

Foreign Subsidiaries

1 Sale of partial investment no goodwill NCI measured at proportionate share of net asset value at acquisition

Trial Balances at 31 December 2x13.	H Co R	S Co \$
Share capital	100,000	5,000
Retained earnings	50,000	6,000
Net profit after tax	20,000	3,000
Profit on sale of shares in S Co	10,200	
	180,200	14,000
Investment in S	29,400	
Plant and equipment	40,000	4,500
Net current assets	110,800	9,500
	180,200	14,000

The share capital of S Co consists of 5,000 shares.
H Co acquired 4,000 in S Co on 1 January 2x11 for R 39,200 when the retained earnings of S Co was \$2,000.
The functional currency of S Co is \$. The functional currency of H Co is Rands.
On 1 January 2x13 H Co sold 1000 shares in S Co for R20 000.
Capital gains tax on the sale of shares in S Co has been correctly recognised in the records of H Co.
H Co measures non-controlling interests in subsidiaries at their proportionate share of net asset fair value at acquisition.

The following exchange rates apply

Date	Rate
1 January 2x11	7:1
31 December 2x12	8.5:1
31 December 2x13	9:1
Average for the period 1 January 2x11 -31 December 2x12	7.8:1
Average for the period 1 January 2x13 -31 December 2x13	8.8:1

You are required to:

- 1 - Prepare the journal entries to consolidate S Co into the H Co Group for the 2x13 financial year.
- 2 - Prepare the financial statements of the H group for the financial year ended 31 December 2x13.

Workings

Analysis of Equity S Co	\$	R:\$	Total	20%	80%
Share capital	5,000			1/5	4/5
Retained earnings	<u>2,000</u>				
	7,000	7	49,000	9,800	39,200
Retained earnings to BOY	6,000				
At acquisition	<u>-2,000</u>				
	4,000	7.8	31,200	6,240	24,960
			80,200	16,040	64,160
	11,000				
FCTR			13,300	2,660	10,640
NAV 31 December 2x12		8.5	93,500	18,700	74,800
Sale of 1000 shares				18,700	-18,700
				37,400	56,100
				40%	60%
Current Income	3,000	8.80	26,400	10,560	15,840
			119,900	47,960	71,940
FCTR			6,100	2,440	3,660
	<u>14,000</u>	9	126,000	50,400	75,600

Profit on sale of shares	H Co	Group
Proceeds	20,000	20,000
Cost/NAV	<u>-9,800</u>	<u>-18,700</u>
Profit	<u>10,200</u>	<u>1,300</u>

Consolidating journal entries	Dr	Cr
Share capital (SCE) (5000*7)	35,000	
Retained earnings (SCE) (2000*7)	14,000	
Non-controlling interest (SCE) (35000+14000)*20%		9,800 J1
Investment in S Co (SFP)		39,200
Recognition of net assets at acquisition date and elimination of investment		
Retained earnings (SCE)	6,240	
Non-controlling interest (SCE)		6,240 J2
Attribution of prior year profit		
FCTR (SCE)	2,660	
Non-controlling interest (SCE)		2,660 J3
Non -controlling interest share in FCTR at BOY		
Parent's Profit on sale of shares (P/L)	10,200	
Investment in S Co (SFP)	9,800	
Non-controlling interest (SCE)		18,700 J4
Retained earnings (Profit on transaction with owners) (SCE)		1,300
Recognising group profit on sale of S Co shares		
FCTR (SCE)	2,660	
Retained earnings (SCE)		2,660 J5
FCTR realised on sale of shares in S Co		
NCI Attribution (P/L)	10,560	
Non-controlling interest (SCE)		10,560 J6
Attribution of current year profit		
FCTR Attribution (OCI)	2,440	
Non-controlling interest (SCE)		2,440 J7
Non -controlling interest share in FCTR at BOY		

H Group Consolidated Statement of Comprehensive Income for the year ended 31 December 20x13

Net profit after tax (20000+3000*8.8)	46,400
Other comprehensive income items that may subsequently be recycled to profit and loss	
FCTR	6,100
Total comprehensive income	<u>52,500</u>
Profit attributable to	
Owners of parent	35,840
Non-controlling interest	<u>10,560</u>
	<u>46,400</u>
Other comprehensive income attributable to	
Owners of parent	39,500
Non-controlling interest	<u>13,000</u>
	<u>52,500</u>

H Group Consolidated Statement of comprehensive Income for the year ended 31 December 2013

	Share capital	Retained Earnings	FCTR	Non-controlling interest	Total
Balance at the beginning of year	100,000	74,960	10,640	18,700	204,300
Current income		35,840		10,560	46,400
Movement in FCTR			3,660	2,440	6,100
Sale of shares in subsidiary		1,300		18,700	20,000
Transfer of FCTR on changes in holding of subsidiary		2,660	-2,660		
	<u>100,000</u>	<u>114,760</u>	<u>11,640</u>	<u>50,400</u>	<u>276,800</u>

Calculations

	Parent	Subsidiary	FC
Opening Retained Earnings:		80%	
Balance at BOY	50,000	46,800 use average rate at BOY	6,000
+/- prior year adjustments: unrealised profits IFRS 3 fair adjustment- subsequent adjustments Less At acquisition RE			
	0	-15,600 use average rate at BOY	-2,000
	<u>50,000</u>	<u>31,200</u>	<u>4,000</u>
Parent's share of prior year profits (31200*80%)	24,960		translate avg
Opening group retained earnings balance	<u>74,960</u>		<u>31,200</u>
also (50000+6000*7.8-2000*7-6240) as per the pro-formas			

for current year income see P/L

Opening NCI

At Acquisition date balance (Fv or %of FV of ID Net Assets)	9,800
*+/- Prior year adjustments (e.g. change in NCI- IFRS10.B96 adjustments)	0
attribution of prior year reserves: RE (see Opening RE calc above and take balance after adjustments (32800*20%) FCTR, etc	6,240 <u>2,660</u>
Opening NCI balance	<u>18,700</u>

H Group Consolidated Statement of Changes in Equity at 2013/12/31

Plant and equipment (40,000+4500*9)	80,500
Net current assets (110800+9500*9)	<u>196,300</u>
	<u>276,800</u>

16.2 Sale of partial investment NCI measured at proportionate share of NAV at acquisition

Trial Balances at 31 December 2x13.	H Co	S Co
	R	\$
Share capital	100,000	5,000
Retained earnings	50,000	6,000
Net profit after tax	20,000	3,000
Profit on sale of shares in S Co	11,450	
	<u>181,450</u>	<u>14,000</u>
Investment in S	34,650	
Net assets	<u>146,800</u>	<u>14,000</u>
	<u>181,450</u>	<u>14,000</u>

The share capital of S Co consists of 5,000 shares.
H Co acquired 4,000 in S Co on 1 January 2x11 for R 46,200 when the retained earnings of S Co was \$2,000.
The functional currency of S Co is \$ and that of H Co is Rands.
On 30 April 2x13 H Co sold 1000 shares in S Co for R23,000.
Profits are earned evenly throughout the year.
Capital gains tax on the sale of shares in S Co has been correctly recognised in the records of H Co.
H Co measures non-controlling interests in subsidiaries at their proportionate share of net asset fair value at acquisition.

The following exchange rates apply

Date	Rate
1 January 2x11	7:1
31 December 2x12	8.5:1
30 April 2x13	8.7:1
31 December 2x13	9:1
Average for the period 1 January 2x11 -31 December 2x12	7.8:1
Average for the period 1 January 2x13 -30 April 20x13	8.6:1
Average for the period 1 May 2x13 -31 December 2x13	8.85:1

You are required to:

- 1) prepare the journal entries to consolidate S Co into the H Co group for the 2x13 financial year.
- 2) prepare the financial statements of the H group for the financial year ended 31 December 2x13.

Workings

Analysis of Equity S Co	\$	R:\$ Total	20%	80%
Share capital	5,000			
Retained earnings	<u>2,000</u>	7	49,000	9,800
	7,000			39,200
Retained earnings to BOY	6,000			
At acquisition	<u>-2,000</u>			
	4,000	7.8	31,200	6,240
	<u>11,000</u>		80,200	16,040
				64,160
FCTR			<u>13,300</u>	<u>2,660</u>
				10,640
NAV 31 December 2x12		8.5	93,500	18,700
Profits till 30 April 2x13	<u>1,000</u>	8.6	8,600	1,720
	12,000		102,100	20,420
FCTR			2,300	460
NAV 30 April 2x13		8.7	104,400	20,880
Sale of 1000 shares			<u>20,880</u>	<u>-20,880</u>
				83,060
				62,640
				40%
				60%
Current Income	2,000	8.85	17,700	7,080
			122,100	90,140
FCTR			3,900	1,560
	<u>14,000</u>	9	126,000	91,700
				75,600
Goodwill calculation				
Purchase consideration	46,200			
Non-controlling interest	<u>9,800</u>			
	56,000			
Goodwill	<u>7,000</u>			
Net asset value	<u>49,000</u>			
	56,000			
FCTR on goodwill				
At acquisition	1000	7	7000	
FCTR			1,500	

EOY 2X12	1,000	8.5	8,500	
FCTR			200	20,880
30 April 20x13	1,000	8.7	8,700	2,175
FCTR			300	23,055
EOY 20x13	1,000	9.0	9,000	

Profit on sale of shares	H Co	Group
Proceeds	23,000	23,000
Cost/NAV	-11,550	-20,880
Goodwill		-2,175
Profit	11,450	-55

FCTR transferred on sale of shares in subsidiary	per TB	Goodwill	Total
FCTR relating to group at boy	10,640	1,500	12,140
FCTR to 30 April 20x13	1,840	200	2,040
Balance at 30 April 20x13	12,480	1,700	14,180
Transferred to retained income on sale of 1000 shares	-3120	-425	-3,545
FCTR to 31 December 20x13	2,340	225	2,565
Balance at 31 December 20x13	11,700	1,500	13,200

