# CHAPTER 27
# ACCOUNTING FOR INDIRECT OWNERSHIP INTERESTS

## LEARNING OBJECTIVES

**Upon completing this chapter readers should be able to:**

LO1 describe what an indirect equity ownership interest represents and how it is calculated;

LO2 explain that the determination of the total ownership interest in a subsidiary must take account of both direct and indirect ownership interests;

LO3 explain that the parent entity's interest in the post-acquisition movements of a subsidiary's retained earnings and other reserves will be based on the sum of the direct and indirect ownership interests;

LO4 explain that even in the presence of indirect ownership interests, the pre-acquisition capital and reserves of a subsidiary will be eliminated on consolidation on the basis of only the direct ownership interests;

LO5 prepare consolidation journal entries for a complex group.

# INTRODUCTION TO ACCOUNTING FOR INDIRECT OWNERSHIP INTERESTS

In the previous three chapters the process of consolidation where there are only two organisations within the economic entity was explored. Chapters 24 and 25 considered how to account for a parent entity having a 100 per cent ownership of a subsidiary. Chapter 25 explored how to account for various intragroup transactions. Chapter 26 continued to examine group structures comprising only two separate entities—a parent and a subsidiary—however, the parent entity's ownership interest was reduced to less than 100 per cent, introducing the concept of non-controlling interest. The calculation and disclosure of these direct non-controlling interests and how to account for intragroup transactions in the presence of non-controlling interests was illustrated.

This chapter examines economic entities with more than one subsidiary, and creates situations in which a parent entity controls a subsidiary indirectly, in other words, situations in which a parent entity controls another entity by virtue of its control of an intermediate entity. As will be seen, if a subsidiary that is controlled by the parent entity in turn has ownership interests in another entity, this creates what is referred to as 'indirect ownership interests'. These ownership interests are held by parent entities as well as by non-controlling interests. This chapter considers not only how to consolidate the financial statements of more than two separate entities within an economic entity, but also how to calculate parent entity interests, and non-controlling interests, in the presence of indirect ownership interests.

## 27.1 INDIRECT OWNERSHIP INTERESTS

NZ IAS 27 'Consolidated and Separate Financial Statements', paragraph 12, requires that consolidated financial statements are to include all subsidiaries of the parent. This is the case irrespective of the form of the subsidiary entities. This is confirmed by NZ IAS 27, paragraph 4, which states:

> *A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).*

As stressed in earlier chapters, control is the criterion for determining whether or not an entity is a subsidiary. According to NZ IAS 27, paragraph 13:

> *Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:*
> *(a) power over more than half of the voting rights by virtue of an agreement with other investors;*
> *(b) power to govern the financial and operating policies of the entity under a statute or an agreement;*
> *(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or*
> *(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.*

As indicated in NZ IAS 27 paragraph 13, 'control' can be exercised even in the absence of any direct ownership interest—it can arise through indirect interests. That is, if an entity has a controlling ownership in one entity, it effectively has control over the other entities controlled by that entity. That is, it is possible for one entity to control another entity without any direct ownership interest. For example, in Figure 27.1 Parent Entity Limited controls A Limited as a result of a direct ownership interest of 90 per cent. Through its control of A Limited, Parent Entity Limited can, in turn, control B Limited, even though no investments have been made directly in B Limited. The control is exercised through an 'indirect ownership interest' (that is, through its direct ownership interest in A Limited). In Figure 27.1 the indirect interests are depicted by broken-line arrows, and the direct ownership interests by solid lines.

In this example, Parent Entity Limited's indirect interest in B Limited would be 72 per cent, that is 90 per cent of 80 per cent. What this means is that if B Limited paid a dividend of $1000, $800 would be paid to A Limited and $200 would be paid to the direct non-controlling interests in B Limited. If A Limited receives the $800 and decides, in turn, to pay out the receipts as dividends, then 90 per cent ($720) of this $800 would find its way to Parent Entity Limited (or 72 per cent of the original $1000 dividend payment made by B Limited). The remaining $80 would go to the non-controlling interests of A Limited. That is, the non-controlling interests in A Limited have an indirect ownership interest (indirect non-controlling interest) in B Limited of 8 per cent. The ownership interests are summarised in Table 27.1.

**Figure 27.1**

Example of control exercised through an indirect interest

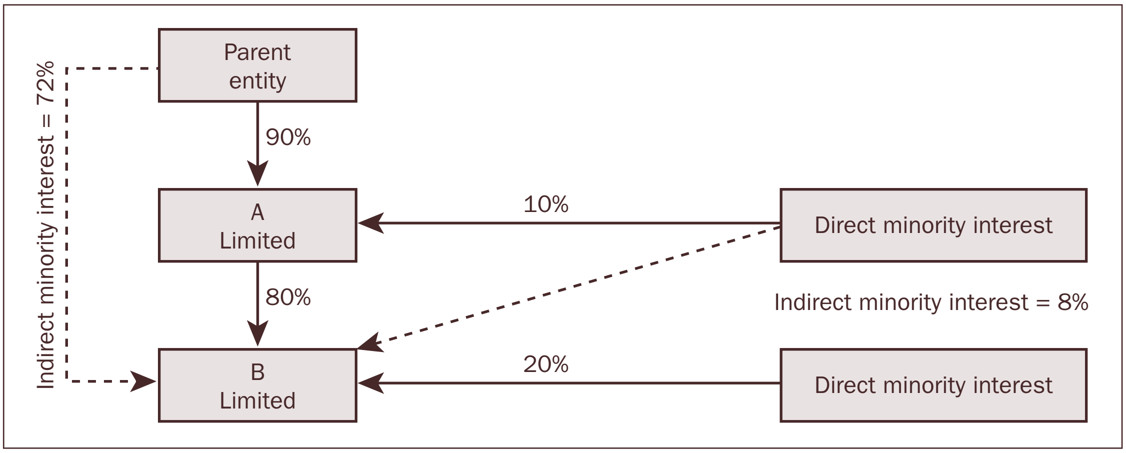



**Table 27.1**

Ownership interests in A and B Limited

| | A LIMITED % INTEREST | B LIMITED % INTEREST |
|---|---|---|
| *Parent Entity Limited's interest* | | |
| Direct | 90 | – |
| Indirect | – | 72 |
| *Non-controlling interest* | | |
| Direct | 10 | 20 |
| Indirect | – | 8 |
| | 100 | 100 |

## 27.2 DIRECT AND INDIRECT OWNERSHIP INTERESTS IN A SUBSIDIARY

It is also possible to hold both direct and indirect interests in a particular entity. In the example shown in Figure 27.2, Parent Entity Limited has direct ownership interests of 70 per cent and 60 per cent in Subsidiary 1 and Subsidiary 3 respectively. In the absence of evidence to the contrary, this should be sufficient to control both subsidiaries. Through its control of Subsidiary 1, Parent Entity Limited would also be able to control Subsidiary 2—although the control would be *indirect* as Parent Entity Limited has no direct ownership interest in Subsidiary 2. As in Figure 27.1, the direct and indirect ownership interests in Subsidiary 1, Subsidiary 2 and Subsidiary 3 are indicated by solid and broken arrows, respectively. Readers should see whether they understand how the various percentages next to each of the arrows have been calculated. The interests needed for the purposes of the consolidated financial statements are Parent Entity Limited's interests (direct and indirect) and the non-controlling interests (direct and indirect).

To obtain the direct and indirect ownership interests of Parent Entity Limited the percentages shown against each of the arrows emanating from Parent Entity Limited are added together. For example, the total direct ownership interest in Subsidiary 3 would be 60 per cent, whereas Parent Entity Limited's indirect ownership interest in Subsidiary 3 is 16.8 per cent. This 16.8 per cent is calculated by multiplying Parent Entity Limited's ownership interest in Subsidiary 1 by the ownership interest Subsidiary 1 has in Subsidiary 2, by the ownership interest Subsidiary 2 has in Subsidiary 3, namely 70% × 60% × 40%, which equals 16.8%.

When considering the non-controlling interests it can be seen that the direct non-controlling interest in Subsidiary 1 has an indirect interest in Subsidiary 2 and Subsidiary 3. The direct non-controlling interest in Subsidiary 2 has an indirect non-controlling interest in Subsidiary 3 (again, direct ownership interests are depicted by solid lines). Parent Entity Limited's and the non-controlling interests are summarised in Table 27.2.

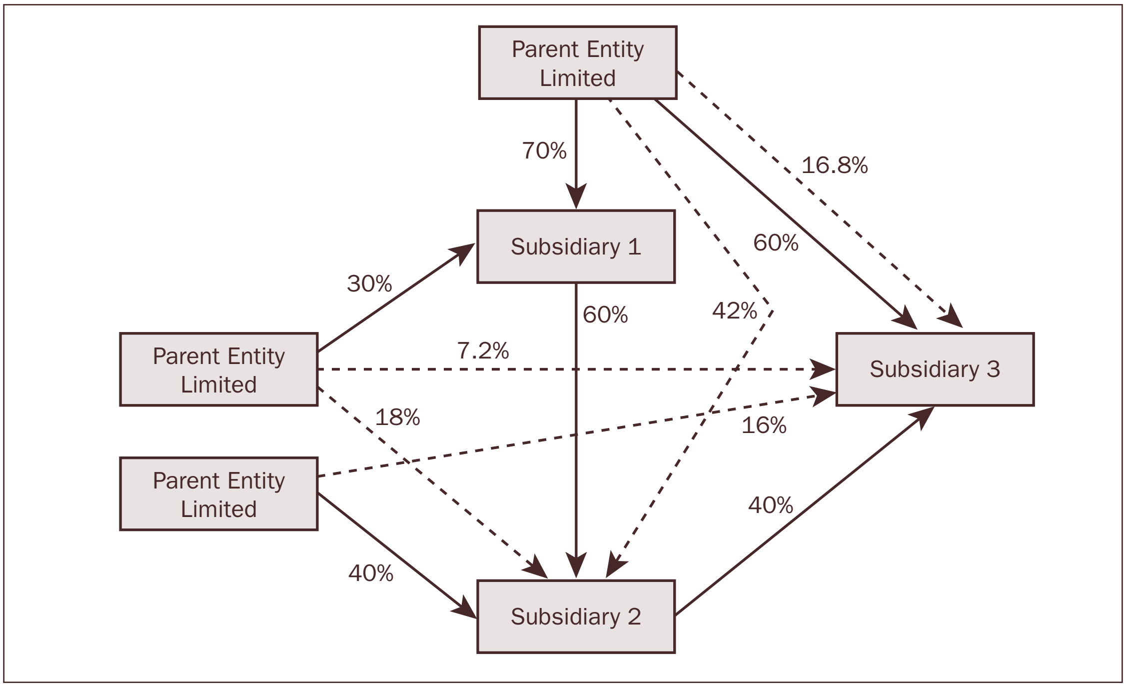



**Figure 27.2**

A situation where a parent entity holds both a direct and an indirect interest in a subsidiary

**Table 27.2**

Direct and indirect interests in a subsidiary

| | SUBSIDIARY 1 % INTEREST | SUBSIDIARY 2 % INTEREST | SUBSIDIARY 3 % INTEREST |
|---|---|---|---|
| *Parent Entity Limited's interest* | | | |
| Direct | 70 | – | 60.0 |
| Indirect | – | 42 | *16.8 |
| *Non-controlling interest* | | | |
| Direct | 30 | 40 | – |
| Indirect | – | 18 | **23.2 |
| | 100 | 100 | 100.0 |

*  16.8 = 0.7 × 0.6 × 0.4
**  23.2 = (0.3 × 0.6 × 0.4) + (0.4 × 0.4)

As can be seen in Figure 27.2, the direct ownership interests (which include Parent Entity Limited's direct interests and the direct non-controlling interests)—represented by solid lines—add up to 100 per cent for all the subsidiaries. As stated above, to determine Parent Entity Limited's interest in all subsidiaries only the arrows emanating from Parent Entity Limited are taken into account. So, looking at Subsidiary 2, it can be seen that Parent Entity Limited's interest is indirect and is 42 per cent. The non-controlling interest will be direct (40%) and indirect (18%), giving a total non-controlling interest of 58 per cent. Adding the total of Parent Entity Limited's interest (direct and indirect) to the total non-controlling interest (direct and indirect) must give 100 per cent. Similarly, for Subsidiary 3, Parent Entity Limited has a mixture of both direct and indirect ownership interests, which add up to 76.8 per cent in total, while the non-controlling interests, also a mix of direct and indirect interests, total 23.2 per cent. But why is all this time being spent working out Parent Entity Limited's direct and indirect interests and direct and indirect non-controlling interests? After all, it does seem to require a lot of effort. As will be seen, these details are necessary to determine the non-controlling interests in profits, contributed equity and reserves, which will need to be disclosed in the economic entity's financial statements. For example, as will be established shortly:

- the elimination of Parent Entity Limited's investment in a subsidiary is done by eliminating the investment against Parent Entity Limited's *direct* ownership interest in pre-acquisition capital and reserves;
- Parent Entity Limited's interest in post-acquisition profits and post-acquisition movements in reserves is based on the combined total of Parent Entity Limited's *direct* and *indirect* interests;
- the non-controlling interest in pre-acquisition capital and reserves is based on *direct* non-controlling interest; and

- the non-controlling interest in post-acquisition movement in reserves and post-acquisition profits is based on the combined sum of both *direct* non-controlling interest and *indirect* non-controlling interest.

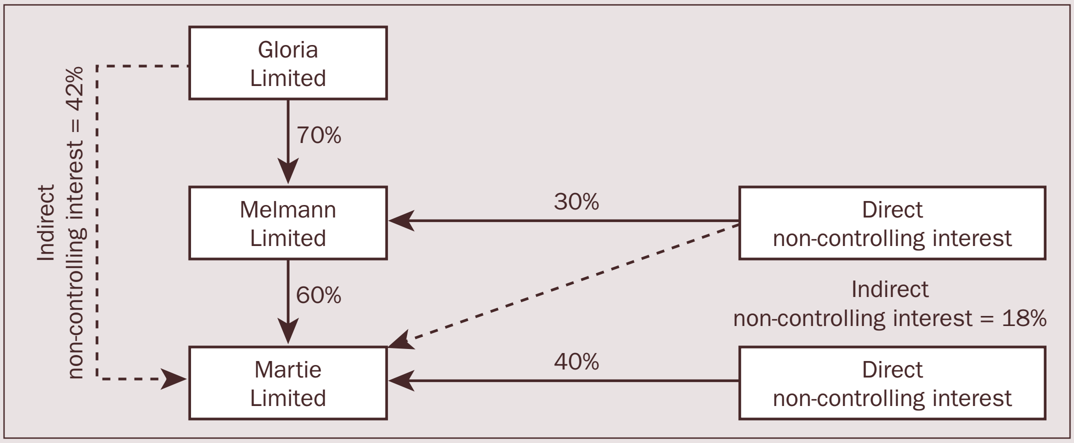
Worked Example 27.1 considers the consolidation process in the presence of indirect interests in more detail.

### ■ **WORKED EXAMPLE 27.1** CONSOLIDATION IN THE PRESENCE OF INDIRECT INTERESTS

Assume that on 1 April 2011, Gloria Limited acquires 70 per cent of the contributed equity of Melmann Limited and, on the same date, Melmann Limited acquires 60 per cent of the contributed equity of Martie Limited. The group's structure would appear as shown in Figure 27.3.

**Figure 27.3**

Group structure of Gloria Limited and its controlled entities




Gloria Limited has no direct ownership interest in Martie Limited. Gloria Limited's ownership interest (indirect) in Martie Limited would be 42 per cent (70 per cent of 60 per cent). Because it is assumed that Melmann Limited's 60 per cent direct ownership of Martie Limited allows Melmann Limited to control Martie Limited, Gloria Limited controls Martie Limited indirectly through its control of Melmann Limited. That is, even in the absence of direct shareholding, Martie Limited would be considered a subsidiary of Gloria Limited. This is consistent with the definition of 'subsidiary' provided earlier. Gloria Limited would be described as the *ultimate parent entity of the group*, as well as the *immediate parent entity* of Melmann Limited. Melmann Limited would be described as the immediate parent entity of Martie Limited.

The direct and indirect interests in Melmann Limited and Martie Limited can be represented as in Table 27.3.

**Table 27.3**

Direct and indirect interests in Melmann Limited and Martie Limited

| | MELMANN LIMITED % INTEREST | MARTIE LIMITED % INTEREST |
|---|---|---|
| *Gloria Limited's interest* | | |
| Direct | 70 | – |
| Indirect | – | 42 |
| *Non-controlling interest* | | |
| Direct | 30 | 40 |
| Indirect | – | 18 |
| | 100 | 100 |

Note that the indirect non-controlling interest in Martie Limited of 18 per cent is derived by multiplying the 30 per cent non-controlling interest in Melmann Limited by the ownership interest Melmann Limited has in Martie Limited (60%).

There is a choice between two methods of performing the consolidation process. The first method is the sequential-consolidation approach, which, if there are numerous subsidiaries, is time consuming and rather messy because consolidation of each separate legal entity with its controlled entities would be performed sequentially. Adopting the sequential-consolidation method, it would be necessary first to consolidate Melmann Limited with Martie Limited and, subsequently, Gloria Limited with the Melmann–Martie group (working backwards from the most distant subsidiary).

