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Consolidation

AAT Level III
FAR - Financial Reporting

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ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,
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JAYASEKERA MANAGEMENT CENTRE (PVT) LTD
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AAT Level 03

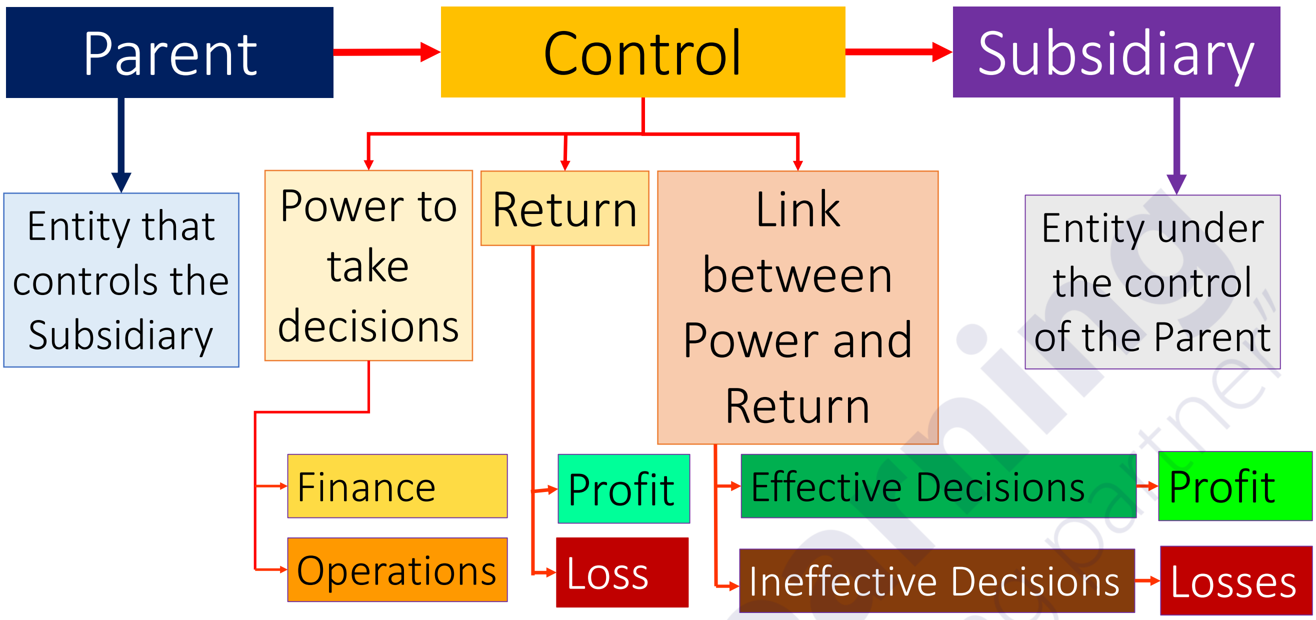
Financial Accounting and Reporting

Sandeepa Jayasekera

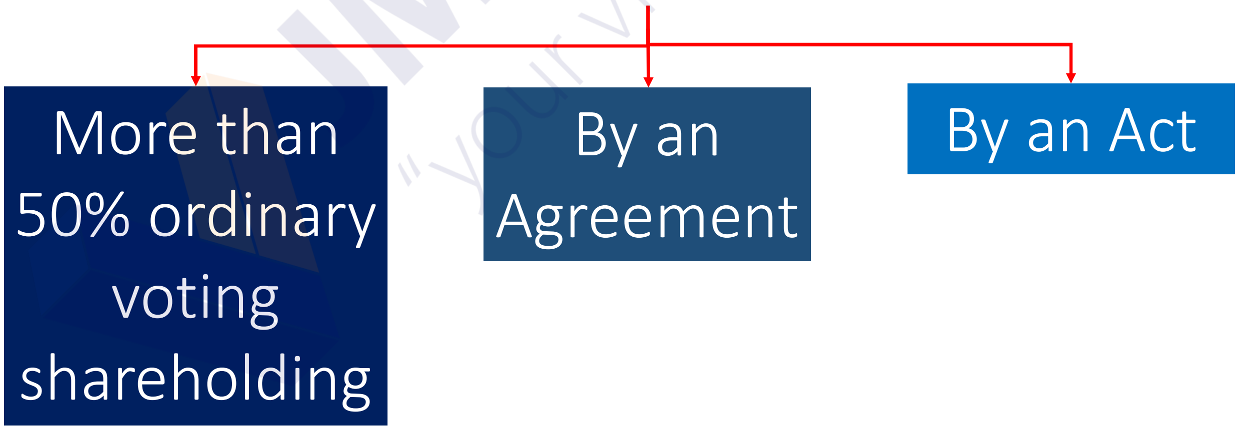
B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, Reading for MBA (PIM-SJP).

Consolidation

What is the meaning of Acquiring another Entity?



How to obtain Control?



What are Consolidated Financial Statements?

Parent's Financials

Subsidiary's Financials

Consolidated Financials prepared by adding line by line

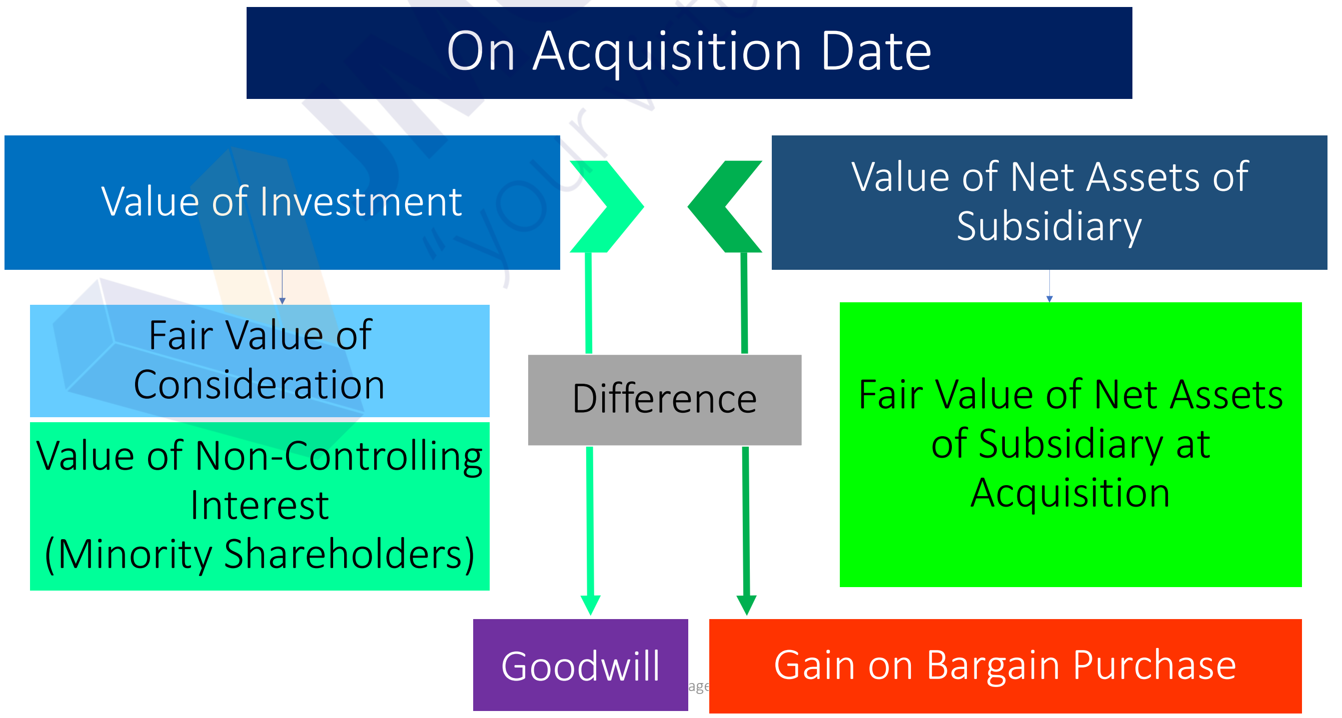
To provide information about Group's overall financial position and performance to Parent's shareholders

