Problem 7-16
Part A

PRATHER COMPANY AND SUBSIDIARY
Consolidated Statements Workpaper
For the Year Ended December 31, 2009

	Prather Company	Stone Company	Eliminations Debit	Eliminations Credit	Noncontrolling Interest	Consolidated Balances
Income Statement						
Sales	1,950,000	1,350,000				3,300,000
Equity in Subsidiary Income	252,000		(1) 252,000			
Total Revenue	2,202,000	1,350,000				3,300,000
Cost of Goods Sold	1,350,000	900,000				2,250,000
Other Expenses	225,000	150,000		(3) 15,000		360,000
Total Cost & Expenses	1,575,000	1,050,000				2,610,000
Net /Consolidated Income	627,000	300,000				690,000
Noncontrolling Interest in Income					63,000 *	(63,000)
Net Income to Retained Earnings	627,000	300,000	252,000	15,000	63,000	627,000
Statement of Retained Earnings						
1/1 Retained Earnings						
Prather Company	1,397,400					1,397,400
Stone Company		1,038,000	(5) 1,038,000			
Net Income from above	627,000	300,000	252,000	15,000	63,000	627,000
Dividends Declared						
Prather Company	(150,000)					(150,000)
Stone Company		(75,000)		(1) 60,000	(15,000)	
12/31 Retained Earnings						
to Balance Sheet	1,874,400	1,263,000	1,290,000	75,000	48,000	1,874,400

Problem 7-16 (continued)

Balance Sheet	Prather Company	Stone Company		Eliminations Debit		Eliminations Credit	Noncontrolling Interest	Consolidated Balances
Assets								
Inventory	498,000	225,000						723,000
Investment in Stone Company	1,334,400		(2)	120,000	(1)	192,000		
					(3)	12,000		
					(4)	1,250,400		
Plant and Equipment	2,168,100	2,625,000	(2)	390,000				5,183,100
Accumulated Depreciation	(900,000)	(612,000)	(3)	30,000	(2)	540,000		(2,022,000)
Total Assets	3,100,500	2,238,000						3,884,100
Liabilities	465,600	450,000						915,600
Capital Stock								
Prather Company	760,500							760,500
Stone Company		525,000	(4)	525,000				
Retained Earnings from above	1,874,400	1,263,000		1,290,000		75,000	48,000	1,874,400
1/1 Noncontrolling Interest in Net Assets			(2)	30,000	(5)	312,600	285,600	
					(3)	3,000		
12/31 Noncontrolling Interest in Net Assets							333,600	333,600
Total Liabilities and Equity	3,100,500	2,238,000		2,385,000		2,385,000		3,884,100

* Noncontrolling interest in consolidated income = .20 × ($300,000 + $15,000) = $63,000
Explanations of workpaper entries on separate page.

Intercompany Sale of Equipment

	Cost	Accumulated Depreciation	Carrying Value	Remaining Life	Depreciation
Original Cost	$1,350,000	$540,000	$810,000	10 yr	$81,000
Intercompany Selling Price	960,000		960,000	10 yr	96,000
Difference	$ 390,000	$540,000	$150,000		$15,000

Explanations of workpaper entries (not required)

		Debit	Credit
(1)	Equity in Subsidiary Income	252,000	
	Dividends Declared (.80)($75,000)		60,000
	Investment in Stone Company		192,000
	To reverse the effect of parent company entries during the year for subsidiary dividends and income		
(2)	Plant and Equipment	390,000	
	Investment in Stone Company ($150,000)(.80)	120,000	
	Noncontrolling Interest ($150,000)(.20)	30,000	
	Accumulated Depreciation		540,000
	To reduce controlling and noncontrolling interests for their respective shares of unrealized intercompany profit at beginning of year, to restore the carrying value of equipment to its book value on the date of the intercompany sale		
(3)	Accumulated Depreciation	30,000	
	Other Expenses (Depreciation Expense)		15,000
	Investment in Stone Company ($15,000)(.8)		12,000
	Noncontrolling Interest ($15,000)(.2)		3,000
	To reverse amount of excess depreciation recorded during year and to recognize an equivalent amount of intercompany profit as realized		
(4)	Beginning Retained Earnings –Stone	1,038,000	
	Common Stock – Stone	525,000	
	Investment in Stone Company ($960,000 + $290,400*)		1,250,400
	Noncontrolling Interest [$240,000 + ($1,038,000 - $675,000) × .2]		312,600
	To eliminate investment account and create noncontrolling interest account		
	* (($1,263,000 - $675,000) × .8) - $180,000 = $290,400		

