***Advanced Financial Accounting, 12e* (Christensen)**

**Appendix 8A: Intercompany Indebtedness—Fully Adjusted Equity Method Using Straight-Line Interest Amortization**

1) Poodle Company owns 80 percent of the common stock of Shepherd Inc. Poodle acquires some of Shepherd's bonds from an unrelated party for less than the carrying value on Shepherd's books and holds them as a long-term investment. For consolidated reporting purposes, how is the acquisition of Shepherd's bonds treated?

A) As a decrease in the Bonds Payable account on Shepherd's books.

B) As an increase in noncurrent assets.

C) Everything related to the bonds is eliminated in the consolidation worksheet, and nothing related to the bonds appears in the consolidated financial statements.

D) As a retirement of bonds.

Answer: D

Difficulty: 1 Easy

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

2) Portuguese owns 80 percent of the common stock of Spanish Company. Portuguese also purchases some of Spanish's bonds directly from Spanish and holds the bonds as a long-term investment. How is the acquisition of the bonds treated for consolidated reporting purposes?

A) As a retirement of bonds.

B) As an increase in the Bonds Payable account on Spanish's books.

C) Everything related to the intercompany bonds is eliminated in the consolidation worksheet, and nothing related to the bonds appears in the consolidated financial statements.

D) As an increase in noncurrent assets.

Answer: C

Difficulty: 1 Easy

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

3) At the end of the year, a parent acquires a wholly owned subsidiary's bonds from unaffiliated parties at a cost less than the subsidiary's carrying value. The consolidated net income for the year of acquisition should include the parent's separate operating income plus:

A) the subsidiary's net income increased by the gain on constructive retirement of debt.

B) the subsidiary's net income decreased by the loss on constructive retirement of debt.

C) the subsidiary's net income increased by the gain on constructive retirement of debt, and decreased by the subsidiary's bond interest expense.

D) the subsidiary's net income decreased by the loss on constructive retirement of debt, and decreased by the subsidiary's bond interest expense.

Answer: A

Difficulty: 1 Easy

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: FN Decision Making

4) A loss on the constructive retirement of a parent's bonds by a subsidiary is effectively recognized in the individual accounting records of the parent and its subsidiary:

I. at the date of constructive retirement.

II. over the remaining term of the bonds.

A) I

B) II

C) Both I and II

D) Neither I nor II

Answer: B

Difficulty: 1 Easy

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

5) When one company purchases the debt of an affiliate from an unrelated party, a gain or loss on the constructive retirement of debt is recognized by which of the following?

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Issuing**  **Affiliate** | **Purchasing**  **Affiliate** | **Consolidated**  **Entity** |
| A. | No | No | Yes |
| B. | Yes | Yes | No |
| C. | No | No | No |
| D. | Yes | Yes | Yes |

A) Option A

B) Option B

C) Option C

D) Option D

Answer: A

Difficulty: 1 Easy

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

6) Which of the following statements is (are) correct?

I. The amount assigned to the noncontrolling interest may be affected by a constructive retirement of bonds.

II. A constructive retirement of bonds normally results in a gain or loss.

III. In constructive retirement, the entity would still consider the bonds outstanding, even though they are treated as if they were retired in preparing consolidated financial statements.

A) I

B) II

C) I and III

D) I, II, and III

Answer: A

Difficulty: 2 Medium

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Decision Making

7) On January 1, 20X6, Pepper Corporation issued 10-year bonds at par to unrelated parties. The bonds pay interest of $15,000 every June 30 and December 31. On December 31, 20X9, Salt Corporation purchased all of Pepper's bonds in the open market at a $6,000 discount. Salt is Pepper's 80 percent owned subsidiary. Salt uses the straight-line method of amortization. The consolidated income statement for the year 20X9 should report with respect to the bonds:

I. interest expense of $30,000.

II. a gain of $6,000.

A) I

B) II

C) Either I or II

D) Neither I nor II

Answer: A

Difficulty: 2 Medium

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Reporting

Puget Corporation owns 80 percent of Sound Company's voting shares. On January 1, 20X7, Sound sold bonds with a par value of $300,000 at 95. Puget purchased two thirds of the bonds; the remainder was sold to nonaffiliates. The bonds mature in ten years and pay an annual interest rate of 6 percent. Interest is paid semiannually on January 1 and July 1.

8) Based on the information given above, what amount of interest expense should be reported in the 20X8 consolidated income statement?

A) $6,000

B) $6,500

C) $5,000

D) $10,000

Answer: B

Difficulty: 2 Medium

Topic: Bond Sale Directly to an Affiliate (at a Discount)

Learning Objective: 08-02A Prepare journal entries and consolidation entries related to direct intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

9) Based on the information given above, what amount of interest receivable will be recorded by Puget Corporation on December 31, 20X8, in its separate financial statements?

