**1. The non-controlling interest in profit when the selling affiliate is an 80% owned subsidiary is calculated by multiplying the non-controlling ownership percentage by the subsidiary's reported net income**

A. plus unrealized profit in ending inventory less unrealized profit in beginning inventory

B. plus realized profit in ending inventory less realized profit in beginning inventory

C. less unrealized profit in ending inventory plus realized profit in beginning inventory

D. less realized profit in ending inventory plus realized profit in beginning inventory

**2. In determining controlling interest in the consolidated income on the consolidated financial statements, unrealized intercompany profit on inventory acquired by a parent from its subsidiary should:**

A. not be eliminated

B. be eliminated in full

C. be eliminated to the extent of the parent company's controlling interest in subsidiary

D. be eliminated to the extent of the non-controlling interest in the subsidiary

**3. The sale of inventory items by a parent company to an affiliated company:**

A. enters the consolidated revenue computation only if the transfer was the result of arm's length bargaining

B. affects consolidated net income under a periodic inventory system but not under a perpetual inventory system

C. does not result in consolidated income until the merchandise is sold to outside parties

D. does not require a working paper adjustment if the merchandise was transferred at cost

**4. A parent company regularly sells merchandise to its 80% owned subsidiary. Which of the following statements describes the computation of non-controlling interest in net income?**

A. the subsidiary's net income times 20%

B. the subsidiary's net income x 20% + unrealized profits in the beginning inventory- unrealized profits in the ending inventory

C. the subsidiary's net income + unrealized profits in the beginning inventory- unrealized profits in the ending inventory x 20%

D. the subsidiary's net income + unrealized profits in the ending inventory- unrealized profits in the beginning inventory x 20%

**5. Which of the following formula is correct in computing the amount to be debited to Cost of Goods Sold in the working paper involving intercompany sale of merchandise?**

A.Ending inventory of the selling affiliate times the gross profit rate of the buying affiliate

B.Ending inventory of the buying affiliate times the gross profit rate of the selling affiliate

C. Ending inventory of the selling affiliate times the gross profit rate of the selling affiliate

D. Ending inventory of the buying affiliate times the gross profit rate of the buying affiliate

**Problem 1.** On January 1, 2020, Entity QRS acquired 60% of outstanding ordinary shares of Entity LMN at a gain from a bargain purchase of P320,000. For the year ended December 31, 2021, Entity QRS and Entity LMN reported sales revenue of P16,000,000 and P8,000,000 in their respective separate Statement of Comprehensive Income. In the same year, Entity QRS and Entity TUV reported the cost of goods sold of P9,600,000 and P5,600,000 in their respective separate Statement of Comprehensive Income.

During 2020, there was a downstream sale of merchandise on account at a selling price of P2,240,000 with a gross profit rate of 40% based on cost. On the other hand, there was an upstream sale of merchandise on account at a selling price of P3,200,000 with a gross profit rate of 30% based on sales during 2021. On December 31, 2020, 25% of the goods coming from the selling affiliate remained in the buying affiliate's inventory but all were eventually sold to third persons during 2021. As of December.0 31, 2021, 40% of the goods coming from Entity TUV were sold to third persons.

For the year ended December 31, 2021, the acquirer reported net income of P4,480,000 while the acquired company reported net income of P1,600,000 and distributed dividends of P400,000. Entity QRS accounted for its investment in Entity TUV using cost method in its separate financial statements.

1. **Compute the consolidated sales revenue for the year ended December 31, 2021**

   A. P20,800,000

   B. P21,760,000

   C. P18,560,000

   D. P24,000,000

2. **Compute the consolidated gross profit for the year ended December 31, 2021**

   A. P8,960,000

   B. P9,216,000

   C. P8,384,000

   D. P8,224,000

3. **Compute the non-controlling interest in net income for the year ended December 31, 2021**

   A. P806,400

   B. P704,000

   C. P473,600

   D. P409,600

4. **Compute the consolidated net income attributable to parent's shareholders for the year ended December 31, 2021**

   A. P4,854,400

   B. P6,134,400

   C. P5,014,400

   D. P4,774,400

**Solution:**

**2020: Downstream Sale**

Intercompany Sales P2,240,000 x 40/140 = P640,000

Intercompany Profit P640,000 x 25% = P160,000

(*UPEI of 2020)

**Unrealized Profit Ending Inventory*

**2021: Upstream Sale**

Intercompany Sales P3,200,000 x 30% = P960,000

Intercompany Profit P960,000 x 60% = 576,000

(UPEI of 2021)

**From 2020 Intercompany Profit** P640,000 x 25% = P160,000 (*RPBI of 2021)

**Realized Profit Beginning Inventory*

## Working Paper Entries in 2020

1. **To eliminate the Intercompany Sale of Merchandise during the year.**

| | | |
|---|---|---|
| Sales | 2,240,000 | |
| Cost of Goods Sold | | 2,240,000 |