Alternatively, a multiple-consolidation approach can be adopted, which is the method advocated in this book. When using the multiple-consolidation approach, there are some general principles that should be followed:

- In eliminating the investments held by the immediate parent entities (the investments as they would appear in the separate legal entities' financial statements), only direct interests are taken into account; and
- Post-acquisition movements in the subsidiaries' equity are allocated to the ultimate parent entity on the basis of the sum of the direct and indirect ownership interests.

This means that indirect interests are relevant only for apportioning post-acquisition movements in equity. Any pre-acquisition allocations or distributions are to be allocated on the basis of direct ownership interests only.

Assume that Gloria Limited acquires the 70 per cent interest in Melmann Limited on 1 April 2011 for a cost of $1 million representing the fair value of consideration transferred. All assets are assumed to be fairly valued in the books of Melmann Limited. The contributed equity and reserves of Melmann Limited at the date of acquisition are:

| | $ |
|---|---|
| Contributed equity | 1 000 000 |
| Retained earnings | 300 000 |
| | 1 300 000 |

The management of Gloria Limited values any non-controlling interest at the proportionate share of Melmann Limited's identifiable assets.

Melmann acquires the 60 per cent interest in Martie Limited on 1 April 2011 for $800 000 representing the fair value of consideration transferred. All assets are assumed to be fairly valued in the books of Martie Limited. The contributed equity and reserves of Martie Limited at the date of acquisition are:

| | $ |
|---|---|
| Contributed equity | 800 000 |
| Retained earnings | 400 000 |
| | 1 200 000 |

The management of Melmann Limited values any non-controlling interest in Martie Limited at fair value.

As noted above, in the consolidation process the elimination of the investment will be based on the direct ownership interests of the immediate parent entity, whereas the allocation of post-acquisition profits and movements in reserves will be based on the ultimate parent entity's direct and indirect interests. Similarly, the non-controlling interest in pre-acquisition capital and reserves will be based on the non-controlling interest's direct ownership interest, whereas the allocation of the non-controlling interest share in post-acquisition profits and movements in reserves will be based on the total of the direct and indirect non-controlling interests.

It must also be remembered that preparers of financial statements have the choice of which measure to use in each business combination. For example, reporting entities can use fair value for one business combination and the proportionate share of the acquiree's net identifiable assets for another business combination.

Assume that the statements of comprehensive income and statements of financial position of the entities at 31 March 2012 (one year after the acquisition) are as follows:

| | *GLORIA LIMITED ($000)* | *MELMANN LIMITED ($000)* | *MARTIE LIMITED ($000)* |
|---|---|---|---|
| *RECONCILIATION OF OPENING AND CLOSING RETAINED EARNINGS* | | | |
| Profit before tax | 500 | 80 | 100 |
| Income tax expense | 270 | 25 | 40 |
| Profit for the year | 230 | 55 | 60 |
| Retained earnings 1 April 2011 | 1 000 | 300 | 400 |
| | 1 230 | 355 | 460 |
| Dividends proposed | 200 | 50 | 30 |
| Retained earnings 31 March 2012 | 1 030 | 305 | 430 |
| *STATEMENT OF FINANCIAL POSITION* | | | |
| *Equity* | | | |
| Contributed equity | 4 000 | 1 000 | 800 |
| Retained earnings | 1 030 | 305 | 430 |
| *Current liabilities* | | | |
| Accounts payable | 170 | 40 | – |
| Dividends payable | 200 | 50 | 30 |
| *Non-current liabilities* | | | |
| Loans | 400 | 250 | – |
| | 5 800 | 1 645 | 1 260 |

| | GLORIA LIMITED ($000) | MELMANN LIMITED ($000) | MARTIE LIMITED ($000) |
|---|---|---|---|
| *Current assets* | | | |
| Cash | 165 | 37 | 100 |
| Accounts receivable | 250 | 175 | 200 |
| Dividends receivable | 35 | 18 | – |
| Inventory | 500 | 300 | 400 |
| *Non-current assets* | | | |
| Land | 2 350 | – | 200 |
| Plant | 1 500 | 315 | 360 |
| Investment in Melmann Limited | 1 000 | – | – |
| Investment in Martie Limited | – | 800 | – |
| | 5 800 | 1 645 | 1 260 |

**Additional information** • Assume that in the year to 31 March 2012 there have been impairment losses in relation to the goodwill acquired in Melmann Limited. The goodwill has been deemed impaired by an amount of 10 per cent of its original balance. Similarly, the goodwill in Martie Limited is considered to have been impaired by $13 333 in the year to 31 March 2012. All dividends were declared on 31 March 2012 and the decision to pay them communicated to shareholders on that date.

For the purposes of this illustration it is assumed that there are no intragroup transactions (this assumption will not apply in the next Worked Example).

**Required** • Prepare the consolidated financial statements of Gloria Limited and its controlled entities for the reporting period ending 31 March 2012.

**Solution to Worked Example 27.1**

*Workings to eliminate investment in subsidiary and recognise goodwill on acquisition date*

When eliminating the investment against the pre-acquisition capital and reserves of the subsidiaries, only the direct ownership interests are considered.

| *ELIMINATION OF INVESTMENT IN MELMANN LIMITED* | MELMANN LIMITED ($) | GLORIA LIMITED'S 70% INTEREST ($) | 30% NON-CONTROLLING INTEREST ($) |
|---|---|---|---|
| Fair value of consideration transferred | | 1 000 000 | |
| *less* Fair value of identifiable assets acquired and liabilities assumed | | | |
| Contributed equity on acquisition date | 1 000 000 | 700 000 | 300 000 |
| Retained earnings on acquisition date | 300 000 | 210 000 | 90 000 |
| | 1 300 000 | 910 000 | |
| Goodwill on acquisition date | | 90 000 | |
| Non-controlling interest at date of acquisition | | | 390 000 |

| *ELIMINATION OF INVESTMENT IN MARTIE LIMITED* | MARTIE LIMITED ($) | MELMANN LIMITED'S 60% INTEREST ($) | 40% NON-CONTROLLING INTEREST ($) |
|---|---|---|---|
| Fair value of consideration transferred | 800 000 | 800 000 | |
| *plus* Non-controlling interest at fair value ($800 000 × 40/60) | 533 333 | | 533 333 |
| | 1 333 333 | | |
| *less* Fair value of identifiable assets acquired and liabilities assumed | | | |
| Contributed equity on acquisition date | 800 000 | 480 000 | 320 000 |
| Retained earnings on acquisition date | 400 000 | 240 000 | 160 000 |
| | 1 200 000 | 720 000 | 480 000 |
| Goodwill on acquisition date | 133 333 | 80 000 | 53 333 |

*Consolidation journal entries*

(a) *Entry to eliminate Gloria Limited's investment in Melmann Limited and recognition of goodwill on acquisition*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 700 000 | |
| Dr | Retained earnings | 210 000 | |
| Dr | Goodwill | 90 000 | |
| Cr | Investment in Melmann Limited | | 1 000 000 |

*Eliminating investment in Melmann Limited and recognition of goodwill on acquisition*

(b) *Entry to eliminate Melmann Limited's investment in Martie Limited and recognition of goodwill on acquisition*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 480 000 | |
| Dr | Retained earnings | 240 000 | |
| Dr | Goodwill | 80 000 | |
| Cr | Investment in Martie Limited | | 800 000 |

*Eliminating investment in Martie Limited and recognising goodwill on acquisition*

*Recognise impairment of goodwill*

(c) *Impairment of the goodwill associated with the acquisition of Melmann Limited*

| | | | |
|---|---|---|---|
| Dr | Impairment expense—goodwill | 9 000 | |
| Cr | Accumulated impairment losses—goodwill | | 9 000 |

*Impairment of goodwill*

As Gloria Limited valued the non-controlling interest at the proportionate share of Melmann Limited's identifiable assets, there is no necessity to allocate any goodwill impairment expense between the parent and the non-controlling interest.

(d) *Impairment of the goodwill associated with the acquisition of Martie Limited*

| | | | |
|---|---|---|---|
| Dr | Impairment expense—goodwill | 8 000 | |
| Cr | Accumulated impairment losses—goodwill | | 8 000 |

*Impairment of goodwill*

As Melmann Limited measures the non-controlling interest in Martie Limited at fair value, goodwill of $133 333 was recognised, $53 333 of which has been allocated to the non-controlling interest (see working to eliminate investment in Martie Limited). Where non-controlling interest has been measured at fair value any goodwill impairment losses are allocated between the parent and the non-controlling interest on the same basis as that on which profit and loss is allocated. An impairment loss of $8000 (60 per cent of $13 333) will be allocated to the parent with the balance of $5333 allocated to the non-controlling interest (see (k) below).

*Dividends paid and proposed*

As discussed in previous chapters, all intragroup dividends should be eliminated on consolidation.

(e) *To eliminate dividends proposed by Melmann Limited*

| | | | |
|---|---|---|---|
| Dr | Dividend payable (statement of financial position) | 35 000 | |
| Cr | Dividend proposed | | 35 000 |

*To take account of Gloria Limited's direct interest of 70 per cent in Melmann Limited's dividends of $50 000*

(f) *To eliminate dividends receivable from Melmann Limited*

| | | | |
|---|---|---|---|
| Dr | Revenue—dividend revenue | 35 000 | |
| Cr | Dividend receivable (statement of financial position) | | 35 000 |

*Eliminate dividends proposed by Melmann Limited*

(g) *To eliminate dividends proposed by Martie Limited*

| | | | |
|---|---|---|---|
| Dr | Dividend payable (statement of financial position) | 18 000 | |
| Cr | Dividend proposed | | 18 000 |

*To take account of Melmann Limited's direct interest of 60 per cent in Martie Limited's dividends of $30 000*

(h) *To eliminate dividends receivable from Martie Limited*

| | | | |
|---|---|---|---|
| Dr | Revenue—dividend revenue | 18 000 | |
| Cr | Dividend receivable (statement of financial position) | | 18 000 |

*Eliminating dividends receivable from Martie Limited*

Up to this point nothing has been done that has not been touched on in the previous chapters on consolidation. Even in the presence of indirect interests, the pre-acquisition capital and reserves is eliminated against the direct investment and all the intragroup transactions are eliminated before the consolidated financial statements are drawn up. As will be seen, the indirect interests affect how the total consolidated equity and consolidated profits is apportioned between the parent and non-controlling interests. The consolidation journal entries prepared above can now be posted to the consolidation worksheet.

*Recognising non-controlling interest in contributed equity, reserves and earnings*

(i) *Non-controlling interest in Melmann Limited*

| *CALCULATION OF NON-CONTROLLING INTERESTS IN MELMANN LIMITED* | *MELMANN LIMITED ($)* | *NON-CONTROLLING INTEREST 30% ($)* |
|---|---|---|
| *Non-controlling interests and goodwill on acquisition date* | | |
| Contributed equity | 1 000 000 | 300 000 |
| Retained earnings—on acquisition | 300 000 | 90 000 |
| | 1 300 000 | 390 000 |
| *Non-controlling interest in the current period's profit and movements in reserves in the current period* | | |
| Profit for the year | 55 000 | |
| *less* Dividends received from entity within group* | (18 000) | |
| *less* Impairment of goodwill in Martie Limited* | (8 000) | |
| | 29 000 | 8 700 |
| *less* Dividends paid by Melmann Limited | (50 000) | (15 000) |
| | | 383 700 |

* Explanations for these adjustments are provided below

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 300 000 | |
| Dr | Retained earnings—1 April 2011 | 90 000 | |
| Dr | Non-controlling interest in earnings | 8 700 | |
| Cr | Dividend proposed | | 15 000 |
| Cr | Non-controlling interest | | 383 700 |

*Recognising non-controlling interest and non-controlling interest in earnings of Melmann Limited*

*Explanation for adjustments*

If the above calculations of the non-controlling interest in current period profits are reviewed, it is apparent that adjustments for the intragroup dividends as well as for the impairment of the goodwill in Martie Limited have been made. Why? This was not done in Chapter 26 when the non-controlling interests in a group structure that involved only one subsidiary was calculated. What is different in this example, however, is that there is an intermediate parent entity.

First, in relation to dividends, of the dividends proposed by Martie Limited, which totalled $30 000, $18 000 (60%) went to Melmann Limited and $12 000 (40%) went to the direct non-controlling interests in Martie Limited. The dividend paid to Melmann Limited will be included in Melmann Limited's profits, in which the direct non-controlling interests (30%) will have a share. The indirect non-controlling interests in Martie Limited—who are the same parties as the direct non-controlling interests in Melmann Limited (see Figure 27.3 provided earlier)—will be allocated a share in the profits of Martie Limited (through their 18% indirect interest). The dividends paid by Martie Limited to Melmann Limited represent a distribution of these profits. The non-controlling interests in Melmann Limited (who are the same investors as the indirect non-controlling interests in Martie Limited) should not get a share of these profits yet again, so before the non-controlling interest in the profits of Melmann Limited are calculated, the dividend paid to Melmann Limited by Martie Limited are subtracted. The general rule here is that intragroup dividends paid to an 'intermediate parent' from a subsidiary are subtracted from the profits of that intermediate parent before the non-controlling interest in profits of that organisation is calculated.

In relation to why the impairment of Martie Limited's goodwill is added back before calculating the non-controlling interest in the profits of Melmann Limited, it must be remembered that it is the subsidiary's contribution to group profit that is being looked at, and the non-controlling interest in that group profit. The intermediate parent—Melmann Limited—owns the investment in Martie Limited and therefore is responsible for the purchased goodwill recognised in the financial statements of the economic entity. Therefore, the intermediate parent effectively controls this goodwill directly, and thus the calculation of Melmann Limited's contribution to group profit should take account of any related impairment that is recognised in relation to the goodwill in Martie Limited.

Reflecting the fact that the non-controlling interests in Melmann Limited therefore have an ownership interest in Martie Limited's goodwill, the non-controlling interest will be allocated a proportion of this impairment loss, as will the parent entity.

This can be contrasted with the treatment discussed in Chapter 26. In Chapter 26 there were only two entities—a parent and a subsidiary—and it was the parent entity that owned the 'investment' in the subsidiary that held the goodwill, so there was no goodwill impairment loss to be reported by the subsidiary and, therefore, no non-controlling interest in goodwill impairment. Where there is an intermediate parent the ownership of the purchased goodwill—and this goodwill must be subject to annual impairment testing—is effectively shared between the direct parent interest and the direct non-controlling interest. So the general rule here is that where there is an intermediate parent entity, any goodwill impairment expense that is recognised in relation to a subsidiary under the control of the intermediate subsidiary is to be added back to the intermediate parent entity's reported profit before non-controlling interests are calculated.

(j) *Non-controlling interest in Martie Limited*

| *CALCULATION OF NON-CONTROLLING INTERESTS IN MARTIE LIMITED* | *MARTIE LIMITED ($)* | *NON-CONTROLLING INTEREST 40% ($)* |
|---|---|---|
| *Non-controlling interests and goodwill on acquisition date* | | |
| Contributed equity | 800 000 | 320 000 |
| Retained earnings—on acquisition | 400 000 | 160 000 |
| Goodwill on acquisition | | 53 333 |
| | 1 200 000 | 533 333 |
| *Non-controlling interest in the current period's profit and movements in reserves in the current period* | | |
| Profit for the year | 60 000 | 24 000 |
| *less* Dividends proposed by Martie Limited | (30 000) | (12 000) |
| | | 545 333 |

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 320 000 | |
| Dr | Retained earnings—1 April 2011 | 160 000 | |
| Dr | Goodwill on acquisition | 53 333 | |
| Dr | Non-controlling interest in earnings | 24 000 | |
| Cr | Dividend proposed | | 12 000 |
| Cr | Non-controlling interest | | 545 333 |

*Recognising non-controlling interest and non-controlling interest in earnings of Martie Limited*

(k) *Recognise impairment of goodwill non-controlling interest*

Of the goodwill impairment loss of $13 333 recognised in the current reporting period, $5333 (40 per cent of $13 333) is allocated to the non-controlling interest.

| | | | |
|---|---|---|---|
| Dr | Non-controlling interest | | 5 333 |
| Cr | Accumulated impairment losses–goodwill | 5 333 | |

*Recognise current reporting periods impairment loss attributable to non-controlling interest*

(l) *Indirect non-controlling interest in Martie Limited*

| *CALCULATION OF INDIRECT NON-CONTROLLING INTEREST IN MARTIE LIMITED* | *MARTIE LIMITED ($)* | *INDIRECT NON-CONTROLLING INTEREST 18% ($)* |
|---|---|---|
| Profit for the year | 60 000 | 10 800 |

| | | | |
|---|---|---|---|
| Dr | Non-controlling interest in earnings | 10 800 | |
| Cr | Non-controlling interest | | 10 800 |

*Recognising indirect non-controlling interest in earnings of Martie Limited*

The above consolidation journal entries can now be posted to the consolidation worksheet.

