CHAPTER 2

WHOLLY OWNED SUBSIDIARIES: POSTCREATION PERIODS

COMPLETION STATEMENTS

1. The two methods of accounting for an investment in a subsidiary are the ________________________ method and the _______________________________ method.

2. The ***conceptually correct*** method of accounting for an investment in a subsidiary is the ____ method.

3. A parent that uses the ***accrual basis*** for income tax-reporting purposes will pay U.S. income taxes on a subsidiary's earnings when the subsidiary ____.

4. Under the ***equity method*** of accounting, the parent's investment income is appropriately described in the parent's income statement using the account ____.

5. Under the ***cost method*** of accounting, the parent's investment income is appropriately described in the parent's income statement using the account ____.

6. Under the ***equity method***, all dividends declared by the subsidiary are treated as a(n) ____ of the parent's investment.

7. The ***equity method*** reflects the ____ of the subsidiary.

8. The difference between the carrying value of the investment under ***the equity method*** and under the ***cost method*** pertains to the subsidiary's ____.

9. A company that has no operations of its own—only investments in other companies that have operations—is called a(n) _________________________________.

10. Financial statements of the parent that are presented in certain circumstances in ***not*es to the consolidated statements** are called ____________________________ statements.

11. To use the ***equity method*** of accounting for an unconsolidated subsidiary, the parent must have ___________________________________.

12. The ***equity method*** is sometimes referred to as a(n) ___________________________.

TRUE-OR-FALSE STATEMENTS

Equity Method

1. T F Under the ***equity method,*** a subsidiary's earnings are effectively treated as an additional capital investment by the parent.
2. T F Under the ***equity method,*** all dividends (except stock dividends) declared by the subsidiary are treated as a liquidation of the investment.
3. T F Under the ***equity method,*** the declaration of dividends—not the cash payment of dividends—results in changing the carrying value of the investment.
4. T F Under the ***equity method,*** the carrying value of the investment represents the market value of the common stock holding.
5. T F When a subsidiary declares a dividend that is ***more than*** the subsidiary's net income for that year, the consolidated net income ***will not equal*** the parent's net income under the ***equity method.***
6. T F When the parent **is *not* obligated** to invest additional funds in a subsidiary that is reporting losses, the parent stops applying the equity method when the subsidiary's retained earnings becomes negative.
7. T F When the parent ***is not obligated*** to invest additional funds in a subsidiary that is reporting losses, the parent stops applying the equity method when the subsidiary's equity becomes negative.
8. T F When the parent ***is obligated*** to invest additional funds in a subsidiary that is reporting losses, the parent stops applying the equity method when the subsidiary's retained earnings becomes negative.
9. T F When the parent ***is obligated*** to invest additional funds in a subsidiary that is reporting losses, the parent stops applying the equity method when the subsidiary's equity becomes negative.
10. T F When the parent has temporarily discontinued applying the ***equity method*** because of the subsidiary's substantial operating losses, the parent resumes application of the equity method when the subsidiary's *retained earnings* becomes positive.
11. T F When the parent has temporarily discontinued applying the ***equity method*** because of the subsidiary's substantial operating losses, the parent resumes application of the equity method when the subsidiary's *equity* becomes positive.
12. T F When a parent accounts for its investment in a subsidiary using the ***equity method,*** only the subsidiary's undistributed retained earnings is added to the parent's retained earnings in the consolidation process.
13. T F To properly calculate the return on its investment in a subsidiary, the parent must use as the denominator the carrying value produced under the ***equity method.***
14. T F Whether the equity method or the cost method is used to account for an investment in a subsidiary, the consolidated statements are identical.

Cost Method

15. T F Under the ***cost method,*** the investment account is ***not reduced*** for dividends declared by the subsidiary.
16. T F Under the ***cost method,*** the investment account ***is reduced*** for dividends when they are received—***not*** when they are paid.

17. T F Under the ***cost method***, the investment account **is reduced** for the subsidiary's cumulative reported losses that exceed its cumulative reported profits.

18. T F The ***cost method*** has a built-in checking feature that is useful in preparing consolidated statements.

19. T F If a write-down has been made to the parent's investment under the ***cost method*****,** the investment account ***can be written back up***, but only to the original cost amount, if the subsidiary later becomes profitable.

20. T F If a write-down has been made to the parent's investment under the ***cost method*****,** the investment account ***cannot be written back up*** to the original cost amount if the subsidiary later becomes profitable.

21. T F The consolidated net income equals the parent's net income ***only if*** the parent accounts for its investment in the subsidiary using the ***cost method.***

22. T F When a subsidiary is reporting profits, the consolidated net income can ***never*** equal the parent's net income under the ***cost method.***

23. T F Under the ***cost method*****,** the subsidiary's retained earnings is added to the parent's retained earnings in the consolidation process.

Parent-Company-Only Statements

24. T F Under *FAS 94,* ***parent-company-only statements*** must be included in notes to the consolidated statements.

25. T F When ***parent-company-only statements*** are presented in the notes to the consolidated statements, the net income and retained earnings amounts in such statements agree with the corresponding amounts in the ***consolidated statements*** only if the ***equity method*** is used.

26. T F ***Parent-company-only statements*** are required by the Securities and Exchange Commission when the restricted net assets of all subsidiaries of a bank holding company exceed 25% of ***consolidated net assets***.

27. T F ***Parent-company-only statements*** are required by the Securities and Exchange Commission when the restricted net assets of all subsidiaries of a bank holding company exceed 25% of the ***consolidated retained earnings***.

MULTIPLE-CHOICE QUESTIONS

Conceptual Questions

1. _____ Which of the following statements is ***not*** an argument in support of the ***equity method****?*
   a. It reflects economic substance.
   b. It keeps track of the amount invested.
   c. It enables parent company financial statements to be used meaningfully internally.
   d. It is the same as the accrual basis of accounting.
   e. None of the above.

2. _____ Which statement is correct concerning the ***equity method*****?**
   a. It is used exclusively instead of consolidation.
   b. It is based on the historical cost concept.
   c. It does not have a built-in self-checking feature in the consolidation process.
   d. Cash dividends declared by the subsidiary are always treated as a partial liquidation (reduction) of the parent's investment in the subsidiary.
   e. None of the above.

3. _____ Under the ***equity method*****,** which account is ***not*** used?
   a. Dividends Receivable.
   b. Dividends Income.
   c. Investment in Subsidiary.
   d. Equity in Net Income of Subsidiary.
   e. None of the above.

