Consolidate Technique and Procedures

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CONSOLIDATION PROCEDURES

- The starting point for preparing consolidated financial statements is the books of the separate consolidating companies
  - The consolidated entity has no books
  - Amounts in the consolidated financial statements originate on the books of the parent or a subsidiary or in the consolidation workpaper

- The consolidation workpaper a mechanism for:
  - Combining the accounts of the separate companies involved in the consolidation
  - Adjusting the combined balances to the amounts that would be reported if all consolidating companies were actually a single company
- When consolidated statements are prepared, the account balances are taken from the separate books of the parent and each subsidiary and placed in the consolidation workpaper
- The consolidated statements are prepared, after adjustments and eliminations, from the amounts in the workpaper

CONSOLIDATION WORKPAPERS

- Eliminating entries
  - Used to adjust the totals of the individual account balances of the separate consolidating companies to reflect the amounts that would appear if all the legally separate companies were actually a single company
  - Appear only in the consolidating workpapers and do not affect the books of the separate companies
  - Used to increase or decrease the combined totals for individual accounts so that only transactions with external parties are reflected in the consolidated amounts
  - They do not carry over from period to period

Consolidated Balance Sheet with Wholly Owned Subsidiary - Illustration

Balance Sheets of Peerless Products and Special Foods, January 1, 20X1, Immediately before Combination

	Peerless Products	Special Foods
Assets		
Cash	$350,000	$50,000
Accounts Receivable	75,000	50,000
Inventory	100,000	60,000
Land	175,000	40,000
Buildings and Equipment	800,000	600,000
Accumulated Depreciation	(400,000)	(300,000)
Total Assets	$1,100,000	$500,000
Liabilities and Stockholders' Equity		
Accounts Payable	$100,000	$100,000
Bonds Payable	200,000	100,000
Common Stock	500,000	200,000
Retained Earnings	300,000	100,000
Total Liabilities and Equity	$1,100,000	$500,000

100 percent ownership acquired at book value

- Peerless acquires all of Special Foods' common stock for $300,000, an amount equal to the fair value of Special Foods as a whole
  - On the date of combination, the fair values of Special Foods' individual assets and liabilities are equal to their book values
  - Peerless records the stock acquisition on its books:

January 1, 20X1		
Investment in Special Foods Stock	**300,000**	
Cash		**300,000**
Record purchase of Special Foods stock.		

100 percent ownership acquired at book value

Balance Sheets of Peerless Products and Special Foods, January 1, 20X1, Immediately after Combination		
	Peerless Products	**Special Foods**
Assets		
Cash	$50,000	$50,000
Accounts Receivable	75,000	50,000
Inventory	100,000	60,000
Land	175,000	40,000
Buildings and Equipment	800,000	600,000
Accumulated Depreciation	(400,000)	(300,000)
Investment in Special Foods Stock	300,000	
Total Assets	$1,100,000	$500,000
Liabilities and Stockholders' Equity		
Accounts Payable	$100,000	$100,000
Bonds Payable	200,000	100,000
Common Stock	500,000	200,000
Retained Earnings	300,000	100,000
Total Liabilities and Equity	$1,100,000	$500,000

Workpaper for Consolidated Balance Sheet, January 1, 20X1, Date of Combination; 100 Percent Acquisition at Book Value

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credit	Consolidated
Cash	50,000	50,000			100,000
Accounts Receivable	75,000	50,000			125,000
Inventory	100,000	60,000			160,000
Land	175,000	40,000			215,000
Buildings and Equipment	800,000	600,000			1,400,000
Investment in Special Foods Stock	300,000			(2) 300,000	
Total Debits	1,500,000	800,000			2,000,000
Accumulated Depreciation	400,000	300,000			700,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	(2) 200,000		500,000
Retained Earnings	300,000	100,000	(2) 100,000		300,000
Total Credits	1,500,000	800,000	300,000	300,000	2,000,000

Investment elimination entry

E(2)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings	**100,000**	
	Investment in Special Foods Stock		**300,000**

100 percent ownership acquired at book value

PEERLESS PRODUCTS CORPORATION AND SUBSIDIARY
Consolidated Balance Sheet
January 1, 20X1

Assets			Liabilities	
Cash		$ 100,000	Accounts Payable	$ 200,000
Accounts Receivable		125,000	Bonds Payable	300,000
Inventory		160,000		
Land		215,000	Stockholders' Equity	
Buildings and Equipment	$1,400,000		Common Stock	500,000
Accumulated Depreciation	(700,000)	700,000	Retained Earnings	300,000
Total Assets		$1,300,000	Total Liabilities and Equity	$1,300,000

100 Percent Ownership Acquired at More than Book Value

Peerless acquires all of Special Foods' outstanding stock on January 1, 20X1, by paying $340,000 cash, an amount equal to Special Foods' fair value as a whole. The consideration given by Peerless is $40,000 in excess of Special Foods' book value of $300,000.

