ERP CONSOLIDATION ACCOUNTING SERIAL EXERCISE

Zane Swanson
University of Central Oklahoma
zswanson@uco.edu

Siegfried Chan
University of Central Oklahoma
schan@uco.edu

Abstract: This project looks at an Enterprise Resource Planning (ERP) system from a pedagogy academic accounting point of view. For the purposes of this paper, a Microsoft ERP system, Great Plains Dynamics (GP), is used in a serial consolidation exercise/homework problem. Access to ERP was done using Cloud computing. The ERP information is entered in journal form in GP and then aggregated with Management Reporter.

Keywords:
Enterprise Resource Planning (ERP) system, Cloud computing, Great Plains Dynamics (GP)

1. INTRODUCTION

Accounting information systems are a necessary component of learning consolidation accounting because of the full financial statement nature of the issues. Specific textbook problems typically utilize a spreadsheet approach, generally with EXCEL. While spreadsheets are useful for learning purposes, the “real world” uses Enterprise Resource Planning (ERP) systems to do the accounting cycle of an investor company and its subsidiary as contrasted with the Pacioli double-entry bookkeeping which used for university instruction purposes. An argument can be made that students should learn what is utilized in the work place in order to secure employment. Practically all Fortune 500 companies and many mid-level firms use a type of ERP (e.g. General Motors Mitchell 2006). Therefore, an educational need exists to show students how to process accounting cycle information in multiple entities and “roll up” the information into ERP consolidated reports which have applicable consolidation elimination entries. In summary, this consolidation serial exercise addresses a set of educational needs both in accounting and accounting information systems. The following section gives a review of serial multi-chapter accounting textbooks. Then section three covers the development of the serial exercise. Then section four addresses the ERP GP processing. Lastly, section five gives the summary and conclusions.

2. BACKGROUND REVIEW

As of this writing, the consolidation texts with one known exception (Hoyle, et al 2011) have not incorporated multi-chapter problems in ERP systems as presented in the current paper’s project. There are other examples of consolidation serial exercise problems already available but this project focuses on how to work a problem using current software. Notwithstanding push-down accounting, there are three different consolidation approaches: cost, partial equity, and equity. All of these approaches do result in the same consolidated statements; however, the teaching challenges are pronounced. This serial exercise follows the equity method.

3. SERIAL EXERCISE AND REPORTS

This section overviews the serial exercise. The initial purchase features of a combination are described in Appendix I. Every attempt is made to create a fairly straight-forward combination. One firm TopDrawer buys 100 percent ownership of another (BottomShelf) at the beginning of period XXX1. The firms remain separate legal entities. As discussed previously, each period includes more complex features of business activities which require appropriate reporting. The next event that occurs in period XXX2 is a purchase of 10 percent of the subsidiary BottomShelf by outside parties (i.e., non-controlling interests [NCI]). In period XXX3, TopDrawer sells equipment to BottomShelf and inventory is sold between the affiliates. Period XXX4 has an interaffiliate debt transaction. As the semester project moves forward, specific transactions are taken from Appendix I and shown how to put into GP. Everyday entries do not vary much from each other; hitting upon characteristics critically different from EXCEL seemed better than working the entire problem. The spreadsheet version of this report and subsequent periods' reports can be available upon request.

4. ERP GP PROCESS

Appendix II has an ERP walkthrough for the acquisition. There is also a setup process for each company, but it is not shown because it is not the main theme of this serial exercise. Also, this project utilized a cloud computing company's ERP site which provides some advantages. Students (and faculty) do not have to set up the company … only the accounts. Also, students do not have to come to school to work on their project or buy GP. There can be one school provided server with the software which students can log onto through the internet and then work from basically anywhere.

In keeping with the idea to provide students with a competitive edge upon graduating, this project used Microsoft's Great Plains ERP software because of its focus on small and medium-sized companies. There are two components. One is the module which has the data which was entered in journal form. Students are familiar with journal entries which are utilized to keep it simple. The other component is a reporting program. Appendix III has examples of transaction journal entries and elimination entries for the acquisition. There are journal entries establishing the books for TopDrawer and BottomShelf. There is an elimination entry.

Account identification is necessary in ERP computer programs. This project used a nine digit scheme XXX-YYYY-ZZ where XXX is a company identifier (e.g., 000 is TopDrawer and 001 is BottomShelf) YYY is a four digit line item (e.g. 1100 for cash) account specification. ZZ is a category identifier of 00 for account, 09 for elimination entry and 08 for non-controlling interest. For teaching purposes, XXX is also used to specify student groups (e.g. 700 and 701 for group 7). There are reasons for using groups. One is that students can interact with each other, and college evaluations reward the use of group activity. A second reason is that every individual student company will require a separate set-up which is time consuming.

This project generally followed Hoyle, et al (2011) and that is the reason for the specific non-controlling interest column. Other texts (e.g., Baker 2011) utilize debit and credit fields for eliminations that include the non-controlling interest effects.

There are pedagogy issues because the software has a fairly complex ERP closing process in practice. In this ERP example, closing journal entries are employed at the beginning of a subsequent period similar to textbook approaches. Thus, the ERP example tries to keep it simple. The ERP software project utilized "months" periods representative of a year. For example, Year XXX1 is January, Year XXX2 is February and so forth. Appendix III only shows a walkthrough of the journal entries and report for the acquisition of BottomShelf by TopDrawer. The full four years' GP reports are available from the authors by request. This information is sufficient to start the process, but not to publicly disclose all information to potential students.