A) $5,000

B) $6,500

C) $10,000

D) $6,000

Answer: D

Difficulty: 2 Medium

Topic: Bond Sale Directly to an Affiliate (at a Discount)

Learning Objective: 08-02A Prepare journal entries and consolidation entries related to direct intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

10) Based on the information given above, what amount of interest expense will be eliminated in the preparation of the 20X8 consolidated financial statements?

A) $13,000

B) $13,500

C) $10,000

D) $15,000

Answer: A

Difficulty: 2 Medium

Topic: Bond Sale Directly to an Affiliate (at a Discount)

Learning Objective: 08-02A Prepare journal entries and consolidation entries related to direct intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

Pancake Corporation owns 85 percent of Syrup Corporation's voting shares. On January 1, 20X8, Pancake Corporation sold $200,000 par value 8 percent bonds to Syrup for $245,000. The bonds mature in 10 years and pay interest semiannually on January 1 and July 1.

11) Based on the information given above, in the preparation of the 20X8 consolidated financial statements, premium on bonds payable will be:

A) debited for $45,000 in the consolidating entries.

B) credited for $40,500 in the consolidating entries.

C) debited for $40,500 in the consolidating entries.

D) credited for $45,000 in the consolidating entries.

Answer: C

Difficulty: 2 Medium

Topic: Bond Sale Directly to an Affiliate (at a Premium)

Learning Objective: 08-02A Prepare journal entries and consolidation entries related to direct intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

12) Based on the information given above, in the preparation of the 20X8 consolidated financial statements, interest income will be:

A) debited for $11,500 in the consolidating entries.

B) credited for $11,500 in the consolidating entries.

C) debited for $16,000 in the consolidating entries.

D) credited for $16,000 in the consolidating entries.

Answer: A

Difficulty: 2 Medium

Topic: Bond Sale Directly to an Affiliate (at a Premium)

Learning Objective: 08-02A Prepare journal entries and consolidation entries related to direct intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

13) Based on the information given above, what amount of investment in bonds will be eliminated in the preparation of the 20X8 consolidated financial statements?

A) $240,500

B) $200,000

C) $245,000

D) $211,500

Answer: A

Difficulty: 2 Medium

Topic: Bond Sale Directly to an Affiliate (at a Premium)

Learning Objective: 08-02A Prepare journal entries and consolidation entries related to direct intercompany debt transfers.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

Saturn Corporation issued $300,000 par value 10-year bonds at 107 on January 1, 20X3, which Star Corporation purchased. On July 1, 20X7, Pluto Corporation purchased $120,000 face value of Saturn bonds from Star. The bonds pay 12 percent interest annually on December 31. The preparation of consolidated financial statements for Saturn and Pluto at December 31, 20X9, required the following consolidation entry:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Bonds Payable |  | 120,000 |  |  |  |  | |
| Premium on Bonds Payable |  | 2,520 |  |  |  |  | |
| Interest Income |  | 14,760 |  |  |  |  | |
| Investment in Saturn Corporation Bonds |  |  |  |  | 118,920 |  | |
| Interest Expense |  |  |  |  | 13,560 |  | |
| Investment in Saturn Corporation Stock |  |  |  |  | 3,120 |  | |
| NCI in NA of Saturn Corp. |  |  |  |  | 1,680 |  | |

14) Based on the information given above, what percentage of the subsidiary's ownership does the parent company hold?

A) 75 percent

B) 65 percent

C) 80 percent

D) 95 percent

Answer: B

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

15) Based on the information given above, what amount did Pluto pay when it purchased the bonds on July 1, 20X7?

A) $118,020

B) $118,920

C) $118,620

D) $117,220

Answer: A

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

16) Based on the information given above, what amount of gain or loss on bond retirement is included in the 20X7 consolidated income statement?

A) $6,600

B) $4,800

C) $6,000

D) $5,400

Answer: A

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

17) Based on the information given above, if 20X9 consolidated net income of $50,000 would have been reported without the consolidation entry provided, what amount will actually be reported?

A) $47,900

B) $48,200

C) $49,400

D) $48,800

Answer: D

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

Postage, a holder of a $400,000 Stamp Inc. bond, collected the interest due on June 30, 20X8, and then sold the bond to DEF Inc. for $365,000. On that date the bond issuer, Stamp, a 90 percent owner of DEF, had a $450,000 carrying amount for this bond.

18) Based on the information given above, what amount of gain or loss on bond retirement was recorded?

A) No gain or loss

B) $85,000 gain

C) $85,000 loss

D) $35,000 loss

Answer: B

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

19) Based on the information given above, what was the effect of DEF's purchase of Stamp's bond on the noncontrolling interest amount reported in Stamp's June 30, 20X8, consolidated balance sheet?

