# Indirect and Mutual Holdings

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# EFFECT OF A NONCONTROLLING INTEREST

When a subsidiary is less than wholly owned, the consolidation procedures must be modified slightly to recognize the noncontrolling interest

## Consolidated Net Income

- In the absence of transactions between companies included in the consolidation, 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

The income attributable to the subsidiary noncontrolling interest is deducted from consolidated net income on the face of the income statement to arrive at consolidated net income attributable to the controlling interest

- The income attributable to a noncontrolling interest in a subsidiary is based on a proportionate share of that subsidiary's net income

## Consolidated retained earnings

- That portion of the consolidated entity’s undistributed earnings accruing to the parent’s stockholders
- Calculated by adding the parent’s share of subsidiary cumulative net income since acquisition to the parent’s retained earnings from its own operations and subtracting the parent’s share of any differential write-off

## Consolidated retained earnings

- Retained earnings related to subsidiary noncontrolling shareholders is included in the Noncontrolling Interest amount reported in the equity section of the consolidated balance sheet
- More consistent with the parent company theory rather than the entity approach

# Illustration of consolidated net income and consolidated retained earnings

Push Corporation acquires 80 percent of the stock of Shove Company for an amount equal to 80 percent of Shove's total book value. During 20X1, Shove reports net income of $25,000, while Push reports net income of $120,000, including equity-method income from Shove of $20,000 ($25,000 x .80). Consolidated net income for 20X1 is computed and allocated as follows:

| | |
|---|---|
| Push's net income | $120,000 |
| Less: Equity-method income from Shove | (20,000) |
| Shove's net income | 25,000 |
| Consolidated net income | $125,000 |
| Income attributable to noncontrolling interest | (5,000) |
| Income attributable to controlling interest | $120,000 |

Net income and dividends during the two years following acquisition are:

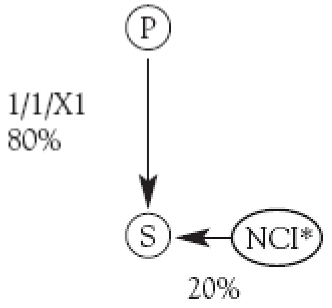
| | Push | Shove |
|---|---|---|
| Retained earnings, January 1, 20X1 | $400,000 | $250,000 |
| Net income, 20X1 | 120,000 | 25,000 |
| Dividends, 20X1 | (30,000) | (10,000) |
| Retained earnings December 31, 20X1 | $490,000 | $265,000 |
| Net income, 20X2 | 148,000 | 35,000 |
| Dividends, 20X2 | (30,000) | (10,000) |
| Retained earnings, December 31, 20X2 | $608,000 | $290,000 |

Consolidated retained earnings at December 31, 20X2, two years after the date of combination, is computed as follows, assuming no differential:

| | |
|---|---|
| Push's retained earnings, December 31, 20X2 | $608,000 |
| Equity accrual from Shove since acquisition ($25,000 + $35,000) x .80 | (48,000) |
| Push's retained earnings from its own operations, December 31, 20X2 | $560,000 |
| Push's share of Shove's net income since acquisition $60,000 x .8 | 48,000 |
| Consolidated retained earnings, December 31, 20X2 | $608,000 |

# Consolidated Balance Sheet with Majority-Owned Subsidiary

On January 1, 20X1, Peerless acquires 80 percent of the common stock of Special Foods for $310,000. At that date, the fair value of the noncontrolling interest is estimated to be $77,500.




| | | |
|---|---|---|
| Total fair value | | $387,500 |
| Book value | | |
| Common stock—Special Foods | $200,000 | |
| Retained earnings—Special Foods | 100,000 | |
| | | 300,000 |
| Differential | | $ 87,500 |

* Noncontrolling interest

- Peerless records the acquisition on its books with the following entry:

| | | |
|---|---|---|
| Investment in Special Foods Stock | 310,000 | |
| Cash | | 310,000 |
| Record purchase of Special Foods stock. | | |