5. SUMMARY AND CONCLUSIONS

This project shows how to formulate a serial exercise for consolidation accounting utilizing ERP GP systems. The exercise works through consolidations from the initial purchase to progressively more difficult inter-affiliate situations such as sales of depreciable equipment between entities. The ERP GP processes include entity journal entries and Management Reporter reports of consolidations. A major strength of this serial exercise is that students are able to work their way up the learning curve of increasingly more difficult problems while being able to keep in perspective the big picture of the entities' financials. From a teaching point of view this project demonstrates how "real world" ERP can be utilized in the classroom with consolidation accounting in a manner heretofore unutilized.

REFERENCE

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APPENDIX I SERIAL EXERCISE FACT SITUATION

Initial Statement:

At the beginning of Year XXX1, TopDrawer acquired 100 percent of the outstanding common stock of BottomShelf Company. To acquire these shares, TopDrawer issued $400,000 in long-term liabilities and 20,000 shares of common stock having a par value of $1, but a fair value of $31.50 per share. TopDrawer paid $60,000 to accountants, lawyers, and brokers for assistance in the acquisition and another $24,000 in connection with stock issuance costs. In TopDrawer's appraisal of BottomShelf, it deemed two accounts to be undervalued on the subsidiary's books: Land by $40,000 and Buildings by $60,000. The Buildings have an expected 10 year life.

Year XXX1 Transactions:

TopDrawer – (1) Inventory was sold on account for $500,000 which cost $232,000. (2) Cash of $200,000 was collected from accounts receivables. (3) Other operating expenses of $60,000 were recognized with $12,000 being paid in cash, $32,000 being recognized for depreciation for Buildings (net), and $16,000 being recognized for Equipment (net). (4) TopDrawer declared and paid dividends of $60,000 to its shareholders. (5) TopDrawer recognized its portion of BottomShelf's net income equal to $24,000 for the equity method. (6B) TopDrawer recognized its portion of BottomShelf's dividends equal to $36,000 for the equity method.

BottomShelf – (1) Inventory was sold on account for $140,000 which cost $90,000. (2) Cash of $56,000 was collected from accounts receivables. (3) Other operating expenses of $20,000 were recognized with $10,000 being paid in cash, $4,000 being recognized for depreciation for Buildings (net), and $6,000 being recognized for Equipment (net). (6A) BottomShelf declared and paid dividends of $36,000 to its shareholders.

Year XXX2 Transactions:

TopDrawer **– (**1) Inventory was sold on account for $550,000 which cost $254,000. (2) Cash of $240,000 was collected from accounts receivables. (3) Other operating expenses of $66,000 were recognized with $18,000 being paid in cash, $32,000 being recognized for depreciation for Buildings (net), and $16,000 being recognized for Equipment (net). (4) TopDrawer sold 10% of its investment in BottomShelf for cash of $101,800 to a 3rd party, NCI. (5) TopDrawer declared and paid dividends of $60,000 to its shareholders. (6) TopDrawer recognized its portion of BottomShelf's net income equal to $23,400 for the equity method. (7B) TopDrawer recognized its portion of BottomShelf's dividends equal to $36,000 for the equity method.

BottomShelf – (1) Inventory was sold on account for $154,000 which cost $98,000. (2) Cash of $62,000 was collected from accounts receivables. (3) Other operating expenses of $24,000 were recognized with $14,000 being paid in cash, $4,000 being recognized for depreciation for Buildings (net), and $6,000 being recognized for Equipment (net). (7A) BottomShelf declared and paid dividends of $40,000 to its shareholders.

Year XXX3 Transactions:

TopDrawer – (1) Inventory was sold on account for $600,000 which cost $280,000. (2) Cash of $264,000 was collected from accounts receivables. (3) Other operating expenses of $96,000 were recognized with $50,000 being paid in cash, $32,000 being recognized for depreciation for Buildings (net), and $14,000 being recognized for Equipment (net). (4) TopDrawer paid $400,000 cash for additional inventory.
(5) TopDrawer declared and paid dividends of $100,000 to its shareholders. (7A) At the beginning of the year, TopDrawer made an intercompany downstream sale of some of its equipment to BottomShelf. The cash received from BottomShelf was $60,000 and the carrying value of the equipment was $38,000 which resulted in a gain of $22,000. (8) TopDrawer recognized its portion of BottomShelf's net income equal to $41,000 for the equity method. (9B) TopDrawer recognized its portion of BottomShelf's dividends equal to $36,000 for the equity method. (10A) TopDrawer deferred the full amount of the gain equal to $22,000 on the intercompany downstream sale for the equity method. (10B) TopDrawer amortized the downstream sale gain of $2,200 for the equity method. Straight-line depreciation was used based on a 10 years useful life.

BottomShelf – (1) Inventory was sold on account for $210,000 which cost $108,000. (2) Cash of $190,000 was collected from accounts receivables. (3) Other operating expenses of $32,000 were recognized with $16,000 being paid in cash, $4,000 being recognized for depreciation for Buildings (net), and $12,000 being recognized for Equipment (net). (3B) BottomShelf recognized an extra $6,000 depreciation expense because of the purchase of equipment from its parent (see journal entry #7B).
(4) BottomShelf paid $100,000 cash for additional inventory. (6) BottomShelf made an intercompany upstream sale of inventory to its parent company, TopDrawer. Sales on account were $40,000 which cost $24,000. At the end of the year, TopDrawer still had

intercompany profits of $10,000 from the upstream sale. (7B) BottomShelf bought some of TopDrawer's equipment for $60,000 cash. (9A) BottomShelf declared and paid dividends of $40,000 to its shareholders.

