CHAPTER 5

IFRS 10 CONSOLIDATION OF PARENT AND SUBSIDIARY

DEFINITIONS

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.
A *group* is a parent and all its subsidiaries
A *parent* is an entity that has one or more subsidiaries.
A *subsidiary* is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

SCOPE

A parent, other than a parent exempt under this IAS, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.
A parent need not present consolidated financial statements if and only if:

(a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
(b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
(c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
(d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

An entity is not required to consolidate it post employment benefit plans or other long-term employee benefit plans to which IAS 19 applies.

CONSOLIDATION PROCEDURES

Consolidated financial statements:

(a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
(b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (IFRS 3 explains how to account for any related goodwill).
(c) eliminate in full intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intra-group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions.

Uniform accounting policies

If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Measurement

An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognized in the consolidated financial statements at the acquisition date.
For example, depreciation expense recognized in the consolidated statement of comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date.

Potential voting rights

When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph B90 applies.

In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the returns.

Application of IFRS 9

IFRS 9 does not apply to interests in subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in a subsidiary, the instruments are not subject to the requirements of IFRS 9. In all other cases, instruments containing potential voting rights in a subsidiary are accounted for in accordance with IFRS 9.

Reporting date

The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

Non-controlling interests

An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total - comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the entity shall compute its share of profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared.

CONSOLIDATION PROCEDURE ILLUSTRATED

- Group has no books of account as a whole:
- Parent has its own books of accounts
- Subsidiary has its own books of accounts
- Each company prepares their own Financial Statements

In consolidation, we add up the financial statements of both companies

Reasons for consolidation:

⇒ Parent company controls the subsidiary hence they decide the subsidiary's policies (stewardship efficiencies, and inefficiencies)

⇒ Sales of financial instruments to 'special purpose entities' (IAS-39) e.g. factoring, assignment etc

⇒ Related party relationship may affect the financial statements of individual entities.

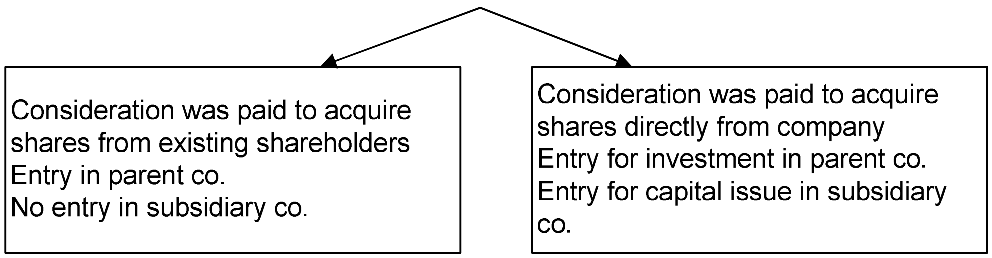
⇒ Decision to invest in group requires the detail of the performance of group as a whole.

METHOD OF CONSOLIDATION

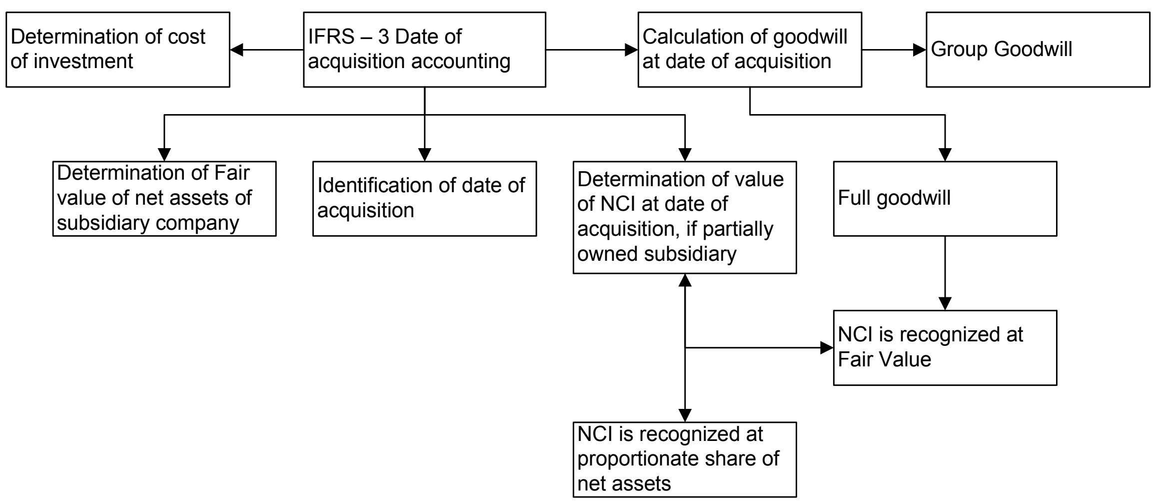
Purchase method is based on the concept of single economic entity.

Single economic entity results in elimination of:

⇒ Investment in subsidiary shown in parent company Financial Statements



⇒ Share Capital of subsidiary
⇒ Intra group balances – payables and receivables
⇒ Loans and advances between parent and subsidiary
⇒ Intra group trading – sale and purchase
⇒ Gain on Sale and purchase of fixed assets and inventory (opening and closing both), however, losses on sale or purchase are assumed to be impairment losses and need not be eliminated.
⇒ Interest and dividend from S Co
⇒ The resultant deferred tax arising on temporary differences because of elimination of profits / gains on intra-group transactions will be recognized.
⇒ The consolidated financial statements will be prepared using same accounting policies for like transactions.
⇒ The purchase method of accounting has the following steps: -



DEALING WITH THE STATEMENT OF FINANCIAL POSITION
Consolidation Procedures for Basic Consolidation

1. Prepare the following working notes:
   - ⇒ Working Note 1 for group structure, identification of percentage holding by the parent company
   - ⇒ Working Note 2 for cost of control (to calculate goodwill only group share of Goodwill)
   - ⇒ Working Note 3 for Non-controlling Interest (if applicable i.e. where the holding by the parent is less than 100% but more than 50% in subsidiary company)
   - ⇒ Working Note 4 for Subsidiary Reserves by identifying Pre and Post acquisition reserves
   - ⇒ Working Note 5 for Consolidated Reserves
     Note separate working should be prepared for each reserve of subsidiary and parent because similar reserve will be added with similar reserve.
2. Add all non-adjusting items line by line except cost of investment appearing in P. Co and share capital of S. Co.
3. Make all necessary adjustments discussed on next pages.
4. Balance all working accounts and place the balances in the statement of financial position

Forms of Consideration

Cash

A subsidiary has 1.5 million shares in issuance and Parent acquires 75% of these shares by paying $2 per share in cash Cost of investment = 1500000 * 75% * 2 = $2,250,000
Debit: Cost of investment $2,250,000
Credit: Cash $2,250,000

Other Assets

A subsidiary has 1 million shares in the issue and parent acquire 80% of these shares by transferring land to the shareholders. The carrying value of the land was $1.5 million but its fair value is $1.7 million.
Cost of investment = fair value of asset transferred = $1.7 million
Debit: Cost of investment $1.7 million
Credit: Asset $1.5 million
Profit and loss $0.2 million

Own Shares

A subsidiary has 2 million shares in issue and parent acquires 60% holding by issuing 2 shares for every 5 acquired. Fair value of parent's shares is $3 and Par value is $1
Cost of investment = 2000000 * 60% * 2/5 * 3 = 1,440,000
Debit: Cost of investment $ 1,440,000
Credit: Share capital $ 480,000
Share Premium $ 960,000

Contingent Consideration

Issue of debt instruments

A subsidiary has 1.2 million shares in issuance and Parent acquires 100% holding by issuing $10 loan notes for every 50 shares.
Cost of investment = 1200000 / 50 * 10 = $240,000
Debit: Cost of investment $ 240,000
Credit: Loan $ 240,000

Deferred Consideration

A subsidiary has 1 million shares in issue and parent acquires 70% of holding and agreed to pay $2 per share after 2 years. Discount rate of parent in 10%. Cost of investment = 1000000 * 70% * 2 * (1.10)-2 = 1,157,000

Debit: Cost of investment $ 1,157,000
Credit: Deferred Liability $1,,157,000

Unwind Liability
Debit: CRE / P&L $115,700
Credit: Deferred Liability $115,700

Debit: CRE/P&L $127,300
Credit: Deferred Liability $127,300

Pay off liability
Debit: Deferred Liability $1,400,000
Credit: Cash $1,400,000

Form	Treatment
Cash	Treat like deferred consideration
Additional Shares	Debit: Investment in subsidiary Credit: Equity Record on fair value
Other assets/Consideration	Debit: Investment in subsidiary Credit: Provision Record on present value

Form	Reversal if condition not met
Cash	Debit: Deferred Liability Credit: P&L / CRE
Additional Shares	No Entry
Other assets / Consideration	Debit: Provision Credit: P&L/CRE

