SOUTH-WESTERN
CENGAGE Learning

CHAPTER 3

UNDERSTANDING THE ISSUES

1. (a) Subsidiary Income = $40,000.
Investment in Subsidiary ($500,000 + $40,000 – $5,000) = $535,000.

(b) Subsidiary Income ($40,000 – $7,000 amortization) = $33,000.
Investment in Subsidiary ($500,000 + $33,000 – $5,000) = $528,000.

(c) Subsidiary Income = $0.
Dividend Income = $5,000.
Investment in Subsidiary = $500,000.

2. Date alignment means adjusting the investment account to reflect the same date as the subsidiary equity accounts so that their balances reflect the same point in time.

(a) Simple equity method—The subsidiary's equity accounts reflect beginning-of-year balances, yet the investment account reflects an end-of-year balance. During the consolidation process, the subsidiary income and the parent's share of the subsidiary's declared dividends are closed to the investment account to return it to its beginning-of-year balance.

(b) Sophisticated equity method—The subsidiary's equity accounts reflect beginning-of-year balances, yet the investment account reflects an end-of-year balance. During the consolidation process, the subsidiary income and the parent's share of the subsidiary's declared dividends are closed to the investment account to return it to its beginning-of-year balance.

(c) Cost method—The subsidiary's equity accounts reflect beginning-of-year balances, yet the investment account reflects the balance on the date of acquisition. Therefore, the investment account is converted to its simple equity balance at the beginning of the period to create date alignment.

3. The noncontrolling share of consolidated net income is the outside ownership share of the subsidiary's internally generated income as adjusted for amortizations created by fair value adjustments on the acquisition date. The NCI share of consolidated net income has, in the past, been shown as an expense. That is no longer allowed. It is to be shown as a distribution of consolidated net income.

4. The $80,000 excess attributed to the controlling interest means that the patent is adjusted by $100,000 ($80,000/80%).

(a)

Parent net income for 2011 .	$140,000
Subsidiary net income in 2011 ($60,000 × ½ year) ..	30,000
Amortization of excess for 2011 ($100,000 ÷ 10 × ½ year)	(5,000)
Consolidated net income.....	$165,000

(b) NCI share of net income = 1/2 × ($60,000 – $10,000) × 20% = $5,000.

5. In 2011, consolidated net income would be reduced by $17,000 as a result of the inventory and equipment. The inventory would increase cost of goods sold by $5,000 ($55,000 – $50,000). The equipment would increase depreciation expense by $12,000 [($160,000 – $100,000) ÷ 5 years]. In 2012, consolidated net income would be reduced by $12,000 as a result of the equipment. The equipment would increase depreciation expense by $12,000 [($160,000 – $100,000) ÷ 5 years].

6. The total noncontrolling interest will consist of 20% of the subsidiary's common stock, paid-in capital in excess of par, retained earnings, dividends declared, and internally generated income. The NCI is shown, in total, as a subdivision of equity on the consolidated balance sheet.

7. Consolidated net income could exceed the sum of the separately calculated net incomes of the parent and subsidiary. This would occur if the fair value of the subsidiary's net assets were less than their book value, resulting in a markdown of assets. The amortization of this markdown would decrease expense; therefore, consolidated net income is increased.

EXERCISES

EXERCISE 3-1

(1) **Determination and Distribution of Excess Schedule**

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$340,000*	$272,000	$ 68,000
Less book value of interest acquired:			
Common stock ($10 par)	$100,000		
Retained earnings	150,000		
Total equity	$250,000	$250,000	$250,000
Interest acquired		80%	20%
Book value		$200,000	$ 50,000
Excess of fair value over book value	$ 90,000	$ 72,000	$ 18,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Fixed assets	$60,000	debit D1	10	$6,000
Goodwill	30,000	debit D2		
Total	$90,000			

*$272,000/80% = $340,000

(2)

		Debit	Credit
(CY1)	Subsidiary Income	20,000	
	Investment in Sargo Company		20,000
	To eliminate parent's share of subsidiary earnings for the current year.		
(CY2)	Investment in Sargo Company ($5,000 × 80%)	4,000	
	Dividends Declared		4,000
	To eliminate parent's share of dividends for the current year.		
(EL)	Common Stock—Sargo ($100,000 × 80%)	80,000	
	Retained Earnings—Sargo ($150,000 × 80%)	120,000	
	Investment in Sargo Company		200,000
	To eliminate pro rata share of the beginning-of-year Sargo equity balances.		
(D)	Depreciable Fixed Assets	60,000	
	Goodwill	30,000	
	Investment in Sargo Company		72,000
	Retained Earnings—Sargo (NCI adjustment)		18,000
	To distribute excess per determination and distribution of excess schedule.		

Exercise 3–1, Continued

(A)	Depreciation Expense	6,000	
	Accumulated Depreciation		6,000
	To amortize excess for the current year.		

(3)

Panther Company and Sargo Company
Consolidated Income Statement
For Year Ended December 31, 2011

Sales	$250,000
Less expenses (add $6,000 adjustment)	191,000
Consolidated net income	$ 59,000
Distributed to noncontrolling interest	3,800
Distributed to controlling interest	$ 55,200

Subsidiary Sargo Company Income Distribution

Depreciation adjustment	$6,000	Internally generated net income	$25,000
		Adjusted income	$19,000
		NCI share	× 20%
		NCI	$ 3,800

Parent Panther Company Income Distribution

		Internally generated net income	$40,000
		80% × Sargo adjusted income of $19,000	15,200
		Controlling interest	$55,200

(4)

Panther Company and Subsidiary Sargo Company
Consolidated Statement of Retained Earnings
For the Year Ended December 31, 2011

	Noncontrolling Interest	Controlling Retained Earnings
Retained earnings, January 1, 2011	$30,000	$200,000
Consolidated net income	3,800	55,200
Dividends declared	(1,000)	
Retained earnings, December 31, 2011	$32,800	$255,200

Exercise 3–1, Concluded

(5)

Panther Company and Sargo Company
Consolidated Balance Sheet
December 31, 2011

Assets		
Current assets		$168,000
Depreciable fixed assets	$660,000[a]	
Less accumulated depreciation	132,000[b]	528,000
Goodwill		30,000
Total assets		$726,000
Liabilities and Stockholders' Equity		
Current liabilities		$100,000
Stockholders' equity:		
Controlling interest:		
Common stock ($10 par)	$300,000	
Retained earnings	255,200	555,200
Noncontrolling interest		70,800[c]
Total liabilities and stockholders' equity		$726,000

[a]$400,000 + $200,000 + $60,000 = $660,000
[b]$106,000 + $20,000 + 6,000 = $132,000
[c]($100,000 × 20%) + $32,800 retained earnings + $18,000 NCI adjustment = $70,800

EXERCISE 3-2

(1)	(CY1)	Subsidiary Income	12,000	
		Investment in Sargo Company		12,000
		To eliminate parent's share of subsidiary earnings for the current year.		
	(CY2)	Investment in Sargo Company	8,000	
		Dividends Declared		8,000
		To eliminate parent's share of dividends for the current year.		
	(EL)	Common Stock—Sargo	80,000	
		Retained Earnings—Sargo ($170,000 × 80%)	136,000	
		Investment in Sargo Company		216,000
		To eliminate pro rata share of the beginning-of-year Sargo equity balances.		
	(D)	Depreciable Fixed Assets	60,000	
		Goodwill	30,000	
		Investment in Sargo Company		72,000
		Retained Earnings—Sargo (NCI adjustment)		18,000
		To distribute excess per determination and distribution of excess schedule.		

Exercise 3–2, Concluded

(A)	Depreciation Expense	6,000	
	Retained Earnings—Panther (80% × $6,000)	4,800	
	Retained Earnings—Sargo (20% × $6,000)	1,200	
	Accumulated Depreciation (2 years × $6,000)		12,000
	To amortize excess for the prior and current years.		

(2)

Panther Company and Sargo Company
Consolidated Income Statement
For Year Ended December 31, 2012

Sales	$300,000
Less expenses (add $6,000 adjustment)	251,000
Consolidated net income	$ 49,000
Distributed to noncontrolling interest	1,800
Distributed to controlling interest	$ 47,200

Subsidiary Sargo Company Income Distribution

Depreciation adjustment	(A)	6,000	Internally generated net income	$15,000
			Adjusted income	$ 9,000
			NCI share	× 20%
			NCI	$ 1,800

Parent Panther Company Income Distribution

	Internally generated net income	$40,000
	80% × Sargo adjusted income of $9,000	7,200
	Controlling interest	$47,200

EXERCISE 3-3

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	**Parent Price (80%)**	**NCI Value (20%)**
Fair value of subsidiary	$500,000*	$400,000	$100,000
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	100,000		
Retained earnings	150,000		
Total equity	$300,000	$300,000	$300,000
Interest acquired		80%	20%
Book value		$240,000	$ 60,000
Excess of fair value over book value	$200,000	$160,000	$ 40,000

Adjustment of identifiable accounts:

	Adjustment	**Worksheet Key**	**Life**	**Amortization per Year**
Equipment	$ 50,000	debit D1	5	$10,000
Goodwill	150,000	debit D2		
Total	$200,000			

*$360,000/80% = $450,000

(a)

Event	Simple Equity Method		
2011			
Subsidiary income of $60,000 reported to parent	Investment in Hebron Company	48,000	
	Subsidiary Income		48,000
Dividends of $10,000 paid by Hebron	Cash	8,000	
	Investment in Hebron Company		8,000
2012			
Subsidiary income of $45,000 reported to parent	Investment in Hebron Company	36,000	
	Subsidiary Income		36,000
Dividends of $10,000 paid by Hebron	Cash	8,000	
	Investment in Hebron Company		8,000

Exercise 3-3, Concluded

(b)

Event	Sophisticated Equity Method		
2011			
Subsidiary income of ($60,000 – $10,000 amortization) × 80% reported to parent	Investment in Hebron Company	40,000	
	Subsidiary Income		40,000
Dividends of $10,000 paid by Hebron	Cash...	8,000	
	Investment in Hebron Company .		8,000
2012			
Subsidiary income of ($45,000 – $10,000 amortization) × 80% reported to parent	Investment in Hebron Company	28,000	
	Subsidiary Income		28,000
Dividends of $10,000 paid by Hebron	Cash...	8,000	
	Investment in Hebron Company .		8,000

(c)

Event	Cost Method		
2011			
Subsidiary income of $60,000 reported to parent	No entry		
Dividends of $10,000 paid by Hebron	Cash...	8,000	
	Dividend Income		8,000
2012			
Subsidiary income of $45,000 reported to parent	No entry		
Dividends of $10,000 paid by Hebron	Cash...	8,000	
	Dividend Income		8,000

EXERCISE 3-4

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (75%)	NCI Value (25%)
Fair value of subsidiary	$616,667*	$462,500	$154,167
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	150,000		
Retained earnings	200,000		
Total equity	$400,000	$400,000	$400,000
Interest acquired		75%	25%
Book value		$300,000	$100,000
Excess of fair value over book value	$216,667	$162,500	$ 54,167

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($50,000 fair – $40,000 book value)	$ 10,000	debit D1		
Buildings and equipment ($300,000 fair – $200,000 book value)	100,000	debit D2	20	$5,000
Patent ($50,000 fair – $30,000 fair value)	20,000	debit D3	10	2,000
Goodwill	86,667	debit D4		
Total	$216,667			

*$462,500/75% = $616,667

(a)	Simple equity	$462,500
	+ (75% × Increase in Retained Earnings of $78,000*)	58,500**
	Balance	$521,000
(b)	Sophisticated equity	$462,500
	+ (75% × Increase in Retained Earnings of $78,000*)	58,500**
	– 2014 Amortization of Excess 75% × ($10,000 Inventory + $5,000 Buildings and Equipment + $2,000 Patent)	(12,750)
	– 2015 Amortization of Excess 75% × ($5,000 Buildings and Equipment + $2,000 Patent)	(5,250)
	Balance	$503,000
(c)	Cost	$462,500

*Shaw's ending retained earnings, December 31, 2015	$278,000
– Shaw's beginning retained earnings, January 1, 2014	200,000
Increase in retained earnings	$ 78,000

**Or 75% × ($70,000 – $20,000 + $48,000 – $20,000)

EXERCISE 3-5

(1) Same as Exercise 1, part (1).

(2)	(CY1)	Subsidiary Income	15,200	
		Investment in Sargo Company		15,200
	(CY2)	Investment in Sargo Company	4,000	
		Dividends Declared		4,000
	(EL)	Common Stock—Sargo	80,000	
		Retained Earnings—Sargo	120,000	
		Investment in Sargo Company		200,000
	(D)	Depreciable Fixed Assets	60,000	
		Goodwill	30,000	
		Investment in Sargo Company		72,000
		Retained Earnings—Sargo (NCI adjustment)		18,000
		To distribute excess per determination and distribution of excess schedule.		
	(A)	Depreciation Expense	6,000	
		Accumulated Depreciation		6,000
		To amortize excess for the current year.		

(3) Same as Exercise 1, part (3).

(4) Same as Exercise 1, part (4).

(5) Same as Exercise 1, part (5).

EXERCISE 3-6

(1) Same as Exercise 1, part (1).

(2)	(CY2)	Dividend Income	4,000	
		Dividends Declared		4,000
		To eliminate parent's share of subsidiary dividends for the current year.		
	(EL)	Common Stock—Sargo	80,000	
		Retained Earnings—Sargo	120,000	
		Investment in Sargo Company		200,000
		To eliminate pro rata share of the beginning-of-year Sargo equity balances.		
	(D)	Depreciable Fixed Assets	60,000	
		Goodwill	30,000	
		Investment in Sargo Company		72,000
		Retained Earnings—Sargo (NCI adjustment)		18,000
		To distribute excess per determination and distribution of excess schedule.		
	(A)	Depreciation Expense	6,000	
		Accumulated Depreciation		6,000
		To amortize excess for the current year.		

Exercise 3-6, Concluded

(3) Same as Exercise 1, part (3).

(4) Same as Exercise 1, part (4).

(5) Same as Exercise 1, part (5).

EXERCISE 3-7

(1)	(CY1)	Subsidiary Income	7,200	
		Investment in Sargo Company		7,200
	(CY2)	Investment in Sargo Company	8,000	
		Dividends Declared		8,000
	(EL)	Common Stock—Sargo	80,000	
		Retained Earnings—Sargo	136,000	
		Investment in Sargo Company		216,000
	(D)	Depreciable Fixed Assets ($60,000 – $6,000 depr. for 2011)	54,000	
		Goodwill	30,000	
		Investment in Sargo Company ($72,000 – $4,800 amort. for 2011)		67,200
		Retained Earnings—Sargo (NCI adjustment) ($18,000 – $1,200 amort. for 2011)		16,800
		To distribute remaining excess per determination and distribution of excess schedule.		
	(A)	Depreciation Expense	6,000	
		Accumulated Depreciation		6,000
		To amortize excess for the current year.		

(2) Same as Exercise 2, part (2).

EXERCISE 3-8

(1)	(CV)	Investment in Sargo Company	16,000	
		Retained Earnings—Panther		16,000
		Convert from cost to equity method by adding to investment account parent's share of subsidiary equity increase. [80% × ($170,000 – $150,000)]		
	(CY2)	Dividend Income	8,000	
		Dividends Declared		8,000
		To eliminate parent's share of subsidiary dividends for the current year.		
	(EL)	Common Stock—Sargo	80,000	
		Retained Earnings—Sargo	136,000	
		Investment in Sargo Company		216,000
		To eliminate pro rata share of the beginning-of-year Sargo equity balances.		
	(D)	Depreciable Fixed Assets	60,000	
		Goodwill	30,000	
		Investment in Sargo Company		72,000
		Retained Earnings—Sargo (NCI adjustment)		18,000
		To distribute excess per determination and distribution of excess schedule.		
	(A)	Depreciation Expense	6,000	
		Retained Earnings—Panther (80% × $6,000)	4,800	
		Retained Earnings—Sargo (20% × $6,000)	1,200	
		Accumulated Depreciation (2 years × $6,000)		12,000
		To amortize excess for the prior and current years.		

(2) Same as Exercise 2, part (2).

EXERCISE 3-9

Amortization Schedule

Account Adjustments	Life	Annual Amount	2011	2012	2013	2014
Inventory	1	$ 6,250	$ 6,250			
Amortization:						
Investments	3	5,000	5,000	$ 5,000	$ 5,000	$ 0
Buildings (net)	20	12,500	12,500	12,500	12,500	12,500
Equipment (net)	5	34,500	34,500	34,500	34,500	34,500
Patent	10	2,250	2,250	2,250	2,250	2,250
Trademark	10	2,000	2,000	2,000	2,000	2,000
Discount on Bonds Payable	5	2,500	2,500	2,500	2,500	2,500
Total			$65,000	$58,750	$58,750	$53,750

EXERCISE 3-10

(1) **Determination and Distribution of Excess Schedule**

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$387,500	$310,000	$ 77,500
Less book value of interest acquired:			
Common stock	$100,000		
Retained earnings	300,000		
Total equity	$400,000	$400,000	$400,000
Interest acquired		80%	20%
Book value		$320,000	$ 80,000
Excess of fair value over book value	$(12,500)	$(10,000)	$ (2,500)

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Fixed assets	$(12,500)	credit D	5	$(2,500)
Total	$(12,500)			

			Debit	Credit
(2)	(EL)	Common Stock—Kraus	80,000	
		Retained Earnings—Kraus	240,000	
		Investment in Kraus Company		320,000
		To eliminate pro rata share of the beginning-of-year Kraus equity balances and purchased income.		
	(D)	Investment in Kraus Company	10,000	
		Retained Earnings—Kraus (NCI adjustment)	2,500	
		Equipment		12,500
		To distribute excess book value to plant assets.		
	(A)	Accumulated Depreciation [($12,500 ÷ 5) × 1/2]	1,250	
		General Expenses		1,250
		To reduce depreciation expense for one-half year.		

