

OmniPro Sample Simple Consolidation Checklist

Note the below checklist assumes Acquisition accounting is adopted as opposed to merger accounting

Step	Details	Comment	Done
1	Assess whether consolidated financial statements are required		
1a	Is the company a parent company?		
1b	Does the entity have the power over more than half the voting rights of an entity		
1c	Do the company have control or have the ability to exercise control over any other entity (whether that be a Limited company or not)		
1d	Does the entity hold a golden share which gives the entity the ability to control the composition of the board?		
1e	Does the entity have the power to govern the financial and operating policies of the entity by agreement or statute		
1f	Can the entity claim exemption under any of Section 293(1A) of Companies Act 2014 on the basis that the holding company qualifies for the small companies regime		
1g	Can the entity claim exemption under any of Section 298 -300 (i.e. where the ultimate financial statements are prepared by a company located in EEA and other companies)		
	If there answer to 1(f) or 1(g) is yes then there is no requirement to prepare consolidated financial statements		
Steps 2 to 10 - Collating information and inserting into consolidation schedule			
2	Assess whether the entity has an interest in an associate or joint venture entity, if so collate information for these entities		
3	Prepare/obtain the financial statements for each of the subsidiary entities		
3a	Assess whether all subsidiaries have the same year end date. If not ensure the reporting date of subsidiary is no more than 3 months from date of parent and adjust results for material transactions or events that arose or prepare updated interim financial statements		
3b	Where there was an acquisition during the period apportion the profit and loss results for the full year between the results pre and post acquisition to ensure that results post the date of acquisition (i.e. when control was acquired) are included in the consolidated financial statements		
3b(i)	If this applies input the results since the date of acquisition into the consolidation spreadsheet in in step 7 below.		
3c	Where there was an disposal during the period apportion the profit and loss results for the full year between the results pre and post acquisition to ensure that results pre the date of disposal (i.e. when control was lost - from start of period to date of disposal) are included in the consolidated financial statements		
3c(i)	If this applies input the results from the start of the period to the date of disposal into the consolidation spreadsheet in step 7 below.		
4	Prepare/obtain the financial statements for each of the associate and joint venture entities		
4a	Assess whether all associates/joint ventures have the same year end date. If not adjust accordingly		
5	Assess whether all subsidiaries/associates/joint ventures have uniform accounting policies - if not make adjustments to ensure they are in line with the group policy		

6	Where there are foreign subsidiaries which have a different functional currency to the parent company's presentational currency - retranslate from the foreign subsidiary		
6a	Retranslate the foreign operation at the average rate for the year and the balance sheet at the period end rate with any difference recognised in other comprehensive income. Use these figures for inclusion in Step 7 and 8 below		
7	Input the profit and loss account of each subsidiary and the parent company into a spreadsheet within each of the relevant line items in the financial statements		
8	Input the balance sheet of each subsidiary and the parent company into a spreadsheet within each of the relevant line items in the financial statements.		
8a	Ensure that the investments in each of the subsidiaries are shown as a separate line item in the spreadsheet so that a check can be completed to ensure the total amount included in consolidated financial statements has been reduced to nil after the elimination on consolidation		
8b	Ensure that the inter group debtors and creditors are show separately from the total debtors and creditors figures so that a check can be done to ensure they eliminate to zero at the end		
9	Tot all entities by line item together to get to the total result for the P&L and balance sheet before any consolidation adjustments are posted		
10	Set out the notes to the financial statements for each entity in each column in excel and total accordingly		
10a	Throughout ensure the consolidation journals are also reflected in these notes		
Steps 11 to 13 - Consolidation journals - Recognise goodwill, fair value adjustments & eliminate investment on balance sheet			
11	For acquisitions (other than new entities in the group which were incorporated in the year and therefore owned from inception) determine the fair value of the assets and liabilities acquired to determine the goodwill to recognise (goodwill = fair value of net assets acquired less cost of acquisition). Recognise deferred tax on any fair value adjustments other than on goodwill		
11a	Identify the acquirer		
11b	Identify the cost of the acquisition		
11c	Is the current acquisition just increasing a previous controlling interest - if so this no goodwill is recognised instead this is an equity transaction		
11c	If negative goodwill has been calculated - reassess all fair value calculations to ensure that negative goodwill makes sense. If it does recognise negative goodwill as a credit on the balance sheet and amortise over the life of the non-monetary assets to which they relate in line with Section 19 of FRS 102		
11d	Does the assets at the date of acquisition equal fair value - If not make adjustments to reflect market value (e.g. adjustments to reflect market value of fixed assets, investments, debtors etc.). Fair value is determined in the following way for each of the following categories:		
11d(i)	Contingent liabilities - amount a third party would ask to take on the risk		
11d(ii)	PPE - market price (ignore any government grants as these are valued separately)		
11d(iii)	Intangible assets - discounted cash flows or estimated costs avoided as a result of owning the intangible		
11d(iv)	Inventory - Finished goods = estimated selling price less costs of disposal and reasonable profit margin/ WIP = estimated selling price less costs of disposal less costs to complete and reasonable profit margin		

