# CHAPTER 4

## UNDERSTANDING THE ISSUES

**1.** The intercompany sale will cause both sales and costs of goods sold to be overstated by $50,000 on the consolidated income statement. The amount remaining in ending inventory will cause cost of goods sold to be understated by $3,000 (1/4 × $12,000) on the consolidated income statement and inventory to be overstated by $3,000 (1/4 × $12,000) on the consolidated balance sheet.

**2.** Debit Sales and credit Cost of Goods Sold for $50,000. Debit Cost of Goods Sold and credit Inventory for $3,000 (1/4 × $12,000).

**3.**

| | 2011 | 2012 | |
|---|---|---|---|
| NCI | $ 0 | $ 200 | ($1,000 × 20%) |
| Controlling interest | 0 | 3,800 | [$3,000 + ($1,000 × 80%)] |
| Total profit | $ 0 | $4,000 | |

**4.** Company S has realized a $50,000 profit; however, it is not immediate. The profit will be realized over the 5-year life of the asset. Company S will realize the profit by reducing consolidated depreciation expense by $10,000 ($50,000 ÷ 5 years) each year for 5 years. The NCI will realize $2,000 (20% × $10,000) each year.

**5.**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Realized gain by reducing depreciation expense [($60,000 – $50,000)÷ 5 years] | $2,000 | $2,000 | $2,000 |
| Balance of gain at time of sale | | | 4,000 |

**6.**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Profit recorded by Company S | $40,000* | $60,000** | $ 0 |
| Profit recorded by consolidated firm | 0 | 0 | 5,000‡ |

*(40% × $100,000)
**(60% × $100,000)
‡($100,000 ÷ 20)

**7.** a. Company S is better off borrowing the funds from Company P since it will receive a lower interest rate (9.5% instead of 10%). Therefore, Company S will have lower annual interest charges.

b. During 2012, Company P will record interest revenue and Company S will record interest expense of $47,500 ($500,000 × 9.5%). However, the interest expense and interest revenue are eliminated during the consolidation process. Only the $40,000 ($500,000 × 8%) of external interest expense remains on the consolidated statements.

c. Intercompany interest expense and interest revenue should not appear on the 2011 consolidated income statement. Only the external interest expense of $40,000 will appear on the consolidated income statement.

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# EXERCISES

## EXERCISE 4-1

Partplus Company and Subsidiary Sogern Company
Consolidated Income Statement
For the Year Ended December 31, 2011

| | |
|---|---|
| Sales ($250,000 + $500,000 – $120,000) | $630,000 |
| Cost of goods sold [$150,000 + $310,000 – $120,000 + (40% × $30,000)] | 352,000 |
| Gross profit | $278,000 |
| Expenses ($45,000 + $120,000) | 165,000 |
| Consolidated net income | $113,000 |
| Distributed to NCI | $ 8,600 |
| Distributed to controlling interest | $104,400 |

Sogern Income Distribution Schedule

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory (40% × $30,000) | $12,000 | Internally generated income | $55,000 |
| | | Adjusted income | $43,000 |
| | | NCI share | × 20% |
| | | NCI | $ 8,600 |

Partplus Income Distribution Schedule

| | | | |
|---|---|---|---|
| | | Internally generated income | $ 70,000 |
| | | 80% × Sogern adjusted income of $43,000 | 34,400 |
| | | Controlling interest | $104,400 |

Partplus Company and Subsidiary Sogern Company
Consolidated Income Statement
For the Year Ended December 31, 2012

| | |
|---|---|
| Sales ($300,000 + $540,000 – $110,000) | $730,000 |
| Cost of goods sold [$180,000 + $360,000 – $110,000 – (40% × $30,000) + (40% × $20,000)] | 426,000 |
| Gross profit | $304,000 |
| Expenses ($56,000 + $125,000) | 181,000 |
| Consolidated net income | $123,000 |
| Distributed to NCI | $ 13,600 |
| Distributed to controlling interest | $109,400 |

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## Exercise 4-1, Concluded

Sogern Income Distribution Schedule

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory (40% × $20,000) ...... | $8,000 | Internally generated net income.................................... | $64,000 |
| | | Realized profit in beginning inventory (40% × $30,000) ...... | 12,000 |
| | | Adjusted income........................... | $68,000 |
| | | NCI share.................................... | × 20% |
| | | NCI............................................. | $13,600 |

Partplus Income Distribution Schedule

| | | | |
|---|---|---|---|
| | | Internally generated net income.................................... | $ 55,000 |
| | | 80% × Sogern adjusted income of $68,000.................. | 54,400 |
| | | Controlling interest ....................... | $109,400 |

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**EXERCISE 4-2**

Source of income components:

| | Victor | Norge | Eliminations | | Consolidated Income Statement |
|---|---|---|---|---|---|
| Sales | (220,000) | (120,000) | (IS) | 80,000 | (260,000) |
| Cost of goods sold | 150,000 | 90,000 | (IS) | (80,000) | |
| | | | (BI) | (5,000) | |
| | | | (EI) | 7,500 | 162,500 |
| Other income | (5,000) | | (S) | 5,000 | |
| Other expenses | 40,000 | 12,000 | (S) | (5,000) | 47,000 |
| Consolidated net income | | | | | (50,500) |
| Distributed to NCI | | | | | 3,100 |
| Distributed to controlling interest | | | | | (47,400) |

Eliminations and Adjustments:

(IS) Elimination of intercompany sales.

(BI) Elimination of 25% profit from beginning inventory; debit would be to Retained Earnings; allocated 80% to the controlling interest and 20% to the NCI.

(EI) Elimination of 25% profit from ending inventory; credit would be to inventory account.

(S) Elimination of consulting services transaction.

*Note:* The above format and presentation is not to be expected of the student. All that is required is the final consolidated income statement and its distribution to controlling and noncontrolling interests. This format is presented to aid explanation of the exercise as it shows the sources of the numbers that determine the income statement. This form will be used for future exercises and problems to aid the instructor.

Subsidiary Norge Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized ending inventory profit | (EI) | $7,500 | Internally generated net income | | $18,000 |
| | | | Realized beginning inventory profit | (BI) | 5,000 |
| | | | Adjusted income | | $15,500 |
| | | | NCI share | | × 20% |
| | | | NCI | | $ 3,100 |

Parent Victor Corporation Income Distribution

| | | |
|---|---|---|
| | Internally generated net income | $35,000 |
| | 80% × Norge adjusted income of $15,500 | 12,400 |
| | Controlling interest | $47,400 |

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## EXERCISE 4-3

| | | | |
|---|---|---|---|
| (1) | Gross profit recorded on the separate books: | | |
| | Gross profit—Hide: | | |
| | Sales | | $400,000 |
| | Gross profit (25% × $400,000) | | 100,000 |
| | Gross profit—Seek: | | |
| | Sales | | $416,000 |
| | Cost of goods sold (80% × $400,000) | $320,000 | |
| | Add write-down of ending inventory | 10,000 | 330,000 |
| | Gross profit | | $ 86,000 |
| (2) | Consolidated gross profit: | | |
| | Sales | | $416,000 |
| | Cost of goods sold to consolidated group* | | 256,000 |
| | Gross profit | | $160,000 |

*Cost of goods sold is computed as follows:

| | | |
|---|---|---|
| Purchases at cost (80% × $400,000) | $320,000 | |
| Less ending inventory at cost ($80,000 × 80%) (note that cost is less than market) | 64,000 | |
| Cost of goods sold | $256,000 | |

## EXERCISE 4-4

| | | | |
|---|---|---|---|
| (1) | Gain on Sale of Land | 50,000 | |
| | Gain on Building | 150,000 | |
| | Land | | 50,000 |
| | Building | | 150,000 |
| | To defer unrealized gain on sale of land and on building and reduce the assets to the cost to the consolidated entity. | | |
| (2) | Retained Earnings—Sayner* | 38,500 | |
| | Retained Earnings—Wavemasters** | 154,000 | |
| | Accumulated Depreciation ($150,000 ÷ 20 years) | 7,500 | |
| | Building | | 150,000 |
| | Land | | 50,000 |

*[$50,000 land + (19 ÷ 20 × $150,000 on building)] × 20%
**($200,000 original gain – $7,500 realized = $192,500) × 80%

| | | |
|---|---|---|
| Accumulated Depreciation | 7,500 | |
| Depreciation Expense | | 7,500 |

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## EXERCISE 4-5

In 2012, only a $4,000 loss can be recognized for the sale of the machinery on the consolidated income statement. This is the amount of the impairment (FV – BV). The remaining $5,000 loss must be deferred. This loss is deferred in the year of the intercompany sale. During each following year of use, the asset and accumulated depreciation accounts are adjusted to reflect the $10,000 fair value, with an additional entry for the $1,000 of incremental depreciation.

On December 31, 2012, $5,000 of the $9,000 recorded loss should be eliminated.

| | | |
|---|---|---|
| Machine | 5,000 | |
| Loss on Sale of Machine | | 5,000 |

Depreciation for the year is also restated:

| | | |
|---|---|---|
| Depreciation Expense | 1,000 | |
| Accumulated Depreciation | | 1,000 |

2013 Entry:

| | | |
|---|---|---|
| Loss on Sale of Machine (remaining unrecognized loss at end of second year)* | 3,000 | |
| Depreciation Expense (adjustment for current year) | 1,000 | |
| Retained Earnings—Hilton ($5,000 original unrecognized loss less one year's amortization) | | 4,000 |
| To record increase in depreciation expense and increase in loss to the consolidated company on sale of machine. | | |

*Added to the subsidiary's recorded loss of $1,000 results in a total loss of $4,000 to the consolidated entity to be recognized in 2013.

## EXERCISE 4-6

(1) In the year of sale, eliminate the $15,000 gain on the sale of the machine, and adjust the machine to its net book value on the date of the sale. Reduce depreciation expense and accumulated depreciation by $3,000 to reflect depreciation based on the consolidated book value.

For 2013 to 2016, eliminate unamortized gain as reflected in Jungle's beginning retained earnings. Adjust machinery to reflect book value on the date of the sale. Reduce current-year depreciation expense and accumulated depreciation by $3,000.

| | | | |
|---|---|---|---|
| (2) | Gain on Sale of Machinery | 15,000 | |
| | Machinery | | 15,000 |
| | Accumulated Depreciation | 3,000 | |
| | Depreciation Expense | | 3,000 |
| (3) | Retained Earnings—Jungle Company | 12,000 | |
| | Accumulated Depreciation | 3,000 | |
| | Machinery | | 15,000 |
| | Accumulated Depreciation | 3,000 | |
| | Depreciation Expense | | 3,000 |

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## EXERCISE 4-7

| | Danner | Link | Eliminations | Consolidated Income Statement |
|---|---|---|---|---|
| Sales | (650,000) | (280,000) | (F1) 60,000 | (870,000) |
| Cost of goods sold | 400,000 | 190,000 | (F1) (40,000) | 550,000 |
| Other expenses | 180,000 | 70,000 | (F2a) (4,000) | |
| | | | (F2b) (2,500) | 243,500 |
| Other income | (20,000) | | | (20,000) |
| Consolidated net income | | | | (96,500) |
| Distributed to NCI | | | | (400) |
| Distributed to controlling interest | | | | (96,100) |

Eliminations and Adjustments:

(F1) Eliminate the gain on the intercompany machine sale. The machine account is credited for the $20,000 gain.

(F2a) Reduce machine depreciation expense to reflect depreciation based on the consolidated book value of the asset ($20,000 profit ÷ 5 years = $4,000 per year). The debit is to Accumulated Depreciation.

(F2b) Reduce building depreciation expense to reflect depreciation based on the consolidated book value of the asset ($50,000 profit ÷ 20 years = $2,500 per year). The debit is to Accumulated Depreciation.

Subsidiary Link Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized gain on sale of machine | (F1) | $20,000 | Internally generated net income | | $20,000 |
| | | | Realized gain through use of machine | (F2a) | 4,000 |
| | | | Adjusted income | | $ 4,000 |
| | | | NCI share | | × 10% |
| | | | NCI | | $ 400 |

Parent Danner Company Income Distribution

| | | | |
|---|---|---|---|
| | Internally generated net income | | $90,000 |
| | Gain realized on use of building sold to subsidiary | (F2b) | 2,500 |
| | 90% × Link adjusted income of $4,000 | | 3,600 |
| | Controlling interest | | $96,100 |

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## EXERCISE 4-8

| | | | |
|---|---|---|---|
| (1) | Revenue from Completed Contracts | 15,000 | |
| | Equipment | | 15,000 |
| | To eliminate intercompany profit on the first completed machine and to reduce equipment cost to the consolidated entity. | | |
| | Accumulated Depreciation—Equipment | 1,500 | |
| | Depreciation Expense | | 1,500 |
| | To reduce depreciation expense and accumulated depreciation for one-half year to depreciation based on cost of the machine to the consolidated entity. | | |
| | Billings on Long-Term Contracts | 60,000 | |
| | Asset Under Construction | 12,000 | |
| | Construction in Progress | | 72,000 |
| | To eliminate double counting of construction costs and asset under construction (second machine). | | |
| | Contracts Payable | 3,000 | |
| | Contracts Receivable | | 3,000 |
| | To eliminate intercompany debt. | | |

(2) Essuman defers the $15,000 profit on the completed machine and recognizes the $1,500 realized portion through the use of the machine for one-half year. No profit is recognized on the uncompleted contract.

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## EXERCISE 4-9

Parent's entry:

| | | |
|---|---|---|
| Plant Asset Under Construction | 150,000 | |
| Contracts Payable | | 150,000 |

Subsidiary's entries:

| | | |
|---|---|---|
| Construction in Progress | 120,000 | |
| Payables (to outsiders) | | 120,000 |
| Construction in Progress (25% markup on cost)* | 30,000 | |
| Earned Income on Long-Term Contracts | | 30,000 |
| Contracts Receivable | 150,000 | |
| Billings on Construction in Progress | | 150,000 |

*($250,000 contract price – $200,000 estimated cost) × 60% completed

| | Trial Balance | | Eliminations and Adjustments | | | |
|---|---|---|---|---|---|---|
| | Plum | Apple | Dr. | | Cr. | |
| Plant Asset Under Construction | 150,000 | | | | (LT3) | 30,000 |
| Contracts Receivable | | 150,000 | | | (LT1) | 150,000 |
| Billings on Construction in Progress | | (150,000) | (LT3) | 150,000 | | |
| Construction in Progress | | 150,000 | | | (LT3) | 120,000 |
| | | | | | (LT2) | 30,000 |
| Earned Income on Long-Term Contracts | | (30,000)* | (LT2) | 30,000 | | |
| Contracts Payable | (150,000) | | (LT1) | 150,000 | | |
| Payables (to outsiders) | | (120,000) | | | | |

*60% × estimated profit of $50,000

Eliminations and Adjustments:

(LT1) Eliminate intercompany debt.

(LT2) Eliminate the income recorded on long-term contracts and remove profit from Construction in Progress.

(LT3) Eliminate balance of Construction in Progress and Billings on Construction in Progress and reduce Plant Asset Under Construction for the amount billed in excess of cost.