	P	Fair value of consideration		$340,000
		Book value of shares acquired		
1/1/X1		Common stock—Special Foods	$200,000	
100%		Retained earnings—Special Foods	100,000	
				300,000
	S	Differential		$ 40,000

Peerless records the stock acquisition:

January 1, 20X1		
Investment in Special Foods Stock	**340,000**	
Cash		**340,000**
Record purchase of Special Foods stock.		

100 Percent Ownership Acquired at More than Book Value

- The workpaper entry to eliminate Peerless's investment account and the stockholders' equity accounts of Special Foods is:

E(4)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings	**100,000**	
	Differential	**40,000**	
	Investment in Special Foods Stock		**340,000**
	Eliminate investment balance.		

- The fair value, and hence acquisition price, of a subsidiary might exceed the book value for several reasons:
  - Errors or omissions on the books of the subsidiary
  - Excess of fair value over the book value of the subsidiary's net identifiable assets
  - Existence of goodwill

100 Percent Ownership Acquired at More than Book Value

- Errors or omissions on the books of the subsidiary
  - Corrections should be made directly on the subsidiary's books as of the date of acquisition
- Excess of fair value over book value of subsidiary's net identifiable assets
  - The assets and liabilities of the subsidiary may be revalued directly on the books of the subsidiary
  - The accounting basis of the subsidiary may be maintained and the revaluations made each period in the consolidation workpaper

100 Percent Ownership Acquired at More than Book Value

If the fair value of Special Foods' land is determined to be $40,000 more than its book value, and all other assets and liabilities have fair values equal to their book values, the entire amount of the differential is allocated to the subsidiary's land

E(5) **Land**	**40,000**	
Differential		**40,000**
Assign differential to land.		

Workpaper for Consolidated Balance Sheet, January 1, 20X1, Date of Combination; 100 Percent Acquisition at More than Book Value

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credit	Consolidated
Cash	10,000	50,000			60,000
Accounts Receivable	75,000	50,000			125,000
Inventory	100,000	60,000			160,000
Land	175,000	40,000	(5) 40,000		255,000
Buildings and Equipment	800,000	600,000			1,400,000
Investment in Special Foods Stock	340,000			(4) 340,000	
Differential			(4) 40,000	(5) 40,000	
Total Debits	1,500,000	800,000			2,000,000
Accumulated Depreciation	400,000	300,000			700,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	(4) 200,000		500,000
Retained Earnings	300,000	100,000	(4) 100,000		300,000
Total Credits	1,500,000	800,000	380,000	380,000	2,000,000

Elimination entries:

(4) Eliminate investment balance and stockholders' equity of Special Foods.

(5) Assign differential to land.

100 Percent Ownership Acquired at More than Book Value

- Existence of goodwill
  - Related to the future economic benefits associated with other assets of the subsidiary that are not separately identified and recognized

Assuming that the acquisition-date fair values of Special Foods' assets and liabilities are equal to their book values, then the $40,000 difference between the $340,000 consideration exchanged and the $300,000 fair value of the subsidiary's net identifiable assets is attributed to goodwill.

E(6)	**Goodwill**	**40,000**	
	Differential		**40,000**
	Assign differential to goodwill.		

Illustration of Treatment of Debit Differential

Assume that the acquisition-date book values and fair values of Special Foods' assets and liabilities are as shown.

		Book Value	Fair Value	Difference between Fair Value and Book Value
Cash		$ 50,000	$ 50,000	
Accounts Receivable		50,000	50,000	
Inventory		60,000	75,000	$15,000
Land		40,000	100,000	60,000
Buildings and Equipment	$ 600,000			
Accumulated Depreciation	(300,000)	300,000	290,000	(10,000)
		$500,000	$565,000	
Accounts Payable		$100,000	$100,000	
Bonds Payable		100,000	135,000	(35,000)
Common Stock		200,000		
Retained Earnings		100,000		
		$500,000	$235,000	$30,000

Illustration of Treatment of Debit Differential

Assume that Peerless Products acquires all of Special Foods' capital stock for $400,000 on January 1, 20X1, by issuing $100,000 of 9 percent bonds, with a fair value of $100,000, and paying cash of $300,000. The resulting ownership situation can be pictured as follows:

	P	Fair value of consideration		$400,000
		Book value of shares acquired		
1/1/X1		Common stock—Special Foods	$200,000	
100%		Retained earnings—Special Foods	100,000	
				300,000
	S	Differential		$100,000

Peerless records the investment on its books with the following entry:

January 1, 20X1

Investment in Special Foods Stock	**400,000**	
Bonds Payable		**100,000**
Cash		**300,000**

Record purchase of Special Foods stock.

