

Chapter 2 – Topic 5  
Consolidated  
Statements:  
Less than 100%  
Acquisition

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Less Than 100% Ownership

- Consolidation required for greater than 50% ownership.
- Options
  - Full consolidation ←
  - Proportional consolidation
- Scheme just presented works for all ownership percentages.
  - Majority ownership
  - Non-controlling interest (NCI)

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Example

- Company P acquires **80%** of the stock of Company S for \$550,000 plus \$10,000 in direct acquisition costs. On the date of acquisition, the book value of S's identifiable net assets equaled fair market value except for inventory which was understated by \$10,000, and PPE which was understated by \$50,000.
- The balance sheets of P and S immediately after the acquisition show the following:

|                   | <u>P</u>  | <u>S</u>  |
|-------------------|-----------|-----------|
| Cash              | \$300,000 | \$200,000 |
| Inventory         | 100,000   | 100,000   |
| Investment in S   | 560,000   |           |
| PPE               | 200,000   | 300,000   |
| Goodwill          |           | 50,000    |
| Liabilities       | (460,000) | (100,000) |
| Common stock      | (100,000) | (200,000) |
| Retained earnings | (600,000) | (350,000) |

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### Process of Consolidation

- Recording the Investment
- Preparing a Determination and Distribution of Excess Schedule
- Preparing eliminating entries
- Completing the worksheet

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### Recording the Investment

- No difference between 100% and less than 100%
- Investment in S 560,000
- Cash 560,000

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### D&D Schedule

|                                       |                     |
|---------------------------------------|---------------------|
| Price Paid                            | \$560,000           |
| Book Value of SHE acquired – 80%:     |                     |
| Common stock (S) (80% x 200,000)      | (160,000)           |
| Retained earnings (S) (80% x 350,000) | (280,000) (440,000) |
| Excess cost over book value           | \$120,000           |
| Add back goodwill (80% x 50,000)      | 40,000              |
| Adjusted excess cost over book value  | \$160,000           |
| Increase inventory (80% x 10,000)     | (8,000)             |
| Excess available for non-priority     | \$152,000           |
| Increase PPE (80% x 50,000)           | (40,000)            |
| Excess available for goodwill         | \$112,000           |
| Goodwill                              | (112,000)           |
|                                       | \$ -0-              |

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### Elimination Entries

- Determination of Excess
 

|                       |         |
|-----------------------|---------|
| (1) Common Stock (S)  | 160,000 |
| Retained Earnings (S) | 280,000 |
| Investment in S       | 440,000 |
- Distribution of Excess
 

|                 |         |
|-----------------|---------|
| (2) Inventory   | 8,000   |
| PPE             | 40,000  |
| Goodwill        | 112,000 |
| Goodwill        | 40,000  |
| Investment in S | 120,000 |

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### Completing the Worksheet

|                 | P          | S          | DR             | CR                         | NCI              | Consol. B/S      |
|-----------------|------------|------------|----------------|----------------------------|------------------|------------------|
| Cash            | \$300,000  | \$200,000  |                |                            |                  | 500,000          |
| Inventory       | 100,000    | 100,000    | 8,000 (2)      |                            |                  | 208,000          |
| Investment in S | 560,000    |            |                | 440,000 (1)<br>120,000 (2) |                  | -0-              |
| PPE             | 200,000    | 300,000    | 40,000 (2)     |                            |                  | 540,000          |
| Goodwill        |            | 50,000     | 112,000 (2)    | 40,000 (2)                 |                  | 122,000          |
| Liabilities     | (460,000)  | (100,000)  |                |                            |                  | (560,000)        |
| C/S-P           | (100,000)  |            |                |                            |                  | (100,000)        |
| C/S-S           |            | (200,000)  | 160,000 (1)    |                            | (40,000)         | -0-              |
| R/E-P           | (600,000)  |            |                |                            |                  | (600,000)        |
| R/E-S           |            | (350,000)  | 280,000 (1)    |                            | (70,000)         | -0-              |
|                 | <u>-0-</u> | <u>-0-</u> | <u>600,000</u> | <u>600,000</u>             | <u>(110,000)</u> | <u>110,000</u>   |
| NCI             |            |            |                |                            | <u>110,000</u>   | <u>(110,000)</u> |
|                 |            |            |                |                            | <u>-0-</u>       | <u>-0-</u>       |

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### Concluding Comments

- Consolidation at date of acquisition
  - 100% ownership interest
  - Less than 100% ownership interest
- Purchase price versus FMV
  - Purchase price = FMV
  - Purchase price > FMV
  - Purchase price < FMV, including allocation
- Procedure
  - Recording investment
  - D&D Schedule
  - Elimination entries
  - Completing the worksheet

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### The Next Step

- Work Exercises 4, 5, 6
- Work Problems 1, 3, 5, 6, 13, 14
- Work the assignment to hand in found on the Chapter 2 page.

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