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**EXERCISE 4-10**

(1)

| Saratoga | | | Windsor | | |
|---|---|---|---|---|---|
| Notes Receivable | 50,000 | | Cash | 50,000 | |
| Cash | | 50,000 | Notes Payable | | 50,000 |
| To record receipt of note on May 1, 2013. | | | To record receipt of cash on May 1, 2013. | | |
| Accrued Interest Receivable | 2,000* | | Interest Expense | 2,000 | |
| Interest Revenue | | 2,000 | Accrued Interest Payable | | 2,000 |
| Year-end interest accrual. | | | Year-end interest accrual. | | |

*$50,000 × 6% × 8/12

(2) Eliminations:

| | | |
|---|---|---|
| (LN1) Notes Payable | 50,000 | |
| Accrued Interest Payable | 2,000 | |
| Notes Receivable | | 50,000 |
| Accrued Interest Receivable | | 2,000 |
| To eliminate intercompany note and accrued interest applicable to the note. | | |
| (LN2) Interest Revenue | 2,000 | |
| Interest Expense | | 2,000 |
| To eliminate intercompany interest revenue and expense. | | |

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## EXERCISE 4-11

(1) Saratoga

| | | | |
|---|---|---|---|
| May 1 | Notes Receivable | 50,000 | |
| | Cash | | 50,000 |
| | To record receipt of note. | | |
| July 1 | Accrued Interest Receivable | 500 | |
| | Interest Revenue | | 500 |
| | To accrue interest for 2 months (6% × $50,000 × 2/12). | | |
| July 1 | Interest Expense (loss on discounting) | 1,033 | |
| | Cash | 49,467 | |
| | Notes Receivable | | 50,000 |
| | Accrued Interest Receivable | | 500 |
| | To record proceeds of discounting note at 8%. (See schedule of computation of proceeds.) | | |

Windsor

| | | | |
|---|---|---|---|
| May 1 | Cash | 50,000 | |
| | Notes Payable | | 50,000 |
| | To record receipt of cash. | | |
| Dec. 31 | Interest Expense | 2,000 | |
| | Interest Payable | | 2,000 |
| | To record year-end accrual (6% × $50,000 × 8/12). | | |

Computation of Proceeds

| | |
|---|---|
| Principal of note | $50,000 |
| Interest due at maturity (6% × $50,000) | 3,000 |
| Total maturity value | $53,000 |
| Less maturity value multiplied by 8% discount rate for 10/12 of period | 3,533 |
| Net proceeds of note | $49,467 |

(2) Eliminations:

| | | |
|---|---|---|
| (LN1) Notes Receivable Discounted | 50,000 | |
| Notes Receivable | | 50,000 |
| To eliminate intercompany note and reclassify the discounted note receivable as a note payable at its face value. | | |
| (LN2) Interest Revenue | 500 | |
| Interest Expense | | 500 |
| To eliminate intercompany interest prior to the discounting. | | |

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**EXERCISE 4-12**

2011

Subsidiary Sandbar Company Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory (40% × $15,000) ...... | $6,000 | Internally generated net income.................................. | $250,000 |
| | | Adjusted income.......................... | $244,000 |
| | | NCI share.................................... | × 20% |
| | | NCI............................................. | $ 48,800 |

Parent Peninsula Company Income Distribution

| | | | |
|---|---|---|---|
| Gain on sale of real estate.................................... | $200,000 | Internally generated net income.................................. | $520,000 |
| | | Realized gain on use of sold real estate [(75% × $200,000)/20]............ | 8,000 |
| | | 80% × Sandbar adjusted income of $244,000................ | 195,200 |
| | | Controlling interest ....................... | $523,200 |

2012

Subsidiary Sandbar Company Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory (40% × $20,000) ...... | $8,000 | Internally generated net income.................................. | $235,000 |
| | | Realized profit in beginning inventory................................ | 6,000 |
| | | Adjusted income.......................... | $233,000 |
| | | NCI share.................................... | × 20% |
| | | NCI............................................. | $ 46,600 |

Parent Peninsula Company Income Distribution

| | | | |
|---|---|---|---|
| | | Internally generated net income.................................. | $340,000 |
| | | Realized gain on use of sold real estate ....................... | 8,000 |
| | | 80% × Sandbar adjusted income of $233,000................ | 186,400 |
| | | Controlling interest ....................... | $534,400 |

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# PROBLEMS

## PROBLEM 4-1

(1)

Baxter Corporation and Subsidiary Crayon Company
Worksheet for Consolidated Financial Statements
For Year Ended March 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Baxter | Crayon | | Dr. | | Cr. | | | | |
| Cash | 216,200 | 44,300 | | | | | | | | 260,500 |
| Accounts Receivable (net) | 290,000 | 97,000 | | | (IAP) | 10,000 | | | | |
| | | | | | (IAS) | 5,000 | | | | 372,000 |
| Inventory | 310,000 | 80,000 | | | (EIP) | 1,320 | | | | |
| | | | | | (EIS) | 750 | | | | 387,930 |
| Investment in Crayon Company | 425,000 | | (CV) | 32,000 | (EL) | 352,000 | | | | |
| | | | | | (D) | 105,000 | | | | |
| Land | 1,081,000 | 150,000 | | | | | | | | 1,231,000 |
| Building and Equipment | 1,850,000 | 400,000 | | | | | | | | 2,250,000 |
| Accumulated Depreciation | (940,000) | (210,000) | | | | | | | | (1,150,000) |
| Goodwill | 60,000 | | (D) | 131,250 | | | | | | 191,250 |
| Accounts Payable | (242,200) | (106,300) | (IAP) | 10,000 | | | | | | |
| | | | (IAS) | 5,000 | | | | | | (333,500) |
| Bonds Payable | (400,000) | | | | | | | | | (400,000) |
| Common Stock—Baxter | (250,000) | | | | | | | | | (250,000) |
| Paid-In Capital in Excess of Par—Baxter | (1,250,000) | | | | | | | | | (1,250,000) |
| Retained Earnings, April 1, 2012—Baxter | (1,105,000) | | | | (CV) | 32,000 | | | | |
| | | | (BIP) | 1,350 | | | | | | |
| | | | (BIS) | 560 | | | | | (1,135,090) | |
| Common Stock—Crayon | | (200,000) | (EL) | 160,000 | | | | (40,000) | | |
| Paid-In Capital in Excess of Par—Crayon | | (100,000) | (EL) | 80,000 | | | | (20,000) | | |
| Retained Earnings, April 1, 2012—Crayon | | (140,000) | (EL) | 112,000 | (NCI) | 26,250 | | | | |
| | | | (BIS) | 140 | | | | (54,110) | | |
| Sales | (880,000) | (630,000) | (ISP) | 32,000 | | | | | | |
| | | | (ISS) | 30,000 | | | (1,448,000) | | | |
| Dividend Income (from Crayon Company) | (24,000) | | (CY2) | 24,000 | | | | | | |
| Cost of Goods Sold | 704,000 | 504,000 | (EIP) | 1,320 | (BIP) | 1,350 | | | | |
| | | | (EIS) | 750 | (ISP) | 32,000 | | | | |
| | | | | | (BIS) | 700 | | | | |
| | | | | | (ISS) | 30,000 | 1,146,020 | | | |

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## Problem 4-1, Continued

(1)

Baxter Corporation and Subsidiary Crayon Company
Worksheet for Consolidated Financial Statements
For Year Ended March 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|
| | Baxter | Crayon | Dr. | | Cr. | | | | |
| Other Expenses | 130,000 | 81,000 | | | | 211,000 | | | |
| Dividends Declared | 25,000 | 30,000 | | (CY2) | 24,000 | | 6,000 | 25,000 | |
| | 0 | 0 | 620,370 | | 620,370 | | | | |
| Consolidated Net Income | | | | | | 90,980 | | | |
| To NCI (see distribution schedule) | | | | | | 8,990 | (8,990) | | |
| To Controlling Interest (see distribution schedule) | | | | | | 81,990 | | (81,990) | |
| Total NCI | | | | | | | (117,100) | | (117,100) |
| Retained Earnings—Controlling Interest, March 31, 2013 | | | | | | | | (1,192,080) | (1,192,080) |
| | | | | | | | | | 0 |

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## Problem 4-1, Continued

Eliminations and Adjustments:

| | |
|---|---|
| (CV) | Convert to equity method: Change in equity × 80% = $40,000 × 80% = $32,000. |
| (CY2) | Eliminate intercompany dividends. |
| (EL) | Eliminate parent's share of subsidiary equity. |
| (D)/(NCI) | Distribute excess and NCI adjustment to goodwill, according to determination and distribution of excess schedule. |
| (BIP) | Eliminate intercompany profit from beginning inventory on sales from Baxter to Crayon, $9,000 × 15% = $1,350. |
| (ISP) | Eliminate sales from Baxter to Crayon from April 2012–March 2013 ($32,000). |
| (EIP) | Eliminate intercompany profit from ending inventory on sales from Baxter to Crayon, $6,000 × 22% = $1,320. |
| (IAP) | Eliminate intercompany trade balances on sales from Baxter to Crayon. |
| (BIS) | Eliminate intercompany profit from beginning inventory on sales from Crayon to Baxter, $3,500 × 20% = $700. |
| (ISS) | Eliminate sales from Crayon to Baxter. |
| (EIS) | Eliminate intercompany profit from ending inventory on sales from Crayon to Baxter, $3,000 × 25% = $750. |
| (IAS) | Eliminate intercompany trade balances on sales from Crayon to Baxter. |

| **Value Analysis Schedule** | **Company Implied Fair Value** | **Parent Price (80%)** | **NCI Value (20%)** |
|---|---|---|---|
| Company fair value | $531,250 | $425,000 | $106,250 |
| Fair value of net assets excluding goodwill | 400,000 | 320,000 | 80,000 |
| Goodwill | $131,250 | $105,000 | $ 26,250 |

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 | $531,250 | $425,000 | $106,250 |
| Less book value of interest acquired: | | | |
| Total equity | 400,000 | $400,000 | $400,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $320,000 | $ 80,000 |
| Excess of cost over book value | $131,250 | $105,000 | $ 26,250 |

**Adjustment of identifiable accounts:**

| | **Adjustment** | **Worksheet Key** |
|---|---|---|
| Goodwill | $131,250 | debit D |

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**Problem 4-1, Concluded**

Subsidiary Crayon Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EIS) | $750 | Internally generated net income | | $45,000 |
| | | | Realized profit in beginning inventory | (BIS) | 700 |
| | | | Adjusted income | | $44,950 |
| | | | NCI share | | × 20% |
| | | | NCI | | $ 8,990 |

Parent Baxter Corporation Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EIP) | $1,320 | Internally generated net income | | $46,000 |
| | | | Realized profit in beginning inventory | (BIP) | 1,350 |
| | | | 80% × Crayon adjusted income of $44,950 | | 35,960 |
| | | | Controlling interest | | $81,990 |

(2)

Baxter Corporation and Subsidiary Crayon Company
Consolidated Income Statement
For Year Ended March 31, 2013

| | |
|---|---|
| Sales | $1,448,000 |
| Cost of goods sold | 1,146,020 |
| Gross profit | $ 301,980 |
| Expenses | 211,000 |
| Consolidated net income | $ 90,980 |
| Distributed to NCI | 8,990 |
| Distributed to controlling interest | $ 81,990 |

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## PROBLEM 4-2

Price paid for investment in Jenko Company stock:

| | | |
|---|---|---|
| Jenko Company stock outstanding ($450,000 ÷ $5 par) | 90,000 | shares |
| Ownership interest | × 80% | |
| Shares acquired | 72,000 | |
| Silvio Corporation shares issued (72,000 ÷ 3) | 24,000 | |
| Market value of shares | × $40 | |
| Price paid for 80% interest | $960,000 | |

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $1,200,000* | $960,000 | $240,000 |
| Fair value of net assets excluding goodwill | 1,075,000** | 860,000 | 215,000 |
| Goodwill | $ 125,000 | $100,000 | $ 25,000 |

*$960,000/80%
**$1,000,000 equity + $75,000 adjustment

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 | $1,200,000 | $ 960,000 | $ 240,000 |
| Less book value of interest acquired: | | | |
| Total equity | 1,000,000 | $1,000,000 | $1,000,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $ 800,000 | $ 200,000 |
| Excess of cost over book value | $ 200,000 | $ 160,000 | $ 40,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key |
|---|---|---|
| Land | $ 75,000 | debit D1 |
| Goodwill | 125,000 | debit D2 |
| Total adjustments | $200,000 | |

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## Problem 4-2, Continued

Silvio Corporation and Subsidiary Jenko Company
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 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Silvio | Jenko | | Dr. | | Cr. | | | | |
| Cash | 140,000 | 205,200 | | | | | | | | 345,200 |
| Accounts Receivable | 285,000 | 110,000 | | | | | | | | 395,000 |
| Interest Receivable | 1,500 | | | | (LN2) | 200 | | | | 1,300 |
| Notes Receivable | 50,000 | | | | (LN1) | 10,000 | | | | 40,000 |
| Inventory | 470,000 | 160,000 | | | (EI) | 3,500 | | | | 626,500 |
| Land | 350,000 | 300,000 | (D1) | 75,000 | | | | | | 725,000 |
| Depreciable Fixed Assets | 1,110,000 | 810,000 | | | | | | | | 1,920,000 |
| Accumulated Depreciation | (500,000) | (200,000) | | | | | | | | (700,000) |
| Intangibles | 60,000 | | | | | | | | | 60,000 |
| Investment in Jenko Company | 1,128,000 | | | | (CY1) | 88,000 | | | | |
| | | | | | (EL) | 880,000 | | | | |
| | | | | | (D) | 160,000 | | | | |
| Goodwill | | | (D2) | 125,000 | | | | | | 125,000 |
| Accounts Payable | (611,500) | (165,000) | (LN1) | 10,000 | | | | | | (776,500) |
| Note Payable | | 10,000 | | | | | | | | |
| Interest Payable | | (200) | (LN2) | 200 | | | | | | |
| Common Stock—Silvio | (400,000) | | | | | | | | | (400,000) |
| Paid-In Capital in Excess of Par—Silvio | (1,235,000) | | | | | | | | | (1,235,000) |
| Retained Earnings, January 1, 2013—Silvio | (958,500) | | | | | | | | | |
| | | | (BI) | 7,500 | | | | | (951,000) | |
| Common Stock—Jenko | | (450,000) | (EL) | 360,000 | | | | (90,000) | | |
| Paid-In Capital in Excess of Par—Jenko | | (180,000) | (EL) | 144,000 | | | | (36,000) | | |
| Retained Earnings, January 1, 2013—Jenko | | (470,000) | (EL) | 376,000 | (NCI) | 40,000 | | (134,000) | | |
| Treasury Stock (at cost) | 315,000 | | | | | | | | | 315,000 |
| Sales | (1,020,000) | (500,000) | (IS) | 140,000 | | | (1,380,000) | | | |
| Interest Income | (1,500) | | (LN2) | 200 | | | (1,300) | | | |
| Subsidiary Income | (88,000) | | (CY1) | 88,000 | | | | | | |
| Cost of Goods Sold | 705,000 | 300,000 | (EI) | 3,500 | (BI) | 7,500 | | | | |
| | | | (IS) | | | 140,000 | 861,000 | | | |
| Other Expenses | 200,000 | 90,000 | | | (LN2) | 200 | 289,800 | | | |
| | 0 | 0 | | 1,329,400 | | 1,329,400 | | | | |

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## Problem 4-2, Continued

Silvio Corporation and Subsidiary Jenko Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|
| | Silvio | Jenko | Dr. | Cr. | Statement | NCI | Earnings | Sheet |
| Consolidated Net Income | | | | | (230,500) | ............ | ............ | ............ |
| To NCI (see distribution schedule) | | | | | 22,000 | (22,000) | ............ | ............ |
| To Controlling Interest (see distribution schedule) | | | | | 208,500 | ............ | (208,500) | ............ |
| Total NCI | | | | | | (282,000) | ............ | (282,000) |
| Retained Earnings—Controlling Interest, December 31, 2013 | | | | | | | (1,159,500) | (1,159,500) |
| | | | | | | | | 0 |

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**Problem 4-2, Concluded**

Eliminations and Adjustments:

(CY1) Eliminate the entry recording the parent's share of the subsidiary's net income.

