# CONSOLIDATION GOODWILL

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# Question 07

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## Question 07

Wellington PLC purchased 80% of the equity share capital of Boot PLC on 1 April 2019.

*Consideration includes following items*

- Cash paid Rs 500,000
- Machine which had a carrying value of Rs. 750,000/- was transferred to the previous owners of Boot The machine had a market value of Rs. 800,000/- as at the acquisition date.
- Wellington issued four shares for every three shares acquired to the shareholders of Boot. Wellington's market price per share as at acquisition date was Rs.8.75/-
- Cash of Rs 440,000 to be paid one year after the date of acquisition.

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## Question 07

*Consideration includes following items*

- Cash of Rs 1,100,000 may be paid one year after the date of acquisition, if Boot achieves a revenue target of Rs.200Mn in the year 2019/20. It is thought that there is only 80% chance that this will occur. The fair value of this consideration is to be measured at the present value of the expected value.
- Legal fees associated with the acquisition amounted to Rs. 25,000.
- Assume a discount rate of 10%.

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## Question 07

Fair value of Net Assets of the Subsidiary

- Boot's share capital is made up of Rs. 3,000,000 Rs 10 shares and it had retained earnings of Rs 1,000,000 at the date of acquisition.
- Boot's property plant and equipment which had a carrying value of Rs. 3,200,000/- The fair value of those assets were Rs. 4,000,000/- as at the date of acquisition. The property plant and equipment had a remaining useful life of 04 years.
- Boot had an internally generated brand name which had a market value of Rs.500, 000/-. The brand name had a useful life of 05 years.
- An employee filed a case against Boot claiming a compensation of Rs.300, 000/-. The case was not finalized as at the acquisition date.

Non-Controlling Interest

- The fair value of the NCI at 1 April 2019 was Rs 1,250,000.

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## Question 07

7.1 Calculate the value of total consideration

7.2 Determine the double entries in Parent Company's books for the consideration.

7.3 Calculate the fair value of net assets of subsidiary at acquisition

7.4 Calculate and Explain the depreciation on fair value gain in subsidiary property plant and equipment for the year 2019/20

7.5 Calculate and Explain the amortization of intangible asset for the year 2019/20

7.6 Calculate the goodwill

- NCI at fair value method
- NCI at proportion of net assets method

7.7 Determine the double entries in for Goodwill in Consolidated Books

6

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# 7.1 and 7.2 Calculating the Fair Value Consideration

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## Steps to Follow

- Calculate and recognize the Fair value adjustments relevant to each Consideration element
- Then take the total of Fair value of Consideration

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8

# Answer 7.1

## Working 01 Machine Disposal Gain

| | | |
|---|---|---|
| Market Value of the Machine | = | |
| Carrying Value of Machine | = | |
| Disposal Gain from Machine | = | |

**Double Entry for Disposal of Machine**

Dr Investment in Subsidiary
Cr Property Plant and Equipment
Cr Other income (Console RE)

9

9

# Answer 7.1

## Working 02 Market Value of Shares Issued

| | | | | |
|---|---|---|---|---|
| Fair Value of Shares Issued | = | No of Shares Issued | X | Market Price Per Share of Parent at Acquisition |
| | = | Subsidiary's Total Number of Shares X Acquired Percentage X Share Issue Proportion | X | Market Price Per Share of Parent at Acquisition |
| | = | | X | |
| | = | | X | |
| | = | | | |

**Double Entry for Share Issue**

Dr Investment in Subsidiary
Cr Share Capital of Parent

10

10

## Question 7.1

### Working 03 Present Value of Deferred Consideration

| | | |
|---|---|---|
| Future Value | = | |
| Discount Factor (1/r^n)<br>r = n = | = | |
| Present Value | = | |

**Double Entry for Deferred Consideration**

Dr Investment in Subsidiary

Cr Deferred Consideration Liability

11

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## Answer 7.1 - Working 04 Probability Weighted Present Value of Contingent Consideration

| | | |
|---|---|---|
| Future Value | = | |
| Probability | = | |
| Expected Value | = | |
| Discount Factor (1/r^n)<br>r = n = | = | |
| Probability Weighted Present Value | = | |

**Double Entry for Contingent Consideration**

Dr Investment in Subsidiary

Cr Contingent Consideration Liability

12

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# Answer 7.1

## Legal Fees

Legal fees is not a part of the consideration as it has not been paid to the previous owners of the subsidiary. Further, it was paid to facilitate the transaction only. Therefore, it's a transaction cost which shall be charged to parent company's profit or loss as an other expenses.

**Note 01 – Legal Charges**

Dr Other Expenses (Console RE)
Cr Cash

13

13

# Answer 7.1

## Fair value of Consideration

| | | |
|---|---|---|
| Cash | = | |
| W1 Machine Transferred | = | |
| W2 Shares Issued @ Fair Value | = | |
| W3 Deferred Consideration | = | |
| W4 Contingent Consideration | = | |
| Total Consideration | = | |

**Cash Consideration**

Dr Investment in Subsidiary
Cr Cash

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# 7.3 Calculating the Fair Value of Subsidiary's Net Assets as at Acquisition Date

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# Steps to Follow

- Calculate and recognize Fair value gains or losses relevant to Subsidiary Assets and Liabilities as at acquisition in Console Books
- Recognize Subsidiary's Internally generated Intangible Assets if any
- Recognize the Contingent Liabilities if any
- To the Book Value of Net Assets of Subsidiary, Adjust the Fair value adjustments said above

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# Answer 7.3

## Working 01

## PPE Fair Value Adjustment

| | | |
|---|---|---|
| Market Value of the PPE | = | |
| Carrying Value of PPE | = | |
| Fair Value Gain from PPE | = | |

**Double Entry for PPE Fair Value Gain**

Dr Consolidated PPE
Cr Subsidiary Pre-Acquisition Revaluation Reserve

17

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# Answer 7.3

## Working 02

## Internally Generated Brand Name

**Double Entry to Recognize Internally Generated Brand Name**

Dr Consolidated Intangible Assets
Cr Subsidiary Pre-Acquisition Retained Earnings

18

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# Answer 7.3
## Working 03
## Contingent Liability

