

## CHAPTER 3

### THE REPORTING ENTITY AND THE CONSOLIDATION OF LESS-THAN-WHOLLY-OWNED SUBSIDIARIES WITH NO DIFFERENTIAL

#### ANSWERS TO QUESTIONS

**Q3-1** The basic idea underlying the preparation of consolidated financial statements is the notion that the consolidated financial statements present the financial position and the results of operations of a parent and its subsidiaries as if the related companies actually were a single company.

**Q3-2** Without consolidated statements it is often very difficult for an investor to gain an understanding of the total resources controlled by a company. A consolidated balance sheet provides a much better picture of both the total assets under the control of the parent company and the financing used in providing those resources. Similarly, the consolidated income statement provides a better picture of the total revenue generated and the costs incurred in generating the revenue. Estimates of future profit potential and the ability to meet anticipated cash flows often can be more easily assessed by analyzing the consolidated statements.

**Q3-3** Parent company shareholders are likely to find consolidated statements more useful. Noncontrolling shareholders may gain some understanding of the basic strength of the overall economic entity by examining the consolidated statements; however, they have no control over the parent company or other subsidiaries and therefore must rely on the assets and earning power of the subsidiary in which they hold ownership. The separate statements of the subsidiary are more likely to provide useful information to the noncontrolling shareholders.

**Q3-4** A parent company has the ability to exercise control over one or more other entities. Under existing standards, a company is considered to be a parent company when it has direct or indirect control over a majority of the common stock of another company. The FASB has proposed adoption of a broader definition of control that would not be based exclusively on stock ownership.

**Q3-5** Creditors of the parent company have primary claim to the assets held directly by the parent. Short-term creditors of the parent are likely to look only at those assets. Because the parent has control of the subsidiaries, the assets held by the subsidiaries are potentially available to satisfy parent company debts. Long-term creditors of the parent generally must rely on the soundness and operating efficiency of the overall entity, which normally is best seen by examining the consolidated statements. On the other hand, creditors of a subsidiary typically have a priority claim to the assets of that subsidiary and generally cannot lay claim to the assets of the other companies. Consolidated statements therefore are not particularly useful to them.

**Q3-6** When one company holds a majority of the voting shares of another company, the investor should have the power to elect a majority of the board of directors of that company and control its actions. Unless the investor holds controlling interest, there is always a chance that another party may acquire a sufficient number of shares to gain control of the company, or that the other shareholders may join together to take control.

**Q3-7** The primary criterion for consolidation is the ability to directly or indirectly exercise control. Control normally has been based on ownership of a majority of the voting common stock of another company. The Financial Accounting Standards Board is currently working on a

broader definition of control. At present, consolidation should occur whenever majority ownership is held unless other circumstances indicate that control is temporary or does not rest with the parent.

**Q3-8** Consolidation is not appropriate when control is temporary or when the parent cannot exercise control. For example, if the parent has agreed to sell a subsidiary or plans to reduce its ownership below 50 percent shortly after year-end, the subsidiary should not be consolidated. Control generally cannot be exercised when a subsidiary is under the control of the courts in bankruptcy or reorganization. While most foreign subsidiaries should be consolidated, subsidiaries in countries with unstable governments or those in which there are stringent barriers to funds transfers generally should not be consolidated.

**Q3-9** Strict adherence to consolidation standards based on majority ownership of voting common stock has made it possible for companies to use many different forms of control over other entities without being forced to include them in their consolidated financial statements. For example, contractual arrangements often have been used to provide control over variable interest entities even though another party may hold a majority (or all) of the equity ownership.

**Q3-10** Special-purpose entities are corporations, trusts, or partnerships created for a single specified purpose. They usually have no substantive operations and are used only for financing purposes. Special-purpose entities generally have been created by companies to acquire certain types of financial assets from the companies and hold them to maturity. The special-purpose entity typically purchases the financial assets from the company with money received from issuing some form of collateralized obligation. If the company had borrowed the money directly, its debt ratio would be substantially increased.

**Q3-11** A variable interest entity normally is not involved in general business activity such as producing products and selling them to customers. They often are used to acquire financial assets from other companies or to borrow money and channel it other companies. A very large portion of the assets held by variable interest entities typically is financed by debt and a small portion financed by equity holders. Contractual agreements often give effective control of the activities of the special-purpose entity to someone other than the equity holders.

**Q3-12 ASC 810-10-20** provides a number of guidelines to be used in determining when a company is a primary beneficiary of a variable interest entity. Generally, the primary beneficiary will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

**Q3-13** Indirect control occurs when the parent controls one or more subsidiaries that, in turn, hold controlling interest in another company. Company A would indirectly control Company Z if Company A held 80 percent ownership of Company M and that company held 70 percent of the ownership of Company Z.

**Q3-14** It is possible for a company to exercise control over another company without holding a majority of the voting common stock. Contractual agreements, for example, may provide a company with complete control of both the operating and financing decisions of another company. In other cases, ownership of a substantial portion of a company's shares and a broad based ownership of the other shares may give effective control to a company even though it does not have majority ownership. There is no prohibition to consolidation with less than majority ownership; however, few companies have elected to consolidate with less than majority control.

**Q3-15** The consolidated statements are prepared from the viewpoint of the parent company shareholders and only the amounts assignable to parent company shareholders are included in the consolidated stockholders' equity balances. Subsidiary shares held by the parent are not owned by an outside party and therefore cannot be reported as shares outstanding. Those held by the noncontrolling shareholders are included in the balance assigned to noncontrolling shareholders in the consolidated balance sheet rather than being shown as stock outstanding.

**Q3-16** While it is not considered appropriate to consolidate if the fiscal periods of the parent and subsidiary differ by more than 3 months, a difference in time periods cannot be used as a means of avoiding consolidation. The fiscal period of one of the companies must be adjusted to fall within an acceptable time period and consolidated statement prepared.

**Q3-17** The noncontrolling interest, or minority interest, represents the claim on the net assets of the subsidiary assigned to the shares not controlled by the parent company.

**Q3-18** The procedures used in preparing consolidated and combined financial statements may be virtually identical. In general, consolidated statements are prepared when a parent company either directly or indirectly controls one or more subsidiaries. Combined financial statements are prepared for a group of companies or business entities when there is no parent-subsidiary relationship. For example, an individual who controls several companies may gain a clearer picture of the financial position and operating results of the overall operations under his or her control by preparing combined financial statements.

**Q3-19\*** Under the proprietary theory the parent company includes only a proportionate share of the assets and liabilities and income statement items of a subsidiary in its financial statements. Thus, if a subsidiary is 60 percent owned, the parent will include only 60 percent of the cash and accounts receivable of the subsidiary in its consolidated balance sheet. Under current practice the full amount of the balance sheet and income statement items of the subsidiary are included in the consolidated statements.

**Q3-20\*** Under both current practice and the entity theory the consolidated statements are viewed as those of a single economic entity with a shareholder group that includes both controlling and noncontrolling shareholders, each with an equity interest in the consolidated entity. The assets and liabilities of the subsidiary are included in the consolidated statements at 100 percent of their fair value at the date of acquisition and consolidated net income includes the earnings to both controlling and noncontrolling shareholders. A major difference occurs in presenting retained earnings in the consolidated balance sheet. Under current accounting practice, only undistributed earnings related to the controlling interest are included in the retained earnings balance.

**Q3-21\*** The entity theory is closest to the newly adopted procedures used in current practice.

## **SOLUTIONS TO CASES**

### **C3-1 Computation of Total Asset Values**

The relationship observed should always be true. Assets reported by the parent company include its investment in the net assets of the subsidiaries. These totals must be eliminated in the consolidation process to avoid double counting. In addition, subsidiary assets and liabilities at the time the subsidiaries were acquired by the parent may have had fair values different from their book values, and the amounts reported in the consolidated financial statements would be based on those fair values.

### **C3-2 Accounting Entity [AICPA Adapted]**

- (1) Units created by or under law, such as corporations, partnerships, and, occasionally, sole proprietorships, probably are the most common types of accounting entities.
- (2) Product lines or other segments of an enterprise, such as a division, department, profit center, branch, or cost center, can be treated as accounting entities. For example, financial reporting by segment was supported by investors, the Securities and Exchange Commission, financial executives, and members of the accounting profession.
- (3) Most large corporations issue consolidated financial reports. These statements often include the financial statements of a number of separate legal entities that are considered to constitute a single economic entity for financial reporting purposes.
- (4) Although the accounting entity often is defined in terms of a business enterprise that is separate and distinct from other activities of the owner or owners, it also is possible for an accounting entity to embrace all the activities of an owner or a group of owners. Examples include financial statements for an individual (personal financial statements) and the financial report of a person's estate.
- (5) The entire economy of the United States also can be viewed as an accounting entity. Consistent with this view, national income accounts are compiled by the U. S. Department of Commerce and regularly reported.

### C3-3 Joint Venture Investment

a. **ASC 810** is the primary authoritative literature dealing with the types of ownership issues arising in this situation. Under normal circumstances, the company holding majority ownership in another entity is expected to consolidate that entity in preparing its financial statements. Thus, unless other circumstances dictate, Dell should have planned to consolidate DFS as a result of its 70 percent equity ownership. While **ASC 810** is highly complex and greater detail of the ownership agreement may be needed to decide this matter, the literature appears to permit equity holders to avoid consolidating an entity if the equity holders (1) do not have the ability to make decisions about the entity's activities, (2) are not obligated to absorb the expected losses of the entity if they occur, or (3) do not have the right to receive the expected residual returns of the entity if they occur [ASC 810-10-15-14].

It does appear that Dell and CIT Group do, in fact, have the ability to make operating and other decisions about DFS, they must absorb losses in the manner set forth in the agreement, and they must share residual returns in the manner set forth in the agreement. Control appears to reside with the equity holders and should not provide a barrier to consolidation.

Dell might argue that it need not consolidate DFS because the joint venture agreement apparently did allocate losses initially to CIT. However, these losses were to be recovered from future income. Thus, both Dell and CIT were to be affected by the profits and losses of DFS. Given the importance of DFS to Dell and representation on the board of directors by CIT, DFS would not be expected to sustain continued losses.

In light of the joint venture arrangement and Dell's ownership interest, consolidation by Dell seems appropriate and there seems to be little support for Dell not consolidating DFS.

b. No, not currently. Dell did employ off-balance sheet financing in the past. It sells customer financing receivables to qualifying special-purpose entities. In accordance with standards prior to 2011, qualifying SPEs were not consolidated. Thus, these transactions were considered to be "off balance sheet financing." However, Dell began consolidating these entities as VIEs in 2011 (see the 2011 financial statements, footnote 4).

### **C3-4 What Company is That?**

Information for answering this case can be obtained from the SEC's EDGAR database ([www.sec.gov](http://www.sec.gov)) and from the home pages for Viacom ([www.viacom.com](http://www.viacom.com)), ConAgra ([www.conagra.com](http://www.conagra.com)), and Yum! Brands ([www.yum.com](http://www.yum.com)).

a.. Viacom is well known for ownership of companies in the entertainment industry. On January 1, 2006, Viacom divided its operations by spinning off to Viacom shareholders ownership of CBS Corporation. Following the division Viacom continues to own MTV, Nickelodeon, Nick at Nite, Comedy Central, Paramount Pictures, Paramount Home Entertainment, SKG, BET, Dreamworks, and other related companies. Sumner Redstone holds controlling interest in both Viacom and CBS and serves as Executive Chairman of both companies.

b. Some of the well-known product lines of ConAgra include Healthy Choice, Pam, Peter Pan, Slim Jim, Swiss Miss, Orville Redenbacher's, Hunt's, Reddi-Wip, VanCamp, Libby's, LaChoy, Egg Beaters, Wesson, Banquet, Blue Bonnet, Chef Boyardee, Parkay, and Rosarita.

c. Yum! Brands, Inc., is the world's largest quick service restaurant company. Well known brands include Taco Bell, KFC, and Pizza Hut. Yum was originally spun off from Pepsico in 1997. Prior to its current name, Yum's name was TRICON Global Restaurants, Inc.

### **C3-5 Subsidiaries and Core Businesses**

Most of the information needed to answer this case can be obtained from articles available in libraries, on the Internet, or through various online databases. Some of the information is available in filings with the SEC ([www.sec.gov](http://www.sec.gov)).

a. General Electric was never able to turn Kidder, Peabody into a profitable subsidiary. In fact, Kidder became such a drain on the resources of General Electric, that GE decided to get rid of Kidder. Unfortunately, GE was unable to sell the company as a whole and ultimately broke the company into pieces and sold the pieces that it could. GE suffered large losses from its venture into the brokerage business.

b. Sears, Roebuck and Co. has been a major retailer for many decades. For a while, Sears attempted to provide virtually all consumer needs so that customers could purchase financial and related services at Sears in addition to goods. It owned more than 200 other companies. During that time, Sears sold insurance (Allstate Insurance Group, consisting of many subsidiaries), real estate (Coldwell Banker Real Estate Group, consisting of many subsidiaries), brokerage and investment advisor services (Dean Witter), credit cards (Sears and Discover Card), and various other related services through many different subsidiaries. During the mid-nineties, Sears sold or spun off most of its subsidiaries that were unrelated to its core business, including Allstate, Coldwell Banker, Dean Witter, and Discover. On March 24, 2005, Sears Holding Corporation was established and became the parent company for Sears, Roebuck and Co. and K Mart Holding Corporation. From an accounting perspective, Kmart acquired Sears, even though Kmart had just emerged from bankruptcy proceedings. Following the merger the company now has approximately 2,350 full-line and off-mall stores and 1,100 specialty retail stores in the United States, and approximately 370 full-line and specialty retail stores in Canada.

c. PepsiCo entered the restaurant business in 1977 with the purchase of Pizza Hut. By 1986, PepsiCo also owned Taco Bell and KFC (Kentucky Fried Chicken). In 1997, these subsidiaries were spun off to a new company, TRICON Global Restaurants, with TRICON's stock distributed to PepsiCo's shareholders. TRICON Global Restaurants changed its name to YUM! Brands, Inc., in 2002. Although PepsiCo exited the restaurant business, it continued in the snack-food business with its Frito-Lay subsidiary, the world's largest maker of salty snacks. PepsiCo bought Quaker Oats Company in 2001—an acquisition that brought Gatorade under the PepsiCo name.

d. When consolidated financial statements are presented, financial statement users are provided with information about the company's overall operations. Assessments can be made about how the company as a whole has fared as a result of all its operations. However, comparisons with other companies may be difficult because the operations of other companies may not be similar. If a company operates in a number of different industries, consolidated financial statements may not permit detailed comparisons with other companies unless the other companies operate in all of the same industries, with about the same relative mix. Thus, standard measures used in manufacturing and merchandising, such as gross margin percentage, inventory and receivables turnover, and the debt-to-asset ratio, may be useless or even misleading when significant financial-services operations are included in the financial statements. Similarly, standard measures used in comparing financial institutions might be distorted when financial statement information includes data relating to manufacturing or merchandising operations. A partial solution to the problem results from providing disaggregated (segment or line-of-business) information along with the consolidated financial statements, as required by the accounting literature.