(EL) Eliminate the parent's (80%) share of Jenko Company equity against the investment.

(D)/(NCI) Distribute excess and NCI adjustment according to the determination and distribution of excess schedule.

(BI) Eliminate the intercompany profit of $7,500 (30% × $25,000) from beginning inventory.

(IS) Eliminate intercompany sales of $140,000.

(EI) Eliminate intercompany profit remaining after write-down of ending inventory, $28,000 balance after write-down – ($35,000 × 70% = $24,500 seller's cost) = $3,500 remaining profit.

(LN1) Eliminate intercompany note.

(LN2) Eliminate the intercompany interest on note, accrued receivable, and accrued payable (12% × 4/12 × 1/2 × $10,000).

Subsidiary Jenko Company Income Distribution

| | | | |
|---|---|---|---|
| | | Internally generated net income | $110,000 |
| | | Adjusted income | $110,000 |
| | | NCI share | × 20% |
| | | NCI | $ 22,000 |

Parent Silvio Corporation Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory | $3,500 | Internally generated net income | $116,500 |
| | | 80% × Jenko adjusted income of $110,000 | 88,000 |
| | | Realized profit on beginning inventory | 7,500 |
| | | Controlling interest | $208,500 |

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# PROBLEM 4-3

Pardon, Inc., and Subsidiary Slarno Corporation
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|
| | Pardon | Slarno | | Dr. | | Cr. | | | |
| Cash | 45,000 | 31,211 | | | | | | | 76,211 |
| Accounts Receivable | 119,000 | 73,500 | | | (IA) | 27,000 | | | 165,500 |
| Billings on Construction in Progress | | (1,201,900) | | | | | | | (1,201,900) |
| Mortgage Receivable | 8,311 | | | | (LN1) | 8,311 | | | |
| Unsecured Notes Receivable | 18,000 | | | | | | | | 18,000 |
| Inventories | 217,000 | 117,500 | | | (EI) | 1,200 | | | 333,300 |
| Land | 34,000 | 42,000 | | | (LA) | 5,000 | | | 71,000 |
| Building and Equipment (net) | 717,000 | 408,000 | (F2) | 225 | (F1) | 4,500 | | | 1,120,725 |
| Assets Under Construction | | | (LT2) | 45,000 | | | | | 45,000 |
| Investment in Slarno Corporation | 150,000 | | (CV) | 20,000 | (EL) | 170,000 | | | |
| Accounts Payable | (203,000) | (147,000) | (IA) | 27,000 | | | | | (323,000) |
| Mortgages Payable | (592,000) | (397,311) | (LN1) | 8,311 | | | | | (981,000) |
| Common Stock—Pardon | (250,000) | | | | | | | | (250,000) |
| Retained Earnings, January 1, 2012—Pardon | (139,311) | | | | (CV) | 20,000 | | (159,311) | |
| Common Stock—Slarno | | (100,000) | (EL) | 100,000 | | | | | |
| Retained Earnings, January 1, 2012—Slarno | | (70,000) | (EL) | 70,000 | | | | | |
| Sales | (1,800,000) | | (IS) | 238,000 | | | (1,562,000) | | |
| Earned Income on Long-Term Contracts | | (437,000) | (F1) | 4,500 | | | | | |
| | | | (LT1) | 12,000 | | | (420,500) | | |
| Cost of Goods Sold | 1,155,000 | | (EI) | 1,200 | (IS) | 238,000 | 918,200 | | |
| Construction in Progress | | 1,289,000 | | | (LT2) | 45,000 | | | |
| | | | | | (LT1) | 12,000 | | | 1,232,000 |
| Selling, General, and Administrative Expenses | 497,000 | 360,000 | | | (F2) | 225 | 856,775 | | |
| Interest Income | (20,000) | | (LN2) | 851 | | | (19,149) | | |
| Interest Expense | 49,000 | 32,000 | | | (LN2) | 851 | 80,149 | | |
| Gain on Sale of Land | (5,000) | | (LA) | 5,000 | | | | | |
| | 0 | 0 | | 532,087 | | 532,087 | | | |
| Consolidated Net Income (no NCI) | | | | | | | 146,525 | (146,525) | |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | | (305,836) | (305,836) |
| | | | | | | | | | 0 |

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## Problem 4-3, Concluded

Eliminations and Adjustments:

(CV) Convert to the equity method as of January 1, 2012: 100% × $20,000 increase in Slarno retained earnings.

(EL) Eliminate subsidiary equity in common stock against the investment account.

(LA) Eliminate profit on sale of land.

(LN1) Eliminate intercompany mortgage of $8,311.

(LN2) Eliminate interest expense and revenue applicable to mortgage as follows:

| | |
|---|---|
| Payments made in 2012 (4 × $1,135) | $4,540 |
| Less decrease in liability ($12,000 – $8,311) | 3,689 |
| Interest charge | $ 851 |

(F1) Reduce equipment to its cost to the consolidated company ($22,000 – $17,500).

(F2) Decrease depreciation on equipment for one-half year: 1/2 × 1/10 × $4,500 = $225.

(LT1) Eliminate income recorded with respect to the incomplete intercompany long-term contract, including elimination of the profit from Construction in Progress. Income recorded on incomplete contract would be [45/75 × ($95,000 – $75,000 = $20,000)], or $12,000.

(LT2) Transfer unbilled costs of asset under construction to Assets Under Construction and eliminate amount recorded for asset in Construction in Progress (optimal procedure).

(IS) Eliminate intercompany merchandise sales.

(IA) Eliminate intercompany trade debt resulting from merchandise sales.

(EI) Eliminate profit in ending inventory: $11,200 – ($11,200 ÷ 1.12) = $1,200.

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (100%) | NCI Value (0%) |
|---|---|---|---|
| Fair value of subsidiary | $150,000 | $150,000 | N/A |
| Less book value of interest acquired: | | | |
| Common stock | $100,000 | | |
| Retained earnings | 50,000 | | |
| Total stockholders' equity | $150,000 | $150,000 | |
| Interest acquired | | 100% | |
| Book value | | $150,000 | |
| Excess of fair value over book value | $ 0 | $ 0 | |

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## PROBLEM 4-4

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $590,000 | $480,000 | $110,000 |
| Fair value of net assets excluding goodwill | 372,000* | 297,600 | 74,400 |
| Goodwill | $218,000 | $182,400 | $ 35,600 |

*$212,000 + $120,000 + $40,000

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $590,000 | $480,000 | $110,000 |
| 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 | $212,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $169,600 | $ 42,400 |
| Excess of cost over book value | $378,000 | $310,400 | $ 67,600 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Buildings | $120,000 | debit D1 | 20 | $6,000 |
| Equipment | 40,000 | debit D2 | 5 | 8,000 |
| Goodwill | 218,000 | debit D3 | | |
| Total adjustments | $378,000 | | | |

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## Problem 4-4, Continued

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Buildings | 20 | $ 6,000 | $ 6,000 | $ 6,000 | $12,000 | A10 |
| Equipment | 5 | 8,000 | 8,000 | 8,000 | 16,000 | A2 |
| Total amortizations | | $14,000 | $14,000 | $14,000 | $28,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | — | 0% | — | $12,000 | 25% | $3,000 |
| Ending | — | 0% | — | 18,000 | 30% | 5,400 |

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit ............................................ | $15,000 | — |
| Year of sale .............................................. | 2 | — |
| Realized in prior years ............................... | — | — |
| Balance, start of year ................................. | 15,000 | — |
| Realized in current year ............................. | 3,000 | — |

Subsidiary Sandin Company Income Distribution

| | | | |
|---|---|---|---|
| Ending inventory profit .............. | $ 5,400 | Internally generated net income............................... | $20,000 |
| Amortizations ........................... | 14,000 | Beginning inventory profit......... | 3,000 |
| | | Total....................................... | $ 3,600 |
| | | NCI share................................ | 720 |
| | | Controlling share ...................... | $ 2,880 |

Parent Panther Company Income Distribution

| | | | |
|---|---|---|---|
| Equipment gain......................... | $15,000 | Internally generated net income................................ | $165,000 |
| | | Controlling share of subsidiary... | 2,880 |
| | | Realized gain on equipment ...... | 3,000 |
| | | Total ........................................ | $155,800 |

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# Problem 4-4, Continued

(2)

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

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Panther | Sandin | | Dr. | | Cr. | | | | |
| Cash | 24,000 | 132,000 | | | | | | | | 156,000 |
| Accounts Receivable | 90,000 | 45,000 | | | (IA) | 20,000 | | | | 115,000 |
| Inventory | 120,000 | 56,000 | | | (EI) | 5,400 | | | | 170,600 |
| Land | 100,000 | 60,000 | | | | | | | | 160,000 |
| Investment in Sandin | 512,000 | | | | (CY1) | 16,000 | | | | |
| | | | (CY2) | 8,000 | | | | | | |
| | | | | | (EL) | 193,600 | | | | |
| | | | | | (D) | 310,400 | | | | |
| Buildings | 800,000 | 200,000 | (D1) | 120,000 | | | | | | 1,120,000 |
| Accumulated Depreciation | (220,000) | (65,000) | | | (A1) | 12,000 | | | | (297,000) |
| Equipment | 150,000 | 72,000 | (D2) | 40,000 | (F1) | 15,000 | | | | 247,000 |
| Accumulated Depreciation | (90,000) | (46,000) | | | (A2) | 16,000 | | | | |
| | | | (F2) | 3,000 | | | | | | (149,000) |
| Goodwill | | | (D3) | 218,000 | | | | | | 218,000 |
| Accounts Payable | (60,000) | (102,000) | (IA) | 20,000 | | | | | | (142,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Discount (Premium) | | | | | | | | | | |
| Common Stock—Sandin | | (10,000) | (EL) | 8,000 | | | | (2,000) | | |
| Paid-In Capital in Excess of Par—Sandin | | (90,000) | (EL) | 72,000 | | | | (18,000) | | |
| Retained Earnings—Sandin | | (142,000) | (EL) | 113,600 | (NCI) | 67,600 | | | | |
| | | | (BI) | 600 | | | | | | |
| | | | | | | | | (92,600) | | |
| | | | (A1-2) | 2,800 | | | | | | |
| Common Stock—Panther | (100,000) | | | | | | | | | (100,000) |
| Paid-In Capital in Excess of Par—Panther | (800,000) | | | | | | | | | (800,000) |
| Retained Earnings—Panther | (365,000) | | (A1-2) | 11,200 | | | | | | |
| | | | (BI) | 2,400 | | | | | | |
| | | | | | | | | | (351,400) | |
| Sales | (800,000) | (350,000) | (IS) | 75,000 | | | (1,075,000) | | | |
| Cost of Goods Sold | 450,000 | 208,500 | | | (IS) | 75,000 | | | | |
| | | | (EI) | 5,400 | (BI) | 3,000 | 585,900 | | | |
| Depreciation Expense—Buildings | 30,000 | 7,500 | (A1) | 6,000 | | | 43,500 | | | |
| Depreciation Expense—Equipment | 15,000 | 8,000 | (A2) | 8,000 | | | | | | |
| | | | | | (F2) | 3,000 | 28,000 | | | |
| Other Expenses | 160,000 | 98,000 | | | | | 258,000 | | | |
| Interest Expense | | 8,000 | | | | | 8,000 | | | |
| Gain on Sale of Fixed Asset | (20,000) | | (F1) | 15,000 | | | (5,000) | | | |
| Subsidiary Income | (16,000) | | (CY1) | 16,000 | | | | | | |
| Dividends Declared—Sandin | | 10,000 | | | (CY2) | 8,000 | | 2,000 | | |
| Dividends Declared—Panther | 20,000 | | | | | | | | 20,000 | |
| Total | 0 | 0 | | 745,000 | | 745,000 | | | | |
| Consolidated Net Income | | | | | | | (156,600) | | | |
| NCI Share (see distribution schedule) | | | | | | | 720 | (720) | | |
| To Controlling Interest (see distribution schedule) | | | | | | | 155,880 | | (155,880) | |
| Total NCI | | | | | | | | (111,320) | | (111,320) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | | | (487,280) | (487,280) |
| | | | | | | | | | | 0 |

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## Problem 4-4, Concluded

Eliminations and Adjustments:

| | |
|---|---|
| (CY1) | Current-year subsidiary income. |
| (CY2) | Current-year dividend. |
| (EL) | Eliminate controlling interest in subsidiary. |
| (D)/(NCI) | Distribute excess and NCI adjustment. |
| (A) | Amortize excess. |
| (IS) | Eliminate intercompany sales during current period. |
| (IA) | Eliminate intercompany unpaid trade accounts. |
| (BI) | Defer beginning inventory profit. |
| (EI) | Defer ending inventory profit. |
| (F1) | Fixed asset profit at beginning of year. |
| (F2) | Fixed asset profit realized. |

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## PROBLEM 4-5

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $590,000 | $480,000 | $110,000 |
| Fair value of net assets excluding goodwill | 372,000* | 297,600 | 74,400 |
| Goodwill | $218,000 | $182,400 | $ 35,600 |

*$212,000 + $120,000 + $40,000

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $590,000 | $480,000 | $110,000 |
| 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 | $212,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $169,600 | $ 42,400 |
| Excess of cost over book value | $378,000 | $310,400 | $ 67,600 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Buildings | $120,000 | debit D1 | 20 | $6,000 |
| Equipment | 40,000 | debit D2 | 5 | 8,000 |
| Goodwill | 218,000 | debit D3 | | |
| Total adjustments | $378,000 | | | |

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## Problem 4-5, Continued

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Buildings | 20 | $ 6,000 | $ 6,000 | $ 6,000 | $12,000 | A10 |
| Equipment | 5 | 8,000 | 8,000 | 8,000 | 16,000 | A2 |
| Total amortizations | | $14,000 | $14,000 | $14,000 | $28,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | $20,000 | 30% | $6,000 | — | 0% | — |
| Ending | 25,000 | 30% | 7,500 | — | 0% | — |

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit | — | $24,000 |
| Year of sale | — | 1 |
| Realized in prior years | — | 4,000 |
| Balance, start of year | — | $20,000 |
| Realized in current year | — | $ 4,000 |

Subsidiary Sandin Company Income Distribution

| | | | |
|---|---|---|---|
| Amortizations | $14,000 | Internally generated net income | $20,000 |
| | | Realized gain on equipment | 4,000 |
| | | Total | $10,000 |
| | | NCI share | 2,000 |
| | | Controlling share | $ 8,000 |

Parent Panther Company Income Distribution

| | | | |
|---|---|---|---|
| Ending inventory profit | $ 7,500 | Internally generated net income | $165,000 |
| | | Controlling share of subsidiary | 8,000 |
| | | Beginning inventory profit | 6,000 |
| | | Total | $171,500 |

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## Problem 4-5, Continued

(2)

