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SLFRS 10: Consolidated Financial Statements

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Consolidated Financial Statements

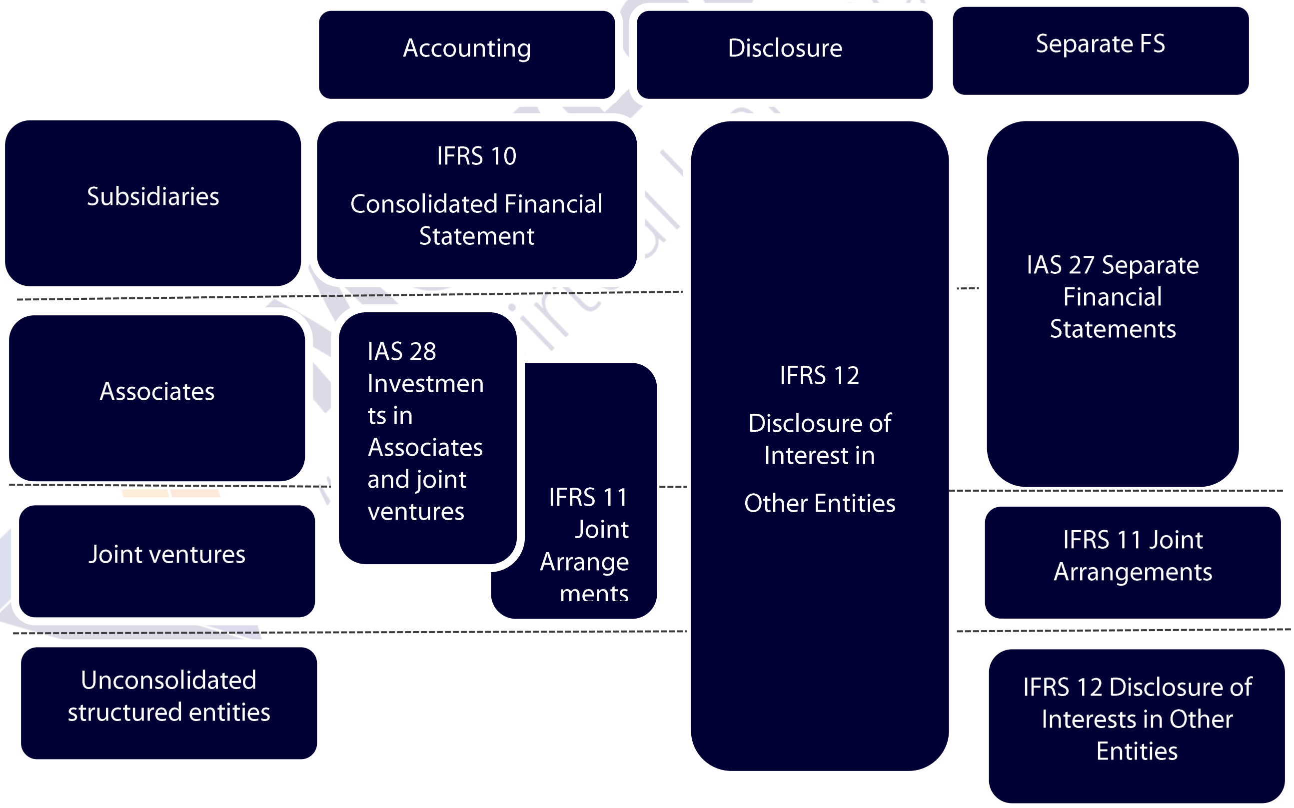
Accounting Standards to be discussed in preparing Consolidated Financial Statements

1. SLFRS 3 Business Combinations
2. SLFRS 10 Consolidated Financial Statements
3. LKAS 28 Investments in Associates
4. SLFRS 11 Joint Arrangements
5. LKAS 21 Effects of Changes in Foreign Exchange Rates [Foreign subsidiary consolidation]
6. LKAS 27 Separate Financial Statements