***Gloria Limited and its controlled entities***
***Consolidation worksheet for the year ended 31 March 2012***

| | GLORIA LIMITED ($) | MELMANN LIMITED ($) | MARTIE LIMITED ($) | ELIMINATIONS AND ADJUSTMENTS DR ($) | CR ($) | CONSOLIDATED STATEMENT ($) |
|---|---|---|---|---|---|---|
| *RECONCILIATION OF OPENING AND CLOSING RETAINED EARNINGS* | | | | | | |
| Profit before tax | 500 000 | 80 000 | 100 000 | 9 000(c) | | |
| | | | | 8 000(d) | | |
| | | | | 35 000(f) | | |
| | | | | 18 000(h) | | 610 000 |
| Income tax expense | 270 000 | 25 000 | 40 000 | | | 335 000 |
| Profit for the year | 230 000 | 55 000 | 60 000 | | | 275 000 |
| Non-controlling interest in earnings | | | | 8 700(i) | | |
| | | | | 24 000(j) | | |
| | | | | 10 800(l) | | 43 500 |
| Retained earnings—1 April 2011 | 1 000 000 | 300 000 | 400 000 | 210 000(a) | | |
| | | | | 240 000(b) | | |
| | | | | 90 000(i) | | |
| | | | | 160 000(j) | | 1 000 000 |
| | 1 230 000 | 355 000 | 460 000 | | | 1 231 500 |
| Dividends proposed | 200 000 | 50 000 | 30 000 | | 35 000(e) | |
| | | | | | 18 000(g) | |
| | | | | | 15 000(i) | |
| | | | | | 12 000(j) | 200 000 |
| Retained earnings—31 March 2012 | 1 030 000 | 305 000 | 430 000 | | | 1 031 500 |
| *STATEMENT OF FINANCIAL POSITION* | | | | | | |
| *Equity* | | | | | | |
| Contributed equity | 4 000 000 | 1 000 000 | 800 000 | 700 000(a) | | |
| | | | | 480 000(b) | | |
| | | | | 300 000(i) | | |
| | | | | 320 000(j) | | 4 000 000 |
| Retained earnings | 1 030 000 | 305 000 | 430 000 | | | 1 031 500 |
| | | | | | | 5 031 500 |
| Non-controlling interest | | | | 5 333(k) | 383 700(i) | |
| | | | | | 545 333(j) | |
| | | | | | 10 800(k) | 934 500 |
| | | | | | | 5 966 000 |
| *Current liabilities* | | | | | | |
| Accounts payable | 170 000 | 40 000 | – | | | 210 000 |
| Dividends payable | 200 000 | 50 000 | 30 000 | 35 000(e) | | |
| | | | | 18 000(g) | | 227 000 |
| *Non-current liabilities* | | | | | | |
| Loans | 400 000 | 250 000 | – | | | 650 000 |
| | 5 800 000 | 1 645 000 | 1 260 000 | | | 7 053 000 |
| *Current assets* | | | | | | |
| Cash | 165 000 | 37 000 | 100 000 | | | 302 000 |
| Accounts receivable | 250 000 | 175 000 | 200 000 | | | 625 000 |
| Dividends receivable | 35 000 | 18 000 | – | | 35 000(f) | |
| | | | | | 18 000(h) | – |
| Inventory | 500 000 | 300 000 | 400 000 | | | 1 200 000 |

| | GLORIA LIMITED ($) | MELMANN LIMITED ($) | MARTIE LIMITED ($) | ELIMINATIONS AND ADJUSTMENTS DR ($) | ELIMINATIONS AND ADJUSTMENTS CR ($) | CONSOLIDATED STATEMENT ($) |
|---|---|---|---|---|---|---|
| *Non-current assets* | | | | | | |
| Land | 2 350 000 | – | 200 000 | | | 2 550 000 |
| Plant | 1 500 000 | 315 000 | 360 000 | | | 2 175 000 |
| Invest. in Melmann Ltd | 1 000 000 | – | – | | 1 000 000(a) | – |
| Invest. in Martie Ltd | – | 800 000 | – | | 800 000(b) | – |
| Goodwill | | | | 90 000(a) | | |
| | | | | 80 000(b) | | |
| | | | | 53 333(j) | | 223 333 |
| Goodwill—accumulated impairment | | | | | 9 000(c) | |
| | | | | | 8 000(d) | 22 333 |
| | | | | | 5 333(k) | 201 000 |
| | 5 800 000 | 1 645 000 | 1 260 000 | | | 7 053 000 |

The dividends payable balance of $227 000 shown in the consolidated worksheet is represented by:

| | | |
|---|---|---|
| (i) | dividends paid by Gloria Limited | $200 000 |
| (ii) | direct non-controlling interest in dividends of Melmann Limited: 30 per cent of $50 000 | $15 000 |
| (iii) | direct non-controlling interest in dividends of Martie Limited: 40 per cent of $30 000 | $12 000 |
| | | $227 000 |

Before the consolidated statement of financial position and statement of comprehensive income can be presented, the non-controlling interest needs to be considered. As was established in Chapter 26, the non-controlling interest must be disclosed separately within the financial statements. As NZ IAS 27, paragraph 33, states:

> *Non-controlling interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Non-controlling interests in the profit or loss of the group shall also be separately disclosed.*

This dictates the separate disclosure of non-controlling interests in contributed equity, group retained earnings and reserves and group profit before tax (loss). Exhibits 26.1, 26.2 and 26.3 (detailed in Chapter 26) show the suggested disclosures for non-controlling interests in the equity component of the statement of financial position, the statement of comprehensive income and statement of changes in equity.

The consolidated financial statements for Gloria Limited and its controlled entities can now be provided.

***Gloria Limited and its controlled entities***
***Consolidated statement of comprehensive income for the year ending 31 March 2012***

| | GROUP $ | GLORIA LIMITED ($) |
|---|---|---|
| Profit before tax | 604 667 | 500 000 |
| Income tax expense | 335 000 | 270 000 |
| Profit for the year | 269 667 | 230 000 |
| Attributable to: | | |
| Owners of the parent | 226 167 | |
| Non-controlling interest | 43 500 | |
| | 269 667 | |

**Gloria Limited and its controlled entities**
**Consolidated statement of changes in equity for the year ending 31 March 2012**

| | ATTRIBUTABLE TO OWNERS OF THE PARENT | | | NON- | |
|---|---|---|---|---|---|
| | CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL ($) | CONTROLLING INTEREST ($) | TOTAL EQUITY ($) |
| Balance—1 April 2011 | 4 000 000 | 1 000 000 | 5 000 000 | 923 333 | 5 923 333 |
| Profit for the year | – | 226 167 | 226 167 | 43 500 | 269 667 |
| Distributions | – | (200 000) | (200 000) | (27 000) | (227 000) |
| Balance—31 March 2012 | 4 000 000 | 1 026 167 | 5 026 167 | 939 833 | 5 966 000 |

**Gloria Limited Statement of Changes in Equity for the year ending 31 March 2012**

| | CONTROLLED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL EQUITY ($) |
|---|---|---|---|
| Balance–1 April 20011 | 4 000 000 | 1 000 000 | 5 000 000 |
| Profit for the year | – | 230 000 | 230 000 |
| Distributions | – | (200 000) | (200 000) |
| Balance–31 March 2012 | 4 000 000 | 1 030 000 | 5 030 000 |

**Gloria Limited and its controlled entities**
**Consolidated statement of financial position at 31 March 2012**

| | GROUP ($) | GLORIA LIMITED ($) |
|---|---|---|
| *ASSETS* | | |
| *Non-current assets* | | |
| Property, plant and equipment | 4 725 000 | 3 850 000 |
| Goodwill | 201 000 | – |
| Investment in Melmann Limited | – | 1 000 000 |
| Total non-current assets | 4 926 000 | 4 850 000 |
| *Current assets* | | |
| Inventories | 1 200 000 | 500 000 |
| Accounts receivable | 625 000 | 250 000 |
| Dividends receivable | – | 35 000 |
| Cash | 302 000 | 165 000 |
| Total current assets | 2 127 000 | 950 000 |
| Total assets | 7 053 000 | 5 800 000 |
| *LIABILITIES* | | |
| *Non-current liabilities* | | |
| Loans | 650 000 | 400 000 |
| Total non-current liabilities | 650 000 | 400 000 |
| *Current liabilities* | | |
| Accounts payable | 210 000 | 170 000 |
| Dividends payable | 227 000 | 200 000 |
| Total current liabilities | 437 000 | 370 000 |
| Total liabilities | 1 087 000 | 770 000 |
| Net assets | 5 966 000 | 5 030 000 |

| | GROUP ($) | GLORIA LIMITED ($) |
|---|---|---|
| *EQUITY* | | |
| *Capital and reserves* | | |
| Contributed equity | 4 000 000 | 4 000 000 |
| Retained earnings | 1 026 167 | 1 030 000 |
| | 5 026 167 | 5 030 000 |
| Non-controlling interest | 939 833 | – |
| Total equity | 5 966 000 | 5 030 000 |

In Worked Example 27.2 intragroup transactions are introduced into the consolidation process.

### ■ **WORKED EXAMPLE 27.2** CONSOLIDATION IN THE PRESENCE OF INDIRECT OWNERSHIP INTERESTS AND INTRAGROUP TRANSACTIONS

On 31 March 2008, Big Limited purchased 70 per cent of the shares of Medium Limited for $660 000 cash. On the same date, Medium Limited purchased 60 per cent of the shares of Small Limited for $420 000 cash. Both amounts represented the fair value of consideration transferred.

The statements of financial position of Medium Limited and Small Limited immediately before the investments were as follows:

***Medium Limited and Small Limited***
***Statements of financial position at 31 March 2008***

| | MEDIUM LIMITED ($) | SMALL LIMITED ($) |
|---|---|---|
| *Assets* | | |
| Cash | 465 000 | 30 000 |
| Accounts receivable | 180 000 | 80 000 |
| Inventory | 200 000 | 130 000 |
| Land | 105 000 | 210 000 |
| Factory buildings | 1 000 000 | 360 000 |
| Accumulated depreciation | (700 000) | (72 000) |
| Total assets | 1 250 000 | 738 000 |
| *Liabilities* | | |
| Accounts payable | 450 000 | 258 000 |
| *Equity* | | |
| Contributed equity | 560 000 | 160 000 |
| Retained earnings—31 March 2008 | 240 000 | 320 000 |
| | 1 250 000 | 738 000 |

**Additional information •**

(i) Any non-controlling interest in Medium Limited is measured at fair value, while the non-controlling interest in Small Limited is measured at the proportionate share of its identifiable assets.

(ii) At the date of investment, all the identifiable net assets of Medium Limited and Small Limited were considered to be recorded at fair value in the respective statements of financial position of Medium Limited and Small Limited, except Small Limited's factory buildings, which had a fair value of $416 000, and a carrying value of $288 000 (cost of $360 000, accumulated depreciation of $72 000). At 31 March 2008, the factory buildings had a remaining useful life of 16 years.

(iii) On 1 April 2011 the recoverable amount of the goodwill relating to the purchase of Small Limited by Medium Limited was assessed to be $40 000 (an accumulated impairment loss of $38 240, as will be seen shortly). This impairment loss of $38 240 was recognised in the first year following acquisition, that is in the year to 31 March 2009. During the year to 31 March 2012 it was considered that the goodwill in Small Limited had been further impaired by an amount of $5000 to provide a recoverable amount at 31 March 2012 of $35 000.

(iv) On 31 March 2012, the recoverable amount of the goodwill relating to the purchase of Medium Limited by Big Limited was assessed to be $110 000 and it was considered that all the impairment occurred in the 2012 reporting period.

(v) During the 2012 reporting period Small Limited sold goods to Big Limited for $2 000 000. These goods had originally cost Small Limited $1 600 000. On 31 March 2009, 35 per cent of these goods remained in Big Limited's closing inventory.

(vi) Small Limited's opening inventory included goods purchased from Medium Limited for $570 000. These goods had originally cost Medium Limited $490 000.

(vii) On 31 March 2012 Big Limited sold a factory building to Medium Limited for $800 000. Big Limited had originally purchased the factory building for $900 000, on 1 July 2006. The original estimated useful life of the factory building was 20 years.

(viii) On 31 August 2011, Big Limited paid an interim dividend of $125 000, while Small Limited paid an interim dividend of $110 000.

(ix) On 31 March 2012, Big Limited proposed a final dividend of $260 000, while Medium Limited proposed a final dividend of $90 000. The decision to pay these dividends was communicated to shareholders on that date.

(x) The income tax rate is 30 per cent.

(xi) The financial statements of Big Limited, Medium Limited and Small Limited revealed the following balances at 31 March 2012.

***Big Limited, Medium Limited and Small Limited***
***Statements of comprehensive income for the year ended 31 March 2012***

| | *BIG LIMITED ($)* | *MEDIUM LIMITED ($)* | *SMALL LIMITED ($)* |
|---|---|---|---|
| Sales | 7 500 000 | 4 000 000 | 3 500 000 |
| Cost of goods sold | 6 100 000 | 3 260 000 | 2 900 000 |
| Gross profit | 1 400 000 | 740 000 | 600 000 |
| Depreciation expense | 130 000 | 50 000 | 18 000 |
| Other expenses | 743 000 | 476 000 | 262 000 |
| Dividend revenue | 63 000 | 66 000 | – |
| Gain on sale of factory building | 170 000 | – | – |
| Profit before tax | 760 000 | 280 000 | 320 000 |
| Income tax expense | 304 000 | 112 000 | 128 000 |
| Profit for the year | 456 000 | 168 000 | 192 000 |

***Big Limited, Medium Limited and Small Limited***
***Statements of financial position at 31 March 2012***

| | *BIG LIMITED ($)* | *MEDIUM LIMITED ($)* | *SMALL LIMITED ($)* |
|---|---|---|---|
| *Assets* | | | |
| Cash | 76 000 | 6 000 | 37 000 |
| Accounts receivable | 172 000 | 52 000 | 68 000 |
| Dividends receivable | 63 000 | – | – |
| Inventory | 1 100 000 | 440 000 | 700 000 |
| Land | 720 000 | 105 000 | 210 000 |
| Factory buildings | 2 600 000 | 1 800 000 | 360 000 |
| Accumulated depreciation | (130 000) | (900 000) | (144 000) |
| Investment in Medium Limited | 660 000 | – | – |
| Investment in Small Limited | – | 420 000 | – |
| Total assets | 5 261 000 | 1 923 000 | 1 231 000 |
| *Liabilities* | | | |
| Accounts payable | 910 000 | 715 000 | 319 000 |
| Dividends payable | 260 000 | 90 000 | – |
| *Equity* | | | |
| Contributed equity | 3 300 000 | 560 000 | 160 000 |
| Retained earnings—31 March 2012 | 791 000 | 558 000 | 752 000 |
| Total Equity | 5 261 000 | 1 923 000 | 1 231 000 |

***Big Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL EQUITY ($)* |
|---|---|---|---|
| Balance—1 April 2011 | 3 300 000 | 720 000 | 4 020 000 |
| Profit for the year | – | 456 000 | 456 000 |
| Distributions paid and proposed | – | 385 000 | 385 000 |
| Balance—31 March 2012 | 3 300 000 | 791 000 | 4 091 000 |

***Medium Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL EQUITY ($)* |
|---|---|---|---|
| Balance—1 April 2011 | 560 000 | 480 000 | 1 040 000 |
| Profit for the year | – | 168 000 | 168 000 |
| Distributions paid and proposed | – | 90 000 | 90 000 |
| Balance—31 March 2012 | 560 000 | 558 000 | 1 118 000 |

***Small Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL EQUITY ($)* |
|---|---|---|---|
| Balance—1 April 2011 | 160 000 | 670 000 | 830 000 |
| Profit for the year | – | 192 000 | 192 000 |
| Distributions paid and proposed | – | 110 000 | 110 000 |
| Balance—31 March 2012 | 160 000 | 752 000 | 912 000 |

**Required** • Prepare the consolidated financial statements of Big Limited and its controlled entities for the reporting period ending 31 March 2012.

**Solution to worked Example 27.2**

As has been established in previous chapters, the following steps need to be taken:

- provide the consolidation worksheet journal entries;
- calculate non-controlling interests;
- post the consolidation journal entries to the worksheet; and
- prepare the consolidated financial statements from the consolidation worksheet and utilise the calculation of non-controlling interests to disclose the non-controlling interests contribution to profits, and the non-controlling interests in contributed equity and reserves.

**Consolidation worksheet journal entries**

*Recognition of the fair value adjustment*

At the date of Medium Limited's acquisition of Small Limited the carrying amount of the factory buildings was less than their fair value. To calculate the correct goodwill on acquisition, a revaluation adjustment at the date of acquisition must be made before the investment is eliminated against the pre-acquisition capital and reserves of the acquired subsidiary. As explained in Chapter 19, when an entity revalues its non-current assets a tax effect is created, which needs to be recognised in accordance with NZ IAS 12 'Income Taxes'.

(a) *Revaluation of factory balance to fair value*

| | | | |
|---|---|---|---|
| Dr | Factory Buildings ($416 000 – $360 000) | 56 000 | |
| Dr | Accumulated depreciation (to close off balance before revaluation) | 72 000 | |
| | Cr Revaluation surplus | | 128 000 |

*Recognising revaluation of factory building to fair value*

(b) *Deferred tax liability arising on revaluation of factory building*

| | | | |
|---|---|---|---|
| Dr | Revaluation surplus | 38 400 | |
| | Cr Deferred tax liability ($128 000 × 0.30) | | 38 400 |

*Recognition of deferred tax liability arising on revaluation of factory building*

Adjusting the carrying amount of the buildings will have implications for depreciation expense. The depreciation expense will be based on the revised measure. Because the subsidiary was acquired four years ago, and the fair value adjustment was initially made four years ago, then four years' adjustment to depreciation must be made. Three years' depreciation will be adjusted against opening retained earnings.