Illustration of Treatment of Debit Differential

The relationship between the fair value of the consideration given for Special Foods, the fair value of Special Foods' net assets, and the book value of Special Foods' net assets is as follows:

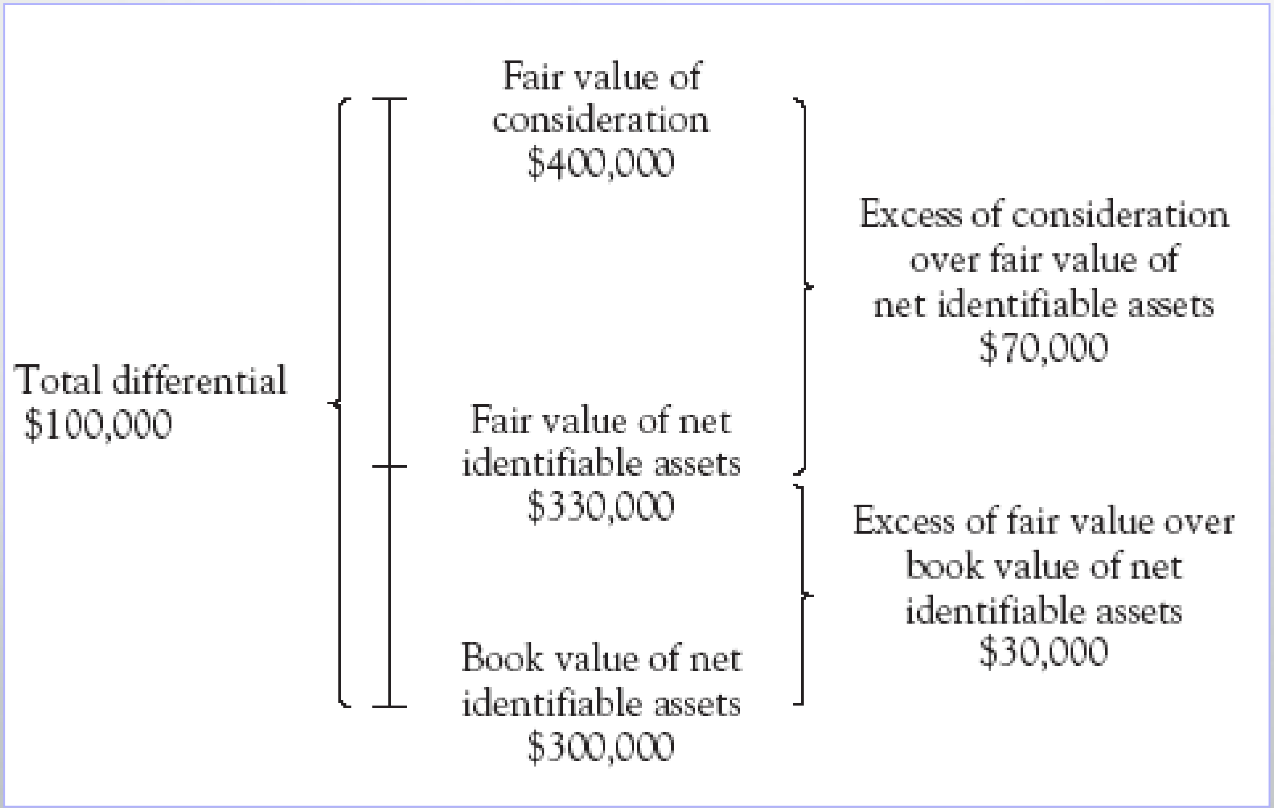

Illustration of Treatment of Debit Differential

The eliminations entered in the consolidation workpaper in preparing the consolidated balance sheet immediately after the combination are:

E(8)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings	**100,000**	
	Differential	**100,000**	
	Investment in Special Foods Stock		**400,000**
	Eliminate investment balance.		
E(9)	**Inventory**	**15,000**	
	Land	**60,000**	
	Goodwill	**70,000**	
	Buildings and Equipment		**10,000**
	Premium on Bonds Payable		**35,000**
	Differential		**100,000**
	Assign differential.		

These entries are reflected in the workpaper in the next slide.