If Parent Controls a Subsidiary, Preparation of Consolidated Financials for Parent's Group is a Must!

All the following criteria shall be satisfied to get exempted from preparing Consolidated Financial Statements

- Owners agree for not preparing Consolidated Financials
- Absence of Quoted Debt or Equity Instruments
- Not in the Process of getting Listed
- Ultimate or Intermediate Parent prepares and publish Consolidated FS

Goodwill on Acquisition



How to Calculate Goodwill?

Value of Investment	Difference	Value of Net Assets of Subsidiary
Step 01 Calculate the Fair Value of Consideration		Step 02 Calculate the Fair Value of Net Assets of Subsidiary
Step 03 Calculate the Value of Non-Controlling Interest		Step 04 Calculate the Goodwill

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Fair Value of Consideration

Items included in Consideration

- Cash (Face Value)
- Assets Transferred (Fair Value)
- Own Shares issued by Parent (Fair Value)

Items Excluded from Consideration

- Transaction Cost
  - Legal fees
  - Documentation cost
  - Broker charges
- Investments made after the Acquisition

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Question 01

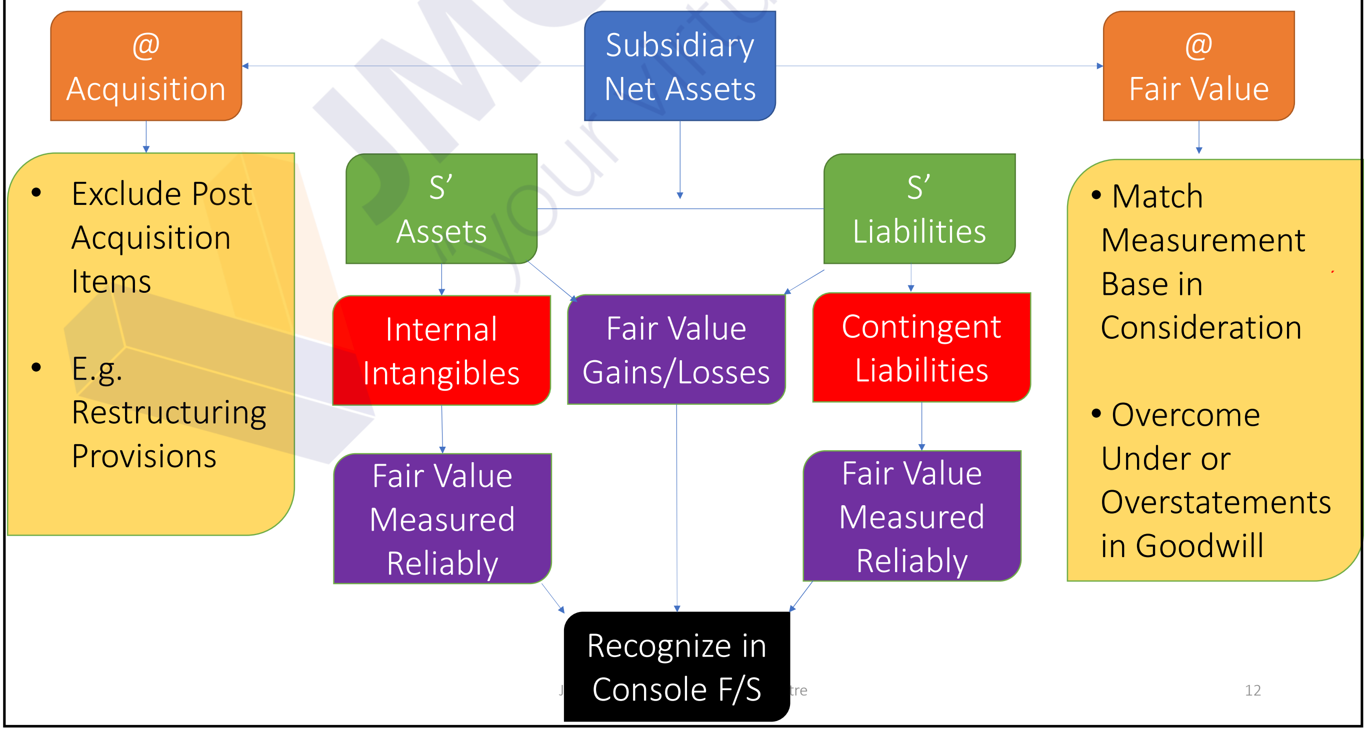
Chamara PLC purchased 100% of the ordinary voting shares of Samitha PLC on 01.04.20X9 by paying a consideration of Rs.2,000,000/-. The net assets of Samitha PLC were as follows:

Stated Capital - Ordinary shares	1,250,000
General Reserve	300,000
Retained Earnings	150,000

The book value of net assets of Samitha PLC was equivalent to its fair value.

Required
Calculate the Goodwill or the Gain on bargain purchase.