### C3-6 International Consolidation Issues

The following answers are based on information from the Financial Accounting Standards Board website at [www.fasb.org](http://www.fasb.org), the International Accounting Standards Board website at [www.iasb.org](http://www.iasb.org), and from the PricewaterhouseCoopers publication entitled *IFRS and US GAAP: similarities and differences*, available online at <http://www.pwc.com/us/en/issues/ifrs-reporting/publications/ifrs-and-us-gaap-similarities-and-differences.jhtml>.

a. Consolidation under IFRS is required when an entity is able to govern the policies of another entity in order to obtain benefits. To determine if consolidation is necessary, IFRS focuses on the concept of control. Factors of control, such as voting rights and contractual rights, are given by international standards. If control is not apparent, a general assessment of the relationship is required, including an evaluation of the allocation of risks and benefits.

b. Under IFRS, Goodwill is reviewed annually (or more frequently) for impairment. Goodwill is initially allocated at the organizational level where cash flows can be clearly identified. These cash generating units (CGUs) may be combined for purposes of allocating goodwill and for the subsequent evaluation of goodwill for potential impairment. However, the aggregation of CGUs for goodwill allocation and evaluation must not be larger than a segment.

Similar to U.S. GAAP, the impairment review must be done annually, but the evaluation date does not have to coincide with the end of the reporting year. However, if the annual impairment test has already been performed prior to the allocation of goodwill acquired during the fiscal year, a subsequent impairment test is required before the balance sheet date.

While U.S. GAAP requires a two-step impairment test, IFRS requires a one-step test. The recoverable amount, which is the greater of the net fair market value of the CGU and the value of the unit in use, is compared to the book value of the CGU to determine if an impairment loss exists. A loss exists when the carrying value exceeds the recoverable amount. This loss is recognized in operating results. The impairment loss applies to all of the assets of the unit and must be allocated to assets in the unit. Impairment is allocated first to goodwill. If the impairment loss exceeds the book value of goodwill, then allocation is made on a pro rata basis to the other assets in the CGU.

c. Under IFRS, entities have the option of measuring noncontrolling interests at either their proportion of the fair value or at full fair value. When using the full fair value option, the full value of goodwill will be recorded on both the controlling and noncontrolling interest.



### **C3-7 Off-Balance Sheet Financing and VIEs**

- a. Off-balance sheet financing refers to techniques that allow companies to borrow while keeping the debt, and related assets, from being reported in the company's balance sheet.
- b. (1) Funds to acquire new assets for a company may be borrowed by a third party such as a VIE, with the acquired assets then leased to the company.  
(2) A company may sell assets such as accounts receivable instead of using them as collateral.  
(3) A company may create a new VIE and transfer assets to the new entity in exchange for cash (generally borrowed by the VIE).
- c. VIEs may serve a genuine business purpose, such as risk sharing among investors and isolation of project risk from company risk.
- d. VIEs may be structured to avoid consolidation. To the extent that standards for consolidation are rule-based, it is possible to structure a VIE so that it is not consolidated even if the underlying economic substance of the entity would indicate that it should be consolidated. By artificially removing debt, assets, and expenses from the financial reports of the sponsoring company, the financial position of a company and the results of its operations can be distorted. The FASB has been working to ensure that rule-based consolidation standards result in financial statements that reflect the underlying economic substance.

### **C3-8 Consolidation Differences among Major Corporations**

- a. Union Pacific is rather unusual for a large company. It has only two subsidiaries:
  - Union Pacific Railroad Company
  - Southern Pacific Rail Corporation
- b. ExxonMobil does not consolidate majority owned subsidiaries if the minority shareholders have the right to participate in significant management decisions. ExxonMobil does consolidate some variable interest entities even though it has less than majority ownership according to its Form 10-K "because of guarantees or other arrangements that create majority economic interests in those affiliates that are greater than the Corporation's voting interests." The company uses the equity method, cost method, and fair value method to account for investments in the common stock of companies in which it holds less than majority ownership and does not consolidate.

## SOLUTIONS TO EXERCISES

### E3-1 Multiple-Choice Questions on Consolidation Overview [AICPA Adapted]

1. **d** – Consolidated financial statements are intended to provide a meaningful representation of the overall position and activities of a single *economic* entity comprising a number of separate legal entities (subsidiaries).
  - (a) *Incorrect.* While consolidation can help improve the reliability of the financial information, it does not fully describe the accounting concept of reliability.
  - (b) *Incorrect.* While consolidated financial statements should be materially stated, this is not the focus of consolidation.
  - (c) *Incorrect.* In consolidation, each subsidiary exists as a separate legal entity while the consolidated entity represents the economic activity of the parent and all subsidiaries.
  
2. **c** – Under certain circumstances, a company can lose the ability to exercise control of a subsidiary even when a controlling interest is held. For example, if the subsidiary were under a legal reorganization or bankruptcy. As long as control cannot be exercised, consolidated financial statements would not be prepared.
  - (a) *Incorrect.* A finance company can be consolidated.
  - (b) *Incorrect.* Consolidation can still occur even when the fiscal year-ends of the two companies are more than three months apart as long as the subsidiary adjusts its fiscal year-end to match the parent.
  - (d) *Incorrect.* There is no requirement that the parent and subsidiary be in related industries.
  
3. **b** – The consolidation method is typically used when ownership is greater than 50% of the common stock of the subsidiary. Penn directly controls Sell and indirectly controls Vane, thus, Sell and Vane should both be consolidated.
  - (a) *Incorrect.* Because Sell owns greater than 50% Vane's common stock, Vane would be consolidated.
  - (c) *Incorrect.* Because Penn owns greater than 50% Sell's common stock, Sell would be consolidated.
  - (d) *Incorrect.* Because Penn owns greater than 50% Sell's common stock, Sell would be consolidated. Because Sell owns greater than 50% Vane's common stock, Vane would also be consolidated.
  
4. **b** – The companies are each separate *legal* entities, but in substance they are one *economic* entity.
  - (a) *Incorrect.* The companies are not one in form, each company is a separate legal entity.
  - (c) *Incorrect.* The companies are not one in form, each company is a separate legal entity.
  - (d) *Incorrect.* The companies are one in substance as they are one economic entity.

### E3-2 Multiple-Choice Questions on Variable Interest Entities

1. **c** – SPE's are typically financed primarily by debt, while equity financing is only a small portion. SPE's tend to be very highly leveraged.
  - (a) *Incorrect.* Equity financing is typically much smaller in SPE's than in companies such as General Motors. SPE's tend to be very highly leveraged.
  - (b) *Incorrect.* SPE's are generally financed through debt, not equity.
  - (d) *Incorrect.* SPE's are not typically designed to distribute large dividends as a function of their typical business purpose.
  
2. **d** – A VIE is generally not limited as to the legal form of business that it takes (i.e. corporation, partnership, joint venture, trust, etc.).
  - (a) *Incorrect.* This type of entity can be a VIE.
  - (b) *Incorrect.* This type of entity can be a VIE.
  - (c) *Incorrect.* This type of entity can be a VIE.
  
3. **a** – A primary beneficiary is defined as an enterprise that will absorb the majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. However, if one entity receives the residual returns and another absorbs the expected losses, the entity absorbing the majority of the losses is deemed to be the primary beneficiary.
  - (b) *Incorrect.* A qualified owner would not absorb a majority of the VIE's expected losses.
  - (c) *Incorrect.* A major facilitator would not absorb a majority of the VIE's expected losses.
  - (d) *Incorrect.* A critical management director would not absorb a majority of the VIE's expected losses.
  
4. **b** – The company that has the most at stake is typically required to consolidate the VIE. This has been defined as the entity receiving a majority of the VIE's profits, and/or absorbing the majority of its losses.
  - (a) *Incorrect.* Contrary to requirements for consolidating other entities, legal control is not enough to require consolidation for VIE's.
  - (c) *Incorrect.* Intercompany transfers have no effect on determining whether to consolidate.
  - (d) *Incorrect.* VIE's can vary in size in relation to their owning companies, thus the proportionate size of the two entities is irrelevant.

### E3-3 Multiple-Choice Questions on Consolidated Balances [AICPA Adapted]

1. **b** – Total book value of net assets is \$120,000 (50,000 + 70,000). The amount attributed to the noncontrolling interest = 25% \* 120,000 = \$30,000.

2. **b** – The consolidated balance in common stock is always equal to the parent’s common stock and the common stock of the subsidiary is eliminated.
- (a) *Incorrect.* The common stock of Kidd Company is eliminated in consolidation.  
(c) *Incorrect.* The only amount to be reported in the consolidated balance sheet is the amount of common stock on Pare’s books. The common stock is not allocated based on ownership percentage, but rather is eliminated in its entirety prior to consolidation.  
(d) *Incorrect.* The common stock of Kidd Company is eliminated, and not added to the common stock balance of the parent.
3. **a** – Neely directly controls Randle, and indirectly controls Walker as a result of owning 40% plus an additional 30% as a result of Randle’s ownership of Walker, thus Neely should consolidate both Randle and Walker.
- (b) *Incorrect.* Due to foreign restrictions, Neely does not control Walker and thus should not consolidate, regardless of its 90% ownership.  
(c) *Incorrect.* Because Walker is in a legal reorganization, Neely does not maintain control, and thus cannot consolidate.  
(d) *Incorrect.* Neely only maintains 40% ownership of Walker and thus does not maintain control. Walker should not be consolidated.

#### **E3-4 Multiple-Choice Questions on Consolidation Overview [AICPA Adapted]**

1. **d** – Consolidation occurs when one company acquires a controlling interest in another company. This controlling interest is typically defined as owning greater than 50% of the company.
- (a) *Incorrect.* The equity method alone does not require consolidation until greater than 50% ownership is obtained. When more than 50% ownership is obtained, the consolidating entity can elect to use either the equity method or the cost method in recording the investment account.  
(b) *Incorrect.* When more than 50% ownership is obtained, the consolidating entity can elect to use either the equity method or the cost method in recording the investment account.  
(c) *Incorrect.* Significant influence does not qualify for consolidation. Instead, the parent company must maintain a controlling interest before consolidating.
2. **a** – The consolidated net earnings contains the net earnings of Aaron as well as the net earnings of Belle. Thus, the consolidated net earnings are greater than just Aaron’s own net earnings.
- (b) *Incorrect.* Unless Belle has no income for the year, the consolidated income will be greater than the net earnings of Aaron.  
(c) *Incorrect.* Aaron’s consolidated earnings will only be less than the earnings of Aaron if Belle suffers a net loss for the year, but the facts say this is not the case.  
(d) *Incorrect.* False. It can be determined based on the information given.

3. **b** – When the acquisition takes place, X Company only includes the earnings of Y Company for the portion of the year in which a controlling ownership was held.
- (a) *Incorrect.* Earnings of X Company for the entire year would be included in consolidated net income.  
 (c) *Incorrect.* Only the portion of Y Company’s earnings during the period in which X Company maintained a controlling interest in Y Company would be included in consolidated net income.  
 (d) *Incorrect.* Earnings from Y Company would be reported in consolidated net income only for the period in which X Company controlled Y Company during the year. The distribution of a dividend by Y Company is irrelevant.
4. **d** – Consolidation typically occurs when greater than 50% of the voting stock is obtained because the parent company is said to have control over the subsidiary.
- (a) *Incorrect.* Consolidation is required when over 50% is obtained. Additionally, the cost method can also be used if desired.  
 (b) *Incorrect.* The lower-of-cost-or-market method is not an appropriate method used in consolidation.  
 (c) *Incorrect.* Consolidation is required when over 50% is obtained. Additionally, the equity method can also be used if desired.

**E3-5 Balance Sheet Consolidation**

- a.  $\$470,000 = \$470,000 - \$44,000$  (cash outlay) +  $\$44,000$  (investment)
- b.  $\$616,000 = (\$470,000 - \$44,000$  (investment) +  $\$190,000$
- c.  $\$405,000 = \$270,000 + \$135,000$
- d.  $\$211,000$

|  |           |            |
|--|-----------|------------|
| Acquisition price                            | \$ 44,000 |            |
| ÷ percent purchased                          | 80%       |            |
| Total fair value of Bristol Corporation’s NA | \$ 55,000 |            |
| NCI in NA of Bristol Corporation             |           | \$ 11,000  |
| <br>   |           |            |
| Guild Corporation’s Stockholder’s Equity     |           | 200,000    |
| Total Consolidated Stockholder’s Equity      |           | \$ 211,000 |

**E3-6 Balance Sheet Consolidation with Intercompany Transfer**

- a.  $\$631,500 = \$510,000 + \$121,500$  (investment)
- b.  $\$845,000 = \$510,000 + \$350,000 - \$15,000$  (intercompany receivable on Potter's books)
- c.  $\$656,500 = (\$320,000 + \$121,500) + \$215,000$
- d.  $\$203,500$

|  |            |                |
|--|------------|----------------|
| Acquisition price                            | \$ 121,500 |                |
| ÷ percent purchased                          | <u>90%</u> |                |
| Total fair value of Stately Corporation's NA | \$ 135,000 |                |
| NCI in NA of Stately Corporation             |            | \$ 13,500      |
| <br>   |            |                |
| Potter Company's Stockholder's Equity        |            | <u>190,000</u> |
| Total Consolidated Stockholder's Equity      |            | \$ 203,500     |

### E3-7 Subsidiary Acquired for Cash

Note: Since the financial statements of these two companies are quite simple, it is possible to prepare the consolidated balance sheet without completing all of the steps for a consolidation. However, we present the formal calculations without skipping any steps.

