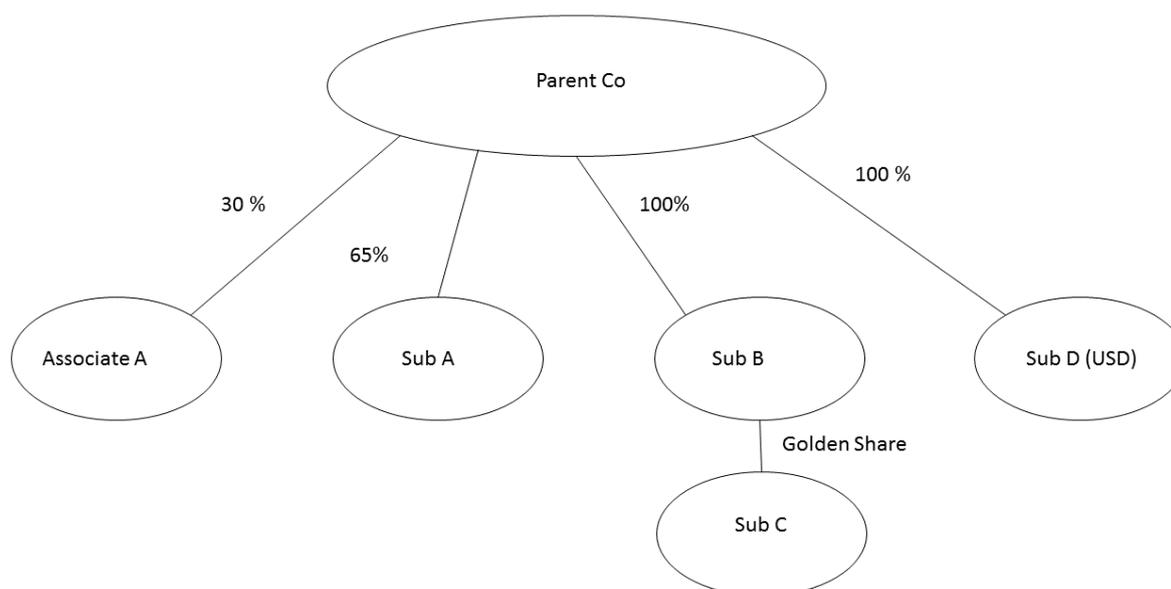


Group Structure



This is the first year that Parent Co must prepare consolidated financial statements.

Parent Co. acquired 55% of the ordinary shares of Subsidiary A for €608,175 at the start of the previous year. A further 10% was acquired in the current year. Details of the book value and fair value at the time of acquisition is detailed in point 1 below.

Parent Co. has owned Subsidiary B since incorporation and €100 was subscribed for.

The golden share held in subsidiary C was acquired 2 years ago for €1 which gives the company the ability to control the composition of the board. The book value of the net assets at that date was €300,000 (split €50,000 ordinary share capital; €20,000 share premium and €230,000 profit and loss reserves). The net assets at the start of the current year are €360,000.

Parent Co. purchased its 100% US company, Subsidiary D for FC200,000/€160,000 at the start of the current year. The functional currency of Subsidiary D is USD.

Parent Co acquired the 35% interest in Associate A' at the start of the current year for €50,000.

The results for each of the subsidiaries are as per the consolidation schedule in Appendix 1.

Calculate goodwill and fair value adjustments on previous acquisitions (where not owned since initial incorporation) when first time consolidating and in any event on acquisitions in the year.

1A) Calculation of goodwill and fair value adjustments on Subsidiary A and derecognition of investment on the Parent balance sheet:

The net assets at the date of acquisition was €410,000 (split ordinary share capital €40,000, share premium €10,000 and profit and loss reserves €360,000).