Workpaper for Consolidated Balance Sheet, January 1, 20X1, Date of Combination; 100 Percent Acquisition at More than Book Value

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credit	Consolidated
Cash	50,000	50,000			100,000
Accounts Receivable	75,000	50,000			125,000
Inventory	100,000	60,000	(9) 15,000		175,000
Land	175,000	40,000	(9) 60,000		275,000
Buildings and Equipment	800,000	600,000		(9) 10,000	1,390,000
Goodwill			(9) 70,000		70,000
Investment in Special Foods Stock	400,000			(8) 400,000	
Differential			(8) 100,000	(9) 100,000	
Total Debits	1,600,000	800,000			2,135,000
Accumulated Depreciation	400,000	300,000			700,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	300,000	100,000			400,000
Premium on Bonds Payable				(9) 35,000	35,000
Common Stock	500,000	200,000	(8) 200,000		500,000
Retained Earnings	300,000	100,000	(8) 100,000		300,000
Total Credits	1,600,000	800,000	545,000	545,000	2,135,000

Elimination entries:

(8) Eliminate investment balance and stockholders' equity of Special Foods.

(9) Assign differential.

100 Percent Ownership Acquired at Less than Fair Value of Net Assets

- Bargain purchase:
  - A business combination where the sum of the acquisition-date fair values of the consideration given, any equity interest already held by the acquirer, and any noncontrolling interest is less than the amounts at which the identifiable net assets must be valued at the acquisition date as specified by FASB 141R
  - A gain attributable to the acquirer is recognized for the difference

Illustration of Treatment of Bargain-Purchase Differential

Assume that the acquisition-date book values and fair values of Special Foods' assets and liabilities are equal except that the fair value of Special Foods' land is $40,000 greater than its book value. On January 1, 20X1, Peerless acquires all of Special Foods' common stock for $310,000, resulting in a bargain purchase. The resulting ownership situation is as follows:

	P	Fair value of consideration		$310,000
		Book value of shares acquired		
1/1/X1		Common stock—Special Foods	$200,000	
100%		Retained earnings—Special Foods	100,000	
				300,000
	S	Differential		$ 10,000

Peerless records its investment in Special Foods with the following entry on its books:

January 1, 20X1

Investment in Special Foods Stock	**310,000**	
Cash		**310,000**

Record purchase of Special Foods stock.

Illustration of Treatment of Bargain-Purchase Differential

The purchase price exceeds Special Foods' book value by only $10,000 and, thus, is less than the fair value of the net identifiable assets acquired.

Assuming push-down accounting is not employed, if a consolidated balance sheet is prepared immediately after the combination, the following eliminating entries are included in the consolidation workpaper:

E(11)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings	**100,000**	
	Differential	**10,000**	
	Investment in Special Foods Stock		**310,000**
	Eliminate investment balance.		
E(12)	**Land**	**40,000**	
	Differential		**10,000**
	Retained Earnings (Gain on Bargain Purchase)		**30,000**
	Assign differential in bargain purchase.		

Illustration of Treatment of Bargain-Purchase Differential

Assume that Peerless paid $295,000 for all of the common stock of Special Foods.

The same procedures would be followed except the differential would have a credit balance. The eliminating entries are:

E(13)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings	**100,000**	
	Differential		**5,000**
	Investment in Special Foods Stock		**295,000**
	Eliminate investment balance.		
E(14)	**Land**	**40,000**	
	Differential	**5,000**	
	Retained Earnings (Gain on Bargain Purchase)		**45,000**
	Assign differential in bargain purchase.		

Consolidation Subsequent to Acquisition

- The approach followed to prepare a complete set of consolidated financial statements subsequent to a business combination is quite similar to that used to prepare a consolidated balance sheet as of the date of combination
  - However, in addition to the assets and liabilities, the revenues and expenses of the consolidating companies must be combined
  - Eliminations must be made in the consolidation workpaper so that the consolidated statements appear as if they are the financial statements of a single company

- Consolidated Net Income
  - In the absence of transactions among the consolidating companies, consolidated net income is equal to the parent's income from its own operations, excluding any investment income from consolidated subsidiaries, plus the net income from each of the consolidated subsidiaries, adjusted for any differential write-off
  - Includes 100 percent of the revenues and expenses regardless of the parent's percentage ownership

- Consolidated retained earnings
  - That portion of the consolidated enterprise's undistributed earnings accruing to the parent company shareholders
  - Consolidated retained earnings at the end of the period is equal to the beginning consolidated retained earnings balance plus consolidated net income attributable to the controlling interest, less dividends declared by the parent company