Consolidating journal entries	Dr	Cr
Share capital	35,000	
Retained earnings	14,000	
Goodwill	7,000	
Non-controlling interest		9,800
Investment in S Co		46,200
At acquisition equity of subsidiary		
Retained earnings	6,240	
Non-controlling interest		6,240
Non controlling interest share of retained earnings to 31 December 20x12		
FCTR	2,660	
Non-controlling interest		2,660
Non -controlling interest share in FCTR at BOY		
Goodwill	1,500	
FCTR		1,500
FCTR on goodwill recognised to 31 December 20x13		
Non controlling interest share of profits	1,720	
Non-controlling interest		1,720
Non-controlling interest share of profits to 30 April 20x13		
FCTR	460	
Non-controlling interest		460
Non -controlling interest share in FCTR till 30 April 20x13		
Goodwill	200	
FCTR		200
FCTR on goodwill recognised to 30 April 20x13		
Profit on sale of shares	11,450	
Investment in S Co	11,550	
Non-controlling interest		23,055
Retained earnings (Profit on transaction with owners)	55	
Recognising group profit on sale of S Co shares		
FCTR	3,545	
Retained earnings		3,545
FCTR transferred to retained earnings on sale of shares in S Co		
FCTR realised on sale of shares in S Co		
Non controlling interest share of profits	7,080	
Non-controlling interest		7,080
Non-controlling interest share of profits to 31 December 20x13		
FCTR	1,560	
Non-controlling interest		1,560
Non -controlling interest share in FCTR till 31 December 20x13		
Goodwill	300	
Non-controlling interest		75
FCTR		225
FCTR on goodwill recognised to 31 December 20x13		

H Group Consolidated Statement of Comprehensive Income for the year ended 31 December 20x13

Net profit after tax (20000+ 8600+17700)	46,300
Other comprehensive income items that may subsequently be recycled to profit and loss	
FCTR	6,700
Total comprehensive income	53,000
Profit attributable to	
Owners of parent	37,500
Non-controlling interest	8,800
	46,300
Other comprehensive income attributable to	
Owners of parent	42,180
Non-controlling interest	10,820

H Group Consolidated Statement of comprehensive income for the year ended 31 December 2013

	Share capital	Retained earnings	FCTR	Non-controlling interest	Total
Balance at the beginning of year	100,000	74,960	12,140	18,700	205,800
Current income		37,500		8,800	46,300
Movement in FCTR			4,605	2,095	6,700
Sale of shares in subsidiary		-55		23,055	23,000
Transfer of FCTR on changes in holding of subsidiary		3,545	-3,545		
	100,000	115,950	13,200	52,650	281,800

H Group Consolidated Statement of Changes in Equity at 31 December 2013

Goodwill	9,000
Net assets (146800+14000*9)	272,800
	281,800

16.3 Sale of total investment NCI measured at proportionate share of net asset value at acquisition

Trial Balances at 31 December 2x13.

	H Co	S Co
	R	\$
Share capital	100,000	5,000
Retained earnings	50,000	6,000
Net profit after tax	20,000	3,000
Proceeds from sale of shares in S Co	140,000	
	310,000	14,000
Investment in S	46,200	
Net assets	263,800	14,000
	310,000	14,000

The share capital of S Co consists of 5,000 shares.

H Co acquired 4,000 in S Co on 1 January 2x11 for R 46,200 when the retained earnings of S Co was \$2,000.

The functional currency of S Co is \$ and that of H Co Rands

On 31 December 2x13 H Co sold its total investment in S Co for R140,000.

Capital gains tax on the sale of shares in S Co has been correctly recognised in the records of H Co.

H Co measures non-controlling interests in subsidiaries at their proportionate share of net asset fair value at acquisition.

The following exchange rates apply

Date	Rates
1 January 2x11	7:1
31 December 2x12	8.5:1
31 December 2x13	9:1
Average for the period 1 January 2x11 -31 December 2x12	7.8:1
Average for the period 1 January 2x13 -31 December 2x13	8.8:1

You are required to:

Prepare the journal entry to deconsolidate the investment in S

Workings

Analysis of Equity S Co	\$	R:\$ Total	20%	80%
Share capital	5,000			
Retained earnings	2,000			
	7,000	7	49,000	9,800
				39,200
Retained earnings to BOY	6,000			
At acquisition	4,000	7.8	31,200	6,240
			80,200	16,040
	11,000			64,160
FCTR			13,300	2,660
				10,640
NAV 31 December 2x12		8.5	93,500	18,700
Current Income	3,000	8.80	26,400	5,280
			119,900	23,980
FCTR			6,100	1,220
	14,000	9	126,000	25,200
				100,800

Goodwill calculation

Purchase consideration	46,200
Non-controlling interest	9,800
	56,000
Goodwill	7,000
Net asset value	49,000
	56,000

FCTR on goodwill	\$	Rate	R
At acquisition	1000	7	7000
FCTR			1,500
EOY 2x12	1,000	8.5	8,500
FCTR			500
EOY 2x13	1,000	9	9,000

Profit on sale of shares

	H Co	Group
Proceeds	140,000	140,000
Cost/NAV	46,200	100,800
Goodwill		9,000
Profit	93,800	30,200

Consolidating journal entries

	Dr	Cr
Proceeds from sale of shares (SFP)	140,000	
Net assets (14000*9)(SFP)		126,000
Goodwill (1000*9)(SFP)		9,000
Non-controlling interest (14000*9*20%)(SCE)	25,200	
Group gain on loss of control (P/L)		30,200
Recognising group profit on sale of S Co shares		
FCTR (OCI)	17,520	
Group gain on loss of control/Re-classification adjustment (P/L)		17,520
FCTR transferred to retained earnings thru P/L on sale of shares in S Co		
FCTR realised on sale of shares in S Co		

CHANGES IN HOLDING - MIND MAP

DECREASE IN SHAREHOLDING

<p>SALE OF SHARES (by H) CONTROL RETAINED</p> <ul style="list-style-type: none"> – shares originally acquired at NAV. Eg. 1.1 – shares originally acquired above NAV (goodwill). Eg. 1.2 <p>SUB SUB</p> <p>Characteristics:</p> <ol style="list-style-type: none"> 1. Group profit/loss on sale of shares is a transaction between owners directly through SOCIE 2. NAV of shares sold allocated to non controlling interest 3. No change to goodwill 	<p>SALE OF SHARES (by H) LOSS OF CONTROL</p> <ul style="list-style-type: none"> –Sale of total holding. Eg. 6.1 <p>SUB ZERO</p> <ul style="list-style-type: none"> –Sale of part holding. Eg. 6.2, 6.3, 6.4, 6.5 <p>SUB ASSOC</p> <p>Characteristics:</p> <ol style="list-style-type: none"> 1. Group profit/loss on sale of shares through profit and loss 2. Net assets and goodwill are derecognised 3. Non-controlling interest is derecognised 5. Investment is fair valued at date of sale and FV becomes new "deemed cost" 	<p>ISSUE OF SHARES (by S) CONTROL RETAINED</p> <ul style="list-style-type: none"> – shares issued at NAV. Eg 2.1 – shares issued at price below NAV. Eg 2.2 <p>SUB SUB</p> <p>Characteristics:</p> <ol style="list-style-type: none"> 1. No sale, therefore no Profit/loss on sale of shares 2. Profit or loss on issue of shares is a transaction between owners directly through SOCIE 3. Non-controlling interest increases by shares issued to them 4.No change to goodwill
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INCREASE IN SHAREHOLDING

<p>PURCHASE OF SHARES (by H) ALREADY PREVIOUSLY CONTROLLED</p> <ul style="list-style-type: none"> – additional shares acquired at NAV in current year. Eg. 3.1 – additional shares acquired at a premium in current year. Eg. 3.2 – additional shares acquired at NAV in prior year. Eg. 3.3 <p>SUB SUB</p> <p>Characteristics:</p> <ol style="list-style-type: none"> 1. Decrease in non-controlling interest 2. Premiums paid is recognised as a transaction between owners and recorded directly through SOCIE 	<p>PURCHASE OF SHARES (by H) OBTAINING CONTROL</p> <ul style="list-style-type: none"> – additional shares acquired in current year & prior year. Eg.4.1 (AFS financial asset), 4.2 Eg. 4.3 (FV through P&L financial asset) <p>INVESTMENT SUB</p> <ul style="list-style-type: none"> – additional shares acquired in current year & prior year. Eg. 5.1 & 5.2 <p>ASSOC SUB</p> <p>Characteristics:</p> <ol style="list-style-type: none"> 1. No consolidation at beginning of year 2. No non-controlling interest at beginning of year 3. All previously held equity interests should be fair valued at the date of acquisition through P&L 4.If the investment is already at fair value in the separate financial statements of the parent, then FV released to P&L only if investment classified as available for sale 5. ASSOCIATES: Profits equity accounted until additional shares acquired.
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Financial Accounting IV
Changes in Holdings
In all the examples the parent of a subsidiary is denoted as "H"

1. Purchase of Additional Shares in Subsidiary Company

1.1 Holding Increased in Current Year at Book Value: H retains control of subsidiary

TRIAL BALANCES AT 31 DECEMBER 20X8

	H LTD	S LTD
Share capital (R1 shares)	10,000	5,000
Retained earnings at 1 January 20X8	13,000	9,000
Profit after tax	11,000	6,000
	34,000	20,000
Investment in S Ltd at cost (3500 shares)	5,150	
Other assets	28,850	20,000
	34,000	20,000

The shares in S Ltd were acquired as follows:

- 3 000 shares in 20X6 for R3 600 when the retained earnings was R1 000.
- 500 shares on 1 April 20X8 for R1 550.

Non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition date.

Income of S Limited is earned evenly throughout the year. Tax rate is 30%.

You are required:

To prepare the consolidated journal entry required for the additional purchase of shares
Disclose the change in holding in the Consolidated Statement of Changes in Equity
for the year ended 31 December 20x8.