	Book value	Fair value
Property, Plant and Equipment	€300,000	€450,000
Intangible Assets	€nil	€100,000
Inventory	€150,000	€160,000
Cash	€100,000	€100,000
Debtors	€20,000	€25,000
Creditors	(€100,000)	(€100,000)
Deferred Tax	<u>(€60,000)</u>	<u>(€86,500*)</u>
Total Net Assets	€410,000	€648,500
55% acquired		€356,675
Consideration		<u>€608,175</u>
Goodwill		€251,500

The useful life of goodwill and PPE is 10 years and intangibles is 5 years.

The deferred tax on the adjustments to reflect the fair value of the monetary assets reverses in the first year and the useful life of PPE is 10 years.

*The deferred tax to be recognised on acquisition is:

Uplift in Property, Plant and Equipment	€150,000
Uplift in Intangible Assets	€100,000
Uplift in Inventory	€10,000
Uplift in Cash	€nil
Uplift in Debtors	€5,000
Uplift in Creditors	<u>€nil</u>
Total Timing Difference	€265,000

Once the above exercise is completed management should assess the rate that the asset/liabilities are expected to be reversed. Here the debtors, inventory, property, plant and equipment are going to be reversed during trading as they are trading assets. In relation to the intangible assets, if it is assumed these will be used throughout the trade and have no residual value then the trade rate should be used in measuring the deferred tax. The deferred tax liability to recognise as a result of the uplift in value is: €265,000 * 10%= €26,500. Therefore total deferred tax to be shown in the consolidated financial statements is = €26,500+€60,000=€86,500

From above we can see that the additional liability for deferred tax has increased goodwill by the same amount. The deferred tax will be reduced as the differences reverse year on year (i.e. for PPE and intangibles in the period depreciation/amortisation is charged, for debtors when they are paid, for inventory when they are sold etc.).

Journals required in the consolidated financial statements:

	€	€
Dr Goodwill	251,500	
Dr Ordinary Share Capital of Subsidiary A	40,000	
Dr Share Premium of Subsidiary A	10,000	
Dr Profit and Loss Reserves (i.e. profit and loss reserves in existence at date of acquisition)	360,000	
Dr Property, plant and equipment	150,000	
Dr Intangible Assets	100,000	
Dr Inventory	10,000	
Dr Debtors	5,000	
Cr Investment in the Individual Entity Financial Statements of Parent Co		608,175
Cr Deferred tax		26,500
Cr Non-Controlling Interest in Equity (i.e. fair value of net assets of subsidiary at the date of acquisition * 45% owned at date of acquisition)		291,825

Being journal to recognise goodwill and fair values at the date of acquisition of Subsidiary A and eliminate the investment on the parent balance sheet

Note in the example above if there was a large residual value on the PPE, then it may be appropriate to recognise deferred tax at the sales rate for the value allocated to the residual amount and the remainder would be measured using the trading tax rate. This would then give a different answer for goodwill.

b) For acquisitions prior to the current year determine the adjustments to recognise in the group profit and loss reserves for the catch up on depreciation etc.:

Calculate the amortisation and deferred tax that would have been charged from date of acquisition to the start of the current period consolidated financial statements.

The amortisation on the goodwill that would have been charged under FRS 102 is = €251,500/10yrs life * 1 year elapsed since date of acquisition to the start of current year= €25,150 per annum.

The amortisation that would have been charged under FRS 102 on intangibles is = €100,000/5yrs life * 1 year elapsed since date of acquisition to the start of current year = €20,000.

The depreciation that would have been charged under FRS 102 on the PPE uplift is = €150,000/10yrs life * 1 year elapsed since date of acquisition to the start of current year = €15,000.