1. **Investment in subsidiary company**
This balance is eliminated from statement of financial position and incorporated in the calculation of goodwill.
Entry:
Debit: Cost of control account
Credit: Investment in subsidiary

2. **Share capital of subsidiary company**

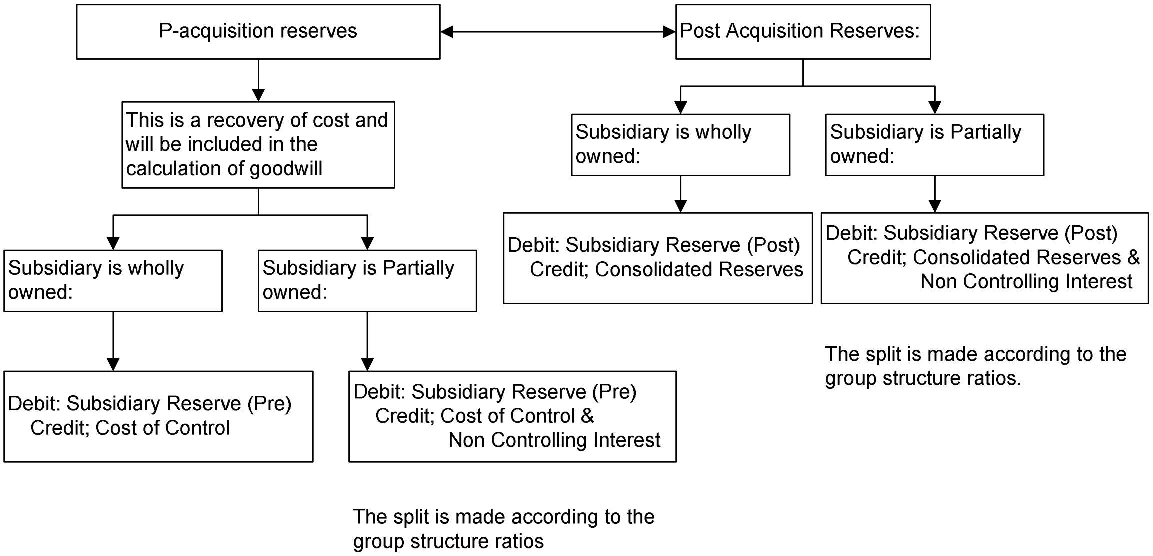
Subsidiary compnay's share capital

Subsidiary is wholly owned:
Debit: Subsidiary Share Capital
Credit: Cost of Control

Subsidiary is partially owned:
Debit: Subsidiary Share Capital
Credit: Cost of control &
Non Controlling Interest

The split is made according to the group structure ratios.

3. **Subsidiary company reserves**
First split reserves into post and pre acquisition reserves because both have different treatment, and also before the following entries, make necessary adjustments to the both types of reserve.



FORMULA FOR CALCULATION OF GOODWILL

Full goodwill	
Cost of investment by parent company	xx
Fair value of non controlling interest (NCI) at date of acquisition	xx
	xx
Fair value of net assets at date of acquisition (share capital + reserves	(xx)
Goodwill	xx
NCI goodwill	
Fair value of NCI at date of acquisition	xx
Proportionate share of net assets of NCI in S. Co. at date of acquisition	(xx)
NCI Goodwill	xx
Total goodwill	Xx
NCI goodwill	(xx)
Group goodwill	Xx

Group Goodwill

Formula 1		Formula 2	
Cost of investment by parent	Xx	Cost of investment by parent	xx
Proportionate share in net assets by NCI	Xx	Share in Net assets of subsidiary by parent	(xx)
Fair value of net assets of subsidiary	(xx)	Group Goodwill	xx
Group goodwill	Xx		

Example 1 Acquisition of wholly owned subsidiary

On 31st December 20X1 P purchased the entire share capital of S for Rs. 40,000. The individual statements of financial positions of P and S at that date were as follows: -

Statement of financial positions at 31 December 20X1

	P	**S**
	Rs.000	**Rs.000**
Non-current assets	120	40
Investment in S at cost	40	-
Current assets	40	10
Total assets	**200**	**50**
Ordinary share capital (Rs.1 shares)	100	30
Retained earnings	50	10
Current liabilities	50	10
Total equity and liabilities	**200**	**50**

Required: Prepare consolidated statement of financial position as at December 31, 20X1?

Example-2 Reserves (Pre-acquisition and post acquisition)

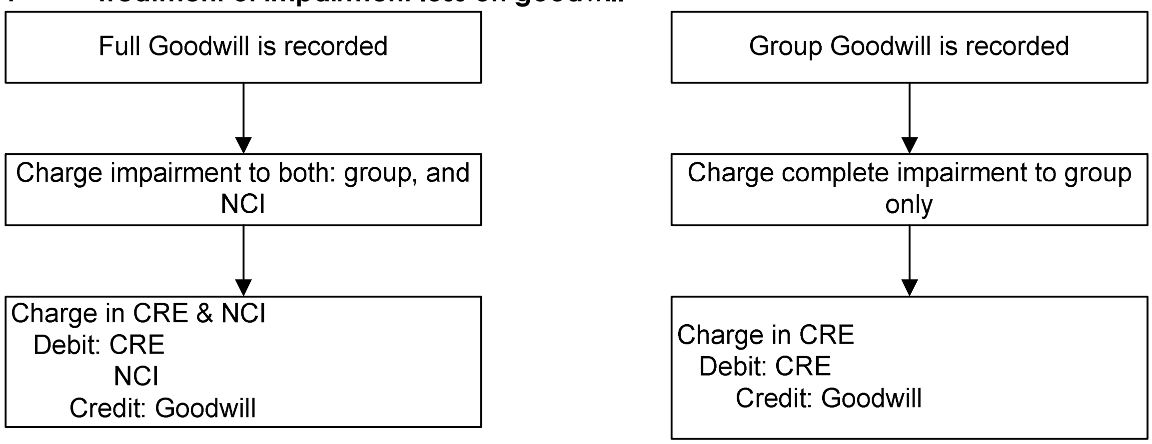
Statement of financial positions at 31 December 20X4

	P	S
	Rs.000	**Rs.000**
Non-current assets	50	40
Investment in S at cost	70	-
Current assets	30	40
Total assets	**150**	**80**
Ordinary share capital (Rs.1 shares)	100	50
Retained earnings	30	20
Current liabilities	20	10
Total equity and liabilities	**150**	**80**

You are further informed that P acquired all the shares in S on 30 June 20X4 when the retained earnings of S amounted to Rs.15,000.

Required: Prepare consolidated statement of financial position as at December 31, 20X4?

4 Treatment of impairment loss on goodwill



Example 3

Non-controlling interest

Statement of financial positions at 31 December 20X4

	P	S
	Rs.000	**Rs.000**
Non-current assets	50	40
Investment in S at cost	70	-
Current assets	30	40
Total assets	**150**	**80**
Ordinary share capital (Rs.1 shares)	100	50
Retained earnings	30	20
Current liabilities	20	10
Total equity and liabilities	**150**	**80**