11d(v)	Investment in shares - market value based on discounted cash flows or market prices if available		
11d(vi)	Recognise any deferred tax on the fair value adjustments at acquisition (other than on goodwill)		
11d(vii)	Deferred revenue - fair valued only where the entity still has an obligation to perform tasks if the future, if not it is valued at nil.		
11d(viii)	Favourable/unfavourable contracts - recognise as asset or liability based on it being above or below market rate		
11e	Assess whether intangibles can be separated from goodwill. Where the intangible can be reliably measured then it must be separated from goodwill under FRS 102		
11f	Assess the pre-acquisition reserves (i.e. the P&L reserves at the date of acquisition), ordinary share capital/reserves as per the books and records of the acquired entity pre the date of transition		
11g	Assess whether Non-Controlling interest (NCI) needs to be recognised (i.e. assess if the subsidiary entity is part owned by a third party i.e. an entity outside the group), if so ascertain the NCI at the date of acquisition and at the year end date- At date of acquisition the NCI element is the % owned by NCI by the fair value of the entity at date of acquisition. Note where the parent has an option to purchase but has not exercise the option at year end then the % to apply to NCI is the actual % owned by NCI at that time		
11h	Ascertain the useful life of goodwill and intangibles and amortise from date of acquisition to period end date		
12	For entities that are preparing consolidated financial statements for the first time due to an exemption no longer being available -		
12a	Assess whether any goodwill is to be recognised at the date of acquisition and assess whether fair value adjustments are required at that date		
12b	Perform all of the procedures mentioned in Step 11a to 11g - however where the acquisition was pre date of transition to FRS 102 then the entity may claim the exemption in Section 35 of FRS 102 not to restate goodwill on acquisition to the rules under Section 19 of FRS 102 - instead the rules under old GAAP can be used - hence no need to assess if separate intangible required to be recognised		
12c	Determine the journals to be recognised to reflect what the carrying value of goodwill and the fair value adjustments would have been had Consolidated financial statements been prepared since each of the subsidiaries were acquired (post these to Group Profit and Loss Reserves B/f). Examples include:		
12c(i)	Amortisation on any goodwill and intangibles		
12c(ii)	Depreciation on any fair value adjustments		
12c(iii)	Reversal of any deferred tax recognised on any fair value adjustments		
12c(iv)	Reversal of any fair value adjustments		
12c(v)	Reversal on inter group profit on disposal of fixed assets and the unwinding of this		
12c(vi)	Where 100% of the voting rights are not held (and therefore Non-controlling interest exists), determine the non-controlling interests share of the equity at the start of the current period.		
13	Eliminate the investments on the balance sheets in each of the subsidiaries such that they come to nil in the spreadsheet and the share capital in the consolidated financial statements only shows the share capital/share premium/other reserves of the parent company		
13a	Recognise the goodwill calculation on the balance sheet and any Non-controlling interest as calculated in step 11 & 12 as applicable		
Steps 14 to 21 - Other Consolidation journals			

