III. CONSOLIDATED FINANCIAL STATEMENTS

PURCHASE OF 100% INTEREST

The intercompany activities between Horizons and 21st Century went so well that on March 1, 2006, Darin Jones decided to buy a 100% interest in 21st Century for an additional $494,000. Horizons had also loaned 21st Century $50,000. Working Papers, which appear below, would have required two adjustments:

a. To eliminate intercompany debt.
b. To eliminate intercompany equity.

Future Horizons Corporation
Consolidated Balance Sheet Working Papers
March 1, 2006
($ 000)

	Future Horizons Corporation	21st Century Incorporated	Adjustments Debits	Adjustments Credits	Consolidated Balance Sheet
Cash	40	35			75
Accounts Receivable (Net)	100	115			215
Inventories	100	80			180
Notes Receivable	50			(a) 50	
Other Assets	100	20			120
Investment, 21st Century, Inc.	600			(b) (600)	
Plant and Equipment	300	500			800
Total Assets	1,290	750			1,390
Accounts Payable	75	100			175
Other Liabilities	25				25
Bonds Payable	550				550
Notes Payable		50	(a) 50		
Invested Capital, Horizons	450				450
Invested Capital, 21st Century		500	(b) 500		
Retained Earnings, Horizons	190				190
Retained Earnings, 21st Century		100	(b) 100		
Total Liabilities and Owner's Equity	1,290	750	650	650	1,390

IV. OTHER CONSIDERATIONS

PURCHASE OF LESS THAN 100% OWNERSHIP (MINORITY INTEREST)

Had Horizons invested only $480,000 for 80% interest in 21st Century Inc., the credit entry for Part b would be only $480,000. To balance, credit Minority Interest $120,000.

PURCHASE ABOVE BOOK VALUE

Had Horizons purchased 100% for $50,000 over book value, the additional compensation must be accounted for. First adjust assets to their fair values, then charge Goodwill for any additional compensation awarded. If less than book value is paid, APB states differences should be allocated proportionately among noncurrent assets.

POOLING INTEREST METHOD

Had Horizons Corporation exchanged 40,000 shares of $5 Par Common Stock selling at $15 per share for 100% ownership of 21st Century, Inc., the following entry would have been required.

Investment, 21st Century, Inc. (40,000)($15)	600,000	
Common Stock (40,000)($5)		200,000
Contributed Capital in Excess of Par, Common Stock		400,000
Issued 40,000 shares of $5 Par Common Stock in exchange for 100% of the outstanding Common Stock of 21st Century, Inc.		

CONSOLIDATED INCOME STATEMENTS

Revenues and expenses must be combined, eliminating intercompany transactions. Eliminate:

a. Affiliate Sales and Cost of Goods Sold
b. Affiliate Interest Expense and Interest Revenue
c. Affiliate related Other Income and Expenses such as rent.