WORKINGS

Analysis of S Limited at 31 December 20X8	Total	40%/30%	60%/70%
At date of original acquisition			
Share capital	5,000		
Retained earnings	1,000		
	6,000	2,400	3,600
Retained earnings at BOY	9,000		
On acquisition	(1,000)		
Retained earnings movement	8,000	3,200	4,800
		5,600	
Current income			
Profit to 1/04/X8 (3/12 x 6 000)	1,500	600	900
	15,500	6,200	9,300
Purchase of equity from non-controlling interest (10% calculated as follows: 6 200 x 10/40)		(1,550)	1,550
	15,500	4,650	10,850
Profits for remaining year 9/12 x 6,000	4,500	1,350	3,150
	20,000	6,000	14,000

Consolidated Statement of Changes in Equity for the year ended 31 December 20x8

	NCI
Opening balance	5,600

Shares sold to controlling interest	(1,550)
Income for the year	<u>1,950</u>
	6,000

Consolidating Journal Entry	Dr	Cr
Non-controlling interest (SoFP)	1,550	
Investment in S Ltd		1,550

1.2 Holding Increased in Current Year at a Premium to net asset value

TRIAL BALANCES AT 31 DECEMBER 20X8

	H LTD	S LTD
Share capital (R1 shares)	10,000	5,000
Retained earnings at 1 January 20X8	13,000	9,000
Profit after tax	<u>11,000</u>	<u>6,000</u>
	34,000	20,000
Investment in S Ltd at cost (3500 shares)	5,250	
Other assets	<u>28,750</u>	<u>20,000</u>
	34,000	20,000

The shares in S Ltd were acquired as follows:

- 3 000 shares in 20X6 for R3 600 when the retained earnings was R1 000.
- 500 shares on 1 April 20X8 for R1 650.

Non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition date.

Income of S Limited is earned evenly throughout the year. Tax rate is 30%.

You are required to:

1. prepare the consolidated journal entry required for the additional purchase of shares
2. prepare the consolidated statement of comprehensive income for the year ended 31 December 20X8.
3. prepare the consolidated statement of changes in equity for the year ended 31 December 20X8

WORKINGS:

Analysis of S Limited at 31 December 20X8

	Total	40%/30%	60%/70%
At date of original acquisition			
Share capital	5,000		
Retained earnings	<u>1,000</u>		
	6,000	2,400	3,600
Retained earnings at BOY	9,000		
On acquisition	<u>(1,000)</u>		
Retained earnings movement	8,000	<u>3,200</u>	4,800
		5,600	
Current income			
Profit to 1/04/X8 (3/12 x 6 000)	1,500	600	900
	<u>15,500</u>	<u>6,200</u>	<u>9,300</u>

Purchase of equity from non-controlling interest (10% calculated as follows: 6 200 x 10/40)		(1,550)	1,550
	15,500	4,650	10,850
Profits for remaining year 9/12 x 6,000	4,500	1,350	3,150
	20,000	6,000	14,000

Consolidating Journal Entry

Retained earnings (transaction between owners)	100	
Non-controlling interest (SoFP)	1,550	
Investment in S Ltd		1,650

Consolidated statement of comprehensive income for the year ended 31 December 20X8

Profit for the period	17,000
Other comprehensive income	-
Total comprehensive income	<u>17,000</u>
Total comprehensive income attributable to:	17,000
Non-controlling interest	1,950
Owners of the parent	15,050

Statement of changes in equity for the year ended 31 December 20X8

	Share Capital	Retained earnings	Non- controlling interest	Total
Balance at 31 December 20X7	10,000	17,800	5,600	33,400
Purchase of additional shares in subsidiary		(100)	(1,550)	(1,650)
Total comprehensive income for the period		15,050	1,950	17,000
Balance at 31 December 20X8	10,000	32,750	6,000	48,750

1.3 Holding Increased Prior to Current Year

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD
Share capital (R1 shares)	10,000	5,000
Retained earnings at 1 January 20X9	24,000	15,000
Profit after tax	14,000	10,000
	<u>48,000</u>	<u>30,000</u>
Investment in S Ltd at cost (3500 shares)	5,250	-
Other Assets	42,750	30,000
	<u>48,000</u>	<u>30,000</u>

The shares in S Ltd were acquired as follows:

- 3 000 for R3 600 when the retained earnings was R1 000
- 500 shares for R1 650 when the retained earnings was R10 500.

Non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition date.

You are required:

1. prepare the consolidated journal entries for the year ended 31 December 20X9
2. prepare the consolidated income statement the year ended 31 December 20X9.
3. prepare the consolidated statement of changes in equity for the year ended 31 December 20X9

WORKINGS

Analysis of S Limited at 31 December 20X9	Total	40%/30%	60%/70%
At date of original acquisition			
Share capital	5,000		
Retained earnings	<u>1,000</u>		
	6,000	2,400	3,600
At subsequent acquisition			
Retained earnings	10,500		
On acquisition	<u>(1,000)</u>		
Movement in retained earnings	9,500	3,800	5,700
NAV before purchase of shares	<u>15,500</u>	<u>6,200</u>	<u>9,300</u>
Purchase of equity from non-controlling interest (10% calculated as follows: 6 200 x 10/40)		(1,550)	1,550
Retained earnings at BOY	15,000		
at second exchange of shares	<u>(10,500)</u>		
Movement in retained earnings since second exchange	4,500	<u>1,350</u>	3,150
		6,000	
Current income	<u>10,000</u>	<u>3,000</u>	<u>7,000</u>
	30,000	9,000	21,000

Consolidating Journal Entries

	Dr	Cr
Share capital	5,000	
Retained earnings	1,000	
Non-controlling interest (SoFP)		2,400
Investment in S		3,600
Retained earnings	5,150	
Non-controlling interest (SoFP)		5,150
Non-controlling interest share of profits	3,000	
Non-controlling interest (SoFP)		3,000
Non-controlling interest (SoFP)	1,550	
Retained earnings -loss on transaction with owners	100	
Investment in S		1,650

H Ltd and its Subsidiary

Consolidated Income Statement for the year ended 31 December 20X9

Profit for the period (14000 +10000)	<u>24,000</u>
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Attributable to:

Non-controlling interest	3,000
Owners of parent	21,000

Statement of changes in equity for the year ended 31 December 20X9

	Share capital	Retained earnings	Non-controlling interest	Total
Balance at 31 December 20X8 (24000+5700+3150-100)	10,000	32,750	6,000	48,750
Total comprehensive income for the period		21,000	3,000	24,000
Balance at 31 December 20X9	10,000	53,750	9,000	72,750

Statement of financial position at 31 December 20X9

Share capital	10,000
Retained earnings	53,750
Non-controlling interest	9,000
Total Equity	<u>72,750</u>
Other assets (42 750+30 000)	<u>72,750</u>

2. Business combination in stages: Conversion of Investment to Subsidiary
Investment measured at fair value with changes in fair value presented in
Other Comprehensive Income in H
Refer to IFRS 3 para 41 and 42.

2.1 Conversion to Subsidiary In Current Year

TRIAL BALANCES AT 31 DECEMBER 20X8

	H LTD	S LTD
Share Capital	10,000	5,000
Retained earnings	13,000	9,000
Share revaluation reserve	723	
Profit before tax	17,000	9,000
Deferred tax on share revaluation reserve	127	
	<u>40,850</u>	<u>23,000</u>
Taxation	6,000	3,000
Investment in S Ltd (3000 shares)	9,300	-
Net other assets	25,550	20,000
	<u>40,850</u>	<u>23,000</u>

When the shares in S were first purchased, in compliance with IFRS 9 par 5.7.5 ,H elected to recognise changes in the fair value of the investment in S in other comprehensive income. After the additional investment in S shares on 1 April 20x8 H elected to measure the investment in S at cost in its separate financial statements.

The shares in S Ltd were acquired as follows:

- 500 shares for R700 when the retained earnings of S Limited was R2 000
- 2 500 shares for R7 750 on 1 April 20X8.

The share price on 31 December 20X7 was R3.10 per share. The share price had not changed by 1 April 20X8.

At acquisition date the carrying value of the net identifiable assets of S was considered to be their fair value.

The non-controlling interest is measured at their proportionate share of net identifiable assets at acquisition.

H has not elected to transfer the cumulative gains/losses on investments in equity instruments recognised at fair value through other comprehensive income to another component of equity. Profit is earned evenly throughout the year. Assume the tax rate is 30%.

You are required to:

1. prepare the consolidating journal entries required for the year ended 31 December 20X8.
2. prepare the consolidated statement of comprehensive income for the year ended 31 December 20X8.
3. prepare the consolidated statement of changes in equity for the year ended 31 December 20X8.

WORKINGS

Analysis of S Limited at 31 December 20X8	Total	40%	60%
At date of acquisition			
Share capital	5,000		
Retained earnings	9,000		
Profit to 1/4/x8 (3/12 x 6 000)	1,500		
	<u>15,500</u>	6,200	9,300
Profit for remaining year	4,500	1,800	2,700
	<u>20,000</u>	8,000	12,000

Calculation of goodwill

Consideration paid	7,750
Non-controlling interest (proportionate share of net identifiable assets at acquisition)	6,200
Fair value of previous equity interest (500 shares x R3.10)	<u>1,550</u>
	15,500

Net identifiable assets	15,500
Goodwill	-

Consolidating Journal Entries

	Dr	Cr
Share capital	5,000	
Retained earnings	9,000	
Profit for the period	1,500	
Non-controlling interest (SoFP)		6,200
Deferred tax		9,300

Non-controlling interest share of profits	1,800	
Non-controlling interest (SoFP)		1,800

Deferred tax	127	
OCI (share revaluation reserve)		127
Deferred tax reversed on investment becoming a subsidiary		

Consolidated statement of comprehensive income for the year ended 31 December 20X8

Revenue	xxx
Net profit (17,000 + 6,750)	23,750
Profit before tax	23,750
Tax 6 + (3 x 9/12)	(8,250)
Profit for the period	15,500

Other comprehensive income

Share revaluation reserve	127
Total comprehensive income	15,627

Profits attributable to:

	15,500
Non-controlling interest	1,800
Owners of parent	13,700

Total comprehensive income attributable to:

	15,627
Non-controlling interest	1,800
Owners of parent	13,827
	15,627

Consolidated statement of changes in equity at 31 December 20X8

	Share capital	Share revaluation reserve	Retained earnings	Non-controlling interest
Balance at 31 December 20X7	10,000	723	13,000	-
Acquisition of subsidiary				6,200
Total comprehensive income for the period		127	13,700	1,800
Balance at 31 December 20X8	10,000	850	26,700	8,000

2.2 Conversion to Subsidiary In Prior Year

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD
Share capital	10,000	5,000
Retained earnings	30,000	18,000
Share revaluation reserve	3,018	
Profit after tax	14,000	10,000
Deferred tax	532	
	<u>57,550</u>	<u>33,000</u>
Investment in S Ltd (3000 shares)	12,000	
Other assets	45,550	33,000
	<u>57,550</u>	<u>33,000</u>

When the shares in S were first purchased, in compliance with IFRS 9 par 5.7.5, H elected to recognise changes in the fair value of the investment in S in other comprehensive income. This policy was not changed after the additional investment in S shares on 1 April 20x8.