14	Post any consolidation journals required in the current year to recognise;		
14(i)	any additional depreciation or amortisation on any fair value adjustments made at the date of acquisition in the consolidated financial statements for the current period		
14(ii)	any reversal of fair value adjustments since the date of acquisition to the end of the current period if acquired in the period		
14(iii)	Amortisation on any goodwill and intangibles for the period		
14(iv)	Depreciation on any fair value adjustments on PPE for the period		
14(v)	Reversal of any deferred tax recognised on any fair value adjustments at date of acquisition		
14(vi)	Reversal of any fair value adjustments		
14(vii)	Reversal on inter group profit on disposal of fixed assets and the unwinding of this		
14(viii)	Where 100% of the voting rights are not held (and therefore Non-controlling interest exists), determine the non-controlling interests share of the equity at the start of the current period.		
14(ix)	If property is leased to another group company and classified as investment property as required under FRS 102 in the entity financial statements, reclassify this property from investment property to property plant and equipment less depreciation in the consolidation financial statements		
15	Eliminate intra-group sales and purchases		
15a	Identify inter company purchases/recharges and sales (transactions between group companies) and eliminate these transactions - ensure the other side of the transaction is set against the where the original expense/income has been recognised in the other entity		
15b	Were there fixed assets purchases and sales between group companies in the past? - If so eliminate the profit/loss recognised if any in the consolidated financial statements and reduce the depreciation on the uplifted amount (if disposal in prior years and asset still held post deferral of net profit earned to P&L reserves B/f net of the reversal for depreciation)		
15c	Eliminate out any inter-company dividends in each of the entities		
15e	Were there any sales/purchases of stock between group companies?		
15e(i)	If so - does the receiving entity hold this stock on the balance sheet at the period end date - If so eliminate the profit on the balance sheet and post debit to cost of sales. Consider if material the deferred tax impact as timing difference created as subsidiary entity holding stock will have been taxed in the year but in consolidated accounts income is taken out but will be reversed the following year when stock sold on		
15e(ii)	If so - does the receiving entity hold this stock on the balance sheet at the period end date - If not no further adjustments required		
16	Eliminate all intercompany debtors and creditors balances		
17	Was there inter-company profit eliminated in the prior year Consols e.g. on sale of stock to group companies which was still held on balance sheet in previous year. If so:		
17(i)	- bring forward the profit elimination from prior year and reverse the profit previously not permitted to cost of sales		
18	Assess whether deferred tax needs to be recognised on the income recognised in the consolidated financial statements which has yet to be dividended to the entity- only recognise deferred tax if taxable in the hands of parent when received, if no tax on dividend then no deferred tax. Deferred tax should not be recognised where the parent can control when the dividend will be received from the subsidiary or where it is probable it will not reverse.		

19	Where deferred tax recognised on fair value adjustments in the consol accounts at date of transition, reverse deferred tax for the unwinding the current period.		
20	Allocate the profit for the period between non-controlling interest and amounts attributable to the parent entity and show this in the financial statements		
21	In the capital and equity section of the balance sheet show the non-controlling interest separately from the equity attributable to the parent company		
Steps 11 to 30 - Accounting for associates/JV's - equity method			
22	For investments in associates and/or joint ventures account for these under the equity method of accounting.		
23	For associates acquired in the period determine the fair value of the net assets acquired so as to determine goodwill. Goodwill is not split out in the financial statements		
24	Take the results as obtained at step 4 above and multiply the percent owned by the group entity by the results for the period. Recognise the calculated amount within the line 'Share of profit in associate' in the consolidation schedule which the other side of the journal recognised in the cost of the investment. If only acquired in the year only take the results for period since acquisition and if disposed of only take period from start of year to date of disposal		
25	If associate incurs a loss do not recognise this if the associate is in a net liability position as per the balance sheet		
26	Recognise amortisation on goodwill if any. Recognise the calculated amount within the line 'Share of profit in associate' in the consolidation schedule.		
27	Recognise any depreciation on any fair value adjustments. Recognise the calculated amount within the line 'Share of profit in associate' in the consolidation schedule.		
28	Reclassify any dividend income from the associate/JV from the consolidated P&L as included to the investment in the associate on the balance sheet		
29	Eliminate the groups element/% of any profit on goods sold by associate/JV which is included in stock of any other group companies at period end. Recognise the calculated amount within the line 'Share of profit in associate' in the consolidation schedule with the other side set against the cost of the associate.		
30	Eliminate the groups element/% of any sales made to the associate/JV by the group entities which is included in stock of the associate/JV at period end		
Steps 31 to 36 - Final checks			
31	Number each consolidation journal and post the journal in the consolidation schedule with a reference to the journal to which it relates		
32	Have key to work done confirming the results of the subsidiaries as included in the consolidation schedule agree to the financial statements		
33	Ensure all intercompany balances eliminate to nil		
34	Ensure the notes in the financial statements tie to the Consolidation schedule		
35	Ensure the ordinary share, share premium and other reserves (other than the profit and loss reserves of the Group) agree to the share, share premium and other reserves of the parent Company		
36	For associates do a high level check to assess if the carrying amount of the associate in the Consols is similar to the net assets per its financial statements multiplied by the % owned by the group		