(c) *Recognition of additional depreciation expense for the current reporting period and accumulated depreciation for previous three reporting periods*

| | | | |
|---|---|---|---|
| Dr | Depreciation expense ($128 000/16 for the current year) | 8 000 | |
| Dr | Retained earnings—1 April 2011 ($128 000/16 × 3 for the previous 3 years) | 24 000 | |
| | Cr Accumulated depreciation ($128 000/16 × 4 years) | | 32 000 |

*Recognition of additional depreciation expense for the current and previous three reporting periods*

(d) *Adjustments to current tax expense and deferred tax liability arising from additional depreciation expense*

| | | | |
|---|---|---|---|
| Dr | Deferred tax liability ($32 000 × 0.3) | 9 600 | |
| | Cr Income tax expense ($8 000 × 0.3 for the current year) | | 2 400 |
| | Cr Retained earnings—1 April 2011 ($24 000 × 0.3 for the previous 3 years) | | 7 200 |

*Recognising decrease in deferred tax liability and income tax expense from additional depreciation expense in current and previous three reporting periods*

*Elimination of the fair value of consideration transferred and recognition of goodwill*

| *ELIMINATION OF INVESTMENT IN MEDIUM LIMITED* | *MEDIUM LIMITED ($)* | *BIG LIMITED'S 70% INTEREST ($)* | *30% NON-CONTROLLING INTEREST ($)* |
|---|---|---|---|
| Fair value of consideration transferred | 660 000 | 660 000 | |
| *plus* Non-controlling interest at fair value ($660 000 × 30/70) | 282 857 | | |
| | 942 857 | | |
| *less* Fair value of identifiable assets acquired and liabilities assumed | | | |
| Contributed equity on acquisition date | 560 000 | 392 000 | 168 000 |
| Retained earnings on acquisition date | 240 000 | 168 000 | 72 000 |
| | 800 000 | 560 000 | |
| Goodwill on acquisition date | 142 857 | 100 000 | 42 857 |
| Non-controlling interest on acquisition date | | | 282 857 |

| *ELIMINATION OF INVESTMENT IN SMALL LIMITED* | *SMALL LIMITED ($)* | *MEDIUM LIMITED'S 60% INTEREST ($)* | *40% NON-CONTROLLING INTEREST ($)* |
|---|---|---|---|
| Fair value of consideration transferred | | 420 000 | |
| *less* Fair value of identifiable assets acquired and liabilities assumed | | | |
| Contributed equity on acquisition date | 160 000 | 96 000 | 64 000 |
| Retained earnings on acquisition date | 320 000 | 192 000 | 128 000 |
| Revaluation surplus on acquisition date | 89 600 | 53 760 | 35 840 |
| | 556 800 | 341 760 | |
| Goodwill on acquisition date | | 78 240 | |
| Non-controlling interest at date of acquisition | | | 222 720 |

(e) *Eliminating Big Limited's investment in Medium Limited and recognition of goodwill*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 392 000 | |
| Dr | Retained earnings—1 April 2011 | 168 000 | |
| Dr | Goodwill | 100 000 | |
| Cr | Investment in Medium Limited | | 660 000 |

*Eliminating investment in Medium Limited and recognition of goodwill on acquisition*

(f) *Eliminating Medium Limited's investment in Small Limited and recognition of goodwill*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 96 000 | |
| Dr | Retained earnings—1 April 2011 | 192 000 | |
| Dr | Revaluation surplus | 53 760 | |
| Dr | Goodwill | 78 240 | |
| Cr | Investment in Small Limited | | 420 000 |

*Eliminating investment in Small Limited and recognition of goodwill on acquisition*

*Eliminating intragroup sales of inventory*

As part of the consolidation adjustments and eliminations the intragroup sales must be eliminated because, from the perspective of the economic entity, no sales have in fact occurred. This will ensure the turnover of the economic entity is not overstated.

(g) *Elimination of intragroup sales inventory from Small Limited to Big Limited*

The intragroup sales need to be eliminated because, from the perspective of the economic entity, no sales have in fact occurred. This will ensure that the turnover of the economic entity is not overstated.

| | | | |
|---|---|---|---|
| Dr | Sales | 2 000 000 | |
| Cr | Cost of goods sold | | 2 000 000 |

*Eliminating intragroup sales*

Under the periodic inventory system, the above credit entry would be to purchases, which would ultimately lead to a reduction in cost of goods sold. (Cost of goods sold equals opening inventory plus purchases less closing inventory, hence any reduction in purchases leads to a reduction in cost of goods sold.)

(h) *Elimination of unrealised profit in closing inventory*

In this case, the unrealised profit in closing inventory amounts to $140 000, which represents the profit on the total sales multiplied by the proportion of sales still on hand, that is ($2 000 000 – $1 600 000) × 35 per cent. Remember NZ IAS 2 'Inventories' requires inventory to be valued at the *lower of cost and net realisable value*. This means that on consolidation the value of recorded inventory must be reduced, as the amount shown in the financial statements of Big Limited exceeds what the inventory cost the economic entity.

| | | | |
|---|---|---|---|
| Dr | Cost of goods sold | 140 000 | |
| Cr | Inventory | | 140 000 |

*Elimination of unrealised profit in closing inventory*

Under the periodic inventory system, the above debit entry would be to closing inventory—profit and loss. Cost of goods sold is increased by the unrealised profit in closing inventory because reducing closing inventory effectively increases cost of goods sold. The effect of the above entries is to adjust the value of inventory so that it reflects the cost of the inventory to the group.

(i) *Consideration of the tax paid or payable on the sale of inventory that is still held within the group*

From the group's perspective, $140 000 has not been earned. However, from Small Limited's individual perspective (as a separate legal entity), the full amount of the sale has been earned. This will attract a tax liability in Small Limited's financial statements of $42 000 (30% of $140 000). However, from the group's perspective, some of this will represent a prepayment of tax, as the full amount has not been earned by the group even if Small Limited is obliged to pay the tax.

| | | | |
|---|---|---|---|
| Dr | Deferred tax asset | 42 000 | |
| Cr | Income tax expense | | 42 000 |

*Recognising tax effect on unrealised profit in inventory ($140 000 × 30 per cent)*

(j) *Unrealised profit in opening inventory*

At the end of the preceding reporting period, Small Limited had $570 000 of inventory on hand, which had been purchased from Medium Limited. The inventory had cost Medium Limited $490 000 to produce.

| | | | |
|---|---|---|---|
| Dr | Retained earnings—1 April 2011 | 56 000 | |
| Dr | Income tax expense | 24 000 | |
| Cr | Cost of sales | | 80 000 |

*Eliminating unrealised profit in opening inventory*

*Eliminating intragroup sale of non-current asset and associated depreciation adjustments*

On 31 March 2012 Big Limited sold a factory building to Medium Limited for $800 000 when its carrying value in Big Limited's financial statements was $630 000 (cost of $900 000, accumulated depreciation of $270 000). The building was being depreciated over a further 14 years, with no expected residual value.

(k) *Reversal of profit recognised on sale of asset and reinstatement of cost and accumulated depreciation*

The result of the sale of the factory building to Medium Limited is that the profit of $170 000—the difference between the sales proceeds of $800 000 and the carrying amount of $630 000—will be shown in Big Limited's financial statements. However, from the economic entity's perspective there has been no sale and, therefore, no gain on sale given that there has been no transaction with a party external to the group. The following entry is necessary so that the financial statements will reflect the balances that would have applied had the intragroup sale not occurred.

| | | | |
|---|---|---|---|
| Dr | Gain on sale of building | 170 000 | |
| Dr | Factory building | 100 000 | |
| | Cr Accumulated depreciation | | 270 000 |

*Reversal of gain recognised in Big Limited's financial statements and reinstatement of accumulated depreciation*

The result of this entry is that the intragroup profit is removed and the asset and accumulated depreciation account reverts to reflecting no sales transaction. The profit of $170 000 will be recognised progressively in the consolidated financial statements of the economic entity by adjustments to the amounts of depreciation charged by Medium Limited in its financial statements. As the service potential or economic benefits embodied in the asset are consumed, the $170 000 profit will be progressively recognised from the economic entity's perspective.

(l) *Impact of tax on profit on sale of factory building*

From Big Limited's individual perspective it would have made a profit of $170 000 on the sale of the building and this gain would have been taxable. At a tax rate of 30 per cent, $51 000 would be payable by Big Limited. However, from the economic entity's perspective, no gain has been made, which means that the related 'tax expense' must be reversed and a related deferred tax asset be recognised. A deferred tax asset is recognised because, from the economic entity's perspective, the amount paid to the Inland Revenue Department represents a prepayment of tax.

| | | | |
|---|---|---|---|
| Dr | Deferred tax asset | 51 000 | |
| | Cr Income tax expense | | 51 000 |

*Reduction of related tax expense on intragroup sale of factory building*

As the sale of the factory building occurred on consolidation date, there are no consolidation worksheet journal entries required to adjust the depreciation of the factory building.

*Recognise impairment of goodwill (relating to purchase of Small Limited by Medium Limited)*

(m) *Impairment of goodwill in prior periods*

The retained earnings adjustment in this entry takes into account the goodwill impairment loss in previous reporting periods

| | | | |
|---|---|---|---|
| Dr | Retained earnings—1 April 2011 (previous years' accumulated impairment) | 38 240 | |
| | Cr Accumulated impairment loss—goodwill | | 38 240 |

*Recognising goodwill impairment loss from previous periods*

(n) *Impairment of goodwill in current period*

This entry recognises the impairment loss on goodwill for the current year

| | | | |
|---|---|---|---|
| Dr | Impairment loss—goodwill (the impairment loss recognised in 2012) | 5 000 | |
| | Cr Accumulated impairment loss—goodwill | | 5 000 |

*Recognising goodwill impairment loss in current period*

As Medium Limited valued the non-controlling interest at the proportionate share of Small Limited's identifiable assets, there is no necessity to allocate any goodwill impairment expense between the parent and the non-controlling interest either in the current or previous reporting periods.

(o) *Impairment of goodwill in 2012 (relating to purchase of Medium Limited by Big Limited)*

This entry recognises the goodwill impairment loss for the period

| | | | |
|---|---|---|---|
| Dr | Impairment loss—goodwill ($142 857 – $110 000) | 32 857 | |
| | Cr Accumulated impairment losses—goodwill | | 32 857 |

*Recognising goodwill impairment loss in current period*

As Big Limited measures the non-controlling interest in Medium Limited at fair value, goodwill of $142 857 was recognised, $42 857 of which has been allocated to the non-controlling interest (see working to eliminate investment in Medium Limited). Where non-controlling interest has been measured at fair value, any goodwill impairment losses are allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated. An impairment loss of $23 000 (70 per cent of $32 857) will be allocated to the parent with the balance of $9857 allocated to the non-controlling interest (see (u) below).

*Dividends paid and proposed*
The dividends paid within the group are eliminated. Only the dividends paid to parties outside the entity (to the investors in the parent entity and to the direct non-controlling interests) are to be shown in the consolidated financial statements.

(p) *Elimination of interim dividend (paid by Small Limited to Medium Limited)*

| | | | |
|---|---|---|---|
| Dr | Dividend revenue ($110 000 × 0.60) | 66 000 | |
| | Cr Interim dividend | | 66 000 |

*Reversal of interim dividend paid by Small Limited to Medium Limited*

(q) *Elimination of final dividend (declared by Medium Limited to Big Limited)*

| | | | |
|---|---|---|---|
| Dr | Dividend revenue ($90 000 × 0.7) | 63 000 | |
| | Cr Final dividend | | 63 000 |

*Elimination of final dividend proposed by Medium Limited and recognised by Big Limited*

(r) *Elimination of intragroup debt: Big Limited's share of Medium Limited's declared final dividend*

| | | | |
|---|---|---|---|
| Dr | Dividend payable ($90 000 × 0.7) | 63 000 | |
| | Cr Dividend receivable | | 63 000 |

*Reversal of intragroup dividends payable and receivable*

Having completed the consolidation adjustments and eliminations the non-controlling interests in current period's profits and in contributed equity and reserves can now be calculated. The direct and indirect ownership interests need to be considered. These are reflected in Figure 27.4 and then summarised in Table 27.4.

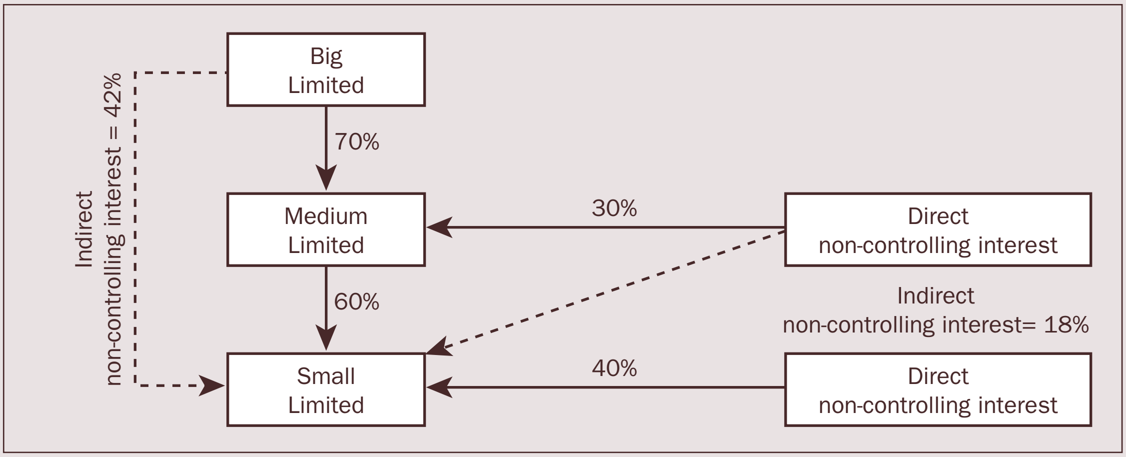



**Figure 27.4**

Group structure of Big Limited and its controlled entities

**Table 27.4**

Calculation of direct and indirect interests in Medium Limited and Small Limited

| | *MEDIUM LIMITED % INTEREST* | *SMALL LIMITED % INTEREST* |
|---|---|---|
| *Big Limited's interest* | | |
| Direct | 70 | |
| – | | |
| Indirect [0.70 × 0.60] | – | 42 |
| *Non-controlling interest* | | |
| Direct | 30 | 40 |
| Indirect [0.30 × 0.60] | – | 18 |
| | 100 | 100 |

*Recognising non-controlling interest in contributed equity, reserves and earnings*
It must be remembered that in order to recognise the non-controlling interest's share in contributed equity and reserves at the end of the reporting period, three calculations need to be made:
(i) The non-controlling interests on acquisition date.
(ii) The non-controlling interest in movements in contributed equity and reserves between the date of the parent entity's acquisition and the beginning of the current reporting period.