LKAS 27 Separate Financial Statements

Introduction

Standards applicable in preparing consolidated financial statements



1. Control

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To have power, it is necessary for investor to have existing rights that give it current ability to direct the activities that significantly affect the investee's returns, i.e. the relevant activities

Control assessed on continuous basic

1.1 Evaluation of control

1. Identify the investee (legal entity or silo)
2. Identify the relevant activities of the investee
3. Identify how decisions about the relevant activities are made
4. Assess whether the investor has power over the relevant activities
5. Assess whether the investor is exposed to variability in returns
6. Assess whether there is a link between power and returns

2. Accounting for subsidiaries

In group financial statements:

- Consolidate all subsidiaries
- No exemption for:
  - Subsidiaries held for sale (SLFRS 5)
  - Subsidiaries with dissimilar activities

3. Exemption from consolidation

- **Must meet all the following conditions to be exempt from preparing Consolidated Financial Statements:**
  - Entity is a wholly-owned subsidiary, or a partially-owned subsidiary and no owners object
  - No debt or equity instruments traded in a public market
  - Did not file and is not in process of filing its FS with a regulatory organization to issue any class of instruments
  - The ultimate or any intermediate parent of the parent produces consolidated Financial Statements that comply with SLFRSs and are available for public use

4. Typical eliminations

- **Statement of Comprehensive Income**
  - Inter-company purchases and sales
  - Inter-company dividends
  - Inter-company interest
- **Statement of Financial Position**
  - Inter-company loans
  - Inter-company receivables / payables
  - Shares in subsidiaries / pre-acquisition reserves

5. Non-controlling interest

- **Non-controlling interest**
  - The equity in a subsidiary not attributable, directly or indirectly, to a parent
- **Statement of financial position**
  - Non-controlling interest within equity, but separate from parent shareholders' equity
- **Statement of comprehensive income**
  - Profit or loss and total comprehensive income for the period should be allocated to the parent and non-controlling interest in statement of comprehensive income

6. Separate financial statements

- **In parent's separate financial statements investments in subsidiaries must be accounted for at:**
  - Cost; or
  - In accordance with LKAS 39

7. Other issues – Subsidiaries

- **Different end of the reporting periods**
  - Not greater than three months
  - Adjustments for significant events
- **Different accounting policies**
  - Using uniform accounting policies
  - Otherwise adjustments should be made in preparing the consolidated financial statements
- **Decrease in non-controlling interest**
  - Same as share buy-back by the parent (equity transaction)
- **Increase in non-controlling interest (that do not result in loss of control)**
  - Same as parent's share issue (equity transaction)
- **Loss of control**
  - Recognise retained interests as if bought at fair value

- Recognise any resulting differences in profit or loss

Exercises in preparing Consolidated financial statements

Ex: 01

Consolidated Statement of Financial Position – Goodwill and Non Controlling Interest

P Ltd acquired 80% of the shares of S ltd on 31st Dec 2017 for Rs.. 60,000. As at that date the retained earnings of S ltd was Rs.. 12,000. Statements of Financial Position as at 31st December 2018 are as follows.

	P	S
	Rs.'000	Rs.'000
Non-current assets	100	60
Investment in S	60	-
Current assets	50	10
Total assets	210	70
Stated capital	100	20
Retained earnings	80	20
Liabilities	30	30
Total equity and liabilities	210	70

Prepare

1. Goodwill calculation
2. Consolidated Retained earnings
3. Non Controlling interest
4. Consolidated Statement of Financial Position for P Ltd group.

……………………….Ltd

Statement of Financial Position

As at………………… (in Rs' ………..)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		

Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1

Acquisition information summary

Working 2 – Consolidation

(in Rs'…………….)