**Consolidated Profit and Loss Account
For the Year Ended 31 December 2015**

OmniPro Sample Consolidation Schedule

Year ended 31 December 2014

	Parent Co	Sub A	Sub B	Sub C	Sub D	Consolidation journals												Total									
						Jnl 1A	Jnl 1B	Jnl 1C	Jnl 1D	Jnl 2	Jnl 3	Jnl 4	Jnl 5	Jnl 6	Jnl 7	Jnl 8	Jnl 9		Jnl 10	Jnl 11	Jnl 12						
	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014		
	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	
Turnover	-	5,000,000	11,902,422	3,000,000	187,500					(100,000)	-	100,000														19,854,922	
Cost of sales	-	(4,000,000)	(8,117,700)	(2,500,000)	(93,750)					85,000		100,000	40,000														-14,462,450
Gross profit	0	1,000,000	3,784,722	500,000	93,750	0	0	0	0	-15,000	0	40,000	0	0	0	0	0	0	0	0	0	-21,000	10,000	0	0	5,392,472	
Distribution costs	-	(70,000)	(2,610,451)	-	-																						-2,680,451
Administrative expenses	-	(700,000)	(899,152)	(450,000)	(37,500)	(60,150)				(3,750)		(40,000)		4,000											(2,000)		-2,188,552
Income from participating interest	3,500	-	-	-	-																						0
Income from group undertakings	45,000	0	0	0																							-
Operating profit	48,500	230,000	275,119	50,000	56,250	-60,150	0	0	-3,750	-15,000	0	0	0	4,000	0	-45,000	-3,500	-21,000	10,000	0	0	-45,000	11,850	-21,000	10,000	-2,000	523,469
Share of profit in associate	-	0																									15,350
Interest receivable and similar income	-	2,000	22,422	800	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	14,222
Interest payable	-	(1,500)	(2,628)	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-3,128
Profit before taxation	48,500	230,500	294,913	50,800	56,250	-60,150	0	0	-3,750	-15,000	0	0	0	4,000	0	-45,000	11,850	-21,000	10,000	0	0	-45,000	11,850	-21,000	10,000	-12,000	549,913
Taxation	-	(28,813)	(149,787)	6,350	-	3,500	-	-	-	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,300		-163,950
Profit for the financial year	48,500	201,687	145,126	57,150	56,250	-56,650	0	0	-3,750	-13,500	0	0	0	4,000	0	-45,000	11,850	-21,000	10,000	0	0	-45,000	11,850	-21,000	10,000	-8,700	385,963
Other Comprehensive Income																											
Retranslation of goodwill on foreign operation	-	-	-	-						2,000																	2,000
Retranslation of foreign operation	0	0	0	0	15,000																						15,000
Share of other comprehensive of associate	0	0	0	0																							-1,750
Profit for the financial year	48,500	201,687	145,126	57,150	71,250	-56,650	-	-	-	1,750	-	-	-	4,000	-	-	45,000	11,850	-	21,000	10,000	-	8,700	-	-	402,963	
Profit for the financial year attributable to:																											
Non-controlling interests	0	0	0	0		(72,340)	-	57,150																			129,490
Owners of the parent company	0	0	0	0																							273,473
	-	-	-	-	-	72,340	-	57,150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	402,963