(3)

Neiman Company and Subsidiary Kraus Company
Consolidated Income Statement
For Year Ended December 31, 2012

Sales	$400,000
Less cost of goods sold	225,000
Gross profit	$175,000
Less general expenses (less $1,250 adjustment)	83,750
Consolidated net income	$ 91,250
Distributed to noncontrolling interest	6,250
Distributed to controlling interest	$ 85,000

Exercise 3-10, Concluded

Subsidiary Kraus Company Income Distribution

	Internally generated net income	$30,000
	Adjustment of depreciation	1,250
	Adjusted income	$31,250
	NCI share	× 20%
	NCI	$ 6,250

Parent Neiman Company Income Distribution

	Internally generated net income	$60,000
	80% × Kraus adjusted income of $31,250 (past 6 months)	25,000
	Controlling interest	$85,000

EXERCISE 3-11

Calculation of book value of Subsidiary:

Fair value at purchase	$1,062,500
Add $200,000 increase in Barker retained earnings	200,000
Deduct amortization of excess (5 years × $10,000 per year)	(50,000)
Book value balance	$1,212,500
Fair value of Barker Company, December 31, 2011 (given)	$1,000,000

Since the adjusted (for acquisition) book value ($1,212,500) exceeds the fair value balance ($1,000,000), goodwill is impaired.

Impairment loss:

Fair value of Barker Company	$1,000,000
Fair value of Barker Company identifiable assets	900,000
Estimated goodwill	$ 100,000
Existing goodwill	262,500
Impairment loss	$ 162,500

APPENDIX EXERCISES

EXERCISE 3B-1

(1) Investment in Largo Company	500,000	
Common Stock		100,000
Paid-In Capital in Excess of Par		400,000

(2)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$500,000	$500,000	N/A
Fair value of net assets excluding goodwill	386,000	386,000*	
Goodwill	$114,000	$114,000	

*$330,000 equity + $80,000 asset adjustment – $24,000 (30% tax × $80,000) DTL

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$500,000	$500,000	N/A
Less book value of interest acquired:			
Common stock ($10 par)	$100,000		
Retained earnings	230,000		
Total equity	$330,000	$330,000	
Interest acquired		100%	
Book value		$330,000	
Excess of fair value over book value	$170,000	$170,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($120,000 fair – $100,000 book value)	$ 20,000	debit D1	1	
Deferred tax liability (30% tax rate × $20,000)	(6,000)	credit D1t	1	
Depreciable fixed assets ($270,000 fair – $210,000 book value)	60,000	debit D2	10	$6,000
Deferred tax liability (30% tax rate × $60,000)	(18,000)	credit D2t	10	(1,800)
Goodwill	114,000	debit D3		
Total	$170,000			

Exercise 3B-1, Concluded

(3) Elimination Entries:

Common Stock	100,000	
Retained Earnings	230,000	
Investment in Largo Company		330,000
Inventory	20,000	
Equipment	60,000	
Goodwill	114,000	
Deferred Tax Liability (on inventory and equipment)		24,000
Investment in Largo Company		170,000

EXERCISE 3B-2

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Company fair value	$520,000	$468,000	$52,000
Fair value of net assets excluding goodwill	329,000*	296,100	32,900
Goodwill	$191,000	$171,900	$19,100

*$280,000 equity + $70,000 asset adjustment – $21,000 (30% tax × $70,000) DTL

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Fair value of subsidiary	$520,000	$468,000	$ 52,000
Less book value of interest acquired:			
Common stock ($5 par)	$100,000		
Paid-in capital in excess of par	130,000		
Retained earnings	50,000		
Total equity	$280,000	$280,000	$280,000
Interest acquired		90%	10%
Book value		$252,000	$ 28,000
Excess of fair value over book value	$240,000	$216,000	$ 24,000

Exercise 3B-2, Continued

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory	$ 20,000	debit D1	1	
Deferred tax liability (30% tax rate × $20,000)	(6,000)	credit D1t	1	
Depreciable fixed assets	50,000	debit D2	10	$5,000
Deferred tax liability (30% tax rate × $50,000)	(15,000)	credit D2t	10	(1,500)
Goodwill	191,000	debit D3		
Total	$240,000			

(2)

Lucy Company and Subsidiary Diamond Company
Consolidated Income Statement
For Year Ended December 31, 2011

Sales		$550,000
Less cost of goods sold (add $20,000 adjustment)		310,000
Gross profit		$240,000
Less expenses:		
General expenses	$75,000	
Depreciation expense (add $5,000 adjustment)	80,000	155,000
Consolidated income before tax		$ 85,000
Provision for tax (30%)		25,500
Consolidated net income		$ 59,500
Distributed to NCI		(350)
Distributed to controlling interest		$ 59,850

Exercise 3B-2, Concluded

Subsidiary Diamond Company Income Distribution

Inventory consumption	$20,000	Internally generated income before tax	$20,000
Building depreciation	5,000		
		Adjusted income before tax	$(5,000)
		Provision for tax, 30%	1,500
		Adjusted net income	$(3,500)
		NCI share	× 10%
		NCI	$ (350)

Parent Lucy Company Income Distribution

		Internally generated income before tax	$ 90,000
		Adjusted income	$ 90,000
		Tax, 30%	(27,000)
		Adjusted net income	$ 63,000
		90% × Diamond adjusted net income of ($3,500)	(3,150)
		Controlling interest	$ 59,850

EXERCISE 3B-3

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$700,000	$700,000	N/A
Fair value of net assets excluding goodwill	445,000*	455,000	
Goodwill	$255,000	$255,000	

*$350,000 equity + $50,000 asset adjustment – $15,000 (30% tax × $50,000) DTL + $60,000 deferred tax expense ($200,000 × 30%)

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$700,000	$700,000	N/A
Less book value of interest acquired:			
Common stock ($5 par)	$250,000		
Retained earnings	100,000		
Total equity	$350,000	$350,000	
Interest acquired		100%	
Book value		$350,000	
Excess of fair value over book value	$350,000	$350,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Buildings and equipment	$ 50,000	debit D1	10	$5,000
Deferred tax liability (30% tax rate × $50,000)	(15,000)	credit D1t	10	(1,500)
Current deferred tax expense ($40,000 × 30%)	12,000	debit D2		
Noncurrent deferred tax expense ($160,000 × 30%)	48,000	debit D3		
Goodwill	255,000	debit D4		
Total	$350,000			

PROBLEMS

PROBLEM 3-1

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$850,000	$700,000	$150,000*
Fair value of net assets excluding goodwill	730,000**	584,000	146,000
Goodwill	$120,000	$116,000	$ 4,000

*2,000 shares × $75
**$550,000 equity + $180,000 asset adjustments

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$850,000	$700,000	$150,000
Less book value of interest acquired:			
Common stock ($10 par)	$100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	250,000		
Total equity	$550,000	$550,000	$550,000
Interest acquired		80%	20%
Book value		$440,000	$110,000
Excess of fair value over book value	$300,000	$260,000	$ 40,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Land ($180,000 book – $120,000 fair value)	$ 60,000	debit D1		
Building ($470,000 book – $350,000 fair value)	120,000	debit D2	20	$6,000
Goodwill	120,000	debit D3		
Total	$300,000			

Problem 3-1, Continued

(2) Investment Entries:

Investment Entries	Simple Equity Method			Sophisticated Equity Method			Cost Method		
2011									
Subsidiary reports income of $60,000.	Investment in Sauder Company	48,000		Investment in Sauder Company	43,200		No entry		
	Subsidiary Income (80% × reported)		48,000	Subsidiary Income [80% × (reported – $6,000 depreciation)]		43,200			
Subsidiary pays $10,000 dividend.	Cash	8,000		Cash	8,000		Cash	8,000	
	Investment in Sauder Company (80% × declared)		8,000	Investment in Sauder Company (80% × declared)		8,000	Dividend (or Investment) Income		8,000
2012									
Subsidiary reports income of $50,000.	Investment in Sauder Company	40,000		Investment in Sauder Company	35,200		No entry		
	Subsidiary Income (80% × reported)		40,000	Subsidiary Income [80% × (reported – $6,000 depreciation)]		35,200			
Subsidiary pays $10,000 dividend.	Cash	8,000		Cash	8,000		Cash	8,000	
	Investment in Sauder Company (80% × declared)		8,000	Investment in Sauder Company (80% × declared)		8,000	Dividend (or Investment) Income		8,000

Problem 3-1, Continued

Eliminations 2011	Simple Equity Method			Sophisticated Equity Method			Cost Method		
(CY1)	Subsidiary Income	48,000		Subsidiary Income	43,200		No conversion		
Eliminated current-	Investment in			Investment in			needed first year		
year entries.	Sauder Company		48,000	Sauder Company		43,200			
(CY2)	Investment in			Investment in			Dividend Income	8,000	
	Sauder Company	8,000		Sauder Company	8,000		Dividends Declared		8,000
	Dividends Declared		8,000	Dividends Declared		8,000			
(EL)	Common Stock	80,000		Common Stock	80,000		Common Stock	80,000	
Eliminate	Paid-In Capital in			Paid-In Capital in			Paid-In Capital in		
investment as	Excess of Par	160,000		Excess of Par	160,000		Excess of Par	160,000	
of January 1.	Retained Earnings	200,000		Retained Earnings	200,000		Retained Earnings	200,000	
	Investment in			Investment in			Investment in		
	Sauder Company		440,000	Sauder Company		440,000	Sauder Company		440,000
(D)	Land	60,000		Land	60,000		Land	60,000	
Distribute excess.	Building	120,000		Building	120,000		Building	120,000	
	Goodwill	120,000		Goodwill	120,000		Goodwill	120,000	
	Investment in			Investment in			Investment in		
	Sauder Company		260,000	Sauder Company		260,000	Sauder Company		260,000
	RE—Sauder (NCI)		40,000	RE—Sauder (NCI)		40,000	RE—Sauder (NCI)		40,000
(A)	Depr. Expense	6,000		Depr. Expense	6,000		Depr. Expense	6,000	
Amortize excess	Acc. Depreciation		6,000	Acc. Depreciation		6,000	Acc. Depreciation		6,000
for current year.									

Problem 3-1, Concluded

Eliminations 2012	Simple Equity Method			Sophisticated Equity Method			Cost Method		
(CV)							Investment in		
							Sauder Company		
							(80% × $50,000)	40,000	
Equity conversion.							RE—Portico		40,000
(CY1)	Subsidiary Income	40,000		Subsidiary Income	35,200				
Eliminated current-	Investment in			Investment in			Dividend Income	8,000	
year entries.	Sauder Company ...		40,000	Sauder Company.......		35,200	Dividends Declared....		8,000
(CY2)	Investment in			Investment in					
	Sauder Company.......	8,000		Sauder Company	8,000				
	Dividends Declared		8,000	Dividends Declared....		8,000			
(EL)	Common Stock	80,000		Common Stock.............	80,000		Common Stock.............	80,000	
Eliminate	Paid-In Capital in			Paid-In Capital in			Paid-In Capital in		
investment as	Excess of Par	160,000		Excess of Par	160,000		Excess of Par	160,000	
of January 1.	Retained Earnings	240,000		Retained Earnings	240,000		Retained Earnings	240,000	
	Investment in			Investment in			Investment in		
	Sauder Company ...		480,000	Sauder Company.......		480,000	Sauder Company.......		480,000
(D)	Land..........................	60,000		Land	60,000		Land	60,000	
Distribute excess.	Building	120,000		Building (19 years)	114,000		Building	120,000	
	Goodwill	120,000		Goodwill	120,000		Goodwill	120,000	
	Investment in			Investment in			Investment in		
	Sauder Company ...		260,000	Sauder Company.......		255,200	Sauder Company.......		260,000
	RE—Sauder (NCI) .		40,000	RE—Sauder (NCI)		38,800	RE—Sauder (NCI)		40,000
(A)	RE—Sauder	4,800		Depr. Expense	6,000		RE—Sauder	4,800	
Amortize excess	RE—Portico	1,200		Acc. Depreciation.......		6,000	RE—Portico	1,200	
for current and	Depr. Expense	6,000					Depr. Expense	6,000	
prior years.	Acc. Depreciation ...		12,000				Acc. Depreciation.......		12,000

PROBLEM 3-2

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$337,500*	$270,000	$67,500
Fair value of net assets excluding goodwill	235,000**	188,000	47,000
Goodwill	$102,500	$ 82,000	$20,500

*$270,000/80%
**$195,000 equity + $40,000 asset adjustments

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$337,500	$270,000	$ 67,500
Less book value of interest acquired:			
Common stock ($10 par)	$100,000		
Paid-in capital in excess of par	120,000		
Retained earnings	(25,000)		
Total equity	$195,000	$195,000	$195,000
Interest acquired		80%	20%
Book value		$156,000	$ 39,000
Excess of fair value over book value	$142,500	$114,000	$ 28,500

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Buildings	$ 40,000	debit D1	10	$4,000
Goodwill	102,500	debit D2		
Total	$142,500			

Problem 3-2, Continued

(2)

Prescott Company and Subsidiary Sandin Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Prescott	Sandin		Dr.		Cr.				
Current Assets	180,000	115,000								295,000
Land	150,000	75,000								225,000
Buildings	590,000	350,000	(D1)	40,000						980,000
Accumulated Depreciation—Buildings	(265,000)	(182,000)			(A)	8,000				(455,000)
Investment in Sandin Company	294,000		(CY2)	4,000	(CY1)	20,000				
					(EL)	164,000				
					(D)	114,000				
Goodwill			(D2)	102,500						102,500
Liabilities	(175,000)	(133,000)								(308,000)
Common Stock ($10 par)—Prescott	(200,000)									(200,000)
Retained Earnings, January 1, 2012—Prescott	(503,000)		(A)	3,200						
									(499,800)	
Common Stock ($10 par)—Sandin		(100,000)	(EL)	80,000				(20,000)		
Paid-In Capital in Excess of Par—Sandin		(120,000)	(EL)	96,000				(24,000)		
Retained Earnings, January 1, 2012—Sandin		15,000	(A)	800	(EL)	12,000		(24,700)		
					(NCI)	28,500				
Sales	(360,000)	(120,000)					(480,000)			
Cost of Goods Sold	179,000	50,000					229,000			
Expenses	120,000	45,000								
			(A)	4,000			169,000			
Subsidiary Income	(20,000)		(CY1)	20,000						
Dividends Declared	10,000	5,000			(CY2)	4,000		1,000	10,000	
Total	0	0		350,500		350,500				
Consolidated Net Income							(82,000)			
To Noncontrolling Interest (see distribution schedule)							4,200	(4,200)		
To Controlling Interest (see distribution schedule)							77,800		(77,800)	
Total NCI								(71,900)		(71,900)
Retained Earnings—Controlling Interest, December 31, 2012									(567,600)	(567,600)
										0

Problem 3-2, Continued

Eliminations and Adjustments:

(CY1) Eliminate the subsidiary income against the investment account.
(CY2) Eliminate the 80% ownership portion of the subsidiary dividends, including $15,000 negative retained earnings.
(EL) Eliminate the 80% ownership portion of the subsidiary equity accounts against the investment.
(D)/(NCI) Distribute the excess cost and NCI adjustment as follows, in accordance with the determination and distribution of excess schedule:
(D1) Increase buildings by $40,000.
(D2) Increase goodwill $102,500.
(A) Record $4,000 annual increase in building depreciation for current and prior years.

