CHAPTER 5

CONSOLIDATION OF LESS-THAN-WHOLLY-OWEN SUBSIDIARIES ACQUIRED AT MORE THAN BOOK VALUE

ANSWERS TO QUESTIONS

Q5-1 The noncontrolling interest is reported as a separate item in the stockholders' equity section of the balance sheet.

Q5-2 The consolidated balance sheet always includes 100 percent of the subsidiary's assets and liabilities. When the parent holds less than 100 percent ownership of the subsidiary, the noncontrolling interest's claim on those net assets must be reported. The balance sheet will not balance without this additional amount.

Q5-3 The income statement portion of the consolidation worksheet is expanded to include a line for income assigned to the noncontrolling interest. This amount is deducted from consolidated net income in computing income to the controlling interest. The balance sheet portion of the worksheet also is expanded to include the claim of the noncontrolling shareholders on the net assets of the subsidiary.

Q5-4 The balance assigned to the noncontrolling interest is based on the fair value of the noncontrolling interest at the date of acquisition.

Q5-5 Consolidated retained earnings includes only amounts attributable to the shareholders of the parent company. Thus, none of the retained earnings is assigned to the noncontrolling interest.

Q5-6 One hundred percent of the fair value of the subsidiary's assets is included.

Q5-7 The amount of goodwill at the date of acquisition is determined by deducting the fair value of the net assets of the acquired company from the sum of the fair value of the consideration given by the acquiring company and the fair value of the noncontrolling interest. The resulting goodwill must be apportioned between the controlling and noncontrolling interest. Under normal circumstances, goodwill apportioned to the noncontrolling interest will equal the excess of the fair value of the noncontrolling interest over its proportionate share of the fair value of the net assets of the acquired company.

Q5-8 Income assigned to the noncontrolling interest normally is a proportionate share of the net income of the subsidiary.

Q5-9 Income assigned to noncontrolling shareholders is reported as a deduction from consolidated net income in arriving at income assigned to the parent company shareholders.

Q5-10 Dividends paid to noncontrolling shareholders are eliminated in preparing the consolidated statement of retained earnings as are those paid by the subsidiary to the parent. Only dividends paid by the parent company are reported as dividends in the consolidated financial statements.

Q5-11 A parent will discontinue consolidating a subsidiary when it can no longer exercise control over it. Control might be lost for a number of reasons, such as: (1) the parent sells some or all of its interest in the subsidiary, (2) the subsidiary issues additional common stock, (3) the parent enters into an agreement to relinquish control, or (4) the subsidiary comes under the control of the government or other regulator.

Q5-12 Other comprehensive income elements reported by the subsidiary must be included in other comprehensive income in the consolidated financial statement. If the subsidiary is not wholly owned, comprehensive income assigned to the noncontrolling interest will include a proportionate share of the subsidiary's other comprehensive income.

Q5-13 The parent's portion of the subsidiary's other comprehensive income is included in comprehensive income attributable to the controlling interest.

Q5-14A The only effect of a negative balance in retained earnings is the need for a credit to subsidiary retained earnings, rather than a debit to retained earnings, when the stockholders' equity accounts of the subsidiary and the investment account of the parent are eliminated.

Q5-15A In the period in which the land is sold, the gain or loss recorded by the subsidiary must be adjusted by the amount of the differential assigned to the land. When the differential is assigned in the worksheet eliminating entries at the end of the period, a debit will be made to the gain or loss on sale of land that came to the worksheet from the subsidiary's books.

SOLUTIONS TO CASES

C5-1 Consolidation Worksheet Preparation

a. Yes. If the parent company is using the equity method, the elimination of the income recognized by the parent from the subsidiary generally should not be equal to a proportionate share of the subsidiary's dividends. If the parent has recognized only dividend income from the subsidiary, it is using the cost method.

b. Not usually. It should be possible to tell if the preparer has included the parent's share of the subsidiary's reported income in computing consolidated net income. However, it is not possible to tell from looking at the worksheet alone whether or not all the adjustments that should have been made for amortization of the differential or to eliminate unrealized profits have been properly treated in computing the consolidated net income.

c. Yes. If the parent paid more than its proportionate share of the fair value of the subsidiary's net assets, the eliminating entries relating to that subsidiary should show amounts assigned to individual asset accounts for fair value adjustments and to goodwill when the investment account balance is eliminated and any noncontrolling interest is established in the worksheet. It should be relatively easy to determine if this has occurred by examining the consolidation worksheet.

d. If the preparer has made a separate entry in the worksheet to eliminate the change in the parent's investment account during the period, the easiest way to ascertain the parent's subsidiary ownership percentage is to determine the percentage share of the subsidiary's dividends eliminated in that entry. Another approach might be to divide the total amount of the parent's subsidiary investment account eliminated in the worksheet by the sum of the total parent's investment account eliminated and the total amount of the noncontrolling interest established in the worksheet through eliminating entries. However, this approach assumes that the fair value of the consideration given by the parent when acquiring its subsidiary interest and the fair value of the noncontrolling interest on that date were proportional, which is usually, but not always, the case.

C5-2 Consolidated Income Presentation

MEMO

TO: Treasurer
Standard Company

FROM: __________ __________, Accounting Staff

RE: Allocation of Consolidated Income to Parent and Noncontrolling Shareholders

ASC 810 specifies that consolidated net income reflects the income of the entire consolidated entity and that consolidated net income must be allocated between the controlling and noncontrolling interests. Earnings per share reported in the consolidated income statement is based on the income allocated to the controlling interest only.

Consolidated net income increased by $34,000 from 20X4 to 20X5, an increase of 52 percent. However, consolidated net income allocated to the controlling interest increased by $24,100 from 20X4 to 20X5, an increase of only 38 percent. The increase in the controlling interest's share of consolidated net income did not keep pace with the increase in sales because nearly all of the sales increase was experienced by Jewel, which has a very low profit margin. In addition the parent receives only 55 percent of the increased profits of the subsidiary. Consolidated net income for the two years is computed and allocated as follows:

	20X4	20X5
Consolidated revenues	$160,000 (a)	$400,000 (b)
Operating costs	(94,000)(c)	(300,000)(d)
Consolidated net income	$ 66,000	$100,000
Income to noncontrolling shareholders	(2,700)(e)	(12,600) (f)
Income to controlling shareholders	$ 63,300	$ 87,400

(a) $100,000 + $60,000
(b) $120,000 + $280,000
(c) ($100,000 x .40) + ($60,000 x .90)
(d) ($120,000 x .40) + ($280,000 x .90)
(e) ($60,000 x .10 x .45)
(f) ($280,000 x .10 x .45)

Primary citations:
ASC 810

C5-3 Pro Rata Consolidation

MEMO

To: Financial Vice-President
Rose Corporation

From: ______ ______, Senior Accountant

Re: Pro Rata Consolidation of Joint Venture

This memo is in response to your request for additional information on the desirability of using pro rata consolidation rather than equity method reporting for Rose Corporation's investment in its joint venture with Krome Company. The equity method is used by most companies in reporting their investments in corporate joint ventures. [**ASC 323**]

While the accounting literature provides guidance for joint ventures that have issued common stock, it does not provide guidance for ownership of noncorporate entities. **ASC 323** suggests that the equity method would be appropriate for unincorporated entities as well.

Assuming the joint venture with Krome Company is unincorporated, Rose owns an undivided interest in each asset held by the joint venture and is liable for its share of each of its liabilities and, under certain circumstances, the entire amount. In this case, it can be argued pro rata consolidation provides a more accurate picture of Rose's assets and liabilities, although not all agree with this assertion. Pro rata consolidation is generally considered not acceptable in this country, although it is a widely used industry practice in a few industries such as oil and gas exploration and production. If the joint venture is incorporated, Rose does not have a direct claim on the assets of the joint venture and Rose's liability is sheltered by the joint venture's corporate structure. In this case, continued use of the equity method appears to be appropriate.

Primary citations:
ASC 323

C5-4 Elimination Procedures

a. The eliminating entries are recorded only in the consolidation worksheet and therefore do not change the balances recorded on the company's books. Each time consolidated statements are prepared the balances reported on the company's books serve as the starting point. Thus, all the necessary eliminating entries must be entered in the consolidation worksheet each time consolidated statements are prepared.

b. The noncontrolling interest at a point in time is equal to its fair value on the date of combination, adjusted to date for a proportionate share of the undistributed earnings of the subsidiary and the noncontrolling interest's share of any write-off of differential. Another approach to determining the noncontrolling interest at a point in time is to add the remaining differential at that time to the subsidiary's common stockholders' equity and multiply the result by the noncontrolling interest's proportionate ownership interest in the subsidiary. (However, this is only true if the goodwill is proportionate between the controlling and noncontrolling shareholders.)

c. In the consolidation worksheet the ending balance assigned to noncontrolling interest is derived by crediting noncontrolling interest for the starting balance, as indicated in the preceding question, and then adding income assigned to the noncontrolling interest in the consolidated income statement and deducting a pro rata portion of subsidiary dividends declared during the period. This is similar to the equity method of accounting for an investment.

d. All the stockholders' equity account balances of the subsidiary must be eliminated each time consolidated financial statements are prepared. Intercompany receivables and payables, if any, must also be eliminated.

e. The "investment in subsidiary" and "income from subsidiary" accounts must be eliminated each time consolidated financial statements are prepared. Intercompany receivables and payables, if any, must also be eliminated.

C5-5 Changing Accounting Standards: Monsanto Company

a. Monsanto reported the income to noncontrolling (minority) shareholders of consolidated subsidiaries as an expense in the continuing operations portion of its 2007 income statement.

b. Monsanto reported the noncontrolling interest in consolidated subsidiaries in other liabilities in its consolidated balance sheet.

c. In 2007, Monsanto's treatment of its noncontrolling interest in its consolidated financial statements, although theoretically objectionable, was considered acceptable. The noncontrolling (minority) interest did not fit the definition of a liability, and its share of income did not fit the definition of an expense. Nevertheless, prior to 2008 no authoritative pronouncement prohibited the treatment exhibited by Monsanto. However, under ASC 810, Monsanto's 2007 treatment is unacceptable. The noncontrolling interest is now required to be treated as an equity item, with the income attributed to the noncontrolling interest treated as an allocation of consolidated net income.

d. Monsanto provided customer financing through a lender that was a special purpose entity. Monsanto had no ownership interest in the special purpose entity but did consolidate it because Monsanto effectively originated, guaranteed, and serviced the loans. Monsanto had a 9 percent ownership interest in one variable interest entity and a 49 percent ownership interest in another. Neither entity was consolidated because Monsanto was not the primary beneficiary of either entity.

SOLUTIONS TO EXERCISES

E5-1 Multiple-Choice Questions on Consolidation Process

1. **d** – Under the equity method, consolidated retained earnings will always equal the retained earning balance of the acquiring company (A company) at the date of acquisition regardless of the percentage owned. The retained earnings balance of the acquired company (B Company) is eliminated in consolidation. This will continue to be true if the parent uses the fully-adjusted equity method to account for its investment.

   (a) *Incorrect*. The retained earnings of B Company is eliminated during consolidation.
   (b) *Incorrect.* Goodwill does not arise in every consolidation. If goodwill were to arise in this acquisition, it would appear on the consolidated balance sheet. However, there is insufficient data to determine the existence of goodwill.
   (c) *Incorrect.* B Company's retained earnings are never carried forward, rather they are eliminated during consolidation.

2. **d** – Because the consolidated balance sheet contains the assets of the parent company as well as the assets of the subsidiary, total assets of the parent company will always be less than total assets reported on the consolidated balance sheet.

   (a) *Incorrect*. The noncontrolling shareholders' claim on the subsidiary's net assets is based on the *fair* value of the net assets, not the book value.
   (b) *Incorrect.* The entire differential is assigned and proportionately allocated to both the parent and the noncontrolling interest's respective share.
   (c) *Incorrect.* Goodwill represents the difference between the *fair* value of the subsidiary's net assets and the amount paid by the parent to buy ownership.

3. **b** – The only amount included in the consolidated retained earnings balance is the retained earnings balance from the parent's books.

   (a) *Incorrect*. Foreign subsidiaries are still required to be consolidated even if they are reported as a separate operating segment. However, if laws of the foreign country prevented the parent from exercising control, the foreign subsidiary would not be consolidated.
   (c) *Incorrect.* The noncontrolling shareholders' claim on the net assets does include their proportionate share of goodwill that results in the acquisition.
   (d) *Incorrect.* Consolidation is only required when control is held over the subsidiary, not just significant influence.

4. **d** – The only accounts receivable from affiliates that will be eliminated from the consolidated balance sheet are receivables from consolidated entities (Winn Corporation). Thus, the receivable from any unconsolidated investees (Carr Corporation) would be reported on the consolidated balance sheet. [AICPA Adapted]

   (a) *Incorrect*. Receivables from consolidated entities (Winn Corporation) would be eliminated in consolidated, while any receivables from an unconsolidated investee would still be reported.
   (b) *Incorrect.* Receivables from the consolidated entity (Winn Corporation) would be eliminated in their entirety, while receivables from investees under significant influence (Carr Corporation) would be reported in their entirety, not proportionately eliminated.

(c) *Incorrect.* The only amounts that should be recorded on the consolidated balance sheet are the receivables from the investee under significant influence (Carr Corporation), while receivable from the consolidated entity (Winn Corporation) would be eliminated in consolidation.

E5-2 Multiple-Choice Questions on Consolidation [AICPA Adapted]

1. **b** – Subsidiary dividends declared have no effect on consolidated retained earnings (because the parent's retained earnings appear as the consolidated retained earnings, but they do decrease the noncontrolling interest just as they decrease the controlling interest.

(a) *Incorrect*. The noncontrolling interest is decreased by dividends declared by the subsidiary.
(c) *Incorrect.* The retained earnings balance is not decreased by subsidiary dividends declared.
(d) *Incorrect.* Retained earnings is unaffected, while the noncontrolling interest is decreased.

2. **c** – The noncontrolling interest's proportionate share of the subsidiary's income is allocated based on the percentage of ownership in the subsidiary held by the noncontrolling shareholders.

(a) *Incorrect*. The parent's net income would never be subtracted from the subsidiary's net income.
(b) *Incorrect.* The entire portion of the subsidiary's income is not extended to the noncontrolling interest, but rather is proportionately allocated between the controlling and noncontrolling interest based on ownership percentage.
(d) *Incorrect.* The noncontrolling interest's ownership percentage is not multiplied by the consolidated earnings because it would then be allocating a portion of the parent's own earnings as well. The noncontrolling interest is not entitled to any of the parent's income, only their share of the subsidiary's income.

3. **a** – $650,000 = $500,000 + $200,000 - $50,000

4. **c** – $95,000 = ($956,000 + $239,000) - $1,000,000 - $100,000

5. **c** – $251,000 = .20[($956,000 + $239,000) + ($190,000 - $5,000 - $125,000)]

E5-3 Eliminating Entries with Differential

a.

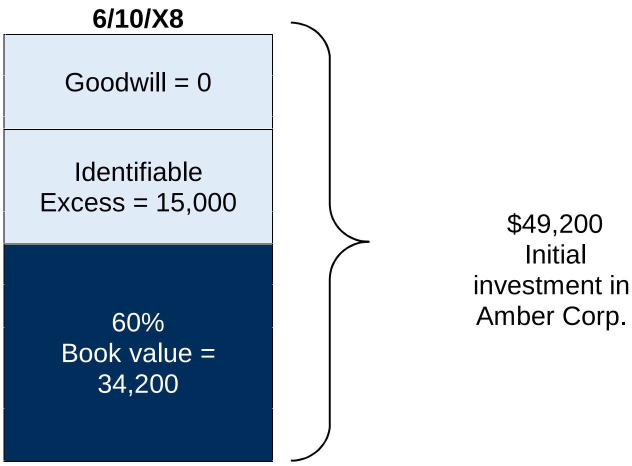
Equity Method Entries on Game Corp.'s Books:

Investment in Amber Corp.	49,200	
Cash		49,200

Record the initial investment in Amber Corp.

Book Value Calculations:

	NCI 40%	+	Game Corp. 60%	=	Common Stock	+	Retained Earnings
Book value at acquisition	22,800		34,200		20,000		37,000



Basic elimination entry

Common stock	**20,000**	
Retained earnings	**37,000**	
Investment in Amber Corp.		**34,200**
NCI in NA of Amber Corp.		**22,800**

Excess Value (Differential) Calculations:

	NCI 40%	+	Game Corp. 60%	=	Inventory	+	Buildings & Equipment
Beginning balances	**10,000**		**15,000**		**5,000**		**20,000**

Excess value (differential) reclassification entry:

Inventory	**5,000**	
Buildings & Equipment	**20,000**	
Investment in Amber Corp.		**15,000**
NCI in NA of Amber Corp.		**10,000**

E5-3 (continued)

Investment in Amber Corp.

Acquisition Price	**49,200**		
		34,200	**Basic**
		15,000	**Excess Reclass.**
	0		

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

E5-4 Computation of Consolidated Balances

a. Inventory — $140,000

b. Land — $ 60,000

c. Buildings and Equipment — $550,000

d.

Fair value of consideration given by Ford		$470,000
Fair value of noncontrolling interest		117,500
Total fair value		$587,500
Book value of Slim's net assets	$450,000	
Fair value increment for:		
Inventory	20,000	
Land	(10,000)	
Buildings and equipment (net)	70,000	
Fair value of identifiable net assets		(530,000)
Goodwill		$ 57,500

e. Investment in Slim Corporation: None would be reported; the balance in the investment account is eliminated.

f. Noncontrolling Interest = FV of the NCI — $117,500

E5-5 Balance Sheet Worksheet

Cash and Receivables	900	
Retained Earnings		900

Accrued interest earned by Power Co.

