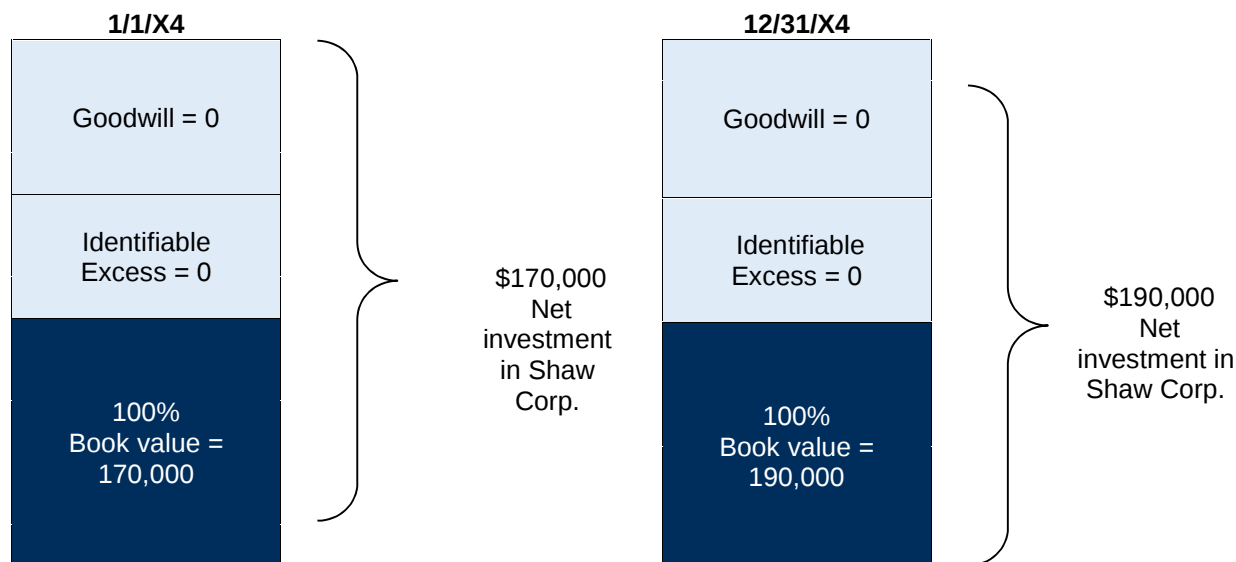
Record Blake Corp.'s 100% share of Shaw Corp.'s 20X4 income

Cash	15,000	
Investment in Shaw Corp.		15,000

Record Blake Corp.'s 100% share of Shaw Corp.'s 20X4 dividend

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Beginning book value	170,000		100,000		70,000
+ Net Income	35,000				35,000
- Dividends	(15,000)				(15,000)
Ending book value	190,000		100,000		90,000



E4-21 (continued)

Basic elimination entry

Common stock	100,000
Retained earnings	70,000
Income from Shaw Corp.	35,000
Dividends declared	15,000
Investment in Shaw Corp.	190,000

	Investment in Shaw Corp.			Income from Shaw Corp.	
Beginning Balance	170,000				
100% Net Income	35,000			35,000	100% Net Income
		15,000	100% Dividends		
Ending Balance	190,000			35,000	Ending Balance
		190,000	Basic	35,000	
	0			0	

E4-21 (continued)

b.

	Blake Corp.	Shaw Corp.	Elimination Entries		
			DR	CR	Consolidated
Income Statement					
Sales	230,000	140,000			370,000
Less: Depreciation Expense	(25,000)	(15,000)			(40,000)
Less: Other Expenses	(150,000)	(90,000)			(240,000)
Income from Shaw Corp.	35,000		35,000		0
Net Income	90,000	35,000	35,000	0	90,000
Statement of Retained Earnings					
Beginning Balance	290,000	70,000	70,000		290,000
Net Income	90,000	35,000	35,000	0	90,000
Less: Dividends Declared	(50,000)	(15,000)		15,000	(50,000)
Ending Balance	330,000	90,000	105,000	15,000	330,000
Balance Sheet					
Current Assets	210,000	150,000			360,000
Depreciable Assets (net)	300,000	210,000			510,000
Investment in Shaw Corp.	190,000			190,000	0
Total Assets	700,000	360,000	0	190,000	870,000
Current Liabilities	70,000	50,000			120,000
Long-Term Debt	100,000	120,000			220,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	330,000	90,000	105,000	15,000	330,000
Total Liabilities & Equity	700,000	360,000	205,000	15,000	870,000

E4-22 Consolidation Worksheet with Differential

a.

Equity Method Entries on Kennelly Corp.'s Books:

Investment in Short Co.	180,000	
Cash		180,000

Record the initial investment in Short Co.

Investment in Short Co.	30,000	
Income from Short Co.		30,000

Record Kennelly Corp.'s 100% share of Short Co.'s 20X5 income

Cash	10,000	
Investment in Short Co.		10,000

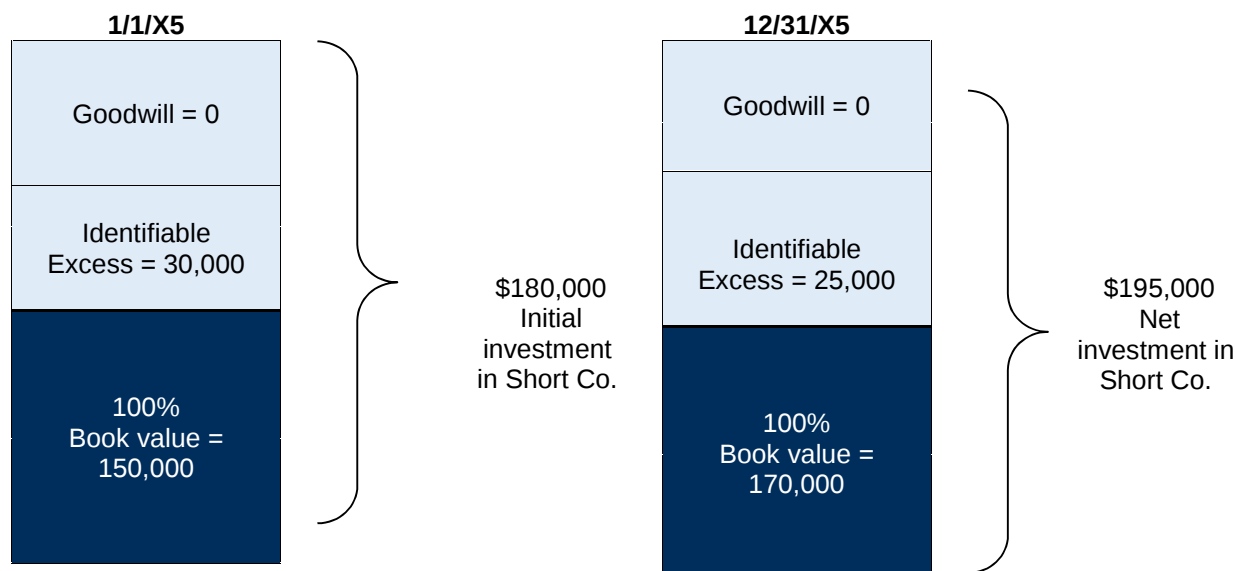
Record Kennelly Corp.'s 100% share of Short Co.'s 20X5 dividend

Income from Short Co.	5,000	
Investment in Short Co.		5,000

Record amortization of excess acquisition price

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Beginning book value	150,000		100,000		50,000
+ Net Income	30,000				30,000
- Dividends	(10,000)				(10,000)
Ending book value	170,000		100,000		70,000

**Basic elimination entry**

Common stock	100,000
Retained earnings	50,000
Income from Short Co.	30,000
Dividends declared	10,000
Investment in Short Co.	170,000

Excess Value (Differential) Calculations:

	Total	=	Depreciable Assets	+	Acc. Depr.
Beginning balance	30,000		30,000		0
Changes	(5,000)				(5,000)
Ending balance	25,000		30,000		(5,000)

Amortized excess value reclassification entry:

Depreciation expense	5,000
Income from Short Co.	5,000

Excess value (differential) reclassification entry:

Depreciable Assets	30,000
Accumulated depreciation	5,000
Investment in Short Co.	25,000

	Investment in Short Co.			Income from Short Co.	
Acquisition Price	180,000				
100% Net Income	30,000			30,000	100% Net Income
		10,000	100% Dividends		
		5,000	Excess Val. Amort.	5,000	
Ending Balance	195,000			25,000	Ending Balance
		170,000	Basic	30,000	
		25,000	Excess Reclass.		5,000
	0				0

E4-22 (continued)

b.