Subsidiary Sandin Company Income Distribution

Building depreciation..............	(A)	$4,000	Internally generated net income....................................	$25,000
			Adjusted income...........................	$21,000
			NCI share....................................	× 20%
			NCI...	$ 4,200

Parent Prescott Company Income Distribution

	Internally generated net income....................................	$61,000
	80% × Sandin adjusted income of $21,000..................	16,800
	Controlling interest	$77,800

(3) Prescott Company and Subsidiary Sandin Company
Consolidated Income Statement
For Year Ended December 31, 2012

Sales	$480,000
Cost of goods sold	229,000
Gross profit	$251,000
Expenses..	169,000
Consolidated net income	$ 82,000
Distributed to noncontrolling interest	4,200
Distributed to controlling interest	$ 77,800

Problem 3-2, Concluded

Prescott Company and Subsidiary Sandin Company
Retained Earnings Statement
For Year Ended December 31, 2012

	NCI	Controlling Interest
Retained earnings, January 1, 2012	$(3,000)*	$499,800
Add distribution of net income	4,200	77,800
Less dividends declared	(1,000)	(10,000)
Balance, December 31, 2012	$ 200	$567,600

*$15,000 debit balance × 20%

Prescott Company and Subsidiary Sandin Company
Consolidated Balance Sheet
December 31, 2012

Assets

Current assets			$ 295,000
Property, plant, and equipment:			
Land		$225,000	
Buildings	$980,000		
Accumulated depreciation	(455,000)	525,000	750,000
Goodwill			102,500
Total assets			$1,147,500

Liabilities and Stockholders' Equity

Liabilities		$ 308,000
Stockholders' equity:		
Controlling interest:		
Common stock ($10 par)	$200,000	
Retained earnings	567,600	
NCI	71,900	839,500
Total liabilities and stockholders' equity		$1,147,500

PROBLEM 3-3

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$385,000	$308,000	$77,000
Fair value of net assets excluding goodwill	335,000	268,000	67,000
Goodwill	$ 50,000	$ 40,000	$10,000

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$385,000	$308,000	$ 77,000
Less book value of interest acquired:			
Common stock	$ 50,000		
Paid-in capital in excess of par	100,000		
Retained earnings	150,000		
Total equity	$300,000	$300,000	$300,000
Interest acquired		80%	20%
Book value		$240,000	$ 60,000
Excess of fair value over book value	$ 85,000	$ 68,000	$ 17,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory	$10,000	debit D1		
Buildings	25,000	debit D2	10	$2,500
Goodwill	50,000	debit D3		
Total	$85,000			

Problem 3-3, Continued

(2)

Peres Company and Soap Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance: Peres	Trial Balance: Soap		Eliminations: Dr.		Eliminations: Cr.	Consolidated Net Income	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
Inventory	100,000	50,000								150,000
Other Current Assets	148,000	180,000								328,000
Investment in Soap	388,000				(CY1)	72,000				
			(CY2)	24,000						
					(EL)	272,000				
					(D)	68,000				
Land	50,000	50,000								100,000
Buildings and Equipment	350,000	320,000	(D2)	25,000						695,000
Accumulated Depreciation	(100,000)	(60,000)			(A2)	5,000				(165,000)
Goodwill			(D3)	50,000						50,000
Other Intangible Assets	20,000									20,000
Current Liabilities	(120,000)	(40,000)								(160,000)
Bonds Payable		(100,000)								(100,000)
Other Long-Term Liabilities	(200,000)									(200,000)
Common Stock—Soap		(50,000)	(EL)	40,000				(10,000)		
Other Paid-In Capital in Excess of Par—Soap		(100,000)	(EL)	80,000				(20,000)		
Retained Earnings—Soap		(190,000)	(EL)	152,000				(52,500)		
					(NCI)	17,000				
			(D1)	2,000						
			(A2)	500						
Common Stock—Peres	(200,000)									(200,000)
Other Paid-In Capital in Excess of Par—Peres	(100,000)									(100,000)
Retained Earnings—Peres	(214,000)									
			(D1)	8,000						
			(A2)	2,000						
									(204,000)	
Sales	(520,000)	(450,000)					(970,000)			
Cost of Goods Sold	300,000	260,000					560,000			
Operating Expenses	120,000	100,000	(A2)	2,500			222,500			
Subsidiary Income	(72,000)		(CY1)	72,000						
Dividends Declared—Soap		30,000			(CY2)	24,000		6,000		
Dividends Declared—Peres	50,000								50,000	
Totals	0	0		458,000		458,000				
Consolidated Net Income							(187,500)			
NCI Share							17,500	(17,500)		
Controlling Share							(170,000)		(170,000)	
NCI								(94,000)		(94,000)
Controlling Retained Earnings									(324,000)	(324,000)
Totals										0

Problem 3-3, Concluded

Eliminations and Adjustments:

(CY1)	Current-year subsidiary income.
(CY2)	Current-year dividend.
(EL)	Eliminate controlling interest in the subsidiary equity.
(D)/(NCI)	Distribute excess and adjust NCI.
(D1)	Inventory (retained earnings).
(D2)	Buildings and equipment.
(D3)	Goodwill.
(A2)	Amortize excess.

Income Distribution Schedules

Soap Company

Amortizations	$2,500	Internally generated net income	$90,000
		Adjusted income	$87,500
		NCI share	20%
		NCI	$17,500

Peres Company

		Internally generated net income	$100,000
		Controlling share of subsidiary	70,000
		Controlling interest	$170,000

PROBLEM 3-4

(1) Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary............	$220,000	$220,000	N/A
Less book value of interest acquired:			
Common stock ($10 par)......	$100,000		
Paid-in capital in excess of par	50,000		
Retained earnings	100,000		
Total equity.....................	$250,000	$250,000	
Interest acquired..................		100%	
Book value...............................		$250,000	
Excess of fair value over book value	$(30,000)	$(30,000)	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Building....................................	$(30,000)	debit D	10	$(3,000)

Problem 3-4, Continued

(2)

Bell Corporation and Subsidiary Stockdon Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2017

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Bell	Stockdon		Dr.		Cr.				
Cash	180,000	143,000								323,000
Inventory	60,000	30,000								90,000
Land	120,000	120,000								240,000
Building (net)	600,000	162,000	(A)	3,000	(D)	30,000				735,000
Investment in Stockdon Corporation	220,000		(D)	30,000	(EL)	250,000				
Accounts Payable	(405,000)	(210,000)								(615,000)
Common Stock ($3 par)—Bell	(300,000)									(300,000)
Paid-In Capital in Excess of Par—Bell	(180,000)									(180,000)
Retained Earnings—Bell	(255,000)								(255,000)	
Common Stock ($10 par)—Stockdon		(100,000)	(EL)	100,000						
Paid-In Capital in Excess of Par—Stockdon		(50,000)	(EL)	50,000						
Retained Earnings—Stockdon		(100,000)	(EL)	100,000						
Sales	(210,000)	(40,000)					(250,000)			
Cost of Goods Sold	120,000	35,000					155,000			
Other Expenses	45,000	10,000			(A)	3,000	52,000			
Dividends Declared	5,000								5,000	
Total	0	0		283,000		283,000				
Consolidated Income							(43,000)		(43,000)	
Retained Earnings—Controlling Interest, December 31, 2017									(293,000)	(293,000)
										0

Eliminations and Adjustments:

(EL) Eliminate 100% of the subsidiary's January 2017 equity balances against the balance of the investment account.

(D) Distribute excess of Stockdon book value over cost of investment according to the determination and distribution of excess schedule.

(A) Reduce the building account by $3,000 as a result of the amortization resulting from the excess adjustment resulting from entry 2.

Problem 3-4, Concluded

(3) Bell Corporation and Subsidiary Stockdon Corporation
Consolidated Income Statement
For Year Ended December 31, 2017

Revenues	$ 250,000
Cost of goods sold	(155,000)
Gross profit	$ 95,000
Other expenses	(52,000)
Consolidated net income	$ 43,000

Bell Corporation and Subsidiary Stockdon Corporation
Retained Earnings Statement
For Year Ended December 31, 2017

Retained earnings, January 1, 2017	$255,000
Add consolidated net income	43,000
Less dividends declared	(5,000)
Balance, December 31, 2017	$293,000

Bell Corporation and Subsidiary Stockdon Corporation
Consolidated Balance Sheet
December 31, 2017

Assets

Current assets:		
Cash	$323,000	
Inventory	90,000	$ 413,000
Property, plant, and equipment:		
Land	$240,000	
Building (net)	735,000	975,000
Total assets		$1,388,000

Liabilities and Stockholders' Equity

Current liabilities		$ 615,000
Stockholders' equity:		
Common stock ($3 par)	$300,000	
Paid-in capital in excess of par	180,000	
Retained earnings	293,000	773,000
Total liabilities and stockholders' equity		$1,388,000

PROBLEM 3-5

(1) Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$400,000	$400,000	N/A
Less book value of interest acquired:			
Common stock ($5 par)	$ 50,000		
Paid-in capital in excess of par	15,000		
Retained earnings................	135,000		
Total equity	$200,000	$200,000	
Interest acquired		100%	
Book value		$200,000	
Excess of fair value over book value	$200,000	$200,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Fixed assets	$ 50,000	debit D1	10	$5,000
Goodwill	150,000	debit D2		
Total	$200,000			

(2) Charles Company and Subsidiary Lehto, Inc.
Consolidated Income Statement
For Year Ended December 31, 2013

Revenue	$670,000
Expenses ($450,000 + $170,000 + $5,000 depreciation)	625,000
Consolidated net income	$ 45,000

Charles Company and Subsidiary Lehto, Inc.
Retained Earnings Statement
For Year Ended December 31, 2013

Retained earnings, Charles Company, January 1, 2013 ($230,000 Charles + $35,000 equity conversion)	$265,000
Add consolidated net income	45,000
Less dividends declared	(10,000)
Balance, December 31, 2013	$300,000

Problem 3-5, Concluded

Charles Company and Subsidiary Lehto Inc.
Consolidated Balance Sheet
December 31, 2013

Assets

Current assets		$ 720,000
Depreciable fixed assets ($1,805,000 + $440,000 + $50,000)	$2,295,000	
Accumulated depreciation (($405,000 + $70,000 + $5,000)	(480,000)	1,815,000
Goodwill		150,000
Total assets		$2,685,000

Liabilities and Stockholders' Equity

Liabilities		$1,125,000
Stockholders' equity:		
Common stock ($1 par)	$ 220,000	
Paid-in capital in excess of par	1,040,000	
Retained earnings	300,000	1,560,000
Total liabilities and stockholders' equity		$2,685,000

PROBLEM 3-6

(1) Use part (1), from Problem 3-3.

(2) Entries under the sophisticated equity method:

	2011		2012	
	Debit	Credit	Debit	Credit
Investment in Soap	38,000[a]		70,000[b]	
Subsidiary Income		38,000		70,000
Cash	16,000		24,000	
Investment in Soap		16,000[c]		24,000[d]

[a]80% of $60,000 net income less $12,500 ($10,000 write-off of inventory and $2,500 extra depreciation)
[b]80% of $90,000 net income less $2,500 (extra depreciation)
[c]80% of $20,000 dividends
[d]80% of $30,000 dividends

(3) Balance in Investment in Soap Company:
$308,000 + $38,000 – $16,000 + $70,000 – $24,000 = $376,000

Problem 3-6, Continued

(4)

Peres Company and Soap Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Peres	Soap		Dr.		Cr.				
Inventory, December 31	100,000	50,000								150,000
Other Current Assets	148,000	180,000								328,000
Investment in Soap	376,000		(CY2)	24,000	(CY1)	70,000				
					(EL)	272,000				
					(D)	58,000				
Land	50,000	50,000								100,000
Buildings and Equipment	350,000	320,000	(D2)	22,500						692,500
Accumulated Depreciation	(100,000)	(60,000)			(A2)	2,500				(162,500)
Goodwill			(D3)	50,000						50,000
Other Intangibles	20,000									20,000
Current Liabilities	(120,000)	(40,000)								(160,000)
Bonds Payable		(100,000)								(100,000)
Other Long-Term Liabilities	(200,000)									(200,000)
Common Stock—Peres	(200,000)									(200,000)
Other Paid-In Capital in Excess of Par—Peres	(100,000)									(100,000)
Retained Earnings—Peres	(204,000)								(204,000)	
Common Stock—Soap		(50,000)	(EL)	40,000				(10,000)		
Other Paid-In Capital in Excess of Par—Soap		(100,000)	(EL)	80,000				(20,000)		
Retained Earnings—Soap		(190,000)	(EL)	152,000	(NCI)	14,500		(52,500)		
Net Sales	(520,000)	(450,000)					(970,000)			
Cost of Goods Sold	300,000	260,000					560,000			
Operating Expenses	120,000	100,000	(A2)	2,500			222,500			
Subsidiary Income	(70,000)		(CY1)	70,000						
Dividends Declared—Peres	50,000								50,000	
Dividends Declared—Soap		30,000			(CY2)	24,000		6,000		
Total	0	0		441,000		441,000				
Consolidated Net Income							(187,500)			
To Noncontrolling Interest (see distribution schedule)							17,500	(17,500)		
To Controlling Interest (see distribution schedule)							170,000		(170,000)	
Total NCI								(94,000)		(94,000)
Retained Earnings—Controlling Interest, December 31, 2012									(324,000)	(324,000)
										0

Problem 3-6, Concluded

Eliminations and Adjustments:

(CY) Eliminate the current-year entries made in the investment account and in the subsidiary income account.

(EL) Eliminate the pro rata share of Soap Company equity balances at the beginning of the year against the investment account.

(D)/(NCI) Distribute the $58,000 remaining excess of cost over book value ($68,000 less 2011 charges of $8,000 to Cost of Goods Sold for inventory and $2,000 to Operating Expenses for extra depreciation). Adjust NCI, $14,500 ($17,000 on acquisition date – 20% × $12,500 amortizations for 2011).

(D2) Buildings for $22,500 (original $25,000 – $2,500 amortization for 2011).

(D3) Goodwill for $50,000.

(A2) For 2012 only, depreciate the write-up to Buildings and Equipment over 10 years. Charge the 2012 Accumulated Depreciation against Operating Expenses.

Use income distribution schedules from Problem 3-3.

PROBLEM 3-7

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$2,000,000*	$1,600,000	$400,000
Fair value of net assets excluding goodwill	1,860,000**	1,488,000	372,000
Goodwill	$ 140,000	$ 112,000	$ 28,000

*$1,600,000/80%
**$1,700,000 equity + $160,000 asset adjustments

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$2,000,000	$1,600,000	$ 400,000
Less book value of interest acquired:			
Common stock ($10 stated value)	$1,000,000		
Paid-in capital in excess of par	300,000		
Retained earnings	400,000		
Total equity	$1,700,000	$1,700,000	$1,700,000
Interest acquired		80%	20%
Book value		$1,360,000	$ 340,000
Excess of fair value over book value	$ 300,000	$ 240,000	$ 60,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory	$ 10,000	debit D1		
Equipment	50,000	debit D2	8	$ 6,250
Patents	100,000	debit D3	10	10,000
Goodwill	140,000	debit D4		
Total	$300,000			

Problem 3-7, Continued

(2)

Detner International and Subsidiary Hardy Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2017

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Detner	Hardy		Dr.		Cr.				
Current Assets	632,000	505,000								1,137,000
Equipment (net)	1,320,000	940,000	(D2)	50,000	(A2)	18,750				2,291,250
Patents	100,000	35,000	(D3)	100,000	(A3)	30,000				205,000
Other Assets	1,620,000	730,000								2,350,000
Investment in Hardy Company	1,600,000		(CV)	144,000	(EL)	1,504,000				
					(D)	240,000				
Goodwill			(D4)	140,000						140,000
Accounts Payable	(658,000)	(205,000)								(863,000)
Common Stock ($5 par)—Detner	(2,000,000)									(2,000,000)
Paid-In Capital in Excess of Par—Detner	(1,200,000)									(1,200,000)
Retained Earnings—Detner, January 1, 2017	(1,255,000)		(D1)	8,000	(CV)	144,000				
			(A2)	10,000						
			(A3)	16,000						
									(1,365,000)	
Common Stock ($10 par)—Hardy		(1,000,000)	(EL)	800,000				(200,000)		
Paid-In Capital in Excess of Par—Hardy		(300,000)	(EL)	240,000				(60,000)		
Retained Earnings—Hardy, January 1, 2017		(580,000)	(EL)	464,000	(NCI)	60,000		(167,500)		
			(D1)	2,000						
			(A2)	2,500						
			(A3)	4,000						
Sales	(905,000)	(425,000)					(1,330,000)			
Cost of Goods Sold	470,000	170,000					640,000			
Other Expenses	250,000	100,000	(A2)	6,250						
			(A3)	10,000						
							366,250			

Problem 3-7, Continued

(2)

Detner International and Subsidiary Hardy Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2017

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Detner	Hardy		Dr.		Cr.				
Dividend Income	(24,000)	....	(CY2)	24,000		....	....	....	....	....
Dividends Declared	50,000	30,000		....	(CY2)	24,000	....	6,000	50,000	....
Total	0	0		2,020,750		2,020,750	....	....	....	....
Consolidated Net Income							(323,750)	....	....	....
To Noncontrolling Interest (see distribution schedule)							27,750	(27,750)	....	....
To Controlling Interest (see distribution schedule)							296,000	....	(296,000)	....
Total NCI								(449,250)	....	(449,250)
Retained Earnings—Controlling Interest, December 31, 2017									(1,611,000)	(1,611,000)
										0

Problem 3-7, Concluded

Eliminations and Adjustments:

(CV)	Convert from cost to the equity method as of January 1, 2017. ($580,000 January 1, 2017 – $400,000 January 1, 2015 = $180,000 × 80% = $144,000.)
(CY2)	Eliminate intercompany dividends.
(EL)	Eliminate subsidiary equities.
(D)/(NCI)	Distribute the excess cost and adjust NCI as given by the determination and distribution of excess schedule:
(D1)	Distribute inventory adjustment for units sold in prior years to retained earnings, 80% controlling.
(D2)	Increase equipment by $50,000.
(D3)	Increase patents by $100,000.
(D4)	Increase goodwill by $140,000.
	Record amortizations resulting from the revaluations:
(A1)	No amortizations necessary.
(A2)	Record $6,250 annual increase in equipment depreciation for the current and past two years.
(A3)	Record $10,000 annual increase in patents depreciation for the current and past two years.