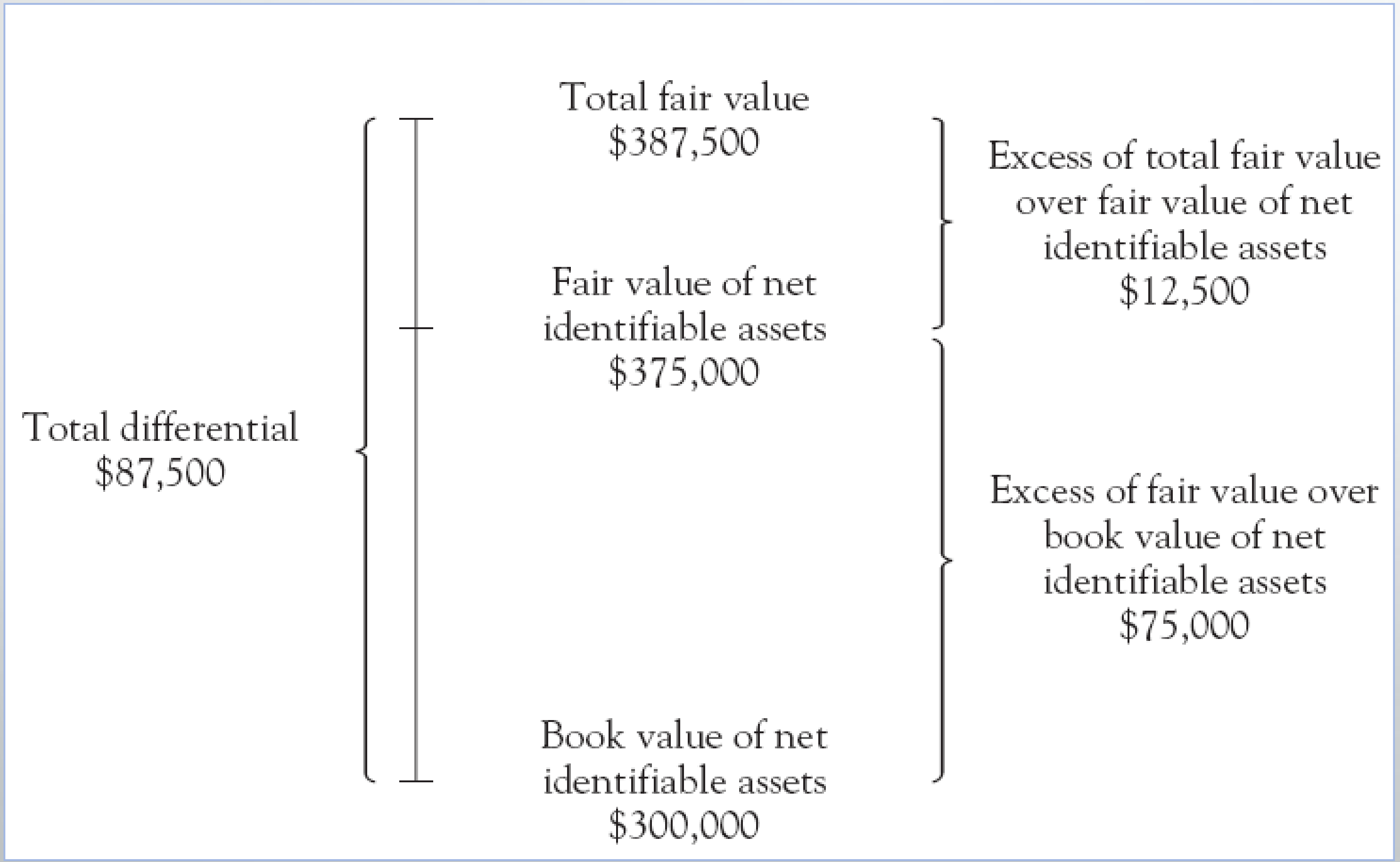
## Balance Sheets of Peerless Products and Special Foods, January 1, 20X1, Immediately after Combination

| | Peerless Products | Special Foods |
|---|---|---|
| Assets | | |
| Cash | $40,000 | $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 | 310,000 | |
| 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 |