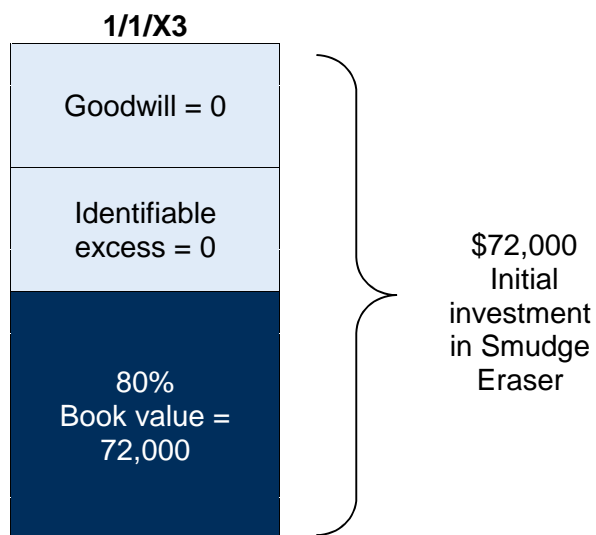
#### Equity Method Entries on Finline Pencil's Books:

|                             |        |        |
|-----------------------------|--------|--------|
| Investment in Smudge Eraser | 72,000 |        |
| Cash                        |        | 72,000 |

Record the initial investment in Smudge Eraser

#### Book Value Calculations:

|                           | NCI<br>20% | + | Finline<br>Pencil<br>80% | = | Common<br>Stock | + | Retained<br>Earnings |
|---------------------------|------------|---|--------------------------|---|-----------------|---|----------------------|
| Book value at acquisition | 18,000     |   | 72,000                   |   | 50,000          |   | 40,000               |



#### Basic Elimination Entry

|                             |        |        |
|-----------------------------|--------|--------|
| Common stock                | 50,000 |        |
| Retained earnings           | 40,000 |        |
| Investment in Smudge Eraser |        | 72,000 |
| NCI in NA of Smudge Eraser  |        | 18,000 |

|                   | Investment in<br>Smudge Eraser |        |             |
|-------------------|--------------------------------|--------|-------------|
| Acquisition Price | 72,000                         |        |             |
|                   |                                | 72,000 | Basic Entry |
|                   | 0                              |        |             |

**E3-7** (continued)

|                                       | Fineline<br>Pencil    | Smudge<br>Eraser      | Elimination<br>Entries |                      | Consolidated          |
|---------------------------------------|-----------------------|-----------------------|------------------------|----------------------|-----------------------|
|                                       |                       |                       | DR                     | CR                   |                       |
| <b>Balance Sheet</b>                  |                       |                       |                        |                      |                       |
| Cash                                  | 128,000               | 50,000                |                        |                      | 178,000               |
| Other Assets                          | 400,000               | 120,000               |                        |                      | 520,000               |
| Investment in Smudge Eraser           | 72,000                |                       |                        | 72,000               | 0                     |
| <b>Total Assets</b>                   | <b><u>600,000</u></b> | <b><u>170,000</u></b> | <b><u>0</u></b>        | <b><u>72,000</u></b> | <b><u>698,000</u></b> |
|                                       |                       |                       |                        |                      |                       |
| Current Liabilities                   | 100,000               | 80,000                |                        |                      | 180,000               |
| Common Stock                          | 300,000               | 50,000                | 50,000                 |                      | 300,000               |
| Retained Earnings                     | 200,000               | 40,000                | 40,000                 |                      | 200,000               |
| NCI in NA of Smudge Eraser            |                       |                       |                        | 18,000               | 18,000                |
| <b>Total Liabilities &amp; Equity</b> | <b><u>600,000</u></b> | <b><u>170,000</u></b> | <b><u>90,000</u></b>   | <b><u>18,000</u></b> | <b><u>698,000</u></b> |

Fineline Pencil Company and Subsidiary  
Consolidated Balance Sheet  
January 2, 20X3

|  |                  |
|--|------------------|
| Cash (\$128,000 + \$50,000)                            | \$178,000        |
| Other Assets (\$400,000 + \$120,000)                   | <u>520,000</u>   |
| Total Assets   | <u>\$698,000</u> |
|  |                  |
| Current Liabilities (\$100,000 + \$80,000)             | \$180,000        |
| Common Stock   | 300,000          |
| Retained Earnings                                      | 200,000          |
| Noncontrolling Interest in Net Assets of Smudge Eraser | <u>18,000</u>    |
| Total Liabilities and Stockholders' Equity             | <u>\$698,000</u> |



### E3-8 Subsidiary Acquired with Bonds

Note: Since the financial statements of these two companies are quite simple, it is possible to prepare the consolidated balance sheet without completing all of the steps for a consolidation. However, we present the formal calculations without skipping any steps.

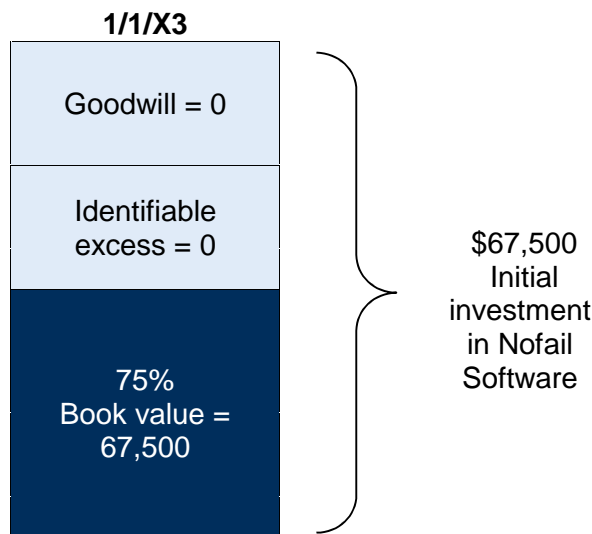
#### Equity Method Entries on Byte Computer's Books:

|                               |        |
|-------------------------------|--------|
| Investment in Nofail Software | 67,500 |
| Bonds Payable                 | 50,000 |
| Premium on Bonds Pay          | 17,500 |

Record the initial investment in Nofail Software

#### Book Value Calculations:

|                                  | NCI<br>25%    | + | Byte<br>Computer<br>75% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------------------|---------------|---|-------------------------|---|-----------------|---|----------------------|
| <b>Book value at acquisition</b> | <b>22,500</b> |   | <b>67,500</b>           |   | <b>50,000</b>   |   | <b>40,000</b>        |



#### Basic Elimination Entry

|                               |        |
|-------------------------------|--------|
| Common stock                  | 50,000 |
| Retained earnings             | 40,000 |
| Investment in Nofail Software | 67,500 |
| NCI in NA of Nofail Software  | 22,500 |

|                   |  |                    |
|-------------------|--|--------------------|
|                   | <b>Investment in<br/>Nofail Software</b> |                    |
| Acquisition Price | 67,500                                   |                    |
|                   | <b>67,500</b>                            | <b>Basic Entry</b> |
|                   | 0  |                    |

**E3-8** (continued)

|                                       | Byte<br>Computer | Nofail<br>Software | Elimination<br>Entries |               | Consolidated   |
|---------------------------------------|------------------|--------------------|------------------------|---------------|----------------|
|                                       |                  |                    | DR                     | CR            |                |
| <b>Balance Sheet</b>                  |                  |                    |                        |               |                |
| Cash                                  | 200,000          | 50,000             |                        |               | 250,000        |
| Other Assets                          | 400,000          | 120,000            |                        |               | 520,000        |
| Investment in Nofail Software         | 67,500           |                    |                        | 67,500        | 0              |
| <b>Total Assets</b>                   | <b>667,500</b>   | <b>170,000</b>     | <b>0</b>               | <b>67,500</b> | <b>770,000</b> |
|                                       |                  |                    |                        |               |                |
| Current Liabilities                   | 100,000          | 80,000             |                        |               | 180,000        |
| Bonds Payable                         | 50,000           |                    |                        |               | 50,000         |
| Bond Premium                          | 17,500           |                    |                        |               | 17,500         |
| Common Stock                          | 300,000          | 50,000             | 50,000                 |               | 300,000        |
| Retained Earnings                     | 200,000          | 40,000             | 40,000                 |               | 200,000        |
| NCI in NA of Nofail Software          |                  |                    |                        | 22,500        | 22,500         |
| <b>Total Liabilities &amp; Equity</b> | <b>667,500</b>   | <b>170,000</b>     | <b>90,000</b>          | <b>22,500</b> | <b>770,000</b> |

Byte Computer Corporation and Subsidiary  
Consolidated Balance Sheet  
January 2, 20X3

|  |                  |
|--|------------------|
| Cash (\$200,000 + \$50,000)                            | \$250,000        |
| Other Assets (\$400,000 + \$120,000)                   | <u>520,000</u>   |
| Total Assets   | <u>\$770,000</u> |
|  |                  |
| Current Liabilities                                    | \$180,000        |
| Bonds Payable  | \$50,000         |
| Bond Premium   | <u>17,500</u>    |
| Common Stock   | 300,000          |
| Retained Earnings                                      | 200,000          |
| Noncontrolling Interest in Net Assets of Smudge Eraser | <u>22,500</u>    |
| Total Liabilities and Stockholders' Equity             | <u>\$770,000</u> |

### E3-9 Subsidiary Acquired by Issuing Preferred Stock

Note: Since the financial statements of these two companies are quite simple, it is possible to prepare the consolidated balance sheet without completing all of the steps for a consolidation. However, we present the formal calculations without skipping any steps.

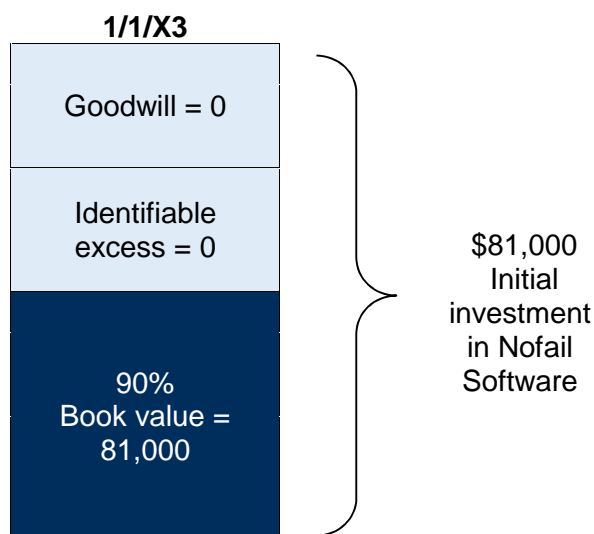
#### Equity Method Entries on Byte Computer's Books:

|  |        |        |
|--|--------|--------|
| Investment in Nofail Software            | 81,000 |        |
| Preferred Stock                          |        | 60,000 |
| Additional Paid-In Capital – Pref. Stock |        | 21,000 |

Record the initial investment in Nofail Software

#### Book Value Calculations:

|                                  | NCI<br>10%   | + | Byte<br>Computer<br>90% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------------------|--------------|---|-------------------------|---|-----------------|---|----------------------|
| <b>Book value at acquisition</b> | <b>9,000</b> |   | <b>81,000</b>           |   | <b>50,000</b>   |   | <b>40,000</b>        |



#### Basic Elimination Entry

|                               |        |
|-------------------------------|--------|
| Common stock                  | 50,000 |
| Retained earnings             | 40,000 |
| Investment in Nofail Software | 81,000 |
| NCI in NA of Nofail Software  | 9,000  |

|                          |  |                    |
|--------------------------|--|--------------------|
|                          | <b>Investment in<br/>Nofail Software</b> |                    |
| <b>Acquisition Price</b> | 81,000                                   |                    |
|                          | 81,000                                   | <b>Basic Entry</b> |
|                          | 0  |                    |

**E3-9 (continued)**

|                                       | Byte<br>Computer      | Nofail<br>Software    | Elimination Entries  |                      | Consolidated          |
|---------------------------------------|-----------------------|-----------------------|----------------------|----------------------|-----------------------|
|                                       |                       |                       | DR                   | CR                   |                       |
| <b>Balance Sheet</b>                  |                       |                       |                      |                      |                       |
| Cash                                  | 200,000               | 50,000                |                      |                      | 250,000               |
| Other Assets                          | 400,000               | 120,000               |                      |                      | 520,000               |
| Investment in Nofail Software         | 81,000                |                       |                      | 81,000               | 0                     |
| <b>Total Assets</b>                   | <b><u>681,000</u></b> | <b><u>170,000</u></b> | <b><u>0</u></b>      | <b><u>81,000</u></b> | <b><u>770,000</u></b> |
| Current Liabilities                   | 100,000               | 80,000                |                      |                      | 180,000               |
| Preferred Stock                       | 60,000                |                       |                      |                      | 60,000                |
| Additional Paid-In Capital            | 21,000                |                       |                      |                      | 21,000                |
| Common Stock                          | 300,000               | 50,000                | 50,000               |                      | 300,000               |
| Retained Earnings                     | 200,000               | 40,000                | 40,000               |                      | 200,000               |
| NCI in NA of Nofail Software          |                       |                       |                      | 9,000                | 9,000                 |
| <b>Total Liabilities &amp; Equity</b> | <b><u>681,000</u></b> | <b><u>170,000</u></b> | <b><u>90,000</u></b> | <b><u>9,000</u></b>  | <b><u>770,000</u></b> |

Byte Computer Corporation and Subsidiary  
Consolidated Balance Sheet  
January 2, 20X3

|   |                  |
|---|------------------|
| Cash (\$200,000 + \$50,000)                     | \$250,000        |
| Other Assets (\$400,000 + \$120,000)            | <u>520,000</u>   |
| Total Assets                                    | <u>\$770,000</u> |
| Current Liabilities (\$100,000 + \$80,000)      | \$180,000        |
| Preferred Stock (\$6 x 10,000)                  | 60,000           |
| Additional Paid-In Capital (\$2.10 x 10,000)    | 21,000           |
| Common Stock                                    | 300,000          |
| Retained Earnings                               | 200,000          |
| Noncontrolling Interest in Net Assets of Nofail | <u>9,000</u>     |
| Total Liabilities and Stockholders' Equity      | <u>\$770,000</u> |

### E3-10 Reporting for a Variable Interest Entity

Gamble Company  
Consolidated Balance Sheet

|                                |                     |                      |
|--------------------------------|---------------------|----------------------|
| Cash                           |                     | \$ 18,600,000(a)     |
| Buildings and Equipment        | \$370,600,000(b)    |                      |
| Less: Accumulated Depreciation | <u>(10,100,000)</u> | <u>360,500,000</u>   |
| Total Assets                   |                     | <u>\$379,100,000</u> |
|                                |                     |                      |
| Accounts Payable               |                     | \$ 5,000,000         |
| Bonds Payable                  |                     | 20,300,000           |
| Bank Notes Payable             |                     | 140,000,000          |
| Noncontrolling Interest        |                     | 5,600,000            |
| Common Stock                   | \$103,000,000       |                      |
| Retained Earnings              | <u>105,200,000</u>  | <u>208,200,000</u>   |
| Total Liabilities and Equities |                     | <u>\$379,100,000</u> |

(a) \$18,600,000 = \$3,000,000 + \$5,600,000 + (\$140,000,000 - \$130,000,000)

(b) \$370,600,000 = \$240,600,000 + \$130,000,000

### E3-11 Consolidation of a Variable Interest Entity

Teal Corporation  
Consolidated Balance Sheet

|                                |               |                     |
|--------------------------------|---------------|---------------------|
| Total Assets                   |               | <u>\$682,500(a)</u> |
|                                |               |                     |
| Total Liabilities              |               | \$550,000(b)        |
| Noncontrolling Interest        |               | 22,500(c)           |
| Common Stock                   | \$15,000      |                     |
| Retained Earnings              | <u>95,000</u> | <u>110,000</u>      |
| Total Liabilities and Equities |               | <u>\$682,500</u>    |

(a) \$682,500 = \$500,000 + \$190,000 - \$7,500

(b) \$550,000 = \$470,000 + \$80,000

(c) \$22,500 = (\$500,000 - \$470,000) x 0.75

### E3-12 Computation of Subsidiary Net Income

Messer Company reported net income of \$60,000 (\$18,000 / 0.30) for 20X9.