Part B. Calculation of Consolidated Retained Earnings

Prather Company's retained earnings on 12/31/09	$1,874,400
Consolidated retained earnings on 12/31/09	$1,874,400

Problem 9-9
Part A

Computation and Allocation of Difference between Implied and Book Value Acquired

	Parent Share	Non-Controlling Share	Entire Value
Purchase price and implied value	**$300,000**	**75,000**	375,000
Less: Bokk value of equity acquired:			
Common Stock	160,000	40,000	**200,000**
Other Contributed Capital	40,000	10,000	**50,000**
Retained Earnings	34,400	5,600	**43,000**[a]
Difference between implied and book value	65,600	16,400	**82,000**
Equipment	(10,000)	(2,500)	**(12,500)**
Inventories	(5,000)	(1,250)	**(6,250)**
Land	(5,000)	(1,250)	**(6,250)**
Balance	45,600	11,400	57,000
Goodwill	(45,600)	(11,400)	**(57,000)**
Balance	- 0 -	- 0 -	- 0 –

[a] Allocation of Retained Earnings:

Retained Earnings balance, date of purchase		$62,000
Allocation of Preferred Stock		
Call premium	$4,000	
Dividends in arrears	15,000	19,000
Allocation to common stock		$43,000

Problem 9-9 (continued)

Part B	Parson	Succo	Eliminations		Noncon- trolling	Consolidated
Income Statement	Industries	Company	Dr.	Cr	Interest	Balances
Sales	404,000	300,000	(4) 100,000			604,000
Equity in Subsidiary Income	31,433		(7) 31,433			-
	435,433	300,000				604,000
Cost of Goods Sold	200,000	160,000	(5) 4,167	(4) 100,000		261,667
				(6) 2,500		
Operating Expenses	36,400	50,000	(3) 6,000			93,025
			(10) 625			
Income Taxes	40,200	27,000				67,200
Total Expenses	276,600	237,000				421,892
Net/Consolidated Income	158,833	63,000				182,108
Noncontrolling Interest in Cons. Income						
Preferred Stock ($15,000 X 1.00)					15,000	
Common Stock ($41,372 X .20)					8,275	(23,275)
Net Income to Retained Earnings	158,833	63,000	142,225	102,500	23,275	158,833
Retained Earnings Statement						
1/1 Retained Earnings -						
Parson Industries	192,000					192,000
Succo Company						
Preferred Stock		34,000			34,000	
Common Stock		73,000	(8) 73,000			
Net Income from above	158,833	63,000	142,225	102,500	23,275	158,833
Dividends Declared						
Parson Industries	(65,000)					(65,000)
Succo Company						
Preferred Stock		(45,000)			(45,000)	
Common Stock		(5,000)		(7) 4,000	(1,000)	
12/31 Retained Earnings to Balance Sheet	285,833	120,000	215,225	106,500	11,275	285,833

Problem 9-9 (continued)	Parson	Succo	Eliminations		Noncontrol.	Consolidated
Balance Sheet	Industries	Company	Dr.	Cr.	Interest	Balances
Cash and Receivables	396,800	205,000		(1) 10,000		591,800
Inventories	200,000	170,000		(5) 4,167		365,833
Land	300,000	120,000	(9) 6,250			426,250
Buildings and Equipment	697,000	245,000	(2) 50,000			1,004,500
			(9) 12,500			
Accumulated Depreciation	(100,000)	(70,000)		(2) 20,000		(204,000)
				(3) 9,000		
				(10) 5,000		
Investment in Succo Company	362,033			(7) 27,433		
			(3) 2,400	(8) 324,000		
			(6) 2,500			
			(9) 5,000	(2) 24,000		
			(10) 3,500			
Goodwill			(9) 57,000			57,000
Difference between Implied & Book Value			(8) 82,000	(9) 82,000		
Total Assets	1,855,833	670,000				2,241,383
Current Liabilities	370,000	100,000	(1) 10,000			460,000
Bonds Payable	400,000	100,000				500,000
Preferred Stock - Succo Company		100,000			100,000	
Common Stock						
Parson Industries, $10 par	600,000					600,000
Succo Company, $10 par		200,000	(8) 200,000			
Other Contributed Capital						
Parson Industries	200,000					200,000
Succo Company		50,000	(8) 50,000			
Retained Earnings from above	285,833	120,000	215,225	106,500	11,275	285,833
1/1 Noncontrolling Interest in Net Assets			(3) 600	(2) 6,000	84,275	
			(9) 1,250	(8) 81,000		
			(10) 875			
12/31 Noncontrolling Interest in Net Assets					195,550	195,550
Total Liabilities and Equity	1,855,833	670,000	699,100	699,100		2,241,383