(iii) The non-controlling interest in the current period's profit, as well as movements in reserves in the current period. In determining the non-controlling interest's share of current period profit or loss gains and losses of the subsidiary that are *unrealised* from the economic entity's perspective will need to be adjusted for.

| *CALCULATION OF NON-CONTROLLING INTERESTS IN MEDIUM LIMITED AND SMALL LIMITED* | *MEDIUM LIMITED ($)* | *30% NON-CONTROLLING INTEREST ($)* | *SMALL LIMITED ($)* | *40% NON-CONTROLLING INTEREST ($)* |
|---|---|---|---|---|
| (i) *Non-controlling interests on acquisition date* | | | | |
| Contributed equity on acquisition date | 560 000 | 168 000 | 160 000 | 64 000 |
| Retained earnings on acquisition date | 340 000 | 72 000 | 320 000 | 128 000 |
| | 800 000 | | | |
| Revaluation surplus on acquisition date | – | – | 89 600 | 35 840 |
| Goodwill | | 42 857 | – | – |
| | | 282 857 | 569 600 | 227 840 |
| (ii) *Non-controlling interest in movements in contributed equity and reserves between the date of the parent entity's acquisition and the beginning of the current reporting period* | | | | |
| Retained earnings—since acquisition | | | | |
| Medium Ltd ($480 000 – $240 000) | 240 000 | | | |
| Small Ltd ($670 000 – $320 000) | | | 350 000 | |
| *less* Depreciation adjustment due to revaluing factory building to fair value (in relation to the previous 3 years) | | | (24 000) | |
| Tax effect of depreciation adjustment due to revaluing factory buildings | | | 7 200 | |
| *less* Impairment loss—goodwill (relating to purchase of Small by Medium Limited) | (45 920) | | – | |
| *less* Unrealised profit in opening inventory (last year's closing inventory) | (80 000) | | – | |
| Tax effect of unrealised profit in opening inventory | 24 000 | | – | |
| Adjusted post-investment retained earnings—1 April 2011 | 138 080 | 41 424 | 333 200 | 133 280 |
| (iii) *Non-controlling interest in the current period's profit and movements in reserves in the current period* | | | | |
| Profit for the year | 168 000 | | 192 000 | |
| *Adjustment relating to inventory* | | | | |
| Unrealised profit in opening inventory | 80 000 | | | |
| *less* Tax effect of unrealised profit in opening inventory | (24 000) | | | |
| *less* Unrealised profit in closing inventory | | | (140 000) | |
| Tax effect of unrealised profit in closing inventory | | | 42 000 | |
| *Fair value adjustment* | | | | |
| *less* Depreciation adjustment due to revaluing factory buildings to fair value | | | (8 000) | |
| Tax effect of depreciation adjustment due to revaluing factory buildings | | | 2 400 | |
| *Intragroup dividends* | | | | |
| *less* Dividend revenue from within the group (paid by Small Limited to Medium Limited) | (66 000) | | | |
| *less* Goodwill impairment in organisation controlled by intermediate subsidiary | (5 000) | | – | |
| Adjusted profit for the year | 153 000 | 45 900 | 88 400 | 35 360 |
| Dividends paid and proposed | (90 000) | (27 000) | (110 000) | (44 000) |
| | | 343 181 | | 352 480 |

(s) *Recognising non-controlling interest in contributed equity, reserves and earnings in Medium Limited*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 168 000 | |
| Dr | Retained earnings—1 April 2011 ($72 000 + $41 421) | 113 424 | |
| Dr | Goodwill | 42 857 | |
| Dr | Non-controlling interest in earnings | 45 900 | |
| Cr | Dividends paid | | 27 000 |
| Cr | Non-controlling interest | | 343 181 |

*Recognising non-controlling interests in Medium Limited and non-controlling interests in earnings in Medium Limited on acquisition date*

(t) *Recognising non-controlling interest in contributed equity, reserves and earnings in Small Limited*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 64 000 | |
| Dr | Retained earnings—1 April 2011 ($128 000 + $133 280) | 261 280 | |
| Dr | Revaluation surplus | 35 840 | |
| Dr | Non-controlling interest in earnings | 35 360 | |
| Cr | Dividends paid—interim | | 44 000 |
| Cr | Non-controlling interest | | 352 480 |

*Recognising non-controlling interests and non-controlling interests in earnings in Small Limited on acquisition date*

(u) *Recognise impairment of goodwill–non-controlling interest*

Of the goodwill impairment losses of $32 857 recognised in the current reporting period, $9857 (30 per cent of $32 857) is allocated to the non-controlling interest.

| | | | |
|---|---|---|---|
| Dr | Non-controlling interest | 9 857 | |
| Cr | Accumulated impairment loss—goodwill | | 9 857 |

*Recognised current reporting periods' impairment loss attributable to non-controlling interest*

(v) *Indirect non-controlling interest in Small Limited*

This entry recognised the indirect non-controlling interest in Small Limited

| *CALCULATION OF INDIRECT NON-CONTROLLING INTEREST IN SMALL LIMITED* | *SMALL LIMITED ($)* | *INDIRECT NON-CONTROLLING INTEREST 18% ($)* |
|---|---|---|
| Indirect non-controlling interest in movements in contributed equity and reserves between the date of the parent entity's acquisition and the beginning of the current reporting period | 333 200 | 59 976 |
| Indirect non-controlling interest in the current period's profit for the year | 88 400 | 15 912 |
| | 421 600 | 75 888 |

| | | | | |
|---|---|---|---|---|
| 31 March 2012 | Dr | Retained earnings—1 April 2011 | 59 976 | |
| | Dr | Non-controlling interest in earnings | 15 912 | |
| | Cr | Non-controlling interest | | 75 888 |

*Recognising indirect non-controlling interest in earnings of Small Limited*

Looking at the above calculations it can be seen that they are the same form of adjustments made in Chapter 26, which concentrated on non-controlling interests. The only difference is that an adjustment has been made for the dividends received by Medium Limited from Small Limited, and adjustments have also been made for the impairment loss pertaining to the goodwill acquired in Small Limited (which is adjusted against the profits of Medium Limited as Medium Limited acquired the goodwill in Small Limited). Explanations for these adjustments were provided in Worked Example 27.1.

A review of the above calculations reinforces the following:

- Pre-acquisition balances of reserves (in this example retained earnings and revaluation surplus) are allocated on the basis of direct ownership interests only.
- Post-acquisition movements in reserves are allocated on the basis of the sum of direct and indirect ownership interests.
- Current period profits are allocated using the sum of direct and indirect ownership interests.
- Dividends are allocated on the basis of direct ownership interests only.

***Big Limited and its controlled entities***
***Consolidation worksheet at 31 March 2012***

| | *BIG LTD ($)* | *MEDIUM LTD ($)* | *SMALL LTD ($)* | *DR ($)* | *CR ($)* | *CONSOLIDATED ($)* |
|---|---|---|---|---|---|---|
| Sales | 7 500 000 | 4 000 000 | 3 500 000 | 2 000 000(g) | | 13 000 000 |
| Cost of goods sold | 6 100 000 | 3 260 000 | 2 900 000 | 140 000(h) | 2 000 000(g) | |
| | | | | | 80 000(j) | 10 320 000 |
| Gross profit | 1 400 000 | 740 000 | 600 000 | | | 2 680 000 |
| Depreciation expense | (130 000) | (50 000) | (18 000) | 8 000(c) | | (206 000) |
| Impairment loss—goodwill | – | – | – | 5 000(n) | | |
| | | | | 23 000(o) | | (28 000) |
| Other expenses | (743 000) | (476 000) | (262 000) | | | (1 481 000) |
| Dividend revenue | 63 000 | 66 000 | – | 66 000(p) | | |
| | | | | 63 000(q) | | – |
| Gain on sale of factory | 170 000 | – | – | 170 000(k) | | – |
| Profit before tax | 760 000 | 280 000 | 320 000 | | | 965 000 |
| Income tax expense | (304 000) | (112 000) | (128 000) | 24 000(j) | 2 400(d) | |
| | | | | | 42 000(i) | |
| | | | | | 51 000(l) | (472 600) |
| Profit for the year | 456 000 | 168 000 | 192 000 | | | 492 400 |
| Non-controlling interest in earn. | | | | 45 900(s) | | |
| | | | | 35 360(t) | | |
| | | | | 15 912(v) | | 97 172 |
| Retained earnings—1 April 2011 | 720 000 | 480 000 | 670 000 | 24 000(c) | 7 200(d) | |
| | | | | 168 000(e) | | |
| | | | | 192 000(f) | | |
| | | | | 56 000(j) | | |
| | | | | 38 240(m) | | |
| | | | | 113 424(s) | | |
| | | | | 261 280(t) | | |
| | | | | 59 976(v) | | 964 280 |
| Interim dividend | (125 000) | – | (110 000) | | 66 000(p) | |
| | | | | | 44 000(t) | (125 000) |
| Final dividend | (260 000) | (90 000) | – | | 63 000(q) | |
| | | | | | 27 000(s) | (260 000) |
| Retained earnings—31 March 2012 | 791 000 | 558 000 | 752 000 | | | 974 508 |
| Contributed equity | 3 300 000 | 560 000 | 160 000 | 392 000(e) | | |
| | | | | 96 000(f) | | |
| | | | | 168 000(s) | | |
| | | | | 64 000(t) | | 3 300 000 |
| Revaluation surplus | – | – | – | 38 400(b) | 128 000(a) | |
| | | | | 53 760(f) | | |
| | | | | 35 840(t) | | – |
| Non-controlling interest | | | | 9 857(u) | 343 181(s) | |
| | | | | | 352 480(t) | |
| | | | | | 75 888(v) | 761 692 |
| Total equity | 4 091 000 | 1 118 000 | 912 000 | | | 5 036 200 |
| Accounts payable | 910 000 | 715 000 | 319 000 | | | 1 944 000 |
| Dividends payable | 260 000 | 90 000 | – | 63 000(r) | | 287 000 |
| Deferred tax liability | – | – | – | 9 600(d) | 38 400(b) | 28 800 |
| Total equity | 5 261 000 | 1 923 000 | 1 231 000 | | | 7 296 000 |

| | BIG LTD ($) | MEDIUM LTD ($) | SMALL LTD ($) | DR ($) | CR ($) | CONSOLIDATED ($) |
|---|---|---|---|---|---|---|
| Cash | 76 000 | 6 000 | 37 000 | | | 119 000 |
| Accounts receivable | 172 000 | 52 000 | 68 000 | | | 292 000 |
| Dividends receivable | 63 000 | – | – | | 63 000(r) | – |
| Inventory | 1 100 000 | 440 000 | 700 000 | | 140 000(h) | 2 100 000 |
| Land | 720 000 | 105 000 | 210 000 | | | 1 035 000 |
| Factory buildings | 2 600 000 | 1 800 000 | 360 000 | 56 000(a) | | |
| | | | | 100 000(k) | | 4 916 000 |
| Accumulated depreciation | (130 000) | (900 000) | (144 000) | 72 000(a) | 32 000(c) | |
| | | | | | 270 000(k) | (1 404 000) |
| | | | | | | 3 512 000 |
| Investment—Medium Ltd | 660 000 | – | – | | 660 000(e) | – |
| Investment—Small Ltd | – | 420 000 | – | | 420 000(f) | – |
| Goodwill | – | – | – | 100 000(e) | | |
| | | | | 78 240(f) | | |
| | | | | 42 857(s) | | 221 097 |
| Accumulated impairment loss | | | | | 38 240(m) | |
| | | | | | 5 000(n) | |
| | | | | | 23 000(o) | (76 097) |
| | | | | | 9 857(u) | 145 000 |
| Deferred tax asset | – | – | – | 42 000(i) | | |
| | | | | 51 000(l) | | 93 000 |
| Total assets | 5 261 000 | 1 923 000 | 1 231 000 | 4 991 646 | 4 991 646 | 7 296 000 |

The consolidated financial statements can now be prepared.

***Big Limited and its controlled entities***
***Consolidated statement of comprehensive income for the year ending 31 March 2012***

| | GROUP ($) | BIG LIMITED ($) |
|---|---|---|
| Sales | 13 000 000 | 7 500 000 |
| Cost of goods sold | (10 320 000) | (6 100 000) |
| Gross profit | 2 680 000 | 1 400 000 |
| Dividend revenue | – | 63 000 |
| Gain on sale of factory | – | 170 000 |
| Depreciation expense | (206 000) | (130 000) |
| Impairment loss—goodwill | (28 000) | – |
| Other expenses | (1 481 000) | (743 000) |
| Profit before tax | 965 000 | 760 000 |
| Income tax expense | (472 600) | (304 000) |
| Profit for the year | 492 4000 | 456 000 |
| Attributable to: | | |
| Owners of the parent | 395 228 | |
| Non-controlling interest | 97 172 | |
| | 492 400 | |

**Big Limited and its controlled entities**
**Consolidated statement of changes in equity for the year ending 31 March 2012**

| | ATTRIBUTABLE TO OWNERS OF THE PARENT CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL ($) | NON-CONTROLLING INTEREST ($) | TOTAL EQUITY ($) |
|---|---|---|---|---|---|
| Balance—1 April 2011 | 3 300 000 | 964 280 | 4 264 280 | 745 377 | 5 009 657 |
| Profit for the year | – | 385 371 | 385 371 | 97 172 | 482 543 |
| Distributions | – | (385 000) | (385 000) | (71 000) | (456 000) |
| Balance—31 March 2012 | 3 300 000 | 964 651 | 4 264 651 | 771 549 | 5 036 200 |

**Big Limited**
**Statement of changes in Equity for the year ending 31 March 2012**

| | CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL EQUITY ($) |
|---|---|---|---|
| Balance—1 April 2011 | 3 300 000 | 720 000 | 4 020 000 |
| Profit for the year | – | 456 000 | 456 000 |
| Distributions—interim dividend | – | (125 000) | (125 000) |
| Distributions—final dividend | – | (260 000) | (260 000) |
| Balance—31 March 2012 | 3 300 000 | 791 000 | 4 091 000 |

**Big Limited and its controlled entities**
**Consolidated statement of financial position at 31 March 2012**

| | GROUP ($) | BIG LIMITED ($) |
|---|---|---|
| *ASSETS* | | |
| *Non-current assets* | | |
| Land | 1 035 000 | 720 000 |
| Factory buildings | 4 916 000 | 2 600 000 |
| *less* Accumulated depreciation | (1 404 000) | (130 000) |
| | 3 512 000 | 2 470 000 |
| Goodwill | 221 097 | – |
| *less* Accumulated impairment losses | (76 097) | – |
| | 145 000 | – |
| Investment in Medium Limited | – | 660 000 |
| Deferred tax asset | 93 000 | – |
| Total non-current assets | 4 785 000 | 3 850 000 |
| *Current assets* | | |
| Inventory | 2 100 000 | 1 100 000 |
| Accounts receivable | 292 000 | 172 000 |
| Dividend receivable | – | 63 000 |
| Cash | 119 000 | 76 000 |
| Total current assets | 2 511 000 | 1 411 000 |
| TOTAL ASSETS | 7 296 000 | 5 261 000 |
| *LIABILITIES* | | |
| *Non-current liabilities* | | |
| Deferred tax liability | 28 800 | – |
| Total non-current liabilities | 28 800 | – |

| | GROUP ($) | BIG LIMITED ($) |
|---|---|---|
| *Current liabilities* | | |
| Accounts payable | 1 944 000 | 910 000 |
| Dividends payable | 287 000 | 260 000 |
| Total current liabilities | 2 231 000 | 1 170 000 |
| Total liabilities | 2 259 800 | 1 170 000 |
| NET ASSETS | 5 036 200 | 4 091 000 |
| *EQUITY* | | |
| *Capital and reserves* | | |
| Contributed equity | 3 300 000 | 3 300 000 |
| Retained earnings | 964 651 | 791 000 |
| | 4 264 651 | 4 091 000 |
| Non-controlling interest | 771 549 | – |
| TOTAL EQUITY | 5 036 200 | 4 091 000 |

## 27.3 SEQUENTIAL AND NON-SEQUENTIAL ACQUISITIONS

Although up to now the examples have been confined to cases in which all acquisitions occur on the same date, this will not always be the case in practice. Acquisitions could also occur in the following ways:

- The parent acquires its interest in the intermediate subsidiary before the intermediate subsidiary acquires its interest in the other subsidiary (this is referred to as sequential acquisition and is represented in Figure 27.5).
- The parent acquires its interest in the intermediate subsidiary after the intermediate subsidiary acquires its interest in the other subsidiary (this is referred to as non-sequential acquisition and is represented in Figure 27.6).

In a sequential acquisition, as depicted in Figure 27.5, the consolidated financial statements will be accounted for in the same manner as when acquisitions occur simultaneously. Since simultaneous acquisitions have been considered up to now in this text, readers should have no trouble accounting for sequential transactions.

Figure 27.6 depicts a non-sequential acquisition—the situation where the parent entity acquires its control of the intermediate subsidiary after the intermediate subsidiary acquired its interest in another subsidiary. Effectively, what is happening is that the ultimate parent entity—Alpha Limited—is acquiring an interest in the Beta Group, rather than solely in Beta Limited. This means that in determining the fair value of the assets acquired in Beta Limited, which is necessary for our consolidation entry that eliminates the investment in Beta Limited against the pre-acquisition capital and reserves of Beta Limited, it is necessary to consider the value of both Beta Limited and Charlie Limited. The value of Beta Limited's investment

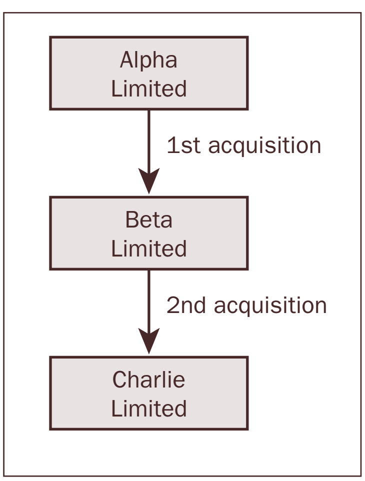



**Figure 27.5**

Sequential acquisition of ownership interests

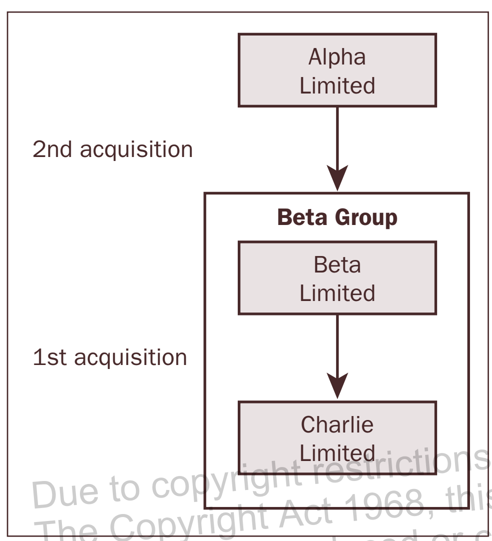



**Figure 27.6**

Non-sequential acquisition of ownership interests in Charlie Limited will be affected by post-acquisition profits and reserve movements in Charlie Limited. Therefore, Alpha Limited's investment in Beta Limited must be eliminated against Alpha Limited's share of the owners' equity of the Beta Group (Beta Limited plus Charlie Limited) at the date of Alpha Limited's investment. The profits earned by Charlie Limited, after Beta Limited acquired its interest in Charlie Limited, but prior to Alpha Limited's acquisition of the Beta Group are treated as part of pre-acquisition reserves, and therefore eliminated on consolidation.

