



The Irish Financial Reporting Conference 2019

Consolidations & Groups Part 1 & Part 2

Presenter:

John Murphy- OmniPro



www.CPDStore.com

**Core Technical Online CPD for Irish Accountants
Tax, Audit, Financial Reporting, Insolvency, Company Law, Regulation,
Management Accounting & Business Skills**

OmniPro Education & Training
Aldercourt, Ferns, Enniscorthy, Co. Wexford.
Block B, Iveagh Court, Harcourt Road, Dublin 2.
053 9100000 01 4110000
www.omnipro.ie info@omnipro.ie

Contents	Page
Consolidations & Groups – Presentation.....	177
Consolidations Requirement and Golden Share Impact Quick Guide.....	183
Examples of Control.....	190
Consolidation Case Study Question & Solution.....	191
Sample Simple Consolidation Checklist.....	204
Consolidation Schedule.....	209
Further Consolidation Examples.....	215
FRS 102 CA2014 Consolidated Sample Financial Statements Post CAA2017.....	224
Group Audits	255

A Personalised CPD Certificate of Completion will be forwarded to you upon completion of this course.
These notes do not serve as proof of completion alone.

OMNI**PRO**
Let Your Expertise Benefit From Ours

www.omnipro.ie

Practical Consolidation Process under FRS 102

- Topic 1 – An overview of S9 consolidations and the new consolidation requirements under CAA 2017
- Topic 2 – Consolidation basics and collating the information
- Topic 3 – The core consolidation adjustments for Irish companies
- Topic 4 - Consolidation journals and adjustments
- Topic 5 – The financial statements and disclosures relating to consolidation
- Topic 6 – The audit file for consolidations

Topic 1: What changed under the 2017 Act

- Section 297 – deleted under Companies Accounting Act 2017
- Instead exemption from consolidation is the holding company can avail of the small companies exemption in S.280B
- Application of Gross & net thresholds
- Excluded entities in a group = consolidated stats for all of group
- Impact – reduced thresholds significantly and certain entities excluded
- Usual Intermediate exemptions still apply
- See handout – Overview of new consolidation requirements and the golden share

Topic 2: Consolidations and the basics & collating Info

- What entities are included in consolidation
- Remember Purchase accounts – Results from date of acquisition to date period end date only OR results from start of period to the date of disposal
- All subsidiaries are to be included in the financial statements unless long term restrictions placed on the entity which prevents the parent from controlling it e.g. company placed into administration or liquidation, severe restrictions on future distributions and veto powers by a 3rd party
 - Key thing is the ability to control the entity

Background – control

- What is Control
 - The ability to control the financial and operating policies; and
 - And benefits are obtained from that power (can be financial but also can be cost savings, access to customers or brand related goodwill etc.)
- power over more than half of the voting rights by virtue of an agreement with other investors; or
- power to govern the financial and operating policies of the entity under a statute or an agreement; or

Background – control

- What is Control (continued)
- power to appoint or remove the majority of members of the board of directors or equivalent; or
- power to cast the majority of votes at meetings of the board of directors; or
- having options or convertible instruments which are exercisable at the date of acquisition.
- Irrelevant as to whether the control is exercised. Ability to have it is what determines control (see example 1 & 2)
- Where shares held in bare trust, then look through & look to the beneficial holders

Control

- Strategic, financial and operating policies would include the ability to:
 - have control over distributions and investment decisions (most important) e.g. Right to block customary or expected dividends,
 - Place the company into Liquidation
 - Issue and repurchase shares
 - to determine the budgets, Capital expenditure and manage treasury,

Control

- Strategic, financial and operating policies would include the ability to:
 - Determine the dividend policy;
 - manage production, marketing, sales and human resources
 - The ability to control the composition of board of directors

Consolidation steps – Collating the Info

- Steps to consolidate:
 - See Sample Consolidation checklist in Appendix

Topic 3 & 4: Consolidations Adjustments

- Share for shares – creates goodwill – Consider Merger accounting option??
- Impact of golden share and how it is to be accounted for and shown in FS's
- Calculation of goodwill and determining fair value
- Elimination of investments including non-controlling interests
- Procedures where consolidated financial statements prepared for first time
- Allocation of result between controlling and non-controlling interest;
- Differing Year end of parent and Subsidiary
- Elimination of interco dividends, balances, inter Co. profits, sales, purchases
- Investment in associates/JV's – Equity method of accounting
- Properties rented to group companies – elimination of fair value uplifts and restatement to cost less depreciation as carried as investment property in individual entity accounts

Topic 5 – Consol Financial Statements

- What to watch out for?
- Directors report,
- Auditors report,
- Profit and loss – Group – Parent Unless S.304 applies
- Balance sheet – Group and Parent
- SOCE – Group and Parent
- Notes & Accounting policies – Notes for P&L as applicable for Group & not for parent – All notes for Group and Parent on balance sheet notes
- Disclosure of S.357 Guarantee if availed of

Topic 6 – Audit File for Consolidations

- Options on layout;
- Use the consolidation checklist to show evidence of work done;
- Have clear linking for basis for adjustments and testing;
- Watch materiality – if adjustments made at group level reduce profit;
- If not Component auditor issue instructions & review work

Q&A

??



Why OmniPro

Our Why - Our core belief is simply this : Accountants can and do change lives. So we get up every morning to bring them the tools, advice and training so that they can create great businesses for themselves and their clients too. In this way we change lives, communities and our world. We would live to do that together with you.

Why OmniPro

How We Do That –

- We do accountants
- We connect with accountants.
- We learn about accountants so we can understand them.
- We work out what accountants want and need
- We find the best solution for accountants in any given situation

Why OmniPro

What We Do -

We provide accountants with information products, consulting and training in the areas of;

- practice management, business development & marketing;
- company secretarial & taxation;
- audit & financial reporting;
- professional regulation and disciplinary defence.

Quick Guide: Overview on New Consolidation Requirements and the impact on golden shares

Overview

The Companies (Accounting) Act 2017 deletes the existing Section 297 CA 2014 which refers to the size exemption from consolidation and instead replaces this with a lower threshold in Section 293 of CA 2014. This will have a significant impact and will result in more groups having to prepare consolidated financial statements.

What is new?

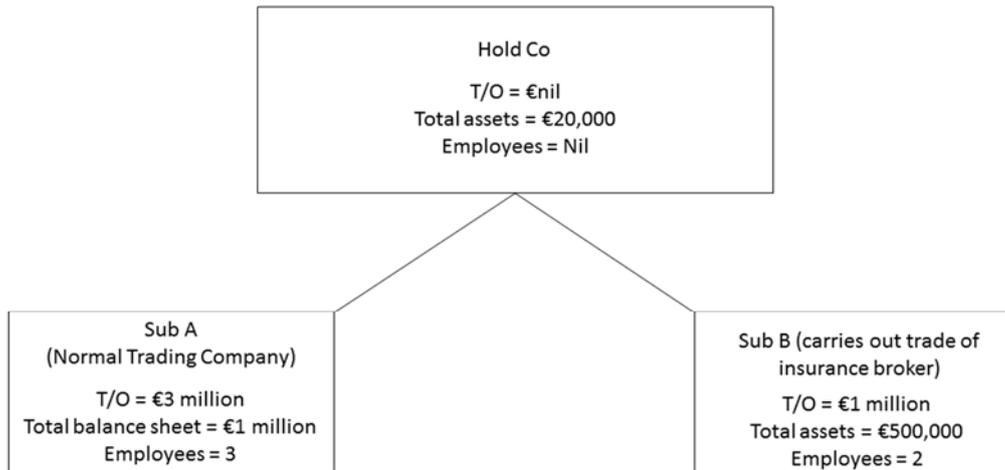
As Section 297 of CA 2014 is deleted/repealed for all periods commencing on or after 1 January 2017 (and earlier if the Companies (Accounting) Act 2017 is early adopted), groups can only apply the size provisions where the holding company of that group meets the conditions for applying the small companies regime as stated in Section 293(1A) of CA 2014 as inserted by Section 19 of the 2017 Act. Not only have the thresholds reduced but in addition even if the thresholds are met the group may still be required to prepare consolidated financial statements where the holding company does not meet the small company regime conditions as there are ineligible companies within the group. This was not the case under Section 297 – once the group met the three conditions below they could automatically claim the exemption.