Description	Goodwill calculation	NCI	Group Retained earnings
Investment			
+ NCI			
(-) Net Assets			
Goodwill on acquisition date			
Retained Earnings of Subsidiary - Post acquisition			
Retained Earnings of Parent - Year end amount			
Balance at year end			

Ex: 02

Consolidated Statement of Financial Position –Non Controlling Interest measured at fair value and goodwill

P Ltd acquired 60% of the shares of S ltd on 31st Dec 2016 for Rs.. 60,000. As at that date the retained earnings of S ltd was Rs.. 12,000. The fair value of non controlling interest was determined to be Rs..35,000. Statements of Financial Position as at 31st December 2017 are as follows.

	P	S
	Rs.'000	Rs.'000
Non-current assets	100	60
Investment in S	60	-
Current assets	50	10
Total assets	210	70
Stated capital	100	20
Retained earnings	80	20
Liabilities	30	30
Total equity and liabilities	210	70

Prepare

1. Goodwill calculation
2. Consolidated Retained earnings

3. Non Controlling interest
4. Consolidated Statement of Financial Position for P Ltd group.

………………………. Ltd

Statement of Financial Position

As at………………… (in Rs' ………..)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1

Acquisition information summary

Working 2 – Consolidation

(In Rs'……………….)

Description	Goodwill calculation	NCI	Group Retained earnings
Investment			
+ NCI			
(-) Net Assets			
Goodwill on acquisition date			
Retained Earnings of Subsidiary - Post acquisition			
Retained Earnings of Parent - Year end amount			
Balance at year end			

Ex: 03

Consolidated Statement of Financial Position – Non Controlling Interest with fair value adjustment on the acquisition date.

P Ltd acquired 75% of the shares of S ltd on 31st Dec 2016 for Rs.. 100,000 which includes legal charges amounting to Rs.10,000. In addition to the immediate payment P also agreed to pay Rs. 14,400 on 1st Jan 2019. Further it was also agreed that, if S makes consecutive profits for the next 3 years P would make an additional payment of Rs.10,000 on 1st Jan

2020. The fair value of this amount on the date of acquisition was Rs.6,000. On 31st December 2017 the fair value was assessed at Rs.7,000. As part of the acquisition P transferred a land it owned to the previous owner of S. This land was carried at a value of Rs.5,000 and had a fair value of Rs.7,000. Assume a discount rate of 20%

P issued 5 shares for every 8 shares acquired of S. The market value of P's shares was Rs.7 and S shares were Rs.5. S had 10,000 shares in issue.

P has accounted only for the immediate cash payment.

As at that date the fair value of a land held by S was Rs.20,000 (determined provisionally) and the book value was Rs.15,000. The final valuations were received on 1st March 2017 and stated a value of Rs.23,000. There were few litigation claims filed against S by its customers claiming compensation for faulty products at a total value of Rs.2,000 and the cases were still pending at the high courts. P estimated a contingent liability value of Rs.1,500 to be appropriate and this value has not changed up to 31st December 2017. S possessed a well known brand which was estimated to have a fair value of Rs.10,000 with an indefinite life. At the year end it was estimated to be impaired by 20% of its initial value.

The non controlling interest was to be measured at fair value.

S limited made a profit of Rs.5,000 during the year 2017

The Statements of Financial Position of each Company as at 31st December 2017 is given below.

	P	S
	Rs.'000	Rs.'000
Non-current assets	100	60
Investment in S	100	-
Current assets	50	10
Total assets	250	90
Stated capital	140	20
Retained earnings	80	40
Liabilities	30	30
Total equity and liabilities	250	90

Prepare

1. Goodwill calculation
2. Consolidated Retained earnings
3. Non Controlling interest
4. Consolidated Statement of Financial Position for P Ltd group.

Ex: 04

Consolidated Statement of Financial Position – Inter-company Receivables/Payables & Goodwill impairment

P Ltd acquired 80% of the shares of S ltd on 31st Dec 2016 for Rs.. 60,000. As at that date the retained earnings of S ltd was Rs.. 12,000. The NCI was valued at Rs..12,000.