**Double Entry to Recognize Contingent Liability**

Dr Subsidiary Pre-Acquisition Retained Earnings
Cr Console Contingent Liability

19

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# Answer 7.3
## Fair value of Subsidiary Net Assets @ Acquisition

| | | |
|---|---|---|
| Stated Capital | = | |
| Retained Earnings | = | |
| Book Value of Net Assets of S' @ Acquisition | = | |
| Fair Value Adjustments | = | |
| W1 - Revaluation Reserve (Land) | = | |
| W2 - Retained Earnings (Brand Name) | = | |
| W3 - Retained Earnings (Contingent Liabilities) | = | |
| Total Fair Value of Net Assets of S' @ Acquisition | = | |

20

20

Answer 7.4

## Depreciation on Fair Value Gain in Subsidiary Property Plant and Equipment for the year 2019/20

| | Subsidiary Books | Console Books | Difference |
|---|---|---|---|
| Property Plant and Equipment | Carrying Value 3,200,000 | Market Value 4,000,000 | Fair Value Gain 800,000 |
| Useful Life | 4 | 4 | 4 |
| Depreciation | 800,000 | 1,000,000 | 200,000 |

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Answer 7.4

## Depreciation on Fair Value Gain in Subsidiary Property Plant and Equipment for the year 2019/20

**Depreciation**

Dr Subsidiary Post-Acquisition Retained Earnings
Cr Consolidated Property Plant and Equipment

22

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# Answer 7.5

## Amortization of Intangible Asset for the year 2019/20

| | Subsidiary Books | Console Books | Difference |
|---|---|---|---|
| Intangible Assets | Carrying Value 0 | Market Value 500,000 | Fair Value Gain 500,000 |
| Useful Life | 5 | 5 | 5 |
| Amortization | 0 | 100,000 | 100,000 |

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# Answer 7.5

## Amortization of Intangible Asset for the year 2019/20

**Amortization**

Dr Subsidiary Post-Acquisition Retained Earnings
Cr Consolidated Intangible Assets

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# 7.6
# Calculating the Goodwill



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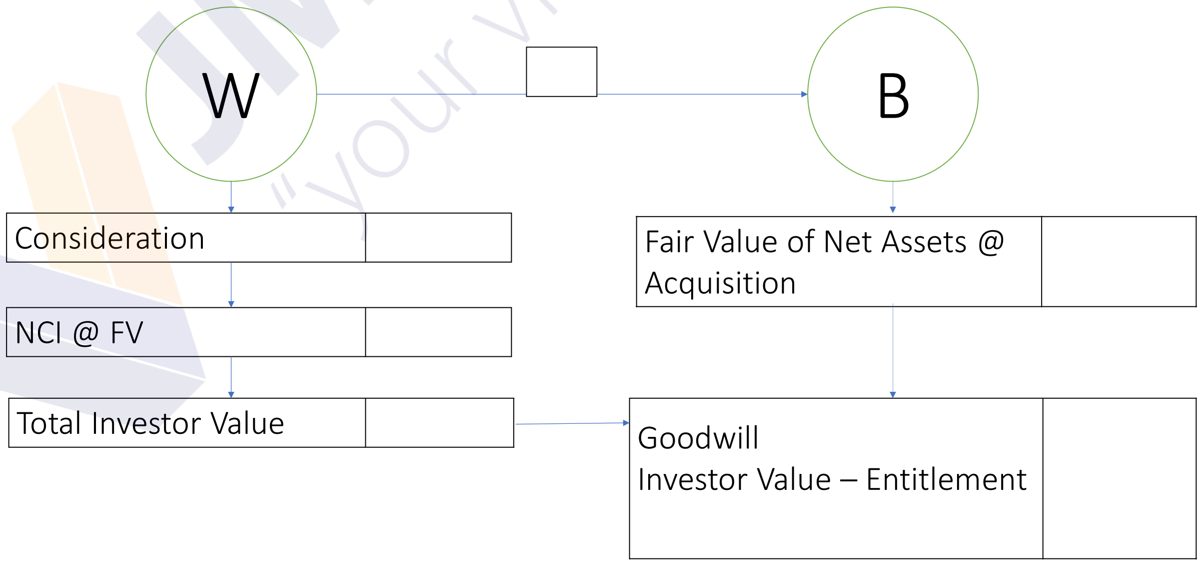
## Answer 7.6 – Goodwill if NCI @ FV



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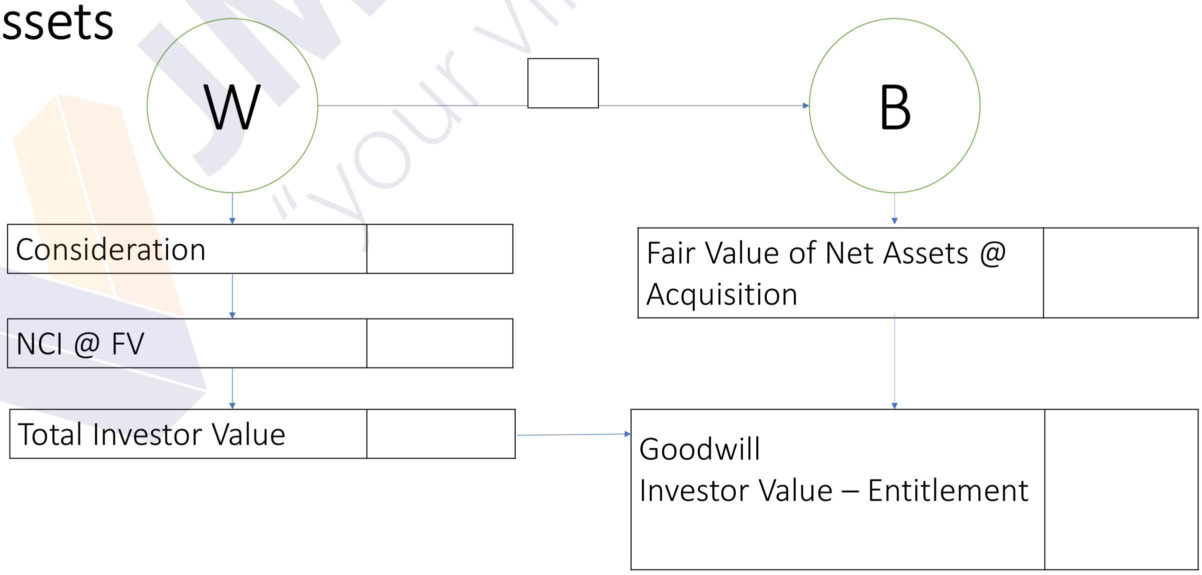
# Answer 7.6
## Working 01 – NCI @ Proportionate Net Assets

| | |
|---|---|
| Subsidiary's Fair Value of Net Assets at Acquisition Day | |
| NCI Percentage | |
| NCI @ Proportionate Net Assets | |