Table: Comparison of existing consolidation size rules to new proposed rules (at least 2 of the 3 qualifying conditions must be met)

	Small Group (when assessing if holding co. meets requirements of Small Companies Regime – S.280B of CA 2014)*	Size thresholds under old Section 297 CA 2014
Turnover of holding company and subsidiaries	≤ €12 million-net ≤ €14.4 million-gross	≤ €20 million
Balance Sheet Total Assets of holding company and subsidiaries	≤ €6 million net ≤ €7.2 million-gross	≤ €10 million
Employees of holding company and subsidiaries	≤ 50	≤ 250

***Note 1:** See Appendix 1 for the full conditions to be met in addition to the above thresholds as certain groups/holding companies are deemed ineligible for the small companies regime even where the thresholds above have been met.

***Note 2:** For the Holding company the starting point is to use the gross figure regardless of whether there is intra group transactions or not. If these thresholds gross thresholds are not met, then you move to the net thresholds (after elimination of interco sales/debtors etc.). You cannot mix and match the gross and net thresholds.



Overall within thresholds but cannot claim small company exemption as there is an excepted company within the group. Therefore relief from consolidation under S.293(1A) CA 2014 cannot be claimed. Consolidated financial statements must be prepared. In addition Hold Co cannot file small company abridged financial statements.

In the above example, FRS 105 accounts cannot be prepared as consolidated financial statements exclude such a group from using FRS 105.

Note Section 299/300 of CA 2014 still apply in relation to the exemption from preparing consolidated accounts where the intermediate parent or ultimate parent (whether registered in EEA countries or outside the EEA countries) prepares consolidated financial statements which incorporates the results of the company and its subsidiaries.

What is the impact?

More groups will be required to prepare consolidated financial statements.

Where a company holds a golden shares in another company that holding company is deemed to hold a subsidiary under Section 7(2) of Companies Act 2014. The golden share is a share that gives the company the ability to control the composition of the board (ability to appoint and remove persons from the board of directors) of the other company which gives the holding company control.

As this is a subsidiary in this case then a group exists and the results of the subsidiary company must be considered when determining whether consolidated financial statements need to be prepared.

A golden share is usually implemented to allow funds to flow freely between companies without any company law implications (loans to directors and connected parties).

This may have an impact on construction companies where the trend is to set up a special purpose company for each project and to create a golden share arrangement to allow funds to flow from the cash rich parent company.

Key points to keep in mind when assessing what entities to consolidate

Where a golden share arrangement exists the following procedures should be performed:

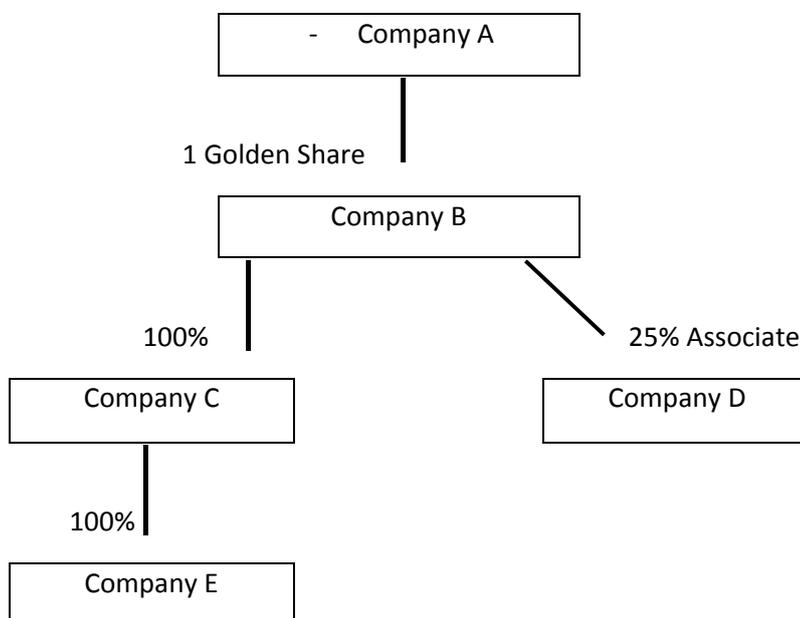
- Recognise the full results of the company with which the golden share is held in the consolidated profit and loss account/OCI and balance sheet;