Format for Comprehensive Three-Part Consolidation Workpaper

Item	Trial Balance Data		Elimination Entries		Consolidated
	Parent	Subsidiary	Debits	Credits	
Credit Accounts: Revenues Gains Debit Accounts: Contra Revenues Expenses Losses Net Income	INCOME STATEMENT SECTION				
Beginning Retained Earnings Add: Net Income Deduct: Dividends Ending Retained Earnings	RETAINED EARNINGS STATEMENT SECTION				
Debit Accounts: Assets Contra Liabilities Credit Accounts: Contra Assets Liabilities Stockholders' Equity: Capital Stock Paid-In Capital Retained Earnings	BALANCE SHEET SECTION				

Consolidated Financial Statements—100 Percent Ownership Acquired at Book Value

Assume that on January 1, 20X1, Peerless Products Corporation acquires all of the common stock of Special Foods Inc. for $300,000, an amount equal to the book value of Special Foods on that date. At that time, Special Foods has $200,000 of common stock outstanding and retained earnings of $100,000. Following information is available:

	Peerless Products	Special Foods
Common Stock, January 1, 20X1	$500,000	$200,000
Retained Earnings, January 1, 20X1	300,000	100,000
20X1:		
Separate Operating Income, Peerless	140,000	
Net Income, Special Foods		50,000
Dividends	60,000	30,000
20X2:		
Separate Operating Income, Peerless	160,000	
Net Income, Special Foods		75,000
Dividends	60,000	40,000

Consolidated Financial Statements—100 Percent Ownership Acquired at Book Value

Initial year of ownership – Journal entries		
January 1, 20X1		
Investment in Special Foods Stock	**300,000**	
Cash		**300,000**
Record acquisition of Special Foods stock.		
Cash	**30,000**	
Investment in Special Foods Stock		**30,000**
Record dividends from Special Foods: $30,000 X 1.00		
Investment in Special Foods Stock	**50,000**	
Income from Subsidiary		**50,000**
Record equity-method income: $50,000 X 1.00		
Eliminating Entries:		
E(18) **Income from Subsidiary**	**50,000**	
Dividends Declared		**30,000**
Investment in Special Foods Stock		**20,000**
Eliminate income from subsidiary.		
E(19) **Common Stock—Special Foods**	**200,000**	
Retained Earnings, January 1	**100,000**	
Investment in Special Foods Stock		**300,000**
Eliminate beginning investment balance.		

December 31, 20X1, Equity-Method Workpaper for Consolidated Financial Statements, Initial Year of Ownership; 100 Percent Acquisition at Book Value

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credit	Consolidated
Sales	400,000	200,000			600,000
Income from Subsidiary	50,000		(18) 50,000		
Credits	450,000	200,000			600,000
Cost of Goods Sold	170,000	115,000			285,000
Depreciation and Amortization	50,000	20,000			70,000
Other Expenses	40,000	15,000			55,000
Debits	(260,000)	(150,000)			(410,000)
Net Income, carry forward	190,000	50,000	50,000		190,000
Retained Earnings, January 1	300,000	100,000	(19) 100,000		300,000
Net Income, from above	190,000	50,000	50,000		190,000
	490,000	150,000			490,000
Dividends Declared	(60,000)	(30,000)		(18) 30,000	(60,000)
Retained Earnings, December 31, carry forward	430,000	120,000	150,000	30,000	430,000
Cash	210,000	75,000			285,000
Accounts Receivable	75,000	50,000			125,000
Inventory	100,000	75,000			175,000
Land	175,000	40,000			215,000
Buildings and Equipment	800,000	600,000			1,400,000
Investment in Special Foods Stock	320,000			(18) 20,000 (19) 300,000	
Debits	1,680,000	840,000			2,200,000
Accumulated Depreciation	450,000	320,000			770,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	(19) 200,000		500,000
Retained Earnings, from above	430,000	120,000	150,000	30,000	430,000
Credits	1,680,000	840,000	350,000	350,000	2,200,000

Consolidated Financial Statements—100 Percent Ownership Acquired at Book Value

Second and subsequent years of ownership Peerless's separate income from its own operations for 20X2 is $160,000, and its dividends total $60,000. Special Foods reports net income of $75,000 in 20X2 and pays dividends of $40,000.
Entries:

	Cash	**40,000**	
	Investment in Special Foods Stock		**40,000**
	Record dividends from Special Foods: $40,000 x 1.00		
	Investment in Special Foods Stock	**75,000**	
	Income from Subsidiary		**75,000**
	Record equity-method income: $75,000 x 1.00		

Eliminating Entries

E(22)	**Income from Subsidiary**	**75,000**	
	Dividends Declared		**40,000**
	Investment in Special Foods Stock		**35,000**
	Eliminate income from subsidiary.		
E(23)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings, January 1	**120,000**	
	Investment in Special Foods Stock		**320,000**
	Eliminate beginning investment balance.		

