(d) *Sale of plant in prior period: Snake Ltd to Bat Ltd*
The entry in the adjustment columns of the worksheet is:

Retained Earnings (1/7/13)	Dr	7 000	
Deferred Tax Asset	Dr	3 000	
Plant	Cr		10 000

Since the plant was sold by the subsidiary to the parent, the entry in the NCI columns of the worksheet is:

NCI	Dr	1 400	
Retained Earnings (1/7/13)	Cr		1 400
(20% × $7000)			

Depreciation on plant
The entries in the adjustment columns of the worksheet are:

Accumulated Depreciation	Dr	2 000	
Depreciation Expense	Cr		1 000
Retained Earnings (1/7/13)	Cr		1 000
Retained Earnings (1/7/13)	Dr	300	
Income Tax Expense	Dr	300	
Deferred Tax Asset	Cr		600

The entry in the NCI column of the worksheet is:

NCI Share of Profit/(Loss)	Dr	140	
Retained Earnings (1/7/13)	Dr	140	
NCI	Cr		280
(20% × $700 p.a.)			

SUMMARY

Where a subsidiary is not wholly owned, the equity of the subsidiary is divided into two parts, namely the parent's share and the non-controlling interest (NCI) share. IAS 1 *Presentation of Financial Statements* requires that, with the disclosure of specific equity amounts, the parent's share and the NCI share should be separately disclosed. This affects the consolidation process. The NCI is classified as equity with the result that in statements of profit or loss and other comprehensive income and statements of financial position where equity amounts are disclosed the parent's share and the NCI share are separately disclosed.

The existence of an NCI will have different effects on the consolidation worksheet entries used, depending on whether the full goodwill or partial goodwill method is used. Under the full goodwill method, goodwill is recognised in the business combination valuation entries, and shared between the parent and the NCI. Where the partial goodwill method is used, the existence of an NCI has no effect on the business combination valuation entries. However, as a result of these entries, business combination valuation reserves are created of which the NCI has a share. With the elimination of investment in subsidiary, the existence of an NCI has an effect as this entry is based on the parent's share of pre-acquisition equity only. Hence, a proportionate adjustment is required. The adjustments for intragroup transactions also affect the calculation of the NCI share of equity. There is no effect on the adjustment for an intragroup transaction itself — this is the same regardless of the ownership interest of the parent in the subsidiary. However, the adjustment for an intragroup transaction affects the calculation of the NCI share of equity. Since the NCI is entitled to a share of consolidated equity rather than the recorded equity of the subsidiary, where an intragroup transaction affects the equity of the subsidiary, entries in the NCI columns of the worksheet are required, affecting the calculation of the NCI. It is then necessary to observe the flow of the transaction — upstream or downstream — to determine whether an NCI adjustment is necessary. One area where the NCI is unaffected is where a gain on bargain purchase arises, because the elimination of investment in subsidiary adjusts for the parent's share only. The gain calculated relates only to the parent and not the NCI.

DEMONSTRATION PROBLEM 23.1 Consolidated financial statements

Seal Ltd acquired 80% of the shares of Swan Ltd on 1 July 2012 for $540 000, when the equity of Swan Ltd consisted of:

Share capital	$500 000
General reserve	80 000
Retained earnings	50 000
Asset revaluation surplus	20 000

All identifiable assets and liabilities of Swan Ltd are recorded at fair value at this date except for inventory for which the fair value was $10 000 greater than carrying amount, and plant which had a carrying amount of $150 000 (net of $40 000 accumulated depreciation) and a fair value of $170 000. The inventory was all sold by 30 June 2013, and the plant had a further 5-year life with depreciation based on the straight-line method.