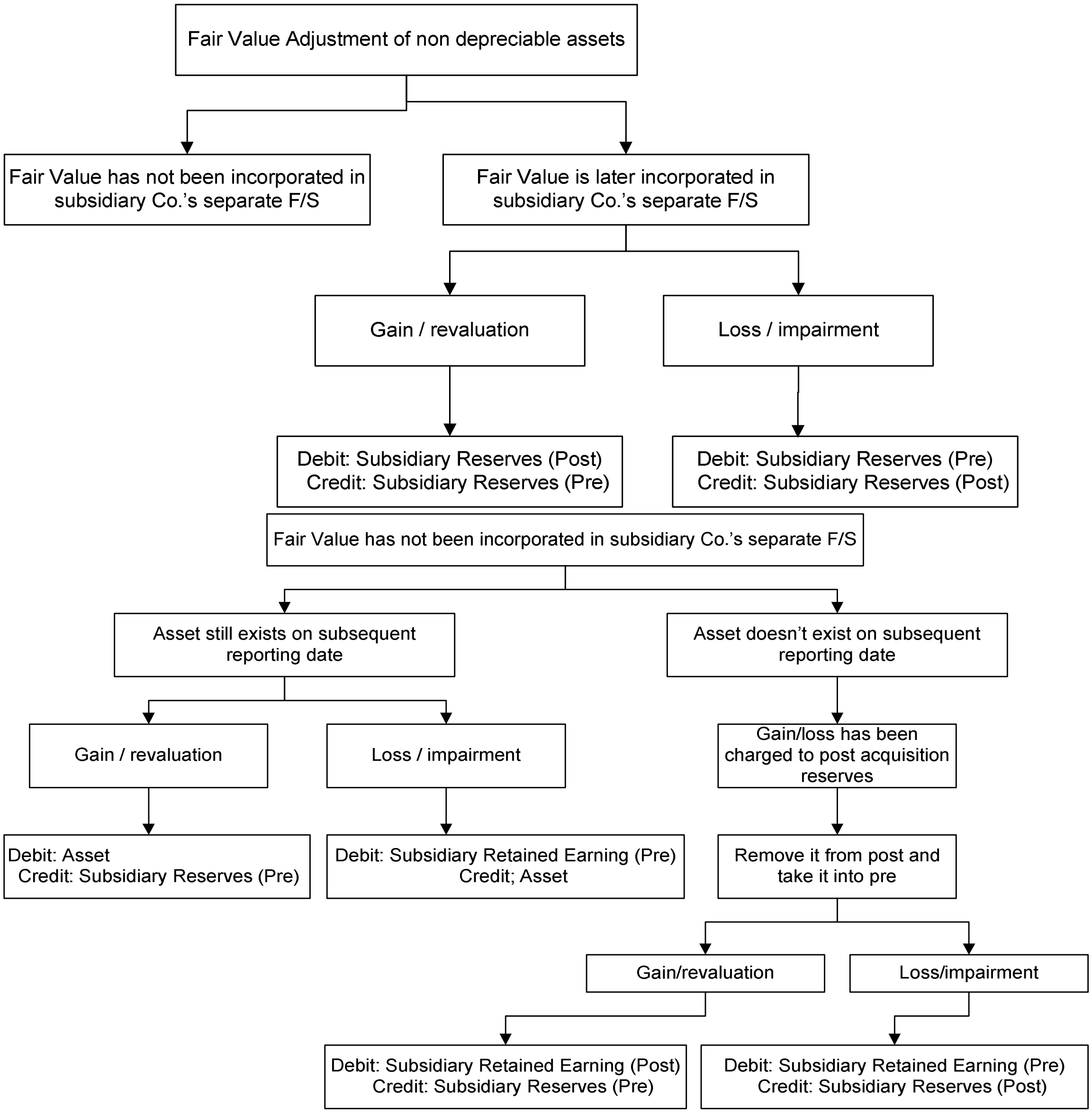
Required: -

P acquired 40,000 Rs.1 shares in S on 30 June 20X4 for Rs.70,000, when the retained earnings of S amounted to Rs.15,000. The group has a policy of measuring non-controlling interest at proportionate share of net assets at the date of acquisition. 20% of goodwill has impaired to date?

Required: Prepare consolidated statement of financial position as at December 31, 20X4?

4. Fair values adjustments of subsidiary company assets/liabilities

If fair value differs at the date of acquisition and if not incorporated in group financial statements then goodwill may include certain gains/losses of identifiable assets, which is not permitted by definitions of goodwill as well as by IFRS – 3. The following is treatment of fair value adjustments arising at the date of acquisition.



Example 4

The summarized draft statement of financial positions of the companies in a group at 31 December 20X4 were

	P	S		P	S
	Rs.	**Rs.**		**Rs.**	**Rs.**
Sundry assets	86,000	24,500	Share capital (Rs.1 Ord.).	100,000	20,000
Investment in S (shares at cost)	27,000	-	Retained earnings	22,000	6,500
Inventory	20,000	10,000	Payables	11,000	8,000
	133,000	34,500		133,000	34,500

Prepare the consolidated statement of financial position at 31 December 20X4 for each of the following alternatives.

a) P acquired all the shares in S on 1 January 20X4, when S had accumulated profits of Rs.6,000.

b) Facts as in (a) above, except that only 16,000 ordinary shares in S were purchased for Rs.27,000

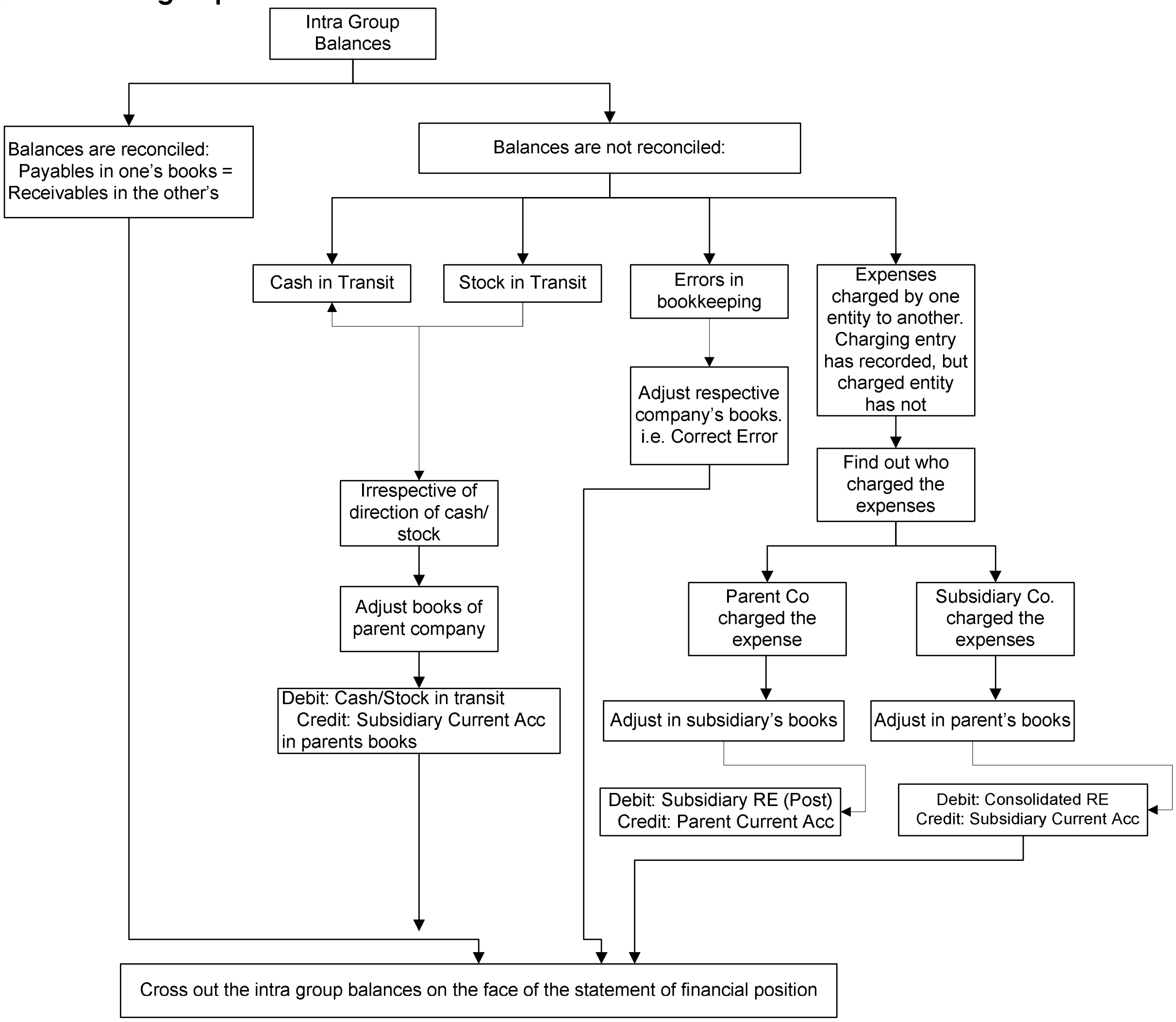
c) Facts as in (a) above, except that only 16,000 ordinary shares in S were purchased for Rs.27,000 on 1 January 20X4. The subsidiary has not incorporated the fair values in its separate books and fair value adjustments identified by the parent company at the date of acquisition are as follows: -

	Carrying value	Fair value	Exist on subsequent
	Rs.	Rs.	Reporting date

Property (Non-Depreciable)	10,000	12,000	Yes
Inventory	6,000	4,500	NO

The group has a policy of measuring non-controlling interest at proportionate share of net assets at the date of acquisition. 20% of goodwill has impaired to date.

5 Intra group balances



Example 5

Statements of financial position at 31 December 20X4

	P	S
	Rs.	**Rs.**
Investment in S (at cost)	19,000	--
S current account	10,000	--
Cash at bank	20,000	28,000
Other sundry assets	41,000	16,000
Total assets	**90,000**	**44,000**
Share capital (Rs.1 Ord.)	50,000	10,000
Retained earnings	30,000	20,000
Current liabilities	10,000	5,000
P current account	--	9,000
Total equity and liabilities	**90,000**	**44,000**

1 P bought 7,500 shares in S on 1 January 20X4 when the balance on the retained earnings of S was Rs.12,000.

2 The current account difference has arisen as a cheque of Rs. 500 sent by S to P on 30 December 20X4 was not received by P until 3 January 20X5, Rs. 300 purchases by S from P wrongly credited to some other creditor account and Rs. 200 charged by P for certain expenses paid on behalf of S.

