

## 3. (1)

## Determination and Distribution of Excess Schedule

	Price paid for investment .....	\$250,000		
	Less book value of interest acquired:			
	Common stock (\$10 par) .....	\$100,000		
	Paid-in capital in excess of par.....	—		
	Retained earnings.....	<u>150,000</u>		
	Total equity .....	<u>\$250,000</u>		
	Interest acquired .....	<u>80%</u>	<u>200,000</u>	
	Excess of cost over book value (debit) ...		<u>\$ 50,000</u>	<u>Amortization</u>
	Existing goodwill .....		<u>—</u>	
	Excess available.....		<u>\$ 50,000</u>	
	Adjustments:			
	Depreciable fixed assets .....	\$ 50,000	10 debit	\$5,000
	Goodwill .....	—		
	Extraordinary gain.....	—		
	Total adjustments .....		<u>\$ 50,000</u>	
(2)	CY1 Subsidiary Income.....		20,000	
	Investment in Salt Company .....			20,000
	To eliminate parent's share of subsidiary earnings for the current year.			
	CY2 Investment in Salt Company .....		4,000	
	Dividends Declared .....			4,000
	To eliminate parent's share of dividends for the current year.			
EL	Common Stock—Salt.....		80,000	
	Retained Earnings—Salt.....		120,000	
	Investment in Salt Company .....			200,000
	To eliminate pro rata share of the beginning-of-the-year Salt equity balances.			
D	Depreciable Fixed Assets* .....		50,000	
	Investment in Salt Company .....			50,000
	To distribute excess per determination and distribution of excess schedule.			
	*Assuming no accumulated depreciation existed on the date of acquisition.			
A	Depreciation Expense.....		5,000	
	Accumulated Depreciation .....			5,000
	To amortize excess for the current year.			

Exercise 3-3, Continued

(3) Pepper Company and Salt Company  
Consolidated Income Statement  
For Year Ended December 31, 20X1

Revenue.....		\$250,000
Less expenses (add \$5,000 adjustment).....		<u>190,000</u>
Consolidated net income.....		\$ 60,000
Distributed to noncontrolling interest.....		5,000
Distributed to controlling interest.....		<u>\$ 55,000</u>

Subsidiary Salt Company Income Distribution

	Internally generated net income.....	\$25,000
	Adjusted income.....	\$25,000
	NCI share.....	20%
	NCI.....	<u>\$ 5,000</u>

Parent Pepper Company Income Distribution

Depreciable fixed assets .....	\$5,000	Internally generated net income.....	\$40,000
		80% × Salt adjusted income of \$25,000 .....	20,000
		Controlling interest.....	<u>\$55,000</u>

(4) Pepper Company and Salt Company  
Consolidated Balance Sheet  
December 31, 20X1

Assets

Current assets.....		\$190,000
Depreciable fixed assets .....	\$650,000	
Less accumulated depreciation .....	<u>131,000</u>	<u>519,000</u>
Total assets.....		<u>\$709,000</u>

Liabilities and Stockholders' Equity

Current liabilities .....		\$100,000
Stockholders' equity:		
Noncontrolling interest.....		54,000
Controlling interest:		
Common stock.....	\$300,000	
Retained earnings.....	<u>255,000</u>	<u>555,000</u>
Total liabilities and stockholders' equity.....		<u>\$709,000</u>

8.	(1)	CV	Investment in Salt Company .....	16,000	
			Retained Earnings—Pepper .....		16,000
			Convert from cost to equity method by adding to investment account parent's share of subsidiary equity increase. [80% × (\$170,000 – \$150,000)]		
		CY2	Dividend Income.....	8,000	
			Dividends Declared .....		8,000
			To eliminate parent's share of subsidiary dividends for the current year.		
		EL	Common Stock—Salt.....	80,000	
			Retained Earnings—Salt.....	136,000	
			Investment in Salt Company .....		216,000
			To eliminate pro rata share of the beginning- of-the-year Salt equity balances.		
		D	Depreciable Fixed Assets* .....	50,000	
			Investment in Salt Company .....		50,000
			To distribute excess to plant assets. *No accumulated depreciation existed on the date of acquisition.		
		A	Depreciation Expense .....	5,000	
			Retained Earnings—Pepper .....	5,000	
			Accumulated Depreciation .....		10,000
			To amortize excess for past and current year.		

(2) Same as Exercise 4, Part 2.