A) No effect

B) $35,000 increase

C) $8,500 decrease

D) $8,500 increase

Answer: A

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

Spice Company issued $200,000 of 10 percent first mortgage bonds on January 1, 20X4, at 105. The bonds mature in 10 years and pay interest semiannually on January 1 and July 1. Pumpkin Corporation purchased $140,000 of Spice's bonds from the original purchaser on December 31, 20X8, for $125,000. Pumpkin owns 75 percent of Spice's voting common stock.

20) Based on the information given above, what amount of premium on bonds payable will be eliminated in the preparation of the 20X8 consolidated financial statements?

A) $3,500

B) $2,800

C) $5,000

D) $2,500

Answer: A

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

21) Based on the information given above, what amount of gain or loss on bond retirement will be reported in the 20X8 consolidated financial statements?

A) $17,000 loss

B) $12,800 loss

C) $18,500 gain

D) $22,200 gain

Answer: C

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

22) Based on the information given above, what amount of premium on bonds payable will be eliminated in the preparation of the 20X9 consolidated financial statements?

A) $3,500

B) $2,800

C) $5,000

D) $2,500

Answer: B

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

23) Based on the information given above, what amount of interest income will be eliminated in the preparation of the 20X9 consolidated financial statements?

A) $17,000

B) $13,300

C) $18,500

D) $22,200

Answer: A

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

24) Based on the information given above, what amount of interest expense will be eliminated in the preparation of the 20X9 consolidated financial statements?

A) $17,000

B) $13,300

C) $18,500

D) $22,200

Answer: B

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

25) Based on the information given above, what amount of constructive gain will be allocated to noncontrolling interest in 20X8 consolidated financial statements?

A) $4,925

B) $5,550

C) $5,625

D) $4,625

Answer: D

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

Spice Company issued $200,000 of 10 percent first mortgage bonds on January 1, 20X4, at 105. The bonds mature in 10 years and pay interest semiannually on January 1 and July 1. Pumpkin Corporation purchased $140,000 of Spice's bonds from the original purchaser on January 1, 20X8, for $122,000. Pumpkin owns 75 percent of Spice's voting common stock.

26) Based on the information given above, what amount of premium on bonds payable will be eliminated in the preparation of the 20X8 year-end consolidated financial statements?

A) $3,500

B) $2,800

C) $5,000

D) $2,500

Answer: A

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

27) Based on the information given above, what amount of gain or loss on bond retirement will be reported in the 20X8 consolidated financial statements?

A) $17,000

B) $12,800

C) $18,500

D) $22,200

Answer: D

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

28) Based on the information given above, what amount of premium on bonds payable will be eliminated in the preparation of the 20X9 year-end consolidated financial statements?

A) $3,500

B) $2,800

C) $5,000

D) $2,500

Answer: B

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

29) Based on the information given above, what amount of interest income will be eliminated in the preparation of the 20X9 consolidated financial statements?

A) $17,000

B) $13,300

C) $18,500

D) $22,200

Answer: A

Difficulty: 2 Medium

Topic: Purchase at an Amount Less than Book Value (Year 2)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement

Paper Corporation holds 80 percent of the voting shares of Scissor Company. On January 1, 20X8, Scissor purchased $100,000 par value 12 percent first mortgage bonds of Paper from Cruse for $115,000. Paper originally issued the bonds to Cruse on January 1, 20X6, for $110,000. The bonds have an 8-year maturity from the date of issue. Scissor's reported net income of $65,000 for 20X8, and Paper reported income (excluding income from ownership of Scissor's stock) of $90,000.

30) Based on the information given above, what amount of interest expense does Paper record annually?

A) $10,750

B) $9,500

C) $2,500

D) $12,000

Answer: A

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

31) Based on the information given above, what amount of interest income does Scissor record for 20X8?

A) $12,000

B) $2,500

C) $7,500

D) $9,500

Answer: D

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

32) Based on the information given above, what gain or loss on the retirement of bonds should be reported in the 20X8 consolidated income statement?

A) $6,250 gain

B) $7,500 gain

C) $7,500 loss

D) $6,250 loss

Answer: C

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

33) Based on the information given above, what amount of consolidated net income should be reported for 20X8?

A) $163,750

B) $161,250

C) $146,250

D) $148,750

Answer: D

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

Peanut Corporation acquired 80 percent of Snoopy Company's voting shares on January 1, 20X8, at underlying book value. On that date, it also purchased $500,000 par value 8 percent Snoopy bonds, which had been issued on January 1, 20X5, with a 12-year maturity. During preparation of the consolidated financial statements for December 31, 20X8, the following consolidating entry was made in the worksheet:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
| Bonds Payable | 500,000 |  |  |  |  | |
| Bond Premium | 30,000 |  |  |  |  | |
| Loss on Bond Retirement | 16,875 |  |  |  |  | |
| Interest Income | ? |  |  |  |  | |
| Investment in Snoopy Company Bonds |  |  |  | 545,000 |  | |
| Interest Expense |  |  |  | ? |  | |

34) Based on the information given above, what price did Peanut pay to purchase the Snoopy bonds?