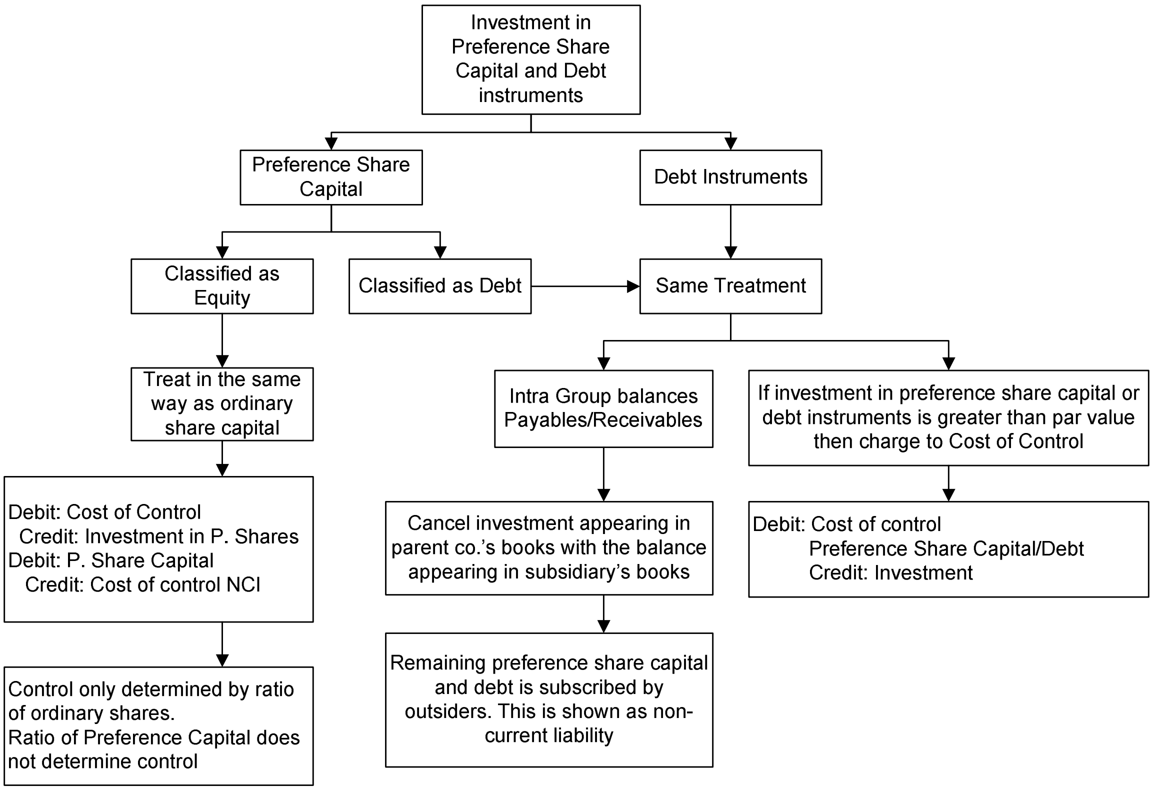
3 No stock related to intercompany purchases exists at the reporting date.

4 The P Group has the policy of measuring non-controlling interest at fair value (FV) and FV of NCI was Rs. 6,000 at the date of acquisition.

5 Goodwill of Rs. 1,000 has been impaired to date

Prepare the consolidated statement of financial position at 31 December 20X4?

5. Investment in Preference shares / loans



Example 6

Maximum acquired 90,000 Rs.1 ordinary shares, 50,000 Rs.1 preference shares and Rs.10,000 loan notes in Minimum on 30 June 20X1.

The balance in the books of Maximum and Minimum as at 31 December 20X4 were as follows:

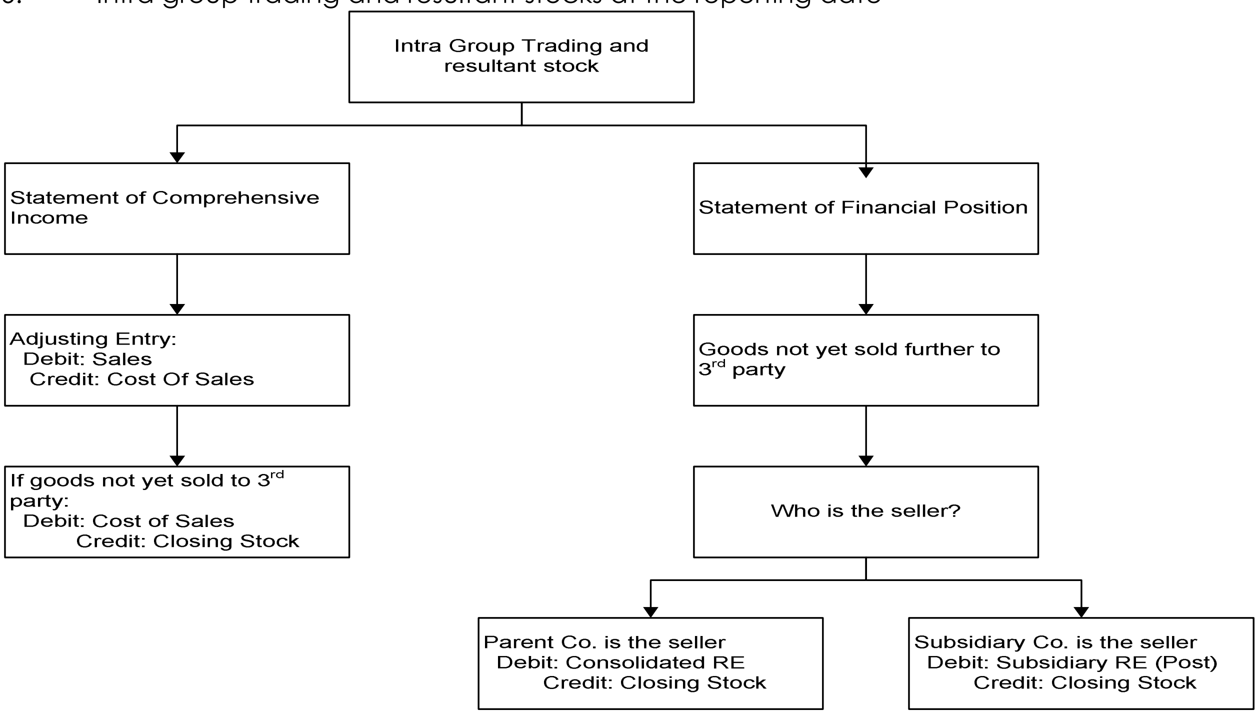
	Maximum	**Minimum**
	Rs.	**Rs.**
Non-current assets, at cost less depreciation	380,000	225,000
90,000 ordinary shares in Minimum, at cost	185,000	-
50,000 preference shares in Minimum, at cost	55,000	-
Rs.10,000 loan notes in Minimum	10,000	-
Current assets	200,000	143,500
Total assets	**830,000**	**368,500**
Ordinary shares of Rs.1	500,000	120,000
8% non-cumulative preference shares of Rs.1	-	80,000
7% loan notes	-	40,000
Revaluation reserve	50,000	30,000
Retained earnings	150,000	66,000
Payables	130,000	32,500
Total equity and liabilities	**830,000**	**368,500**

You are also given the following information:

a) The revaluation reserve and retained earnings of Minimum as at 30 June 20X1 were Rs.12,000 and Rs.30,500 respectively.
b) The inventory of Minimum at 31 December 20X4 includes Rs.22,800 in respect of goods purchased from Maximum. Maximum invoices Minimum at cost plus 20%.
c) Minimum owed Rs. 5,000 to Maximum included in its payables, which also agree with the receivable balance in Maximum books.
d) Maximum has the policy of measuring NCI at proportionate share of net assets at the date of acquisition.
e) The whole amount of goodwill has impaired by the current reporting date.

You are required to prepare the consolidated statement of financial position of Maximum and its subsidiary Minimum as at 31 December 20X4.

6. Intra group trading and resultant stocks at the reporting date



Note: It may be possible that an item may be inventory for one entity and fixed asset for other entity e.g. an item of inventory sold by parent company but recognized by subsidiary company as property, plant and equipment. If this is the case then pass following adjusting entries while preparing consolidated financial statements.

Debit	Credit		
Sales		X (with sale price)	
	Cost of sales		X (cost to the seller)
	Property, plant and equipment		X (Profit margin)

In other words it is just goods taken by an entity from inventory for use in the business.