The shares in S Ltd were acquired as follows:

- 500 shares for R700 when the retained earnings was R2 000
- 2500 shares for R7 750 when the retained earnings was R10 500 on 1/4/X8

The share price on 1 April 20x8 was R3.10 per share.

S's share price on 31 December 20x9 was R4.00 per share.

The non-controlling interest is measured at their share of net identifiable assets

Profit is earned evenly. Assume tax rate is 30%.

You are required to:

prepare the consolidated journal entries for the 20x9 financial year.

WORKINGS

Analysis of S Limited at 31 December 20X9

	Total	40%	60%
At date of acquisition			
Share capital	5,000		
Retained earnings	10,500		
	15,500	6,200	9,300
Retained earnings at beginning of year	18,000		
At date of acquisition of investment	(10,500)		
Movement in retained earnings	7,500	3,000	4,500
Current income	10,000	4,000	6,000

Consolidating Journal Entries

	Dr	Cr
Share revaluation reserve	2,295	
Deferred taxation	405	
Investment in S		2,700
Subsequent fair value adjustment to investment in S reversed on consolidation.		
Share capital	5,000	
Retained earnings	10,500	
Non-controlling interest (SoFP)		6,200
Investment in S Ltd		9,300
Deferred taxation	127	
Share revaluation reserve		127
Deferred taxation on share revaluation reserve at acquisition reversed.		
Retained earnings	3,000	
Non-controlling interest (SoFP)		3,000
Non-controlling interest share of profits	4,000	
Non-controlling interest (SoFP)		4,000

3: Business combination achieved in stages: Conversion of Associate to Subsidiary

Refer to IFRS 3, paragraph 41 to 42

3.1 Acquisition during Current Year: Non controlling interest measured at proportionate share of net identifiable assets

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD
Share Capital	10,000	10,000
Retained earnings	24,000	3,000
Profit before tax	<u>21,500</u>	<u>23,000</u>
	<u>55,500</u>	<u>36,000</u>
Taxation	7,500	8,000
Investment in S Ltd (at cost) 6 000 shares	8,350	
Other assets	<u>39,650</u>	<u>28,000</u>
	<u>55,500</u>	<u>36,000</u>

When S Ltd was formed 10 000 shares of R1 each were issued at par.

H Ltd acquired the following shares in S Ltd.

- 2 500 shares for R2 750 when the retained earnings of S Ltd was R1 000.

- 3 500 shares for R5 600 on 1 March 20X9.

H was able to assert significant influence over S from the date that the 2500 shares were purchased.

All net identifiable assets in S were considered to be at fair value at acquisition.

The non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition. The share price on 1 March 20X9 was R1.60 per share.

You are required to:

1. prepare the consolidated journal entries for the year ended 31 December 20X9.
2. prepare the consolidated financial statements for the 20X9 financial year.

WORKINGS

Analysis of S Limited

	100%	25%
At date of acquisition of associate		
Share capital	10,000	
Retained earnings	<u>1,000</u>	
	11,000	2,750
Retained earnings at beginning of year	3,000	
At acquisition	<u>(1,000)</u>	
Movement in retained earnings	2,000	500
Current income (2/12x15 000)	<u>2,500</u>	<u>625</u>
	15,500	3,875
Fair value adjustment		<u>125</u>
Fair value 2500 shares * R1.6		4,000

DATE OF ACQUISITION		0.4	0.6
Share capital	10,000		
Retained earnings	3,000		
Current income	2,500		
	<u>15,500</u>	6,200	9,300
Goodwill			300
Investment in S			9,600
Current income	12,500	5,000	7,500
	<u>28,000</u>	<u>11,200</u>	<u>17,100</u>

Calculation of goodwill

Consideration paid	5,600
Non-controlling interest	6,200
Fair value of previous equity interest (2 500 x R1.60)	4,000
	<u>15,800</u>
Net identifiable assets	15,500
Goodwill	300

Consolidating Journal Entries

	Dr	Cr
Investment in S Ltd	1,125	
Retained earnings (equity accounted earnings)		500
Share of profits from associate		625

Equity accounting of investment while an associate

Investment in S Ltd (4 000 - 3 875)	125	
FV adjustment		125

Re-measurement of previous equity held to fair value.

2 500 shares x R1.60 = R4 000 - R3 875 = R125

Share capital	10,000	
Retained earnings (total pre-acquisition)	3,000	
Profit after tax	2,500	
Goodwill	300	
Non-controlling Interest (SoFP)		6,200
Investment in S Ltd (4 000 + 5 600)		9,600

Reversal of investment in S against total equity at acquisition date

Non-controlling interest share of profits	5,000	
Non-controlling Interest (SoFP)		5,000

**Consolidated Statement of profit and loss
for the year ended 31 December 20X9**

Revenue	xxx
Net Profit	
(21 500 + 10/12 x 23 000)	40,667
Fair value adjustment	125
Share of profits from associate	<u>625</u>

Profit before tax	41,417
Tax expense (7 500+10/12x8 000)	14,167
Profit for the period	<u>27,250</u>

Attributable to:

Non-controlling interest	5,000
Owners of the parent	22,250

Statement of changes in equity for the year ended 31 December 20X9

	Share capital	Retained earnings	Non-controlling interest	Total
Balance at 31 December 20X8	10,000	24,500	-	34,500
Acquisition of subsidiary			6,200	6,200
Total comprehensive income for the period		22,250	5,000	27,250
Balance at 31 December 20X9	<u>10,000</u>	<u>46,750</u>	<u>11,200</u>	<u>67,950</u>

Consolidated statement of financial position at 31 December 20X9

Share capital	10,000
Retained earnings	46,750
Non-controlling interest	<u>11,200</u>
Total Equity	<u>67,950</u>
Goodwill	300
Other assets	<u>67,650</u>
Total net assets	<u>67,950</u>

3.2 Acquisition during Prior Year

Refer to example 3.1

You are required to:

prepare the consolidated journal entries for the 20Y0 financial year.

Consolidating Journal Entries

	Dr	Cr
Investment in S Ltd	1,125	
Retained earnings		1,125

Equity accounting of investment while an associate

Investment in S Ltd	125	
Retained earnings		125

Fair value adjustment of investment in S upon acquisition of subsidiary

Share capital	10,000
Retained earnings (total pre-acquisition)	5,500

Goodwill	300	
Non-controlling interest (SoFP)		6,200
Investment in S Ltd		9,600
<hr/>		
Retained earnings	5,000	
Non-controlling interest (SoFP)		5,000

3.3 Business combination achieved in stages: Conversion of Associate to Subsidiary
Non-controlling interest measured at fair value - Full goodwill method

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD
Share Capital	10,000	10,000
Retained earnings	24,000	3,000
Profit before tax	21,500	23,000
	<hr/>	<hr/>
	55,500	36,000
Taxation	7,500	8,000
Investment in S Ltd (at cost) 6 000 shares	8,550	
Other assets	39,450	28,000
	<hr/>	<hr/>
	55,500	36,000

When S Ltd was formed 10 000 shares of R1 each were issued at par.

H Ltd acquired the following shares in S Ltd.

- 2 500 shares for R 2 750 when the Retained earnings of S Ltd was R700.

- 3 500 shares for R5 800 on 1 March 20X9.

The non-controlling interest are measured at their fair value at acquisition date

The share price on 1 March 20X9 was R1.60 per share.

You are required to:

prepare the consolidated journal entries for the 20X9 financial year.

WORKINGS

Analysis of S Limited at 31 December 20X9

	Total	25%
At date of acquisition of Associate		
Share capital	10,000	
Retained earnings	700	
	<hr/>	
	10,700	2,675
Excess over net asset value		<hr/>
		75
		<hr/>
		2,750
Retained earnings at beginning of year	3,000	

At acquisition	(700)	
Movement in retained earnings	2,300	575
Current income (2/12x15 000)	2,500	625
	15,500	3,950
Fair value adjustment		50
Fair value 2500*1.6		4,000

DATE OF ACQUISITION

		40%	0.6
Share capital	10,000		
Retained Earnings	3,000		
Current earnings	2,500		
	15,500	6,200	9,300
Goodwill	700	200	500
		6,400	9,800
Current earnings	12,500	5,000	7,500

Calculation of goodwill

Consideration paid	5,800
Non-controlling interest (at fair value: 4000 shares x	6,400
Fair value of previous equity interest (2 500 x R1.60)	4,000
	16,200
Net identifiable assets	15,500
Goodwill	700

Consolidating Journal Entries

	Dr	Cr
Investment in S Ltd	1,200	
Retained earnings (while associate)		575
Share of profits from associate		625

Equity accounting of investment while an associate

Investment in S Ltd (R4 000 - R3 950)	50	
FV adjustment (profit and loss)		50

Re-measurement of previous equity held to fair value.

2 500 shares x R1.60 = R4 000 - 2 750 (cost) - 575 - 625 = R50

Share capital	10,000	
Retained earnings (pre-acquisition)	3,000	
Profit after tax	2,500	
Goodwill	700	
Non-controlling interest (SoFP)		6,400
Investment in S Ltd (4 000 + 5 800)		9,800

Non-controlling interest share of profits	5,000	
Non-controlling interest (SoFP)		5000

CONTROL OBTAINED BY CONTRACT

On 1 March 20x9 H Ltd signed a contract with the other shareholders in S Ltd whereby H Ltd is given power to decide all the operating, financing and investing decisions in S Ltd

You are required to

prepare the consolidated journal entries for the year ended 31 December 20X9.