**Consolidated Profit and Loss Account
For the Year Ended 31 December 2015**

	Parent Co	Sub A	Sub B	Sub C	Sub D	Consolidation journals											31-Dec							
						Jnl 1A	Jnl 1B	Jnl 1C	Jnl 1D	Jnl 2	Jnl 3	Jnl 4	Jnl 5	Jnl 6	Jnl 7	Jnl 8		Jnl 9	Jnl 10	Jnl 11	Jnl 11			
	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	
	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	
Fixed assets																								
Intangible assets	-	244,749	244,749	-	21,250	60,000																	570,748	
Tangible assets	-	800,000	1,645,891	450,000	102,000	120,000								(32,000)								88,000	3,173,891	
Goodwill	-	-	-	-	-	201,200				38,250													239,450	
Investment property	-	-	100,000	-	-	-																(100,000)	0	
Financial assets																							0	
Investment in Subsidiary A	828,175					608,175									(220,000)								0	
Investment in Subsidiary B	100						(100)																0	
Investment in Subsidiary C			1					(1)															0	
Investment in Subsidiary D	160,000								(160,000)														0	
Investment in Associate A	50,000																					10,100	(21,000)	39,100
	1,038,275	1,044,749	1,990,641	450,000	123,250	(226,975)	(100)	(1)	(121,750)	0	0	0	0	(32,000)	(220,000)	0	10,100	(21,000)	0	(12,000)	0	(12,000)	4,023,189	
Current assets																								
Stocks	-	85,000	7,488,171	125,000	42,500	-				(15,000)													7,725,671	
Debtors	-	81,938	6,708,321	45,000	38,250	-																	6,873,509	
Intercompany debtors	10,000	60,000	-	-	-									(70,000)									0	
Cash at bank and in hand	1,203,469	45,000	970,586	-	8,500																		2,227,555	
	1,213,469	271,938	15,167,078	170,000	89,250	-	-	-	-	(15,000)	-	-	-	(70,000)	-	-	-	-	-	-	-	-	-	16,826,735
Creditors: amounts falling due within one year																								
Intercompany Creditors	-	(335,000)	(3,565,028)	(131,850)	(21,250)										70,000								(4,053,128)	
	1,213,469	(123,062)	11,592,050	38,150	68,000	0	0	0	0	(15,000)	0	0	0	0	0	0	0	0	0	0	0	0	12,773,607	
Total assets less current liabilities	2,251,744	921,687	13,582,691	488,150	191,250	(226,975)	(100)	(1)	(121,750)	(15,000)	0	0	0	(32,000)	(220,000)	0	10,100	(21,000)	0	(12,000)	0	(12,000)	16,796,796	
Creditors: amounts falling due after more than one year																							(20,000)	
Provision for liabilities	-	(45,000)	(10,000)	(1,000)	0	(18,000)				1,500													3,300	
	2,251,744	876,687	13,552,691	487,150	191,250	(244,975)	(100)	(1)	(121,750)	(13,500)	0	0	0	(32,000)	(220,000)	0	10,100	(21,000)	0	(8,700)	0	(8,700)	16,707,596	
Net Assets																								
Capital and reserves																								
Called up share capital	15,543	40,000	100	50,000	16,000	(40,000)	(100)	(50,000)	(16,000)														15,543	
Share premium	1,527,615	10,000	-	20,000	-	(10,000)		(20,000)															1,527,615	
Other reserves	-	-	20,000																				0	
Capital contribution		20,000												20,000	(20,000)								0	
Profit for the year	48,500	201,687	145,126	57,150	71,250	(128,990)	0	(57,150)	(1,750)	(13,500)	0	0	0	4,000	0	(45,000)	10,100	(21,000)	10,000	(8,700)			271,723	
Dividend paid	-	(45,000)	0	0												45,000							0	
Profit and loss account B/f	660,086	650,000	13,427,465	360,000	104,000	(580,900)		(290,000)	(104,000)					(36,000)	(142,222)					(10,000)			14,038,429	
Equity attributable to owners of the parent company	2,251,744	876,687	13,552,691	487,150	191,250	(759,890)	(100)	(417,150)	(121,750)	(13,500)	0	0	0	(32,000)	(142,222)	0	10,100	(21,000)	0	(8,700)	0	(8,700)	15,853,310	
Non Controlling interest						514,915		417,149							(77,778)								854,286	
	2,251,744	876,687	13,552,691	487,150	191,250	(244,975)	(100)	(1)	(121,750)	(13,500)	0	0	0	(32,000)	(220,000)	0	10,100	(21,000)	0	(8,700)	0	(8,700)	16,707,596	
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Consolidation Journals to support schedule
Year ended 31 December 2014

