**CHAPTER 4**

**Consolidation of Wholly Owned Subsidiaries Acquired at More than Book Value**

**ANSWERS TO QUESTIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**SOLUTIONS TO CASES**

**C4-1 Reporting Significant Investments in Common Stock**

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

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

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

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

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

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

**C4-2 Assigning an Acquisition Differential**

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

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

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

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

**C4-3 Negative Retained Earnings**

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

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

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

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

**C4-4 Balance Sheet Reporting Issues**

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

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

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

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

**C4-5 Subsidiary Ownership: AMR Corporation and International Lease**

(1) International Lease Finance Corporation leases aircraft to airlines.

(2) American International Group, Inc. is the direct owner of International Lease.

(3) Los Angeles, California

(4) California

(5) International Lease’s common stock is not publicly traded because the company is an indirect wholly owned subsidiary of American International Group.

(6) American International Group, Inc., is the parent of the consolidated group. American International is a holding company with businesses that include insurance, and related products, financial services, and asset management.

**SOLUTIONS TO EXERCISES**

**E4-1 Cost versus Equity Reporting**

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

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

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

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

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

**E4-2 Differential Assigned to Patents**

Journal entries recorded by Power Corporation:

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

**E4-3 Differential Assigned to Copyrights**

Journal entries recorded by Best Corporation:

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

**E4-4 Differential Attributable to Depreciable Assets**

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

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

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

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

**E4-5 Investment Income**

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

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

Assignment of differential

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

**E4-6 Determination of Purchase Price**

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

**E4-7 Correction of Error**

Required correcting entry:

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

Computation of correction of investment account

|  |  |  |  |
| --- | --- | --- | --- |
|  | Addition to account for investment income: |  |  |
|  | 20X6: $16,000 | $16,000 |  |
|  | 20X7: $24,000 | 24,000 |  |
|  | 20X8: $32,000 | 32,000 | $72,000 |
|  | Deduction for dividends received: |  |  |
|  | 20X6: $6,000 | $ 6,000 |  |
|  | 20X7: $8,000 | 8,000 |  |
|  | 20X8: $8,000 | 8,000 | (22,000) |
|  | Amortization of differential: |  |  |
|  | Purchase price | $56,000 |  |
|  | Proportionate share of book value of net assets  ($10,000 + $30,000) | (40,000) |  |
|  | Amount of differential | $16,000 |  |
|  | Amortization for 3 years [($16,000 / 8) x 3] |  | (6,000) |
|  | Required correction of investment account |  | $44,000 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | Computation of correction of retained earnings of Grand Corporation | | |
|  | Dividend income recorded in 20X6: $6,000 | $ 6,000 |  |
|  | 20X7: $8,000 | 8,000 | ($14,000) |
|  |  |  |  |
|  | Equity-method income in 20X6: ($16,000 - $2,000) | $14,000 |  |
|  | 20X7: ($24,000 - $2,000) | 22,000 | 36,000 |
|  | Required correction of retained earnings |  | $22,000 |

**E4-8 Differential Assigned to Land and Equipment**

Journal entries recorded by Rod Corporation:

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

**E4-9 Equity Entries with Goodwill**

Journal entries recorded following purchase:

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

**E4-10 Multiple-Choice Questions on Consolidation Process**

1. **c** – Goodwill is the difference between the fair value of the acquire (what someone is willing to pay for the company) and the fair value of the net identifiable assets.

(a) *Incorrect*. Goodwill can be measured in business combinations, and is always recorded regardless of difficulty.

(b) *Incorrect.* Goodwill is the excess of the purchase price over the fair value of the net identifiable assets, not the book value.

(d) *Incorrect.* The size of the company acquired has no direct correlation with the amount of goodwill that may or may not be recorded.

2. **d** – Consolidated financial statements will never report intercompany receivables. The intercompany receivables would show up on the individual books of the companies involved, but the amounts would be eliminated prior to consolidation. [AICPA Adapted]

(a) *Incorrect*. No intercompany receivables should exist in the consolidated financials.

(b) *Incorrect.* No intercompany receivables should exist in the consolidated financials.

(c) *Incorrect.* No intercompany receivables should exist in the consolidated financials.

3. **d** – The consolidated stockholder’s equity balance is always equal to the balance of total equity from the parent’s books.

(a) *Incorrect*. The only amount that should appear in the consolidated balance is the amount from the parent’s books.

(b) *Incorrect.* The only amount that should appear in the consolidated balance is the amount from the parent’s books.

(c) *Incorrect.* The equity balances from parent and sub are not added together, but rather only the balance from the parent’s books appears in the consolidated statements.

4. **b** - $550,000 = $1,500,000 – [(100,000 + 200,000 + 450,000 +1,000,000) – (300,000 + 500,000)]

5. **a** – The consolidated balance sheet should only show the retained earnings balance of the parent company.

(b) *Incorrect*. Consolidated retained earnings should equal the parent’s retained earnings.

(c) *Incorrect.* Consolidated retained earnings should equal the parent’s retained earnings. (d) *Incorrect.* Consolidated retained earnings should equal the parent’s retained earnings.

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

1. **c** – Goodwill is not amortized, but instead is tested for impairment at least annually.

(a) *Incorrect*. Goodwill is not amortized.

(b) *Incorrect.* Goodwill is not amortized.

(d) *Incorrect.* Because the subsidiary has recognized more depreciation than it should have, depreciation expense should be decreased, not increased.

2. **a** – Goodwill is not amortized, thus no amortization expense is recorded. Because goodwill was found to be unimpaired, the entire amount of the existing goodwill would be reported.

(b) *Incorrect*. Goodwill is not amortized.

(c) *Incorrect.* Goodwill is not amortized.

(d) *Incorrect.* Goodwill was unimpaired, and still exists at the end of 20X8. Thus, goodwill should be recorded.

3. **d** – All intercompany loans and profits must be eliminated in a consolidation, thus the entire balances should be eliminated.

(b) *Incorrect*. All intercompany loans and profits must be eliminated.

(c) *Incorrect.* All intercompany loans and profits must be eliminated.

(d) *Incorrect.* All intercompany loans and profits must be eliminated.

4. **c** – $400,000 = $1,700,000 - $1,300,000

**E4-12 Eliminating Entries with Differential**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Tower Corp.'s Books:** | | | | |  |
| Investment in Brown Co. | |  | 100,000 | |  |
| Cash |  |  |  |  | 100,000 |
| Record the initial investment in Brown Co. | | | |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Book value at acquisition** | **57,000** |  | **20,000** |  | **37,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X8** |  |  |  |
| Goodwill = 18,000 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 25,000 |  | $100,000  Initial investment in Brown Co. | |
|  |
|  |
| 100% Book value = 57,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **20,000** | |  |
| **Retained earnings** |  |  | **37,000** | |  |
| **Investment in Brown Co.** | |  |  |  | **57,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |  |  |
|  | **Total** | **=** | **Inventory** | **+** | **Buildings & Equipment** | **+** | **Goodwill** |  |
| **Balances** | **43,000** |  | **5,000** |  | **20,000** |  | **18,000** |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Inventory** |  |  | **5,000** |  |
| **Buildings & Equipment** | |  | **20,000** |  |
| **Goodwill** |  |  | **18,000** |  |
| **Investment in Brown Co.** | |  |  | **43,000** |

**E4-12** (continued)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Investment in** | |  |
|  | **Brown Co.** | |  |
| **Acquisition Price** | **100,000** |  |  |
|  |  | **57,000** | **Basic** |
|  |  | **43,000** | **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 recorded balances. On the other hand, eliminating entries are entered only in the consolidation worksheet to facilitate the preparation of consolidated financial statements. As a result, they do not change the balances recorded in the company's accounts and must be reentered each time a consolidation worksheet is prepared.

