Advanced Accounting, 12e **(Beams/Anthony/Bettinghaus/Smith)**
Chapter 4 Consolidated Techniques and Procedures

Multiple Choice Questions

1) Which of the following will be debited to the Investment account when the equity method is used?
A) Investee net losses
B) Investee net profits
C) Investee declaration of dividends
D) Depreciation of excess purchase cost attributable to investee equipment
Answer: B
Objective: LO1
Difficulty: Easy

2) A parent company uses the equity method to account for its wholly-owned subsidiary. Which of the following will be a correct procedure for the Investment account?
A) A debit for a subsidiary loss and a credit for dividends received
B) A credit for subsidiary income and a debit for dividends received
C) A debit for subsidiary dividends received and a credit for a subsidiary loss
D) A credit for a subsidiary loss and a credit for dividends received
Answer: D
Objective: LO1
Difficulty: Easy

3) A parent corporation owns 55% of the outstanding voting common stock of one domestic subsidiary. The parent has control over the subsidiary. Which of the following statements is correct?
A) The parent corporation must prepare consolidated financial statements for the economic entity.
B) The parent corporation must use the fair value method.
C) The parent company may use the equity method but the subsidiary cannot be consolidated.
D) The parent company can use the equity method or the fair value/cost method.
Answer: A
Objective: LO1
Difficulty: Easy

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Use the following information to answer question(s) below.

On January 1, 2011, Punch Corporation purchased 80% of the common stock of Soopy Co. Separate balance sheet data for the companies at the acquisition date(after the acquisition) are given below:

	Punch	Soopy
Cash	$34,000	$206,000
Accounts Receivable	144,000	26,000
Inventory	132,000	38,000
Land	68,000	32,000
Plant assets	700,000	300,000
Accum. Depreciation	(240,000)	(60,000)
Investment in Soopy	392,000	
Total assets	$ 1,230,000	$ 542,000
Accounts payable	$206,000	$142,000
Capital stock	800,000	300,000
Retained earnings	224,000	100,000
Total liabilities & equities	$ 1,230,000	$ 542,000

At the date of the acquisition, the book values of Soopy's net assets were equal to the fair value except for Soopy's inventory, which had a fair value of $60,000.

Determine below what the consolidated balance would be for each of the requested accounts.

4) What amount of Inventory will be reported?
A) $170,000
B) $169,000
C) $186,500
D) $192,000
Answer: D
Explanation: D) Combined inventory of $132,000 plus $38,000 plus the excess of the fair value over the book value of $22,000
Objective: LO1
Difficulty: Moderate

5) What amount of Goodwill will be reported?
A) $54,400
B) $68,000
C) $72,000
D) $90,000
Answer: B
Explanation: B) Investment in Soopy ($392,000)/ownership percentage (80%) = implied fair value of Soopy ($490,000) - Soopy's underlying book value ($400,000) - the excess cost over book value allocated to inventory ($22,000) = $68,000 allocated to goodwill.
Objective: LO1

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Difficulty: Moderate

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6) What amount of total liabilities will be reported?
A) $206,000
B) $278,400
C) $319,600
D) $348,000
Answer: D
Objective: LO1
Difficulty: Moderate

7) What is the reported amount for the noncontrolling interest?
A) $80,000
B) $84,400
C) $98,000
D) $122,500
Answer: C

Explanation: C) Implied value of Soopy = $392,000/80%=$490,000 × 20% = $98,000
Objective: LO1
Difficulty: Moderate

8) What is the amount of consolidated Retained Earnings?
A) $224,000
B) $259,200
C) $304,000
D) $324,000
Answer: A
Explanation: A) The parent's Retained Earnings is the amount of consolidated Retained Earnings
Objective: LO1
Difficulty: Moderate

9) What is the amount of total assets?
A) $1,380,000
B) $1,402,000
C) $1,470,000
D) $1,875,000
Answer: C
Explanation: C)

Cash	$240,000
Accounts Receivable	170,000
Inventory $132,000+$38,000+$22,000=	192,000
Land	100,000
Plant assets-net	700,000
Goodwill	68,000
Total assets	$ 1,470,000

Objective: LO1
Difficulty: Moderate

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10) Bird Corporation has several subsidiaries that are included in its consolidated financial statements and several other investments in corporations that are not consolidated. In its year-end trial balance, the following intercompany balances appear. Ostrich Corporation is the unconsolidated company; the rest are consolidated.

Due from Pheasant Corporation	$25,000
Due from Turkey Corporation	5,000
Cash advance to Skylark Company	8,000
Cash advance to Starling	15,000
Current receivable from Ostrich	10,000

What amount should Bird report as intercompany receivables on its consolidated balance sheet?
A) $0
B) $10,000
C) $30,000
D) $63,000
Answer: B
Explanation: B) Intercompany receivables and payables from unconsolidated subsidiaries would not be eliminated.
Objective: LO2
Difficulty: Moderate

11) When performing a consolidation, if the balance sheet does not balance,
A) that indicates that the Investment in Subsidiary account on the parent's books should not be adjusted to -0-, because there is excess value represented in the investment.
B) it is usually because of the noncontrolling interest, as these amounts do not appear on the companies' general ledgers.
C) the debit and credit totals of the adjusting/eliminating columns of the consolidation working paper should be checked to confirm that they balance, and if so, then there is no need to check the individual line items.
D) the amount that it is "off" will always equal the noncontrolling interest in the current year net income of the subsidiary.
Answer: B
Objective: LO3
Difficulty: Moderate

12) At the beginning of 2011, Parling Food Services acquired a 90% interest in Simmons' Orchards when Simmons' book values of identifiable net assets equaled their fair values. On December 26, 2011, Simmons declared dividends of $50,000, and the dividends were unpaid at year-end. Parling had not recorded the dividend receivable at December 31. A consolidated working paper entry is necessary to
A) enter $50,000 dividends receivable in the consolidated balance sheet.
B) enter $45,000 dividends receivable in the consolidated balance sheet.
C) reduce the dividends payable account by $45,000 in the consolidated balance sheet.
D) eliminate the dividend payable account from the consolidated balance sheet.
Answer: C
Objective: LO3
Difficulty: Moderate

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13) A parent company uses the equity method to account for its wholly-owned subsidiary, but has applied it incorrectly. In each of the past four full years, the company adjusted the Investment account when it received dividends from the subsidiary but did not adjust the account for any of the subsidiary's profits. The subsidiary had four years of profits and paid yearly dividends in amounts that were less than reported net incomes. Which one of the following statements is correct if the parent company discovered its mistake at the end of the fourth year, and is now preparing consolidation working papers?
A) The parent company's Retained Earnings will be increased by the cumulative total of four years of subsidiary profits.
B) The parent company's Retained Earnings will be increased by the cumulative total of the first three years of subsidiary profit, and the Subsidiary Income account will be increased by the profit for the current year.
C) The parent company's Subsidiary Income account will be increased by the cumulative total of four years of subsidiary profits.
D) A prior period adjustment must be recorded for the cumulative effect of four years of accounting errors.
Answer: B
Objective: LO3
Difficulty: Moderate

14) Pigeon Corporation acquired an 80% interest in Statue Company on January 1, 2011, for $90,000 cash when Statue had Capital Stock of $60,000 and Retained Earnings of $40,000. The fair value/book value differential was attributable to equipment with a 10-year (straight-line) life. Statue suffered a $10,000 net loss in 2011 and paid no dividends. At year-end 2011, Statue owed Pigeon $18,000 on account. Pigeon's separate income for 2011 was $150,000. Controlling interest share of consolidated net income for 2011 was
A) $140,000.
B) $141,000.
C) $142,000.
D) $150,000.
Answer: B
Explanation: B)