- On face of consolidated profit and loss account and in the statement of comprehensive income at the end show the split of the results between:
 - o Profits/total comprehensive income attributable to the owners of the parent; and
 - o Profits/total comprehensive income attributable to Non-Controlling Interests - 100% of the results of the company that issued the golden share should be attributed to the non-controlling interest*.
- On the balance sheet show all of the ordinary share capital, reserves etc. of the company that issued the golden share as being attributable to the non-controlling interest at the bottom of the balance sheet (under line 'Equity attributable to owners of parent)*.

* The above assumes that the holding company only holds a share which gives that company the ability to control the composition of the board. If that holding company also holds another type of share which gives the company the same rights to the other shareholders in that company then the amount of profit etc. attributable to the non-controlling interest would be reduced.

If the company that issued the golden share also has:

- a 100% subsidiary or a subsidiary of less than 100% but it has control- then the results of the 100% subsidiary would need to be included in the consolidated financial statements of the holding company with those results being all attributable to the non-controlling interest. This is applicable to all subsidiaries etc. not just companies that hold a golden share.
- An associate/joint venture then these will have to be equity accounted in the holding company's consolidated financial statements with those results being all attributable to the non-controlling interest. This is applicable to all subsidiaries etc. not just companies that hold a golden share.
- Apply the usual consolidation rules – elimination of intercompany balances/ transactions /profits/ dividends etc.



*Assuming S.280C CA 2014 requirements are not met (this includes a situation where there is an ineligible company in the group even where the thresholds are met), consolidated financial statements are required to be prepared by Company A.

The consolidated financial statements of Company A will include the full results of Company A, B, C and E with usual consolidation adjustments (adding P&L and Balance Sheet of all entities and eliminating intercompany balances).

The results of 25% of Company D will be accounted for under equity method in the consolidated financial statements of Company A with results shown as one line item in consolidated P&L "share of associates profits" and the corresponding amount recognised as an investment on the balance sheet.

Would some groups be better off not early adopting CAA 2017; if so why and how can the negative impact be delayed?

Yes; the following entities should consider whether it is in their best interest to early adopt:

- A group which is currently below the current consolidation thresholds on the basis of size under Section 297 of Companies Act 2014 (i.e. T/O ≤ €20m; Total Assets ≤ €10m; Employees ≤ 250) and the group does not qualify as a small group (due to the thresholds being exceeded or an excluded company being included within the group) in new Section 280A-280C as inserted by Companies (Accounting) Act 2017 and defined in the table below.
 - o If early adopted such a group cannot claim exemption from consolidation as Section 297 has been repealed under Companies (Accounting) Act 2017.
- A holding company of a group which meets the conditions for small company abridged financial statements under current company law (but the group overall does not meet the definition of a small group and Section 297 consolidation size threshold is not exceeded).
 - o If adopted early, then such a company cannot avail of the small company abridgement option as Section 280B only permits abridgement for a holding company where the group as a whole is considered a small group.

How can the negative impact be delayed?

- The company/group change its year end date to a date just prior to 31 December 2016 (e.g. 30 December) as the new Act is only mandatorily applicable for all periods commencing on or after 1 January 2017. This gives the company another year before it will need to apply the new rules (e.g. instead of applying the New Act for year ended 31 December 2017 assuming a 31 December year end, it would mean that it would only apply for the year ended 30 December 2018 – another 12 months deferral).

Bear in mind a company can change its year end within 7 days either side of its existing year end every year. However, where the change is done outside this range, then under Section 288 of CA 2014, it can only change its year end date once every five years and it cannot be for a period of greater than 18 months. Note if a change in year end is made, the company needs to ensure that the company's annual return date is adjusted (can only be adjusted once every 5 years).