Year XXX4 Transactions:

TopDrawer – (1) Inventory was sold on account for $620,000 which cost $290,000. (2) Cash of $282,000 was collected from accounts receivables. (3) Other operating expenses of $102,000 were recognized with $56,000 being paid in cash, $32,000 being recognized for depreciation for Buildings (net), and $14,000 being recognized for Equipment (net). (4) TopDrawer paid $300,000 cash for additional inventory. (5) TopDrawer declared and paid dividends of $100,000 to its shareholders. 10. (9, 10 and 11) Rates almost immediately rapidly fall after BottomShelf's bond issue and BottomShelf decides to retire the debt and refinance. To do the deal, TopDrawer buys the bonds for 106,710 based on an 8 annual percent yield. (12B) TopDrawer recognized its portion of BottomShelf's net income equal to $41,000 for the equity method. (12B) TopDrawer recognized its portion of BottomShelf's dividends equal to $36,000 for the equity method. (13) TopDrawer recognized its portion of BottomShelf's net income equal to $54,553 for the equity method. (14) TopDrawer continues to amortize the downstream sale gain of $2,200 for the equity method.

BottomShelf – 1. Inventory was sold on account for $222,000 which cost $118,000. 2. Cash of $198,000 was collected from accounts receivables. 3. Other operating expenses of $38,000 were recognized with $22,000 being paid in cash, $4,000 being recognized for depreciation for Buildings (net), and $12,000 being recognized for Equipment (net). 4. BottomShelf paid $114,000 cash for additional inventory. (6, 7 and 8) In an exchange of debt on 1/1/XXX4, BottomShelf issued 100,000 in 10 year bonds with 9% cash interest. Because of market conditions BottomShelf sold the debt for 93,854 for a 10% effective yield. (12A) BottomShelf declared and paid dividends of $40,000 to its shareholders.

APPENDIX II EXCEL SPREADSHEET WORK THROUGH

This appendix contains a walkthrough of the serial problem which was set up above. The transactions for each year after the acquisition are given in the spreadsheet.

Beg Year XXX1	***TopDrawer***	***TopDrawer***	***BottomShelf***	***Consolidation Entries***		***Consolidated***
Accounts	***Company***	***Company****	***Company***	***Debit***	***Credit***	***Totals***
Assets						
Cash	**120,000**	**36,000**	**40,000**			**76,000**
Receivables	**540,000**	**540,000**	**180,000**			**720,000**
Inventory	**720,000**	**720,000**	**280,000**			**1,000,000**
Land	**400,000**	**400,000**	**360,000**	40,000		**800,000**
Buildings (net)	**840,000**	**840,000**	**440,000**	60,000		**1,340,000**
Equipment (net)	**320,000**	**320,000**	**100,000**			**420,000**
Investment in BottomShelf	**0**	**1,030,000**	**0**		920,000	**0**
					110,000	
Goodwill				10,000		**10,000**
Total Assets	**2,940,000**	**3,886,000**	**1,400,000**			**4,366,000**
Liabilities & Equity						
Accounts payable	**300,000**	**300,000**	**80,000**			**380,000**
Long-term liabilities	**860,000**	**1,260,000**	**400,000**			**1,660,000**
Common stock	**220,000**	**240,000**	**240,000**	240,000		**240,000**
Additional paid-in capital	**720,000**	**1,306,000**	**0**			**1,306,000**
Retained earnings,	**840,000**	**780,000**	**680,000**	680,000		**780,000**
Total Liabilities & Equity	**2,940,000**	**3,886,000**	**1,400,000**	1,030,000	1,030,000	**4,366,000**

	Year XXX1 Transactions	TopDrawer		BottomShelf	
		Debit	***Credit***	***Debit***	***Credit***
1A.	Accounts Receivables	500000		140000	
	Revenues		500000		140000
1B.	COGS	232000		90000	
	Inventory		232000		90000
2.	Cash	200000		56000	
	Accounts Receivables		200000		56000
3.	Other operation expenses	60000		20000	
	Cash		12000		10000
	Buildings (net)		32000		4000
	Equipment (net)		16000		6000
4.	Dividend	60000			
	Cash		60000		
5.	Investment in BottomShelf	24000			
	Equity Income BottomShelf		24000		
6A.	Dividend			18000	
	Cash				18000
6B.	Cash	18000			
	Investment in BottomShelf		18000		

Year XXX1 Financials	TopDrawer	BottomShelf	Consolidation Entries		Consolidated
Accounts	*Company*	*Company*	*Debit*	*Credit*	*Totals*
Revenues	**500,000**	**140,000**	0	0	**640,000**
Cost of goods sold	**232,000**	**90,000**	0	0	**322,000**
Other operation expenses	**60,000**	**20,000**	6000	0	**86,000**
Equity income BottomShelf	**24,000**		24000	0	**0**
Net income	**232,000**	**30,000**	0	0	**232,000**
			0	0	**0**
Retained earnings (beg)	**780,000**	**680,000**	680000	0	**780,000**
Net income (above)	**232,000**	**30,000**	0	0	**232,000**
Dividends distributed	**60,000**	**18,000**	0	18000	**60,000**
Retained earnings (end)	**952,000**	**692,000**	0	0	**952,000**
Assets					
Cash	**182,000**	**68,000**	0	0	**250,000**
Accounts Receivables	**840,000**	**264,000**	0	0	**1,104,000**
Inventory	**488,000**	**190,000**	0	0	**678,000**
Land	**400,000**	**360,000**	40000		**800,000**
Buildings (net)	**808,000**	**436,000**	60000	6000	**1,298,000**
Equipment (net)	**304,000**	**94,000**	0	0	**398,000**
Investment in BottomShelf	**1,036,000**	**0**	18000	920000	**0**
				110000	
				24000	
Goodwill			10000		**10,000**
Total assets	**4,058,000**	**1,394,000**	0	0	**4,538,000**
Liabilities & Equity			0	0	**0**
Accounts Payable	**300,000**	**80,000**	0	0	**380,000**
Long-term Liabilities	**1,260,000**	**400,000**	0	0	**1,660,000**
Common stock	**240,000**	**240,000**	240000	0	**240,000**
Additional paid-in capital	**1,306,000**	**0**	0	0	**1,306,000**
Retained earnings (above)	**952,000**	**692,000**	0	0	**952,000**
Total liabilities & equity	**4,058,000**	**1,412,000**	1078000	1078000	**4,538,000**