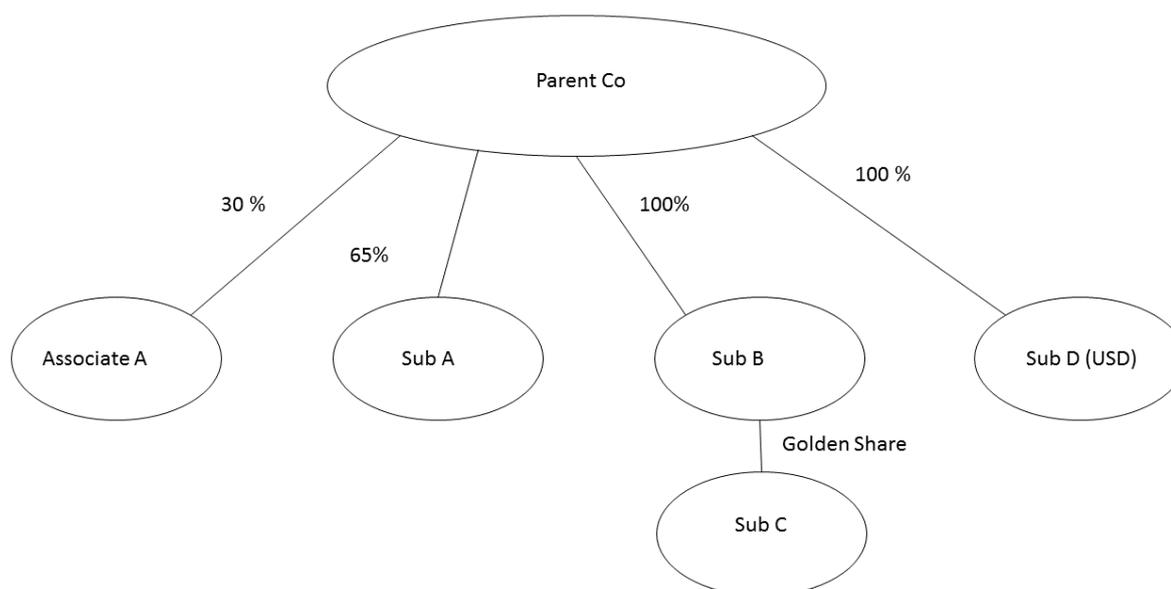
Jnl #	Details	Profit and Loss		Balance Sheet	
		Dr	Cr	Dr	Cr
1A	Dr Goodwill			251,500	
	Dr Ordinary Share Capital of Subsidiary A			40,000	
	Dr Share Premium of Subsidiary A			10,000	
	Dr Profit and Loss Reserves (i.e. profit and loss reserves in existence at date of acquisition)			360,000	
	Dr Property, 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				
	Dr Profit and Loss Reserves - Group			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				
	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				
	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 + 1,000 for interest expense reduction) * 35%)				72,340
	Being journal to reflect the transfer of the NCI portion of the result for the period				

1B	Dr Ordinary Share Capital of Subsidiary B	100	
	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	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		
	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	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		
	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.		
	Dr Goodwill	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.		
2	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 (CU30,000*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.		
	Dr Deferred Tax Asset (CU15,000*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	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			
4	Dr administrative expenses	40,000		
	Cr Cost of Sales		40,000	
	Being journal to eliminate intercompany recharges			
5	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	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 (€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)			32,000
	Cr Depreciation within cost of sales (€10,000 charged less CU6,000 (CU60,000/10 yrs) which would have been charged if no inter co sale arose)		4,000	
	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			
7	Dr Equity -Profit and Loss Reserves (€220,000-€77,778)		142,222	
	Dr Equity-Non Controlling Interest (€350,000/45 being original amount owned by the MI *10 being the amount disposed of)		77,778	
	Cr Investment in Subsidiary A			220,000
	Being journal to reflect the acquisition as an equity transaction			
8	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	Dr Investment in Associate		10,100	
	Dr Share of Associates expense in OCI		1,750	
	Dr income from participating interest		3,500	
	Cr Share of Associates Profit for year in P&L		15,350	
	Being journal to reflect Parents share of associates income and reclassification of dividend to share of associates profit			
10	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			

11	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.			
12	Dr tangible fixed assets(€100,000-88,000)		88,000	
	Cr Investment property			100,000
	Dr interest receivable	10,000		
	Dr depreciation - Administrative expenses	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 including deferred tax			

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

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