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

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | Panther | Sandin | | Dr. | | Cr. | Statement | NCI | Earnings | Sheet |
| Cash | 24,000 | 132,000 | | | | | | | | 156,000 |
| Accounts Receivable | 90,000 | 45,000 | | | (IA) | 15,000 | | | | 120,000 |
| Inventory | 120,000 | 56,000 | | | (EI) | 7,500 | | | | 168,500 |
| Land | 100,000 | 60,000 | | | | | | | | 160,000 |
| Investment in Sandin | 512,000 | | | | (CY1) | 16,000 | | | | |
| | | | (CY2) | 8,000 | | | | | | |
| | | | | | (EL) | 193,600 | | | | |
| | | | | | (D) | 310,400 | | | | |
| Buildings | 800,000 | 200,000 | (D1) | 120,000 | | | | | | 1,120,000 |
| Accumulated Depreciation | (220,000) | (65,000) | | | (A1) | 12,000 | | | | (297,000) |
| Equipment | 150,000 | 72,000 | (D2) | 40,000 | (F1) | 24,000 | | | | 238,000 |
| Accumulated Depreciation | (90,000) | (46,000) | | | (A2) | 16,000 | | | | |
| | | | (F1) | 4,000 | | | | | | |
| | | | (F2) | 4,000 | | | | | | (144,000) |
| Goodwill | | | (D3) | 218,000 | | | | | | 218,000 |
| Accounts Payable | (60,000) | (102,000) | (IA) | 15,000 | | | | | | (147,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Discount (Premium) | | | | | | | | | | |
| Common Stock—Sandin | | (10,000) | (EL) | 8,000 | | | | (2,000) | | |
| Paid-In Capital in Excess of Par—Sandin | | (90,000) | (EL) | 72,000 | | | | (18,000) | | |
| Retained Earnings—Sandin | | (142,000) | (EL) | 113,600 | (NCI) | 67,600 | | | | |
| | | | (FI) | 4,000 | | | | | | |
| | | | | | | | | (89,200) | | |
| | | | (A1-2) | 2,800 | | | | | | |
| Common Stock—Panther | (100,000) | | | | | | | | | (100,000) |
| Paid-In Capital in Excess of Par—Panther | (800,000) | | | | | | | | | (800,000) |
| Retained Earnings—Panther | (365,000) | | (A1-2) | 11,200 | | | | | | |
| | | | (BI) | 6,000 | | | | | | |
| | | | (F1) | 16,000 | | | | | (331,800) | |
| Sales | (800,000) | (350,000) | (IS) | 100,000 | | | (1,050,000) | | | |
| Cost of Goods Sold | 450,000 | 208,500 | | | (IS) | 100,000 | | | | |
| | | | (EI) | 7,500 | (BI) | 6,000 | 560,000 | | | |
| Depreciation Expense—Buildings | 30,000 | 7,500 | (A1) | 6,000 | | | 43,500 | | | |
| Depreciation Expense—Equipment | 15,000 | 8,000 | (A2) | 8,000 | | | | | | |
| | | | | | (F2) | 4,000 | 27,000 | | | |
| Other Expenses | 160,000 | 98,000 | | | | | 258,000 | | | |
| Interest Expense | | 8,000 | | | | | 8,000 | | | |
| Gain on Sale of Fixed Asset | (20,000) | | | | | | (20,000) | | | |
| Subsidiary Income | (16,000) | | (CY1) | 16,000 | | | | | | |
| Dividends Declared—Sandin | | 10,000 | | | (CY2) | 8,000 | | 2,000 | | |
| Dividends Declared—Panther | 20,000 | | | | | | | | 20,000 | |
| | 0 | 0 | | 780,100 | | 780,100 | | | | |

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## Problem 4-5, Concluded

(2)

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

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|
| | Panther | Sandin | Dr. | Cr. | | | | |
| Consolidated Net Income | | | | | (173,500) | .............. | .............. | .............. |
| NCI Share (see distribution schedule) | | | | | 2,000 | (2,000) | .............. | .............. |
| To Controlling Interest (see distribution schedule) | | | | | 171,500 | .............. | (171,500) | .............. |
| Total NCI | | | | | | (109,200) | .............. | (109,200) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | (483,300) | (483,300) |
| | | | | | | | | 0 |

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary.
- (D)/(NCI) Distribute excess and NCI adjustment.
- (A) Amortize excess.
- (IS) Eliminate intercompany sales during current period.
- (IA) Eliminate intercompany unpaid trade accounts.
- (BI) Defer beginning inventory profit.
- (EI) Defer ending inventory profit.
- (F1) Fixed asset profit at beginning of year.
- (F2) Fixed asset profit realized.

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## PROBLEM 4-6

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

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|
| | Plant | Sand | | Dr. | | Cr. | | | |
| Cash | 835,000 | 370,000 | | | | | | | 1,205,000 |
| Accounts Receivable | 400,000 | 365,000 | | | (IA) | 30,000 | | | 735,000 |
| Inventory | 600,000 | 275,000 | | | (EI) | 37,500 | | | 837,500 |
| Property, Plant, and Equipment (net) | 4,000,000 | 2,300,000 | (D) | 200,000 | (A) | 20,000 | | | 6,480,000 |
| Investment in Sand Company | 3,410,000 | | | | (CY1) | 210,000 | | | |
| | | | | | (EL) | 3,000,000 | | | |
| | | | | | (D) | 200,000 | | | |
| Accounts Payable | (35,000) | (100,000) | (IA) | 30,000 | | | | | (105,000) |
| Common Stock ($10 par)—Plant | (1,000,000) | | | | | | | | (1,000,000) |
| Paid-In Capital in Excess of Par—Plant | (1,500,000) | | | | | | | | (1,500,000) |
| Retained Earnings—Plant | (5,500,000) | | | | | | | (5,500,000) | |
| Common Stock ($10 par)—Sand | | (400,000) | (EL) | 400,000 | | | | | |
| Paid-In Capital in Excess of Par—Sand | | (200,000) | (EL) | 200,000 | | | | | |
| Retained Earnings—Sand | | (2,400,000) | (EL) | 2,400,000 | | | | | |
| Sales | (12,000,000) | (1,000,000) | (IS) | 400,000 | | | (12,600,000) | | |
| Cost of Goods Sold | 7,000,000 | 750,000 | (EI) | 37,500 | (IS) | 400,000 | 7,387,500 | | |
| Other Expenses | 4,000,000 | 40,000 | (A) | 20,000 | | | 4,060,000 | | |
| Subsidiary Income | (210,000) | | (CY1) | 210,000 | | | | | |
| | 0 | 0 | | 3,897,500 | | 3,897,500 | | | |
| Consolidated Net Income | | | | | | | (1,152,500) | (1,152,500) | |
| Retained Earnings—Controlling Interest, December 31, 2011 | | | | | | | | (6,652,500) | (6,652,500) |
| | | | | | | | | | 0 |

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## Problem 4-6, Concluded

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (100%) | NCI Value (0%) |
|---|---|---|---|
| Fair value of subsidiary | $3,200,000 | $3,200,000 | N/A |
| Less book value of interest acquired: | | | |
| Total equity | 3,000,000 | $3,000,000 | |
| Interest acquired | | 100% | |
| Book value | | $3,000,000 | |
| Excess of cost over book value | $ 200,000 | $ 200,000 | |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Equipment | $ 200,000 | debit D | 10 | $20,000 |

Eliminations and Adjustments:

(CY1) Eliminate the entry recording the parent's share (100%) of the subsidiary's net income.
(EL) Eliminate the subsidiary's equity balances.
(D) Distribute excess to equipment.
(A) Increase depreciation expense.
(IS) Eliminate the intercompany sale of $400,000.
(IA) Eliminate the intercompany trade balances of $30,000.
(EI) Eliminate the intercompany profit (25%) applicable to $150,000 ($400,000 – $250,000) of intercompany goods in Plant's ending inventory.

*Note:* An income distribution schedule is not needed because all income goes to the 100% controlling interest.

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## PROBLEM 4-7

(1)

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (70%) | NCI Value (30%) |
|---|---|---|---|
| Company fair value | $550,000 | $400,000 | $150,000* |
| Fair value of net assets excluding goodwill | 422,000** | 295,400 | 126,600 |
| Goodwill | $128,000 | $104,600 | $ 23,400 |

*3,000 NCI shares × $50
**$212,000 + $150,000 + $60,000

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (70%) | NCI Value (30%) |
|---|---|---|---|
| Price paid for investment | $550,000 | $400,000 | $150,000 |
| 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 | $212,000 |
| Interest acquired | | 70% | 30% |
| Book value | | $148,400 | $ 63,600 |
| Excess of cost over book value | $338,000 | $251,600 | $ 86,400 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Buildings | $150,000 | debit D1 | 20 | $ 7,500 |
| Equipment | 60,000 | debit D2 | 5 | 12,000 |
| Goodwill | 128,000 | debit D3 | | |
| Total adjustments | $338,000 | | | |

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## Problem 4-7, Continued

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Buildings | 20 | $ 7,500 | $ 7,500 | $ 7,500 | $15,000 | A1 |
| Equipment | 5 | 12,000 | 12,000 | 12,000 | 24,000 | A2 |
| Total amortizations | | $19,500 | $19,500 | $19,500 | $39,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | — | 0% | — | $10,000 | 25% | $2,500 |
| Ending | — | 0% | — | 6,000 | 30% | 1,800 |

Subsidiary Stude Corporation Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory | $ 1,800 | Internally generated net income | $20,000 |
| Amortizations | 19,500 | Realized profit in beginning inventory | 2,500 |
| | | Adjusted income | $ 1,200 |
| | | NCI share | 30% |
| | | Controlling share | $ 360 |

Parent Packard Corporation Income Distribution

| | | | |
|---|---|---|---|
| | | Internally generated net income | $165,000 |
| | | 70% of Stude adjusted income of $1,200 | 840 |
| | | Controlling interest | $165,840 |

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## Problem 4-7, Continued

(2)

Packard Corporation and Subsidiary Stude Corporation
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Packard | Stude | | Dr. | | Cr. | | | | |
| Cash | 66,000 | 132,000 | | | | | | | | 198,000 |
| Accounts Receivable | 90,000 | 45,000 | | | (IA) | 11,000 | | | | 124,000 |
| Inventory | 120,000 | 56,000 | | | (EI) | 1,800 | | | | 174,200 |
| Land | 100,000 | 60,000 | | | | | | | | 160,000 |
| Investment in Stude Corporation | 428,000 | | | | (CY1) | 14,000 | | | | |
| | | | (CY2) | 7,000 | | | | | | |
| | | | | | (EL) | 169,400 | | | | |
| | | | | | (D) | 251,600 | | | | |
| Buildings | 800,000 | 200,000 | (D1) | 150,000 | | | | | | 1,150,000 |
| Accumulated Depreciation | (220,000) | (65,000) | | | (A1) | 15,000 | | | | (300,000) |
| Equipment | 150,000 | 72,000 | (D2) | 60,000 | | | | | | 282,000 |
| Accumulated Depreciation | (90,000) | (46,000) | | | (A2) | 24,000 | | | | (160,000) |
| Goodwill | | | (D3) | 128,000 | | | | | | 128,000 |
| Accounts Payable | (60,000) | (102,000) | (IA) | 11,000 | | | | | | (151,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Common Stock—Stude | | (10,000) | (EL) | 7,000 | | | | (3,000) | | |
| Paid-In Capital in Excess of Par—Stude | | (90,000) | (EL) | 63,000 | | | | (27,000) | | |
| Retained Earnings, January 1—Stude | | (142,000) | (EL) | 99,400 | (NCI) | 86,400 | | | | |
| | | | (A1–A2) | 5,850 | | | | | | |
| | | | (BI) | 750 | | | | (122,400) | | |
| Common Stock—Packard | (100,000) | | | | | | | | | (100,000) |
| Paid-In Capital in Excess of Par—Packard | (800,000) | | | | | | | | | (800,000) |
| Retained Earnings, January 1—Packard | (325,000) | | (A1–A2) | 13,650 | | | | | | |
| | | | (BI) | 1,750 | | | | | | |
| | | | | | | | | | (309,600) | |
| Sales | (800,000) | (350,000) | (IS) | 40,000 | | | (1,110,000) | | | |
| Cost of Goods Sold | 450,000 | 208,500 | | | (IS) | 40,000 | | | | |
| | | | (EI) | 1,800 | (BI) | 2,500 | 617,800 | | | |
| Depreciation Expense—Buildings | 30,000 | 7,500 | (A1) | 7,500 | | | 45,000 | | | |
| Depreciation Expense—Equipment | 15,000 | 8,000 | (A2) | 12,000 | | | 35,000 | | | |
| Other Expenses | 140,000 | 98,000 | | | | | 238,000 | | | |
| Interest Expense | | 8,000 | | | | | 8,000 | | | |
| Subsidiary Income | (14,000) | | (CY1) | 14,000 | | | | | | |
| Dividends Declared—Stude | | 10,000 | | | (CY2) | 7,000 | | 3,000 | | |
| Dividends Declared—Packard | 20,000 | | | | | | | | 20,000 | |
| | 0 | 0 | | 622,700 | | 622,700 | | | | |

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## Problem 4-7, Concluded

(2)

Packard Corporation and Subsidiary Stude Corporation
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|
| | Packard | Stude | Dr. | Cr. | Statement | NCI | Earnings | Sheet |
| Consolidated Net Income | | | | | (166,200) | .......... | .......... | .......... |
| To NCI (see distribution schedule) | | | | | 360 | (360) | .......... | .......... |
| To Controlling Interest (see distribution schedule) | | | | | (165,840) | .......... | (165,840) | .......... |
| Total NCI | | | | | | (149,760) | .......... | (149,760) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | (455,440) | (455,440) |
| | | | | | | | | 0 |

Eliminations and Adjustments:

(CY1) Current-year subsidiary income.
(CY2) Current-year dividend.
(EL) Eliminate controlling interest in subsidiary equity.
(D/NCI) Distribute excess and NCI adjustment.
(A) Amortize excess.
(IS) Eliminate intercompany sales during current period.
(IA) Eliminate intercompany unpaid trade accounts.
(BI) Defer beginning inventory profit.
(EI) Defer ending inventory profit.

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## PROBLEM 4-8

(1)

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (70%) | NCI Value (30%) |
|---|---|---|---|
| Company fair value | $550,000 | $400,000 | $150,000* |
| Fair value of net assets excluding goodwill | 422,000** | 295,400 | 126,600 |
| Goodwill | $128,000 | $104,600 | $ 23,400 |

*$3,000 NCI shares × $50
**$212,000 + $150,000 + $60,000

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (70%) | NCI Value (30%) |
|---|---|---|---|
| Price paid for investment | $550,000 | $400,000 | $150,000 |
| 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 | $212,000 |
| Interest acquired | | 70% | 30% |
| Book value of interest | | $148,400 | $ 63,600 |
| Excess of cost over book value | $338,000 | $251,600 | $ 86,400 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Buildings | $150,000 | debit D1 | 20 | $ 7,500 |
| Equipment | 60,000 | debit D2 | 5 | 12,000 |
| Goodwill | 128,000 | debit D3 | | |
| Total adjustments | $338,000 | | | |

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**Problem 4-8, Continued**

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Buildings | 20 | $ 7,500 | $ 7,500 | $ 7,500 | $15,000 | A1 |
| Equipment | 5 | 12,000 | 12,000 | 12,000 | 24,000 | A2 |
| Total amortizations | | $19,500 | $19,500 | $19,500 | $39,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | $20,000 | 40% | $ 8,000 | $10,000 | 25% | $2,500 |
| Ending | 30,000 | 35% | 10,500 | 6,000 | 30% | 1,800 |

Subsidiary Stude Corporation Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory | $ 1,800 | Internally generated net income | $20,000 |
| Amortizations | 19,500 | Realized profit in beginning inventory | 2,500 |
| | | Adjusted income | $ 1,200 |
| | | NCI share | 30% |
| | | NCI | $ 360 |

Parent Packard Corporation Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory | $10,500 | Internally generated net income | $165,000 |
| | | 70% of Stude adjusted income of $1,200 | 840 |
| | | Realized profit in beginning inventory | 8,000 |
| | | Controlling interest | $163,340 |

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## Problem 4-8, Continued

(2)