Problem 9-9 (continued)

Explanations of workpaper entries

(1) Current Liabilities (accounts payable)	10,000	
Cash and Receivables (Accounts Receivables)		10,000
To eliminate intercompany receivable and payable.		
(2) Buildings and Equipment	50,000	
Investment in Succo Company ($30,000 × .80)		24,000
1/1 Noncontrolling Interest		6,000
Accumulated Depreciation		20,000
To eliminate unrealized loss on intercompany sale of equipment and to restate property and equipment at original cost to Succo Company		
(3) Investment in Succo Company ($3,000 × .80)	2,400	
1/1 Noncontrolling Interest	600	
Operating Expenses (Depreciation Expense)	6,000	
Accumulated Depreciation		9,000
To adjust depreciation recorded during the current and prior years.		
(4) Sales	100,000	
Cost of Goods Sold (Purchases)		100,000
To eliminate intercompany sales.		
(5) Cost of Goods Sold (Ending Inventory – Income Statement)	4,167	
Inventory (Balance Sheet) ($25,000 – ($25,000/1.20))		4,167
To eliminate unrealized intercompany profit in ending inventory.		
(6) Investment in Succo Company	2,500	
Cost of Goods Sold ($15,000 – ($15,000/1.20))		2,500
To recognize profit realized during the year.		
(7) Equity in Subsidiary Income	31,433	
Dividends Declared		4,000
Investment in Succo Company		27,433
To reverse the effect of parent company entries during the year for		

subsidiary dividend and income.

(8) 1/1 Retained Earnings – Succo- Common Stock	73,000	
Common Stock – Succos	20,000	
Other Contributed Capital – Succo	50,000	
Difference between Implied and Book Value	65,600	
Investment in Succo Company		324,000
Noncontrolling interest account [$75,000 + ($73,000 - $43,000) x .2]		81,000

To eliminate the investment account and create noncontrolling interest account.

Problem 9-9 (continued)

(9) Buildings and Equipment	12,500	
Land	6,250	
Goodwill	57,000	
Investment in Succo Company	5,000	
Noncontrolling interest	1,250	
Difference between Implied and Book Value		82,000
To allocate the difference between implied and book value.		

(10) Investment in Succo Company ($625 x 7 x .8)	3,500	
Noncontrolling interest ($625 x 7 x .2)	875	
Operating Expense (depreciation)	625	
Accumulated Depreciation		5,000
To depreciate the difference between implied and book value.		

Supporting Computations:

(2)(3) Loss on sale of equipment - $80,000 - $50,000 = $30,000;
Loss recognized per year $6,000.
$\frac{1}{2} \times \$6{,}000 = \$3{,}000$ recognized last year

(5) $\frac{\$25{,}000}{1.20} = \$20{,}833$; gross profit $4,167

(6) $\frac{\$15{,}000}{1.20} = \$12{,}500$; gross profit $2,500

(9), (10) Allocation of difference

		2001	2002-07	2008	Unamortized
Equipment	$12,500/20	$625	$3,750	$625	$7,500
Inventories	6,250	6,250			---
Land	6,250	---			6,250
Goodwill	57,000				57,000
Total	$82,000	$6,875	$3,750	$625	$70,750

Problem 9-9 (continued)