### E3-13 Incomplete Consolidation

- a. Belchfire apparently owns 100 percent of the stock of Premium Body Shop since the balance in the investment account reported by Belchfire is equal to the net book value of Premium Body Shop.

|    |                   |                    |  |
|----|-------------------|--------------------|--|
| b. | Accounts Payable  | \$ 60,000          | Accounts receivable were reduced by \$10,000, presumably as a reduction of receivables and payables. |
|    | Bonds Payable     | 600,000            | There is no indication of intercompany ownership.  |
|    | Common Stock      | 200,000            | Common stock of Premium must be eliminated.  |
|    | Retained Earnings | 260,000            | Retained earnings of Premium also must be eliminated in preparing consolidated statements.           |
|    |                   | <u>\$1,120,000</u> |  |

### E3-14 Noncontrolling Interest

- a. The total noncontrolling interest reported in the consolidated balance sheet at January 1, 20X7, is \$126,000 ( $\$420,000 \times .30$ ).
- b. The stockholders' equity section of the consolidated balance sheet includes the claim of the noncontrolling interest and the stockholders' equity section of the subsidiary is eliminated when the consolidated balance sheet is prepared:

|                            |                    |
|----------------------------|--------------------|
| Controlling Interest:      |                    |
| Common Stock               | \$ 400,000         |
| Additional Paid-In Capital | 222,000            |
| Retained Earnings          | <u>358,000</u>     |
| Total Controlling Interest | \$ 980,000         |
| Noncontrolling Interest    | <u>126,000</u>     |
| Total Stockholders' Equity | <u>\$1,106,000</u> |

- c. Sanderson is mainly interested in assuring a steady supply of electronic switches. It can control the operations of Kline with 70 percent ownership and can use the money that would be needed to purchase the remaining shares of Kline to finance additional operations or purchase other investments.

**E3-15 Computation of Consolidated Net Income**

- a. Ambrose should report income from its subsidiary of \$15,000 ( $\$20,000 \times .75$ ) rather than dividend income of \$9,000.
- b. A total of \$5,000 ( $\$20,000 \times 0.25$ ) should be assigned to the noncontrolling interest in the 20X4 consolidated income statement.
- c. Consolidated net income of \$70,000 should be reported for 20X4, computed as follows:

|                                  |                 |
|----------------------------------|-----------------|
| Reported net income of Ambrose   | \$59,000        |
| Less: Dividend income from Kroop | <u>(9,000)</u>  |
| Operating income of Ambrose      | \$50,000        |
| Net income of Kroop              | <u>20,000</u>   |
| Consolidated net income          | <u>\$70,000</u> |

- d. Income of \$79,000 would be attained by adding the income reported by Ambrose (\$59,000) to the income reported by Kroop (\$20,000). However, the dividend income from Kroop recorded by Ambrose must be excluded from consolidated net income.

**E3-16 Computation of Subsidiary Balances**

- a. Light's net income for 20X2 was \$32,000 ( $\$8,000 / 0.25$ ).

|   |                  |
|---|------------------|
| Common Stock Outstanding (1)                | \$120,000        |
| Additional Paid-In Capital (given)          | 40,000           |
| Retained Earnings ( $\$70,000 + \$32,000$ ) | <u>102,000</u>   |
| Total Stockholders' Equity                  | <u>\$262,000</u> |

- (1) Computation of common stock outstanding:

|  |                  |
|--|------------------|
| Total stockholders' equity ( $\$65,500 / 0.25$ ) | \$262,000        |
| Additional paid-in capital                       | (40,000)         |
| Retained earnings                                | <u>(102,000)</u> |
| Common stock outstanding                         | <u>\$120,000</u> |

### E3-17 Subsidiary Acquired at Net Book Value

Note: Since the financial statements of these two companies are quite simple, it is possible to prepare the consolidated balance sheet without completing all of the steps for a consolidation. However, we present the formal calculations without skipping any steps.

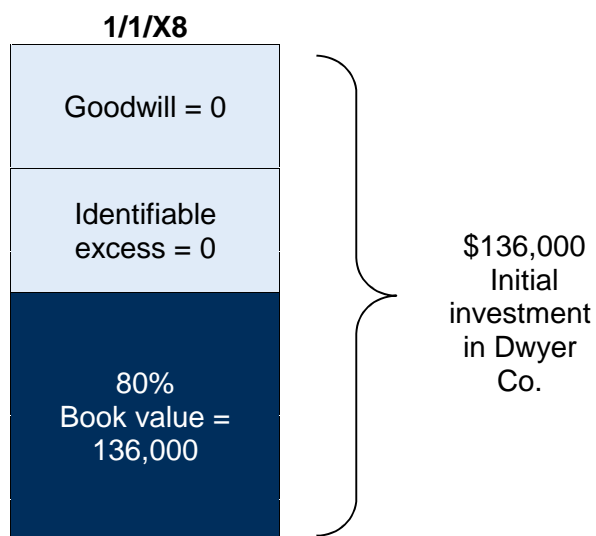
#### Equity Method Entries on Banner Corp.'s Books:

|                         |         |         |
|-------------------------|---------|---------|
| Investment in Dwyer Co. | 136,000 |         |
| Cash                    |         | 136,000 |

Record the initial investment in Dwyer Co.

#### Book Value Calculations:

|                                  | NCI<br>20%    | + | Banner<br>Corp.<br>80% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------------------|---------------|---|------------------------|---|-----------------|---|----------------------|
| <b>Book value at acquisition</b> | <b>34,000</b> |   | <b>136,000</b>         |   | <b>90,000</b>   |   | <b>80,000</b>        |



#### Basic Elimination Entry

|                                |               |                |
|--------------------------------|---------------|----------------|
| <b>Common stock</b>            | <b>90,000</b> |                |
| <b>Retained earnings</b>       | <b>80,000</b> |                |
| <b>Investment in Dwyer Co.</b> |               | <b>136,000</b> |
| <b>NCI in NA of Dwyer Co.</b>  |               | <b>34,000</b>  |

|                          |                                    |                |                    |
|--------------------------|------------------------------------|----------------|--------------------|
|                          | <b>Investment in<br/>Dwyer Co.</b> |                |                    |
| <b>Acquisition Price</b> | <b>136,000</b>                     | <b>136,000</b> | <b>Basic Entry</b> |
|                          | <b>0</b>                           |                |                    |



**E3-17 (continued)**

|                                       | Banner Corp.   | Dwyer Co.      | Elimination Entries |                | Consolidated     |
|---------------------------------------|----------------|----------------|---------------------|----------------|------------------|
|                                       |                |                | DR                  | CR             |                  |
| <b>Balance Sheet</b>                  |                |                |                     |                |                  |
| Cash                                  | 74,000         | 20,000         |                     |                | 94,000           |
| Accounts Receivable                   | 120,000        | 70,000         |                     |                | 190,000          |
| Inventory                             | 180,000        | 90,000         |                     |                | 270,000          |
| Fixed Assets (net)                    | 350,000        | 240,000        |                     |                | 590,000          |
| Investment in Dwyer Co.               | 136,000        |                |                     | 136,000        | 0                |
| <b>Total Assets</b>                   | <b>860,000</b> | <b>420,000</b> | <b>0</b>            | <b>136,000</b> | <b>1,144,000</b> |
|                                       |                |                |                     |                |                  |
| Accounts Payable                      | 65,000         | 30,000         |                     |                | 95,000           |
| Notes Payable                         | 350,000        | 220,000        |                     |                | 570,000          |
| Common Stock                          | 150,000        | 90,000         | 90,000              |                | 150,000          |
| Retained Earnings                     | 295,000        | 80,000         | 80,000              |                | 295,000          |
| NCI in NA of Dwyer Co.                |                |                |                     | 34,000         | 34,000           |
| <b>Total Liabilities &amp; Equity</b> | <b>860,000</b> | <b>420,000</b> | <b>170,000</b>      | <b>34,000</b>  | <b>1,144,000</b> |

Banner Corporation and Subsidiary  
Consolidated Balance Sheet  
December 31, 20X8

|  |                           |
|--|---------------------------|
| Cash (\$74,000 + \$20,000)                         | \$ 94,000                 |
| Accounts Receivable (\$120,000 + \$70,000)         | 190,000                   |
| Inventory (\$180,000 + \$90,000)                   | 270,000                   |
| Fixed Assets (net) (\$350,000 + \$240,000)         | 590,000                   |
| <b>Total Assets</b>                                | <b><u>\$1,144,000</u></b> |
|  |                           |
| Accounts Payable (\$65,000 + \$30,000)             | \$ 95,000                 |
| Notes Payable (\$350,000 + \$220,000)              | 570,000                   |
| Common Stock                                       | 150,000                   |
| Retained Earnings                                  | 295,000                   |
| Noncontrolling Interest in Net Assets of Dwyer Co. | 34,000                    |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b><u>\$1,144,000</u></b> |

**E3-18 Acquisition of Majority Ownership**

- a. Net identifiable assets:  $\$720,000 = \$520,000 + \$200,000$
- b. Noncontrolling interest:  $\$50,000 = \$200,000 \times 0.25$

**E3-19\* Measurement of Goodwill**

- a. \$240,000 = computed in the same manner as under the parent company approach.
- b. \$400,000 = \$240,000 / 0.60
- c. \$400,000 = computed in the same manner as under the entity theory.

**E3-20\* Assets Under Alternative Accounting Theories**

|                                 |                    |                  |
|---------------------------------|--------------------|------------------|
| a. Entity theory:               |                    |                  |
| Book Value                      | (\$240,000 x 1.00) | \$240,000        |
| Fair Value Increase             | (\$50,000 x 1.00)  | <u>50,000</u>    |
|                                 |                    | <u>\$290,000</u> |
| b. Parent company theory:       |                    |                  |
| Book Value                      | (\$240,000 x 1.00) | \$240,000        |
| Fair Value Increase             | (\$50,000 x 0.75)  | <u>37,500</u>    |
|                                 |                    | <u>\$277,500</u> |
| c. Proprietary theory:          |                    |                  |
| Book Value                      | (\$240,000 x 0.75) | \$180,000        |
| Fair Value Increase             | (\$50,000 x 0.75)  | <u>37,500</u>    |
|                                 |                    | <u>\$217,500</u> |
| d. Current accounting practice: |                    |                  |
| Book Value                      | (\$240,000 x 1.00) | \$240,000        |
| Fair Value Increase             | (\$50,000 x 1.00)  | <u>50,000</u>    |
|                                 |                    | <u>\$290,000</u> |

**E3-21\* Reported Income under Alternative Accounting Theories**

|  |           |
|--|-----------|
| a. Entity theory:                                      |           |
| Total revenue (\$410,000 + \$200,000)                  | \$610,000 |
| Total expenses (\$320,000 + \$150,000)                 | 470,000   |
| Consolidated net income [\$90,000 + (\$50,000 x 1.00)] | 140,000   |
| b. Parent company theory:                              |           |
| Total revenue (\$410,000 + \$200,000)                  | \$610,000 |
| Total expenses (\$320,000 + \$150,000)                 | 470,000   |
| Consolidated net income [\$90,000 + (\$50,000 x 0.80)] | 130,000   |
| c. Proprietary theory:                                 |           |
| Total revenue [\$410,000 + (\$200,000 x 0.80)]         | \$570,000 |
| Total expenses [\$320,000 + (\$150,000 x 0.80)]        | 440,000   |
| Consolidated net income [\$90,000 + (\$50,000 x 0.80)] | 130,000   |

d. Current accounting practice:

|  |           |
|--|-----------|
| Total revenue (\$410,000 + \$200,000)                | \$610,000 |
| Total expenses (\$320,000 + \$150,000)               | 470,000   |
| Consolidated net income [\$90,000 + (50,000 x 1.00)] | 140,000   |

**E3-22\* Applying Alternative Accounting Theories**

a. Proprietary theory:

|  |           |
|--|-----------|
| Total revenue [\$400,000 + (\$200,000 x .75)]          | \$550,000 |
| Total expenses [\$280,000 + (\$160,000 x .75)]         | 400,000   |
| Consolidated net income [\$120,000 + (\$40,000 x .75)] | 150,000   |

b. Parent company theory:

|  |           |
|--|-----------|
| Total revenue (\$400,000 + \$200,000)                  | \$600,000 |
| Total expenses (\$280,000 + \$160,000)                 | 440,000   |
| Consolidated net income [\$120,000 + (\$40,000 x .75)] | 150,000   |

c. Entity theory:

|  |           |
|--|-----------|
| Total revenue (\$400,000 + \$200,000)          | \$600,000 |
| Total expenses (\$280,000 + \$160,000)         | 440,000   |
| Consolidated net income (\$120,000 + \$40,000) | 160,000   |

d. Current accounting practice:

|  |           |
|--|-----------|
| Total revenue (\$400,000 + \$200,000)          | \$600,000 |
| Total expenses (\$280,000 + \$160,000)         | 440,000   |
| Consolidated net income (\$120,000 + \$40,000) | 160,000   |

**SOLUTIONS TO PROBLEMS**

**P3-23 Multiple-Choice Questions on Consolidated and Combined Financial Statements [AICPA Adapted]**

- d** – While previously reported in the ‘mezzanine’ area between liabilities and equity, FASB 160 (ASC 810) makes it clear that NCI is an element of equity, not a liability.

(a) *Incorrect.* FASB 160 (ASC 810) states that the NCI is an element of equity, not a liability.

(b) *Incorrect.* The NCI does not affect the goodwill that results from the consolidation.