Packard Corporation and Subsidiary Stude Corporation
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Packard | Stude | | Dr. | | Cr. | | | | |
| Cash | 66,000 | 132,000 | | | | | | | | 198,000 |
| Accounts Receivable | 90,000 | 45,000 | | | (IA) | 34,000 | | | | 101,000 |
| Inventory | 120,000 | 56,000 | | | (EI) | 12,300 | | | | 163,700 |
| Land | 100,000 | 60,000 | | | | | | | | 160,000 |
| Investment in Stude Corporation | 428,000 | | | | (CY1) | 14,000 | | | | |
| | | | (CY2) | 7,000 | | | | | | |
| | | | | | (EL) | 169,400 | | | | |
| | | | | | (D) | 251,600 | | | | |
| Buildings | 800,000 | 200,000 | (D1) | 150,000 | | | | | | 1,150,000 |
| Accumulated Depreciation | (220,000) | (65,000) | | | (A1) | 15,000 | | | | (300,000) |
| Equipment | 150,000 | 72,000 | (D2) | 60,000 | | | | | | 282,000 |
| Accumulated Depreciation | (90,000) | (46,000) | | | (A2) | 24,000 | | | | (160,000) |
| Goodwill | | | (D3) | 128,000 | | | | | | 128,000 |
| Accounts Payable | (60,000) | (102,000) | (IA) | 34,000 | | | | | | (128,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Discount (Premium) | | | | | | | | | | |
| Common Stock—Stude | | (10,000) | (EL) | 7,000 | | | | (3,000) | | |
| Paid-In Capital in Excess of Par—Stude | | (90,000) | (EL) | 63,000 | | | | (27,000) | | |
| Retained Earnings—Stude | | (142,000) | (EL) | 99,400 | (NCI) | 86,400 | | | | |
| | | | (A1–A2) | 5,850 | | | | | | |
| | | | (BI) | 750 | | | | (122,400) | | |
| Common Stock—Packard | (100,000) | | | | | | | | | (100,000) |
| Paid-In Capital in Excess of Par—Packard | (800,000) | | | | | | | | | (800,000) |
| Retained Earnings—Packard | (325,000) | | (A1–A2) | 13,650 | | | | | | |
| | | | (BI) | 9,750 | | | | | | |
| | | | | | | | | | (301,600) | |
| Sales | (800,000) | (350,000) | (IS) | 100,000 | | | (1,050,000) | | | |
| Cost of Goods Sold | 450,000 | 208,500 | | | (IS) | 100,000 | | | | |
| | | | (EI) | 12,300 | (BI) | 10,500 | 560,300 | | | |
| Depreciation Expense—Buildings | 30,000 | 7,500 | (A1) | 7,500 | | | 45,000 | | | |
| Depreciation Expense—Equipment | 15,000 | 8,000 | (A2) | 12,000 | | | 35,000 | | | |
| Other Expenses | 140,000 | 98,000 | | | | | 238,000 | | | |
| Interest Expense | | 8,000 | | | | | 8,000 | | | |
| Subsidiary Income | (14,000) | | (CY1) | 14,000 | | | | | | |
| Dividends Declared—Stude | | 10,000 | | | (CY2) | 7,000 | | 3,000 | | |
| Dividends Declared—Packard | 20,000 | | | | | | | | 20,000 | |
| | 0 | 0 | | 724,200 | | 724,200 | | | | |

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## Problem 4-8, Concluded

(2)

Packard Corporation and Subsidiary Stude Corporation
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|
| | Packard | Stude | Dr. | Cr. | | | | |
| Consolidated Net Income | | | | | (163,700) | .......... | .......... | .......... |
| To NCI (see distribution schedule) | | | | | 360 | (360) | .......... | .......... |
| To Controlling Interest (see distribution schedule) | | | | | 163,340 | .......... | (163,340) | .......... |
| Total NCI | | | | | | (149,760) | ............ | (149,760) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | (444,940) | (444,940) |
| | | | | | | | | 0 |

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D/NCI) Distribute excess and NCI adjustment.
- (A) Amortize excess.
- (IS) Eliminate intercompany sales during current period ($60,000 + $40,000).
- (IA) Eliminate intercompany unpaid trade accounts.
- (BI) Defer beginning inventory profit.
- (EI) Defer ending inventory profit.

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# PROBLEM 4-9

Parcel Corporation and Subsidiary Sack Corporation
Worksheet for Consolidated Financial Statements
For Year Ended August 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Parcel | Sack | | Dr. | | Cr. | | | | |
| Cash | 120,000 | 50,000 | | | | | | | | 170,000 |
| Accounts Receivable (net) | 115,000 | 18,000 | | | | | | | | 133,000 |
| Notes Receivable | | 10,000 | | | | | | | | 10,000 |
| Inventory, August 31, 2013 | 175,000 | 34,000 | | | | | | | | 209,000 |
| Investment in Sack Corporation | 217,440 | | (CY2) | 5,600 | (CY1) | 23,040 | | | | |
| | | | | | (EL) | 200,000 | | | | |
| Plant and Equipment | 990,700 | 295,000 | | | (F1S) | 9,000 | | | | 1,213,700 |
| | | | | | (F1P) | 63,000 | | | | |
| Accumulated Depreciation | (170,000) | (85,000) | (F1S) | 3,000 | | | | | | |
| | | | (F2S) | 3,000 | | | | | | (242,700) |
| | | | (F2P) | 6,300 | | | | | | |
| Other Assets | 28,000 | | | | | | | | | 28,000 |
| Accounts Payable | (80,000) | (50,200) | | | | | | | | (130,200) |
| Notes Payable | (25,000) | | | | | | | | | (25,000) |
| Bonds Payable | (300,000) | | | | | | | | | (300,000) |
| Common Stock ($10 par)—Parcel | (290,000) | | | | | | | | | (290,000) |
| Paid-In Capital in Excess of Par—Parcel | (110,000) | | | | | | | | | (110,000) |
| Retained Earnings, September 1, 2012—Parcel | (498,850) | | (F1S) | 4,800 | | | | | (494,050) | |
| Common Stock ($10 par)—Sack | | (70,000) | (EL) | 56,000 | | | | (14,000) | | |
| Paid-In Capital in Excess of Par—Sack | | (62,000) | (EL) | 49,600 | | | | (12,400) | | |
| Retained Earnings, September 1, 2012—Sack | | (118,000) | (EL) | 94,400 | | | | (22,400) | | |
| | | | (F1S) | 1,200 | | | | | | |
| Sales | (920,000) | (240,000) | | | | | (1,160,000) | | | |
| Cost of Goods Sold | 598,000 | 132,000 | | | | | 730,000 | | | |
| Selling and General Expenses | 108,000 | 80,000 | | | (F2S) | 3,000 | 178,700 | | | |
| | | | | | (F2P) | 6,300 | | | | |
| Subsidiary Income | (23,040) | | (CY1) | 23,040 | | | | | | |
| Interest Income | | (800) | | | | | (800) | | | |
| Interest Expense | 37,750 | | | | | | 37,750 | | | |
| Gain on Sale of Equipment | (63,000) | | (F1P) | 63,000 | | | | | | |
| Dividends Declared | 90,000 | 7,000 | | | (CY2) | 5,600 | | 1,400 | 90,000 | |
| | 0 | 0 | | 309,940 | | 309,940 | | | | |

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## Problem 4-9, Continued

Parcel Corporation and Subsidiary Sack Corporation

Worksheet for Consolidated Financial Statements
For Year Ended August 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|
| | Parcel | Sack | Dr. | Cr. | Statement | NCI | Earnings | Sheet |
| Consolidated Net Income | | | | | (214,350) | | | |
| To NCI (see distribution schedule) | | | | | 6,360 | (6,360) | | |
| To Controlling Interest (see distribution schedule) | | | | | 207,990 | | (207,990) | |
| Total NCI | | | | | | (53,760) | | (53,760) |
| Retained Earnings—Controlling Interest, August 31, 2013 | | | | | | | (612,040) | (612,040) |
| | | | | | | | | 0 |

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**Problem 4-9, Concluded**

Subsidiary Sack Corporation Income Distribution

| | | | |
|---|---|---|---|
| | Internally generated net income................................ | | $28,800 |
| | 2013 amortization of deferred gain on 2011 sale of truck.......................... | (F2S) | 3,000 |
| | Adjusted income........................ | | $31,800 |
| | NCI share.................................. | | × 20% |
| | NCI............................................ | | $ 6,360 |

Parent Parcel Corporation Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| 2013 deferred gain on sale of equipment............ | (F1P) | $63,000 | Internally generated net income................................ | | $239,250 |
| | | | 2013 amortization of the deferred gain ........................ | (F2P) | 6,300 |
| | | | 80% × Sack adjusted income of $31,800................ | | 25,440 |
| | | | Controlling interest .................... | | $207,990 |

Eliminations and Adjustments:
(CY1) Eliminate the entry recording the parent's share of the subsidiary net income.
(CY2) Eliminate the parent's share of Sack's dividends declared.
(EL) Eliminate the investment in Sack and the parent's share (80%) of the subsidiary equity balances.
(F1S) Eliminate the prior-year intercompany gain ($14,000 – $5,000 = $9,000) less the $3,000 realized gain. Adjust the asset and the accumulated depreciation.
(F2S) Adjust current-year depreciation expense and accumulated depreciation for the intercompany truck sale effect ($9,000 ÷ 3 = $3,000).
(F1P) Eliminate the current-period intercompany gain on the sale of the equipment and re-establish its net book value by reducing the account by $63,000.
(F2P) Adjust current-year depreciation expense and accumulated depreciation for the intercompany sale of equipment effect ($63,000 ÷ 10 = $6,300).

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## PROBLEM 4-10

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $250,000* | $200,000 | $50,000 |
| Fair value of net assets excluding goodwill** | 237,500 | 190,000 | 47,500 |
| Goodwill | $ 12,500 | $ 10,000 | $ 2,500 |

*$200,000/80%
**Company value = $200,000 equity + $25,000 + $12,500

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $250,000 | $200,000 | $ 50,000 |
| Less book value of interest acquired: | | | |
| Total equity | $200,000 | $200,000 | $200,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $160,000 | $ 40,000 |
| Excess of cost over book value | $ 50,000 | $ 40,000 | $ 10,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Inventory | $12,500 | debit D1 | 1 | $12,500 |
| Equipment | 25,000 | debit D2 | 4 | 6,250 |
| Goodwill | 12,500 | debit D3 | | |
| Total adjustments | $50,000 | | | |

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Inventory | 1 | $12,500 | $ — | $12,500 | $12,500 | A1 |
| Equipment | 4 | 6,250 | 6,250 | 6,250 | 12,500 | A2 |
| Total amortizations | | $18,750 | $6,250 | $18,750 | $25,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | — | 0% | — | $20,000 | 50% | $10,000 |
| Ending | — | 0% | — | 10,000 | 50% | 5,000 |

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**Problem 4-10, Continued**

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit | $15,000 | — |
| Year of sale | 1 | — |
| Realized in prior years | 3,000 | — |
| Balance, start of year | $12,000 | — |
| Realized in current year | $ 3,000 | — |

Subsidiary Salt Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EI) | $5,000 | Internally generated net income | | $105,000 |
| Amortizations | (A2) | 6,250 | Realized profit in beginning inventory | (B1) | 10,000 |
| | | | Adjusted income | | $103,750 |
| | | | NCI share | | 20% |
| | | | Controlling share | | $ 20,750 |

Parent Peanut Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| | | | Internally generated net income | | $100,000 |
| | | | 80% of Salt's adjusted income of $103,750 | | 83,000 |
| | | | Realized gain | (F2) | 3,000 |
| | | | Controlling interest | | $186,000 |

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## Problem 4-10, Continued

Peanut Company and Subsidiary Salt Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peanut | Salt | | Dr. | | Cr. | | | | |
| Inventory, December 31 | 130,000 | 50,000 | | | (EI) | 5,000 | | | | 175,000 |
| Other Current Assets | 241,000 | 235,000 | | | | | | | | 476,000 |
| Investment in Salt Company | 308,000 | | | | (CY1) | 84,000 | | | | |
| | | | (CY2) | 16,000 | | | | | | |
| | | | | | (EL) | 200,000 | | | | |
| | | | | | (D) | 40,000 | | | | |
| Other Long-Term Investments | 20,000 | | | | | | | | | 20,000 |
| Land | 140,000 | 80,000 | | | | | | | | 220,000 |
| Buildings and Equipment | 375,000 | 200,000 | (D2) | 25,000 | (F1) | 15,000 | | | | 585,000 |
| Accumulated Depreciation | (120,000) | (30,000) | | | (A2) | 12,500 | | | | |
| | | | (F1) | 3,000 | | | | | | |
| | | | (F2) | 3,000 | | | | | | (156,500) |
| Other Intangible Assets | | 20,000 | | | | | | | | 20,000 |
| Goodwill | | | (D3) | 12,500 | | | | | | 12,500 |
| Current Liabilities | (150,000) | (70,000) | | | | | | | | (220,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Other Long-Term Liabilities | (200,000) | (50,000) | | | | | | | | (250,000) |
| | | | | | | | | | | |
| Common Stock—Salt | | (50,000) | (EL) | 40,000 | | | | (10,000) | | |
| Paid-In Capital in Excess of Par—Salt | | (50,000) | (EL) | 40,000 | | | | (10,000) | | |
| Retained Earnings—Salt | | (150,000) | (EL) | 120,000 | (NCI) | 10,000 | | | | |
| | | | (BI) | 2,000 | | | | | | |
| | | | (D1) | 2,500 | | | | | | |
| | | | (A2) | 1,250 | | | | (34,250) | | |
| Common Stock—Peanut | (200,000) | | | | | | | | | (200,000) |
| Paid-In Capital in Excess of Par—Peanut | (100,000) | | | | | | | | | (100,000) |
| Retained Earnings—Peanut | (320,000) | | (A2) | 5,000 | | | | | | |
| | | | (D1) | 10,000 | | | | | | |
| | | | (BI) | 8,000 | | | | | | |
| | | | (F1) | 12,000 | | | | | (285,000) | |
| Sales | (600,000) | (315,000) | (IS) | 40,000 | | | (875,000) | | | |
| Cost of Goods Sold | 350,000 | 150,000 | | | (IS) | 40,000 | | | | |
| | | | (EI) | 5,000 | (BI) | 10,000 | 455,000 | | | |
| Operating Expenses | 150,000 | 60,000 | (A2) | 6,250 | | | | | | |
| | | | | | (F2) | 3,000 | 213,250 | | | |
| Subsidiary Income | (84,000) | | (CY1) | 84,000 | | | | | | |
| Dividends Declared—Salt | | 20,000 | | | (CY2) | 16,000 | | 4,000 | | |
| Dividends Declared—Peanut | 60,000 | | | | | | | | 60,000 | |
| | 0 | 0 | | 435,500 | | 435,500 | | | | |

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## Problem 4-10, Concluded

Peanut Company and Subsidiary Salt Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|
| | Peanut | Salt | Dr. | Cr. | Statement | NCI | Earnings | Sheet |
| Consolidated Net Income | | | | | (206,750) | .............. | .............. | .............. |
| To NCI (see distribution schedule) | | | | | 20,750 | (20,750) | .............. | .............. |
| To Controlling Interest (see distribution schedule) | | | | | 186,000 | .............. | (186,000) | .............. |
| Total NCI | | | | | | (71,000) | .............. | (71,000) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | (411,000) | (411,000) |
| | | | | | | | | 0 |

Eliminations and Adjustments:
(CY1) Current-year subsidiary income.
(CY2) Current-year dividend.
(EL) Eliminate controlling interest in subsidiary equity.
(D)/(NCI) Distribute excess and NCI adjustment.
(A) Amortize excess, (A1) includes $12,500 inventory adjustment.
(IS) Eliminate intercompany sales during current period.
(BI) Eliminate beginning inventory profit.
(EI) Defer ending inventory profit.
(F1) Fixed asset profit at beginning of year.
(F2) Fixed asset profit realized.

