FA 5.1

Basic Consolidation 1

Calculation of purchase price discrepancy

	100%	
Purchase Price	679800	
Book Value of shares		
% (Net Assets)		
100% (120,000 + 508800)	628800	
PPD	51,000	dr
Analysis % (FMV − BV)		
AR 100% (144 − 120)	24000	dr
Inventory 100% (228 − 180)	48000	dr
Fixed Assets 100% (450 − 540)	(90000)	cr
Bonds Pay 100% (190 − 200)	10,000	dr
Goodwill	59000	
	51,000	

Elimination Entry

RE (sub)	508800	
Common Shrs (sub)	120,000	
Investment in Bondi (parent)		679800
AR	24000	
Inventory	48000	
Fixed Assets		90,000
Bonds Payable	10000	
Goodwill	59000	

BALANCE SHEETS

	Aaron	Bondi
Current liabilities	$ 180,200	$ 107,200
Bonds payable	315,000	200,000
Common shares	300,600	120,000
Retained earnings	1,242,706	505,400
Net income	126,000	8,400
Dividends (December 1, 2010)	(50,000)	(5,000)
	$2,114,506	$936,000

508,800

Notes

Consolidation is applied prospectively
So consolidated profit for year ending
Dec 31 with an acquisition of
control on Dec 31 would be the
profit reported by the parent

Inter company AR + AP would
be netted out

The fair value differences would
be amortized to profit in
subsequent years

	Aaron	Bondi		
Cash	120,000	96,000		216,000
Accounts receivable	180,000	120,000	24,000	324,000
Inventory	300,000	180,000	48,000	528,000
Fixed assets (net)	720,000	540,000 -	90,000	1,170,000
Investment in Bondi	679,800	-	- 679,800	-
Goodwill	-	-	59,000	59,000
Other investments	114,706	-		114,706
	2,114,506	936,000		2,411,706

	Aaron	Bondi		-
Current liabilities	180,200	107,200		287,400
Bonds payable	315,000	200,000	- 10,000	505,000
Common shares	300,600	120,000	- 120,000	300,600
Retained earnings	1,242,706	505,400	- 505,400	1,242,706
Net income	126,000	8,400	- 8,400	126,000
Dividends	- 50,000	- 5,000	5,000	- 50,000
	2,114,506	936,000		2,411,706

INCOME STATEMENTS	
Sales	1,261,000
DIvidend income	5,000
Income from other investments	24,000
	1,290,000
Cost of goods sold	840,000
Depreciation	60,000
Interest	37,000
Other	227,000
	1,164,000
Net income	126,000

Basic Consolidation 2

Calculation of PPD	80%	100%
Purchase Price	543840	679800
Book value 80% (120 + 508.8)	503040	628800
	40800	51,000

Analysis % (FMV - BV)		
AR 80% (144 - 120)	19200	24000
Inventory 80% (228 - 180)	38400	48000
Fixed Assets 80% (450 - 540)	(72000)	(90,000)
Bonds 80% (190 - 200)	8000	10,000
Goodwill	47200	59000
	40800	51,000

Elimination Entry

RE (sub)	508800	
Common Shares (sub)	120,000	
Investment in Bondi		543840
AR	24000	
Inventory	48000	
Fixed Assets		90000
Bonds Pay	10,000	
Non Controlling Interest/ Minority Interest B/S		135960 *
Goodwill	59000	

NCI - B/S @ Consolidation.

% of Sub @ H/c

20% (120000 + 508800) 125760

% of FMV diff as a result of net assets bumped to fair value 51,000 x 20% 10200

135960

	Aaron	Bondi		
Cash	120,000	96,000		216,000
Accounts receivable	180,000	120,000	24,000	324,000
Inventory	300,000	180,000	48,000	528,000
Fixed assets (net)	720,000	540,000 -	90,000	1,170,000
Investment in Bondi	543,840	- -	543,840	-
Goodwill	-	-	59,000	59,000
Other investments	250,666	-		250,666
	2,114,506	936,000		2,547,666

	Aaron	Bondi		-
Current liabilities	180,200	107,200		287,400
Bonds payable	315,000	200,000	- 10,000	505,000
Common shares	300,600	120,000	- 120,000	300,600
Retained earnings	1,242,706	505,400	- 505,400	1,242,706
Net income	126,000	8,400	- 8,400	126,000
Dividends	- 50,000	- 5,000	5,000	- 50,000
NCI - B/S	-	-	135,960	135,960
	2,114,506	936,000		2,547,666

INCOME STATEMENTS

Sales	1,261,000
Dividend income	5,000
Income from other investments	24,000
	1,290,000
Cost of goods sold	840,000
Depreciation	60,000
Interest	37,000
Other	227,000
	1,164,000
Net income	126,000

Proportionate Consolidation

Analysis

Purchase Price	237930
Book value of shares	
35% (120000 + 508800)	220080
	17850

Analysis

AR 35% (144 - 120)	8400
Inventory 35% (228 - 180)	16800
Fixed Asset 35% (450 - 540)	(31500)
Bonds Pay 35% (190 - 200)	3500
Goodwill	20650
	17850