The deferred tax that has reversed since acquisition to the start of the current year to match depreciation posted on fair value differences and release of monetary assets in consolidated financial statements is €5,000 (i.e. Reversal of the timing difference of inventory (€10,000) and debtors (€5,000) which reversed in full in previous year and on fair value adjustment on PPE and intangibles for the depreciation/amortisation charged from date of acquisition to start of current year (€15,000+€20,000)= (€10,000+€5,000+€35,000)*10%= €5,000)

Therefore the journals to be recognised in the consolidated financial statements at the start of the current year are:

	€	€
Dr Profit and Loss Reserves	70,150	
Dr Deferred tax on balance sheet	5,000	
Cr Property, plant and equipment – accumulated depreciation		15,000
Cr Intangible asset accumulated amortisation		20,000
Cr Goodwill accumulated amortisation		25,150
Cr Inventory		10,000
Cr Debtors		5,000
Being journal to recognise the accumulated amortisation, depreciation and related deferred tax on fair value adjustments from date of acquisition of Subsidiary A to start of current year		
	€	€
Dr Group Profit and Loss Reserves B/f	150,750	
Cr Non-controlling Interest ((profit & loss reserves per entity books at start of year of €650,000 less P&L reserves at date of acquisition of €360,000 plus adjustments of €70,150- goodwill amortisation of €25,150 charged since acquisition) * 45%)		150,750

Being journal to reflect the correct amount in NCI at the start of the current year

Current year journals:

	€	€
Dr Amortisation of Intangibles in P&L - Administrative expenses	20,000	
Dr Amortisation of Goodwill in P&L- Administrative expenses	25,150	
Cr Accumulated Amortisation of Intangibles		20,000
Cr Accumulated Amortisation of Goodwill		25,150

Being journal to reflect amortisation on goodwill and intangibles recognised on acquisition of Subsidiary A in the consolidated financial statements for current year.

	€	€
Dr Depreciation on PPE in P&L- Administrative expenses	15,000	
Cr Accumulated Depreciation on PPE		15,000

Being journal to reflect the depreciation on the fair value adjustment to PPE on acquisition of Subsidiary A for current year

Deferred tax

	€	€
Dr Deferred Tax Liability	3,500	
Cr Deferred tax in P&L ((CU35,000*10%))		3,500

Being journal to reflect the reversal of deferred tax recognised at acquisition of Subsidiary A to match depreciation/amortisation posted on fair value differences for the current year (other than on goodwill amortisation as deferred tax not previously recognised on this)

	€	€
Dr Group Profit and Loss Reserves	72,340	
Cr Non-controlling Interest ((€201,687 + €4,000 for reduction in depreciation (point 6 below) + 1,000 for interest expense reduction point 5 below)* 35%)		72,340

Being journal to reflect the transfer of the NCI portion of the result for the period

1B) Calculation of goodwill and fair value adjustments on Subsidiary B and derecognition of investment on the Parent balance sheet:

No goodwill as the company owned the company from inception. Therefore no fair value adjustments.

Journals required in the consolidated financial statements to derecognise the investment from the parent company balance sheet:

	€	€
Dr Ordinary Share Capital of Subsidiary B	100	
Dr Profit and Loss Reserves	0	
Cr Investment in the Individual Entity Financial Statements of Parent Co		100

Being journal to derecognise the investment in Subsidiary B from the parent balance sheet

1C) Calculation of goodwill and fair value adjustments on Subsidiary C and derecognition of investment on the Parent balance sheet:

Golden share exists here – therefore all results and assets are attributable to the non-controlling interest

Journals required in the consolidated financial statements at the date of acquisition:

	€	€
Dr Ordinary Share Capital of Subsidiary C	50,000	
Dr Share Premium	20,000	
Dr Profit and Loss Reserves (i.e. profit and loss reserves in existence at date of acquisition)	230,000	
Cr Investment in the Individual Entity Financial Statements of Subsidiary B		1
Cr Non-Controlling Interest in Equity (i.e. fair value of net assets of subsidiary at the date of acquisition * 100% owned at date of acquisition)		299,999
Being journal to recognise Subsidiary C at fair value at the date of acquisition and eliminate the investment on the parent balance sheet		

	€	€
Dr Group Profit and Loss Reserves B/f	60,000	
Cr Non-controlling Interest (€60,000 * 100%)		60,000
Being journal to reflect the correct amount in NCI at the start of the current year for Subsidiary C		