A) $530,000

B) $516,875

C) $533,750

D) $550,625

Answer: D

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 1)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

35) Based on the information given above, what was the carrying amount of the bonds on Snoopy's books on the date of purchase?

A) $533,750

B) $516,875

C) $545,000

D) $550,625

Answer: A

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 1)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

36) A subsidiary issues bonds. The parent can then acquire the bonds either directly from the subsidiary or from a nonaffiliate that had originally acquired the subsidiary's bonds.

**Required:**

a) Discuss the parent's accounting as it relates to the preparation of consolidated financial statements, for their acquisition of the bonds:

1. from the nonaffiliate.

2. directly from the subsidiary.

b) Why does it matter who the bonds are acquired from?

Answer:

a) 1. When the parent acquires the bonds from a nonaffiliate, the bonds were originally held outside the consolidated entity and the bonds must be treated as if they were reacquired by the original issuer. In this case the bond acquisition is handled as a constructive retirement, which means the bonds are treated as if the subsidiary had retired the bonds when the consolidated financial statements are prepared. Any gain or loss on constructive retirement should be reported in the consolidated income statement but not in separate financial statements of the parent and subsidiary.

2. When the parent purchases the bonds directly from the subsidiary the transaction is viewed as an inter-company debt and must be eliminated in the preparation of the consolidated financial statements.

b) When a parent acquires a subsidiary's debt it is important to know if the acquisition is direct or indirect. In case of direct intercompany debt transfer, there is no impact on consolidated financial statements. However, if the parent has to go outside the consolidated entity i.e. in case of indirect intercompany debt transfer, the impact of the transaction on the consolidated entity must be reported.

Difficulty: 2 Medium

Topic: Consolidation Overview

Learning Objective: 08-01A Understand and explain concepts associated with intercompany debt transfers.

Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting

37) Sydney Company issued $1,000,000 par value 10-year bonds at 102 on January 1, 20X5, which Melbourne Corporation purchased. The coupon rate on the bonds is 9 percent. Interest payments are made semiannually on July 1 and January 1. On July 1, 20X8, Perth Company purchased $500,000 par value of the bonds from Melbourne for $492,200. Perth owns 65 percent of Sydney's voting shares.

**Required:**

a. What amount of gain or loss will be reported in Sydney's 20X8 income statement on the retirement of bonds?

b. Will a gain or loss be reported in the 20X8 consolidated financial statements for Perth for the constructive retirement of bonds? What amount will be reported?

c. How much will Perth's purchase of the bonds change consolidated net income for 20X8?

d. Prepare the worksheet consolidation entry or entries needed to remove the effects of the intercorporate bond ownership in preparing consolidated financial statements at December 31, 20X8.

e. Prepare the worksheet consolidation entry or entries needed to remove the effects of the intercorporate bond ownership in preparing consolidated financial statements at December 31, 20X9.

Answer:

a. No gain or loss will be reported by Sydney

b. A gain of $14,300 will be reported:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Book value of liability reported by Sydney: | | | | |
| Par value of bonds outstanding | $ | 500,000 |  |  | |
| Unamortized premium  $10,000 − [($10,000/10 years) × 3.5 years] | $ | 6,500 |  |  | |
| Book Value of debt | $ | 506,500 |  |  | |
| Amount paid by Parent |  | (492,200 | ) |  | |
| Gain on bond retirement | $ | 14,300 |  |  | |

c. Consolidated net income for 20X8 will increase by $13,200:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
| Gain on bond retirement |  |  |  | $ | 14,300 |  |  | |
| Adjustment for excess of interest income  over interest expense: |  |  |  |  |  |  |  | |
| Interest income | $ | 23,100 |  |  |  |  |  | |
| Interest expense |  | 22,000 |  |  | (1,100 | ) |  | |
| Increase in consolidated net income |  |  |  | $ | 13,200 |  |  | |

d. Consolidation entries, December 31, 20X8

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Eliminate intercompany bond holdings: | | | | | | |
| Bonds Payable |  | 500,000 |  |  |  |  | |
| Premium on Bonds Payable |  | 6,000 |  |  |  |  | |
| Interest Income |  | 23,100 |  |  |  |  | |
| Investment in Sydney Company Bonds |  |  |  |  | 492,800 |  | |
| Interest Expense |  |  |  |  | 22,000 |  | |
| Gain on Bond Retirement |  |  |  |  | 14,300 |  | |