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## PROBLEM 4-11

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $250,000* | $200,000 | $50,000 |
| Fair value of net assets excluding goodwill** | 237,500 | 190,000 | 47,500 |
| Goodwill | $ 12,500 | $ 10,000 | $ 2,500 |

*$200,000/80%
**Company value = $200,000 equity + $25,000 + $12,500

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $250,000 | $200,000 | $ 50,000 |
| Less book value of interest acquired: | | | |
| Total equity | 200,000 | $200,000 | $200,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $160,000 | $ 40,000 |
| Excess of cost over book value | $ 50,000 | $ 40,000 | $ 10,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Inventory | $12,500 | debit D1 | 1 | $12,500 |
| Equipment | 25,000 | debit D2 | 4 | 6,250 |
| Goodwill | 12,500 | debit D3 | | |
| Total adjustments | $50,000 | | | |

**Equity Conversion**

| | |
|---|---|
| Retained earnings, January 1 current year | $150,000 |
| Retained earnings, acquisition | 100,000 |
| Increase | $ 50,000 |
| Ownership interest | 80% |
| Cost-to-equity conversion | $ 40,000 |

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## Problem 4-11, Continued

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Inventory | 1 | $12,500 | $ — | $12,500 | $12,500 | A1 |
| Equipment | 4 | 6,250 | 6,250 | 6,250 | 12,500 | A2 |
| Total amortizations | | $18,750 | $ 6,250 | $18,750 | $25,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | — | 0% | — | $20,000 | 50% | $10,000 |
| Ending | — | 0% | — | 10,000 | 50% | 5,000 |

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit | $15,000 | — |
| Year of sale | 1 | — |
| Realized in prior years | 3,000 | — |
| Balance, start of year | $12,000 | — |
| Realized in current year | $ 3,000 | — |

Subsidiary Salt Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EI) | $5,000 | Internally generated net income | | $105,000 |
| Amortizations | (A2) | 6,250 | Realized profit in beginning inventory | (BI) | 10,000 |
| | | | Adjusted income | | $103,750 |
| | | | NCI share | | 20% |
| | | | NCI | | $ 20,750 |

Parent Peanut Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| | | | Internally generated net income | | $100,000 |
| | | | 80% of Salt adjusted income of $103,750 | | 83,000 |
| | | | Realized gain | (F2) | 3,000 |
| | | | Controlling interest | | $186,000 |

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## Problem 4-11, Continued

Peanut Company and Subsidiary Salt Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peanut | Salt | | Dr. | | Cr. | | | | |
| Inventory, December 31 | 130,000 | 50,000 | | | (EI) | 5,000 | | | | 175,000 |
| Other Current Assets | 241,000 | 235,000 | | | | | | | | 476,000 |
| Investment in Salt Company | 200,000 | | (CV) | 40,000 | | | | | | |
| | | | | | (EL) | 200,000 | | | | |
| | | | | | (D) | 40,000 | | | | |
| Other Long-Term Investments | 20,000 | | | | | | | | | 20,000 |
| Land | 140,000 | 80,000 | | | | | | | | 220,000 |
| Buildings and Equipment | 375,000 | 200,000 | (D2) | 25,000 | (F1) | 15,000 | | | | 585,000 |
| Accumulated Depreciation | (120,000) | (30,000) | | | (A2) | 12,500 | | | | |
| | | | (F1) | 3,000 | | | | | | |
| | | | (F2) | 3,000 | | | | | | (156,500) |
| Other Intangible Assets | | 20,000 | | | | | | | | 20,000 |
| Goodwill | | | (D3) | 12,500 | | | | | | 12,500 |
| Current Liabilities | (150,000) | (70,000) | | | | | | | | (220,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Other Long-Term Liabilities | (200,000) | (50,000) | | | | | | | | (250,000) |
| | | | | | | | | | | |
| Common Stock—Salt | | (50,000) | (EL) | 40,000 | | | | (10,000) | | |
| Paid-In Capital in Excess of Par—Salt | | (50,000) | (EL) | 40,000 | | | | (10,000) | | |
| Retained Earnings—Salt | | (150,000) | (EL) | 120,000 | (NCI) | 10,000 | | | | |
| | | | (BI) | 2,000 | | | | | | |
| | | | (D1) | 2,500 | | | | | | |
| | | | (A2) | 1,250 | | | | (34,250) | | |
| Common Stock—Peanut | (200,000) | | | | | | | | | (200,000) |
| Paid-In Capital in Excess of Par—Peanut | (100,000) | | | | | | | | | (100,000) |
| Retained Earnings—Peanut | (280,000) | | (A2) | 5,000 | (CV) | 40,000 | | | | |
| | | | (D1) | 10,000 | | | | | | |
| | | | (BI) | 8,000 | | | | | | |
| | | | (F1) | 12,000 | | | | | (285,000) | |
| Sales | (600,000) | (315,000) | (IS) | 40,000 | | | (875,000) | | | |
| Cost of Goods Sold | 350,000 | 150,000 | | | (IS) | 40,000 | | | | |
| | | | (EI) | 5,000 | (BI) | 10,000 | 455,000 | | | |
| Operating Expenses | 150,000 | 60,000 | (A2) | 6,250 | | | | | | |
| | | | | | (F2) | 3,000 | 213,250 | | | |
| Subsidiary Income | (16,000) | | (CY2) | 16,000 | | | | | | |
| Dividends Declared—Salt | | 20,000 | | | (CY2) | 16,000 | | 4,000 | | |
| Dividends Declared—Peanut | 60,000 | | | | | | | | 60,000 | |
| | 0 | 0 | | 391,500 | | 391,500 | | | | |

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## Problem 4-11, Concluded

Peanut Company and Subsidiary Salt Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|
| | Peanut | Salt | Dr. | Cr. | Statement | NCI | Earnings | Sheet |
| Consolidated Net Income | | | | | (206,750) | .............. | .............. | .............. |
| To NCI (see distribution schedule) | | | | | 20,750 | (20,750) | .............. | .............. |
| To Controlling Interest (see distribution schedule) | | | | | 186,000 | .............. | (186,000) | .............. |
| Total NCI | | | | | | (71,000) | .............. | (71,000) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | (411,000) | (411,000) |
| | | | | | | | | 0 |

Eliminations and Adjustments:

(CV) Convert from cost to equity.
(CY1) Current-year subsidiary income.
(CY2) Current-year dividend.
(EL) Eliminate controlling interest in subsidiary equity.
(D)/(NCI) Distribute excess and NCI adjustment.
(A) Amortize excess, (A1) includes $12,500 inventory adjustment.
(IS) Eliminate intercompany sales during current period.
(BI) Eliminate beginning inventory profit.
(EI) Defer ending inventory profit.
(F1) Fixed asset profit at beginning of year.
(F2) Fixed asset profit realized.

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## PROBLEM 4-12

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $250,000* | $200,000 | $50,000 |
| Fair value of net assets excluding goodwill | 237,500** | 190,000 | 47,500 |
| Goodwill | $ 12,500 | $ 10,000 | $ 2,500 |

*$200,000/80%
**Company value = $200,000 equity + $25,000 + $12,500

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $250,000 | $200,000 | $ 50,000 |
| Less book value of interest acquired: | | | |
| Total equity | 200,000 | $200,000 | $200,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $160,000 | $ 40,000 |
| Excess of cost over book value | $ 50,000 | $ 40,000 | $ 10,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amorti-zation |
|---|---|---|---|---|
| Inventory | $12,500 | debit D1 | 1 | $12,500 |
| Equipment | 25,000 | debit D2 | 4 | 6,250 |
| Goodwill | 12,500 | debit D3 | | |
| Total adjustments | $50,000 | | | |

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## Problem 4-12, Continued

**Amortization Schedule**

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Inventory | 1 | $12,500 | $ — | $12,500 | $12,500 | A1 |
| Equipment | 4 | 6,250 | 6,250 | 6,250 | 12,500 | A2 |
| Total amortizations | | $18,750 | $ 6,250 | $18,750 | $25,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent Amount | Parent % | Parent Profit | Sub Amount | Sub % | Sub Profit |
|---|---|---|---|---|---|---|
| Beginning | — | 0% | — | $20,000 | 50% | $10,000 |
| Ending | — | 0% | — | 10,000 | 50% | 5,000 |

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit | $15,000 | — |
| Year of sale | 1 | — |
| Realized in prior years | 3,000 | — |
| Balance, start of year | $12,000 | — |
| Realized in current year | $ 3,000 | — |

Subsidiary Salt Company Income Distribution

| Debit | | | Credit | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EI) | $5,000 | Internally generated net income | | $105,000 |
| Amortizations | (A2) | 6,250 | Realized profit in beginning inventory | (Adj) | 10,000 |
| | | | Adjusted income | | $103,750 |
| | | | NCI share | | 20% |
| | | | NCI | | $ 20,750 |

Parent Peanut Company Income Distribution

| Debit | | | Credit | | |
|---|---|---|---|---|---|
| | | | Internally generated net income | | $100,000 |
| | | | 80% of Salt adjusted income of $103,750 | | 83,000 |
| | | | Realized gain | (F2) | 3,000 |
| | | | Controlling interest | | $186,000 |

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## Problem 4-12, Continued

Peanut Company and Subsidiary Salt Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income | NCI | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peanut | Salt | | Dr. | | Cr. | Statement | | Earnings | Sheet |
| Inventory, December 31 | 130,000 | 50,000 | | | (EI) | 5,000 | | | | 175,000 |
| Other Current Assets | 241,000 | 235,000 | | | | | | | | 476,000 |
| Investment in Salt Company | 284,000 | | | | (CY1) | 83,000 | | | | |
| | | | (CY2) | 16,000 | | | | | | |
| | | | | | (EL) | 192,000 | | | | |
| | | | | | (D) | 25,000 | | | | |
| Other Long-Term Investments | 20,000 | | | | | | | | | 20,000 |
| Land | 140,000 | 80,000 | | | | | | | | 220,000 |
| Buildings and Equipment | 375,000 | 200,000 | (D2) | 18,750 | (F1) | 15,000 | | | | 578,750 |
| Accumulated Depreciation | (120,000) | (30,000) | | | (A2) | 6,250 | | | | |
| | | | (F1) | 3,000 | | | | | | |
| | | | (F2) | 3,000 | | | | | | (150,250) |
| Other Intangible Assets | | 20,000 | | | | | | | | 20,000 |
| Goodwill | | | (D3) | 12,500 | | | | | | 12,500 |
| Current Liabilities | (150,000) | (70,000) | | | | | | | | (220,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Other Long-Term Liabilities | (200,000) | (50,000) | | | | | | | | (250,000) |
| | | | | | | | | | | |
| Common Stock—Salt | | (50,000) | (EL) | 40,000 | | | | (10,000) | | |
| Paid-In Capital in Excess of Par—Salt | | (50,000) | (EL) | 40,000 | | | | (10,000) | | |
| Retained Earnings—Salt | | (150,000) | (Adj) | 10,000 | (NCI) | 6,250 | | | | |
| | | | (EL) | 112,000 | | | | (34,250) | | |
| Common Stock—Peanut | (200,000) | | | | | | | | | (200,000) |
| Paid-In Capital in Excess of Par—Peanut | (100,000) | | | | | | | | | (100,000) |
| Retained Earnings—Peanut | (297,000) | | (F1) | 12,000 | | | | | (285,000) | |
| Sales | (600,000) | (315,000) | (IS) | 40,000 | | | (875,000) | | | |
| Cost of Goods Sold | 350,000 | 150,000 | | | (IS) | 40,000 | | | | |
| | | | (EI) | 5,000 | (Adj) | 10,000 | 455,000 | | | |
| Operating Expenses | 150,000 | 60,000 | (A2) | 6,250 | | | | | | |
| | | | | | (F2) | 3,000 | 213,250 | | | |
| Subsidiary Income | (83,000) | | (CY1) | 83,000 | | | | | | |
| Dividends Declared—Salt | | 20,000 | | | (CY2) | 16,000 | | 4,000 | | |
| Dividends Declared—Peanut | 60,000 | | | | | | | | 60,000 | |
| | 0 | 0 | | 401,500 | | 401,500 | | | | |
| Consolidated Net Income | | | | | | | (206,750) | | | |
| To NCI (see distribution schedule) | | | | | | | 20,750 | (20,750) | | |
| To Controlling Interest (see distribution schedule) | | | | | | | 186,000 | | (186,000) | |
| Total NCI | | | | | | | | (71,000) | | (71,000) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | | | (411,000) | (411,000) |
| | | | | | | | | | | 0 |

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## Problem 4-12, Concluded

Eliminations and Adjustments:

| | |
|---|---|
| (Adj) | Adjust subsidiary for $10,000 beginning inventory profit. |
| (CY1) | Current-year subsidiary income. |
| (CY2) | Current-year dividend. |
| (EL) | Eliminate controlling interest in subsidiary equity. The subsidiary retained earnings is adjusted for beginning inventory profit. |
| (D/NCI) | Distribute unamortized excess and NCI adjustment. |
| (A) | Amortize excess only for current year. |
| (IS) | Eliminate intercompany sales during current period. |
| (EI) | Defer ending inventory profit. |
| (F1) | Fixed asset profit at beginning of year. |
| (F2) | Fixed asset profit realized. |

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## PROBLEM 4-13

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (90%) | NCI Value (10%) |
|---|---|---|---|
| Company fair value | $1,400,000* | $1,260,000 | $140,000 |
| Fair value of net assets excluding goodwill | 800,000 | 720,000 | 80,000 |
| Goodwill | $ 600,000 | $ 540,000 | $ 60,000 |

*$1,260,000/90%

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 | $1,400,000 | $1,260,000 | $140,000 |
| Less book value of interest acquired: | | | |
| Common stock | $ 200,000 | | |
| Retained earnings | 600,000 | | |
| Total equity | $ 800,000 | $ 800,000 | $800,000 |
| Interest acquired | | 90% | 10% |
| Book value of interest | | $ 720,000 | $ 80,000 |
| Excess of cost over book value | $ 600,000 | $ 540,000 | $ 60,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key |
|---|---|---|
| Goodwill | $ 600,000 | debit D1 |

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## Problem 4-13, Continued

Pettie Corporation and Subsidiary Sunco Corporation
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 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pettie | Sunco | | Dr. | | Cr. | | | | |
| Cash | 15,000 | 45,500 | | | | | | | | 60,500 |
| Accounts and Other Current Receivables | 410,900 | 170,000 | | | (CY3) | 900 | | | | |
| | | | | | (LN1) | 5,000 | | | | |
| | | | | | (LN1) | 100,000 | | | | |
| | | | | | (IA) | 90,000 | | | | 385,000 |
| Inventory | 920,000 | 739,400 | | | (EI) | 7,500 | | | | 1,651,900 |
| Property, Plant, and Equipment (net) | 1,000,000 | 400,000 | | | | | | | | 1,400,000 |
| Investment in Sunco Corporation | 1,260,000 | | (CV) | 45,000 | (EL) | 765,000 | | | | |
| | | | | | (D) | 540,000 | | | | |
| Goodwill | | | (D) | 600,000 | | | | | | 600,000 |
| Accounts Payable and Other Current Liabilities | (140,000) | (305,900) | (CY3) | 900 | | | | | | |
| | | | (LN1) | 5,000 | | | | | | |
| | | | (LN1) | 100,000 | | | | | | |
| | | | (IA) | 90,000 | | | | | | (250,000) |
| Common Stock—Pettie | (500,000) | | | | | | | | | (500,000) |
| Retained Earnings, January 1, 2012—Pettie | (2,800,000) | | | | (CV) | 45,000 | | | (2,845,000) | |
| Common Stock—Sunco | | (200,000) | (EL) | 180,000 | | | | (20,000) | | |
| Retained Earnings, January 1, 2012—Sunco | | (650,000) | (EL) | 585,000 | (NCI) | 60,000 | | (125,000) | | |
| Dividends Declared | | 1,000 | | | (CY2) | 900 | | 100 | | |
| Sales | (2,000,000) | (650,000) | (IS) | 300,000 | | | (2,350,000) | | | |
| Dividend Income | (900) | | (CY2) | 900 | | | | | | |
| Interest Expense | | 5,000 | | | (LN2) | 5,000 | | | | |
| Interest Income | (5,000) | | (LN2) | 5,000 | | | | | | |
| Cost of Goods Sold | 1,500,000 | 400,000 | (EI) | 7,500 | (IS) | 300,000 | 1,607,500 | | | |
| Other Expenses | 340,000 | 45,000 | | | | | 385,000 | | | |
| | 0 | 0 | | 1,919,300 | | 1,919,300 | | | | |
| Consolidated Net Income | | | | | | | (357,500) | | | |
| To NCI (see distribution schedule) | | | | | | | 20,000 | (20,000) | | |
| To Controlling Interest (see distribution schedule) | | | | | | | 337,500 | | (337,500) | |
| Total NCI | | | | | | | | (164,900) | | (164,900) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | | | (3,182,500) | (3,182,500) |
| | | | | | | | | | | 0 |