4. _____ Under the ***cost method*****,** which account does ***not*** have any general ledger entries made to it when the subsidiary has been profitable each year since its creation?
   a. Dividends Receivable.
   b. Dividends Income.
   c. Investment in Subsidiary.
   d. Cash.
   e. None of the above.

5._____ The Dividend Income account would be used in which of the following accounting methods?

	Equity Method	**Cost Method**
a.	No	Yes
b.	Yes	Yes
c.	Yes	No
d.	No	No

6. _____ When a parent uses the ***equity method*** of accounting for its investment in a 100%-owned subsidiary, the Investment account will be ***increased*** when the parent recognizes
   a. Cash dividends declared by the subsidiary.
   b. The receipt of cash in payment of dividends declared by the subsidiary.
   c. The subsidiary's reported net income.
   d. The subsidiary's reported net loss.
   e. None of the above.

7._____ When a parent uses the cost method to account for its investment in a 100%-owned subsidiary, cash dividends declared by the subsidiary should be recorded by the parent as
a. Dividend income when declared.
b. Dividend income when the cash is received.
c. A deduction from the parent's Investment account.
d. An addition to the parent's Investment account.
e. None of the above.

8. _____ On 12/29/05, a subsidiary ***declared*** a cash dividend that was paid on 1/2/06. Under the ***equity method*****,** what is the effect of this ***declaration*** on the ***parent's*** retained earnings—***not*** the ***consolidated*** retained earnings?
a. Increase.
b. Decrease.
c. No effect.

9. _____ On 12/29/05, a subsidiary ***declared*** a cash dividend that was paid on 1/2/06. Under the ***cost method*****,** what is the effect of this ***declaration*** on the ***parent's*** retained earnings—***not*** the ***consolidated*** retained earnings?
a. Increase.
b. Decrease.
c. No effect.

10. _____ A subsidiary ***declared*** a cash dividend. What is the ultimate effect of this ***declaration*** on the ***parent's*** retained earnings account—***not*** the ***consolidated*** retained earnings—under each of the following methods?

	Equity Method	**Cost Method**
a.	No effect	No effect
b.	No effect	Increase
c.	Increase	No effect
d.	Increase	Increase

11._____ On 1/4/06, a subsidiary **paid** a cash dividend that had been declared on 12/30/05. Under the ***equity method*****,** what is the effect of this **payment** on the **parent's** retained earnings—***not*** the ***consolidated*** retained earnings?
a. Increase.
b. Decrease
c. No effect.

12. _____ On 1/4/06, a subsidiary **paid** a cash dividend that had been declared on 12/30/05. Under the ***cost method*****,** what is the effect of this **payment** on the **parent's** retained earnings—***not*** the ***consolidated*** retained earnings?
a. Increase.
b. Decrease.
c. No effect.

13. _____ When a parent company uses the ***equity method*** of accounting for its investment in a subsidiary, which of the following affects the **parent's** retained earnings?

	Dividends Declared by the Subsidiary	Dividends Paid by the Subsidiary *after* the Declaration Date
a.	Yes	Yes
b.	No	No
c.	Yes	No
d.	No	Yes

14. _____ When a parent company uses the ***cost method*** of accounting for its investment in a subsidiary, which of the following affects the **parent's** retained earnings?

	Dividends Declared by the Subsidiary	Dividends Paid by the Subsidiary *after* the Declaration Date
a.	Yes	Yes
b.	No	No
c.	Yes	No
d.	No	Yes

15. _____ In the absence of knowing whether the parent has guaranteed any of the subsidiary's debt, a parent company using the ***equity method*** will consider when it is absolutely necessary to temporarily discontinue application of ***the equity method*** when the
    a. Subsidiary reports losses but still has positive retained earnings.
    b. Subsidiary's retained earnings becomes negative.
    c. Subsidiary's equity becomes negative.
    d. Subsidiary no longer declares dividends.
    e. None of the above.

16._____ Which of the following statements is ***false*?**
    a. Consolidation entries are never posted to the general ledger.
    b. Any balance in the Equity in Net Income (of subsidiary) account is ***always*** eliminated in the consolidation process.
    c. Under the equity method, the *parent's* net income always **equals** *consolidated* net income when the subsidiary has always been profitable.
    d. In consolidation, dividends declared by a 100%-owned subsidiary are always eliminated.
    e. None of the above.

17. _____ Under the ***equity method*,** a parent company that ***has guaranteed*** all of its subsidiary's debt would
    a. Discontinue applying the equity method when the subsidiary's *retained earnings* becomes negative.
    b. Discontinue applying the equity method when the subsidiary's *equity* becomes negative.
    c. Not discontinue applying the equity method regardless of the subsidiary's losses.
    d. Switch to the cost method when the subsidiary's *equity* becomes zero.
    e. None of the above.

18. _____ If a subsidiary has ***always*** been profitable (and dividends ***never*** equaled net income), the ***consolidated*** net income amount is the same as the ***parent's*** net income amount
    a. Only under the equity method.
    b. Only under the cost method.
    c. Under both the equity method and the cost method.
    d. Under neither the equity method nor the cost method.

19. _____ Dividends ***declared*** by a subsidiary as shown in its analysis of retained earnings on the consolidation worksheet are
    a. Added to the dividends declared by the parent in arriving at dividends declared to be reported in the consolidated analysis of retained earnings.
    b. Eliminated in consolidation only if the parent uses the equity method.
    c. Eliminated in consolidation only if the parent uses the cost method.
    d. Eliminated in consolidation regardless of whether the parent uses the equity method or the cost method.

20. _____ When a parent uses the ***equity method*** and consolidates a subsidiary that has never reported a loss, ***consolidated*** retained earnings will always be
    a. More than the parent's retained earnings.
    b. Less than the parent's retained earnings.
    c. Equal to the parent's retained earnings.
    d. More than or less than the parent's retained earnings, depending on whether the parent has a positive or negative balance in its Retained Earnings account.
    e. None of the above.

21. _____ In the ***consolidated*** statement of retained earnings for a parent and a 100%-owned subsidiary, dividends ***declared*** by the subsidiary are
    a. Shown.
    b. Not shown.
    c. Shown only under the equity method.
    d. Shown only under the cost method.

22. _____ When a parent-subsidiary relationship exists, the Dividend Income account is reported in the ***consolidated*** income statement under which of the following accounting methods?

