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	Consideration + fair value of the NCI − fair value of the identifiable 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 at acquisition** is measured at fair value only (the proportionate share method is not examined):
  - 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** = share capital + other reserves + retained earnings (at acquisition) + FV adjustments on PPE
- **Goodwill at acquisition** = consideration + NCI (at acquisition) − net assets (at acquisition)
- **NCI at reporting date** = NCI at acquisition + (NCI% × post-acquisition profit) − (NCI% × PURP)
  Deduct the NCI's share of PURP only if the subsidiary is the seller
- **Group retained earnings** = parent's RE + (parent% × post-acquisition profit) − PURP adjustment
  PURP adjustment: parent% × PURP if the subsidiary is the seller; 100% of PURP if the parent is the seller
- **Post-acquisition profit** = net assets at reporting date − net assets at acquisition date

Intra-group adjustments

- **Eliminate intra-group sales** (consolidated statement of profit or loss): Dr revenue, Cr cost of sales, each with the full intra-group sales amount
- **Provision for unrealised profit (PURP)** on unsold inventory = margin % × 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 statement of profit or loss to the post-acquisition months only