Current Year

	€	€
Dr Group Profit and Loss Reserves B/f	57,150	
Cr Non-controlling Interest (€57,150 * 100%)		57,150
Being journal to reflect the transfer of the NCI portion of the result of Subsidiary C for the period		

1D) Calculation of goodwill and fair value adjustments on Subsidiary D and derecognition of investment on the Parent balance sheet:

Parent Co. purchased its 100% US company, Subsidiary D for FC200,000 at the start of the current year. The functional currency of Subsidiary D is USD (FC). The fair value of the net assets at that date was FC150,000 with goodwill of FC50,000 being recognised. The spot rate at 31 December 2013/1 January 2014 (being the start of current year) and 31 December 2014 was FC1=€0.80c and FC=€0.85c. The average rate for the 31 December 2014 and 31 December 2013 year end is FC1=€0.75c and FC1=€0.70c respectively. The useful life of goodwill is 10 years

See below the work required to retranslate Company B's financial statements from the functional currency of FC to the presentational currency of euro. Note the P&L must be retranslated at average rate and the balance sheet at the year end rate. This is a change from old GAAP as the temporal method previously permitted the P&L to be retranslated at the year end rate, this is not permitted under FRS 102.

Profit and loss	31-Dec-13	Retranslated to presentational currency	31-Dec-13	31-Dec-14	Retranslated to new presentational currency	31-Dec-14
		FC=CU0.70c			FC1=CU0.75c	
Turnover	200,000	0.70	140,000	250,000	0.75	187,500
Cost of sales	(110,000)	0.70	(77,000)	(125,000)	0.75	(93,750)
Gross profit	90,000		63,000	125,000		93,750
Administrative expenses	(40,000)	0.70	(28,000)	(50,000)	0.75	(37,500)
Net profit	50,000		35,000	75,000		56,250

	Retranslated to presentational currency			Retranslated to presentational currency		
	31-Dec-13	US\$1=CU0.80c	31-Dec-13	31-Dec-14	US\$1=CU0.85c	31-Dec-14
Balance sheet						
Fixed assets	FC		CU	FC		CU
Property, plant and equipment	100,000	0.80	80,000	120,000	0.85	102,000
Intangible assets	20,000	0.80	16,000	25,000	0.85	21,250
	<u>120,000</u>		<u>96,000</u>	<u>145,000</u>		<u>123,250</u>
Inventory	10,000	0.80	8,000	50,000	0.85	42,500
Debtors	30,000	0.80	24,000	45,000	0.85	38,250
Cash	20,000	0.80	16,000	10,000	0.85	8,500
	<u>60,000</u>		<u>48,000</u>	<u>105,000</u>		<u>89,250</u>
Creditors	(30,000)	0.80	(24,000)	(25,000)	0.85	(21,250)
Net current assets	<u>30,000</u>	0.80	<u>24,000</u>	<u>80,000</u>	0.85	<u>68,000</u>
Net assets	<u>150,000</u>		<u>120,000</u>	<u>225,000</u>		<u>191,250</u>
Capital and reserves						
Share capital	20,000	0.80	16,000	20,000	0.80	16,000
Exchange differences b/f	-		-	-		5,000
Exchange differences *2013 - **2014	-		5,000	-	-	15,000
Profit for the year	50,000	0.70	35,000	75,000	0.75	56,250
Profit and loss reserves b/f	80,000	0.80	64,000	130,000		99,000
	<u>150,000</u>		<u>120,000</u>	<u>225,000</u>		<u>191,250</u>

The 2013 balance sheet is retranslated at the year end rate including the profit and loss reserves brought forward.

The share capital, exchange difference and profit and loss reserves brought forward into 2014 are taken from euro 2013 comparative as these do not change.

* The 2013 exchange difference in the euro amounts is due to the difference between the average rate used in the P&L of 0.70 and the closing rate of 0.80

** The 2014 exchange difference in the euro amounts is due to the difference between retranslating the net assets at the closing rate that differs from the previous closing rate as can be seen below

Exchange gain on net assets	FC	Rate	CU
Opening net assets and rates at 31 December 2013	150,000	0.80	120,000
Opening net assets and rates at 31 December 2014	150,000	0.85	127,500
Exchange gain from translating retained profits from average to closing rate	-		7,500
Exchange gain from translating retained profits from average to closing rate			
	FC	Average rate	Closing rate
Profit and loss for 2014 year	75,000	0.75	0.85
Total foreign exchange gain			<u>15,000</u>

The FX difference of €15,000 is recognised in other comprehensive income.

The figures in the 31 December 2014 column are the figures that are inserted into the consolidation schedule in Appendix 1.

In accordance with Section 30.23 any goodwill arising on acquisition of Company B is treated as the assets and liabilities of the foreign operation.

Therefore applying this to the above where goodwill of FC50,000 was recognised in the consolidated financial statements of Company A, this goodwill would have been recognised on 1 January 2014 at the rate on the date i.e. €40,000 (FC50,000*0.8). The total consideration paid in was €160,000 (FC200,000*0.8)

Current year

Journals required in the consolidated financial statements at the date of acquisition:

	CU	CU
Dr Goodwill	40,000	
Dr Ordinary Share Capital of Subsidiary D	16,000	
Dr Profit and Loss Reserves (i.e. profit and loss reserves in existence at date of acquisition)	104,000	
Cr Investment in the Individual Entity Financial Statements of Parent Co		160,000

Being journal to recognise Subsidiary D at fair value at the date of acquisition and eliminate the investment on the parent balance sheet

	CU	CU
Dr Amortisation of Goodwill in P&L- Administrative expenses (FC50,000/10yrs=FC5,000/0.75)	3,750	
Cr Accumulated Amortisation of Goodwill		3,750

Being journal to reflect amortisation on goodwill recognised on acquisition of Subsidiary D in the consolidated financial statements for current year as acquired at very start of current year.

	CU	CU
Dr Goodwill (note 1)	2,000	
Cr Retranslation of goodwill on foreign operation in Other Comprehensive income		2,000

Being journal to reflect amortisation on goodwill recognised on acquisition of Subsidiary D in the consolidated financial statements for current year as acquired at very start of current year.

Note 1: In the consolidated financial statements goodwill has to be restated to year end rate as per below:

Goodwill of FC50,000 retranslated at opening rate of €1=USFC0.80 =	FC50,000
Amortisation for current year ((FC50,000/10yrs)	<u>(FC5,000)</u>
NBV at end of year in FC	<u>FC45,000</u>
Goodwill of FC45,000 retranslated at closing rate of €1=USFC0.85 =	€38,250
Carrying amount in euro at year end (€40,000-€3,750)	<u>(€36,250)</u>
Exchange gain to be added to goodwill & included in OCI	€2,000

The following noteworthy transactions occurred during the year

2) During the year Subsidiary B sold goods to Subsidiary A for €100,000. The cost of the sale for Subsidiary A was €50,000.

At the year-end Subsidiary B still had €30,000 of this in inventory. Assume a deferred tax rate of 10%.

Detailed below are the accounting entries required on consolidation.

	€	€
Dr Sales	100,000	
Cr Cost of Sales (i.e. the cost of sales posted in sub accounts ex item in stock excluding the intra-group profit)		85,000
Cr Inventory (€30,000*50% profit margin)		15,000

Being journal to derecognise intercompany sales as consolidated financial statements should only show external sales and purchases and eliminate profit included in inventory.

The deferred tax journal required in the consolidated financial statements is:

	€	€
Dr Deferred Tax Asset (€15,000*10% assuming a deferred tax rate of 10%)	1,500	
Cr Deferred Tax in P&L		1,500

Being journal to reflect deferred tax on the above journal (as this is taxed in the entity accounts and included in the group accounts but the income has been reversed out of group accounts there is therefore a timing difference).

3) During the year Subsidiary C sold €100,000 of goods to Subsidiary B. The cost of the sale for Company A was €50,000. Subsidiary B has sold these on by the year end.