	Equity Method	Cost Method
a.	Yes	Yes
b.	No	No
c.	Yes	No
d.	No	Yes

23. _____ Dividends ***declared*** by a subsidiary are reported currently in the ***parent's separate*** income statement and in the ***consolidated*** income statement under the

	Equity Method	Cost Method
a.	Yes	Yes
b.	No	No
c.	Yes	No
d.	No	Yes

24. _____ Under the ***cost method,*** the *parent's* net income ***equals*** the *consolidated* net income only if
    a. The subsidiary reports no loss.
    b. The subsidiary reports a loss.
    c. The subsidiary declares dividends equal to or greater than its net income.
    d. The subsidiary declares dividends equal to its net income.
    e. None of the above.

Application Questions

Note: All multiple-choice application questions can easily be converted to problems by deleting the choices.

25. _____ On 1/1/06, Parco created a 100%-owned subsidiary, Sarco, with a $100,000 cash investment. During 2006, Sarco reported net income of $35,000, declared cash dividends of $15,000, and paid $10,000 of the $15,000 to the parent. What is the ***carrying value*** of the investment at 12/31/06 under the ***equity method*****?**
    a. $100,000
    b. $115,000
    c. $120,000
    d. $135,000
    e. $145,000

26. _____ On 1/1/06, Parco created a 100%-owned subsidiary, Sarco, with a $100,000 cash investment. During 2006, Sarco reported net income of $35,000, declared cash dividends of $15,000, and paid $10,000 of the $15,000 to the parent. What is the ***carrying value*** of the investment at 12/31/06 under the ***cost method*****?**
    a. $100,000
    b. $115,000
    c. $120,000
    d. $135,000
    e. $145,000

27. _____ On 5/1/06, Pyne Inc. formed Syne Inc., investing $500,000 cash. For 2004, Syne reported net income of $65,000 and declared and paid cash dividends of $25,000. Under the ***equity method*****,** what amount appears in the ***parent's separate*** 2006 income statement—***not*** the *consolidated* income statement?
    a. $25,000
    b. $40,000
    c. $65,000
    d. $90,000

28. _____ On 5/1/06, Pyne Inc. formed Syne Inc., investing $500,000 cash. For 2006, Syne reported net income of $65,000 and declared and paid cash dividends of $25,000. Under the ***cost method*****,** what amount appears in the ***parent's separate*** 2006 income statement—***not*** the *consolidated* income statement?
    a. $25,000
    b. $40,000
    c. $65,000
    d. $90,000

29. _____ On 4/1/06, Pix Inc. formed Stix Inc., investing $100,000 cash. For 2004, Stix reported net income of $23,000 and declared and paid cash dividends of $8,000. What is Pix's carrying value of its investment in Stix at 12/31/06 under each of the following methods?

	Equity Method	Cost Method
a.	$108,000	$123,000
b.	$115,000	$100,000
c.	$123,000	$100,000
d.	$123,000	$ 92,000
e.	$115,000	$108,000

30. _____ On 4/1/06, Pix Inc. formed Stix Inc., investing $100,000 cash. For 2006, Stix reported net income of $23,000 and **declared** cash dividends of $8,000 (which were paid 1/2/07). What is Pix's carrying value of its investment in Stix at 12/31/06?

	Equity Method	Cost Method
a.	$108,000	$123,000
b.	$115,000	$100,000
c.	$123,000	$100,000
d.	$123,000	$ 92,000
e.	$115,000	$108,000

31. _____ On 5/1/05, Pax Inc. created Sax Inc., investing $500,000 cash. Sax reported a highly unexpected $230,000 loss for 2005 and a $40,000 profit for 2006. The 2005 loss created substantial doubt as to (a) the ability of the subsidiary to survive and (b) the ability of the parent to sell the subsidiary at other than an amount substantially below its initial investment. What should the ***carrying value*** of Pax's investment in Sax be at 12/31/06 under each of the following methods?

	Equity Method	Cost Method
a.	$310,000	$500,000
b.	$310,000	$270,000
c.	$310,000	$310,000
d.	$530,000	$270,000
e.	$270,000	$270,000

32. _____ On 1/1/06, the ***carrying value*** of Plano Company's investment in its 100%-owned created subsidiary, Slano, was $600,000. During 2006, Slano reported a loss of $700,000. Under the ***equity method*****,** what amount should be reported in Plano's ***separate*** income statement for 2006, relating to its investment in Slano, if Slano's debt is

	Guaranteed by the Parent	***Not*** Guaranteed by the Parent
a.	$ -0-	$ -0-
b.	$(600,000)	$(600,000)
c.	$(700,000)	$(700,000)
d.	$(700,000)	$(600,000)
e.	$(600,000)	$(700,000)

33._____ On 5/1/05, Platt created a 100%-owned subsidiary, Switt, with a cash investment of \$500,000. Switt reported a net loss of \$600,000 for 2005 and net income of \$140,000 for 2006. Platt has not guaranteed any of the subsidiary's debt. Under the equity method, what should be the amount reported in Platt's income statement for 2006—not 2005—relating to its investment in Switt?

a. \$ -0-
d. \$40,000
e. \$140,000
b. \$(40,000)
d. \$(140,000)

34. _____ The following accounts are as they appear in the consolidation worksheet for a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	Subsidiary
Equity in net income (of subsidiary)	\$ 33,000	
Investment in subsidiary	150,000	
Common stock	10,000	\$ 5,000
Additional paid-in capital	390,000	95,000
Retained earnings (ending)	180,000	50,000
Dividends declared	(45,000)	(10,000)

What amount appears as a ***separate line item posting*** to the Retained Earnings account in the basic elimination entry at the end of 2006?

a. Debit of \$17,000.
d. Debit of \$50,000.
b. Debit of \$27,000.
e. No amount is posted.
c. Debit of \$37,000.

35. _____ The following accounts are as they appear in the consolidation worksheet for a parent and its 100%-owned subsidiary (2001) at the end of 2006:

	Parent	Subsidiary
Dividend income (from subsidiary)	\$ 10,000	
Investment in subsidiary	100,000	
Common stock	10,000	\$ 5,000
Additional paid-in capital	390,000	95,000
Retained earnings (ending)	180,000	50,000
Dividends declared	(45,000)	(10,000)

The subsidiary's retained earnings at 12/31/05 were \$27,000. What amount appears as a ***separate line item posting*** to the Retained Earnings account in the basic elimination entry at 12/31/06?

a. Debit of \$10,000.
b. Debit of \$27,000.
c. Debit of \$37,000.
d. Debit of \$50,000.
e. No amount is posted.