To consider how to account for non-sequential acquisitions the same information as in Worked Example 27.2 will be used, except the acquisition dates will be changed so that Big Limited acquires Medium Limited once it has already acquired Small Limited.

### ■ WORKED EXAMPLE 27.3 EXAMPLE OF A NON-SEQUENTIAL ACQUISITION

On 31 March 2008 Medium Limited acquired 60 per cent of the contributed equity of Small Limited for $420 000 when the contributed capital and reserves were:

| | *SMALL LIMITED* *($)* |
|---|---|
| Contributed equity | 160 000 |
| Retained earnings | 320 000 |
| | 480 000 |

On 31 March 2009 (one year later) Big Limited acquired a 70 per cent interest in Medium Limited for $660 000. At 31 March 2009 the contributed equity and reserves of Medium Limited and Small Limited were as follows:

| | *MEDIUM LIMITED* *($)* | *SMALL LIMITED* *($)* |
|---|---|---|
| Contributed equity | 560 000 | 160 000 |
| Retained earnings | 340 000 | 370 000 |
| | 900 000 | 530 000 |

The amounts paid for the equity in Big Limited and Medium Limited represented the fair value of consideration transferred. The remaining information below is the same as that in Worked Example 27.2 above.

(i) Any non-controlling interest in Medium Limited is measured at fair value, while the non-controlling interest in Small Limited is measured at the proportionate share of its identifiable assets.

(ii) At the date of investment, all the identifiable net assets of Medium Limited and Small Limited were considered to be recorded at fair value in the respective statements of financial position of Medium Limited and Small Limited, except Small Limited's factory buildings, which had a fair value of $416 000, and a carrying value of $288 000 (cost of $360 000, accumulated depreciation of $72 000). At 31 March 2008, the factory buildings had a remaining useful life of 16 years.

(iii) On 1 April 2011 the recoverable amount of the goodwill relating to the purchase of Small Limited by Medium Limited was assessed to be $40 000 (an accumulated impairment loss of $38 240, as will be seen shortly). This impairment loss of $38 240 was recognised in the first year following acquisition, that is in the year to 31 March 2009. During the year to 31 March 2012 it was considered that the goodwill in Small Limited had been further impaired by an amount of $5000 to provide a recoverable amount at 31 March 2012 of $35 000.

(iv) On 31 March 2012, the recoverable amount of the goodwill relating to the purchase of Medium Limited by Big Limited was assessed to be $110 000.

(v) During the 2012 reporting period Small Limited sold goods to Big Limited for $2 000 000. These goods had originally cost Small Limited $1 600 000. On 31 March 2009, 35 per cent of these goods remained in Big Limited's closing inventory.

(vi) Small Limited's opening inventory included goods purchased from Medium Limited for $570 000. These goods had originally cost Medium Limited $490 000.

(vii) On 31 March 2012 Big Limited sold a factory building to Medium Limited for $800 000. Big Limited had originally purchased the factory building for $900 000, on 1 July 2006. The original estimated useful life of the factory building was 20 years.

(viii) On 31 August 2011, Big Limited paid an interim dividend of $125 000, while Small Limited paid an interim dividend of $110 000.

(ix) On 31 March 2012, Big Limited proposed a final dividend of $260 000, while Medium Limited proposed a final dividend of $90 000. The decision to pay these dividends was communicated to shareholders on that date.

(x) The income tax rate is 30 per cent.

(xi) The financial statements of Big Limited, Medium Limited and Small Limited revealed the following balances at 31 March 2012.

**Big Limited, Medium Limited and Small Limited**
**Statements of comprehensive income for the year ended 31 March 2012**

| | BIG LIMITED ($) | MEDIUM LIMITED ($) | SMALL LIMITED ($) |
|---|---|---|---|
| Sales | 7 500 000 | 4 000 000 | 3 500 000 |
| Cost of goods sold | 6 100 000 | 3 260 000 | 2 900 000 |
| Gross profit | 1 400 000 | 740 000 | 600 000 |
| Depreciation expense | 130 000 | 50 000 | 18 000 |
| Other expenses | 743 000 | 476 000 | 262 000 |
| Dividend revenue | 63 000 | 66 000 | – |
| Gain on sale of factory building | 170 000 | – | – |
| Profit before tax | 760 000 | 280 000 | 320 000 |
| Income tax expense | 304 000 | 112 000 | 128 000 |
| Profit for the year | 456 000 | 168 000 | 192 000 |

**Big Limited, Medium Limited and Small Limited**
**Statements of financial position at 31 March 2012**

| | BIG LIMITED ($) | MEDIUM LIMITED ($) | SMALL LIMITED ($) |
|---|---|---|---|
| *Assets* | | | |
| Cash | 76 000 | 6 000 | 37 000 |
| Accounts receivable | 172 000 | 52 000 | 68 000 |
| Dividends receivable | 63 000 | – | – |
| Inventory | 1 100 000 | 440 000 | 700 000 |
| Land | 720 000 | 105 000 | 210 000 |
| Factory buildings | 2 600 000 | 1 800 000 | 360 000 |
| Accumulated depreciation | (130 000) | (900 000) | (144 000) |
| Investment in Medium Limited | 660 000 | – | – |
| Investment in Small Limited | – | 420 000 | – |
| Total assets | 5 261 000 | 1 923 000 | 1 231 000 |
| *Liabilities* | | | |
| Accounts payable | 910 000 | 715 000 | 319 000 |
| Dividends payable | 260 000 | 90 000 | – |
| *Equity* | | | |
| Contributed equity | 3 300 000 | 560 000 | 160 000 |
| Retained earnings—31 March 2012 | 791 000 | 558 000 | 752 000 |
| Total equitY | 5 261 000 | 1 923 000 | 1 231 000 |

**Big Limited**
**Statement of changes in equity for the year ending 31 March 2012**

| | CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL ($) |
|---|---|---|---|
| Balance—1 April 2011 | 3 300 000 | 720 000 | 4 020 000 |
| Profit for the year | – | 456 000 | 456 000 |
| Distributions paid and proposed | – | 385 000 | 385 000 |
| Balance—31 March 2012 | 3 300 000 | 791 000 | 4 091 000 |

***Medium Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL ($)* |
|---|---|---|---|
| Balance—1 April 2011 | 560 000 | 480 000 | 1 040 000 |
| Profit for the year | – | 168 000 | 168 000 |
| Distributions paid and proposed | – | 90 000 | 90 000 |
| Balance—31 March 2012 | 560 000 | 558 000 | 1 118 000 |

***Small Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL ($)* |
|---|---|---|---|
| Balance—1 April 2011 | 160 000 | 670 000 | 830 000 |
| Profit for the year | – | 192 000 | 192 000 |
| Distributions paid and proposed | – | 110 000 | 110 000 |
| Balance—31 March 2012 | 160 000 | 752 000 | 912 000 |

**Required** • Prepare the consolidated financial statements of Big Limited and its controlled entities for the reporting period ending 31 March 2012.

**Solution to Worked Example 27.3**

The consolidation journal entries required to revalue the building of Small Limited at the date of Medium Limited's acquisition (the same date as that used in Worked Example 27.2) will be the same as those provided at entries (a) to (d). The consolidation journal entry required to eliminate Medium Limited's investment in Small Limited is the same as provided in entry (f), while the entry to recognise the impairment loss will be the same as provided in entries (m) and (n). As a number of entries are the same as those in Worked Example 27.2 above, the explanations are not repeated here. However, explanations are provided in relation to the elimination of Big Limited's investment in Medium Limited.

(a) *Revaluation of factory balance to fair value*

| | | | |
|---|---|---|---|
| Dr | Factory Buildings ($416 000 – $360 000) | 56 000 | |
| Dr | Accumulated depreciation (to close off balance before revaluation) | 72 000 | |
| Cr | Revaluation surplus | | 128 000 |

*Recognising revaluation of factory building to fair value*

(b) *Deferred tax liability arising on revaluation of factory building*

| | | | |
|---|---|---|---|
| Dr | Revaluation surplus | 38 400 | |
| Cr | Deferred tax liability ($128 000 × 0.30) | | 38 400 |

*Recognition of deferred tax liability arising on revaluation of factory building*

(c) *Recognition of additional depreciation expense for the current reporting period and accumulated depreciation for previous three reporting periods*

| | | | |
|---|---|---|---|
| Dr | Depreciation expense ($128 000/16 for the current year) | 8 000 | |
| Dr | Retained earnings—1 April 2011 ($128 000/16 × 3 for the previous 3 years) | 24 000 | |
| Cr | Accumulated depreciation ($128 000/16 × 4 years) | | 32 000 |

*Recognition of additional depreciation expense for the current and previous three reporting periods*

(d) *Adjustments to current tax expense and deferred tax liability arising from additional depreciation expense*

| | | | |
|---|---|---|---|
| Dr | Deferred tax liability ($32 000 × 0.3) | 9 600 | |
| | Cr Income tax expense | | |
| | ($8 000 × 0.3 for the current year) | | 2 400 |
| | Cr Retained earnings—1 April 2011 | | |
| | ($24 000 × 0.3 for the previous 3 years) | | 7 200 |

*Recognising decrease in deferred tax liability and income tax expense from additional depreciation expense in current and previous three reporting periods*

*Eliminate investment in Medium Limited against Big Limited's share of Medium Limited's owners' equity on acquisition date*

Of critical importance in this Worked Example is how any goodwill or bargain purchase on acquisition is measured in relation to Big Limited's acquisition of the economic entity, Medium Limited and its controlled entity (Small Limited). It should be noted that in calculating the goodwill or bargain purchase option on Big Limited's acquisition of Medium Limited and its subsidiary, Big Limited has acquired interests in the net assets of the whole economic entity, not only of Medium Limited. In other words, Big Limited has acquired an interest in the net assets of the economic entity attributable to the owners of Medium Limited.

Big Limited's acquisition of the economic entity (Medium Limited and its controlled entity, Small Limited) comprises:

- One hundred per cent of the equity (contributed capital and reserves) of Medium Limited; and
- Sixty per cent of the post acquisition reserves of Small Limited from the date of Medium Limited's acquisition of Small Limited to the date of Big Limited's acquisition of Medium Limited.

| *CALCULATION OF NON-CONTROLLING INTEREST IN MEDIUM LIMITED* | *MEDIUM LIMITED ($)* | *BIG LIMITED'S 70% INTEREST ($)* | *30% NON-CONTROLLING INTEREST ($)* |
|---|---|---|---|
| Fair value of consideration transferred | 660 000 | 660 000 | |
| *plus* Non-controlling interest at fair value ($660 000 × 30/70) | 282 857 | | |
| | 942 857 | | |
| *less* Fair value of identifiable assets acquired and liabilities assumed | | | |
| Contributed equity on acquisition date | 560 000 | 392 000 | 168 000 |
| Retained earnings on acquisition date | 340 000 | 238 000 | 102 000 |
| | 900 000 | 630 000 | |
| *Share of post-acquisition retained earnings of Small Limited attributable to Medium Limited prior to Big Limited's acquisition of Medium Limited* | | | |
| Increase in retained earnings of Small Limited from 31 March 2008 to 31 March 2012 = ($370 000 – $320 000) × 60 per cent | 30 000 | 21 000 | 9 000 |
| Goodwill impairment in Small Limited to 31 March 2012 | (38 240) | (26 768) | (11 472) |
| | 891 760 | 624 232 | 267 528 |
| Goodwill on acquisition date | 51 097 | 35 768 | 15 329 |
| Non-controlling interest on acquisition date | | | 282 857 |

(e) *Eliminating Big Limited's investment in Medium Limited and recognition of goodwill*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 392 000 | |
| Dr | Retained earnings (Medium Ltd) | | |
| | —1 April 2011 | 238 000 | |
| Dr | Goodwill | 35 768 | |
| | Cr Retained earnings (Small Ltd)—1 April 2011 | | 5 768 |
| | Cr Investment in Medium Limited | | 660 000 |

*Eliminating Big Limited's investment in Medium Limited and recognition of goodwill on acquisition*

(f) *Eliminating Medium Limited's investment in Small Limited and recognition of goodwill*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 96 000 | |
| Dr | Retained earnings—1 April 2011 | 192 000 | |
| Dr | Revaluation surplus | 53 760 | |
| Dr | Goodwill | 78 240 | |
| Cr | Investment in Small Limited | | 420 000 |

*Eliminating investment in Small Limited and recognition of goodwill on acquisition*

*Eliminating intragroup sales of inventory*

(g) *Elimination of intragroup sales inventory from Small Limited to Big Limited*

| | | | |
|---|---|---|---|
| Dr | Sales | 2 000 000 | |
| Cr | Cost of goods sold | | 2 000 000 |

*Eliminating intragroup sales*

(h) *Elimination of unrealised profit in closing inventory*

| | | | |
|---|---|---|---|
| Dr | Cost of goods sold | 140 000 | |
| Cr | Inventory (Statement of financial position) | | 140 000 |

*Elimination of unrealised profit in closing inventory*

(i) *Consideration of the tax paid or payable on the sale of inventory that is still held within the group*

| | | | |
|---|---|---|---|
| Dr | Deferred tax asset | 42 000 | |
| Cr | Income tax expense | | 42 000 |

*Recognising tax effect on unrealised profit in inventory ($140 000 × 30 per cent)*

(j) *Unrealised profit in opening inventory*

| | | | |
|---|---|---|---|
| Dr | Retained earnings—1 April 2011 | 56 000 | |
| Dr | Income tax expense | 24 000 | |
| Cr | Cost of sales | | 80 000 |

*Eliminating unrealised profit in opening inventory*

*Eliminating intragroup sale of non-current asset and associated depreciation adjustments*

(k) *Reversal of profit recognised on sale of asset and reinstatement of cost and accumulated depreciation*

| | | | |
|---|---|---|---|
| Dr | Gain on sale of building | 170 000 | |
| Dr | Factory building | 100 000 | |
| Cr | Accumulated depreciation | | 270 000 |

*Reversal of gain recognised in Big Limited's financial statements and reinstatement of accumulated depreciation*

(l) *Impact of tax on profit on sale of factory building*

| | | | |
|---|---|---|---|
| Dr | Deferred tax asset | 51 000 | |
| Cr | Income tax expense | | 51 000 |

*Reduction of related tax expense on intragroup sale of factory building*

*Recognise impairment of goodwill (relating to purchase of Small Limited by Medium Limited)*

(m) *Impairment of goodwill in prior periods*

| | | | |
|---|---|---|---|
| Dr | Retained earnings—1 April 2011 (previous years' accumulated impairment) | 38 240 | |
| Cr | Accumulated impairment loss—goodwill | | 38 240 |

*Recognising goodwill impairment loss from previous periods*

(n) *Impairment of goodwill in current period*

| | | | |
|---|---|---|---|
| Dr | Impairment loss—goodwill (the impairment loss recognised in 2012) | 5 000 | |
| Cr | Accumulated impairment loss—goodwill | | 5 000 |

*Recognising goodwill impairment loss in current period*

As Medium Limited valued the non-controlling interest at the proportionate share of Small Limited's identifiable assets, there is no necessity to allocate any goodwill impairment expense between the parent and the non-controlling interest either in the current or previous reporting periods.

In the previous worked example an impairment loss on the goodwill acquired by Big Limited in Medium Limited was recognised because the carrying amount of goodwill was greater than its recoverable amount. However, in this example, because the recoverable amount of goodwill at 31 March 2012 is deemed to be $110 000, which is greater than its carrying amount, no consolidation entry is required to recognise an impairment loss.