Financial information for both companies at 30 June 2016 is as follows:

	Seal Ltd	Swan Ltd
Sales revenue	$ 720 000	$ 530 000
Other revenue	240 000	120 000
	960 000	650 000
Cost of sales	(610 000)	(410 000)
Other expenses	(230 000)	(160 000)
	(840 000)	(570 000)
Profit before tax	120 000	80 000
Tax expense	(40 000)	(25 000)
Profit for the period	80 000	55 000
Retained earnings at 1/7/15	200 000	112 000
	280 000	167 000
Dividend paid	(20 000)	(10 000)
Dividend declared	(25 000)	(15 000)
	(45 000)	(25 000)
Retained earnings at 30/6/16	235 000	142 000
Share capital	600 000	500 000
Asset revaluation surplus*	20 000	60 000
General reserve	80 000	100 000
Total equity	935 000	802 000
Dividend payable	25 000	15 000
Other liabilities	25 000	25 000
Total liabilities	50 000	40 000
Total equity and liabilities	$ 985 000	$ 842 000
Receivables	$ 80 000	$ 30 000
Inventory	100 000	170 000
Plant and equipment	200 000	500 000
Accumulated depreciation	(115 000)	(88 000)
Land at fair value	100 000	80 000
Shares in Swan Ltd	540 000	—
Deferred tax assets	50 000	40 000
Other assets	30 000	110 000
Total assets	$ 985 000	$ 842 000

*The balances of the surplus at 1 July 2015 were $35 000 (Seal Ltd) and $50 000 (Swan Ltd).

The following transactions took place between Seal Ltd and Swan Ltd:

(a) During the 2015–16 period, Swan Ltd sold inventory to Seal Ltd for $23 000, recording a profit before tax of $3000. Seal Ltd has since resold half of these items.

(b) During the 2015–16 period, Seal Ltd sold inventory to Swan Ltd for $18 000, recording a profit before tax of $2000. Swan Ltd has not resold any of these items.

(c) On 1 June 2016, Swan Ltd paid $1000 to Seal Ltd for services rendered.

(d) During the 2014–15 period, Swan Ltd sold inventory to Seal Ltd. At 30 June 2015, Seal Ltd still had inventory on hand on which Swan Ltd had recorded a before-tax profit of $4000.

(e) On 1 July 2014, Swan Ltd sold plant to Seal Ltd for $150 000, recording a profit of $20 000 before tax. Seal Ltd applies a 10% p.a. straight-line method of depreciation in relation to these assets.

Required

1. Given an income tax rate of 30%, prepare the consolidated financial statements for Seal Ltd for the year ended 30 June 2016 using the *partial goodwill method* to measure the non-controlling interest at acquisition date.
2. What differences would occur in the consolidation worksheet entries at 30 June 2016 if the *full goodwill method* was used to calculate the non-controlling interest at acquisition date? Assume the value of the non-controlling interest in the subsidiary at acquisition date is $134 500.

Solution

1. Consolidated financial statements using partial goodwill method

The first step is to prepare the acquisition analysis. Determining the net fair value is the same as for wholly owned subsidiaries. Where an NCI exists, it is necessary to determine the net fair value acquired by the parent.

In this problem, the parent acquired 80% of the shares of the subsidiary. The net fair value of what was acquired is then compared with the consideration transferred, and a goodwill or gain is determined. Note that the goodwill or gain is only that attributable to the parent, since the residual relates to what was paid by the parent and the proportion of net fair value of the subsidiary acquired by the parent.

Acquisition analysis

Net fair value of the identifiable assets and liabilities of Swan Ltd	=	$500 000 + $80 000 + $50 000 + $20 000 + $10 000(1 – 30%) (BCVR — inventory) + $20 000(1 – 30%) (BCVR — plant)
	=	$671 000
(a) Consideration transferred	=	$540 000
(b) Non-controlling interest in Swan Ltd	=	20% × $671 000
	=	$134 200
Aggregate of (a) and (b)	=	$674 200
Goodwill	=	$674 200 – $671 000
	=	$3200

Consolidation worksheet entries at 30 June 2016

(1) *Business combination valuation reserve entries*

The business combination entries are unaffected by the existence of an NCI. Under IFRS 3, all identifiable assets and liabilities acquired in the acquiree/subsidiary must be measured at fair value. This principle is unaffected by the existence of an NCI.