Example-7

Intra-group profits on stocks

Statement of financial positions at 31 December 20X4

	P	**S**
	Rs.	**Rs.**
Investment in S (at cost)	75,000	
Inventory	12,000	5,000
P current account		5,000
Other assets	83,000	90,000
Total assets	**170,000**	**100,000**

Share capital (Rs. 1 ord.).	50,000	40,000
Retained earnings	100,000	55,000
Trade payables	20,000	5,000
Total equity and liabilities	**170,000**	**100,000**

1 P acquired 32,000 shares in S on 1 January 20X4 when the balance on the retained earnings of S was Rs.50,000.

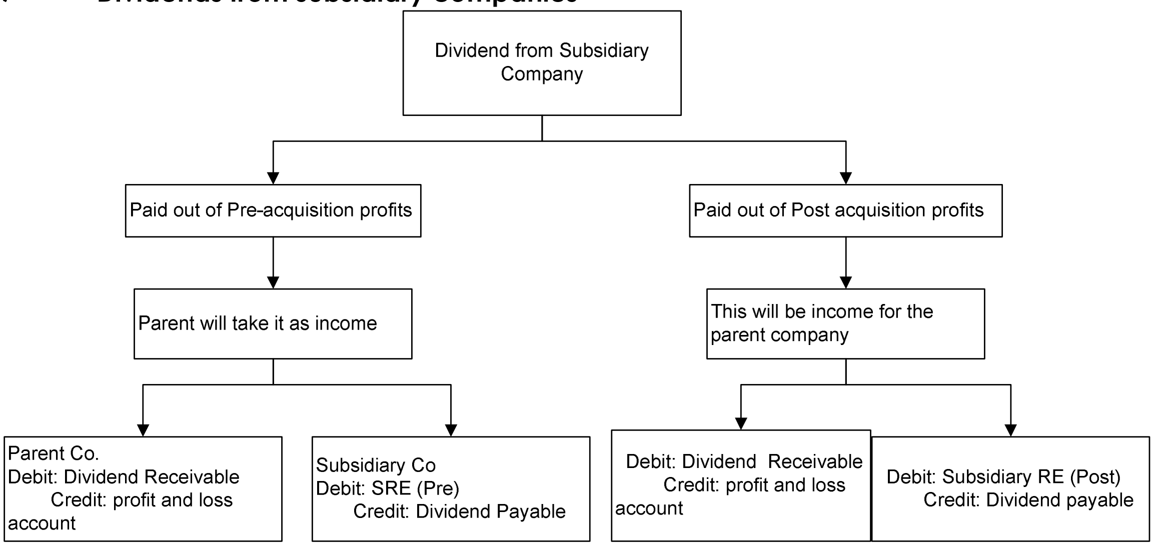
2 During the year S sold goods to P for Rs.80,000 making a standard mark up of 25%. At 31 December 20X4, P included in its inventory value Rs.5,000, being the price paid for goods purchased from S.

3 Other than the goods in note no. 2 Rs. 5,000 goods are in transit not received by P till the reporting date.

4 Except the goods in transit P has paid for the due amount to S before the year end.

Prepare the consolidated statement of financial position as at 31 December 20X4?

7 Dividends from subsidiary companies



a) Dividend Payable from subsidiary company and Dividend Receivable in parent company are treated as intra-group balance.

b) Any amount of dividend payable to NCI is included in NCI.

c) If the dividend declared is greater than post-acquisition profit, then it was declared out of pre-acquisition profits.

Possible situations:

1. Dividend declared / paid by subsidiary company and duly recorded by both companies.
   Do nothing in group financial statements
2. Dividend declared by subsidiary company and no recording by both companies

Parent company	**Subsidiary company**
Debit: Dividend Receivable	Debit: SRE (Pre or Post)
Credit: CRE or P&L	Credit: Dividend Payable

The dividend payable and receivable balances are cancelled.

3. Dividend declared by subsidiary company and no recording in parent's accounts

Parent company

Debit: Dividend Receivable
Credit: CRE or P&L

The dividend payable and receivable balances are cancelled.

4. Dividend declared / paid by subsidiary and no recording in parent company

Parent company

Debit: Dividend Receivable
Credit: CRE or P&L
Debit: Cash in Transit
Credit: Dividend Receivable

5. Dividend declared / paid by subsidiary and parent company has only recorded Dividend Receivable

Parent company

Debit: Cash in Transit

Credit: Dividend Receivable

6. Dividend declared by subsidiary company from Pre-Acquisition profit and parent company treated that as income.

Adjusting Entry

Debit: CRE or P&L

Credit: Cost of investment

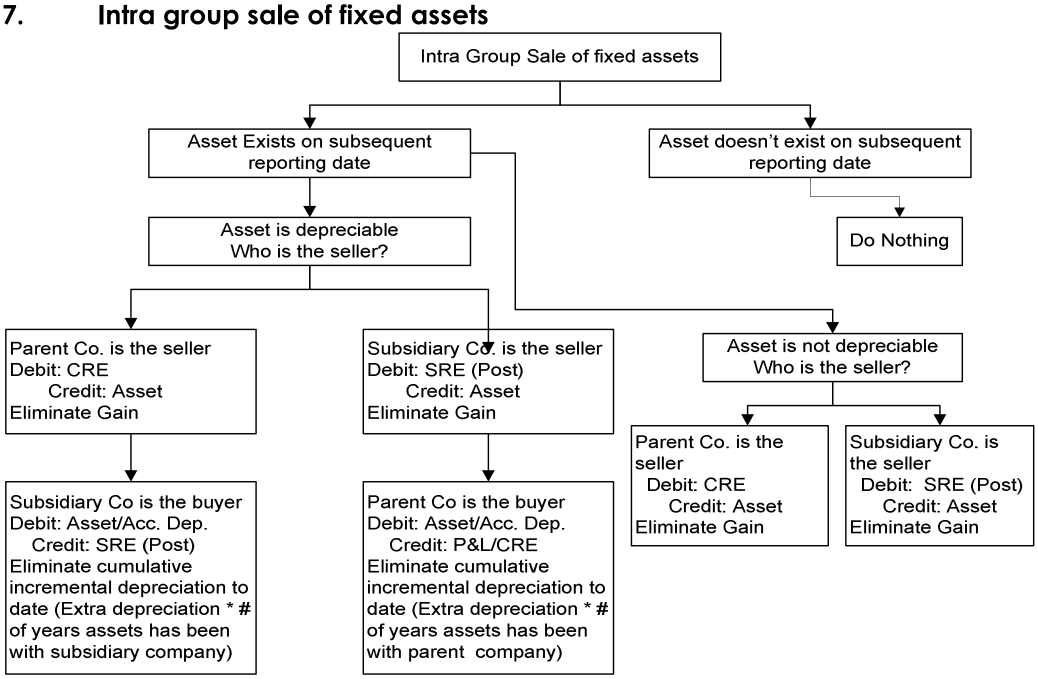
Example 8

Up-minster acquired 80% of the ordinary share capital of Barking several years ago when the balance on the accumulated profits of Barking was Rs.12,000. Their respective draft statement of financial positions at 31 December 20X4 are as follows:

	Up-minster Rs.	Barking Rs.
Non-current assets	100,000	92,000
Investment in Barking	55,000	-
Current assets	45,000	31,000
Total assets	**200,000**	**123,000**
Ordinary shares capital	100,000	50,000
Preference share capital	-	10,000
Retained earnings	80,000	42,000
Proposed ordinary dividend (declared Dec 20X4)	-	10,000
Sundry payables	20,000	11,000
Total equity and liabilities	**200,000**	**123,000**

Up-minster has not made any entry for the dividend receivable from Barking for the year. A proposed preference dividend of Rs.2,000 by Barking (also declared in December 20X4) has not been accounted for by either company. Up-minster purchased 30% of the preference shares for Rs.3,500 some years ago. It's the group policy to measure NCI at proportionate share of FV of net assets at the date of acquisition. Prepare the consolidated statement of financial position at 31 December 20X4.

7. Intra group sale of fixed assets



Example 9

Statement of financial positions at 31 December 20X4

	P	S
	Rs.	**Rs.**
Investment in S (at cost)	75,000	
Inventory	12,000	5,000
Other non-current assets	83,000	95,000
	170,000	100,000
Share capital (Rs. 1 Ord.).	50,000	40,000
Retained earnings	120,000	60,000
	170,000	100,000

a) P acquired 32,000 shares in S on 1 January 20X4 when the balance on the retained earnings of S was Rs.50,000.