FIGURE 4–12 December 31, 20X2, Equity-Method Workpaper for Consolidated Financial Statements, Second Year of Ownership; 100 Percent Acquisition at Book Value

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credit	Consolidated
Sales	450,000	300,000			750,000
Income from Subsidiary	75,000		(22) 75,000		
Credits	525,000	300,000			750,000
Cost of Goods Sold	180,000	160,000			340,000
Depreciation and Amortization	50,000	20,000			70,000
Other Expenses	60,000	45,000			105,000
Debits	(290,000)	(225,000)			(515,000)
Net Income, carry forward	235,000	75,000	75,000		235,000
Retained Earnings, January 1	430,000	120,000	(23) 120,000		430,000
Net Income, from above	235,000	75,000	75,000		235,000
	665,000	195,000			665,000
Dividends Declared	(60,000)	(40,000)		(22) 40,000	(60,000)
Retained Earnings, December 31, carry forward	605,000	155,000	195,000	40,000	605,000
Cash	245,000	85,000			330,000
Accounts Receivable	150,000	80,000			230,000
Inventory	180,000	90,000			270,000
Land	175,000	40,000			215,000
Buildings and Equipment	800,000	600,000			1,400,000
Investment in Special Foods Stock	355,000			(22) 35,000 (23) 320,000	
Debits	1,905,000	895,000			2,445,000
Accumulated Depreciation	500,000	340,000			840,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	(23) 200,000		500,000
Retained Earnings, from above	605,000	155,000	195,000	40,000	605,000
Credits	1,905,000	895,000	395,000	395,000	2,445,000

Consolidated Financial Statements—100 Percent Ownership Acquired at Book Value

	20X1	20X2
Peerless's net income	$190,000	$235,000
Peerless's equity income from Special Foods	(50,000)	(75,000)
Special Foods' net income	50,000	75,000
Consolidated net income	$190,000	$235,000

- Consolidated net income and retained earnings

	20X1	20X2
Peerless's beginning retained earnings from its own operations	$300,000	$380,000
Peerless's income from its own operations	140,000	160,000
Peerless's income from Special Foods since acquisition (cumulative)	50,000	125,000
Peerless's dividends declared	(60,000)	(60,000)
Consolidated retained earnings	$430,000	$605,000

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

Peerless acquires all of Special Foods' common stock on January 1, 20X1, for $387,500, an amount $87,500 in excess of the book value. Acquisition price includes cash of $300,000 and a 60-day note for $87,500 (paid at maturity during 20X1). At that date, Special Foods is holding the assets and liabilities shown in Slide 7. On the date of combination, all of Special Foods' assets and liabilities have fair values equal to their book values, except as follows:

	Book Value	Fair Value	Fair Value Increment
Inventory	$60,000	$65,000	$5,000
Land	40,000	50,000	10,000
Buildings and Equipment	300,000	360,000	60,000
	$400,000	$475,000	$75,000

The buildings and equipment have a remaining economic life of 10 years. At the end of 20X1, Peerless's management determines that the goodwill acquired in the combination with Special Foods has been impaired. Management determines that a $3,000 goodwill impairment loss should be recognized in the consolidated income statement.

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

For the first year immediately after the date of combination, 20X1, Peerless earns income from its own separate operations of $140,000 and pays $60,000 dividends. Special reports net income of $50,000 and pays $30,000 dividends.

Parent Company Entries:

Investment in Special Foods Stock	**387,500**	
Cash		**300,000**
Notes Payable		**87,500**
Record purchase of Special Foods		
Cash	**30,000**	
Investment in Special Foods Stock		**30,000**
Record dividends from Special Foods.		
Investment in Special Foods Stock	**50,000**	
Income from Subsidiary		**50,000**
Record equity-method income.		
Income from Subsidiary	**5,000**	
Investment in Special Foods Stock		**5,000**
Adjust income for differential related to inventory sold.		
Income from Subsidiary	**6000**	
Investment in Special Foods Stock		**6000**
Amortize differential related to buildings and equipment.		

