Parker Company And Subsidiary
Consolidated Balance Sheet
At December 31, 2006

Monetary Assets ($2,850,000 + $725,000 - $15,000)	$ 3,560,000
Investment In Schaffer ($1,350,000 - $1,350,000)	Nil
Non-Monetary Assets ($6,475,000 + $2,045,000 + $97,500 - $32,500 -12,750 - 10,000)	8,562,250
Goodwill ($147,500 - $35,000 - $25,000)	87,500
Total Assets	$12,209,750
Liabilities ($1,712,500 + $425,000 - $15,000)	$ 2,122,500
Non-Controlling Interest [(35%)($700,000 + $1,645,000 - $12,750 - $10,000)]	812,788
No Par Common Stock (Parker's Only)	3,000,000
Retained Earnings ($5,962,500 + $311,962)	6,274,462
Total Equities	$12,209,750

Exercise Six-4 Solution

The following investment analysis is identical to the one used in Exercise Six-2 (and Five-4).

	65 Percent	100 Percent
Investment Cost	$1,350,000	$2,076,923
Book Value At Acquisition	(1,105,000)	(1,700,000)
Differential	$ 245,000	$ 376,923
Fair Value Increase On Non-Monetary Assets	(97,500)	(150,000)
Goodwill	$ 147,500	$ 226,923

The fair value change on the Non-Monetary Assets would be amortized at the rate of $6,500 per year ($97,500 ÷ 15).

Using this analysis, along with the other information, Investment Income under the equity method would be calculated as follows:

Schaffer's Net Income		$145,000
Unrealized Upstream Profits:		
Inventories	($12,750)	
Equipment	5,000	(7,750)
Schaffer's Adjusted Net Income		$137,250
Ownership Percentage		65%
Equity Pickup		$ 89,212
Fair Value Amortization ($97,500 ÷ 15)		(6,500)
Goodwill Impairment Loss (Given)		(25,000)
Equity Method Investment Income		$57,712

Exercise Solution Six-4 correction

Second table - Parker's Net Income and Adjusted Net Income should be Schaffer's.

Given this calculation, the required Income Statement would be as follows: