



PREPARATION OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Issue

consolidation is the process of adjusting and combining financial information from the individual financial statements of a parent undertaking and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the group as a single economic entity.

the Consolidated Statement of Financial Position reflects the assets and liabilities within the control of the parent entity, and how they are owned.

defined by IAS 27 Separate Financial Statements, consolidated financial statements are "the financial statements of a group presented as those of a single entity".

EXAMPLE 1

Retained earnings

Liabilities

Rasa acquired 100% of the shares of Tatjana on 1 January, 2009 for \$18,000. At that date the Statements of Financial Position were as follows:

Investment in Tatjana Other assets \$1 Equity shares

\$ \$ 18,000 30,000 20,000 48,000 20,000 20,000 8,000 22,000 10,000 42,000 18,000 6,000 2,000 48,000 20,000

Tatjana

Rasa

Prepare the Consolidated Statement of Financial Position of the Rasa Group as at 1 January, 2009

(Aggregate the two Statements of Financial Position.)

Rasa Group Consolidated Statement of Financial Position as at 1 January, 2009

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- Note
 - share capital is always, only, ever the share capital of the parent entity.
 - the retained earnings of \$10,000 in Tatjana were all achieved prior to Rasa gaining control, and since this question asks for a CSoFP as at date of acquisition, then there has been no opportunity for Tatjana to make any profits subsequent to Rasa gaining control. Therefore, in this example, the consolidated retained earnings are simply those of Rasa.

Post-acquisition reserves

Example 2

One year later, 31 December, 2009 the Statements of Financial Position of Rasa and Tatjana are as follows:		
	Rasa	Tatjana
	\$	\$
Investment in Tatjana	18,000	
Other assets	40,000	26,000
	58,000	26,000
\$1 Equity shares	20,000	8,000
Retained earnings	31,000	14,000
	51,000	22,000
Liabilities	7,000	4,000
	58,000	26,000
Prepare the Consolidated Statement of Financial Position of the Rasa Group as at 31 December, 2009.		

Note

- the Consolidated Statement of Financial Position shows the assets which are under the control of Rasa, rather than the investment in shares of Tatjana
- the share capital is always, only, ever that of the parent entity, because the group financial statements are prepared for the benefit of Rasa's shareholders only.
- included in the Consolidated Statement of Financial Position are Rasa's share of the profits less losses made by Tatjana since acquisition.

Example 3 - Comprehensive example

urimas acquired 100% of Oleg for \$20,000 when the Statement of Financial Po	osition of Oleg was as follow	WS:
and a second of the second of	22.23.7 0. 0.2g Was as follo	\$
ther assets		23,000
1 Equity shares	_	12,000
etained earnings		8,000
stanica carrings	_	20,000
abilities		3,000
abilities	_	23,000
n 31 December, 2009 the Statements of Financial Position of the two entities	are as follows:	23,000
· ·	Aurimas	Oleg
	\$	\$
ivestment in Oleg	20,000	-
ther assets	40,000	30,000
	60,000	30,000
1 Equity shares	10,000	12,000
etained earnings	42,000	15,000
and carmings	52,000	27,000
abilities	8,000	3,000
and market	0,000	3,000
repare the Consolidated Statement of Financial Position of the Aurima	60,000 60,000 s Group as at 31 Decemb	30,000 per, 2009
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Note

- net assets controlled by the group are \$59,000 (assets of \$70,000 less liabilities of \$11,000)
- since Oleg is a 100% subsidiary, Aurimas also owns net assets of \$27,000 ie (\$30,000 \$3,000)
- the consolidated retained earnings comprise the whole of Aurimas' retained earnings (\$42,000) plus Aurimas' share (100%) of Oleg's retained earnings made since acquisition (\$15,000 - \$8,000)

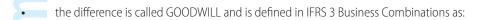




Complications

goodwill

- so far, the cost of the investment has equalled the value of the identifiable net assets acquired and therefore the buying entity has not paid any surplus over the worth of the subsidiary
- where the cost of investment is greater than the fair value of the net assets acquired, the investor has paid for something more than the tangible net assets of the acquired business.



- future economic benefits arising from assets that are not capable of being individually identified and separately recognised

accounting treatment of goodwill

the accounting treatment of goodwill on acquisition of a subsidiary is governed by IFRS 3. It states that purchased positive goodwill should be capitalised and subjected to an annual impairment review.

negative goodwill arising on acquisition

an acquirer should review at the first year end after the acquisition the fair value of assets on acquisition.









EXAMPLE 4

Maruta acquired the entire share capital of Liene for \$30,000 on 1 January, 2009 when the Statements of Financial Position of the two entities were as follows:

	Maruta	Liene
	\$	\$
Investment in Liene	30,000	-
Other assets	40,000	27,000
	70,000	27,000
\$1 Equity shares	25,000	15,000
Retained earnings	36,000	5,000
	61,000	20,000
Liabilities	9,000	7,000
	70,000	27,000

Prepare the Consolidated Statement of Financial Position of the Maruta Group as at 1 January, 2009

Goodwill will be an intangible non-current asset in the top half of the Statement of Financial Position

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	•	Note

- net assets controlled by the group are \$61,000
- share capital is always, only, ever that of the parent entity.



Non-controlling interests

- non-controlling interests arise where the parent entity controls a subsidiary but does not own 100% of it
- Note
 - remember you do not have to own 100% of an entity to control it
 - the group financial statements will need to show the extent to which the assets and liabilities are controlled by the parent entity but are owned by other parties, namely the non-controlling interests.

Workings

- (W1) Group Structure, as normal
- (W2) Goodwill

Net assets @ doa \$1 Equity shares Retained earnings

Χ

(W3) Consolidated retained earnings

Impaired since acquisition

Therefore, on CSoFP

Goodwill

(W4) Non-controlling Interest (? %)

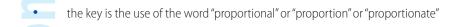
They want their share of the subsidiary net assets at Statement of Financial Position date

Value of nci investment at date of acquisition	Χ
Their share of S post acquisition retained	X
	Χ
Less: their share of goodwill impairment	(X)
Nci on CSoFP	X



The non-controlling interest in the goodwill of the subsidiary creates additional complications

- there are two distinct ways of guiding you in the calculation
- the examiner may say either:
 - the parent company policy is to value the non-controlling interest as their proportional share of the subsidiary's fair valued net assets at date of acquisition, or
 - the parent company policy is to value the non-controlling interest on a full or fair value basis



Example 5

Remigijus acquires 75% of the issued share capital of Ilona for \$80,000 when the Ilona retained earnings were \$60,000. It is the policy of the directors to value the non-controlling interest as their proportional share of the subsidiary fair valued net assets at date of acquisition. Two years later on 31 March, 2010 the respective Statements of Financial Position were:

	Remigijus	Ilona
	\$	\$
Investment in Ilona	80,000	-
Other assets	100,000	150,000
	180,000	150,000
\$1 Equity shares	50,000	32,000
Retained earnings	90,000	98,000
	140,000	130,000
Liabilities	40,000	20,000
	180,000	150,000

Prepa	are the Consolidated Statement of Financial Position of the Remigijus Group as at 31 March, 2010	0.
NB. G	oodwill has not been impaired since acquisition	





- but where the examiner tells us the value of the NCI is based on a full or fair value basis of the market value of the subsidiary information may be given in any one of three ways
- the exam question could say, for example, either
 - goodwill attributable to the NCI on acquisition was \$2,000, or
 - the NCI investment was estimated at \$30,000, or
 - the market value of the subsidiary shares immediately before acquisition was \$4.
- looking at each possibility in turn:

Example 6

Ivona bought 60% of the shares of Guido for \$100,000 when the Guido retained earnings were \$40,000. The Ivona directors have valued the goodwill attributable to the nci at \$5,000. Goodwill has not been impaired since acquisition.

At 30 June, 2010, the respective Statements of Financial Position were:

	Ivona	Guido
	\$	\$
Investment in Guido	100,000	-
Other net assets	60,000	190,000
	160,000	190,000
\$1 Equity shares	70,000	80,000
Retained earnings	90,000	110,000
	160,000	190,000

Prepare the Consolidated Statement of Financial Position as at 30 June, 2010









The other possibility which you could face is where the examiner gives a value for the Guido shares.