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

Eliminating entries	
E(29)	**Income from Subsidiary**
	Dividends Declared
	Investment in Special Foods Stock
	Eliminate income from subsidiary.
E(30)	**Common Stock—Special Foods**
	Retained Earnings, January 1
	Differential
	Investment in Special Foods Stock
	Eliminate beginning investment balance.
E(31)	**Cost of Goods Sold**
	Land
	Buildings and Equipment
	Goodwill
	Differential
	Assign beginning differential.
E(32)	**Depreciation Expense**
	Accumulated Depreciation
	Amortize differential related to buildings and equipment
E(33)	**Goodwill Impairment Loss**
	Goodwill
	Write down goodwill for impairment.

FIGURE 4–13 December 31, 20X1, Equity-Method Workpaper for Consolidated Financial Statements, Initial Year of Ownership; 100 Percent Acquisition at More than Book Value

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credit	Consolidated
Sales	400,000	200,000			600,000
Income from Subsidiary	39,000		(29) 39,000		
Credits	439,000	200,000			600,000
Cost of Goods Sold	170,000	115,000	(31) 5,000		290,000
Depreciation and Amortization	50,000	20,000	(32) 6,000		76,000
Goodwill Impairment Loss			(33) 3,000		3,000
Other Expenses	40,000	15,000			55,000
Debits	(260,000)	(150,000)			(424,000)
Net Income, carry forward	179,000	50,000	53,000		176,000
Retained Earnings, January 1	300,000	100,000	(30) 100,000		300,000
Net Income, from above	179,000	50,000	53,000		176,000
	479,000	150,000			476,000
Dividends Declared	(60,000)	(30,000)		(29) 30,000	(60,000)
Retained Earnings, December 31, carry forward	419,000	120,000	153,000	30,000	416,000
Cash	122,500	75,000			197,500
Accounts Receivable	75,000	50,000			125,000
Inventory	100,000	75,000			175,000
Land	175,000	40,000	(31) 10,000		225,000
Buildings and Equipment	800,000	600,000	(31) 60,000		1,460,000
Investment in Special Foods Stock	396,500			(29) 9,000 (30) 387,500	
Goodwill			(31) 12,500	(33) 3,000	9,500
Differential			(30) 87,500	(31) 87,500	
Debits	1,669,000	840,000			2,192,000
Accumulated Depreciation	450,000	320,000		(32) 6,000	776,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	(30) 200,000		500,000
Retained Earnings, from above	419,000	120,000	153,000	30,000	416,000
Credits	1,669,000	840,000	523,000	523,000	2,192,000

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

Consolidated net income, 20X1:	
Peerless's separate operating income	$140,000
Special Foods' net income	50,000
Write-off of differential related to inventory sold during 20X1	(5,000)
Amortization of differential related to buildings and equipment in 20X1	(6,000)
Goodwill impairment loss	(3,000)
Consolidated net income, 20X1	$176,000
Consolidated retained earnings, December 31, 20X1:	
Peerless's retained earnings on date of combination, January 1, 20X1	$300,000
Peerless's separate operating income, 20X1	140,000
Special Foods' 20X1 net income	50,000
Write-off of differential related to inventory sold during 20X1	(5,000)
Amortization of differential related to buildings and equipment in 20X1	(6,000)
Goodwill impairment loss	(3,000)
Dividends declared by Peerless, 20X1	(60,000)
Consolidated retained earnings, December 31, 20X1	$416,000

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

Second Year of Ownership: During 20X2, Peerless earns income from its own separate operations of $160,000 and pays dividends of $60,000; Special Foods reports net income of $75,000 and pays $40,000 dividends. No further impairment of the goodwill occurs.

Parent Company Entries		
Cash	**40,000**	
Investment in Special Foods Stock		**40,000**
Record dividends from Special Foods.		
Investment in Special Foods Stock	**75,000**	
Income from Subsidiary		**75,000**
Record equity-method income.		
Income from Subsidiary	**6,000**	
Investment in Special Foods Stock		**6,000**
Amortize differential related to buildings and equipment.		

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

The changes in the parent's investment account for 20X1 and 20X2 can be summarized as follows:

		20X1		20X2
Balance at start of year		$387,500		$396,500
Income from subsidiary:				
Parent's accrual of subsidiary's income	$50,000		$75,000	
Differential write-off for inventory sold	(5,000)			
Amortization of differential	(6,000)		(6,000)	
		39,000		69,000
Less: Dividends received from subsidiary		(30,000)		(40,000)
Balance at end of year		$396,500		$425,500

