Advanced accounting

Finance

College: Scenario covering the topic of consoli d financial ments When consoli d ments are prepared, the account balances are taken from the separate books of the parent and each subsidiary and placed in the consolidation work paper The consolidated statements are prepared, after adjustments and eliminations, from the amounts in the work paper

Eliminating entries

So that the totals of the individual account balances of the separate consolidating companies may be adjusted so as to reflect the amounts that would appear if all the legally separate companies were actually a single company. Because they appear only in the consolidating, work papers and do not affect the books of the separate companies. So that the combined totals for individual accounts may be increased or decreased so that only transactions with external parties are reflected in the consolidated amounts. Because they do not carry over from period to period (Peterson, 2012). Although most parent companies do possess 100 percent ownership of their subsidiaries, a significant number establish control with a lesser amount of stock. If the parent does not own 100% of the company (Peterson et al, 2012), WHO owns the rest of it? No controlling Shareholders. The ownership interests of the No controlling Shareholders must be reflected in the consolidated financial statements. The Parent, with controlling interest, must consolidate 100% of the Subsidiary's financial information. The acquisition method requires that the subsidiary be valued at the acquisition-date fair value.

i. The total acquired firm fair value in a partial acquisition is the sum of

ii. The fair value of the controlling interest.

iii. The fair value of the no controlling interest at the acquisition date.

Parker purchased 9, 000 shares at $70 per share. The fair value of their consideration transferred is $630, 000. The remaining 1, 000 shares trade at $60 per share indicating that the fair value of the no controlling interest is $60, 000. The total acquisition-date fair value of the sub is $690, 000.

Fair value of controlling interest:

($70 X 9, 000 shares) $630, 000

Fair value of no controlling interest

($60 X 1, 000 shares) 60, 000

Total fair value of sub. $690, 000

The total acquisition-date fair value (amount paid) of Strong of $690, 000 is greater than the fair value of the identifiable net assets acquired of $600, 000 (10, 000 shares x $60 per share). The difference is allocated to Goodwill. The parent first allocates goodwill to its controlling interest for the excess of the fair value of the parent's equity interest over its share of the fair value of the net identifiable assets. ($600, 000 X 90% = 540, 000). Goodwill allocated to the controlling and no controlling interests will not always be proportional to the percentages owned(Ittelson, 2009).

Errors or omissions on the books of the subsidiary. Corrections should be made directly on the subsidiary's books as of the date of acquisition. Excess of fair value over book value of subsidiary's net identifiable assets. The assets and liabilities of the subsidiary may be revalued directly on the books of the subsidiary. The accounting basis of the subsidiary may be maintained and the revaluations made each period in the consolidation work paper.

Consolidated Net Income

In the absence of transactions among the consolidating companies, consolidated net income is equal to the parent's income from its own operations, excluding any investment income from consolidated subsidiaries (Ittelson, 2009), plus the net income from each of the consolidated subsidiaries, adjusted for any differential write-off. Includes 100 percent of the revenues and expenses regardless of the parent's percentage ownership.

Consolidated retained earnings

That portion of the consolidated enterprise's undistributed earnings accruing to the parent company shareholders. Consolidated retained earnings at the end of the period is equal to the beginning consolidated retained earnings balance plus consolidated net income attributable to the controlling interest, less dividends declared by the parent company.

References

Ittelson, T. R. (2009). Financial statements: A step-by-step guide to understanding and creating financial reports. Franklin Lakes, NJ: Career Press.

Peterson, D. P., & Fabozzi, F. J. (2012). Analysis of financial statements.