### Values of Select Assets of Special Foods

| | 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 |

# Consolidated Balance Sheet with Majority-Owned Subsidiary



# Workpaper for Consolidated Balance Sheet, January 1, 20X1, Date of Combination; 80 Percent Acquisition at More than Book Value

| Item | Peerless Products | Special Foods | Eliminations Debit | Eliminations Credit | Consolidated |
|---|---|---|---|---|---|
| Cash | 40,000 | 50,000 | | | 90,000 |
| Accounts Receivable | 75,000 | 50,000 | | | 125,000 |
| Inventory | 100,000 | 60,000 | (3) 5,000 | | 165,000 |
| Land | 175,000 | 40,000 | (3) 10,000 | | 225,000 |
| Buildings and Equipment | 800,000 | 600,000 | (3) 60,000 | | 1,460,000 |
| Goodwill | | | (3) 12,500 | | 12,500 |
| Investment in Special Foods Stock | 310,000 | | | (2) 310,000 | |
| Differential | | | (2) 87,500 | (3) 87,500 | |
| Total Debits | 1,500,000 | 800,000 | | | 2,077,500 |
| 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 |
| Noncontrolling Interest | | | | (2) 77,500 | 77,500 |
| Total Credits | 1,500,000 | 800,000 | 475,000 | 475,000 | 2,077,500 |

Elimination entries:

(2) Eliminate investment balance and stockholders' equity of Special Foods; establish noncontrolling interest.

(3) Assign differential.

# Consolidated Balance Sheet with Majority-Owned Subsidiary

**Eliminating entries**

| | | | |
|---|---|---|---|
| E(2) | **Common Stock—Special Foods** | **200,000** | |
| | **Retained Earnings** | **100,000** | |
| | **Differential** | **87,500** | |
| | **Investment in Special Foods Stock** | | **310,000** |
| | **Noncontrolling Interest** | | **77,500** |
| | Eliminate investment balance and establish noncontrolling interest. | | |
| E(3) | **Inventory** | **5,000** | |
| | **Land** | **10,000** | |
| | **Buildings and Equipment** | **60,000** | |
| | **Goodwill** | **12,500** | |
| | **Differential** | | **87,500** |
| | Assign differential. | | |

Continuing with the earlier illustration, with respect to the assets to which the $87,500 differential relates, assume that all of the inventory is sold during 20X1, the buildings and equipment have a remaining economic life of 10 years from the date of combination, and straight-line depreciation is used.
Assume that management determines at the end of 20X1 that the goodwill is impaired and should be written down by $3,125.
Management has determined that the goodwill arising in the acquisition of Special Foods relates proportionately to the controlling and noncontrolling interests, as does the impairment. Assume that Peerless accounts for its investment using the equity method.

**Income and Dividend Information about Peerless Products and Special Foods for the Year 20X1**

| | | |
|---|---|---|
| 20X1: | | |
| Separate operating income, Peerless | $140,000 | |
| Net income, Special Foods | | $50,000 |
| Dividends | $60,000 | $30,000 |

# Initial year of ownership

| Parent Company Entries | | |
|---|---|---|
| **Investment in Special Foods Stock** | **310,000** | |
| **Cash** | | **310,000** |
| Record purchase of Special Foods stock. | | |
| **Cash** | **24,000** | |
| **Investment in Special Foods Stock** | | **24,000** |
| Record dividends from Special Foods: $30,000 x .80 | | |
| **Investment in Special Foods Stock** | **40,000** | |
| **Income from Subsidiary** | | **40,000** |
| Record equity-method income: $50,000 x .80 | | |
| **Income from Subsidiary** | **4,000** | |
| **Investment in Special Foods Stock** | | **4,000** |
| Adjust income for differential related to inventory sold: $5,000 x .80 | | |
| **Income from Subsidiary** | **4,800** | |
| **Investment in Special Foods Stock** | | **4,800** |
| Amortize differential related to buildings and equipment: ($60,000 x .80) / 10 years | | |

# Initial year of ownership – Eliminating Entries

| | | | |
|---|---|---|---|
| E(9) | Income from Subsidiary | 31,200 | |
| | Dividends Declared | | 24,000 |
| | Investment in Special Foods Stock | | 7,200 |
| | Eliminate income from subsidiary. | | |
| E(10) | Income to Noncontrolling Interest | 7,175 | |
| | Dividends Declared | | 6,000 |
| | Noncontrolling Interest | | 1,175 |
| | Assign income to noncontrolling interest. | | |
| E(11) | Common Stock—Special Foods | 200,000 | |
| | Retained Earnings, January 1 | 100,000 | |
| | Differential | 87,500 | |
| | Investment in Special Foods Stock | | 310,000 |
| | Noncontrolling Interest | | 77,500 |
| | Eliminate beginning investment balance. | | |

| | | | |
|---|---|---|---|
| E(12) | Cost of Goods Sold | 5,000 | |
| | Land | 10,000 | |
| | Buildings and Equipment | 60,000 | |
| | Goodwill | 12,500 | |
| | Differential | | 87,500 |
| | Assign beginning differential. | | |
| E(13) | Depreciation Expense | 6,000 | |
| | Accumulated Depreciation | | 6,000 |
| | Amortize differential related to buildings and equipment: $60,000 ÷ 10 | | |
| E(14) | Goodwill Impairment Loss | 3,125 | |
| | Goodwill | | 3,125 |
| | Write down goodwill for impairment. | | |

- Refer Figure 5-5 in the text for the equity-method workpaper for consolidated financial statement

# Noncontrolling Interest, 20X1

| | |
|---|---|
| Income to noncontrolling interest, 20X1: | |
| Special Foods' net income | $ 50,000 |
| Write-off of differential related to inventory sold in 20X1 | (5,000) |
| Amortization of differential related to buildings and equipment in 20X1 | (6,000) |
| Goodwill impairment loss | (3,125) |
| Special Foods' adjusted income | $ 35,875 |
| Noncontrolling stockholders' proportionate share | × .20 |
| Income assigned to noncontrolling interest | $ 7,175 |
| Noncontrolling interest, January 1, 20X1: | |
| Special Foods' common stock | $200,000 |
| Special Foods' retained earnings | 100,000 |
| Special Foods' book value | $300,000 |
| Differential related to inventory | 5,000 |
| Differential related to land | 10,000 |
| Differential related to buildings and equipment | 60,000 |
| Differential related to goodwill | 12,500 |
| Special Foods' book value plus differential | $387,500 |
| Noncontrolling stockholders' proportionate share | × .20 |
| Noncontrolling interest, January 1, 20X1 | $ 77,500 |
| Noncontrolling interest, December 31, 20X1: | |
| Special Foods' common stock | $200,000 |
| Special Foods' retained earnings | 120,000 |
| Special Foods' book value | $320,000 |
| Differential related to land | 10,000 |
| Unamortized differential related to buildings and equipment ($60,000 − $6,000) | 54,000 |
| Unimpaired goodwill ($12,500 − $3,125) | 9,375 |
| Special Foods' book value plus differential | $393,375 |
| Noncontrolling stockholders' proportionate share | × .20 |
| Noncontrolling interest, December 31, 20X1 | $ 78,675 |

# Consolidated Net Income and Retained Earnings, 20X1

| | |
|---|---|
| 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 in 20X1 | (5,000) |
| Amortization of differential related to buildings and equipment in 20X1 | (6,000) |
| Goodwill impairment loss | (3,125) |
| Consolidated net income | $175,875 |
| Income to controlling interest, 20X1: | |
| Consolidated net income | $175,875 |
| Income to noncontrolling interest | (7,175) |
| Income to controlling interest | $168,700 |
| Consolidated retained earnings, December 31, 20X1: | |
| Peerless's retained earnings on date of combination, January 1, 20X1 | $300,000 |
| Income to controlling interest, 20X1 | 168,700 |
| Dividends declared by Peerless, 20X1 | (60,000) |
| Consolidated retained earnings | $408,700 |