(c) *Incorrect.* The NCI is not reported in the footnotes to the financial statements, but rather it appears as a line item in the equity section of the balance sheet.
- b** – The consolidated entity would report the equipment at the asset’s fair market value rather than the book value of the asset on the subsidiary’s books.

(a) *Incorrect.* Goodwill arises as a result of the amount paid for acquisition being in excess of the fair value of the net identifiable assets. This differential on the subsidiary's books is reflected as PPE on the parent's books because the asset is recorded at fair value.

(c) *Incorrect.* The excess is not applied to retained earnings, but merely exists in the PPE balance on the consolidated books.

(d) *Incorrect.* This does not arise in a deferred credit. The asset is recorded at its fair value on the consolidated books.

3. **c** – Similar to consolidated statements, combined financial statements require the removal of all intercompany loans and profits. Thus, neither amount is recorded in the combined statements

(a) *Incorrect.* Intercompany loans must be eliminated from combined financial statements.

(b) *Incorrect.* Both intercompany loans and profits must be eliminated from combined financial statements.

(d) *Incorrect.* Combined financial statements require the elimination of intercompany profits.

### P3-24 Determining Net Income of Parent Company

|  |                  |
|--|------------------|
| Consolidated net income                | \$164,300        |
| Income of subsidiary (\$15,200 / 0.40) | <u>(38,000)</u>  |
| Income from Tally's operations         | <u>\$126,300</u> |

### P3-25 Reported Balances

- The investment balance reported by Roof will be \$192,000.
- The amount of goodwill for the entity as a whole will be \$25,000  
 $[(\$192,000 + \$48,000) - (\$310,000 - \$95,000)]$ .
- Noncontrolling interest will be reported at \$48,000 ( $\$240,000 \times 0.20$ ).

### P3-26 Acquisition Price

- $\$57,000 = (\$120,000 - \$25,000) \times 0.60$
- $\$81,000 = (\$120,000 - \$25,000) + \$40,000 - \$54,000$
- $\$48,800 = (\$120,000 - \$25,000) + \$27,000 - \$73,200$

**P3-27 Consolidation of a Variable Interest Entity**

Stern Corporation  
Consolidated Balance Sheet  
January 1, 20X4

|  |                  |  |     |                     |
|--|------------------|--|-----|---------------------|
| Cash                                       |                  |  |     | \$ 8,150,000 (a)    |
| Accounts Receivable                        | \$12,200,000     |  | (b) |                     |
| Less: Allowance for Uncollectibles         | <u>(610,000)</u> |  | (c) | 11,590,000          |
| Other Assets                               |                  |  |     | <u>5,400,000</u>    |
| Total Assets                               |                  |  |     | <u>\$25,140,000</u> |
|  |                  |  |     |                     |
| Accounts Payable                           |                  |  |     | \$ 950,000          |
| Notes Payable                              |                  |  |     | 7,500,000           |
| Bonds Payable                              |                  |  |     | 9,800,000           |
| Stockholders' Equity:                      |                  |  |     |                     |
| Controlling Interest:                      |                  |  |     |                     |
| Common Stock                               | \$ 700,000       |  |     |                     |
| Retained Earnings                          | <u>6,150,000</u> |  |     |                     |
| Total Controlling Interest                 | \$ 6,850,000     |  |     |                     |
| Noncontrolling Interest                    | <u>40,000</u>    |  |     |                     |
| Total Stockholders' Equity                 |                  |  |     | <u>6,890,000</u>    |
| Total Liabilities and Stockholders' Equity |                  |  |     | <u>\$25,140,000</u> |

|                  |   |                           |
|------------------|---|---------------------------|
| (a) \$ 8,150,000 | = | \$7,960,000 + \$190,000   |
| (b) \$12,200,000 | = | \$4,200,000 + \$8,000,000 |
| (c) \$ 610,000   | = | \$210,000 + \$400,000     |

**P3-28 Reporting for Variable Interest Entities**

Purified Oil Company  
Consolidated Balance Sheet

|  |    |                    |                     |
|--|----|--------------------|---------------------|
| Cash                                       |    | \$                 | 640,000             |
| Drilling Supplies                          |    |                    | 420,000             |
| Accounts Receivable                        |    |                    | 640,000             |
| Equipment (net)                            |    |                    | 8,500,000           |
| Land                                       |    |                    | <u>5,100,000</u>    |
| Total Assets                               |    |                    | <u>\$15,300,000</u> |
| Accounts Payable                           |    | \$                 | 590,000             |
| Bank Loans Payable                         |    |                    | 11,800,000          |
| Stockholders' Equity:                      |    |                    |                     |
| Controlling Interest:                      |    |                    |                     |
| Common Stock                               | \$ | 560,000            |                     |
| Retained Earnings                          |    | <u>2,150,000</u>   |                     |
| Total Controlling Interest                 |    | <u>\$2,710,000</u> |                     |
| Noncontrolling Interest                    |    | <u>200,000</u>     |                     |
| Total Stockholders' Equity                 |    |                    | <u>2,910,000</u>    |
| Total Liabilities and Stockholders' Equity |    |                    | <u>\$15,300,000</u> |

**P3-29 Consolidated Income Statement Data**

|   |           |
|---|-----------|
| a. Sales: (\$300,000 + \$200,000 - \$50,000)              | \$450,000 |
| b. Investment income from LoCal Bakeries:                 | \$ -0-    |
| c. Cost of goods sold: (\$200,000 + \$130,000 - \$35,000) | \$295,000 |
| d. Depreciation expense: (\$40,000 + \$30,000)            | \$ 70,000 |

**P3-30 Parent Company and Consolidated Amounts**

|   |                 |                  |
|---|-----------------|------------------|
| a. Common stock of Tempro Company<br>on December 31, 20X5   | \$              | 90,000           |
| Retained earnings of Tempro Company<br>January 1, 20X5      | \$130,000       |                  |
| Sales for 20X5  | 195,000         |                  |
| Less: Expenses  | (160,000)       |                  |
| Dividends paid  | <u>(15,000)</u> |                  |
| Retained earnings of Tempro Company<br>on December 31, 20X5 |                 | <u>150,000</u>   |
| Net book value on December 31, 20X5                         |                 | \$240,000        |
| Proportion of stock acquired by Quoton                      | x               | 0.80             |
| Purchase price  |                 | <u>\$192,000</u> |

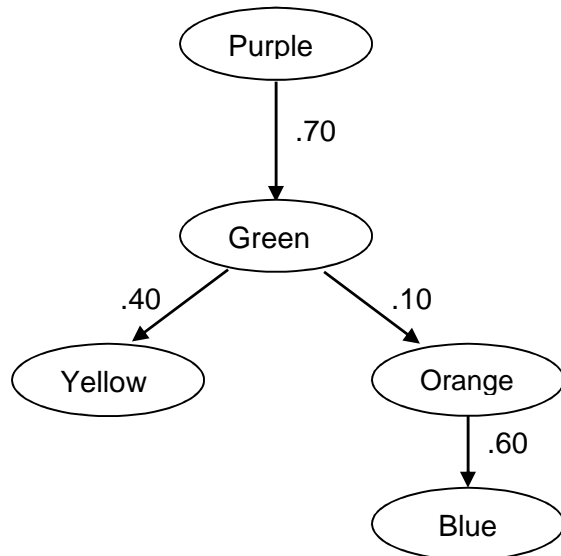
- b. Net book value on December 31, 20X5 \$240,000  
 Proportion of stock held by  
     noncontrolling interest x 0.20  
 Balance assigned to noncontrolling interest \$ 48,000
- c. Consolidated net income is \$143,000. None of the 20X5 net income of Tempro Company was earned after the date of purchase and, therefore, none can be included in consolidated net income.
- d. Consolidate net income would be \$178,000 [ $\$143,000 + (\$195,000 - \$160,000)$ ].

### P3-31 Parent Company and Consolidated Balances

- a. Balance in investment account, December 31, 20X7 \$259,800  
 Cumulative earnings since acquisition 110,000  
 Cumulative dividends since acquisition (46,000)  
 Total \$64,000  
 Proportion of stock held by True Corporation x 0.75  
 Total Amount Debited to Investment Account (48,000)  
 Purchase Amount \$211,800
- b. \$282,400 ( $\$211,800 / 0.75$ ) is the fair value of net assets on January 1, 20X5
- c. \$70,600 ( $\$282,400 \times 0.25$ ) is the value assigned to the NCI shareholders on January 1, 20X5.
- d.  $\$86,600 = (\$259,800 / 0.75) \times 0.25$  will be assigned to noncontrolling interest in the consolidated balance sheet prepared at December 31, 20X7. Alternatively, this could be calculated by adding the NCI's portion of the cumulative earnings and dividends to the balance of NCI shareholders at acquisition.  $\$70,600 + (64,000 \times .25) = \$86,600$ .

### P3-32 Indirect Ownership

The following ownership chain exists:



The earnings of Blue Company and Orange Corporation are included under cost method reporting due to the 10 percent ownership level of Orange Corporation. The earnings of Yellow Corporation are included under equity method accounting due to the 40 percent ownership level.

|  |                  |
|--|------------------|
| Net income of Green Company:                       |                  |
| Reported operating income                          | \$ 20,000        |
| Dividend income from Orange (\$30,000 x 0.10)      | 3,000            |
| Equity-method income from Yellow (\$60,000 x 0.40) | <u>24,000</u>    |
| Green Company net income                           | <u>\$ 47,000</u> |

|                            |                  |
|----------------------------|------------------|
| Consolidated net income:   |                  |
| Operating income of Purple | \$ 90,000        |
| Net income of Green        | <u>47,000</u>    |
| Consolidated net income    | <u>\$137,000</u> |

|  |                  |
|--|------------------|
| Purple company net income (Not Required):              |                  |
| Operating income of Purple                             | \$ 90,000        |
| Purple's share of Green's net income (\$47,000 x 0.70) | <u>32,900</u>    |
| Purple's net income                                    | <u>\$122,900</u> |



**P3-33 Consolidated Worksheet and Balance Sheet on the Acquisition Date (Equity Method)**

a.

**Equity Method Entries on Peanut Co.'s Books:**

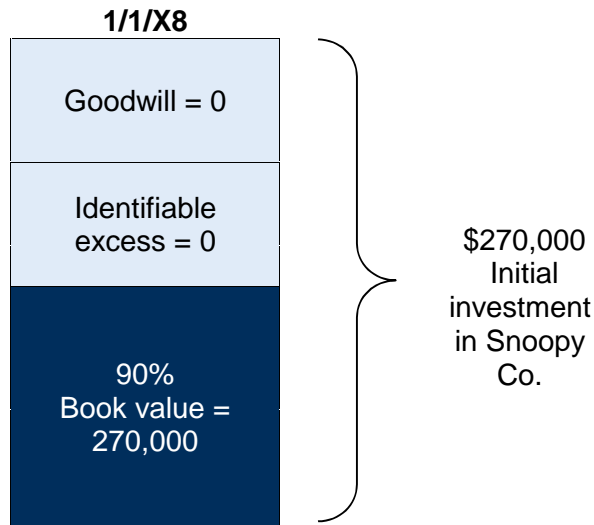
|                          |         |
|--------------------------|---------|
| Investment in Snoopy Co. | 270,000 |
| Cash                     | 270,000 |

Record the initial investment in Snoopy Co.

b.

**Book Value Calculations:**

|                                  | NCI<br>10% | + | Peanut<br>Co.<br>90% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------------------|------------|---|----------------------|---|-----------------|---|----------------------|
| <b>Book value at acquisition</b> | 30,000     |   | 270,000              |   | 200,000         |   | 100,000              |



**Basic Elimination Entry**

|                                 |                |
|---------------------------------|----------------|
| <b>Common stock</b>             | <b>200,000</b> |
| <b>Retained earnings</b>        | <b>100,000</b> |
| <b>Investment in Snoopy Co.</b> | <b>270,000</b> |
| <b>NCI in NA of Snoopy Co.</b>  | <b>30,000</b>  |

**Optional accumulated depreciation elimination entry**

|                                 |               |
|---------------------------------|---------------|
| <b>Accumulated depreciation</b> | <b>10,000</b> |
| <b>Building &amp; equipment</b> | <b>10,000</b> |

|                          |                                 |                |                    |
|--------------------------|---------------------------------|----------------|--------------------|
|                          | <b>Investment in Snoopy Co.</b> |                |                    |
| <b>Acquisition Price</b> | <b>270,000</b>                  | <b>270,000</b> | <b>Basic Entry</b> |
|                          | <b>0</b>                        |                |                    |

P3-33 (continued)

|                                       | Peanut Co.              | Snoopy Co.            | Elimination Entries   |                       | Consolidated            |
|---------------------------------------|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|                                       |                         |                       | DR                    | CR                    |                         |
| <b>Balance Sheet</b>                  |                         |                       |                       |                       |                         |
| Cash                                  | 55,000                  | 20,000                |                       |                       | 75,000                  |
| Accounts Receivable                   | 50,000                  | 30,000                |                       |                       | 80,000                  |
| Inventory                             | 100,000                 | 60,000                |                       |                       | 160,000                 |
| Investment in Snoopy Co.              | 270,000                 |                       |                       | <b>270,000</b>        | 0                       |
| Land                                  | 225,000                 | 100,000               |                       |                       | 325,000                 |
| Buildings & Equipment                 | 700,000                 | 200,000               |                       | <b>10,000</b>         | 890,000                 |
| Less: Accumulated Depreciation        | (400,000)               | (10,000)              | <b>10,000</b>         |                       | (400,000)               |
| <b>Total Assets</b>                   | <b><u>1,000,000</u></b> | <b><u>400,000</u></b> | <b><u>10,000</u></b>  | <b><u>280,000</u></b> | <b><u>1,130,000</u></b> |
| Accounts Payable                      | 75,000                  | 25,000                |                       |                       | 100,000                 |
| Bonds Payable                         | 200,000                 | 75,000                |                       |                       | 275,000                 |
| Common Stock                          | 500,000                 | 200,000               | <b>200,000</b>        |                       | 500,000                 |
| Retained Earnings                     | 225,000                 | 100,000               | <b>100,000</b>        |                       | 225,000                 |
| NCI in NA of Snoopy Co.               |                         |                       |                       | <b>30,000</b>         | 30,000                  |
| <b>Total Liabilities &amp; Equity</b> | <b><u>1,000,000</u></b> | <b><u>400,000</u></b> | <b><u>300,000</u></b> | <b><u>30,000</u></b>  | <b><u>1,130,000</u></b> |

c.

| <b>Peanut Co.</b>                     |                         |
|---------------------------------------|-------------------------|
| <b>Consolidated Balance Sheet</b>     |                         |
| <b>1/1/20X8</b>                       |                         |
| Cash                                  | 75,000                  |
| Accounts Receivable                   | 80,000                  |
| Inventory                             | 160,000                 |
| Land                                  | 325,000                 |
| Buildings & Equipment                 | 890,000                 |
| Less: Accumulated Depreciation        | <u>(400,000)</u>        |
| <b>Total Assets</b>                   | <b><u>1,130,000</u></b> |
|                                       |                         |
| Accounts Payable                      | 100,000                 |
| Bonds Payable                         | 275,000                 |
| Common Stock                          | 500,000                 |
| Retained Earnings                     | 225,000                 |
| NCI in NA of Snoopy Co.               | <u>30,000</u>           |
| <b>Total Liabilities &amp; Equity</b> | <b><u>1,130,000</u></b> |

**P3-34 Consolidated Worksheet at End of the First Year of Ownership (Equity Method)**

a.

**Equity Method Entries on Peanut Co.'s Books:**

|                          |         |         |
|--------------------------|---------|---------|
| Investment in Snoopy Co. | 270,000 |         |
| Cash                     |         | 270,000 |

Record the initial investment in Snoopy Co.

|                          |        |        |
|--------------------------|--------|--------|
| Investment in Snoopy Co. | 67,500 |        |
| Income from Snoopy Co.   |        | 67,500 |

Record Peanut Co.'s 90% share of Snoopy Co.'s 20X8 income

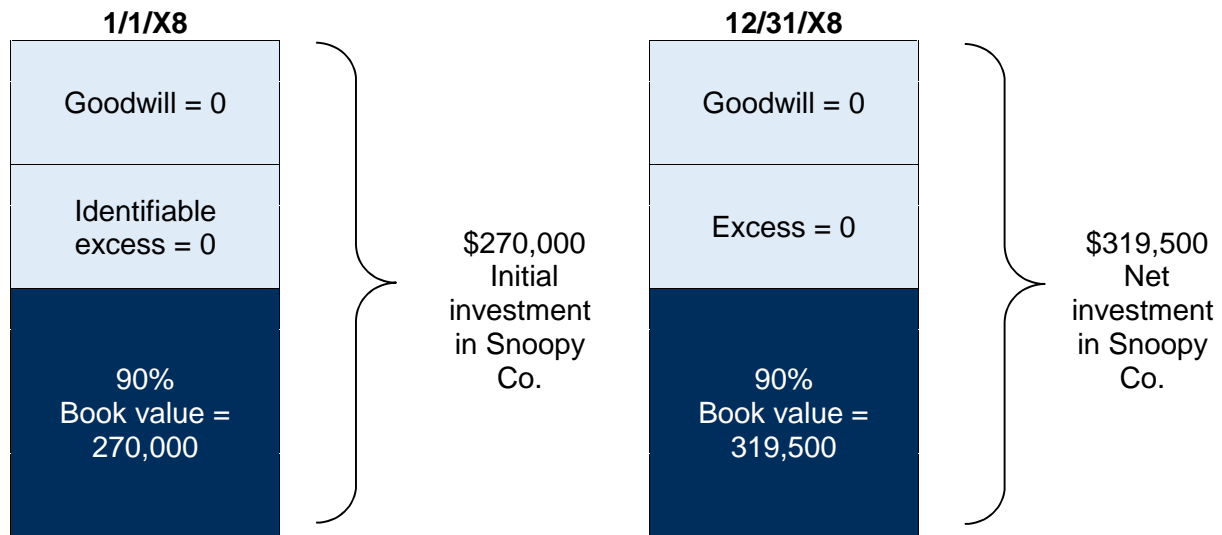
|                          |        |        |
|--------------------------|--------|--------|
| Cash                     | 18,000 |        |
| Investment in Snoopy Co. |        | 18,000 |

Record Peanut Co.'s 90% share of Snoopy Co.'s 20X8 dividend

b.

**Book Value Calculations:**

|                             | NCI<br>10% | + | Peanut<br>Co.<br>90% | = | Common<br>Stock | + | Retained<br>Earnings |
|-----------------------------|------------|---|----------------------|---|-----------------|---|----------------------|
| <b>Beginning book value</b> | 30,000     |   | 270,000              |   | 200,000         |   | 100,000              |
| <b>+ Net Income</b>         | 7,500      |   | 67,500               |   |                 |   | 75,000               |
| <b>- Dividends</b>          | (2,000)    |   | (18,000)             |   |                 |   | (20,000)             |
| <b>Ending book value</b>    | 35,500     |   | 319,500              |   | 200,000         |   | 155,000              |



**P3-34** (continued)

**Basic Elimination Entry**

|                                 |                |                |
|---------------------------------|----------------|----------------|
| <b>Common stock</b>             | <b>200,000</b> |                |
| <b>Retained earnings</b>        | <b>100,000</b> |                |
| <b>Income from Snoopy Co.</b>   | <b>67,500</b>  |                |
| <b>NCI in NI of Snoopy Co.</b>  | <b>7,500</b>   |                |
| <b>Dividends declared</b>       |                | <b>20,000</b>  |
| <b>Investment in Snoopy Co.</b> |                | <b>319,500</b> |
| <b>NCI in NA of Snoopy Co.</b>  |                | <b>35,500</b>  |

**Optional accumulated depreciation elimination entry**

|                                 |               |
|---------------------------------|---------------|
| <b>Accumulated depreciation</b> | <b>10,000</b> |
| <b>Building &amp; equipment</b> | <b>10,000</b> |

|                          | <b>Investment in Snoopy Co.</b> |                |                      | <b>Income from Snoopy Co.</b> |                       |  |
|--------------------------|---------------------------------|----------------|----------------------|-------------------------------|-----------------------|--|
| <b>Acquisition Price</b> | <b>270,000</b>                  |                |                      |                               |                       |  |
| <b>90% Net Income</b>    | <b>67,500</b>                   |                |                      | <b>67,500</b>                 | <b>90% Net Income</b> |  |
|                          |                                 | <b>18,000</b>  | <b>90% Dividends</b> |                               |                       |  |
| <b>Ending Balance</b>    | <b>319,500</b>                  |                |                      | <b>67,500</b>                 | <b>Ending Balance</b> |  |
|                          |                                 | <b>319,500</b> | <b>Basic</b>         | <b>67,500</b>                 |                       |  |
|                          | <b>0</b>                        |                |                      |                               | <b>0</b>              |  |

**P3-34** (continued)

|   | Peanut Co.              | Snoopy Co.            | Elimination Entries   |                       | Consolidated            |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|   |                         |                       | DR                    | CR                    |                         |
| <b>Income Statement</b>                   |                         |                       |                       |                       |                         |
| Sales                                     | 800,000                 | 250,000               |                       |                       | 1,050,000               |
| Less: COGS                                | (200,000)               | (125,000)             |                       |                       | (325,000)               |
| Less: Depreciation Expense                | (50,000)                | (10,000)              |                       |                       | (60,000)                |
| Less: Other Expenses                      | (225,000)               | (40,000)              |                       |                       | (265,000)               |
| Income from Snoopy Co.                    | 67,500                  |                       | <b>67,500</b>         |                       | 0                       |
| Consolidated Net Income                   | 392,500                 | 75,000                | <b>67,500</b>         |                       | 400,000                 |
| NCI in Net Income                         |                         |                       | <b>7,500</b>          |                       | (7,500)                 |
| <b>Controlling Interest in Net Income</b> | <b><u>392,500</u></b>   | <b><u>75,000</u></b>  | <b><u>75,000</u></b>  | <b><u>0</u></b>       | <b><u>392,500</u></b>   |
| <b>Statement of Retained Earnings</b>     |                         |                       |                       |                       |                         |
| Beginning Balance                         | 225,000                 | 100,000               | <b>100,000</b>        |                       | 225,000                 |
| Net Income                                | <b>392,500</b>          | <b>75,000</b>         | <b>75,000</b>         | <b>0</b>              | 392,500                 |
| Less: Dividends Declared                  | (100,000)               | (20,000)              |                       | <b>20,000</b>         | (100,000)               |
| <b>Ending Balance</b>                     | <b><u>517,500</u></b>   | <b><u>155,000</u></b> | <b><u>175,000</u></b> | <b><u>20,000</u></b>  | <b><u>517,500</u></b>   |
| <b>Balance Sheet</b>                      |                         |                       |                       |                       |                         |
| Cash                                      | 158,000                 | 80,000                |                       |                       | 238,000                 |
| Accounts Receivable                       | 165,000                 | 65,000                |                       |                       | 230,000                 |
| Inventory                                 | 200,000                 | 75,000                |                       |                       | 275,000                 |
| Investment in Snoopy Co.                  | 319,500                 |                       |                       | <b>319,500</b>        | 0                       |
| Land                                      | 200,000                 | 100,000               |                       |                       | 300,000                 |
| Buildings & Equipment                     | 700,000                 | 200,000               |                       | <b>10,000</b>         | 890,000                 |
| Less: Accumulated Depreciation            | (450,000)               | (20,000)              | <b>10,000</b>         |                       | (460,000)               |
| <b>Total Assets</b>                       | <b><u>1,292,500</u></b> | <b><u>500,000</u></b> | <b><u>10,000</u></b>  | <b><u>329,500</u></b> | <b><u>1,473,000</u></b> |
| Accounts Payable                          | 75,000                  | 60,000                |                       |                       | 135,000                 |
| Bonds Payable                             | 200,000                 | 85,000                |                       |                       | 285,000                 |
| Common Stock                              | 500,000                 | 200,000               | <b>200,000</b>        |                       | 500,000                 |
| Retained Earnings                         | <b>517,500</b>          | <b>155,000</b>        | <b>175,000</b>        | <b>20,000</b>         | 517,500                 |
| NCI in NA of Snoopy Co.                   |                         |                       |                       | <b>35,500</b>         | 35,500                  |
| <b>Total Liabilities &amp; Equity</b>     | <b><u>1,292,500</u></b> | <b><u>500,000</u></b> | <b><u>375,000</u></b> | <b><u>55,500</u></b>  | <b><u>1,473,000</u></b> |

**P3-35 Consolidated Worksheet at End of the Second Year of Ownership (Equity Method)**

a.

**Equity Method Entries on Peanut Co.'s Books:**

|                          |        |
|--------------------------|--------|
| Investment in Snoopy Co. | 72,000 |
| Income from Snoopy Co.   | 72,000 |

Record Peanut Co.'s 90% share of Snoopy Co.'s 20X9 income

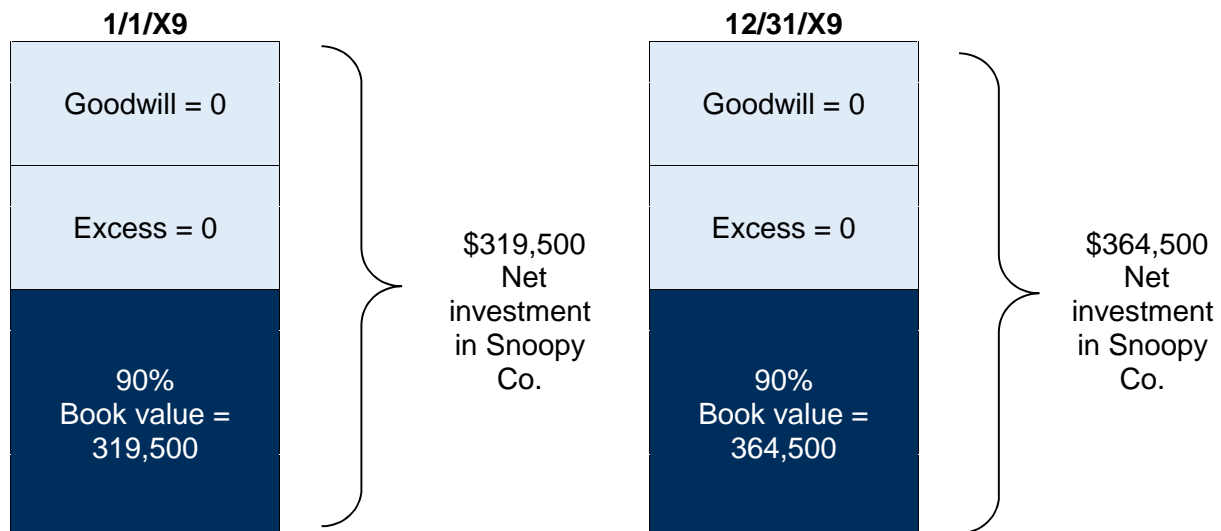
|                          |        |
|--------------------------|--------|
| Cash                     | 27,000 |
| Investment in Snoopy Co. | 27,000 |

Record Peanut Co.'s 90% share of Snoopy Co.'s 20X9 dividend

b.

