13. Award: **10.00 points**

The following are the financial statements of Post Corporation and its subsidiary, Sage Company, as at December 31, Year 6:

STATEMENTS OF FINANCIAL POSITION December 31, Year 6	*Post*	*Sage*
Land	$ 178,000	$ 22,000
Plant and equipment	529,000	64,000
Accumulated depreciation	(233,000)	(20,000)
Investment in Sage	129,227	–
Inventory	34,000	30,000
Notes receivable	–	54,000
Accounts receivable	17,500	10,200
Cash	12,500	13,200
	$ 667,227	$ 173,400
Ordinary shares	$ 100,000	$ 50,000
Retained earnings	266,200	89,000
Notes payable	54,000	–
Accounts payable	247,027	34,400
	$ 667,227	$ 173,400

STATEMENTS OF PROFIT—Year 6	*Post*	*Sage*
Sales	$ 930,000	$ 259,000
Management fee revenue	27,000	–
Interest revenue	–	7,100
Equity method income from Sage	2,100	–
Gain on sale of land	–	34,000
	959,100	300,100
Cost of goods sold	570,000	182,000
Interest expense	20,300	–
Other expenses	183,000	75,100
Income tax expense	83,000	16,000
	856,300	273,100
Profit	$ 102,800	$ 27,000

Additional Information

- Post purchased 70% of the outstanding shares of Sage on January 1, Year 4, at a cost of $84,000. On that date, Sage had accumulated depreciation of $13,000, retained earnings of $18,000, and fair values were equal to carrying amounts for all its net assets, except inventory (overvalued by $15,000).
- In determining the purchase price, the management of Post noted that Sage, as lessee, leases a warehouse under an operating lease that has terms that are unfavourable relative to market terms. However, the lease agreement explicitly prohibits transfer of the lease (through either sale or sublease). An independent appraiser indicated that the fair value of this unfavourable lease agreement is $21,000. There were five years remaining on this lease on the date of acquisition.
- The companies sell merchandise to each other at a gross profit rate of 25%.
- The December 31, Year 5, inventory of Post contained purchases made from Sage amounting to $17,000. There were no intercompany purchases in the inventory of Sage on this date.
- During Year 6 the following intercompany transactions took place:
  - Sage made a payment of $27,000 to Post for management fees, which was recorded under the category "other expenses."
  - Sage made sales of $102,000 to Post. The December 31, Year 6, inventory of Post contained goods purchased from Sage amounting to $30,000.
  - Post made sales of $130,000 to Sage. The December 31, Year 6, inventory of Sage contained goods purchased from Post amounting to $21,000.
  - On July 1, Year 6, Post borrowed $54,000 from Sage and signed a note bearing interest at 12% per annum. The interest on this note was paid on December 31, Year 6.
  - During the year, Sage sold land to Post and recorded a gain of $34,000 on the transaction. This land is being held by Post on December 31, Year 6.
- Goodwill impairment losses occurred as follows: Year 4, $2,700; Year 5, $540; Year 6, $1,350.
- Neither Post or Page paid any dividends during the year.
- Post uses the equity method to account for its investment in Sage.
- Both companies pay income tax at 40% on their taxable incomes.

Required:

(a) Prepare the following consolidated financial statements for Year 6:

(i) Income statement **(Input all values as positive numbers.)**

Post Corporation Consolidated Statement of Profit For the Year Ended, December 31, Year 6	
Sales	$ 957,000
Interest revenue	3,860
Total revenue	960,860
Cost of goods sold	528,500
Interest expense	17,060
Other expense	226,900
Goodwill impairment loss	1,350
Income tax expense	82,000
Total expenses	855,810

Profit	$	105,050
Attributable to:		
Shareholders of Post		102,800
Non-controlling interests		2,250
	$	105,050

(ii) Statement of financial position **(Input all values as positive numbers except accumulated depreciation which should be indicated by a minus sign.)**

Post Corporation Consolidated Statement of Financial Position December 31, Year 6		
Land	$	166,000
Plant and equipment		580,000
Accumulated depreciation		-240,000
Goodwill		83,410
Deferred income taxes		18,700
Inventory		51,250
Accounts receivable		27,700
Cash		25,700
Total assets	$	712,760
Shareholders' equity		
Ordinary shares	$	100,000
Retained earnings		266,200
Non-controlling interests		56,733
		422,933
Liability		
Unfavourable lease agreemen		8,400
Accounts payable		281,427
Total shareholders' equity & liabilities	$	712,760

(b) Calculate goodwill impairment loss and profit attributable to non-controlling interest for the year ended December 31, Year 6, under parent company extension theory.