Fair Value of Subsidiary's Identifiable Net Assets



Question 02

Adhoc PLC acquired all shares of Bottleneck PLC on 01.04.20X9 by paying a consideration of Rs. 1,465,000/-. The Net assets of Bottleneck PLC were as follows:

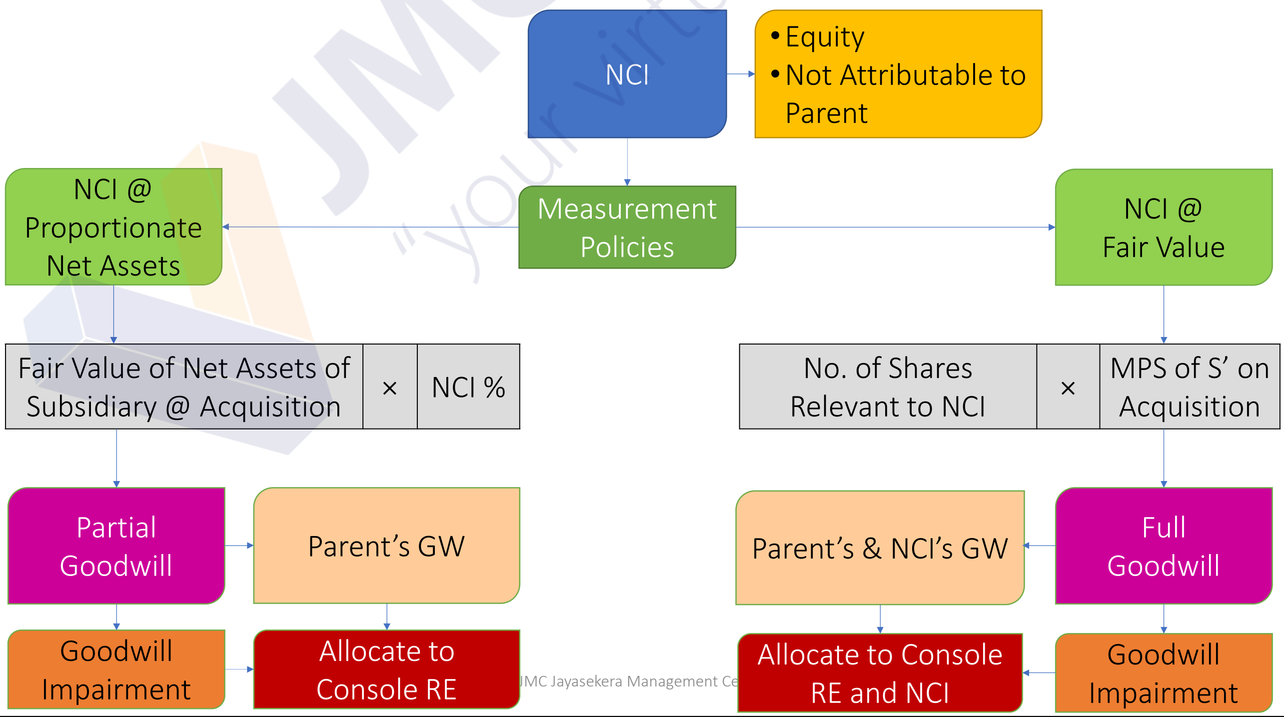
Stated Capital - Ordinary shares	840,000
General Reserve	265,000
Retained Earnings	110,000

The fair value of net assets of Bottleneck PLC was estimated to be in excess of Rs. 100,000/-. The increase in the fair value was due to a revaluation of a land.

Required

Calculate the Goodwill or Gain on bargain on purchase.

Non-Controlling Interest



Question 03

Waruni PLC purchased 75% of the ordinary shares of Hiruni PLC on 01.04.20X9 by paying a consideration of Rs.982,500/-. On that day Hiruni PLC's net assets were as follows:

Stated Capital	800,000
General Reserve	300,000
Retained Earnings	100,000

The fair value of the net assets was Rs.1,250,000/-. The increase in net assets was as a result of a fair value gain in lands.

Required

Calculate the Goodwill or Gain on bargain purchase.

Question 04

Angel PLC acquired 75% of the ordinary shares of Gaya PLC on 01.04.20X9 by paying a consideration of Rs.1,260,000/-. On that day, the net assets of Gaya PLC was as follows:

Stated Capital	1,000,000
General Reserve	400,000
Retained Earnings	200,000

There were 112,000 shares in issue in Gaya PLC. The Market price per share of Gaya on acquisition was Rs.15/-.

Question 04

Calculate Goodwill for the following 2 cases:
1- If the non-controllable interest is valued at proportionate share of net assets.
2- If the non-controllable interest is valued at fair value.

If the Goodwill got impaired by 25%, show the double entries for the above two scenarios.

Question 05

Nada PLC bought 80% of the ordinary shares of Rajarata PLC on 01.04.20X9 by paying a consideration of Rs.1,300,000/-. The net assets of Rajarata PLC on that day were as follows:

Stated capital	820,000
General Reserve	400,000
Retained Earnings	180,000

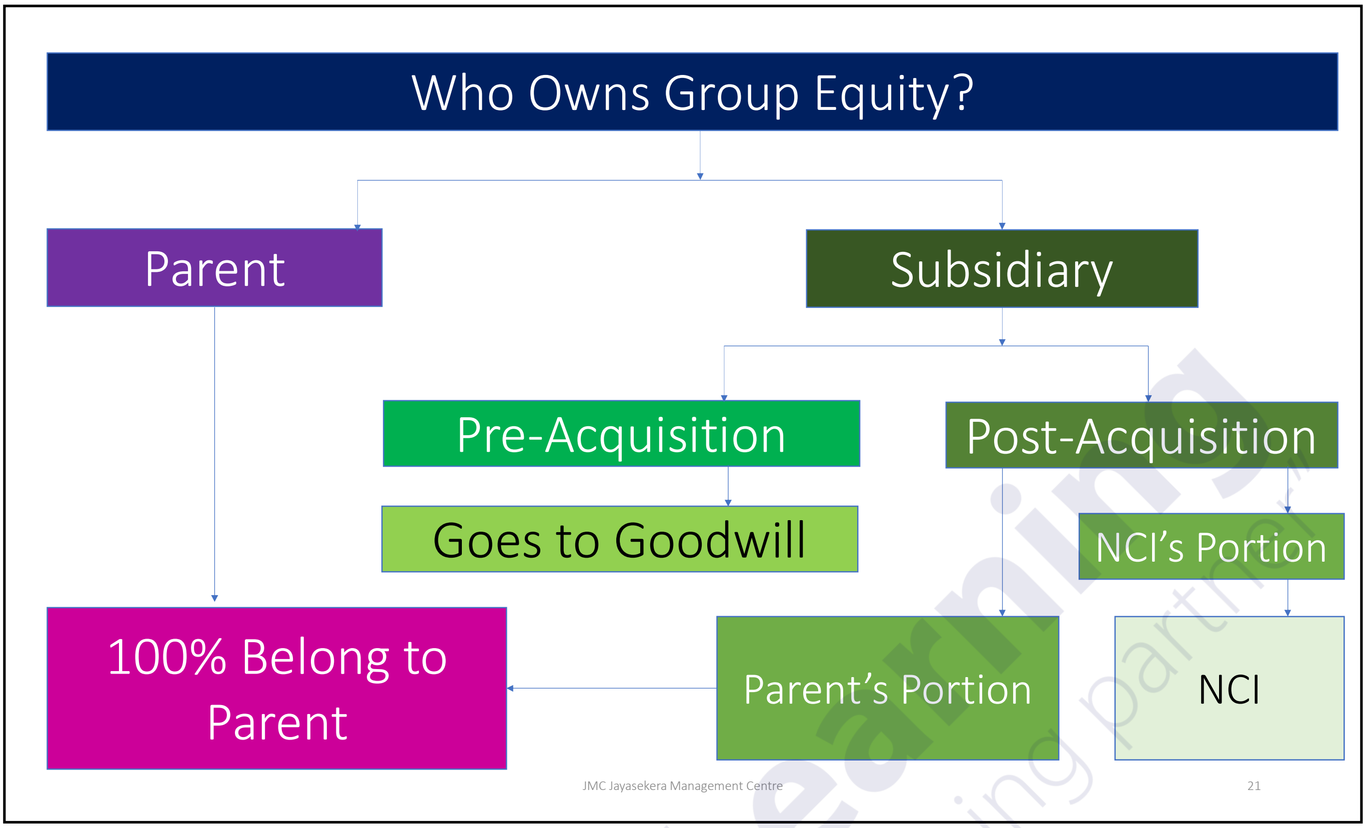
The fair value of net assets of Rajarata PLC was in excess Rs. 200,000/- due to an increase in fair value of the land on that day. There were 125,000 shares in issue in Rajarata PLC. The market value per share of Rajarata PLC at acquisition date was Rs.13/-.

Question 05

Calculate Goodwill for the following 2 cases:
1- If the non-controllable interest is valued at proportionate share of net assets.
2- If the non-controllable interest is valued at fair value.

If the Goodwill got impaired by 20%, show the double entries for the above two scenarios.

Consolidated Statement Financial Position



Who Owns Group Equity?
Parent
Subsidiary
Pre-Acquisition
Post-Acquisition
Goes to Goodwill
NCI's Portion
100% Belong to Parent
Parent's Portion
NCI
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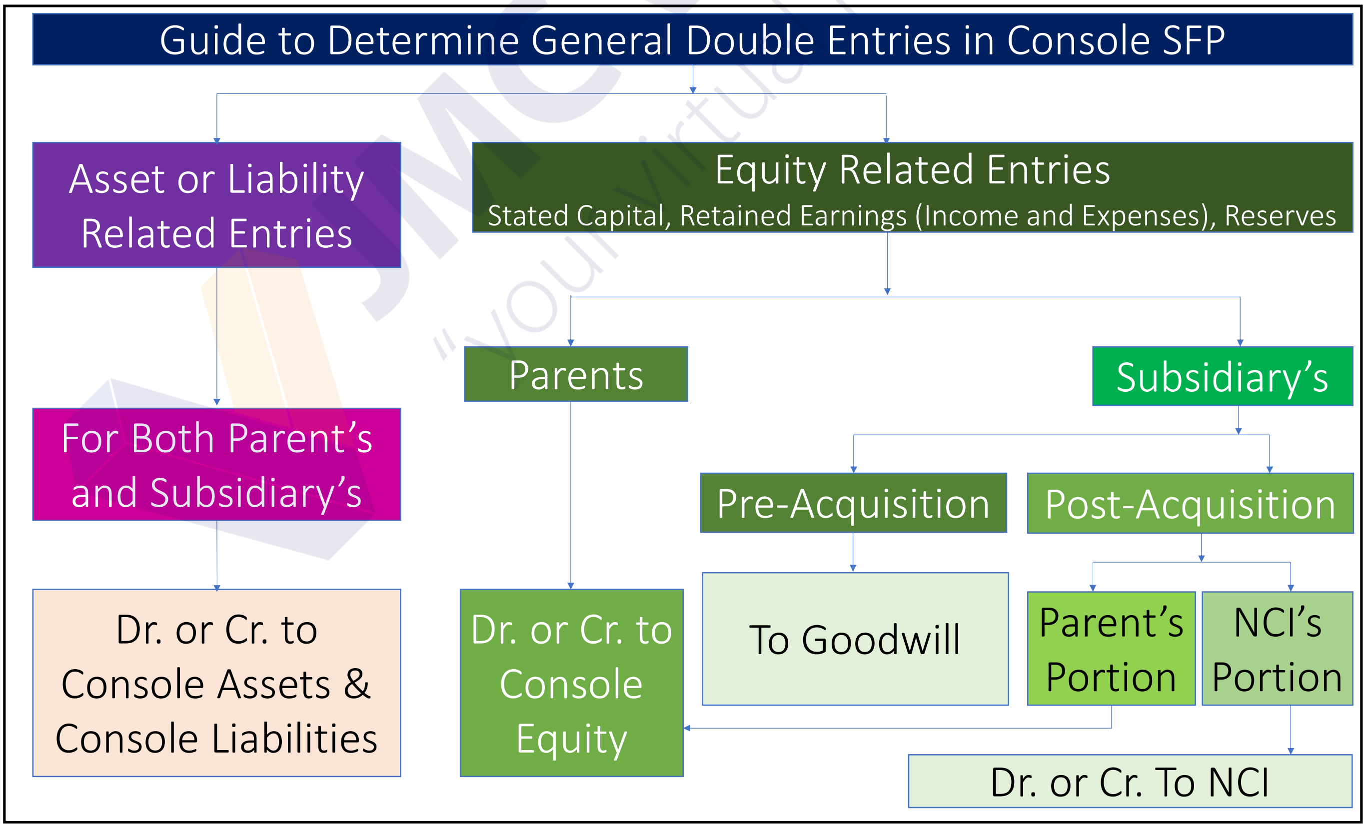


Guide to Determine General Double Entries in Console SFP
Asset or Liability Related Entries
Equity Related Entries
Stated Capital, Retained Earnings (Income and Expenses), Reserves
Parents
Subsidiary's
For Both Parent's and Subsidiary's
Pre-Acquisition
Post-Acquisition
Dr. or Cr. to Console Assets & Console Liabilities
Dr. or Cr. to Console Equity
To Goodwill
Parent's Portion
NCI's Portion
Dr. or Cr. To NCI

General Rules in Preparing Console Statement of Financial Position

- Goodwill as an Intangible Asset
- NCI Presented under Equity
- Share Capital Reflect only Parent's Share Capital
- Uniform Accounting Policies shall be applied
- Parent and Subsidiary Balances Added in Full
- Other Consolidation Adjustments
  - Inter-Company Balance Elimination
  - Unrealized Profits in Inventory and PPE
  - Fair Value Adjustments on Investment in Subsidiary
  - Preference Share Investments
  - Dividends

Steps to Prepare the Console SFP

01. Glance Through
- Read the Requirement
- Read and understand the question
- Highlight Important Items

02. Draft Statements
- Console SFP

03. Workings

04. Line by line additions

Formats Used in Preparing Console SFP

Console Statement of Financial Position

[Name of Parent] Group
Consolidated Statement of Financial Position
As at __________
Rs.000'

Non-Current Assets		
Property plant and equipment		
Intangible assets		
Goodwill on Subsidiary		
Current Assets		
Inventories		
Trade and other receivables		
Cash and cash equivalents		
Total Assets		

Console Statement of Financial Position

Equity and Liabilities		
Equity		
Stated capital		
Retained earnings		
Other components of equity		
Equity attributable to parent company shareholders		
Non-controlling interest		
Total Equity		
Non-Current Liabilities		
Interest bearing loans		
Deferred tax liabilities		
Current Liabilities		
Trade and other payables		
Bank overdraft		
Total Liabilities		
Total Equity and Liabilities		

Other Consolidation Adjustments

Intercompany Balance Elimination

Transactions between group will result in receivables and payables. Such shall be eliminated in full.

Understanding the Concept

P

Transactions
- Sale of Goods
- Rendering of Services
- Providing Loans
- Renting out Premises
- PPE Sale etc.

S

Inter-Company Balances in Individual Financials

Receivables in One Entity

Payables in Other Entity

ELIMINATED in Consolidated Financial Statements

To Overcome Overstatements in Group Assets and Liabilities

Logic
- Group = Parent + Subsidiaries
- Group is a Single Economic Entity
- It Can't have Payables and Receivables to Itself

Steps to Eliminate Intercompany Balances

Identify Intercompany Balances in Individual Financials

↓

Are Those Balances Tallying with Each Other?

Yes → Eliminate Intercompany Balances

No → Adjust Cash in Transits if any
Dr. Console Cash
Cr. Intercompany Receivables

Adjust Goods in Transit if any
Dr. Console Inventory
Cr. Intercompany Receivables

↓

Eliminate Intercompany Balances
Dr. Intercompany Payables
Cr. Intercompany Receivables

Transit Items

Cash in Transit	Goods in Transit
• Cash Sent has not Received to Seller • Cheque Deposited has not Realized to Seller	• Goods Returned has not Received to Seller • Goods Sent has not Received by Buyer

Note
Goods in Transit includes the unrealized profits. This shall be eliminated in full

Unrealized Profits in Inventory

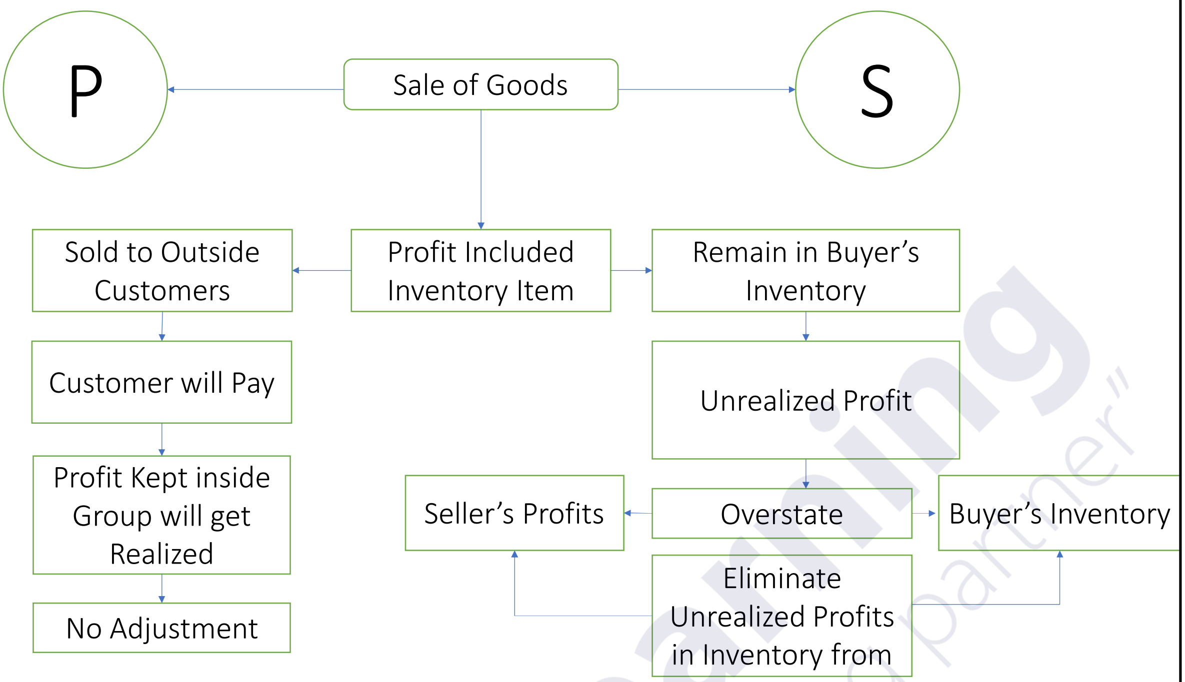
Unsold items in an inventory from a Sale of Goods between group will result in Unrealized profits. Such shall be eliminated in Full.