Accumulated Depreciation	Dr	40 000	
Plant	Cr		20 000
Deferred Tax Liability	Cr		6 000
Business Combination Valuation Reserve	Cr		14 000
Depreciation Expense	Dr	4 000	
Retained Earnings (1/7/15)	Dr	12 000	
Accumulated Depreciation	Cr		16 000
Deferred Tax Liability	Dr	4 800	
Income Tax Expense	Cr		1 200
Retained Earnings (1/7/15)	Cr		3 600

(2) *Elimination of investment in subsidiary*

Retained Earnings (1/7/15)	Dr	45 600	
Share Capital	Dr	400 000	
General Reserve	Dr	64 000	
Asset Revaluation Surplus (1/7/15)	Dr	16 000	
Business Combination Valuation Reserve	Dr	11 200	
Goodwill	Dr	3 200	
Shares in Swan Ltd	Cr		540 000

These elimination of investment and recognition of goodwill entries differ from the entries prepared for a wholly owned subsidiary in that the adjustment to equity accounts is measured as the parent's share of the equity accounts. This can be seen in the acquisition analysis where the parent's share of equity (80%) is applied to the net fair value before making a comparison with the cost of the combination. Hence the adjustment to share capital is $400 000; that is, 80% of the recorded $500 000. With retained earnings (1/7/15), the adjustment is calculated as:

(80% × $50 000) (opening balance) + (80% × $7000) (BCVR inventory)

The adjustment to the BCVR is:

80% × $14 000 (BCVR plant)

Non-controlling interest

The next three adjustment entries relate to the calculation of the NCI. These entries are passed in the NCI columns of the worksheet, not the adjustment columns. The three entries cover the three steps used in the calculation of the NCI share of total equity.

(3) *NCI share of equity at acquisition date, 1 July 2012 (step 1)*

Step 1 is to calculate the NCI share of the equity of the subsidiary at acquisition date. This consists of the recorded equity of the subsidiary plus any reserves raised on consolidation at acquisition date, namely the business combination valuation reserve.

Pre-acquisition equity of Swan Ltd		**20%**
Retained earnings (1/7/12)	$ 50 000	$ 10 000
Share capital	500 000	100 000
General reserve	80 000	16 000
Asset revaluation surplus (1/7/12)	20 000	4 000
Business combination valuation reserve	21 000	4 200
		$134 200

The worksheet entry in the NCI columns is:

Retained Earnings (1/7/15)	Dr	10 000	
Share Capital	Dr	100 000	
General Reserve	Dr	16 000	
Asset Revaluation Surplus (1/7/15)	Dr	4 000	
Business Combination Valuation Reserve	Dr	4 200	
NCI	Cr		134 200

Note that the adjustments to the equity accounts are debits, because these amounts will be subtracted from the balances in the group column in order to determine the parent's share of equity. On the other hand, the NCI account has a credit adjustment because the NCI is classified as equity, and the balance of pre-acquisition equity is a positive amount.

(4) *NCI share of equity from 1 July 2012 to 30 June 2015 (step 2)*

In step 2, the calculation is of the NCI share of equity between the acquisition date and the beginning of the current period; that is, between 1 July 2012 and 30 June 2015. This requires the calculation of movements in the subsidiary's equity accounts between these two dates.

General reserve: The balance at 30 June 2015, read from the financial information at 30 June 2016 and noting no transfers occurred in the current period, is $100 000. The difference between this and the balance at 1 July 2012 of $80 000 is $20 000. The NCI is entitled to 20% of this increase in equity. The combination of step 1 and step 2 effectively gives the NCI a 20% share of the total $100 000 balance.

Retained earnings: The balance at 30 June 2015 is the same as the opening balance in the current period, which is read from the financial information provided, namely $112 000. The difference between this amount and the balance recorded by the subsidiary at acquisition reflects movements in the amounts recorded by the subsidiary, such as reserve transfers and dividends. What is not reflected in the difference calculated are amounts affecting retained earnings not recorded by the subsidiary but recognised on consolidation. In this problem, the transaction that needs to be taken into account is the depreciation of the plant on hand at acquisition date, as shown in the business combination valuation reserve entries. As the plant is used, the recorded profit of the subsidiary recognises the extra benefits received. The NCI in relation to retained earnings (1/7/15) is therefore:

20% × [$112 000 (balance at 1/7/15) – $50 000 (balance at acquisition) – ($12 000 – $3600)]

Asset revaluation surplus: The balance at acquisition date is $20 000 and the balance at 30 June 2015 is $50 000. The NCI is entitled to a 20% share of the difference between these two amounts.

Business combination valuation reserve: The balance at acquisition date was $21 000. As a result of the sale of the inventory, this has been reduced at 30 June 2015 to $14 000, a reduction of $7000, because there has been a transfer from this reserve to retained earnings. Since the reserve has decreased in amount, this results in a decrease in the NCI share of this account. The total NCI in equity has not changed because the recorded retained earnings has increased by $7000 as a result of the sale of inventory by the subsidiary.

A summary of these movements is then:

	Change in equity	20%
General reserve ($100 000 – $80 000)	$ 20 000	$ 4 000
Retained earnings ($112 000 – $50 000 – ($12 000 – $3600))	53 600	10 720
Asset revaluation surplus ($50 000 – $20 000)	30 000	6 000
Business combination valuation reserve ($14 000 – $21 000)	(7 000)	(1 400)

The worksheet entry in the NCI columns is:

Retained Earnings (1/7/15)	Dr	10 720	
General Reserve	Dr	4 000	
Asset Revaluation Surplus	Dr	6 000	
Business Combination Valuation Reserve	Cr		1 400
NCI	Cr		19 320

(5) *NCI in equity from 1 July 2015 to 30 June 2016 (step 3)*

Steps 1 and 2 determine the NCI share of equity recorded up to the beginning of the current year. Step 3 calculates the NCI share of changes in equity in the current year — 1 July 2015 to 30 June 2016.

The combination of all three steps determines the NCI share of equity at the end of the reporting period. There are a number of changes in equity in the current period, with each change attracting its own adjustment entry in the NCI columns of the worksheet.

Profit for the period:

The NCI receives a share of recorded profit of the subsidiary. As with step 2, this is adjusted by the depreciation on the plant on hand at acquisition date. The recorded profit of the subsidiary includes benefits gained by use of the plant. The NCI share is then:

20% [$55 000 – ($4000 – $1200)]

The worksheet entry in the NCI columns is:

NCI Share of Profit/(Loss)	Dr	10 440	
NCI	Cr		10 440

The first line in the entry is a debit because in the consolidation worksheet this is deducted from group profit in order to calculate the parent share of profit. Note that, in later calculations, increases in the NCI share of profit require a debit adjustment to this account and decreases in the NCI share of profit require a credit adjustment.

Dividend paid:
The dividend paid by the subsidiary reduces the equity of the subsidiary. The adjustment to the NCI share of equity as a result of the dividend paid must take into consideration the full dividend paid with the effect of reducing the NCI share of total equity. The entry in the NCI columns of the worksheet is:

NCI	Dr	2 000	
Dividend Paid	Cr		2 000
(20% × $10 000)			

Dividend declared:
As with the dividend paid, the NCI has been given a full share of equity before the declaration of dividends. Because the dividend declared reduces the equity of the subsidiary, the NCI share of equity is also reduced. The entry in the NCI columns of the worksheet is:

NCI	Dr	3 000	
Dividend Declared	Cr		3 000
(20% × $15 000)			

Asset revaluation surplus:
The balance of the subsidiary's asset revaluation surplus at 1 July 2015 was $50 000. The balance at 30 June 2016 is $60 000. The NCI share of equity is increased by 20% of the change during the period. The debit adjustment is recognised in the worksheet against the Gains/Losses on Asset Revaluation account as this account reflects the increase in the reserve balance. The adjustment is a debit because it reduces the group gain so that the left-hand column of the worksheet shows the parent share of the gain. The entry in the NCI columns of the worksheet is:

Gains/Losses on Asset Revaluation	Dr	2 000	
NCI	Cr		2 000
(20% × [$60 000 − $50 000])			

Intragroup transactions

(6) *Dividend paid*
The entry in the adjustment columns of the consolidation worksheet to adjust for the $10 000 dividend paid is:

Dividend Revenue	Dr	8 000	
Dividend Paid	Cr		8 000
(80% × $10 000)			

(7) *Dividend declared*
The subsidiary declared a dividend of $15 000 of which $12 000 is payable within the group.
The entries in the adjustment columns of the worksheet are:

Dividend Payable	Dr	12 000	
Dividend Declared	Cr		12 000
Dividend Revenue	Dr	12 000	
Dividend Receivable	Cr		12 000

(8) *Sale of inventory: Swan Ltd to Seal Ltd*

The worksheet entries in the adjustment columns are:

Sales	Dr	23 000	
Cost of Sales	Cr		21 500
Inventory	Cr		1 500
(Unrealised profit on sale of inventory 50% × $3000)			
Deferred Tax Asset	Dr	450	
Income Tax Expense	Cr		450
(Tax effect, 30% × $1500)			

(9) *Adjustment to NCI: unrealised profit in ending inventory*

The profit on sale was made by the subsidiary. The NCI is therefore affected. The total after-tax profit on the intragroup sale of inventory was $2100 (i.e. $3000 – $900 tax). However, since half the inventory is sold to an external entity, this portion is realised. The adjustment to the NCI relates only to the unrealised profits remaining in the inventory still on hand (half of $2100, or $1050). This is the same after-tax figure used to adjust profits in entry (8) above.

The transaction occurs in the current period. Therefore, it is the NCI share of current period profit that is affected. In adjustment entry (5), the NCI is given a share of the total recorded subsidiary profit for the current period. Because the realised profit is less than the recorded profit, the NCI share of equity must be reduced, specifically the NCI share of current period profit.

The worksheet entry in the NCI columns of the worksheet is:

NCI	Dr	210	
NCI Share of Profit/(Loss)	Cr		210
(20% × $1050)			

The debit adjustment shows a reduction in total equity attributable to the NCI, and the credit adjustment shows a reduction in the NCI share of current period profits.

(10) *Sale of inventory: Seal Ltd to Swan Ltd*

The entries in the adjustment columns of the worksheet are:

Sales	Dr	18 000	
Cost of Sales	Cr		16 000
Inventory	Cr		2 000
Deferred Tax Asset	Dr	600	
Income Tax Expense	Cr		600

Because the profit on the transaction is made by the parent entity and does not affect the equity of the subsidiary, there is no need to make any adjustment to the NCI.

(11) *Payment for services: Swan Ltd to Seal Ltd*

The entry in the adjustment columns of the worksheet is:

Other Revenues	Dr	1 000	
Other Expenses	Cr		1 000

The profit of the subsidiary is affected by the transaction even though the payment may, in effect, be from the parent to the subsidiary. However, if it is assumed that realisation occurs on payment for the services for this type of transaction, then no unrealised profit or loss exists in the subsidiary. Hence, there is no need to make any adjustment to the NCI share of equity.

(12) *Sale of inventory in previous period: Swan Ltd to Seal Ltd*

The entries in the adjustment columns of the worksheet are:

Retained Earnings (1/7/13)	Dr	2 800	
Income Tax Expense	Dr	1 200	
Cost of Sales	Cr		4 000

(13) *Adjustment to NCI: unrealised profit in beginning inventory*
The profit on this transaction was made by the subsidiary, so an adjustment to the NCI share of equity is required. There are two effects on the NCI because the transaction affects both last year's and the current period's figures.

First, the profit made by the subsidiary in the previous period was unrealised last year. Hence, the subsidiary's retained earnings (1/7/15) account contains $2800 unrealised profit. An adjustment is necessary to reduce the NCI share of the previous period's profit:

NCI	Dr	560	
Retained Earnings (1/7/15)	Cr		560
(20% × $2800)			

Second, in relation to the current period, because the inventory transferred last period is sold in the current period to an external entity, the profit previously recorded by the subsidiary becomes realised in the current period. Since the profit is realised to the NCI in the current period but was recorded by the subsidiary last period, the NCI share of current period profit needs to be increased. The adjustment is:

NCI Share of Profit/(Loss)	Dr	560	
NCI	Cr		560
(20% × $2800)			

These two entries can be combined and passed in the NCI columns of the worksheet:

NCI Share of Profit/(Loss)	Dr	560	
Retained Earnings (1/7/15)	Cr		560

This entry has no effect on the total NCI share of equity. It simply reduces the NCI share of equity recorded last period and increases the NCI share of current period profit. This reflects the fact that the subsidiary recorded the profit in the previous period whereas the group recognised the profit in the current period.

The consolidation worksheet for Seal Ltd at 30 June 2016 is shown in figure 23.11.

FIGURE 23.11 Consolidation worksheet showing NCI and the effects of intragroup transactions

Financial statements	Seal Ltd	Swan Ltd	Adjustments Dr		Adjustments Cr		Group	Non-controlling interest Dr		Non-controlling interest Cr		Parent
Sales revenue	720 000	530 000	8	23 000			1 209 000					
			10	18 000								
Other revenues	240 000	120 000	6	8 000								
			7	12 000								
			11	1 000								
	960 000	650 000					1 548 000					
Cost of sales	(610 000)	(410 000)			21 500	8	(978 500)					
					16 000	10						
					4 000	12						
Other expenses	(230 000)	(160 000)	1	4 000	1 000	11	(391 000)					
	(840 000)	(570 000)					(1 369 500)					
Profit before tax	120 000	80 000					178 500					
Tax expense	(40 000)	(25 000)	12	1 200	1 200	1	(63 950)					
					600	10						
					450	8						
Profit	80 000	55 000					112 550	5	10 440	210	9	101 760
								13	560			

(continued)

FIGURE 23.11 *(continued)*

Financial statements	Seal Ltd	Swan Ltd		Adjustments Dr	Adjustments Cr		Group		Non-controlling interest Dr	Non-controlling interest Cr		Parent
Retained earnings (1/7/15)	200 000	112 000	1	12 000	3 600	1		3	10 000	560	13	235 040
			2	45 600				4	10 720			
			12	2 800			242 600					
	280 000	167 000					355 150					336 800
Dividend paid	(20 000)	(10 000)			8 000	6	(22 000)			2 000	5	(20 000)
Dividend declared	(25 000)	(15 000)			12 000	7	(28 000)			3 000	5	(25 000)
	(45 000)	(25 000)					(50 000)					(45 000)
Retained earnings (30/6/16)	235 000	142 000					306 550					291 800
Share capital	600 000	500 000	2	400 000			700 000	3	100 000			600 000
General reserve	80 000	100 000	2	64 000			116 000	3	16 000			96 000
								4	4 000			
Business combination valuation reserve	0	0	2	11 200	14 000	1	2 800	3	4 200	1 400	4	0
	915 000	742 000	1	16 000			1 125 350					987 800
Asset revaluation surplus (1/7/15)	35 000	50 000					69 000	3	4 000			59 000
								4	6 000			
Gains/losses on asset revaluation	(15 000)	10 000					(5 000)	5	2 000			(7 000)
Asset revaluation surplus (30/6/16)	20 000	60 000					64 000					52 000
Total equity: parent												1 039 800
Total equity: NCI								5	2 000	134 200	3	160 750
								5	3 000	19 320	4	
								9	210	10 440	5	
										2 000	5	
Total equity	935 000	802 000					1 189 350		182 370	182 370		1 200 550
Dividend payable	25 000	15 000	7	12 000			28 000					
Other liabilities	25 000	25 000	1	4 800	6 000	1	51 200					
Total liabilities	50 000	40 000					79 200					
Total equity and liabilities	985 000	842 000					1 279 750					
Receivables	80 000	30 000			12 000	6	98 000					
Inventory	100 000	170 000			1 500	8	266 500					
					2 000	10						
Plant and equipment	200 000	500 000			20 000	1	680 000					
Accumulated depreciation	(115 000)	(88 000)	1	40 000	16 000	1	(179 000)					
Land	100 000	80 000					180 000					
Shares in Swan Ltd	540 000	0			540 000	2	0					
Deferred tax asset	50 000	40 000	8	450			91 050					
			10	600								
Goodwill	0	0	2	3 200			3 200					
Other assets	30 000	110 000					140 000					
Total assets	985 000	842 000		705 050	705 050		1 279 750					

The consolidated financial statements for Seal Ltd and its subsidiary, Swan Ltd, for the year ended 30 June 2016 are as shown in figure 23.12(a), (b) and (c).

