

Consolidation illustration - prepared 4/11/2011

**X Company and Y Company
Balance Sheets 1/1/2002
(immediately before combination)**

<i>ASSETS</i>	<i>X Company</i>	<i>Y Company</i>
Cash	\$ 40,500	\$ 39,600
Accounts receivable	36,700	11,200
Inventories	25,300	14,100
Equipment	250,000	60,000
Less: Accumulated depreciation	(21,000)	(20,000)
Patents		20,000
Totals	<u>\$ 331,500</u>	<u>\$ 124,900</u>
<i>LIABILITIES & OWNERS' EQUITY</i>		
Accounts payable	6,000	7,600
Bonds payable	150,000	0
Capital stock, \$10 par	100,000	50,000
Additional paid-in capital	15,000	15,000
Retained earnings	60,500	52,300
	<u>\$ 331,500</u>	<u>\$ 124,900</u>

Case one: X Company issued 6,000 shares of previously unissued stock to acquire 100% of Y Company stock on 1/1/2002. The acquisition is appropriately deemed to be account for as a purchase.

Case two: X Company issued 4,800 shares of previously unissued stock to acquire 80% of Y Company stock on 1/1/2002 – the acquisition is appropriately deemed to be accounted for as a purchase.

Other Data:

- X Company's stock had a fair value of \$25 per share on January 1, 2002.
- Fair values differed from book values for Y Company on January 1, 2002, as follows:

	Fair Value	Book Value	Difference
Inventories	\$ 10,000	\$ 14,100	\$ (4,100)
Equipment (rem life: 5 years)	75,000	60,000	15,000
Accumulated Depreciation	(25,000)	(20,000)	(5,000)
Patent	25,000	20,000	5,000
Totals	<u>\$ 85,000</u>	<u>\$ 74,100</u>	<u>\$ 10,900</u>

**Additional Information for Consolidation of Company X and Y.
At December 31, 2002**

Financial statement data for the two companies as of December 31, 2002 are presented below:

During 2002, X Company sold merchandise to Y Company that originally cost X Company \$20,000 and the sale was made for \$25,000. On December 31, 2002, Y Company's inventory included merchandise purchased from X Company at a cost to Y Company of \$15,000.

Also during 2002, X Company acquired \$24,000 of merchandise from Y Company. Y Company uses a normal markup of 25% above its cost. X Company's ending inventory includes \$12,500 of the merchandise acquired from Y Company.

Y Company reduced its intercompany account payable to X Company to a balance of \$6,000 as of December 31, 2002, by making a payment of \$2,000 to December 30. This \$2,000 payment was still in transit on December 31, 2002.

On January 2, 2002, Y Company acquired equipment from X Company for \$9,000. The equipment was originally purchased by X Company for \$8,000 and had a book value of \$5,000 at the date of sale to Y Company. The original useful life was 8 years and straight-line method is used by both X Company and Y Company. The equipment had an estimated remaining life of 5 years as of January 2, 2002.

On December 31, 2002, Y Company purchased for \$56,000, 50% of the outstanding bonds issued by X Company. The bonds mature on December 31, 2005 and were originally issued at par. The bonds pay interest annually on December 31, of each year and the interest was paid to the prior investor immediately before Y Company's purchase of the bonds.

Patents have a 10 year remaining life.

Case 3. Based on the above information, complete the consolidated worksheet at December 31, 2002 for preparation of the consolidated balance sheet.

Case 4. Based on the above information, complete the consolidated worksheet at December 31, 2002 for preparation of the consolidated income statement, retained earnings statement, and balance sheet.

Consolidation illustration - prepared 4/11/2011
X Company and Y Company
Consolidation work sheet
(immediately after combination)

Case 1. (100% owned)

Balance Sheets

Adjustments & Eliminations

ASSETS	X Company	Y Company	Debit	Credit	Consolidated Balance sheet
Cash	\$40,500	\$39,600			
Accounts receivable	36,700	11,200			
Inventories	25,300	14,100			
Equipment	250,000	60,000			
Less: Accum. depreciation	(21,000)	(20,000)			
Patents		20,000			
Investment in Y Company	?				
Totals	?	\$124,900			
LIABILITIES & OWNERS' EQUITY					
Accounts payable	\$6,000	7,600			
Bonds payable	150,000	0			
Capital stock, \$10 par	?	50,000			
Additional paid-in capital	?	15,000			
Retained earnings	?	52,300			
Totals	?	\$124,900			