The Land of the company had a fair value of Rs..10,000 above its book value.

An impairment test of the goodwill was carried out and the goodwill of the whole company was impaired by Rs..5,000.

Close to the year end S limited had sent cash amounting to Rs..10,000 to P Ltd. This was not yet recorded in the books of P Ltd.

Statements of Financial Position as at 31st December 2017 are,

	P	S
	Rs.'000	Rs.'000
Non-current assets	80	60
Investment in S	60	-
Receivable from S	50	-
Cash	20	50
Total assets	210	110
Stated capital	100	20
Retained earnings	80	40
Liabilities	30	30
Payable to P	-	40
Total equity and liabilities	210	110

Prepare

1. Goodwill Calculation
2. Non Controlling Interest Account
3. Consolidated P&L
4. Consolidated Statement of Financial Position

……………………….. Ltd

Statement of Financial Position

As at………………… (in Rs' …………)

Assets		

Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1

Acquisition information summary

Working 2 – Consolidation

(In Rs' ....)

Description	Goodwill calculation	NCI	Group Retained earnings

Investment			
+ NCI			
(-) Net Assets			
Goodwill on acquisition date			
Retained Earnings of Subsidiary - Post acquisition			
Retained Earnings of Parent - Year end amount			
Balance at year end			

Consolidated Statement of Financial Position – Acquisition date fair value adjustment and excess depreciation adjustment

<u>Tutorial Note</u>

When there's a fair value adjustment done on the acquisition date, and that adjustment is not incorporated in to the subsidiary books, then the impact on depreciation should also be considered when preparing consolidated financial statements.

As the subsidiary, in its books would always depreciate its assets at the values remaining in its records, when preparing consolidated financials the depreciation on the increase/decrease in fair value should be adjusted.

At the acquisition date as the fair value adjustment was distributed among the parent and the Non Controlling, the depreciation adjustment should also be done so.

The entry to record the depreciation, in case of valuing PPE at an amount higher than the book value, will be as follows.

Subsidiary Retained earnings	Dr
Consolidated PPE	Cr

When adjusting the depreciation, the number of years from the acquisition date to the date on which the financial statements are prepared should be noted as the depreciation also should be adjusted for such number of years

Consolidated Statement of Financial Position – Unrealized profit adjustments- Inventories

Tutorial note

Where goods have been sold by one group company to another at a profit and some of these goods are still in the purchased inventory at the year end, then the profit mark up on these goods are unrealized from the view point of the group as a whole.

This is because when preparing group financial statements we consider all the group companies as a single entity. Therefore a single entity cannot have a profit markup by selling goods to it.

Profit markup

Profit markup can be done in two ways.

1. Markup on cost

This is the simplest way. The profit markup is calculated as a percentage of the cost of the product.

E.g. Markup is 20% on cost

Selling price = cost + markup

……………. = 100 + 20

2. Markup on selling price

In this case the markup percentage is calculated on the selling price.

E.g. Markup % is 20% on the selling price

Selling price = cost + markup

100 = ……. + 20

<u>Profit markups in consolidation</u>

1. When the sale is made by the parent to the subsidiary

In this case the profit has been accounted in the parent's books and thus would have been taken totally to the consolidated P&L. Therefore the entire unrealized profit should be removed from the consolidated P&L.

If the sale is by the parent the steps in consolidation is same as the treatment for wholly owned subsidiary.

1. Calculate the unrealized profit

2. Pass the following entry

Consolidated P&L	Dr
Consolidated inventories	Cr

2. When the sale is made by the subsidiary

In this case the profit has been accounted in the subsidiary books and thus would have been split between the consolidated P&L and the Non Controlling interest. Therefore when eliminating the unrealized profit it should be eliminated from the place where it has been accounted for.

Thus, when the sale is done by the subsidiary to the parent, in consolidation the following steps are followed.