36._____ The following accounts are as they appear in the consolidation worksheet for a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	Subsidiary
Equity in net loss of subsidiary	$ (14,000)	
Investment in subsidiary	130,000	
Common stock	10,000	$ 20,000
Additional paid-in capital	190,000	140,000
Retained earnings (ending)	380,000	(30,000)
Dividends declared	(55,000)	

What amount appears as a ***separate line item posting*** to the Retained Earnings account in the basic elimination entry at 12/31/06?

a. Debit of $16,000.
b. Credit of $16,000.
c. Debit of $44,000.
d. Credit of $44,000.
e. No amount is posted.

37. _____ The following accounts are as they appear in the consolidation worksheet for a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	Subsidiary
Dividend income (from subsidiary)	$ –0–	
Investment in subsidiary	160,000	
Common stock	10,000	$ 20,000
Additional paid-in capital	190,000	140,000
Retained earnings (ending)	380,000	(30,000)
Dividends declared	(55,000)	

The subsidiary's retained earnings at 12/31/05 were $(16,000). What amount appears as a ***separate line item posting*** to the Retained Earnings account in the basic elimination entry at 12/31/06?

a. Debit of $16,000.
b. Credit of $16,000.
c. Debit of $44,000.
d. Credit of $44,000.
e. No amount is posted.

38. _____ The following accounts were taken from the separate company financial statements of a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	Subsidiary
Equity in net income (of subsidiary)	$ 80,000	
Investment in subsidiary	640,000	
Common stock	100,000	$ 5,000
Additional paid-in capital	500,000	395,000
Retained earnings	450,000	240,000
Dividends declared	(140,000)	(50,000)

What amount should be reported for ***consolidated*** retained earnings at the end of 2006?

a. $450,000
b. $480,000
c. $530,000
d. $690,000
e. None of the above.

39. _____ The following accounts or amounts were taken from the separate company financial statements of a parent and its 100%-owned subsidiary (created in 2006) at the end of 2006:

	Parent	**Subsidiary**
Dividend income (from subsidiary)	$ 50,000	
Investment in subsidiary	400,000	
Common stock	100,000	$ 5,000
Additional paid-in capital	500,000	395,000
Retained earnings	210,000	240,000
Dividends declared	(140,000)	(50,000)
Net income	180,000	80,000

What amount should be reported for ***consolidated*** retained earnings at the end of 2006?

a. $210,000
b. $240,000
c. $290,000
d. $450,000
e. None of the above.

40. _____ For 2006, a 100%-owned subsidiary reported (a) net income of $75,000 and (b) dividends declared of $15,000 ($10,000 of which was paid in 2006). What amount appears in the ***parent's separate income statement*** for 2006 under the ***equity method*** of accounting?

a. $10,000
b. $15,000
c. $60,000
d. $65,000
e. $75,000

41. _____ For 2006, a 100%-owned subsidiary reported (a) net income of $75,000 and (b) dividends declared of $15,000 ($10,000 of which was paid in 2006). What amount appears in the **parent's *separate income statement*** for 2006 under the ***cost method*** of accounting?

a. $10,000
b. $15,000
d. $60,000
e. $65,000
e. $75,000

42. _____ The following accounts are as they appear on the ***separate company financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	**Subsidiary**
Dividend income (from subsidiary)	$ 10,000	
Investment in subsidiary	100,000	
Common stock	400,000	$ 2,000
Additional paid-in capital	100,000	98,000
Retained earnings (deficit)	360,000	(40,000)
Dividends declared	(80,000)	(10,000)

Additional information:

Reported net income (loss) for 2004	$160,000	$(22,000)

What amount should be reported for ***consolidated*** retained earnings at the end of 2006?

a. $310,000
b. $320,000
c. $350,000
d. $360,000
e. None of the above.

43. _____ The following accounts are as they appear on the ***separate company financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	**Subsidiary**
Equity in net income (of subsidiary)	$ 7,000	
Investment in subsidiary	280,000	
Common stock	100,000	$ 25,000
Additional paid-in capital	900,000	175,000

Retained earnings	390,000	80,000
Dividends declared	(55,000)	(3,000)

What would be the parent's **Retained Earnings** balance at 12/31/06 if it used the ***cost method*** of accounting?

a. $306,000
b. $307,000
c. $310,000
d. $393,000
e. $394,000

44. _____ The following accounts are as they appear on the ***separate company financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at the end of 2006:

	Parent	**Subsidiary**
Equity in net income (of subsidiary)	$ 7,000	
Investment in subsidiary	280,000	
Common stock	100,000	$ 25,000
Additional paid-in capital	900,000	175,000
Retained earnings	390,000	80,000
Dividends declared	(55,000)	(3,000)

What would be the parent's **Investment in Subsidiary** balance at 12/31/06 if it used the ***cost method*** of accounting?

a. $196,000
b. $197,000
c. $200,000
d. $203,000
e. $204,000

MATCHING (OTHER OBJECTIVE FORMAT QUESTIONS)

Questions 1 through 15 are based on the information given immediately following this answer space listing.

1.	______	(item 1)	6.	______	(item 6)	11.	______	(item 11)
2.	______	(item 2)	7.	______	(item 7)	12.	______	(item 12)
3.	______	(item 3)	8.	______	(item 8)	13.	______	(item 13)
4.	______	(item 4)	9.	______	(item 9)	14.	______	(item 14)
5.	______	(item 5)	10.	______	(item 10)	15.	______	(item 15)

The following ten selected account balances and analyses of retained earnings were obtained from the ***separate company financial statements*** of Pale Inc. and its 100%-owned created subsidiary, Sale Inc. (Pale's only subsidiary) at the end of 2006:

Item		**Pale Inc.**	**Sale Inc.**
1	Equity in net income of subsidiary	$ 58,000	
2	Corporate overhead allocation	27,000	$(27,000)
3	Cash	45,000	12,000
4	Intercompany receivable	19,000	
5	Dividends receivable	14,000	
6	Investment in subsidiary	490,000	
7	Intercompany payable		19,000
8	Dividends payable	18,000	14,000
9	Common stock	100,000	125,000
10	Additional paid-in capital	600,000	175,000
Item		**Pale Inc.**	**Sale Inc.**
11	Retained earnings, beginning of year	$260,000	$160,000
12	+ Net income	182,000	58,000
13	– Dividends declared	(72,000)	(28,000)
14	Retained earnings, end of year	$370,000	$190,000

Additional Account (you should determine the appropriate amount(s) that would exist before proceeding):

15	Dividend income (if the ***cost method*** were used instead of the ***equity method***)	_________	_________

Required:

For each of the above listed items, how would the item be reported in Pale's ***consolidated*** financial statements? Use the following list of possible answers:

a. Report at the amount shown in Sale's separate statements.

b. Report at the amount shown in Pale's separate statements.

c. Report at the sum of the amounts shown in Pale's and Sale's separate statements.

d. Report at less than the sum of the amounts shown in Pale's and Sale's separate statements.

e. Create this item in the consolidation process.

f. Do ***not*** report this item in the consolidated statements.

g. Do ***not*** report this item in the consolidated statements or in the separate statements of either Pale or Sale.

