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Consolidated Statement of Financial Position

Chartered Accountancy
Corporate Level
Financial Reporting and Governance (FRG)

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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B.Sc. (Acct.) Hons. Gold medal winner, ACA, SAT, ACMA (SL), CIMA Passed Finalist, CA Prize winner for AFR subject and CAB II First in Order of Merit, CIMA Strategic Level Aggregate Prize winner, Reading for MBA (PIM - USJP).

Consolidated Means

- Parent (P')
- Subsidiary (S')

Therefore, consolidation principles such as line by line additions will be applicable only for investments in Subsidiaries only.

Statement of Financial Position

- Assets (A)
- Liabilities (L)
- Equity (E)

If only Console SFP is prepared double entries will be determined using statement of financial position line items

E.g. Credit sale - General Entry	***E.g. Cr. Purchase – Gen. Entry***	***E.g. Salary Exp. – General Entry***
Dr. Debtors	Dr. Purchases	Dr. Salary Exp.
Cr. Revenue	Cr. Creditors	Cr. Salary Payable
E.g. Credit sale - CSFP Entry	***E.g. Cr. Purchase - CSFP Entry***	***E.g. Salary Exp. – CSFP Entry***
Dr. Debtors	Dr. Retained Earnings	Dr. Retained Earnings
Cr. Retained Earnings	Cr. Creditors	Cr. Salary Payable

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Who owns the Equity in a Group?

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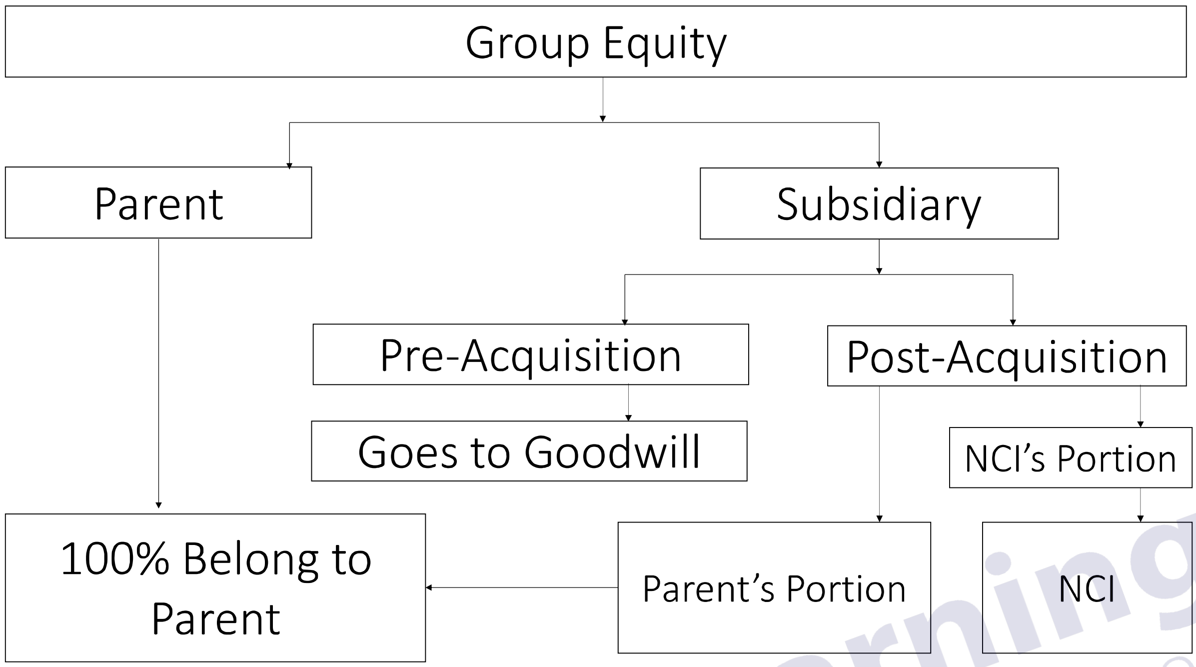
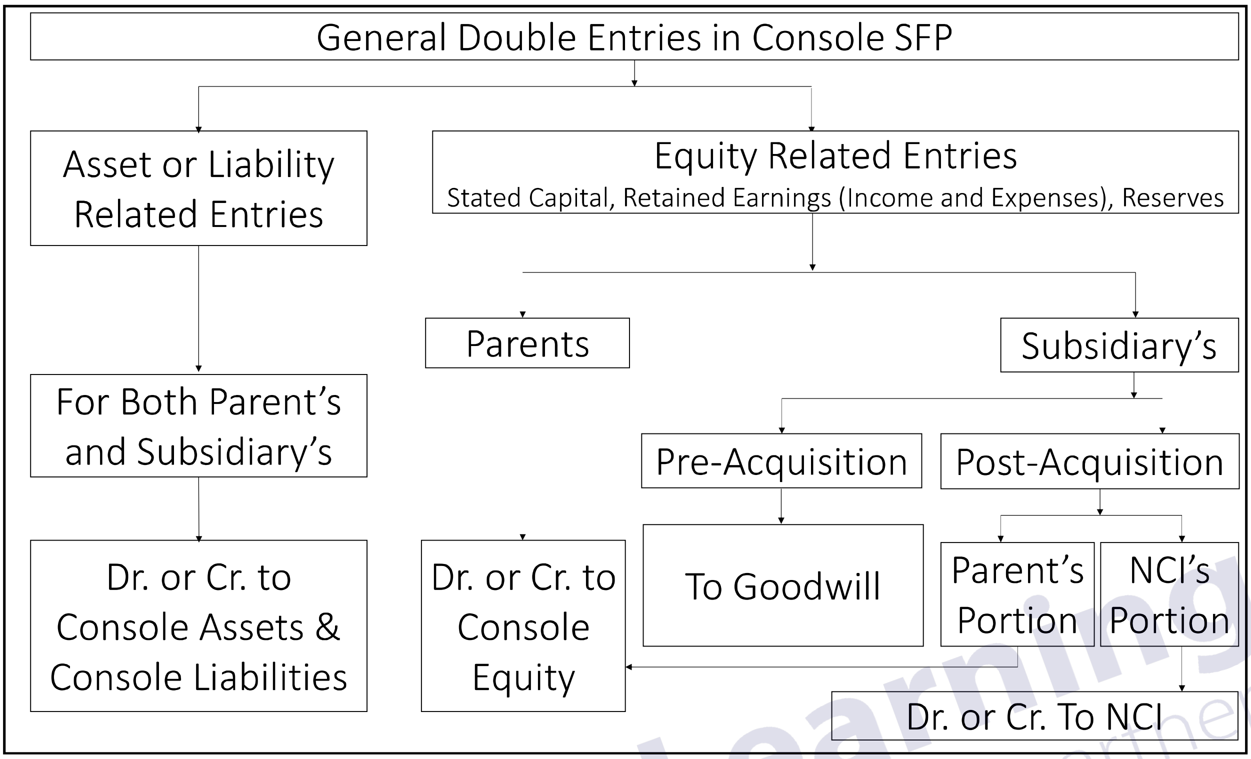


Guide to Determine Console Entries



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General Rules in Preparing Console Statement of Financial Position

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Goodwill as an Intangible Asset