**E4-13 Balance Sheet Consolidation**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Reed Corp.'s Books:** | | | | | | |  | | |  | |
| Investment in Thorne Corp. | | | | |  | 395,000 | | | |  | |
| Cash | | |  | |  |  |  | | | 395,000 | |
| **Book Value Calculations:** | |  | |  | | | |  |  | |  | |
|  | **Total Book Value** | **=** | | **Common Stock** | | | | **+** | **Retained  Earnings** | |  | |
| **Book value at acquisition** | **360,000** |  | | **120,000** | | | |  | **240,000** | |  | |
|  |  |  | |  | | | |  |  | |  | |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X4** |  |  |  |
| Goodwill = 19,000 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 16,000 |  | $395,000  Initial investment in Thorne Corp. | |
|  |
|  |
| 100% Book value = 360,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **120,000** | |  |
| **Retained earnings** |  |  | **240,000** | |  |
| **Investment in Thorne Corp.** | |  |  |  | **360,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | | | | | | | | | |  | |  | | | | | |  |  | | |  |
|  | **Total** | | **=** | **Buildings** | | | | | | **+** | **Inventory** | | | | | | **+** | **Goodwill** | | | |  |
| **Balances** | **35,000** | |  | **(20,000)** | | | | | |  | **36,000** | | | | | |  | **19,000** | | | |  |
|  |  | |  |  | | | | | |  |  | | | | | |  |  | | | |  |
| **Excess value (differential) reclassification entry:** | | | | | | | | | | | | |  | | | | | |
| **Inventory** | | | | | |  |  | **36,000** | | |  | | | |
| **Goodwill** | | | | | |  |  | **19,000** | | |  | | | |
| **Buildings** | | | | | |  |  |  | | | **20,000** | | | |
| **Investment in Thorne Corp.** | | | | | | |  |  | | | **35,000** | | | |
|  | | **Investment in** | | | | | | |  | | | | | | |
|  | | **Thorne Corp.** | | | | | | |  | | | | | | |
| **Acquisition Price** | | **395,000** | | |  | | | |  | | | | | | |
|  | |  | | | **360,000** | | | | **Basic** | | | | | | |
|  | |  | | | **35,000** | | | | **Excess Reclass.** | | | | | | |
|  | | **0** | | |  | | | |  | | | | | | |

**E4-14 Acquisition with Differential**

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

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

b.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Road Corp.'s Books:** | | | |  |  |
| Investment in Conger Corp. | |  | 470,000 | |  |
| Cash |  |  |  |  | 470,000 |
| Record the initial investment in Conger Corp. | | | |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | | | |  | |  | |  |  |  |
|  | | **Total Book Value** | | **=** | | **Common Stock** | | **+** | **Retained  Earnings** |  |
| **Book value at acquisition** | | **210,000** | |  | | **80,000** | |  | **130,000** |  |
|  | |  | |  | |  | |  |  |  |
| **1/1/X2** |  | |  | |  | |
| Goodwill = 60,000 | |  | | --- | |  | | |  | |  | |
|  | |  | |  | |
|  | |  | |  | |
| Identifiable  Excess = 200,000 |  | | $470,000  Initial investment in Conger Corp. | | | |
|  | |
|  | |
| 100% Book value = 210,000 |  | |
|  | |
|  | |
|  | |
|  | |  | |  | |
|  | |  | |  | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **80,000** | |  |
| **Retained earnings** |  |  | **130,000** | |  |
| **Investment in Conger Corp.** | |  |  |  | **210,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |  |  |
|  | **Total** | **=** | **Land** | **+** | **Buildings** | **+** | **Goodwill** |  |
| **Balances** | **260,000** |  | **20,000** |  | **180,000** |  | **60,000** |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | | |  | |
| **Land** |  |  | **20,000** |  | |
| **Buildings** |  |  | **180,000** |  | |
| **Goodwill** |  |  | **60,000** |  | |
| **Investment in Conger Corp.** | |  |  | **260,000** | |

**E4-15 Balance Sheet Worksheet with Differential**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Blank Corp.'s Books:** | | | |  |  |
| Investment in Faith Corp. | |  | 189,000 | |  |
| Cash |  |  |  |  | 189,000 |
| Record the initial investment in Faith Corp. | | | |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Book value at acquisition** | **150,000** |  | **60,000** |  | **90,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X2** |  |  |  |
| Goodwill = 0 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 39,000 |  | $189,000  Initial investment in Faith Corp. | |
|  |
|  |
| 100% Book value = 150,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **60,000** | |  |
| **Retained earnings** |  |  | **90,000** | |  |
| **Investment in Faith Corp.** | |  |  |  | **150,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | | | | | | | |  | |  | | | | |  |
|  | **Total** | | **=** | | | **Inventory** | **+** | | **Buildings & Equipment** | | | | | |  |
| **Balances** | **39,000** | |  | | | **24,000** |  | | **15,000** | | | | | |  |
|  |  | |  | | |  |  | |  | | | | | |  |
| **Excess value (differential) reclassification entry:** | | | | | | | | | | |  | | |
| **Inventory** | |  | |  | **24,000** | | |  | | | | |
| **Buildings & Equipment** | | | |  | **15,000** | | |  | | | | |
| **Investment in Faith Corp.** | | | |  |  | | | **39,000** | | | | |

**E4-15** (continued)

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

b.

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

**E4-16 Worksheet for Wholly Owned Subsidiary**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Gold Enterprises’ Books:** | | | | | |
| Investment in Premium Builders | |  | 167,000 | |  |
| Cash |  |  |  |  | 167,000 |
| Record the initial investment in Premium Builders | | | | | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Book value at acquisition** | **150,000** |  | **140,000** |  | **10,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X5** |  |  |  |
| Goodwill = 0 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 17,000 |  | $167,000  Initial investment in Premium Builders | |
|  |
|  |
| 100% Book value = 150,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **140,000** | |  |
| **Retained earnings** |  |  | **10,000** | |  |
| **Investment in Premium Builders** | | | |  | **150,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | | | |  | |  | |  | |  | |  |
|  | **Total** | **=** | **Cash and Receivables** | **+** | **Inventory** | | **+** | | **Buildings & Equipment** | |  | |
| **Balances** | **17,000** |  | **(2,000)** |  | **7,000** | |  | | **12,000** | |  | |
|  |  |  |  |  |  | |  | |  | |  | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | | |  | |
| **Inventory** |  |  | **7,000** |  | |
| **Buildings & Equipment** | |  | **12,000** |  | |
| **Cash and Receivables** | |  |  | **2,000** | |
| **Investment in Premium Builders** | | |  | **17,000** | |

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

**E4-16** (continued)

b.

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| c. | Gold Enterprises and Subsidiary  Consolidated Balance Sheet  January 1, 20X5 | | | | |
| Cash and Receivables | | $ 108,000 | Current Liabilities | | $ 210,000 |
| Inventory | | 507,000 | Long-Term Debt | | 600,000 |
| Buildings and | |  | Common Stock | $200,000 |  |
| Equipment (net) | | 522,000 | Retained Earnings | 127,000 | 327,000 |
|  | |  | Total Liabilities & | |  |
| Total Assets | | $1,137,000 | Stockholders' Equity | | $1,137,000 |

**E4-17 Computation of Consolidated Balances**

|  |  |  |
| --- | --- | --- |
| a. | Inventory | $ 440,000 |
|  |  |  |
| b. | Land | $ 145,000 |
|  |  |  |
| c. | Buildings and Equipment | $ 1,750,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. Goodwill: | Fair value of consideration given |  | $ 576,000 |
|  | Book value of net assets |  |  |
|  | at acquisition | $450,000 |  |
|  | Fair value increment for: |  |  |
|  | Inventory | 20,000 |  |
|  | Land | (10,000) |  |
|  | Buildings and equipment | 70,000 |  |
|  | Fair value of net assets |  |  |
|  | at acquisition |  | (530,000) |
|  | Balance assigned to goodwill |  | $   46,000 |

|  |  |  |
| --- | --- | --- |
| e. | Investment in Astor Corporation: Nothing would be reported; the balance in the | |
|  | investment account is eliminated. |  |