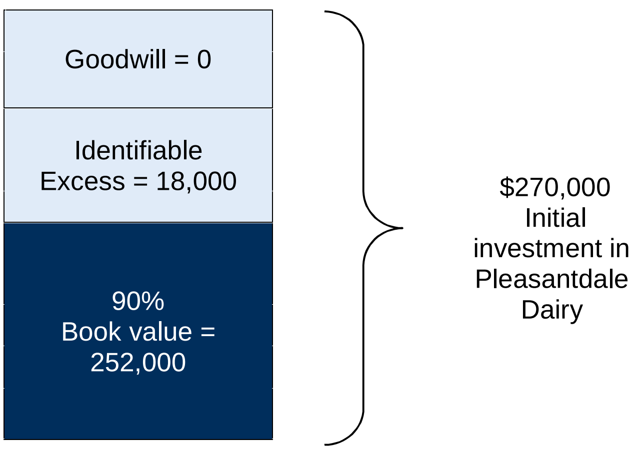
Equity Method Entries on Power Co.'s Books:

Investment in Pleasantdale Dairy	270,000	
Cash		270,000

Record the initial investment in Pleasantdale Dairy

Book Value Calculations:

	NCI 10%	+	Power Co. 90%	=	Common Stock	+	Retained Earnings
Book value at acquisition	28,000		252,000		60,000		220,000



Basic elimination entry

Common stock	**60,000**	
Retained earnings	**220,000**	
Investment in Pleasantdale Dairy		**252,000**
NCI in NA of Pleasantdale Dairy		**28,000**

E5-5 (continued)

Excess Value (Differential) Calculations:

	NCI 10%	+	Power Co. 90%	=	Land
Beginning balances	**2,000**		**18,000**		**20,000**

Excess value (differential) reclassification entry:

Land	**20,000**	
Investment in Pleasantdale Dairy		**18,000**
NCI in NA of Pleasantdale Dairy		**2,000**

Eliminate intercompany accounts:

Current Payables	**8,900**	
Cash and Receivables		**8,900**

Investment in Pleasantdale Dairy

	Debit	Credit	
Acquisition Price	**270,000**		
		252,000	**Basic**
		18,000	**Excess Reclass.**
	0		

	Power Co.	Pleas-antdale Dairy	Elimination Entries DR	Elimination Entries CR	Consolidated
Balance Sheet					
Cash and Receivables	130,900	70,000		**8,900**	192,000
Inventory	210,000	90,000			300,000
Land	70,000	40,000	**20,000**		130,000
Buildings & Equipment (net)	390,000	220,000			610,000
Investment in Pleasantdale Dairy	270,000			**252,000**	0
				18,000	
Total Assets	**1,070,900**	**420,000**	**20,000**	**278,900**	**1,232,000**
Current Payables	80,000	40,000	**8,900**		111,100
Long-Term Liabilities	200,000	100,000			300,000
Common Stock	400,000	60,000	**60,000**		400,000
Retained Earnings	390,900	220,000	**220,000**		390,900
NCI in NA of Pleasantdale Dairy				**28,000**	30,000
				2,000	
Total Liabilities & Equity	**1,070,900**	**420,000**	**288,900**	**28,000**	**1,232,000**

E5-6 Majority-Owned Subsidiary Acquired at Greater than Book Value

a.

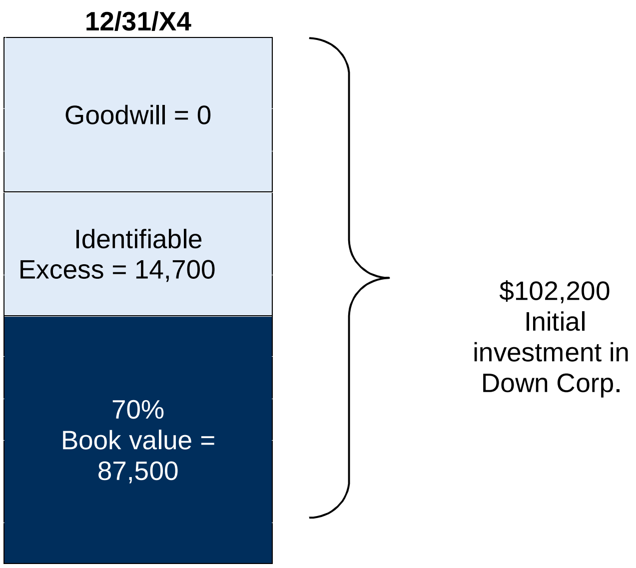
Equity Method Entries on Zenith Corp.'s Books:

Investment in Down Corp.	102,200	
Cash		102,200

Record the initial investment in Down Corp.

Book Value Calculations:

	NCI 30%	+	Zenith Corp. 70%	=	Common Stock	+	Retained Earnings
Book value at acquisition	37,500		87,500		40,000		85,000



Basic elimination entry

Common stock	**40,000**	
Retained earnings	**85,000**	
Investment in Down Corp.		**87,500**
NCI in NA of Down Corp.		**37,500**

Excess Value (Differential) Calculations:

	NCI 30%	+	Zenith Corp. 70%	=	Inventory	+	Buildings & Equipment
Beginning balances	6,300		14,700		6,000		15,000

E5-6 (continued)

Excess value (differential) reclassification entry:

Inventory	**6,000**	
Buildings & Equipment	**15,000**	
Investment in Down Corp.		**14,700**
NCI in NA of Down Corp.		**6,300**

Eliminate intercompany accounts:

Accounts Payable	**12,500**	
Accounts Receivable		**12,500**

Optional accumulated depreciation elimination entry

Accumulated depreciation	**80,000**	
Building & equipment		**80,000**

	Investment in Down Corp.		
Acquisition Price	**102,200**		
		87,500	**Basic**
		14,700	**Excess Reclass.**
	0		

b.

	Zenith Corp.	Down Corp.	Elimination Entries DR	Elimination Entries CR	Consolidated
Balance Sheet					
Cash	50,300	21,000			71,300
Accounts Receivable	90,000	44,000		**12,500**	121,500
Inventory	130,000	75,000	**6,000**		211,000
Land	60,000	30,000			90,000
Buildings & Equipment	410,000	250,000	**15,000**	**80,000**	595,000
Less: Accumulated Depreciation	(150,000)	(80,000)	**80,000**		(150,000)
Investment in Down Corp.	102,200			**87,500**	0
				14,700	
Total Assets	**692,500**	**340,000**	**101,000**	**194,700**	**938,800**
Accounts Payable	152,500	35,000	**12,500**		175,000
Mortgage Payable	250,000	180,000			430,000
Common Stock	80,000	40,000	**40,000**		80,000
Retained Earnings	210,000	85,000	**85,000**		210,000
NCI in NA of Down Corp.				**37,500**	43,800
				6,300	
Total Liabilities & Equity	**692,500**	**340,000**	**137,500**	**43,800**	**938,800**

E5-6 (continued)

c. Zenith Corporation and Subsidiary
Consolidated Balance Sheet
December 31, 20X4

Cash		$ 71,300
Accounts Receivable		121,500
Inventory		211,000
Land		90,000
Buildings and Equipment	$595,000	
Less: Accumulated Depreciation	(150,000)	445,000
Total Assets		$938,800
Accounts Payable		$175,000
Mortgage Payable		430,000
Stockholders' Equity:		
Controlling Interest:		
Common Stock	$ 80,000	
Retained Earnings	210,000	
Total Controlling Interest	$290,000	
Noncontrolling Interest	43,800	
Total Stockholders' Equity		333,800
Total Liabilities and Stockholders' Equity		$938,800

E5-7 Consolidation with Minority Interest

Equity Method Entries on Temple Corp.'s Books:

Investment in Dynamic Corp.	390,000	
Cash		390,000

Record the initial investment in Dynamic Corp.

Book Value Calculations:

	NCI 25%	+	Temple Corp. 75%	=	Common Stock	+	Retained Earnings
Book value at acquisition	90,000		270,000		120,000		240,000

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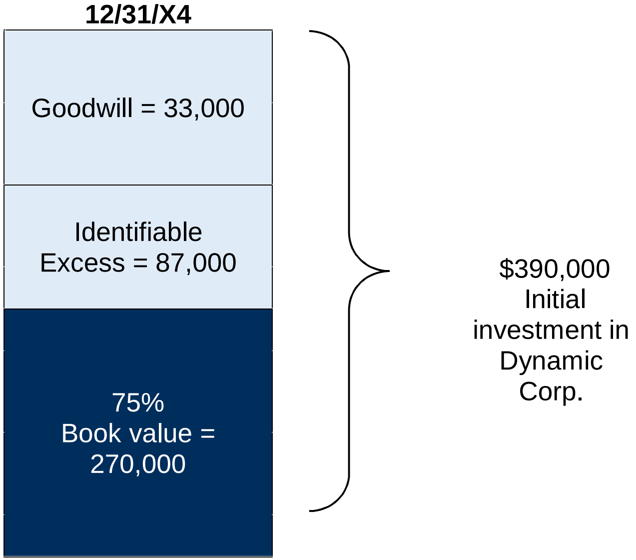


Basic elimination entry

Common stock	**120,000**	
Retained earnings	**240,000**	
Investment in Dynamic Corp.		**270,000**
NCI in NA of Dynamic Corp.		**90,000**

Excess Value (Differential) Calculations:

	NCI 25%	+	Temple Corp. 75%	=	Buildings	+	Inventories	+	Goodwill
Beginning balances	40,000		120,000		80,000		36,000		44,000

Excess value (differential) reclassification entry:

Buildings	**80,000**	
Inventories	**36,000**	
Goodwill	**44,000**	
Investment in Dynamic Corp.		**120,000**
NCI in NA of Dynamic Corp.		**40,000**

E5-8 Multiple-Choice Questions on Balance Sheet Consolidation

1. **d** – $215,000 = $130,000 + $70,000 + ($85,000 - $70,000)

2. **c** – $40,000 = ($150,500 + $64,500) - ($405,000 - $28,000 - $37,000 - $200,000) - $15,000 - $20,000

3. **b** – $1,121,000 =

Total Assets of Power Corp.	$ 791,500
Less: Investment in Silk Corp.	(150,500)
	$ 641,000
Book value of assets of Silk Corp.	405,000
Book value reported by Power and Silk	$1,046,000
Increase in inventory ($85,000 - $70,000)	15,000
Increase in land ($45,000 - $25,000)	20,000
Goodwill	40,000
Total assets reported	$1,121,000

4. **d** – $701,500 = ($61,500 + $95,000 + $280,000) + ($28,000 + $37,000 + $200,000)

5. **d** – $64,500

6. **d** – $205,000 = The amount reported by Power Corporation

7. **c** – $419,500 = ($150,000 + $205,000) + $64,500

E5-9 Majority-Owned Subsidiary with Differential

a.

Equity Method Entries on West Corp.'s Books:

Investment in Canton Corp.	133,500	
Cash		133,500

Record the initial investment in Canton Corp.

Investment in Canton Corp.	22,500	
Income from Canton Corp.		22,500

Record West Corp.'s 75% share of Canton Corp.'s 20X3 income

Cash	9,000	
Investment in Canton Corp.		9,000

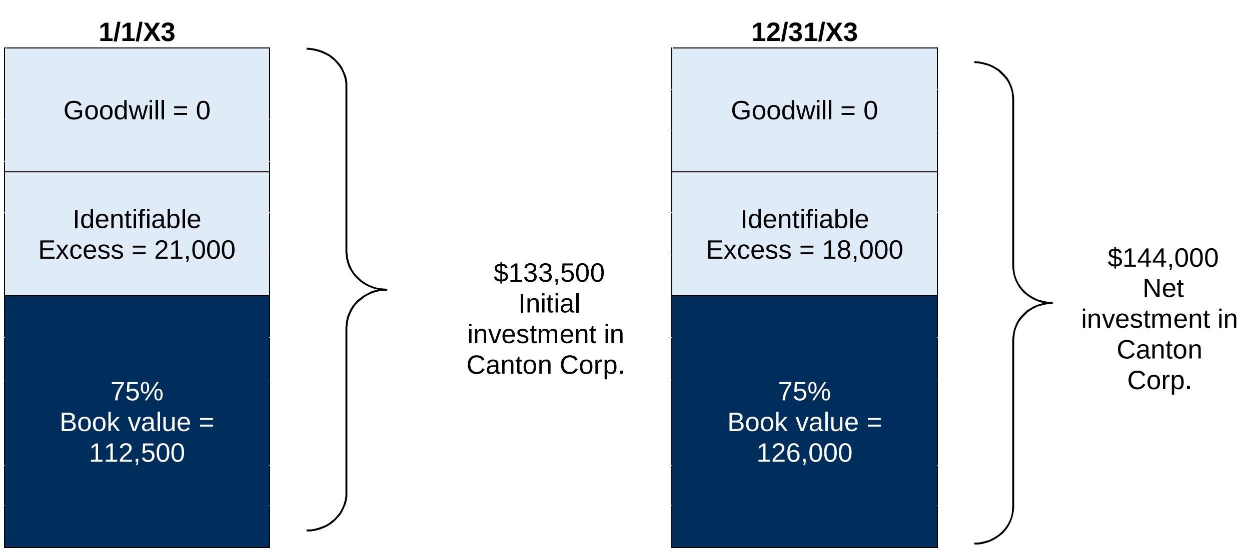
Record West Corp.'s 75% share of Canton Corp.'s 20X3 dividend

Income from Canton Corp.	3,000	
Investment in Canton Corp.		3,000

Record West Corp's 75% share of amortization of excess acquisition price

b.**Book Value Calculations:**

	NCI 25%	**+**	**West Corp. 75%**	**=**	**Common Stock**	**+**	**Retained Earnings**
Beginning book value	**37,500**		**112,500**		**60,000**		**90,000**
+ Net Income	**7,500**		**22,500**				**30,000**
- Dividends	**(3,000)**		**(9,000)**				**(12,000)**
Ending book value	**42,000**		**126,000**		**60,000**		**108,000**



E5-9 (continued)

Basic elimination entry

Common stock	60,000	
Retained earnings	90,000	
Income from Canton Corp.	22,500	
NCI in NI of Canton Corp.	7,500	
Dividends declared		12,000
Investment in Canton Corp.		126,000
NCI in NA of Canton Corp.		42,000

Excess Value (Differential) Calculations:

	NCI 25%	+	West Corp. 75%	=	Equipment	+	Acc. Depr.
Beginning balance	7,000		21,000		28,000		0
Changes	(1,000)		(3,000)				(4,000)
Ending balance	6,000		18,000		28,000		(4,000)

Amortized excess value reclassification entry:

Depreciation expense	4,000	
Income from Canton Corp.		3,000
NCI in NI of Canton Corp.		1,000

Excess value (differential) reclassification entry:

Equipment	28,000	
Acc. Depr.		4,000
Investment in Canton Corp.		18,000
NCI in NA of Canton Corp.		6,000

	Investment in Canton Corp. (Dr.)	Investment in Canton Corp. (Cr.)		Income from Canton Corp. (Dr.)	Income from Canton Corp. (Cr.)	
Acquisition Price	133,500					
75% Net Income	22,500				22,500	75% Net Income
		9,000	75% Dividends			
		3,000	Excess Val. Amort.	3,000		
Ending Balance	144,000				19,500	Ending Balance
		126,000	Basic	22,500		
		18,000	Excess Reclass.		3,000	Amort. Reclass
	0				0	

E5-10 Differential Assigned to Amortizable Asset

a.

Lancaster Company's common stock, January 1, 20X1	$120,000
Lancaster Company's retained earnings, January 1, 20X1	380,000
Book value of Lancaster's net assets	$500,000
Proportion of stock acquired	x .90
Book value of Lancaster's shares purchased by Major Corporation	$450,000
Excess of acquisition price over book value	36,000
Fair value of consideration given	$486,000
Add: Share of Lancaster's net income ($60,000 x .90)	54,000
Less: Amortization of patents ($40,000 / 5) x .90	(7,200)
Dividends paid by Lancaster ($20,000 x .90)	(18,000)
Balance in investment account, December 31, 20X1	$514,800

b.

Equity Method Entries on Major Corp.'s Books:

Investment in Lancaster Co.	486,000	
Cash		486,000

Record the initial investment in Lancaster Co.

Investment in Lancaster Co.	54,000	
Income from Lancaster Co.		54,000

Record Major Corp.'s 90% share of Lancaster Co.'s 20X1 income

Cash	18,000	
Investment in Lancaster Co.		18,000

Record Major Corp.'s 90% share of Lancaster Co.'s 20X1 dividend

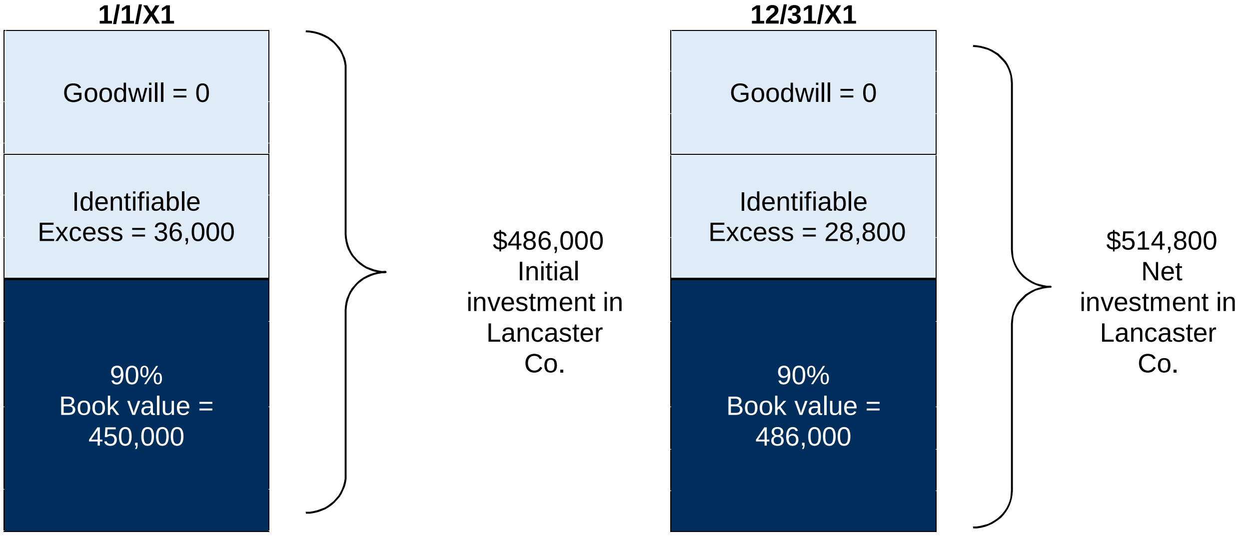
Income from Lancaster Co.	7,200	
Investment in Lancaster Co.		7,200

Record amortization of excess acquisition price

Book Value Calculations:

	NCI 10%	+	Major Corp. 90%	=	Common Stock	+	Retained Earnings
Beginning book value	**50,000**		**450,000**		**120,000**		**380,000**
+ Net Income	**6,000**		**54,000**				**60,000**
- Dividends	**(2,000)**		**(18,000)**				**(20,000)**
Ending book value	**54,000**		**486,000**		**120,000**		**420,000**

E5-10 (continued)



Basic elimination entry

Common stock	120,000	
Retained earnings	380,000	
Income from Lancaster Co.	54,000	
NCI in NI of Lancaster Co.	6,000	
Dividends declared		20,000
Investment in Lancaster Co.		486,000
NCI in NA of Lancaster Co.		54,000

Excess Value (Differential) Calculations:

	NCI 10%	+	Major Corp. 90%	=	Patents
Beginning balance	4,000		36,000		40,000
Changes	(800)		(7,200)		(8,000)
Ending balance	3,200		28,800		32,000

Amortized excess value reclassification entry:

Amortization expense	8,000	
Income from Lancaster Co.		7,200
NCI in NI of Lancaster Co.		800

E5-10 (continued)

Excess value (differential) reclassification entry:

Patents	**32,000**	
Investment in Lancaster Co.		**28,800**
NCI in NA of Lancaster Co.		**3,200**

	Investment in Lancaster Co. (Dr.)	Investment in Lancaster Co. (Cr.)		Income from Lancaster Co. (Dr.)	Income from Lancaster Co. (Cr.)	
Acquisition Price	**486,000**					
90% Net Income	**54,000**				**54,000**	**90% Net Income**
		18,000	**90% Dividends**			
		7,200	**Excess Val. Amort.**	**7,200**		
Ending Balance	**514,800**				**46,800**	**Ending Balance**
		486,000	**Basic**	**54,000**		
		28,800	**Excess Reclass.**		**7,200**	**Amort. Reclass**
	0				**0**	

E5-11 Consolidation after One Year of Ownership

a.