PROBLEMS

1. Pelba created Selba, a 100%-owned subsidiary, several years ago. For 2006, Selba reported net income of $70,000 and declared and paid cash dividends of $40,000. At 12/31/06, Selba's equity accounts were as follows:

Common Stock	$100,000
Additional Paid-in Capital	300,000
Retained Earnings	490,000

Required:

a. What entry(s) were made in consolidation at 12/31/06, assuming the parent used the ***equity method*****?**
b. What entry(s) were made in consolidation at 12/31/06, assuming the parent used the ***cost method*****?**

2. Pumoa created Sumoa, a 100%-owned subsidiary, several years ago. For 2006, Sumoa reported net income of $260,000 and declared and paid cash dividends of $120,000. At 12/31/06, Sumoa's equity accounts were as follows:

Common Stock	$100,000
Additional Paid-in Capital	60,000
Retained Earnings	740,000

Required:

a. What entry(s) were made in consolidation at 12/31/06, assuming the parent used the ***equity method*****?**
b. What entry(s) were made in consolidation at 12/31/06, assuming the parent used the ***cost method*****?**

3. The following accounts appear in the respective ***general ledgers*** of a parent and its 100%-owned subsidiary (created in 2001) at 12/31/06 (***prior to*** the parent's final year-end adjustments and closing procedures relating to the application of the ***equity method*** of accounting):

	Parent	**Subsidiary**
Investment in Subsidiary (balance at 1/1/06)	$130,000	
Common Stock	40,000	$ 5,000
Additional Paid-in Capital	360,000	95,000
Retained Earnings (deficit)	160,000	(23,000)
Dividends Declared	(35,000)	–0–

Required:

What accounts and related balances pertaining to the subsidiary should appear in the parent's separate balance sheet at 12/31/06 under each of the following assumptions?

a. The parent has guaranteed ***none*** of the subsidiary's debt.
b. The parent has guaranteed ***all*** of the subsidiary's debt.
c. The parent has guaranteed $60,000 of the subsidiary's debt on a pro rata basis.

4. The following accounts are as they appear in the respective ***general ledgers*** of a parent and its 100%-owned subsidiary (created in 2001) at 12/31/06 (***prior to*** the parent's final year-end adjustments and closing procedures relating to the application of the ***equity method*** of accounting):

	Parent	**Subsidiary**
Investment in Subsidiary (balance at 1/1/06)	$ 22,000	
Common Stock	100,000	$ 5,000
Additional Paid-in Capital	600,000	45,000
Retained Earnings (deficit)	360,000	(71,000)
Dividends Declared	(44,000)	–0–

Required:

What accounts and related balances pertaining to the subsidiary should appear in the parent's ***separate*** ***balance sheet*** at 12/31/06 under each of the following assumptions?

a. The parent has guaranteed ***none*** of the subsidiary's debt.
b. The parent has guaranteed ***all*** of the subsidiary's debt.
c. The parent has guaranteed $10,000 of the subsidiary's debt on a pro rata basis.

5. The following accounts are as they appear on the separate company ***financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at 12/31/06:

	Parent	Subsidiary
Equity in net income (of subsidiary)	$ 70,000	
Investment in subsidiary	550,000	
Common stock	100,000	$ 5,000
Additional paid-in capital	500,000	295,000
Retained earnings	880,000	250,000
Dividends declared	(140,000)	(30,000)

Required:

a. What consolidation entries are required at 12/31/06?
b. What is the consolidated retained earnings amount?
c. What amount will be reported for dividends in the consolidated statement of retained earnings for 2006?

6. The following accounts are as they appear on the separate company ***financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at 12/31/06:

	Parent	**Subsidiary**
Dividend income (from subsidiary)	$ 50,000	
Investment in subsidiary	300,000	
Common stock	100,000	$ 1,000
Additional paid-in capital	800,000	299,000
Retained earnings	720,000	150,000
Dividends declared	(260,000)	(50,000)

Required:

a. What consolidation entries are required at 12/31/06?
b. What is the consolidated retained earnings amount?
c. What amount will be reported for dividends in the consolidated statement of retained earnings for 2006?

7. The following accounts are as they appear on the separate company ***financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at 12/31/07:

	Parent	**Subsidiary**
Equity in net loss (of subsidiary)	$ (60,000)	
Investment in subsidiary	490,000	
Common stock	200,000	$ 15,000
Additional paid-in capital	300,000	285,000
Retained earnings	610,000	190,000
Dividends declared	(230,000)	(20,000)

Required:

a. What consolidation entries are required at 12/31/07?
b. What is the consolidated retained earnings amount?
c. What amount will be reported for dividends in the consolidated statement of retained earnings for 2007?

8. The following accounts are as they appear on the separate company ***financial statements*** of a parent and its 100%-owned subsidiary (created in 2001) at 12/31/08:

	Parent	**Subsidiary**
Dividend income (from subsidiary)	$ 10,000	
Investment in subsidiary	100,000	
Common stock	400,000	$ 2,000
Additional paid-in capital	100,000	98,000
Retained earnings (deficit)	360,000	(40,000)
Dividends declared	(80,000)	(10,000)
Additional information:		
Reported net income (loss) for 2008	$160,000	$(22,000)

Required:

a. What consolidation entries are required at 12/31/08?
b. What is the consolidated retained earnings amount?
c. What amount will be reported for dividends in the consolidated statement of retained earnings for 2008?

