Advanced Group Accounting (RIKA)

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Self-Study Solutions
Lecture Block 3: Consolidation

Exercise 1: Consolidation NCI

31.12.20X1, CU	**X AG**		**Y GmbH**		**Sum Balance sheet before revaluation**	
Non-current assets	3,600		1,100		4,700	
Investment Y	1,680		-		1,680	
Current assets	2,420		600		3,020	
Equity		4,200		1,000		5,200
Debt		3,500		700		4,200
Sum	7,700	7,700	1,700	1,700	9,400	9,400

<u>Acquistion Analysis:</u>

70% → 1,680

100% → (1,680/70%)*100%

= 2,400

30% → 720

Acquisition Price (100%)	2,400
- Equity	1,000
- Fair Value Adjustments and Other Identifiable Assets	300
+ Tax Liability	90
Goodwill (100%)	**1,190**
Goodwill (70%)	**833**

Revaluation of assets:

Dr. Non-current assets		300
	Cr. Equity	210
	Cr. Defered Tax Liability	90 (= 300 x 0.3)

Elimination of investment and goodwill recognition:

Dr. Equity	847 (0.7 x 1,000 + 0,7 x 210)	
Dr. Goodwill	833	
	Cr. Investment in Y	1,680

NCI Share of equity:

Proportinal share:

Dr. Equity	363 (0.3 x 1,000 + 0,3 x 210)	
	Cr. NCI	363

Full goodwill:

Dr. Equity	363	
Dr. Goodwill	357	
	Cr. NCI	720

Proportional Share:

31.12.20X1, CU	**Sum before RV**	**Revaluation**		**Sum balance**		**Consolidation**		**Consolidated**	
Non-current assets	4,700	300		5,000				5,000	
Goodwill						833		833	
Investment Y	1,680			1,680			1,680	0	
Current assets	3,020			3,020				3,020	
Equity	5,200		210	5,410		847+ 363		4,200	
Non-controlling interest							363	363	
Debt	4,200			4,200				4,200	
Defered Tax Liability			90	90				90	
Sum	**9,400**			**9,700**				**8,853**	

Full goodwill:

31.12.20X1, CU	**Sum before RV**	**Revaluation**		**Sum balance**		**Consolidation**		**Consolidated**	
Non-current assets	4,700	300		5,000				5,000	
Goodwill						833+ 357		1,190	
Investment Y	1,680			1,680			1,680	0	
Current assets	3,020			3,020				3,020	
Equity	5,200		210	5,410		1,210		4,200	
Non-controlling interest							363+ 357	720	
Debt	4,200			4,200				4,200	
Defered Tax Liability			90	90				90	
Sum	**9,400**			**9,700**				**9,210**	

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

Inventory still at hand:

Recognition of sale:

(Amelie)

Dr. cash 10,000

Cr. revenue 10,000

Dr. cost of sales 8,000

Cr. inventory 8,000

(Jessica):

Dr. inventory 10,000

Cr. cash 10,000

Consolidation (→ No external party is involved)

Dr. revenue 10,000

Cr. inventory 2,000

Cr. cost of sales 8,000

→ Differences in tax bases give rise to tax asset (2,000 * 0,3)

Dr. deferred tax asset 600

Cr. tax expense 600

Inventory partly sold:

	Parent	**Subsidiary**	**Total**	**Group**	**Adjustment**
Sales	14,000 (external)	10,000	24,000	14,000 (external)	Dr. 10,000
Cost of Sales	7,500 (75% x 10,000)	8,000	15,500	75% x 8,000 (carrying amount) = 6,000	Cr. 9,500 (15,500 – 6,000)
Inventory	2,500	0	2,500	25% x 8,000 = 2,000	Cr. 500

Carrying amount of remaining inventory at the tax accounts of J: 2,500

Carrying amount of remaining inventory in consolidated accounts: 2,000

Recognize deferred tax asset on difference (2,500 – 2,000) *0.3 = 150

Dr. revenue 10,000

Cr. cost of sales 9,500

Cr. Inventory 500

Dr. Defered tax asset 150

Cr. Income tax expense 150

<u>Inventory completely sold:</u>

- Profit Jesscia: 18,000 – 10,000 = 8,000
- Profit Amelie: 10,000 – 8,000 = 2,000
- Profit to the Group: 18,000 – 8,000 = 10,000
- Revenue is overstated by 10,000 (18,000 + 10,000(internal))
- Cost of sales are overstated by 10,000 (10,000 (internal) + 8,000)
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Dr. revenue 10,000

Cr. cost of sales 10,000

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

31.12.20X1, CU	M AG		T GmbH (at book value)		Revaluation		Sum Balance sheet before revaluation		Consolidation		Consolidated	
Non-current assets	800		550		400		1.750				1.750	
Investment T	1.175		-				1.175			1.175	-	
Goodwill	-		-				-		590 170		760	
Current Assets	1.000		400				1.400				1.400	
Subscribed Capital		550		100				650	75 25			550
Reserve (equity)		800		300	120	400		1.380	435 145			800
Profit or loss		50		100				150	75 25			50
Non-controlling interest (NCI)		-		-				-		195 170		365
Liabilities		1.575		450				2.025				2.025
Deferred tax liabilities (DTL)		-		-		120		120				120
Sum	2.975	2.975	950	950			4.325	4.325			3.910	3.910

- Disclosure of all fair value adjustments of T GmbH (400 CU) as part of the revaluation of the acquired net assets.
- Creation of deferred tax liabilities on the disclosed fair value adjustments in the amount of (400 * 0.3 =) 120 CU with no effect on the income statement.
- Actual capital consolidation: offsetting the carrying amount of the investment from the separate financial statements of M AG (1,175 CU) against the pro rata revalued equity (including the acquired profit) of T GmbH (780 * 0.75 = 585); capitalization of the resulting goodwill in the amount of 590 CU.
- Recognition of the non-controlling interests in the revalued equity of T GmbH in the amount of (780 * 0.25 =) 195 CU.
- Recognition of goodwill of the non-controlling shareholders in the amount of (365 - 195 =) 170 CU. This journal entry is only necessary if the full goodwill method is applied. It does not apply if the revaluation method is chosen for consolidation. In this case, non-controlling interests, goodwill and total assets are therefore 170 CU lower.

  Determination of goodwill in accordance with IFRS 3.32 when applying the revaluation method in accordance with IFRS 3.19 (b):

Acquisition price of the 75% stake: 1,175 CU
+ share of non-controlling interests in the revalued equity of T GmbH: ((100 + 300 + 100 + 400 * 0.7) * 0.25 =) 195 CU
- Revalued equity of T GmbH: (100 + 300 + 100 + 400 * 0.7 =) 780 CU
= Goodwill 590 CU

Determination of goodwill in accordance with IFRS 3.32 when applying the full goodwill method in accordance with IFRS 3.19 (a):

Acquisition price of the 75% stake: 1,175 CU
+ Fair value of the non-controlling interests: 365 CU
- Revalued equity of T GmbH: 780 CU
= Goodwill: 760 CU

The goodwill of non-controlling interests corresponds to the difference between the fair value of the non-controlling interests and the share of non-controlling interests in the revalued equity of T GmbH in the amount of (365 - 195 =) 170 CU. It corresponds exactly to the difference between the two goodwill values calculated using the different methods in the amount of (760 - 590 =) 170 CU.