## Answer 7.6 – Goodwill if NCI @ Proportionate Net Assets









# Answer 7.6

## Goodwill Belong to NCI

Goodwill belong to NCI is the difference between Goodwill valued at NCI using fair value method and proportionate net assets method

| | NCI @ FV | NCI @ %NA | Difference |
|---|---|---|---|
| NCI Value | 1,250,000 | 1,000,000 | 250,000 |
| Goodwill | 1,550,000 | 1,300,000 | 250,000 |

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# 7.7 Goodwill Double Entries

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## Answer 7.7
## Goodwill Double Entries if NCI Measured using Fair Value

| Description | Amount | Dr | Cr |
|---|---|---|---|
| Parent's Consideration | 5,300,000 | Goodwill | Investment in Subsidiary |
| NCI | 1,250,000 | Goodwill | Non-Controlling Interest |
| Net Assets of the Subsidiary | 5,000,000 | Stated Capital and Pre-Acquisition Reserves | Goodwill |

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## Answer 7.7
## Goodwill Double Entries if NCI Measured using Proportionate Net Assets

| Description | Amount | Dr | Cr |
|---|---|---|---|
| Parent's Consideration | 5,300,000 | Goodwill | Investment in Subsidiary |
| NCI | 1,000,000 | Goodwill | Non-Controlling Interest |
| Net Assets of the Subsidiary | 5,000,000 | Stated Capital and Pre-Acquisition Reserves | Goodwill |

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# Question 08





## Question 08

- Spain acquired 80% of the share capital of Madrid paying consideration of Rs 8 million. At acquisition, the statement of financial position of Madrid showed equity share capital of Rs 3 million (Rs.10 per share) and retained earnings of Rs 4.5 million.
- The market price per share of Madrid as at the acquisition date was Rs.30 per share.
- Following additional information provided regarding the net assets of the Madrid.
- Freehold land with a book value of Rs 400,000 but a market value of Rs 900,000
- Machinery with a book value of Rs 1.2 million. No reliable market value exists for these items. They would cost Rs 1.5 million to replace as new. The machinery has an expected life at 10 years and Madrid's machines are 4 years old.







 

## Question 08

- An equipment with a book value of Rs.1 million. The market value details were not available. However, the details obtained to assess the market value using income approach were as follows.
  - Remaining useful life was 05 years
  - Cash inflows expected per annum over the useful life Rs.800,000/-
  - Cash outflows expected per annum over the useful life Rs.500,000/-
  - Residual value expected at the end of useful life Rs.101,082/-
  - 10% discount rate assumed
- The fair value of all other assets and liabilities are approximately equal to book value.
- Madrid's brand name was internally generated and so is not recognized in their statement of financial position. However, valuation experts have estimated its fair value to be Rs 800,000. The brand name has a remaining useful life of 05 years.

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## Question 08

- A Supplier of Madrid has filed a case against the company claiming a compensation of Rs.200,000/- for a returned cheque. This case was not finalized at the date of acquisition.
- The directors of Spain intend to close down one of the divisions of Madrid and wish to provide for operating losses up to the date of closure which is estimated at Rs 729,000.
- An investment in plant and machinery will be required to bring the remaining production line of Madrid up to date. This will amount to Rs 1,200,000 in the next 12 months.

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# Question 08

Calculate

8.1 The fair value of net assets acquired of Subsidiary

8.2 Explain the Accounting Treatments for

- Subsidiary PPE fair value Gains/Losses at acquisition
- Subsidiary Internally Generated Intangible Assets
- Subsidiary Contingent Liabilities at Acquisition
- Subsidiary Future Operating Losses
- Future Investments to be Made in Subsidiary

8.3 Goodwill if NCI measured at fair value

8.4 Goodwill if NCI measured at proportionate net assets

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# 8.1 and 8.2 Calculating the Fair Value of Subsidiary's Net Assets as at Acquisition Date

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# Steps to Follow

- Calculate and recognize Fair value gains or losses relevant to Subsidiary Assets and Liabilities as at acquisition in Console Books
- Recognize Subsidiary's Internally generated Intangible Assets if any
- Recognize the Contingent Liabilities if any
- To the Book Value of Net Assets of Subsidiary, Adjust the Fair value adjustments said above

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Answer 8.1

## Working 01

## Land Fair Value Adjustment

| | | |
|---|---|---|
| Market Value of the Land | = | |
| Carrying Value of Land | = | |
| Fair Value Gain from Land | = | |

Double Entry for Land Fair Value Gain

Dr Consolidated PPE

Cr Subsidiary Pre-Acquisition Revaluation Reserve

40

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# Answer 8.1
## Working 02
## Machine Market Value

| | | |
|---|---|---|
| Replacement Cost | = | |
| (-) Accumulate Depreciation<br>Expected Useful Life =<br>Age of Existing Asset = | = | |
| Depreciated Replacement Cost (Market Value Equivalent) | = | |

41

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# Answer 8.1
## Working 03
## Machine Fair Value Adjustment

| | | |
|---|---|---|
| Market Value of the Machine | = | |
| Carrying Value of Machine | = | |
| Fair Value Gain/Loss from Machine | = | |

**Double Entry for Machine Fair Value Loss**

Dr Subsidiary Pre-Acquisition Retained Earnings
Cr Console PPE

42

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## Answer 8.1

### Working 04 Equipment Market Value

| | 1-5 | 5 |
|---|---|---|
| Cash Inflows | | |
| Cash Outflows | | |
| Residual Value | | |
| Net Cashflow | | |
| Annuity Factor or Discount Factor<br>Annuity Factor = (1-(1/1+r^n))/r<br>Discount Factor = 1/1+r^n | | |
| Present Value | | |
| Total Present Value | | |