**E4-18 Multiple-Choice Questions on Balance Sheet** **Consolidation**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1. | **d** – | $215,000 | = | $130,000 + $85,000 |
|  |  |  |  |  |
| 2. | **b** – | $23,000 | = | $198,000 – ($405,000 - $265,000 + $15,000 + $20,000) |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 3. | **c** – | $1,109,000 | = | Total Assets of Top Corp. | $ 844,000 |
|  |  |  |  | Less: Investment in Sun Corp. | (198,000) |
|  |  |  |  | Book value of assets of Top Corp. | $ 646,000 |
|  |  |  |  | Book value of assets of Sun Corp. | 405,000 |
|  |  |  |  | Total book value | $1,051,000 |
|  |  |  |  | Payment in excess of book value |  |
|  |  |  |  | ($198,000 - $140,000) | 58,000 |
|  |  |  |  | Total assets reported | $1,109,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 4. | **c** – | $701,500 | = | ($61,500 + $95,000 + $280,000) + ($28,000 + $37,000 |
|  |  |  |  | + $200,000) |
|  |  |  |  |  |
| 5. | **d** – | $257,500 | = | The amount reported by Top Corporation |
|  |  |  |  |  |
| 6. | **a** – | $407,500 | = | The amount reported by Top Corporation |

**E4-19 Wholly Owned Subsidiary with Differential**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Winston Corp.'s Books:** | | | | |  |
| Investment in Canton Corp. | |  | 178,000 | |  |
| Cash |  |  |  |  | 178,000 |
| Record the initial investment in Canton Corp. | | | |  |  |
|  |  |  |  |  |  |
| Investment in Canton Corp. | |  | 30,000 | |  |
| Income from Canton Corp. | |  |  |  | 30,000 |
| Record Winston Corp.'s 100% share of Canton Corp.'s 20X3 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 12,000 | |  |
| Investment in Canton Corp. | |  |  |  | 12,000 |
| Record Winston Corp.'s 100% share of Canton Corp.'s 20X3 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Canton Corp. | |  | 4,000 | |  |
| Investment in Canton Corp. | |  |  |  | 4,000 |
| Record amortization of excess acquisition price | | | | |  |

b.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X3** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 28,000 |  | $178,000  Initial investment in Canton Corp. | | |  | |  | | 100% Book value = 150,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X3** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 24,000 | $192,000  Net investment in Canton Corp. | | | | 100% Book value = 168,000 | | | | |  | |  | |

**E4-19** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **60,000** | |  |
| **Retained earnings** |  |  | **90,000** | |  |
| **Income from Canton Corp.** | |  | **30,000** | |  |
| **Dividends declared** | |  |  |  | **12,000** |
| **Investment in Canton Corp.** | |  |  |  | **168,000** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |
|  | **Total** | **=** | **Equipment** | **+** | **Acc. Depr.** |  |
| **Beginning Balances** | **28,000** |  | **28,000** |  |  |  |
| **Changes** | **(4,000)** |  |  |  | **(4,000)** |  |
| **Ending Balances** | **24,000** |  | **28,000** |  | **(4,000)** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | | | |
| **Depreciation expense** |  | **4,000** |  | |
| **Income from Canton Corp.** |  |  | **4,000** | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Equipment** |  |  | **28,000** |  |
| **Accumulated depreciation** |  |  |  | **4,000** |
| **Investment in Canton Corp.** | |  |  | **24,000** |

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

**E4-20 Basic Consolidation Worksheet**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Blake Corp.'s Books:** | | | |  |  |
| Investment in Shaw Corp. | |  | 150,000 | |  |
| Cash |  |  |  |  | 150,000 |
| Record the initial investment in Shaw Corp. | | | |  |  |
|  |  |  |  |  |  |
| Investment in Shaw Corp. | |  | 30,000 | |  |
| Income from Shaw Corp. | |  |  |  | 30,000 |
| Record Blake Corp.'s 100% share of Shaw Corp.'s 20X3 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 10,000 | |  |
| Investment in Shaw Corp. | |  |  |  | 10,000 |
| Record Blake Corp.'s 100% share of Shaw Corp.'s 20X3 dividend | | | | | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Beginning book value** | **150,000** |  | **100,000** |  | **50,000** |  |
| **+ Net Income** | **30,000** |  |  |  | **30,000** |  |
| **- Dividends** | **(10,000)** |  |  |  | **(10,000)** |  |
| **Ending book value** | **170,000** |  | **100,000** |  | **70,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X3** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 0 |  | $150,000  Initial investment in Shaw Corp. | | |  | |  | | 100% Book value = 150,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X3** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 0 | $170,000  Net investment in Shaw Corp. | | | | 100% Book value = 170,000 | | | | |  | |  | |

**E4-20** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **100,000** | |  |
| **Retained earnings** |  |  | **50,000** | |  |
| **Income from Shaw Corp.** | |  | **30,000** | |  |
| **Dividends declared** | |  |  |  | **10,000** |
| **Investment in Shaw Corp.** | |  |  |  | **170,000** |

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

**E4-20** (continued)

b.

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

**E4-21 Basic Consolidation Worksheet for Second Year**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Blake Corp.'s Books:** | | | |  |  |
| Investment in Shaw Corp. | |  | 35,000 | |  |
| Income from Shaw Corp. | |  |  |  | 35,000 |
| Record Blake Corp.'s 100% share of Shaw Corp.'s 20X4 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 15,000 | |  |
| Investment in Shaw Corp. | |  |  |  | 15,000 |
| Record Blake Corp.'s 100% share of Shaw Corp.'s 20X4 dividend | | | | | |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X4** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 0 |  | $170,000  Net investment in Shaw Corp. | | |  | |  | | 100% Book value = 170,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X4** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 0 | $190,000  Net investment in Shaw Corp. | | | | 100% Book value = 190,000 | | | | |  | |  | |

**E4-21** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **100,000** | |  |
| **Retained earnings** |  |  | **70,000** | |  |
| **Income from Shaw Corp.** | |  | **35,000** | |  |
| **Dividends declared** | |  |  |  | **15,000** |
| **Investment in Shaw Corp.** | |  |  |  | **190,000** |

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

**E4-21** (continued)

b.

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

**E4-22 Consolidation Worksheet with Differential**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Kennelly Corp.'s Books:** | | | | | |
| Investment in Short Co. | |  | 180,000 | |  |
| Cash |  |  |  |  | 180,000 |
| Record the initial investment in Short Co. | | | | |  |
|  |  |  |  |  |  |
| Investment in Short Co. | |  | 30,000 | |  |
| Income from Short Co. | |  |  |  | 30,000 |
| Record Kennelly Corp.'s 100% share of Short Co.'s 20X5 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 10,000 | |  |
| Investment in Short Co. | |  |  |  | 10,000 |
| Record Kennelly Corp.'s 100% share of Short Co.'s 20X5 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Short Co. | |  | 5,000 | |  |
| Investment in Short Co. | |  |  |  | 5,000 |
| Record amortization of excess acquisition price | | | | |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Beginning book value** | **150,000** |  | **100,000** |  | **50,000** |  |
| **+ Net Income** | **30,000** |  |  |  | **30,000** |  |
| **- Dividends** | **(10,000)** |  |  |  | **(10,000)** |  |
| **Ending book value** | **170,000** |  | **100,000** |  | **70,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X5** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 30,000 |  | $180,000  Initial investment in Short Co. | | |  | |  | | 100% Book value = 150,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X5** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 25,000 | $195,000  Net investment in Short Co. | | | | 100% Book value = 170,000 | | | | |  | |  | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **100,000** | |  |
| **Retained earnings** |  |  | **50,000** | |  |
| **Income from Short Co.** | |  | **30,000** | |  |
| **Dividends declared** | |  |  |  | **10,000** |
| **Investment in Short Co.** | |  |  |  | **170,000** |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | | | |  |  | | |  |
|  | **Total** | **=** | **Depreciable Assets** | **+** | **Acc. Depr.** | | |  |
| **Beginning balance** | **30,000** |  | **30,000** |  | **0** | | |  |
| **Changes** | **(5,000)** |  |  |  | **(5,000)** | | |  |
| **Ending balance** | **25,000** |  | **30,000** |  | **(5,000)** | | |  |
|  |  |  |  |  |  | | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | | | |  |
| **Depreciation expense** |  | **5,000** |  | |
| **Income from Short Co.** |  |  | **5,000** | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Depreciable Assets** |  |  | **30,000** |  |
| **Accumulated depreciation** |  |  |  | **5,000** |
| **Investment in Short Co.** | |  |  | **25,000** |

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

**E4-22** (continued)

b.