1. Calculate the unrealized profit
2. Pass the following entry

Subsidiary P&L Dr

Consolidated inventories Cr.

Ex 05

P Ltd acquired 75% of the shares of S ltd on 1st Jan 2015 for Rs.. 100,000. As at that date the fair value of PPE was Rs..80,000 and the book value was Rs. 70,000. The remaining useful life of the PPE was estimated to be 10 years. The retained earnings of S ltd was Rs.. 30,000.

The NCI was valued at Rs..30,000.

At the year end the goodwill of the company was estimated to be impaired by Rs.. 10,000

P Ltd made sales of Rs. 10,000 to S ltd during the year at a margin of 10%. S ltd had 30% of these goods left with them at the year end. S ltd also made sales to P Ltd amounting to Rs. 8,000 at a markup of 25% on cost and P ltd had 80% of these goods left with them at the year end.

The Statement of Financial Positions of each Company as at 31st December 2012 is given below.

	P	S
	Rs.'000	Rs.'000
Non-current assets	100	60
Investment in S	100	-
Current assets	50	30
Total assets	250	90
Stated capital	140	20
Retained earnings	80	40
Liabilities	30	30
Total equity and liabilities	250	90

Required.

1.) Prepare the consolidated Statement of Financial Position

………………………. Ltd

Statement of Financial Position

As at………………… (in Rs' ………..)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1

Acquisition information summary

Working 2 – Consolidation

(In Rs'…………….)

Description	Goodwill calculation	NCI	Group Retained earnings
Investment			
+ NCI			
(-) Net Assets			
Goodwill on acquisition date			
Retained Earnings of Subsidiary - Post acquisition			
Retained Earnings of Parent - Year end amount			
Balance at year end			

Working 3 – Inter company transactions

Ex: 06

Statements of Financial Positions as at 31-12-2017

	P	S
	Rs.	Rs.
Non-current assets	100,000	50,000
Investment in S	75,000	-
Inventories	12,000	5,000
Current assets	83,000	95,000
Total assets	270,000	150,000
Stated capital (Rs.1)	50,000	40,000
Retained earnings	120,000	60,000
Liabilities	100,000	50,000
Total equity and liabilities	270,000	150,000

P acquired 32,000 shares in S on 1 Jan 2017. The fair value of the identifiable net assets was Rs..100,000. Any excess of fair value can be attributed to increase in value of buildings which are being depreciated over 10years.

NCI on this date was valued at Rs..15,000

During the year 2017, S made a profit of Rs.. 10,000.

During the year S sold goods to P for Rs.. 80,000 which was purchased at a cost of 60,000.

As at 31st Dec 2017, Inventory of P included Rs.. 5,000 being the price paid to purchase from S.

Prepare consolidated Statement of Financial Position as at 31st Dec 2017

Consolidated Statement of Financial Position – Unrealized profit adjustments- Sale of fixed assets

Tutorial note

When a fixed asset is sold by one group company to another at a profit/loss, then again the requirement to adjust the unrealized profit/loss arises. This is because from group point of view this is not a real profit/loss made.

In this case it should also be noted that there'll be an impact on the depreciation of fixed assets. It is because when a company purchases an asset at a price higher than its book value (ie at a profit) from another group company, then it'll start depreciating at that higher value. This would result in the depreciation being overstated in the group financial statements.

When such a transaction takes place the following adjustment is done to remove the unrealized profit/loss and the excess/deficit depreciation.

1. When parent sells to subsidiary at a profit

a.) Removal of the profit

Consol P&L	Dr
Consol PPE	Cr

b.) ReveRs.al of excess depreciation in subsidiary books

Consol PPE	Dr
Subsidiary P&L	C

2. When subsidiary sells to parent at a profit

a.) Removal of profit realized in subsidiaries books

Subsidiary P&L	Dr
Consol PPE	Cr

b.) ReveRs.al of excess Depreciation in parents books

Consol PPE	Dr
Consol PPE	Cr

When a fixed assets sale takes place at a loss, the entries would be the reveRs.al of the above.

