

EQUITY METHOD OF ACCOUNTING

During January, 20XA, Company P purchased 21% of the 30,000 outstanding common shares of Company S at \$16 per share. At date of acquisition of the shares the following data in respect to Company S had been assembled by Company P:

	Company S	
	At Book Value	At Estimated Value
Assets not subject to depreciation	\$250,000	\$260,000
Assets subject to depreciation (10-year remaining life)	200,000	220,000
	\$450,000	
Liabilities	\$ 50,000	\$ 50,000
Common stock par \$10	300,000	
Retained Earnings	100,000	
	\$450,000	

	20XA	20XB
Selected data available at year end:		
Reported net income (loss) Company S:		
Ordinary	\$ 20,000	\$(10,000)
Extraordinary	10,000	
Reported net income, Company P (prior to considering the investment in Company S)	120,000	100,000
Cash dividends declared:		
Company S	8,000	5,000
Company P	40,000	30,000
Quoted market price per share, Company S	21	17

At the end of January, 20XC, Company P sold enough shares so as to retain exactly a 20% interest in Company S, the sales price was \$18 per share.

Required: Accounting entries for year 20XA, 20XB and 20XC under the cost and equity methods.