Pigeon's separate income	$150,000
Less:80% of Statue's $10,000 loss	(8,000)
Less: Equipment depreciation	
($12,500 × 80%)/ 10 years =	(1,000)
Controlling Interest Share of Consolidated net income	$141,000

Objective: LO4
Difficulty: Moderate

15) On consolidated working papers, a subsidiary's net income is
A) deducted from beginning consolidated retained earnings.
B) deducted from ending consolidated retained earnings.
C) allocated between the noncontrolling interest share and the parent's share.
D) only an entry in the parent company's general ledger.
Answer: C
Objective: LO2
Difficulty: Easy

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16) Which one of the following will increase consolidated retained earnings?
A) An increase in the value of goodwill associated with a subsidiary subsequent to the parent's date of acquisition
B) The amortization of a $10,000 excess in the fair value of a note payable over its recorded book value
C) The depreciation of a $10,000 excess in the fair value of equipment over its recorded book value
D) The sale of inventory by a subsidiary that had a $10,000 excess in fair value over recorded book value on the parent's date of acquisition
Answer: B
Objective: LO4
Difficulty: Easy

17) Which of the following statements is not true with respect to the statement of cash flows for a consolidated entity?
A) The statement may be prepared using either the direct or the indirect method.
B) Noncontrolling interest share will be added back to cash flows from operating activities under the indirect method.
C) Payment of dividends from the subsidiary to the parent will appear on the statement of cash flows as a financing activity.
D) If the subsidiary does not use the same method (direct or indirect) as the parent, they must convert their separate statement of cash flows first to the same method that the parent uses, and then the two statements are consolidated.
Answer: D
Objective: LO5
Difficulty: Easy

18) In contrast with single entity organizations, consolidated financial statements include which of the following in the calculation of cash flows from operating activities under the indirect method?
A) Cash paid to employees
B) Noncontrolling interest dividends paid
C) Noncontrolling interest share
D) Proceeds from the sale of land
Answer: C
Objective: LO5
Difficulty: Easy

19) When preparing consolidated financial statements, which of the following is a subtraction in the calculation of cash flows from operating activities under the indirect method?
A) The change in the balance sheet of the common stock account
B) Noncontrolling interest dividends paid
C) Noncontrolling interest share
D) Undistributed income of equity investees
Answer: D
Objective: LO5
Difficulty: Easy

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20) When preparing the consolidation workpaper for a company and its controlled subsidiary, which of the following would be used for the entities being consolidated?

A) Post-closing trial balances
B) Adjusted trial balances
C) Unadjusted trial balances
D) The adjusted trial balance for the parent and the unadjusted trial balance for all controlled subsidiaries
Answer: B
Objective: LO1
Difficulty: Easy

Exercises

1) Parrot Corporation acquired 90% of Swallow Co. on January 1, 2011 for $27,000 cash when Swallow's stockholders' equity consisted of $10,000 of Capital Stock and $5,000 of Retained Earnings. The difference between the fair value and book value of Swallow's net assets was allocated solely to a patent amortized over 5 years. The separate company statements for Parrot and Swallow appear in the first two columns of the partially completed consolidation working papers.

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Required:
Complete the consolidation working papers for Parrot and Swallow for the year 2011.

		Parrot	Swallow		Eliminations Debit		Eliminations Credit	Consolidated
INCOME STATEMENT Sales	$	20,000	$15,000					
Income of Swallow		2,970						
Cost of Sales		(9,200)	(4,700)					
Other Expenses		(2,300)	(4,000)					
Noncontrolling Interest Share								
Net income		11,470	6,300					
Retained Earnings 1/1		11,000	5,000					
Add: Net income		11,470	6,300					
Less: Dividends		(3,000)	(2,000)					
Retained Earnings 12/31	$	19,470	$ 9,300					
BALANCE SHEET Cash		2,000	1,900					
Accounts Receivable-net		12,000	5,500					
Inventories		14,000	8,000					
Patent								
Land		27,000	42,000					
Equipment and Buildings-net		60,000	43,000					
Investment in Swallow Co.		28,170						
TOTAL ASSETS	$	143,170	$100,400					
LIAB. & EQUITY Accounts payable		93,700	81,100					
Capital Stock		30,000	10,000					
Retained Earnings		19,470	9,300					
1/1 Noncontrol. Interest								
12/31 Noncontrol. Interest								
TOTAL LIAB. & EQUITY	$	143,170	$100,400					

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Answer:

		Parrot	Swallow		Eliminations Debit		Eliminations Credit	Consolidated
INCOME STATEMENT Sales	$	20,000	$ 15,000					$ 35,000
Income of Swallow		2,970		a	$ 2,970			
Cost of Sales		(9,200)	(4,700)					(13,900)
Other Expenses		(2,300)	(4,000)	c	3,000			(9,300)
Noncontrolling Interest Share				d	330			(330)
Net income		11,470	6,300					$ 11,470
Retained Earnings 1/1		11,000	5,000	b	5,000			11,000
Add: Net income		11,470	6,300					11,470
Less: Dividends		(3,000)	(2,000)			d a	$ 200 1,800	(3,000)
Retained Earnings 12/31	$	19,470	$ 9,300					$ 19,470
BALANCE SHEET Cash		2,000	1,900					$ 3,900
Accounts Receivable-net		12,000	5,500					17,500
Inventories		14,000	8,000					22,000
Patent				b	15,000	c	3,000	12,000
Land		27,000	42,000					69,000
Equipment and Buildings-net		60,000	43,000					103,000
Investment in Swallow Co.		28,170				a b	1,170 27,000	
TOTAL ASSETS	$	143,170	$100,400					$227,400
LIB. & EQUITY Accounts payable		93,700	81,100					$174,800
Capital Stock		30,000	10,000	b	10,000			30,000
Retained Earnings		19,470	9,300					19,470
1/1 Noncontrol. Interest						b	3,000	
12/31 Noncontrol. Interest						d	130	3,130
TOTAL LIAB. & EQUITY	$	143,170	$100,400		$ 36,300		$ 36,300	$227,400

Objective: LO2
Difficulty: Moderate

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2) On December 31, 2011, Paladium International purchased 70% of the outstanding common stock of Sennex Chemical. Paladium paid $140,000 for the shares and determined that the fair value of all recorded Sennex assets and liabilities approximated their book values, with the exception of a customer list that was not recorded and had a fair value of $10,000, and an expected remaining useful life of 5 years. At the time of purchase, Sennex had stockholders' equity consisting of capital stock amounting to $20,000 and retained earnings amounting to $80,000. Any remaining excess fair value was attributed to goodwill. The separate financial statements at December 31, 2012 appear in the first two columns of the consolidation workpapers shown below.