Equity Method Entries on Pioneer Corp.'s Books:

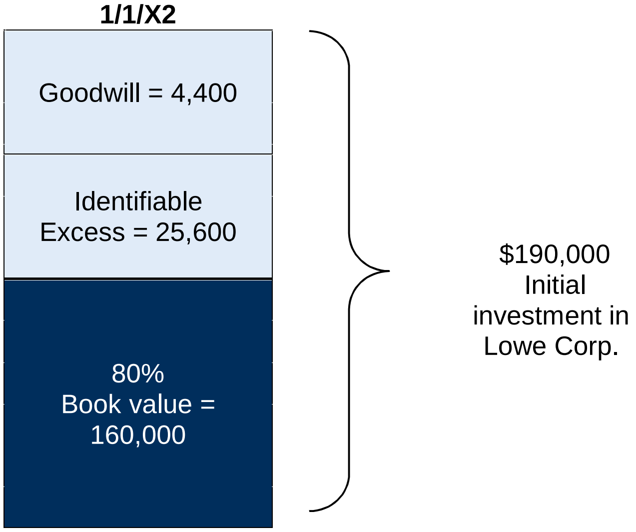
Investment in Lowe Corp.	190,000	
Cash		190,000

Record the initial investment in Lowe Corp.

Book Value Calculations:

	NCI 20%	+	Pioneer Corp. 80%	=	Common Stock	+	Retained Earnings
Book value at acquisition	40,000		160,000		120,000		80,000

1/1/X2



Basic elimination entry

Common stock	**120,000**	
Retained earnings	**80,000**	
Investment in Lowe Corp.		**160,000**
NCI in NA of Lowe Corp.		**40,000**

Excess Value (Differential) Calculations:

	NCI 20%	+	Pioneer Corp. 80%	=	Buildings	+	Goodwill
Beginning balances	**7,500**		**30,000**		**32,000**		**5,500**

E5-11 (continued)

Excess value (differential) reclassification entry:

Buildings	**32,000**	
Goodwill	**5,500**	
Investment in Lowe Corp.		**30,000**
NCI in NA of Lowe Corp.		**7,500**

	Investment in Lowe Corp.		
Acquisition Price	**190,000**		
		160,000	**Basic**
		30,000	**Excess Reclass.**
	0		

b.

Equity Method Entries on Pioneer Corp.'s Books:

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

Record Pioneer Corp.'s 80% share of Lowe Corp.'s 20X2 income

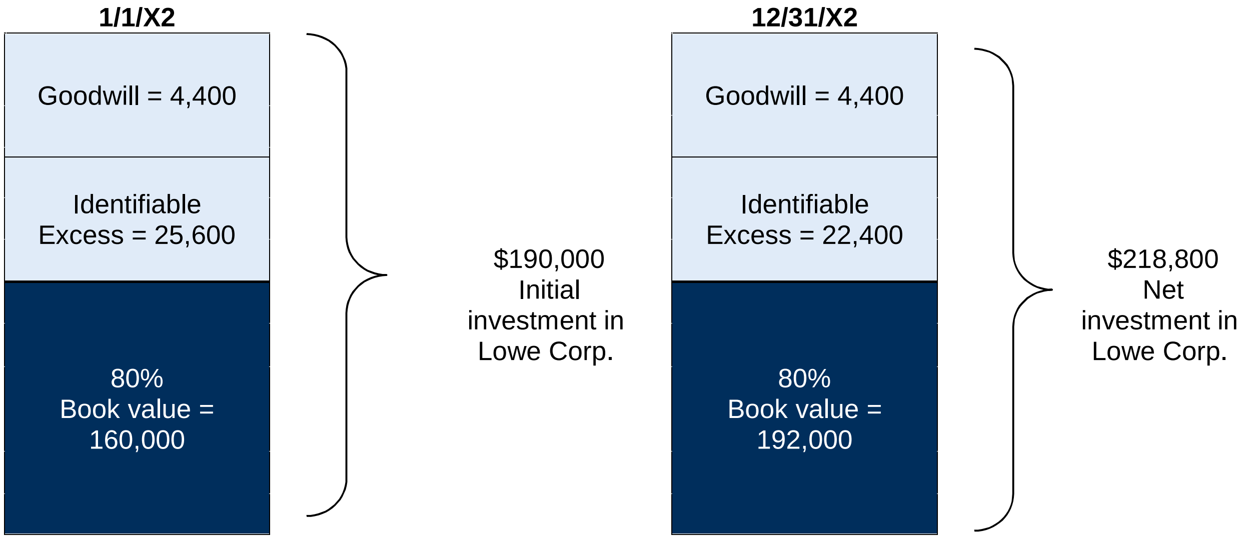
Income from Lowe Corp.	3,200	
Investment in Lowe Corp.		3,200

Record amortization of excess acquisition price

Book Value Calculations:

	NCI 20%	+	Pioneer Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning book value	**40,000**		**160,000**		**120,000**		**80,000**
+ Net Income	**8,000**		**32,000**				**40,000**
- Dividends	**0**		**0**				**0**
Ending book value	**48,000**		**192,000**		**120,000**		**120,000**

E5-11 (continued)



Basic elimination entry

Common stock	120,000	
Retained earnings	80,000	
Income from Lowe Corp.	32,000	
NCI in NI of Lowe Corp.	8,000	
Investment in Lowe Corp.		192,000
NCI in NA of Lowe Corp.		48,000

Excess Value (Differential) Calculations:

	NCI 20%	+	Pioneer Corp. 80%	=	Buildings	+	Acc. Depr.	+	Goodwill
Beginning balance	7,500		30,000		32,000		0		5,500
Changes	(800)		(3,200)				(4,000)		0
Ending balance	6,700		26,800		32,000		(4,000)		5,500

Amortized excess value reclassification entry:

Depreciation expense	4,000	
Income from Lowe Corp.		3,200
NCI in NI of Lowe Corp.		800

Excess value (differential) reclassification entry:

Buildings	**32,000**	
Goodwill	**5,500**	
Accumulated Depreciation		**4,000**
Investment in Lowe Corp.		**26,800**
NCI in NA of Lowe Corp.		**6,700**

E5-11 (continued)

	Investment in Lowe Corp. (Dr)	Investment in Lowe Corp. (Cr)		Income from Lowe Corp. (Dr)	Income from Lowe Corp. (Cr)	
Acquisition Price	**190,000**					
80% Net Income	**32,000**				**32,000**	**80% Net Income**
		3,200	**Excess Val. Amort.**	**3,200**		
Ending Balance	**218,800**				**28,800**	**Ending Balance**
		192,000	**Basic**	**32,000**		
		26,800	**Excess Reclass.**		**3,200**	**Amort. Reclass**
	0				**0**	

E5-12 Consolidation Following Three Years of Ownership

a. Computation of increase in value of patents:

Fair value of consideration given by Knox	$277,500
Fair value of noncontrolling interest	185,000
Total fair value	$462,500
Book value of Conway stock	(400,000)
Excess of fair value over book value	$ 62,500
Increase in value of land ($30,000 - $22,500)	(7,500)
Increase in value of equipment ($360,000 - $320,000)	(40,000)
Increase In value of patents	$ 15,000

b.

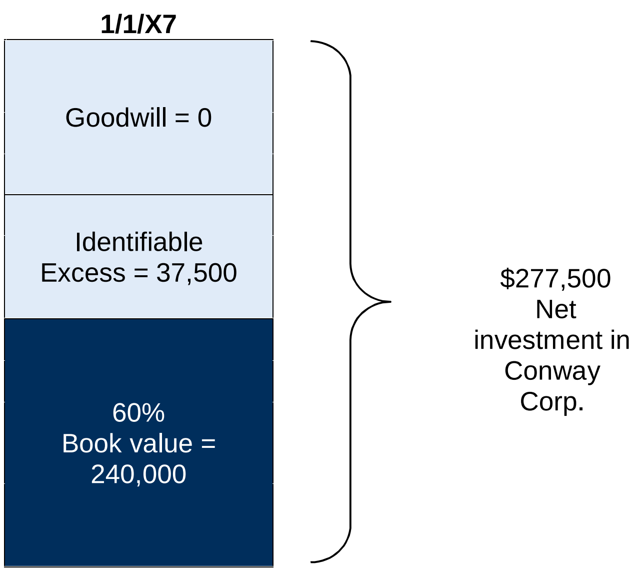
Equity Method Entries on Knox Corp.'s Books:

Investment in Conway Corp.	277,500	
Cash		277,500

Record the initial investment in Conway Corp.

Book Value Calculations:

	NCI 40%	+	Knox Corp. 60%	=	Common Stock	+	Retained Earnings
Book value at acquisition	160,000		240,000		50,000		150,000



Basic elimination entry

Common stock	**250,000**	
Retained earnings	**150,000**	
Investment in Conway Corp.		**240,000**
NCI in NA of Conway Corp.		**160,000**

Excess Value (Differential) Calculations:

	NCI 40%	+	Knox Corp. 60%	=	Land	+	Equipment	+	Patent
Beginning balances	25,000		37,500		7,500		40,000		15,000

Excess value (differential) reclassification entry:

Land	7,500	
Equipment	40,000	
Patent	15,000	
Investment in Conway Corp.		37,500
NCI in NA of Conway Corp.		25,000

Investment in Conway Corp.

Acquisition Price	277,500		
		240,000	Basic
		37,500	Excess Reclass.
	0		

E5-12 (continued)

c. Computation of investment account balance at December 31, 20X8:

Fair value of consideration given	$277,500
Undistributed income since acquisition	
($100,000 - $60,000) x .60	24,000
Amortization of differential assigned to:	
Equipment ($40,000 / 8) x .60 x 2 years	(6,000)
Patents ($15,000 / 10) x .60 x 2 years	(1,800)
Account balance at December 31, 20X8	$293,700

d.

Equity Method Entries on Knox Corp.'s Books:

Investment in Conway Corp.	18,000	
Income from Conway Corp.		18,000

Record Knox Corp.'s 60% share of Conway Corp.'s 20X7 income

Cash	6,000	
Investment in Conway Corp.		6,000

Record Knox Corp.'s 60% share of Conway Corp.'s 20X7 dividend

Income from Conway Corp.	3,900	
Investment in Conway Corp.		3,900

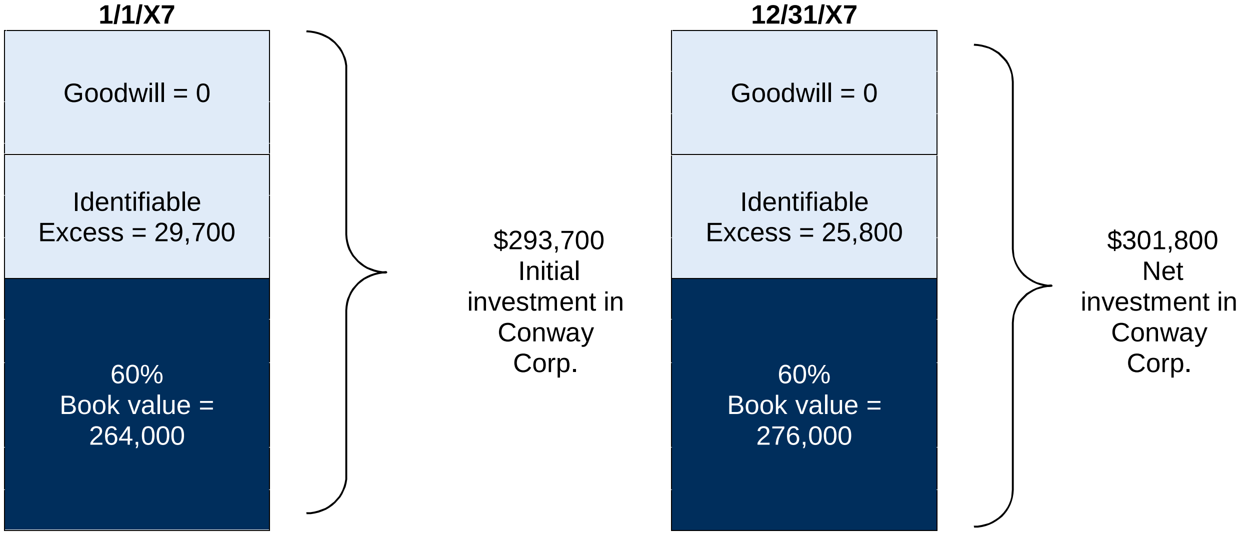
Record Knox Corp's 60% share of amortization of excess acquisition price

e.

Book Value Calculations:

	NCI 40%	+	Knox Corp. 60%	=	Common Stock	+	Retained Earnings
Beginning book value	**176,000**		**264,000**		**250,000**		**190,000**
+ Net Income	**12,000**		**18,000**				**30,000**
- Dividends	**(4,000)**		**(6,000)**				**(10,000)**
Ending book value	**184,000**		**276,000**		**250,000**		**210,000**

E5-12 (continued)



Basic elimination entry

Common stock	250,000	
Retained earnings	190,000	
Income from Conway Corp.	18,000	
NCI in NI of Conway Corp.	12,000	
Dividends declared		10,000
Investment in Conway Corp.		276,000
NCI in NA of Conway Corp.		184,000

Excess Value (Differential) Calculations:

	NCI 40%	+	Knox Corp. 60%	=	Land	+	Equipment	+	Patent	+	Acc. Depr.
Beginning balance	19,800		29,700		7,500		40,000		12,000		(10,000)
Changes	(2,600)		(3,900)		0				(1,500)		(5,000)
Ending balance	17,200		25,800		7,500		40,000		10,500		(15,000)

Amortized excess value reclassification entry:

Amortization Expense	1,500	
Depreciation expense	5,000	
Income from Conway Corp.		3,900
NCI in NI of Conway Corp.		2,600

Excess value (differential) reclassification entry:

Land	**7,500**	
Equipment	**40,000**	
Patent	**10,500**	
Acc. Depr.		**15,000**
Investment in Conway Corp.		**25,800**
NCI in NA of Conway Corp.		**17,200**

E5-13 Consolidation Worksheet for Majority-Owned Subsidiary

a.

Equity Method Entries on Proud Corp.'s Books:

Investment in Stergis Co.	120,000	
Cash		120,000

Record the initial investment in Stergis Co.

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

Record Proud Corp.'s 80% share of Stergis Co.'s 20X3 income

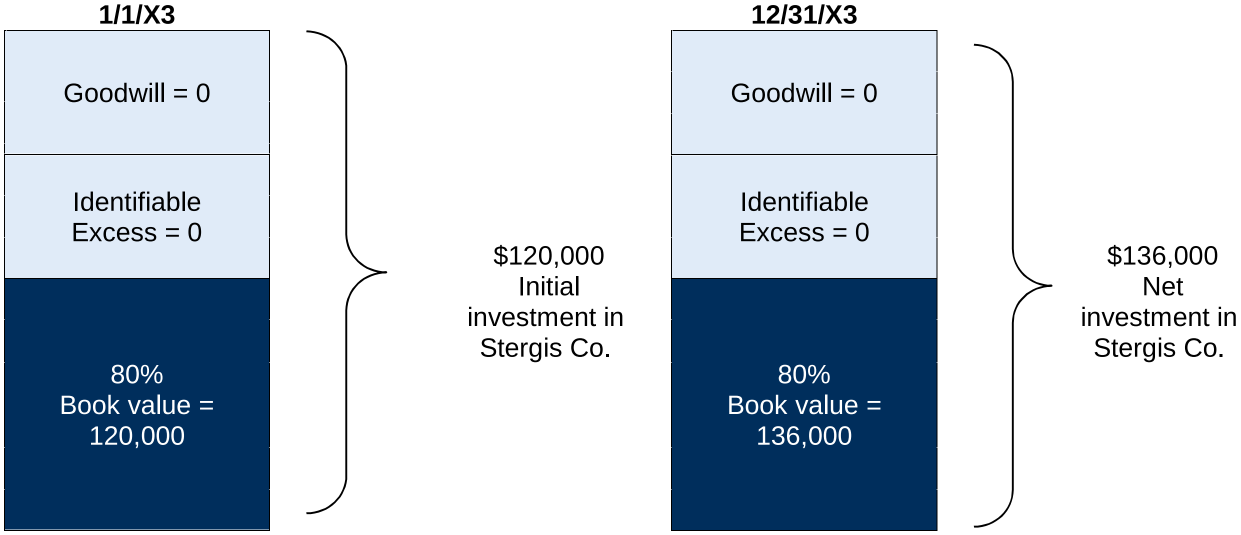
Cash	8,000	
Investment in Stergis Co.		8,000

Record Proud Corp.'s 80% share of Stergis Co.'s 20X3 dividend

Book Value Calculations:

	NCI 20%	+	Proud Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning book value	**30,000**		**120,000**		**100,000**		**50,000**
+ Net Income	**6,000**		**24,000**				**30,000**
- Dividends	**(2,000)**		**(8,000)**				**(10,000)**
Ending book value	**34,000**		**136,000**		**100,000**		**70,000**

E5-13 (continued)



Basic elimination entry

Common stock	100,000	
Retained earnings	50,000	
Income from Stergis Co.	24,000	
NCI in NI of Stergis Co.	6,000	
Dividends declared		10,000
Investment in Stergis Co.		136,000
NCI in NA of Stergis Co.		34,000

Investment in Stergis Co.