Goodwill impairment loss – parent company extension theory	$	945
NCI – parent company extension theory	$	2,655

(c) Calculate goodwill and non-controlling interest on the consolidated statement of financial position at December 31, Year 6, under parent company extension theory.

Goodwill – parent company extension theory	$	58,387
NCI – parent company extension theory	$	31,710

(d) Prepare the consolidated financial statements using the worksheet approach. **(Values in the first two columns and last column of the Balance Sheet (the "parent", "subsidiary" and "consolidated" balances) that are to be deducted should be indicated with a minus sign, while all values in the "Elimination" entries columns and Income Statement entry columns should be entered as positive values. For accounts where multiple adjusting entries are required, combine all debit entries into one amount and enter this amount in the debit column of the worksheet. Similarly, combine all credit entries into one amount and enter this amount in the credit column of the worksheet. Leave no cells blank - be certain to enter "0" wherever required.)**

Consolidated Financial Statement Working Paper
Post Corporation
Consolidated Financial Statement
December 31, Year 6

	Post	Sage	Eliminations Dr.	Eliminations Cr.	C
Income Statements - Year 6					
Sales	$ 930,000	$ 259,000	$ 232,000		
Management fee revenue	27,000	0	27,000		
Interest revenue	0	7,100	3,240		
Investment income from Sage	2,100	0	2,100		
Gain on sale of land	0	34,000	34,000		
Total income	959,100	300,100			
Cost of goods sold	570,000	182,000	12,750	$ 236,250	
Interest expense	20,300	0		3,240	
Other expenses	183,000	75,100		31,200	
Goodwill impairment loss	0	0	1,350		
Income tax expense	83,000	16,000	1,700	18,700	
Total expenses	$ 856,300	273,100			
Profit	$ 102,800	27,000			
Attributable to:					

	Peter	Sage	Debit	Credit
Shareholders of Peter	0	0		
Non-controlling interest	0	0	2,250	
Total			$ 316,390	$ 289,390
Year 6 retained earnings statements				
Balance, January 1	$ 163,400	$ 62,000	62,000	0
Profit	102,800	27,000	316,390	289,390
	266,200	89,000		
Dividends	0	0		
Balance, December 31	$ 266,200	$ 89,000	$ 378,390	$ 289,390
Statements of Financial Position - December 31, Year 6				
Land	$ 178,000	$ 22,000		34,000
Plant and equipment	529,000	64,000		13,000
Accumulated depreciation	-233,000	-20,000	13,000	
Investment in Sage	129,227	0	57,033	186,260
Goodwill	0	0	84,760	1,350
Deferred income taxes	0	0	18,700	
Inventory	34,000	30,000		12,750
Notes receivable	0	54,000		54,000
Accounts receivable	17,500	10,200		
Cash	12,500	13,200		
Total assets	$ 667,227	$ 173,400		
Ordinary shares	$ 100,000	$ 50,000	50,000	
Retained earnings	266,200	89,000	378,390	289,390
Non-controlling interest	0	0		56,733
Notes payable	54,000	0	54,000	
Unfavourable lease agreement	0	0	4,200	12,600
Accounts payable	247,027	34,400		
Total Shareholders' equity & liabilities	$ 667,227	$ 173,400	$ 660,083	$ 660,083

Explanation:

Calculation, allocation, and amortization of acquisition differential

Cost of 70% investment, January 1, Year 4		$ 84,000
Implied value of 100% investment		$ 120,000
Carrying amounts of Sage's net assets:		
Ordinary shares	$ 50,000	
Retained earnings	18,000	
Total shareholders' equity		68,000
Acquisition differential		$ 52,000
Allocated:	FV – CA	
Inventory	(15,000)	
Unfavourable lease agreement	(21,000)	(36,000)
Balance – goodwill		$ 88,000

	Balance January 1 Year 4	Amortization Years 4 & 5		Year 6		Balance December 31 Year 6	
Inventory	$ (15,000)	$ (12,000)					
Lease agreement	(21,000)	(8,400)		$ (4,200)		$ (8,400)	(a)
Goodwill	88,000	3,240		1,350		83,410	(b)
	52,000	$ (20,160)	(c)	$ (2,850)	(d)	$ 75,010	