Understanding the Concept

Companies use 02 Different Pricing Methods in Transactions

- Pricing
  - Margin
    - Profit Kept on Selling Price
    - Profit/Selling Price X 100
    - E.g. Margin 20%
      Selling Price = Cost + Profit
      100 = 80 + 20
  - Markup
    - Profit Kept on Cost
    - Profit/Cost X 100
    - E.g. Markup 20%
      Selling Price = Cost + Profit
      120 = 100 + 20

Understanding the Concept



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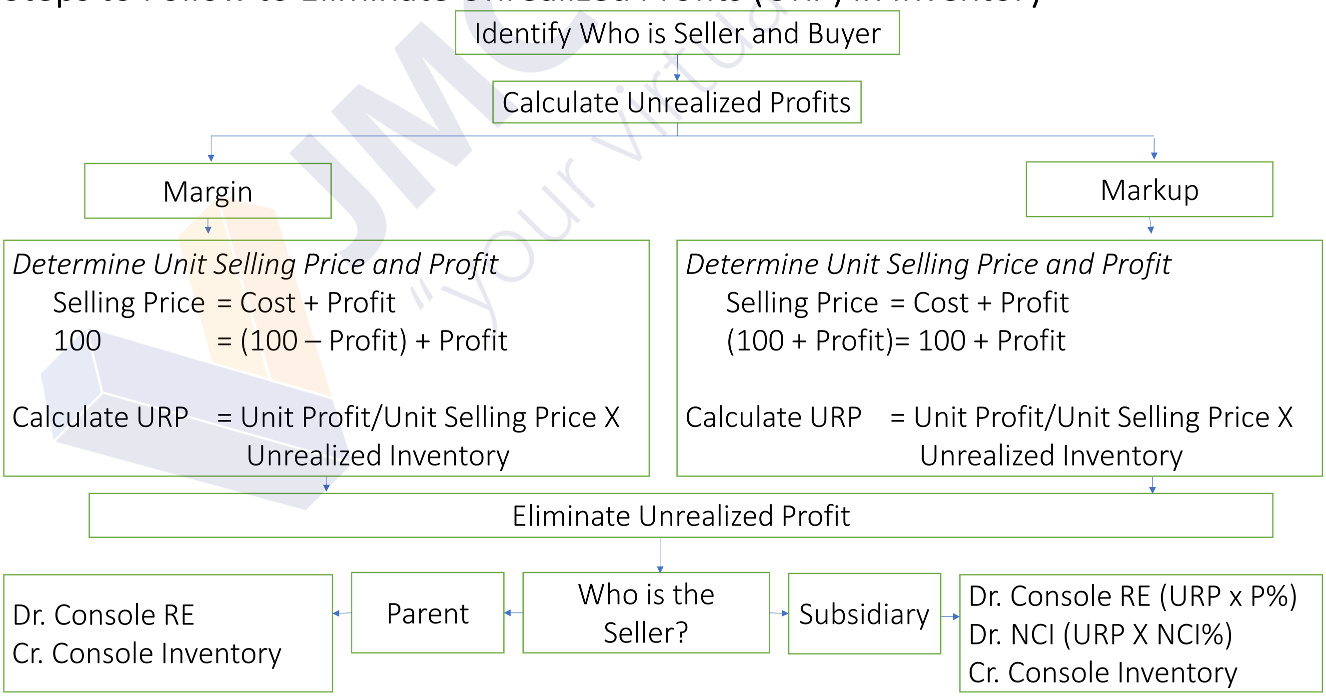
Steps to Follow to Eliminate Unrealized Profits (URP) in Inventory



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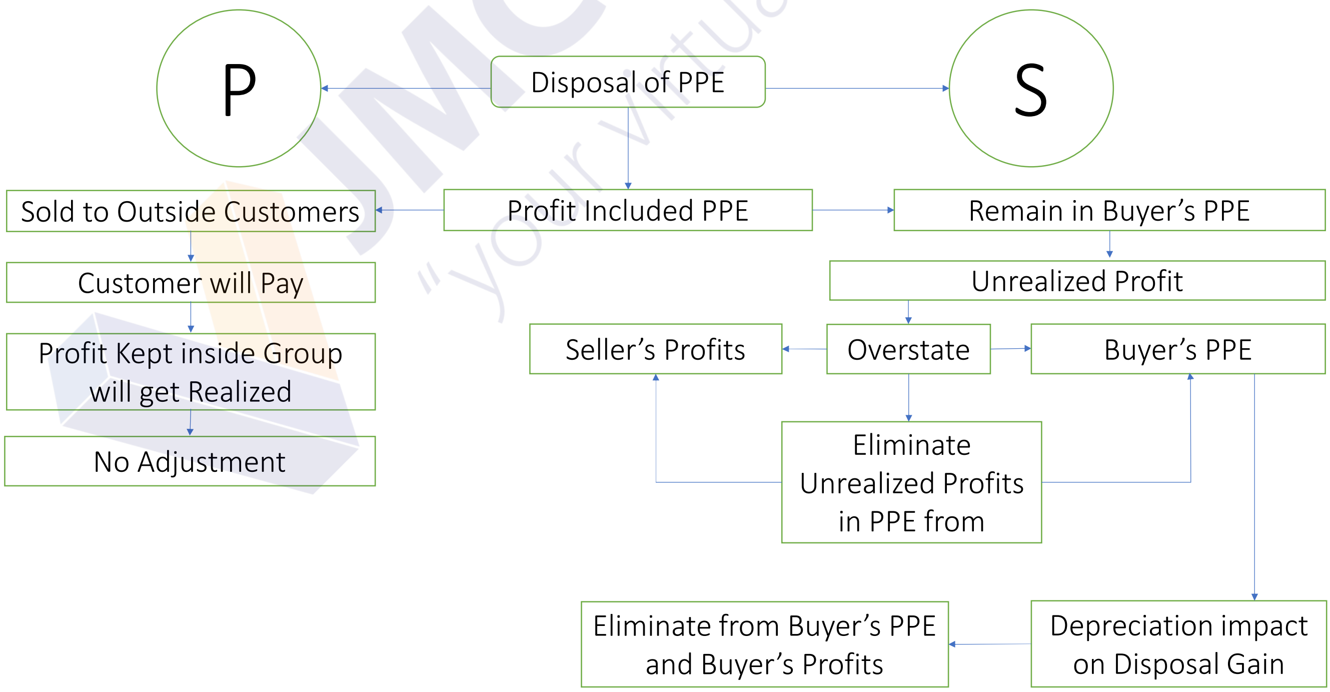
Unrealized Profits in Property Plant and Equipment

PPE disposals between group will result in Unrealized profits/losses and Depreciation impacts on it. Such shall be eliminated in full.

Understanding the Concept of Unrealized Profits in PPE



Steps to Follow to Eliminate Unrealized Profits and Depreciation on PPE

Identify Seller

Calculate Unrealized Profits

Disposal Proceed	XX
(-) Carrying Value	(XX)
Disposal Gain	XX

Eliminate Unrealized Profit

Who is the Seller?

- Parent
  - Dr. Console RE
  - Cr. Console PPE
- Subsidiary
  - Dr. Console RE (URP x P%)
  - Dr. NCI (URP X NCI%)
  - Cr. Console PPE

Identify Buyer

Calculate Depreciation on Unrealized Profits

Disposal Gain	XX (A)
Remaining Useful Life	X (B)
Period Used	X (C)
Depreciation on Disp. Gain	X (D = A / B X C)

Eliminate Depreciation on Unrealized Profit

Who is the Buyer?