NCI Presented under Equity

Share Capital Reflect only Parent's Share Capital

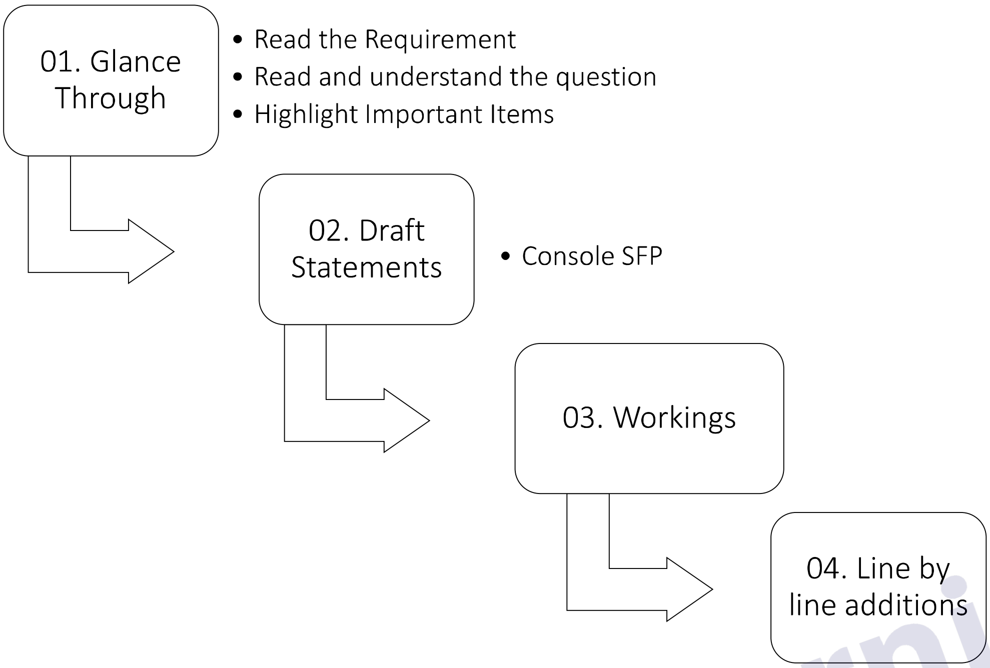
Uniform Accounting Policies shall be applied

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



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Formats Used in Preparing Console SFP

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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		
Investment in Associate		
Investment in Joint Venture		
Current Assets		
Inventories		
Trade and other receivables		
Cash and cash equivalents		
Total Assets		

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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		

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Question 11

The following summarized statements of financial position are provided for Carlos and Levis as at 31 December 20X8:

	Carlos	Levis
	LKR 000	**LKR 000**
Non-current assets	1,300	1,200
Investment in Levis	1,900	-
Current assets	200	450
Total Assets	**3,400**	**1,650**
Equity		
Share capital (Rs)	2,000	750
Retained earnings	1,250	300
Current liabilities	150	600
Total Equity and Liabilities	**3,400**	**1,650**

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Question 11

1. Carlos purchased 80% of Levis's equity shares on 1 January 20X6 for LKR 1.9 million when Levis's retained earnings were LKR 100,000.
2. It is group policy to measure the non-controlling interests at fair value at acquisition and the fair value of the non-controlling interests in Levis on 1 January 20X6 were LKR 400,000.
3. At this date Levis's non-current assets had a fair value of LKR 900,000/- and the assets had a remaining useful economic life of 5 years. Their book value at the date of acquisition was LKR 750,000.
4. Levis had an internally generated brand name. The valuation experts have assessed a fair value of LKR 100,000 for the brand name and remaining useful life of 10 years as of the acquisition date.
5. As at 31 December 20X8, an impairment loss of LKR 200,000 has arisen on goodwill.

Prepare the consolidated statement of financial position at 31 December 20X8

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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

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

- Cash Sent has not Received to Seller
- Cheque Deposited has not Realized to Seller

Goods in Transit

- Goods Returned has not Received to Seller
- Goods Sent has not Received by Buyer

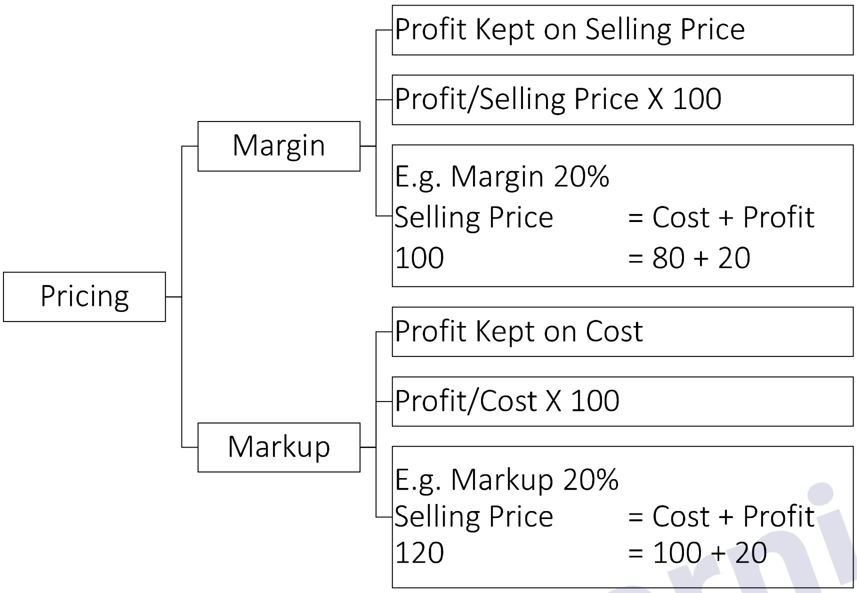
Note
Goods in Transit includes the unrealized profits. This shall be eliminated in full

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.