	Kennelly Corp.	Short Co.	Elimination Entries		
			DR	CR	Consolidated
Income Statement					
Sales	200,000	120,000			320,000
Less: Depreciation Expense	(25,000)	(15,000)	5,000		(45,000)
Less: Other Expenses	(105,000)	(75,000)			(180,000)
Income from Short Co.	25,000		30,000	5,000	0
Net Income	95,000	30,000	35,000	5,000	95,000
Statement of Retained Earning					
Beginning Balance	230,000	50,000	50,000		230,000
Net Income	95,000	30,000	35,000	5,000	95,000
Less: Dividends Declared	(40,000)	(10,000)		10,000	(40,000)
Ending Balance	285,000	70,000	85,000	15,000	285,000
Balance Sheet					
Cash	15,000	5,000			20,000
Accounts Receivable	30,000	40,000			70,000
Inventory	70,000	60,000			130,000
Depreciable Assets (net)	325,000	225,000	30,000	5,000	575,000
Investment in Short Co.	195,000			170,000	0
				25,000	
Total Assets	635,000	330,000	30,000	200,000	795,000
Accounts Payable	50,000	40,000			90,000
Notes Payable	100,000	120,000			220,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	285,000	70,000	85,000	15,000	285,000
Total Liabilities & Equity	635,000	330,000	185,000	15,000	795,000

E4-23 Consolidation Worksheet for Subsidiary

a.

Equity Method Entries on Land Corp.'s Books:

Investment in Growth Co.	170,000
Cash	170,000

Record the initial investment in Growth Co.

Investment in Growth Co.	35,000
Income from Growth Co.	35,000

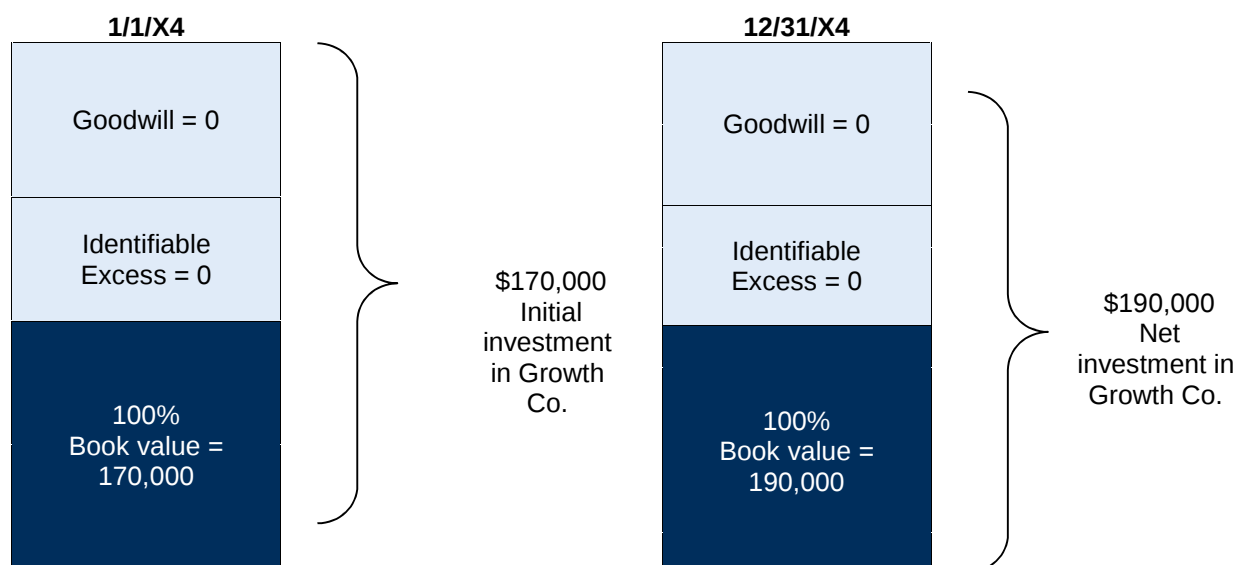
Record Land Corp.'s 100% share of Growth Co.'s 20X4 income

Cash	15,000
Investment in Growth Co.	15,000

Record Land Corp.'s 100% share of Growth Co.'s 20X4 dividend

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Beginning book value	170,000		100,000		70,000
+ Net Income	35,000				35,000
- Dividends	(15,000)				(15,000)
Ending book value	190,000		100,000		90,000



E4-23 (continued)**Basic Elimination Entry**

Common stock	100,000
Retained earnings	70,000
Income from Growth Co.	35,000
Dividends declared	15,000
Investment in Growth Co.	190,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	75,000
Building & equipment	75,000

	Investment in Growth Co.			Income from Growth Co.		
Acquisition Price	170,000					
100% Net Income	35,000			35,000	100% Net Income	
		15,000	100% Dividends			
Ending Balance	190,000			35,000	Ending Balance	
		190,000	Basic	35,000		
	0				0	

E4-23 (continued)

b.

	Land Corp.	Growth Co.	Elimination Entries		
			DR	CR	Consolidated
Income Statement					
Sales	230,000	140,000			370,000
Less: Depreciation Expense	(25,000)	(15,000)			(40,000)
Less: Other Expenses	(150,000)	(90,000)			(240,000)
Income from Growth Co.	35,000		35,000		0
Net Income	90,000	35,000	35,000	0	90,000
Statement of Retained Earnings					
Beginning Balance	318,000	70,000	70,000		318,000
Net Income	90,000	35,000	35,000	0	90,000
Less: Dividends Declared	(50,000)	(15,000)		15,000	(50,000)
Ending Balance	358,000	90,000	105,000	15,000	358,000
Balance Sheet					
Current Assets	238,000	150,000			388,000
Depreciable Assets	500,000	300,000		75,000	725,000
Less: Accumulated Depreciation	(200,000)	(90,000)	75,000		(215,000)
Investment in Growth Co.	190,000			190,000	0
Total Assets	728,000	360,000	75,000	265,000	898,000
Current Liabilities	70,000	50,000			120,000
Long-Term Debt	100,000	120,000			220,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	358,000	90,000	105,000	15,000	358,000
Total Liabilities & Equity	728,000	360,000	205,000	15,000	898,000

E4-24 Push-Down Accounting

a. Entry to record acquisition of Louis stock on books of Jefferson:

Investment in Louis Corporation Stock	789,000	
Cash		789,000

b. Entry to record revaluation of assets on books of Louis Corporation:

Land	15,000	
Buildings	50,000	
Equipment	20,000	
Revaluation Capital		85,000

c. Investment elimination entry in consolidation worksheet (no other entries needed):

Common Stock – Louis Corporation	200,000	
Additional Paid-In Capital	425,000	
Retained Earnings	79,000	
Revaluation Capital	85,000	
Investment in Louis Corporation Stock		789,000

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Additional Capital</u>	+	<u>Retained Earnings</u>	+	<u>Revaluation Capital</u>
Book value at acquisition	789,000		200,000		425,000		79,000		85,000

SOLUTIONS TO PROBLEMS**P4-25 Assignment of Differential in Worksheet**

a.

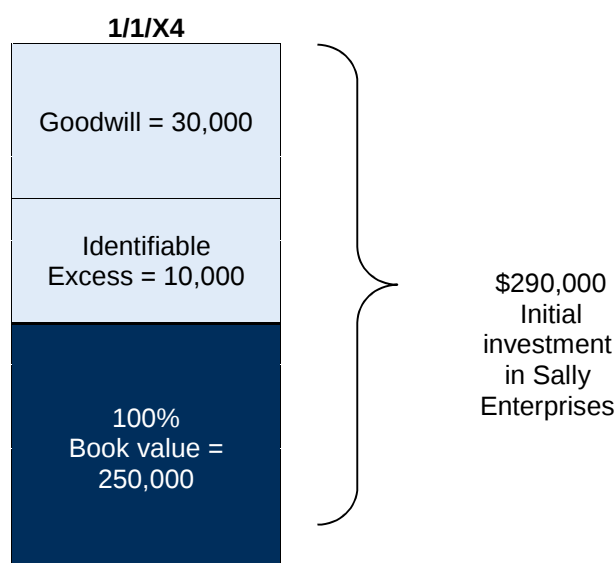
Equity Method Entries on Teresa Corp.'s Books:

Investment in Sally Enterprises	290,000	
Cash		290,000

Record the initial investment in Sally Enterprises

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Book value at acquisition	250,000		100,000		150,000

**Basic Elimination Entry**

Common stock	100,000	
Retained earnings	150,000	
Investment in Sally Enterprises		250,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Buildings & Equipment</u>	+	<u>Goodwill</u>
Balances	40,000		10,000		30,000