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

**E4-23 Consolidation Worksheet for Subsidiary**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Land Corp.'s Books:** | | | |  |  |
| Investment in Growth Co. | |  | 170,000 | |  |
| Cash |  |  |  |  | 170,000 |
| Record the initial investment in Growth Co. | | | |  |  |
|  |  |  |  |  |  |
| Investment in Growth Co. | |  | 35,000 | |  |
| Income from Growth Co. | |  |  |  | 35,000 |
| Record Land Corp.'s 100% share of Growth Co.'s 20X4 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 15,000 | |  |
| Investment in Growth Co. | |  |  |  | 15,000 |
| Record Land Corp.'s 100% share of Growth Co.'s 20X4 dividend | | | | | |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X4** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 0 |  | $170,000  Initial investment in Growth Co. | | |  | |  | | 100% Book value = 170,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X4** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 0 | $190,000  Net investment in Growth Co. | | | | 100% Book value = 190,000 | | | | |  | |  | |

**E4-23** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **100,000** | |  |
| **Retained earnings** |  |  | **70,000** | |  |
| **Income from Growth Co.** | |  | **35,000** | |  |
| **Dividends declared** | |  |  |  | **15,000** |
| **Investment in Growth Co.** | |  |  |  | **190,000** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | | | |
| **Accumulated depreciation** |  | **75,000** | |  | |
| **Building & equipment** |  |  |  | **75,000** | |

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

**E4-23** (continued)

b.

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

**E4-24 Push-Down Accounting**

|  |  |  |  |
| --- | --- | --- | --- |
| a. Entry to record acquisition of Louis stock on books of Jefferson: | | | |
|  |  |  |  |
|  | Investment in Louis Corporation Stock | 789,000 |  |
|  | Cash |  | 789,000 |
|  |  |  |  |
| b. Entry to record revaluation of assets on books of Louis Corporation: | | | |
|  |  |  |  |
|  | Land | 15,000 |  |
|  | Buildings | 50,000 |  |
|  | Equipment | 20,000 |  |
|  | Revaluation Capital |  | 85,000 |
|  |  |  |  |
| c. Investment elimination entry in consolidation worksheet (no other entries needed): | | | |
|  |  |  |  |
|  | Common Stock – Louis Corporation | 200,000 |  |
|  | Additional Paid-In Capital | 425,000 |  |
|  | Retained Earnings | 79,000 |  |
|  | Revaluation Capital | 85,000 |  |
|  | Investment in Louis Corporation Stock |  | 789,000 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Additional Capital** | **+** | **Retained  Earnings** | **+** | **Revaluation Capital** |  |
| **Book value at acquisition** | **789,000** |  | **200,000** |  | **425,000** |  | **79,000** |  | **85,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |

**SOLUTIONS TO PROBLEMS**

**P4-25 Assignment of Differential in Worksheet**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Teresa Corp.'s Books:** | | | | |  |
| Investment in Sally Enterprises | |  | 290,000 | |  |
| Cash |  |  |  |  | 290,000 |
| Record the initial investment in Sally Enterprises | | | | |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Book value at acquisition** | **250,000** |  | **100,000** |  | **150,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X4** |  |  |  |
| Goodwill = 30,000 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 10,000 |  | $290,000  Initial investment in Sally Enterprises | |
|  |
|  |
| 100% Book value = 250,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **100,000** | |  |
| **Retained earnings** |  |  | **150,000** | |  |
| **Investment in Sally Enterprises** | | |  |  | **250,000** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |
|  | **Total** | **=** | **Buildings & Equipment** | **+** | **Goodwill** |  |
| **Balances** | **40,000** |  | **10,000** |  | **30,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Buildings & Equipment** |  |  | **10,000** |  |
| **Goodwill** |  |  | **30,000** |  |
| **Investment in Sally Enterprises** | | |  | **40,000** |

**P4-25** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | | | |
| **Accumulated depreciation** |  | **65,000** | |  |
| **Building & equipment** |  |  |  | **65,000** |

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

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

**P4-25** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| b. | Teresa Corporation and Subsidiary Consolidated Balance Sheet  January 1, 20X4 | | | |
|  | | Cash and Receivables |  | $ 60,000 |
|  | | Inventory |  | 135,000 |
|  | | Land |  | 170,000 |
|  | | Buildings and Equipment | $575,000 |  |
|  | | Less: Accumulated Depreciation | (175,000) | 400,000 |
|  | | Goodwill |  | 30,000 |
|  | | Total Assets |  | $795,000 |
|  | |  |  |  |
|  | | Accounts Payable |  | $ 75,000 |
|  | | Notes Payable |  | 150,000 |
|  | | Common Stock | $300,000 |  |
|  | | Retained Earnings | 270,000 | 570,000 |
|  | | Total Liabilities and |  |  |
|  | | Stockholders' Equity |  | $795,000 |

**P4-26 Computation of Consolidated Balances**

|  |  |  |
| --- | --- | --- |
| a. | Inventories ($110,000 + $170,000) | $280,000 |
|  |  |  |
| b. | Buildings and Equipment (net) ($350,000 + $375,000) | $725,000 |

|  |  |  |
| --- | --- | --- |
| c. | Investment in Decibel stock will be fully eliminated and will not appear in the consolidated balance sheet. |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| d. | Goodwill | Fair value of consideration given |  | $280,000 |
|  |  | Fair value of Decibel's net assets: |  |  |
|  |  | Cash and receivables | $ 40,000 |  |
|  |  | Inventory | 170,000 |  |
|  |  | Buildings and equipment (net) | 375,000 |  |
|  |  | Accounts payable | (90,000) |  |
|  |  | Notes payable | (250,000) |  |
|  |  | Fair value of net identifiable |  |  |
|  |  | Assets |  | (245,000) |
|  |  | Goodwill to be reported |  | $ 35,000 |

Note: Goodwill on books of Decibel is not an identifiable asset and therefore is not included in the computation of Decibel's net identifiable assets at the date of acquisition.

|  |  |  |
| --- | --- | --- |
| e. | Common Stock | $400,000 |
|  |  |  |
| f. | Retained Earnings | $105,000 |

**P4-27 Balance Sheet Consolidation [AICPA Adapted]**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Case Inc.'s Books:** | | | |  |  |
| Investment in Frey Inc. | |  | 2,260,000 | |  |
| Cash |  |  |  |  | 2,260,000 |
| Record the initial investment in Frey Inc. | | | |  |  |
|  |  |  |  |  |  |
| Investment in Frey Inc. | |  | 580,000 | |  |
| Income from Frey Inc. | |  |  |  | 580,000 |
| Record Case Inc.'s 100% share of Frey Inc.'s 20X4 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 160,000 | |  |
| Investment in Frey Inc. | |  |  |  | 160,000 |
| Record Case Inc.'s 100% share of Frey Inc.'s 20X4 dividend | | | | | |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X4** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 250,000 |  | $2,260,000  Initial investment in Frey Inc. | | |  | |  | | 100% Book value = 2,010,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X4** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 250,000 | $2,680,000  Net investment in Frey Inc. | | | | 100% Book value = 2,430,000 | | | | |  | |  | |

**P4-27** (continued)

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |
|  | Total | = | Land |  |
| Beginning balance | 250,000 |  | 250,000 |  |
| Changes | 0 |  | 0 |  |
| Ending balance | 250,000 |  | 250,000 |  |
|  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | | | | | | |
| **Land** | |  | |  | **250,000** | |  |
| **Investment in Frey Inc.** |  | |  | | | **250,000** | |

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

**P4-27** (continued)

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

**P4-28 Consolidated Balance Sheet**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** |  |  |  |  |  |
| **Common Stock** |  | **100,000** | |  |  |
| **Retained Earnings** |  | **120,000** | |  |  |
| **Investment in Lake Corp.** |  |  |  | **220,000** | |
|  |  |  |  |  |  |
| **Excess value (differential) reclassification entry:** | | | |  |  |
| **Buildings & Equipment** |  | **40,000** | |  |  |
| **Accumulated Depreciation** |  |  |  | **8,000** | |
| **Investment in Lake Corp.** |  |  |  | **32,000** | |

|  |  |  |
| --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | |
| **Accumulated depreciation** |  | **25,000** | | |  |
| **Building & equipment** |  |  | |  | **25,000** |

b.