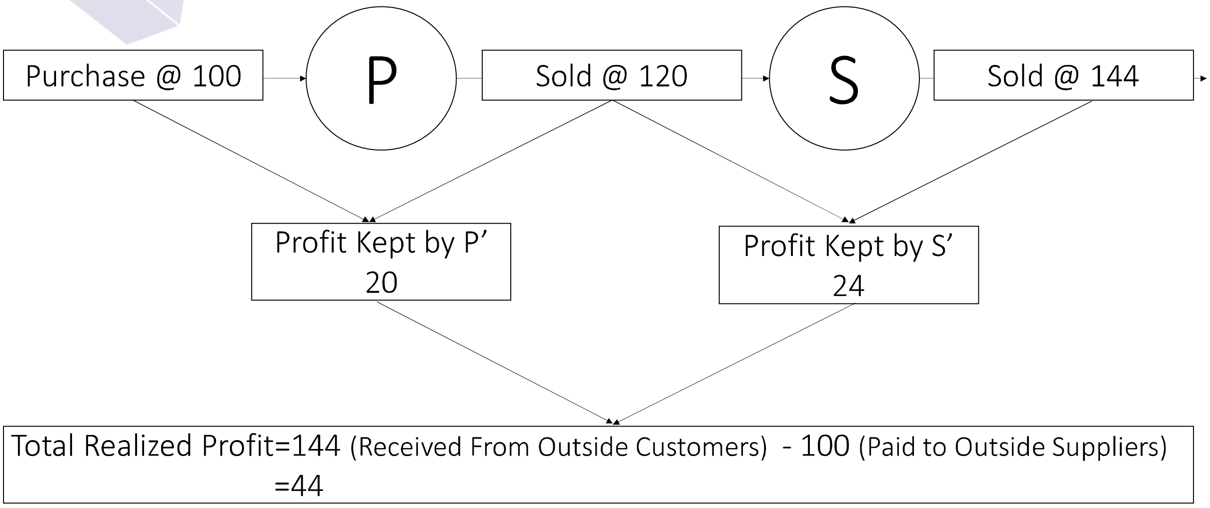
Understanding the Concept

Companies use 02 Different Pricing Methods in Transactions



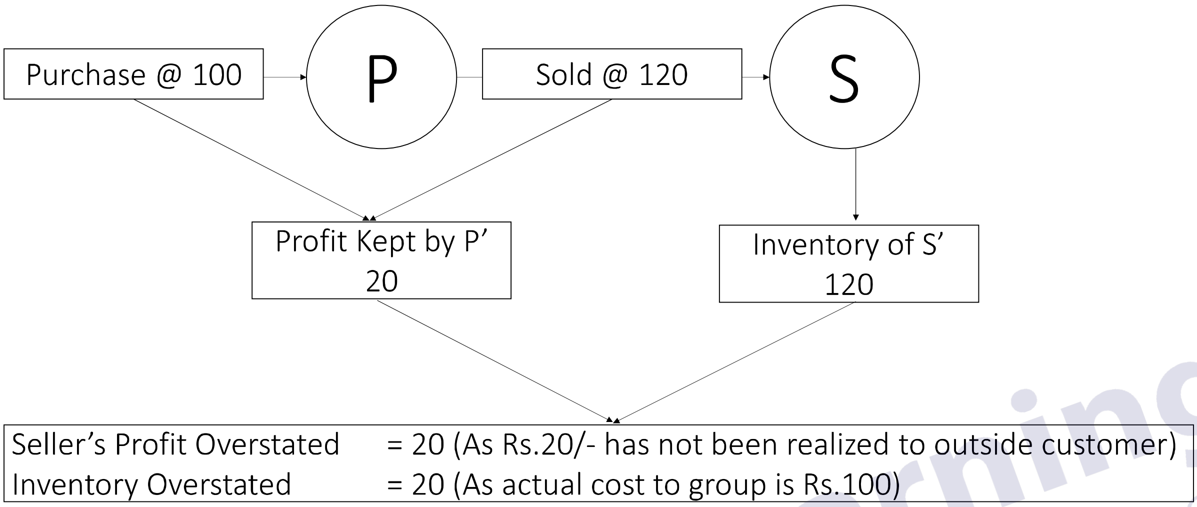
Understanding the Concept – Example 01

Parent purchased an item at Rs.100 and sold it keeping a markup of 20% to Subsidiary. Subsidiary sold the item to a Customer keeping a markup of 20%

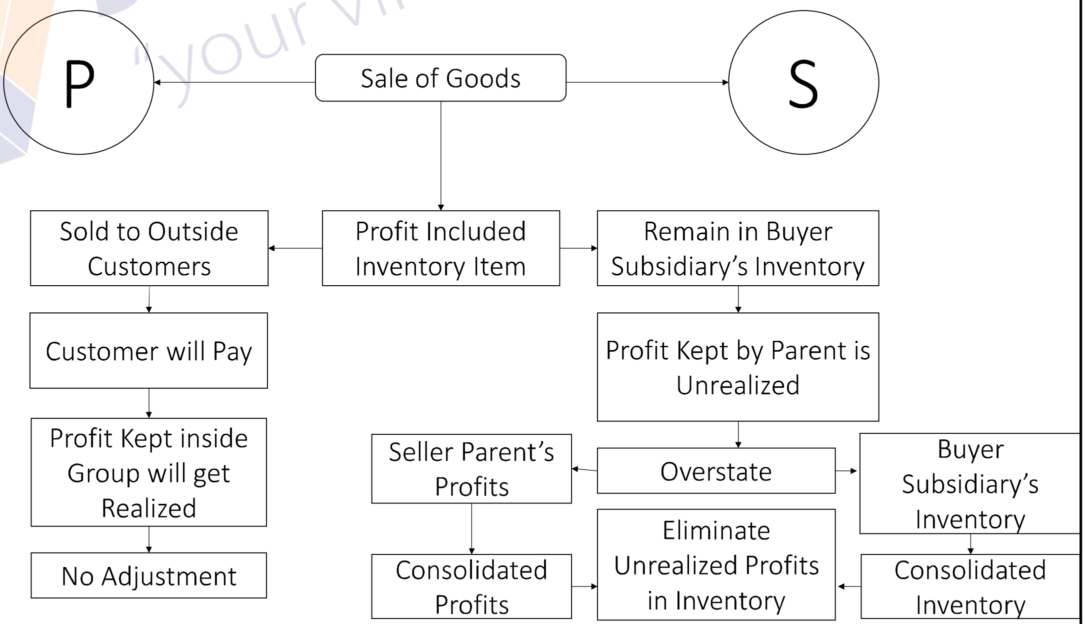


Understanding the Concept – Example 02

Parent purchased an item at Rs.100 and sold it keeping a markup of 20% to Subsidiary. The item still remains in Subsidiary's Inventory