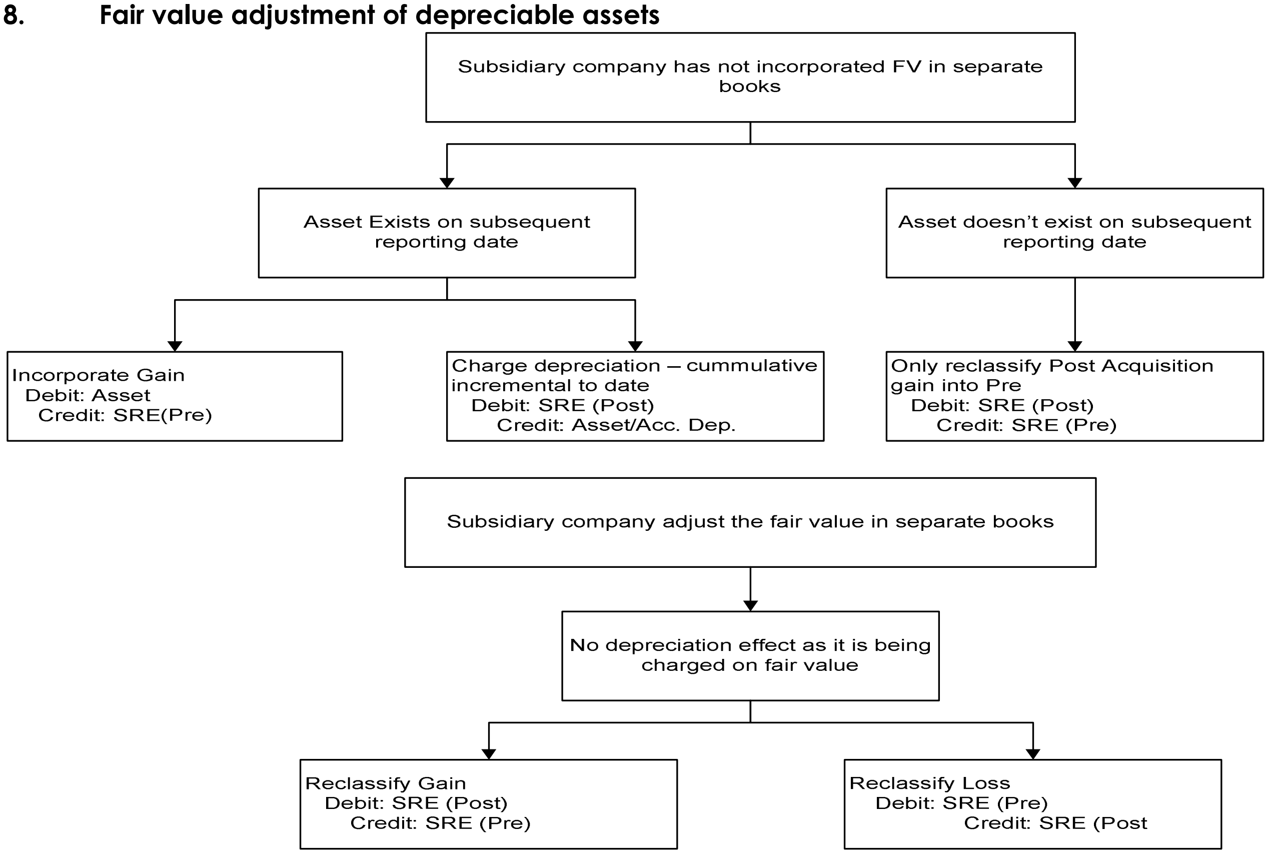
b) During the year S sold fixed assets to P for Rs.2,000 having a book value of Rs. 1,500. P & S both charge depreciation @ 20% on such assets. Asset still exist in the books of P.

c) The group has a policy of measuring NCI at proportionate share of FV of net assets at the date of acquisition.

d) There has been no impairment loss on goodwill till now.

Required: - Prepare the consolidated statement of financial position at 31 December 20X4?

8. Fair value adjustment of depreciable assets



Example 10

Statement of financial positions at 31 December 20X4

	P	S
	Rs.	**Rs.**
Investment in S (at cost)	75,000	
Inventory	12,000	20,000
Other net assets	83,000	80,000

	170,000	100,000
Share capital (Rs. 1 Ord.).	50,000	40,000
Retained earnings	120,000	60,000
	170,000	100,000

a) P acquired 32,000 shares in S on 1 January 20X1 when the balance on the retained earnings of S was Rs.10,000.

b) The cost of fixed assets of S on January 01, 20X1 was Rs. 200,000 and accumulated depreciation of Rs. 40,000. The fair value of these assets was Rs. 220,000 on the date of acquisition. The company depreciates such type of assets @ 20% on cost. The S has not incorporated the revalued amount in its separate accounts.

Required: - Prepare the consolidated statement of financial position at 31 December 20X4?

11 Subsidiary acquired during the year

You have to determine pre and post acquisition retained earnings by allocating the profit for the year according to the information provided. Normally assume that the profit was accrued evenly over the year.

The dividend paid during the year is also accrued evenly over the year.

Example 11

P acquired 4 million of S equity shares paying Rs. 5.5 each and Rs. 500,000 (at par) of its 10% redeemable preference shares on June 30, 20X2. At April 01, 20X2 the accumulated retained earnings of S were Rs. 5,280,000.

Statement of financial positions at 31 March 20X3

	P **Rs. (000)**	**S** **Rs. (000)**
Non- current assets		
PPE	38,450	22,220
Investment in S		
Equity	22,000	--
Preference shares	500	--
	60,950	22,220
Current assets		
Inventory	9,850	6,590
Trade receivables	11,420	3,830
Cash and bank	490	--
	21,760	10,420
	82,710	32,640
Equity and liabilities		
Capital and reserves		
Equity capital Rs. 1 each	10,000	5,000
Accumulated profits	52,640	15,280
	62,640	20,280
Non-current liabilities		
10% loan notes	12,000	4,000
10% redeemable preference capital	--	2,000
	12,000	6,000
Current liabilities		
Trade payables	5,600	3,810
Overdraft	--	570
Income taxes	2,470	1,980
	8,070	6,360
	82,710	32,640

The following information is relevant:

a) Included in PPE of S is a large area of development land at its cost of Rs.5 million. Its fair value at the date S was acquired was Rs. 7 million and by 31st March 20X3 this had risen to Rs.8.5 million. The group valuation policy for development land is that it should be carried at fair value and not depreciated.

b) Also at the date S was acquired, its PPE included plant that had a fair value of Rs. 4 million in excess of its carrying value. This plant had a remaining life of 5 years. The group calculates depreciation on straight-line basis. The fair value of S's other net assets approximates the same.

c) In the post acquisition period S sold goods to P for Rs. 1.8 million. S adds a 20% mark-up on cost to all its sales Goods with transfer price of Rs. 450,000 were included in P's inventory at 31st March 20X3.

d) The balances on the current accounts of the parent and subsidiary were Rs. 240,000 on 31st March 20X3.

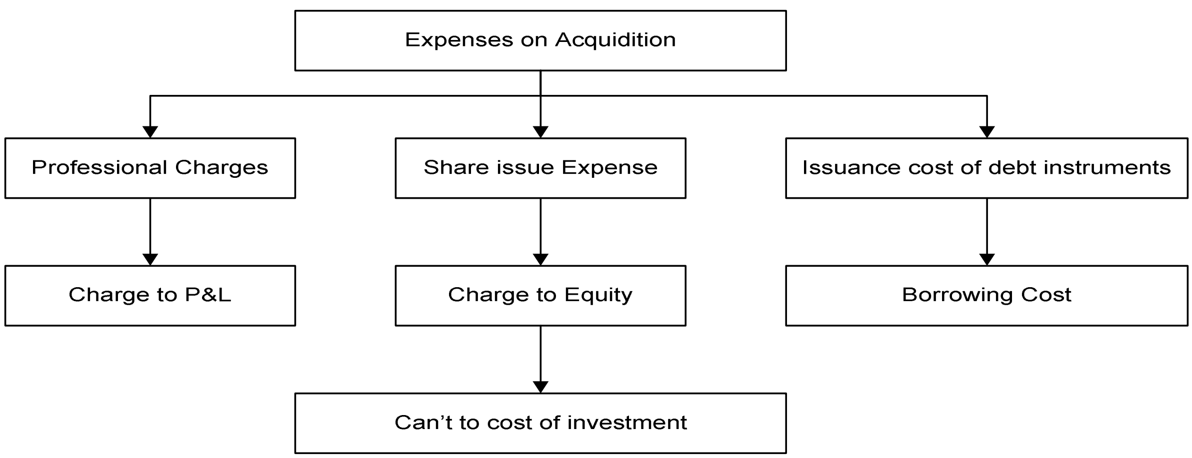
e) The group has the policy of measuring NCI at FV at the date of acquisition. The MV of S company shares at the date of acquisition was Rs. 4.90 per share.

f) Consolidated goodwill is subjected to an annual impairment review; the recoverable value of Net Assets of S is Rs. 28 million at the current reporting date.