$6,000 = ($10,000 / 10 years) × 6 years

$23,100 = [$45,000 + ($7,800 / 6.5 years)] / 2

$492,800 = $492,200 + [($7,800 / 6.5 years) / 2]

$22,000 = ($45,000 − $1,000)/2

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Interest Payable |  | 22,500 |  |  |  |  | |
| Interest Receivable |  |  |  |  | 22,500 |  | |

e. Consolidating entries, December 31, 20X9

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Eliminate intercompany bond holdings: | | | | | | |
| Bonds Payable |  | 500,000 |  |  |  |  | |
| Premium on Bonds Payable |  | 5,000 |  |  |  |  | |
| Interest Income |  | 46,200 |  |  |  |  | |
| Investment in Sydney Company Bonds |  |  |  |  | 494,000 |  | |
| Interest Expense |  |  |  |  | 44,000 |  | |
| Investment in Sydney Company Stock |  |  |  |  | 8,580 |  | |
| NCI in NA of Sydney |  |  |  |  | 4,620 |  | |

$5,000 = ($10,000 / 10 years) × 5 years

$46,200 = $45,000 + (7,800 / 6.5 years)

$494,000 = $492,800 + ($7,800 / 6.5 years)

$44,000 = $45,00 − ($10,000 / 10 years)

$8,580 = ($14,300 − $1,100) × 0.65

$4,620 = ($14,300 − $1,100) × 0.35

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Interest Payable |  | 22,500 |  |  |  |  |
| Interest Receivable |  |  |  |  | 22,500 |  |

Difficulty: 3 Hard

Topic: Purchase at an Amount Less than Book Value (Year 2); Purchase at an Amount Less than Book Value (Year 1)

Learning Objective: 08-03A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount less than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

38) On January 1, 20X7, Passport Company acquired 60 percent of the outstanding common stock of Stamp Company at the book value of the shares acquired. On that date, the fair value of noncontrolling interest was equal to 40 percent of book value of Stamp. At the time of purchase, Stamp had common stock of $1,000,000 outstanding and retained earnings of $800,000.

On December 31, 20X7, Passport purchased 50 percent of Stamp's bonds outstanding which were originally issued on January 2, 20X4, at 99. The total bond issue has a face value of $600,000, pays 10 percent interest annually, and has a 10-year maturity. Any premium or discount is amortized on a straight-line basis. Passport paid $306,000 for its investment in Stamp's bonds and intends to hold the bonds until maturity.

Income and dividends for Passport and Stamp for 20X7 and 20X8 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Passport | | | | | | | | | |  | | Stamp | | | | | | | | | |  | |
|  | Operating  Income | | | | | Dividends | | | | |  | | Net Income | | | | | Dividends | | | | | | |
| 20X7 |  | $ | 1,600,000 |  |  |  | $ | 400,000 |  |  | |  | | $ | 600,000 |  |  | |  | $ | 300,000 |  | |  | |
| 20X8 |  |  | 1,200,000 |  |  |  |  | 400,000 |  |  | |  | |  | 1,000,000 |  |  | |  |  | 300,000 |  | |  | |

|  |
| --- |
|  |
| Assume Passport accounts for its investment in Stamp stock using the fully adjusted equity method. |

|  |
| --- |
| **Required:** |

|  |
| --- |
| a. Present the worksheet consolidation entries necessary to prepare consolidated financial statements for 20X7. |

b. Present the worksheet consolidation entries necessary to prepare consolidated financial statements for 20X8.

Answer:

a.

Book Value Calculations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NCI  40% | | | | + | | Passport Co.  60% | | | | | = | | Common  Stock | | | | + | | Retained  Earnings | | | | |
| Beginning book value |  | 720,000 |  |  | |  | |  | 1,080,000 |  |  | |  | |  | 1,000,000 |  | |  | |  | 800,000 |  |  | |
| + Net Income |  | 240,000 |  |  | |  | |  | 360,000 |  |  | |  | |  |  |  | |  | |  | 600,000 |  |  | |
| – Dividends |  | (120,000 | ) |  | |  | |  | (180,000 | ) |  | |  | |  |  |  | |  | |  | (300,000 | ) |  | |
| Ending book value |  | 840,000 |  |  | |  | |  | 1,260,000 |  |  | |  | |  | 1,000,000 |  | |  | |  | 1,100,000 |  |  | |

Deferred Loss Calculations:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Retirement Loss | Total | = | Passport Co.'s share | + | NCI's share |
|  | (7,800) |  | (4,680) |  | (3,120) |