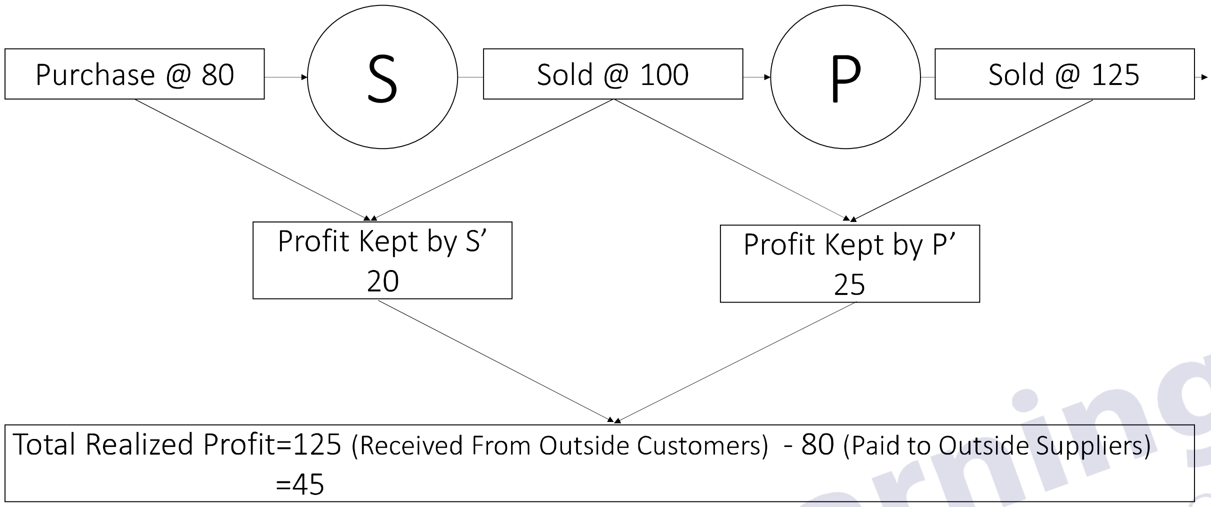


Understanding the Concept



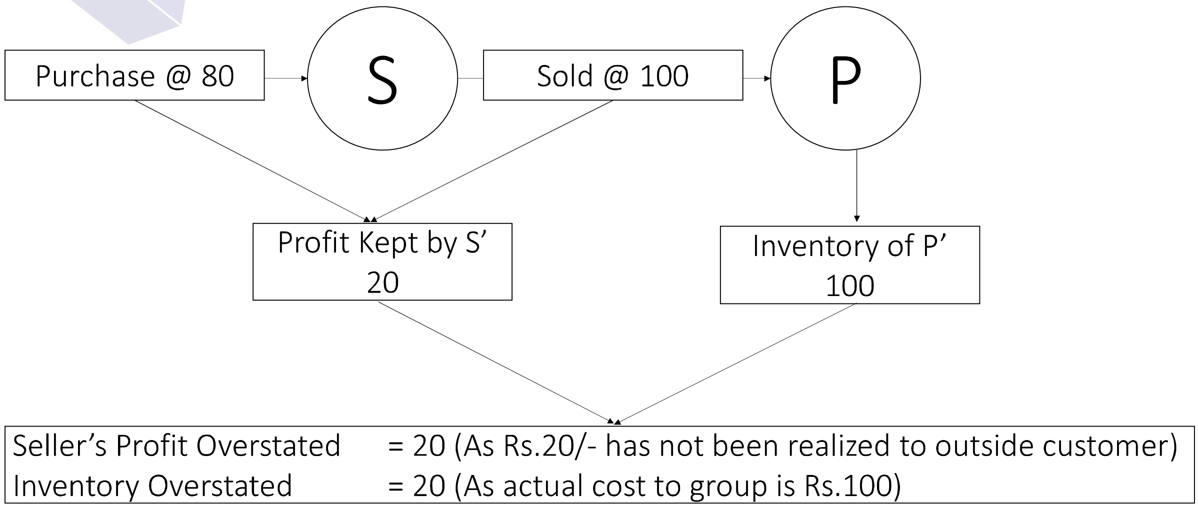
Understanding the Concept – Example 03

Subsidiary purchased an item at Rs.80 and sold it keeping a margin of 20% to Subsidiary. Parent sold the item to a Customer keeping a margin of 20%

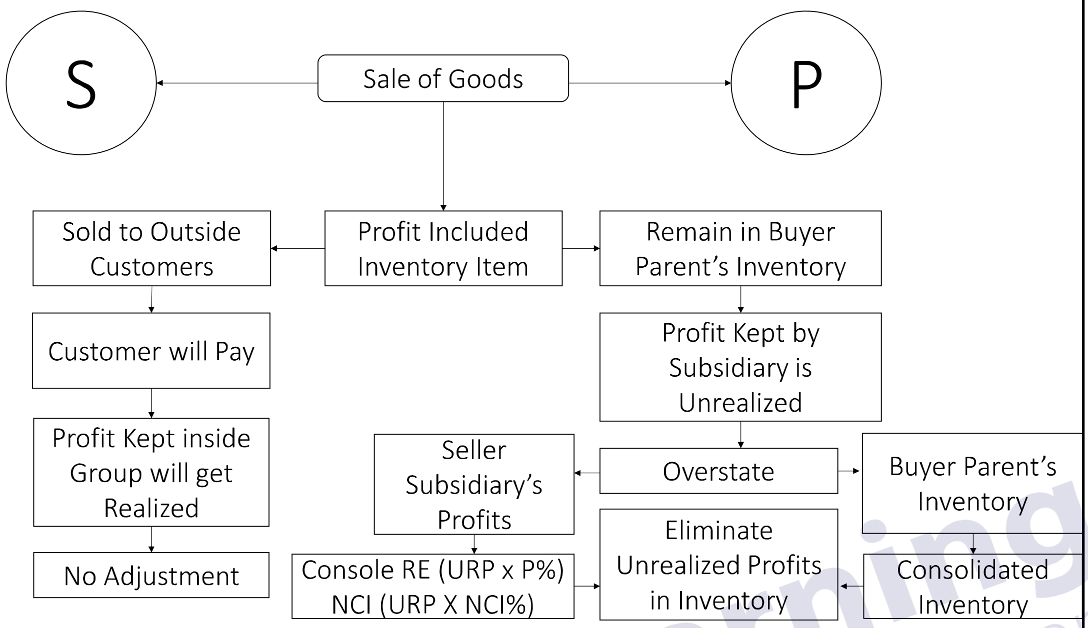


Understanding the Concept – Example 04

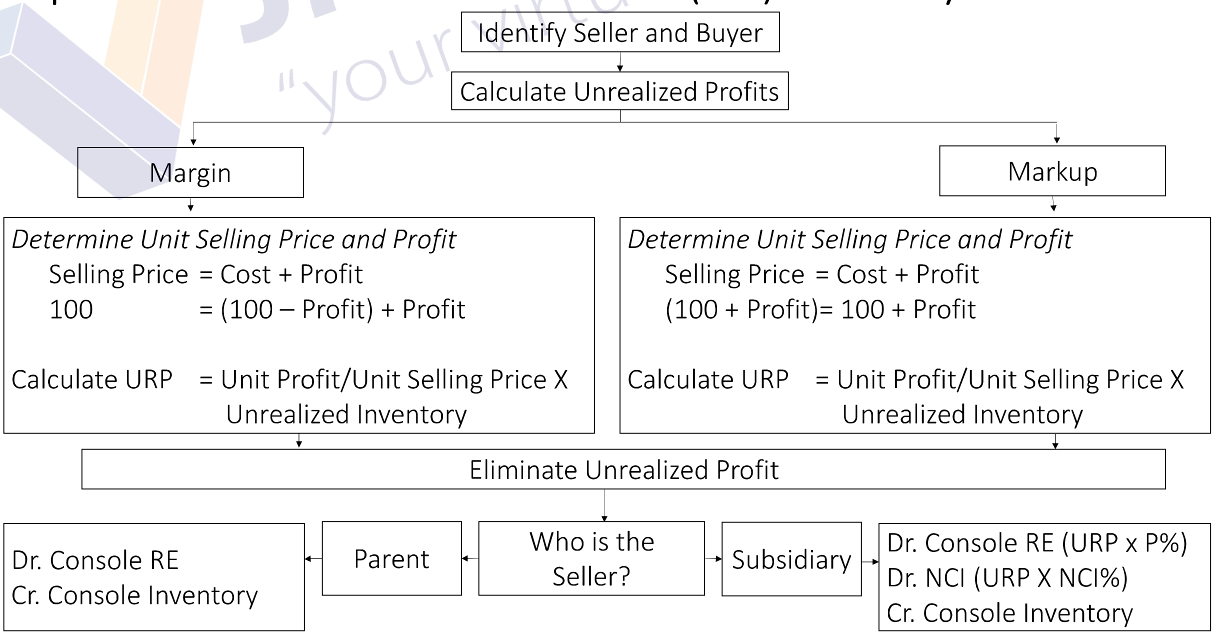
Subsidiary purchased an item at Rs.80 and sold it keeping a margin of 20% to Parent. The item still remains in Parent's Inventory