# Second Year of Ownership

**Income and Dividend Information about Peerless Products and Special Foods for the Year 20X2:**

| | | |
|---|---|---|
| Separate operating income, Peerless | $160,000 | |
| Net income, Special Foods | | $75,000 |
| Dividends | $60,000 | $40,000 |

| **Parent Company Entries** | | |
|---|---|---|
| **Cash** | **32,000** | |
| **Investment in Special Foods Stock** | | **32,000** |
| Record dividends from Special Foods: $40,000 x .80 | | |
| **Investment in Special Foods Stock** | **60,000** | |
| **Income from Subsidiary** | | **60,000** |
| Record equity-method income: $75,000 x .80 | | |
| **Income from Subsidiary** | **4,800** | |
| **Investment in Special Foods Stock** | | **4,800** |
| Amortize differential related to buildings and equipment | | |

- Summary of changes in the parent's investment account for 20X1 and 20X2:

| | 20X1 | | 20X2 | |
|---|---|---|---|---|
| Balance at start of year | | $310,000 | | $317,200 |
| Income from subsidiary: | | | | |
| Parent's share of subsidiary's income | $40,000 | | $60,000 | |
| Differential write-off for inventory sold | (4,000) | | | |
| Amortization of differential | (4,800) | | (4,800) | |
| | | 31,200 | | 55,200 |
| Less: Dividends received from subsidiary | | (24,000) | | (32,000) |
| Balance at end of year | | $317,200 | | $340,400 |

- The workpaper to prepare a complete set of consolidated financial statements for the year 20X2 is illustrated in Figure 5–8 in the text

**Elminating Entries:**

| | | Debit | Credit |
|---|---|---|---|
| E(18) | **Income from Subsidiary** | **55,200** | |
| | **Dividends Declared** | | **32,000** |
| | **Investment in Special Foods Stock** | | **23,200** |
| | Eliminate income from subsidiary. | | |
| E(19) | **Income to Noncontrolling Interest** | **13,800** | |
| | **Dividends Declared** | | **8,000** |
| | **Noncontrolling Interest** | | **5,800** |
| | Assign income to noncontrolling interest. | | |
| E(20) | **Common Stock—Special Foods** | **200,000** | |
| | **Retained Earnings, January 1** | **122,500** | |
| | **Differential** | **73,375** | |
| | **Investment in Special Foods Stock** | | **317,200** |
| | **Noncontrolling Interest** | | **78,675** |
| | Eliminate beginning investment balance: $122,500 = $120,000 + $2,500 | | |
| E(21) | **Land** | **10,000** | |
| | **Buildings and Equipment** | **60,000** | |
| | **Goodwill** | **9,375** | |
| | **Differential** | | **73,375** |
| | **Accumulated Depreciation** | | **6,000** |
| | Assign beginning differential. | | |
| E(22) | **Depreciation Expense** | **6,000** | |
| | **Accumulated Depreciation** | | **6,000** |
| | Amortize differential related to buildings and equipment: $60,000 / 10 years | | |

# Noncontrolling Interest, 20X2; 80 Percent Acquisition at More than Book Value

| | |
|---|---|
| **Income to noncontrolling interest, 20X2:** | |
| Special Foods' net income | $ 75,000 |
| Amortization of differential related to buildings and equipment in 20X2 | (6,000) |
| Special Foods' adjusted income | $ 69,000 |
| Noncontrolling stockholders' proportionate share | × .20 |
| Income assigned to noncontrolling interest | $ 13,800 |
| **Noncontrolling interest, December 31, 20X2:** | |
| Special Foods' common stock | $200,000 |
| Special Foods' retained earnings | 155,000 |
| Special Foods' book value | $355,000 |
| Differential related to land | 10,000 |
| Unamortized differential related to buildings and equipment ($60,000 − $12,000) | 48,000 |
| Unimpaired goodwill ($12,500 − $3,125) | 9,375 |
| Special Foods' book value plus differential | $422,375 |
| Noncontrolling stockholders' proportionate share | × .20 |
| Noncontrolling interest, December 31, 20X2 | $ 84,475 |