Excess value (differential) reclassification entry:

Buildings & Equipment	10,000
Goodwill	30,000
Investment in Sally Enterprises	40,000

P4-25 (continued)

Optional accumulated depreciation elimination entry

Accumulated depreciation	65,000
Building & equipment	65,000

	Investment in Sally Enterprises		
Acquisition Price	290,000		
		250,000	Basic
		40,000	Excess Reclass.
	0		

	Teresa Corp.	Sally Enterprises	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash and Receivables	40,000	20,000			60,000
Inventory	95,000	40,000			135,000
Land	80,000	90,000			170,000
Buildings & Equipment	400,000	230,000	10,000	65,000	575,000
Less: Accumulated Depreciation	(175,000)	(65,000)	65,000		(175,000)
Investment in Sally Enterprises	290,000			250,000	0
				40,000	
Goodwill			30,000		30,000
Total Assets	730,000	315,000	105,000	355,000	795,000
Accounts Payable	60,000	15,000			75,000
Notes Payable	100,000	50,000			150,000
Common Stock	300,000	100,000	100,000		300,000
Retained Earnings	270,000	150,000	150,000		270,000
Total Liabilities & Equity	730,000	315,000	250,000	0	795,000

P4-25 (continued)

b. Teresa Corporation and Subsidiary
Consolidated Balance Sheet
January 1, 20X4

Cash and Receivables		\$ 60,000
Inventory		135,000
Land		170,000
Buildings and Equipment	\$575,000	
Less: Accumulated Depreciation	<u>(175,000)</u>	400,000
Goodwill		<u>30,000</u>
Total Assets		<u>\$795,000</u>
Accounts Payable		\$ 75,000
Notes Payable		150,000
Common Stock	\$300,000	
Retained Earnings	<u>270,000</u>	<u>570,000</u>
Total Liabilities and Stockholders' Equity		<u>\$795,000</u>

P4-26 Computation of Consolidated Balances

a.	Inventories (\$110,000 + \$170,000)	<u>\$280,000</u>
b.	Buildings and Equipment (net) (\$350,000 + \$375,000)	<u>\$725,000</u>
c.	Investment in Decibel stock will be fully eliminated and will not appear in the consolidated balance sheet.	
d.	Goodwill	
	Fair value of consideration given	\$280,000
	Fair value of Decibel's net assets:	
	Cash and receivables	\$ 40,000
	Inventory	170,000
	Buildings and equipment (net)	375,000
	Accounts payable	(90,000)
	Notes payable	<u>(250,000)</u>
	Fair value of net identifiable Assets	<u>(245,000)</u>
	Goodwill to be reported	<u>\$ 35,000</u>
Note: Goodwill on books of Decibel is not an identifiable asset and therefore is not included in the computation of Decibel's net identifiable assets at the date of acquisition.		
e.	Common Stock	<u>\$400,000</u>
f.	Retained Earnings	<u>\$105,000</u>

P4-27 Balance Sheet Consolidation [AICPA Adapted]**Equity Method Entries on Case Inc.'s Books:**

Investment in Frey Inc.	2,260,000
Cash	2,260,000

Record the initial investment in Frey Inc.

Investment in Frey Inc.	580,000
Income from Frey Inc.	580,000

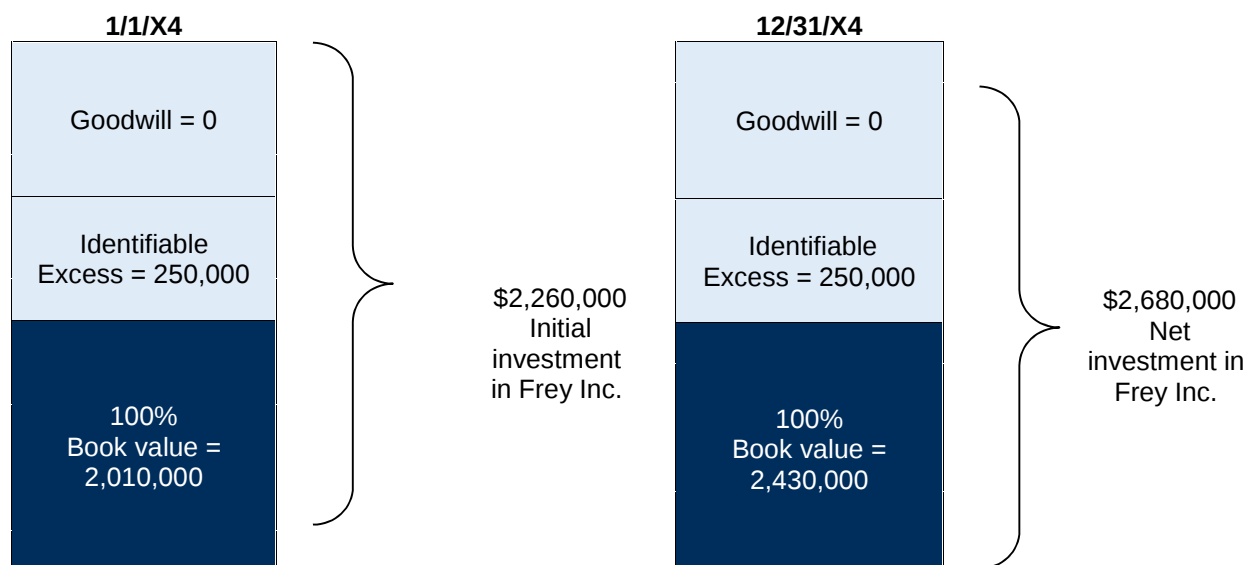
Record Case Inc.'s 100% share of Frey Inc.'s 20X4 income

Cash	160,000
Investment in Frey Inc.	160,000

Record Case Inc.'s 100% share of Frey Inc.'s 20X4 dividend

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings	+	Additional Paid-In Capital
Beginning book value	2,010,000		1,000,000		820,000		190,000
+ Net Income	580,000				580,000		
- Dividends	(160,000)				(160,000)		
Ending book value	2,430,000		1,000,000		1,240,000		190,000



P4-27 (continued)**Basic elimination entry**

Common stock	1,000,000	
Retained earnings	820,000	
Income from Frey Inc.	580,000	
Additional Paid-In Capital	190,000	
Dividends declared		160,000
Investment in Frey Inc.		2,430,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Land</u>
Beginning balance	250,000		250,000
Changes	0		0
Ending balance	<u>250,000</u>		<u>250,000</u>

Excess value (differential) reclassification entry:

Land	250,000	
Investment in Frey Inc.		250,000

	<u>Investment in Frey Inc.</u>		<u>Income from Frey Inc.</u>	
Acquisition Price	2,260,000			
100% Net Income	580,000		580,000	100% Net Income
	160,000	100% Dividends		
Ending Balance	2,680,000		580,000	Ending Balance
	2,430,000	Basic	580,000	
	250,000	Excess Reclass.		
	0		0	

P4-27 (continued)

	Case Inc.	Frey Inc.	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash	825,000	330,000			1,155,000
Accounts and Other Receivables	2,140,000	835,000			2,975,000
Inventory	2,310,000	1,045,000			3,355,000
Land	650,000	300,000	250,000		1,200,000
Depreciable Assets (net)	4,575,000	1,980,000			6,555,000
Investment in Frey Inc.	2,680,000			2,430,000	0
				250,000	
Long-Term Investments & Other Assets	865,000	385,000			1,250,000
Total Assets	<u>14,045,000</u>	<u>4,875,000</u>	<u>250,000</u>	<u>2,680,000</u>	<u>16,490,000</u>
Accounts Payable and Other Cur. Liabilities	2,465,000	1,145,000			3,610,000
Long-Term Debt	1,900,000	1,300,000			3,200,000
Common Stock	3,200,000	1,000,000	1,000,000		3,200,000
Additional Paid-In Capital	2,100,000	190,000	190,000		2,100,000
Retained Earnings	4,380,000	1,240,000	820,000		4,380,000
			580,000		
				160,000	
Total Liabilities & Equity	<u>14,045,000</u>	<u>4,875,000</u>	<u>2,590,000</u>	<u>160,000</u>	<u>16,490,000</u>

P4-28 Consolidated Balance Sheet

a.

Basic elimination entry

Common Stock	100,000	
Retained Earnings	120,000	
Investment in Lake Corp.		220,000

Excess value (differential) reclassification entry:

Buildings & Equipment	40,000	
Accumulated Depreciation		8,000
Investment in Lake Corp.		32,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	25,000	
Building & equipment		25,000

b.