Understanding the Concept



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



Question 12

The following summarized statements of financial position are provided for P and S as at 30 June 2019:

	P Rs 000	S Rs 000
Non-current assets	14,200	10,200
Investment in S	14,500	-
Current assets		
Inventory	5,750	3,400
Receivables	4,250	2,950
Cash and cash equivalents	2,500	1,450
Total Assets	**41,200**	**18,000**
Equity Share capital Rs 1	20,000	5,000
Retained earnings	12,600	7,900
Current liabilities		
Payables	8,600	5,100
Total Equity and Liabilities	41,200	18,000

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Question 12

1. P acquired 80% of S three years ago for Rs.14,500,000 when the balance on the retained earnings of S was Rs 5,800,000. It is group policy to value NCI at acquisition at the proportionate share of the net assets.
2. P sells goods to S. As a result, at the reporting date S's records showed a payable due to P of Rs. 550,000. However, this disagreed to P's receivables balance of Rs.750,000 due to cash in transit of Rs.100,000 and goods in transit of Rs.100,000 (Markup of 25%)
3. During the current year, P had sold Rs.1,500,000 (selling price) of goods to S of which S still held one third in inventory at the year end. The selling price was based on a mark-up of 25%.
4. During the current year, P had sold Rs 1,000,000 (selling price) of goods to S of which S still held 50% in inventory at the year end. The selling price was based on a margin of 25%.
5. An impairment loss of Rs.1,000,000 should be charged against goodwill at the reporting date.

I. Prepare the consolidated statement of financial position at 30 June 2019.

II. Recalculate the following amounts at 30 June 2019 to reflect what they would have been if S has sold the goods to P instead.
   a) Consolidated retained earnings
   b) Non-controlling interests

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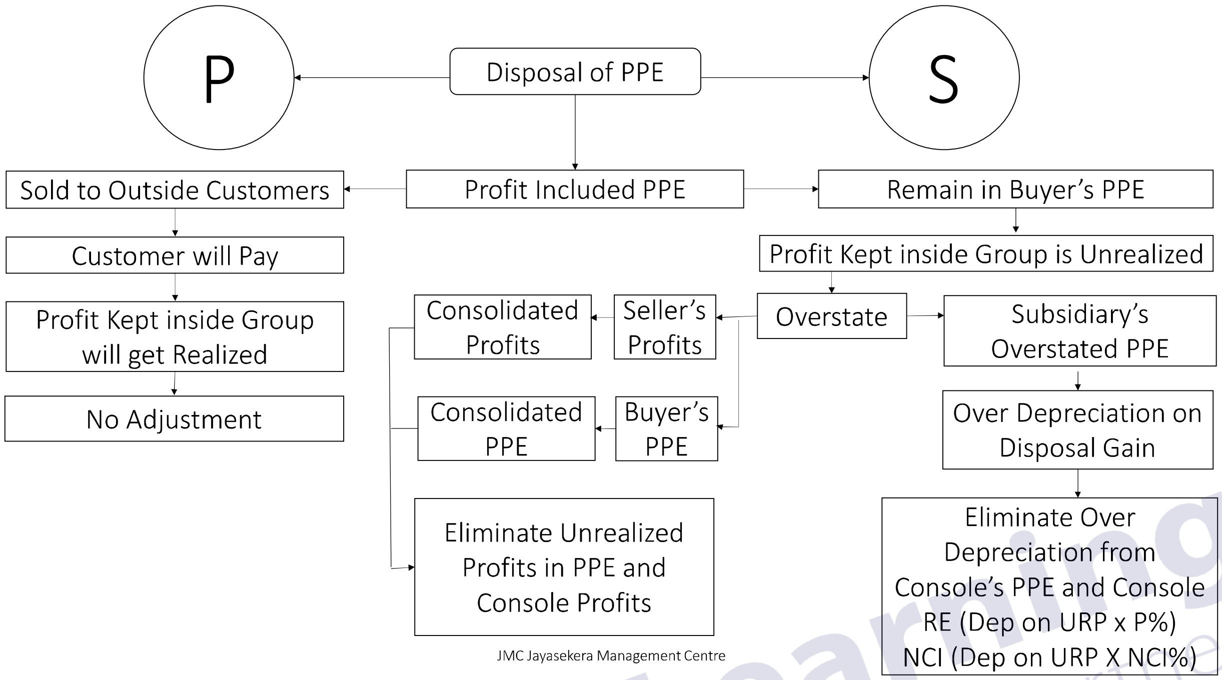
Unrealized Profits in Property Plant and Equipment

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



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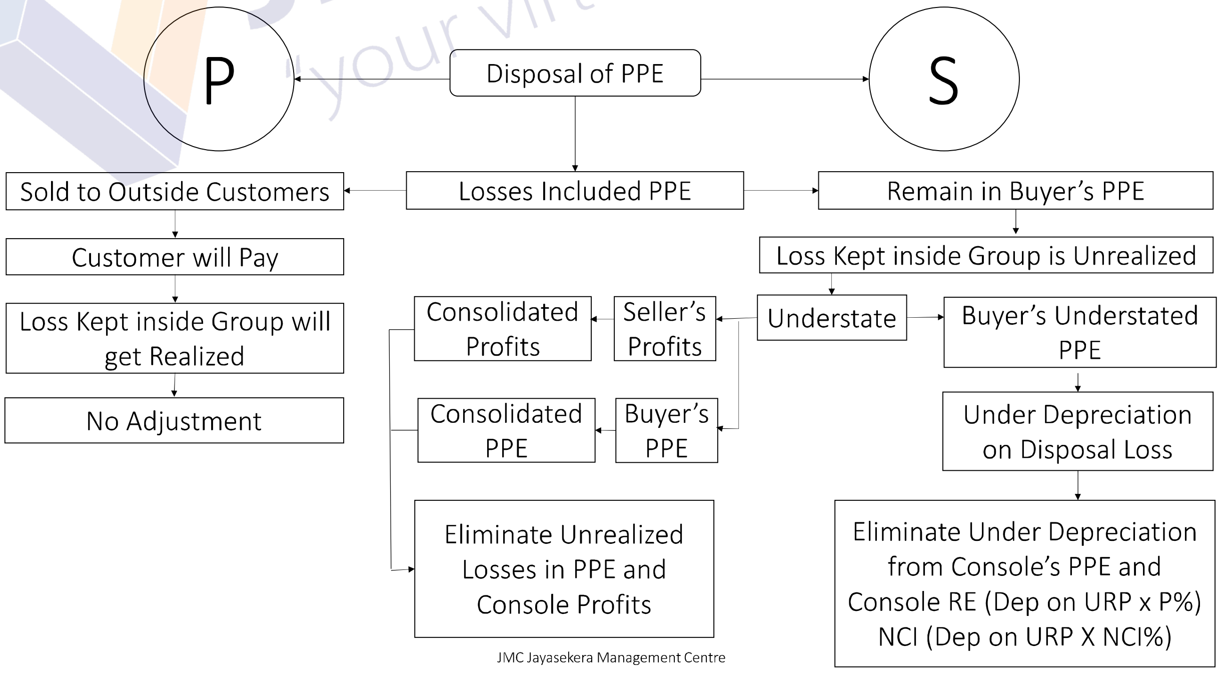
Understanding the Concept of Unrealized Losses in PPE