# Consolidated Net Income and Retained Earnings, 20X2; 80 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 | $229,000 |
| Income to controlling interest, 20X2: | |
| Consolidated net income | $229,000 |
| Income to noncontrolling interest | (13,800) |
| Income to controlling interest | $215,200 |
| Consolidated retained earnings, December 31, 20X2: | |
| Peerless's retained earnings on date of combination, January 1, 20X1 | $300,000 |
| Income to controlling interest, 20X1 | 168,700 |
| Dividends declared by Peerless, 20X1 | (60,000) |
| Consolidated retained earnings, December 31, 20X1 | $408,700 |
| Income to controlling interest, 20X2 | 215,200 |
| Dividends declared by Peerless, 20X2 | (60,000) |
| Consolidated retained earnings, December 31, 20X2 | $563,900 |

# DISCONTINUANCE OF CONSOLIDATION

- A parent should subsidiary from future consolidation if the parent can no longer exercise control over it
  - If a parent loses control of a subsidiary and no longer holds an equity interest in the former subsidiary, it recognizes a gain or loss for the difference between any proceeds received from the event leading to loss of control and the carrying amount of the parent's equity interest

- If the parent loses control but maintains a noncontrolling equity interest in the former subsidiary, it must recognize in income a gain or loss for the difference, at the date control is lost, between:

1. The sum of any proceeds received by the parent and the fair value of its remaining equity interest in the former subsidiary, and
2. The carrying amount of the parent’s total interest in the subsidiary

# Treatment of Other Comprehensive Income

- **FASB 130** requires that companies separately report other comprehensive income
  - Includes revenues, expenses, gains, and losses that under GAAP are excluded from net income
  - Other comprehensive income accounts are temporary accounts that are closed at the end of each period to a special stockholders' equity account, Accumulated Other Comprehensive Income
  - The consolidation workpaper normally includes an additional section for other comprehensive income

Assume that during 20X2 Special Foods purchases $20,000 of investments classified as available-for-sale. By December 31, 20X2, the fair value of the securities increases to $30,000. Other than the effects of accounting for Special Foods' investment in securities, the financial information reported at December 31, 20X2, is identical to that presented in Figure 5–8 in the text.

- Adjusting entry recorded by subsidiary

| | | |
|---|---|---|
| **Investment in Available-for-Sale Securities** | **10,000** | |
| **Unrealized Gain on Investments (OCI)** | | **10,000** |
| Record increase in fair value of available-for-sale securities. | | |

- Adjusting entry recorded by parent company

| | | |
|---|---|---|
| **Investment in Special Foods Stock** | **8,000** | |
| **Other Comprehensive Income from Subsidiary— Unrealized Gain on Investments (OCI)** | | **8,000** |
| Record Peerless's proportionate share of the increase in value of available-for-sale securities held by subsidiary. | | |

# Consolidation of Subsidiaries Acquired Prior to 2009

- FASB 141R governs accounting for business combinations that are completed in fiscal years that begin on or after December 15, 2008
  - Most acquired subsidiaries currently held by parent companies and included in their consolidated financial statements were acquired prior to the effective date of FASB 141R
  - Because companies are prohibited from applying FASB 141R retroactively, they are faced with consolidating numerous subsidiaries under the previous standards

# Differences in Consolidation Procedures

- General approach to consolidation is the same under both current and prior standards
- The major differences are that:
  - The current standards place greater emphasis on fair value than previous standards
  - The computation of the differential relates to the entire subsidiary rather than just the parent's share of less-than-wholly owned subsidiaries

# Illustration of Consolidation under Previous Accounting Standards

**Consolidation in Initial Year of Ownership**

In the current example, the entries on Peerless's books are the same under both current and prior standards.

The differential is $70,000, the difference between Peerless's $310,000 purchase price for its stock in Special Foods and the $240,000 book value of the shares it acquired ($300,000 x .80).

Assume that, during 20X1, management determines that the goodwill is impaired and must be written down by $2,500.

The workpaper to prepare consolidated financial statements for 20X1 using the prior accounting standards is shown in Figure 5–14 in the text. The eliminating entries are shown in the next slide.