Detailed below are the accounting entries required on consolidation:

	€	€
Dr Sales	100,000	
Cr Cost of Sales		100,000

Being journal to derecognise intercompany sales as consolidated financial statements should only show external sales and purchases

There is no deferred tax impact here as there is no impact on the consolidated profit.

If Subsidiary B sold these goods the journal would be the same.

4) Subsidiary B recharged management charges to Subsidiary A in the year of €40,000. This management recharge was credited against administrative expenses in Subsidiary B and recognised as a cost of sales expense in Subsidiary A.

	€	€
Dr administrative expenses	40,000	
Cr Cost of Sales		40,000

Being journal to eliminate intercompany recharges

If both were recognised in the same line item then no journal would be required.

5) Subsidiary B was owed €60,000 from Subsidiary A at the year end. This loan was interest free and not repayable on demand so therefore was present valued at market rate under Section 11 of FRS 102. The interest released on the effective interest rate was €1,000 and was classified within interest income in Subsidiary B and interest expense in Subsidiary A. €20,000 was included in a capital contribution in Subsidiary A's books and €20,000 was debited to reserves in Subsidiary B's books on initial recognition of the loan less the interest income/expense released since the loan was issued in line with rules in Section 11.

Subsidiary B owed Parent Co €10,000. The journals required in the consolidated financial statements to eliminate this are:

	€	€
Dr Amounts Due to Group Subsidiary B in Subsidiary A's Books currently included in creditors	60,000	
Cr Amounts Due from Group Subsidiary A in Subsidiary B's Books currently included in debtors		60,000
Dr Amounts Due to Group Parent Co in Subsidiary B's Books currently included in creditors	10,000	
Cr Amounts Due from Group Subsidiary B in Parent Co Books currently included in debtors		10,000

Being journal to eliminate intercompany balances

	€	€
Dr Interest income in Subsidiary B	1,000	
Cr Interest expense in Subsidiary A's Books		1,000
Dr Capital Contribution in Subsidiary A's Books	20,000	
Cr Profit and loss reserves in Subsidiary B's books		20,000
Being journal to eliminate interest on group loans and to unwind the initial journals recognised as these loans are eliminated on consolidation		

6) *Intra-group balances – sale of fixed assets within a group*

2 years ago Subsidiary B sold a piece of equipment to Subsidiary A for €100,000 when its net book value was €60,000 thereby recognising a profit on disposal in Subsidiary B's financial statements of €40,000. The remaining life at that date was 10 years. Assume the depreciation in that year in Subsidiary A's books on the fixed asset was €10,000 (€100,000/10yrs) and the NBV was €90,000 at the start of the current year.

The consolidated journals at the year end to eliminate the intra-group profit recognised are:

	€	€
Dr Profit and loss reserves for profit on disposal recognised in Subsidiary B previously net of additional depreciation charge of €4,000 on the uplift ((€100k/10yrs)-(€60k/10yrs)*1 year gone from date of sale to the start of current year) in prior years	36,000	
Cr PPE		32,000
(€80,000 less NBV that it would have been carried at if there had been no intra-group sale €60,000/10yrs*8yrs= €48,000)		
Cr Depreciation within cost of sales		4,000
(€10,000 charged less €6,000 (€60,000/10 yrs) which would have been charged if no inter co sale arose)		

Being journal to derecognise the profit on disposal from P&L Reserve of Sub B and reverse additional depreciation charged on uplift for current year and previous years

Note the same journal would be posted if Subsidiary A sold it to Subsidiary B. In future years the additional depreciation charged of €4,000 would have to be eliminated (i.e. credit depreciation, debit PPE) assuming the above journals are posted to profit and loss reserves year on year. If a loss was made on disposal the opposite journals would be required. In addition as a loss was made this may indicate an indicator of impairment, so an impairment review may be necessary.

7) During the year Parent Co. acquired a further 10% of Subsidiary A from the non-controlling interest for €220,000 to increase the holding from 55% to 65%. The fair value of the net assets of Subsidiary A at the date of acquisition of the additional 10% was €800,000 (the book amount of the net assets was €500,000). The carrying amount of the 45% non-controlling interest in the consolidated financial statements was €350,000 at the date of purchase of the 10% interest.