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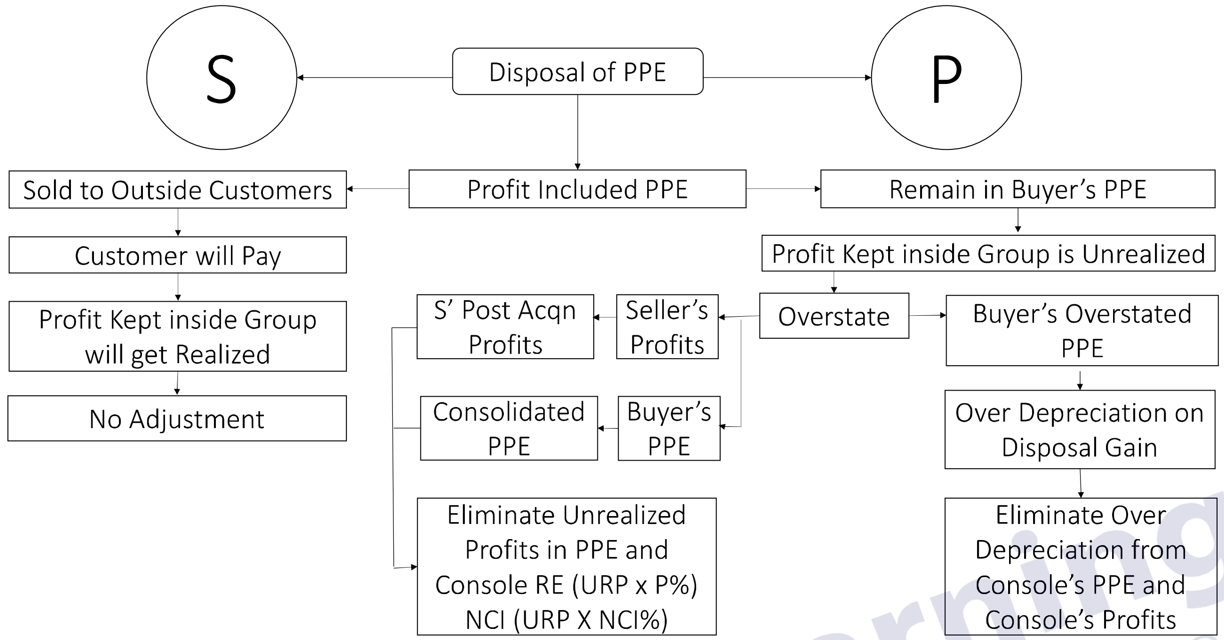
Understanding the Concept of Unrealized Profits in PPE



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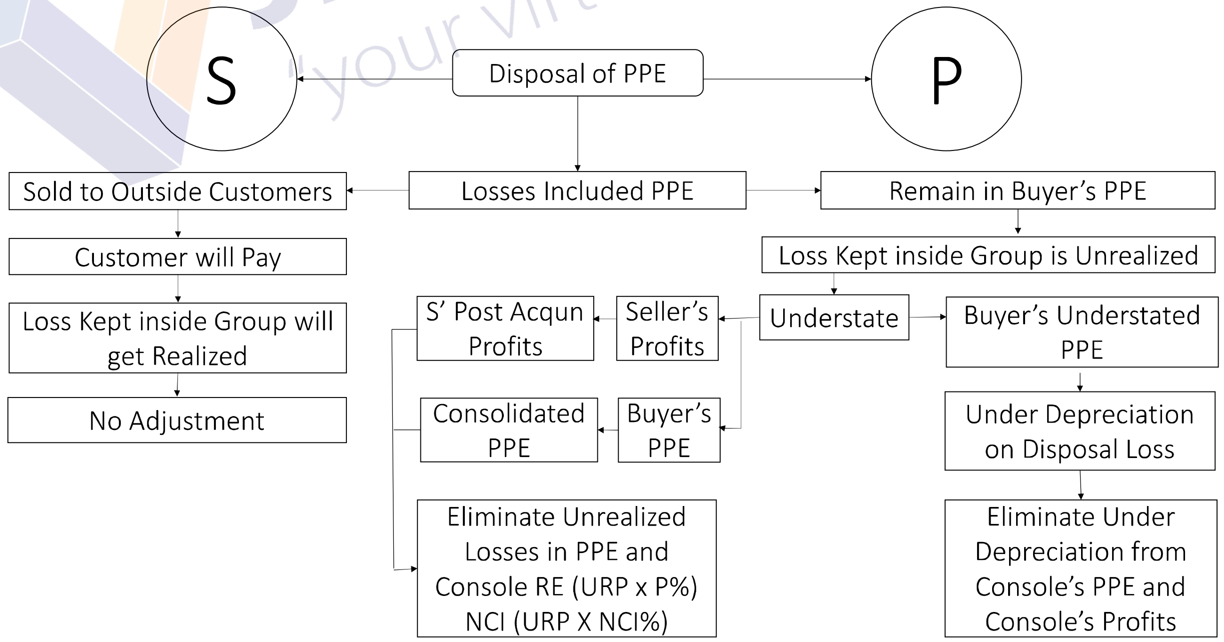
Understanding the Concept of Unrealized Losses in PPE



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Steps to Follow to Eliminate Unrealized Profits and Depreciation on PPE

Seller side

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

Buyer side

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 onURP X NCI%)
- Parent: Dr. Console PPE / Cr. Console RE

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Steps to Follow to Eliminate Unrealized Losses and Depreciation on PPE

Seller side

Identify Seller → Calculate Unrealized Loss

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

Eliminate Unrealized Loss → Who is the Seller?

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

Buyer side

Identify Buyer → Calculate Depreciation on Unrealized Loss

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

Eliminate Depreciation on Unrealized Loss → Who is the Buyer?

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

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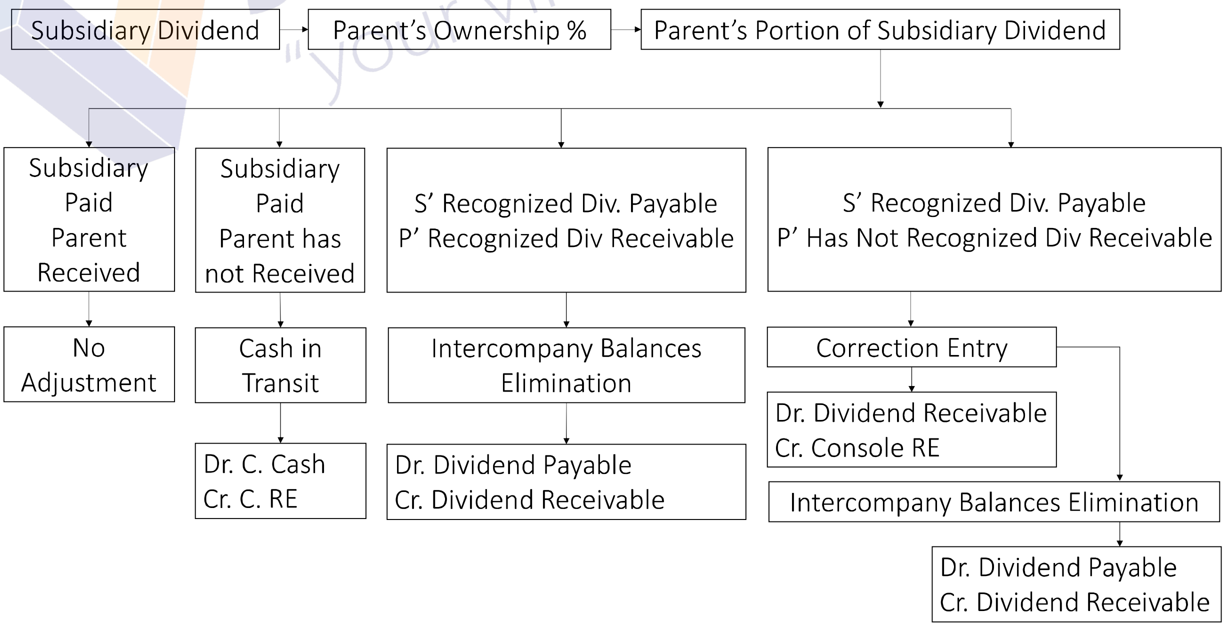
If PPE Disposal occurred prior to acquisition, It's a normal transaction between two independent entities. There won't be any unrealized profits/losses