Ex 07

PPE disposal and Brand value

P ltd acquired 80% S Ltd on 1st Jan 2011 at a cost of Rs..100,000. The fair value of the net assets were determined to be 120,000. This includes a brand possessed by S not recorded in S limited books valued at Rs.. 12,000. This brand was estimated to be useful over a 6 year period. Any further excess in the fair value should be attributed to increase in building value which is to be depreciated over 10 years.

NCI on the acquisition date was decided to be measured at the proportion of the net assets attributable to them. During the year 2011 and 2012, S made a profit of Rs..8,000 and 7,000 respectively.

On 1st Jan 2011 P Ltd sold a motor vehicle to S Ltd at a price of Rs.. 15,000. The book value at the date of sale was Rs..10,000. The group companies depreciate its motor vehicles over a 5 year period. On 30th Sep 2012 S sold a machine to P at a profit of Rs.1,000 which had a useful life of 5 years.

During the year P made sales of Rs.10,000 to S at cost plus 25%. S had 40% of these goods left with them at the year end. S also made sales of Rs.4,000 to P at a margin of 15% and P had 30% of these goods left with them. At the year end the goodwill (the portion applicable to P) was impaired by Rs..1000

The Statement of Financial Positions as at 31st December 2012 are given below.

	P	S
	Rs.	Rs.
Non-current assets	100,000	75,000
Investment in S	100,000	-
Current assets	45,000	45,000
Total assets	245,000	120,000
Stated capital (Rs.1)	140,000	80,000
Retained earnings	80,000	35,000
Liabilities	25,000	5,000
Total equity and liabilities	245,000	120,000

………………………. Ltd

Statement of Financial Position

As at………………… (in Rs' ………..)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1 - Acquisition information summary

Working 2 – Consolidation

(In Rs'…………)

Description	Goodwill calculation	NCI	Group Retained earnings
Investment			
+ NCI			
(-) Net Assets			
Goodwill on acquisition date			
Retained Earnings of Subsidiary - Post acquisition			
Retained Earnings of Parent - Year end amount			
Balance at year end			

Working 3 – Inter company transactions

LKAS – 28 Investments In Associates And Joint Ventures

"An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture"

1.) **Significant influence – Associates**

- 20% or more of voting power
- Indicators
  - Representation on board of directors
  - Participation in policy making process
  - Material transactions between investor and investee
  - Interchange of managerial personnel
  - Provision of essential technical information
- Potential voting rights included

2.) **Accounting for associates**

- **Consolidated financial statements**
  - Must apply the equity method
  - Except when:
    - investee classified as held for sale (SLFRS 5)
    - exemption applies
- **Separate financial statements**
  - at cost; or
  - in accordance with SLFRS 39
  - equity method of accounting

3.) **Equity method**

- Method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for changes in the investor's share of net assets of the investee

	Initial cost
+/-	Share of profits / losses (including amortisation of FV adjustments)
-	Distributions received (Dividends Received)
+/-	Share in direct changes in equity
=	Carrying amount

- Goodwill is included in the carrying amount of the investment; it is not shown separately and is not amortised

Equity method – Example

- On 1 January 2008 Rodney Co. purchases 35% of Franck Co. for 40,000. The fair value of net identifiable assets is 100,000. Goodwill is not amortised.

Value of purchase:	
Net identifiable assets	**100,000**
Percentage	**35%**
	35,000
Goodwill	**5,000**
	40,000
31 December 2008	
Net profit in 2008	**20,000**
Dividend declared and paid in 2008	**6,000**

Equity method issues

- **Unrealised profits / losses**
  - Unrealised profits / losses from transactions between investor and associate must be eliminated
- **Recognition of losses**
  - In recognising losses, consider the carrying amount of the investment and other long-term interests in writing down the investment

8. Consolidated Financial Statements

9. Investments In Associates – Exercises

Ex 01 – Basic Statement of Financial Position

Statements of Financial Position of P S and A are given below as at 31st March 2012

Non current assets	P Ltd	S Ltd	A Ltd
PPE	10,000	5,000	4,000
Investment in S Ltd	6,000	-	-
Investment in A Ltd	2,000	-	-
Current assets	5,000	2,500	2,000
Total Assets	**23,000**	**7,500**	**6,000**
Equity and Liabilities			
Stated Capital	12,000	3,000	4,000
Retained Earnings	5,000	2,500	1,000
Liabilities	6,000	2,000	1,000
Total Equity and liabilities	**23,000**	**7,500**	**6,000**

- On 1-4-2009 P acquired 75% of S when S Ltd's retained earnings stood at 1000.
- On 1-4-2011 P acquired 30% in A when A ltd's retained earnings stood at 600.
- During the year ended 31-3-2012 A ltd made a profit of 1000 and paid a dividend of 600
- P Ltd has accounted for the dividends received as other income

  Prepare the Consolidated Statement of Financial Position of P Ltd Group.

………………………. Ltd

Statement of Financial Position

As at………………… (in Rs' ………..)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1 - Acquisition information summary

Working 2 – Consolidation

(In Rs'…………..)

Description	Goodwill calculation	NCI	Group Retained earnings	Investment in Associate
Investment				
+ NCI				
(-) Net Assets				
Goodwill on acquisition date				
Retained Earnings of Subsidiary - Post acquisition				
Retained Earnings of Parent - Year end amount				
Investment in Associate				
Share of profits				
Dividends of Associate				
Balance at year end				

Ex 02 – Dividend receivable From Associate

Statements of Financial Position as at 31.3.2012

Non current assets	P Ltd	S Ltd	A Ltd
PPE	14,300	5,000	4,000
Investment in S Ltd	2,500	-	-
Investment in A Ltd	1,200	-	-
Current assets	5,000	2,500	2,000
Total Assets	**23,000**	**7,500**	**6,000**
Equity and Liabilities			
Stated Capital	12,000	3,000	4,000
Retained Earnings	5,000	2,500	1,000
Liabilities	6,000	2,000	1,000
Total Equity and liabilities	**23,000**	**7,500**	**6,000**

- On 1-4-2009 P acquired 75% of S when S Ltd's retained earnings stood at 1000.
- On 1-4-2011 P acquired 30% in A when A ltd's retained earnings stood at 600.
- During the year ended 31-3-2012 A ltd made a profit of 900 of which 500 was declared as dividend.
- P Ltd has not yet accounted for the dividends receivable

Prepare the Consolidated Statement of Financial Position of P Ltd Group.

………………………. Ltd

Statement of Financial Position

As at………………… (in Rs' ………..)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Investment in Associate		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1 - Acquisition information summary

Working 2 – Consolidation

(In Rs'……………..)

Description	Goodwill calculation	NCI	Group Retained earnings	Investment in Associate
Investment				
+ NCI				
(-) Net Assets				
Goodwill on acquisition date				
Retained Earnings of Subsidiary - Post acquisition				
Retained Earnings of Parent - Year end amount				
Investment in Associate				
Share of profits				
Dividends of Associate				
Balance at year end				

Transaction between the Group and the Associate

Tutorial Note

Trading transactions and/or loans may be made between member companies of the group (i.e. parent and subsidiaries) and the associate. As the associate is not consolidated, these transactions are not cancelled out.

For example, a loan made by the parent to an associate will remain as a loan on the consolidated Statement of Financial Position (as an asset). The liability recorded in the associate's Statement of Financial Position will merely reduce the net assets (which are recorded as one figure-share of net assets- on the consolidated Statement of Financial Position).

Trading between group and associate.

An adjustment will only be required if there is unrealized profit at the Statement of Financial Position date, i.e. inventories exist as a result of the trading.