- Subsidiary
  - Dr. Console PPE
  - Cr. Console RE (Dep on URP x P%)
  - Cr. NCI (Dep on URP X NCI%)
- Parent
  - Dr. Console PPE
  - Cr. Console RE

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Subsidiary Dividends

Parent's portion of Subsidiary Dividend Receivable and Payable are Intercompany Balances. This shall be eliminated in full.

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Steps to Follow to Eliminate Subsidiary Dividend

Subsidiary Dividend → Parent's Ownership % → Parent's Portion of Subsidiary Dividend

- Subsidiary Paid Parent Received
  - No Adjustment
- Subsidiary Paid Parent has not Received
  - Cash in Transit
    - Dr. C. Cash
      Cr. C. RE
- S' Recognized Div. Payable
  P' Recognized Div Receivable
  - Intercompany Balances Elimination
    - Dr. Dividend Payable
      Cr. Dividend Receivable
- S' Recognized Div. Payable
  P' Has Not Recognized Div Receivable
  - Correction Entry
    - Dr. Dividend Receivable
      Cr. Console RE
  - Intercompany Balances Elimination
    - Dr. Dividend Payable
      Cr. Dividend Receivable

NCI Portion of Dividends

NCI Portion of Dividends → Presented Separately under Current Liabilities

Question 01 – July 2018 Q09

Mega Trading Ltd. (MT) acquired 80% of the ordinary share capital of Tiny Toys Ltd. (TT) for Rs. 20 million on 01st April 2017. The Statements of Financial Position of MT and TT as at 31st March 2018 are as follows:

Rs.000	MT	TT
Assets:		
Non-Current Assets:		
Property, Plant and Equipment at cost	60,000	15,000
Accumulated Depreciation	(12,000)	(6,000)
Carrying Value	48,000	9,000
Investment in TT	20,000	
Current Assets:		
Inventories	15,100	18,000
Trade and Other Receivables	40,250	10,500
	55,350	28,500
Total Assets	123,350	37,500

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Question 01 – July 2018 Q09

Rs.000	MT	TT
Equity:		
Stated Capital – Ordinary Shares	78,000	20,000
Retained Earnings	8,750	4,600
	86,750	24,600
Non-Current Liabilities:		
Loan Term Loans	10,600	
Current Liabilities:		
Trade and Other Payables	15,100	10,500
Bank Loan	4,800	
Bank Overdraft	6,100	2,400
	26,000	12,900
Total Equity and Liabilities	123,350	37,500

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Question 01 – July 2018 Q09

The following additional information is also provided:

(1) As at the date of acquisition, the Retained Earnings of TT were Rs.1,200,000/-.

(2) Fair value of the non-controlling interest was Rs.5,000,000/- and the fair value of identifiable net assets of TT was equal to its book value as at the date of acquisition.

(3) On 01st April 2017, MT sold one of its delivery vans purchased on 31st March 2015 at a cost of Rs.2.5 million to TT for Rs.3 million. Both companies depreciate their Motor Vehicles over 5 years on the straight-line basis at cost.

(4) During the year, TT has sold goods for Rs.600,000/- to MT with a profit markup of 20% on cost. As at 31st March 2018, ½ of those goods were in the inventory of MT.

Question 01 – July 2018 Q09

(5) Trade receivables of TT included Rs.25,000/- which is due from MT for the sales transactions made during the year.

Using the above information, You are required to:

(a) Compute the goodwill arising from the consolidation. (05 marks)

(b) Prepare the Consolidated Statement of Financial Position as at 31st March 2018. (14 marks)

Question 02 – January 2019 Q09

The following Statements of Financial Position were extracted from Indochem PLC (ICL) and Takasago (Pvt) Ltd. (TL) as at 31st March 2018:

Rs.000	ICL	TL
Assets:		
Non-Current Assets:		
Property, Plant and Equipment at cost	55,000	15,000
Accumulated Depreciation	(12,000)	(6,000)
Carrying Value	43,000	9,000
Investment in TL	25,000	
Current Assets:		
Inventories	20,100	20,500
Short-term Loan given to TL	5,500	-
Trade and Other Receivables	34,750	10,500
Cash and Cash Equivalents	6,500	4,600
Total Assets	134,850	44,600

Question 02 – January 2019 Q09

The following Statements of Financial Position were extracted from Indochem PLC (ICL) and Takasago (Pvt) Ltd. (TL) as at 31st March 2018:

Rs.000	ICL	TL
Equity:		
Stated Capital – Ordinary Shares	82,000	20,000
Retained Earnings	15,750	6,700
Non-Current Liabilities:		
Loan Term Loans	10,200	
Current Liabilities:		
Trade and Other Payables	13,100	8,000
Bank Loan	5,200	
Short Term Loans obtained from ICL	-	5,500
Other Payables	8,600	4,400
Total Equity and Liabilities	134,850	44,600

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Question 02 – January 2019 Q09

The following additional information is also provided:

(1) ICL acquired 80% of the ordinary share capital of TL on 01st April 2017 for Rs.25 million.

(2) The fair value of non-controlling interest as at the date of acquisition was Rs. 4.42 million. As at the date of acquisition, retained earnings were Rs. 2.1 million and the fair value of identifiable net assets of TL was equal to its book value.

(3) As at 31st March 2018, TL held an unsold stock worth of Rs. 3 million bought from ICL. ICL has sold the goods to TL with a profit margin of 20% on selling price.

(4) TL has obtained a loan of Rs. 5.5 million on 01st April 2017 from ICL at the rate of 15% per annum. Interest for the year has been paid and no capital repayment was made during the year.

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Question 02 – January 2019 Q09

(5) Trade receivables of ICL included an amount of Rs.2.5 million receivable from TL. TL raised a cheque for Rs.1 million and sent it to ICL. ICL did not receive this cheque until 31st March 2018.

(6) Retained earnings of ICL includes an interim dividend of Rs. 1 million received from TL on 01st March 2018. Dividends were paid by TL using the profit for the year.