Subsidiary Dividends

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

Steps to Follow to Eliminate Subsidiary Dividend



NCI Portion of Dividends

NCI Portion of Dividends → Presented Separately under Current Liabilities

Parent's Investment in Subsidiary Preference Shares

Preference Shares does not Reflect Ownership!

Do not Consider Preference Share Investment as a Part of Consideration

Parent's Investment in Subsidiary Preference Shares are Intercompany Balances. This shall be eliminated in full.

Steps to Follow to Eliminate Preference Shares Investment by Parent

Parent's Investment in Subsidiary Preference Shares
↓
Intercompany Balances
↓
Eliminate
↓
Dr. Preference Share Capital
Cr. Investment in S' Preference Shares

Subsidiary's Remaining Preference Share Capital
↓
Assumption; NCI has invested
↓
Allocate to NCI
↓
Dr. Preference Share Capital
Cr. NCI

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Investment in Subsidiary in Parent's Books

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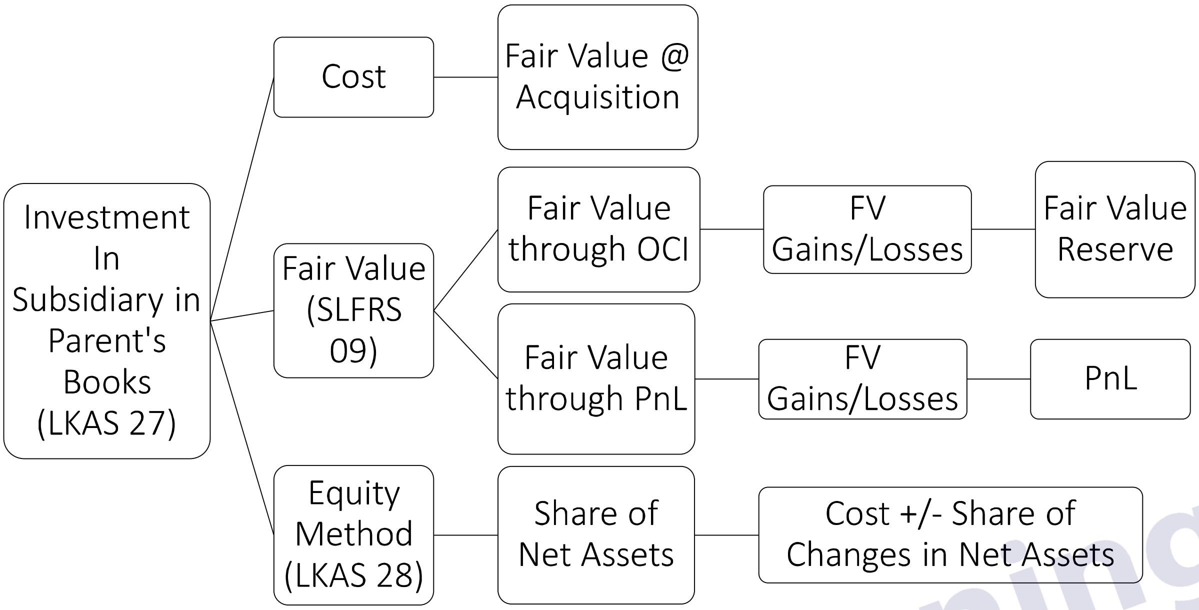
Investment In Subsidiary in Parent's Books (LKAS 27)
Cost
Fair Value @ Acquisition
Fair Value (SLFRS 09)
Fair Value through OCI
FV Gains/Losses
Fair Value Reserve
Fair Value through PnL
FV Gains/Losses
PnL
Equity Method (LKAS 28)
Share of Net Assets
Cost +/- Share of Changes in Net Assets

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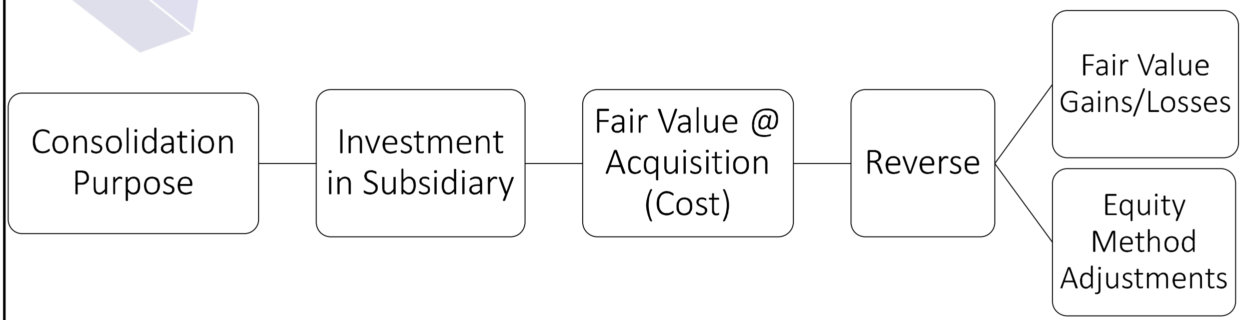
Consolidation Purpose
Investment in Subsidiary
Fair Value @ Acquisition (Cost)
Reverse
Fair Value Gains/Losses
Equity Method Adjustments