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

Eliminating entries at the end of 20X2			
E(37)	**Income from Subsidiary**	**69,000**	
	Dividends Declared		**40,000**
	Investment in Special Foods Stock		**29,000**
	Eliminate income from subsidiary.		
E(38)	**Common Stock—Special Foods**	**200,000**	
	Retained Earnings, January 1	**120,000**	
	Differential	**76,500**	
	Investment in Special Foods Stock		**396,500**
	Eliminate beginning investment balance.		
E(39)	**Land**	**10,000**	
	Buildings and Equipment	**60,000**	
	Goodwill	**12,500**	
	Differential		**76,500**
	Accumulated Depreciation		**6,000**
	Assign beginning differential.		
E(40)	**Depreciation Expense**	**6,000**	
	Accumulated Depreciation		**6,000**
	Amortize differential related to buildings and equipment		
E(41)	**Retained Earnings, January 1**	**3,000**	
	Goodwill		**3,000**
	Adjust for 20X1 impairment of goodwill.		

FIGURE 4–15 **December 31, 20X2, Equity-Method Workpaper for Consolidated Financial Statements, Second Year of Ownership; 100 Percent Acquisition at More than Book Value**

Item	Peerless Products	Special Foods	Eliminations Debit	Eliminations Credits	Consolidated
Sales	450,000	300,000			750,000
Income from Subsidiary	69,000		(37) 69,000		
Credits	519,000	300,000			750,000
Cost of Goods Sold	180,000	160,000			340,000
Depreciation and Amortization	50,000	20,000	(40) 6,000		76,000
Other Expenses	60,000	45,000			105,000
Debits	(290,000)	(225,000)			521,000
Net Income, carry forward	229,000	75,000	75,000		229,000
Retained Earnings, January 1	419,000	120,000	(38) 120,000 (41) 3,000		416,000
Net Income, from above	229,000	75,000	75,000		229,000
	648,000	195,000			645,000
Dividends Declared	(60,000)	(40,000)		(37) 40,000	(60,000)
Retained Earnings, December 31, carry forward	588,000	155,000	198,000	40,000	585,000
Cash	157,500	85,000			242,500
Accounts Receivable	150,000	80,000			230,000
Inventory	180,000	90,000			270,000
Land	175,000	40,000	(39) 10,000		225,000
Buildings and Equipment	800,000	600,000	(39) 60,000		1,460,000
Investment in Special Foods Stock	425,500			(37) 29,000 (38) 396,500	
Goodwill			(39) 12,500	(41) 3,000	9,500
Differential			(38) 76,500	(39) 76,500	
Debits	1,888,000	895,000			2,437,000
Accumulated Depreciation	500,000	340,000		(39) 6,000 (40) 6,000	852,000
Accounts Payable	100,000	100,000			200,000
Bonds Payable	200,000	100,000			300,000
Common Stock	500,000	200,000	(38) 200,000		500,000
Retained Earnings, from above	588,000	155,000	198,000	40,000	585,000
Credits	1,888,000	895,000	557,000	557,000	2,437,000

Elimination entries:
(37) Eliminate income from subsidiary.
(38) Eliminate beginning investment balance.
(39) Assign beginning differential.
(40) Amortize differential related to buildings and equipment.
(41) Adjust for 20X1 impairment of goodwill.

Consolidated Financial Statements—100 Percent Ownership Acquired at More than Book Value

Consolidated Net Income and Retained Earnings, 20X2; 100 Percent Acquisition at More than Book Value

Consolidated net income, 20X2:	
Peerless's separate operating income	$160,000
Special Foods' net income	75,000
Amortization of differential related to buildings and equipment in 20X2	(6,000)
Consolidated net income, 20X2	$229,000
Consolidated retained earnings, December 31, 20X2:	
Consolidated retained earnings, December 31, 20X1	$416,000
Peerless's separate operating income, 20X2	160,000
Special Foods' 20X2 net income	75,000
Amortization of differential related to buildings and equipment in 20X2	(6,000)
Dividends declared by Peerless, 20X2	(60,000)
Consolidated retained earnings, December 31, 20X2	$585,000

INTERCOMPANY RECEIVABLES AND PAYABLES

- All forms of intercompany receivables and payables need to be eliminated when consolidated financial statements are prepared
- If no eliminating entry is made, both the consolidated assets and liabilities are overstated by an equal amount

PUSH-DOWN ACCOUNTING

- Push-down accounting refers to the practice of revaluing an acquired subsidiary's assets and liabilities to their fair values directly on that subsidiary's books at the date of acquisition
  - The revaluations are recorded once on the subsidiary's books at the date of acquisition and, therefore, are not made in the consolidation workpapers each time consolidated statements are prepared
  - **SEC Staff Accounting Bulletin No. 54** requires push-down accounting whenever a business combination results in the acquired subsidiary becoming substantially wholly owned

THANK YOU