	Thompson Co.	Lake Corp.	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash	30,000	20,000			50,000
Accounts Receivable	100,000	40,000			140,000
Land	60,000	50,000			110,000
Buildings & Equipment	500,000	350,000	40,000	25,000	790,000
Less: Accumulated Depreciation	(230,000)	(75,000)	25,000	8,000	(213,000)
Investment in Lake Corporation	252,000			220,000	0
				32,000	
Total Assets	<u>712,000</u>	<u>385,000</u>	<u>65,000</u>	<u>285,000</u>	<u>877,000</u>
Accounts Payable	80,000	10,000			90,000
Taxes Payable	40,000	70,000			110,000
Notes Payable	100,000	85,000			185,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	292,000	120,000	120,000		292,000
Total Liabilities & Equity	<u>712,000</u>	<u>385,000</u>	<u>220,000</u>	<u>0</u>	<u>877,000</u>

P4-29 Comprehensive Problem: Consolidation in Subsequent Period

a.

Equity Method Entries on Thompson Co.'s Books:

Investment in Lake Corp.	32,000	
Income from Lake Corp.		32,000

Record Thompson Co.'s 100% share of Lake Corp.'s 20X4 income

Cash	12,000	
Investment in Lake Corp.		12,000

Record Thompson Co.'s 100% share of Lake Corp.'s 20X4 dividend

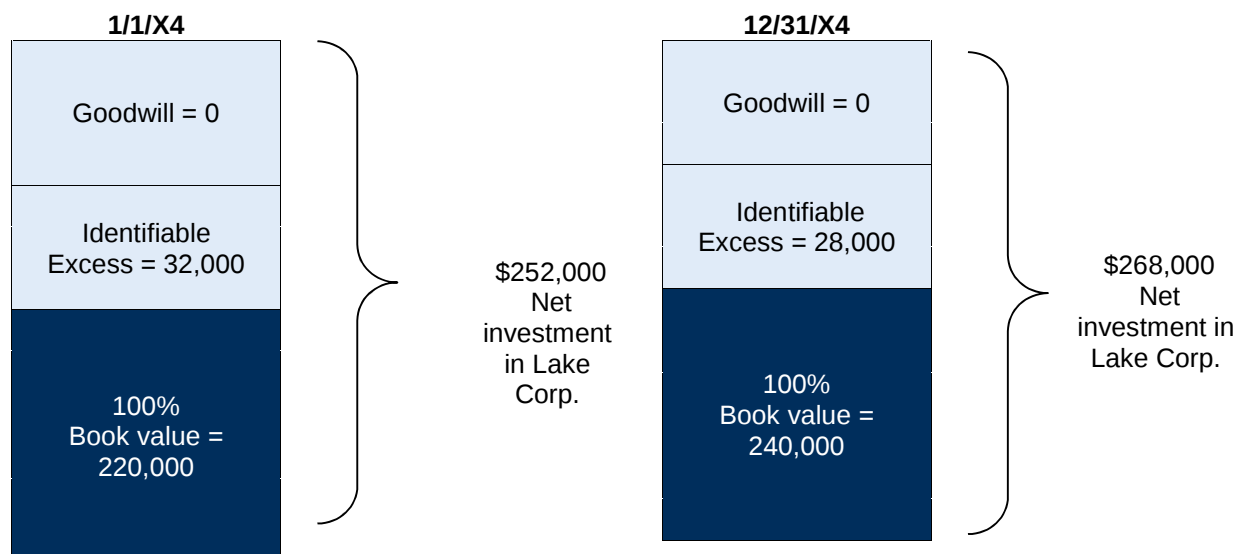
Income from Lake Corp.	4,000	
Investment in Lake Corp.		4,000

Record amortization of excess acquisition price

b.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Beginning book value	220,000		100,000		120,000
+ Net Income	32,000				32,000
- Dividends	(12,000)				(12,000)
Ending book value	240,000		100,000		140,000



P4-29 (continued)**Basic elimination entry**

Common stock	100,000
Retained earnings	120,000
Income from Lake Corp.	32,000
Dividends declared	12,000
Investment in Lake Corp.	240,000

Excess Value (Differential) Calculations:

	Total	=	Buildings & Equipment	+	Acc. Depr.
Beginning balance	32,000		40,000		(8,000)
Changes	(4,000)				(4,000)
Ending balance	28,000		40,000		(12,000)

Amortized excess value reclassification entry:

Depreciation expense	4,000
Income from Lake Corp.	4,000

Excess value (differential) reclassification entry:

Buildings & Equipment	40,000
Accumulated depreciation	12,000
Investment in Lake Corp.	28,000

Eliminate intercompany accounts:

Accounts Payable	2,500
Accounts Receivable	2,500

	Investment in Lake Corp.			Income from Lake Corp.		
Beginning Balance	252,000					
100% Net Income	32,000			32,000	100% Net Income	
		12,000	100% Dividends			
		4,000	Excess Val. Amort.	4,000		
Ending Balance	268,000			28,000	Ending Balance	
		240,000	Basic	32,000		
		28,000	Excess Reclass.		4,000	
	0				0	

P4-29 (continued)

c.

	Thompson Co.	Lake Corp.	Elimination Entries		Consolidated
			DR	CR	
Income Statement					
Service Revenue	610,000	240,000			850,000
Less: Cost of Services	(470,000)	(130,000)			(600,000)
Less: Depreciation Expense	(35,000)	(18,000)	4,000		(57,000)
Less: Other Expenses	(57,000)	(60,000)			(117,000)
Income from Lake Corp.	28,000		32,000	4,000	0
Net Income	76,000	32,000	36,000	4,000	76,000
Statement of Retained Earnings					
Beginning Balance	292,000	120,000	120,000		292,000
Net Income	76,000	32,000	36,000	4,000	76,000
Less: Dividends Declared	(30,000)	(12,000)		12,000	(30,000)
Ending Balance	338,000	140,000	156,000	16,000	338,000
Balance Sheet					
Cash	74,000	42,000			116,000
Accounts Receivable	130,000	53,000		2,500	180,500
Land	60,000	50,000			110,000
Buildings & Equipment	500,000	350,000	40,000		890,000
Less: Accumulated Depreciation	(265,000)	(93,000)		12,000	(370,000)
Investment in Lake Corp.	268,000			240,000	0
				28,000	
Total Assets	767,000	402,000	40,000	282,500	926,500
Accounts Payable	71,000	17,000	2,500		85,500
Taxes Payable	58,000	60,000			118,000
Notes Payable	100,000	85,000			185,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	338,000	140,000	156,000	16,000	338,000
Total Liabilities & Equity	767,000	402,000	258,500	16,000	926,500

P4-30 Acquisition at Other than Fair Value of Net Assets

a. Ownership acquired for \$280,000:

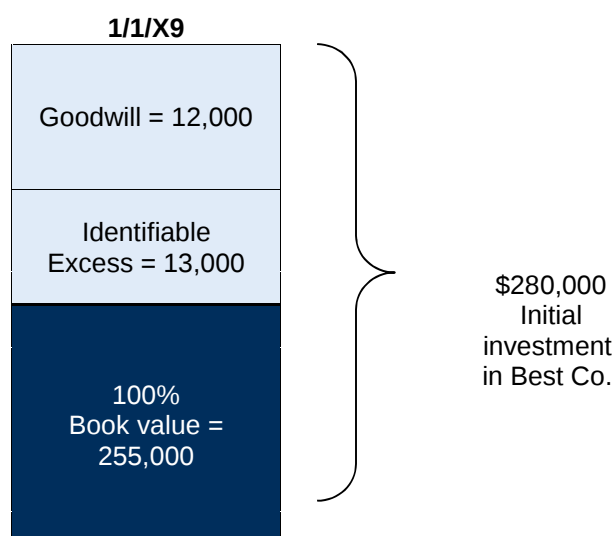
Equity Method Entries on Mason Corp.'s Books:

Investment in Best Co.	280,000	
Cash		280,000

Record the initial investment in Best Co.