2. **To eliminate the Intercompany Receivable and Payable account.**

| | | |
|---|---|---|
| Accounts Payable | 2,240,000 | |
| Accounts Receivable | | 2,240,000 |

3. **To recognize the RPBI during the year.**

-N/A-

4. **To eliminate the UPEI during the year.**

| | | |
|---|---|---|
| Cost of Goods Sold | 160,000 | |
| Mdse. Inventory | | 160,000 |

## Working Paper Entries in 2021

1. **To eliminate the Intercompany Sale of Merchandise during the year.**

| | | |
|---|---|---|
| Sales | 3,200,000 | |
| Cost of Goods Sold | | 3,200,000 |

2. **To eliminate the Intercompany Receivable and Payable account.**

| | | |
|---|---|---|
| Accounts Payable | 3,200,000 | |
| Accounts Receivable | | 3,200,000 |

3. **To recognize the RPBI during the year.**

| | | |
|---|---|---|
| Retained Earnings | 160,000 | |
| Cost of Goods Sold | | 160,000 |

4. **To eliminate the UPEI during the year.**

| | | |
|---|---|---|
| Cost of Goods Sold | 576,000 | |
| Mdse. Inventory | | 576,000 |

***Consolidated Sales***

| | |
|---|---|
| Sales of Parent per books | P16,000,000 |
| Sales of Subsidiary per books | P 8,000,000 |
| Less: Intercompany sales during the year | (3,200,000) |
| | **P20,800,000** |

***Consolidated Cost of Goods Sold***

| | |
|---|---|
| CGS of Parent per books | P 9,600,000 |
| CGS of Subsidiary per books | P 5,600,000 |
| Add/Deduct: Amortization of Excess | |
| Less: Intercompany sales during the year | (3,200,000) |
| WP | |
| Less: RPBI | (160,000) |
| Add: UPEI | 576,000 |
| | **P12,416,000** |

***Consolidated Gross Profit***

| | |
|---|---|
| GP of Parent per books | P 6,400,000 |
| GP of Subsidiary per books | P 2,400,000 |
| Add: RPBI | 160,000 |
| Less: UPEI | (576,000) |
| | **P 8,384,000** |

| | Total | C | |
|---|---|---|---|
| **NC** | | | |
| NI of Parent (books) | P4,480,000 | P4,480,000 | - |
| NI of Subsidiary (books) | 1,600,000 | 960,000 | P640,000 |
| | | | |
| Add/Deduct: Amortization of Excess | | | |
| Less: Impairment Loss | | | |
| Less: Interco. Div Rev | (240,000) | (240,000) | |
| Add: Gain from BP | | | |
| Add: RPBI | 160,000 | 160,000 | - |
| Less: UPEI | (576,000) | (345,600) | (230,400) |
| | **P5,424,000** | **P5,014,400** | **P409,600** |

**Problem 2.** JKL Corporation owns 75% of the outstanding stocks of TUV Company when the book values are equal to fair values, thus no goodwill, no excess at the date of acquisition.

Selected information from separate accounts of both entities for 2020 and 2021 follow:

| | JKL Corporation | | TUV Company | |
|---|---|---|---|---|
| | 2020 | 2021 | 2020 | 2021 |
| Sales | P 800,000 | P 900,000 | P 400,000 | P 500,000 |
| Cost of goods sold | 480,000 | 540,000 | 248,000 | 310,000 |
| Operating expenses | 80,000 | 90,000 | 40,000 | 45,000 |
| Ending Inventories | 120,000 | 180,000 | 80,000 | 100,000 |

- In 2020, TUV Company sold merchandise to JKL Corp. for P50,000 at a profit of P16,000. 30% of these merchandise remained at the account balance of JKL Corp. at the end of 2020. In the same year, JKL Corp. sold its own merchandise costing P50,000 to TUV Comp. at a gross profit of 20%. P15,000 at cost remained in the ending inventories of TUV Comp. at the end of 2020.

- In 2021, TUV Comp. sold merchandise again to JKL Corp. for P60,000 at a profit of P19,200. P20,000 of these merchandise at billed price remained in the inventory balance of JKL Corp. at the end of 2021. At the same time, JKL Corp. sold merchandise for P85,000 to TUV Comp. at a gross profit of 15%. P15,000 worth of merchandise at billed price remained in the ending inventories of TUV Comp. at the end of 2021.