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

**P4-29 Comprehensive Problem: Consolidation in Subsequent Period**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Thompson Co.'s Books:** | | | | |  |
| Investment in Lake Corp. | |  | 32,000 | |  |
| Income from Lake Corp. | |  |  |  | 32,000 |
| Record Thompson Co.'s 100% share of Lake Corp.'s 20X4 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 12,000 | |  |
| Investment in Lake Corp. | |  |  |  | 12,000 |
| Record Thompson Co.'s 100% share of Lake Corp.'s 20X4 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Lake Corp. | |  | 4,000 | |  |
| Investment in Lake Corp. | |  |  |  | 4,000 |
| Record amortization of excess acquisition price | | | | |  |

b.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X4** |  |  |  | | Goodwill = 0 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 32,000 |  | $252,000  Net investment in Lake Corp. | | |  | |  | | 100% Book value = 220,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X4** |  |  | | Goodwill = 0 |  |  | |  | |  | | Identifiable  Excess = 28,000 | $268,000  Net investment in Lake Corp. | | | | 100% Book value = 240,000 | | | | |  | |  | |

**P4-29** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **100,000** | |  |
| **Retained earnings** |  |  | **120,000** | |  |
| **Income from Lake Corp.** | |  | **32,000** | |  |
| **Dividends declared** | |  |  |  | **12,000** |
| **Investment in Lake Corp.** | |  |  |  | **240,000** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |
|  | Total | = | Buildings & Equipment | + | Acc. Depr. |  |
| Beginning balance | 32,000 |  | 40,000 |  | (8,000) |  |
| Changes | (4,000) |  |  |  | (4,000) |  |
| Ending balance | 28,000 |  | 40,000 |  | (12,000) |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | | |  |
| **Depreciation expense** |  | **4,000** |  |
| **Income from Lake Corp.** |  |  | **4,000** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Buildings & Equipment** |  |  | **40,000** |  |
| **Accumulated depreciation** |  |  |  | **12,000** |
| **Investment in Lake Corp.** | |  |  | **28,000** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | | |  |  |  |
| **Accounts Payable** |  |  | **2,500** | |  |
| **Accounts Receivable** | |  |  | | **2,500** |

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

**P4-29** (continued)

c.

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

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

a. Ownership acquired for $280,000:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Mason Corp.'s Books:** | | | | |  |
| Investment in Best Co. | |  | 280,000 | |  |
| Cash |  |  |  |  | 280,000 |
| Record the initial investment in Best Co. | | | |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  | |  | |  | |  | |  | |
|  | **Total Book Value** | | **=** | | **Common Stock** | | **+** | | **Retained  Earnings** | |  |
| **Book value at acquisition** | **255,000** | |  | | **80,000** | |  | | **175,000** | |  |
|  |  | |  | |  | |  | |  | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X9** |  |  |  |
| Goodwill = 12,000 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 13,000 |  | $280,000  Initial investment in Best Co. | |
|  |
|  |
| 100% Book value = 255,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **80,000** | |  |
| **Retained earnings** |  |  | **175,000** | |  |
| **Investment in Best Co.** | |  |  |  | **255,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |  |  |
|  | Total | = | Land | + | Inventories | + | Goodwill |  |
| Balances | 25,000 |  | 20,000 |  | (7,000) |  | 12,000 |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Land** |  |  | **20,000** |  |
| **Goodwill** |  |  | **12,000** |  |
| **Inventories** |  |  |  | **7,000** |
| **Investment in Best Co.** | |  |  | **25,000** |

**P4-30** (continued)

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

b. Ownership acquired for $251,000:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Mason Corp.'s Books:** | | | | |  |
| Investment in Best Co. | |  | 251,000 | |  |
| Cash |  |  |  |  | 251,000 |
| Record the initial investment in Best Co. | | | |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | | | | | |  | |  | | | |  | | | |  | | | | | |  | |
|  | | **Total Book Value** | | | | | **=** | | **Common Stock** | | | | | | **+** | | **Retained  Earnings** | | | | | |  |
| **Book value at acquisition** | | **255,000** | | | | |  | | **80,000** | | | | | |  | | **175,000** | | | | | |  |
|  | |  | | | | |  | |  | | | | | |  | |  | | | | | |  |
| **Basic Elimination Entry** | | | | | |  |  | | | |  | | |  | | | | | |
| **Common stock** | | | |  | |  | **80,000** | | | | | |  | | | | |
| **Retained earnings** | | | |  | |  | **175,000** | | | | | |  | | | | |
| **Investment in Best Co.** | | | | | |  |  | | | |  | | **255,000** | | | | |
| **Excess Value (Differential) Calculations:** | | | | | | | | | |  |  | | | | | | | |  | |  | | | |  |
|  | Total | | = | | Land | | | | | + | Inventories | | | | | | | | - | | Gain | | | |  |
| Balances | (4,000) | |  | | 20,000 | | | | |  | (7,000) | | | | | | | |  | | (17,000) | | | |  |
|  |  | |  | |  | | | | |  |  | | | | | | | |  | |  | | | |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | | |  |
| **Land** |  |  | **20,000** | |  | |
| **Investment in Best Co.** | |  | **4,000** | |  | |
| **Inventories** |  |  |  |  | **7,000** | |
| **Gain on Bargain Purchase** | |  |  | | **17,000** | |

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

**P4-31 Intercorporate Receivables and Payables**

a. Eliminating entries:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Kim Corp.'s Books:** | | | |  |  |
| Investment in Normal Co. | |  | 305,000 | |  |
| Cash |  |  |  |  | 305,000 |
| Record the initial investment in Normal Co. | | | |  |  |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **1/1/X7** |  |  |  |  |  |
| Goodwill = 20,000 | |  | | --- | |  | |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Identifiable  Excess = 0 |  | $305,000  Initial investment in Normal Co. | |  |  |
|  |  |  |
|  |  |  |
| 100% Book value = 285,000 |  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |
|  | Total | = | Goodwill |  |
| Balances | 20,000 |  | 20,000 |  |
|  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  | |
| **Goodwill** |  |  | **20,000** |  |
| **Investment in Normal Co.** | |  |  | **20,000** |

**P4-31** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | | |  |  |  |
| **Bonds Payable** |  |  | **50,000** | |  |
| **Investment in Normal Co. Bonds** | | |  |  | **50,000** |
|  |  |  |  |  |  |
| **Accounts Payable** |  |  | **10,000** | |  |
| **Accounts Receivable** | |  |  |  | **10,000** |
| **Optional accumulated depreciation elimination entry** | | | |  |  |
| **Accumulated depreciation** | |  | **75,000** | |  |
| **Building & equipment** | |  |  |  | **75,000** |

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

b.

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

**P4-31** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| c. | Kim Corporation and Subsidiary  Consolidated Balance Sheet  January 1, 20X7 | | | |
|  | | Cash |  | $105,000 |
|  | | Accounts Receivable |  | 145,000 |
|  | | Inventory |  | 164,000 |
|  | | Buildings and Equipment | $625,000 |  |
|  | | Less: Accumulated Depreciation | (160,000) | 465,000 |
|  | | Goodwill |  | 20,000 |
|  | | Total Assets |  | $899,000 |
|  | |  |  |  |
|  | | Accounts Payable |  | $ 60,000 |
|  | | Bonds Payable |  | 250,000 |
|  | | Common Stock | $300,000 |  |
|  | | Retained Earnings | 289,000 | 589,000 |
|  | | Total Liabilities and Stockholders' Equity |  | $899,000 |

**P4-32 Balance Sheet Consolidation**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Primary Corp.'s Books:** | | | | |  |
| Investment in Street Co. | |  | 650,000 | |  |
| Bonds Payable |  |  |  |  | 650,000 |
| Record the initial investment in Street Co. | | | |  |  |

b.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Add’l Paid- In-Capital** | **+** | **Retained  Earnings** |  |
| **Book value at acquisition** | **478,000** |  | **200,000** |  | **130,000** |  | **148,000** |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **1/1/X8** |  |  |  |
| Goodwill = 48,000 | |  | | --- | |  | |  |  |
|  |  |  |
|  |  |  |
| Identifiable  Excess = 124,000 |  | $650,000  Initial investment in Street Co. | |
|  |
|  |
| 100% Book value = 478,000 |  |
|  |
|  |
|  |
|  |  |  |
|  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic Elimination Entry** | |  |  |  |  |
| **Common stock** |  |  | **200,000** | |  |
| **Additional paid-in capital** | |  | **130,000** | |  |
| **Retained earnings** |  |  | **148,000** | |  |
| **Investment in Street Co.** | |  |  |  | **478,000** |