9. The following accounts are as they appear on the separate company ***financial statements*** of a parent and its 100%-owned subsidiary at the end of 2009:

	Parent	Subsidiary
Equity in net loss (of subsidiary)	$ (65,000)	
Corporate overhead allocation ***(P/L accounts)***	(42,000)	$ 42,000
Dividends receivable	8,000	
Investment in subsidiary	340,000	
Dividends payable	15,000	8,000
Common stock	400,000	6,000
Additional paid-in capital	100,000	194,000
Retained earnings	600,000	140,000
Dividends declared	(60,000)	(32,000)

Additional information:

	Parent	Subsidiary
Retained earnings at 1/1/09	$750,000	

Required:

a. What consolidation entries are required at 12/31/09?
b. What is the consolidated net income amount?
c. What is the consolidated retained earnings amount?
d. What amount will be reported for dividends in the consolidated statement of retained earnings for 2009?
e. If the parent used the ***cost method*** instead of the ***equity method,*** what would be the parent's retained earnings balance at 12/31/09?
f. If the parent used the ***cost method*** instead of the ***equity method,*** what consolidation entries would be made at 12/31/09?

10. The following accounts are as they appear on the separate company ***financial statements*** of a parent and its 100%-owned subsidiary at 12/31/06:

	Parent	Subsidiary
Dividend income (from subsidiary)	$ 25,000	
Dividends receivable	25,000	
Investment in subsidiary	300,000	
Dividends payable	40,000	$ 25,000
Common stock	1,000	15,000
Additional paid-in capital	299,000	285,000
Retained earnings	410,000	77,000
Dividends declared	(160,000)	(25,000)
Additional information:		
Reported net income (loss) for 2006	$270,000	$(31,000)

Required:

a. What consolidation entries are required at 12/31/06?
b. What is the consolidated net income amount?
c. What is the consolidated retained earnings amount?
d. What amount is reported for dividends in the consolidated statement of retained earnings for 2006?
e. If the parent used the ***equity method*** instead of the *cost method,* what would be the parent's retained earnings balance at 12/31/06?
f. If the parent used the ***equity method*** instead of the *cost method,* what consolidation entries would be made at the end of 2006?

11. Complete the following consolidation worksheet assuming that Paxco uses the ***cost method***. (Force out certain amounts in the Paxco and Saxco columns, as necessary.)

PAXCO AND SAXCO
Consolidation Worksheet as of December 31, 2006

		(100% Owned)	**Consolidation Entries**		**Consoli-**
	Paxco	**Saxco**	**Dr.**	**Cr.**	**dated**
Income Statement (2006):					
Sales	620,000	280,000			900,000
Cost of sales	(360,000)	(130,000)			(490,000)
Expenses	(190,000)	(100,000)			(290,000)
	,000				,000
Net Income	**,000**	**50,000**			**,000**
Stmt. of Retained Earnings:					
Balances, 1/1/06	**,000**	**,000**			**,000**
+ Net income	,000	50,000			,000
– Dividends declared	(40,000)	(20,000)			,000)
Balances, 12/31/06	**,000**	**140,000**			**,000**
Balance Sheet (12/31/06):					
Cash	47,000	15,000			62,000
Accounts receivable	83,000	37,000			120,000
Intercompany receivable	2,000				,000
Inventory	110,000	55,000			165,000
Investment in subsidiary	,000				,000
Property and equipment	720,000	186,000			906,000
Accum. depreciation	(320,000)	(13,000)			(333,000)
Total Assets	**,000**	**280,000**	**,000**	**,000**	**,000**
Payables and accruals	130,000	25,000			155,000
Intercompany payable		2,000			,000
Long-term debt	150,000	53,000			203,000
			,000		
Parent:					
Common stock (no par)	200,000				200,000
Retained earnings	,000				,000
Subsidiary:					
Common stock $1 par		5,000			,000
Add'l paid-in capital		55,000			,000
Retained earnings		140,000			,000
Total Liab. & Equity	**,000**	**280,000**	**,000**	**,000**	**,000**
Proof of debit and credit postings			*, ,000*	*, ,000*	

12. Complete the following consolidation worksheet assuming that Paxco uses the ***equity method***. (Force out certain amounts in the Paxco and Saxco columns, as necessary.)

PAXCO AND SAXCO
Consolidation Worksheet as of December 31, 2006

		(100% Owned)	Consolidation Entries		Consoli-
	Paxco	Saxco	Dr.	Cr.	dated
Income Statement (2006):					
Sales	620,000	280,000			900,000
Cost of sales	(360,000)	(130,000)			(490,000)
Expenses	(190,000)	(100,000)			(290,000)
....	,000				,000
Net Income	**,000**	**50,000**			**,000**
Stmt. of Retained Earnings:					
Balances, 1/1/06	**,000**	**,000**			**,000**
+ Net income	,000	50,000			,000
– Dividends declared	(40,000)	(20,000)			,000)
Balances, 12/31/06	**,000**	**140,000**			**,000**
Balance Sheet (12/31/06):					
Cash	47,000	15,000			62,000
Accounts receivable	83,000	37,000			120,000
Intercompany receivable	2,000				,000
Inventory	110,000	55,000			165,000
Investment in subsidiary	,000				,000
Property and equipment	720,000	186,000			906,000
Accum. depreciation	(320,000)	(13,000)			(333,000)
Total Assets	**,000**	**280,000**	**,000**	**,000**	**,000**
Payables and accruals	130,000	25,000			155,000
Intercompany payable		2,000			,000
Long-term debt	150,000	53,000			203,000
....			,000		
Parent:					
Common stock (no par)	200,000				200,000
Retained earnings	,000				,000
Subsidiary:					
Common stock $1 par		5,000			,000
Add'l paid-in capital		55,000			,000
Retained earnings		140,000	,000		,000
Total Liab. & Equity	**,000**	**280,000**	**,000**	**,000**	**,000**

Proof of debit and credit postings.. *,000* *,000*

CHAPTER 2—ANSWERS

COMPLETION STATEMENTS

1. equity, cost
2. equity
3. declares dividends
4. Equity in Net Income of Subsidiary
5. Dividend Income
6. liquidation
7. economic activity
8. undistributed earnings
9. holding company
10. parent-company-only
11. significant influence
12. one-line consolidation

TRUE-OR-FALSE STATEMENTS

1. True	10. False	19. False
2. True	11. True	20. True
3. True	12. False	21. False
4. False	13. True	22. False
5. False	14. True	23. True
6. False	15. True	24. False
7. True	16. False	25. True
8. False	17. False	26. True
9. False	18. False	27. False