Subsidiary Hardy Company Income Distribution

Equipment depreciation	(A2)	$ 6,250	Internally generated net income	$155,000
Patent depreciation	(A3)	10,000		
			Adjusted income	$138,750
			NCI share	× 20%
			NCI	$ 27,750

Parent Detner International Income Distribution

Internally generated net income	$185,000
80% × Hardy adjusted income of $138,750	111,000
Controlling interest	$296,000

PROBLEM 3-8

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$343,750*	$275,000	$68,750
Fair value of net assets excluding goodwill	260,000**	208,000	52,000
Goodwill	$ 83,750	$ 67,000	$16,750

*$275,000/80%
**$200,000 equity + $60,000 asset adjustments

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$343,750	$275,000	$ 68,750
Less book value of interest acquired:			
Common stock ($5 par)	$150,000		
Retained earnings	50,000		
Total equity	$200,000	$200,000	$200,000
Interest acquired		80%	20%
Book value		$160,000	$ 40,000
Excess of fair value over book value	$143,750	$115,000	$ 28,750

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Equipment	$ 10,000	debit D1	5	$2,000
Building	50,000	debit D2	20	2,500
Goodwill	83,750	debit D3		
Total	$143,750			

Problem 3-8, Continued

(2)

Jeter Corporation and Subsidiary Super Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Jeter	Super		Dr.		Cr.				
Cash	296,600	91,000								387,600
Land	160,000	90,000								250,000
Building	225,000	135,000	(D2)	50,000						410,000
Accumulated Depreciation—Building	(100,000)	(50,000)			(A2)	1,250				(151,250)
Equipment	450,000	150,000	(D1)	10,000						610,000
Accumulated Depreciation—Equipment	(115,000)	(60,000)			(A1)	1,000				(176,000)
Investment in Super Company	284,600				(CY1)	9,600				
					(EL)	160,000				
					(D)	115,000				
Goodwill			(D3)	83,750						83,750
Liabilities	(480,000)	(150,000)								(630,000)
Common Stock ($100 par)—Jeter	(400,000)									(400,000)
Paid-In Capital in Excess of Par—Jeter	(40,000)									(40,000)
Retained Earnings—Jeter	(251,600)								(251,600)	
Common Stock ($5 par)—Super		(150,000)	(EL)	120,000				(30,000)		
Retained Earnings, July 1, 2011—Super		(50,000)	(EL)	40,000	(NCI)	28,750		(38,750)		
Sales	(460,000)	(60,000)					(520,000)			
Cost of Goods Sold	220,000	30,000					250,000			
Other Expenses	210,000	24,000	(A2)	1,250			236,250			
			(A1)	1,000						
Subsidiary Income	(9,600)		(CY1)	9,600						
Dividends Declared	10,000								10,000	
Total	0	0		315,600		315,600				
Consolidated Net Income							(33,750)			
To Noncontrolling Interest (see distribution schedule)							750	(750)		
To Controlling Interest (see distribution schedule)							33,000		(33,000)	
Total NCI								(69,500)		(69,500)
Retained Earnings—Controlling Interest, December 31, 2011									(274,600)	(274,600)
										0

Problem 3-8, Continued

Subsidiary Super Company Income Distribution

Equipment depreciation	(A1)	$1,000	Internally generated net income	$6,000
Building depreciation............	(A2)	1,250		
			Adjusted income........................	$3,750
			NCI share................................	× 20%
			NCI...	$ 750

Parent Jeter Corporation Income Distribution

	Internally generated net income................................	$30,000
	80% × Super adjusted income of $3,750 (last 6 months).....	3,000
	Controlling interest	$33,000

Eliminations and Adjustments:

(CY1) Eliminate parent's current-year entry for subsidiary income.

(EL) Eliminate the pro rata share of Super Company equity balances and purchased income.

(D)/(NCI) Distribute the excess and adjust NCI as determined by the determination and distribution of excess schedule:

(D1) Increase equipment by $10,000.

(D2) Increase building by $50,000.

(D3) Record goodwill of $83,750.

Record amortizations resulting from the asset and liability revaluations of entry 3:

(A1) Amortize equipment for $2,000 ($10,000 ÷ 5 years) for the half-year ($1,000)

(A2) Amortize building for $2,500 ($50,000 ÷ 20 years) for the half-year ($1,250).

(3) Jeter Corporation and Subsidiary Super Company
Consolidated Income Statement
For Year Ended December 31, 2011

Revenues	$520,000
Cost of goods sold	250,000
Gross profit	$270,000
Other expenses	236,250
Consolidated net income	$ 33,750
To noncontrolling interest	750
To controlling interest	$ 33,000

Problem 3-8, Concluded

Jeter Corporation and Subsidiary Super Company
Consolidated Retained Earnings Statement
For Year Ended December 31, 2011

	NCI	Controlling Interest
Retained earnings, January 1, 2011*	$10,000	$251,600
Add distribution of net income	750	33,000
Less dividends declared		(10,000)
Balance, December 31, 2011	$10,750	$274,600

*July 1 balance for NCI.

Jeter Corporation and Subsidiary Super Company
Consolidated Balance Sheet
For Year Ended December 31, 2011

Assets

Current assets:		
Cash		$ 387,600
Property, plant, and equipment:		
Land	$ 250,000	
Building	410,000	
Equipment	610,000	
Less accumulated depreciation*	(327,250)	942,750
Goodwill		83,750
Total assets		$1,414,100

Liabilities and Stockholders' Equity

Current liabilities		$ 630,000
Stockholders' equity:		
Controlling interest:		
Common stock ($100 par)	$400,000	
Paid-in capital in excess of par	40,000	
Retained earnings	274,600	
NCI	69,500	784,100
Total liabilities and stockholders' equity		$1,414,100

*Includes both building and equipment depreciation.

PROBLEM 3-9

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$800,000	$800,000	N/A
Fair value of net assets excluding goodwill	630,000	630,000	
Goodwill	$170,000	$170,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$800,000	$800,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	180,000		
Total equity	$480,000	$480,000	
Interest acquired		100%	
Book value		$480,000	
Excess of fair value over book value	$320,000	$320,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($65,000 fair – $60,000 book value)	$ 5,000	debit D1		
Land ($100,000 fair – $50,000 book value)	50,000	debit D2		
Mortgage payable ($205,000 fair – $200,000 book value)	(5,000)	credit D3	5	$(1,000)
Buildings ($500,000 fair – $350,000 book value)	150,000	debit D4	20	7,500
Equipment ($100,000 fair – $120,000 book value)	(20,000)	credit D5	5	(4,000)
Patent ($50,000 fair – $40,000 book value)	10,000	debit D6	5	2,000
Purchase contract ($10,000 fair – $0 book value)	10,000	debit D7	2	5,000
Goodwill ($170,000 – $50,000 book value)	120,000	debit D8		
Total	$320,000			

Problem 3-9, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ 5,000	$ 5,000	$ —	$ 5,000	(D1)
Subject to amortization:						
Mortgage payable	5	$ (1,000)	$ (1,000)	$ —	$ (1,000)	(A3)
Buildings	20	7,500	7,500	—	7,500	(A4)
Equipment	5	(4,000)	(4,000)	—	(4,000)	(A5)
Patent	5	2,000	2,000	—	2,000	(A6)
Purchase contract	2	5,000	5,000	—	5,000	(A7)
Total amortizations		$ 9,500	$ 9,500	$ —	$ 9,500	

Subsidiary Fast Air Company Income Distribution

Inventory adjustment	$5,000	Internally generated net income	$47,500
Current-year amortizations	9,500		
		Adjusted income	$33,000
		NCI share	0%
		NCI	$ 0

Parent Fast Cool Company Income Distribution

		Internally generated net income	$253,000
		Controlling share of subsidiary	33,000
		Controlling interest	$286,000

Problem 3-9, Continued

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Cash	147,000	37,000								184,000
Accounts Receivable	70,000	100,000								170,000
Inventory	150,000	60,000								210,000
Land	60,000	50,000	(D2)	50,000						160,000
Investment in Fast Air	837,500				(CY1)	47,500				
			(CY2)	10,000						
					(EL)	480,000				
					(D)	320,000				
Buildings	1,200,000	400,000	(D4)	150,000						1,750,000
Accumulated Depreciation	(176,000)	(67,500)			(A4)	7,500				(251,000)
Equipment	140,000	150,000			(D5)	20,000				270,000
Accumulated Depreciation	(68,000)	(54,000)	(A5)	4,000						(118,000)
Patent		32,000	(D6)	10,000	(A6)	2,000				40,000
Purchase Contract			(D7)	10,000	(A7)	5,000				5,000
Goodwill		50,000	(D8)	120,000						170,000
Current Liabilities	(80,000)	(40,000)								(120,000)
Mortgage Payable		(200,000)								(200,000)
Discount (Premium)					(D3)	5,000				
			(A3)	1,000						(4,000)
Common Stock ($1 par)—Fast Air		(100,000)	(EL)	100,000						
Paid-In Capital in Excess of Par—Fast Air		(200,000)	(EL)	200,000						
Retained Earnings—Fast Air		(180,000)	(EL)	180,000						
Common Stock ($1 par)—Fast Cool	(100,000)									(100,000)
Paid-In Capital in Excess of Par—Fast Cool	(1,500,000)									(1,500,000)
Retained Earnings—Fast Cool	(400,000)									
									(400,000)	
Sales	(700,000)	(400,000)					(1,100,000)			
Cost of Goods Sold	380,000	210,000	(D1)	5,000			595,000			
Depreciation Expense—Buildings	10,000	17,500	(A4)	7,500			35,000			
Depreciation Expense—Equipment	7,000	24,000			(A5)	4,000	27,000			
Other Expenses	50,000	85,000	(A6)	2,000			142,000			
			(A7)	5,000						
Interest Expense		16,000			(A3)	1,000	15,000			

Problem 3-9, Concluded

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance			Eliminations and Adjustments			Consolidated Income		Controlling Retained	Consolidated Balance
	Fast Cool	Fast Air		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Subsidiary (Dividend) Income	(47,500)	....	(CY1)	47,500		....	....	....	....	....
Dividends Declared—Fast Air	....	10,000		....	(CY2)	10,000	....	....	....	....
Dividends Declared—Fast Cool	20,000	....		....		....	....	....	20,000	....
Total	0	0		902,000		902,000	....	....	....	....
Consolidated Net Income							(286,000)	....	....	....
To Noncontrolling Interest (see distribution schedule)							....	....	....	....
To Controlling Interest (see distribution schedule)							286,000	....	(286,000)	....
Total NCI									....	....
Retained Earnings—Controlling Interest, December 31, 2011									(666,000)	(666,000)
										0

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D) Distribute excess according to D&D schedule.
- (A) Amortize excess using amortization schedule.

PROBLEM 3-10

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$800,000	$800,000	N/A
Fair value of net assets excluding goodwill	630,000	630,000	
Goodwill	$170,000	$170,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary	$800,000	$800,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	180,000		
Total equity	$480,000	$480,000	
Interest acquired		100%	
Book value		$480,000	
Excess of fair value over book value	$320,000	$320,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($65,000 fair – $60,000 book value)	$ 5,000	debit D1		
Land ($100,000 fair – $50,000 book value)	50,000	debit D2		
Mortgage payable ($205,000 fair – $200,000 book value)	(5,000)	credit D3	5	$(1,000)
Buildings ($500,000 fair – $350,000 book value)	150,000	debit D4	20	7,500
Equipment ($100,000 fair – $120,000 book value)	(20,000)	credit D5	5	(4,000)
Patent ($50,000 fair – $40,000 book value)	10,000	debit D6	5	2,000
Purchase contract ($10,000 fair – $0 book value)	10,000	debit D7	2	5,000
Goodwill ($170,000 – $50,000 book value)	120,000	debit D8		
Total	$320,000			

Problem 3-10, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ 5,000	$ —	$ 5,000	$ 5,000	(D1)
Subject to amortization:						
Mortgage payable	5	$ (1,000)	$ (1,000)	$(1,000)	$ (2,000)	(A3)
Buildings	20	7,500	7,500	7,500	15,000	(A4)
Equipment......................	5	(4,000)	(4,000)	(4,000)	(8,000)	(A5)
Patent	5	2,000	2,000	2,000	4,000	(A6)
Purchase contract	2	5,000	5,000	5,000	10,000	(A7)
Total amortizations		$ 9,500	$ 9,500	$ 9,500	$19,000	

Subsidiary Fast Air Company Income Distribution

Current-year amortizations............	$9,500	Internally generated net income................................	$67,500
		Adjusted income........................	$58,000
		NCI share	0%
		NCI	$ 0

Parent Fast Cool Company Income Distribution

		Internally generated net income................................	$253,000
		Controlling share of subsidiary ..	58,000
		Controlling interest	$311,000

Problem 3-10, Continued

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Cash	396,000	99,000								495,000
Accounts Receivable	200,000	120,000								320,000
Inventory	120,000	95,000								215,000
Land	60,000	50,000	(D2)	50,000						160,000
Investment in Fast Air	895,000				(CY1)	67,500				
			(CY2)	10,000						
					(EL)	517,500				
					(D)	320,000				
Buildings	1,200,000	400,000	(D4)	150,000						1,750,000
Accumulated Depreciation	(200,000)	(85,000)			(A4	15,000				(300,000)
Equipment	140,000	150,000			(D5)	20,000				270,000
Accumulated Depreciation	(80,000)	(78,000)	(A5)	8,000						(150,000)
Patent		24,000	(D6)	10,000	(A6)	4,000				30,000
Purchase Contract			(D7)	10,000	(A7)	10,000				
Goodwill		50,000	(D8)	120,000						170,000
Current Liabilities	(150,000)	(50,000)								(200,000)
Mortgage Payable		(200,000)								(200,000)
Discount (Premium)					(D3)	5,000				
			(A3)	2,000						(3,000)
Common Stock ($1 par)—Fast Air		(100,000)	(EL)	100,000						
Paid-In Capital in Excess of Par—Fast Air		(200,000)	(EL)	200,000						
Retained Earnings—Fast Air		(217,500)	(EL)	217,500						
Common Stock ($1 par)—Fast Cool	(100,000)									(100,000)
Paid-In Capital in Excess of Par—Fast Cool	(1,500,000)									(1,500,000)
Retained Earnings—Fast Cool	(680,500)									
			(D1)	5,000						
			(A3–A7)	9,500						
									(666,000)	
Sales	(700,000)	(500,000)					(1,200,000)			
Cost of Goods Sold	380,000	260,000					640,000			
Depreciation Expense—Buildings	10,000	17,500	(A4)	7,500			35,000			
Depreciation Expense—Equipment	7,000	24,000			(A5)	4,000	27,000			
Other Expenses	50,000	115,000	(A6)	2,000			172,000			
			(A7)	5,000						
Interest Expense		16,000			(A3)	1,000	15,000			

Problem 3-10, Concluded

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance			Eliminations and Adjustments			Consolidated Income		Controlling Retained	Consolidated Balance
	Fast Cool	Fast Air		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Subsidiary (Dividend) Income	(67,500)	....	(CY1)	67,500		....	....	....	....	....
Dividends Declared—Fast Air	....	10,000		....	(CY2)	10,000	....	....	....	....
Dividends Declared—Fast Cool	20,000	....		....		....	....	....	20,000	....
Total	0	0		974,000		974,000	....	....	....	....
Consolidated Net Income							(311,000)	....	....	....
To Noncontrolling Interest (see distribution schedule)							....	....	....	....
To Controlling Interest (see distribution schedule)							311,000	....	(311,000)	....
Total NCI									....	....
Retained Earnings—Controlling Interest, December 31, 2012									(957,000)	(957,000)
										0

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D) Distribute excess according to D&D schedule (inventory goes to Fast Cool's retained earnings).
- (A) Amortize excess using amortization schedule (prior years go to Fast Cool's retained earnings).