Elimination Entries XXX1	***Debit***	***Credit***
BottomShelf Common	240000	
BottomShelf Retained Earnings (Beg)	680000	
Investment BottomShelf		92000
Land	40000	
Buildings	60000	
Goodwill	10000	
Investment BottomShelf		110000
Equity Income BottomShelf	24000	
Investment BottomShelf		24000
Investment BottomShelf	18000	
Dividends		18000
Other operation expenses	6000	
Buildings (net)		6000

	Year XXX2 Transactions	TopDrawer		BottomShelf	
		Debit	***Credit***	***Debit***	***Credit***
1A.	Accounts Receivables	550000		154000	
	Revenues		550000		154000
1B.	COGS	254000		98000	
	Inventory		254000		98000
2.	Cash	240000		62000	
	Accounts Receivables		240000		62000
3.	Other operation expenses	66000		24000	
	Cash		18000		14000
	Buildings (net)		32000		4000
	Equipment (net)		16000		6000
4.	Cash	103600			
	Investment in BottomShelf		103600		
	10% sale to NCI				
5.	Dividend	60000			
	Cash		60000		
6.	Investment in BottomShelf	23400			
	Equity Income BottomShelf		23400		
7A.	Dividend			40000	
	Cash				40000
7B.	Cash	36000			

Investment in BottomShelf	36000

Year XXX2 Financials	***TopDrawer***	***BottomShelf***	***Consolidation Entries***		**NCI**	***Consolidated***
Accounts	***Company***	***Company***	***Debit***	***Credit***		***Totals***
Revenues	**550,000**	**154,000**	**0**	0		**704,000**
Cost of goods sold	**254,000**	**98,000**	**0**	0		**352,000**
Other operation expenses	**66,000**	**24,000**	**6000**	0		**96,000**
Equity income BottomShelf	**23,400**		**23,400**	0		**0**
Consolidated Net income	**253,400**	**32,000**	**0**	0		**256,000**
NCI income			**0**	0	2600	**2,600**
Net income to controlling interest						253,400
Retained earnings (beg)	**952,000**	**692,000**	**692,000**	0		**952,000**
Net income (above)	**253,400**	**32,000**	**0**	0		**253,400**
Dividends distributed	**60,000**	**40,000**	**0**	36,000	4000	**60,000**
Retained earnings (end)	**1,145,400**	**684,000**	**0**	0		**1,145,400**
Assets						
Cash	**483,600**	**76,000**	**0**	0		**559,600**
Receivables	**1,150,000**	**356,000**	**0**	0		**1,506,000**
Inventory	**234,000**	**92,000**	**0**	0		**326,000**
Land	**400,000**	**360,000**	**40000**			**800,000**
Buildings	**776,000**	**432,000**	**54000**	6000		**1,256,000**
Equipment (net)	**288,000**	**88,000**	**0**	0		**376,000**
Investment in BottomShelf	**919,800**	**0**	**36000**	838800		**0**
				93600		
				23400		
Goodwill			**10000**			**10,000**
Total assets	**4,251,400**	**1,404,000**	**0**	0		**4,833,600**
Liabilities & Equity			**0**	0		**0**
Accounts Payable	**300,000**	**80,000**	**0**	0		**380,000**
Long-term Liabilities	**1,260,000**	**400,000**	**0**	0		**1,660,000**
Common stock	**240,000**	**240,000**	**240000**	0		**240,000**
Additional paid-in capital	**1,306,000**	**0**	**0**	0		**1,306,000**
NCI (Beg)				93200	93200	
				10400	10400	
NCI (End)					102200	**102,400**
Retained earnings (above)	**1,145,400**	**684,000**	**0**	0		**1,145,400**
Total liabilities & equity	**4,251,400**	**1,404,000**	1101400	1101400		**4,833,600**

Elimination Entries XXX2

BottomShelf Common	240000	
BottomShelf Retained Earnings (Beg)	692000	
Investment BottomShelf		838800
NCI		93200
Land	40000	
Buildings	54000	
Goodwill	10000	
Investment BottomShelf		93600
NCI		10400
Equity Income BottomShelf	23400	
Investment BottomShelf		23400
Investment BottomShelf	36000	
Dividends		36000
Other operation expenses	6000	
Buildings (net)		6000

