Achievable

ACCA FINANCIAL ACCOUNTING DUMP SHEET

Consolidated financial statements

Key definitions

Term	Definition
Parent	An entity that controls one or more subsidiaries (> 50% voting rights)
Subsidiary	An entity controlled by the parent
Control	Power over the investee + exposure to variable returns + the ability to use that power to affect returns
Associate	20—50% ownership with significant influence (not control); accounted for using the equity method
Trade investment	< 20% ownership; accounted for under IFRS 9
Non-controlling interest (NCI)	Equity in a subsidiary **not** attributable to the parent
Goodwill	The premium paid over the fair value of the net assets acquired; an intangible non-current asset

Acquisition method

- Four steps:
  - Step 1: identify the acquirer (the entity with > 50% voting rights)
  - Step 2: determine the acquisition date (the date control is obtained)
  - Step 3: recognise and measure the identifiable net assets + NCI
  - Step 4: recognise and measure goodwill (or a bargain-purchase gain)
- NCI measurement methods:
  - Proportionate share: NCI = NCI% × net assets at the acquisition date
  - Fair value: NCI = market price × shares held by the NCI

Consolidation procedure

- **Step 1: combine** (add) assets, liabilities, equity, income, and expenses line by line
- **Step 2: eliminate** the parent's investment in the subsidiary + the parent's share of the subsidiary's equity
- **Step 3: eliminate** all intra-group transactions (sales, balances, unrealised profit)

Net assets, goodwill, NCI, and group retained earnings

- Net assets at acquisition $= \text{share capital} + \text{other reserves} + \text{retained earnings (at acquisition)} + \text{FV adjustments on PPE}$
- Goodwill at acquisition $= \text{consideration} + \text{NCI (at acquisition)} - \text{net assets (at acquisition)}$
- NCI at reporting date $= \text{NCI at acquisition} + (\text{NCI\%} \times \text{post-acquisition profit}) - (\text{NCI\%} \times \text{PURP})$
  Deduct the NCI's share of PURP only if the subsidiary is the seller
- Group retained earnings $= \text{parent's RE} + (\text{parent\%} \times \text{post-acquisition profit}) - \text{PURP adjustment}$
  PURP adjustment: parent% × PURP if the subsidiary is the seller; 100% of PURP if the parent is the seller
- Post-acquisition profit $= \text{net assets at reporting date} - \text{net assets at acquisition date}$

Intra-group adjustments

- **Eliminate intra-group sales** (consolidated P&L): Dr revenue, Cr cost of sales, each with the full intra-group sales amount
- **Provision for unrealised profit (PURP)** on unsold inventory $= \text{margin \%} \times \text{inventory still held within the group (at transfer price)}$
  For a mark-up on cost, convert first: margin % = mark-up % ÷ (100% + mark-up %)

Seller	Effect on group RE	Effect on NCI	Effect on inventory (SOFP)
Parent sells to subsidiary	Dr group RE: 100% of PURP	No NCI adjustment	Cr inventory (PURP amount)
Subsidiary sells to parent	Dr group RE: parent% × PURP	Dr NCI: NCI% × PURP	Cr inventory (PURP amount)

- **Eliminate intra-group receivables and payables:** Dr trade payables, Cr trade receivables, by the intra-group balance
- **Exam tip:** for a mid-year acquisition, prorate the subsidiary's income and expenses in the consolidated P&L to the post-acquisition months only