		NCI	
		75%	25%
DATE OF ACQUISITION			
Share capital	10,000		
Retained Earnings	3,000		
Current earnings	<u>2,500</u>		
	15,500	11,625	3,875
Goodwill	500	375	125
		12,000	4,000
Current earnings	12,500	9,375	3,125
GOODWILL			
Investment in S	4000		
NCI	<u>12,000</u>		
	16,000		
NAV	15,500		
GOODWILL	<u>500</u>		
Share capital	10,000		
Retained earnings	3,000		
Current earnings	2,500		
Goodwill	500		
Investment in S		4,000	
NCI		12,000	
NCI share of current income	9,375		
NCI SOFP		9,375	

4. Disposal of part of holding: H retains control of subsidiary

4.1 Partial disposal of a subsidiary in current Year.

Shares acquired at Net Asset Value

	H LTD	S LTD
Trial balance at 31 December 20X9		
Share capital (R1 shares)	10,000	5,000
Retained earnings at 1 January 20X9	13,000	9,000
Profit after tax	11,000	6,000
Proceeds from sale of 1 000 shares in S Ltd	3,000	-
	<u>37,000</u>	<u>20,000</u>
Investment in S Limited at cost (4000 shares)	5,000	-
Other assets	32,000	20,000
	<u>37,000</u>	<u>20,000</u>

When H Limited acquired 4000 shares in S Limited, the retained earnings of S Limited was R1 250. All net identifiable assets were fairly valued at the date of acquisition. 1000 shares in S Ltd were sold on 1 Feb 20X9.

Capital gains tax was not recognised on this transaction in the books of H.

Profit is earned evenly throughout the year. Tax rate is 30%.

Non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition date.

You are required to:

1. prepare the consolidated journal entries at 31 December 20X9
2. prepare the consolidated financial statements for the 20X9 financial year.

Analysis of S Limited at 31 December 20X9

At date of acquisition

Share capital	5,000		
Retained earnings	1,250		
	<u>6,250</u>	1,250	5,000
Retained earnings at BOY	9,000		
On acquisition	(1,250)		
Retained earnings movement	<u>7,750</u>	1,550	6,200
		<u>2,800</u>	
Current income			
Profit to 1/2/X9	500	100	400
(1/12 x 6 000)			
Net Asset Value at date of sale	<u>14,500</u>	2,900	11,600
Sale of 20% shares (11 600 x 20/80)		<u>2,900</u>	(2,900)
		5,800	
Profit for remaining year 11/12 x 6 000	5,500	2,200	3,300
	<u>20,000</u>	<u>8,000</u>	<u>12,000</u>

Calculation of H's profit from the perspective of the group

"Transaction between owners" (Refer IAS 27 para 30 and 31)

NAV sold at 1 February 20X9	2,900
Proceeds of sale	<u>3,000</u>
Transaction between owners	100

Calculation of H Ltd.'s profit

Cost of 1 000 shares	
Paid R5 000 for 4 000 shares	
Therefore paid 25% of R5 000	
for 1 000 shares	1,250

Proceeds on sale	3,000		
H Ltd profit	1,750		
Capital Gains Tax (at 15%)	263		
	Dr	Cr	
Consolidating Journal Entries			
1. Share capital	5,000		
Retained earnings	1,250		
Non-controlling interest (SoFP)		1,250	
Investment in S Ltd		5,000	
<hr/>			
2. Retained earnings	1,550		
Non-controlling interest (SoFP)		1,550	
<hr/>			
3. Non-controlling interest share of profits (2200+100)	2,300		
Non-controlling interest (SoFP)		2,300	
<hr/>			
4. Proceeds on sale of shares	3,000		
Non-controlling interest (SoFP)		2,900	
Retained earnings (transaction between owners)		100	
<hr/>			
5. Profit after tax (taxation expense)	263		
Receiver of Revenue		263	
<hr/>			
<i>Taxation should have been put through by H in separate financial statements</i>			
6. Retained Earnings	263		
Tax Expense		263	
<hr/>			
<i>Reclassification of tax to equity on consolidation.</i>			

**H Ltd and its Subsidiary Consolidated Income Statement
for the year ended 31 December 20X9**

Profit for the period (11000+6000)	17,000
Attributable to:	
Non-controlling interest	2,300
Owners of Parent	14,700

	Share capital	Retained earnings	Non- controlling Interest	Total
Statement of Changes in Equity for the year ended 31 December 20X9	10,000	19,200	2,800	32,000
Balance at 31 December 20X8 (13 000+6 200)		(163)	2,900	2,737
		14,700	2,300	17,000
Sale of shares in subsidiary	10,000	33,737	8,000	51,737
Total comprehensive income for the period				
Balance at 31 December 20X9				

Statement of financial position at 31 December 20X9

Share capital	10,000
Retained earnings	33,737
Non-controlling interest	8,000
	<u>51,737</u>

Net assets(32 000+20 000-263)	<u>51,737</u>
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If H Co had already recognised the profit on the sale of the shares in S

The Trial Balance of H would have reflected the following:

Share capital	10,000
Retained earnings	13,000
Net Profit	11,000
Profit on sale of shares	1,750
	<u>35,750</u>
Investment in S Ltd at cost (3000 shares)	3,750
Other assets	<u>32,000</u>
	<u>35,750</u>

Consolidating Journal Entries

Same as previous example except for journal entry 2:	Dr	Cr
Investment in S Ltd	1,250	
Profit on sale of shares	1,750	
Non-controlling interest (SoFP)		2,900
Retained earnings (transaction between owners)		100

4.2 Partial disposal of a subsidiary in current Year.

Shares acquired above Net Asset Value: H retains control of subsidiary

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD
Share capital (R1 shares)	10,000	5,000
Retained earnings at 1 January 20X9	13,000	9,000
Profit after tax	11,000	6,000
Proceeds from sale of 1 000 shares in S Ltd	3,000	-
	<u>37,000</u>	<u>20,000</u>
Investment in S Limited at cost (4000 shares)	5,800	-
Land	31,200	20,000
	<u>37,000</u>	<u>20,000</u>

H Ltd acquired the shares in S Limited on 1 January 20X8 for R5 800 when the retained earnings of S was R1 250. All net identifiable assets were fairly valued at the date of acquisition. 1000 shares in S Ltd were sold on 1 Feb 20X9. Profit is earned evenly throughout the year. Tax rate is 30%.

You are required to:

1. prepare the consolidated journal entries at 31 December 20X9
2. prepare the consolidated financial statements for the 20X9 financial year.

Assuming the following:

Scenario 1:

Non-controlling interest measured at fair value at acquisition date.
Fair value of non-controlling interest is R1 300 at acquisition.

Scenario 2:

Non-controlling interest measured at proportionate share of net identifiable assets

WORKINGS

Scenario 1:

Non-controlling interest measured at fair value at acquisition date

Analysis of S Limited at 31 December 20X9

	Total	20%/40%	80%/60%
At date of acquisition			
Share capital	5,000		
Retained earnings	1,250		
	<u>6,250</u>	1,250	5,000
Goodwill	850	50	800
Non-controlling interest at fair value	7,100	1,300	5,800
Retained earnings at BOY	9,000		
On acquisition	(1,250)		
Retained earnings movement	<u>7,750</u>	1,550	6,200
		2,850	
Current income			
Profit to 1/2/X9			
(1/12 x6000)	500	100	400
Total net asset value	<u>15,350</u>	<u>2,950</u>	<u>12,400</u>
Sale of pre- (purchased) and post- acquisition equity/profits to non-controlling shareholders		3,100	(3,100)
Profit for remaining year 11/12 x 6000	5,500	2,200	3,300
	<u>20,850</u>	<u>8,250</u>	<u>12,600</u>

Calculation of goodwill

Consideration paid by H	5,800
Fair value of non-controlling interest	1,300
Fair value of previously held equity interest	-
	<u>7,100</u>
Fair value of net identifiable assets	<u>6,250</u>

Goodwill	<u>850</u>
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Please note: Goodwill will only change if there is an impairment or loss of control.

Calculation of H's profit/loss from the perspective of the group

"Transaction between owners" (Refer IAS 27 para 30 and 31)

NAV sold at 1 February 20X9	3,100
Proceeds of sale	<u>3,000</u>
Transaction between owners	(100)

Calculation of H Ltd.'s profit

Paid R5 800 for 4 000 shares	
Sold 25% of own shares	1,450
Proceeds on sale of shares	<u>3,000</u>
Profit on sale	<u>1,550</u>

Capital Gains Tax (at 15%) 233

Consolidating Journal Entries

	Dr	Cr
1. Share capital	5,000	
Retained earnings	1,250	
Goodwill	850	
Non-controlling interest (SoFP)		1,300
Investment in S Ltd		<u>5,800</u>
2. Retained earnings	1,550	
Non-controlling interest (SoFP)		1,550
3. Non-controlling interest share of profits (2200+100)	2,300	
Non-controlling interest (SoFP)		<u>2,300</u>
4. Proceeds on sale of shares	3,000	
Non-controlling interest (SoFP)		3,100
Retained earnings (transaction between owners)	100	
5. Profit after tax (taxation expense)	233	
Receiver of Revenue		<u>233</u>
6. Retained Earnings	233	
Taxation Expense		<u>233</u>

**H Ltd and its Subsidiary Consolidated Income Statement
for the year ended 31 December 20X9**

Profit for the period (11000+6000)	17,000
Attributable to:	
Non-controlling interest	2,300
Owners of Parent	14,700

Statement of Changes in Equity for the year ended 31 December 20X9

	Share capital	Retained earnings	Non- controlling interest
Balance at 31 December 20X8 (13 000+6 200)	10,000	19,200	2,850
Sale of shares in subsidiary		(333)	3,100
Total comprehensive income for the period		<u>14,700</u>	<u>2,300</u>
Balance at 31 December 20X9	<u>10,000</u>	<u>33,567</u>	<u>8,250</u>

Statement of financial position at 31 December 20X9

Share capital	10,000
---------------	--------

Retained earnings	33,567
Non-controlling interest	8,250
	<u>51,817</u>
Goodwill	850
Land (31 200+20 000)	51,200
Receiver of revenue	(233)
	<u>51,817</u>

Scenario 2:

Premium relates to Goodwill and non-controlling interest measured at proportionate share of net identifiable assets

