

Solving a Consolidations Problem (template) – Cost Method

Step #1: Calculation of Acquisition Differential and Goodwill schedule

Cost of % of subsidiary		<u>XXX</u>
Implied value of 100% of subsidiary		<u>XXX</u>
Book value of subsidiary's net assets		
Common shares	XXX	
Retained earnings	<u>XXX</u>	<u>XXX</u>
Acquisition differential		XXX
Allocated to net assets – list		
Name	XXX	
Name	<u>XXX</u>	<u>XXX</u>
Goodwill		<u>XXX</u>

Step #2: Acquisition Differential Amortization and Impairment Schedule

	Balance Begin date	Amortization and Impairment		Balance, end of Year
		To beginning of current yr.	Current Year	
Asset - each	XXX	XXX	XXX	XXX
Less: liabilities	(XXX)	(XXX)	(XXX)	(XXX)
Goodwill	XXX	XXX	XXX	XXX

Step #3: Intercompany Transactions Schedule

Notes receivable and payable	XXX
Management fee revenue and expenses	XXX
Sales and purchases – upstream and downstream	XXX
Interest revenue and expenses	XXX
Dividend from subsidiary	XXX

Step #4: Unrealized Profits on Intercompany transactions Schedule

	Before tax	Income tax	After tax
Opening inventory	XXX	XXX	XXX
Ending inventory	XXX	XXX	XXX
Land gain, etc.	XXX	XXX	XXX

Step #5: Calculation of Consolidated Net Income attributable to parent (Cost Method Only)

Net income of parent		XXX
Less: dividends from subsidiary		(XXX)
Add/Less: downstream P/G/L		<u>XXX</u>
		<u>XXX</u>
Net income of subsidiary	XXX	
Add/Less: AD amortize/impairment for year	XXX	
Add/Less: Upstream P/G/L	<u>XXX</u>	
Adjusted subsidiary's NI	XXX	
Parent's ownership	%	<u>XXX</u>
Net Income ATP		<u>XXX</u>

Step #6: Calculation of NCI (Income Statement)

Net income of subsidiary	XXX	
Add/Less: AD amortize/impairment for year	XXX	
Add/Less: Upstream P/G/L	<u>XXX</u>	
Adjusted subsidiary's NI	XXX	
NCI's ownership	%	<u>XXX</u>
Non-controlling interest.		<u>XXX</u>

Step #7: Calculation of Consolidated Retained Earnings – Beginning of Year

Retained earnings of parent, at date		XXX
Add/Less: downstream P/G/L (net tax), to date		<u>XXX</u>
		XXX
Retained earnings of subs. At date	XXX	
Less: acquisition retained earnings	<u>(XXX)</u>	
Change since acquisition	XXX	
Add/less: AD amortize to date	XXX	
Add/Less: upstream P/G/L to date	<u>XXX</u>	
	XXX	
Parent's ownership	%	<u>XXX</u>
Consolidated retained earnings		<u>XXX</u>

Step #8: Calculation of Deferred Income Taxes, year end

Ending inventory	XXX
Gain on land, etc.	<u>XXX</u>
	XXX

Step #9: Calculation of Non-Controlling Interest (B/S) – Year End

Common shares	XXX
Retained earnings	<u>XXX</u>
	XXX
Add: unamortized acquisition differential	XXX
Less: unrealized profits/gains (e.g. ending inventory, gain on land)	<u>(XXX)</u>
	XXX
Non-controlling interest's share	<u>%</u>
	<u>XXX</u>

Step #10: Preparation of

1. Consolidated income statement
2. Consolidated Statement of Retained Earnings
3. Consolidated Statement of Financial Position