	Year XXX3 Transactions	TopDrawer		BottomShelf	
		Debit	***Credit***	***Debit***	***Credit***
1A.	Accounts Receivables	600000		210000	
	Revenues		600000		210000
1B.	COGS	280000		108000	
	Inventory		280000		108000
2.	Cash	264000		190000	
	Accounts Receivables		264000		190000
3.	Other operation expenses	96000		26000	
	Cash		50000		16000
	Buildings (net)		32000		4000
	Equipment (net)		14000		6000
3B.	Other operation expenses			6000	
	Equipment (net)				6000
4.	Inventory	400000		100000	
	Cash		400000		100000
5.	Dividend	100000			
	Cash		100000		
6.	Cash			40000	
	Revenue				40000
6.	COGS			24000	
	Inventory				24000
	In XXX3, BottomShelf sold goods for 40,000 to TopDrawer which cost 24,000.				
	10,000 of gross profit remains at year end.				
7A.	Cash	60000			
	Equipment (net)		38000		
	Gain on Equip Sale		22000		
7B.	Equipment (net)			60000	
	Cash				60000
	TopDrawer sold equipment (net) of 38,000 for 60,000 to BottomShelf at 1/1/XXX3.				
	Equipment had a 19 years life at 1/1/XXX3. BottomShelf sets the equipment life to be 10 years				
8.	Investment in BottomShelf	41000			
	Equity Income BottomShelf		41000		
9A.	Dividend			40000	
	Cash				40000
9B.	Cash	36000			
	Investment in BottomShelf		36000		
	Defer unrealized gain				
10A	Equity Income BottomShelf	22000			
	Investment in BottomShelf		22000		
	Reverse year xxx3 deferred gain				
10B	Investment in BottomShelf	2200			
	Equity Income BottomShelf		2200		

Year XXX3 Financials	***TopDrawer***	***BottomShelf***	***Consolidation***		**NCI**	***Consolidated***
Accounts	***Company***	***Company***	***Debit***	***Credit***		***Totals***
Revenues	**600,000**	**250,000**	40000	0		**810,000**
Cost of goods sold	**280,000**	**132,000**	10000	40000		**382,000**
Other op. expenses	**96,000**	**32,000**	6000	4000		**130,000**
Gain on equip sale	**22,000**		22000			**0**
Equity income BottomShelf	**43,200**		43200	0		**0**
Consolidated Net income	**289,200**	**86,000**	0	0		**298,000**
NCI income			0	0	7000	**7,000**
Net income to controlling interest						291,000
Retained earnings (Beg)	**1,145,400**	**684,000**	684000	0		**1,145,400**
Net income (above)	**289,200**	**86,000**	0	0		**291,000**
Dividends distributed	**100,000**	**40,000**	0	36000	4000	**100,000**
Retained earnings (End)	**1,334,600**	**730,000**	0	0		**1,336,400**
Assets						
Cash	**293,600**	**90,000**	0	0		**383,600**
Receivables	**1,486,000**	**376,000**	0	0		**1,862,000**
Inventory	**354,000**	**60,000**	0	10000		**404,000**
Land	**400,000**	**360,000**	40000			**800,000**
Buildings	**744,000**	**428,000**	48000	6000		**1,214,000**
Equipment (net)	**236,000**	**136,000**	4000	22000		**354,000**
Investment in BottomShelf	**927,000**	**0**	36000	831600		**0**
				88200		
				43200		
Goodwill			10000			**10,000**
Total assets	**4,440,600**	**1,450,500**				**5,027,600**
Liabilities & Equity						
Accounts Payable	**300,000**	**80,000**	0	0		**380,000**
Long-term Liabilities	**1,260,000**	**400,000**	0	0		**1,660,000**
Common stock	**240,000**	**240,000**	240000	0		**240,000**
Additional paid-in capital	**1,306,000**	**0**	0	0		**1,306,000**
NCI (Beg)				92400	92400	
				9800	9800	
NCI (End)					105200	**105,200**
Retained earnings	**1,334,600**	**730,000**	0	0		**1,336,400**
Total liab. & equity	**4,440,600**	**1,450,000**	1183200	1183200		**5,027,600**

Elimination Entries XXX3

BottomShelf Common	240000	
BottomShelf Retained Earnings (Beg)	684000	
Investment BottomShelf		831600
NCI		92400
Land	40000	
Buildings	48000	
Goodwill	10000	
Investment BottomShelf		88200
NCI		9800
Equity Income BottomShelf	43200	
Investment BottomShelf		43200
Investment BottomShelf	36000	
Dividends		36000
Other operation expenses	6000	
Buildings (net)		6000
Cost of goods sold	10000	
Inventory		10000
Gain on Equipment	22000	
Equipment		22000
Equipment (net)	4000	
Other operation expenses		4000

	Year XXX4 Transactions	TopDrawer		BottomShelf	
		Debit	***Credit***	***Debit***	***Credit***
1A.	Accounts Receivables	620000		222000	
	Revenues		620000		222000
1B.	COGS	290000		118000	
	Inventory		290000		118000
2.	Cash	282000		198000	
	Accounts Receivables		282000		198000
3.	Other operation expenses	102000		38000	
	Cash		56000		22000
	Buildings (net)		32000		4000
	Equipment (net)		14000		12000
4.	Inventory	300000		114000	
	Cash		300000		114000
5.	Dividend	100000			
	Cash		100000		

In an exchange of debt on 1/1/XXX4, BottomShelf issued 100000 in 10 year bonds with 9% cash interest. Because of market conditions BottomShelf sold the debt for 93854 for a 10% effective yield. Rates almost immediately rapidly fall and BottomShelf decides to retire the debt and refinance. To do the deal, TopDrawer buys the bonds for 106710 based on an 8 annual percent yield.

		TopDrawer Debit	TopDrawer Credit	BottomShelf Debit	BottomShelf Credit
6.	Cash 1/1/XXX4			93854	
	BottomShelf Bonds				93854
7.	Other operation expenses/Interest expense at BottomShelf 12/31/XXX4			9000	
	Cash				9000
8.	Other operation expenses/Interest expense at BottomShelf 12/31			386	
	BottomShelf Bonds				386
9.	Invest in BottomShelf Bonds 7/1/XXX4	106710			
	Cash		106710		
10.	Cash 12/31/XXX4	9000			
	Interest income		9000		
11.	Interest income 12/31/XXX4	464			
	Investment in BottomShelf Bonds		464		
12A.	Dividend			40000	
	Cash				40000
12B.	Cash	36000			
	Investment in BottomShelf		36000		

BottomShelf Bonds	94240	
Interest income	8536	
Loss on retirement of bond	12856	
Investment in BottomShelf bonds		106246
Interest Expense		9386

Consolidation Memo

	Book beg	Eff. Int	Cash	Amort	Book end
Investment	106710	8536	9000	464	106246
Bond	93854	9386	9000	386	94240

TopDrawer sells Inventory from BottomShelf of Year XXX3 end to outsider purchaser.