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Required:
Complete the consolidation working papers for Paladium and Sennex for the year 2012.
Paladium

				Eliminations			Consol-
		Paladium	Sennex		Debit		Credit	idated
INCOME STATEMENT Sales	$	331,900	$48,000					
Income of Sennex		9,100						
Cost of Sales		(148,000)	(25,000)					
Other Expenses		(72,000)	(8,000)					
Noncontrolling Interest Share								
Net income	$	121,000	$ 15,000					
Retained Earnings 1/1	$	846,000	$80,000					
Add: Net income		121,000	15,000					
Less: Dividends		(9,000)	(4,000)					
Retained Earnings 12/31	$	958,000	$91,000					
BALANCE SHEET Cash	$	135,000	$64,000					
Accounts Receivable-net		227,000	160,000					
Inventories		316,000	86,000					
Land		80,000	40,000					
Equipment and Buildings-net		469,000	230,000					
Investment in Sennex		146,300						
Customer List								
Goodwill								
TOTAL ASSETS	$	1,373,300	$580,000					
LIAB. & EQUITY Accounts payable	$	305,300	$469,000					
Capital Stock		110,000	20,000					
Retained Earnings		958,000	91,000					
1/1 Noncontrol. Interest								
12/31 Noncontrol. Int.								
TOTAL LIAB. & EQUITY	$	1,373,300	$580,000					

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Answer:

	Paladium	Sennex	Eliminations Debit		Eliminations Credit		Consol-idated
INCOME STATEMENT Sales	$ 331,900	$48,000					$ 379,900
Income of Sennex	9,100		a	$9,100			
Cost of Sales	(148,000)	(25,000)					(173,000)
Other Expenses	(72,000)	(8,000)	c	2,000			(82,000)
Noncontrolling Interest Share			d	3,900			(3,900)
Net income	$ 121,000	$15,000					121,000
Retained Earnings 1/1	846,000	80,000	b	80,000			846,000
Add: Net income	121,000	15,000					121,000
Less: Dividends	(9,000)	(4,000)			d a	1,200 2,800	(9,000)
Retained Earnings 12/31	$ 958,000	91,000					958,000
BALANCE SHEET Cash	135,000	64,000					199,000
Accounts Receivable-net	227,000	160,000					387,000
Inventories	316,000	86,000					402,000
Land	80,000	40,000					120,000
Equipment and Buildings-net	469,000	230,000					699,000
Investment in Sennex	146,300				a b	6,300 140,000	
Customer List			b	10,000	c	2,000	8,000
Goodwill			b	90,000			90,000
TOTAL ASSETS	$1,373,300	580,000					1,905,000
LIAB. & EQUITY Accounts payable	305,300	469,000					774,300
Capital Stock	110,000	20,000	b	20,000			110,000
Retained Earnings	958,000	91,000					958,000
1/1 Noncontrol. Interest					b	60,000	
12/31 Noncontrol. Int.					d	2,700	62,700
TOTAL LIAB. & EQUITY	$1,373,300	580,000		215,000		215,000	1,905,000

Objective: LO2
Difficulty: Moderate

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3) Packo Company acquired all the voting stock of Sennett Corporation on January 1, 2010 for $90,000 when Sennett had Capital Stock of $50,000 and Retained Earnings of $8,000. The excess of fair value over book value was allocated as follows: (1) $5,000 to inventories(sold in 2010), (2) $16,000 to equipment with a 4-year remaining useful life(straight-line method of depreciation) and (3) the remainder to goodwill.

Financial statements for Packo and Sennett at the end of the fiscal year ended December 31, 2011 (two years after acquisition), appear in the first two columns of the partially completed consolidation working papers. Packo has accounted for its investment in Sennett using the equity method of accounting.

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Required:
Complete the consolidation working papers for Packo Company and Subsidiary for the year ending December 31, 2011.

		Packo	Sennett		Eliminations Debit		Eliminations Credit	Consolidated
INCOME STATEMENT Sales	$	206,000	$ 60,000					
Income from Sennett		8,000						
Cost of Sales		(150,000)	(30,000)					
Other expenses		(38,000)	(18,000)					
Net income		26,000	12,000					
Packo Retained Earnings 1/1		24,000						
Sennett Retained Earnings 1/1			10,000					
Add: Net income	$	26,000	$ 12,000					
Less: Dividends		(20,000)	(4,000)					
Retained Earnings 12/31	$	30,000	$ 18,000					
BALANCE SHEET								
Other current Assets		10,000	7,000					
Inventories		21,000	15,000					
Land		11,000	6,000					
Equipment and Buildings-net		64,000	55,000					
Investment in Sennett Corp.		87,000						
Goodwill								
TOTAL ASSETS	$	193,000	$ 83,000					
LIAB. & EQUITY Liabilities		63,000	15,000					
Capital Stock		100,000	50,000					
Retained Earnings		30,000	18,000					
TOTAL LIAB. & EQUITY		193,000	83,000					

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Answer:

		Packo	Sennett	Eliminations				Consol-idated
					Debit		Credit	
INCOME STATEMENT Sales	$	206,000	$ 60,000					266,000
Income from Sennett		8,000		a	8,000			
Cost of Sales		(150,000)	(30,000)					(180,000)
Other expenses		(38,000)	(18,000)	c	4,000			(60,000)
Net income		26,000	12,000					26,000
Packo Retained Earnings 1/1		24,000						24,000
Sennett Retained Earnings 1/1			10,000	b	10,000			
Add: Net income	$	26,000	$ 12,000					26,000
Less: Dividends		(20,000)	(4,000)			a	4,000	(20,000)
Retained Earnings 12/31	$	30,000	$ 18,000					30,000
BALANCE SHEET								
Other current Assets		10,000	7,000					17,000
Inventories		21,000	15,000					36,000
Land		11,000	6,000					17,000
Equipment and Buildings-net		64,000	55,000	b	12,000	c	4,000	127,000
Investment in Sennett Corp.		87,000				a b	4,000 83,000	
Goodwill				b	11,000			11,000
TOTAL ASSETS	$	193,000	$ 83,000					208,000
LIAB. & EQUITY Liabilities		63,000	15,000					78,000
Capital Stock		100,000	50,000	b	50,000			100,000
Retained Earnings		30,000	18,000					30,000
TOTAL LIAB. & EQUITY		193,000	83,000		95,000		95,000	208,000

Objective: LO2, 4
Difficulty: Moderate

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4) Powell Corporation acquired 90% of the voting stock of Santer Corporation on January 1, 2010 for $11,700 when Santer had Capital Stock of $5,000 and Retained Earnings of $4,000. The amounts reported on the financial statements approximated fair value, with the exception of inventories, which were understated on the books by $500 and were sold in 2010, land which was undervalued by $1,000, and equipment with a remaining useful life of 5 years under the straight-line method which was undervalued by $1,500. Any remainder was assigned to goodwill.

Financial statements for Powell and Santer Corporations at the end of the fiscal year ended December 31, 2011 appear in the first two columns of the partially completed consolidation working papers. Powell has accounted for its investment in Santer using the equity method of accounting. Powell Corporation owed Santer Corporation $100 on open account at the end of the year. Dividends receivable in the amount of $450 payable from Santer to Powell is included in Powell's net receivables.

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Required:
Complete the consolidation working papers for Powell Corporation and Subsidiary for the year ended December 31, 2011.

		Powell	Santer	Eliminations				Consol- idated
					Debit		Credit	
INCOME STATEMENT Sales	$	10,000	$ 6,500					
Income from Santer		1,080						
Cost of Sales		(4,000)	(3,300)					
Depreciation Expense		(1,000)	(1,000)					
Other expenses		(1,800)	(700)					
Noncontrolling Interest Share								
Net income		4,280	1,500					
Retained Earnings 1/1		2,510	5,000					
Add: Net income		4,280	1,500					
Less: Dividends		(2,000)	(1,000)					
Retained Earnings 12/31	$	4,790	$ 5,500					
BALANCE SHEET Cash		1,440	1,900					
Receivables-net		1,100	600					
Inventories		1,500	1,200					
Land		1,000	1,600					
Equipment and Buildings-net		7,500	6,700					
Investment in Santer Corp		12,060						
Goodwill								
TOTAL ASSETS	$	24,600	12,000					
LIAB. & EQUITY Accounts payable		3,810	1,000					
Dividends Payable		2,000	500					
Capital Stock		14,000	5,000					
Ret. Earnings		4,790	5,500					
Nonctl. Interest 1/1								
Nonctl. Interest 12/31								
LIAB. & EQUITY	$	24,600	$12,000					