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## Answer 8.1

### Working 05

### Equipment Fair Value Adjustment

| | | |
|---|---|---|
| Market Value of the Equipment | = | |
| Carrying Value of Equipment | = | |
| Fair Value Gain from Equipment | = | |

**Double Entry for Equipment Fair Value Gain**

Dr Consolidated PPE

Cr Subsidiary Pre-Acquisition Revaluation Reserve

44

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Answer 8.1

## Working 06

## Internally Generated Brand Name

**Double Entry to Recognize Internally Generated Brand Name**

Dr Consolidated Intangible Assets
Cr Subsidiary Pre-Acquisition Retained Earnings

45

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Answer 8.1

## Working 07

## Contingent Liability

**Double Entry to Recognize Contingent Liability**

Dr Subsidiary Pre-Acquisition Retained Earnings
Cr Console Contingent Liability

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## Answer 8.1 Fair value of Subsidiary Net Assets @ Acquisition

| | | |
|---|---|---|
| Stated Capital | = | |
| Retained Earnings | = | |
| Book Value of Net Assets of S' @ Acquisition | = | |
| Fair Value Adjustments | = | |
| W1 - Revaluation Reserve (Land) | = | |
| W2 - Revaluation Loss (Machine) | = | |
| W4 - Revaluation Gain (Equipment) | = | |
| W6 - Retained Earnings (Brand Name) | = | |
| W7 - Retained Earnings (Contingent Liabilities) | = | |
| Total Fair Value of Net Assets of S' @ Acquisition | = | |

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## Answer 8.2

### Future Operating Losses

Future operating losses are not a part of Subsidiary's fair value of net assets as at the acquisition date. The reason is that such operating losses were not been occurred as at the acquisition date

### Future Investment

Future Investment is not a part of Subsidiary's fair value of net assets as at the acquisition date. The reason is that such investment is relevant to post-acquisition period

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# 8.3 and 8.4 Calculating the Goodwill

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# Steps to Follow

- Calculate the Consideration by Parent to Acquire Subsidiary
- Calculate the Fair Value of Subsidiary Net Assets as at Acquisition
- Calculate Non-Controlling Interest using either Fair Value Method or Proportionate Net Assets Method
- Calculate the Goodwill as the Difference between Total Investor Value (Consideration + NCI) and Fair Value of Net Assets of Subsidiary at Acquisition

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## Answer 8.3
## Working 08 – NCI @ Fair Value

| | |
|---|---|
| No. of Shares Belong to NCI | |
| Subsidiary's Market Price per Share at Acquisition | |
| NCI @ Fair Value | |

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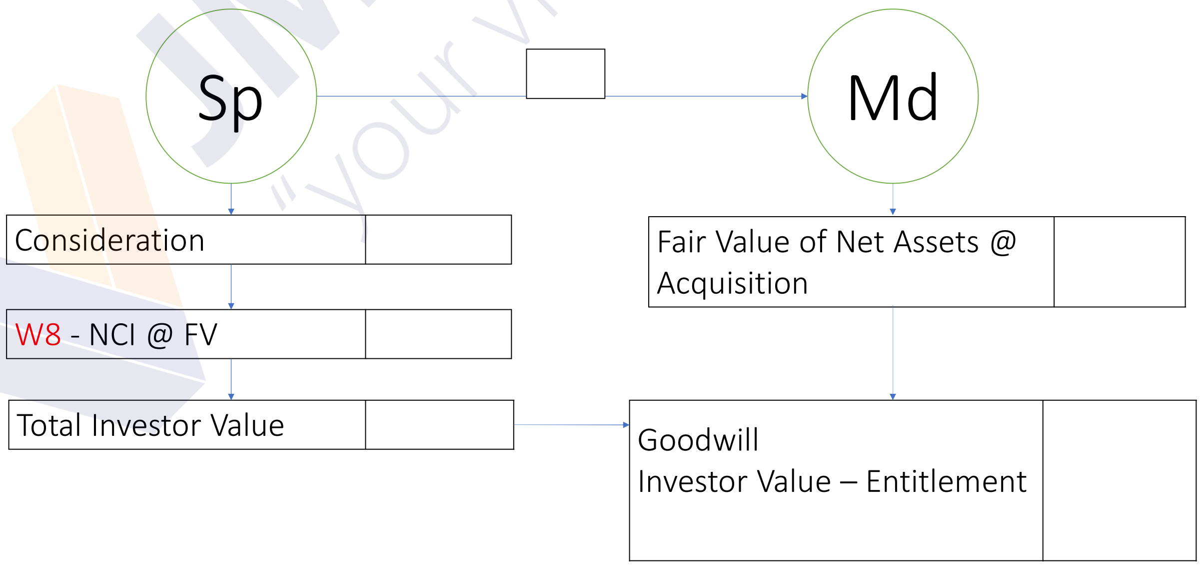
## Answer 8.3 – Goodwill if NCI @ FV

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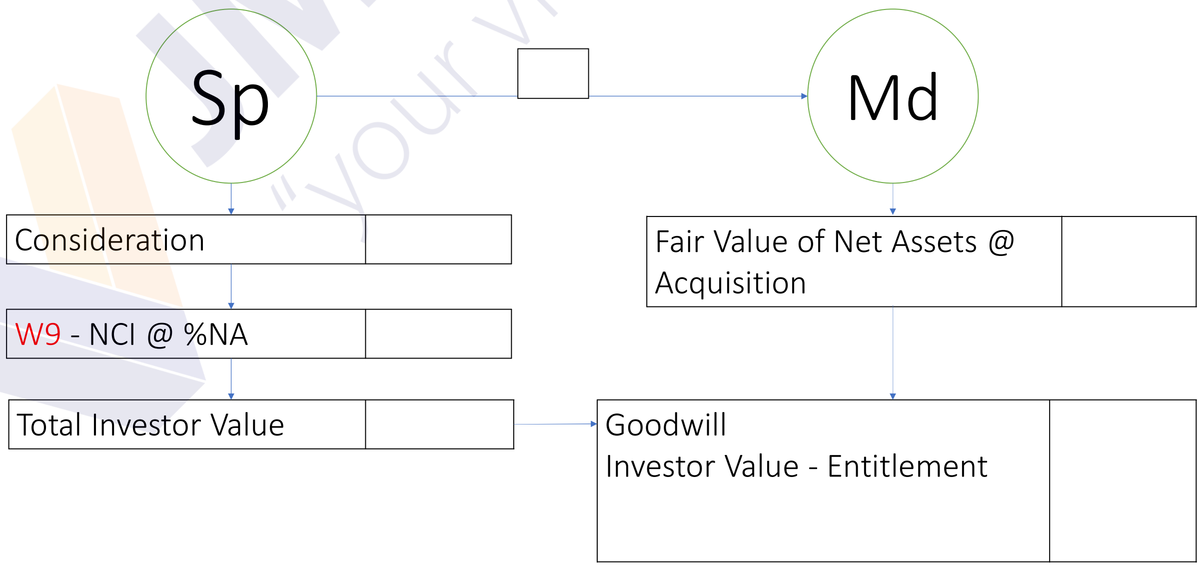
## Answer 8.3
## Working 09 – NCI @ Proportionate Net Assets