PROBLEM 3-11

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$500,000	$500,000	N/A
Fair value of net assets excluding goodwill	630,000	630,000	
Gain on acquisition	$130,000	$130,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Price paid for investment	$500,000	$500,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	180,000		
Total equity	$480,000	$480,000	
Interest acquired		100%	
Book value		$480,000	
Excess of fair value over book value	$ 20,000	$ 20,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($65,000 fair – $60,000 book value)	$ 5,000	debit D1		
Land ($100,000 fair – $50,000 book value)	50,000	debit D2		
Mortgage payable ($205,000 fair – $200,000 book value)	(5,000)	credit D3	5	$(1,000)
Buildings ($500,000 fair – $350,000 book value)	150,000	debit D4	20	7,500
Equipment ($100,000 fair – $120,000 book value)	(20,000)	credit D5	5	(4,000)
Patent ($50,000 fair – $40,000 book value)	10,000	debit D6	5	2,000
Purchase contract ($10,000 fair – $0 book value)	10,000	debit D7	2	5,000
Goodwill (remove $50,000 book value)	(50,000)	credit D8		
Gain on acquisition ($500,000 fair – $630,000 book value)	(130,000)	credit D9		
Total	$ 20,000			

Problem 3-11, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory.......................	1	$ 5,000	$ —	$ 5,000	$ 5,000	(D1)
Subject to amortization:						
Mortgage payable..........	5	$ (1,000)	$ (1,000)	$(1,000)	$ (2,000)	(A3)
Buildings........................	20	7,500	7,500	7,500	15,000	(A4)
Equipment	5	(4,000)	(4,000)	(4,000)	(8,000)	(A5)
Patent	5	2,000	2,000	2,000	4,000	(A6)
Purchase contract..........	2	5,000	5,000	5,000	10,000	(A7)
Total amortizations		$ 9,500	$ 9,500	$ 9,500	$19,000	

Subsidiary Fast Air Company Income Distribution

Current-year amortizations............	$9,500	Internally generated net income................................	$67,500
		Adjusted income........................	$58,000
		NCI share	0%
		NCI...	$ 0

Parent Fast Cool Company Income Distribution

		Internally generated net income................................	$253,000
		Controlling share of subsidiary ..	58,000
		Controlling interest	$311,000

Problem 3-11, Continued

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Cash	396,000	99,000								495,000
Accounts Receivable	200,000	120,000								320,000
Inventory	120,000	95,000								215,000
Land	60,000	50,000	(D2)	50,000						160,000
Investment in Fast Air	595,000				(CY1)	67,500				
			(CY2)	10,000						
					(EL)	517,500				
					(D)	20,000				
Buildings	1,200,000	400,000	(D4)	150,000						1,750,000
Accumulated Depreciation	(200,000)	(85,000)			(A4)	15,000				(300,000)
Equipment	140,000	150,000			(D5)	20,000				270,000
Accumulated Depreciation	(80,000)	(78,000)	(A5)	8,000						(150,000)
Patent		24,000	(D6)	10,000	(A6)	4,000				30,000
Purchase Contract			(D7)	10,000	(A7)	10,000				
Goodwill		50,000			(D8)	50,000				
Current Liabilities	(150,000)	(50,000)								(200,000)
Mortgage Payable		(200,000)								(200,000)
Discount (Premium)					(D3)	5,000				
			(A3)	2,000						(3,000)
Common Stock ($1 par)—Fast Air		(100,000)	(EL)	100,000						
Paid-In Capital in Excess of Par—Fast Air		(200,000)	(EL)	200,000						
Retained Earnings—Fast Air		(217,500)	(EL)	217,500						
Common Stock ($1 par)—Fast Cool	(85,000)									(85,000)
Paid-In Capital in Excess of Par—Fast Cool	(1,215,000)									(1,215,000)
Retained Earnings—Fast Cool	(680,500)				(D9)	130,000				
			(D1)	5,000						
			(A3–A7)	9,500						
									(796,000)	
Sales	(700,000)	(500,000)					(1,200,000)			
Cost of Goods Sold	380,000	260,000					640,000			
Depreciation Expense—Buildings	10,000	17,500	(A4)	7,500			35,000			
Depreciation Expense—Equipment	7,000	24,000			(A5)	4,000	27,000			
Other Expenses	50,000	115,000	(A6)	2,000			172,000			
			(A7)	5,000						
Interest Expense		16,000			(A3)	1,000	15,000			

Problem 3-11, Concluded

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Subsidiary (dividend) Income	(67,500)	....	(CY1)	67,500		....	....	....	....	....
Dividends Declared—Fast Air	....	10,000		....	(CY2)	10,000	....	....	....	....
Dividends Declared—Fast Cool	20,000	....		....		....	....	....	20,000	....
Total	0	0		854,000		854,000	....	....	....	....
Consolidated Net Income							(311,000)	....	....	....
To Noncontrolling Interest (see distribution schedule)							....	....	....	....
To Controlling Interest (see distribution schedule)							311,000	....	(311,000)	....
Total NCI									....	....
Retained Earnings—Controlling Interest, December 31, 2012									(1,087,000)	(1,087,000)
										0

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D) Distribute excess according to D&D schedule (gain and inventory go to Fast Cool's retained earnings).
- (A) Amortize excess using amortization schedule (prior years go to Fast Cool's retained earnings).

PROBLEM 3-12

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$875,000	$700,000	$175,000
Fair value of net assets excluding goodwill	630,000	504,000	126,000
Goodwill	$245,000	$196,000	$ 49,000

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$875,000	$700,000	$175,000
Less book value of interest acquired:			
Common stock ($1 par)	$100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	180,000		
Total equity	$480,000	$480,000	$480,000
Interest acquired		80%	20%
Book value		$384,000	$ 96,000
Excess of fair value over book value	$395,000	$316,000	$ 79,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($65,000 fair – $60,000 book value)	$ 5,000	debit D1	1	
Land ($100,000 fair – $50,000 book value)	50,000	debit D2		
Mortgage payable ($205,000 fair – $200,000 book value)	(5,000)	credit D3	5	$(1,000)
Buildings ($500,000 fair – $350,000 book value)	150,000	debit D4	20	7,500
Equipment ($100,000 fair – $120,000 book value)	(20,000)	credit D5	5	(4,000)
Patent ($50,000 fair – $40,000 book value)	10,000	debit D6	5	2,000
Purchase contract ($10,000 fair – $0 book value)	10,000	debit D7	2	5,000
Goodwill ($245,000 – $50,000 book value)	195,000	debit D8		
Total	$395,000			

Problem 3-12, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ 5,000	$ 5,000	$ —	$ 5,000	(D1)
Subject to amortization:						
Mortgage payable	5	$ (1,000)	$ (1,000)	$ —	$ (1,000)	(A3)
Buildings	20	7,500	7,500	—	7,500	(A4)
Equipment	5	(4,000)	(4,000)	—	(4,000)	(A5)
Patent	5	2,000	2,000	—	2,000	(A6)
Purchase contract	2	5,000	5,000	—	5,000	(A7)
Total amortizations		$ 9,500	$ 9,500	$ —	$ 9,500	

Subsidiary Fast Air Company Income Distribution

Inventory adjustment	$5,000	Internally generated net income	$47,500
Current-year amortizations	9,500		
		Adjusted income	$33,000
		NCI share	20%
		NCI	$ 6,600

Parent Fast Cool Company Income Distribution

Internally generated net income	$253,000
Controlling share of subsidiary	26,400
Controlling interest	$279,400

Problem 3-12, Continued

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Cash	145,000	37,000								182,000
Accounts Receivable	70,000	100,000								170,000
Inventory	150,000	60,000								210,000
Land	60,000	50,000	(D2)	50,000						160,000
Investment in Fast Air	730,000				(CY1)	38,000				
			(CY2)	8,000						
					(EL)	384,000				
					(D)	316,000				
Buildings	1,200,000	400,000	(D4)	150,000						1,750,000
Accumulated Depreciation	(176,000)	(67,500)			(A4)	7,500				(251,000)
Equipment	140,000	150,000			(D5)	20,000				270,000
Accumulated Depreciation	(68,000)	(54,000)	(A5)	4,000						(118,000)
Patent		32,000	(D6)	10,000	(A6)	2,000				40,000
Purchase Contract			(D7)	10,000	(A7)	5,000				5,000
Goodwill		50,000	(D8)	195,000						245,000
Current Liabilities	(80,000)	(40,000)								(120,000)
Mortgage Payable		(200,000)								(200,000)
Discount (Premium)					(D3)	5,000				
			(A3)	1,000						(4,000)
Common Stock ($1 par)—Fast Air		(100,000)	(EL)	80,000				(20,000)		
Paid-In Capital in Excess of Par—Fast Air		(200,000)	(EL)	160,000				(40,000)		
Retained Earnings—Fast Air		(180,000)	(EL)	144,000				(115,000)		
					(NCI)	79,000				
Common Stock ($1 par)—Fast Cool	(95,000)									(95,000)
Paid-In Capital in Excess of Par—Fast Cool	(1,405,000)									(1,405,000)
Retained Earnings—Fast Cool	(400,000)									
									(400,000)	
Sales	(700,000)	(400,000)					(1,100,000)			
Cost of Goods Sold	380,000	210,000	(D1)	5,000			595,000			
Depreciation Expense—Buildings	10,000	17,500	(A4)	7,500			35,000			
Depreciation Expense—Equipment	7,000	24,000			(A5)	4,000	27,000			
Other Expenses	50,000	85,000	(A6)	2,000			142,000			
			(A7)	5,000						
Interest Expense		16,000			(A3)	1,000	15,000			

Problem 3-12, Concluded

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Subsidiary (Dividend) Income	(38,000)	....	(CY1)	38,000		....	....	....	....	....
Dividends Declared—Fast Air	....	10,000		....	(CY2)	8,000	....	2,000	....	....
Dividends Declared—Fast Cool	20,000	....		....		....	....	....	20,000	....
Total	0	0		869,500		869,500	....	....	....	....
Consolidated Net Income							(286,000)	....	....	....
To Noncontrolling Interest (see distribution schedule)							6,600	(6,600)	....	....
To Controlling Interest (see distribution schedule)							279,400		(279,400)	....
Total NCI								(179,600)	....	(179,600)
Retained Earnings—Controlling Interest, December 31, 2011									(659,400)	(659,400)
										0

Eliminations and Adjustments:

(CY1)	Current-year subsidiary income.
(CY2)	Current-year dividend.
(EL)	Eliminate controlling interest in subsidiary equity.
(D)/(NCI)	Distribute excess according to D&D schedule.
(A)	Amortize excess using amortization schedule.

PROBLEM 3-13

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$875,000	$700,000	$175,000
Fair value of net assets excluding goodwill	630,000	504,000	126,000
Goodwill	$245,000	$196,000	$ 49,000

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$875,000	$700,000	$175,000
Less book value of interest acquired:			
Common stock ($1 par)	$100,000		
Paid-in capital in excess of par	200,000		
Retained earnings	180,000		
Total equity	$480,000	$480,000	$480,000
Interest acquired		80%	20%
Book value		$384,000	$ 96,000
Excess of fair value over book value	$395,000	$316,000	$ 79,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($65,000 fair – $60,000 book value)	$ 5,000	debit D1	1	
Mortgage payable ($205,000 fair – $200,000 book value)	(5,000)	credit D3	5	$(1,000)
Land ($100,000 fair – $50,000 book value)	50,000	debit D2		
Buildings ($500,000 fair – $350,000 book value)	150,000	debit D4	20	7,500
Equipment ($100,000 fair – $120,000 book value)	(20,000)	credit D5	5	(4,000)
Patent ($50,000 fair – $40,000 book value)	10,000	debit D6	5	2,000
Purchase contract ($10,000 fair – $0 book value)	10,000	debit D7	2	5,000
Goodwill ($245,000 – $50,000 book value)	195,000	debit D8		
Total	$395,000			

Problem 3-13, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ 5,000	$ —	$ 5,000	$ 5,000	(D1)
Subject to amortization:						
Mortgage payable	5	$ (1,000)	$ (1,000)	$(1,000)	$ (2,000)	(A3)
Buildings	20	7,500	7,500	7,500	15,000	(A4)
Equipment	5	(4,000)	(4,000)	(4,000)	(8,000)	(A5)
Patent	5	2,000	2,000	2,000	4,000	(A6)
Purchase contract	2	5,000	5,000	5,000	10,000	(A7)
Total amortizations		$ 9,500	$ 9,500	$ 9,500	$19,000	
To NCI				1,900		
To controlling interest				7,600		

Subsidiary Fast Air Company Income Distribution

Current-year amortizations	$9,500	Internally generated net income	$67,500
		Adjusted income	$58,000
		NCI share	20%
		NCI	$11,600

Parent Fast Cool Company Income Distribution

		Internally generated net income	$253,000
		Controlling share of subsidiary	46,400
		Controlling interest	$299,400

Problem 3-13, Continued

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance		Eliminations and Adjustments				Consolidated Income		Controlling Retained	Consolidated Balance
	Fast Cool	Fast Air		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Cash	392,000	99,000								491,000
Accounts Receivable	200,000	120,000								320,000
Inventory	120,000	95,000								215,000
Land	60,000	50,000	(D2)	50,000						160,000
Investment in Fast Air	776,000				(CY1)	54,000				
			(CY2)	8,000						
					(EL)	414,000				
					(D)	316,000				
Buildings	1,200,000	400,000	(D4)	150,000						1,750,000
Accumulated Depreciation	(200,000)	(85,000)			(A4)	15,000				(300,000)
Equipment	140,000	150,000			(D5)	20,000				270,000
Accumulated Depreciation	(80,000)	(78,000)	(A5)	8,000						(150,000)
Patent		24,000	(D6)	10,000	(A6)	4,000				30,000
Purchase Contract			(D7)	10,000	(A7)	10,000				
Goodwill		50,000	(D8)	195,000						245,000
Current Liabilities	(150,000)	(50,000)								(200,000)
Mortgage Payable		(200,000)								(200,000)
Discount (Premium)					(D3)	5,000				
			(A3)	2,000						(3,000)
Common Stock ($1 par)—Fast Air		(100,000)	(EL)	80,000				(20,000)		
Paid-In Capital in Excess of Par—Fast Air		(200,000)	(EL)	160,000				(40,000)		
Retained Earnings—Fast Air		(217,500)	(EL)	174,000				(119,600)		
					(NCI)	79,000				
			(D1)	1,000						
			(A3–A7)	1,900						
Common Stock ($1 par)—Fast Cool	(95,000)									(95,000)
Paid-In Capital in Excess of Par—Fast Cool	(1,405,000)									(1,405,000)
Retained Earnings—Fast Cool	(671,000)									
			(D1)	4,000						
			(A3–A7)	7,600						
									(659,400)	
Sales	(700,000)	(500,000)					(1,200,000)			
Cost of Goods Sold	380,000	260,000					640,000			
Depreciation Expense—Buildings	10,000	17,500	(A4)	7,500			35,000			
Depreciation Expense—Equipment	7,000	24,000			(A5)	4,000	27,000			
Other Expenses	50,000	115,000	(A6)	2,000			172,000			
			(A7)	5,000						
Interest Expense		16,000			(A3)	1,000	15,000			

Problem 3-13, Concluded

Fast Cool Company and Subsidiary Fast Air Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Trial Balance			Eliminations and Adjustments			Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Fast Cool	Fast Air		Dr.		Cr.				
Subsidiary (Dividend) Income	(54,000)	....	(CY1)	54,000		....	....	....	....	....
Dividends Declared—Fast Air	....	10,000		....	(CY2)	8,000	....	2,000	....	....
Dividends Declared—Fast Cool	20,000	....		....		....	....	....	20,000	....
Total	0	0		930,000		930,000	....	....	....	....
Consolidated Net Income							(311,000)	....	....	....
To Noncontrolling Interest (see distribution schedule)							11,600	(11,600)	....	....
To Controlling Interest (see distribution schedule)							299,400		(299,400)	....
Total NCI								(189,200)	....	(189,200)
Retained Earnings—Controlling Interest, December 31, 2012									(938,800)	(938,800)
										0

Eliminations and Adjustments:

(CY1)	Current-year subsidiary income.
(CY2)	Current-year dividend.
(EL)	Eliminate controlling interest in subsidiary equity.
(D)/(NCI)	Distribute excess according to D&D schedule.
(A)	Amortize excess using amortization schedule.

PROBLEM 3-14

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$420,000	$420,000	N/A
Fair value of net assets excluding goodwill	464,000	464,000	
Gain on acquisition	$(44,000)	$(44,000)	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Price paid for investment	$420,000	$420,000	N/A
Less book value of interest acquired:			
Common stock	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	112,000		
Total equity	$212,000	$212,000	
Interest acquired		100%	
Book value		$212,000	
Excess of fair value over book value	$208,000	$208,000	

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($38,000 fair – $40,000 book value)	$ (2,000)	credit D1		
Land ($150,000 fair – $60,000 book value)	90,000	debit D2		
Bonds payable ($96,000 fair – $100,000 book value)	4,000	debit D3	5	$ 800
Buildings ($280,000 fair – $150,000 net book value)	130,000	debit D4	20	6,500
Equipment ($100,000 fair – $70,000 net book value)	30,000	debit D5	5	6,000
Gain on acquisition	(44,000)	credit D6		
Total	$208,000			

Problem 3-14, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory........................	1	$(2,000)	$ —	$ (2,000)	$ (2,000)	(D1)
Subject to amortization:						
Bonds payable	5	$ 800	$ 800	$ 1,600	$ 2,400	(A3)
Buildings	20	6,500	6,500	13,000	19,500	(A4)
Equipment	5	6,000	6,000	12,000	18,000	(A5)
Total amortizations		$13,300	$13,300	$26,600	$39,900	

Subsidiary Switzer Corporation Income Distribution

Current-year amortizations............	$13,300	Internally generated net income................................	$35,000
		Adjusted income........................	$21,700
		NCI share	0%
		NCI...	$21,700

Parent Paulcraft Corporation Income Distribution

		Internally generated net income................................	$165,000
		Controlling share of subsidiary ..	21,700
		Controlling interest	$186,700

Problem 3-14, Continued

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance		Eliminations and Adjustments				Consolidated Income		Controlling Retained	Consolidated Balance
	Paulcraft	Switzer		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Cash	160,000	110,000								270,000
Accounts Receivable	90,000	55,000								145,000
Inventory	120,000	86,000								206,000
Land	100,000	60,000	(D2)	90,000						250,000
Investment in Switzer	515,000				(CY1)	35,000				
			(CY2)	10,000						
					(EL)	282,000				
					(D)	208,000				
Buildings	800,000	250,000	(D4)	130,000						1,180,000
Accumulated Depreciation	(220,000)	(80,000)			(A4)	19,500				(319,500)
Equipment	150,000	100,000	(D5)	30,000						280,000
Accumulated Depreciation	(90,000)	(72,000)			(A5)	18,000				(180,000)
Current Liabilities	(60,000)	(102,000)								(162,000)
Bond Payable		(100,000)								(100,000)
Discount (Premium)			(D3)	4,000						
					(A3)	2,400				1,600
Common Stock ($1 par)—Switzer		(10,000)	(EL)	10,000						
Paid-In Capital in Excess of Par—Switzer		(90,000)	(EL)	90,000						
Retained Earnings—Switzer		(182,000)	(EL)	182,000						
Common Stock ($1 par)—Paulcraft	(100,000)									(100,000)
Paid-In Capital in Excess of Par—Paulcraft	(900,000)									(900,000)
Retained Earnings—Paulcraft	(385,000)				(D6)	44,000				
					(D1)	2,000				
			(A3–A5)	26,600					(404,400)	
Sales	(800,000)	(350,000)					(1,150,000)			
Cost of Goods Sold	450,000	210,000					660,000			
Depreciation Expense—Building	30,000	15,000	(A4)	6,500			51,500			
Depreciation Expense—Equipment	15,000	14,000	(A5)	6,000			35,000			
Other Expenses	140,000	68,000					208,000			
Interest Expense		8,000	(A3)	800			8,800			
Subsidiary (Dividend) Income	(35,000)		(CY1)	35,000						
Dividends Declared—Switzer		10,000			(CY2)	10,000				
Dividends Declared—Paulcraft	20,000								20,000	
Total	0	0		620,900		620,900				
Consolidated Net Income							(186,700)			
To Noncontrolling interest (see distribution schedule)										
To Controlling Interest (see distribution schedule)							186,700		(186,700)	
Total NCI										
Retained Earnings—Controlling Interest, December 31, 2013									(571,100)	(571,100)
										0

Problem 3-14, Concluded

Eliminations and Adjustments:

(CY1) Current-year subsidiary income.
(CY2) Current-year dividend.
(EL) Eliminate controlling interest in subsidiary equity.
(D) Distribute excess according to D&D schedule (gain and inventory go to Paulcraft's retained earnings).
(A) Amortize excess using amortization schedule (prior years go to Paulcraft's retained earnings).