# Illustration of Consolidation under Previous Accounting Standards

| | | | |
|---|---|---|---|
| E(9) | Income from Subsidiary | 31,200 | |
| | Dividends Declared | | 24,000 |
| | Investment in Special Foods Stock | | 7,200 |
| | Eliminate income from subsidiary. | | |
| E(10a) | Income to Noncontrolling Interest | 10,000 | |
| | Dividends Declared | | 6,000 |
| | Noncontrolling Interest | | 4,000 |
| | Assign income to noncontrolling interest: | | |
| | $\$10,000 = \$50,000 \times .20$ | | |
| E(11a) | Common Stock—Special Foods | 200,000 | |
| | Retained Earnings, January 1 | 100,000 | |
| | Differential | 70,000 | |
| | Investment in Special Foods Stock | | 310,000 |
| | Noncontrolling Interest | | 60,000 |
| | Eliminate beginning investment balance. | | |
| E(12a) | Cost of Goods Sold | 4,000 | |
| | Land | 8,000 | |
| | Buildings and Equipment | 48,000 | |
| | Goodwill | 10,000 | |
| | Differential | | 70,000 |
| | Assign beginning differential. | | |
| E(13a) | Depreciation Expense | 4,800 | |
| | Accumulated Depreciation | | 4,800 |
| | Amortize differential related to buildings and equipment: | | |
| | $\$48,000 \div 10$ | | |
| E(14a) | Goodwill Impairment Loss | 2,500 | |
| | Goodwill | | 2,500 |
| | Write down goodwill for impairment. | | |

- Under the previous standards, consolidated net income generally referred to the parent's share of the income of the consolidated entity, the amount remaining after deducting the income allocated to the noncontrolling interest
- Previously, the presentation of the noncontrolling interest was not specified
    - Most companies reported the noncontrolling interest in the consolidated balance sheet as a "mezzanine" item between liabilities and stockholders' equity

# Illustration of Consolidation under Previous Accounting Standards

- Consolidation in second year of ownership
  - Basically the same as under current standards
  - The only difference is that the amounts of most elimination entries are different because of the difference in the differential, and accordingly the consolidated amounts are different

# ADDITIONAL CONSIDERATIONS

- Subsidiary valuation accounts at acquisition
  - **FASB 141R** indicates that all assets and liabilities acquired in a business combination should be valued at their acquisition-date fair values and no valuation accounts are to be carried over
    - Its application in consolidation following a stock acquisition is less clear

- Negative retained earnings of subsidiary at acquisition
  - A parent company may acquire a subsidiary with a negative in its retained earnings account
  - The investment elimination entry appears as follows:

| | | | |
|---|---|---|---|
| E(26) | Capital Stock—Subsidiary | XXX | |
| | Differential | XXX | |
| | Retained Earnings | | XXX |
| | Investment in Subsidiary | | XXX |
| | Eliminate investment balance. | | |

# Other stockholders' equity accounts

- In general, all stockholders' equity accounts accruing to the common shareholders receive the same treatment as common stock and are eliminated at the time common stock is eliminated

## Subsidiary's disposal of differential-related assets

- Both the parent's equity-method income and consolidated net income are affected
- Parent's books: The portion of the differential included in the subsidiary investment account that relates to the asset sold must be written off by the parent under the equity method as a reduction in both the income from the subsidiary and the investment account
- In consolidation, the portion of the differential related to the asset sold is treated as an adjustment to consolidated income

# Inventory

- Any inventory-related differential is assigned to inventory for as long as the subsidiary holds the units
- In the period in which the inventory units are sold, the inventory-related differential is assigned to Cost of Goods Sold
- The inventory costing method used by the subsidiary determines the period in which the differential cost of goods sold is recognized
  - FIFO: The inventory units on hand on the date of combination are viewed as being the first units sold after the combination
  - LIFO: The inventory units on the date of combination are viewed as remaining in the subsidiary's inventory

## Fixed Assets

- A differential related to land held by a subsidiary is added to the Land balance in the consolidation workpaper each time a consolidated balance sheet is prepared
  - If the subsidiary sells the land to which the differential relates, the differential is treated in the consolidation workpaper as an adjustment to the gain or loss on the sale of the land in the period of the sale
- The sale of differential-related equipment is treated in the same manner as land except that the amortization for the current and previous periods must be considered

# THANK YOU