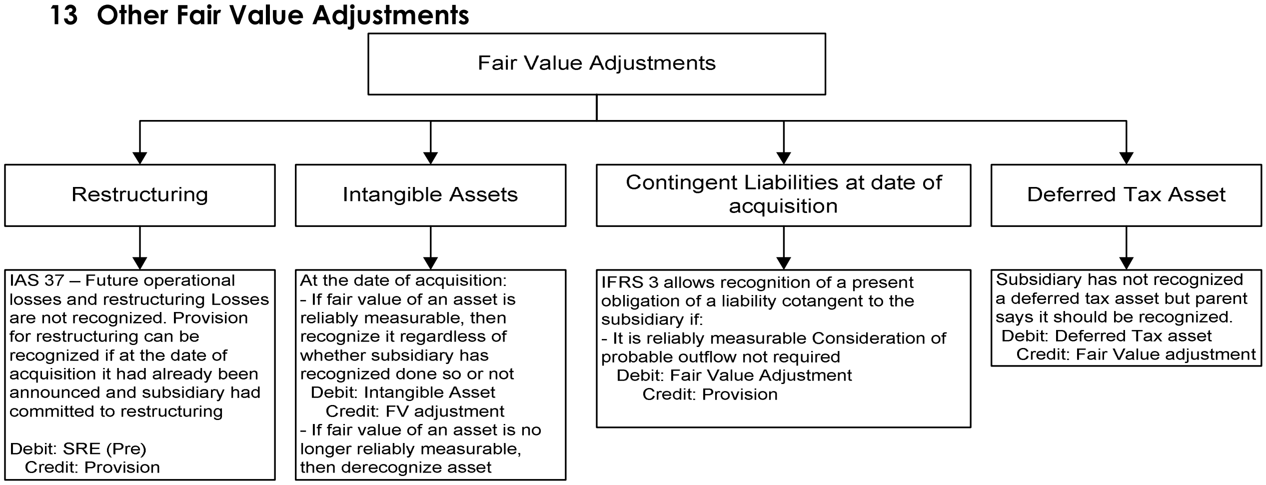
Required: -

Prepare the consolidated statement of financial position of P group on 31st March 20X3.

12 Expenses on acquisition



13 Other Fair Value Adjustments



Example 12

M/S Haseeb Limited acquired 75% M/S Saqib Limited on September 30, 2008 for Rs. 12 million by paying immediately Rs. 10 million to the former owners and agreed to pay the balance amount after one year. The discount rate Haseeb Limited uses for its present value calculation is 12%. The statements of financial position for both the companies for the year ended December 31, 2008 is as follows: -

	Haseeb Ltd. (Rs. 000)	Saqib Ltd. (Rs. 000)
Investment in Saqib Ltd	10,000	--
Property, plant and equipment	20,000	8,000
Current assets	15,000	6,000
	45,000	14,000
Share capital	15,000	6,000
Retained earnings b / f	10,000	3,000
Profit for the year	6,000	1,200
	31,000	10,200
Current liabilities	14,000	3,800
	45,000	14,000

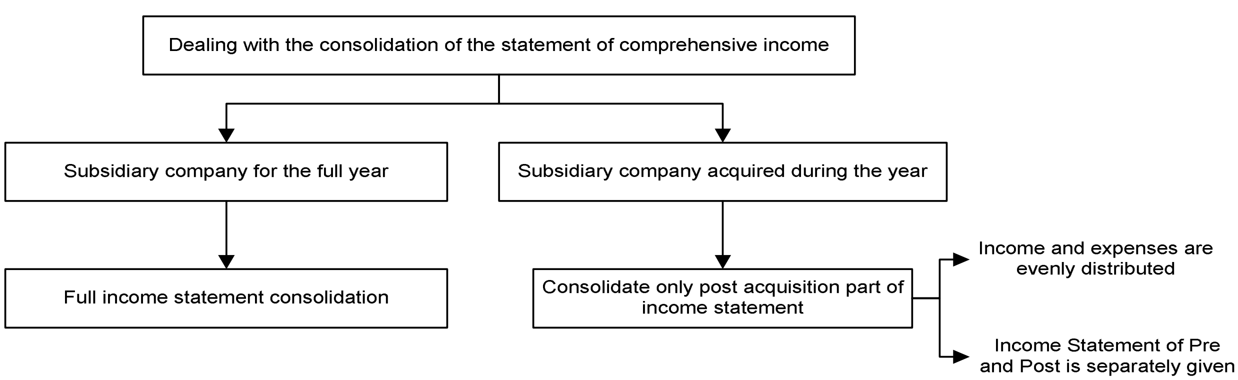
The following further information is also available: -

a) Haseeb Ltd only recorded the investment in Saqib Ltd at the amount of cash paid.
b) The fair value of property, plant and equipment of Saqib Ltd at the date of acquisition was Rs. 1,000,000 more than its carrying value which results in extra depreciation of Rs. 45,000 in the post acquisition period.
c) In the post acquisition period Saqib Ltd sold goods to Haseeb Ltd charging Rs. 100,000 as margin on goods. 55% of the goods are still lying with Hasseeb Ltd.
d) All revenues and expenses have accrued evenly through the year.
e) The group has the policy of measuring NCI at the proportionate share of net assets at the date of acquisition.
f) Saqib Ltd has a popular brand developed over many years in the past but has not been recognized in its books, a professional firm of valuers placed a value of Rs. 200,000 at the date of acquisition.

Required: -

a) Goodwill arising on acquisition
b) Consolidated balance sheet of Haseeb Ltd group
c) Statement of changes in equity of Haseeb Ltd Group

CONSOLIDATION OF STATEMENT OF COMPREHENSIVE INCOME



Working 1:

	Parent Co- Current year	Subsidiary Co- Post Acquisition	Adjustments	Consolidated Figures
Sales	Xxx	Xxx	SN1	xxx
Less: cost of sales	(xxx)	(xxx)	SN1-5	(xxx)
Gross profit	Xxx	Xxx		xxx

Selling and distribution	(xxx)	(xxx)	-	(xxx)
Administration	(xxx)	(xxx)	SN6	(xxx)
Operating profit	(xxx)	(xxx)		
Dividend Income – from subsidiary	xxx		(xxx)	-
Interest income – from subsidiary	xxx		(xxx)	-
Interest expense	(xxx)	(xxx)	xxx	(xxx)
Profit before tax	Xxx	Xxx	(xxx)	xxx
Tax expense	(xxx)	(xxx)		(xxx)
Share of profit from associate	-	-	xxx	xxx
Non-controlling interest (SN 7)		(x)	x	(xxx)
Profit attributable to group	Xxx	Xxx	(xxx)	xxx

Extended Working for the Retained Earnings Extract:

	Parent Co- Current year	**Subsidiary Co- Post Acquisition**	**Adjustments**	**Consolidated Figures**
Profit attributable to group	Xxx	xxx	(xxx)/xxx	Xxx
Parent – profit B/F	Xx	-	(xx)	Xxx
Subsidiary – Profit B/F		xxx SN9	(xxx)/xxx XN9	Xxx
Dividend – (SN10)	(xxx)	(xx)		(xxx)
	xxx	Xxx	Xxx	Xxx
	C/D Parent Co RE	C/D Subsidiary Co RE	Statement of FP Adjustments	Consolidated RE

SN1 – Intra Group Sales	Debit: Sales	Credit: Cost of Sales
SN2 – Unrealized Profit on Intra Group Sales	Debit: Cost of Sales	Credit: Closing Stock
SN3 – Extra Depreciation on Fair Value adjustment of depreciable assets of subsidiary	Debit: Cost of Sales	Credit: Asset
SN4 – Extra Depreciation on Intra Group Sale of Fixed Assets	Debit: Asset	Credit: Cost of Sales
SN5 – Gain on disposal on intra group sale of assets	Debit: Cost of Sales	Credit: Asset
SN6 – Impairment of goodwill	Debit: Cost of Sales	Credit: Goodwill

SN7 – Adjustment Profit and allocate value of NCI		
Profit after tax		xx
Less:	Unrealized Profit on closing stock if subsidiary company is seller	(xx)
	Gain on sale of fixed assets if subsidiary company is seller	(xx)
	Extra depreciation because of fair value adjustment of depreciable assets (if fair value note recorded in S Co. books)	(xx)
Add:	Extra Depreciation on intra group sale of FA (S.co is Buyer)	Xx
Adjusted Profit		Xx
Allocate NCI their share of the profit	- Loss Share Debit: NCI Credit: P&L Note: We are allocating subsidiary's profit - Profit share Debit: P&L Credit: NCI	

SN8 – Only the group share of brought forward post acquisition profits
SN9 – All prior year adjustment on profit/loss
SN10 – Only the dividend paid out by the parent will appear in the extract

Q-1 Highmore acquired 75% of the ordinary shares of Slowmore on that company's incorporation on June 01, 2004. The summarized statements of comprehensive income of the two companies for the year ending May 31, 2009 are set out below:

	Highmore	Slowmore
Income statement	**Rs.**	**Rs.**
Sales revenue	75,000	38,000
Cost of sales	30,000	20,000
Gross profit	45,000	18,000
Administrative expenses	14,000	8,000
Profit before tax	31,000	10,000
Taxation	10,000	2,000
Profit after tax	21,000	8,000
Other comprehensive income		
Gain on AFS financial assets	50,000	30,000
Revaluation surplus during the year	100,000	20,000
	150,000	50,000
Total comprehensive income	171,000	58,000

Required: Prepare consolidated statement of comprehensive income for the year ended May 31, 2009?