**P4-32** (continued)

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Inventory** |  |  | **4,000** |  |
| **Land** |  |  | **20,000** |  |
| **Buildings & Equipment** | |  | **50,000** |  |
| **Patent** |  |  | **40,000** |  |
| **Discount on Bonds Payable** | |  | **10,000** |  |
| **Goodwill** |  |  | **48,000** |  |
| **Investment in Street Co.** | |  |  | **172,000** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | | |  |  | |  | |
| **Current Payables** |  |  | **6,500** | |  | |
| **Receivables** |  |  |  | | **6,500** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| FYI, the FASB now requires that no allowance accounts be carried forward from the acquiree in a business combination. However, because of immateriality and the short-lived nature of the carry forward subsequent to the date of combination, the allowance in this problem has not been offset against the receivable. If such an offset is desired, the following elimination entry would be made: | | | | | | |
|  |  | | | |  |  |
| **Allowance for Bad Debts** | | **1,000** |  |
| **Receivables** | |  | **1,000** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | | | |
| **Accumulated depreciation** |  | **220,000** | |  |
| **Building & equipment** |  |  |  | **220,000** |

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

**P4-32** (continued)

c.

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

**P4-32** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| d. | Primary Corporation and Subsidiary  Consolidated Balance Sheet  January 2, 20X8 | | | |
|  | | Cash |  | $    21,000 |
|  | | Receivables | $    65,500 |  |
|  | | Less: Allowance for Bad Debts | (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 |  | 48,000 |
|  | | Total Assets |  | $1,503,500 |
|  | |  |  |  |
|  | | Current Payables |  | $    60,500 |
|  | | Bonds Payable | $ 950,000 |  |
|  | | Less: Discount on Bonds Payable | (10,000) | 940,000 |
|  | | Stockholders’ Equity |  |  |
|  | | Common Stock | $  300,000 |  |
|  | | Additional Paid-In Capital | 100,000 |  |
|  | | Retained Earnings | 103,000 | 503,000 |
|  | | Total Liabilities and |  |  |
|  | | Stockholders' Equity |  | $1,503,500 |

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

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Mill Corp.'s Books:** | | | |  |  |
| Investment in Roller Co. | |  | 128,000 | |  |
| Cash |  |  |  |  | 128,000 |
| Record the initial investment in Roller Co. | | | |  |  |
|  |  |  |  |  |  |
| Investment in Roller Co. | |  | 24,000 | |  |
| Income from Roller Co. | |  |  |  | 24,000 |
| Record Mill Corp.'s 100% share of Roller Co.'s 20X8 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 16,000 | |  |
| Investment in Roller Co. | |  |  |  | 16,000 |
| Record Mill Corp.'s 100% share of Roller Co.'s 20X8 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Roller Co. | |  | 7,500 | |  |
| Investment in Roller Co. | |  |  |  | 7,500 |
| Record amortization of excess acquisition price | | | | |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |
|  | **Total Book Value** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Beginning book value** | **100,000** |  | **60,000** |  | **40,000** |  |
| **+ Net Income** | **24,000** |  |  |  | **24,000** |  |
| **- Dividends** | **(16,000)** |  |  |  | **(16,000)** |  |
| **Ending book value** | **108,000** |  | **60,000** |  | **48,000** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X8** |  |  |  | | Goodwill = 8,000 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 20,000 |  | $128,000  Initial investment in Roller Co. | | |  | |  | | 100% Book value = 100,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X8** |  |  | | Goodwill = 2,500 |  |  | |  | |  | | Identifiable  Excess = 18,000 | $128,500  Net investment in Roller Co. | | | | 100% Book value = 108,000 | | | | |  | |  | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **60,000** | |  |
| **Retained earnings** |  |  | **40,000** | |  |
| **Income from Roller Co.** | |  | **24,000** | |  |
| **Dividends declared** | |  |  |  | **16,000** |
| **Investment in Roller Co.** | |  |  |  | **108,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | | |  | |  | |  | |  | | |  |
|  | **Total** | **=** | **Buildings & Equipment** | **+** | | **Acc. Depr.** | | **+** | | **Goodwill** | |  |
| **Beginning balance** | **28,000** |  | **20,000** |  | | **0** | |  | | **8,000** | |  |
| **Changes** | **(7,500)** |  |  |  | | **(2,000)** | |  | | **(5,500)** | |  |
| **Ending balance** | **20,500** |  | **20,000** |  | | **(2,000)** | |  | | **2,500** | |  |
|  |  |  |  |  | |  | |  | |  | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | |  |  |
| **Depreciation expense** |  | **2,000** |  |
| **Goodwill impairment loss** |  | **5,500** |  |
| **Income from Roller Co.** |  |  | **7,500** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **P4-33** (continued)  **Excess value (differential) reclassification entry:** | | | |  |
| **Buildings & Equipment** |  |  | **20,000** |  |
| **Goodwill** |  |  | **2,500** |  |
| **Accumulated depreciation** |  |  |  | **2,000** |
| **Investment in Roller Co.** | |  |  | **20,500** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | | | |
| **Accumulated depreciation** |  | **30,000** | |  | |
| **Building & equipment** |  |  |  | **30,000** | |

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

**P4-33** (continued)

b.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Mill Corp.** |  | **Roller Co.** |  | **Elimination Entries** | | |  |  |  |
|  |  |  |  |  | **DR** |  | **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 Roller Co. |  | 16,500 |  |  |  | **24,000** |  | **7,500** |  | 0 |  |
|  | **Net Income** |  | **59,000** |  | **24,000** |  | **31,500** |  | **7,500** |  | **59,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Statement of Retained Earnings** |  |  |  |  |  |  |  |  |  |  |  |
|  | Beginning Balance |  | 102,000 |  | 40,000 |  | **40,000** |  |  |  | 102,000 |  |
|  | Net Income |  | **59,000** |  | **24,000** |  | **31,500** |  | **7,500** |  | 59,000 |  |
|  | Less: Dividends Declared |  | (30,000) |  | (16,000) |  |  |  | **16,000** |  | (30,000) |  |
|  | **Ending Balance** |  | **131,000** |  | **48,000** |  | **71,500** |  | **23,500** |  | **131,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Balance Sheet** |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash |  | 19,500 |  | 21,000 |  |  |  |  |  | 40,500 |  |
|  | Accounts Receivable |  | 70,000 |  | 12,000 |  |  |  |  |  | 82,000 |  |
|  | Inventory |  | 90,000 |  | 25,000 |  |  |  |  |  | 115,000 |  |
|  | Land |  | 30,000 |  | 15,000 |  |  |  |  |  | 45,000 |  |
|  | Buildings & Equipment |  | 350,000 |  | 150,000 |  | **20,000** |  | **30,000** |  | 490,000 |  |
|  | Less: Accumulated Depreciation |  | (145,000) |  | (40,000) |  | **30,000** |  | **2,000** |  | (157,000) |  |
|  | Investment in Roller Co. |  | 128,500 |  |  |  |  |  | **108,000** |  | 0 |  |
|  |  |  |  |  |  |  |  |  | **20,500** |  |  |  |
|  | Goodwill |  |  |  |  |  | **2,500** |  |  |  | 2,500 |  |
|  | **Total Assets** |  | **543,000** |  | **183,000** |  | **52,500** |  | **160,500** |  | **618,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts Payable |  | 45,000 |  | 16,000 |  |  |  |  |  | 61,000 |  |
|  | Wages Payable |  | 17,000 |  | 9,000 |  |  |  |  |  | 26,000 |  |
|  | Notes Payable |  | 150,000 |  | 50,000 |  |  |  |  |  | 200,000 |  |
|  | Common Stock |  | 200,000 |  | 60,000 |  | **60,000** |  |  |  | 200,000 |  |
|  | Retained Earnings |  | **131,000** |  | **48,000** |  | **71,500** |  | **23,500** |  | 131,000 |  |
|  | **Total Liabilities & Equity** |  | **543,000** |  | **183,000** |  | **131,500** |  | **23,500** |  | **618,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Mill Corp.'s Books:** | | | |  |  |
| Investment in Roller Co. | |  | 36,000 | |  |
| Income from Roller Co. | |  |  |  | 36,000 |
| Record Mill Corp.'s 100% share of Roller Co.'s 20X9 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 20,000 | |  |
| Investment in Roller Co. | |  |  |  | 20,000 |
| Record Mill Corp.'s 100% share of Roller Co.'s 20X9 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Roller Co. | |  | 2,000 | |  |
| Investment in Roller Co. | |  |  |  | 2,000 |
| Record amortization of excess acquisition price | | | | |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **1/1/X9** |  |  |  | | Goodwill = 2,500 | |  | | --- | |  | |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 18,000 |  | $128,500  Net investment in Roller Co. | | |  | |  | | 100% Book value = 108,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  | | --- | --- | --- | | **12/31/X9** |  |  | | Goodwill = 2,500 |  |  | |  | |  | | Identifiable  Excess = 16,000 | $142,500  Net investment in Roller Co. | | | | 100% Book value = 124,000 | | | | |  | |  | |