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Book value at acquisition	255,000		80,000		175,000

**Basic Elimination Entry**

Common stock	80,000
Retained earnings	175,000
Investment in Best Co.	255,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Land</u>	+	<u>Inventories</u>	+	<u>Goodwill</u>
Balances	25,000		20,000		(7,000)		12,000

Excess value (differential) reclassification entry:

Land	20,000	
Goodwill	12,000	
Inventories		7,000
Investment in Best Co.	25,000	

P4-30 (continued)

		Investment in Best Co.	
Acquisition Price	280,000		
		255,000	Basic
		25,000	Excess Reclass.
	0		

b. Ownership acquired for \$251,000:

Equity Method Entries on Mason Corp.'s Books:

Investment in Best Co.	251,000	
Cash		251,000

Record the initial investment in Best Co.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Book value at acquisition	255,000		80,000		175,000

Basic Elimination Entry

Common stock	80,000	
Retained earnings	175,000	
Investment in Best Co.		255,000

Excess Value (Differential) Calculations:

	Total	=	Land	+	Inventories	-	Gain
Balances	(4,000)		20,000		(7,000)		(17,000)

Excess value (differential) reclassification entry:

Land	20,000	
Investment in Best Co.	4,000	
Inventories		7,000
Gain on Bargain Purchase		17,000

	Investment in Best Co.		
Acquisition Price	251,000		
		255,000	Basic
Excess Reclass.	4,000		
	0		

P4-31 Intercorporate Receivables and Payables

a. Eliminating entries:

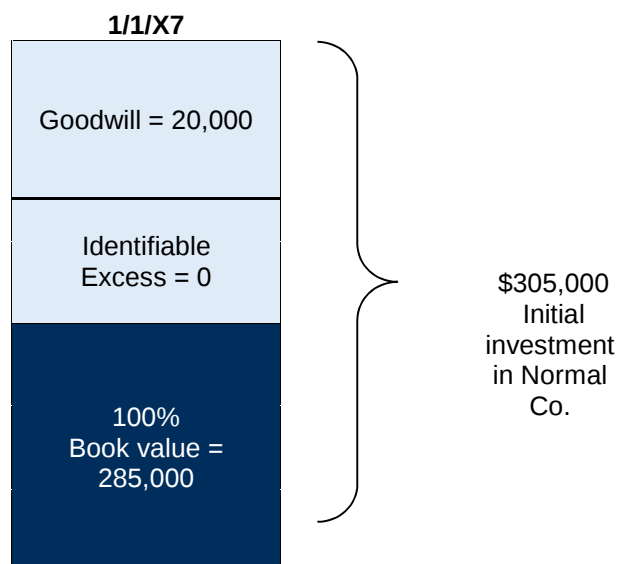
Equity Method Entries on Kim Corp.'s Books:

Investment in Normal Co.	305,000
Cash	305,000

Record the initial investment in Normal Co.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Additional PIC	+	Retained Earnings
Book value at acquisition	285,000		150,000		140,000		(5,000)

**Basic Elimination Entry**

Common stock	150,000	
Paid-in capital in excess of par	140,000	
Retained earnings		5,000
Investment in Normal Co.		285,000

Excess Value (Differential) Calculations:

	Total	=	Goodwill
Balances	20,000		20,000

Excess value (differential) reclassification entry:

Goodwill	20,000	
Investment in Normal Co.		20,000

P4-31 (continued)**Eliminate intercompany accounts:**

Bonds Payable	50,000	
Investment in Normal Co. Bonds		50,000

Accounts Payable	10,000	
Accounts Receivable		10,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	75,000	
Building & equipment		75,000

	Investment in Normal Co.		
Acquisition Price	305,000		
		285,000	Basic
		20,000	Excess Reclass.
	0		

b.

	Kim Corp.	Normal Co.	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash	70,000	35,000			105,000
Accounts Receivable	90,000	65,000		10,000	145,000
Inventory	84,000	80,000			164,000
Buildings & Equipment	400,000	300,000		75,000	625,000
Less: Accumulated Depreciation	(160,000)	(75,000)	75,000		(160,000)
Investment in Normal Company Stock	305,000			285,000	0
				20,000	
Investment in Normal Company Bonds	50,000			50,000	0
Goodwill			20,000		20,000
Total Assets	<u>839,000</u>	<u>405,000</u>	<u>95,000</u>	<u>440,000</u>	<u>899,000</u>
Accounts Payable	50,000	20,000	10,000		60,000
Bonds Payable	200,000	100,000	50,000		250,000
Common Stock	300,000	150,000	150,000		300,000
Capital in Excess of Par		140,000	140,000		
Retained Earnings	289,000	(5,000)		5,000	289,000
Total Liabilities & Equity	<u>839,000</u>	<u>405,000</u>	<u>350,000</u>	<u>5,000</u>	<u>899,000</u>

P4-31 (continued)

c.

Kim Corporation and Subsidiary
Consolidated Balance Sheet
January 1, 20X7

Cash		\$105,000
Accounts Receivable		145,000
Inventory		164,000
Buildings and Equipment	\$625,000	
Less: Accumulated Depreciation	<u>(160,000)</u>	465,000
Goodwill		<u>20,000</u>
Total Assets		<u>\$899,000</u>
Accounts Payable		\$ 60,000
Bonds Payable		250,000
Common Stock	\$300,000	
Retained Earnings	<u>289,000</u>	<u>589,000</u>
Total Liabilities and Stockholders' Equity		<u>\$899,000</u>

P4-32 Balance Sheet Consolidation

a.

Equity Method Entries on Primary Corp.'s Books:

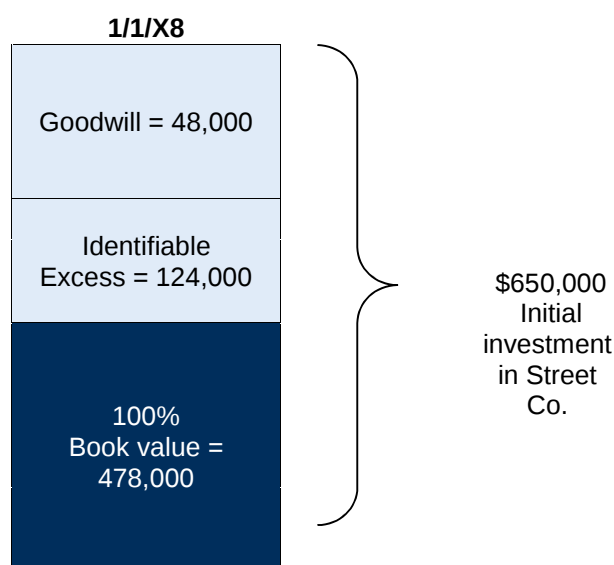
Investment in Street Co.	650,000
Bonds Payable	650,000

Record the initial investment in Street Co.

b.

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Add'l Paid-In-Capital</u>	+	<u>Retained Earnings</u>
Book value at acquisition	478,000		200,000		130,000		148,000

**Basic Elimination Entry**

Common stock	200,000
Additional paid-in capital	130,000
Retained earnings	148,000
Investment in Street Co.	478,000

P4-32 (continued)

	Total	=	Inventory	+	Land	+	Buildings & Equipment	+	Patent	+	Disc. on Bonds Payable	+	Goodwill
Balances	172,000		4,000		20,000		50,000		40,000		10,000		48,000

Excess value (differential) reclassification entry:

Inventory	4,000
Land	20,000
Buildings & Equipment	50,000
Patent	40,000
Discount on Bonds Payable	10,000
Goodwill	48,000
Investment in Street Co.	172,000

Eliminate intercompany accounts:

Current Payables	6,500
Receivables	6,500

FYI, the FASB now requires that no allowance accounts be carried forward from the acquiree in a business combination. However, because of immateriality and the short-lived nature of the carry forward subsequent to the date of combination, the allowance in this problem has not been offset against the receivable. If such an offset is desired, the following elimination entry would be made:

Allowance for Bad Debts	1,000
Receivables	1,000

However, since receivables are reported net of the allowance, the entry is not shown in the worksheet included here.

Optional accumulated depreciation elimination entry

Accumulated depreciation	220,000
Building & equipment	220,000

	Investment in Street Co.	
Acquisition Price	650,000	
	478,000	Basic
	172,000	Excess Reclass.
	0	

P4-32 (continued)

c.

	Primary Corp.	Street Co.	Elimination Entries		Consolidated
			DR	CR	
Balance Sheet					
Cash	12,000	9,000			21,000
Receivables (net)	39,000	30,000		6,500	62,500
Inventory	86,000	68,000	4,000		158,000
Land	55,000	50,000	20,000		125,000
Buildings & Equipment	960,000	670,000	50,000	220,000	1,460,000
Less: Accumulated Depreciation	(411,000)	(220,000)	220,000		(411,000)
Investment in Street Co.	650,000			478,000	0
				172,000	
Patents			40,000		40,000
Goodwill			48,000		48,000
Total Assets	<u>1,391,000</u>	<u>607,000</u>	<u>382,000</u>	<u>876,500</u>	<u>1,503,500</u>
Current Payables	38,000	29,000	6,500		60,500
Bonds Payable	850,000	100,000			950,000
Discount on Bonds Payable			10,000		(10,000)
Common Stock	300,000	200,000	200,000		300,000
Additional Paid-In Capital	100,000	130,000	130,000		100,000
Retained Earnings	103,000	148,000	148,000		103,000
Total Liabilities & Equity	<u>1,391,000</u>	<u>607,000</u>	<u>494,500</u>	<u>0</u>	<u>1,503,500</u>

P4-32 (continued)

d. Primary Corporation and Subsidiary
Consolidated Balance Sheet
January 2, 20X8

Cash		\$ 21,000
Receivables	\$ 65,500	
Less: Allowance for Bad Debts	<u>(3,000)</u>	62,500
Inventory		158,000
Land		125,000
Buildings and Equipment	\$1,460,000	
Less: Accumulated Depreciation	<u>(411,000)</u>	1,049,000
Patent		40,000
Goodwill		<u>48,000</u>
Total Assets		<u>\$1,503,500</u>
Current Payables		\$ 60,500
Bonds Payable	\$ 950,000	
Less: Discount on Bonds Payable	<u>(10,000)</u>	940,000
Stockholders' Equity		
Common Stock	\$ 300,000	
Additional Paid-In Capital	100,000	
Retained Earnings	<u>103,000</u>	<u>503,000</u>
Total Liabilities and Stockholders' Equity		<u>\$1,503,500</u>

P4-33 Consolidation Worksheet at End of First Year of Ownership

a.

Equity Method Entries on Mill Corp.'s Books:

Investment in Roller Co.	128,000	
Cash		128,000

Record the initial investment in Roller Co.

Investment in Roller Co.	24,000	
Income from Roller Co.		24,000

Record Mill Corp.'s 100% share of Roller Co.'s 20X8 income

Cash	16,000	
Investment in Roller Co.		16,000

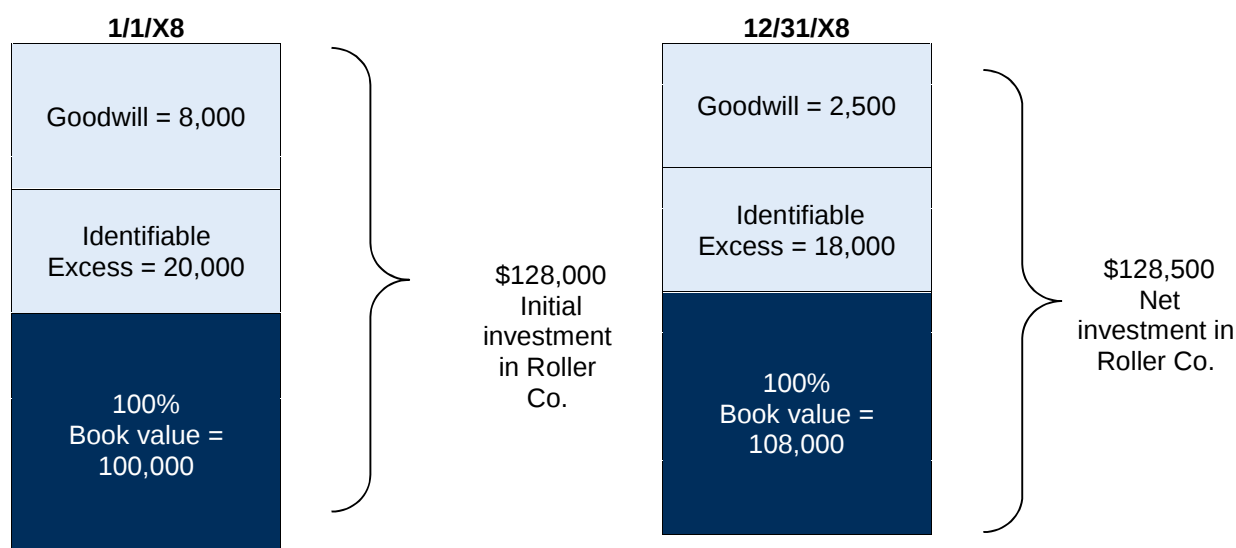
Record Mill Corp.'s 100% share of Roller Co.'s 20X8 dividend

Income from Roller Co.	7,500	
Investment in Roller Co.		7,500

Record amortization of excess acquisition price

Book Value Calculations:

	<u>Total Book Value</u>	=	<u>Common Stock</u>	+	<u>Retained Earnings</u>
Beginning book value	100,000		60,000		40,000
+ Net Income	24,000				24,000
- Dividends	(16,000)				(16,000)
Ending book value	108,000		60,000		48,000

**Basic elimination entry**

Common stock	60,000
Retained earnings	40,000
Income from Roller Co.	24,000
Dividends declared	16,000
Investment in Roller Co.	108,000

Excess Value (Differential) Calculations:

	<u>Total</u>	=	<u>Buildings & Equipment</u>	+	<u>Acc. Depr.</u>	+	<u>Goodwill</u>
Beginning balance	28,000		20,000		0		8,000
Changes	(7,500)				(2,000)		(5,500)
Ending balance	20,500		20,000		(2,000)		2,500

Amortized excess value reclassification entry:

Depreciation expense	2,000
Goodwill impairment loss	5,500
Income from Roller Co.	7,500

P4-33 (continued)

Excess value (differential) reclassification entry:

Buildings & Equipment	20,000
Goodwill	2,500
Accumulated depreciation	2,000
Investment in Roller Co.	20,500

Optional accumulated depreciation elimination entry

Accumulated depreciation	30,000
Building & equipment	30,000

	Investment in Roller Co.			Income from Roller Co.		
Acquisition Price	128,000					
100% Net Income	24,000				24,000	100% Net Income
		16,000	100% Dividends			
		7,500	Excess Val. Amort.	7,500		
Ending Balance	128,500				16,500	Ending Balance
		108,000	Basic	24,000		
		20,500	Excess Reclass.		7,500	
	0				0	

P4-33 (continued)

b.

	Mill Corp.	Roller Co.	Elimination Entries		Consolidated
			DR	CR	
Income Statement					
Sales	260,000	180,000			440,000
Less: COGS	(125,000)	(110,000)			(235,000)
Less: Wage Expense	(42,000)	(27,000)			(69,000)
Less: Depreciation Expense	(25,000)	(10,000)	2,000		(37,000)
Less: Interest Expense	(12,000)	(4,000)			(16,000)
Less: Other Expenses	(13,500)	(5,000)			(18,500)
Less: Impairment Loss			5,500		(5,500)
Income from Roller Co.	16,500		24,000	7,500	0
Net Income	59,000	24,000	31,500	7,500	59,000
Statement of Retained Earnings					
Beginning Balance	102,000	40,000	40,000		102,000
Net Income	59,000	24,000	31,500	7,500	59,000
Less: Dividends Declared	(30,000)	(16,000)		16,000	(30,000)
Ending Balance	131,000	48,000	71,500	23,500	131,000
Balance Sheet					
Cash	19,500	21,000			40,500
Accounts Receivable	70,000	12,000			82,000
Inventory	90,000	25,000			115,000
Land	30,000	15,000			45,000
Buildings & Equipment	350,000	150,000	20,000	30,000	490,000
Less: Accumulated Depreciation	(145,000)	(40,000)	30,000	2,000	(157,000)
Investment in Roller Co.	128,500			108,000	0
				20,500	
Goodwill			2,500		2,500
Total Assets	543,000	183,000	52,500	160,500	618,000
Accounts Payable	45,000	16,000			61,000
Wages Payable	17,000	9,000			26,000
Notes Payable	150,000	50,000			200,000
Common Stock	200,000	60,000	60,000		200,000
Retained Earnings	131,000	48,000	71,500	23,500	131,000
Total Liabilities & Equity	543,000	183,000	131,500	23,500	618,000

P4-34 Consolidation Worksheet at End of Second Year of Ownership

a.

Equity Method Entries on Mill Corp.'s Books:

Investment in Roller Co.	36,000
Income from Roller Co.	36,000

Record Mill Corp.'s 100% share of Roller Co.'s 20X9 income

Cash	20,000
Investment in Roller Co.	20,000

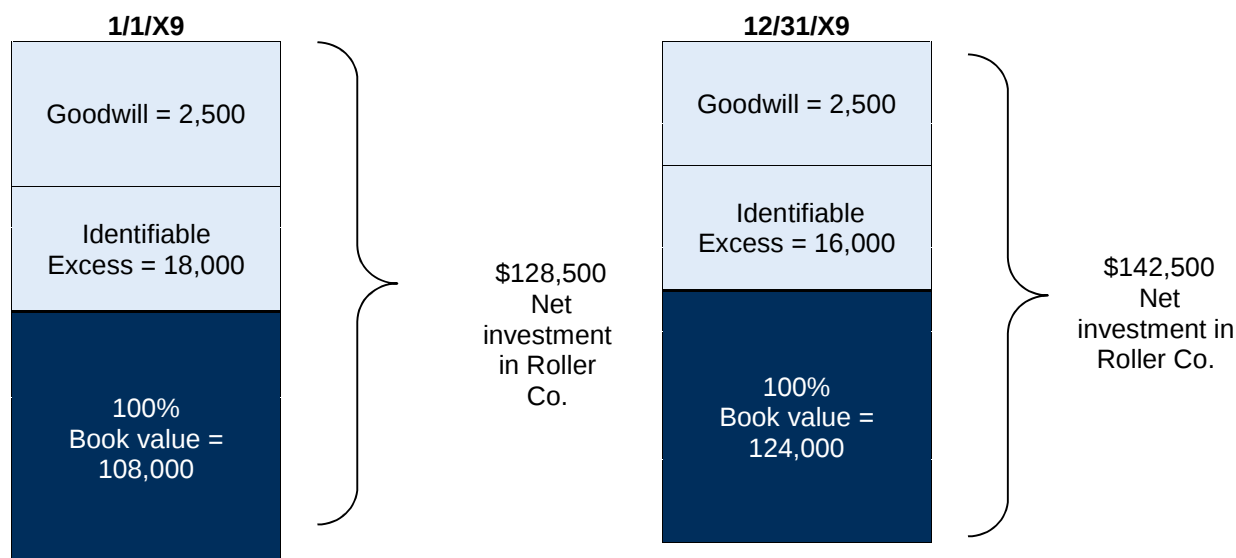
Record Mill Corp.'s 100% share of Roller Co.'s 20X9 dividend

Income from Roller Co.	2,000
Investment in Roller Co.	2,000

Record amortization of excess acquisition price

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Beginning book value	108,000		60,000		48,000
+ Net Income	36,000				36,000
- Dividends	(20,000)				(20,000)
Ending book value	124,000		60,000		64,000



P4-34 (continued)**Basic elimination entry**

Common stock	60,000
Retained earnings	48,000
Income from Roller Co.	36,000
Dividends declared	20,000
Investment in Roller Co.	124,000

Excess Value (Differential) Calculations:

	Total	=	Buildings & Equipment	+	Acc. Depr.	+	Goodwill
Beginning balance	20,500		20,000		(2,000)		2,500
Changes	(2,000)				(2,000)		
Ending balance	18,500		20,000		(4,000)		2,500

Amortized excess value reclassification entry:

Depreciation expense	2,000
Income from Roller Co.	2,000

Excess value (differential) reclassification entry:

Buildings & Equipment	20,000
Goodwill	2,500
Accumulated depreciation	4,000
Investment in Roller Co.	18,500

Optional accumulated depreciation elimination entry

Accumulated depreciation	30,000
Building & equipment	30,000

	Investment in Roller Co.			Income from Roller Co.		
Beginning Balance	128,500					
100% Net Income	36,000				36,000	100% Net Income
		20,000	100% Dividends			
		2,000	Excess Val. Amort.	2,000		
Ending Balance	142,500				34,000	Ending Balance
		124,000	Basic	36,000		
		18,500	Excess Reclass.		2,000	
	0				0	

P4-34 (continued)

b.

	Mill Corp.	Roller Co.	Elimination Entries		Consolidated
			DR	CR	
Income Statement					
Sales	290,000	200,000			490,000
Less: COGS	(145,000)	(114,000)			(259,000)
Less: Wage Expense	(35,000)	(20,000)			(55,000)
Less: Depreciation Expense	(25,000)	(10,000)	2,000		(37,000)
Less: Interest Expense	(12,000)	(4,000)			(16,000)
Less: Other Expenses	(23,000)	(16,000)			(39,000)
Income from Roller Co.	34,000		36,000	2,000	0
Net Income	84,000	36,000	38,000	2,000	84,000
Statement of Retained Earnings					
Beginning Balance	131,000	48,000	48,000		131,000
Net Income	84,000	36,000	38,000	2,000	84,000
Less: Dividends Declared	(30,000)	(20,000)		20,000	(30,000)
Ending Balance	185,000	64,000	86,000	22,000	185,000
Balance Sheet					
Cash	45,500	32,000			77,500
Accounts Receivable	85,000	14,000			99,000
Inventory	97,000	24,000			121,000
Land	50,000	25,000			75,000
Buildings & Equipment	350,000	150,000	20,000	30,000	490,000
Less: Accumulated Depreciation	(170,000)	(50,000)	30,000	4,000	(194,000)
Investment in Roller Co.	142,500			124,000	0
				18,500	
Goodwill			2,500		2,500
Total Assets	600,000	195,000	52,500	176,500	671,000
Accounts Payable	51,000	15,000			66,000
Wages Payable	14,000	6,000			20,000
Notes Payable	150,000	50,000			200,000
Common Stock	200,000	60,000	60,000		200,000
Retained Earnings	185,000	64,000	86,000	22,000	185,000
Total Liabilities & Equity	600,000	195,000	146,000	22,000	671,000

P4-34 (continued)

c.			Mill Corporation and Subsidiary Consolidated Balance Sheet December 31, 20X9	
Cash			\$	77,500
Accounts Receivable				99,000
Inventory				121,000
Land				75,000
Buildings and Equipment	\$490,000			
Less: Accumulated Depreciation	(194,000)			296,000
Goodwill				2,500
Total Assets				<u>\$671,000</u>
Accounts Payable			\$	66,000
Wages Payable				20,000
Notes Payable				200,000
Common Stock	\$200,000			
Retained Earnings	185,000			385,000
Total Liabilities and Stockholders' Equity				<u>\$671,000</u>

			Mill Corporation and Subsidiary Consolidated Income Statement Year Ended December 31, 20X9	
Sales				\$490,000
Cost of Goods Sold	\$259,000			
Wage Expense	55,000			
Depreciation Expense	37,000			
Interest Expense	16,000			
Other Expenses	39,000			
Total Expenses				(406,000)
Consolidated Net Income				<u>\$ 84,000</u>

			Mill Corporation and Subsidiary Consolidated Retained Earnings Statement Year Ended December 31, 20X9	
Retained Earnings, January 1, 20X9			\$131,000	
20X9 Net Income			84,000	
			<u>\$215,000</u>	
Dividends Declared, 20X9			(30,000)	
Retained Earnings, December 31, 20X9			<u>\$185,000</u>	

P4-35 Comprehensive Problem: Wholly Owned Subsidiary

a.

Equity Method Entries on Power Corp.'s Books:

Investment in Upland Products	30,000	
Income from Upland Products		30,000

Record Power Corp.'s 100% share of Upland Products' 20X5 income

Cash	10,000	
Investment in Upland Products		10,000

Record Power Corp.'s 100% share of Upland Products' 20X5 dividend

Income from Upland Products	5,000	
Investment in Upland Products		5,000

Record amortization of excess acquisition price

b.

Basic elimination entry

Common stock	100,000	
Retained earnings	90,000	
Income from Upland Products	30,000	
Dividends declared		10,000
Investment in Upland Products	210,000	

Excess Value (Differential) Calculations:

	Total	=	Buildings & Equipment	+	Acc. Depr.
Beginning balance	30,000		50,000		(20,000)
Changes	(5,000)				(5,000)
Ending balance	25,000		50,000		(25,000)

Amortized excess value reclassification entry:

Depreciation Expense	5,000	
Income from Upland Products		5,000

Excess value (differential) reclassification entry:

Building	50,000	
Accumulated Depreciation		25,000
Investment in Upland Products		25,000

Eliminate intercompany accounts:

Accounts Payable	10,000	
Cash and Receivables		10,000

P4-35 (continued)

c.

	Power Corp.	Upland Products	Elimination Entries		
			DR	CR	Consolidated
Income Statement					
Sales	200,000	100,000			300,000
Less: COGS	(120,000)	(50,000)			(170,000)
Less: Depreciation Expense	(25,000)	(15,000)	5,000		(45,000)
Less: Inventory Losses	(15,000)	(5,000)			(20,000)
Income from Upland Products	25,000		30,000	5,000	0
Net Income	65,000	30,000	35,000	5,000	65,000
Statement of Retained Earnings					
Beginning Balance	318,000	90,000	90,000		318,000
Net Income	65,000	30,000	35,000	5,000	65,000
Less: Dividends Declared	(30,000)	(10,000)		10,000	(30,000)
Ending Balance	353,000	110,000	125,000	15,000	353,000
Balance Sheet					
Cash and Receivables	43,000	65,000		10,000	98,000
Inventory	260,000	90,000			350,000
Land	80,000	80,000			160,000
Buildings & Equipment	500,000	150,000	50,000		700,000
Less: Accumulated Depreciation	(205,000)	(105,000)		25,000	(335,000)
Investment in Upland Products	235,000			210,000	0
				25,000	
Goodwill					0
Total Assets	913,000	280,000	50,000	270,000	973,000
Accounts Payable	60,000	20,000	10,000		70,000
Notes Payable	200,000	50,000			250,000
Common Stock	300,000	100,000	100,000		300,000
Retained Earnings	353,000	110,000	125,000	15,000	353,000
Total Liabilities & Equity	913,000	280,000	235,000	15,000	973,000

P4-36 Comprehensive Problem: Differential Apportionment

a.

Equity Method Entries on Jersey Corp.'s Books:

Investment in Lime Co.	203,000	
Cash		203,000

Record the initial investment in Lime Co.

Investment in Lime Co.	60,000	
Income from Lime Co.		60,000

Record Jersey Corp.'s 100% share of Lime Co.'s 20X7 income

Cash	20,000	
Investment in Lime Co.		20,000

Record Jersey Corp.'s 100% share of Lime Co.'s 20X7 dividend

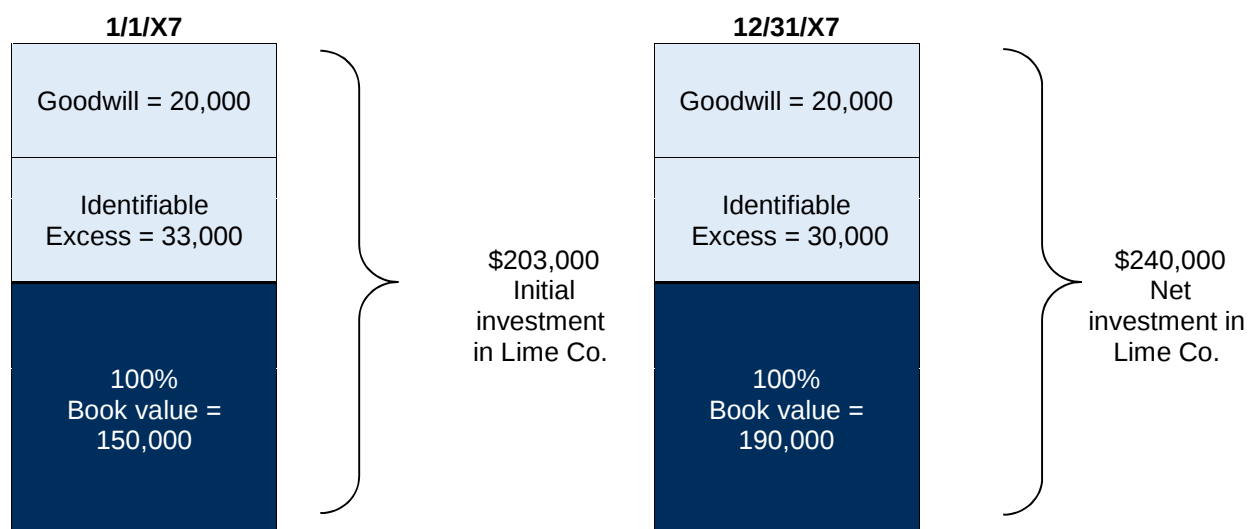
Income from Lime Co.	3,000	
Investment in Lime Co.		3,000

Record amortization of excess acquisition price

b.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Beginning book value	150,000		50,000		100,000
+ Net Income	60,000				60,000
- Dividends	(20,000)				(20,000)
Ending book value	190,000		50,000		140,000



P4-36 (continued)**Basic elimination entry**

Common stock	50,000
Retained earnings	100,000
Income from Lime Co.	60,000
Dividends declared	20,000
Investment in Lime Co.	190,000

Excess Value (Differential) Calculations:

	Total	=	Buildings & Equipment	+	Acc. Depr.	+	Goodwill
Beginning balance	53,000		33,000		0		20,000
Changes	(3,000)				(3,000)		0
Ending balance	50,000		33,000		(3,000)		20,000

Amortized excess value reclassification entry:

Depreciation expense	3,000
Income from Lime Co.	3,000

Excess value (differential) reclassification entry:

Buildings & Equipment	33,000
Goodwill	20,000
Accumulated depreciation	3,000
Investment in Lime Co.	50,000

Eliminate intercompany accounts:

Accounts Payable	16,000
Accounts Receivable	16,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	60,000
Building & equipment	60,000

	Investment in Lime Co.			Income from Lime Co.		
Acquisition Price	203,000					
100% Net Income	60,000				60,000	100% Net Income
		20,000	100% Dividends			
		3,000	Excess Val. Amort.	3,000		
Ending Balance	240,000				57,000	Ending Balance
		190,000	Basic	60,000		
		50,000	Excess Reclass.		3,000	
	0				0	

P4-36 (continued)

c.

	Jersey Corp.	Lime Co.	Elimination Entries		Consolidated
			DR	CR	
Income Statement					
Sales	700,000	400,000			1,100,000
Less: COGS	(500,000)	(250,000)			(750,000)
Less: Depreciation Expense	(25,000)	(15,000)	3,000		(43,000)
Less: Other Expenses	(75,000)	(75,000)			(150,000)
Income from Lime Co.	57,000		60,000	3,000	0
Net Income	157,000	60,000	63,000	3,000	157,000
Statement of Retained Earnings					
Beginning Balance	290,000	100,000	100,000		290,000
Net Income	157,000	60,000	63,000	3,000	157,000
Less: Dividends Declared	(50,000)	(20,000)		20,000	(50,000)
Ending Balance	397,000	140,000	163,000	23,000	397,000
Balance Sheet					
Cash	82,000	25,000			107,000
Accounts Receivable	50,000	55,000		16,000	89,000
Inventory	170,000	100,000			270,000
Land	80,000	20,000			100,000
Buildings & Equipment	500,000	150,000	33,000	60,000	623,000
Less: Accumulated Depreciation	(155,000)	(75,000)	60,000	3,000	(173,000)
Investment in Lime Co.	240,000			190,000	
				50,000	
Goodwill			20,000		20,000
Total Assets	967,000	275,000	113,000	319,000	1,036,000
Accounts Payable	70,000	35,000	16,000		89,000
Mortgages Payable	200,000	50,000			250,000
Common Stock	300,000	50,000	50,000		300,000
Retained Earnings	397,000	140,000	163,000	23,000	397,000
Total Liabilities & Equity	967,000	275,000	229,000	23,000	1,036,000

P4-37 Push-Down Accounting

- a. Entry to record acquisition of Lindy stock on books of Greenly:

Investment in Lindy Company Stock	935,000	
Cash		935,000

- b. Entry to record revaluation of assets on books of Lindy Company at date of combination:

Inventory	5,000	
Land	85,000	
Buildings	100,000	
Equipment	70,000	
Revaluation Capital		260,000

Revalue assets to reflect fair values at date of combination.

- c. Investment elimination entry in consolidation worksheet prepared December 31, 20X6 (no other entries needed):

Common Stock — Lindy Company	100,000	
Additional Paid-In Capital	400,000	
Retained Earnings	175,000	
Revaluation Capital	260,000	
Investment in Lindy Company Stock		935,000

- d. Equity-method entries on the books of Greenly during 20X7:

Cash	50,000	
Investment in Lindy Company Stock		50,000

Record dividend from Lindy Company.

Investment in Lindy Company Stock	88,000	
Income from Lindy Company		88,000

Record equity-method income.

P4-37 (continued)

- e. Eliminating entries in consolidation worksheet prepared December 31, 20X7
(no other entries needed):

Common Stock — Lindy Company	100,000	
Additional Paid-In Capital	400,000	
Retained Earnings, January 1	175,000	
Revaluation Capital	260,000	
Income from Lindy Company	88,000	
Dividends Declared		50,000
Investment in Lindy Company Stock		973,000

Eliminate beginning investment balance.

$$\$973,000 = \$935,000 + \$88,000 - \$50,000$$

- f. Eliminating entries in consolidation worksheet prepared December 31, 20X8 (no other entries needed):

Common Stock — Lindy Company	100,000	
Additional Paid-In Capital	400,000	
Retained Earnings, January 1	213,000	
Revaluation Capital	260,000	
Income from Lindy Company	90,000	
Dividends Declared		50,000
Investment in Lindy Company Stock		1,013,000

Eliminate beginning investment balance:

$$\$213,000 = \$175,000 + \$88,000 - \$50,000$$

$$\$1,013,000 = \$973,000 + \$90,000 - \$50,000$$