*Dividends paid and proposed*

(o) *Elimination of interim dividend (paid by Small Limited to Medium Limited)*

| | | | |
|---|---|---|---|
| Dr | Dividend revenue ($110 000 × 0.60) | 66 000 | |
| | Cr Interim dividend | | 66 000 |

*Reversal of interim dividend paid by Small Limited to Medium Limited*

(p) *Elimination of final dividend (declared by Medium Limited to Big Limited)*

| | | | |
|---|---|---|---|
| Dr | Dividend revenue ($90 000 × 0.7) | 63 000 | |
| | Cr Final dividend | | 63 000 |

*Elimination of final dividend proposed by Medium Limited and recognised by Big Limited*

(q) *Elimination of intragroup debt: Big Limited's share of Medium Limited's declared final dividend*

| | | | |
|---|---|---|---|
| Dr | Dividend payable ($90 000 × 0.7) | 63 000 | |
| | Cr Dividend receivable | | 63 000 |

*Reversal of intragroup dividends payable and receivable*

*Recognising non-controlling interest in contributed equity, reserves and earnings*

As was established earlier, it is necessary to calculate the non-controlling interests share in profits and capital and reserves. The calculations undertaken in Worked Example 27.2 for the non-controlling interest's share of current period's profits, contributed equity and dividends apply equally here. However, the non-controlling interests' share of retained earnings at 1 April 2012 (that is, opening retained earnings) will need to be recalculated.

| *CALCULATION OF NON-CONTROLLING INTERESTS IN MEDIUM LIMITED AND SMALL LIMITED* | *MEDIUM LIMITED ($)* | *30% NON-CONTROLLING INTEREST ($)* | *SMALL LIMITED ($)* | *40% NON-CONTROLLING INTEREST ($)* |
|---|---|---|---|---|
| (i) *Non-controlling interests on acquisition date* | | | | |
| Contributed equity on acquisition date | 560 000 | 168 000 | 160 000 | 64 000 |
| Retained earnings on acquisition date | 340 000 | 102 000 | 320 000 | 128 000 |
| Post acquisition retained earnings Small Limited | 30 000 | | | |
| *less* Impairment loss—goodwill (relating to purchase of Small by Medium Limited) | (38 240) | | | |
| | (8 240) | (2 472) | | |
| Revaluation surplus on acquisition date | – | – | 89 600 | 35 840 |
| | 891 760 | 267 528 | | |
| Goodwill | | 15 329 | | |
| | | 282 857 | 569 600 | 227 840 |
| (ii) *Non-controlling interest in movements in contributed equity and reserves between the date of the parent entity's acquisition and the beginning of the current reporting period* | | | | |
| Retained earnings—since acquisition | | | | |
| Medium Ltd ($480 000 – $340 000) | 140 000 | | | |
| Small Ltd ($670 000 – $320 000) | | | 350 000 | |
| *less* Depreciation adjustment due to revaluing factory building to fair value (in relation to the previous 3 years) | | | (24 000) | |
| Tax effect of depreciation adjustment due to revaluing factory buildings | | | 7 200 | |
| *less* Unrealised profit in opening inventory (last year's closing inventory) | (80 000) | | – | |
| Tax effect of unrealised profit in opening inventory | 24 000 | | – | |
| Adjusted post-investment retained earnings—1 April 2011 | 84 000 | 25 200 | 333 200 | 133 280 |

| CALCULATION OF NON-CONTROLLING INTERESTS IN MEDIUM LIMITED AND SMALL LIMITED | MEDIUM LIMITED ($) | 30% NON-CONTROLLING INTEREST ($) | SMALL LIMITED ($) | 40% NON-CONTROLLING INTEREST ($) |
|---|---|---|---|---|
| (iii) *Non-controlling interest in the current period's profit and movements in reserves in the current period* | | | | |
| Profit for the year | 168 000 | | 192 000 | |
| *Adjustment relating to inventory* | | | | |
| Unrealised profit in opening inventory | 80 000 | | | |
| *less* Tax effect of unrealised profit in opening inventory | (24 000) | | | |
| *less* Unrealised profit in closing inventory | | | (140 000) | |
| Tax effect of unrealised profit in closing inventory | | | 42 000 | |
| *Fair value adjustment* | | | | |
| *less* Depreciation adjustment due to revaluing factory buildings to fair value | | | (8 000) | |
| Tax effect of depreciation adjustment due to revaluing factory buildings | | | 2 400 | |
| *Intragroup dividends* | | | | |
| *less* Dividend revenue from within the group (paid by Small Limited to Medium Limited) | (66 000) | | | |
| *less* Goodwill impairment in organisation controlled by intermediate subsidiary | (5 000) | | – | |
| Adjusted profit for the year | 153 000 | 45 900 | 88 400 | 35 360 |
| Dividends paid and proposed | (90 000) | (27 000) | (110 000) | (44 000) |
| | | 326 957 | | 352 480 |

(r) *Recognising non-controlling interest in contributed equity, reserves and earnings in Medium Limited*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 168 000 | |
| Dr | Retained earnings (Medium Ltd) —1 April 2011 ($102 000 + $25 200) | 127 200 | |
| Dr | Goodwill | 15 329 | |
| Dr | Non-controlling interest in earnings | 45 900 | |
| Cr | Retained earnings (Small Ltd)—1 April 2011 | | 2 472 |
| Cr | Dividends paid | | 27 000 |
| Cr | Non-controlling interest | | 326 957 |

*Recognising non-controlling interests in Medium Limited and non-controlling interests in earnings in Medium Limited on acquisition date*

(s) *Recognising non-controlling interest in contributed equity, reserves and earnings in Small Limited*

| | | | |
|---|---|---|---|
| Dr | Contributed equity | 64 000 | |
| Dr | Retained earnings—1 April 2011 | 261 280 | |
| Dr | Revaluation surplus | 35 840 | |
| Dr | Non-controlling interest in earnings | 35 360 | |
| Cr | Dividends paid—interim | | 44 000 |
| Cr | Non-controlling interest | | 352 480 |

*Recognising non-controlling interests and non-controlling interests in earnings in Small Limited on acquisition date*

(t) *Indirect non-controlling interest in Small Limited*

| *CALCULATION OF INDIRECT NON-CONTROLLING INTEREST IN SMALL LIMITED* | *SMALL LIMITED ($)* | *INDIRECT NON-CONTROLLING INTEREST 18% ($)* |
|---|---|---|
| Indirect non-controlling interest in movements in contributed equity and reserves between the date of the parent entity's acquisition and the beginning of the current reporting period | 333 200 | 59 976 |
| Indirect non-controlling interest in the current period's profit for the year | 88 400 | 15 912 |
| | 421 600 | 75 888 |

| | | | | |
|---|---|---|---|---|
| 31 March 2012 | Dr | Retained earnings—1 April 2011 | 59 976 | |
| | Dr | Non-controlling interest in earnings | 15 912 | |
| | | Cr Non-controlling interest | | 75 888 |
| | | *Recognising indirect non-controlling interest in earnings of Small Limited* | | |

***Big Limited and its controlled entities***
***Consolidation worksheet at 31 March 2012***

| | *BIG LTD ($)* | *MEDIUM LTD ($)* | *SMALL LTD ($)* | *DR ($)* | *CR ($)* | *CONSOLIDATED ($)* |
|---|---|---|---|---|---|---|
| Sales | 7 500 000 | 4 000 000 | 3 500 000 | 2 000 000(g) | | 13 000 000 |
| Cost of goods sold | 6 100 000 | 3 260 000 | 2 900 000 | 140 000(h) | 2 000 000(g) | |
| | | | | | 80 000(j) | 10 320 000 |
| Gross profit | 1 400 000 | 740 000 | 600 000 | | | 2 680 000 |
| Depreciation expense | (130 000) | (50 000) | (18 000) | 8 000(c) | | (206 000) |
| Impairment loss—goodwill | – | – | – | 5 000(n) | | (5 000) |
| Other expenses | (743 000) | (476 000) | (262 000) | | | (1 481 000) |
| Dividend revenue | 63 000 | 66 000 | – | 66 000(o) | | |
| | | | | 63 000(p) | | – |
| Gain on sale of factory | 170 000 | – | – | 170 000(k) | | – |
| Profit before tax | 760 000 | 280 000 | 320 000 | | | 988 000 |
| Income tax expense | (304 000) | (112 000) | (128 000) | 24 000(j) | 2 400(d) | |
| | | | | | 42 000(i) | |
| | | | | | 51 000(l) | (472 600) |
| Profit for the year | 456 000 | 168 000 | 192 000 | | | 515 400 |
| Non-controlling interest in earn. | | | | 45 900(r) | | |
| | | | | 35 360(s) | | |
| | | | | 15 912(t) | | 97 172 |
| Retained earnings—1 April 2011 | 720 000 | 480 000 | 670 000 | 24 000(c) | 7 200(d) | |
| | | | | 238 000(e) | 5 768(e) | |
| | | | | 192 000(f) | 2 472 (r) | |
| | | | | 56 000(j) | | |
| | | | | 38 240(m) | | |
| | | | | 127 200(r) | | |
| | | | | 261 280(s) | | |
| | | | | 59 976(t) | | 888 744 |
| Interim dividend | (125 000) | – | (110 000) | | 66 000(o) | |
| | | | | | 44 000(s) | (125 000) |
| Final dividend | (260 000) | (90 000) | – | | 63 000(p) | |
| | | | | | 27 000(r) | (260 000) |

| | BIG LTD ($) | MEDIUM LTD ($) | SMALL LTD ($) | DR ($) | CR ($) | CONSOLIDATED ($) |
|---|---|---|---|---|---|---|
| Retained earnings— | | | | | | |
| 31 March 2012 | 791 000 | 558 000 | 752 000 | | | 921 972 |
| Contributed equity | 3 300 000 | 560 000 | 160 000 | 392 000(e) | | |
| | | | | 96 000(f) | | |
| | | | | 168 000 (r) | | |
| | | | | 64 000(s) | | 3 300 000 |
| Revaluation surplus | – | – | – | 38 400(b) | 128 000(a) | |
| | | | | 53 760(f) | | |
| | | | | 35 840(s) | | – |
| Non-controlling interest | | | | | 326 957(r) | |
| | | | | | 352 480(s) | |
| | | | | | 75 888(t) | 755 325 |
| Total equity | 4 091 000 | 1 118 000 | 912 000 | | | 4 977 297 |
| Accounts payable | 910 000 | 715 000 | 319 000 | | | 1 944 000 |
| Dividends payable | 260 000 | 90 000 | – | 63 000(q) | | 287 000 |
| Deferred tax liability | – | – | – | 9 600(d) | 38 400(b) | 28 800 |
| Total equity | 5 261 000 | 1 923 000 | 1 231 000 | | | 7 237 097 |
| Cash | 76 000 | 6 000 | 37 000 | | | 119 000 |
| Accounts receivable | 172 000 | 52 000 | 68 000 | | | 292 000 |
| Dividends receivable | 63 000 | – | – | | 63 000(q) | – |
| Inventory | 1 100 000 | 440 000 | 700 000 | | 140 000(h) | 2 100 000 |
| Land | 720 000 | 105 000 | 210 000 | | | 1 035 000 |
| Factory buildings | 2 600 000 | 1 800 000 | 360 000 | 56 000(a) | | |
| | | | | 100 000(k) | | 4 916 000 |
| Accumulated depreciation | (130 000) | (900 000) | (144 000) | 72 000(a) | 32 000(c) | |
| | | | | | 270 000(k) | (1 404 000) |
| | | | | | | 3 512 000 |
| Investment—Medium Ltd | 660 000 | – | – | | 660 000(e) | – |
| Investment—Small Ltd | – | 420 000 | – | | 420 000(f) | – |
| Goodwill | – | – | – | 35 768(e) | | |
| | | | | 78 240(f) | | |
| | | | | 15 329 (r) | | 129 337 |
| Accumulated impairment loss | | | | | 38 240(m) | |
| | | | | | 5 000(n) | (43 240) |
| | | | | | | 86 097 |
| Deferred tax asset | – | – | – | 42 000(i) | | |
| | | | | 51 000(l) | | 93 000 |
| Total assets | 5 261 000 | 1 923 000 | 1 231 000 | 4 940 805 | 4 940 805 | 7 237 097 |

***Big Limited and its controlled entities***
***Consolidated statement of comprehensive income for the year ending 31 March 2012***

| | *GROUP ($)* | *BIG LIMITED ($)* |
|---|---|---|
| Sales | 13 000 000 | 7 500 000 |
| Cost of goods sold | (10 320 000) | (6 100 000) |
| Gross profit | 2 680 000 | 1 400 000 |
| Dividend revenue | – | 63 000 |
| Gain on sale of factory | – | 170 000 |
| Depreciation expense | (206 000) | (130 000) |
| Impairment loss—goodwill | (5 000) | – |
| Other expenses | (1 481 000) | (743 000) |
| Profit before tax | 988 000 | 760 000 |
| Income tax expense | 472 800 | (304 000) |
| Profit for the year | 515 400 | 456 000 |
| Attributable to: | | |
| Owners of the parent | 418 228 | |
| Non-controlling interest | 97 172 | |
| | 515 400 | |

***Big Limited and its controlled entities***
***Consolidated statement of changes in equity for the year ending 31 March 2012***

| | *ATTRIBUTABLE TO OWNERS OF THE PARENT* | | | | |
|---|---|---|---|---|---|
| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL ($)* | *NON-CONTROLLING INTEREST ($)* | *TOTAL EQUITY ($)* |
| Balance—1 April 2011 | 3 300 000 | 888 744 | 4 188 744 | 729 153 | 4 917 897 |
| Profit for the year | – | 418 228 | 418 228 | 97 172 | 515 400 |
| Distributions | – | (385 000) | (385 000) | (71 000) | (456 000) |
| Balance—31 March 2012 | 3 300 000 | 921 972 | 4 221 972 | 755 325 | 4 977 297 |

***Big Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | *CONTRIBUTED EQUITY ($)* | *RETAINED EARNINGS ($)* | *TOTAL EQUITY ($)* |
|---|---|---|---|
| Balance—1 April 2001 | 3 300 000 | 720 000 | 4 020 000 |
| Profit for the year | – | 456 000 | 456 000 |
| Distributions | – | (385 000) | (385 000) |
| Balance 31 March 2012 | 3 300 000 | 791 000 | 4 091 000 |

***Big Limited and its controlled entities***
***Consolidated statement of financial position at 31 March 2012***

| | *GROUP ($)* | *BIG LIMITED ($)* |
|---|---|---|
| *Assets* | | |
| *Non-current assets* | | |
| Land | 1 035 000 | 720 000 |
| Factory buildings | 4 916 000 | 2 600 000 |
| *less* Accumulated depreciation | (1 404 000) | (130 000) |
| | 3 512 000 | 2 470 000 |
| Goodwill | 129 337 | – |
| *less* Accumulated impairment losses | (43 240) | – |
| | 86 097 | – |
| Investment in Medium Limited | – | 660 000 |
| Deferred tax asset | 93 000 | – |
| Total non-current assets | 4 726 097 | 3 850 000 |
| *Current assets* | | |
| Inventory | 2 100 000 | 1 100 000 |
| Accounts receivable | 292 000 | 172 000 |
| Dividend receivable | – | 63 000 |
| Cash | 119 000 | 76 000 |
| Total current assets | 2 511 000 | 1 411 000 |
| Total assets | 7 237 097 | 5 261 000 |
| *Liabilities* | | |
| *Non-current liabilities* | | |
| Deferred tax liability | 28 400 | – |
| Total non-current liabilities | 28 400 | – |
| *Current liabilities* | | |
| Accounts payable | 1 944 000 | 910 000 |
| Dividends payable | 287 000 | 260 000 |
| Total current liabilities | 2 231 000 | 1 170 000 |
| Total liabilities | 2 259 800 | 1 170 000 |
| Net assets | 4 977 297 | 4 091 000 |
| *Equity* | | |
| *Capital and reserves* | | |
| Contributed equity | 3 300 000 | 3 300 000 |
| Retained earnings | 921 972 | 791 000 |
| | 4 221 972 | 4 091 000 |
| Non-controlling interest | 755 325 | – |
| Total equity | 4 977 297 | 4 091 000 |

# SUMMARY

This chapter, like the three before it, considered issues associated with preparing consolidated financial statements—specifically, how to account for indirect interests.

The chapter showed that it is possible to control another entity—and therefore be required to consolidate it—without necessarily having any direct ownership in that separate legal entity. The control can be established through an indirect ownership interest, that is through an interest established by controlling another entity that in turn controls the entity in question. When consolidating in the presence of indirect interests, the elimination of the investments held by the immediate parent entities is to be undertaken on the basis of the direct ownership interest. The economic entity's interest in the post-acquisition profits of subsidiaries, however, will be based on the sum of both the direct ownership interests and the indirect ownership interests.

# END-OF-CHAPTER EXERCISE

After completing this chapter the reader should be able to provide answers to the following questions. (If not, the appropriate sections of the chapter should be revisited.)

1 What is an indirect ownership interest?
2 Can an entity be considered a controlled entity (that is, a subsidiary) of another entity even if that other entity has no direct ownership interest?
3 On consolidation, when the investment in the subsidiary is eliminated against the pre-acquisition capital and reserves of the subsidiary, are only the direct ownership interests, or both the direct and the indirect ownership interests taken into account?
4 On consolidation, post-acquisition movements in the reserves and retained earnings of a subsidiary will be included in the consolidated financial statements. However, they will need to be apportioned between the parent entity's interest and the non-controlling interests. In undertaking this apportionment, should only the direct ownership interests, or both the direct and the indirect ownership interests be taken into account?
5 If an intermediate parent acquires a subsidiary and, in doing so, purchases goodwill, how will any impairment of that goodwill be treated when calculating the non-controlling interest in profits and retained earnings?

# REVIEW QUESTIONS

1 What is a direct equity interest and what is an indirect equity interest?
2 Why is it important to know which part of non-controlling interest is direct, and which part is indirect?
3 Where in the statement of financial position would indirect non-controlling interests be disclosed?
4 What is the difference in the consolidation accounting used for sequential and non-sequential acquisitions?
5 If an intermediate parent acquires a subsidiary and, in doing so, purchases goodwill, then how will any impairment of that goodwill be treated when calculating the non-controlling interest in profits and retained earnings?
6 A Limited has a 60 per cent interest in B Limited and B Limited has an 80 per cent interest in C Limited. Both acquisitions were made in 2009. During the reporting period ended 31 March 2012, A Limited paid a dividend of $300 000, B Limited paid a dividend of $200 000 and C Limited paid a dividend of $100 000. What amount of dividends paid would be shown in the consolidated financial statements of A Limited and its controlled entities for the reporting period ending 31 March 2012?
7 Consider the example in Figure 27.7 and assume that ownership interest (the percentages shown) is representative of the capacity to control the various entities.