Acquisition Price	120,000		
80% Net Income	24,000		
		8,000	80% Dividends
Ending Balance	136,000		
		136,000	Basic
	0		

Income from Stergis Co.

		24,000	80% Net Income
80% Dividends			
		24,000	Ending Balance
Basic	24,000		
		0	

Optional accumulated depreciation elimination entry

Accumulated depreciation	60,000	
Depreciable Assets		60,000

E5-13 (continued)
b.

	Proud Corp.	Stergis Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	200,000	120,000			320,000
Less: Depreciation Expense	(25,000)	(15,000)			(40,000)
Less: Other Expenses	(105,000)	(75,000)			(180,000)
Income from Stergis Co.	24,000		24,000		0
Consolidated Net Income	94,000	30,000	24,000		100,000
NCI in Net Income			6,000		(6,000)
Controlling Interest in Net Income	**94,000**	**30,000**	**30,000**	**0**	**94,000**
Statement of Retained Earnings					
Beginning Balance	230,000	50,000	50,000		230,000
Net Income	**94,000**	**30,000**	**30,000**	**0**	94,000
Less: Dividends Declared	(40,000)	(10,000)		10,000	(40,000)
Ending Balance	**284,000**	**70,000**	**80,000**	**10,000**	**284,000**
Balance Sheet					
Current Assets	173,000	105,000			278,000
Depreciable Assets	500,000	300,000		60,000	740,000
Less: Accumulated Depreciation	(175,000)	(75,000)	60,000		(190,000)
Investment in Stergis Co.	136,000			136,000	0
Total Assets	**634,000**	**330,000**	**60,000**	**196,000**	**828,000**
Current Liabilities	50,000	40,000			90,000
Long-Term Debt	100,000	120,000			220,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	**284,000**	**70,000**	**80,000**	**10,000**	284,000
NCI in NA of Stergis Co.				34,000	34,000
Total Liabilities & Equity	**634,000**	**330,000**	**180,000**	**44,000**	**828,000**

E5-13 (continued)

c.

Proud Corporation and Subsidiary
Consolidated Balance Sheet
December 31, 20X3

Current Assets		$278,000
Depreciable Assets	$740,000	
Less: Accumulated Depreciation	(190,000)	550,000
Total Assets		$828,000
Current Liabilities		$ 90,000
Long-Term Debt		220,000
Stockholders' Equity:		
Controlling Interest:		
Common Stock	$200,000	
Retained Earnings	284,000	
Total Controlling Interest	$484,000	
Noncontrolling Interest	34,000	
Total Stockholders' Equity		518,000
Total Liabilities and Stockholders' Equity		$828,000

Proud Corporation and Subsidiary
Consolidated Income Statement
Year Ended December 31, 20X3

Sales		$320,000
Depreciation	$ 40,000	
Other Expenses	180,000	
Total Expenses		(220,000)
Consolidated Net Income		$100,000
Income to Noncontrolling Interest		(6,000)
Income to Controlling Interest		$ 94,000

Proud Corporation and Subsidiary
Consolidated Retained Earnings Statement
Year Ended December 31, 20X3

Retained Earnings, January 1, 20X3	$230,000
Income to Controlling Interest, 20X3	94,000
	$324,000
Dividends Declared, 20X3	(40,000)
Retained Earnings, December 31, 20X3	$284,000

E5-14 Consolidation Worksheet for Majority-Owned Subsidiary for Second Year

a.

Equity Method Entries on Proud Corp.'s Books:

Investment in Stergis Co.	28,000	
Income from Stergis Co.		28,000

Record Proud Corp.'s 80% share of Stergis Co.'s 20X4 income

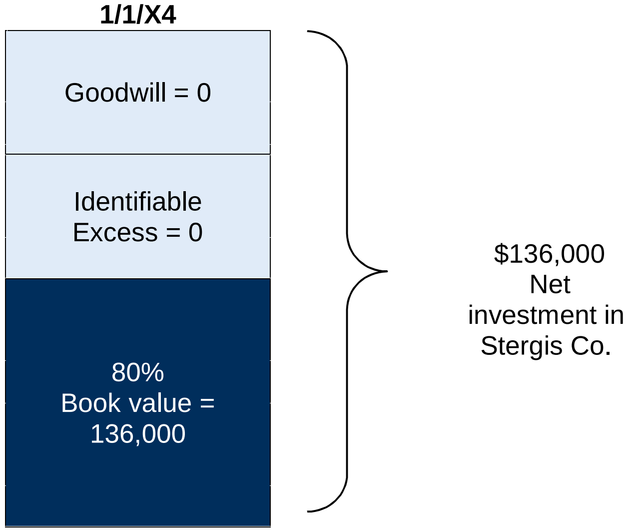
Cash	12,000	
Investment in Stergis Co.		12,000

Record Proud Corp.'s 80% share of Stergis Co.'s 20X4 dividend

Book Value Calculations:

	NCI 20%	+	Proud Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning book value	**34,000**		**136,000**		**100,000**		**70,000**
+ Net Income	**7,000**		**28,000**				**35,000**
- Dividends	**(3,000)**		**(12,000)**				**(15,000)**
Ending book value	**38,000**		**152,000**		**100,000**		**90,000**

1/1/X4



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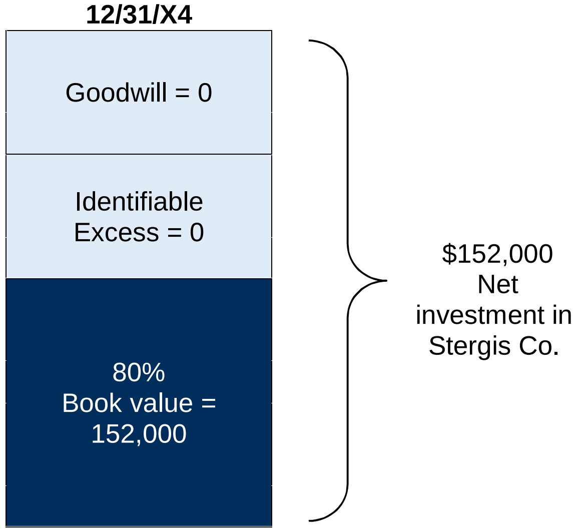


E5-14 (continued)

Basic elimination entry

Common stock	100,000	
Retained earnings	70,000	
Income from Stergis Co.	28,000	
NCI in NI of Stergis Co.	7,000	
Dividends declared		15,000
Investment in Stergis Co.		152,000
NCI in NA of Stergis Co.		38,000

	Investment in Stergis Co. (Debit)	Investment in Stergis Co. (Credit)		Income from Stergis Co. (Debit)	Income from Stergis Co. (Credit)	
Beginning Balance	136,000					
80% Net Income	28,000				28,000	80% Net Income
		12,000	80% Dividends			
Ending Balance	152,000				28,000	Ending Balance
		152,000	Basic	28,000		
	0				0	

Optional accumulated depreciation elimination entry

Accumulated depreciation	60,000	
Depreciable Assets		60,000

E5-14 (continued)

b.

	Proud Corp.	Stergis Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	230,000	140,000			370,000
Less: Depreciation Expense	(25,000)	(15,000)			(40,000)
Less: Other Expenses	(150,000)	(90,000)			(240,000)
Income from Stergis Co.	28,000		28,000		0
Consolidated Net Income	83,000	35,000	**28,000**		90,000
NCI in Net Income			7,000		(7,000)
Controlling Interest in Net Income	**83,000**	**35,000**	**35,000**	**0**	**83,000**
Statement of Retained Earnings					
Beginning Balance	284,000	70,000	70,000		284,000
Net Income	**83,000**	**35,000**	**35,000**	**0**	83,000
Less: Dividends Declared	(50,000)	(15,000)		15,000	(50,000)
Ending Balance	**317,000**	**90,000**	**105,000**	**15,000**	**317,000**
Balance Sheet					
Current Assets	235,000	150,000			385,000
Depreciable Assets	500,000	300,000		60,000	740,000
Less: Accumulated Depreciation	(200,000)	(90,000)	60,000		(230,000)
Investment in Stergis Co.	152,000			152,000	0
Total Assets	**687,000**	**360,000**	**60,000**	**212,000**	**895,000**
Current Liabilities	70,000	50,000			120,000
Long-Term Debt	100,000	120,000			220,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	**317,000**	**90,000**	**105,000**	**15,000**	317,000
NCI in NA of Stergis Co.				38,000	38,000
Total Liabilities & Equity	**687,000**	**360,000**	**205,000**	**53,000**	**895,000**

E5-15 Preparation of Stockholders' Equity Section with Other Comprehensive Income

a. Consolidated net income:

	20X8	20X9
Operating income of Broadmore	$120,000	$ 140,000
Net income of Stem	40,000	60,000
Amortization of differential ($580,000 - $500,000) / 10 Years	(8,000)	(8,000)
Consolidated net income	$152,000	$ 192,000
Comprehensive gain reported by Stem	10,000	5,000
Consolidated comprehensive income	$162,000	$ 197,000

b. Comprehensive income attributable to controlling interest:

	20X8	20X9
Consolidated comprehensive income	$162,000	$ 197,000
Comprehensive income attributable to Noncontrolling interest		
($50,000 - $8,000) x .25	(10,500)	
($65,000 - $8,000) x .25		(14,250)
Comprehensive income attributable to controlling interest	$151,500	$ 182,750

c. Consolidated stockholders' equity:

	20X8	20X9
Controlling Interest:		
Common Stock	$320,000	$ 320,000
Retained Earnings	504,000	613,000
Accumulated Other Comprehensive Income	7,500	11,250
Total Controlling Interest	831,500	944,250
Noncontrolling Interest	151,750	158,500
Total Stockholders' Equity	$983,250	$1,102,750

E5-16 Eliminating Entries for Subsidiary with Other Comprehensive Income

a.

Equity Method Entries on Palmer Corp.'s Books:

Investment in Krown Corp.	140,000	
Cash		140,000

Record the initial investment in Krown Corp.

Investment in Krown Corp.	21,000	
Income from Krown Corp.		21,000

Record Palmer Corp.’s 70% share of Krown Corp.’s 20X8 income

Cash	17,500	
Investment in Krown Corp.		17,500

Record Palmer Corp.’s 70% share of Krown Corp.’s 20X8 dividend

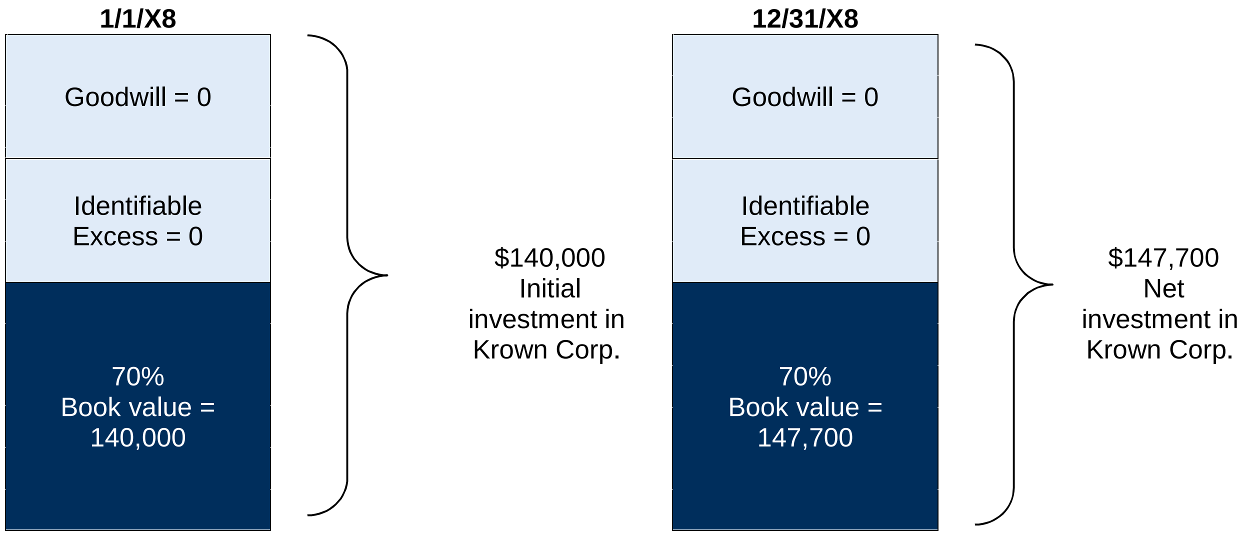
Investment in Krown Corp.	4,200	
Other Comprehensive Income from Krown Corp.		4,200

Record Palmer Corp.’s proportionate share of OCI from Krown Corp.

b.

Book Value Calculations:

	NCI 30%	+	Palmer Corp. 70%	=	Common Stock	+	Retained Earnings
Beginning book value	**60,000**		**140,000**		**120,000**		**80,000**
+ Net Income	**9,000**		**21,000**				**30,000**
- Dividends	**(7,500)**		**(17,500)**				**(25,000)**
Ending book value	**61,500**		**143,500**		**120,000**		**85,000**



E5-16 (continued)

Basic elimination entry

Common stock	120,000	
Retained earnings	80,000	
Income from Krown Corp.	21,000	
NCI in NI of Krown Corp.	9,000	
Dividends declared		25,000
Investment in Krown Corp.		143,500
NCI in NA of Krown Corp.		61,500

Other Comprehensive Income Entry:

OCI from Krown Corp.	4,200	
OCI to the NCI	1,800	
Investment in Krown Corp.		4,200
NCI in NA of Krown Corp.		1,800

	Investment in Krown Corp.			Income from Krown Corp.	
Acquisition Price	140,000				
70% Net Income	21,000				21,000
		17,500	70% Dividends		
	4,200		70% OCI		
Ending Balance	147,700				21,000
		143,500	Basic	21,000	
		4,200	OCI Entry		
	0				0

E5-17A Consolidation of Subsidiary with Negative Retained Earnings

Equity Method Entries on General Corp.'s Books:

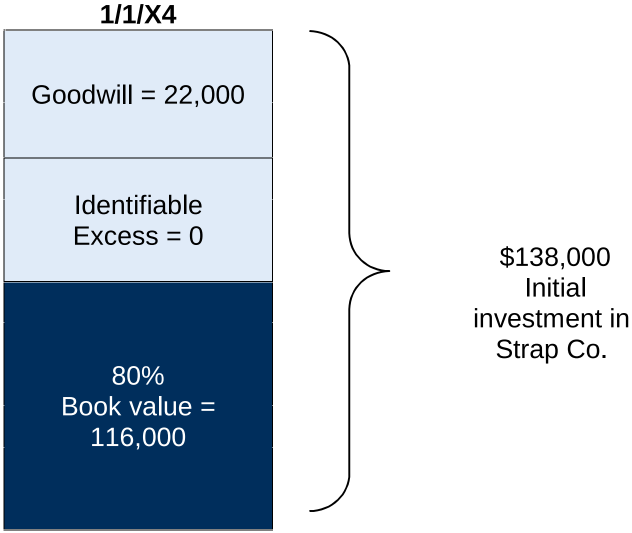
Investment in Strap Co.	138,000	
Cash		138,000

Record the initial investment in Strap Co.

Book Value Calculations:

	NCI 20%	+	General Corp. 80%	=	Common Stock	+	Add. Paid-in Capital	+	Retained Earnings
Book value at acquisition	29,000		116,000		100,000		75,000		(30,000)

1/1/X4



Basic elimination entry

Common stock	**100,000**	
Additional Paid-in Capital	**75,000**	
Retained earnings		**30,000**
Investment in Strap Co.		**116,000**
NCI in NA of Strap Co.		**29,000**

E5-17A (continued)

Excess Value (Differential) Calculations:

	NCI 20%	+	General Corp. 80%	=	Goodwill
Beginning balances	**5,500**		**22,000**		**27,500**

Excess value (differential) reclassification entry:

Goodwill	**27,500**	
Investment in Strap Co.		**22,000**
NCI in NA of Strap Co.		**5,500**

Investment in Strap Co.

	Debit	Credit	
Acquisition Price	**138,000**		
		116,000	**Basic**
		22,000	**Excess Reclass.**
	0		

E5-18A Complex Assignment of Differential

a.

Equity Method Entries on Worth Corp.'s Books:

Investment in Brinker Inc.	864,000	
Cash		864,000

Record the initial investment in Brinker Inc.

Investment in Brinker Inc.	135,000	
Income from Brinker Inc.		135,000

Record Worth Corp.'s 90% share of Brinker Inc.'s 20X5 income

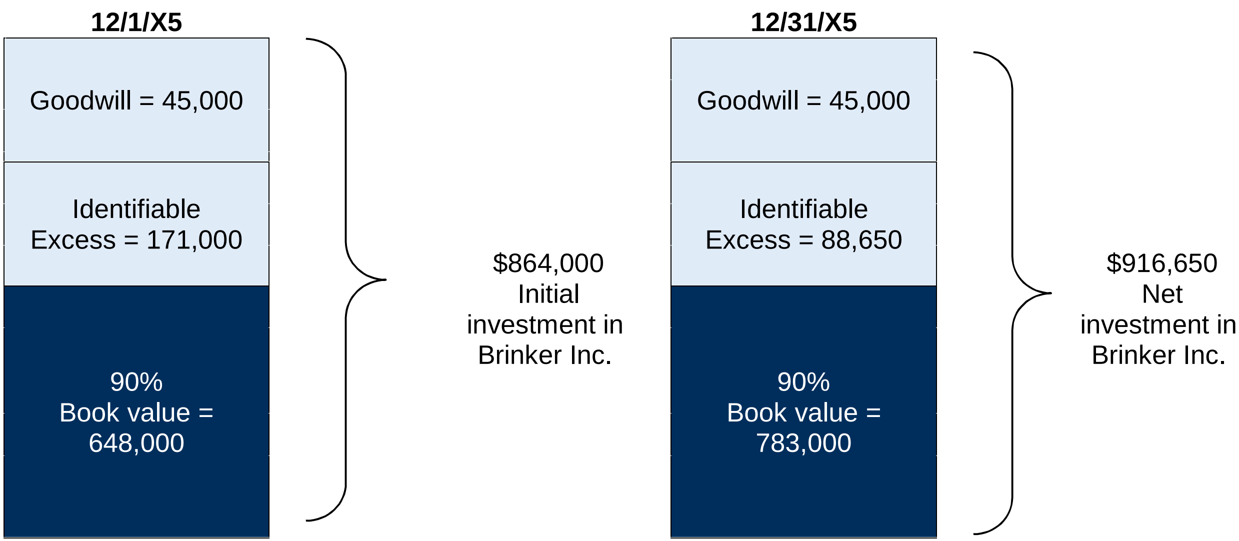
Income from Brinker Inc.	82,350	
Investment in Brinker Inc.		82,350

Record amortization of excess acquisition price b.