- There were no dividends declared, or revenues recorded by JKL nor TUV Co. during 2020-2021

**1. Consolidated cost of goods sold in 2021**

A. P704,900
B. P463,450
C. P624,050
D. P705,100

**2. Consolidated net income in 2021**

A. P414,900
B. P343,450
C. P316,500
D. P379,050

**3. Non-controlling interest in the net income of TUV Comp in 2020**

A. P22,400
B. P26,800
C. P35,850
D. P29,000

**4. Consolidated ending inventories in 2020**

A. P200,000
B. P191,450
C. P280,000
D. P271,350

SOLUTIONS:

**WORKING PAPER ENTRIES FOR 2020:**

| | | | |
|---|---|---|---|
| **WP 1:** | SALES | 50,000.0( | |
| | COGS | | 50,000.( |
| | SALES | 62,500.0( | |
| | COGS | | 62,500.0( |
| **WP 2:** | COGS | 4,800.00 | |
| | MI,END | | 4,800.00 |
| **WP 3:** | COGS | 3,750.00 | |
| | MI,END | | 3,750.00 |
| **WP 4:** | NCINIS | 26,800.0( | |
| | NCINAS | | 26,800.00 |

**CONSOLIDATED INCOME STATEMENT 2020**

| | **PARENT** | **SUB** | **WP** | **CONSO** |
|---|---|---|---|---|
| SALES | 800,000.00 | 400,000.00 | -50000-62500 | 1,087,500.00 |
| COGS | (480,000.00) | (248,000.00) | -50000-62500+4800+3750 | (624,050.00) |
| GP | 320,000.00 | 152,000.00 | | 463,450.00 |
| OPEX | (80,000.00) | (40,000.00) | | (120,000.00) |
| NI | **240,000.00** | **112,000.00** | | 343,450.00 |

## ALLOCATION OF CONSOLIDATED NET INCOME 2020

| | | | |
|---|---|---|---|
| PNI-OWN | 240,000.00 | | |
| DS-UGP-EI | (3,750.00) | **CI%** | **NCI%** |
| PNI-OWN-ADJ | **236,250.00** | 236,250.00 | |
| SNI-2020 | 112,000.00 | | |
| US-UGP-EI | (4,800.00) | | |
| SNI-ADJ-2020 | **107,200.00** | 80,400.00 | 26,800.00 |
| CONSO NI | 343,450.00 | 316,650.00 | 26,800.00 |

## CONSOLIDATED ENDING INVENTORIES

| | |
|---|---|
| ENDING INV-P | 120,000.00 |
| ENDING INV-S | 80,000.00 |
| UGP-EI | (8,550.00) |
| CONSO END INV | 191,450.00 |

## WORKING PAPER ENTRIES FOR 2021:

| | | | | |
|---|---|---|---|---|
| | SALES | | 60,000.00 | |
| | | | | 60,000.0 |
| **WP 1:** | COGS | | | 0 |
| | SALES | | 85,000.00 | |
| | | | | 85,000.0 |
| **WP 2:** | COGS | | | 0 |
| | RE-P | | 3,600.00 | |
| **WP 3:** | NCI | | 1,200.00 | |
| | COGS | | | 4,800.0 |
| | RE-P | | 3,750.00 | |
| **WP 4:** | COGS | | | 3,750.0 |
| | COGS | | 6,400.00 | |
| **WP 5:** | MI,END | | | 6,400.0 |

| | | | |
|---|---|---|---|
| | COGS | 2,250.00 | |
| **WP 6:** | MI,END | | 2,250.0 |
| | | | |
| | NCI-I/S | 35,850.00 | |
| **WP 7:** | NCI-B/S | | 35,850.0 |

**CONSOLIDATED INCOME STATEMENT 2021**

| | **PARENT** | **SUB** | **WP** | **CONSO** |
|---|---|---|---|---|
| SALES | 900,000.0<br>0 | 500,000.00 | -60,000,-85,000<br>-60000-85000-4800<br>-3750 | 1,255,000. |
| COGS | (540,000.00 | (310,000.00 | +6400+2250 | **(705,100.0** |
| GP | 360,000.0 | 190,000.00 | | 549,900.0 |
| | | | | (135,000.0 |
| OPEX | (90,000.00 | (45,000.00 | | |
| NI | 270,000.0 | 145,000.00 | | 414,900.0 |

**ALLOCATION OF CONSOLIDATED NET INCOME 2020**

| | | | |
|---|---|---|---|
| PNI-OWN | 270,000.00 | | |
| DS-RGP-BI | 3,750.00 | | |
| DS-UGP-EI | (2,250.00) | **CI%** | **NCI%** |
| | | | |
| PNI-OWN-ADJ | **271,500.00** | 271,500.00 | |
| | | | |
| SNI-2021 | 145,000.00 | | |
| US-RGP-BI | 4,800.00 | | |
| US-UGP-EI | (6,400.00) | | |
| | | | |
| SNI-ADJ-2020 | **143,400.00** | 107,550.00 | 35,850.00 |
| | | | |
| CONSO NI | 414,900.00 | 379,050.00 | 35,850.00 |

## CONSOLIDATED ENDING INVENTORIES

| | |
|---|---|
| ENDING INV-P | 180,000.00 |
| ENDING INV-S | 100,000.00 |
| UGP-EI | (8,650.00) |
| CONSO END INV | 271,350.00 |

**-end of material-**