Intercompany receivables and payables – notes = 54,000 (e)

Intercompany revenues and expenses			
Management fee		$ 27,000	(f)
Sales and purchases			
Post selling	$ 130,000		
Sage selling	102,000	232,000	(g)
Interest (12% x 1/2 × $54,000)		$ 3,240	(h)

Intercompany profits	Before tax	40% tax	After tax	
Land – Sage selling (upstream)	$ 34,000	$ 13,600	$ 20,400	(i)
Opening inventory – Sage selling (upstream) ($17,000 × 0.25)	$ 4,250	$ 1,700	$ 2,550	(j)
Ending inventory – Sage selling (upstream) ($30,000 × 0.25)	$ 7,500	$ 3,000	$ 4,500	(k)
– Post selling (downstream) ($21,000 × 0.25)	$ 5,250	$ 2,100	$ 3,150	(l)

	$ 12,750	$ 5,100	$ 7,650	(m)

Deferred income taxes – December 31, Year 6		
Inventory	$ 5,100	
Land	13,600	
	$ 18,700	(n)
Accumulated depreciation at date of acquisition for Sage	$ 13,000	(o)

Calculation of consolidated profit				
Profit of Post				$ 102,800
Less: Investment income from Sage			$ 2,100	
Unrealized after-tax profit in ending inventory (downstream)		(l)	3,150	5,250
Adjusted profit				97,550
Profit of Sage			27,000	
Add: Realized after-tax profit in opening inventory (upstream)		(j)	2,550	
			29,550	
Add: Amortization of acquisition differential		(d)	2,850	
Less: Unrealized after-tax profit in ending inventory (upstream)	(k) $ 4,500			
Unrealized after-tax gain on land (upstream)	(i) 20,400		(24,900)	
Adjusted profit				7,500
Profit				$ 105,050
Attributable to:				
Shareholders of Post				$ 102,800
Non-controlling interests (30% × $7,500)				2,250
				$ 105,050

(a)
(i)
Sales ($930,000 + $259,000 – (g) $232,000) = $957,000
Interest revenue ($7,100 – (h) $3,240) = $3,860
Cost of goods sold ($570,000 + $182,000 – (g) $232,000 – (j) $4,250 + (m) $12,750) = $528,500
Interest expense ($20,300 – (h) $3,240) = $17,060
Other expense ($183,000 + $75,100 – (f) $27,000 – (a) $4,200) = $226,900
Income tax expense ($83,000 + $16,000 + (j) $1,700 – (m) $5,100 – (i) $13,600) = $82,000
Non-controlling interests (30% × $7,500) = $2,250

Calculation of non-controlling interests – December 31, Year 6		
Ordinary shares		$ 50,000
Retained earnings		89,000
Total shareholders' equity		139,000
Less: Unrealized after-tax profit in ending inventory (upstream)	(k) $ 4,500	
Unrealized after-tax gain on land (upstream)	(i) 20,400	(24,900)
Add: Unamortized acquisition differential		75,010
Adjusted shareholders' equity		189,110
Non-controlling interest's share		30%
Non-controlling interest, December 31, Year 6		$ 56,733

(ii)
Land ($178,000 + $22,000 – (i) $34,000) = $166,000
Plant and equipment ($529,000 + $64,000 – (o) $13,000) = $580,000
Accumulated depreciation ([$233,000] + [$20,000] – (o) $13,000) = –$240,000
Inventory ($34,000 + $30,000 – (m) $12,750) = $51,250
Accounts receivable ($17,500 + $10,200) = $27,700
Cash ($12,500 + $13,200) = $25,700
Accounts payable ($247,027 + $34,400) = $281,427

(b)

Goodwill impairment loss – entity theory	$ 1,350
Less: NCI's share @30%	405
Goodwill impairment loss – parent company extension theory	$ 945
NCI – entity theory	$ 2,250
NCI's share of goodwill impairment loss	405
NCI – parent company extension theory	$ 2,655

(c)

Goodwill – entity theory	$ 83,410
Less: NCI's share @30%	25,023
Goodwill – parent company extension theory	$ 58,387
NCI – entity theory	$ 56,733
NCI's share of goodwill impairment loss	25,023
NCI – parent company extension theory	$ 31,710

(d)

General Journal	Debit	Credit
Investment income from Sage	$ 2,100	