Book Value Calculations:

	NCI 10%	+	Worth Corp. 90%	=	Common Stock	+	Premium on Com. Stock	+	Retained Earnings
Beginning book value	**72,000**		**648,000**		**500,000**		**100,000**		**120,000**
+ Net Income	**15,000**		**135,000**						**150,000**
- Dividends	**0**		**0**						**0**
Ending book value	**87,000**		**783,000**		**500,000**		**100,000**		**270,000**

E5-18A (continued)



Basic elimination entry

Common stock	**500,000**	
Premium on common stock	**100,000**	
Retained earnings	**120,000**	
Income from Brinker Inc.	**135,000**	
NCI in NI of Brinker Inc.	**15,000**	
Investment in Brinker Inc.		**783,000**
NCI in NA of Brinker Inc.		**87,000**

Excess Value (Differential) Calculations:

	NCI 10%	+	Worth Corp. 90%	=	Inven-tory	+	Land	+	Equip-ment	+	Disc. on notes payable	+	Acc. Depr.	+	Good-will
Beg. balance	24,000		216,000		5,000		75,000		60,000		50,000		0		50,000
Changes	(9,150)		(82,350)		(5,000)		(75,000)				(7,500)		(4,000)		0
End. balance	14,850		133,650		0		0		60,000		42,500		(4,000)		50,000

Amortized excess value reclassification entry:

Cost of goods sold	5,000	
Gain on sale of land	75,000	
Interest expense	7,500	
Depreciation expense	4,000	
Income from Brinker Inc.		82,350
NCI in NI of Brinker Inc.		9,150

E5-18A (continued)

Excess value (differential) reclassification entry:

Equipment	60,000	
Discount on notes payable	42,500	
Goodwill	50,000	
Accumulated Depreciation		4,000
Investment in Brinker Inc.		133,650
NCI in NA of Brinker Inc.		14,850

SOLUTIONS TO PROBLEMS

P5-19 Multiple-Choice Questions on Applying the Equity Method [AICPA Adapted]

1. **a** – $20,000 = 100,000 x 20%. Because significant influence is not obtained, the cost method is used, which results in dividend income for the period in which the investment was held.

2. **a** – Net increase to investment during 20X3: $18,000 (0.25 x $120,000 - 0.25 x $48,000) $190,000 - $18,000 = $172,000 initial investment.

3. **c** – $230,000 = ($600,000 x 0.4) – (($1,800,000 – $1,740,000) / 6)

4. **d** – $808,000 = $800,000 – (0.2 x $40,000) + (0.2 x $180,000) – (($800,000 - $600,000) / 10)

P5-20 Amortization of Differential

Journal entries recorded by Ball Corporation:

Equity Method Entries on Ball Corp.'s Books:

Investment in Krown Corp.	120,000	
Preferred Stock		50,000
Additional Paid-in Capital		70,000

Record the initial investment in Krown Corp.

Investment in Krown Corp.	12,000	
Income from Krown Corp.		12,000

Record Ball Corp.’s 30% share of Krown Corp.’s 20X5 income

Cash	3,000	
Investment in Krown Corp.		3,000

Record Ball Corp.’s 30% share of Krown Corp.’s 20X5 dividend

Income from Krown Corp.	4,575	
Investment in Krown Corp.		4,575

Record amortization of excess acquisition price

P5-20 (continued)

Amortization of differential assigned to buildings and equipment:

Fair value of buildings and equipment		$360,000
Book value of buildings and equipment		300,000
Differential		$60,000
Portion of stock held by Ball	x	0.30
Differential assigned to buildings and equipment		$18,000
Remaining life	÷	15
Yearly amortization		$1,200

Amortization of differential assigned to copyrights:

Purchase price		$120,000
Fair value of Krown's:		
Total assets	$560,000	
Total liabilities	(250,000)	
	$310,000	
Proportion of stock held by Ball	x .30	(93,000)
Amount assigned to copyrights		$27,000
Remaining life	÷	8
Yearly amortization		$3,375

P5-21 Computation of Account Balances

a. Easy Chair Company 20X1 equity-method income:

Proportionate share of reported income ($30,000 x .40)	$ 12,000
Amortization of differential assigned to:	
Buildings and equipment [($35,000 x .40) / 5 years]	(2,800)
Goodwill ($8,000: not impaired)	-0-
Investment Income	$ 9,200

Assignment of differential

Purchase price	$150,000
Proportionate share of book value of net assets ($320,000 x .40)	(128,000)
Proportionate share of fair value increase in buildings and equipment ($35,000 x .40)	(14,000)
Goodwill	$ 8,000

b.	Dividend income, 20X1 ($9,000 x .40)	$ 3,600
c.	Cost-method account balance (unchanged):	$150,000
	Equity-method account balance:	
	Balance, January 1, 20X1	$150,000
	Investment income	9,200
	Dividends received	(3,600)
	Balance, December 31, 20X1	$155,600

P5-22 Multistep Acquisition

Journal entries recorded by Jackson Corp. in 20X9:

(1)	Investment in Phillips Corp. Stock	70,000	
	Cash		70,000
	Record purchase of Phillips stock.		
(2)	Investment in Phillips Corp. Stock	14,500	
	Retained Earnings		14,500
	Record pick-up of difference between cost and equity income.		

Computation of equity pick-up

20X6 .10($70,000 - $20,000)	$ 5,000
20X7 .10($70,000 - $20,000)	5,000
20X8 .15($70,000 - $20,000)	7,500
20X6 amortization of differential	(1,000)
20X7 amortization of differential	(1,000)
20X8 amortization of differential	(1,000)
Amount of increase	$14,500

Amortization of differential

20X6 purchase [$25,000 - ($200,000 x .10)] / 5 years	$1,000
20X8 purchase [$15,000 - ($300,000 x .05)]	0
20X9 purchase [$70,000 - ($350,000 x .20)]	0
Total annual amortization	$1,000

(3)	Cash	7,000	
	Investment in Phillips Corp. Stock		7,000
	Record dividend from Phillips Corp: $20,000 x .35		
(4)	Investment in Phillips Corp. Stock	24,500	
	Income from Phillips Corp.		24,500
	Record equity-method income: $70,000 x .35		

(5)	Income from Phillips Corp.	1,000	
	Investment in Phillips Corp. Stock		1,000

Amortize differential.

P5-23 Complex Differential

a. Essex Company 20X2 equity-method income:

Proportionate share of reported net income ($80,000 x .30)	$24,000
Deduct increase in cost of goods sold for purchase differential assigned to inventory ($30,000 x .30)	(9,000)
Deduct amortization of differential assigned to:	
Buildings and equipment [($320,000 - $260,000) x .30] / 12 years]	(1,500)
Patent [($25,000 x .30) / 10 years]	(750)
Equity-method income for 20X2	$12,750

b. Computation of investment account balance on December 31, 20X2:

Purchase Price		$165,000
Investment income for 20X2	$12,750	
Dividends received in 20X2 ($9,000 x .30)	(2,700)	10,050
Investment account balance on December 31, 20X2		$175,050

P5-24 Equity Entries with Differential

a. Journal entry recorded by Hunter Corporation:

Investment in Arrow Manufacturing	210,000	
Common Stock		60,000
Additional Paid-In Capital		150,000

Record acquisition of Arrow Manufacturing stock.

b. Equity-method journal entries recorded by Hunter Corporation in 20X0:

(1)	Investment in Arrow Manufacturing Stock	210,000	
	Common Stock		60,000
	Additional Paid-In Capital		150,000

Record acquisition of Arrow Manufacturing stock.

(2)	Cash	9,000	
	Investment in Arrow Manufacturing Stock		9,000

Record dividends from Arrow Manufacturing: $20,000 x 0.45

(3)	Investment in Arrow Manufacturing Stock	36,000	
	Income from Arrow Manufacturing		36,000

Record equity-method income: $80,000 x 0.45

(4)	Income from Arrow Manufacturing	1,350	
	Investment in Arrow Manufacturing Stock		1,350

Amortize differential assigned to buildings and equipment:
($30,000 x .45) / 10 years

P5-24 (continued)

Equity-method journal entries recorded by Hunter Corporation in 20X1:

(1)	Cash	18,000	
	Investment in Arrow Manufacturing Stock		18,000

Record dividends from Arrow Manufacturing: $40,000 x 0.45

(2)	Investment in Arrow Manufacturing Stock	22,500	
	Income from Arrow Manufacturing		22,500

Record equity-method income for period: $50,000 x 0.45

(3)	Income from Arrow Manufacturing	1,350	
	Investment in Arrow Manufacturing Stock		1,350

Amortize differential assigned to buildings and equipment.

c. Investment account balance, December 31, 20X1:

Purchase price on January 1, 20X0			$210,000
20X0:	Income from Arrow Manufacturing ($36,000 - $1,350)	$34,650	
	Dividends received	(9,000)	25,650
20X1:	Income from Arrow Manufacturing ($22,500 - $1,350)	$21,150	
	Dividends received	(18,000)	3,150
Investment account balance, December 31, 20X1			$238,800

P5-25 Equity Entries with Differential

a. Equity-method journal entries recorded by Ennis Corporation:

(1)	Investment in Jackson Corporation Stock	200,000	
	Common Stock		50,000
	Additional Paid-In Capital		150,000

Record acquisition of Jackson Corporation stock.

(2)	Cash	3,500	
	Investment in Jackson Corporation Stock		3,500

Record dividend from Jackson Corporation: $10,000 x 0.35

(3)	Investment in Jackson Corporation Stock	24,500	
	Income from Jackson Corporation		24,500

Record equity-method income: $70,000 x 0.35

(4)	Income from Jackson Corporation	7,000	
	Investment in Jackson Corporation Stock		7,000

Record expiration of differential assigned to inventory: $20,000 x 0.35

(5)	Income from Jackson Corporation	1,400	
	Investment in Jackson Corporation Stock		1,400

Record amortization of differential assigned to buildings and equipment (net): ($80,000 x 0.35) / 20 years

b. $212,600 = $200,000 + $24,500 - $3,500 - $7,000 - $1,400

P5-26 Additional Ownership Level

a.

Operating income of Amber for 20X3		$220,000
Operating income of Blair for 20X3	$100,000	
Add: Equity income from Carmen [($50,000 - $6,000) x .25)	11,000	
Blair net income for 20X3	$111,000	
Proportion of stock held by Amber	x 0.40	44,400
Amortization of differential:		
Equipment [($30,000 x .40) / 8 years]		(1,500)
Patents [($25,000 x .40) / 5 years)		(2,000)
Net income of Amber for 20X3		$260,900

b.

Investment in Blair Corporation Stock	130,000	
Common Stock		40,000
Additional paid-In Capital		90,000

Purchase of Blair Corporation Stock.

Cash	12,000	
Investment in Blair Corporation Stock		12,000

Record dividend from Blair: $30,000 x 0.40

Investment in Blair Corporation Stock	44,400	
Income from Blair Corporation		44,400

Record equity-method income: $111,000 x 0.40

Income from Blair Corporation	3,500	
Investment in Blair Corporation Stock		3,500

Amortize differential: $3,500 = $1,500 + $2,000

P5-27 Correction of Error

Required correcting entry:

Retained Earnings	17,000	
Income from Dale Company	11,500	
Investment in Dale Company Stock		28,500

Adjustments to current books of Hill Company:

Item	Retained Earnings 1/1/20X4	Dale Company 20X4 Income	Dale Company Investment Balance 12/31/20X4
Adjustment to remove dividends included in investment income and not removed from investment account	$(14,000)	$(10,000)	$(24,000)
Adjustment to annual amortization of differential:			
20X2 and 20X3	(3,000)		(3,000)
20X4		(1,500)	(1,500)
Required adjustment to account balance	$(17,000)	$(11,500)	$(28,500)

Computation of adjustment to annual amortization of differential

Correct amortization of differential assigned to:		
Equipment [($120,000 - $70,000) x 0.40] / 5 years		$4,000
Patents:		
Amount paid	$164,000	
Fair value of identifiable net assets ($300,000 + $50,000) x 0.40	(140,000)	
Amount assigned	$ 24,000	
Number of years to be amortized	÷ 8	
Annual amortization		3,000
Correct amount to be amortized annually		$7,000
Amount amortized by Hill [($164,000 - ($300,000 x 0.40)] / 8 years		(5,500)
Adjustment to annual amortization		$1,500

P5-28 Majority-Owned Subsidiary Acquired at Greater than Book Value

a.

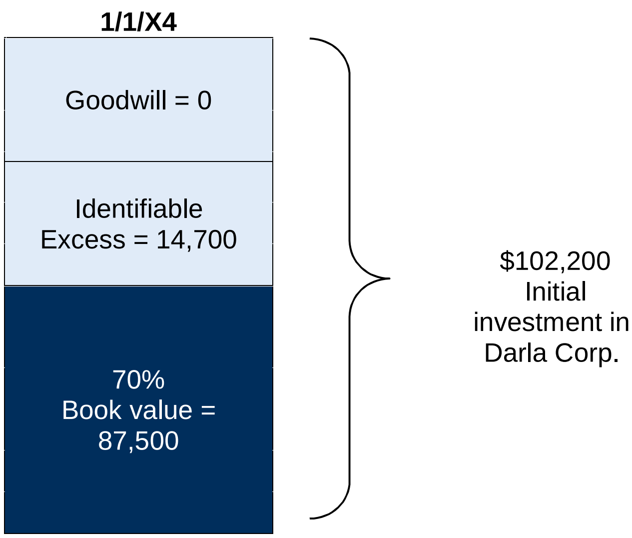
Equity Method Entries on Porter Corp.'s Books:

Investment in Darla Corp.	102,200	
Cash		102,200

Record the initial investment in Darla Corp.

Book Value Calculations:

	NCI 30%	+	Porter Corp. 70%	=	Common Stock	+	Retained Earnings
Book value at acquisition	37,500		87,500		40,000		85,000



Basic elimination entry

Common stock	**40,000**	
Retained earnings	**85,000**	
Investment in Darla Corp.		**87,500**
NCI in NA of Darla Corp.		**37,500**

Excess Value (Differential) Calculations:

	NCI 30%	+	Porter Corp. 70%	=	Inventory	+	Buildings & Equipment
Beginning balances	**6,300**		**14,700**		**6,000**		**15,000**

P5-28 (continued)

Excess value (differential) reclassification entry:

Inventory	6,000	
Buildings & Equipment	15,000	
Investment in Darla Corp.		14,700
NCI in NA of Darla Corp.		6,300

Eliminate intercompany accounts:

Accounts Payable	12,500	
Accounts Receivable		12,500

Optional accumulated depreciation elimination entry

Accumulated depreciation	80,000	
Building & equipment		80,000

Investment in Darla Corp.

Acquisition Price	102,200		
		87,500	Basic
		14,700	Excess Reclass.
	0		

P5-28 (continued)

	Porter Corp.	Darla Corp.	Elimination Entries DR	Elimination Entries CR	Consolidated
Balance Sheet					
Cash	50,300	21,000			71,300
Accounts Receivable	90,000	44,000		**12,500**	121,500
Inventory	130,000	75,000	**6,000**		211,000
Land	60,000	30,000			90,000
Buildings & Equipment	410,000	250,000	**15,000**	**80,000**	595,000
Less: Accumulated Depreciation	(150,000)	(80,000)	**80,000**		(150,000)
Investment in Darla Corp.	102,200			**87,500**	0
				14,700	
Total Assets	**692,500**	**340,000**	**101,000**	**194,700**	**938,800**
Accounts Payable	152,500	35,000	**12,500**		175,000
Mortgage Payable	250,000	180,000			430,000
Common Stock	80,000	40,000	**40,000**		80,000
Retained Earnings	210,000	85,000	**85,000**		210,000
NCI in NA of Darla Corp.				**37,500**	43,800
				6,300	
Total Liabilities & Equity	**692,500**	**340,000**	**137,500**	**43,800**	**938,800**

c. Porter Corporation and Subsidiary
Consolidated Balance Sheet
December 31, 20X4

Cash		$ 71,300
Accounts Receivable		121,500
Inventory		211,000
Land		90,000
Buildings and Equipment	$595,000	
Less: Accumulated Depreciation	(150,000)	445,000
Total Assets		$938,800
Accounts Payable		$175,000
Mortgage Payable		430,000
Stockholders' Equity:		
Controlling Interest:		
Common Stock	$ 80,000	
Retained Earnings	210,000	
Total Controlling Interest	$290,000	
Noncontrolling Interest	43,800	
Total Stockholders' Equity		333,800
Total Liabilities and Stockholders' Equity		$938,800

P5-29 Balance Sheet Consolidation of Majority-Owned Subsidiary

a.

Equity Method Entries on Total Corp.'s Books:

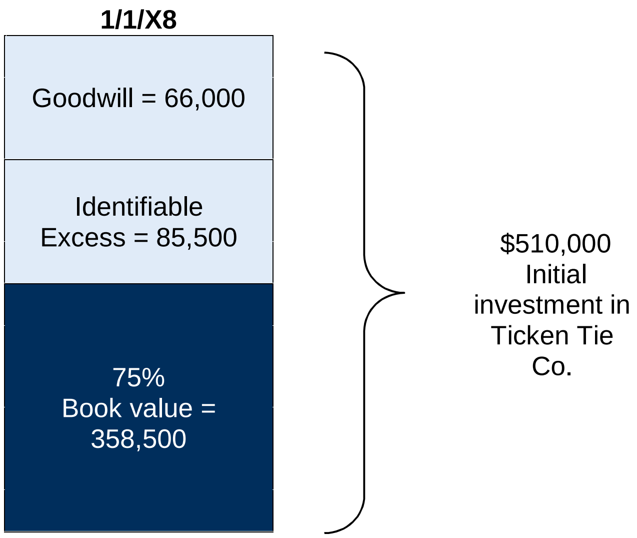
Investment in Ticken Tie Co.	510,000	
Bonds Payable		500,000
Bond Premium		10,000

Record the initial investment in Ticken Tie Co.

b.