Elimination Entry (Add BV + PPD to accounts)

Cash 35% × 96	33,600	
AR $\underbrace{(35\% \times 120k)}_{= 35\% \times FMV}$ + 8400	50400	
Inventory (35% × 180) + 16800	79800	
Fixed Assets (35% × 540) - 31500	157500	
C/L (107.2 × 35%)		37520
Bonds (200 × 35%) - 3500		66500
Goodwill	20650	
Investment in Bonds		237930

	Aaron	Bondi	35% of Bondi	PPD	
Cash	120,000	96,000	33,600		153,600
Accounts receivable	180,000	120,000	42,000	8,400	230,400
Inventory	300,000	180,000	63,000	16,800	379,800
Fixed assets (net)	720,000	540,000	189,000	- 31,500	877,500
Investment in Bondi	237,930	-	-	- 237,930	-
Goodwill	-	-	-	20,650	20,650
Other investments	556,576	-	-	-	556,576
	2,114,506	936,000			2,218,526

	Aaron	Bondi			-
Current liabilities	180,200	107,200	37,520		217,720
Bonds payable	315,000	200,000	70,000	- 3,500	381,500
Common shares	300,600	120,000	42,000	- 42,000	300,600
Retained earnings	1,242,706	505,400	176,890	- 176,890	1,242,706
Net income	126,000	8,400	2,940	- 2,940	126,000
Dividends	- 50,000	- 5,000	- 1,750	1,750	- 50,000
NCI - B/S	-	-	-	-	-
	2,114,506	936,000			2,218,526

INCOME STATEMENTS	
Sales	1,261,000
Dividend income	5,000
Income from other investments	24,000
	1,290,000
Cost of goods sold	840,000
Depreciation	60,000
Interest	37,000
Other	227,000
	1,164,000
Net income	126,000

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Revenue test 398000 × 10% = 39800

Asset test 351000 × 10% = 35100

Profit Loss Test

Σ Profit 33500 × 10% = 3350

Σ Loss (7000)

Net 26500

Rev > 39800	Assets > 35100	Profit / Loss > 3350
A	A	A
B		B
	C	C
D	D	

Just need to pass one the above

ABCD

Overall test of aggregation

$$\frac{\text{Disclosed segment revenues}}{\text{Total reported revenues}} \geq 75\%$$

$$\frac{396000}{398000} \geq 75\%$$

Disclose A B C D as reportable Segments in notes

P 23-7

	Sales (incl intersegment)	Asset	Profit	/ Loss
A	40000	35000	$\boxed{11000}$	
B	$\boxed{80000}$	60000		$\boxed{10000}$
C	$\boxed{580000}$	$\boxed{500000}$	$\boxed{75000}$	
D	35000	65000	4000	
E	55000	50000	7000	
	790,000	710,000	9700	10,000
	× 10%	× 10%	× 10%	
	79000	71000	970	

Disclose A, B, C

$$\frac{40000 + 80000 + 580000 - 120,000}{790\,000 - 120,000}$$

$= 86\%$

(b) Disclosures required by *IFRS 8*:

	A	B	C	Other	Totals
External Revenues	$40,000	$ 60,000	$480,000	$ 90,000	$670,000
Intersegment Revenues	0	20,000	100,000	0	120,000
Total Revenues	40,000	80,000	580,000	90,000	790,000
Cost of Goods Sold	19,000	50,000	270,000	49,000	
Operating Expenses	10,000	40,000	235,000	30,000	
Total Expenses	29,000	90,000	505,000	79,000	
Operating Profit (Loss)	11,000	(10,000)	75,000	11,000	87,000
Identifiable Assets	$35,000	$ 60,000	$500,000	$115,000	$710,000
Liabilities	$22,000	$ 31,000	$443,000	$ 41,000	$537,000

Reconciliation of revenues

Total segment revenues	**$790,000**
Revenues of immaterial segments	**(90,000)**
Elimination of inter-segment revenues	**(120,000)**
Revenues from reportable segments	**$580,000**

Reconciliation of profit or loss

Total segment operating profit	**$ 87,000**
Profits of immaterial segments	**(11,000)**
Profits from reportable segments	**$ 76,000**

Reconciliation of assets

Total segment assets	**$710,000**
Assets of immaterial segments ($65,000 + $50,000)	**(115,000)**
Assets from reportable segments	**$595,000**

Reconciliation of liabilities

Total segment liabilities	**$537,000**
Liab. of immaterial segments ($12,000 + $29,000)	**(41,000)**
Liabilities from reportable segments	**$496,000**

(c) One of the major arguments against providing segment information is that competitors will then be able to determine the profitable segments and enter that product line themselves. If this occurs and the other company is successful, then the present shareholders of Franklin Corporation may suffer. This question should illustrate to the student that the answers are not always black and white. Disclosure of segments undoubtedly provides some needed information, but some disclosures desired by external parties may be confidential.