Consolidation illustration - prepared 4/11/2011
X Company and Y Company
Consolidation work sheet
(immediately after combination)
(no Non-Controlling Interest column utilized)

Case 2. (80% owned)

ASSETS	Balance Sheets		Adjustmnts & Eliminations			Consolidated Balance sheet
	X Company	Y Company	Debit	Credit		
Cash	\$40,500	\$39,600				
Accounts receivable	36,700	11,200				
Inventories	25,300	14,100				
Equipment	250,000	60,000				
Less: Accum.depreciation	(21,000)	(20,000)				
Patents		20,000				
Investment in Y Company	?					
Totals	?	\$124,900				
LIABILITIES & OWNERS' EQUITY						
Accounts payable	\$6,000	7,600				
Bonds payable	150,000	0				
Capital stock, \$10 par	?	50,000				
Additional paid-in capital	?	15,000				
Retained earnings	?	52,300				
Totals	?	\$124,900				

Consolidation illustration - prepared 4/11/2011
Using Non-Controlling Interest Column

X Company and Y Company
Consolidation work sheet
(immediately after combination)

Case 2. (80% owned)	Balance Sheets		Adjustmnts & Eliminations		Non-controlling interest	Consolidated Balance sheet
	X Company	Y Company	Debit	Credit		
ASSETS						
Cash	\$40,500	\$39,600				
Accounts receivable	36,700	11,200				
Inventories	25,300	14,100				
Equipment	250,000	60,000				
Less: Accum. Depr	(21,000)	(20,000)				
Patents		20,000				
Investment in Y Company	120,000					
GOODWILL						
Totals	451,500	\$124,900				
LIABILITIES & OWNERS' EQUITY						
Accounts payable	\$6,000	7,600				
Bonds payable	150,000	0				
Capital stock, \$10 par	148,000	50,000				
Additional paid-in capital	87,000	15,000				
Retained earnings	60,500	52,300				
total NCI						
Totals	\$451,500	\$124,900				

Purchase Accounting - 80% owned, subsequent to acquisition

Case 3. Balance Sheet Only
December 31, 2002

**Adjustments and
Eliminations**

	X Company	Y Company	Debit	Credit	Non- controlling Interest	Consolidated Balances
Cash	48,600	7,500				
Accounts receivable	42,400	6,500				
Inventories	56,000	10,900				
Equipment	242,000	69,000				
Less: Accum. depr.	(36,400)	(19,500)				
Invest in stock of Y Co	125,520					
Invest. in bonds of X Co.		56,000				
Patents		18,000				
Total assets	478,120	148,400				
Accounts payable	9,800	24,200				
Bonds payable	150,000					
Capital stock	148,000	50,000				
Additional paid-in capital	87,000	15,000				
Retained earnings	83,320	59,200				
Non-controlling interest						
Total liabilities and equities	478,120	148,400				

Purchase Accounting - 80% owned, subsequent to acquisition

Case 4 <i>Balance Sheet and Income Statement</i>			Adjust. and Eliminations			
December 31, 2002	X Company	Y Company	Debit	Credit	Non-controlling interest	Consolidated Balances
Income statement:						
Sales	850,000	450,000				
Cost of Sales	665,000	289,000				
Gross margin	185,000	161,000				
Depr & interest expense	30,500	17,600				
Other operating expenses	121,000	130,500				
Income from operations	33,500	12,900				
Gain on sale of equipment	4,000					
Equity in Sub income	10,320					
Net Income	47,820	12,900				
Ret. earnings statement						
1/1/2002 Ret. earnings:						
X Company	60,500					
Y Company		52,300				
Add: net income	47,820	12,900				
	108,320	65,200				
Deduct: Dividends	(25,000)	(6,000)				
	83,320	59,200				
Balance Sheet 12/31/2002						
Cash	48,600	7,500				
Accounts receivable	42,400	6,500				
Inventories	56,000	10,900				
Equipment	242,000	69,000				
Less: Accum. depreciation	(36,400)	(19,500)				
Invest in stk of Y Company	125,520					
Invest in bonds of X Co.		56,000				
Patents		18,000				
Total assets	478,120	148,400				
Accounts payable	9,800	24,200				
Bonds payable	150,000					
Capital stock	148,000	50,000				
Additional paid-in capital	87,000	15,000				
Ret. earnings (from above)	83,320	59,200				
Non-controlling interest						
Total liabilities and equities	478,120	148,400				