| | |
|---|---|
| Subsidiary's Fair Value of Net Assets at Acquisition Day | |
| NCI Percentage | |
| NCI @ Proportionate Net Assets | |





## Answer 8.4 – Goodwill if NCI @ %NA









Difference in Goodwill (1.3Mn vs 1.2Mn) and NCI (1.8Mn vs 1.7Mn)in two different methods is the Goodwill belong to NCI (Rs.100,000)

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# IMPAIRMENT OF GOODWILL

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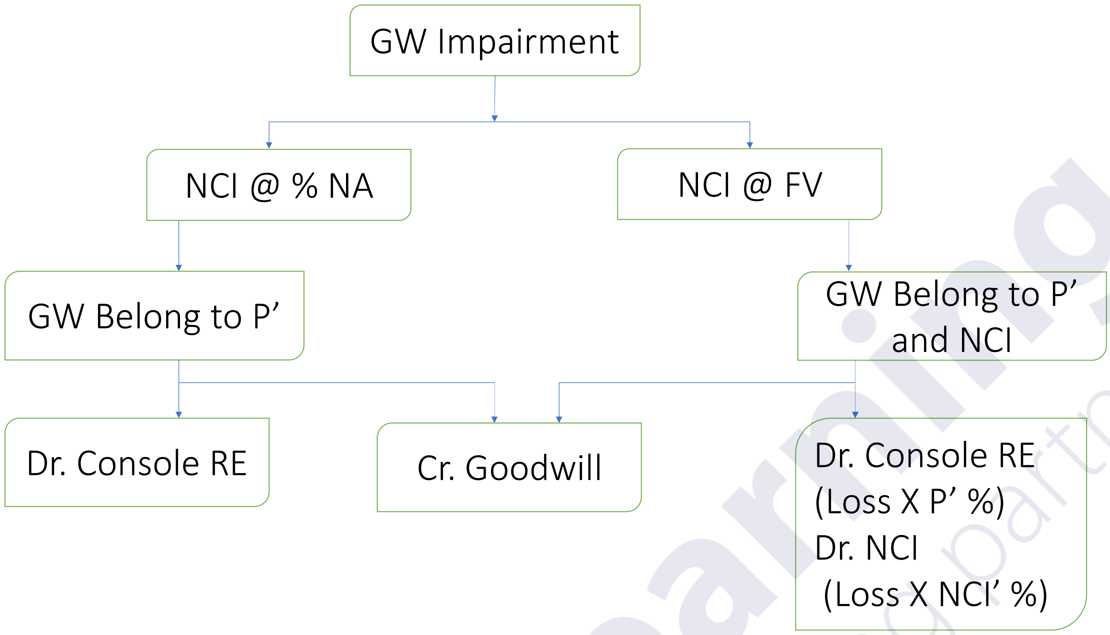


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# Question 09

- H purchased 80% of S's on 1 January 2020. S paid Rs 6,000 cash for their investment. At 1 January 2020, the value of S's net assets was Rs 6,200. S's share price at this date was Rs 3.75
- S had 2,000 shares in issue.

Calculate

The goodwill arising on the acquisition of S, valuing the NCI:

09.1 Using the fair value method

09.2 Using the proportion of net assets method

If Goodwill is impaired by 20%, provide the double entries if NCI valued using

09.3 Using the fair value method

09.4Using the proportion of net assets method

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## Answer 09.1
## Working 01 – NCI @ Fair Value

| | |
|---|---|
| No. of Shares Belong to NCI | |
| Subsidiary's Market Price per Share at Acquisition | |
| NCI @ Fair Value | |

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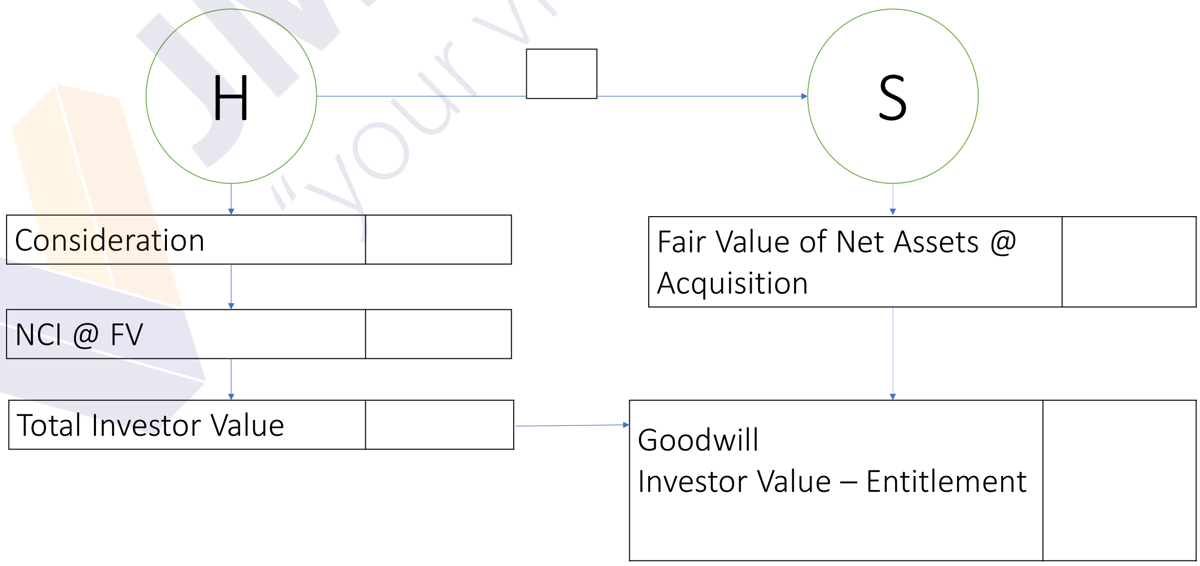
## Answer 09.1 – Goodwill if NCI @ FV