Analysis of S Limited at 31 December 20X9

	Total	20%/40%	80%/60%
At date of acquisition			
Share capital	5,000		
Retained earnings	1,250		
	<u>6,250</u>	1,250	5,000
Goodwill			800
			<u>5,800</u>
Retained earnings at BOY	9,000		
On acquisition	(1,250)		
Retained earnings movement	<u>7,750</u>	1,550	6,200
Current income			
Profit to 1/2/X9 (1/12 x6000)	500	100	400
	<u>500</u>	<u>100</u>	<u>400</u>
Total net <i>identifiable</i> assets before sale	14,500	2,900	12,400
Sale of pre- (purchased) and post- acquisition equity/profits to non-controlling shareholders		3,100	(3,100)
Profit for remaining year 11/12 x 6000	5,500	2,200	3,300
	<u>20,000</u>	<u>8,200</u>	<u>12,600</u>

Calculation of goodwill

Consideration paid by H	5,800
Non-controlling interest	1,250
Fair value of previously held equity interest	-
	<u>7,050</u>
Fair value of net identifiable assets	6,250
Goodwill	<u>800</u>

Calculation of H's profit/loss from the perspective of the group

"Transaction between owners" (Refer IAS 27 para 30 and 31)

NAV sold at 1 February 20X9	3,100
Proceeds of sale	3,000
Transaction between owners	<u>(100)</u>

Calculation of H Ltd.'s profit

Cost of 1 000 shares

Paid R5 800 for 4 000 shares	
Sold 25% of own shares	1,450
Proceeds on sale of shares	3,000
Profit on sale	<u>1,550</u>

Capital Gains Tax (at 15%) 233

Consolidating Journal Entries

	Dr	Cr
1. Share capital	5,000	
Retained earnings	1,250	
Goodwill	800	
Non-controlling interest (SoFP)		1,250
Investment in S Ltd		5,800
2. Retained earnings	1,550	
Non-controlling interest (SoFP)		1,550
3. Non-controlling interest share of profits (2200+100)	2,300	
Non-controlling interest (SoFP)		2,300
4. Proceeds on sale of shares	3,000	
Non-controlling interest (SoFP)		3,100
Retained earnings (transaction between owners)	100	
5. Profit after tax (taxation expense)	233	
Receiver of Revenue		233

**H Ltd and its Subsidiary Consolidated Income Statement
for the year ended 31 December 20X9**

Profit for the period (11000+6000)	17,000
Attributable to:	
Non-controlling interest	2,300
Owners of Parent	14,700

Statement of Changes in Equity for the year ended 31 December 20X9

	Share capital	Retained earnings	Non- controlling interest
Balance at 31 December 20X8 (13 000+6 200)	10,000	19,200	2,800
Sale of shares in subsidiary		(333)	3,100
Total comprehensive income for the period		14,700	2,300
Balance at 31 December 20X9	<u>10,000</u>	<u>33,567</u>	<u>8,200</u>

Statement of financial position at 31 December 20X9

Share capital	10,000
retained earnings	33,567
Non-controlling interest	<u>8,200</u>
	<u>51,767</u>
Goodwill	800
Land (31 200+20 000)	51,200
Receiver of revenue	<u>(233)</u>
	<u>51,767</u>

5: Issue of Shares by Subsidiary.

5.1: Shares issued at same price as NAV per share

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD	
Stated capital	30,000	26,750	20000+6750 (5000*1.35)
Retained earnings	6,000	4,000	
Profit after tax	12,000	9,000	
	<u>48,000</u>	<u>39,750</u>	
Investment in S Ltd at cost	17,250		
Other assets	30,750	39,750	
	<u>48,000</u>	<u>39,750</u>	

H Ltd acquired 15 000 out of the 20 000 issued shares in S Limited when the retained earnings of S Ltd was R3 000.

On 1 May 20X9, S Ltd issued a further 5 000 shares at R1.35 per share.

H Ltd did not participate in share issue. S Ltd.'s income is earned evenly throughout the year.

Assume tax rate is 30%.

Non-controlling interest are measured at their proportionate share of the fair value net identifiable assets at acquisition date.

You are required to:

1. prepare the consolidating journal entry in respect of the new share issue
2. prepare the consolidated financial statements for the 20X9 financial year.

WORKINGS

Analysis of S Limited at 31 December 20X9

	Total	25%/40%	75%/60%	
At date of acquisition				
Stated capital	20,000			
Retained earnings	3,000			
	<u>23,000</u>	5,750	17,250	
Retained earnings at BOY	4,000			
On acquisition	(3,000)			
Retained earnings movement	<u>1,000</u>	250	750	
Current income				
Profit to 1/05/X9				
4/12 x 9 000	<u>3,000</u>	750	2,250	
NAV per share = R27 000/20 000 = R1.35				
per share = share price	27,000	6,750	20,250	
New Share issue @ R1.35 per share	<u>6,750</u>	6,750		
	<u>33,750</u>	13,500		
Profit/Loss on new issue		-	-	
Ratio 40:60		13,500	20,250	33750*.60
Profit for remaining year 8/12 x 9000	<u>6,000</u>	2,400	3,600	
	<u>39,750</u>	15,900	23,850	

Consolidating Journal Entry in respect of new issue

	DR	CR
Stated Capital	6,750	
Non-controlling interest (SoFP)		6,750

**H Ltd and its Subsidiary Consolidated Income Statement
for the year ended 31 December 20X9**

Profit for the period 21,000

Attributable to:

Non-controlling interest (750 + 2 400) 3,150
Owners of parent 17,850

Statement of Changes in Equity for the year ended 31 December 20X9

	Share Capital	Retained earnings	Non- controlling interest
Balance at 31 December 20X8 (6000+750)	30,000	6,750	6,000
Issue of shares by subsidiary			6,750
Total comprehensive income for the period		17,850	3,150
Balance at 31 December 20X9	30,000	24,600	15,900

Statement of financial position at 31 December 20X9

Share capital	30,000
retained earnings	24,600
Non-controlling interest	15,900
Total Equity	<u>70,500</u>
Other assets (30750+39750)	<u>70,500</u>

After this example it is important that you understand the following concepts:

1. There is a change in the holding of H in the above example, even though there has NOT been a disposal of shares.
2. This example is similar to the previous examples , in that the change in holding has NOT resulted in a loss of control.
3. As control is not lost, the non-controlling interests remain part of the equity (ownership) of the group.
4. 100% of the subsidiary continues to be consolidated, however, the proportion of profits allocated to the non-controlling interest changes.
5. There is no de-recognition of assets, liabilities or goodwill.

Goodwill at acquisition non-controlling interest and proportionate share of net asset value

assume that the cost of the initial investment in the shares in S Ltd was R20 000

You are required to calculate the loss or profit on the transaction with owners resulting from the rights issue in S Ltd

Analysis of S Limited at 31 December 20X9

	Total	25%/40%	75%/60%	
At date of acquisition				
Share capital	20,000			
Retained earnings	3,000			
	23,000	5,750	17,250	
Goodwill	-			2750
Investment	23,000	5,750	17,250	
Retained earnings at BOY On acquisition	4,000 (3,000)			
Retained earnings movement	1,000	250	750	
Current income				
Profit to 1/05/X9				

4/12 x 9 000	3,000	750	2,250
NAV	27,000	6,750	20,250
New Share issue @ R1.35 per share	6,750	6,750	
	33,750	13,500	
Profit/Loss on new issue			
Ratio 40:60		13,500	20,250
Profit for remaining year 8/12 x 9000	6,000	2,400	3,600
	39,750	15,900	23,850

Consolidating journal entry

Share capital	6750	
Non-controlling interest		6750

Goodwill at acquisition non-controlling interest at fair value

assume that the cost of the initial investment in the shares in S Ltd was R20 000

and that the fair value of the shares was

R1.33 at acquisition date

You are required to calculate the loss or profit on the transaction with owners resulting from the rights issue in S Ltd

Analysis of S Limited at 31 December 20X9

	Total	25%/40%	75%/60%	
At date of acquisition				
Share capital	20,000			
Retained earnings	3,000			
	23,000	5,750	17,250	
Goodwill	3,650	900	2,750	
Investment	26,650	6,650	20,000	
Retained earnings at BOY	4,000			
On acquisition	(3,000)			
Retained earnings movement	1,000	250	750	
Current income				
Profit to 1/05/X9				
4/12 x 9 000	3,000	750	2,250	
NAV	30,650	7,650	23,000	
New Share issue @ R1.35 per share	6,750	6,750		
	37,400	14,400	23,000	37400*.60
Profit/Loss on new issue		560	(560)	
Ratio 40:60		14,960	22,440	
Profit for remaining year 8/12 x 9000	6,000	2,400	3,600	
	43,400	17,360	26,040	

Consolidating journal entry

Share capital	6750	
Non-controlling interest		6750
Retained earnings	560	
Non-controlling interest		560
Loss on rights issue that does not result in loss of control		

**5.2 Holding Co does not participate in the share issue.
Shares issued at price below the NAV per share: H retains control of subsidiary**

TRIAL BALANCES AT 31 DECEMBER 20X9

	H LTD	S LTD
Stated capital	30,000	26,000
Retained earnings	6,000	4,000
Profit for the period	12,000	9,000
	<u>48,000</u>	<u>39,000</u>
Investment in S Ltd at cost	17,250	
Other assets	30,750	39,000
	<u>48,000</u>	<u>39,000</u>

H Ltd acquired 15 000 out of the 20 000 issued shares in S Limited when the retained earnings of S Ltd was R3 000.

On 1 May 20X9, S Ltd issued a further 5 000 shares at R1. 20 per share.

H Ltd did not participate in share issue. S Ltd.'s income is earned evenly throughout the year. Assume a tax rate of 30%.

Non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition date.

You are required:

1. prepare the consolidating journal entry in respect of the new share issue
2. prepare the consolidated financial statements for the 20X9 financial year.