PROBLEM 3-15

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Company fair value	$480,000	$480,000	N/A
Fair value of net assets excluding goodwill	464,000	464,000	
Goodwill..	$ 16,000	$ 16,000	

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (100%)	NCI Value (0%)
Fair value of subsidiary.............	$480,000	$480,000	N/A
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	112,000		
Total equity.......................	$212,000	$212,000	
Interest acquired...................		100%	
Book value...............................		$212,000	
Excess of fair value over book value....................................	$268,000	$268,000	

Problem 3-15, Continued

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($38,000 fair – $40,000 book value)	$ (2,000)	credit D1		
Land ($150,000 fair – $60,000 book value)	90,000	debit D2		
Bonds payable ($96,000 fair – $100,000 book value)	4,000	debit D3	5	$ 800
Buildings ($280,000 fair – $150,000 book value)	130,000	debit D4	20	6,500
Equipment ($100,000 fair – $70,000 book value)	30,000	debit D5	5	6,000
Goodwill	16,000	debit D6		
Total	$268,000			

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ (2,000)	$ —	$ (2,000)	$ (2,000)	(D1)
Subject to amortization:						
Bonds payable	5	$ 800	$ 800	$ 1,600	$ 2,400	(A3)
Buildings	20	6,500	6,500	13,000	19,500	(A4)
Equipment	5	6,000	6,000	12,000	18,000	(A5)
Total amortizations		$13,300	$13,300	$26,600	$39,900	

Cost-to-Equity Conversion:

Subsidiary retained earnings, worksheet	$182,000
Subsidiary retained earnings, purchase date	112,000
Increase (decrease)	$ 70,000
Ownership interest	100%
Adjust investment	$ 70,000

Subsidiary Switzer Corporation Income Distribution

Current-year amortizations	$13,300	Internally generated net income	$35,000
		Adjusted income	$21,700
		NCI share	0%
		NCI	$21,700

Parent Paulcraft Corporation Income Distribution

Internally generated net income	$165,000
Controlling share of subsidiary	21,700
Controlling interest	$186,700

Problem 3-15, Continued

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance			Eliminations and Adjustments			Consolidated Income		Controlling Retained	Consolidated Balance
	Paulcraft	Switzer		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Cash	100,000	110,000		....		....	....	....	....	210,000
Accounts Receivable	90,000	55,000		....		....	....	....	....	145,000
Inventory	120,000	86,000		....		....	....	....	....	206,000
Land	100,000	60,000	(D2)	90,000		....	....	....	....	250,000
Investment in Switzer	480,000	....	(CV)	70,000	(CY1)	10,000	....	....	....	....
	....	....	(CY2)	10,000		....	....	....	....	....
	....	....		....	(EL)	282,000	....	....	....	....
	....	....		....	(D)	268,000	....	....	....	....
Buildings	800,000	250,000	(D4)	130,000		....	....	....	....	1,180,000
Accumulated Depreciation	(220,000)	(80,000)		....	(A4)	19,500	....	....	....	(319,500)
Equipment	150,000	100,000	(D5)	30,000		....	....	....	....	280,000
Accumulated Depreciation	(90,000)	(72,000)		....	(A5)	18,000	....	....	....	(180,000)
Goodwill	....	....	(D6)	16,000		....	....	....	....	16,000
Current Liabilities	(60,000)	(102,000)		....		....	....	....	....	(162,000)
Bonds Payable	....	(100,000)		....		....	....	....	....	(100,000)
Discount (Premium)	....	....	(D3)	4,000		....	....	....	....	....
	....	....		....	A3	2,400	....	....	....	1,600
Common Stock ($1 par)—Switzer	....	(10,000)	(EL)	10,000		....	....	....	....	....
Paid-In Capital in Excess of Par—Switzer	....	(90,000)	(EL)	90,000		....	....	....	....	....
Retained Earnings—Switzer	....	(182,000)	(EL)	182,000		....	....	....	....	....
Common Stock ($1 par)—Paulcraft	(100,000)	....		....		....	....	....	....	(100,000)
Paid-In Capital in Excess of Par—Paulcraft	(900,000)	....		....		....	....	....	....	(900,000)
Retained Earnings—Paulcraft	(315,000)	....		....	(CV)	70,000	....	....	....	....
	....	....		....	(D1)	2,000	....	....	....	....
	....	....	(A3–A5)	26,600		....	....	....	....	....
	....	....		....		....	....	....	(360,400)	....
Sales	(800,000)	(350,000)		....		....	(1,150,000)	....	....	....
Cost of Goods Sold	450,000	210,000		....		....	660,000	....	....	....
Depreciation Expense—Buildings	30,000	15,000	(A4)	6,500		....	51,500	....	....	....
Depreciation Expense—Equipment	15,000	14,000	(A5)	6,000		....	35,000	....	....	....
Other Expenses	140,000	68,000		....		....	208,000	....	....	....
Interest Expense	....	8,000	(A3)	800		....	8,800	....	....	....

Problem 3-15, Concluded

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance: Paulcraft	Trial Balance: Switzer		Eliminations and Adjustments: Dr.		Eliminations and Adjustments: Cr.	Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
Subsidiary (Dividend) Income	(10,000)	....	(CY1)	10,000		....	....	....	....	....
Dividends Declared—Switzer	....	10,000		....	(CY2)	10,000	....	....	....	....
Dividends Declared—Paulcraft	20,000	....		....		....	....	....	20,000	....
Total	0	0		681,900		681,900	....	....	....	....
Consolidated Net Income							(186,700)	....	....	....
To Noncontrolling Interest (see distribution schedule)							....	....	....	
To Controlling Interest (see distribution schedule)							186,700	....	(186,700)	....
Total NCI								....	....	....
Retained Earnings—Controlling Interest, December 31, 2013									(527,100)	(527,100)
										0

Eliminations and Adjustments:

- (CV) Conversion to equity.
- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D) Distribute excess according to D&D schedule (goodwill and inventory to Paulcraft's retained earnings).
- (A) Amortize excess using amortization schedule (prior years to Paulcraft's retained earnings).

PROBLEM 3-16

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$550,000	$440,000	$110,000
Fair value of net assets excluding goodwill	464,000	371,200	92,800
Goodwill	$ 86,000	$ 68,800	$ 17,200

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$550,000	$440,000	$110,000
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	112,000		
Total equity	$212,000	$212,000	$212,000
Interest acquired		80%	20%
Book value		$169,600	$ 42,400
Excess of fair value over book value	$338,000	$270,400	$ 67,600

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($38,000 fair – $40,000 book value)	$ (2,000)	credit D1	1	
Land ($150,000 fair – $ 60,000 book value)	90,000	debit D2		
Bonds payable ($96,000 fair – $100,000 book value)	4,000	debit D3	5	$ 800
Buildings ($280,000 fair – $150,000 book value)	130,000	debit D4	20	6,500
Equipment ($100,000 – $70,000 book value)	30,000	debit D5	5	6,000
Goodwill	86,000	debit D6		
Total	$338,000			

Problem 3-16, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ (2,000)	$ —	$ (2,000)	$ (2,000)	(D1)
Subject to amortization:						
Bonds payable	5	$ 800	$ 800	$ 1,600	$ 2,400	(A3)
Buildings	20	6,500	6,500	13,000	19,500	(A4)
Equipment	5	6,000	6,000	12,000	18,000	(A5)
Total amortizations		$13,300	$13,300	$26,600	$39,900	
To IDS				5,320		
To controlling interest				21,280		

Subsidiary Switzer Corporation Income Distribution

Current-year amortizations	$13,300	Internally generated net income	$35,000
		Adjusted income	$21,700
		NCI share	20%
		NCI	$ 4,340

Parent Paulcraft Corporation Income Distribution

		Internally generated net income	$165,000
		Controlling share of subsidiary ..	17,360
		Controlling interest	$182,360

Problem 3-16, Continued

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Paulcraft	Switzer		Dr.		Cr.				
Cash	138,000	110,000								248,000
Accounts Receivable	90,000	55,000								145,000
Inventory	120,000	86,000								206,000
Land	100,000	60,000	(D2)	90,000						250,000
Investment in Switzer	516,000				(CY1)	28,000				
			(CY2)	8,000						
					(EL)	225,600				
					(D)	270,400				
Buildings	800,000	250,000	(D4)	130,000						1,180,000
Accumulated Depreciation	(220,000)	(80,000)			(A4)	19,500				(319,500)
Equipment	150,000	100,000	(D5)	30,000						280,000
Accumulated Depreciation	(90,000)	(72,000)			(A5)	18,000				(180,000)
Goodwill			(D6)	86,000						86,000
Current Liabilities	(60,000)	(102,000)								(162,000)
Bonds Payable		(100,000)								(100,000)
Discount (Premium)			(D3)	4,000						
					(A3)	2,400				1,600
Common Stock ($1 par)—Switzer		(10,000)	(EL)	8,000				(2,000)		
Paid-In Capital in Excess of Par—Switzer		(90,000)	(EL)	72,000				(18,000)		
Retained Earnings—Switzer		(182,000)	(EL)	145,600				(99,080)		
			(A3–A5)	5,320	(NCI)	67,600				
					(D1)	400				
Common Stock ($1 par)—Paulcraft	(100,000)									(100,000)
Paid-In Capital in Excess of Par—Paulcraft	(900,000)									(900,000)
Retained Earnings—Paulcraft	(371,000)									
					(D1)	1,600				
			(A3–A5)	21,280						
									(351,320)	
Sales	(800,000)	(350,000)					(1,150,000)			
Cost of Goods Sold	450,000	210,000					660,000			
Depreciation Expense—Buildings	30,000	15,000	(A4)	6,500			51,500			
Depreciation Expense—Equipment	15,000	14,000	(A5)	6,000			35,000			
Other Expenses	140,000	68,000					208,000			
Interest Expense		8,000	(A3)	800			8,800			

Problem 3-16, Concluded

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Paulcraft	Switzer		Dr.		Cr.				
Subsidiary (Dividend) Income	(28,000)	....	(CY1)	28,000		....	....	....	....	....
Dividends Declared—Switzer	....	10,000		....	(CY2)	8,000	....	2,000	....	....
Dividends Declared—Paulcraft	20,000	....		....		....	....	....	20,000	....
Total	0	0		641,500		641,500	....	....	....	....
Consolidated Net Income							(186,700)	....	....	....
To Noncontrolling Interest (see distribution schedule)							4,340	(4,340)	....	....
To Controlling Interest (see distribution schedule)							182,360	....	(182,360)	....
Total NCI								(121,420)	....	(121,420)
Retained Earnings—Controlling Interest, December 31, 2013									(513,680)	(513,680)
										0

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D)/(NCI) Distribute excess according to D&D schedule (goodwill and inventory go to Paulcraft and to Switzer's retained earnings).
- (A) Amortize excess using amortization schedule (prior years to Paulcraft and to Switzer's retained earnings).

PROBLEM 3-17

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$500,000	$400,000	$100,000
Fair value of net assets excluding goodwill	464,000	371,200	92,800
Goodwill	$ 36,000	$ 28,800	$ 7,200

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$500,000	$400,000	$100,000
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	112,000		
Total equity	$212,000	$212,000	$212,000
Interest acquired		80%	20%
Book value		$169,600	$ 42,400
Excess of fair value over book value	$288,000	$230,400	$ 57,600

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($38,000 fair – $40,000 book value)	$ (2,000)	credit D1	1	
Land ($150,000 fair – $60,000 book value)	90,000	debit D2		
Bonds payable ($96,000 fair – $100,000 book value)	4,000	debit D3	5	$ 800
Buildings ($280,000 fair – $150,000 book value)	130,000	debit D4	20	6,500
Equipment ($100,000 fair – $70,000 book value)	30,000	debit D5	5	6,000
Goodwill	36,000	debit D6		
Total	$288,000			

Problem 3-17, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ (2,000)	$ (2,000)	$ —	$(2,000)	(D1)
Subject to amortization:						
Bonds payable	5	$ 800	$ 800	$ —	$ 800	(A3)
Buildings	20	6,500	6,500	—	6,500	(A4)
Equipment	5	6,000	6,000	—	6,000	(A5)
Total amortizations		$13,300	$13,300	$ —	$13,300	

Subsidiary Switzer Corporation Income Distribution

Current-year amortizations	$13,300	Internally generated net income	$34,000
		Inventory adjustment	2,000
		Adjusted income	$22,700
		NCI share	20%
		NCI	$ 4,540

Parent Paulcraft Corporation Income Distribution

		Internally generated net income	$185,000
		Controlling share of subsidiary	18,160
		Controlling interest	$203,160

Problem 3-17, Continued

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income		Controlling Retained	Consolidated Balance
	Paulcraft	Switzer		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Cash	178,000	81,000								259,000
Accounts Receivable	80,000	35,000								115,000
Inventory	90,000	52,000								142,000
Land	100,000	60,000	(D2)	90,000						250,000
Investment in Switzer	400,000				(CY1)	8,000				
			(CY2)	8,000						
					(EL)	169,600				
					(D)	230,400				
Buildings	800,000	200,000	(D4)	130,000						1,130,000
Accumulated Depreciation	(200,000)	(60,000)			(A4)	6,500				(266,500)
Equipment	150,000	100,000	(D5)	30,000						280,000
Accumulated Depreciation	(75,000)	(44,000)			(A5)	6,000				(125,000)
Goodwill			(D6)	36,000						36,000
Current Liabilities	(50,000)	(88,000)								(138,000)
Bonds Payable		(100,000)								(100,000)
Discount (Premium)			(D3)	4,000						
					(A3)	800				3,200
Common Stock ($1 par)—Switzer		(10,000)	(EL)	8,000				(2,000)		
Paid-In Capital in Excess of Par—Switzer		(90,000)	(EL)	72,000				(18,000)		
Retained Earnings—Switzer		(112,000)	(EL)	89,600				(80,000)		
					(NCI)	57,600				
Common Stock ($1 par)—Paulcraft	(100,000)									(100,000)
Paid-In Capital in Excess of Par—Paulcraft	(900,000)									(900,000)
Retained Earnings—Paulcraft	(300,000)									
									(300,000)	
Sales	(750,000)	(300,000)					(1,050,000)			
Cost of Goods Sold	400,000	180,000			(D1)	2,000	578,000			
Depreciation Expense—Buildings	30,000	10,000	(A4)	6,500			46,500			
Depreciation Expense—Equipment	15,000	14,000	(A5)	6,000			35,000			
Other Expenses	120,000	54,000					174,000			
Interest Expense		8,000	(A3)	800			8,800			

Problem 3-17, Concluded

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Paulcraft	Switzer		Dr.		Cr.				
Subsidiary (Dividend) Income	(8,000)	....	(CY1)	8,000		....	....	....	....	....
Dividends Declared—Switzer	....	10,000		....	(CY2)	8,000	....	2,000	....	....
Dividends Declared—Paulcraft	20,000	....		....		....	....	....	20,000	....
Total	0	0		488,900		488,900	....	....	....	....
Consolidated Net Income							(207,700)	....	....	....
To Noncontrolling Interest (see distribution schedule)							4,540	(4,540)	....	....
To Controlling Interest (see distribution schedule)							203,160	....	(203,160)	....
Total NCI								(102,540)	....	(102,540)
Retained Earnings—Controlling Interest, December 31, 2011									(483,160)	(483,160)
										0

Eliminations and Adjustments:

- (CV) Conversion to equity
- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D)/(NCI) Distribute excess according to D&D schedule.
- (A) Amortize excess using amortization schedule.

PROBLEM 3-18

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (70%)	NCI Value (30%)
Company fair value	$600,000	$420,000	$180,000
Fair value of net assets excluding goodwill	464,000	324,800	139,200
Goodwill	$136,000	$ 95,200	$ 40,800

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (70%)	NCI Value (30%)
Fair value of subsidiary	$600,000	$420,000	$180,000
Less book value of interest acquired:			
Common stock ($1 par)	$ 10,000		
Paid-in capital in excess of par	90,000		
Retained earnings	112,000		
Total equity	$212,000	$212,000	$212,000
Interest acquired		70%	30%
Book value		$148,400	$ 63,600
Excess of fair value over book value	$388,000	$271,600	$116,400

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($38,000 fair – $40,000 book value)	$ (2,000)	credit D1	1	
Land ($150,000 fair – $60,000 book value)	90,000	debit D2		
Bonds payable ($96,000 fair – $100,000 book value)	4,000	debit D3	5	$ 800
Buildings ($280,000 fair – $150,000 book value)	130,000	debit D4	20	6,500
Equipment ($100,000 fair – $70,000 book value)	30,000	debit D5	5	6,000
Goodwill	136,000	debit D6		
Total	$388,000			

Problem 3-18, Continued

(2)

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Inventory	1	$ (2,000)	$ —	$ (2,000)	$ (2,000)	(D1)
Subject to amortization:						
Bonds payable	5	$ 800	$ 800	$ 1,600	$ 2,400	(A3)
Buildings	20	6,500	6,500	13,000	19,500	(A4)
Equipment	5	6,000	6,000	12,000	18,000	(A5)
Total amortizations		$13,300	$13,300	$26,600	$39,900	
To NCI				7,980		
To controlling interest				18,620		

Cost-to-Equity Conversion:

Subsidiary retained earnings, worksheet	$182,000
Subsidiary retained earnings, purchase date	112,000
Increase (decrease)	$ 70,000
Ownership interest	70%
Adjust investment	$ 49,000

Subsidiary Switzer Corporation Income Distribution

Current-year amortizations	$13,300	Internally generated net income	$35,000
		Adjusted income	$21,700
		NCI share	30%
		NCI	$ 6,510

Parent Paulcraft Corporation Income Distribution

		Internally generated net income	$165,000
		Controlling share of subsidiary	15,190
		Controlling interest	$180,190

Problem 3-18, Continued

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance		Eliminations and Adjustments				Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Paulcraft	Switzer		Dr.		Cr.				
Cash	157,000	110,000		....		....	....	....	....	267,000
Accounts Receivable	90,000	55,000		....		....	....	....	....	145,000
Inventory	120,000	86,000		....		....	....	....	....	206,000
Land	100,000	60,000	(D2)	90,000		....	....	....	....	250,000
Investment in Switzer	420,000	....	(CV)	49,000	(CY1)	7,000	....	....	....	....
	....	....	(CY2)	7,000		....	....	....	....	....
	....	....		....	(EL)	197,400	....	....	....	....
	....	....		....	(D)	271,600	....	....	....	....
Buildings	800,000	250,000	(D4)	130,000		....	....	....	....	1,180,000
Accumulated Depreciation	(220,000)	(80,000)		....	(A4)	19,500	....	....	....	(319,500)
Equipment	150,000	100,000	(D5)	30,000		....	....	....	....	280,000
Accumulated Depreciation	(90,000)	(72,000)		....	(A5)	18,000	....	....	....	(180,000)
Goodwill	....	....	(D6)	136,000		....	....	....	....	136,000
Current Liabilities	(60,000)	(102,000)		....		....	....	....	....	(162,000)
Bonds Payable	....	(100,000)		....		....	....	....	....	(100,000)
Discount (Premium)	....	....	(D3)	4,000		....	....	....	....	....
	....	....		....	(A3)	2,400	....	....	....	1,600
Common Stock ($1 par)—Switzer	....	(10,000)	(EL)	7,000		....	....	(3,000)	....	....
Paid-In Capital in Excess of Par—Switzer	....	(90,000)	(EL)	63,000		....	....	(27,000)	....	....
Retained Earnings—Switzer	....	(182,000)	(EL)	127,400		....	....	(163,620)	....	....
	....	....		....	(NCI)	116,400	....	....	....	....
	....	....		....	(D1)	600	....	....	....	....
	....	....	(A3–A5)	7,980		....	....	....	....	....
Common Stock ($1 par)—Paulcraft	(100,000)	....		....		....	....	....	....	(100,000)
Paid-In Capital in Excess of Par—Paulcraft	(900,000)	....		....		....	....	....	....	(900,000)
Retained Earnings—Paulcraft	(315,000)	....		....	(CV)	49,000	....	....	....	....
	....	....		....	(D1)	1,400	....	....	....	....
	....	....	(A3–A5)	18,620		....	....	....	....	....
	....	....		....		....	....	....	(346,780)	....
Sales	(800,000)	(350,000)		....		....	(1,150,000)	....	....	....
Cost of Goods Sold	450,000	210,000		....		....	660,000	....	....	....
Depreciation Expense—Buildings	30,000	15,000	(A4)	6,500		....	51,500	....	....	....
Depreciation Expense—Equipment	15,000	14,000	(A5)	6,000		....	35,000	....	....	....
Other Expenses	140,000	68,000		....		....	208,000	....	....	....
Interest Expense	....	8,000	(A3)	800		....	8,800	....	....	....

Problem 3-18, Continued

Paulcraft Corporation and Subsidiary Switzer Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

	Trial Balance			Eliminations and Adjustments			Consolidated Income Statement	NCI	Controlling Retained Earnings	Consolidated Balance Sheet
	Paulcraft	Switzer		Dr.		Cr.				
	....	....		....		....	....	....	....	
Subsidiary (Dividend) Income	(7,000)	....	(CY1)	7,000		....	....	....	....	....
Dividends Declared—Switzer	....	10,000		....	(CY2)	7,000	....	3,000	....	....
Dividends Declared—Paulcraft	20,000	....		....		....	....	....	20,000	....
Total	0	0		690,300		690,300	....	....	....	....
Consolidated Net Income							(186,700)	....	....	....
To Noncontrolling Interest (see distribution schedule)							6,510	(6,510)	....	....
To Controlling Interest (see distribution schedule)							180,190		(180,190)	....
Total NCI								(197,130)	....	(197,130)
Retained Earnings—Controlling Interest, December 31, 2013									(506,970)	(506,970)
										0

Eliminations and Adjustments:

(CV)	Conversion to equity.
(CY1)	Current-year subsidiary income.
(CY2)	Current-year dividend.
(EL)	Eliminate controlling interest in subsidiary equity.
(D)/(NCI)	Distribute excess according to D&D schedule (goodwill and inventory go to Paulcraft and to Switzer's retained earnings).
(A)	Amortize excess using amortization schedule (prior years to Paulcraft and to Switzer's retained earnings).

APPENDIX PROBLEMS

PROBLEM 3A-1

(1) See part (1) of solution to Problem 3-3.

(2)

Peres Company and Soap Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Financial Statements		Eliminations and Adjustments				Non-controlling	Consoli-
	Peres	Soap		Dr.		Cr.	Interest	dated
Income Statement:								
Net Sales	(520,000)	(450,000)						(970,000)
Cost of Goods Sold	300,000	260,000						560,000
Operating Expenses	120,000	100,000	(A)	2,500				222,500
Subsidiary Income	(72,000)		(CY1)	72,000				
Net Income	(172,000)	(90,000)						
Consolidated Net Income								(187,500)
NCI (see income distribution schedule)							(17,500)	
Controlling Interest (see income distribution schedule)								(170,000)
Retained Earnings Statement:								
Balance, January 1, 2012—Peres	(214,000)		(D1)	8,000				
			(A)	2,000				(204,000)
Balance, January 1, 2012—Soap		(190,000)	(EL)	152,000			(52,500)	
					(NCI)	17,000		
			(D1)	2,000				
			(A)	500				
Net Income (from above)	(172,000)	(90,000)					(17,500)	(170,000)
Dividends Declared—Peres	50,000							50,000
Dividends Declared—Soap		30,000			(CY2)	24,000	6,000	
Balance, December 31, 2012	(336,000)	(250,000)					(64,000)	(324,000)

Problem 3A-1, Continued

Peres Company and Soap Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012
(Concluded)

	Financial Statements		Eliminations and Adjustments				Non-controlling	Consoli-
	Peres	Soap		Dr.		Cr.	Interest	dated
Consolidated Balance Sheet:								
Inventory, December 31, 2012	100,000	50,000						150,000
Other Current Assets	148,000	180,000						328,000
Investment in Soap Company	388,000		(CY2)	24,000	(CY1)	72,000		
					(EL)	272,000		
					(D)	68,000		
Land	50,000	50,000						100,000
Building and Equipment	350,000	320,000	(D2)	25,000				695,000
Accumulated Depreciation	(100,000)	(60,000)			(A)	5,000		(165,000)
Goodwill			(D3)	50,000				50,000
Other Intangibles	20,000							20,000
Current Liabilities	(120,000)	(40,000)						(160,000)
Bonds Payable		(100,000)						(100,000)
Other Long-Term Liabilities	(200,000)							(200,000)
Common Stock—Peres	(200,000)							(200,000)
Other Paid-In Capital in Excess of Par—Peres	(100,000)							(100,000)
Common Stock—Soap		(50,000)	(EL)	40,000			(10,000)	
Other Paid-In Capital in Excess of Par—Soap		(100,000)	(EL)	80,000			(20,000)	
Retained Earnings, December 31, 2012 (carrydown)	(336,000)	(250,000)						
Retained Earnings—Controlling Interest, December 31, 2012								(324,000)
Retained Earnings—NCI, December 31, 2012							(64,000)	
Total NCI							94,000	(94,000)
Totals	0	0		458,000		458,000	0	0

Problem 3A-1, Concluded

See solution to Problem 3-3 for value analysis, D&D schedule, and amortization schedules.

Eliminations and Adjustments:

(CY) Eliminate the current-year entries made in the investment account and in the subsidiary income account.
(EL) Eliminate the pro rata share of Soap Company equity balances at the beginning of the year against the investment account.
(D)/(NCI) Distribute the $68,000 excess cost and $17,000 NCI adjustment as required by the determination and distribution of excess schedule.
(D1) Because FIFO is used for inventory, allocate the $10,000 write-up to the January 1, 2012, retained earnings of Peres Company.
(D2) Building and Equipment, $25,000.
(D3) Goodwill, $50,000.
(A) Cumulatively depreciate the write-up to Building and Equipment over 10 years. Charge the 2011 Depreciation against January 1, 2012, retained earnings of Peres Company. Charge the 2012 Depreciation to Operating Expenses.

Income Distribution Schedules

Soap Company

Building depreciation....................	$2,500	Internally generated net income..................................	$90,000
		Adjusted income..........................	$87,500
		NCI share....................................	× 20%
		NCI...	$17,500

Peres Company

		Internally generated net income..................................	$100,000
		80% × Soap adjusted net income............................	70,000
		Controlling interest	$170,000

PROBLEM 3A-2

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$1,040,000	$850,000	$190,000
Fair value of net assets excluding goodwill	910,000	728,000	182,000
Goodwill	$ 130,000	$122,000	$ 8,000

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$1,040,000	$850,000	$190,000
Less book value of interest acquired:			
Common stock ($10 par)	$ 150,000		
Paid-in capital in excess of par	200,000		
Retained earnings	400,000		
Total equity	$ 750,000	$750,000	$750,000
Interest acquired		80%	20%
Book value		$600,000	$150,000
Excess of fair value over book value	$ 290,000	$250,000	$ 40,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Land	$ 20,000	debit D1		
Equipment	80,000	debit D2	10	$8,000
Building	60,000	debit D3	20	3,000
Goodwill	130,000	debit D4		
Total	$290,000			

Problem 3A-2, Continued

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Subject to amortization:						
Equipment............................	10	$ 8,000	$ 8,000	$16,000	$24,000	(A2)
Building................................	20	3,000	3,000	6,000	9,000	(A3)
Total amortizations..........		$11,000	$11,000	$22,000	$33,000	
Controlling retained earnings adjustment				$17,600		
NCI retained earnings adjustment				4,400		

Eliminations and Adjustments:

(CY) Eliminate the current-year entries made in the investment account to arrive at the January 1, 2017, balance:

(CY1) 80% of subsidiary loss.

(CY2) 80% of subsidiary dividends.

(EL) Eliminate the 80% ownership portion of the beginning-of-year subsidiary equity accounts against the investment.

(D)/(NCI) Distribute the excess cost and the NCI adjustment as follows, in accordance with the determination and distribution of excess schedule:

(D1) Increase Land by $20,000.

(D2) Increase Equipment by $80,000.

(D3) Increase Building by $60,000.

(D4) Create Goodwill, $90,000.

Record amortizations resulting from the revaluations:

(A2) Record $8,000 annual increase in equipment depreciation for current and prior years. See account adjustment schedule.

(A3) Record $3,000 annual increase in building depreciation for current and prior years. See account adjustment schedule.

Problem 3A-2, Continued

Baker Enterprises and Kohlenberg International
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2017

	Financial Statements: Baker	Financial Statements: Kohlenberg		Eliminations and Adjustments: Dr.		Eliminations and Adjustments: Cr.	Non-controlling Interest	Consolidated
Income Statement:								
Sales	(650,000)	(320,000)		....		....	....	(970,000)
Cost of Goods Sold	260,000	240,000		....		....	....	500,000
Operating Expense	170,000	70,000		....		....	....	240,000
Depreciation Expenses	65,000	30,000	(A2–A3)	11,000		....	....	106,000
Subsidiary (Income)/Loss	16,000	....		....	(CY1)	16,000	....	....
Net (Income)/Loss	(139,000)	20,000		....		....	....	....
Consolidated Net Income	....	....		....		....	....	(124,000)
Noncontrolling Interest (see distribution schedule)	....	....		....		....	6,200	....
Controlling Interest (see distribution schedule)	....	....		....		....	....	(130,200)
Retained Earnings:								
Retained Earnings, January 1, 2017—Baker	(625,000)	....	(A2–A3)	17,600		....	....	(607,400)
Retained Earnings, January 1, 2017—Kohlenberg	....	(460,000)	(EL)	368,000	(NCI)	40,000	(127,600)	....
	....	....	(A2–A3)	4,400		....	....	....
Net (Income)/Loss (carrydown)	(139,000)	20,000		....		....	6,200	(130,200)
Dividends Declared		10,000		....	(CY2)	8,000	2,000	....
Retained Earnings, December 31, 2017.	(764,000)	(430,000)		....		....	....	....
NCI in Retained Earnings, December 31, 2017	....	....		....		....	(119,400)	....
Controlling Interest in Retained Earnings, December 31, 2017	....	....		....		....	....	(737,600)

Problem 3A-2, Continued

Baker Enterprises and Kohlenberg International
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2017
(Concluded)

	Financial Statements			Eliminations and Adjustments				
	Baker	Kohlenberg		Dr.		Cr.	Non-controlling Interest	Consoli-dated
Balance Sheet:								
Cash	288,000	170,000		....		....	....	458,000
Inventory	135,000	400,000		....		....	....	535,000
Land	145,000	150,000	(D1)	20,000		....	....	315,000
Building	900,000	500,000	(D3)	60,000		....	....	1,460,000
Acc. Dep.—Building	(345,000)	(360,000)		....	(A3)	9,000	....	(714,000)
Equipment	350,000	250,000	(D2)	80,000		....	....	680,000
Acc. Dep.—Equipment	(135,000)	(90,000)		....	(A2)	24,000	....	(249,000)
Investment in Kohlenberg	874,000	....	(CY1)	16,000	(EL)	648,000	....	....
	....	....	(CY2)	8,000	(D)	250,000	....	....
Goodwill	....	....	(D4)	130,000		....	....	130,000
Liabilities	(248,000)	(40,000)		....		....	....	(288,000)
Bonds Payable	....	(200,000)		....		....	....	(200,000)
Common Stock—Baker	(1,200,000)	....		....		....	....	(1,200,000)
Common Stock—Kohlenberg	....	(150,000)	(EL)	120,000		....	(30,000)	....
Paid-In Capital in Excess of Par—Kohlenberg	....	(200,000)	(EL)	160,000		....	(40,000)	....
Retained Earnings, December 31, 2017 (carrydown)	(764,000)	(430,000)		....		....	....	....
Retained Earnings—Controlling Interest, December 31, 2017	....	....		....		....	....	(737,600)
Retained Earnings—NCI, December 31, 2017	....	....		....		....	(119,400)	....
Total NCI	....	....		....		....	(189,400)	(189,400)
Total	0	0		995,000		995,000		0

Problem 3A-2, Concluded

Subsidiary Kohlenberg International Income Distribution

Internally generated net loss	$20,000	
Building depreciation	3,000	
Equipment depreciation.............	8,000	
Adjusted loss.............................	$ 31,000	
NCI share..................................	× 20%	
NCI..	$ 6,200	

Parent Baker Enterprises Income Distribution

80% × Kohlenberg adjusted loss of $31,000	$24,800	Internally generated net income	$155,000
		Controlling interest	$130,200

PROBLEM 3A-3

Value Analysis Schedule	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Company fair value	$800,000	$720,000	$80,000
Fair value of net assets excluding goodwill	730,000*	657,000	73,000
Goodwill	$ 70,000	$ 63,000	$ 7,000