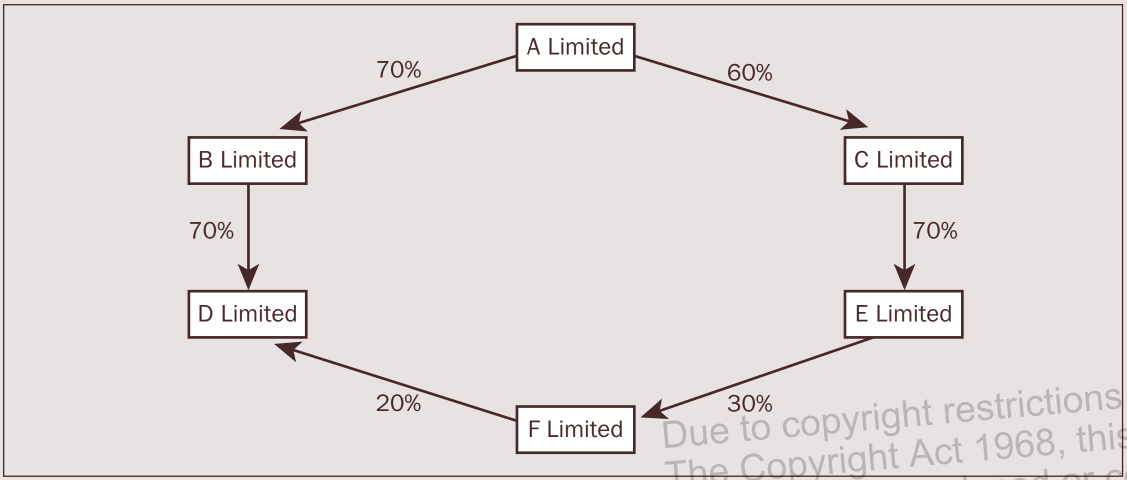



**Figure 27.7**

Structure of the entity in Review Question 7

**Required** • Determine which of the entities would constitute the economic entity.

8 Maroubra Limited holds 70 per cent of the ownership equity of Coogee Limited and Coogee Limited holds 80 per cent of the ownership equity of Clovelly Limited. During the reporting period the following dividends are paid by the respective companies:

| | $ |
|---|---|
| Maroubra Limited | 120 000 |
| Coogee Limited | 80 000 |
| Clovelly Limited | 60 000 |

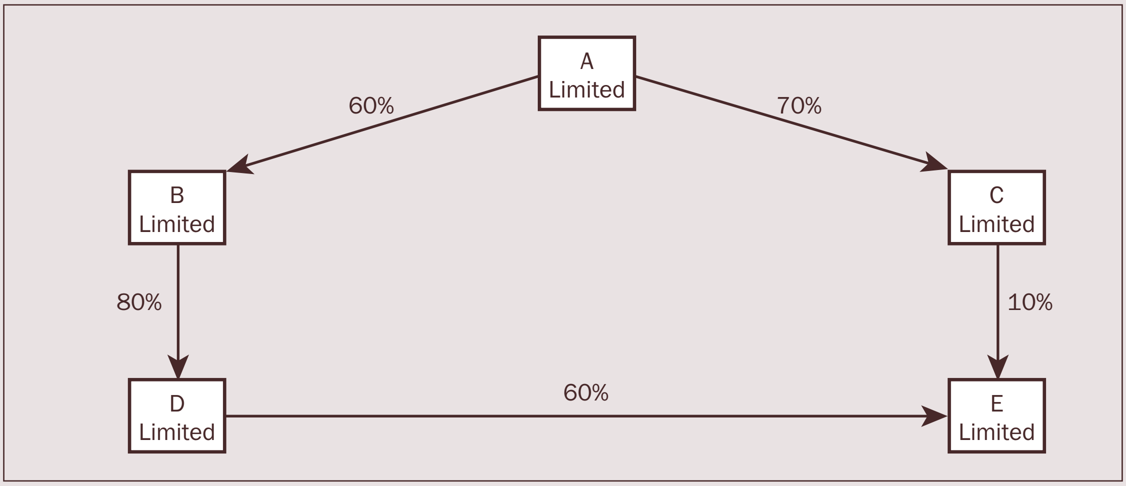
**Required** • What amount of dividend payments would be shown in the consolidated financial statements?

9 When eliminating the pre-acquisition capital and reserves of a subsidiary for the purposes of presenting consolidated financial statements, should both direct and indirect ownership interests be considered?

10 Consider the corporate structure represented in Figure 27.8.

Figure 27.8

Corporate structure referred to in Review Question 10




**Required** • Determine A Limited's interest (direct and indirect) and the non-controlling interest in the separate legal entities under the control of A Limited.

11 A Limited acquires a 60 per cent interest in B Limited on 1 April 2011 for a cost of $2 million representing the fair value of consideration transferred. The management of A Limited values any non-controlling interest at the proportionate share of B Limited's net assets. All assets are assumed to be fairly valued in the books of B Limited. The contributed equity and reserves of B Limited at the date of acquisition are:

| | $ |
|---|---|
| Contributed equity | 2 000 000 |
| Retained earnings | 600 000 |
| | 2 600 000 |

B Limited acquires a 60 per cent interest in C Limited on 1 April 2011 for $1.6 million representing the fair value of consideration transferred. The management of B Limited values any non-controlling interest in C Limited at fair value. The contributed equity and reserves of C Limited at the date of acquisition are:

| | $ |
|---|---|
| Contributed equity | 1 600 000 |
| Retained earnings | 800 000 |
| | 2 400 000 |

The statements of comprehensive income and statements of financial position of the entities at 31 March 2012 (one year after the acquisition) are as follows:

| | A LIMITED ($000) | B LIMITED ($000) | C LIMITED ($000) |
|---|---|---|---|
| *RECONCILIATION OF OPENING AND CLOSING RETAINED EARNINGS* | | | |
| Profit before tax | 1 000 | 160 | 200 |
| Income tax expense | 540 | 50 | 80 |
| Profit for the year | 460 | 110 | 120 |
| Retained earnings—31 March 2011 | 2 000 | 600 | 800 |
| | 2 460 | 710 | 920 |
| Dividends proposed | 400 | 100 | 60 |
| Retained earnings—31 March 2012 | 2 060 | 610 | 860 |
| *STATEMENT OF FINANCIAL POSITION* | | | |
| *Equity* | | | |
| Contributed equity | 8 000 | 2 000 | 1 600 |
| Retained earnings | 2 060 | 610 | 860 |
| *Non-current liabilities* | | | |
| Loans | 800 | 500 | – |
| *Current liabilities* | | | |
| Accounts payable | 340 | 80 | – |
| Dividends payable | 400 | 100 | 60 |
| | 11 600 | 3 290 | 2 520 |
| *Non-current assets* | | | |
| Land | 4 700 | – | 400 |
| Plant | 3 000 | 630 | 720 |
| Investment in B Limited | 2 000 | – | – |
| Investment in C Limited | – | 1 600 | – |
| *Current assets* | | | |
| Cash | 590 | 74 | 200 |
| Accounts receivable | 250 | 350 | 400 |
| Dividends receivable | 60 | 36 | – |
| Inventory | 1 000 | 600 | 800 |
| | 11 600 | 3 290 | 2 520 |

**Additional information** • It is assumed that goodwill acquired has been subject to an impairment loss of 20 per cent of the original goodwill value.

**Required** • Present consolidated financial statements for A Limited and its controlled entities at 31 March 2012.

# CHALLENGING QUESTIONS

**12** On 1 April 2009 Lawrence Limited acquired a 70 per cent interest in Davey Limited at a cost of $1 000 000, and Davey Limited acquired an 80 per cent interest in Wilson Limited at a cost of $750 000. Both payments represent the fair value of consideration transferred. All assets are assumed to be recorded at their fair value. At the date of acquisition the contributed equity and reserves of Davey Limited and Wilson Limited were as follows:

| | DAVEY LIMITED ($) | WILSON LIMITED ($) |
|---|---|---|
| Contributed equity | 500 000 | 400 000 |
| Revaluation surplus | 150 000 | 100 000 |
| Retained earnings | 250 000 | 100 000 |
| | 900 000 | 600 000 |

For the reporting period ending 31 March 2012, Davey Limited and Wilson Limited generated the following results:

| | *DAVEY LIMITED ($)* | *WILSON LIMITED ($)* |
|---|---|---|
| Profit before tax | 250 000 | 100 000 |
| Income tax expense | 100 000 | 40 000 |
| Profit for the year | 150 000 | 60 000 |
| Retained earnings—1 April 2011 | 280 000 | 130 000 |
| | 430 000 | 190 000 |
| Dividends paid | 30 000 | 10 000 |
| Retained earnings—31 March 2012 | 400 000 | 180 000 |

The management of Lawrence Limited and Davey Limited value any non-controlling interest at fair value. In relation to goodwill, the recoverable amount of the goodwill acquired in Davey Limited was assessed as being $250 000 at 31 March 2012, with $15 000 of the accumulated impairment occurring in the 2012 reporting period. The goodwill acquired in Wilson Limited was assessed as having a recoverable amount of $150 000 at 31 March 2012 with $10 000 of the total impairment occurring in the reporting period ending 31 March 2012.

**Required** • Determine the total non-controlling interest in closing retained earnings at 31 March 2012.

**13** On 31 March 2008, Maroubra Limited purchased 70 per cent of the shares of Clovelly Limited for $2 640 000 cash. On the same date, Clovelly Limited purchased 60 per cent of the shares of Bronte Limited for $1 680 000 cash. Both amounts represent the fair value of consideration transferred. The management of Maroubra Limited and Clovelly Limited value any non-controlling interest at fair value.

The statements of financial position of Clovelly Limited and Bronte Limited immediately before the investments were as follows:

***Clovelly Limited and Bronte Limited***
***Statements of financial position at 31 March 2008***

| | *CLOVELLY LIMITED ($)* | *BRONTE LIMITED ($)* |
|---|---|---|
| *Assets* | | |
| Cash | 1 860 000 | 120 000 |
| Accounts receivable | 720 000 | 320 000 |
| Inventory | 800 000 | 520 000 |
| Land | 420 000 | 840 000 |
| Plant and machinery | 4 000 000 | 1 440 000 |
| Accumulated depreciation | (2 800 000) | (288 000) |
| Total assets | 5 000 000 | 2 952 000 |
| *Liabilities* | | |
| Accounts payable | 1 800 000 | 1 032 000 |
| *Equity* | | |
| Contributed equity | 2 240 000 | 640 000 |
| Retained earnings—31 March 2008 | 960 000 | 1 280 000 |
| Total equity | 5 000 000 | 2 952 000 |

**Additional information** •

(i) At the date of investment, all the identifiable net assets of Clovelly Limited and Bronte Limited were considered to be recorded at fair value in the respective statements of financial position of Clovelly Limited and Bronte Limited, except Bronte Limited's plant and machinery, which had a fair value of $1 664 000, and a carrying value of $1 152 000 (cost of $1 440 000, accumulated depreciation of $288 000). At 31 March 2008, the plant and machinery had a remaining useful life of 16 years.

(ii) On 1 April 2011 the recoverable amount of the goodwill relating to the purchase of Bronte Limited by Clovelly Limited was assessed to be $160 000. The associated impairment loss of $60 800 was recognised in the first year following acquisition, that is in the year to 31 March 2009. During the year to 31 March 2012 it was considered that the goodwill in Bronte Limited had been further impaired by an amount of $20 000 to provide a recoverable amount at 31 March 2012 of $140 000.

(iii) On 31 March 2012, the recoverable amount of the goodwill, relating to the purchase of Clovelly Limited by Maroubra Limited, was assessed to be $220 000 and it was considered that all the impairment occurred in the 2012 reporting period.

(iv) During the 2012 reporting period Bronte Limited sold goods to Maroubra Limited for $8 000 000. These goods originally cost Bronte Limited $6 400 000. On 31 March 2012, 30 per cent of these goods remained in Maroubra Limited's closing inventory.

(v) Bronte Limited's opening inventory included goods purchased from Clovelly Limited for $1 280 000. These goods originally cost Clovelly Limited $1 960 000.

(vi) On 31 March 2012 Maroubra Limited sold plant and machinery to Clovelly Limited for $3 200 000. Maroubra Limited originally purchased the plant and machinery for $3 600 000, on 1 July 2006. The original estimated useful life of the factory building was 20 years.

(vii) The income tax rate is 30 per cent.

(viii) The financial statements of Maroubra Limited, Clovelly Limited and Bronte Limited revealed the following balances at 31 March 2012.

***Maroubra Limited, Clovelly Limited and Bronte Limited***
***Statements of comprehensive income for the year ended 31 March 2012***

| | *MAROUBRA LIMITED ($)* | *CLOVELLY LIMITED ($)* | *BRONTE LIMITED ($)* |
|---|---|---|---|
| Sales | 30 000 000 | 16 000 000 | 14 000 000 |
| Cost of goods sold | 24 400 000 | 13 040 000 | 11 600 000 |
| Gross profit | 5 600 000 | 2 960 000 | 2 400 000 |
| Depreciation expense | (520 000) | (200 000) | (72 000) |
| Other expenses | (2 972 000) | (1 904 000) | (1 048 000) |
| Dividend revenue | 252 000 | 264 000 | – |
| Gain on sale of plant and machinery | 680 000 | – | – |
| Profit before tax | 3 040 000 | 1 120 000 | 1 280 000 |
| Income tax expense | 1 216 000 | 448 000 | 512 000 |
| Profit for the year | 1 824 000 | 672 000 | 768 000 |

***Maroubra Limited, Clovelly Limited and Bronte Limited***
***Statements of financial position at 31 March 2012***

| | *MAROUBRA LIMITED ($)* | *CLOVELLY LIMITED ($)* | *BRONTE LIMITED ($)* |
|---|---|---|---|
| *Assets* | | | |
| Cash | 304 000 | 24 000 | 148 000 |
| Accounts receivable | 688 000 | 208 000 | 272 000 |
| Dividends receivable | 252 000 | – | – |
| Inventory | 4 400 000 | 1 760 000 | 2 800 000 |
| Land | 2 880 000 | 420 000 | 840 000 |
| Plant and machinery | 10 400 000 | 7 200 000 | 1 440 000 |
| Accumulated depreciation | (520 000) | (3 600 000) | (576 000) |
| Investment in Clovelly Limited | 2 640 000 | – | – |
| Investment in Bronte Limited | – | 1 680 000 | – |
| Total assets | 21 044 000 | 7 692 000 | 4 924 000 |

| | MAROUBRA LIMITED ($) | CLOVELLY LIMITED ($) | BRONTE LIMITED ($) |
|---|---|---|---|
| *Liabilities* | | | |
| Accounts payable | 3 640 000 | 2 860 000 | 1 276 000 |
| Dividends payable | 1 040 000 | 360 000 | – |
| *Equity* | | | |
| Contributed equity | 13 200 000 | 2 240 000 | 640 000 |
| Retained earnings—31 March 2012 | 3 164 000 | 2 232 000 | 3 008 000 |
| Total equity | 21 044 000 | 7 692 000 | 4 924 000 |

***Maroubra Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL ($) |
|---|---|---|---|
| Balance—1 April 2011 | 13 200 000 | 2 880 000 | 16 080 000 |
| Profit for the year | – | 1 824 000 | 1 824 000 |
| Distribution—interim dividend | – | (500 000) | (500 000) |
| Distribution—final dividend | – | (1 040 000) | (1 040 000) |
| Balance—31 March 2012 | 13 200 000 | 3 164 000 | 16 364 000 |

***Clovelly Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL ($) |
|---|---|---|---|
| Balance—1 April 2011 | 2 240 000 | 1 920 000 | 4 160 000 |
| Profit for the year | – | 672 000 | 672 000 |
| Distributions—final dividend | – | (360 000) | (360 000) |
| Balance—31 March 2012 | 2 240 000 | 2 232 000 | 4 472 000 |

***Bronte Limited***
***Statement of changes in equity for the year ending 31 March 2012***

| | CONTRIBUTED EQUITY ($) | RETAINED EARNINGS ($) | TOTAL ($) |
|---|---|---|---|
| Balance—1 April 2011 | 640 000 | 2 680 000 | 3 320 000 |
| Profit for the year | – | 768 000 | 768 000 |
| Distribution—interim dividend | – | (440 000) | (440 000) |
| Balance—31 March 2012 | 640 000 | 3 008 000 | 3 648 000 |

**Required** • Prepare a consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity for Maroubra Limited and its controlled entities for the reporting period ending 31 March 2012. Supporting notes are not required.

**14** Use the same information as in Review Question 13, except that the acquisition dates are as follows:

- On 31 March 2008 Clovelly Limited acquired 60 per cent of the shares of Bronte Limited for $1 680 000 (same date as in Review Question 13).
- On 31 March 2009 (one year later) Maroubra Limited acquired a 70 per cent interest in Clovelly Limited for $2 640 000.

Both amounts represent the fair value of consideration transferred. The management of Maroubra Limited and Clovelly Limited value any non-controlling interest at fair value.

At 31 March 2012 the contributed equity and reserves of Clovelly Limited and Bronte Limited were as follows:

| | *CLOVELLY LIMITED ($)* | *BRONTE LIMITED ($)* |
|---|---|---|
| Contributed equity | 2 240 000 | 640 000 |
| Retained earnings | 1 360 000 | 1 480 000 |
| | 3 600 000 | 2 120 000 |

**Required** • Prepare a consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity for Maroubra Limited and its controlled entities for the reporting period ending 31 March 2012. Supporting notes are not required.