The journals required to account for this transaction in the consolidated financial statements are:

	€	€
Dr Equity -Profit and Loss Reserves	142,222	
(€220,000-€77,778)		
Dr Equity-Non Controlling Interest	77,778	
(€350,000/45 being original amount owned by the MI *10 being the amount disposed of)		
Cr Investment in Subsidiary A		220,000

Being journal to reflect the acquisition as an equity transaction

8) Subsidiary A paid a dividend of €45,000 to Parent Co during the year.

The journals required in the consolidated financial statements are:

	€	€
Dr Income from group undertakings in P&L	45,000	
Cr Profit and loss reserves for the dividend recognised		45,000

Being journal to eliminate the intercompany dividends – goes to P&L reserves as this is where dividend was initially recognised

9) Investment in associate

Note as Parent Co is a parent company and is not exempt from consolidation and has subsidiaries the results of the Associate must be included in the consolidated financial statements under the equity method. Note if in this example the Parent Co had no subsidiaries and only had its 25% interest in the associate, no consolidated financial statements would be required and hence the equity method of accounting for the associate would not be required.

Parent Co acquired its 35% interest in Associate A at the start of the current year for €50,000. The net assets of Associate A at that time was €50,000 but the fair value of the net assets was €70,000, the additional uplift being on the property in the company. The property had a remaining useful life of 10 years. Goodwill is assumed to have a useful life of 20 years.

The profit after tax of Associate A for the year was €50,000 and a dividend of €10,000 was declared. Associate A posted €5,000 to other comprehensive income in its financial statements.

Prior to year-end Associate A sold goods worth €1,000 to Subsidiary B and a profit of €500 was made by Associate A on this sale. These goods are still in stock in Subsidiary B at the year end. Assume there is no deferred tax on any unremitted dividends as the dividends received by Parent Co are not subject to tax.

The carrying value of the investment in Parent Co's consolidated financial statements is as follows:

	€
Total price paid for 35% share	50,000
Less fair value of net assets received (€70,000*35%)	<u>(24,500)</u>
Goodwill on acquisition	25,500
Amortisation of goodwill over useful life of 20 years (€25,500/20yrs)	1,275
	€
Difference between fair value of net assets and carrying amount of net assets in the books of Associate A (€70,000-€50,000)	20,000
Parent Co's share of the uplift (35%*€20,000)	7,000
Additional depreciation on uplift in fair value per annum (€7,000/10yrs)	700
	€
Share of Associate A's allocation of the posting to Parent Co's OCI (€5,000*35%)	1,750
	€
Total share of unrealised profit on sale of goods to Subsidiary B which is still in Subsidiary B stock = €500 * 35%=	175
	€
Carrying value of investment is:	
Associate A's share of net profit after tax (€50,000*35%)	17,500
Associate A's share of OCI debit	(1,750)
Less goodwill amortisation	(1,275)

Less additional depreciation on fair value adjustment	(700)
Less Parent Co's share of dividend (€10,000*35%)	(3,500)
Less elimination of unrealised profit	<u>(175)*</u>
Total movement in the year	10,100
Initial cost of investment	<u>50,000</u>
Total carrying amount at end of year	60,100

*note it would also be acceptable if this was set against inventory in the consolidated financial statements

	€	€
The journal required to be posted to account for the movement is:		
Dr Investment in Associate	10,100	
Dr income from participating interest	3,500	
Dr Share of Associates expense in OCI	1,750	
Cr Share of Associates Profit for year in P&L (€10,100+€3,500+€1,750)		15,350

Being journal to reflect Parents share of associates income and reclassification of dividends within share of associate income