Book Value Calculations:

	NCI 25%	+	Total Corp. 75%	=	Common Stock	+	Add. Paid-in Capital	+	Retained Earnings
Book value at acquisition	119,500		358,500		200,000		130,000		148,000



Basic elimination entry

Common stock	200,000	
Additional Paid-in Capital	130,000	
Retained earnings	148,000	
Investment in Ticken Tie Co.		358,500
NCI in NA of Ticken Tie Co.		119,500

P5-29 (continued)

Excess Value (Differential) Calculations:

	NCI 25%	+	Total Corp. 75%	=	Inven-tory	+	Land	+	Building & Equipment	+	Patent	+	Goodwill
Beg. balances	50,500		151,500		4,000		20,000		50,000		40,000		88,000

Excess value (differential) reclassification entry:

Inventory	4,000	
Land	20,000	
Building & Equipment	50,000	
Patent	40,000	
Goodwill	88,000	
Investment in Ticken Tie Co.		151,500
NCI in NA of Ticken Tie Co.		50,500

Eliminate intercompany accounts:

Current payables	6,500	
Receivables		6,500

Optional accumulated depreciation elimination entry

Accumulated depreciation	220,000	
Building & equipment		220,000

Investment in Ticken Tie Co.

Acquisition Price	510,000		
		358,500	Basic
		151,500	Excess Reclass.
	0		

P5-29 (continued)

c.

	Total Corp.	Ticken Tie Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Balance Sheet					
Cash	12,000	9,000			21,000
Receivables	39,000	30,000		6,500	62,500
Inventory	86,000	68,000	4,000		158,000
Land	55,000	50,000	20,000		125,000
Buildings & Equipment	960,000	670,000	50,000	220,000	1,460,000
Less: Accumulated Depreciation	(411,000)	(220,000)	220,000		(411,000)
Investment in Ticken Tie Co.	510,000			358,500	0
				151,500	
Patent			40,000		40,000
Goodwill			88,000		88,000
Total Assets	**1,251,000**	**607,000**	**422,000**	**736,500**	**1,543,500**
Current Payables	38,000	29,000	6,500		60,500
Bonds Payable	700,000	100,000			800,000
Bond Premium	10,000				10,000
Common Stock	300,000	200,000	200,000		300,000
Additional Paid-in Capital	100,000	130,000	130,000		100,000
Retained Earnings	103,000	148,000	148,000		103,000
NCI in NA of Ticken Tie Co.				119,500	170,000
				50,500	
Total Liabilities & Equity	**1,251,000**	**607,000**	**484,500**	**170,000**	**1,543,500**

d.

Total Corporation and Subsidiary
Consolidated Balance Sheet
January 2, 20X8

Cash		$ 21,000
Receivables	$ 65,500	
Less: Allowance for Bad Debts	(3,000)	62,500
Inventory		158,000
Land		125,000
Buildings and Equipment	$1,460,000	
Less: Accumulated Depreciation	(411,000)	1,049,000
Patent		40,000
Goodwill		88,000
Total Assets		$1,543,500
Current Payables		$ 60,500
Bonds Payable	$ 800,000	
Premium on Bonds Payable	10,000	810,000
Stockholders' Equity:		
Controlling Interest:		
Common Stock	$ 300,000	
Additional Paid-In Capital	100,000	
Retained Earnings	103,000	
Total Controlling Interest	$ 503,000	
Noncontrolling Interest	170,000	
Total Stockholders' Equity		673,000
Total Liabilities and Stockholders' Equity		$1,543,500

P5-30 Incomplete Data

a.	$15,000	=	($115,000 + $46,000) - $146,000
b.	$65,000	=	($148,000 - $98,000) + $15,000
c.	Skyler: $24,000	=	$380,000 - ($46,000 + $110,000 + $75,000 + $125,000)
	Blue: $70,000	=	$94,000 - $24,000

d. Fair value of Skyler as a whole:

$200,000	Book value of Skyler shares
10,000	Differential assigned to inventory ($195,000 - $105,000 - $80,000)
40,000	Differential assigned to buildings and equipment ($780,000 - $400,000 - $340,000)
9,000	Differential assigned to goodwill
$259,000	Fair value of Skyler

e.	65 percent	=	1.00 – ($90,650 / $259,000)
f.	Capital Stock	=	$120,000
	Retained Earnings	=	$115,000

.

P5-31 Income and Retained Earnings

a. Net income for 20X9:

	Quill	North
Operating income	$ 90,000	$35,000
Income from subsidiary	24,500	
Net income	$114,500	$35,000

b. Consolidated net income is $125,000 ($90,000 + $35,000).

c. Retained earnings reported at December 31, 20X9:

	Quill	North
Retained earnings, January 1, 20X9	$290,000	$40,000
Net income for 20X9	114,500	35,000
Dividends paid in 20X9	(30,000)	(10,000)
Retained earnings, December 31, 20X9	$374,500	$65,000

d. Consolidated retained earnings at December 31, 20X9, is equal to the $374,500 retained earnings balance reported by Quill.

e. When the cost method is used, the parent's proportionate share of the increase in retained earnings of the subsidiary subsequent to acquisition is not included in the parent's retained earnings. Thus, this amount must be added to the total retained earnings reported by the parent in arriving at consolidated retained earnings.

P5-32 Consolidation Worksheet at End of First Year of Ownership

a.

Equity Method Entries on Power Corp.'s Books:

Investment in Best Co.	96,000	
Cash		96,000

Record the initial investment in Best Co.

Investment in Best Co.	18,000	
Income from Best Co.		18,000

Record Power Corp.'s 75% share of Best Co.'s 20X8 income

Cash	12,000	
Investment in Best Co.		12,000

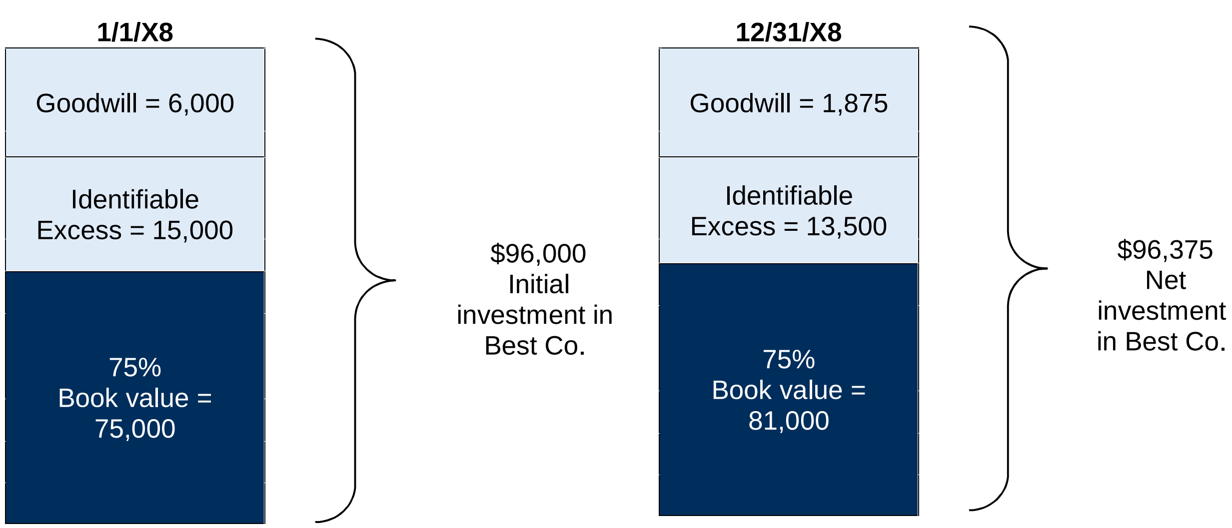
Record Power Corp.'s 75% share of Best Co.'s 20X8 dividend

Income from Best Co.	5,625	
Investment in Best Co.		5,625

Record amortization of excess acquisition price

Book Value Calculations:

	NCI 25%	+	Power Corp. 75%	=	Common Stock	+	Retained Earnings
Beginning book value	**25,000**		**75,000**		**60,000**		**40,000**
+ Net Income	**6,000**		**18,000**				**24,000**
- Dividends	**(4,000)**		**(12,000)**				**(16,000)**
Ending book value	**27,000**		**81,000**		**60,000**		**48,000**



P5-32 (continued)

Basic elimination entry

Common stock	60,000	
Retained earnings	40,000	
Income from Best Co.	18,000	
NCI in NI of Best Co.	6,000	
Dividends declared		16,000
Investment in Best Co.		81,000
NCI in NA of Best Co.		27,000

Excess Value (Differential) Calculations:

	NCI 25%	+	Power Corp. 75%	=	Buildings & Equipment	+	Acc. Depr.	+	Goodwill
Beginning balance	7,000		21,000		20,000		0		8,000
Changes	(1,875)		(5,625)				(2,000)		(5,500)
Ending balance	5,125		15,375		20,000		(2,000)		2,500

Amortized excess value reclassification entry:

Depreciation expense	2,000	
Goodwill impairment loss	5,500	
Income from Best Co.		5,625
NCI in NI of Best Co.		1,875

Excess value (differential) reclassification entry:

Buildings & Equipment	20,000	
Goodwill	2,500	
Acc. Depr.		2,000
Investment in Best Co.		15,375
NCI in NA of Best Co.		5,125

Optional accumulated depreciation elimination entry

Accumulated depreciation	30,000	
Building & equipment		30,000

	Investment in Best Co.			Income from Best Co.		
Acquisition Price	96,000					
75% Net Income	18,000				18,000	75% Net Income
		12,000	75% Dividends			
		5,625	Excess Val. Amort.	5,625		
Ending Balance	96,375				12,375	Ending Balance
		81,000	Basic	18,000		
		15,375	Excess Reclass.		5,625	Amort. Reclass
	0				0	

P5-32 (continued)

b.

	Power Corp.	Best Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	260,000	180,000			440,000
Less: COGS	(125,000)	(110,000)			(235,000)
Less: Wage Expense	(42,000)	(27,000)			(69,000)
Less: Depreciation Expense	(25,000)	(10,000)	2,000		(37,000)
Less: Interest Expense	(12,000)	(4,000)			(16,000)
Less: Other Expenses	(13,500)	(5,000)			(18,500)
Less: Impairment Loss			5,500		(5,500)
Income from Best Co.	12,375		18,000	5,625	0
Consolidated Net Income	54,875	24,000	25,500	5,625	59,000
NCI in Net Income			6,000	1,875	(4,125)
Controlling Interest in Net Income	**54,875**	**24,000**	**31,500**	**7,500**	**54,875**
Statement of Retained Earnings					
Beginning Balance	102,000	40,000	40,000		102,000
Net Income	**54,875**	**24,000**	**31,500**	**7,500**	54,875
Less: Dividends Declared	(30,000)	(16,000)		16,000	(30,000)
Ending Balance	**126,875**	**48,000**	**71,500**	**23,500**	**126,875**
Balance Sheet					
Cash	47,500	21,000			68,500
Accounts Receivable	70,000	12,000			82,000
Inventory	90,000	25,000			115,000
Land	30,000	15,000			45,000
Buildings & Equipment	350,000	150,000	**20,000**	**30,000**	490,000
Less: Accumulated Depreciation	(145,000)	(40,000)	**30,000**	**2,000**	(157,000)
Investment in Best Co.	96,375			**81,000**	0
				15,375	
Goodwill			**2,500**		2,500
Total Assets	**538,875**	**183,000**	**52,500**	**128,375**	**646,000**
Accounts Payable	45,000	16,000			61,000
Wages Payable	17,000	9,000			26,000
Notes Payable	150,000	50,000			200,000
Common Stock	200,000	60,000	**60,000**		200,000
Retained Earnings	**126,875**	**48,000**	**71,500**	**23,500**	126,875
NCI in NA of Best Co.				**27,000**	32,125
				5,125	
Total Liabilities & Equity	**538,875**	**183,000**	**131,500**	**55,625**	**646,000**

P5-33 Consolidation Worksheet at End of Second Year of Ownership

a.

Equity Method Entries on Power Corp.'s Books:

Investment in Best Co.	27,000	
Income from Best Co.		27,000

Record Power Corp.'s 75% share of Best Co.'s 20X9 income

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

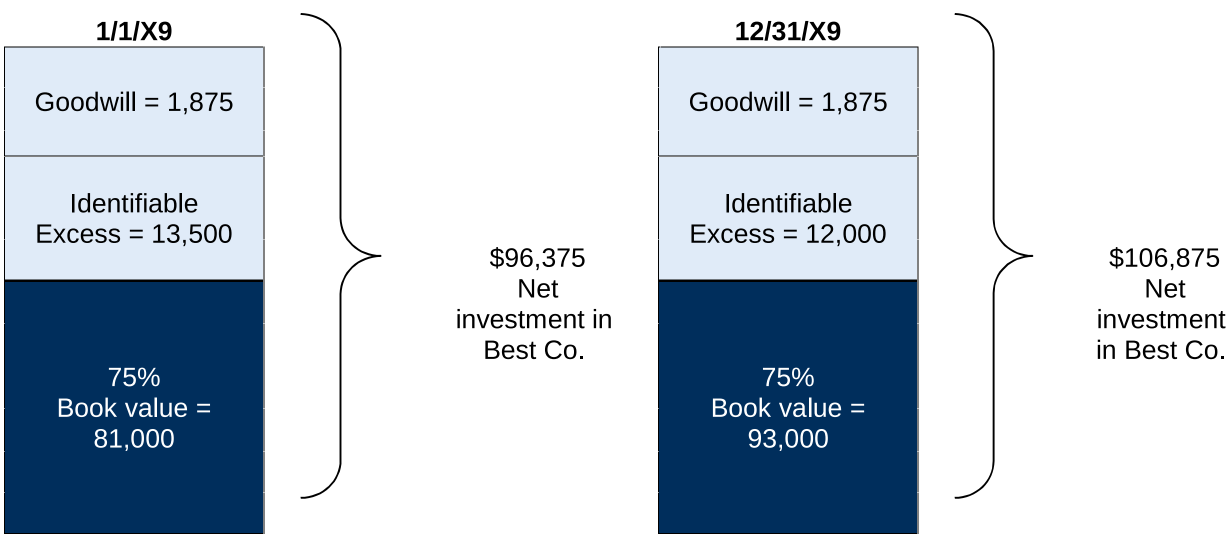
Record Power Corp.'s 75% share of Best Co.'s 20X9 dividend

Income from Best Co.	1,500	
Investment in Best Co.		1,500

Record amortization of excess acquisition price

Book Value Calculations:

	NCI 25%	+	Power Corp. 75%	=	Common Stock	+	Retained Earnings
Beginning book value	**27,000**		**81,000**		**60,000**		**48,000**
+ Net Income	**9,000**		**27,000**				**36,000**
- Dividends	**(5,000)**		**(15,000)**				**(20,000)**
Ending book value	**31,000**		**93,000**		**60,000**		**64,000**



P5-33 (continued)

Basic elimination entry

Common stock	60,000	
Retained earnings	48,000	
Income from Best Co.	27,000	
NCI in NI of Best Co.	9,000	
Dividends declared		20,000
Investment in Best Co.		93,000
NCI in NA of Best Co.		31,000

Excess Value (Differential) Calculations:

	NCI 25%	+	Power Corp. 75%	=	Buildings and Equipment	+	Acc. Depr.	+	Goodwill
Beginning balance	5,125		15,375		20,000		(2,000)		2,500
Changes	(500)		(1,500)				(2,000)		0
Ending balance	4,625		13,875		20,000		(4,000)		2,500

Amortized excess value reclassification entry:

Depreciation expense	2,000	
Income from Best Co.		1,500
NCI in NI of Best Co.		500

Excess value (differential) reclassification entry:

Buildings and Equipment	20,000	
Goodwill	2,500	
Acc. Depr.		4,000
Investment in Best Co.		13,875
NCI in NA of Best Co.		4,625

Optional accumulated depreciation elimination entry

Accumulated depreciation	30,000	
Building & equipment		30,000

	Investment in Best Co. (Dr.)	Investment in Best Co. (Cr.)		Income from Best Co. (Dr.)	Income from Best Co. (Cr.)	
Beginning Balance	96,375					
75% Net Income	27,000				27,000	75% Net Income
		15,000	75% Dividends			
		1,500	Excess Val. Amort.	1,500		
Ending Balance	106,875				25,500	Ending Balance
		93,000	Basic	27,000		
		13,875	Excess Reclass.		1,500	Amort. Reclass.
	0				0	

P5-33 (continued)

b.

	Power Corp.	Best Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	290,000	200,000			490,000
Less: COGS	(145,000)	(114,000)			(259,000)
Less: Wage Expense	(35,000)	(20,000)			(55,000)
Less: Depreciation Expense	(25,000)	(10,000)	2,000		(37,000)
Less: Interest Expense	(12,000)	(4,000)			(16,000)
Less: Other Expenses	(23,000)	(16,000)			(39,000)
Income from Best Co.	25,500		27,000	1,500	0
Consolidated Net Income	75,500	36,000	**29,000**	**1,500**	84,000
NCI in Net Income			9,000	500	(8,500)
Controlling Interest in Net Income	**75,500**	**36,000**	**38,000**	**2,000**	**75,500**
Statement of Retained Earnings					
Beginning Balance	126,875	48,000	48,000		126,875
Net Income	**75,500**	**36,000**	**38,000**	**2,000**	75,500
Less: Dividends Declared	(30,000)	(20,000)		20,000	(30,000)
Ending Balance	**172,375**	**64,000**	**86,000**	**22,000**	**172,375**
Balance Sheet					
Cash	68,500	32,000			100,500
Accounts Receivable	85,000	14,000			99,000
Inventory	97,000	24,000			121,000
Land	50,000	25,000			75,000
Buildings & Equipment	350,000	150,000	20,000	30,000	490,000
Less: Accumulated Depreciation	(170,000)	(50,000)	30,000	4,000	(194,000)
Investment in Best Co.	106,875			93,000	0
				13,875	
Goodwill			2,500		2,500
Total Assets	**587,375**	**195,000**	**52,500**	**140,875**	**694,000**
Accounts Payable	51,000	15,000			66,000
Wages Payable	14,000	6,000			20,000
Notes Payable	150,000	50,000			200,000
Common Stock	200,000	60,000	60,000		200,000
Retained Earnings	**172,375**	**64,000**	**86,000**	**22,000**	172,375
NCI in NA of Best Co.				31,000	35,625
				4,625	
Total Liabilities & Equity	**587,375**	**195,000**	**146,000**	**57,625**	**694,000**

P5-33 (continued)

c.