At the end of Year XXX4, TopDrawer still owes BottomShelf 13,000 from interfiliate sales that occurred in Year XXX3.

13.	Investment in BottomShelf	54553	
	Equity Income BottomShelf		54553
	Reverse year xxx4 deferred gain		
14.	Investment in BottomShelf	2200	
	Equity Income BottomShelf		2200

Year XXX4 Financials

Accounts	***TopDrawer Company***	***BottomShelf Company***	***Consolidation Entries Debit***	***Credit***	**NCI**	***Consolidated Totals***
Revenues	**620,000**	**222,000**	0	0		**842,000**
Cost of goods sold	**290,000**	**118,000**	0	10000		**398,000**
Other operation expense (revenue)	**93,464**	**47,386**	6000	4000		**142,000**
			8536	9386		
Equity income BottomShelf	**56,753**		56753	0		**0**
Bond extinguishment			12856			**12,856**
Consolidated Net income	**293,289**	**56,614**	0	0		**289,144**
NCI income			0	0	6061	**6,061**
Net income to controlling interest						283,083
Retained earnings (Beg)	**1,334,600**	**730,000**	720000	0		**1,334,600**
			10000			
Net income (above)	**293,289**	**56,614**	0	0		**283,083**
Dividends distributed	**100,000**	**40,000**	0	36000	4000	**100,000**
Retained earnings (End)	**1,527,889**	**746,614**	0	0		**1,517,683**
Assets						
Cash	**57,890**	**196,854**	0	0		**254,744**
Receivables	**1,824,000**	**400,000**	0	13000		**2,211,000**
Inventory	**364,000**	**56,000**	0	0		**420,000**
Land	**400,000**	**360,000**	40000			**800,000**
Buildings (net)	**712,000**	**424,000**	42000	6000		**1,172,000**
Equipment (net)	**222,000**	**124,000**	4000	19800		**330,200**
Bond investment BottomShelf	**106,246**			106246		
Investment in BottomShelf	**947,753**	**0**	36000	864000		**0**
			19800	82800		
				56753		
Goodwill			10000			**10,000**
Total assets	**4,633,889**	**1,560,854**	0	0		**5,197,944**
Liabilities & Equity			0	0		**0**
Accounts Payable	**300,000**	**80,000**	13000	0		**367,000**
Long-term Liabilities	**1,260,000**	**400,000**	0	0		**1,660,000**
BottomShelf Bonds		**94,240**	94240			
Common stock	**240,000**	**240,000**	240000	0		**240,000**
Additional paid-in capital	**1,306,000**	**0**	0	0		**1,306,000**
NCI (Beg)				96000	96000	
				9200	9200	
NCI (End)					107261	**107,261**
Retained earnings (above)	**1,527,889**	**746,614**	0	0		**1,517,683**
Total liabilities & equity	**4,633,889**	**1,560,854**	1313185	1313185		**5,197,944**

Elimination Entries XXX4

BottomShelf Retained Earnings (Beg)	10000	
COGS		10000
BottomShelf Common	240000	
BottomShelf Retained Earnings (Beg)	720000	
Investment BottomShelf		864000
NCI		96000
Land	40000	
Buildings	42000	
Goodwill	10000	
Investment BottomShelf		82800
NCI		9200
Investment BottomShelf	19800	
Equipment (net)		19800
Equity income BottomShelf	56753	
Investment BottomShelf		56753
Investment BottomShelf	36000	
Dividends		36000
Other operation expenses	6000	
Buildings (net)		6000
Equipment (net)	4000	
Other operation expenses		4000
Other operation expenses	8536	
Bond extinguishment	12856	
BottomShelf Bonds	94240	
Other operation expenses		9386
Bond Investment BottomShelf		106246
Accounts Payable	13000	
Accounts Receivable		13000

Appendix III ERP Management Reporter Reports

System: 9/30/2012 4:10:46 PM Page: 1
User Date: 9/30/2012 JOURNAL INQUIRY REPORT User ID:
General Ledger

Journal Entry: 1 Batch ID: YR0TOP

Transaction Date: 1/2/2012 Reference: YR0Top
Source Document: GJ Currency ID: Z-US$
Audit Trail Code: GLQJE00000001 Orig Journal:
Orig Audit Trail Code: GLQJE00000001

Account	Description Distribution Reference	Debit	Credit
1100-000-000	Cash-Checking	$36,000.00	$0.00
1160-000-000	Accounts Receivable	$540,000.00	$0.00
1270-000-000	Investments	$1,030,000.00	$0.00
1400-000-000	Equipment	$320,000.00	$0.00
1460-000-000	Buildings	$840,000.00	$0.00
1500-000-000	Land	$400,000.00	$0.00
2100-000-000	Accounts Payable	$0.00	$300,000.00
2140-000-000	Notes Payable	$0.00	$1,260,000.00
3000-000-000	Retained Earnings	$0.00	$780,000.00
3100-000-000	Common Stock	$0.00	$240,000.00
3110-000-000	Additional Paid in Capital - Common	$0.00	$1,306,000.00
1200-000-000	Inventory	$720,000.00	$0.00