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## Problem 4-13, Concluded

Eliminations and Adjustments:

| | |
|---|---|
| (CV) | Adjust investment for change in Sunco retained earnings, 90% × $50,000 = $45,000. |
| (CY2) | Eliminate the entry recording the parent's share of the subsidiary's cash dividend. |
| (CY3) | Eliminate the intercompany dividend payable and receivable. |
| (EL) | Eliminate the parent's (90%) share of Sunco Corporation equity against the investment. |
| (D)/(NCI) | Distribute excess and NCI adjustment according to the determination and distribution of excess schedule. |
| (LN1) | Eliminate intercompany note, interest payable, and receivable. |
| (LN2) | Eliminate intercompany interest expense and income (10% × 1/2 × $100,000). |
| (IS) | Eliminate intercompany sales of $300,000. |
| (EI) | Eliminate intercompany profit of $7,500 (10% × $75,000) in the ending inventory. |
| (IA) | Eliminate intercompany trade debt of $90,000. |

Subsidiary Sunco Corporation Income Distribution

| | | | |
|---|---|---|---|
| | | Internally generated net income | $200,000 |
| | | Adjusted income | $200,000 |
| | | NCI share | × 10% |
| | | NCI | $ 20,000 |

Parent Pettie Corporation Income Distribution

| | | | |
|---|---|---|---|
| Unrealized profit in ending inventory | (EI) $7,500 | Internally generated net income | $165,000 |
| | | 90% × Sunco adjusted income of $200,000 | 180,000 |
| | | Controlling interest | $337,500 |

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## PROBLEM 4-14

(1)

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $375,000* | $300,000 | $75,000 |
| Fair value of net assets excluding goodwill | 270,000** | 216,000 | 54,000 |
| Goodwill | $105,000 | $ 84,000 | $21,000 |

*$300,000/80%
**$160,000 + $100,000 + $50,000 – $40,000 existing goodwill

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $375,000 | $300,000 | $ 75,000 |
| Less book value of interest acquired: | | | |
| Common stock | $ 10,000 | | |
| Paid-in capital in excess of par | 90,000 | | |
| Retained earnings | 60,000 | | |
| Total equity | $160,000 | $160,000 | $160,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $128,000 | $ 32,000 |
| Excess of cost over book value | $215,000 | $172,000 | $ 43,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Buildings | $100,000 | debit D1 | 20 | $ 5,000 |
| Equipment | 50,000 | debit D2 | 5 | 10,000 |
| Goodwill ($105,000 – $40,000 book value) | 65,000 | debit D3 | | |
| Total adjustments | $215,000 | | | |

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## Problem 4-14, Continued

### (2) Amortization Schedule

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Buildings | 20 | $ 5,000 | $ 5,000 | $ 5,000 | $10,000 | A1 |
| Equipment | 5 | 10,000 | 10,000 | 10,000 | 20,000 | A2 |
| Total amortizations | | $15,000 | $15,000 | $15,000 | $30,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent | Parent Amount | Parent % | Sub Profit | Sub Amount | Sub %Profit |
|---|---|---|---|---|---|---|
| Beginning | $14,000 | 40% | $5,600 | $12,000 | 25% | $3,000 |
| Ending | 12,000 | 35% | 4,200 | 16,000 | 30% | 4,800 |

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit | $40,000 | $24,000 |
| Year of sale | 1 | 2 |
| Realized in prior years | 5,000 | — |
| Balance, start of year | $35,000 | $24,000 |
| Realized in current year | $ 5,000 | $ 4,000 |

Subsidiary Salmon Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EI) | $ 4,800 | Internally generated net income | | $29,500 |
| Equipment gain | (F1) | 24,000 | Realized profit in beginning inventory | (BI) | 3,000 |
| Amortizations | (A1–A2) | 15,000 | Realized gain | (F2) | 4,000 |
| Adjusted loss | | $ 7,300 | | | |
| NCI share | | 20% | | | |
| NCI | | $ 1,460 | | | |

Parent Purple Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EI) | $ 4,200 | Internally generated net income | | $155,000 |
| 80% of Salmon adjusted loss of $7,300 | | 5,840 | Realized profit in beginning inventory | (BI) | 5,600 |
| | | | Realized gain | (F2) | 5,000 |
| | | | Controlling interest | | $155,560 |

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## Problem 4-14, Continued

Purple Company and Subsidiary Salmon Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | Purple | Salmon | | Dr. | | Cr. | Statement | NCI | Earnings | Sheet |
| Cash | 92,400 | 57,500 | | | | | | | | 149,900 |
| Accounts Receivable | 130,000 | 36,000 | | | (IA) | 14,000 | | | | 152,000 |
| Inventory | 105,000 | 76,000 | | | (EI) | 9,000 | | | | 172,000 |
| Land | 100,000 | 100,000 | | | | | | | | 200,000 |
| Investment in Salmon Company | 381,200 | | | | (CY1) | 23,600 | | | | |
| | | | (CY2) | 8,000 | | | | | | |
| | | | | | (EL) | 193,600 | | | | |
| | | | | | (D) | 172,000 | | | | |
| Buildings | 800,000 | 150,000 | (D1) | 100,000 | | | | | | 1,050,000 |
| Accumulated Depreciation | (250,000) | (60,000) | | | (A1) | 10,000 | | | | (320,000) |
| Equipment | 210,000 | 220,000 | (D2) | 50,000 | (F1) | 64,000 | | | | 416,000 |
| Accumulated Depreciation | (115,000) | (80,000) | | | (A2) | 20,000 | | | | |
| | | | (F1) | 5,000 | | | | | | |
| | | | (F2) | 9,000 | | | | | | (201,000) |
| Goodwill | | 40,000 | (D3) | 65,000 | | | | | | 105,000 |
| Accounts Payable | (70,000) | (78,000) | (IA) | 14,000 | | | | | | (134,000) |
| Bonds Payable | | (200,000) | | | | | | | | (200,000) |
| Common Stock—Salmon | | (10,000) | (EL) | 8,000 | | | | (2,000) | | |
| Paid-In Capital in Excess of Par—Salmon | | (90,000) | (EL) | 72,000 | | | | (18,000) | | |
| Retained Earnings—Salmon | | (142,000) | (EL) | 113,600 | (NCI) | 43,000 | | | | |
| | | | (BI) | 600 | | | | | | |
| | | | | | | | | | | |
| | | | (A1–A2) | 3,000 | | | | (67,800) | | |
| Common Stock—Purple | (100,000) | | | | | | | | | (100,000) |
| Paid-In Capital in Excess of Par—Purple | (800,000) | | | | | | | | | (800,000) |
| Retained Earnings—Purple | (325,000) | | (A1–A2) | 12,000 | | | | | | |
| | | | (BI) | 8,000 | | | | | | |
| | | | (F1) | 35,000 | | | | | (270,000) | |
| Sales | (800,000) | (350,000) | (IS) | 90,000 | | | (1,060,000) | | | |
| Cost of Goods Sold | 450,000 | 208,500 | | | (IS) | 90,000 | | | | |
| | | | (EI) | 9,000 | (BI) | 8,600 | 568,900 | | | |
| Depreciation Expense—Buildings | 30,000 | 5,000 | (A1) | 5,000 | | | 40,000 | | | |
| Depreciation Expense—Equipment | 25,000 | 23,000 | (A2) | 10,000 | | | | | | |
| | | | | | (F2) | 9,000 | 49,000 | | | |
| Other Expenses | 140,000 | 92,000 | | | | | 232,000 | | | |
| Interest Expense | | 16,000 | | | | | 16,000 | | | |
| Gain on Sale of Fixed Assets | | (24,000) | (F1) | 24,000 | | | | | | |
| Subsidiary Income | (23,600) | | (CY1) | 23,600 | | | | | | |
| Dividends Declared—Salmon | | 10,000 | | | (CY2) | 8,000 | | 2,000 | | |
| Dividends Declared—Purple | 20,000 | | | | | | | | 20,000 | |
| | 0 | 0 | | 664,800 | | 664,800 | | | | |

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## Problem 4-14, Concluded

Purple Company and Subsidiary Salmon Company
Consolidated Income Statement
For Year Ended December 31, 2012

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|
| | Purple | Salmon | Dr. | Cr. | | | | |
| Consolidated Net Income | | | | | (154,100) | | | |
| To NCI (see distribution schedule) | | | | | (1,460) | 1,460 | | |
| To Controlling Interest (see distribution schedule) | | | | | 155,560 | | (155,560) | |
| Total NCI | | | | | | (84,340) | | (84,340) |
| Retained Earnings—Controlling Interest, December 31, 2012 | | | | | | | (405,560) | (405,560) |
| | | | | | | | | 0 |

Eliminations and Adjustments:

- (CY1) Current-year subsidiary income.
- (CY2) Current-year dividend.
- (EL) Eliminate controlling interest in subsidiary equity.
- (D)/(NCI) Distribute excess and NCI adjustment.
- (A) Amortize excess.
- (IS) Eliminate intercompany sales during current period ($30,000 + $60,000).
- (IA) Eliminate intercompany unpaid trade accounts ($8,000 + $6,000).
- (BI) Eliminate beginning inventory profit ($5,600 + $3,000).
- (EI) Defer ending inventory profit ($4,800 + $4,200).
- (F1) Fixed asset profit at beginning of year.
- (F2) Fixed asset profit realized ($5,000 + $4,000).

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## PROBLEM 4-15

(1)

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $375,000* | $300,000 | $75,000 |
| Fair value of net assets excluding goodwill | 270,000** | 216,000 | 54,000 |
| Goodwill | $105,000 | $ 84,000 | $21,000 |

*$300,000/80%
**$160,000 + $100,000 + $50,000 – $40,000 existing goodwill

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $375,000 | $300,000 | $ 75,000 |
| Less book value of interest acquired: | | | |
| Common stock | $ 10,000 | | |
| Paid-in capital in excess of par | 90,000 | | |
| Retained earnings | 60,000 | | |
| Total equity | $160,000 | $160,000 | $160,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $128,000 | $ 32,000 |
| Excess of cost over book value | $215,000 | $172,000 | $ 43,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amorti-zation |
|---|---|---|---|---|
| Buildings | $100,000 | debit D1 | 20 | $ 5,000 |
| Equipment | 50,000 | debit D2 | 5 | 10,000 |
| Goodwill ($105,000 – $40,000 book value) | 65,000 | debit D3 | | |
| Total adjustments | $215,000 | | | |

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## Problem 4-15, Continued

(2) **Amortization Schedule**
Year of consolidation 3

| Account adjustments to be amortized | Life | Annual Amount | Current Year | Prior Years | Total | Key |
|---|---|---|---|---|---|---|
| Buildings | 20 | $ 5,000 | $ 5,000 | $10,000 | $15,000 | A1 |
| Equipment | 5 | 10,000 | 10,000 | 20,000 | 30,000 | A2 |
| Total amortizations | | $15,000 | $15,000 | $30,000 | $45,000 | |

**Intercompany Inventory Profit Deferral**

| | Parent | Parent Amount | Parent % | Sub Profit | Sub Amount | Sub % Profit |
|---|---|---|---|---|---|---|
| Beginning | $12,000 | 35% | $4,200 | $16,000 | 30% | $4,800 |
| Ending | 10,000 | 40% | 4,000 | 20,000 | 35% | 7,000 |

**Intercompany Fixed Asset Profit Deferral**

| | Parent | Sub |
|---|---|---|
| Original profit | $40,000 | $24,000 |
| Year of sale | 1 | 2 |
| Realized in prior years | 10,000 | 4,000 |
| Balance, start of year | $30,000 | $20,000 |
| Realized in current year | $ 5,000 | $ 4,000 |

Subsidiary Salmon Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Ending inventory profit | (EI) | $ 7,000 | Internally generated net income | | $80,000 |
| Amortizations | (A1–A2) | 15,000 | Beginning inventory profit | (BI) | 4,800 |
| | | | Realized gain on equipment | (F2) | 4,000 |
| | | | Adjusted income | | $66,800 |
| | | | NCI share | | 20% |
| | | | NCI | | $13,360 |

Parent Purple Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory | (EI) | $4,000 | Internally generated net income | | $115,000 |
| | | | 80% of Salmon adjusted income of $66,800 | | 53,440 |
| | | | Realized profit in beginning inventory | (BI) | 4,200 |
| | | | Realized gain | (F2) | 5,000 |
| | | | Controlling interest | | $173,640 |

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# Problem 4-15, Continued

Purple Company and Subsidiary Salmon Company
Consolidated Income Statement
For Year Ended December 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | | | Consolidated Income Statement | NCI | Controlling Retained Earnings | Consolidated Balance Sheet |
|---|---|---|---|---|---|---|---|---|---|---|
| | Purple | Salmon | | Dr. | | Cr. | | | | |
| Cash | 195,400 | 53,500 | | | | | | | | 248,900 |
| Accounts Receivable | 140,000 | 53,000 | | | (IA) | 14,000 | | | | 179,000 |
| Inventory | 140,000 | 81,000 | | | (EI) | 11,000 | | | | 210,000 |
| Land | 100,000 | 60,000 | | | | | | | | 160,000 |
| Investment in Salmon Company | 443,600 | | | | (CY1) | 64,000 | | | | |
| | | | (CY2) | 8,000 | | | | | | |
| | | | | | (EL) | 215,600 | | | | |
| | | | | | (D) | 172,000 | | | | |
| Buildings | 800,000 | 150,000 | (D1) | 100,000 | | | | | | 1,050,000 |
| Accumulated Depreciation | (280,000) | (65,000) | | | (A1) | 15,000 | | | | (360,000) |
| Equipment | 150,000 | 220,000 | (D2) | 50,000 | (F1) | 64,000 | | | | 356,000 |
| Accumulated Depreciation | (115,000) | (103,000) | | | (A2) | 30,000 | | | | |
| | | | (F1) | 14,000 | | | | | | |
| | | | (F2) | 9,000 | | | | | | (225,000) |
| Goodwill | | 40,000 | (D3) | 65,000 | | | | | | 105,000 |
| Accounts Payable | (25,000) | (50,000) | (IA) | 14,000 | | | | | | (61,000) |
| Bonds Payable | | (100,000) | | | | | | | | (100,000) |
| Common Stock—Salmon | | (10,000) | (EL) | 8,000 | | | | (2,000) | | |
| Paid-In Capital in Excess of Par—Salmon | | (90,000) | (EL) | 72,000 | | | | (18,000) | | |
| Retained Earnings—Salmon | | (169,500) | (EL) | 135,600 | (NCI) | 43,000 | | | | |
| | | | (BI) | 960 | | | | | | |
| | | | (F1) | 4,000 | | | | | | |
| | | | (A1–A2) | 6,000 | | | | (65,940) | | |
| Common Stock—Purple | (100,000) | | | | | | | | | (100,000) |
| Paid-In Capital in Excess of Par—Purple | (800,000) | | | | | | | | | (800,000) |
| Retained Earnings—Purple | (510,000) | | (A1–A2) | 24,000 | | | | | | |
| | | | (BI) | 8,040 | | | | | | |
| | | | (F1) | 46,000 | | | | | (431,960) | |
| Sales | (850,000) | (500,000) | (IS) | 90,000 | | | (1,260,000) | | | |
| Cost of Goods Sold | 480,000 | 290,000 | | | (IS) | 90,000 | | | | |
| | | | (EI) | 11,000 | (BI) | 9,000 | 682,000 | | | |
| Depreciation Expense—Buildings | 30,000 | 5,000 | (A1) | 5,000 | | | 40,000 | | | |
| Depreciation Expense—Equipment | 15,000 | 23,000 | (A2) | 10,000 | | | | | | |
| | | | | | (F2) | 9,000 | 39,000 | | | |
| Other Expenses | 210,000 | 94,000 | | | | | 304,000 | | | |
| Interest Expense | | 8,000 | | | | | 8,000 | | | |
| Subsidiary Income | (64,000) | | (CY1) | 64,000 | | | | | | |
| Dividends Declared—Salmon | | 10,000 | | | (CY2) | 8,000 | | 2,000 | | |
| Dividends Declared—Purple | 40,000 | | | | | | | | 40,000 | |
| | 0 | 0 | | 744,600 | | 744,600 | | | | |