Part C

Reported net income - Parson Industries		$131,400
Less: Dividend income		4,000
		127,400
Add: Realized gross profit in beginning inventory		2,500
Less: Unrealized gross profit in ending inventory		(4,167)
Parson's contribution to consolidated income		125,733
Reported net income - Succo Company	$63,000	
Less: Amortization of difference	(625)	
Less: Recorded loss on upstream sale of fixed asset	(6,000)	
Succo Company's realized reported income	56,375	
Less: Net income allocated to preferred stockholders	15,000	
Net income allocated to common stockholders	41,375	
Parson Industries' interest	× .80	33,100
Controlling interest in consolidated net income		$158,833

Problem 7-16 (continued)

Balance Sheet	Prather Company	Stone Company	Eliminations Debit	Eliminations Credit	Noncontrolling Interest	Consolidated Balances
Assets						
Inventory	498,000	225,000				723,000
Investment in Stone Company	1,334,400		(2) 120,000	(1) 192,000		
				(3) 12,000		
				(4) 1,250,400		
Plant and Equipment	2,168,100	2,625,000	(2) 390,000			5,183,100
Accumulated Depreciation	(900,000)	(612,000)	(3) 30,000	(2) 540,000		(2,022,000)
Total Assets	3,100,500	2,238,000				3,884,100
Liabilities	465,600	450,000				915,600
Capital Stock						
Prather Company	760,500					760,500
Stone Company		525,000	(4) 525,000			
Retained Earnings from above	1,874,400	1,263,000	1,290,000	75,000	48,000	1,874,400
1/1 Noncontrolling Interest in Net Assets			(2) 30,000	(5) 312,600	285,600	
				(3) 3,000		
12/31 Noncontrolling Interest in Net Assets					333,600	333,600
Total Liabilities and Equity	3,100,500	2,238,000	2,385,000	2,385,000		3,884,100

* Noncontrolling interest in consolidated income = .20 × ($300,000 + $15,000) = $63,000
Explanations of workpaper entries on separate page.

Intercompany Sale of Equipment

	Cost	Accumulated Depreciation	Carrying Value	Remaining Life	Depreciation
Original Cost	$1,350,000	$540,000	$810,000	10 yr	$81,000
Intercompany Selling Price	960,000		960,000	10 yr	96,000
Difference	$ 390,000	$540,000	$150,000		$15,000

Explanations of workpaper entries (not required)

		Debit	Credit
(1)	Equity in Subsidiary Income	252,000	
	Dividends Declared (.80)($75,000)		60,000
	Investment in Stone Company		192,000
	To reverse the effect of parent company entries during the year for subsidiary dividends and income		
(2)	Plant and Equipment	390,000	
	Investment in Stone Company ($150,000)(.80)	120,000	
	Noncontrolling Interest ($150,000)(.20)	30,000	
	Accumulated Depreciation		540,000
	To reduce controlling and noncontrolling interests for their respective shares of unrealized intercompany profit at beginning of year, to restore the carrying value of equipment to its book value on the date of the intercompany sale		
(3)	Accumulated Depreciation	30,000	
	Other Expenses (Depreciation Expense)		15,000
	Investment in Stone Company ($15,000)(.8)		12,000
	Noncontrolling Interest ($15,000)(.2)		3,000
	To reverse amount of excess depreciation recorded during year and to recognize an equivalent amount of intercompany profit as realized		
(4)	Beginning Retained Earnings –Stone	1,038,000	
	Common Stock – Stone	525,000	
	Investment in Stone Company ($960,000 + $290,400*)		1,250,400
	Noncontrolling Interest [$240,000 + ($1,038,000 - $675,000) × .2]		312,600
	To eliminate investment account and create noncontrolling interest account		
	* (($1,263,000 - $675,000) × .8) - $180,000 = $290,400		

Part B. Calculation of Consolidated Retained Earnings

Prather Company's retained earnings on 12/31/09	$1,874,400
Consolidated retained earnings on 12/31/09	$1,874,400

ANSWERS TO PROBLEMS

Problem 8-1

Part A

Computation and Allocation of Difference between Implied and Book Value Acquired

	Parent Share	Non-Controlling Share	Entire Value
Purchase price and implied value*	**$3,306,666**	**826,667**	4,133,333
Less: Book value of equity acquired:			
Common Stock	(2,400,000)	(600,000)	**(3,000,000)**
Retained Earnings	(504,000)	(126,000)	**(630,000)**
Difference between implied and book value	402,666	100,667	**503,333**
Goodwill	(402,666)	(100,667)	**(503,333)**
Balance	- 0 -	- 0 -	- 0 -