Q-2 Highmore acquired 80% of the ordinary shares of Slowmore on 1 October2009. The summarized statements of comprehensive income of the two companies for the year ending 31 December 2009 are set out below. The incomes and expenses have accrued evenly during the year.

	Highmore	Slowmore
	Rs.	**Rs.**
Sales revenue	75,000	60,000
Cost of sales	30,000	36,000
Gross profit	45,000	24,000
Administrative expenses	14,000	8,000
Profit before tax	31,000	16,000
Taxation	10,000	4,000
Profit after tax	21,000	12,000

Required: Prepare consolidated statement of comprehensive income for the year ended 31 December 2009?

Q-3 Highmore acquired 100% of the ordinary shares of Slowmore some year ago. The Statements of Comprehensive Income for year ending May 31, 2009 are given hereunder: -

	Highmore	Slowmore
	Rs.	**Rs.**
Operating Profit	450	200
Dividend from Slowmore	50	--
Profit before tax	500	200
Taxation	150	80
Profit after tax	350	120

Required: Prepare consolidated statement of comprehensive income for the year ended May 31, 2009?

Q-4 Highmore has owned 100% of Slowmore for a number of years. The income statements of the individual companies are shown below. When Highmore acquired the shares of Slowmore, Slowmore's retained earnings were Rs.4,000. Other points are as follows: -

1. Highmore has not accounted for Slowmore's dividend.
2. Higmore sold goods costing Rs.10,000 to Slowmore for Rs.15,000.
3. At the statement of financial statement date 31 December 2009 20% of goods remained un-sold by Slowmore.
4. Goodwill has impaired by Rs.2,000 during the current year.
5. Impairment of Good will prior to the year ending 31 December 2009 totaled Rs.10,000.

Statement of comprehensive Income for the year ended 31 December 2009

	Highmore Rs.	Slowmore Rs.
Sales revenue	400	280
Cost of sales	270	190
Gross profit	130	90
Distribution expenses	20	10
Administrative expenses	30	15
Profit before tax	80	65
Taxation	17	11
Profit after tax	63	54
Retained earnings		
Retained earnings brought forward	11	7
Profit for the year	63	54
	74	61
Dividends	(40)	(30)
Retained earnings carried forward	34	31

Required: Prepare consolidated statement of comprehensive income and consolidated statement of changed in equity?

Q-5 Highmore acquired80% of Slowmore shears two years ago.

Notes

a.) Slowmore sold goods costing Rs.20,000 to Highmore for Rs.30,000.

b.) At the reporting date 31 December 2009 60% of goods remained unsold.

c.) Highmore has not accounted for Slowmore's dividends.

d.) At the date of acquisition, Slowmore's retained earnings were Rs.20,000.

e.) Goodwill has suffered an impairment loss of Rs.5,000 during the current year. The non- controlling interest is being valued on a proportionate share of net assets basis.

Statement of comprehensive income for the year ended 31 December 2009

Income statement	Highmore Rs.	Slowmore Rs.
Sales revenue	640	330
Cost of sales	410	200
Gross profit	230	130
Administrative expenses	35	12
Distribution expenses	70	54
Profit before tax	125	64
Taxation	26	10
Profit after tax	99	54
Other comprehensive income		
Fair value gain on AFS investments	30	(20)
	30	(20)
Total comprehensive income	129	34
Retained earnings brought forward	29	35
Total comprehensive income	129	34
	158	69
Dividends	(82)	(40)
Retained earnings carried forward	76	29

Required: Prepare consolidated statement of comprehensive income and show the analysis of retained earnings in the consolidated statement of changes in Equity.

Q-6 Highmore acquired 60% of the ordinary shares of Slowmore. At that time shareholders equity was Rs. 57,000. No ordinary shares have been issued since that time. Highmore also provided 50%of Slomore's loan. The statements of comprehensive income and extract of statements of changes inequity of the two companies are shown below.

Statement of comprehensive income for year ending 31 December 2009

	Highmore	**Slowmore**
Income statement	**Rs.**	**Rs.**
Operating profit	100,500	30,000
Investment income from ordinary shares in Slowmore	3,000	
Interest income from Slowmore	2,500	--
Interest expenses	(7,000)	(5,000)
Profit before tax	99,000	25,000
Taxation	(38,000)	(10,000)
Profit after tax	61,000	15,000
Statement of changes in equity		
Balance brought forward	148,000	63,000
Net profit for the year	61,000	15,000
Dividend – ordinary	(10,000)	(5,000)
Balance at the end of the year	199,000	73,000

Notes: -

a) At the beginning of the year Highmore sold fixed asset having carrying value of Rs. 5,000 for Rs. 7,000 to Slowmore. The asset was having remaining useful life of five years at the date of sale and was being depreciated on straight line basis.

b) Slowmore sold goods costing Rs. 10,000 to Highmore at markup of 20%. All the goods remained unsold by Highmore at the year end.

c) The NCI was measured at fair value at the date of acquisition and goodwill of Rs. 500 has been impaired in the current year.

d) Slowmore incurred an expense of Rs. 1,000 on developing a new production process and recognized that as an intangible asset in its separate financial statements. The management of Highmore has decided to discontinue the further development as the market competition is strong in this area. Slowmore has not derecognized the expense in its separate financial statements.

Required: Prepare consolidated statement of comprehensive income and extract from the statement of changes in Equity for the Highmore group?

Q-7 Draft statements of comprehensive income and statements of changes in Equity of Highmore and its subsidiary Slowmore for the year ended 31 December 2009 are shown below.

Statement of comprehensive income for year ending 31 December 2009

	Highmore	**Slowmore**
	Rs.	**Rs.**
Sales revenue	319,600	216,800
Cost of sales	(158,400)	(123,200)
Gross profit	161,200	93,600
Administrative expenses	(54,000)	(32,000)
Operating profit	107,200	61,600
Investment income from ordinary shares in Slowmore	9,000	
Investment income from preference shares in Slowmore	1,600	
Interest income	2,000	3,000
Profit before taxation	119,800	64,600
Taxation	(58,800)	(28,600)
Profit after tax	61,000	36,000

Retained earnings brought forward	266,800	107,200
Profit for the year	61,000	36,000
Ordinary dividend	(30,000)	(20,000)
Preference dividend	(12,000)	(8,000)
Retained earnings carried forward	285,800	115,200

1. On 1 July 2009 Highmore Acquired 90% of Slowmore ordinary share capital and 40%of its preference share capital.
2. Slowmore's cost of sales includes a depreciation charge on some plant and equipment for the year ending 31 December 2009 of Rs.6,000. At 1 January 2009 this plant and equipment (which was two years old at that time) had a book value of Rs.18,000. When bought its useful life was 5 years. At the 1 July 2009, the fair value of this plant based on replacement cost was Rs.25,000. The useful life of plant was unchanged.
3. The Slowmore has not recognized an internally generated brand in its separate financial statements at the date of acquisition. The fair value of this brand at the date of acquisition was Rs. 15,000 and expected remaining life of 5 years. The group uses straight line method for amortizing such brands.
4. Highmore has not provided Slowmore with any of its loan capital.
5. The revenue of Highmore includes Rs.38,000 in respect of goods sold to Slowmore at a price that yielded a profit of 20 percent on selling price. These sales were made after acquisition. Rs.2,000 of these goods was in the closing inventory of Slowmore.

Required: Prepare consolidated statement of comprehensive income and extract from the statement of changes in Equity for the Highmore group?

Q-8 M/S Haseeb Limited acquired 75% M/S Saqib Limited on September 30, 2008 for Rs. 12 million by paying immediately Rs. 10 million to the former owners and agreed to pay the balance amount after one year. The discount rate Haseeb Limited uses for its present value calculation is 12%. The profit and loss account for both the companies for the year ended December 31, 2008 is as follows: -

	Haseeb Ltd. (Rs. 000)	**Saqib Ltd. (Rs. 000)**
Revenue	10,000	5,000
Cost of sales	(6,500)	(4,000)
Gross profit	3,500	1,000
Operating cost	(1,500)	(400)
Operating profit	2,000	600
Tax expense	(450)	(200)
Profit after tax	1,550	400
Statement of changes in equity extract		
Share capital	20,000	5,000
Retained earnings on January 01, 2008	15,000	7,500

The following further information is also available: -

a) The fair value of property, plant and equipment of Saqib Ltd at the date of acquisition was Rs. 1,000,000 more than its carrying value which results in extra depreciation of Rs. 45,000 in the post acquisition period.

b) In the post acquisition period Saqib Ltd sold goods to Haseeb Ltd valuing Rs. 250,000 charging Rs. 100,000 as margin on goods. 55% of the goods are still lying with Hasseeb Ltd.

c) All revenues and expenses have accrued evenly through the year.

d) The impairment loss on goodwill is 25% of the amount determined at the date of acquisition.

Required: -

a) Goodwill arising on acquisition

b) Consolidated Profit and loss account of Haseeb Ltd group

c) Statement of changes in equity of Haseeb Ltd Group