

Advanced Group Accounting (RIKA)

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Self-Study Exercises Lecture Block 3: Consolidation

Exercise 1: Consolidation NCI

Fact Pattern:

X AG purchases 70% of Y GmbH's shares for 1,680 CU on December 31, 20X1. The Non-current assets include hidden reserves of 300 CU. Also, consider deferred taxes (tax rate 30%)!

Balance sheet of Y GmbH as of 31.12.20X1 (in CU)			
Non-current assets	1,100	Equity	1,000
Current assets	600	Debt	700
Sum	1,700	Sum	1,700

Balance sheet of X AG as of 31.12.20X1 (in CU)			
Non-current assets	3,600	Equity	4,200
Investment Y		Debt	3,500
Current assets	4,100		
Sum	7,700	Sum	7,700

31.12.20X1, CU	X AG		Y GmbH		Sum Balance sheet before revaluation	
Non-current assets						
Investment Y						
Current assets						
Equity						
Debt						
Sum						

Exercise:

Account for Non-controlling interest a) at their proportionate share of Y GmbH's revalued equity or b) at fair value.

Exercise 2: Intragroup Transactions (based on Picker et al. 2016, Applying IFRS Standards, p. 607 f.)

Fact Pattern:

Jesscia Ltd. owns all the shares in Amelie Ltd. and that the consolidation process is being carried out on 30 June 20X1, for the year ending on that date. Assume also a tax rate of 30%. Further, assume the following transactions occurred:

- On 01.01.20X1, Jesscia acquired 10,000 CU worth of inventory for cash from Amelia Ltd. The inventory had previously cost Amelia Ltd. 8,000 CU. On 30.06.2016, all the inventory is still on hand.
- By the end of year, 30.06.20X1, Jesscia Ltd. had sold 7,500 CU of the transferred inventory for 14,000 CU to external parties. Thus, 2,500 CU of the inventory is still on hand.
- By the end of year, 30.06.20X1, Jesscia had sold all the transferred inventory to an external party for 18,000 CU.

Exercise:

Please provide the journal entries to eliminate the intragroup transactions for each case!

Exercise 3: Consolidation (Source: Zusammenfassendes Beispiel, 21.31 in: Internationale Rechnungslegung, Pellens et al. 2021; Original in German)

Fact Pattern:

As at December 31, 20X1, M AG acquired a 75% stake in T GmbH for a purchase price of 1,175 CU. The market value of the remaining shares is estimated at 365 CU. As part of the due diligence, the management of M AG received the following information: The machines of T GmbH have Fair Value Adjustments in the amount of 400 CU. The remaining useful life of these machines is five years, with corresponding depreciation being recognized in the cost of sales. The profit or loss incurred by T GmbH in 20X2 was also acquired and is to be retained in the following year. Deferred taxes must be taken into account when consolidating capital. The relevant income tax rate is 30%.

31.12.20X1, CU	M AG		T GmbH (at book value)		Revaluation		Sum Balance sheet before revaluation		Consolidation		Consolidated	
Non-current assets	800		550									
Investment T	1.175		-									
Goodwill	-		-									
Current Assets	1.000		400									
Subscribed Capital		550		100								
Reserve (equity)		800		300								
Profit or loss		50		100								
Non-controlling interest (NCI)		-		-								
Liabilities		1.575		450								
Deferred tax liabilities (DTL)		-		-								
Sum	2.975	2.975	950	950								

Exercise:

Based on the information given, please build the initial consolidation for 31.12.20X1.