The elimination should be taken in the consolidated income statement against either the group or the associate according to which of them recorded the profit on the transaction. The adjustment in the Statement of Financial Position should be made against:

- consolidated inventory (if the unrealized profit is in respect of part of this inventory)
- investment is associate (if the inventory is in the associate).

Steps in eliminating the unrealized profits

Step 1 Calculate the Unrealized Profit only to the extent of the investors holding percentage

Based on the markup basis the URP should be calculated and multiplied by the investors holding percentage

Step 2 Determine who has made the sale and where the profit is recorded then eliminate the URP

Investor ⟶ Associate

When the Investor has sold goods to the Associate then the profit is realized in the parent's books and thus the URP should be removed from the consolidated P&L and,

As the carrying amount in the investment in associate represent the investors portion of the Net Assets of the associate the URP of inventories is included in it. Therefore it should be removed from there as well.

Consolidated P&L	Dr
Investment in associate	Cr

Associate ⟶ Investor

When the Associate has sold the goods to the parent the entries are as follows

Consolidated P&L	Dr
Consolidated Inventories	Cr

Receivables and payables in the Statement of Financial Position from trading

Any receivables and payables arising from trading between the associate and the investor should be kept in the consolidated Statement of Financial Position and is not eliminated.

Ex 03 URP on transactions with Associate

Statements of Financial Position as at 31.3.2012

Non current assets	P Ltd	S Ltd	A Ltd
PPE	12,000	6,500	5,200
Investment in S Ltd	6,000	-	-
Investment in A Ltd	2,000	-	-
Inventories	5,000	2,500	2,000
Total Assets	**25,000**	**9,000**	**7,200**
Equity and Liabilities			
Stated Capital	12,000	3,000	4,000
Retained Earnings	5,000	2,500	1,000
Revaluation Reserve	2,000	1,500	1,200
Liabilities	6,000	2,000	1,000
Total Equity and liabilities	**25,000**	**9,000**	**7,200**

- On 1-4-2009 P acquired 75% of S when S Ltd's retained earnings stood at 1000 and the revaluation reserve stood at 300. On this date the fair value of the net assets exceeded the book value by 800. These assets were estimated to have a useful life of 8 years.
- The groups policy is to measure NCI at proportion of net assets.
- On 1-4-2011 P acquired 30% in A when A ltd's retained earnings stood at 600 and the revaluation reserve stood at 200.
- During the year S sold goods to P amounting to 2000 and 30% of these goods were with P at the year end. S sets the selling price at a markup of 25% on cost.
- During the year ended 31-3-2012 A ltd made 1000 sales to P Ltd at a margin of 20% on selling price. At the year end P Ltd had 30% of these goods with them.
- During the year P sold goods to A amounting to 1000 and 40% of these goods were with A at the year end. P sets the selling price at a margin of 20% on selling price.
- During the year S sold goods to A amounting to 500 and 50% of these goods were with A at the year end. S sets the selling price at a markup of 25% on cost
- At the year end the goodwill was impaired by 200 and the investment in A was impaired by 300.

Prepare the Consolidated Statement of Financial Position of P Ltd Group.

……………………… Ltd

Statement of Financial Position

As at………………… (in Rs' …………)

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Goodwill		
Investment in Associate		
Current assets		
Total assets		
Equity		
Stated Capital		
Retained earnings		
Equity attributable to Parent company shareholders		
Non-Controlling Interest		
Total equity		
Liabilities		
Total equity and liabilities		

Working 1 - Acquisition information summary

Working 2 – Consolidation

Description	Goodwill calculation	NCI	Group Retained earnings	Investment in Associate
Investment				
+ NCI				
(-) Net Assets				
Goodwill on acquisition date				
Retained Earnings of Subsidiary - Post acquisition				
Retained Earnings of Parent - Year end amount				
Investment in Associate				
Share of profits				
Dividends of Associate				
Balance at year end				