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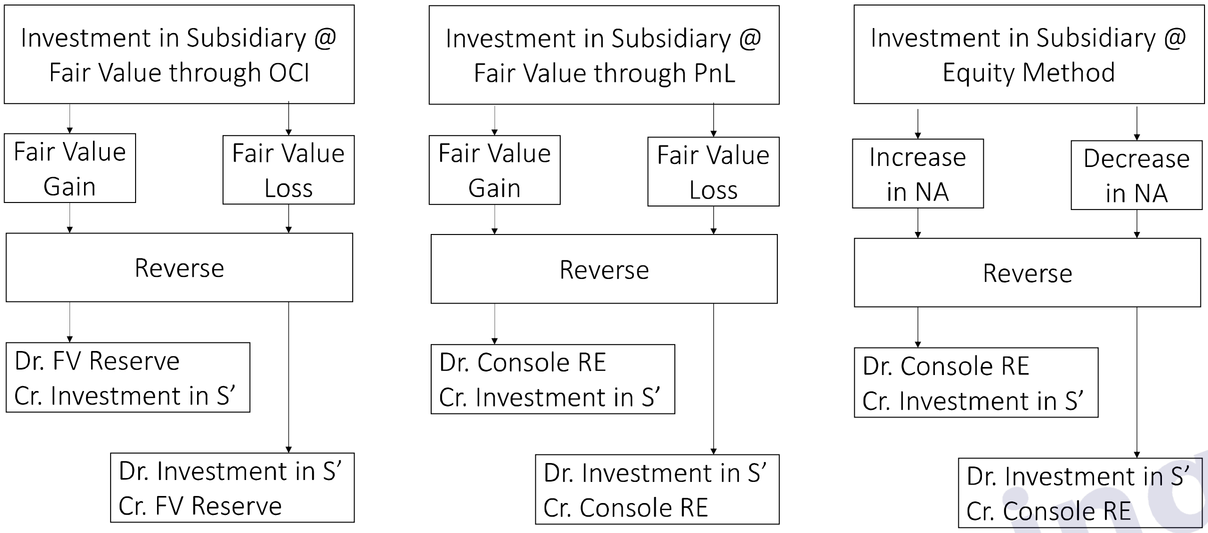
Steps to Follow to Arrive at Cost of Investment in Subsidiary @ Acquisition



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Question 13

P Ltd acquired 15,000 shares of S Ltd on 1/4/2016. The number of shares in issue of S Ltd was 20,000.
As at 1/4/2016 S Ltd Equity include a General reserve of Rs.9, 000/- and Retained earnings balance of Rs.2, 000/-
As at 1/4/2016 the lands of the S ltd was revalued for the purpose of acquisition. Revalued amount of land was Rs.12, 000/- whereas the carrying value was Rs.10, 000/-.
The share of S was trading at Rs.2/- as at 1/4/2016. Non-controlling interest is valued using fair value method.
On the same day P invested Rs.2, 000/- in preference shares issued by the S.
The individual Statements of Financial Positions of P and S as at 31/3/2018 are given below.

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Question 13

	P	S
Non-Current assets		
PPE	43,000	40,000
Investment in subsidiary	25,500	-
Investment in Preference Shares	2,000	
Current Assets		
Inventory	7,000	5,000
Trade Receivables	5,000	6,000
Dividend Receivable	2,250	-
Cash and Bank	5,250	4,000
Total assets	**90,000**	**55,000**

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Question 13

	P	S
Equity		
Stated capital	30,000	20,000
General Reserve	21,000	12,000
Retained earnings	4,000	5,000
Non-Current Liabilities		
Preference shares	20,000	10,000
Current Liabilities		
Creditors	6,000	3,000
Proposed dividend	4,600	3,000
Income Tax Payable	4,400	2,000
Total equity and liabilities	**90,000**	**55,000**

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Question 13

1. It's estimated that the goodwill has been impaired by Rs.200/- as of 31/3/18.
2. S Ltd sells goods to the P on credit terms. During the year Rs.3, 000/- worth of goods has been sold and P has not settled the amount.
3. Relevant balances are reflected in relevant debtor and creditor balances. Out of the items purchased from S, Rs.2,000/- worth of items are still remaining in the P's inventory.
4. S keeps 20% profit margin on sales.
5. During the year P sold Rs.5,000/- worth of items to S keeping a profit markup of 25%. Of those goods 50% is still remaining in inventory of S.
6. P sold an equipment to S on 1/10/2017 at a value of Rs.4,000/-. The equipment had a carrying value of Rs.3,000/- and a remaining useful life of 04 years.
7. S purchased a PPE item on 1/4/2017 for Rs.3, 000/-. This item was sold to P on the same date for Rs.2, 500/-. PPE depreciation rate used by the group is 20%.
8. S Ltd proposed and accrued an interim dividend of Rs.0.15/- per share to its ordinary shareholders for the year 2017/18. P Ltd has taken their portion as dividend receivable.

You are required to:
Prepare the Consolidated Statement of Financial Position of P Limited Group as at 31 March 2018

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Question 14

On 01 April 2017, Polar Limited acquired 75% of the equity of Solar Limited for a consideration of Rs. 102Mn.
On the date of the acquisition fair value of net assets of Solar Limited was ascertained as Rs. 80Mn.
The retained earnings balance of Solar Limited stood at Rs. 20Mn at the date of acquisition.
The stated capital of the Solar Limited is comprised of 3,200,000 numbers of shares.
The non-controlling interest as at the date of acquisition should be valued at Rs. 40/- per share.

The summarized Statements of Financial Positions of Polar Limited and Solar Limited as at 31 March 2018 are given below:

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Question 14

	Polar Rs.000	Solar Rs.000
Non-Current Assets		
Property, Plant and Equipment (PPE)	147,200	97,400
Investments in Solar Ltd	100,000	-
Other Investments	-	10,000
Current Assets		
Inventories	72,000	38,800
Trade Receivables	65,200	32,000
Cash & Cash Equivalents	20,400	12,200
Total Assets	**404,800**	**190,400**

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Question 14

	Polar Rs.000	Solar Rs.000
EQUITY		
Stated Capital	165,200	44,000
Retained Earnings	70,400	29,000
Non-Current Liabilities		
Debentures	3,000	2,000
Bank Loans	3,200	800
Current Liabilities		
Trade Payables	52,800	23,400
Short term Loan	110,200	91,200
Total Equity & Liabilities	**404,800**	**190,400**

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Question 14

The following information is relevant for the preparation of the Group Consolidated Statement of Financial Position

(1) It was decided that any variation of carrying value and fair value of net assets of Solar Limited as at the date of Acquisition is due to increase in PPE which is subject to the depreciation at 20% p.a. on Straight line basis

(2) Impairment test carried out on 31 March 2018 revealed that the goodwill on consolidation has been impaired by Rs.5Mn.

(3) Inventories of Solar Limited as at 31 March 2018 includes goods transferred from Polar Limited of Rs.22Mn. Polar Limited retained a margin of 25%.

(4) Polar Limited transferred a plant which had a written down value of Rs.8Mn to Solar Limited for Rs.20Mn on 01 October 2017. Solar Limited estimated the plant to have a useful life of 5 years. Solar Limited depreciates its assets on the Straight-Line basis.

Question 14

(5) Solar Limited sold a furniture which had a written down value of Rs.2Mn to Polar Limited for Rs.1Mn on 01 April 2017. Polar Limited estimated that the furniture has a useful life of 4 years. Polar Limited depreciates its assets on the Straight-Line basis.

(6) A reconciliation of the current accounts which are included in accounts receivables and payables of the two companies showed that Solar Ltd has an amount payable balance to Polar of Rs.14Mn, whereas Polar Ltd has a receivable from Solar Ltd of Rs.24Mn. The reasons for the difference was Cash in transit of Rs.6Mn and Goods in transit of Rs.4Mn.

(7) The investment in Solar was fair valued by Polar on 31/3/18 and a fair value loss or Rs.2Mn was recognized.

Prepare the Consolidated Statement of Financial Position of Polar Limited Group as at 31 March 2018