WORKINGS

Analysis of S Limited at 31 December 20X9

	Total	25%/40%	75%/60%	
At date of acquisition				
Share capital	20,000			
Retained earnings	3,000			
	<u>23,000</u>	5,750	17,250	
Investment in S Ltd			17,250	
Retained earnings at BOY	4,000			
On acquisition	(3,000)			
	<u>1,000</u>	250	750	
Retained earnings movement				
Current income				
Profit to 1/05/X9 (4/12x9000)	3,000	750	2,250	
NAV per share is R1.35 / share	27,000	6,750	20,250	
New Share issue at R1.20 / share	6,000	6,000		
NAV per share is reduced to R1.32 / share	33,000	12,750		
Loss on new issue (transaction between owners)		450	(450)	
		13,200	19,800	33000*.60
Profit for remaining year 8/12 x 9,000	6,000	2,400	3,600	

6. Deconsolidations

Refer to IFRS 10 par 25 and B 97-99

6.1 Sale of Total Holding

TRIAL BALANCES AT 31 DECEMBER 20X1

	H Ltd	S1 Ltd	S2 Ltd
Share capital	60,000	40,000	20,000
Retained earnings	10,000	8,000	6,000
Profit after tax	36,000	24,000	12,000
Proceeds from sale of shares in S2	22,000	-	-
	<u>128,000</u>	<u>72,000</u>	<u>38,000</u>
32 000 shares in S1 at cost	35,200		
12 000 shares in S2 at cost	13,200		
Other assets	79,600	72,000	38,000
	<u>128,000</u>	<u>72,000</u>	<u>38,000</u>

The shares in S1 were acquired when the retained earnings of S1 was R4 000.

The shares in S2 were acquired when the retained earnings of S2 was R2 000.

The non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition.

On 1 October 20X1, all the shares in S2 were sold for R22 000. H Ltd correctly recognised capital gains tax on this transaction.

The share price on 1 October 20X1 was R1.95. Tax rate is 30%.

You are required to:

- prepare the consolidating and deconsolidating journal entries required for the year ended 31 December 20X1.
- prepare the consolidated financial statements for the 20X1 financial year.

WORKINGS

Analysis of S1 Limited at 31 December 20X1	Total	20%	80%
At date of acquisition			
Share capital	40,000		
Retained earnings	4,000		
	<u>44,000</u>	8,800	35,200
Retained earnings at beginning of year	8,000		
On acquisition	(4,000)		
Movement in retained earnings	4,000	800	3,200
		9,600	
Current income	24,000	4,800	19,200
	<u>72,000</u>	<u>14,400</u>	<u>57,600</u>

Analysis of S2 Limited to 1 October 20X1	Total	40%	60%
At date of acquisition			
Share capital	20,000		
Retained earnings	2,000		
	<u>22,000</u>	8,800	13,200
Retained earnings at beginning of year	6,000		
Retained earnings at date of acquisition	(2,000)		
Movement in retained earnings	4,000	1,600	2,400

		10,400	
Current income whilst still a subsidiary (9/12 x 12 000)	9,000	3,600	5,400
Net Asset Value at 1 October 20X1	35,000	14,000	21,000
Sale of Shares (entire 60% holding sold)		(14 000)	(21,000)
		-	-

Calculation of Group Profit

Net asset value sold at 1 October 20X1	21,000
Proceeds	22,000
Group profit	1,000

Share capital	20,000	
Retained earnings	2,000	
Non-controlling interest (SoFP)		8,800
Investment in S2		13,200

Initial acquisition entry

Retained earnings	1,600	
Non-controlling interest (SoFP)		1,600

Allocation of prior year profits to non-controlling interests

Non-controlling interest share of profits	3,600	
Non-controlling interest (SoFP)		3,600

Allocation of current year profits earned to non-controlling interests

FINAL JOURNAL ENTRIES TO "DECONSOLIDATE"

Proceeds on sale of shares	22,000	
Non-controlling interest	14,000	
Net assets		35,000

Profit on sale of shares		1,000
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Derecognising S2 from the consolidated financial statements of the group

H Ltd and its Subsidiary Consolidated Income Statement for the year ended 31 December 20X1

Profit for the period (36+24+9)	69,000
Profit on sale of shares in subsidiary	1,000

Attributable to:

Non-controlling interest (4 800 + 3 600)	8,400
Owners of parent	61,600

Statement of financial position at 31 December 20X1

Share capital	60,000
Retained earnings	77,200
Non-controlling interest	14,400
Total Equity	<u>151,600</u>
Other assets (79,6+72)	<u>151,600</u>

Statement of changes in equity for the year ended 31 December 20X1

	Share capital	Retained earnings	Non-controlling Interest
Balance at 31 December 20X0	60,000	15,600	20,000
Total comprehensive income for the period		61,600	8,400
Sale of shares in subsidiary			(14,000)
Balance at 31 December 20X1	60,000	77,200	14,400

6.2 Conversion from Subsidiary to Associate

TRIAL BALANCES AT 31 DECEMBER 20X1

	H Ltd	S1 Ltd	S2 Ltd
Share capital	60,000	40,000	20,000
Retained earnings	10,000	8,000	6,000
Profit before tax	55,000	37,000	18,000
Proceeds from sale of shares in S2	9,000	-	-
	134,000	85,000	44,000
Taxation	19,000	13,000	6,000
32 000 shares in S1 at cost	35,200		
12 000 shares in S2 at cost	13,200		
Other assets	66,600	72,000	38,000
	134,000	85,000	44,000

The shares in S1 were acquired when the retained earnings of S1 was R4 000.

The shares in S2 were acquired when the retained earnings of S2 was R2 000.

The non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition.

On 1 October 20X1, 5 000 shares in S2 were sold for R9 000.

H Ltd correctly recognised capital gains tax on the sale of the shares in S2.

The share price on 1 October 20X1 was R1.95.

You are required to:

- prepare the consolidating and deconsolidating journal entries required for the year ended 31 December 20X1.
- prepare the consolidated financial statements for the 20X1 financial year.

WORKINGS

Analysis of S1 Limited at 31 December 20X1	Total	20%	80%
At date of acquisition			
Share capital	40,000		
Retained earnings	4,000		
	44,000	8,800	35,200
Retained earnings at BOY	8,000		
On acquisition	(4,000)		
Movement in retained earnings	4,000	800	3,200
Current income	24,000	4,800	19,200
	72,000	14,400	57,600

Analysis of S2 Limited at 31 December 20X1	Total	40%	60%/35%
At acquisition			
Share capital	20,000		
Retained earnings	2,000		
	<u>22,000</u>	8,800	13,200
Retained earnings at beginning of year			
	6,000		
On acquisition	<u>(2,000)</u>		
Movement in retained earnings	4,000	1,600	2,400
		10,400	
Current income (9/12 x 12 000)	<u>9,000</u>	3,600	5,400
Net asset value at 1 October 20X1	35,000	14,000	21,000
Sale of Shares (21 000 x 5 000/12 000 shares sold)		(14 000)	<u>(8,750)</u>
Investment at date control is lost			12,250
Fair value adjustment			<u>1,400</u>
"Deemed cost" of investment at date control is lost (7 000 shares remaining x R1.95)			13,650
Equity accounted income	3,000		<u>1,050</u>
Investment at end of the year			14,700
Calculation of Group Profit			
Sold net asset value of 5/12 x 21 000	8,750		
Proceeds	<u>9,000</u>		
Group Profit	250		
Share capital	20,000		
Retained earnings	2,000		
Non-controlling interest (SoFP)		8,800	
Investment in S2		13,200	
Initial acquisition entry			
Retained earnings	1,600		
Non-controlling interest (SoFP)		1,600	
Allocation of prior year profits to non-controlling interests			
Non-controlling interest share of profits	3,600		
Non-controlling interest (SoFP)		3,600	
Allocation of current year profits earned to non-controlling interests			
JOURNAL ENTRIES TO "DECONSOLIDATE"			
Proceeds from sale of shares	9,000		
Investment in S2	13,650		
Non-controlling interest	14,000		
Net asset value		35,000	
Fair value adjustment		1,400	}
Profit on sale of shares		250	} = 1650
De-recognising non-controlling interests and all assets and liabilities at date control			
JOURNAL ENTRIES IN RESPECT OF REMAINING INVESTMENT IN ASSOCIATE			
Investment in Associate	1,050		

Share of profits from associate	1,050
Equity accounting from date control is lost to year end	

Consolidated income statement for the year ended 31 December 20X1

Net Profit (55+37+9/12x18)	105,500
Profit on sale of shares in subsidiary	250
Fair value adjustment	1,400
Profit on sale of shares in subsidiary	1,650
Share of profits from the associate	1,050
Profit before tax	108,200
Taxation (19+13+6x9/12)	36,500
Profit for the period	71,700

Attributable to:

Non-controlling interest(4800+3600)	8,400
Owners of parent	63,300

Statement of financial position at 31 December 20X1

Share capital	60,000
Retained earnings (10+3.2+2.4+63.3)	78,900
Non-controlling Interest	14,400
Total equity	153,300
Investment in Associate	14,700
Other assets (66 600+72 000)	138,600
	153,300

Statement of changes in equity for the year ended 31 December 20X1

	Share capital	Retained earnings	Non- controlling Interest
Balance at 31 December 20X0	60,000	15,600	20,000
Total comprehensive income for the period		63,300	8,400
Sale of shares in subsidiary			(14 000)
Balance at 31 December 20X1	60,000	78,900	14,400
	Retained earnings		NCI
H	10,000		
S1	3,200		9600
S2	2,400		10400
	15,600		20000

6.3 Conversion from Subsidiary to Associate in the prior year

Example details as per 6.2 above

Assume the investment is held at cost in the separate financial statements of H
(i.e. R13 200 - R5 500 = R7 700)

You are required to:

prepare the consolidating journal entries required to account for the investment in associate

on 31 December 20X2.

Consolidating journal entry	Dr	Cr
Dr Investment	7,000	
Cr Retained earnings		7,000

Equity accounting investment to value at beginning of the year

The increase in the investment includes the following:

35% of the increase in equity from date of acquisition relating to the retained investment

(R4 000 + R9 000) x 35%	4,550
Fair value adjustment in previous year	1,400
Share of profits from associate from previous year	1,050
	7,000

6.4 Conversion from Subsidiary to Associate (proportionate goodwill method)

TRIAL BALANCES AT 31 DECEMBER 20X1	H Ltd	S2 Ltd
Share capital	60,000	20,000
Retained earnings	10,000	6,000
Profit before tax	55,000	18,000
Profit from sale of shares in S2	2,750	-
	127,750	44,000
Taxation	19,000	6,000
Investment in S2 7/12815000	8,750	
Other assets	100,000	38,000
	127,750	44,000

H acquired 12000 shares in S2 for R15 000 when the retained earnings of S2 was R2 000.