You are required to:

(a) Compute the Goodwill arising from the consolidation. (05 marks)

(b) Prepare the Consolidated Statement of Financial Position as at 31st March 2018. (14 marks)

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Question 03 – January 2020 Q09

The statements of Financial Position of Gajashakthi (Pvt) Ltd. (GPL) and Shakthi (Pvt) Ltd. (SPL) as at 31st March 2019 are as follows:

Rs.000	GPL	SPL
Assets:		
Non-Current Assets:		
Property, Plant and Equipment at cost	52,000	23,500
Accumulated Depreciation	(12,500)	(7,500)
Carrying Value	39,500	16,000
Investment in SPL	40,000	-
Current Assets:		
Inventories	13,100	27,900
Trade and Other Receivables	40,250	10,500
Cash and Cash Equivalents	2,300	1,100
	55,650	39,500
Total Assets	135,150	55,500

Question 03 – January 2020 Q09

The statements of Financial Position of Gajashakthi (Pvt) Ltd. (GPL) and Shakthi (Pvt) Ltd. (SPL) as at 31st March 2019 are as follows:

Rs.000	GPL	SPL
Equity and Liabilities:		
Equity:		
Stated Capital – Ordinary Shares	80,000	35,000
Retained Earnings	13,300	8,150
	93,300	43,150
Non-Current Liabilities:		
Loan Term Loans	16,200	-
Current Liabilities:		
Trade and Other Payables	20,250	11,400
Short Term Loans	5,400	950
	25,650	12,350
Total Equity and Liabilities	135,150	55,500

Question 03 – January 2020 Q09

The following additional information is also provided:

(1) GPL acquired 80% of ordinary share capital of SPL on 01st April 2018.

(2) Fair value of the non-controlling interest on the date of acquisition was Rs.7.72 million. As at the date of acquisition retained earnings of SPL were Rs. 6 million and the fair value of identifiable net assets of SPL was equal to its book value.

(3) As at 31st March 2019, SPL held inventory worth of Rs. 4.5 million purchased from GPL. GPL has sold the goods to SPL at a profit markup of 20% on cost. Further, SPL has a trade payable to GPL of 2.5 million which is equivalent to SPL receivable.

Question 03 – January 2020 Q09

(4) GPL has obtained a short-term loan of Rs. 4 million from SPL at the interest of 15% per annum on 01st April 2018. Though no capital repayments were made during the year interest on loan for the year was paid by GPL.

You are required to:

(a) Calculate the Goodwill arising from the consolidation. (05 marks)

(b) Prepare the Consolidated Statement of financial position as at 31st March 2019. (14 marks)

Question 04 – July 2020 Q09

The Statements of Financial Position of SUN PLC and MOON PLC as at 31st March 2020 are as follows.

Rs.000	SUN PLC	MOON PLC
Assets:		
Non-Current Assets:		
Property, Plant and Equipment – at cost	80,000	42,000
Accumulated Depreciation	(34,000)	(6,000)
Carrying Value	46,000	36,000
Investment in Moon PLC	40,000	-
Current Assets:		
Inventories	12,000	13,500
Trade Receivables	8,000	9,000
Cash & Cash Equivalents	2,000	2,500
Total Assets	108,000	61,000

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Question 04 – July 2020 Q09

Rs.000	SUN PLC	MOON PLC
Equity and Liabilities:		
Equity:		
Stated Capital – Ordinary Shares	70,000	40,000
Retained Earnings	16,700	8,000
Current Liabilities:		
Trade and Other Payables	21,300	13,000
Total Equity and Liabilities	108,000	61,000

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Question 04 – July 2020 Q09

The following additional information is also provided.

(1) SUN PLC acquired 80% of ordinary share capital of MOON PLC on 01st April 2019.

(2) Fair value of the non-controlling interest on the date of acquisition was Rs. 10 million. As at the date of acquisition, MOON PLC's retained earnings was Rs. 5 million and the fair value of identifiable net assets of MOON PLC was equal to its book value.

(3) On 01st April 2019, SUN PLC sold one of its motor vehicle purchased on 01st April 2018 at a cost of Rs. 4 million to MOON PLC for Rs. 5 million. Both companies depreciate their motor vehicles over 5 years on the straight – line basis at cost.

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Question 04 – July 2020 Q09

(4) During the month of March 2020, MOON PLC sold an inventory costing Rs. 3 million with a 20% profit margin on cost to SUN PLC. Of that, 50% of the stocks remained unsold at the warehouse of SUN PLC as at 31st March 2020. Further, the full amount on this transaction was recorded in trade receivables of MOON PLC and trade payables of SUN PLC.

You are required to:

(a) **Calculate** the Goodwill arising from consolidation. (03 marks)

(b) **Prepare** the Consolidated Statement of Financial Position as at 31st March 2020. (10 marks)

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Question 05 – July 2017 Q09

The following statements of financial position were extracted from the books of Mega Supplies (Pvt) Ltd. (MSL) and Smart Technologies (Pvt) Ltd. (STL) as at 31st March 2017:

Rs.000	Mega	Smart
Assets:		
Non-Current Assets:		
Property, Plant and Equipment – at cost	50,000	21,500
Accumulated Depreciation	(15,000)	(7,500)
Carrying Value	35,000	14,000
Investment in STL	20,000	-
	55,000	14,000
Current Assets:		
Inventories	12,100	10,900
Trade Receivables	36,400	9,600
	48,500	20,500
Total Assets	103,500	34,500

Question 05 – July 2017 Q09

Rs.000	Mega	Smart
Equity and Liabilities:		
Equity:		
Stated Capital – Ordinary Shares	40,000	15,000
Retained Earnings	22,500	14,600
	62,500	29,600
Non-Current Liabilities		
Long-Term Loan	20,400	0
Current Liabilities:		
Trade and Other Payables	5,500	2,500
Bank Overdrafts	15,100	2,400
	20,600	4,900
Total Equity and Liabilities	103,500	34,500

Question 05 – July 2017 Q09

The following additional information is also provided.

(1)On 01st April 2016, MSL acquired 80% of the ordinary share capital of STL.

(2) The fair value of the Property, Plant and Equipment of STL on the date of acquisition was Rs.19 million.

(3) On the date of acquisition, the fair value of the non-controlling interest was Rs.9 million and retained earnings that appeared in the books of STL were Rs.10 million.

(4) Both companies depreciate Property, Plant and Equipment at the rate of 20% per annum on the straight-line basis.

(5) During the month of March 2017, MSL sold a stock worth Rs.500,000/- at a profit markup on cost of 20% to STL out of which 25% of the stocks remained unsold as at 31st March 2017.

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Question 05 – July 2017 Q09

(6) Trade Receivables of MSL include Rs.200,000/- which is due from STL for transactions made during the year.

Using the above information, You are required to:

(i) Compute the Goodwill arising from the consolidation. (05 marks)

(ii) Compute the non-controlling interest as at 31st March 2017. (03 marks)

(iii) Prepare the consolidated statement of financial position as at 31st March 2017. (11 marks)

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