60

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## Answer 09.2
## Working 09 – NCI @ Proportionate Net Assets

| | |
|---|---|
| Subsidiary's Fair Value of Net Assets at Acquisition Day | |
| NCI Percentage | |
| NCI @ Proportionate Net Assets | |

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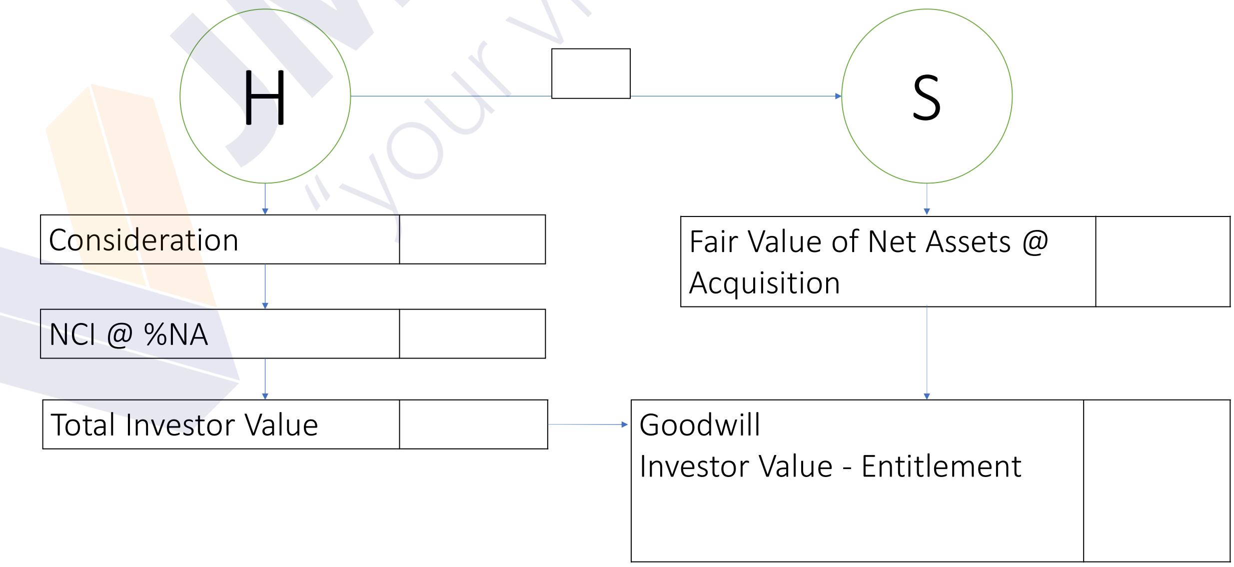
## Answer 09.2 – Goodwill if NCI @ %NA

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# Answer 09

## Goodwill Belong to NCI

Goodwill belong to NCI is the difference between Goodwill valued at NCI using fair value method and proportionate net assets method

| | NCI @ FV | NCI @ %NA | Difference |
|---|---|---|---|
| NCI Value | 1,500 | 1,240 | 260 |
| Goodwill | 1,300 | 1,040 | 260 |

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# Answer 10.3 and 10.4

## Goodwill Impairment

- If NCI measured at fair value, goodwill belong to both Parent and NCI. Therefore, goodwill impairment shall be allocated to both Parent and NCI using their ownership proportions
- If NCI measured at proportionate share of net assets, goodwill belong to parent only. Therefore, goodwill impairment shall be allocated only to parent

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| | NCI @ FV | NCI @ %NA |
|---|---|---|
| Goodwill | 1,300 | 1,040 |
| 20% Impairment | 260 | 208 |
| Impairment Belong to Parent | =260 X 80%<br>208 | 208 |
| Impairment Belong to NCI | =260 X 20%<br>52 | - |
| Double Entry | Dr Consolidated RE 208<br>Dr NCI 52<br>Cr Goodwill 260 | Dr Consolidated RE 208<br>Cr Goodwill 208 |

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# GAIN ON BARGAIN PURCHASE

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Investor Value < Entitlement

## GAIN ON BARGAIN PURCHASE



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## Who is Entitled for Gain on Bargain Purchase? Parent or NCI?



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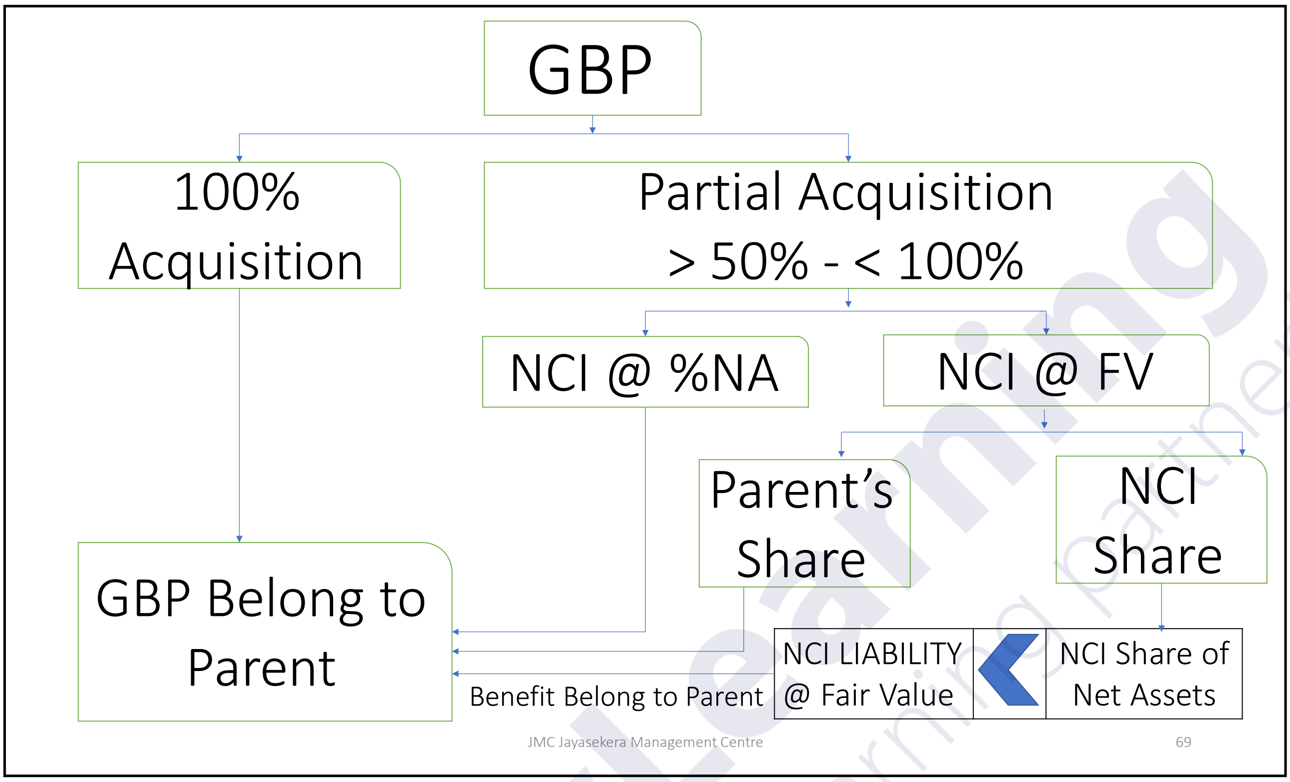