Difference: $0.00 Totals: $3,886,000.00 $3,886,000.00

System: 9/30/2012 4:21:41 PM Page: 1
User Date: 9/30/2012 JOURNAL INQUIRY REPORT User ID:
General Ledger

Journal Entry: 2 Batch ID: BOTTOMYR01

Transaction Date: 1/2/2012 Reference: 2
Source Document: GJ Currency ID: Z-US$
Audit Trail Code: GLQJE00000002 Orig Journal:
Orig Audit Trail Code: GLQJE00000002

Account	Description	Debit	Credit
	Distribution Reference		
3000-001-000	Retained Earnings	$0.00	$680,000.00
1100-001-000	Cash	$40,000.00	$0.00
1160-001-000	Accounts Receivable	$180,000.00	$0.00
1200-001-000	Inventory	$280,000.00	$0.00
1500-001-000	Land	$360,000.00	$0.00
1460-001-000	Building	$440,000.00	$0.00
1400-001-000	Equipment	$100,000.00	$0.00
2100-001-000	Accounts Payable	$0.00	$80,000.00
2140-001-000	Notes Payable	$0.00	$400,000.00
3100-001-000	Common Stock	$0.00	$240,000.00

Difference: $0.00 Totals: $1,400,000.00 $1,400,000.00

System: 9/30/2012 4:25:41 PM Page: 1
User Date: 9/30/2012 JOURNAL INQUIRY REPORT User ID:
General Ledger

Journal Entry: 3 Batch ID: 3

Transaction Date: 1/2/2012 Reference: Inital Elimination
Source Document: GJ Currency ID: Z-US$
Audit Trail Code: GLQJE00000003 Orig Journal:
Orig Audit Trail Code: GLQJE00000003

Account	Description	Debit	Credit
	Distribution Reference		

1500-000-009	Land	$40,000.00	$0.00
1460-000-009	Buildings	$60,000.00	$0.00
1730-000-009	Goodwill	$10,000.00	$0.00
1270-000-009	Investments	$0.00	$1,030,000.00
3100-000-009	Common Stock	$240,000.00	$0.00
3000-000-009	Retained Earnings	$680,000.00	$0.00

Difference: $0.00 Totals: $1,030,000.00 $1,030,000.00

Management Reporter Row Definition

A Row Code	B Description	C Format Code	D Related Formulas / Rows / Units	E Format Override	F Normal Balance	G Print Control	H Column Restriction	I Row Modifier	J Link to Financial Dimensions
30		DES							
60		DES							
90		DES							
120	**Assets**								
150	Cash-Checking								+Segment1 = [1100]
180	Accounts Receivable								+Segment1 = [1160]
210	Inventory								+Segment1 = [1200]
240	Land								+Segment1 = [1500]
270	Buildings								+Segment1 = [1460]
300	Equipment								+Segment1 = [1400]
330	Investments								+Segment1 = [1270]
332	Goodwill								+Segment1 = [1730]
334		---							
338	**Total Assets**	TOT	150:332						
342									
345	**Liabilities and Equity**								
360	Accounts Payable								+Segment1 = [2100]
390	Notes Payable								+Segment1 = [2140]
420	Common Stock								+Segment1 = [3100]
450	Additional Paid in Capital - C...								+Segment1 = [3110]
480	Retained Earnings								+Segment1 = [3000]
510		---							
575	**Total Liabilities / Eq...**	TOT	360:480						
600		DES							
660		===							
690		DES							
750		DES							

Management Reporter Column Definition

	A	B	C	D	E	F
Header 1						
Header 2		TopDrawer	BottomShelf	Consolidation	Consolidated	
Header 3				Entries		
Column Type	DESC	FD	FD	FD	CALC	
Book Code / Attribute Category		ACTUAL	ACTUAL	ACTUAL		
Fiscal Year		2012	2012	2012	2012	
Period		1	1	1	1	
Periods Covered		PERIODIC	PERIODIC	PERIODIC		
Formula					B+C+D	
Column Width	30	13	13	13	14	
Extra Spaces Before Column						
Format / Currency Override						
Print Control	WT	WT	WT	WT	WT	
Column Restrictions						
Reporting Unit						
Currency Source						
Currency Filter						
XBRL Currency						
XBRL Dimension						
Dimension Filter		+Segment...	+Segment...	+Segment...		
Attribute Filter						
Start Date		1	1	1		
End Date		3	3	3		
Justification						

Management Reporter Acquisition Report

GPAMP
Balance Sheet
Acquisition
As of Tuesday, January 31, 2012

	TopDrawer	BottomShelf	Consolidation Entries	Consolidated
Assets				
Cash-Checking	$36,000	$40,000		$76,000
Accounts Receivable	540,000	180,000		720,000
Inventory	720,000	280,000		1,000,000
Land	400,000	360,000	40,000	800,000
Buildings	840,000	440,000	60,000	1,340,000
Equipment	320,000	100,000		420,000
Investments	1,030,000		(1,030,000)	
Goodwill			10,000	10,000
Total Assets	**3,886,000**	**1,400,000**	**(920,000)**	**4,366,000**
Liabilities and Equity				
Accounts Payable	(300,000)	(80,000)		(380,000)
Notes Payable	(1,260,000)	(400,000)		(1,660,000)
Common Stock	(240,000)	(240,000)	240,000	(240,000)
Additional Paid in Capital - Common	(1,306,000)			(1,306,000)
Retained Earnings	(780,000)	(680,000)	680,000	(780,000)
Total Liabilities / Equity	**(3,886,000)**	**(1,400,000)**	**920,000**	**(4,366,000)**