Power Corporation and Subsidiary
Consolidated Balance Sheet
December 31, 20X9

Cash		$100,500
Accounts Receivable		99,000
Inventory		121,000
Land		75,000
Buildings and Equipment	$490,000	
Less: Accumulated Depreciation	(194,000)	296,000
Goodwill		2,500
Total Assets		$694,000
Accounts Payable		$ 66,000
Wages Payable		20,000
Notes Payable		200,000
Stockholders' Equity:		
Controlling Interest:		
Common Stock	$200,000	
Retained Earnings	172,375	
Total Controlling Interest	$372,375	
Noncontrolling Interest	35,625	
Total Stockholders' Equity		408,000
Total Liabilities and Stockholders' Equity		$694,000

Power Corporation and Subsidiary
Consolidated Income Statement
Year Ended December 31, 20X9

Sales		$490,000
Cost of Goods Sold	$259,000	
Wage Expense	55,000	
Depreciation Expense	37,000	
Interest Expense	16,000	
Other Expenses	39,000	
Total Expenses		(406,000)
Consolidated Net Income		$ 84,000
Income to Noncontrolling Interest		(8,500)
Income to Controlling Interest		$ 75,500

Power Corporation and Subsidiary
Consolidated Retained Earnings Statement
Year Ended December 31, 20X9

Retained Earnings, January 1, 20X9	$126,875
Income to Controlling Interest, 20X9	75,500
	$202,375
Dividends Declared, 20X9	(30,000)
Retained Earnings, December 31, 20X9	$172,375

P5-34 Comprehensive Problem: Differential Apportionment in Subsequent Period.

a.

Equity Method Entries on Mortar Corp.'s Books:

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

Record Mortar Corp.'s 80% share of Granite Co.'s 20X8 income

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

Record Mortar Corp.'s 80% share of Granite Co.'s 20X8 dividend

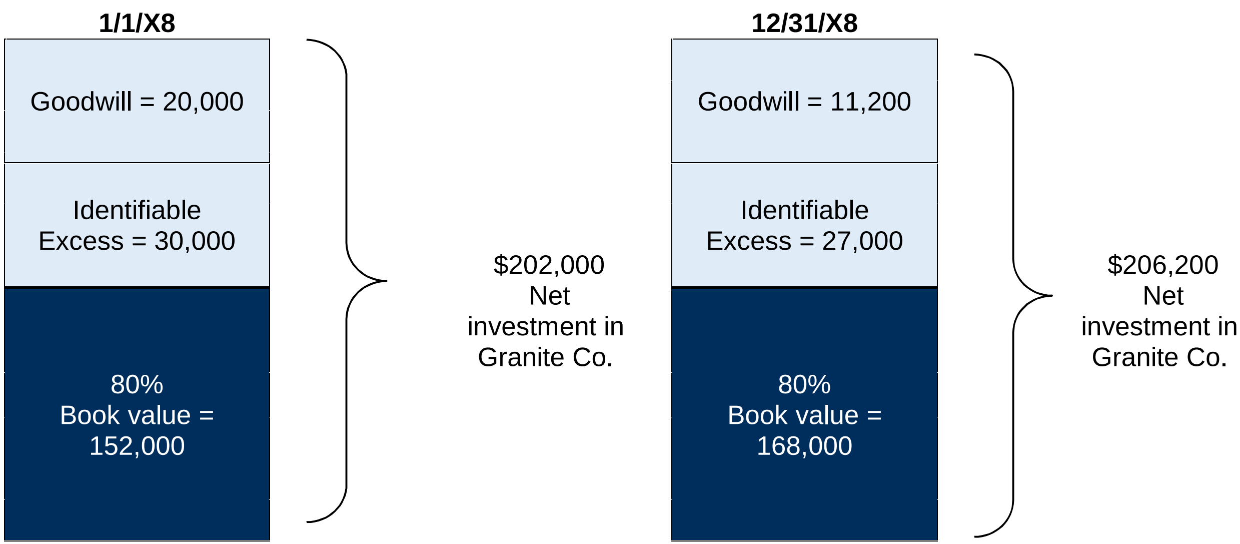
Income from Granite Co.	11,800	
Investment in Granite Co.		11,800

Record amortization of excess acquisition price

b.

Book Value Calculations:

	NCI 20%	+	Mortar Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning book value	**38,000**		**152,000**		**50,000**		**140,000**
+ Net Income	**9,000**		**36,000**				**45,000**
- Dividends	**(5,000)**		**(20,000)**				**(25,000)**
Ending book value	**42,000**		**168,000**		**50,000**		**160,000**



P5-34 (continued)

Basic elimination entry

Common stock	50,000	
Retained earnings	140,000	
Income from Granite Co.	36,000	
NCI in NI of Granite Co.	9,000	
Dividends declared		25,000
Investment in Granite Co.		168,000
NCI in NA of Granite Co.		42,000

Excess Value (Differential) Calculations:

	NCI 20%	+	Mortar Corp. 80%	=	Buildings & Equipment	+	Acc. Depr.	+	Goodwill
Beginning balance	12,500		50,000		41,250		(3,750)		25,000
Changes	(2,950)		(11,800)				(3,750)		(11,000)
Ending balance	9,550		38,200		41,250		(7,500)		14,000

Amortized excess value reclassification entry:

Depreciation expense	3,750	
Goodwill impairment loss	11,000	
Income from Granite Co.		11,800
NCI in NI of Granite Co.		2,950

Excess value (differential) reclassification entry:

Buildings & Equipment	41,250	
Goodwill	14,000	
Acc. Depr.		7,500
Investment in Granite Co.		38,200
NCI in NA of Granite Co.		9,550

Eliminate intercompany accounts:

Accounts payable	9,000	
Accounts receivable		9,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	60,000	
Building & equipment		60,000

	Investment in Granite Co. (Dr.)	Investment in Granite Co. (Cr.)		Income from Granite Co. (Dr.)	Income from Granite Co. (Cr.)	
Beginning Balance	202,000					
80% Net Income	36,000				36,000	80% Net Income
		20,000	80% Dividends			
		11,800	Excess Val. Amort.	11,800		
Ending Balance	206,200				24,200	Ending Balance
		168,000	Basic	36,000		
		38,200	Excess Reclass.		11,800	Amort. Reclass.
	0				0	

P5-34 (continued)

c.

	Mortar Corp.	Granite Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	650,000	470,000			1,120,000
Less: COGS	(490,000)	(310,000)			(800,000)
Less: Depreciation Expense	(25,000)	(15,000)	3,750		(43,750)
Less: Other Expenses	(62,000)	(100,000)			(162,000)
Less: Goodwill Impairment			11,000		(11,000)
Income from Granite Co.	24,200		36,000	11,800	0
Consolidated Net Income	97,200	45,000	50,750	11,800	103,250
NCI in Net Income			9,000	2,950	(6,050)
Controlling Interest in Net Income	**97,200**	**45,000**	**59,750**	**14,750**	**97,200**
Statement of Retained Earnings					
Beginning Balance	385,000	140,000	140,000		385,000
Net Income	**97,200**	**45,000**	59,750	14,750	97,200
Less: Dividends Declared	(45,000)	(25,000)		25,000	(45,000)
Ending Balance	**437,200**	**160,000**	**199,750**	**39,750**	**437,200**
Balance Sheet					
Cash	59,000	31,000			90,000
Accounts Receivable	83,000	71,000		9,000	145,000
Inventory	275,000	118,000			393,000
Land	80,000	30,000			110,000
Buildings & Equipment	500,000	150,000	41,250	60,000	631,250
Less: Accumulated Depreciation	(180,000)	(90,000)	60,000	7,500	(217,500)
Investment in Granite Co.	206,200			168,000	0
				38,200	
Goodwill			14,000		14,000
Total Assets	**1,023,200**	**310,000**	**115,250**	**282,700**	**1,165,750**
Accounts Payable	86,000	30,000	9,000		107,000
Mortgage Payable	200,000	70,000			270,000
Common Stock	300,000	50,000	50,000		300,000
Retained Earnings	**437,200**	**160,000**	199,750	39,750	437,200
NCI in NA of Granite Co.				42,000	51,550
				9,550	
Total Liabilities & Equity	**1,023,200**	**310,000**	**258,750**	**91,300**	**1,165,750**

P5-35 Subsidiary with Other Comprehensive Income in Year of Acquisition

a.

Equity Method Entries on Amber Corp.'s Books:

Investment in Sparta Co.	96,000	
Cash		96,000

Record the initial investment in Sparta Co.

Investment in Sparta Co.	15,000	
Income from Sparta Co.		15,000

Record Amber Corp.'s 60% share of Sparta Co.'s 20X8 income

Cash	9,000	
Investment in Sparta Co.		9,000

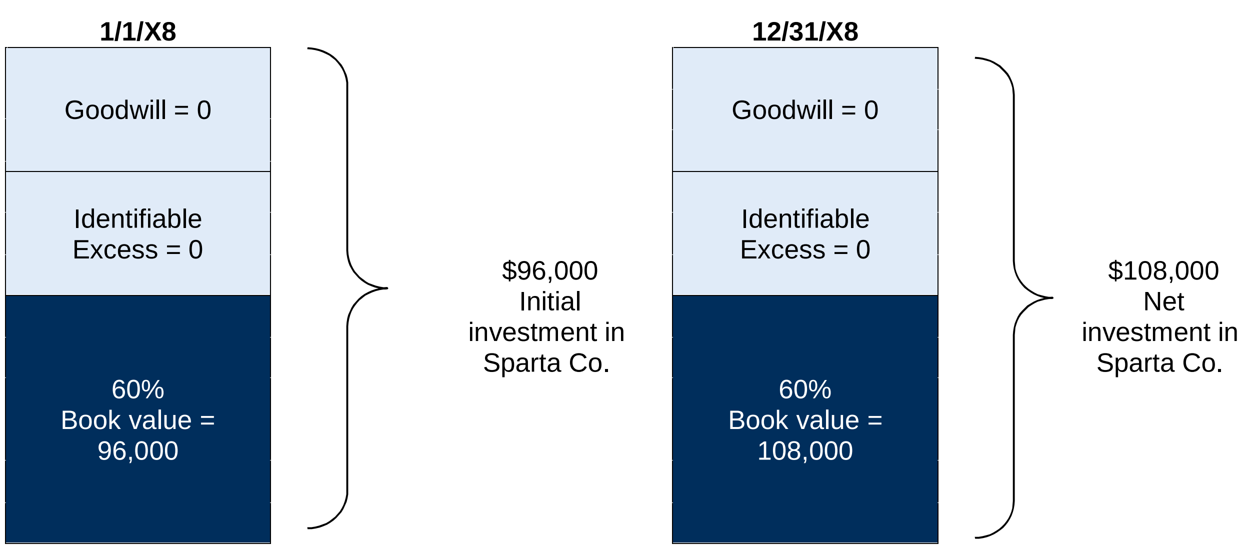
Record Amber Corp.'s 60% share of Sparta Co.'s 20X8 dividend

Investment in Sparta Co.	6,000	
Other Comprehensive Income from Sparta Co.		6,000

Record share of increase in value of securities held by Sparta Co.

Book Value Calculations:

	NCI 40%	+	Amber Corp. 60%	=	Common Stock	+	Retained Earnings
Beginning book value	**64,000**		**96,000**		**100,000**		**60,000**
+ Net Income	**10,000**		**15,000**				**25,000**
- Dividends	**(6,000)**		**(9,000)**				**(15,000)**
Ending book value	**68,000**		**102,000**		**100,000**		**70,000**



P5-35 (continued)

Basic elimination entry

Common stock	100,000	
Retained earnings	60,000	
Income from Sparta Co.	15,000	
NCI in NI of Sparta Co.	10,000	
Dividends declared		15,000
Investment in Sparta Co.		102,000
NCI in NA of Sparta Co.		68,000

Other Comprehensive Income Entry:

OCI from Sparta Co.	6,000	
OCI to the NCI	4,000	
Investment in Sparta Co.		6,000
NCI in NA of Sparta Co.		4,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	75,000	
Building & equipment		75,000

	Investment in Sparta Co. (Dr)	Investment in Sparta Co. (Cr)		Income from Sparta Co. (Dr)	Income from Sparta Co. (Cr)	
Acquisition Price	96,000					
60% Net Income	15,000				15,000	60% Net Income
		9,000	60% Dividends			
	6,000		OCI Entry			
Ending Balance	108,000				15,000	Ending Balance
		102,000	Basic	15,000		
		6,000	OCI			
	0				0	

P5-35 (continued)

b.

	Amber Corp.	Sparta Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	220,000	148,000			368,000
Less: COGS	(150,000)	(110,000)			(260,000)
Less: Depreciation Expense	(30,000)	(10,000)			(40,000)
Less: Interest Expense	(8,000)	(3,000)			(11,000)
Income from Sparta Co.	15,000		15,000		0
Consolidated Net Income	47,000	25,000	15,000		57,000
NCI in Net Income			10,000		(10,000)
Controlling Interest in Net Income	**47,000**	**25,000**	**25,000**	**0**	**47,000**
Statement of Retained Earnings					
Beginning Balance	208,000	60,000	60,000		208,000
Net Income	**47,000**	**25,000**	**25,000**	**0**	47,000
Less: Dividends Declared	(24,000)	(15,000)		15,000	(24,000)
Ending Balance	**231,000**	**70,000**	**85,000**	**15,000**	**231,000**
Balance Sheet					
Cash	27,000	8,000			35,000
Accounts Receivable	65,000	22,000			87,000
Inventory	40,000	30,000			70,000
Buildings & Equipment	500,000	235,000		75,000	660,000
Less: Accumulated Depreciation	(140,000)	(85,000)	75,000		(150,000)
Investment in Row Company		40,000			40,000
Investment in Sparta Co.	108,000			102,000	0
				6,000	
Total Assets	**600,000**	**250,000**	**75,000**	**183,000**	**742,000**
Accounts Payable	63,000	20,000			83,000
Bonds Payable	100,000	50,000			150,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	**231,000**	**70,000**	**85,000**	**15,000**	231,000
Accumulated OCI	6,000	10,000	**10,000**		6,000
NCI in NA of Sparta Co.				68,000	72,000
				4,000	
Total Liabilities & Equity	**600,000**	**250,000**	**195,000**	**87,000**	**742,000**
Other Comprehensive Income					
Accumulated Other Comprehensive Income, 1/1/20X8					0
Other Comprehensive Income from Sparta Co.	6,000		**6,000**		0
Unrealized Gain on Investments		10,000			10,000
Other Comprehensive Income to NCI			**4,000**		(4,000)
Accumulated Other Comprehensive Income, 12/31/20X8	**6,000**	**10,000**	**10,000**	**0**	**6,000**

P5-35 (continued)

c.

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

Cash		$ 35,000
Accounts Receivable		87,000
Inventory		70,000
Buildings and Equipment	$660,000	
Less: Accumulated Depreciation	(150,000)	510,000
Investment in Marketable Securities		40,000
Total Assets		$742,000
Accounts Payable		$ 83,000
Bonds Payable		150,000
Stockholders' Equity:		
Controlling Interest:		
Common Stock	$200,000	
Retained Earnings	231,000	
Accumulated Other Comprehensive Income	6,000	
Total Controlling Interest	$437,000	
Noncontrolling Interest	72,000	
Total Stockholders' Equity		509,000
Total Liabilities and Stockholders' Equity		$742,000

Amber Corporation and Subsidiary
Consolidated Income Statement
Year Ended December 31, 20X8

Sales		$368,000
Cost of Goods Sold	$260,000	
Depreciation Expense	40,000	
Interest Expense	11,000	
Total Expenses		(311,000)
Consolidated Net Income		$ 57,000
Income to Noncontrolling Interest		(10,000)
Income to Controlling Interest		$ 47,000

Amber Corporation and Subsidiary
Consolidated Statement of Comprehensive Income
Year Ended December 31, 20X8

Consolidated Net Income	$57,000
Other Comprehensive Income:	
Unrealized Gain on Investments Held by Subsidiary	10,000
Total Consolidated Comprehensive Income	$67,000
Less: Comprehensive Income Attributable to Noncontrolling Interest	(14,000)
Comprehensive Income Attributable to Controlling Interest	$53,000

P5-36 Subsidiary with Other Comprehensive Income in Year Following Acquisition

a.

Equity Method Entries on Amber Corp.'s Books:

Investment in Sparta Co.	18,000	
Income from Sparta Co.		18,000

Record Amber Corp.'s 60% share of Sparta Co.'s 20X9 income

Cash	12,000	
Investment in Sparta Co.		12,000

Record Amber Corp.'s 60% share of Sparta Co.'s 20X9 dividend

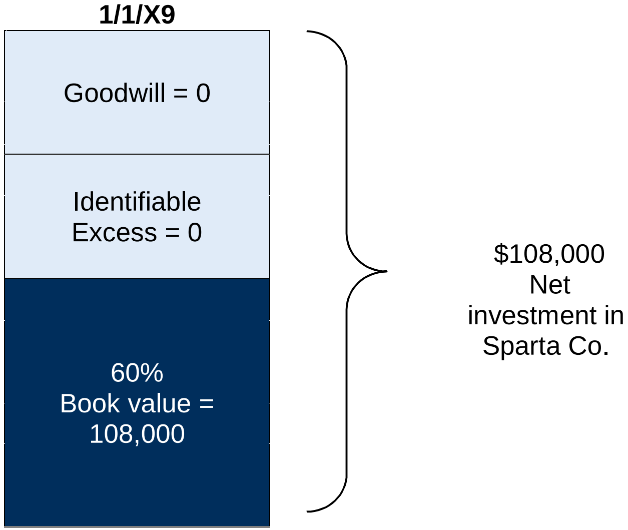
Investment in Sparta Co.	2,400	
Other Comprehensive Income from Sparta Co.		2,400

Record share of increase in value of securities held by Sparta Co.