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Answer:

		Powell	Santer	Eliminations				Consol-idated
					Debit		Credit	
INCOME STATEMENT Sales	$	10,000	$ 6,500					16,500
Income from Santer		1,080		a	1,080			
Cost of Sales		(4,000)	(3,300)					(7,300)
Depreciation Expense		(1,000)	(1,000)	c	300			(2,300)
Other expenses		(1,800)	(700)					(2,500)
Noncontrolling Interest Share				e	120			(120)
Net income		4,280	1,500					4,280
Retained Earnings 1/1		2,510	5,000	b	5,000			2,510
Add: Net income		4,280	1,500					4,280
Less: Dividends		(2,000)	(1,000)			e a	100 900	(2,000)
Retained Earnings 12/31	$	4,790	$ 5,500					4,790
BALANCE SHEET Cash		1,440	1,900					3,340
Receivables-net		1,100	600			d	550	1,150
Inventories		1,500	1,200					2,700
Land		1,000	1,600	b	1,000			3,600
Equipment and Buildings-net		7,500	6,700	b	1,200	c	300	15,100
Investment in Santer Corp		12,060				a b	180 11,880	
Goodwill				b	1,000			1,000
TOTAL ASSETS	$	24,600	12,000					26,890
LIAB. & EQUITY Accounts payable		3,810	1,000	d	100			4,710
Dividends Payable		2,000	500	d	450			2,050
Capital Stock		14,000	5,000	b	5,000			14,000
Ret. Earnings		4,790	5,500					4,790
Nonctl. Interest 1/1						b	1,320	
Nonctl. Interest 12/31						e	20	1,340
LIAB. & EQUITY	$	24,600	$12,000		15,250		15,250	$26,890

Objective: LO2, 4
Difficulty: Moderate

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5) Puddle Corporation acquired all the voting stock of Soggi Company for $500,000 on January 1, 2011 when Soggi had Capital Stock of $300,000 and Retained Earnings of $150,000. The book value of Soggi's assets and liabilities were equal to the fair value except for the plant assets. The entire cost-book value differential is allocated to plant assets and is fully depreciated on a straight-line basis over a 10-year period.

During 2011, Puddle borrowed $25,000 on a short-term non-interest-bearing note from Soggi, and on December 31, 2011, Puddle mailed a check to Soggi to settle the note. Soggi deposited the check on January 5, 2012, but receipt of payment of the note was not reflected in Soggi's December 31, 2011 balance sheet.

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Required:
Complete the consolidation working papers for the year ended December 31, 2011.

		Puddle	Soggi	Eliminations Debit		Eliminations Credit	Balance Sheet
INCOME STATEMENT Sales	$	500,000	$400,000				
Income from Soggi		135,000					
Cost of Sales		(350,000)	(200,000)				
Other expenses		(100,000)	(60,000)				
Net income		185,000	140,000				
Puddle Retained Earnings 1/1	$	300,000					
Soggi Retained Earnings			150,000				
Add: Net income		185,000	$140,000				
Less: Dividends			(70,000)				
Retained Earnings 12/31	$	485,000	$220,000				
BALANCE SHEET							
Note Receivable from Puddle			25,000				
Other current Assets		210,000	300,000				
Plant assets-Net		200,000	425,000				
Investment in Soggi Company		565,000					
TOTAL ASSETS	$	975,000	$750,000				
EQUITIES Liabilities		290,000	230,000				
Capital Stock		200,000	300,000				
Retained Earnings		485,000	220,000				
TOTAL EQUITIES	$	975,000	$750,000				

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Answer:

		Puddle	Soggi	Eliminations				Balance Sheet
					Debit		Credit	
INCOME STATEMENT Sales	$	500,000	$400,000					$900,000
Income from Soggi		135,000		b	$135,000			
Cost of Sales		(350,000)	(200,000)					(550,000)
Other expenses		(100,000)	(60,000)	d	5,000			(165,000)
Net income		185,000	140,000					185,000
Puddle Retained Earnings 1/1		300,000						300,000
Soggi Retained Earnings			150,000	c	150,000			
Add: Net income	$	185,000	$140,000					185,000
Less: Dividends			(70,000)			b	$70,000	
Retained Earnings 12/31	$	485,000	$220,000					$485,000
BALANCE SHEET								
Note Receivable from Puddle			25,000			a	25,000	
Other current Assets		210,000	300,000	a	25,000			$535,000
Plant assets-Net		200,000	425,000	c	50,000	d	5,000	670,000
Investment in Soggi Company		565,000				b c	65,000 500,000	
TOTAL ASSETS	$	975,000	$750,000					$1,205,000
LIAB & EQUITY Liabilities		290,000	230,000					520,000
Capital Stock		200,000	300,000	c	300,000			200,000
Retained Earnings		485,000	220,000					485,000
TOTAL LIAB & EQUITY	$	975,000	$750,000		665,000		665,000	$1,205,000

Objective: LO2, 4
Difficulty: Moderate

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6) Pecan Incorporated acquired 80% of the voting stock of Shew Manufacturing for $800,000 on January 2, 2011 when Shew had outstanding common stock of $600,000 and Retained Earnings of $300,000. The book value and fair value of Shew's assets and liabilities were equal except for equipment. The entire fair value/book value differential is allocated to equipment and is fully depreciated on a straight-line basis over a 5-year period.

During 2011, Shew borrowed $80,000 on a short-term non-interest-bearing note from Pecan, and on December 31, 2011, Shew mailed a check for $20,000 to Pecan in partial payment of the note. Pecan deposited the check on January 4, 2012, and recorded the entry to reduce the note balance at that time.

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Required:
Complete the consolidation working papers for the year ended December 31, 2011.

		Pecan	Shew	Eliminations				Consol-idated
					Debit		Credit	
INCOME STATEMENT Sales	$	1,300,000	$850,000					
Income from Shew		256,000						
Cost of Sales		(812,000)	(400,000)					
Other expenses		(200,000)	(110,000)					
Noncontrolling Interest Share								
Net income		544,000	340,000					
Pecan Retained Earnings 1/1	$	600,000						
Shew Retained Earnings			$300,000					
Add: Net income		544,000	340,000					
Less: Dividends		(180,000)	(100,000)					
Retained Earnings 12/31	$	964,000	$540,000					
BALANCE SHEET								
Note Receivable from Shew		$80,000						
Other current Assets		430,000	610,000					
Equipment-Net		790,000	800,000					
Investment in Shew Company		976,000						
TOTAL ASSETS	$	2,276,000	$1,410,000					
EQUITIES N/P to Pecan			60,000					
Other Liabilities		512,000	210,000					
Common Stock		800,000	600,000					
Retained Earnings		964,000	540,000					
Noncntl. Int. 1/1								
Noncntl. Int. 12/31								
TOTAL EQUITIES	$	2,276,000	$1,410,000					

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Answer:

		Pecan	Shew		Eliminations Debit		Credit	Consol-idated
INCOME STATEMENT Sales	$	1,300,000	$850,000					$2,150,000
Income from Shew		256,000		b	256,000			
Cost of Sales		(812,000)	(400,000)					(1,212,000)
Other expenses		(200,000)	(110,000)	e	20,000			(330,000)
Noncontrolling Interest Share				f	64,000			(64,000)
Net income		544,000	340,000					544,000
Pecan Retained Earnings 1/1	$	600,000						600,000
Shew Retained Earnings			$300,000	c	300,000			
Add: Net income		544,000	340,000					544,000
Less: Dividends		(180,000)	(100,000)			f b	20,000 80,000	(180,000)
Retained Earnings 12/31	$	964,000	$540,000					964,000
BALANCE SHEET								
Note Receivable from Shew		$80,000				a	80,000	
Other current Assets		430,000	610,000	a	20,000			1,060,000
Equipment-Net		790,000	800,000	c	100,000	e	20,000	1,670,000
Investment in Shew Company		976,000				b c	176,000 800,000	
TOTAL ASSETS	$	2,276,000	$1,410,000					2,730,000
EQUITIES N/P to Pecan			60,000	a	60,000			
Other Liabilities		512,000	210,000					722,000
Common Stock		800,000	600,000	c	600,000			800,000
Retained Earnings		964,000	540,000					964,000
Noncntl. Int. 1/1						c	200,000	
Noncntl. Int. 12/31						f	44,000	244,000
TOTAL EQUITIES	$	2,276,000	$1,410,000		1,420,000		1,420,000	2,730,000

Objective: LO4
Difficulty: Moderate

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7) Pawl Corporation acquired 90% of Snab Corporation on January 1, 2011 for $72,000 cash when Snab's stockholders' equity consisted of $30,000 of Capital Stock and $30,000 of Retained Earnings. The difference between the fair value of Pawl's assets and liabilities and the book value was allocated to a plant asset with a remaining 10-year straight-line life that was overvalued on the books by $5,000. The remainder was attributable to goodwill. The separate company statements for Pawl and Snab appear in the first two columns of the partially completed consolidation working papers.

Required:
Complete the consolidation working papers for Pawl and Snab for the year 2011.

		Pawl	Snab	Eliminations				Consol-idated
					Debit		Credit	
INCOME STATEMENT Sales	$	60,000	$22,000					
Income of Snab		3,510						
Cost of Sales		(13,000)	(9,500)					
Depreciation Expense		(2,000)	(3,000)					
Other Expenses		(23,000)	(6,100)					
Noncontrolling Interest Share								
Net income		25,510	3,400					
Retained Earnings 1/1		25,000	30,000					
Add: Net income		25,510	3,400					
Less: Dividends		(15,000)	(3,000)					
Retained Earnings 12/31	$	35,510	$30,400					
BALANCE SHEET Cash		26,520	7,000					

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Accounts Receivable-net		22,000	10,000					
Inventories		20,000	14,000					
Land		27,000	42,000					
Equipment and Buildings-net		70,000	38,000					
Investment in Snab Corporation		72,810						
Goodwill								
TOTAL ASSETS	$	238,330	$111,000					
LIAB. & EQUITY Accounts payable		32,820	50,600					
Capital Stock		170,000	30,000					
Retained Earnings		35,510	30,400					
Noncontrolling Interest								
TOTAL LIAB. & EQUITY	$	238,330	$111,000					

Answer:

Preliminary Calculations:

Investment cost on January 1, 2011	$ 72,000
Implied fair value of net assets ($72,000/0.90)	80,000
Book value of net assets on January 1, 2011	(60,000)
Excess implied fair value over book value acquired =	$ 20,000

Excess allocated to:	
Overvalued equipment	$ (5,000)
Remainder to goodwill	25,000
Excess implied fair value over book value	$ 20,000

Income from Snab Corporation:	
Equity in Snab's net income (90%) × (3,400)=	$ 3,060
Depreciation "savings" on equipment $4,500/10 yrs =	450
Income from Snab	$ 3,510

Investment in Snab account:	
Initial investment cost	$ 72,000
Plus: Income from Snab	3,510
Less: Dividends (3,000) × (90%)=	(2,700)
Investment in Snab at December 31	$ 72,810

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		Pawl	Snab	Eliminations				Consoli-dated
					Debit		Credit	
INCOME STATEMENT Sales	$	60,000	$ 22,000					$ 82,000
Income from Snab		3,510		a	$ 3,510			
Cost of Sales		(13,000)	(9,500)					(22,500)
Depreciation Expense		(2,000)	(3,000)			c	$ 500	(4,500)
Other Expenses		(23,000)	(6,100)					(29,100)
Noncontrolling Interest Share				d	390			(390)
Net income		25,510	3,400					25,510
Retained Earnings 1/1		25,000	30,000	b	30,000			25,000
Add: Net income		25,510	3,400					25,510
Less: Dividends		(15,000)	(3,000)			d a	300 2,700	(15,000)
Retained Earnings 12/31	$	35,510	$30,400					$ 35,510
BALANCE SHEET Cash		26,520	7,000					33,520
Accounts Receivable-net		22,000	10,000					32,000
Inventories		20,000	14,000					34,000
Goodwill				b	25,000			25,000
Land		27,000	42,000					69,000
Equipment and Buildings-net		70,000	38,000	c	500	b	5,000	103,500
Investment in Snab Corporation		72,810				b a	72,000 810	
TOTAL ASSETS	$	238,330	$111,000					297,020
EQUITIES Accounts payable		32,820	50,600					83,420
Capital Stock		170,000	30,000	b	30,000			170,000
Retained Earnings		35,510	30,400					35,510
1/1 Noncontrolling Interest						b	8,000	
12/31 Noncontrolling Interest						d	90	8,090
TOTAL EQUITIES	$	238,330	$111,000		$89,400		$89,400	$297,020

Objective: LO4
Difficulty: Moderate

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8) Parakeet Company has the following information collected in order to prepare a cash flow statement and uses the direct method for Cash Flow from Operations. The annual report year end is December 31, 2011.

Noncontrolling Interest Dividends Paid	$20,000
Dividends Received from Equity Investees	17,000
Cash Paid to Employees	37,000
Cash Paid for Other Operating Activities	34,000
Cash Paid for Interest Expense	22,300
Cash Proceeds from the Sale of Equipment	70,000
Cash Paid to Suppliers	192,700
Cash Received from Customers	412,600

Required:
1. Prepare the Cash Flow for Operations part of the cash flow statement for Parakeet for the year ended December 31, 2011.
Answer:

Parakeet Company and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2011

Cash Flows From Operating Activities:		
Cash Received from Customers		$412,600
Add:Dividends Received from Equity Investees		17,000
Less: Cash Paid to Suppliers	($192,700)	
Less: Cash Paid to Employees	(37,000)	
Less:Cash Paid for Other Operating Activities	(34,000)	
Less: Cash Paid for Interest Expense	(22,300)	(286,000)
Net cash flows from operating activities		$143,600

Objective: LO5
Difficulty: Moderate

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9) Flagship Company has the following information collected in order to prepare a cash flow statement and uses the indirect method for Cash Flow from Operations. The annual report year end is December 31, 2011.

Noncontrolling Interest Dividends Paid	$17,000
Undistributed Income of Equity Investees	7,000
Depreciation Expense	80,000
Controlling Interest Share of Consolidated Net Income	325,000
Increase in Accounts Payable	26,000
Amortization of Patent	10,000
Decrease in Accounts Receivable	57,000
Increase in Inventories	72,000
Gain on sale of equipment	45,000
Noncontrolling Interest Share	27,000

Required:

1. Prepare the Cash Flow for Operations part of the cash flow statement for Flagship for the year ended December 31, 2011.

Answer:

Flagship Company and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2011

Cash Flows From Operating Activities:		
Controlling Interest Share of Consolidated Net Income		$325,000
Adjustments to reconcile controlling interest share of consolidated net income to net cash flow from operating activities:		
Noncontrolling Interest Share	$27,000	
Undistributed Income of Equity Investees	(7,000)	
Depreciation Expense	80,000	
Increase in Accounts Payable	26,000	
Amortization of Patent	10,000	
Decrease in Accounts Receivable	57,000	
Increase in Inventories	(72,000)	
Gain on sale of equipment	(45,000)	76,000
Net cash flow from operating activities		$401,000

Objective: LO5
Difficulty: Moderate

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10) Platt Corporation paid $87,500 for a 70% interest in Suve Corporation on January 1, 2011, when Suve's Capital Stock was $70,000 and its Retained Earnings $30,000. The fair values of Suve's identifiable assets and liabilities were the same as the recorded book values on the acquisition date. Trial balances at the end of the year on December 31, 2011 are given below:

	Platt	Suve
Cash	$4,500	$20,000
Accounts Receivable	26,000	30,000
Inventory	100,000	80,000
Investment in Suve	87,500	
Cost of Goods Sold	60,000	40,000
Operating Expenses	22,000	37,000
Dividends	15,000	10,000
	$315,000	$217,000
Liabilities	$47,000	$27,000
Capital stock, $10 par value	100,000	70,000
Additional Paid-in Capital	10,000	
Retained Earnings	31,000	30,000
Sales Revenue	120,000	90,000
Dividend Income	7,000	0
	$315,000	$217,000

During 2011, Platt made only two journal entries with respect to its investment in Suve. On January 1, 2011, it debited the Investment in Suve account for $87,500 and on November 1, 2011, it credited Dividend Income for $7,000.

Required:
1. Prepare a consolidated income statement and a statement of retained earnings for Platt and Subsidiary for the year ended December 31, 2011.

2. Prepare a consolidated balance sheet for Platt and Subsidiary as of December 31, 2011.
Answer:
Requirement 1

Platt and Subsidiary Corporation
Consolidated Income Statement
For the year ended December 31, 2011

Sales Revenue	$210,000
Cost of Goods Sold	100,000
Gross Profit	110,000
Operating Expenses	59,000
Consolidated Net Income	51,000
Less: Noncontrolling Interest Share	(3,900)
Controlling Interest Share of	

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Consolidated Net Income	$47,100

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Platt and Subsidiary Corporation
Consolidated Statement of Retained Earnings
For the Year Ended December 31, 2011

Retained Earnings, January 1, 2011	$31,000
Add: Controlling Interest Share of Consolidated Net Income	47,100
Less: Dividends	(15,000)
Retained Earnings, December 31, 2011	$63,100

Requirement 2

Platt and Subsidiary Corporation
Consolidated Balance Sheet
December 31, 2011

Assets	
Cash	$24,500
Accounts Receivable	56,000
Inventory	180,000
Goodwill	25,000
Total Assets	$285,500

Equities	
Liabilities	$74,000
Capital Stock	100,000
Additional Paid-in Capital	10,000
Retained Earnings	63,100
Noncontrolling interest	38,400
Total Liabilities and Equities	$285,500

Noncontrolling interest Calculation:

$37,500 Beginning equity in fair value of company [($87,500/70%)×30%] + $3,900 Net income - $3,000 Dividends = $38,400

Objective: LO4
Difficulty: Difficult

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11) Pommu Corporation paid $78,000 for a 60% interest in Schtick Inc. on January 1, 2011, when Schtick's Capital Stock was $80,000 and its Retained Earnings $20,000. The fair values of Schtick's identifiable assets and liabilities were the same as the recorded book values on the acquisition date. Trial balances at the end of the year on December 31, 2011 are given below:

	Pommu	Schtick
Cash	$4,500	$20,000
Accounts Receivable	24,000	30,000
Inventory	100,000	70,000
Investment in Schtick	78,000	
Cost of Goods Sold	71,500	50,000
Operating Expenses	22,000	37,000
Dividends	15,000	10,000
	$315,000	$217,000
Liabilities	$47,000	$27,000
Capital stock, $10 par value	100,000	80,000
Additional Paid-in Capital	11,000	
Retained Earnings	31,000	20,000
Sales Revenue	120,000	90,000
Dividend Income	6,000	
	$315,000	$217,000

During 2011, Pommu made only two journal entries with respect to its investment in Schtick. On January 1, 2011, it debited the Investment in Schtick account for $78,000 and on November 1, 2011, it credited Dividend Income for $6,000.

Required:

1. Prepare a consolidated income statement and a statement of retained earnings for Pommu and Subsidiary for the year ended December 31, 2011.

2. Prepare a consolidated balance sheet for Pommu and Subsidiary as of December 31, 2011.

Answer:

Requirement 1:

Pommu and Subsidiary Corporation
Consolidated Income Statement
For the year ended December 31, 2011

Sales Revenue	$210,000
Cost of Goods Sold	121,500
Gross Profit	88,500
Operating Expenses	59,000
Consolidated Net Income	29,500
Less: Noncontrolling Interest Share	(1,200)
Controlling Interest Share of	

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Consolidated Net Income	$28,300

Pommu and Subsidiary Corporation
Consolidated Retained Earnings Statement
For the Year Ended December 31, 2011

Retained Earnings, January 1, 2011	$31,000
Add: Controlling Interest Share of Consolidated Net Income	28,300
Less:Dividends	(15,000)
Retained Earnings, December 31, 2011	$44,300

Requirement 2:

Pommu and Subsidiary Corporation
Consolidated Balance Sheet
December 31, 2011

Assets	
Cash	$24,500
Accounts Receivable	54,000
Inventory	170,000
Goodwill	30,000
Total Assets	$278,500
Equities	
Liabilities	$74,000
Capital Stock	100,000
Additional Paid-in Capital	11,000
Retained Earnings	44,300
Noncontrolling Interest	49,200
Total Liabilities and Equities	$278,500

Noncontrolling Interest Calculation:

$52,000 Beginning equity in fair value of company [($78,000/60%)×40%] + $1,200 Net income - $4,000 Dividends = $49,200

Objective: LO4
Difficulty: Difficult

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12) Pennack Corporation purchased 75% of the outstanding stock of Shing Corporation on January 1, 2011 for $300,000 cash. At the time of the purchase, the book value and fair value of Shing's assets and liabilities were equal. Shing's balance sheet at the time of acquisition and December 31, 2011 are shown below.

	Jan 1, 2011	Dec 31, 2011
Cash	$75,000	80,000
Other current assets	175,000	160,000
Plant Assets — net	250,000	240,000
Total assets	500,000	480,000
Liabilities	100,000	50,000
Capital stock	100,000	100,000
Retained earnings	300,000	330,000
Total liabilities and equity	500,000	480,000

Shing earned $60,000 in income during the year, and paid out $30,000 in dividends. Pennack uses the equity method to account for its investment in Shing.

Requirement 1: Calculate Pennack's net income from Shing in 2011.

Requirement 2: Calculate the noncontrolling interest share in Shing's income for 2011.

Requirement 3: Calculate the balance in the Investment in Shing account reported on Pennack's separate general ledger at December 31, 2011.

Requirement 4: Calculate the noncontrolling interest that will be reported on the consolidated balance sheet at December 31, 2011.

Answer:

Requirement 1: Shing's net income of $60,000 × 75% = 45,000

Requirement 2: Shing's net income of $60,000 × 25% = 15,000

Requirement 3: Initial investment of $300,000 + Pennack's share of Shing's income $45,000 - dividends received from Shing $22,500 = $322,500

Requirement 4: Beginning noncontrolling interest $100,000 + noncontrolling interest in income $15,000 - noncontrolling dividends $7,500 = 107,500

Objective: LO2

Difficulty: Moderate

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13) On January 1, 2011, Paisley Incorporated paid $300,000 for 60% of Smarnia Company's outstanding capital stock. Smarnia reported common stock on that date of $250,000 and retained earnings of $100,000.

Plant assets, which had a five-year remaining life, were undervalued in Smarnia's financial records by $10,000. Smarnia also had a patent that was not on the books, but had a market value of $60,000. The patent has a remaining useful life of 10 years. Any remaining fair value/book value differential is allocated to goodwill. Smarnia's net income and dividends paid the first three years that Paisley owned them are shown below.

	Net Income	Dividends Paid
2011	80,000	30,000
2012	90,000	10,000
2013	60,000	20,000

Requirement 1: Calculate the noncontrolling interest share in Smarnia's income for each of the three years.

Requirement 2: Calculate the noncontrolling interest that should be reported on the consolidated balance sheet at the end of each of the three years.

Requirement 3: Assuming that Paisley uses the equity method to record their investment in Smarnia, calculate the ending balance in the Investment in Smarnia account for each of the three years.

Answer:

Preliminary calculations:

Fair value of Smarnia ($300,000 paid / 60%)	$500,000
Book Value of Smarnia	350,000
Excess of fair value over book value	150,000

Excess of fair value over book value allocation:	
Plant assets	10,000
Patent	60,000
Goodwill	80,000
Excess of fair value over book value allocated	150,000

Requirement 1:

	2011	2012	2013
Smarnia net income	80,000	90,000	60,000
Plant asset excess depr	(2,000)	(2,000)	(2,000)
Patent excess amort	(6,000)	(6,000)	(6,000)
Smarnia net income	72,000	82,000	52,000
× 40% = Noncontrol int	28,800	32,800	20,800

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Requirement 2:

Beginning noncontrolling interest

Fair value ($500,000 × 40%)	$200,000
Plus: 2011 Net income (from above)	28,800
Less: 2011 Dividends ($30,000 × 40%)	(12,000)
Noncontrolling interest at 12/31/11	$216,800
Plus: 2012 Net income (from above)	32,800
Less: 2012 Dividends ($10,000 × 40%)	(4,000)
Noncontrolling interest at 12/31/12	$245,600
Plus: 2013 Net income (from above)	20,800
Less: 2013 Dividends ($20,000 × 40%)	(8,000)
Noncontrolling interest at 12/31/13	$258,400

Requirement 3:

Beginning investment	$300,000
Plus: 2011 Net income ($72,000 × 60%)	43,200
Less: 2011 Dividends ($30,000 × 60%)	(18,000)
Noncontrolling interest at 12/31/11	$325,200
Plus: 2012 Net income ($82,000 × 60%)	49,200
Less: 2012 Dividends ($10,000 × 60%)	(6,000)
Noncontrolling interest at 12/31/12	$368,400
Plus: 2013 Net income ($52,000 × 60%)	31,200
Less: 2013 Dividends ($20,000 × 60%)	(12,000)
Noncontrolling interest at 12/31/13	$387,600

Objective: LO1, 2
Difficulty: Moderate

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14) On January 2, 2011, PBL Enterprises purchased 90% of Santos Incorporated outstanding common stock for $1,687,500 cash. Santos' net assets had a book value of $1,300,000 at the time. A building with a 15-year remaining life and a book value of $100,000 had a fair value of $175,000. Any other excess amount was attributed to goodwill. PBL reported net income for the first year of $350,000 (without regard for its ownership in Santos), while Santos had $175,000 in earnings.

Required:
1. Calculate the amount of goodwill related to this acquisition as reported on the consolidated balance sheet at January 2, 2011.
2. Calculate the amount of consolidated net income for the year ended December 31, 2011.
3. What is the amount that will be assigned to the building on the consolidated balance sheet at the date of acquisition?

Answer:

1. Consolidated Goodwill

Fair value of Santos ($1,687,500 paid / 90%)	$1,875,000
Book Value of Santos	1,300,000
Excess of fair value over book value	575,000

Excess of fair value over book value allocation:	
Building	75,000
Goodwill	500,000
Excess of fair value over book value allocated	575,000

2. Consolidated net income

PBL separate net income	$350,000
Santos separate net income	175,000
Amortization of excess fair value ($75,000 / 15)	(5,000)
Consolidated net income	$520,000

3. The building will be recorded on the consolidated balance sheet at the date of acquisition at its fair value of $175,000.

Objective: LO4
Difficulty: Easy

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15) On December 31, 2010, Patenne Incorporated purchased 60% of Smolin Manufacturing for $300,000. The book value and fair value of Smolin's assets and liabilities were equal with the exception of plant assets which were undervalued by $60,000 and had a remaining life of 10 years, and a patent which was undervalued by $40,000 and had a remaining life of 5 years. At December 31, 2012, the companies showed the following balances on their respective adjusted trial balances:

	Patenne Book Value	Smolin Book Value	Smolin Fair Value
Assets (includes Investment in Smolin)	$950,000	300,000	320,000
Plant assets - net	590,000	150,000	150,000
Patent	310,000	200,000	280,000
Expenses	800,000	300,000	
Liabilities	480,000	120,000	120,000
Common Stock	300,000	100,000	
Retained Earnings	890,000	330,000	
Revenue	980,000	400,000	

Requirement 1: Calculate the balance in the Plant assets - net and the Patent accounts on the consolidated balance sheet as of December 31, 2012.

Requirement 2: Calculate consolidated net income for 2012, and the amount allocated to the controlling and noncontrolling interests.

Requirement 3: Calculate the balance of the noncontrolling interest in Smolin to be reported on the consolidated balance sheet at December 31, 2012.

Answer:

Requirement 1:

Patenne book value of Plant assets at 12/31/12	$590,000
Smolin book value of Plant assets at 12/31/12	150,000
Plus: Excess value at acquisition 12/31/10	60,000
Less: Amortization for 2011 and 2012	(12,000)
Plant assets — net consolidated	$788,000

Patenne book value of Patent at 12/31/12	$310,000
Smolin book value of Patent at 12/31/12	200,000
Plus: Excess value at acquisition 12/31/10	40,000
Less: Amortization for 2011 and 2012	(16,000)
Patent - net consolidated	$534,000

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Requirement 2:

Patenne separate net income ($980,000 - $800,000)	$180,000
Smolin separate net income ($400,000 - $300,000)	100,000
Amortization of excess value - Plant assets	
and Patent ($6,000 + $8,000)	(14,000)
Consolidated net income	$266,000
Patenne net income	$180,000
Smolin net income allocated to controlling	
interest [($100,000 - $14,000) × 60%)	51,600
Controlling Interest Share of Consolidated Net Income	$231,600
Noncontrolling Interest Share of Consolidated Net Income	
[($100,000 - $14,000) × 40%)	$34,400

Requirement 3

Book Value of Smolin at 1/1/12 ($330,000 + $100,000)	$430,000
Increase in book value of Smolin for 2012	100,000
Excess value remaining from purchase:	
Plant assets ($60,000 - $12,000)	48,000
Patent ($40,000 - $16,000)	24,000
Total remaining fair value of Smolin at 12/31/12	602,000
Noncontrolling interest at 12/31/12 (× 40%)	$240,800

Objective: LO2, 4
Difficulty: Moderate

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16) Pull Incorporated and Shove Company reported summarized balance sheets as shown below, on December 31, 2011.

	Pull	Shove
Current assets	$420,000	$210,000
Noncurrent assets	670,000	430,000
Total assets	$1,090,000	$640,000
Current liabilities	$230,000	$50,000
Long-term debt	350,000	150 000
Stockholders' equity	510,000	440,000
Total liabilities and equities	$1,090,000	$640,000

On January 1, 2012, Pull purchased 70% of the outstanding capital stock of Shove for $392,000, of which $92,000 was paid in cash, and $300,000 was borrowed from their bank. The debt is to be repaid in 10 annual installments beginning on December 31, 2012, with each payment consisting of $30,000 principal, plus accrued interest.