SEAL LTD
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2016

Revenue:	
Sales	$ 1 209 000
Other	339 000
Total revenue	1 548 000
Expenses:	
Cost of sales	(978 500)
Other	(391 000)
Total expenses	(1 371 500)
Profit before tax	176 500
Income tax expense	(63 950)
PROFIT FOR THE PERIOD	$ 112 550
Other comprehensive income	
Revaluation decreases	$ (5 000)
TOTAL COMPREHENSIVE INCOME	$ 107 550
Profit attributable to:	
Owners of the parent	$ 101 760
Non-controlling interest	10 790
	$ 112 550
Comprehensive income attributable to:	
Owners of the parent	$ 94 760
Non-controlling interest	12 790
	$ 107 550

FIGURE 23.12(a) Consolidated statement of profit or loss and other comprehensive income

SEAL LTD
Consolidated Statement of Changes in Equity
for the year ended 30 June 2016

	Share capital	Retained earnings	General reserve	Asset revaluation surplus	Business combination valuation reserve	Total: Owners of the parent	Non-controlling interest	Total equity
Balance at 1 July 2015	$600 000	$235 040	$96 000	$59 000	0	$ 990 040	$154 960	$1 145 000
Total comprehensive income		101 760		(7 000)		94 760	10 790	105 550
Dividends paid		(20 000)				(20 000)	(2 000)	(22 000)
Dividends declared		(25 000)				(25 000)	(3 000)	(28 000)
Balance at 30 June 2016	$600 000	$291 800	$96 000	$52 000		$1 039 800	$160 750	$1 200 550

FIGURE 23.12(b) Consolidated statement of changes in equity

SEAL LTD
Consolidated Statement of Financial Position
as at 30 June 2016

ASSETS	
Current assets	
Receivables	$ 98 000
Inventory	266 500
Total current assets	364 500
Non-current assets	
Plant and equipment	$ 680 000
Accumulated depreciation	(179 000)
Land	180 000
Deferred tax asset	91 050
Goodwill	3 200
Other	140 000
Total non-current assets	915 250
Total assets	$1 279 750
LIABILITIES	
Current liabilities: Dividend payable	$ 28 000
Non-current liabilities	51 200
Total liabilities	$ 79 200
Net assets	$1 200 550
EQUITY	
Share capital	$ 600 000
General reserve	96 000
Asset revaluation surplus	52 000
Retained earnings	291 800
Parent interest	$1 039 800
Non-controlling interest	$ 160 750
Total equity	$1 200 550

FIGURE 23.12(c) Consolidated statement of financial position

2. Consolidation worksheet changes under full goodwill method

Under the full goodwill method, the acquisition analysis would change as goodwill is calculated by taking into consideration the fair value of the NCI in the subsidiary.

Acquisition analysis

Net fair value of the identifiable assets and liabilities of Swan Ltd	= $500 000 + $80 000 + $50 000 + $20 000 + $10 000(1 – 30%) (BCVR — inventory) + $20 000(1 – 30%) (BCVR — plant)
	= $671 000
(a) Consideration transferred	= $540 000
(b) Non-controlling interest in subsidiary	= $134 500
Aggregate of (a) and (b)	= $674 500
Goodwill	= $674 500 – $671 000
	= $3500
Goodwill of Swan Ltd	
Fair value of Swan Ltd	= $134 500/20%
	= $672 500
Net fair value of identifiable assets and liabilities of Swan Ltd	= $671 000
Goodwill of Swan Ltd	= $672 500 – $671 000
	= $1500

Goodwill of Seal Ltd		
Goodwill acquired	=	$3500
Goodwill of Swan Ltd	=	$1500
Goodwill of Seal Ltd — control premium	=	$2000

Consolidation worksheet entries at 30 June 2016

(1) *Business combination valuation reserve entries*

Because the full goodwill method is used, there will need to an extra business combination valuation entry in relation to the goodwill of the subsidiary:

Goodwill	Dr	1 500	
Business Combination Valuation Reserve	Cr		1 500

(2) *Elimination of investment and recognition of goodwill entries*

Retained Earnings (1/7/15)	Dr	45 600	
Share Capital	Dr	400 000	
General Reserve	Dr	64 000	
Asset Revaluation Surplus (1/7/15)	Dr	16 000	
Business Combination Valuation Reserve [80% × ($14 000 + $1 500)]	Dr	12 400	
Goodwill	Dr	2 000	
Shares in Swan Ltd	Cr		540 000