System: 10/21/2012 4:57:38 PM Page: 1
User Date: 10/21/2012 JOURNAL INQUIRY REPORT
General Ledger
Journal Entry: 7 Batch ID: TOPXXX1

Transaction Date: 1/31/2012 Reference: TOPXXX1
Source Document: GJ Currency ID: Z-US$
Audit Trail Code: GLQJE00000006 Orig Journal:
Orig Audit Trail Code: GLQJE00000006

Account	Description	Debit	Credit
	Distribution Reference		
1100-000-000	Cash-Checking	$146,000.00	$0.00
1160-000-000	Accounts Receivable	$500,000.00	$0.00
1160-000-000	Accounts Receivable	$0.00	$200,000.00
1270-000-000	Investments	$0.00	$18,000.00
1270-000-000	Investments	$24,000.00	$0.00
1400-000-000	Equipment	$0.00	$16,000.00
1460-000-000	Buildings	$0.00	$32,000.00
3120-000-000	Common Dividends Declared	$60,000.00	$0.00
1200-000-000	Inventory	$0.00	$232,000.00
4101-000-000	Revenues	$0.00	$500,000.00
4500-000-000	COGS	$232,000.00	$0.00
5101-000-000	Other Operation Expenses	$60,000.00	$0.00
7041-000-000	Equity Income from sub	$0.00	$24,000.00
Difference: $0.00	Totals:	$1,022,000.00	$1,022,000.00

System: 10/21/2012 5:00:34 PM Page: 1
User Date: 10/21/2012 JOURNAL INQUIRY REPORT
General Ledger
Journal Entry: 8 Batch ID: BOTXXX1

Transaction Date: 1/31/2012 Reference: BOTXXX1
Source Document: GJ Currency ID: Z-US$
Audit Trail Code: GLQJE00000007 Orig Journal:
Orig Audit Trail Code: GLQJE00000007

Account	Description	Debit	Credit
	Distribution Reference		
1100-001-000	Cash	$38,000.00	$0.00
1160-001-000	Accounts Receivable	$140,000.00	$0.00
1160-001-000	Accounts Receivable	$0.00	$56,000.00
1200-001-000	Inventory	$0.00	$90,000.00
1460-001-000	Building	$0.00	$4,000.00
1400-001-000	Equipment	$0.00	$6,000.00
4101-001-000	Revenues	$0.00	$140,000.00
4500-001-000	COGS	$90,000.00	$0.00
5101-001-000	Other Operation Expenses	$20,000.00	$0.00
3120-001-000	Dividend	$18,000.00	$0.00
	Difference: $0.00 Totals:	$296,000.00	$296,000.00

System: 10/21/2012 5:01:35 PM Page: 1
User Date: 10/21/2012 JOURNAL INQUIRY REPORT
General Ledger
Journal Entry: 9 Batch ID: ELIMXXX1

Transaction Date: 1/31/2012 Reference: ELIMXXX1
Source Document: GJ Currency ID: Z-US$
Audit Trail Code: GLQJE00000008 Orig Journal:
Orig Audit Trail Code: GLQJE00000008

Account	Description	Debit	Credit
	Distribution Reference		
1270-000-009	Investments	$0.00	$1,036,000.00
1500-000-009	Land	$40,000.00	$0.00
1460-000-009	Buildings	$60,000.00	$0.00
1460-000-009	Buildings	$0.00	$6,000.00
1730-000-009	Goodwill	$10,000.00	$0.00
3100-000-009	Common Stock	$240,000.00	$0.00
3000-000-009	Retained Earnings	$680,000.00	$0.00
7041-000-009	Equity Income BottomShelf	$24,000.00	$0.00
3120-000-009	Dividend	$0.00	$18,000.00
5101-000-009	Other Operation Expenses	$6,000.00	$0.00
	Difference: $0.00 Totals:	$1,060,000.00	$1,060,000.00

Management Reporter YRXXX1

GPAMP
Balance Sheet
YRXXX1
As of Tuesday, January 31, 2012

	TopDrawer	BottomShelf	Consolidation Entries	Consolidated
Year XXX1				
Income Statement				
Revenues	($500,000)	($140,000)		($640,000)
Cost of Goods Sold	232,000	90,000		322,000
Other Operation Expense	60,000	20,000	6,000	86,000
Equity Income BottomShelf	(24,000)		24,000	
Net Income	(232,000)	(30,000)	30,000	(232,000)
Retained Earnings Beg	(780,000)	(680,000)	680,000	(780,000)
Net Income	(232,000)	(30,000)	30,000	(232,000)
Dividends	60,000	18,000	(18,000)	60,000
Retained Earnings End	(952,000)	(692,000)	692,000	(952,000)
Assets				
Cash-Checking	182,000	68,000		250,000
Accounts Receivable	840,000	264,000		1,104,000
Inventory	488,000	190,000		678,000
Land	400,000	360,000	40,000	800,000
Buildings	808,000	436,000	54,000	1,298,000
Equipment	304,000	94,000		398,000
Investments	1,036,000		(1,036,000)	
Goodwill			10,000	10,000
Total Assets	4,058,000	1,412,000	(932,000)	4,538,000
Liabilities and Equity				
Accounts Payable	(300,000)	(80,000)		(380,000)
Notes Payable	(1,260,000)	(400,000)		(1,660,000)
Common Stock	(240,000)	(240,000)	240,000	(240,000)
Additional Paid in Capital	(1,306,000)			(1,306,000)
Retained Earnings	(952,000)	(692,000)	692,000	(952,000)
Total Liabilities / Equity	(4,058,000)	(1,412,000)	932,000	(4,538,000)

- This project benefited from class usage at Emporia State University and University of Central Oklahoma.