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## Question 10

- P Ltd purchased 70% of the share capital of S on 1/4/19 by paying Rs.250, 000/- in cash.
- P Agreed to pay an additional amount equal to 10% of the following year's profits if it exceeds Rs.500, 000/-. It's forecasted that S would make a profit of Rs.1, 100, 000/-. Discount rate applicable is 10%. A probability of occurrence of 100% assumed.
- P has given a Land to the previous owners of S as part of the settlement. The carrying value of the land is Rs.100, 000/- and the market value is Rs.150, 000/-.
- On 1/4/19 the statement of financial position of S was as follows

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## Question 10

| | Rs.000 |
|---|---|
| PPE | 800 |
| Trade Receivables | 150 |
| Cash | 50 |
| Total Assets | 1000 |
| Stated Capital | 500 |
| Retained Earnings | 200 |
| Liabilities | 300 |
| Total Liabilities | 1000 |

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## Question 10

- On this date the PPE of S limited included a land carried at a value of Rs.300, 000/-, which had a fair value of Rs.400, 000/-.
- S was catering to a very specific customer segment and had a very well recognized trade mark and it was valued at Rs.40, 000/-. This has not been recognized in individual financials of S.
- An employee had filed a case against the company claiming a compensation of Rs.60, 000/-, no provision has been made in this regard.
- S Ltd had 1,000 shares in issue and market price of a share was Rs.750/- each.

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## Question 10

Calculate,

10.1 Fair value of consideration

10.2 Fair value of the net assets acquired of S

10.3 Gain on Bargain Purchase on Acquisition if Non-Controlling interest was measured using proportionate net assets method

10.4 Gain on Bargain Purchase on Acquisition if Non-Controlling interest was measured using fair value method

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# 10.1 Calculating the Fair Value Consideration

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## Answer 10.1 - Working 01 Probability Weighted Present Value of Contingent Consideration

| | | |
|---|---|---|
| Future Value | = | |
| Probability | = | |
| Expected Value | = | |
| Discount Factor (1/r^n)<br>r = n = | = | |
| Probability Weighted Present Value | = | |

Double Entry for Contingent Consideration

Dr Investment in Subsidiary

Cr Contingent Consideration Liability

75

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## Answer 10.1

## Working 02 Land Disposal Gain

| | | |
|---|---|---|
| Market Value of the Land | = | |
| Carrying Value of Land | = | |
| Disposal Gain from Land | = | |

Double Entry for Disposal of Machine

Dr Investment in Subsidiary
Cr Property Plant and Equipment
Cr Other income (Console RE)

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# Answer 10.1

## Fair value of Consideration

| | | |
|---|---|---|
| Cash | = | |
| W1 - Contingent Consideration | = | |
| W2 – Land Transferred | = | |
| Total Consideration | = | |

**Cash Consideration**

Dr Investment in Subsidiary
Cr Cash

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# 10.2 Calculating the Fair Value of Subsidiary's Net Assets as at Acquisition Date

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# Answer 10.2
## Working 01
## Land Fair Value Adjustment

| | | |
|---|---|---|
| Market Value of the Land | = | |
| Carrying Value of Land | = | |
| Fair Value Gain from Land | = | |

Double Entry for Land Fair Value Gain

Dr Consolidated PPE

Cr Subsidiary Pre-Acquisition Revaluation Reserve

79

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# Answer 10.2 Working 02
## Internally Generated Trade Mark

Double Entry to Recognize Internally Generated Brand Name

Dr Consolidated Intangible Assets

Cr Subsidiary Pre-Acquisition Retained Earnings

80

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# Answer 10.2
## Working 03
## Contingent Liability

**Double Entry to Recognize Contingent Liability**

Dr Subsidiary Pre-Acquisition Retained Earnings

Cr Console Contingent Liability

81

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# Answer 10.2
## Fair value of Subsidiary Net Assets @ Acquisition

| | | |
|---|---|---|
| Stated Capital | = | |
| Retained Earnings | = | |
| Book Value of Net Assets of S' @ Acquisition | = | |
| Fair Value Adjustments | = | |
| W1 - Revaluation Reserve (Land) | = | |
| W2 - Retained Earnings (Trade Mark) | = | |
| W3 - Retained Earnings (Contingent Liabilities) | = | |
| Total Fair Value of Net Assets of S' @ Acquisition | = | |

82

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# 10.3 and 10.4 Calculating the Gain on Bargain Purchase

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## Answer 10.3
## Working 09 – NCI @ Proportionate Net Assets

| | |
|---|---|
| Subsidiary's Fair Value of Net Assets at Acquisition Day | |
| NCI Percentage | |
| NCI @ Proportionate Net Assets | |