**Book Value Calculations:**

|                      | NCI<br>10% | + | Peanut<br>Co.<br>90% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------|------------|---|----------------------|---|-----------------|---|----------------------|
| Beginning book value | 35,500     |   | 319,500              |   | 200,000         |   | 155,000              |
| + Net Income         | 8,000      |   | 72,000               |   |                 |   | 80,000               |
| - Dividends          | (3,000)    |   | (27,000)             |   |                 |   | (30,000)             |
| Ending book value    | 40,500     |   | 364,500              |   | 200,000         |   | 205,000              |



**P3-35** (continued)

**Basic Elimination Entry**

|                                 |                |                |
|---------------------------------|----------------|----------------|
| <b>Common stock</b>             | <b>200,000</b> |                |
| <b>Retained earnings</b>        | <b>155,000</b> |                |
| <b>Income from Snoopy Co.</b>   | <b>72,000</b>  |                |
| <b>NCI in NI of Snoopy Co.</b>  | <b>8,000</b>   |                |
| <b>Dividends declared</b>       |                | <b>30,000</b>  |
| <b>Investment in Snoopy Co.</b> |                | <b>364,500</b> |
| <b>NCI in NA of Snoopy Co.</b>  |                | <b>40,500</b>  |

**Optional accumulated depreciation elimination entry**

|                                 |               |
|---------------------------------|---------------|
| <b>Accumulated depreciation</b> | <b>10,000</b> |
| <b>Building &amp; equipment</b> | <b>10,000</b> |

|                          | <b>Investment in Snoopy Co.</b> |                |                      | <b>Income from Snoopy Co.</b> |                       |  |
|--------------------------|---------------------------------|----------------|----------------------|-------------------------------|-----------------------|--|
| <b>Beginning Balance</b> | <b>319,500</b>                  |                |                      |                               |                       |  |
| <b>90% Net Income</b>    | <b>72,000</b>                   |                |                      | <b>72,000</b>                 | <b>90% Net Income</b> |  |
|                          |                                 | <b>27,000</b>  | <b>90% Dividends</b> |                               |                       |  |
| <b>Ending Balance</b>    | <b>364,500</b>                  |                |                      | <b>72,000</b>                 | <b>Ending Balance</b> |  |
|                          |                                 | <b>364,500</b> | <b>Basic</b>         | <b>72,000</b>                 |                       |  |
|                          | <b>0</b>                        |                |                      |                               | <b>0</b>              |  |



**P3-35** (continued)

|   | Peanut Co.              | Snoopy Co.            | Elimination Entries   |                       | Consolidated            |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|   |                         |                       | DR                    | CR                    |                         |
| <b>Income Statement</b>                   |                         |                       |                       |                       |                         |
| Sales                                     | 850,000                 | 300,000               |                       |                       | 1,150,000               |
| Less: COGS                                | (270,000)               | (150,000)             |                       |                       | (420,000)               |
| Less: Depreciation Expense                | (50,000)                | (10,000)              |                       |                       | (60,000)                |
| Less: Other Expenses                      | (230,000)               | (60,000)              |                       |                       | (290,000)               |
| Income from Snoopy Co.                    | 72,000                  |                       | <b>72,000</b>         |                       | 0                       |
| Consolidated Net Income                   | 372,000                 | 80,000                | <b>72,000</b>         |                       | 380,000                 |
| NCI in Net Income                         |                         |                       | <b>8,000</b>          |                       | (8,000)                 |
| <b>Controlling Interest in Net Income</b> | <b><u>372,000</u></b>   | <b><u>80,000</u></b>  | <b><u>80,000</u></b>  | <b><u>0</u></b>       | <b><u>372,000</u></b>   |
| <b>Statement of Retained Earnings</b>     |                         |                       |                       |                       |                         |
| Beginning Balance                         | 517,500                 | 155,000               | <b>155,000</b>        |                       | 517,500                 |
| Net Income                                | <b>372,000</b>          | <b>80,000</b>         | <b>80,000</b>         | <b>0</b>              | 372,000                 |
| Less: Dividends Declared                  | (225,000)               | (30,000)              |                       | <b>30,000</b>         | (225,000)               |
| <b>Ending Balance</b>                     | <b><u>664,500</u></b>   | <b><u>205,000</u></b> | <b><u>235,000</u></b> | <b><u>30,000</u></b>  | <b><u>664,500</u></b>   |
| <b>Balance Sheet</b>                      |                         |                       |                       |                       |                         |
| Cash                                      | 255,000                 | 75,000                |                       |                       | 330,000                 |
| Accounts Receivable                       | 190,000                 | 80,000                |                       |                       | 270,000                 |
| Inventory                                 | 180,000                 | 100,000               |                       |                       | 280,000                 |
| Investment in Snoopy Co.                  | 364,500                 |                       |                       | <b>364,500</b>        | 0                       |
| Land                                      | 200,000                 | 100,000               |                       |                       | 300,000                 |
| Buildings & Equipment                     | 700,000                 | 200,000               |                       | <b>10,000</b>         | 890,000                 |
| Less: Accumulated Depreciation            | (500,000)               | (30,000)              | <b>10,000</b>         |                       | (520,000)               |
| <b>Total Assets</b>                       | <b><u>1,389,500</u></b> | <b><u>525,000</u></b> | <b><u>10,000</u></b>  | <b><u>374,500</u></b> | <b><u>1,550,000</u></b> |
| Accounts Payable                          | 75,000                  | 35,000                |                       |                       | 110,000                 |
| Bonds Payable                             | 150,000                 | 85,000                |                       |                       | 235,000                 |
| Common Stock                              | 500,000                 | 200,000               | <b>200,000</b>        |                       | 500,000                 |
| Retained Earnings                         | <b>664,500</b>          | <b>205,000</b>        | <b>235,000</b>        | <b>30,000</b>         | 664,500                 |
| NCI in NA of Snoopy Co.                   |                         |                       |                       | <b>40,500</b>         | 40,500                  |
| <b>Total Liabilities &amp; Equity</b>     | <b><u>1,389,500</u></b> | <b><u>525,000</u></b> | <b><u>435,000</u></b> | <b><u>70,500</u></b>  | <b><u>1,550,000</u></b> |

**P3-36 Consolidated Worksheet and Balance Sheet on the Acquisition Date (Equity Method)**

a.

**Equity Method Entries on Paper Co.'s Books:**

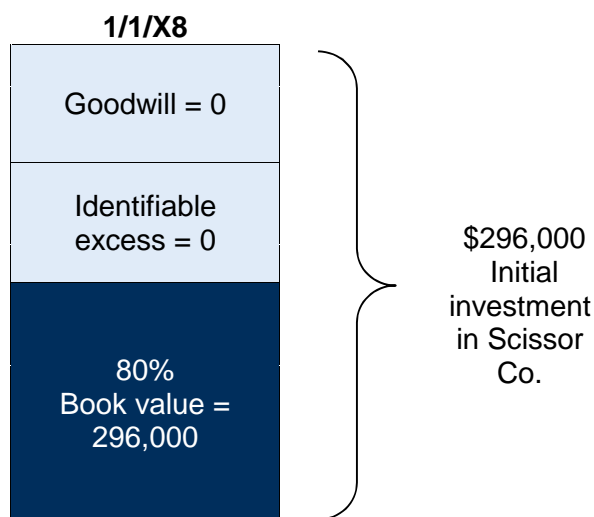
|                           |         |
|---------------------------|---------|
| Investment in Scissor Co. | 296,000 |
| Cash                      | 296,000 |

Record the initial investment in Scissor Co.

b.

**Book Value Calculations:**

|                                  | NCI<br>20%    | + | Paper<br>Co.<br>80% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------------------|---------------|---|---------------------|---|-----------------|---|----------------------|
| <b>Book value at acquisition</b> | <b>74,000</b> |   | <b>296,000</b>      |   | <b>250,000</b>  |   | <b>120,000</b>       |



**Basic Elimination Entry**

|                                  |                |                |
|----------------------------------|----------------|----------------|
| <b>Common stock</b>              | <b>250,000</b> |                |
| <b>Retained earnings</b>         | <b>120,000</b> |                |
| <b>Investment in Scissor Co.</b> |                | <b>296,000</b> |
| <b>NCI in NA of Scissor Co.</b>  |                | <b>74,000</b>  |

**Optional accumulated depreciation elimination entry**

|                                 |               |               |
|---------------------------------|---------------|---------------|
| <b>Accumulated depreciation</b> | <b>24,000</b> |               |
| <b>Building &amp; equipment</b> |               | <b>24,000</b> |

|                          |                                      |  |                    |
|--------------------------|--------------------------------------|--|--------------------|
|                          | <b>Investment in<br/>Scissor Co.</b> |  |                    |
| <b>Acquisition Price</b> | <b>296,000</b>                       |  |                    |
|                          | <b>296,000</b>                       |  | <b>Basic Entry</b> |
|                          | <b>0</b>                             |  |                    |

**P3-36 (continued)**

|                                       | Paper Co.               | Scissor Co.           | Elimination Entries   |                       | Consolidated            |
|---------------------------------------|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|                                       |                         |                       | DR                    | CR                    |                         |
| <b>Balance Sheet</b>                  |                         |                       |                       |                       |                         |
| Cash                                  | 109,000                 | 25,000                |                       |                       | 134,000                 |
| Accounts Receivable                   | 65,000                  | 37,000                |                       |                       | 102,000                 |
| Inventory                             | 125,000                 | 87,000                |                       |                       | 212,000                 |
| Investment in Scissor Co.             | 296,000                 |                       |                       | <b>296,000</b>        | 0                       |
| Land                                  | 280,000                 | 125,000               |                       |                       | 405,000                 |
| Buildings & Equipment                 | 875,000                 | 250,000               |                       | <b>24,000</b>         | 1,101,000               |
| Less: Accumulated Depreciation        | (500,000)               | (24,000)              | <b>24,000</b>         |                       | (500,000)               |
| <b>Total Assets</b>                   | <b><u>1,250,000</u></b> | <b><u>500,000</u></b> | <b><u>24,000</u></b>  | <b><u>320,000</u></b> | <b><u>1,454,000</u></b> |
| Accounts Payable                      | 95,000                  | 30,000                |                       |                       | 125,000                 |
| Bonds Payable                         | 250,000                 | 100,000               |                       |                       | 350,000                 |
| Common Stock                          | 625,000                 | 250,000               | <b>250,000</b>        |                       | 625,000                 |
| Retained Earnings                     | 280,000                 | 120,000               | <b>120,000</b>        |                       | 280,000                 |
| NCI in NA of Scissor Co.              |                         |                       |                       | <b>74,000</b>         | 74,000                  |
| <b>Total Liabilities &amp; Equity</b> | <b><u>1,250,000</u></b> | <b><u>500,000</u></b> | <b><u>370,000</u></b> | <b><u>74,000</u></b>  | <b><u>1,454,000</u></b> |

c.

| <b>Paper Co.</b>                      |                         |
|---------------------------------------|-------------------------|
| <b>Consolidated Balance Sheet</b>     |                         |
| <b>1/1/20X8</b>                       |                         |
| Cash                                  | 134,000                 |
| Accounts Receivable                   | 102,000                 |
| Inventory                             | 212,000                 |
| Land                                  | 405,000                 |
| Buildings & Equipment                 | 1,101,000               |
| Less: Accumulated Depreciation        | <u>(500,000)</u>        |
| <b>Total Assets</b>                   | <b><u>1,454,000</u></b> |
| Accounts Payable                      | 125,000                 |
| Bonds Payable                         | 350,000                 |
| Common Stock                          | 625,000                 |
| Retained Earnings                     | 280,000                 |
| NCI in NA of Scissor Co.              | <u>74,000</u>           |
| <b>Total Liabilities &amp; Equity</b> | <b><u>1,454,000</u></b> |

**P3-37 Consolidated Worksheet at End of the First Year of Ownership (Equity Method)**

a.

**Equity Method Entries on Paper Co.'s Books:**

|                           |         |
|---------------------------|---------|
| Investment in Scissor Co. | 296,000 |
| Cash                      | 296,000 |

Record the initial investment in Scissor Co.

|                           |        |
|---------------------------|--------|
| Investment in Scissor Co. | 74,400 |
| Income from Scissor Co.   | 74,400 |

Record Paper Co.'s 80% share of Scissor Co.'s 20X9 income

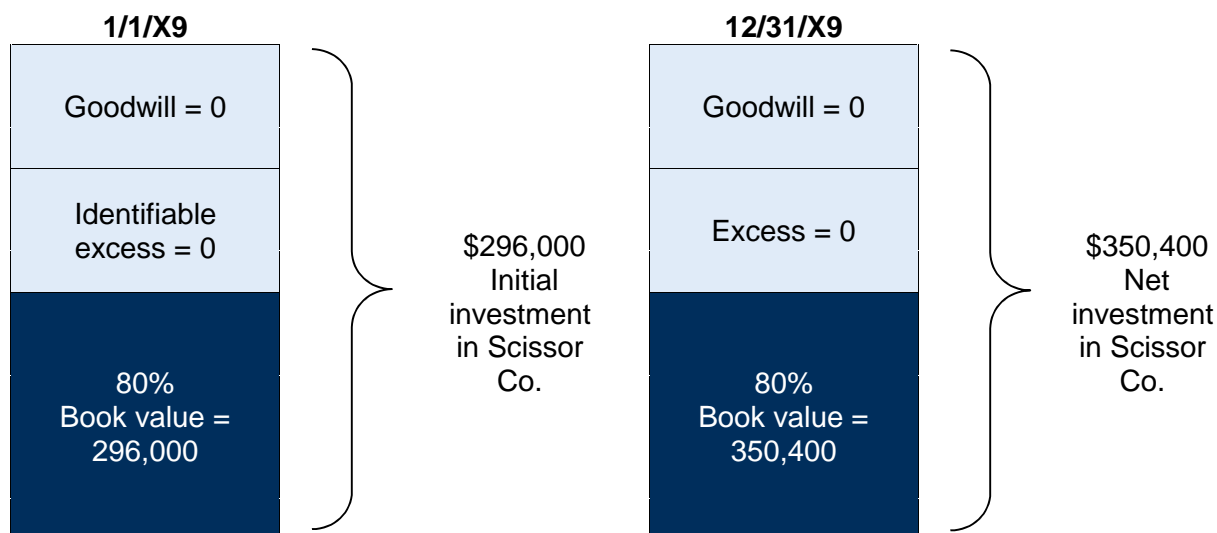
|                           |        |
|---------------------------|--------|
| Cash                      | 20,000 |
| Investment in Scissor Co. | 20,000 |

Record Paper Co.'s 80% share of Scissor Co.'s 20X9 dividend

b.