MULTIPLE-CHOICE QUESTIONS

1.	e	10.	b	19.	d	28.	a	37.	e
2.	d	11.	c	20.	c	29.	b	38.	a
3.	b	12.	c	21.	b	30.	b	39.	d
4.	c	13.	b	22.	b	31.	b	40.	e
5.	a	14.	c	23.	b	32.	d	41.	b
6.	c	15.	c	24.	d	33.	c	42.	b
7.	a	16.	e	25.	c	34.	b	43.	c
8.	c	17.	c	26.	a	35.	e	44.	c
9.	a	18.	a	27.	c	36.	b		

MATCHING (OTHER OBJECTIVE FORMAT QUESTIONS)

1. F	6. F	11. B
2. C (or F)	7. F	12. B
3. C	8. B	13. B
4. F	9. B	14. B
5. F	10. B	15. F

PROBLEMS

1. a. The basic elimination entry at 12/31/06 (equity method):

Common Stock	100,000	
Additional Paid-in Capital	300,000	
Retained Earnings, 1/1/06	460,000	
Equity in Net Income of Subsidiary	70,000	
Dividends Declared		40,000
Investment in Subsidiary		890,000

b. The basic elimination entry at 12/31/06 (cost method):

Common Stock	100,000	
Additional Paid-in Capital	300,000	
Investment in Subsidiary		400,000

The intercompany dividend elimination entry:

Dividend Income	40,000	
Dividends Declared		40,000

2. a. The basic elimination entry at 12/31/06 (equity method):

Common Stock	100,000	
Additional Paid-in Capital	60,000	
Retained Earnings, 1/1/06	600,000	
Equity in Net Income of Subsidiary	260,000	
Dividends Declared		120,000
Investment in Subsidiary		900,000

b. The basic elimination entry at 12/31/06 (cost method):

Common Stock	100,000	
Additional Paid-in Capital	60,000	
Investment in Subsidiary		160,000

The intercompany dividend elimination entry:

Dividend Income	120,000	
Dividends Declared		120,000

3. Situations a, b, and c:

Investment in Subsidiary	$ 77,000
Liability to Subsidiary	$ –0–

The answer is the same for all three situations because the subsidiary's equity position is positive at year-end ($5,000 + $95,000 – $23,000 = $77,000).

4. a. Investment in Subsidiary .... $ –0–
   The subsidiary has a stockholder's deficiency of $21,000.
   b. Investment in Subsidiary .... $ –0–
   Liability to Subsidiary $21,000
   c. Investment in Subsidiary .... $ –0–
   Liability to Subsidiary $10,000

5. a. The basic elimination entry at 12/31/06 (***equity method***):

Common Stock	5,000	
Additional Paid-in Capital	295,000	
Equity in Net Income of Subsidiary	70,000	
Retained Earnings, 1/1/06 ($250,000 – $70,000 + $30,000)	210,000	
Dividends Declared		30,000
Investment in Subsidiary		550,000

   b. Consolidated retained earnings at 12/31/06:

   $880,000 (the parent's retained earnings)

   c. Dividends declared to be reported in the consolidated statement of retained earnings for 2006:

   $140,000 (the dividends declared by the parent)

6. a. The basic elimination entry at 12/31/06 ***(cost method)****:*

Common Stock	1,000	
Additional Paid-in Capital	299,000	
Investment in Subsidiary		300,000

   The intercompany dividend elimination entry:

Dividend Income	50,000	
Dividends Declared		50,000

   b. Consolidated retained earnings at the end of 2006:

   $870,000 ($720,000 + $150,000)

   c. Dividends declared to be reported in the consolidated statement of retained earnings for 2006:

   $260,000 (the dividends declared by the parent)

7. a. The basic elimination entry at 12/31/07 ***(equity method)****:*

Common Stock	15,000	
Additional Paid-in Capital	285,000	
Retained Earnings, 1/1/07 ($190,000 + $60,000 + $20,000)	270,000	
Equity in Net Loss of Subsidiary		60,000
Dividends Declared		20,000
Investment in Subsidiary		490,000

b. Consolidated retained earnings at the end of 2007:

$610,000 (the parent's retained earnings)

c. Dividends declared to be reported in the consolidated statement of retained earnings for 2007:

$230,000 (the dividends declared by the parent)

8. a. The basic elimination entry at 12/31/08 ***(cost method)**:*

Common Stock	2,000	
Additional Paid-in Capital	98,000	
Investment in Subsidiary		100,000

The intercompany dividend elimination entry:

Dividend Income	10,000	
Dividends Declared		10,000

b. Consolidated retained earnings at the end of 2008:

$320,000 ($360,000 – $40,000)

c. Dividends to be reported in the consolidated statement of retained earnings for 2008:

$80,000 (the dividends declared by the parent)

9. a. The basic elimination entry at 12/31/09 ***(equity method)**:*

Common Stock	6,000	
Additional Paid-in Capital	194,000	
Retained Earnings, 1/1/09 ($140,000 + $65,000 + $32,000)	237,000	
Equity in Net Loss of Subsidiary		65,000
Dividends Declared		32,000
Investment in Subsidiary		340,000

The intercompany dividends receivable and payable elimination entry:

Dividends Payable	8,000	
Dividends Receivable		8,000

The corporate overhead allocation elimination entry:

Corporate Overhead Allocation	42,000	
Corporate Overhead Allocation		42,000

b. Consolidated net **loss** for 2009:

$(90,000) ($150,000 *decrease* in the parent's retained earnings during 2009 less $60,000 of dividends declared by the parent during 2009)

c. Consolidated retained earnings at the end of 2009:

$600,000 (the parent's retained earnings)

d. Dividends to be reported in the consolidated statement of retained earnings for 2009:

$60,000 (the dividends declared by the parent)

e. Parent's retained earnings at 12/31/09 under the ***cost method***:

$460,000 ($600,000 – $140,000 for the subsidiary's undistributed earnings at 12/31/09)

f. The basic elimination entry at 12/31/09 ***(cost method)***:

Common Stock	6,000	
Additional Paid-in Capital	194,000	
Investment in Subsidiary		200,000

The intercompany dividend elimination entry:

Dividend Income	32,000	
Dividends Declared		32,000

The intercompany dividends receivable and payable elimination entry:

Dividends Payable	8,000	
Dividends Receivable		8,000

The corporate overhead allocation elimination entry:

Corporate Overhead Allocation	42,000	
Corporate Overhead Allocation		42,000

10. a. The basic elimination entry at 12/31/06 ***(cost method)***:

Common Stock	15,000	
Additional Paid-in Capital	285,000	
Investment in Subsidiary		300,000

The intercompany dividend elimination entry:

Dividend Income	25,000	
Dividends Declared		25,000

The intercompany dividends receivable and payable elimination entry:

Dividends Payable..	25,000	
Dividends Receivable...		25,000

b. Consolidated net income for 2006:

Parent's reported net income..	$270,000
Less—Parent's dividend income..	(25,000)
Less—Subsidiary's net loss..	(31,000)
Consolidated Net Income...	$214,000

c. Consolidated retained earnings at the end of 2006:

$487,000 ($410,000 + $77,000 for the subsidiary's undistributed earnings at 12/31/06)

d. Dividends to be reported in the consolidated statement of retained earnings for 2004:

$160,000 (the dividends declared by the parent)

e. Parent's retained earnings at 12/31/06 ***(equity method)**:*

$487,000 ($410,000 + $77,000 for the subsidiary's undistributed earnings at 12/31/05)

f. The basic elimination entry at 12/31/06 ***(equity method)**:*

Common Stock..	15,000	
Additional Paid-in Capital...	285,000	
Retained Earnings, 1/1/06 ($77,000 + $31,000 + $25,000)...	133,000	
Equity in Net Loss of Subsidiary..		31,000
Dividends Declared...		25,000
Investment in Subsidiary..		377,000

The intercompany dividends receivable and payable elimination entry:

Dividends Payable..	25,000	
Dividends Receivable...		25,000

11. ***Cost Method Solution*** (see the following page)***:***

Sequential Methodology for Solving Problem 11:

(1) Record ***Dividend Income*** of $20,000 (100% of $20,000).
(2) Record ***Investment account*** balance at $60,000 (100% of subsidiary's ***ending common stock and additional paid-in capital balances*** [$5,000 + $55,000]).
(3) Calculate the ***parent's total assets*** to be $702,000.
(4) Force out the ***parent's ending retained earnings*** of $222,000 (knowing that the total liabilities and equity amount is $702,000).
(5) Force out the ***parent's beginning retained earnings*** of $172,000 (knowing that the ***parent's ending retained earning*** is $222,000).

PAXCO AND SAXCO
Consolidation Worksheet as of December 31, 2006

	Paxco	*(100% Owned)* Saxco	Consolidation Entries Dr.	Consolidation Entries Cr.	Consolidated
Income Statement (2006):					
Sales	620,000	280,000			900,000
Cost of sales	(360,000)	(130,000)			(490,000)
Expenses	(190,000)	(100,000)			(290,000)
Dividend income	20,000		20,000		,000
Net Income	**90,000**	**50,000**	**20,000**		**120,000**
Stmt. of Retained Earnings:					
Balances, 1/1/06	**172,000**	**110,000**			**282,000**
+ Net income	90,000	50,000	20,000		120,000
– Dividends declared	(40,000)	(20,000)		20,000	(40,000)
Balances, 12/31/06	**222,000**	**140,000**	**20,000**	**20,000**	**362,000**
Balance Sheet (12/31/06):					
Cash	47,000	15,000			62,000
Accounts receivable	83,000	37,000			120,000
Intercompany receivable	2,000			2,000	,000
Inventory	110,000	55,000			165,000
Investment in subsidiary	60,000			60,000	,000
Property and equipment	720,000	186,000			906,000
Accum. depreciation	(320,000)	(13,000)			(333,000)
Total Assets	**702,000**	**280,000**		**62,000**	**920,000**
Payables and accruals	130,000	25,000			155,000
Intercompany payable		2,000	2,000		,000
Long-term debt	150,000	53,000			203,000
...			,000		
Parent:					
Common stock (no par)	200,000				200,000
Retained earnings	222,000				222,000
Subsidiary:					
Common stock $1 par		5,000	5,000		,000
Add'l paid-in capital		55,000	55,000		,000
Retained earnings		140,000	20,000	20,000	140,000
Total Liab. & Equity	**702,000**	**280,000**	**82,000**	**20,000**	**920,000**
Proof of debit and credit postings			*82,000*	*82,000*	

12. ***Equity Method Solution:***

Sequential Methodology for Solving Problem 12:

(1) Record ***Equity in Net Income*** of $50,000 (100% of $50,000).
(2) Record ***Investment account*** balance at $200,000 (100% of subsidiary's ***ending stockholder's equity*** of $200,000).
(3) Calculate the ***parent's total assets*** to be $842,000.
(4) Force out the ***parent's ending retained earnings*** of $362,000 (knowing that the total liabilities and equity amount is $842,000).
(5) Force out the ***parent's beginning retained earnings*** of $282,000 (knowing that the ***parent's ending retained earning*** is $362,000).

PAXCO AND SAXCO
Consolidation Worksheet as of December 31, 2006

		(100% Owned)	Consolidation Entries		Consoli-
	Paxco	**Saxco**	**Dr.**	**Cr.**	**dated**
Income Statement (2006):					
Sales	620,000	280,000			900,000
Cost of sales	(360,000)	(130,000)			(490,000)
Expenses	(190,000)	(100,000)			(290,000)
Equity in net income	50,000		50,000		,000
Net Income	**120,000**	**50,000**	**50,000**		**120,000**
Stmt. of Retained Earnings:					
Balances, 1/1/06	**282,000**	**110,000**	**110,000**		**282,000**
+ Net income	120,000	50,000	50,000		120,000
– Dividends declared	(40,000)	(20,000)		20,000	(40,000)
Balances, 12/31/06	**362,000**	**140,000**	**160,000**	**20,000**	**362,000**
Balance Sheet (12/31/06):					
Cash	47,000	15,000			62,000
Accounts receivable	83,000	37,000			120,000
Intercompany receivable	2,000			2,000	,000
Inventory	110,000	55,000			165,000
Investment in subsidiary	200,000			200,000	,000
Property and equipment	720,000	186,000			906,000
Accum. depreciation	(320,000)	(13,000)			(333,000)
Total Assets	**842 ,000**	**280,000**		**202,000**	**920,000**
Payables and accruals	130,000	25,000			155,000
Intercompany payable		2,000	2,000		,000
Long-term debt	150,000	53,000			203,000,000
Parent:					
Common stock (no par)	200,000				200,000
Retained earnings	362,000				362,000
Subsidiary:					
Common stock $1 par		5,000	5,000		,000
Add'l paid-in capital		55,000	55,000		,000
Retained earnings		140,000	160,000	20,000	,000
Total Liab. & Equity	**842,000**	**280,000**	**222,000**	**20,000**	**920,000**
Proof of debit and credit postings			*222,000*	*222,000*	