* $1,860,000/135,000 x 240,000 = 3,306,666 or
$365,000+$960,000+$1,860,000 +$59,500+$11,333 (FV adjustment)+$50,833 (FV adjustment)

Part B

	Debit	Credit
Investment in Sarko Company	59,500	
Retained Earnings 1/1 - Pelzer Company		59,500
To establish reciprocity/convert to equity		
0.10 × ($630,000 - $260,000) + .25 × ($630,000 - $540,000)		
Common Stock - Sarko Company	3,000,000	
Retained Earnings 1/1 - Sarko	630,000	
Difference between Implied and Book Value	503,333	
Investment in Sarko Company		3,306,666
To eliminate investment account and create noncontrolling interest account		826,667
Goodwill	503,333	
Difference between Implied and Book Value		503,333
To allocate the difference between implied and book value to goodwill		

Problem 8-6

PORTER COMPANY AND SUBSIDIARY
Consolidated Statements Workpaper
For the Year Ended December 31, 2008

	Porter Company	Spitz Company	Eliminations Dr.	Eliminations Cr.	Noncontrolling Interest	Consolidated Balances
Income before Equity in Subsidiary *	$63,200	$60,000				$123,200
Equity in Subsidiary Income	50,400		(1) 50,400			
Net/Consolidated Income	113,600	60,000				123,200
Subsidiary Income Sold				(1) 1,800		1,800
Noncontrolling Interest in Income (.19 × $60,000)					11,400	(11,400)
Net Income to Retained Earnings	$113,600	$60,000	50,400	1,800	11,400	$113,600
Retained Earnings, 1/1:						
Porter Company	$301,900					$301,900
Spitz Company		126,000	(2) 126,000			
Net Income from above	113,600	60,000	50,400	1,800	11,400	113,600
Dividends Declared:						
Porter Company	(50,000)					(50,000)
Spitz Company		(30,000)		(1) 24,300	(5,700)	
12/31 Retained Earnings to Balance Sheet	$365,500	$156,000	176,400	26,100	5,700	$365,500

* Reported Net Income	$113,600
Less: Equity in Subsidiary Income [(.90 × $20,000) + (.81 × $40,000)]	(50,400)
	$63,200

Problem 8-6 (continued)

	Porter Company	Spitz Company	Eliminations Dr.	Eliminations Cr.	Noncontrolling Interest	Consolidated Balances
Cash	$90,000	$40,000				$130,000
Accounts Receivable	62,000	38,000				100,000
Inventory	106,000	64,000				170,000
Investment in Spitz Company	231,660			(1) 24,300		
				(2) 207,360		
Difference b/w Implied and Book Value***			(2) 10,000	(3) 10,000		
Plant Assets	320,000	149,000				469,000
Land	69,000	46,000	(3) 10,000			125,000
Total	$878,660	$337,000				$994,000
Liabilities	$102,000	$61,000				$163,000
Common Stock:						
Porter Company	250,000					250,000
Spitz Company		100,000	(2) 100,000			
Other Contributed Capital						
Porter Company	161,160					161,160
Spitz Company		20,000	(2) 20,000			
Retained Earnings from above	365,500	156,000	176,400	26,100	5,700	365,500
Noncontrolling Interest in Net Assets**				(5) 48,640	48,640	
					$54,340	54,340
Total	$878,660	$337,000	$316,400	$316,400		$994,000

(1) To reverse effect of subsidiary income and dividends on investment account for the year
(2) To eliminate investment account and create noncontrolling interest account. **$135,000/.9 x .19 + ($126,000 - $20,000) x .19
(3) To allocate the difference between implied and book value *** $135,000/.9 - $140,000

Verification of Controlling interest in Consolidated Net Income:

Spitz company's reported income		$60,000
Allocated to noncontrolling interest:		
First four months (4/12 × $60,000 × .10)	$2,000	
Last eight months (8/12 × $60,000 × .19)	7,600	(9,600)
Allocated to controlling interest		50,400
Porter Company's Income		63,200
Controlling interest in Consolidated Net Income		$113,600