**P4-34** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **60,000** | |  |
| **Retained earnings** |  |  | **48,000** | |  |
| **Income from Roller Co.** | |  | **36,000** | |  |
| **Dividends declared** | |  |  |  | **20,000** |
| **Investment in Roller Co.** | |  |  |  | **124,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |  |  |
|  | **Total** | **=** | **Buildings & Equipment** | **+** | **Acc. Depr.** | **+** | **Goodwill** |  |
| **Beginning balance** | **20,500** |  | **20,000** |  | **(2,000)** |  | **2,500** |  |
| **Changes** | **(2,000)** |  |  |  | **(2,000)** |  |  |  |
| **Ending balance** | **18,500** |  | **20,000** |  | **(4,000)** |  | **2,500** |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | | |  | |  |
| **Depreciation expense** |  | **2,000** | |  | |
| **Income from Roller Co.** |  |  | | **2,000** | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Buildings & Equipment** |  |  | **20,000** |  |
| **Goodwill** |  |  | **2,500** |  |
| **Accumulated depreciation** |  |  |  | **4,000** |
| **Investment in Roller Co.** | |  |  | **18,500** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | | | |
| **Accumulated depreciation** |  | **30,000** | |  | |
| **Building & equipment** |  |  |  | **30,000** | |

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

**P4-34** (continued)

b.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Mill Corp.** |  | **Roller Co.** |  | **Elimination Entries** | | |  |  |  |
|  |  |  |  |  | **DR** |  | **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 Roller Co. |  | 34,000 |  |  |  | **36,000** |  | **2,000** |  | 0 |  |
|  | **Net Income** |  | **84,000** |  | **36,000** |  | **38,000** |  | **2,000** |  | **84,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Statement of Retained Earnings** |  |  |  |  |  |  |  |  |  |  |  |
|  | Beginning Balance |  | 131,000 |  | 48,000 |  | **48,000** |  |  |  | 131,000 |  |
|  | Net Income |  | **84,000** |  | **36,000** |  | **38,000** |  | **2,000** |  | 84,000 |  |
|  | Less: Dividends Declared |  | (30,000) |  | (20,000) |  |  |  | **20,000** |  | (30,000) |  |
|  | **Ending Balance** |  | **185,000** |  | **64,000** |  | **86,000** |  | **22,000** |  | **185,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Balance Sheet** |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash |  | 45,500 |  | 32,000 |  |  |  |  |  | 77,500 |  |
|  | Accounts Receivable |  | 85,000 |  | 14,000 |  |  |  |  |  | 99,000 |  |
|  | Inventory |  | 97,000 |  | 24,000 |  |  |  |  |  | 121,000 |  |
|  | Land |  | 50,000 |  | 25,000 |  |  |  |  |  | 75,000 |  |
|  | Buildings & Equipment |  | 350,000 |  | 150,000 |  | **20,000** |  | **30,000** |  | 490,000 |  |
|  | Less: Accumulated Depreciation |  | (170,000) |  | (50,000) |  | **30,000** |  | **4,000** |  | (194,000) |  |
|  | Investment in Roller Co. |  | 142,500 |  |  |  |  |  | **124,000** |  | 0 |  |
|  |  |  |  |  |  |  |  |  | **18,500** |  |  |  |
|  | Goodwill |  |  |  |  |  | **2,500** |  |  |  | 2,500 |  |
|  | **Total Assets** |  | **600,000** |  | **195,000** |  | **52,500** |  | **176,500** |  | **671,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts Payable |  | 51,000 |  | 15,000 |  |  |  |  |  | 66,000 |  |
|  | Wages Payable |  | 14,000 |  | 6,000 |  |  |  |  |  | 20,000 |  |
|  | Notes Payable |  | 150,000 |  | 50,000 |  |  |  |  |  | 200,000 |  |
|  | Common Stock |  | 200,000 |  | 60,000 |  | **60,000** |  |  |  | 200,000 |  |
|  | Retained Earnings |  | **185,000** |  | **64,000** |  | **86,000** |  | **22,000** |  | 185,000 |  |
|  | **Total Liabilities & Equity** |  | **600,000** |  | **195,000** |  | **146,000** |  | **22,000** |  | **671,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**P4-34** (continued)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| c. | Mill Corporation and Subsidiary  Consolidated Balance Sheet  December 31, 20X9 | | | | | | |
|  | |  |  |  |  |  | |
| Cash | |  |  |  |  | $ 77,500 | |
| Accounts Receivable | |  |  |  |  | 99,000 | |
| Inventory | |  |  |  |  | 121,000 | |
| Land | |  |  |  |  | 75,000 | |
| Buildings and Equipment | |  |  |  | $490,000 |  | |
| Less: Accumulated Depreciation | | |  |  | (194,000) | 296,000 | |
| Goodwill | |  |  |  |  | 2,500 | |
| Total Assets | |  |  |  |  | $671,000 | |
|  | |  |  |  |  |  | |
| Accounts Payable | |  |  |  |  | $  66,000 | |
| Wages Payable | |  |  |  |  | 20,000 | |
| Notes Payable | |  |  |  |  | 200,000 | |
| Common Stock | |  |  |  | $200,000 |  | |
| Retained Earnings | |  |  |  | 185,000 | 385,000 | |
| Total Liabilities and Stockholders' Equity | | | |  |  | $671,000 | |
|  | | | | | | | |
|  | | | | | | | |
| Mill Corporation and Subsidiary  Consolidated Income Statement  Year Ended December 31, 20X9 | | | | | | | |
| Sales | | | |  |  | $490,000 | |
| Cost of Goods Sold | | | |  | $259,000 |  | |
| Wage Expense | | | |  | 55,000 |  | |
| Depreciation Expense | | | |  | 37,000 |  | |
| Interest Expense | | | |  | 16,000 |  | |
| Other Expenses | | | |  | 39,000 |  | |
| Total Expenses | | | |  |  | (406,000) | |
| Consolidated Net Income | | | |  |  | $ 84,000 | |
|  | | | | | | | |
|  | | | | | | | |
| Mill Corporation and Subsidiary  Consolidated Retained Earnings Statement  Year Ended December 31, 20X9 | | | | | | | |
| Retained Earnings, January 1, 20X9 | | | |  |  | $131,000 | |
| 20X9 Net Income | | | |  |  | 84,000 | |
|  | | | |  |  | $215,000 | |
| Dividends Declared, 20X9 | | | |  |  | (30,000) | |
| Retained Earnings, December 31, 20X9 | | | |  |  | $185,000 | |

**P4-35 Comprehensive Problem: Wholly Owned Subsidiary**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Power Corp.'s Books:** | | | | |  |
| Investment in Upland Products | | | 30,000 | |  |
| Income from Upland Products | | | |  | 30,000 |
| Record Power Corp.'s 100% share of Upland Products' 20X5 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 10,000 | |  |
| Investment in Upland Products | | | |  | 10,000 |
| Record Power Corp.'s 100% share of Upland Products' 20X5 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Upland Products | | | 5,000 | |  |
| Investment in Upland Products | | | |  | 5,000 |
| Record amortization of excess acquisition price | | | | |  |

b.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |
| **Common stock** |  | **100,000** | |  |
| **Retained earnings** |  | **90,000** | |  |
| **Income from Upland Products** | | **30,000** | |  |
| **Dividends declared** | |  |  | **10,000** |
| **Investment in Upland Products** | | |  | **210,000** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |
|  | **Total** | **=** | **Buildings & Equipment** | **+** | **Acc. Depr.** |  |
| **Beginning balance** | **30,000** |  | **50,000** |  | **(20,000)** |  |
| **Changes** | **(5,000)** |  |  |  | **(5,000)** |  |
| **Ending balance** | **25,000** |  | **50,000** |  | **(25,000)** |  |
|  |  |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | | |  |
| **Depreciation Expense** | **5,000** |  | |
| **Income from Upland Products** |  | **5,000** | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | | | | | | | | |  |
| **Building** |  |  | | | **50,000** | | |  | |
| **Accumulated Depreciation** | | | |  | | |  | | **25,000** |
| **Investment in Upland Products** | | |  | | | **25,000** | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | |  |  |
| **Accounts Payable** |  | **10,000** |  | |
| **Cash and Receivables** | |  | **10,000** | |

**P4-35** (continued)

c.

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

**P4-36 Comprehensive Problem: Differential Apportionment**

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Equity Method Entries on Jersey Corp.'s Books:** | | | | |  |
| Investment in Lime Co. | |  | 203,000 | |  |
| Cash |  |  |  |  | 203,000 |
| Record the initial investment in Lime Co. | | | |  |  |
|  |  |  |  |  |  |
| Investment in Lime Co. | |  | 60,000 | |  |
| Income from Lime Co. | |  |  |  | 60,000 |
| Record Jersey Corp.'s 100% share of Lime Co.'s 20X7 income | | | | | |
|  |  |  |  |  |  |
| Cash |  |  | 20,000 | |  |
| Investment in Lime Co. | |  |  |  | 20,000 |
| Record Jersey Corp.'s 100% share of Lime Co.'s 20X7 dividend | | | | | |
|  |  |  |  |  |  |
| Income from Lime Co. | |  | 3,000 | |  |
| Investment in Lime Co. | |  |  |  | 3,000 |
| Record amortization of excess acquisition price | | | | |  |

b.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **1/1/X7** | |  | | --- | |  | |  |  | | Goodwill = 20,000 |  |  |  | |  |  |  | |  |  |  | | Identifiable  Excess = 33,000 |  | $203,000  Initial investment in Lime Co. | | |  | |  | | 100% Book value = 150,000 |  | |  | |  | |  | |  |  |  | |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | | **12/31/X7** | |  | | --- | |  | |  | | Goodwill = 20,000 |  |  | |  |  | |  |  | | Identifiable  Excess = 30,000 |  | $240,000  Net investment in Lime Co. | |  | |  | | 100% Book value = 190,000 |  | |  | |  | |  | |  |  | |  |  | |

**P4-36** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **50,000** | |  |
| **Retained earnings** |  |  | **100,000** | |  |
| **Income from Lime Co.** | |  | **60,000** | |  |
| **Dividends declared** | |  |  |  | **20,000** |
| **Investment in Lime Co.** | |  |  |  | **190,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | | | | | | |  | | |  | | |  | |  | |  | |
|  | **Total** | **=** | **Buildings & Equipment** | | | | | **+** | | | **Acc. Depr.** | | | **+** | | **Goodwill** | |  | |
| **Beginning balance** | **53,000** |  | **33,000** | | | | |  | | | **0** | | |  | | **20,000** | |  | |
| **Changes** | **(3,000)** |  |  | | | | |  | | | **(3,000)** | | |  | | **0** | |  | |
| **Ending balance** | **50,000** |  | **33,000** | | | | |  | | | **(3,000)** | | |  | | **20,000** | |  | |
|  |  |  |  | | | | |  | | |  | | |  | |  | |  | |
| **Amortized excess value reclassification entry:** | | | | | |  | | | |  | | |
| **Depreciation expense** | | | |  | **3,000** | |  | | | | | |
| **Income from Lime Co.** | | | |  |  | | **3,000** | | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | | | |  |
| **Buildings & Equipment** |  |  | **33,000** |  |
| **Goodwill** |  |  | **20,000** |  |
| **Accumulated depreciation** |  |  |  | **3,000** |
| **Investment in Lime Co.** | |  |  | **50,000** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | | |  |  |  |
| **Accounts Payable** |  |  | **16,000** | |  |
| **Accounts Receivable** | |  |  | | **16,000** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Optional accumulated depreciation elimination entry** | | | | |
| **Accumulated depreciation** |  | **60,000** | |  | |
| **Building & equipment** |  |  |  | **60,000** | |

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

**P4-36** (continued)

c.

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

**P4-37 Push-Down Accounting**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| a. | Entry to record acquisition of Lindy stock on books of Greenly: | | | |
|  |  |  |  |  |
|  |  | Investment in Lindy Company Stock | 935,000 |  |
|  |  | Cash |  | 935,000 |
|  |  |  |  |  |
| b. | Entry to record revaluation of assets on books of Lindy Company at date of combination: | | | |
|  |  |  |  |  |
|  |  | Inventory | 5,000 |  |
|  |  | Land | 85,000 |  |
|  |  | Buildings | 100,000 |  |
|  |  | Equipment | 70,000 |  |
|  |  | Revaluation Capital |  | 260,000 |
|  |  | Revalue assets to reflect fair values at date of combination. | | |
|  |  |  |  |  |
| c. | Investment elimination entry in consolidation worksheet prepared December 31, 20X6 (no other entries needed): | | | |
|  |  |  |  |  |
|  |  | Common Stock — Lindy Company | 100,000 |  |
|  |  | Additional Paid-In Capital | 400,000 |  |
|  |  | Retained Earnings | 175,000 |  |
|  |  | Revaluation Capital | 260,000 |  |
|  |  | Investment in Lindy Company Stock |  | 935,000 |
|  |  |  |  |  |
| d. | Equity-method entries on the books of Greenly during 20X7: | | | |
|  |  |  |  |  |
|  |  | Cash | 50,000 |  |
|  |  | Investment in Lindy Company Stock |  | 50,000 |
|  |  | Record dividend from Lindy Company. |  |  |
|  |  |  |  |  |
|  |  | Investment in Lindy Company Stock | 88,000 |  |
|  |  | Income from Lindy Company |  | 88,000 |
|  |  | Record equity-method income. |  |  |

**P4-37** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| e. | | Eliminating entries in consolidation worksheet prepared December 31, 20X7  (no other entries needed): | | | |
|  |  | |  |  |  |
|  |  | | Common Stock — Lindy Company | 100,000 |  |
|  |  | | Additional Paid-In Capital | 400,000 |  |
|  |  | | Retained Earnings, January 1 | 175,000 |  |
|  |  | | Revaluation Capital | 260,000 |  |
|  |  | | Income from Lindy Company | 88,000 |  |
|  |  | | Dividends Declared |  | 50,000 |
|  |  | | Investment in Lindy Company Stock |  | 973,000 |
|  |  | | Eliminate beginning investment balance. | |  |
|  |  | | $973,000 = $935,000 + $88,000 - $50,000 |  |  |
|  | |  |  |  |  |
| f. | | Eliminating entries in consolidation worksheet prepared December 31, 20X8 (no other entries needed): | | | |
|  |  | |  |  |  |
|  |  | | Common Stock — Lindy Company | 100,000 |  |
|  |  | | Additional Paid-In Capital | 400,000 |  |
|  |  | | Retained Earnings, January 1 | 213,000 |  |
|  |  | | Revaluation Capital | 260,000 |  |
|  |  | | Income from Lindy Company | 90,000 |  |
|  |  | | Dividends Declared |  | 50,000 |
|  |  | | Investment in Lindy Company Stock |  | 1,013,000 |
|  |  | | Eliminate beginning investment balance: | |  |
|  |  | | $213,000 = $175,000 + $88,000 - $50,000 | |  |
|  |  | | $1,013,000 = $973,000 + $90,000 - $50,000 | |  |