On 1 October 20X1, 5 000 shares in S2 were sold for R9 000.

Capital gains tax was correctly recognised by H Ltd on the profit on the sale of shares in S Ltd.

Assume that the tax rate is 30%.

The non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition

The share price on 1 October 20X1 was R1.95.

You are required to:

Prepare the consolidating and deconsolidating journal entries required for the year ended 31 December 20x1.

WORKINGS

Calculation of goodwill

Consideration paid	15,000
Non-controlling interest	8,800
Fair value of previous equity interest	-
	23,800
Net identifiable assets	22,000
Goodwill (attributable to H only)	1,800

Analysis of S2 Limited at 31 December 20X1	Total	40%	60%/35%
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At acquisition			
Share capital	20,000		
Retained earnings	2,000		
	<u>22,000</u>	8,800	13,200
Goodwill			<u>1,800</u>
Original cost of shares			15,000
Retained earnings at beginning of year			
	6,000		
On acquisition	<u>(2,000)</u>		
Movement in retained earnings	4,000	1,600	2,400
Current income (9/12x12 000)	<u>9,000</u>	<u>3,600</u>	<u>5,400</u>
Net asset value at 1 October 20X1 (including goodwill)	35,000	14,000	22,800
Sale of Shares (22 800 x 5,000/12,000 shares)			<u>(9,500)</u>
Investment at date control is lost			13,300
Fair value adjustment			<u>350</u>
"Deemed cost" of investment at date control is lost (7 000 x R1.95)			13,650
Equity accounted income	<u>3,000</u>		<u>1,050</u>
	38,000		14,700

Calculation of Holding Co Profit

Cost of shares 5/12 of 15 000	6,250
Proceeds	<u>9,000</u>
Profit	2,750

Calculation of Group Profit

Net asset value sold (includes goodwill)	9,500
Proceeds	<u>9,000</u>
Group loss	(500)

Consolidating Journal Entries

	Dr	Cr
Share capital	20,000	
Retained earnings	2,000	
Goodwill	1,800	
Non-controlling interest		8,800
Investment		15,000

Initial acquisition entry

Retained earnings	1,600	
Non-controlling interest (SoFP)		1,600

Allocation of prior year profits to non-controlling interests

Non-controlling interest share of profits	3,600	
Non-controlling interest (SoFP)		3,600

Allocation of current year profits earned to non-controlling interests

FINAL JOURNAL ENTRIES TO "DECONSOLIDATE"		
Investment in S2	6,250	
Profit on sale of share (H's profit)	2,750	
Loss on losing control of subsidiary	500	
Fair value adjustment		350
Investment in S2 (as an associate)	13,650	
Non-controlling interest (14 000 + 9 500)	14 000	
Net asset value		35,000

Goodwill <i>is lost</i>		1,800
Investment in Associate	1,050	
Share of profits from associate		1,050
Equity accounting from date control is lost to year end		

6.5 Conversion from Subsidiary to Associate (full goodwill method)

TRIAL BALANCES AT 31 DECEMBER 20X1

	H Ltd	S2 Ltd
Share capital	60,000	20,000
Retained earnings	10,000	6,000
Profit before tax	55,000	18,000
Proceeds from sale of shares in S2	9,000	-
	<u>134,000</u>	<u>44,000</u>
Taxation	19,000	6,000
12 000 shares in S2	15,000	
Other assets	100,000	38,000
	<u>134,000</u>	<u>44,000</u>

The shares in S2 were acquired when the Retained earnings of S2 was R2 000.

On 1 October 20X1, 5 000 shares in S2 were sold for R9 000.

Capital gains tax was correctly recognised by H Ltd on the profit on the sale of shares in S Ltd.

Non-controlling interest is measured at fair value at acquisition date. The share

price at acquisition was R1.25 per share.

The share price on 1 October 20X1 was R1.95. Tax rate = 30%

You are required to:

prepare the journal entries required to reflect the sale of the S2 shares from the perspective

WORKINGS

Calculation of goodwill

Consideration paid	15,000
Non-controlling interest at fair value at acquisition (8 000 shares x R1.25)	10,000
Fair value of previous equity interest	-
	<u>25,000</u>
Net identifiable assets	<u>22,000</u>
Goodwill (FULL)	<u>3,000</u>

Analysis of S2 Limited at 31 December 20X1

At acquisition

	Total	40%	60%/35%
Share capital	20,000		
Retained earnings	2,000		
	<u>22,000</u>	8,800	13,200
Goodwill	3,000	1,200	1,800
	<u>25,000</u>	10,000	15,000

Retained earnings at beginning of year

On acquisition	6,000		
	<u>(2,000)</u>		
Movement for the year	4,000	1,600	2,400

Current income (9/12x12 000)	9,000	3,600	5,400
Net asset value at 1 October 20X1 (including goodwill)	38,000	15,200	22,800
Sale of Shares (22 800 x 5,000/12,000 shares)			(9,500)
Investment at date control is lost			13,300
Fair value adjustment			350
"Deemed cost" of investment at date control is lost (7 000 x R1.95)			13,650
Equity accounted income	3,000		1,050
			14,700

Calculation of Group Loss

Net asset value sold	9,500
Proceeds	9,000
Group loss	(500)

FINAL JOURNAL ENTRIES TO "DECONSOLIDATE"

Proceeds on sale of shares	9,000	
Loss on sale of share (Group loss)	500	
Fair value adjustment		350
Investment in S2 (as an associate)	13,650	
Non-controlling interest	15,200	
Net asset value		35,000
Goodwill		3,000
is lost		

7 Shares in subsidiary distributed to owners

TRIAL BALANCES AT 31 DECEMBER 20X1

	H Ltd	S1 Ltd	S2 Ltd
Share capital	60000	40000	20000
Retained earnings	10000	8000	6000
Profit after tax	36000	24000	12000
	<u>106000</u>	<u>72000</u>	<u>38000</u>
32 000 shares in S1 at cost	35200		
12 000 shares in S2 at cost	13200		
Other assets	57600	72000	38000
	<u>106000</u>	<u>72000</u>	<u>38000</u>

The shares in S1 were acquired when the retained earnings of S1 was R4 000.

The shares in S2 were acquired when the retained earnings of S2 was R2 000.

The non-controlling interest are measured at their proportionate share of net identifiable assets at acquisition.

On 25 September 20x1 the directors of H Ltd resolved to distribute the shares in S 2Ltd to the shareholders of H Ltd on 31 December 20x1. This dividend declaration was ratified at a shareholders meeting on 1 October 20x1. The fair value of the shares in S 2 Ltd on 25th September and 1 October was R 2.00 per share and the fair value on 31 December was R2.20 per share.

Tax rate is 30%.

You are required to:

1. prepare the entries in the financial records of H Ltd to recognise the distribution of the shares in S 2 .
2. prepare the consolidating and deconsolidating journal entries required for the year ended 31 December 20X1.
3. prepare the consolidated financial statements for the 20X1 financial year.

WORKINGS

Analysis of S1 Limited at 31 December 20X Total	0.2	0.8
At date of acquisition		
Share capital	40000	
Retained earnings	4000	
	<u>44000</u>	<u>8800 35200</u>
Retained earnings at beginning of year	8000	
On acquisition	-4000	
Movement in retained earnings	4000	<u>800 3200</u>
		9600
Current income	24000	<u>4800 19200</u>
	<u>72000</u>	<u>14400 57600</u>

Analysis of S2 Limited to 1 October 20X1	Total	0.4	0.6
At date of acquisition			
Share capital	20000		
Retained earnings	2000		
	<u>22000</u>	8800	13200
Retained earnings at beginning of year	6000		
Retained earnings at date of acquisition	-2000		
Movement in retained earnings	<u>4000</u>	1600	2400
		10400	
Current income whilst still a subsidiary	<u>12000</u>	4800	7200
Net Asset Value at 31 December 20X1	38000	15200	22800
Sale of Shares (entire 60% holding sold)		-15200	-22800
		-	0

Calculation of Group Profit

Net asset value sold at 1 October 20X1	22800
Proceeds	<u>26400</u>
Group profit	<u>3600</u>

Share capital	20000	
Retained earnings	2000	
Non-controlling interest (SoFP)		8800
Investment in S2		13200
Initial acquisition entry		
Retained earnings	1600	
Non-controlling interest (SoFP)		1600
Allocation of prior year profits to non-controlling interests		
Non-controlling interest share of profits	4800	
Non-controlling interest (SoFP)		4800
Allocation of current year profits earned to non-controlling interests		

FINAL JOURNAL ENTRIES TO "DECONSOLIDATE"

Non-controlling interest	15200	
Profit on distribution	13200	
Investment in S2	13200	
Net assets		38000
Profit on sale of shares		3600
Derecognising S2 from the consolidated financial statements of the group		

H Ltd and its Subsidiary Consolidated Income Statement for the year ended 31 December 20X1

Profit for the period (36+24+12)	72000
Profit on sale of shares in subsidiary	3600

	<u>75600</u>
Attributable to:	
Non-controlling interest (4 800 + 4800)	9600
Owners of parent	66000

Statement of financial position at 31 December 20X1

Share capital	60000
Retained earnings	55200
Non-controlling interest	<u>14400</u>
Total Equity	<u><u>129600</u></u>

Other assets (57600+72000)	<u><u>129600</u></u>
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Statement of changes in equity for the year ended 31 December 20X1

	Share capital	Retaine d earnin g s	Non- controlli ng Interest
Balance at 31 December 20X0	60000	15600	20000
Total comprehensive income for the period		66000	9600
Dividend declared		-26400	
Sale of shares in subsidiary			-15200
Balance at 31 December 20X1	60000	55200	14400

Journal entries in the Books of H Ltd

Dividend declared	24000	
Shareholders for dividend		24000
Fv of S2 's shares on dividend declaration date 1 October 20x1.		
Dividend declared	2400	
Shareholders for dividend		2400
remeasurmnt dividend declared to FV on 31 December 20x1.		
Shareholders for dividend	26400	
Investment in S2		13200
Profit on distribution of shares in subsidiary		13200