

Cain Corp. acquired all of the outstanding \$10 par value voting common stock of Frey, Inc. on January 1, 1989 in exchange for 25,000 shares of its \$10 par value voting common stock. On December 31, 1988, Cain's common stock had a closing market price of \$30 per share on a national stock exchange. The acquisition was appropriately accounted for as a purchase. Both companies continued to operate as separate business entities maintaining separate accounting records with years ending December 31.

On December 31, 1989, the companies had condensed financial statements as follows:

	<i>Cain Corp.</i>	<i>Frey, Inc.</i>
	<u>Dr.</u> <u>(Cr.)</u>	<u>Dr.</u> <u>(Cr.)</u>
<i><u>Income Statement</u></i>		
Net sales	\$(3,800,000)	\$(1,500,000)
Dividends from Frey	(40,000)	
Gain on sale of warehouse	(30,000)	
Cost of goods sold	2,360,000	870,000
Operating expenses (including depreciation)	<u>1,100,000</u>	<u>440,000</u>
Net income	<u>\$ (410,000)</u>	<u>\$ (190,000)</u>
<i><u>Retained Earnings Statement</u></i>		
Balance, 1/1/89	\$ (440,000)	\$ (156,000)
Net income	(410,000)	(190,000)
Dividends paid		40,000
Balance, 12/31/89	<u>\$ (850,000)</u>	<u>\$ (306,000)</u>
<i><u>Balance Sheet</u></i>		
Assets:		
Cash	\$ 570,000	\$ 150,000
Accounts receivable (net)	860,000	350,000
Inventories	1,060,000	410,000
Land, plant and equipment	1,320,000	680,000
Accumulated depreciation	(370,000)	(210,000)
Investment in Frey (at cost)	<u>750,000</u>	
Total Assets	<u>\$ 4,190,000</u>	<u>\$ 1,380,000</u>
Liabilities & Stockholders' Equity:		
Accounts payable & accrued expenses	\$(1,340,000)	\$(594,000)
Common stock (\$10 par)	(1,700,000)	(400,000)
Additional paid-in capital	(300,000)	(80,000)
Retained earnings	<u>(850,000)</u>	<u>(306,000)</u>
Total Liabilities & Stockholders' Equity	<u>\$ (4,190,000)</u>	<u>\$ (1,380,000)</u>

1. There were no changes in the common stock and additional paid-in capital accounts during 1989 except the one necessitated by Cain's acquisition of Frey.
2. At the acquisition date, the fair value of Frey's machinery exceeded its book value by \$54,000. The excess cost will be amortized over the estimated average remaining life of six years. The fair values of all of Frey's other assets and liabilities were equal to their book values.

3. On July 1, 1989, Cain sold a warehouse facility to Frey for \$129,000 cash. At the date of sale, Cain's book values were \$33,000 for the land and \$66,000 for the undepreciated cost of the building. Based on a real estate appraisal, Frey allocated \$43,000 of the purchase price to land and \$86,000 to building. Frey is depreciating the building over its estimated five-year remaining useful life by the straight-line method with no salvage value.
4. During 1989, Cain purchased merchandise from Frey at an aggregate invoice price of \$180,000, which included a 100% markup on Frey's cost. At December 31, 1989, Cain owed Frey \$86,000 on these purchases, and \$36,000 of this merchandise remained in Cain's inventory.

Required:

Complete the tear-out worksheet that would be used to prepare a consolidated income statement and a consolidated retained earnings statement for the year ended December 31, 1989, and a consolidated balance sheet as of December 31, 1989. Formal consolidated statements and adjusting entries are not required. Ignore income tax considerations. Supporting computations should be in good form. Include the completed tear-out worksheet in the proper sequence and include it with the other answer sheets.

Handout Problem No. Cn-120 (continued)

Cain Corp. and Subsidiary

CONSOLIDATING STATEMENT WORKSHEET

December 31, 1989

<i>Income Statement</i>	<i>Cain Corp.</i> <i>Dr. (Cr.)</i>	<i>Frey, Inc.</i> <i>Dr. (Cr.)</i>	<i>Adjustments and Eliminations</i>		<i>Adjusted Balance</i>
			<i>Debit</i>	<i>Credit</i>	
Net sales	(3,800,000)	(1,500,000)			
Dividends from Frey	(40,000)				
Gain on sale of warehouse	(30,000)				
Cost of goods sold	2,360,000	870,000			
Operating expenses (including depreciation)	1,100,000	440,000			
Net Income	(410,000)	(190,000)			
<i>Retained Earnings Statement</i>					
Balance, 1/1/89	(440,000)	(156,000)			
Net income	(410,000)	(190,000)			
Dividends paid		40,000			
Balance, 12/31/89	(850,000)	(306,000)			
<i>Balance Sheet</i>					
Assets:					
Cash	570,000	150,000			
Accounts receivable (net)	860,000	350,000			
Inventories	1,060,000	410,000			
Land, plant and equipment	1,320,000	680,000			
Accumulated depreciation	(370,000)	(210,000)			
Investment in Frey (at cost)	750,000				
Total Assets	4,190,000	1,380,000			
Liabilities & Stockholders' Equity:					
Accounts payable & accrued expenses	(1,340,000)	(594,000)			
Common stock (\$10 par)	(1,700,000)	(400,000)			
Additional paid-in capital	(300,000)	(80,000)			
Retained earnings	(850,000)	(306,000)			
Total Liabilities & Stockholders' Equity	(4,190,000)	(1,380,000)			