The excess fair value of Shove Company over the underlying book value is allocated to inventory (60 percent) and to goodwill (40 percent).

Required: Calculate the balance in each of the following accounts, on the consolidated balance sheet, immediately following the acquisition.

a. Current assets
b. Noncurrent assets
c. Current liabilities
d. Long-term debt
e. Stockholders' equity

Answer:

Preliminary calculation

Implied fair value of acquisition ($392,000 / 70%)	$560,000
Book value of acquisition	440,000
Excess of fair value over book value	$120,000

Allocation of excess of fair value over book value	
Inventory (60%)	$72,000
Goodwill (40%)	48,000
Total allocated	$120,000

a. Current assets

Pull balance prior to acquisition	$420,000
Shove balance prior to acquisition	210,000
Cash paid out for acquisition	(92,000)
Inventory excess fair value over book value	72,000
	$610,000

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b. Noncurrent assets

Pull balance prior to acquisition	$670,000
Shove balance prior to acquisition	430,000
Goodwill excess fair value over book value	48,000
	$1,148,000

c. Current liabilities

Pull balance prior to acquisition	$230,000
Shove balance prior to acquisition	50,000
Current portion of long term debt incurred	30,000
	$310,000

d. Long-term debt

Pull balance prior to acquisition	$350,000
Shove balance prior to acquisition	150,000
Noncurrent portion of debt incurred	270,000
	$770,000

e. Stockholders' equity

Pull balance prior to acquisition	$510,000
Noncontrolling interest in Shove	168,000
	$678,000

Objective: LO1, 4
Difficulty: Moderate

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17) On January 2, 2011, Paleon Packaging purchased 90% of the outstanding common stock of Sampson Shipping and Supplies for $513,000. Sampson's book values represented the fair values of all recorded assets and liabilities at that date, however Sampson had rights to a patent that was not recorded on their books, with an approximate fair value of $270,000, and a 10-year remaining useful life. Sampson's shareholders' equity reported on that date consisted of $100,000 in capital stock and $150,000 in retained earnings. Any remaining fair value/book value differential is assumed to be goodwill. The December 31, 2012 financial statements for each of the companies are provided in the worksheet below.

Required: Complete the consolidation worksheet provided below to determine consolidated balances to be reported at December 31, 2012.

		Paleon	Sampson	Eliminations				Consoli-dated
					Debit		Credit	
INCOME STATEMENT Sales	$	615,300	380,000					
Income from Sampson		38,700						
Cost of Sales		(368,000)	(170,000)					
Depreciation & Amort. Expense		(42,000)	(60,000)					
Other Expenses		(100,000)	(80,000)					
Noncontrolling Interest Share								
Net income		144,000	70,000					
Retained Earnings 1/1		870,000	170,000					
Add: Net income		144,000	70,000					
Less: Dividends		(35,000)	(40,000)					
Retained Earnings 12/31	$	979,000	200,000					
BALANCE SHEET Cash		120,000	30,000					
Other current assets		201,600	180,000					
Equipment and Buildings-net		560,000	206,000					
Investment in Sampson Corporation		509,400						
Patent								
Goodwill								
TOTAL ASSETS	$	1,391,000	416,000					
EQUITIES Accounts payable		248,000	116,000					
Capital Stock		164,000	100,000					
Retained Earnings		979,000	200,000					
1/1 Noncontrolling Interest								
12/31 Noncontrolling Interest								
TOTAL EQUITIES	$	1,391,000	416,000					

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Answer: Calculations:

Implied fair value ($513,000/0.90)	$570,000
Book value of Sampson	(250,000)
Excess fair value over book value	$320,000

Excess fair value over book value allocated to:

Patent	$270,000
Goodwill	50,000
Excess fair value over book value	$320,000

		Paleon	Sampson	Eliminations				Consoli-dated
					Debit		Credit	
INCOME STATEMENT Sales	$	615,300	380,000					995,300
Income from Sampson		38,700		a	38,700			
Cost of Sales		(368,000)	(170,000)					(538,000)
Depreciation & Amort. Expense		(42,000)	(60,000)	c	27,000			(129,000)
Other Expenses		(100,000)	(80,000)					(180,000)
Noncontrolling Interest Share				d	4,300			(4,300)
Net income		144,000	70,000					144,000
Retained Earnings 1/1		870,000	170,000	b	170,000			870,000
Add: Net income		144,000	70,000					144,000
Less: Dividends		(35,000)	(40,000)			d a	4,000 36,000	(35,000)
Retained Earnings 12/31	$	979,000	200,000					979,000
BALANCE SHEET Cash		120,000	30,000					150,000
Other current assets		201,600	180,000					381,600
Equipment and Buildings-net		560,000	206,000					766,000
Investment in Sampson Corporation		509,400				a b	2,700 506,700	
Patent				b	243,000	c	27,000	216,000
Goodwill				b	50,000			50,000
TOTAL ASSETS	$	1,391,000	416,000					1,563,600
EQUITIES Accounts payable		248,000	116,000					364,000
Capital Stock		164,000	100,000	b	100,000			164,000
Retained Earnings		979,000	200,000					979,000
1/1 Noncontrolling Interest						b	56,300	
12/31Noncontrolling Interest						d	300	56,600
TOTAL EQUITIES	$	1,391,000	416,000		633,000		633,000	1,563,600

Objective: LO4
Difficulty: Moderate

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18) On January 1, 2011, Persona Company acquired 80% of Sule Tooling for $332,000. At that time, Sule reported their Common stock at $150,000, Additional paid in capital at $45,000, and Retained earnings at $105,000. Sule also had equipment on their books that had a remaining life of 10 years and were undervalued on the books by $40,000, but any additional fair value/book value differential is assumed to be goodwill. During the next three years, Sule reported the following:

Year	Net Income	Dividends Paid
2011	$35,000	$5,000
2012	45,000	7,500
2013	50,000	10,000

Required: Calculate the following.
a. How much excess depreciation or amortization would be recognized in the consolidated financial statements in each of these three years?
b. How much goodwill would be recognized on the balance sheet at the date of acquisition, and at the end of each year listed?
c. How much investment income would be reported by Persona under the equity method for each of the three years?
d. What would be the balance in the Investment in Sule account at January 1, 2011, and at the end of each of the three years listed?
Answer:
Preliminary calculation:

Implied fair value of Sule ($332,000 / 80%)	$415,000
Book value of Sule	300,000
Fair value in excess of book value to be allocated	115,000
Undervalued equipment	40,000
Goodwill	75,000
Total excess fair value allocated	$115,000

a. Excess depreciation = Excess fair value of equipment $40,000 / 10 year remaining life = $4,000 / year for each of the three years.

b. Goodwill calculated above at $75,000 would be reported at the date of acquisition and at the end of each of the three years until a review indicates that the value has been impaired.

c.

	2011	2012	2013
Sule separate income	$35,000	$45,000	$50,000
Excess depreciation	(4,000)	(4,000)	(4,000)
Sule stand-alone income	31,000	41,000	46,000
× 80% ownership	24,800	32,800	36,800

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d.

Investment in Sule at 1/1/11	$332,000
2011 (Sule Income - Excess amortization) × 80%	24,800
2011 Dividends × 80%	(4,000)
Investment in Sule at 12/31/11	352,800
2012 (Sule Income - Excess amortization) × 80%	32,800
2012 Dividends × 80%	(6,000)
Investment in Sule at 12/31/12	379,600
2013 (Sule Income - Excess amortization) × 80%	36,800
2013 Dividends × 80%	(8,000)
Investment in Sule at 12/31/13	408,400

Objective: LO1, 2, 4
Difficulty: Moderate

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