Solution to Self Study Problem Eight - 4

In the journal entry on page S-174 below, there is an error in the brackets for the calculation and $535,500 should be $1,052,500. This also affects the amounts in the Income Statement, but nets out and does not affect the Net Income figure.

With respect to the entry to eliminate the intercompany sales, SI's 55 percent share of the upstream sale was eliminated in our first journal entry. This means that we will only need to eliminate $1,052,500 [(45%)($250,000) + $940,000)] of these sales. The required entry is as follows:

Sales	$1,052,500	
Cost Of Goods Sold		$1,052,500

As some of the merchandise has not been resold, there are also unrealized intercompany profits to be eliminated. The upstream amount is $50,000 [(100%)($250,000 - $200,000)] and the downstream amount is $40,000 [(50%)($940,000 - $860,000)]. As was the case with upstream intercompany sales, we have already eliminated SI's 55 percent share of all NVI's profits and, as a consequence, we only need to eliminate $22,500 [(45%)($50,000)] of the unrealized upstream profit of $50,000. With respect to the downstream profit, we will need to eliminate 45 percent of this total, an amount of $18,000 [(45%)($40,000)]. The entry to eliminate this total of $40,500 ($22,500 + $18,000) is as follows:

Cost Of Goods Sold - Upstream [(45%)($50,000)]	$22,500	
Cost Of Goods Sold - Downstream [(45%)($40,000)]	18,000	
Inventories		$40,500

Given these entries, the required consolidated Income Statement would be prepared as follows:

BL And Investee NVI
Consolidated Income Statement (Proportionate Basis)
Year Ending December 31, 2007

Sales ($3,500,000 + $2,300,000 - $1,265,000 -$1,052,500)	$3,482,500
Gain On Sale Of Building ($800,000 - $600,000 + $24,000)	224,000
Total Revenues	$3,706,500
Cost Of Goods Sold ($2,200,000 + $1,490,000 - $819,500 - $1,052,500 + $22,500 + $18,000)	$1,858,500
Amortization Expense ($220,000 + $120,000 - $66,000 - $36,000)	238,000
Other Expenses ($340,000 + $150,000 - $82,500)	407,500
Total Expenses	$2,504,000
Consolidated Net Income	$1,202,500