Basic consolidation entry

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| Common stock | 1,000,000 |  |  | ← Common Stock | |
| Retained earnings | 800,000 |  |  | ← Beginning balance in RE | |
| Income from Stamp Co. | 355,320 |  |  | ← Passport Co.'s share of NI - Retirement Loss | |
| NCI in NI of Stamp Co. | 236,880 |  |  | ← NCI share of NI - Retirement Loss | |
| Dividends declared |  | 300,000 |  | ← 100% of Stamp Co.'s dividends | |
| Investment in Stamp Co. Stock |  | 1,255,320 |  | ← Passport Co.'s share of BV - Retirement Loss | |
| NCI in NA of Stamp Co. |  | 836,880 |  | ← NCI share of BV - Retirement Loss | |

Eliminate intercompany bond holdings:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
| Bonds Payable |  | 300,000 |  |  |  | |
| Loss on Bond Retirement |  | 7,800 |  |  |  | |
| Discount on Bonds Payable |  |  |  | 1,800 |  | |
| Investment in Stamp Co. Bonds |  |  |  | 306,000 |  | |

b.

Book Value Calculations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NCI  40% | | | | + | Passport Co.  60% | | | | = | | Common  Stock | | | | + | | Retained  Earnings | | | | |
| Beginning book value |  | 840,000 |  |  |  |  | 1,260,000 |  |  | |  | |  | 1,000,000 |  | |  | |  | 1,100,000 |  |  | |
| + Net Income |  | 400,000 |  |  |  |  | 600,000 |  |  | |  | |  |  |  | |  | |  | 1,000,000 |  |  | |
| – Dividends |  | (120,000 | ) |  |  |  | (180,000 | ) |  | |  | |  |  |  | |  | |  | (300,000 | ) |  | |
| Ending book value |  | 1,120,000 |  |  |  |  | 1,680,000 |  |  | |  | |  | 1,000,000 |  | |  | |  | 1,800,000 |  |  | |

Deferred Loss Calculations:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Retirement Loss Amortization | Total | = | Passport Co.'s share | + | NCI's share |
|  | 1,300 |  | 780 |  | 520 |

Basic consolidation entry

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| Common stock | 1,000,000 |  |  | ← Common Stock | |
| Retained earnings | 1,100,000 |  |  | ← Beginning balance in RE | |
| Income from Stamp Co. | 600,780 |  |  | ← Passport Co.'s share of NI + Loss Rec. | |
| NCI in NI of Stamp Co. | 400,520 |  |  | ← NCI share of NI + Loss Rec. | |
| Dividends declared |  | 300,000 |  | ← 100% of Stamp Co.'s dividends | |
| Investment in Stamp Co. Stock |  | 1,680,000 |  | ← Passport Co.'s share of BV + Loss Rec. | |
| NCI in NA of Stamp Co. |  | 1,120,520 |  | ← NCI share of BV + Loss Rec. | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Bonds Payable |  | 300,000 |  |  |  |  |
| Interest Income |  | 29,000 |  |  |  |  |
| Retained Earnings |  | 4,680 |  |  |  |  |
| NCI in NA of Stamp Co. |  | 3,120 |  |  |  |  |
| Investment in Stamp Co. Bonds |  |  |  |  | 305,000 |  |
| Interest Expense |  |  |  |  | 30,300 |  |
| Discount on Bonds Payable |  |  |  |  | 1,500 |  |

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2); Purchase at an Amount Higher than Book Value (Year 1)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

39) On January 1, 20X7, Passport Company acquired 60 percent of the outstanding common stock of Stamp Company at the book value of the shares acquired. On that date, the fair value of noncontrolling interest was equal to 40 percent of book value of Stamp. At the time of purchase, Stamp had common stock of $1,000,000 outstanding and retained earnings of $800,000.

On December 31, 20X7, Passport purchased 50 percent of Stamp's bonds outstanding which were originally issued on January 2, 20X4, at 99. The total bond issue has a face value of $600,000, pays 10 percent interest annually, and has a 10-year maturity. Any premium or discount is amortized on a straight-line basis. Passport paid $306,000 for its investment in Stamp's bonds and intends to hold the bonds until maturity.

Income and dividends for Passport and Stamp for 20X7 and 20X8 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Passport | | | | | | | | | | | |  | | | Stamp | | | | | | | | | |  | | |
|  | Operating  Income | | | | | Dividends | | | | | |  | | | Net Income | | | | | | Dividends | | | | | | |
| 20X7 |  | $ | 1,600,000 |  |  | |  | $ | 400,000 |  |  | | |  | | | $ | 600,000 |  |  | |  | $ | 300,000 |  | |  | | |
| 20X8 |  |  | 1,200,000 |  |  | |  |  | 400,000 |  |  | | |  | | |  | 1,000,000 |  |  | |  |  | 300,000 |  | |  | | |

|  |
| --- |
| Assume Passport accounts for its investment in Stamp stock using the modified equity method. |
|  |
| **Required:** |

|  |
| --- |
| a. Present the worksheet consolidation entries necessary to prepare consolidated financial statements for 20X7. |

b. Present the worksheet consolidation entries necessary to prepare consolidated financial statements for 20X8.

Answer:

a.

Book Value Calculations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NCI  40% | | | | + | | Passport Co.  60% | | | | | = | | Common  Stock | | | | + | | Retained  Earnings | | | | |
| Beginning book value |  | 720,000 |  |  | |  | |  | 1,080,000 |  |  | |  | |  | 1,000,000 |  | |  | |  | 800,000 |  |  | |
| + Net Income |  | 240,000 |  |  | |  | |  | 360,000 |  |  | |  | |  |  |  | |  | |  | 600,000 |  |  | |
| – Dividends |  | (120,000 | ) |  | |  | |  | (180,000 | ) |  | |  | |  |  |  | |  | |  | (300,000 | ) |  | |
| Ending book value |  | 840,000 |  |  | |  | |  | 1,260,000 |  |  | |  | |  | 1,000,000 |  | |  | |  | 1,100,000 |  |  | |

Deferred Loss Calculations:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Retirement Loss | Total | = | Undistributed share | + | NCI's share |
|  | (7,800) |  | (4,680) |  | (3,120) |

Basic consolidation entry

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| Common stock | 1,000,000 |  |  | ← Common Stock | |
| Retained earnings | 800,000 |  |  | ← Beginning balance in RE | |
| Income from Stamp Co. | 360,000 |  |  | ← Passport Co.'s share of NI | |
| NCI in NI of Stamp Co. | 236,880 |  |  | ← NCI share of NI - Retirement Loss | |
| Dividends declared |  | 300,000 |  | ← 100% of Stamp Co.'s dividends | |
| Investment in Stamp Co. Stock |  | 1,260,000 |  | ← Passport Co.'s share of BV | |
| NCI in NA of Stamp Co. |  | 836,880 |  | ← NCI share of BV - Retirement Loss | |

Eliminate intercompany bond holdings:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Bonds Payable |  | 300,000 |  |  |  |  | |
| Loss on Bond Retirement |  | 7,800 |  |  |  |  | |
| Discount on Bonds Payable |  |  |  |  | 1,800 |  | |
| Investment in Stamp Co. Bonds |  |  |  |  | 306,000 |  | |

b.

Book Value Calculations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NCI  40% | | | | + | Passport Co.  60% | | | | = | | Common  Stock | | | | + | Retained  Earnings | | | |
| Beginning book value |  | 840,000 |  |  |  |  | 1,260,000 |  |  | |  | |  | 1,000,000 |  |  |  | 1,100,000 |  |  | |
| + Net Income |  | 400,000 |  |  |  |  | 600,000 |  |  | |  | |  |  |  |  |  | 1,100,000 |  |  | |
| – Dividends |  | (120,000 | ) |  |  |  | (180,000 | ) |  | |  | |  |  |  |  |  | (300,000 | ) |  | |
| Ending book value |  | 1,120,000 |  |  |  |  | 1,680,000 |  |  | |  | |  | 1,000,000 |  |  |  | 1,800,000 |  |  | |

Deferred Loss Calculations:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Total | = | Undistributed share | + | NCI's share |
| Retirement Loss Amortization | 1,300 |  | 780 |  | 520 |

Basic consolidation entry

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| Common stock | 1,000,000 |  |  | ← Common Stock | |
| Retained earnings | 1,100,000 |  |  | ← Beginning balance in RE | |
| Income from Stamp Co. | 600,000 |  |  | ← Passport Co.'s share of NI | |
| NCI in NI of Stamp Co. | 400,520 |  |  | ← NCI share of NI + Loss Rec. | |
| Dividends declared |  | 300,000 |  | ← 100% of Stamp Co.'s dividends | |
| Investment in Stamp Co. Stock |  | 1,680,000 |  | ← Passport Co.'s share of BV | |
| NCI in NA of Stamp Co. |  | 1,120,520 |  | ← NCI share of BV + Loss Rec. | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Bonds Payable |  | 300,000 |  |  |  |  |
| Interest Income |  | 29,000 |  |  |  |  |
| Retained Earnings |  | 4,680 |  |  |  |  |
| NCI in NA of Stamp Co. |  | 3,120 |  |  |  |  |
| Investment in Stamp Co. |  |  |  |  | 305,000 |  |
| Interest Expense |  |  |  |  | 30,300 |  |
| Discount on Bonds Payable |  |  |  |  | 1,500 |  |

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2); Purchase at an Amount Higher than Book Value (Year 1)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement

40) On January 1, 20X7, Passport Company acquired 60 percent of the outstanding common stock of Stamp Company at the book value of the shares acquired. On that date, the fair value of noncontrolling interest was equal to 40 percent of book value of Stamp. At the time of purchase, Stamp had common stock of $1,000,000 outstanding and retained earnings of $800,000.