*Equity of $550,000 + $180,000 adjustments

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Fair value of subsidiary	$800,000	$720,000	$ 80,000
Less book value of interest acquired:			
Common stock ($10 par)	$350,000		
Retained earnings	200,000		
Total equity	$550,000	$550,000	$550,000
Interest acquired		90%	10%
Book value		$495,000	$ 55,000
Excess of fair value over book value	$250,000	$225,000	$ 25,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Building	$180,000	debit D1	20	$9,000
Goodwill	70,000	debit D2		
Total	$250,000			

Account Adjustments	Life	Annual Amount	Current Year	Prior Years	Total	Key
Subject to amortization:						
Building	20	$9,000	$9,000	$9,000	$18,000	(A)
Total amortizations		$9,000	$9,000	$9,000	$18,000	
Controlling retained earnings adjustment				$8,100		
NCI retained earnings adjustment				900		

Problem 3A-3, Continued

Harvard Company and Subsidiary Bart Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

	Financial Statements		Eliminations and Adjustments				Non-controlling	Consoli-
	Harvard	Bart		Dr.		Cr.	Interest	dated
Income Statement:								
Sales	(580,000)	(280,000)		....		....	....	(860,000)
Cost of Goods Sold	285,000	155,000		....		....	....	440,000
Operating Expenses	140,000	55,000		....		....	....	195,000
Depreciation Expense	72,000	30,000	(A)	9,000		....	....	111,000
Dividend Income	(9,000)		(CY2)	9,000		....	....	....
Net Income	(92,000)	(40,000)		....		....	....	....
Consolidated Net Income	....	....		....		....	....	(114,000
Noncontrolling Interest (see distribution schedule)	....	....		....		....	(3,100)	....
Controlling Interest (see distribution schedule)	....	....		....		....	....	(110,900)
Retained Earnings Statement:								
Retained Earnings, January 1, 2012—Harvard	(484,000)	....		....	(CV)	108,000	....	....
	....	....	(A)	8,100		....	....	(583,900)
Retained Earnings, January 1, 2012 —Bart	....	(320,000)	(EL)	288,000	(NCI)	25,000	(56,100)	....
	....	....	(A)	900		....	....	....
Net Income (carrydown)	(92,000)	(40,000)		....		....	(3,100)	(110,900)
Dividends Declared	20,000	10,000		....	(CY2)	9,000	1,000	20,000
Retained Earnings, December 31, 2012	(556,000)	(350,000)		....		....	....	....
Noncontrolling Interest in Retained Earnings, December 31, 2012	....	....		....		....	(58,200)	....
Controlling Interest in Retained Earnings, December 31, 2012	....	....		....		....	....	(674,800)

Problem 3A-3, Continued

Harvard Company and Subsidiary Bart Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012
(Concluded)

	Financial Statements		Eliminations and Adjustments				Non-controlling	Consoli-
	Harvard	Bart		Dr.		Cr.	Interest	dated
Balance Sheet:								
Cash	330,000	170,000		....		....	....	500,000
Inventory	260,000	340,000		....		....	....	600,000
Land	99,000	150,000		....		....	....	249,000
Building	800,000	500,000	(D1)	180,000		....	....	1,480,000
Accumulated Depr.—Building	(380,000)	(360,000)		....	(A)	18,000	....	(758,000)
Equipment	340,000	250,000		....		....	....	590,000
Accumulated Depr.—Equipment	(190,000)	(90,000)		....		....	....	(280,000)
Investment in Bart Company	720,000	....	(CV)	108,000		....	....	....
	....	....		....	(EL)	603,000	....	....
	....	....		....	(D)	225,000	....	....
Goodwill	....	....	(D2)	70,000		....	....	70,000
Current Liabilities	(123,000)	(60,000)		....		....	....	(183,000)
Bonds Payable	....	(200,000)		....		....	....	(200,000)
Common Stock—Harvard	(800,000)	....		....		....	....	(800,000)
Paid-In Capital in Excess of Par—Harvard	(500,000)	....		....		....	....	(500,000)
Common Stock—Bart	....	(350,000)	(EL)	315,000		....	(35,000)	....
Retained Earnings (carrydown)	(556,000)	(350,000)		....		....	....	....
Retained Earnings—Controlling Interest, December 31, 2012	....	....		....		....	....	(674,800)
Retained Earnings—Bart (NCI) December 31, 2012	....	....		....		....	(58,200)	....
Total NCI				....		....	(93,200)	(93,200)
Total	0	0		988,000		988,000		0

Problem 3A-3, Concluded

Eliminations and Adjustments:

(CV) Convert from the cost to the equity method as of January 1, 2012 [90% × ($320,000 – $200,000)].

(CY2) Eliminate the 90% ownership portion of the subsidiary dividends.

(EL) Eliminate the 90% ownership portion of the subsidiary equity accounts against the investment.

(D)/(NCI) Distribute the excess cost and NCI adjustment as follows, in accordance with the determination and distribution of excess schedule:

(D1) Increase Building by $180,000.

(D2) Increase Goodwill by $70,000.

(A) Record amortizations resulting from the revaluations of entry 3. Record $9,000 annual increase in building depreciation for current and prior years. See amortization schedule.

Subsidiary Bart Company Income Distribution

Building depreciation	$9,000	Internally generated net income	$40,000
		Adjusted income	$31,000
		NCI share	× 10%
		NCI	$ 3,100

Parent Harvard Company Income Distribution

		Internally generated net income	$ 83,000
		90% × Bart adjusted income of $31,000	27,900
		Controlling interest	$110,900

PROBLEM 3B-1

Entry to record investment:

Investment in Jones	720,000	
Common Stock		100,000
Paid-In Capital in Excess of Par		620,000

Problem 3B-1, Concluded

Value Analysis Schedule	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Company fair value	$800,000	$720,000	$80,000
Fair value of net assets excluding goodwill	679,000*	611,100	67,900
Goodwill	$121,000	$108,900	$12,100

*Equity of $500,000 + $170,000 asset adjustments – $51,000 DTL ($170,000 × 30%) + $60,000 ($200,000 × 30%) tax loss carryover

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Fair value of subsidiary	$800,000	$720,000	$ 80,000
Less book value of interest acquired:			
Common stock ($10 par)	$100,000		
Paid-in capital in excess of par	150,000		
Retained earnings	250,000		
Total equity	$500,000	$500,000	$500,000
Interest acquired		90%	10%
Book value		$450,000	$ 50,000
Excess of fair value over book value	$300,000	$270,000	$ 30,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Inventory ($200,000 fair – $150,000 book value)	$ 50,000	debit D1		
Depreciable fixed assets ($500,000 fair – $400,000 book value)	100,000	debit D2	20	$5,000
Investment in marketable securities ($170,000 – $150,000 book value)	20,000	debit D3		
DTL on above adjustments ($170,000 × 30%)	(51,000)	credit D1-3		
Current deferred tax expense ($40,000 × 30%)	12,000	debit D4		
Noncurrent deferred tax expense ($160,000 × 30%)	48,000	debit D5		
Goodwill	121,000	debit D6		
Total	$300,000			

PROBLEM 3B-2

Value Analysis Schedule	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Company fair value	$2,740,000	$2,240,000	$500,000
Fair value of net assets excluding goodwill	2,337,000*	1,869,600	467,400
Goodwill	$ 403,000	$ 370,400	$ 32,600

*Equity of $1,847,000 + $700,000 asset adjustments – $210,000 ($700,000 × 30%) DTL

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (80%)	NCI Value (20%)
Fair value of subsidiary	$2,740,000	$2,240,000	$ 500,000
Less book value of interest acquired:			
Common stock ($100 par)	$1,000,000		
Retained earnings	847,000		
Total equity	$1,847,000	$1,847,000	$1,847,000
Interest acquired		80%	20%
Book value		$1,477,600	$ 369,400
Excess of fair value over book value	$ 893,000	$ 762,400	$ 130,600

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Depreciable fixed assets ($2,800,000 fair – $2,100,000 book value)	$ 700,000	debit D1	20	$ 35,000
DTL on above adjustment ($700,000 × 30%)	(210,000)	credit D1t	20	(10,500)
Goodwill	403,000	debit D2		
Total	$ 893,000			

Problem 3B-2, Continued

Todd Company and Subsidiary Keller Company
Worksheet for Consolidated Balance Sheet
December 31, 2016

	Financial Statements		Eliminations and Adjustments				Non-controlling Interest	Consolidated
	Todd	Keller		Dr.		Cr.		
Cash	1,200,000	50,000						1,250,000
Accounts Receivable	2,400,000	300,000						2,700,000
Inventory	11,200,000	1,500,000						12,700,000
Prepayments	422,000	47,000						469,000
Depreciable Fixed Assets (net)	18,978,000	2,100,000	(D1)	700,000				21,778,000
Investment in Keller	2,240,000				(EL)	1,477,600		
					(D)	762,400		
Goodwill			(D2)	403,000				403,000
Payables	(7,200,000)	(1,750,000)						(8,950,000)
Accruals	(1,615,000)	(400,000)						(2,015,000)
Deferred Tax Liability					(D1t)	210,000		(210,000)
Common Stock ($100 par)—Todd	(1,000,000)							(1,000,000)
Paid-In Capital in Excess of Par—Todd	(8,900,000)							(8,900,000)
Retained Earnings—Todd	(17,725,000)							(17,725,000)
Common Stock ($100 par)—Keller		(1,000,000)	(EL)	800,000			(200,000)	
Retained Earnings—Keller		(847,000)	(EL)	677,600	(NCI)	130,600	(300,000)	
Total	0	0		2,580,600		2,580,600		
Total NCI							(500,000)	(500,000)
								0

Eliminations and Adjustments:

(CY) N/A because worksheet is prepared on the same day as consolidation.

(EL) Elimination of 80% of the subsidiary equity against the investment.

(D)/(NCI) Distribute the balance of the investment account, $762,400 and the $130,600 NCI adjustment, to the specific subsidiary accounts to the determination and distribution of excess schedule:

(D1) Increase depreciable fixed assets by $700,000.

(D1t) Record a deferred tax liability of $210,000 relating to the increase in depreciable fixed assets.

(D2) Record goodwill of $403,000.

Problem 3B-2, Concluded

Todd Company and Subsidiary Keller Company
Consolidated Balance Sheet
December 31, 2016

Assets

Current assets:		
Cash	$ 1,250,000	
Accounts receivable	2,700,000	
Inventory	12,700,000	
Prepayments	469,000	$17,119,000
Depreciable fixed assets	$21,778,000	
Goodwill	403,000	22,181,000
Total assets		$39,300,000

Liabilities and Stockholders' Equity

Payables	$ 8,950,000	
Accruals	2,015,000	
Deferred tax liability	210,000	
Total liabilities		$11,175,000
Stockholders' equity:		
Noncontrolling interest		500,000
Controlling interest:		
Common stock ($100 par)	$ 1,000,000	
Paid-in capital in excess of par	8,900,000	
Retained earnings	17,725,000	27,625,000
Total liabilities and stockholders' equity		$39,300,000

PROBLEM 3B-3

(1)

Value Analysis Schedule	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Company fair value	$700,000	$630,000	$70,000
Fair value of net assets excluding goodwill	430,000*	387,000	43,000
Goodwill	$270,000	$243,000	$27,000

*Equity of $300,000 + $100,000 asset adjustments – $30,000 ($100,000 × 30%) DTL + $60,000 ($200,000 × 30%) tax loss carryover

Based on the above information, the following D&D schedule is prepared:

Determination and Distribution of Excess Schedule

	Company Implied Fair Value	Parent Price (90%)	NCI Value (10%)
Fair value of subsidiary	$700,000	$630,000	$ 70,000
Less book value of interest acquired:			
Common stock ($50 par)	$200,000		
Retained earnings	100,000		
Total equity	$300,000	$300,000	$300,000
Interest acquired		90%	10%
Book value		$270,000	$ 30,000
Excess of fair value over book value	$400,000	$360,000	$ 40,000

Adjustment of identifiable accounts:

	Adjustment	Worksheet Key	Life	Amortization per Year
Building and equipment	$100,000	debit D1	10	$10,000
DTL on above adjustment	(30,000)	credit D1t	10	(3,000)
Current deferred tax expense ($20,000 × 30%)	6,000	debit D2		
Noncurrent deferred tax expense ($180,000 × 30%)	54,000	debit D3		
Goodwill	270,000	debit D4		
Total	$400,000			

Problem 3B-3, Continued

(2)

Campton Corporation and Subsidiary Dorn Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2011

	Trial Balance		Eliminations and Adjustments				Consolidated Income		Controlling Retained	Consolidated Balance
	Campton	Dorn		Dr.		Cr.	Statement	NCI	Earnings	Sheet
Current Assets	150,000	100,000								250,000
Land	400,000	100,000								500,000
Building and Equipment (net)	900,000	240,000	(D1)	100,000	(A1)	10,000				1,230,000
Investment in Dorn Corporation	642,600				(CY1)	12,600				
					(EL)	270,000				
					(D)	360,000				
Noncurrent Deferred Tax Expense			(D3)	54,000						54,000
Goodwill			(D4)	270,000						270,000
Current Tax Liability	(9,000)	(12,000)								(21,000)
Deferred Tax Liability	(6,000)		(D2)	6,000						
Other Current Liabilities	(130,000)	(100,000)								(230,000)
Deferred Tax Liability			(A1t)	3,000	(D1t)	30,000				(27,000)
Common Stock ($5 par)—Campton	(500,000)									(500,000)
Paid-In Capital in Excess of Par—Campton	(750,000)									(750,000)
Retained Earnings, January 1, 2011—Campton	(650,000)								(650,000)	
Common Stock ($50 par)—Dorn		(200,000)	(EL)	180,000				(20,000)		
Retained Earnings, January 1, 2011—Dorn		(100,000)	(EL)	90,000	(NCI)	40,000		(50,000)		
Sales	(309,000)	(170,000)					(479,000)			
Subsidiary Income	(12,600)		(CY1)	12,600						
Cost of Goods Sold	170,000	80,000					250,000			
Expenses	89,000	50,000	(A1)	10,000			149,000			
Provision for Tax	15,000	12,000			(A1t)	3,000	24,000			
Total	0	0		725,600		725,600				
Consolidated Net Income							(56,000)			
To NCI (see distribution schedule)							900	(900)		
To Controlling Interest (see distribution schedule)							55,100		(55,100)	
Total NCI								(70,900)		(70,900)
Retained Earnings—Controlling Interest, December 31, 2011									(705,100)	(705,100)
										0

Problem 3B-3, Continued

Subsidiary Dorn Corporation Income Distribution

Equipment depreciation	(A1)	$10,000	Internally generated income before tax	$40,000
			Adjusted net income before tax .	$30,000
			Provision for tax (30%)	(9,000)
			Adjusted net income.................	$ 9,000
			NCI share	× 10%
			NCI	$ 900

Parent Campton Corporation Income Distribution

Internally generated net income	$47,000
90% × Dorn adjusted income of $9,000................	8,100
Controlling interest	$55,100

Eliminations and Adjustments:

(CY1) Eliminate current-year investment entries.

(EL) Eliminate the 90% ownership portion of the subsidiary equity accounts against the investment.

(D)/(NCI) Distribute the excess cost and NCI adjustment in accordance with the determination and distribution of excess schedule:

(D1) Increase building and equipment by $100,000.

(D1t) Record a $30,000 deferred tax liability relating to the increase in building and equipment.

(D2) Record current portion of DTA.

(D3) Record a noncurrent DTA of $54,000 for the portion of the tax loss carryover to be used in future years.

(D4) Record goodwill of $270,000.

(A1) Record $10,000 annual increase in building and equipment depreciation for current year.

(A1t) Reduce provision for tax by 30% of the increase in depreciation expense, $3,000.

Problem 3B-3, Concluded

(3)

Campton Corporation and Subsidiary Dorn Corporation
Consolidated Income Statement
For Year Ended December 31, 2011

Sales	$479,000
Cost of goods sold	250,000
Gross profit	$229,000
Expenses	149,000
Consolidated net income before tax	$ 80,000
Provision for tax (30%)	(24,000)
Consolidated net income	$ 56,000
To noncontrolling interest	900
To controlling interest	$ 55,100

Campton Corporation and Subsidiary Dorn Corporation
Retained Earnings Statement
For Year Ended December 31, 2011

	NCI	Controlling
Retained earnings, January 1, 2011	$10,000	$650,000
Add net income	900	55,100
Balance, December 31, 2011	$10,900	$705,100

Campton Corporation and Subsidiary Dorn Corporation
Consolidated Balance Sheet
December 31, 2011

Assets

Current assets		$ 250,000
Property, plant, and equipment:		
Land	$ 500,000	
Building and equipment (net)	1,230,000	1,730,000
Goodwill		270,000
Noncurrent deferred tax expense		54,000
Total assets		$2,304,000

Liabilities and Stockholders' Equity

Liabilities:		
Current liabilities	$ 230,000	
Current tax liability	21,000	
Deferred tax liability	27,000	
Total liabilities		$ 278,000
Stockholders' equity:		
NCI		70,900
Controlling interest:		
Common stock ($5 par)	$ 500,000	
Paid-in capital in excess of par	750,000	
Retained earnings	705,100	1,955,100
Total liabilities and stockholders' equity		$2,304,000