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## Problem 4-15, Concluded

Purple Company and Subsidiary Salmon Company
Consolidated Income Statement
For Year Ended December 31, 2013

| | Trial Balance | | Eliminations and Adjustments | | Consolidated Income | | Controlling Retained | Consolidated Balance |
|---|---|---|---|---|---|---|---|---|
| | Purple | Salmon | Dr. | Cr. | Statement | NCI | Earnings | Sheet |
| Consolidated Net Income | | | | | (187,000) | | | |
| To NCI (see distribution schedule) | | | | | 13,360 | (13,360) | | |
| To Controlling Interest (see distribution schedule) | | | | | 173,640 | | (173,640) | |
| Total NCI | | | | | | (97,300) | | (97,300) |
| Retained Earnings—Controlling Interest, December 31, 2013 | | | | | | | (565,600) | (565,600) |
| | | | | | | | | 0 |

(CY1) Current-year subsidiary income.
(CY2) Current-year dividend.
(EL) Eliminate controlling interest in subsidiary equity.
(D)/(NCI) Distribute excess and NCI adjustment.
(A) Amortize excess.
(IS) Eliminate intercompany sales during current period.
(IA) Eliminate intercompany unpaid trade accounts.
(BI) Eliminate beginning inventory profit ($4,200 + $4,800).
(EI) Defer ending inventory profit.
(F1) Fixed asset profit at beginning of year ($35,000 + $20,000).
(F2) Fixed asset profit realized.

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# APPENDIX PROBLEMS

## PROBLEM 4A-1

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (100%) | NCI Value |
|---|---|---|---|
| Fair value of subsidiary | $750,000 | $750,000 | |
| Less book value of interest acquired: | | | |
| Common stock | $400,000 | | |
| Paid-in capital in excess of par | 80,000 | | |
| Retained earnings | 156,000 | | |
| Total equity | $636,000 | $636,000 | |
| Interest acquired | | 100% | |
| Book value | | $636,000 | |
| Excess of fair value over book value | $114,000 | $114,000 | |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Machinery | $ 54,000 | debit D1 | 6 | $9,000 |
| Goodwill | 60,000 | debit D2 | | |
| Total adjustments | $114,000 | | | |

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## Problem 4A-1, Continued

Arther Corporation and Subsidiary Trent, Inc.
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2014

| | Trial Balance | | | Eliminations and Adjustments | | | Consolidated |
|---|---|---|---|---|---|---|---|
| | Arther | Trent | | Dr. | | Cr. | Balance |
| **Income Statement:** | | | | | | | |
| Net Sales | (1,900,000) | (1,500,000) | (IS) | 180,000 | | | (3,220,000) |
| Divided Income (from Trent) | (40,000) | | (CY2) | 40,000 | | | |
| Cost of Goods Sold | 1,180,000 | 870,000 | (EI) | 18,000 | (IS) | 180,000 | 1,888,000 |
| Operating Expenses (including depreciation) | 550,000 | 440,000 | (A1) | 9,000 | (F2) | 4,000 | 995,000 |
| Consolidated Net Income | (210,000) | (190,000) | | | | | (337,000) |
| **Retained Earnings Statement:** | | | | | | | |
| Balance, January 1, 2014 | (250,000) | (206,000) | (EL) | 206,000 | (CV) | 50,000 | |
| | | | (A1) | 18,000 | | | |
| | | | (F1) | 24,000 | | | (258,000) |
| Net Income | (210,000) | (190,000) | | | | | (337,000) |
| Dividends Paid | | 40,000 | | | (CY2) | 40,000 | |
| Balance, December 31, 2014 | (460,000) | (356,000) | | | | | (595,000) |
| **Balance Sheet:** | | | | | | | |
| Cash | 285,000 | 150,000 | | | | | 435,000 |
| Accounts Receivable (net) | 430,000 | 350,000 | | | (IA) | 75,000 | 705,000 |
| Inventories | 530,000 | 410,000 | | | (EI) | 18,000 | 922,000 |
| Land, Building, and Equipment | 660,000 | 680,000 | (D1) | 54,000 | (F1) | 30,000 | 1,364,000 |
| Accumulated Depreciation | (185,000) | (210,000) | (F1) | 6,000 | (A1) | 27,000 | |
| | | | (F2) | 4,000 | | | (412,000) |
| Investment in Trent, Inc. | 750,000 | | (CV) | 50,000 | (EL) | 686,000 | |
| | | | | | (D) | 114,000 | |
| Goodwill | | | (D2) | 60,000 | | | 60,000 |
| Accounts Payable and Accrued Expenses | (670,000) | (544,000) | (IA) | 75,000 | | | (1,139,000) |
| Common Stock ($10 par) | (1,200,000) | (400,000) | (EL) | 400,000 | | | (1,200,000) |
| Paid-In Capital in Excess of Par | (140,000) | (80,000) | (EL) | 80,000 | | | (140,000) |
| Retained Earnings, December 31, 2014 | (460,000) | (356,000) | | | | | (595,000) |
| | 0 | 0 | | 1,224,000 | | 1,224,000 | 0 |

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**Problem 4A-1, Concluded**

Eliminations and Adjustments:

| | |
|---|---|
| (CV) | Convert to equity method as of January 1, 2014, 100% × $50,000 increase. |
| (CY2) | Eliminate intercompany dividends. |
| (EL) | Eliminate subsidiary equity against investment account. |
| (D) | Distribute excess $54,000 to land, building, and equipment and $60,000 to goodwill. |
| (A1) | Amortize excess applicable to machine for two prior years and current year. |
| (F1) | Eliminate intercompany profit on warehouse at start of year: $10,000 for land $20,000 for building less one and one-half-years' amortization of $4,000 per year (or $6,000). |
| (F2) | Correct depreciation for intercompany profit, $4,000. |
| (IS) | Eliminate intercompany sales, $180,000. |
| (EI) | Eliminate intercompany profit in ending inventory, 50% × $36,000. |
| (IA) | Eliminate intercompany trade debt. |

Subsidiary Trent, Inc.. Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Unrealized profit in ending inventory ........................ | (EI) | $18,000 | Internally generated net income .......................... | | $190,000 |
| Amortization of excess attributed to machinery ... | (A1) | 9,000 | | | |
| | | | Adjusted income ................. | | $163,000 |

Parent Arther Corporation Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| | | | Internally generated net income .......................... | | $170,000 |
| | | | 100% × Trent adjusted income of $163,000................... | | 163,000 |
| | | | Gain realized through use of warehouse ................ | (F2) | 4,000 |
| | | | Controlling interest.............. | | $337,000 |

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SOUTH-WESTERN
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## PROBLEM 4-A2

Peanut Company and Subsidiary Salt Company
Worksheet for Consolidated Financial Statements
For Year Ended December 31, 2012

| | Financial Statements | | Eliminations and Adjustments | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Peanut | Salt | | Dr. | | Cr. | NCI | Consolidated Balance |
| **Income Statement:** | | | | | | | | |
| Net Sales | (600,000) | (315,000) | (IS) | 40,000 | | | | (875,000) |
| Cost of Goods Sold | 350,000 | 150,000 | (EI) | 5,000 | (BI) | 10,000 | | 455,000 |
| | | | | | (IS) | 40,000 | | |
| Operating Expenses | 150,000 | 60,000 | (A2) | 6,250 | (F2) | 3,000 | | 213,250 |
| Subsidiary Income | (84,000) | | (CY1) | 84,000 | | | | 206,750 |
| Net Income (Loss) | (184,000) | (105,000) | | | | | | |
| NCI | | | | | | | (20,750) | |
| Controlling Interest | | | | | | | | (186,000) |
| **Retained Earnings:** | | | | | | | | |
| Retained Earnings, January 1, 2012—Peanut | (320,000) | | (A2) | 5,000 | | | | (285,000) |
| | | | (D1) | 10,000 | | | | |
| | | | (BI) | 8,000 | | | | |
| | | | (F1) | 12,000 | | | | |
| Retained Earnings, January 1, 2012—Salt | | (150,000) | (EL) | 120,000 | (NCI) | 10,000 | | |
| | | | (BI) | 2,000 | | | (34,250) | |
| | | | (A2) | 1,250 | | | | |
| | | | (D1) | 2,500 | | | | |
| Net Income (from above) | (184,000) | (105,000) | | | | | (20,750) | (186,000) |
| Dividends Declared—Peanut | 60,000 | | | | | | | 60,000 |
| Dividends Declared—Salt | | 20,000 | | | (CY2) | 16,000 | 4,000 | |
| Balance, December 31, 2012 | (444,000) | (235,000) | | | | | (51,000) | (411,000) |
| **Consolidated Balance Sheet:** | | | | | | | | |
| Inventory, December 31 | 130,000 | 50,000 | | | (EI) | 5,000 | | 175,000 |
| Other Current Assets | 241,000 | 235,000 | | | | | | 476,000 |
| Investment in Salt | 308,000 | | (CY2) | 16,000 | (CY1) | 84,000 | | |
| | | | | | (EL) | 200,000 | | |
| | | | | | (D) | 40,000 | | |
| Other Long-Term Investments | 20,000 | | | | | | | 20,000 |
| Land | 140,000 | 80,000 | | | | | | 220,000 |
| Building and Equipment | 375,000 | 200,000 | (D2) | 25,000 | (F1) | 15,000 | | 585,000 |
| Accumulated Depreciation | (120,000) | (30,000) | | | (A2) | 12,500 | | (156,500) |
| | | | (F1) | 3,000 | | | | |
| | | | (F2) | 3,000 | | | | |
| Goodwill | | | (D3) | 12,500 | | | | 12,500 |
| Other Intangibles | | 20,000 | | | | | | 20,000 |
| Current Liabilities | (150,000) | (70,000) | | | | | | (220,000) |
| Bonds Payable | | (100,000) | | | | | | (100,000) |
| Other Long-Term Liabilities | (200,000) | (50,000) | | | | | | (250,000) |
| Common Stock—Peanut | (200,000) | | | | | | | (200,000) |
| Other Paid-In Capital in Excess of Par—Peanut | (100,000) | | | | | | | (100,000) |
| Common Stock—Salt | | (50,000) | (EL) | 40,000 | | | (10,000) | |
| Other Paid-In Capital in Excess of Par—Salt | | (50,000) | (EL) | 40,000 | | | (10,000) | |
| Retained Earnings, December 31, 2012 (from above) | (444,000) | (235,000) | | | | | (51,000) | (411,000) |
| Total NCI | | | | | | | 71,000 | (71,000) |
| Balance | 0 | 0 | | 435,500 | | 435,500 | 0 | 0 |

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## Problem 4A-2, Continued

Eliminations and Adjustments:

(CY1) Eliminate the current-year subsidiary income recorded by the parent.

(CY2) Eliminate intercompany dividends.

(EL) Eliminate 80% of the subsidiary company equity balances at the beginning of the year against the investment account.

(D)/(NCI) Allocate the $50,000 excess of cost over book value to inventory, equipment, and goodwill. The $10,000 (80% of $12,500) write-up to inventory is charged to the parent's retained earnings and $2,500 to the subsidiary's retained earnings (for NCI) because FIFO is used. The $25,000 write-up to equipment is charged to buildings and equipment. The $12,500 remaining excess is charged to goodwill.

(A2) Amortize the equipment write-up over four years, with $5,000 (80% × $6,250) for 2011 charged to the parent's retained earnings and $1,250 to the subsidiary's retained earnings, and $6,250 for 2012 to operating expenses.

(BI) Eliminate the $10,000 of gross profit in the beginning inventory (80% × $10,000 = $8,000 charged to the parent's retained earnings and $2,000 to the subsidiary's retained earnings).

(IS) Eliminate the entire intercompany sales of $40,000.

(EI) Eliminate the $5,000 of gross profit in the ending inventory.

(F1) Eliminate the $15,000 2011 gain on sale of equipment and restore the equipment account to cost; adjust for $3,000 realized in 2013.

(F2) Eliminate the $3,000 of excess depreciation for 2012 on the transferred equipment.

| Value Analysis Schedule | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Company fair value | $250,000* | $200,000 | $50,000 |
| Fair value of net assets excluding goodwill | 237,500** | 190,000 | 47,500 |
| Goodwill | $ 12,500 | $ 10,000 | $ 2,500 |

*$200,000/80%

**Company value = $200,000 equity + $25,000 + $12,500

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## Problem 4A-2, Concluded

**Determination and Distribution of Excess Schedule**

| | Company Implied Fair Value | Parent Price (80%) | NCI Value (20%) |
|---|---|---|---|
| Price paid for investment | $250,000 | $200,000 | $ 50,000 |
| Less book value of interest acquired: | | | |
| Total equity | 200,000 | $200,000 | $200,000 |
| Interest acquired | | 80% | 20% |
| Book value of interest | | $160,000 | $ 40,000 |
| Excess of cost over book value | $ 50,000 | $ 40,000 | $ 10,000 |

**Adjustment of identifiable accounts:**

| | Adjustment | Worksheet Key | Periods | Amortization |
|---|---|---|---|---|
| Inventory | $12,500 | debit D1 | 1 | $12,500 |
| Equipment | 25,000 | debit D2 | 4 | 6,250 |
| Goodwill | 12,500 | debit D3 | | |
| Total adjustments | $50,000 | | | |

Subsidiary Salt Company Income Distribution

| | | | | | |
|---|---|---|---|---|---|
| Ending inventory profit | (EI) | $5,000 | Internally generated net income | | $105,000 |
| Amortizations | (A2) | 6,250 | Beginning inventory profit | (BI) | 10,000 |
| | | | Adjusted income | | $103,750 |
| | | | NCI share | | × 20% |
| | | | NCI | | $ 20,750 |

Parent Peanut Company Income Distribution

| | | | |
|---|---|---|---|
| | Internally generated net income | | $100,000 |
| | Realized gain on equipment Sale | (F2) | 3,000 |
| | 80% × Salt adjusted income of $103,750 | | 83,000 |
| | Controlling interest | | $186,000 |

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