On December 31, 20X7, Passport purchased 50 percent of Stamp's bonds outstanding which were originally issued on January 2, 20X4, at 99. The total bond issue has a face value of $600,000, pays 10 percent interest annually, and has a 10-year maturity. Any premium or discount is amortized on a straight-line basis. Passport paid $306,000 for its investment in Stamp's bonds and intends to hold the bonds until maturity.

Income and dividends for Passport and Stamp for 20X7 and 20X8 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Passport | | | | | | | | | |  | | Stamp | | | | | | | | | |  | |
|  | Operating Income | | | | | Dividends | | | | | Net Income | | | | | | | Dividends | | | | | | |
| 20X7 |  | $ | 1,600,000 |  |  |  | $ | 400,000 |  |  | |  | | $ | 600,000 |  |  | |  | $ | 300,000 |  | |  | |
| 20X8 |  |  | 1,200,000 |  |  |  |  | 400,000 |  |  | |  | |  | 1,000,000 |  |  | |  |  | 300,000 |  | |  | |

|  |
| --- |
| Assume Passport accounts for its investment in Stamp stock using the cost method. |

|  |
| --- |
| **Required:** |

|  |
| --- |
| a. Present the worksheet consolidation entries necessary to prepare consolidated financial statements for 20X7. |

b. Present the worksheet consolidation entries necessary to prepare consolidated financial statements for 20X8.

Answer:

a.

Investment consolidation entry:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Common Stock |  | 1,000,000 |  |  |  |  | |
| Retained Earnings |  | 800,000 |  |  |  |  | |
| Investment in Stamp Co. Stock |  |  |  |  | 1,080,000 |  | |
| NCI in NA of Stamp Co. |  |  |  |  | 720,000 |  | |

Dividend consolidation entry:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Dividend Income |  | 180,000 |  |  |  |  | |
| NCI in NI of Stamp Co. |  | 120,000 |  |  |  |  | |
| Dividends Declared |  |  |  |  | 300,000 |  | |

Assign undistributed income to NCI:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| NCI in NI of Stamp Co. | 116,880 |  |  | ← NCI's share of undistributed income from Stamp - Ret. Loss |
| NCI in NA of Stamp Co. |  | 116,880 |  | ← NCI's share of undistributed income from Stamp - Ret. Loss |

Eliminate intercompany bond holdings:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Bonds Payable |  | 300,000 |  |  |  |  | |
| Loss on Bond Retirement |  | 7,800 |  |  |  |  | |
| Discount on Bonds Payable |  |  |  |  | 1,800 |  | |
| Investment in Stamp Co. Bonds |  |  |  |  | 306,000 |  | |

b.

Investment consolidation entry:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Common Stock |  | 1,000,000 |  |  |  |  | |
| Retained Earnings |  | 800,000 |  |  |  |  | |
| Investment in Stamp Co. Stock |  |  |  |  | 1,080,000 |  | |
| NCI in NA of Stamp Co. |  |  |  |  | 720,000 |  | |

Dividend consolidation entry:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Dividend Income |  | 180,000 |  |  |  |  | |
| NCI in NI of Stamp Co. |  | 120,000 |  |  |  |  | |
| Dividends Declared |  |  |  |  | 300,000 |  | |

Assign undistributed income to NCI:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| NCI in NI of Stamp Co. | 280,520 |  |  | ← NCI's share of undistributed 20X8 income from Stamp + Gain Rec. | |
| Retained Earnings | 120,000 |  |  | ← NCI's share of undistributed 20X7 income from Leeds | |
| NCI in NA of Stamp Co. |  | 400,520 |  | ← NCI's share of cumulative undistributed income from Stamp + Gain Rec. | |

Dividend consolidation entry:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Bonds Payable |  | 300,000 |  |  |  |  | |
| Interest Income |  | 29,000 |  |  |  |  | |
| Investment in Stamp Co. Stock |  | 4,680 |  |  |  |  | |
| NCI in NA of Stamp Co. |  | 3,120 |  |  |  |  | |
| Investment in Stamp Co. Bonds |  |  |  |  | 305,000 |  | |
| Interest Expense |  |  |  |  | 30,300 |  | |
| Discount on Bonds Payable |  |  |  |  | 1,500 |  | |

Difficulty: 3 Hard

Topic: Purchase at an Amount Higher than Book Value (Year 2); Purchase at an Amount Higher than Book Value (Year 1)

Learning Objective: 08-04A Prepare journal entries and consolidation entries related to an affiliates debt purchased from a nonaffiliate at an amount more than book value.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement