

Exercises of chapter 2 → Business Combination
Consolidation Financial statements

E2-4 → Cost vs Equity Reporting

"W" purchase 40% stock of "F" on Jan 1 2012

Compute the net income using (A) Cost (B) Equity

(A) using the Cost Method

2012	$100,000 + (40\% \times 30,000)$	=	112,000
2013	$60,000 + (40\% \times 60,000)$	=	84,000
2014	$250,000 + (40\% \times (25,000 + 20,000))$	=	268,000

↳ For 2014 → Dividend paid from undistributed earnings of prior year $(70,000 + 40,000) - (60,000 + 30,000) = 20,000$

(B) using the Equity Method

2012	$100,000 + (40\% \times 30,000)$	=	112,000
2013	$60,000 + (40\% \times 40,000)$	=	76,000
2014	$250,000 + (40\% \times 25,000)$	=	260,000

E2-5 Acquisition Price

Phillips purchased 0.40 of Jones on Jan 1, 2011

	<u>net income</u>	<u>Dividend</u>	<u>Change in investment account</u>	<u>Cost M</u>	<u>Equity M</u>
2011	8,000	15,000	$7,000 \times 0.4 = 2,800$	(7,800)	(7,800)
2012	12,000	$10,000 = 2,000 \times 0.4$			800
2013	20,000	$10,000 = 10,000 \times 0.4$			4,000
				2,800	2,000
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Assume that the investment account balance on Dec 31, 2013

= 54,000

→ Cost Method → $54,000 + 2,800 = 56,800$

→ Equity Method → $54,000 - 2,000 = 52,000$

E2-6 → Investment income

Ravine purchase 30% ownership of Valley
for 90,000 on Jan 1, 2016

Valley have as
Common stock of \$240,000
Retained Earning of \$60,000

(a) under the Cost method

2016	$140,000 + (0.3 \times 20,000)$	= 146,000
2017	$80,000 + (0.3 \times 40,000)$	= 92,000
2018	$220,000 + 30\% \times (10,000 + 29,000)$	= 229,000
2019	$160,000 + (0.3 \times 20,000)$	= 166,000

on 2018, net income for valley was 10,000 and it declared dividend of 40,000, so we need to calculate the undistributed net income from prior year

$$30,000 - 20,000 + 50,000 - 40,000 = 20,000$$

(b) under the equity method

2016	$140,000 + (0.3 \times 20,000)$	= 149,000
2017	$80,000 + (0.3 \times 50,000)$	= 95,000
2018	$220,000 + (0.3 \times 10,000)$	= 223,000
2019	$160,000 + (0.3 \times 40,000)$	= 172,000

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① Under the Cost Method

entry → Dr Cash 12,000 $10,000 \times 0.3 = 12,000$
Cr Dividend Income 9,000
Cr Investment in Valley 3,000

② Under the Equity Method

Dr Cash 12,000
Cr Investment in Valley 12,000

Dr Investment in Valley 3,000
Cr Income from Valley 3,000

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net income
= $10,000 \times 0.3$
= 3,000



E2-7 \Rightarrow Investment value

Port purchase 30,000 of 100,000 outstanding shares of Sunco
Common stock for \$180,000

$$\frac{30,000}{100,000} = 30\%$$

The purchase price = Book value

The Carrying value of Port's investment in Sunco

	net income	Dividends	
2012	$180,000 + (40,000 \times 0.3)$	$-(25,000 \times 0.3)$	= 184,500
2013	$184,500 + (30,000 \times 0.3)$		= 193,500
2014	$193,500 + (50,000 \times 0.3)$		= <u>195,000</u>

ending investment B on 2012 is the Beginning B
of the 2013

E2-8* Income Reporting

Grandview purchased 40% of Spinet stock on 2013
for Spinet Company on 2014

income	60,000	$\times 0.4$	= 24,000
Extraordinary Gain	30,000	$\times 0.4$	= 12,000
Net income	90,000		

entry \rightarrow

Dr investment on Spinet Comp.	36,000	
Cr income from Spinet Comp		24,000
Cr Extraordinary Gain from Spinet Comp.		12,000

E2-9 → Fair value Method

Mock Comp. Acquired 20% of Small Comp. on Jan 1, 2017
for 105,000

on 2017 Small Company Reported
net income = 40,000
Dividends paid = 15,000

at Dec. 31, 2017 → mock Comp determined the fair value
of the share of Small to be 121,000
and on 2017 mock reported operating income for 90,000

Compute the net income for mock on 2017

(1) by using Cost method

Operating income for mock	90,000
+ Dividend income from Small (15,000 × 20%)	3,000
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Net income	93,000

(2) by using Equity Method

Operating income for mock	90,000
+ income from investment in Small (40,000 × 20%) 8,000	8,000
Net income	98,000

(3) by using Fair value Method

Operating income for mock	90,000
+ unrealized gain on increase in value of Small stock (121,000 - 105,000)	16,000
+ Dividend income from Small	3,000
Net income	109,000

E2-15

المحاسبة المالية - 1

Optional elimination entry

Dr Accumulated Depreciation - S	30,000
Cr Building & Equipment - S	30,000

Basic elimination entry

Dr Common stock - S	60,000
Dr Retained Earnings - S	90,000
Cr investment in sub - P	150,000

Consolidation Financial Statement

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~~12/2/21~~

P2-23

المسألة رقم 23

A)

investment in sub	300,000
Cash	300,000

investment in snoopy	75,000
income from snoopy	75,000

Cash	20,000
investment in snoopy	20,000

<u>investment in snoopy</u>		<u>income from snoopy</u>	
300,000			75,000
75,000	20,000		75,000
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355,000			75,000 B

elimination entry

Dr Common stock - S	200,000	
Dr Retained Earnings - S	100,000	
Dr income from sub - P	75,000	
Cr investment in sub - P		355,000
Cr Dividend Declared - S		20,000

Dr Accumulated Depreciation - S	10,000
Cr Building and Equipment - S	10,000

□ Consolidation net income

Parent net income from its own operation	325,000
- Subsidiary net income from its own operation	75,000
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Consolidation net income	400,000

□ Consolidation Retained Earning

□ Parent Beginning Retained Earning	225,000
+ □ Parent Net income	325,000
+ □ Subsidiary net income "Cumulative"	75,000
- □ Parent's Dividend Declared	(100,000)
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Consolidation Retained Earning	525,000

P2-24 → P2-23 ثَمَلَة عَلَى الْوَالِدِ لَهَا ٨٠

investment in Snoopy	80,000
income from snoopy	80,000

Cash	30,000
investment in snoopy	30,000

<u>investment in snoopy</u>	<u>income from snoopy</u>
355,000	80,000
80,000	<hr/>
30,000	80,000
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405,000	

elimination entry

D, Common Stock - S	200,000	
D, Retained Earning - S	155,000	
D, income from sub - P	80,000	
C, Dividend Declared - S		30,000
C, investment in sub - P		405,000

D, Accumulated Depreciation - S	10,000	
C, Building & Equipment - S		10,000

D Consolidation Net income

□ Parent Net income from its own operation	300,000
+ □ Net income from subsidiary own operation	80,000
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Consolidation Net income	380,000

D Consolidation Retained Earning

□ Beg Balance of R.E - P	525,000 - 75,000 =	450,000
+ Parent Net income from own operation		300,000
+ sub's Contribution net income		155,000
- Dividend Dec by Parent		(22,500)
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Consolidation R.E		680,000