EXAMPLE 8

Ising Ivona and Guido, but with the information that the Guido shares were worth \$1.65 immediately before the acquisi- ion by Ivona, prepare the Consolidated Statement of Financial Position as at 30 June, 2010.

- there is a further complication which arises when goodwill is to be impaired.
- in the last of the Ivona / Guido examples, goodwill was \$32,800
- now suppose that this goodwill is to be impaired by 10%





EXAMPLE 9

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Other reserves

- exam questions will often give other reserves (such as a revaluation surplus) as well as retained earnings. These reserves should be treated in exactly the same way as retained earnings.
- if the reserve is pre-acquisition it forms part of the calculation of net assets at the date of acquisition and is therefore used in the goodwill calculation.
- if the reserve is post-acquisition, or there has been some movement on a reserve which existed at acquisition, the Consolidated Statement of Financial Position will show the parent entity's reserve plus its share of the movement on the subsidiary's reserve.

Mid-year acquisitions

- so far, we have considered acquisitions only at the Statement of Financial Position date. Thus, since entities produce Statements of Financial Position at that date anyway, there has been no special need to establish the net assets of the acquired entity at that date.
- with a mid-year acquisition, a Statement of Financial Position is unlikely to exist at the date of acquisition as required. Accordingly, we have to estimate the net assets at the date of acquisition using various assumptions.
- rule for mid-year acquisitions
 - assume that profits accrue evenly throughout the year unless specifically told otherwise.

EXAMPLE 10

Robertas acquired 75% of the issued share capital of Ingrida on 1 August, 2009. At 31 December, 2009 the two entities have the following Statements of Financial Position:

The directors of Robertas have valued the NCI investment on a proportional basis.

I and the second se	Robertas		Ingrida	
	\$	\$	\$	\$
Investment in Ingrida		15,000		-
TNCA		12,000		30,000
Other assets		13,000	_	4,000
	_	40,000		34,000
\$1 Equity shares	_	5,000	_	3,000
Share premium		-		1,500
Retained earnings at 1 January, 2009	24,000		20,000	
Profit for 2009	10,000		6,000	
		34,000	_	26,000
		39,000		30,500
Liabilities		1,000	_	3,500
	_	40,000	_	34,000
			_	

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Prepare the Consolidated Statement of Financial Position of the Robertas Group as at 31 December, 2009.

IFRS 13 Fair value measurement Fair value of assets and liabilities acquired

the fair value is calculated as:

securities and tangible non-current assets - market value

receivables and payables - present value

- finished goods and work in progress net selling price less reasonable profit margin
- raw materials replacement cost
- intangible assets by reference to an active market, or otherwise on an arm's length basis
- if the fair value of an intangible asset cannot be measured with respect to an active market, then the amount recognised should be limited to an amount that does not create negative goodwill (or if it already exists, does not increase negative goodwill).

method

- adjust assets and liabilities to reflect fair values prior to consolidation.
- prepare the consolidated financial statements using the adjusted values of assets and liabilities.
- consider if any adjustments are needed as a result of this eg extra depreciation.





EXAMPLE 11

On 1 January 2008, Dalius acquired 70% of Ramuna for \$250,000 when Ramuna's share capital and reserves were as follows:

	7 000
\$1 Equity shares	130
Retained earnings	20
	150

At acquisition, the fair value of some of Ramuna's assets were greater than their book value as follows:

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Inventory (all sold in the year)	20,000
Non-depreciable non-current assets	15,000
Depreciable non-current assets (over 5years)	30,000
	65,000

At 31 December, 2009 the Statements of Financial Position of Dalius and Ramuna were as follows:

	Dalius	Ramuna
	\$	\$
Cost of investment in Ramuna	250,000	-
Other assets	350,000	300,000
	600,000	300,000
\$1 Equity shares	200,000	130,000
Retained earnings	360,000	100,000
	560,000	230,000
Liabilities	40,000	70,000
	600,000	300,000

It is Dalius' policy to value the non-controlling interest on the proportionate basis

Prepare the Consolidated Statement of Financial Position of Dalius as at 31 December, 2009

Goodwill is not impaired.

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