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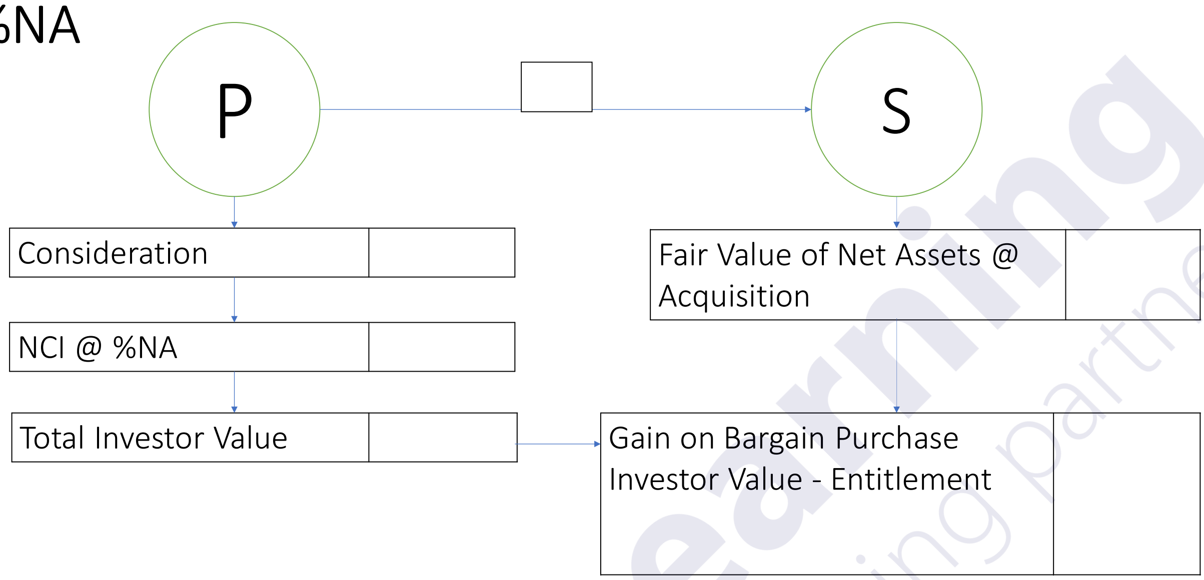
# Answer 10.4 – Gain on Bargain Purchase if NCI @ %NA




85

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# Allocating Gain on Bargain Purchase if NCI Measured using Proportionate Net Assets

| | Parent (70%) | NCI (30%) | Total (100%) |
|---|---|---|---|
| Investment | 500,000 | 234,000 | 734,000 |
| (-) Fair Value of Net Assets (Entitlement) | 780,000 X 70% (546,000) | 780,000 X 30% (234,000) | (780,000) |
| Gain on Bargain Purchase | (46,000) | - | (46,000) |

86

86

# Answer 10.3
## Working 01 – NCI @ Fair Value

| | |
|---|---|
| No. of Shares Belong to NCI | |
| Subsidiary's Market Price per Share at Acquisition | |
| NCI @ Fair Value | |

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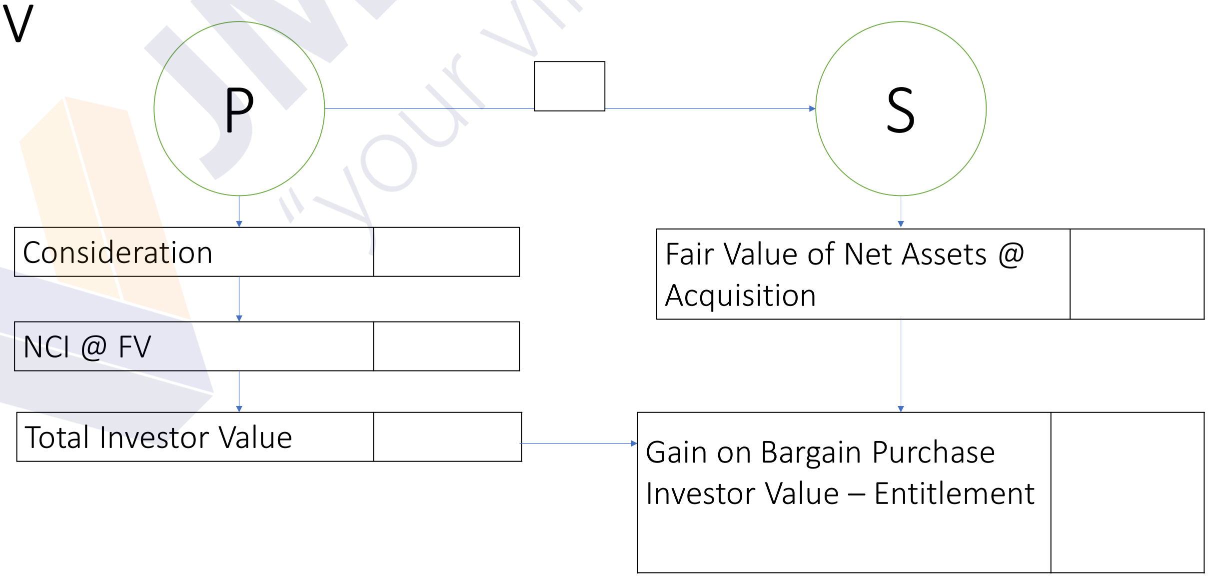
# Answer 10.3 – Gain on Bargain Purchase if NCI @ FV




88

88

## Allocating Gain on Bargain Purchase if NCI Measured using Fair Value Method

| | Parent (70%) | NCI (30%) | Total (100%) |
|---|---|---|---|
| Investment | 500,000 | 225,000 | 725,000 |
| (-) Fair Value of Net Assets (Entitlement) | 780,000 X 70%<br>(546,000) | 780,000 X 30%<br>(234,000) | (780,000) |
| Gain on Bargain Purchase | (46,000) | (9,000) | (55,000) |

89

89

- The parent's share of gain on bargain purchase, Rs.46,000 belong to parent
- The NCI share of gain on bargain purchase indicates that despite NCI liability has an entitlement over net assets of Rs.234,000, But NCI liability was measured at Rs.225,000. Therefore, the benefit of measuring a liability at a lower value belong to the parent.

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