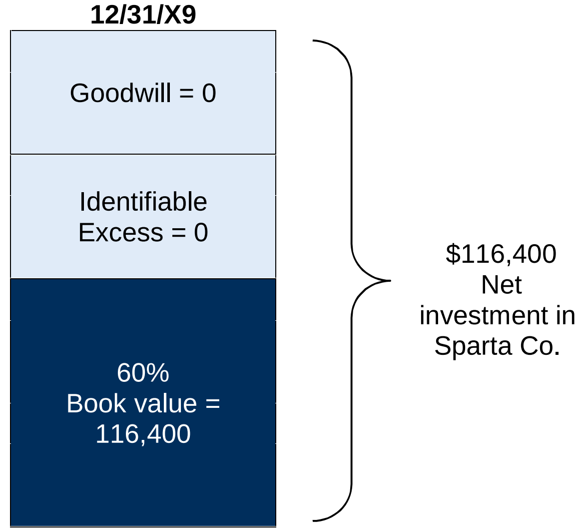
Book Value Calculations:

	NCI 40%	+	Amber Corp. 60%	=	Common Stock	+	Retained Earnings	+	AOCI
Beginning book value	**72,000**		**108,000**		**100,000**		**70,000**		**10,000**
+ Net Income	**12,000**		**18,000**				**30,000**		
- Dividends	**(8,000)**		**(12,000)**				**(20,000)**		
Ending book value	**76,000**		**114,000**		**100,000**		**80,000**		**10,000**

1/1/X9



12/31/X9



P5-36 (continued)

Basic elimination entry

Common stock	100,000	
Retained earnings	70,000	
Accumulated OCI	10,000	
Income from Sparta Co.	18,000	
NCI in NI of Sparta Co.	12,000	
Dividends declared		20,000
Investment in Sparta Co.		114,000
NCI in NA of Sparta Co.		76,000

Other Comprehensive Income Entry:

OCI from Sparta Co.	2,400	
OCI to the NCI	1,600	
Investment in Sparta Co.		2,400
NCI in NA of Sparta Co.		1,600

Optional accumulated depreciation elimination entry

Accumulated depreciation	75,000	
Building & equipment		75,000

	Investment in Sparta Co.			Income from Sparta Co.		
Beginning Balance	108,000					
60% Net Income	18,000				18,000	60% Net Income
		12,000	60% Dividends			
	2,400		OCI Entry			
Ending Balance	116,400				18,000	Ending Balance
		114,000	Basic	18,000		
		2,400	OCI			
	0				0	

P5-36 (continued)

b.

	Amber Corp.	Sparta Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	250,000	140,000			390,000
Less: COGS	(170,000)	(97,000)			(267,000)
Less: Depreciation Expense	(30,000)	(10,000)			(40,000)
Less: Interest Expense	(8,000)	(3,000)			(11,000)
Income from Sparta Co.	18,000		18,000		0
Consolidated Net Income	60,000	30,000	18,000		72,000
NCI in Net Income			12,000		(12,000)
Controlling Interest in Net Income	**60,000**	**30,000**	**30,000**	**0**	**60,000**
Statement of Retained Earnings					
Beginning Balance	231,000	70,000	70,000		231,000
Net Income	**60,000**	**30,000**	**30,000**	**0**	60,000
Less: Dividends Declared	(40,000)	(20,000)		20,000	(40,000)
Ending Balance	**251,000**	**80,000**	**100,000**	**20,000**	**251,000**
Balance Sheet					
Cash	18,000	11,000			29,000
Accounts Receivable	45,000	21,000			66,000
Inventory	40,000	30,000			70,000
Buildings & Equipment	585,000	257,000		75,000	767,000
Less: Accumulated Depreciation	(170,000)	(95,000)	75,000		(190,000)
Investment in Row Company		44,000			44,000
Investment in Sparta Co.	116,400			114,000	0
				2,400	
Total Assets	**634,400**	**268,000**	**75,000**	**191,400**	**786,000**
Accounts Payable	75,000	24,000			99,000
Bonds Payable	100,000	50,000			150,000
Common Stock	200,000	100,000	100,000		200,000
Retained Earnings	**251,000**	**80,000**	**100,000**	**20,000**	251,000
Accumulated OCI	8,400	14,000	**14,000**		8,400
NCI in NA of Sparta Co.				76,000	77,600
				1,600	
Total Liabilities & Equity	**634,400**	**268,000**	**214,000**	**97,600**	**786,000**
Other Comprehensive Income					
Accumulated Other Comprehensive Income, 1/1/20X9	6,000	10,000	10,000		6,000
Other Comprehensive Income from Sparta Co.	2,400		**2,400**		0
Unrealized Gain on Investments		4,000			4,000
Other Comprehensive Income to NCI			**1,600**		(1,600)
Accumulated Other Comprehensive Income, 12/31/20X9	**8,400**	**14,000**	**14,000**	**0**	**8,400**

P5-37A Comprehensive Problem: Majority-Owned Subsidiary

a.

Equity Method Entries on Master Corp.'s Books:

Investment in Stanley Wood Co.	24,000	
Income from Stanley Wood Co.		24,000

Record Master Corp.'s 80% share of Stanley Wood Co.'s 20X5 income

Cash	8,000	
Investment in Stanley Wood Co.		8,000

Record Master Corp.'s 80% share of Stanley Wood Co.'s 20X5 dividend

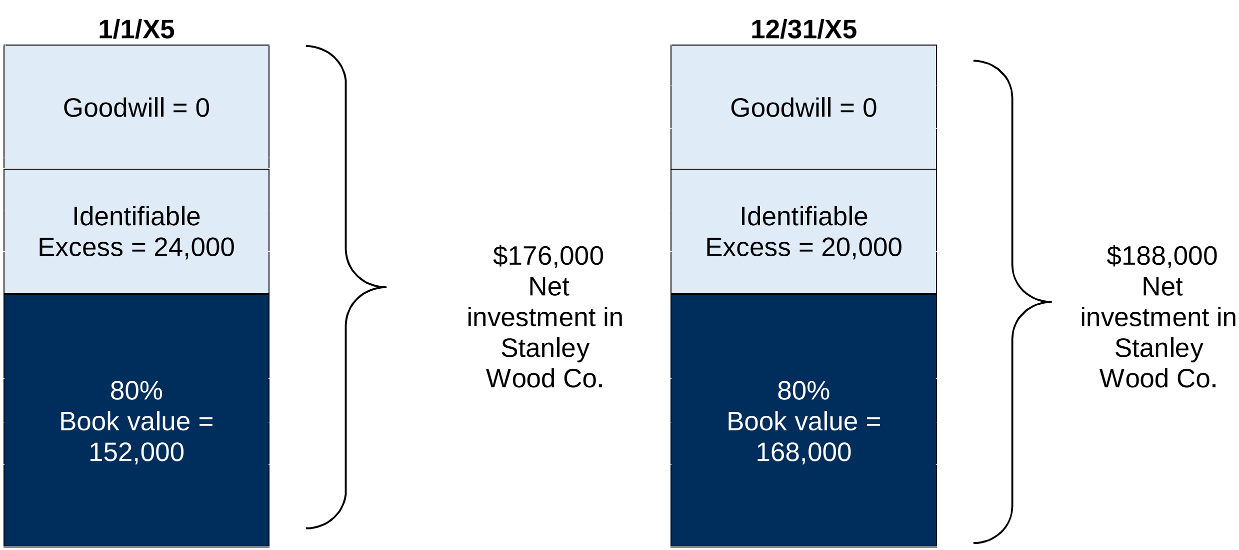
Income from Stanley Wood Co.	4,000	
Investment in Stanley Wood Co.		4,000

Record amortization of excess acquisition price

b.

Book Value Calculations:

	NCI 20%	+	Master Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning book value	**38,000**		**152,000**		**100,000**		**90,000**
+ Net Income	**6,000**		**24,000**				**30,000**
- Dividends	**(2,000)**		**(8,000)**				**(10,000)**
Ending book value	**42,000**		**168,000**		**100,000**		**110,000**



P5-37A (continued)

Basic elimination entry

Common stock	100,000	
Retained earnings	90,000	
Income from Stanley Wood Co.	24,000	
NCI in NI of Stanley Wood Co.	6,000	
Dividends declared		10,000
Investment in Stanley Wood Co.		168,000
NCI in NA of Stanley Wood Co.		42,000

Excess Value (Differential) Calculations:

	NCI 20%	+	Master Corp. 80%	=	Buildings & Equipment	+	Acc. Depr.
Beginning balance	6,000		24,000		50,000		(20,000)
Changes	(1,000)		(4,000)				(5,000)
Ending balance	5,000		20,000		50,000		(25,000)

Amortized excess value reclassification entry:

Depreciation expense	5,000	
Income from Stanley Wood Co.		4,000
NCI in NI of Stanley Wood Co.		1,000

Excess value (differential) reclassification entry:

Buildings & Equipment	50,000	
Accumulated Depreciation		25,000
Investment in Stanley Wood Co.		20,000
NCI in NA of Stanley Wood Co.		5,000

Eliminate intercompany accounts:

Accounts payable	10,000	
Cash and receivables		10,000

	Investment in Stanley Wood Co. (Dr)	Investment in Stanley Wood Co. (Cr)		Income from Stanley Wood Co. (Dr)	Income from Stanley Wood Co. (Cr)	
Beginning Balance	176,000					
80% Net Income	24,000				24,000	80% Net Income
		8,000	80% Dividends			
		4,000	Excess Val. Amort.	4,000		
Ending Balance	188,000				20,000	Ending Balance
		168,000	Basic	24,000		
		20,000	Excess Reclass.		4,000	Amort. Reclass.
	0				0	

P5-37A (continued)

c.

	Master Corp.	Stanley Wood Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	200,000	100,000			300,000
Less: COGS	(120,000)	(50,000)			(170,000)
Less: Depreciation Expense	(25,000)	(15,000)	5,000		(45,000)
Less: Inventory Losses	(15,000)	(5,000)			(20,000)
Income from Stanley Wood Co.	20,000		24,000	4,000	0
Consolidated Net Income	60,000	30,000	29,000	4,000	65,000
NCI in Net Income			6,000	1,000	(5,000)
Controlling Interest in Net Income	**60,000**	**30,000**	**35,000**	**5,000**	**60,000**
Statement of Retained Earnings					
Beginning Balance	314,000	90,000	90,000		314,000
Net Income	**60,000**	**30,000**	**35,000**	**5,000**	60,000
Less: Dividends Declared	(30,000)	(10,000)		10,000	(30,000)
Ending Balance	**344,000**	**110,000**	**125,000**	**15,000**	**344,000**
Balance Sheet					
Cash and Receivables	81,000	65,000		10,000	136,000
Inventory	260,000	90,000			350,000
Land	80,000	80,000			160,000
Buildings & Equipment	500,000	150,000	50,000		700,000
Less: Accumulated Depreciation	(205,000)	(105,000)		25,000	(335,000)
Investment in Stanley Wood Co.	188,000			168,000	0
				20,000	
Total Assets	**904,000**	**280,000**	**50,000**	**223,000**	**1,011,000**
Accounts Payable	60,000	20,000	10,000		70,000
Notes Payable	200,000	50,000			250,000
Common Stock	300,000	100,000	100,000		300,000
Retained Earnings	**344,000**	**110,000**	**125,000**	**15,000**	344,000
NCI in NA of Stanley Wood Co.				42,000	47,000
				5,000	
Total Liabilities & Equity	**904,000**	**280,000**	**235,000**	**62,000**	**1,011,000**

P5-38A Comprehensive Problem: Differential Apportionment

a.

Equity Method Entries on Mortar Corp.'s Books:

Investment in Granite Co.	173,000	
Cash		173,000

Record the initial investment in Granite Co.

Investment in Granite Co.	48,000	
Income from Granite Co.		48,000

Record Mortar Corp.'s 80% share of Granite Co.'s 20X7 income

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

Record Mortar Corp.'s 80% share of Granite Co.'s 20X7 dividend

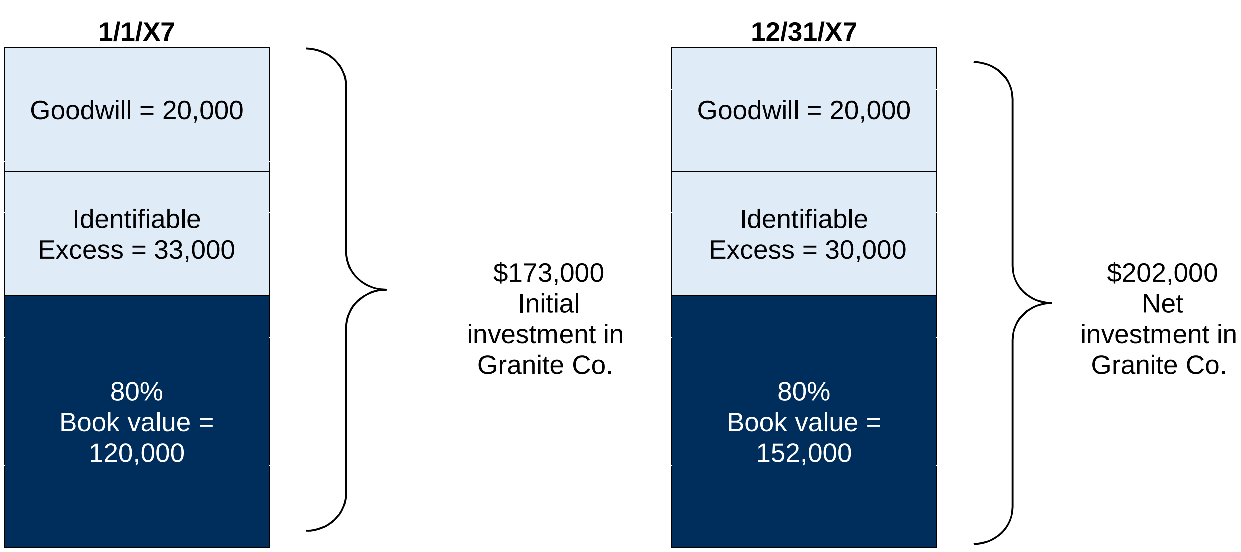
Income from Granite Co.	3,000	
Investment in Granite Co.		3,000

Record amortization of excess acquisition price

b.

Book Value Calculations:

	NCI 20%	+	Mortar Corp. 80%	=	Common Stock	+	Retained Earnings
Beginning book value	**30,000**		**120,000**		**50,000**		**100,000**
+ Net Income	**12,000**		**48,000**				**60,000**
- Dividends	**(4,000)**		**(16,000)**				**(20,000)**
Ending book value	**38,000**		**152,000**		**50,000**		**140,000**



P5-38A (continued)

Basic elimination entry

Common stock	50,000	
Retained earnings	100,000	
Income from Granite Co.	48,000	
NCI in NI of Granite Co.	12,000	
Dividends declared		20,000
Investment in Granite Co.		152,000
NCI in NA of Granite Co.		38,000

Excess Value (Differential) Calculations:

	NCI 20%	+	Mortar Corp. 80%	=	Buildings & Equipment	+	Acc. Depr.	+	Goodwil l
Beginning balance	13,250		53,000		41,250		0		25,000
Changes	(750)		(3,000)				(3,750)		0
Ending balance	12,500		50,000		41,250		(3,750)		25,000

Amortized excess value reclassification entry:

Depreciation expense	3,750	
Income from Granite Co.		3,000
NCI in NI of Granite Co.		750

Excess value (differential) reclassification entry:

Buildings & Equipment	41,250	
Goodwill	25,000	
Acc. Depr.		3,750
Investment in Granite Co.		50,000
NCI in NA of Granite Co.		12,500

Eliminate intercompany accounts:

Accounts payable	16,000	
Accounts receivable		16,000

Optional accumulated depreciation elimination entry

Accumulated depreciation	60,000	
Building & equipment		60,000

	Investment in Granite Co. (Dr)	Investment in Granite Co. (Cr)		Income from Granite Co. (Dr)	Income from Granite Co. (Cr)	
Acquisition Price	173,000					
80% Net Income	48,000				48,000	80% Net Income
		16,000	80% Dividends			
		3,000	Excess Val. Amort.	3,000		
Ending Balance	202,000				45,000	Ending Balance
		152,000	Basic	48,000		
		50,000	Excess Reclass.		3,000	Amort. Reclass.
	0				0	

P5-38A (continued)

c.

	Mortar Corp.	Granite Co.	Elimination Entries DR	Elimination Entries CR	Consolidated
Income Statement					
Sales	700,000	400,000			1,100,000
Less: COGS	(500,000)	(250,000)			(750,000)
Less: Depreciation Expense	(25,000)	(15,000)	3,750		(43,750)
Less: Other Expenses	(75,000)	(75,000)			(150,000)
Income from Granite Co.	45,000		48,000	3,000	0
Consolidated Net Income	145,000	60,000	**51,750**	**3,000**	156,250
NCI in Net Income			12,000	750	(11,250)
Controlling Interest in Net Income	**145,000**	**60,000**	**63,750**	**3,750**	**145,000**
Statement of Retained Earnings					
Beginning Balance	290,000	100,000	100,000		290,000
Net Income	**145,000**	**60,000**	**63,750**	**3,750**	145,000
Less: Dividends Declared	(50,000)	(20,000)		20,000	(50,000)
Ending Balance	**385,000**	**140,000**	**163,750**	**23,750**	**385,000**
Balance Sheet					
Cash	38,000	25,000			63,000
Accounts Receivable	50,000	55,000		16,000	89,000
Inventory	240,000	100,000			340,000
Land	80,000	20,000			100,000
Buildings & Equipment	500,000	150,000	41,250	60,000	631,250
Less: Accumulated Depreciation	(155,000)	(75,000)	60,000	3,750	(173,750)
Investment in Granite Co.	202,000			152,000	0
				50,000	
Goodwill			25,000		25,000
Total Assets	**955,000**	**275,000**	**126,250**	**281,750**	**1,074,500**
Accounts Payable	70,000	35,000	16,000		89,000
Mortgage Payable	200,000	50,000			250,000
Common Stock	300,000	50,000	50,000		300,000
Retained Earnings	**385,000**	**140,000**	**163,750**	**23,750**	385,000
NCI in NA of Granite Co.				38,000	50,500
				12,500	
Total Liabilities & Equity	**955,000**	**275,000**	**229,750**	**74,250**	**1,074,500**