(3) *NCI share of equity at acquisition date, 1 July 2012 (step 1)*

Under the full goodwill method this will change as the business combination valuation reserve in relation to goodwill has been recognised. The NCI share is calculated to be:

Pre-acquisition equity of Swan Ltd		
Retained earnings (1/7/12): 20% × $50 000	=	$ 10 000
Share capital: 20% × $500 000	=	100 000
General reserve: 20% × $80 000	=	16 000
Asset revaluation surplus (1/7/12): 20% × $20 000	=	4 000
Business combination valuation reserve: 20% × ($14 000 + $7 000 + $1 500)	=	$ 4 500
		$134 500

The worksheet entry in the NCI columns is:

Retained Earnings (1/7/15)	Dr	10 000	
Share Capital	Dr	100 000	
General Reserve	Dr	16 000	
Asset Revaluation Surplus (1/7/15)	Dr	4 000	
Business Combination Valuation Reserve	Dr	4 500	
NCI	Cr		134 500

No other changes are required.

Discussion questions

1. What is meant by the term 'non-controlling interest' (NCI)?
2. How does the existence of an NCI affect the business combination valuation entries?
3. How does the existence of an NCI affect the elimination of investment and recognition of goodwill entries?
4. Why is it necessary to change the format of the worksheet where an NCI exists in the group?
5. Explain how the adjustment for intragroup transactions affects the calculation of the NCI share of equity.
6. Explain whether an NCI adjustment needs to be made for all intragroup transactions.
7. What is meant by 'realisation of profit'?

Exercises

STAR RATING ★ BASIC ★★ MODERATE ★★★ DIFFICULT

Exercise 23.1 EQUITY CLASSIFICATION

★

Len Inn is the accountant for Falcon Trucks Ltd. This entity has an 80% holding in the entity Tyres-R-Us Ltd. Len is concerned that the consolidated financial statements prepared under IFRS 10 may be misleading. He believes that the main users of the consolidated financial statements are the shareholders of Falcon Trucks Ltd. The key performance indicators are then the profit numbers relating to the interests of those shareholders. He therefore wants to prepare the consolidated financial statements showing the non-controlling interest in Tyres-R-Us Ltd in a category other than equity in the statement of financial performance, and for the statement of changes in equity to show the profit numbers relating to the parent shareholders only.

Required

Discuss the differences that would arise in the consolidated financial statements if the non-controlling interests were classified as debt rather than equity, and the reasons the standard setters have chosen the equity classification in IFRS 10.

Exercise 23.2 CONSOLIDATION WORKSHEET, CONSOLIDATED FINANCIAL STATEMENTS, PARTIAL GOODWILL METHOD

★

Jellyfish Ltd purchased 75% of the capital of Mouse Ltd for $250 000 on 1 July 2010. At this date the equity of Mouse Ltd was:

Share capital	$100 000
General reserve	60 000
Retained earnings	40 000

At this date, Mouse Ltd had not recorded any goodwill, and all identifiable assets and liabilities were recorded at fair value except for the following assets:

	Carrying amount	Fair value
Inventory	$ 70 000	$100 000
Plant (cost $170 000)	150 000	190 000
Land	50 000	100 000

The plant has a remaining useful life of 10 years. As a result of an impairment test, all goodwill was written off in 2013. All the inventory on hand at 1 July 2010 was sold by 30 June 2011. Differences beween carrying amounts and fair values are recognised on consolidation. The tax rate is 30%. Jellyfish Ltd uses the partial goodwill method.

The trial balances of Jellyfish Ltd and Mouse Ltd at 30 June 2016 are:

	Jellyfish Ltd	Mouse Ltd
Shares in Mouse Ltd	$ 250 000	—
Plant	425 500	$190 000
Land	110 000	50 000
Current assets	162 000	84 000
Cost of sales	225 000	35 000
Other expenses	65 000	7 000
Income tax expense	50 000	5 000
	$1 287 500	$371 000