If in the above example the associate interest was acquired before the current year, then you would need to determine the net assets at the end of the prior year and recognise the difference between the net assets as per the associates financial statements and the carrying amount on the parent co balance sheet. An exercise would also have to be performed to assess the fair value at the date of acquisition so that we could determine whether any fair value adjustments would need to be made. Note where the associate is in a net liability position you should not provide for the entities part of the losses, instead the investment should show a nil cost and the investment should only be re-recognised as the company moves into a net asset position. The journals required once ascertained would be to :

	€	€
Dr Investment in Associate	XXX	
Dr Share of Associates expense in OCI (movement in current year only)	XXX	
Cr Share of Associates Profit for year in P&L (movement in current year only)		XXX
Cr Share of Associates Profit into P&L Reserves (movement from date of acquisition to the start of current year)		XXX

FYI: The equity method of accounting ensures the carrying value of the investment in the consolidated financial statements as follows:

Cost of the investment	XX
Less share of loss after tax of the associate for the financial year	(XX)
Plus share of profit after tax of the associate for the financial year	XX
Plus/(minus) share of items posted to OCI in associates' books (i.e. revaluations, FX on retranslation)	XX
Less amortisation of goodwill on the investment	(XX)
Add amortisation of negative goodwill if applicable	XX
Less impairments	(XX)
Plus/(minus) adjustment required to show consistent accounting policies of the group	XX
Less share of dividend received or declared but not paid	(XX)
Less share of unrealised profit from sale of goods by associate to Parent/Group company still in stock	(XX)
Plus share of unrealised loss from sale of goods by associate to Parent/Group company still in stock	<u>XX</u>
Total carrying amount in the consolidated financial statements	XXX

10) Elimination of profit where Group company sells goods to associate

Subsidiary B sells goods to its 35% associate Associate A for €100,000. The cost of this sale is €40,000. At the year end the associate company still has these items in stock. Therefore a journal is required to eliminate 35% of the profit on this transaction as follows:

	€	€
Dr Revenue (€100,000*35%)	35,000	
Cr Cost of Sales (€40,000*35%)		14,000
Cr Investment in Associate (€60,000*35%)		21,000

Being journal to defer the sales, cost of sales and profit on the inventory still held in stock in associates books

Deferred tax should also be considered

11) Recognising reversal of previous years consolidation journals

In the prior year a profit of €10,000 was deferred in the consolidated financial statements as this profit arose on the sale of stock between group entities and these goods remained in stock on one of the subsidiaries balance sheet at the end of the prior period.

A journal is required in the current year to reverse out the deferral of profit in the prior and recognise the profit in the current year consolidated results so as to ensure the group profit and loss reserves are brought forward correctly. The journal required is to:

	€	€
Dr Group Profit and Loss Reserves b/f	10,000	
Cr Inventory		10,000
Being journal to bring forward prior year consolidation journal to ensure the Group Profit and Loss reserves B/F are correct		
Dr Inventory	10,000	
Cr Cost of sales		10,000

Being journal to release the deferral of the inter group profit in the current year so as to net against the profit earned on final sale.

Watch out for these journals to ensure they are posted.

12) Restatement of investment property to property, plant and equipment

Subsidiary B rents a property to Subsidiary A. In the Sub B accounts this is classed as investment property and held at fair value. From a consolidation perspective this is property plant and equipment and should be depreciated.

Therefore an adjustment is required to restate the property from fair value to cost less accumulated depreciation and impairment. Assume the depreciation that should be posted in the consolidated financial statements is €2,000 and the NBV value of the property when held at cost less depreciation should be €88,000 at period end. The actual carrying amount of the property was €100,000 in Subsidiary B's books as an investment property with €10,000 of an uplift recognised in interest receivable in the entity financial statements. Deferred tax of €3,300 was recognised on this uplift. We have ignored deferred tax

The journal required is to:

	€	€
Dr tangible fixed assets	88,000	
Cr Investment property		100,000
Dr interest receivable	10,000	
Dr depreciation	2,000	
Dr deferred tax liability	3,300	
Cr deferred tax in P&L		3,300

Being journal to reclassify the property from investment property to PPE and eliminate the revaluation recognised in the entity financial statements