**Book Value Calculations:**

|                             | NCI<br>20% | + | Paper<br>Co.<br>80% | = | Common<br>Stock | + | Retained<br>Earnings |
|-----------------------------|------------|---|---------------------|---|-----------------|---|----------------------|
| <b>Beginning book value</b> | 74,000     |   | 296,000             |   | 250,000         |   | 120,000              |
| <b>+ Net Income</b>         | 18,600     |   | 74,400              |   |                 |   | 93,000               |
| <b>- Dividends</b>          | (5,000)    |   | (20,000)            |   |                 |   | (25,000)             |
| <b>Ending book value</b>    | 87,600     |   | 350,400             |   | 250,000         |   | 188,000              |



**P3-37 (continued)**

**Basic Elimination Entry**

|                                  |                |                |
|----------------------------------|----------------|----------------|
| <b>Common stock</b>              | <b>250,000</b> |                |
| <b>Retained earnings</b>         | <b>120,000</b> |                |
| <b>Income from Scissor Co.</b>   | <b>74,400</b>  |                |
| <b>NCI in NI of Scissor Co.</b>  | <b>18,600</b>  |                |
| <b>Dividends declared</b>        |                | <b>25,000</b>  |
| <b>Investment in Scissor Co.</b> |                | <b>350,400</b> |
| <b>NCI in NA of Scissor Co.</b>  |                | <b>87,600</b>  |

**Optional accumulated depreciation elimination entry**

|                                 |               |
|---------------------------------|---------------|
| <b>Accumulated depreciation</b> | <b>24,000</b> |
| <b>Building &amp; equipment</b> | <b>24,000</b> |

|                          | <b>Investment in Scissor Co.</b> |                |                      | <b>Income from Scissor Co.</b> |                       |  |
|--------------------------|----------------------------------|----------------|----------------------|--------------------------------|-----------------------|--|
| <b>Acquisition Price</b> | <b>296,000</b>                   |                |                      |                                |                       |  |
| <b>80% Net Income</b>    | <b>74,400</b>                    |                |                      | <b>74,400</b>                  | <b>80% Net Income</b> |  |
|                          |                                  | <b>20,000</b>  | <b>80% Dividends</b> |                                |                       |  |
| <b>Ending Balance</b>    | <b>350,400</b>                   |                |                      | <b>74,400</b>                  | <b>Ending Balance</b> |  |
|                          |                                  | <b>350,400</b> | <b>Basic</b>         | <b>74,400</b>                  |                       |  |
|                          | <b>0</b>                         |                |                      |                                | <b>0</b>              |  |

**P3-37** (continued)

|   | Paper Co.               | Scissor Co.           | Elimination Entries   |                       | Consolidated            |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|   |                         |                       | DR                    | CR                    |                         |
| <b>Income Statement</b>                   |                         |                       |                       |                       |                         |
| Sales                                     | 800,000                 | 310,000               |                       |                       | 1,110,000               |
| Less: COGS                                | (250,000)               | (155,000)             |                       |                       | (405,000)               |
| Less: Depreciation Expense                | (65,000)                | (12,000)              |                       |                       | (77,000)                |
| Less: Other Expenses                      | (280,000)               | (50,000)              |                       |                       | (330,000)               |
| Income from Scissor Co.                   | 74,400                  |                       | <b>74,400</b>         |                       | 0                       |
| Consolidated Net Income                   | 279,400                 | 93,000                | <b>74,400</b>         |                       | 298,000                 |
| NCI in Net Income                         |                         |                       | <b>18,600</b>         |                       | (18,600)                |
| <b>Controlling Interest in Net Income</b> | <b><u>279,400</u></b>   | <b><u>93,000</u></b>  | <b><u>93,000</u></b>  | <b><u>0</u></b>       | <b><u>279,400</u></b>   |
| <b>Statement of Retained Earnings</b>     |                         |                       |                       |                       |                         |
| Beginning Balance                         | 280,000                 | 120,000               | <b>120,000</b>        |                       | 280,000                 |
| Net Income                                | <b>279,400</b>          | <b>93,000</b>         | <b>93,000</b>         | <b>0</b>              | 279,400                 |
| Less: Dividends Declared                  | (80,000)                | (25,000)              |                       | <b>25,000</b>         | (80,000)                |
| <b>Ending Balance</b>                     | <b><u>479,400</u></b>   | <b><u>188,000</u></b> | <b><u>213,000</u></b> | <b><u>25,000</u></b>  | <b><u>479,400</u></b>   |
| <b>Balance Sheet</b>                      |                         |                       |                       |                       |                         |
| Cash                                      | 191,000                 | 46,000                |                       |                       | 237,000                 |
| Accounts Receivable                       | 140,000                 | 60,000                |                       |                       | 200,000                 |
| Inventory                                 | 190,000                 | 120,000               |                       |                       | 310,000                 |
| Investment in Scissor Co.                 | 350,400                 |                       |                       | <b>350,400</b>        | 0                       |
| Land                                      | 250,000                 | 125,000               |                       |                       | 375,000                 |
| Buildings & Equipment                     | 875,000                 | 250,000               |                       | <b>24,000</b>         | 1,101,000               |
| Less: Accumulated Depreciation            | (565,000)               | (36,000)              | <b>24,000</b>         |                       | (577,000)               |
| <b>Total Assets</b>                       | <b><u>1,431,400</u></b> | <b><u>565,000</u></b> | <b><u>24,000</u></b>  | <b><u>374,400</u></b> | <b><u>1,646,000</u></b> |
| Accounts Payable                          | 77,000                  | 27,000                |                       |                       | 104,000                 |
| Bonds Payable                             | 250,000                 | 100,000               |                       |                       | 350,000                 |
| Common Stock                              | 625,000                 | 250,000               | <b>250,000</b>        |                       | 625,000                 |
| Retained Earnings                         | <b>479,400</b>          | <b>188,000</b>        | <b>213,000</b>        | <b>25,000</b>         | 479,400                 |
| NCI in NA of Scissor Co.                  |                         |                       |                       | <b>87,600</b>         | 87,600                  |
| <b>Total Liabilities &amp; Equity</b>     | <b><u>1,431,400</u></b> | <b><u>565,000</u></b> | <b><u>463,000</u></b> | <b><u>112,600</u></b> | <b><u>1,646,000</u></b> |

**P3-38 Consolidated Worksheet at End of the Second Year of Ownership (Equity Method)**

a.

**Equity Method Entries on Paper Co.'s Books:**

|                           |        |
|---------------------------|--------|
| Investment in Scissor Co. | 85,600 |
| Income from Scissor Co.   | 85,600 |

Record Paper Co.'s 80% share of Scissor Co.'s 20X9 income

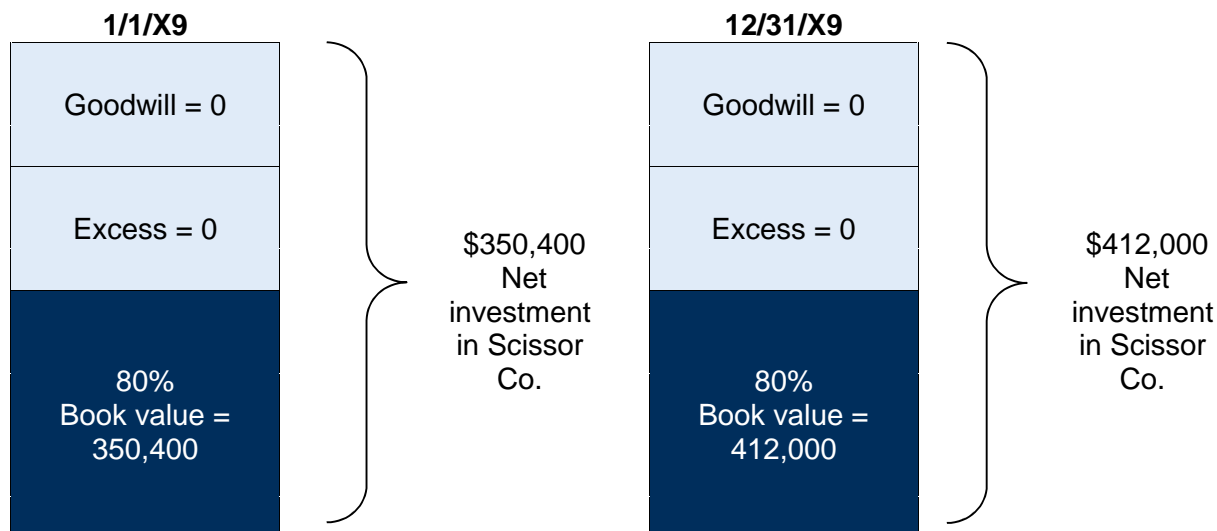
|                           |        |
|---------------------------|--------|
| Cash                      | 24,000 |
| Investment in Scissor Co. | 24,000 |

Record Paper Co.'s 80% share of Scissor Co.'s 20X9 dividend

b.

**Book Value Calculations:**

|                      | NCI<br>20% | + | Paper<br>Co.<br>80% | = | Common<br>Stock | + | Retained<br>Earnings |
|----------------------|------------|---|---------------------|---|-----------------|---|----------------------|
| Beginning book value | 87,600     |   | 350,400             |   | 250,000         |   | 188,000              |
| + Net Income         | 21,400     |   | 85,600              |   |                 |   | 107,000              |
| - Dividends          | (6,000)    |   | (24,000)            |   |                 |   | (30,000)             |
| Ending book value    | 103,000    |   | 412,000             |   | 250,000         |   | 265,000              |



**P3-38** (continued)

**Basic Elimination Entry**

|                                  |                |               |
|----------------------------------|----------------|---------------|
| <b>Common stock</b>              | <b>250,000</b> |               |
| <b>Retained earnings</b>         | <b>188,000</b> |               |
| <b>Income from Scissor Co.</b>   | <b>85,600</b>  |               |
| <b>NCI in NI of Scissor Co.</b>  | <b>21,400</b>  |               |
| <b>Dividends declared</b>        |                | <b>30,000</b> |
| <b>Investment in Scissor Co.</b> | <b>412,000</b> |               |
| <b>NCI in NA of Scissor Co.</b>  | <b>103,000</b> |               |

**Optional accumulated depreciation elimination entry**

|                                 |               |
|---------------------------------|---------------|
| <b>Accumulated depreciation</b> | <b>24,000</b> |
| <b>Building &amp; equipment</b> | <b>24,000</b> |

|                          | <b>Investment in Scissor Co.</b> |                |                      | <b>Income from Scissor Co.</b> |                       |  |
|--------------------------|----------------------------------|----------------|----------------------|--------------------------------|-----------------------|--|
| <b>Beginning Balance</b> | <b>350,400</b>                   |                |                      |                                |                       |  |
| <b>80% Net Income</b>    | <b>85,600</b>                    |                |                      | <b>85,600</b>                  | <b>80% Net Income</b> |  |
|                          |                                  | <b>24,000</b>  | <b>80% Dividends</b> |                                |                       |  |
| <b>Ending Balance</b>    | <b>412,000</b>                   |                |                      | <b>85,600</b>                  | <b>Ending Balance</b> |  |
|                          |                                  | <b>412,000</b> | <b>Basic</b>         | <b>85,600</b>                  |                       |  |
|                          | <b>0</b>                         |                |                      |                                | <b>0</b>              |  |



**P3-38** (continued)

|   | Paper Co.               | Scissor Co.           | Elimination Entries   |                       | Consolidated            |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|   |                         |                       | DR                    | CR                    |                         |
| <b>Income Statement</b>                   |                         |                       |                       |                       |                         |
| Sales                                     | 880,000                 | 355,000               |                       |                       | 1,235,000               |
| Less: COGS                                | (278,000)               | (178,000)             |                       |                       | (456,000)               |
| Less: Depreciation Expense                | (65,000)                | (12,000)              |                       |                       | (77,000)                |
| Less: Other Expenses                      | (312,000)               | (58,000)              |                       |                       | (370,000)               |
| Income from Scissor Co.                   | 85,600                  |                       | <b>85,600</b>         |                       | 0                       |
| Consolidated Net Income                   | 310,600                 | 107,000               | <b>85,600</b>         |                       | 332,000                 |
| NCI in Net Income                         |                         |                       | <b>21,400</b>         |                       | (21,400)                |
| <b>Controlling Interest in Net Income</b> | <b><u>310,600</u></b>   | <b><u>107,000</u></b> | <b><u>107,000</u></b> | <b><u>0</u></b>       | <b><u>310,600</u></b>   |
| <b>Statement of Retained Earnings</b>     |                         |                       |                       |                       |                         |
| Beginning Balance                         | 479,400                 | 188,000               | <b>188,000</b>        |                       | 479,400                 |
| Net Income                                | <b>310,600</b>          | <b>107,000</b>        | <b>107,000</b>        | <b>0</b>              | 310,600                 |
| Less: Dividends Declared                  | (90,000)                | (30,000)              |                       | <b>30,000</b>         | (90,000)                |
| <b>Ending Balance</b>                     | <b><u>700,000</u></b>   | <b><u>265,000</u></b> | <b><u>295,000</u></b> | <b><u>30,000</u></b>  | <b><u>700,000</u></b>   |
| <b>Balance Sheet</b>                      |                         |                       |                       |                       |                         |
| Cash                                      | 295,000                 | 116,000               |                       |                       | 411,000                 |
| Accounts Receivable                       | 165,000                 | 97,000                |                       |                       | 262,000                 |
| Inventory                                 | 193,000                 | 115,000               |                       |                       | 308,000                 |
| Investment in Scissor Co.                 | 412,000                 |                       |                       | <b>412,000</b>        | 0                       |
| Land                                      | 250,000                 | 125,000               |                       |                       | 375,000                 |
| Buildings & Equipment                     | 875,000                 | 250,000               |                       | <b>24,000</b>         | 1,101,000               |
| Less: Accumulated Depreciation            | (630,000)               | (48,000)              | <b>24,000</b>         |                       | (654,000)               |
| <b>Total Assets</b>                       | <b><u>1,560,000</u></b> | <b><u>655,000</u></b> | <b><u>24,000</u></b>  | <b><u>436,000</u></b> | <b><u>1,803,000</u></b> |
| Accounts Payable                          | 85,000                  | 40,000                |                       |                       | 125,000                 |
| Bonds Payable                             | 150,000                 | 100,000               |                       |                       | 250,000                 |
| Common Stock                              | 625,000                 | 250,000               | <b>250,000</b>        |                       | 625,000                 |
| Retained Earnings                         | <b>700,000</b>          | <b>265,000</b>        | <b>295,000</b>        | <b>30,000</b>         | 700,000                 |
| NCI in NA of Scissor Co.                  |                         |                       |                       | <b>103,000</b>        | 103,000                 |
| <b>Total Liabilities &amp; Equity</b>     | <b><u>1,560,000</u></b> | <b><u>655,000</u></b> | <b><u>545,000</u></b> | <b><u>133,000</u></b> | <b><u>1,803,000</u></b> |

**P3-39\* Balance Sheet Amounts under Alternative Accounting Theories**

a. Proprietary theory:

|  |           |
|--|-----------|
| Cash and inventory [ $\$300,000 + (\$80,000 \times 0.75)$ ]                | \$360,000 |
| Buildings and Equipment (net)<br>[ $\$400,000 + (\$180,000 \times 0.75)$ ] | 535,000   |
| Goodwill [ $\$210,000 - (\$260,000 \times 0.75)$ ]                         | 15,000    |

b. Parent company theory:

|   |           |
|---|-----------|
| Cash and inventory ( $\$300,000 + \$80,000$ )   | \$380,000 |
| Buildings and Equipment (net)<br>[ $\$400,000 + \$120,000 + (\$60,000 \times 0.75)$ ] | 565,000   |
| Goodwill [ $\$210,000 - (\$260,000 \times 0.75)$ ]                                    | 15,000    |

c. Entity theory:

|  |           |
|--|-----------|
| Cash and inventory ( $\$300,000 + \$80,000$ )                | \$380,000 |
| Buildings and Equipment (net)<br>( $\$400,000 + \$180,000$ ) | 580,000   |
| Goodwill [ $(\$210,000 / 0.75) - \$260,000$ ]                | 20,000    |

d. Current accounting practice:

|  |           |
|--|-----------|
| Cash and inventory ( $\$300,000 + \$80,000$ )                | \$380,000 |
| Buildings and Equipment (net)<br>( $\$400,000 + \$180,000$ ) | 580,000   |
| Goodwill [ $(\$210,000 / 0.75) - \$260,000$ ]                | 20,000    |