Consolidation points not specific to golden share arrangements

Where this reduced threshold results in consolidated financial statements being required to be prepared for the first time, an exercise will need to be performed to:

- Assess the goodwill to be recognised at the date of initial acquisition of control of each entity if applicable (where investment acquired on incorporation there is no goodwill).
- Determine the fair value of all assets and liabilities at the date of original acquisition of control and split out the intangible assets separately from goodwill.
- Ascertain the useful life of goodwill and amortise – determine the carrying amount of this goodwill at the start of comparative year assuming the acquisition was made prior to that date.

- Where fair value adjustments to be made on date of acquisition ensure carrying amount at start of comparative period is determined and the difference recognised in the consolidated P&L reserves.
- If acquired before date of transition to FRS 102 then possible to claim exemption and apply old business combination rules up to that date.
- If there is a disposal of an interest in a subsidiary/associate etc. in the current or comparative year determine the profit/loss on disposal to be recognised in the consolidated financial statements. If the disposal does not result in a change in control recognise net amount in equity.
- Where an associate or joint venture exists an analysis will have to be performed to assess:
 - o What goodwill arose on the acquisition at the acquisition date if applicable (as this goodwill is written off over the useful life and recognised in the consolidated financial statements as part as the income from the associate/joint venture). NB this goodwill is included within the investment in the associate/joint venture cost under the equity method of accounting and not disclosed separately.
 - o Need to determine the amount to be recognised as an investment on the balance sheet under the equity method of accounting –
 - can be done on high level basis by comparing the net assets at date of acquisition to net assets at the date of preparing the accounts (start of comparative period if acquired before that date). This will inform you of the amount of profits made since acquisition. You should then multiply the percent of shares held to determine the element relating to the group. The element relating to periods before the current year should be recognised in group profit and loss reserves brought forward.
 - should also consider any adjustments for intercompany profits, amortisation of goodwill which would not be included in the individual entity accounts of the associate/joint venture.

What do accountants need to do?

Review their existing portfolio of clients to identify groups which did not previously have to prepare consolidated financial statements due to the exemption contained in Section 297 CA 2014 to assess whether those groups now exceed the thresholds in Section 280C above and as part of this to assess whether the holding company meets the requirements of the small companies regime.

Review their client portfolio to assess entities that hold golden shares in other companies to determine if those companies when taken together will need to be consolidated.

Draw out a detailed group structure for each group including the activities performed by each to assess whether consolidation is required.

If following the detailed review of the client portfolio, consolidated financial statements are required to be prepared for the first time as a result of the new legislation, complete the following:

- o inform the client of the requirement and the additional work required
- o request that the client determine the fair value of assets/liabilities at the date of acquisition in line with the requirements of Section 19 of FRS 102 (only applicable where investment acquired after the date of incorporation of the relevant company) so that goodwill can be calculated. As part of this:
 - separate any intangibles out from the goodwill figure if it meets the requirements for separate recognition in Section 18 of FRS 102.

- request that the client consider the useful life of any goodwill to be recognised.

Before issuing golden shares, assess whether it is likely that by issuing those shares it will result in consolidated financial statements being required to be prepared. Advise the client accordingly.

If the creation of a golden share will result in a requirement to prepare consolidated financial statements, assess whether it would be more beneficial to perform a summary approval procedure under Section 203 of CA 2014 to approve a loan to connected companies.

Appendix 1 – Detail Small Companies Regime Conditions

A company qualifies for the small companies regime if it fulfils at least two of the three qualifying conditions listed below:

- In relation to its first financial year; or
- In relation to its current financial year and the preceding financial year; or
- In relation to its current financial year and it qualified as a small/medium company in the preceding financial year; or
- In relation to the preceding financial year and it qualified as a small/medium company in the preceding financial year

	Small Co	Holding company for Small Group
Turnover	≤€12 million	≤€12 million-net ≤€14.4 million-gross
Balance Sheet Total	≤€6 million	≤€6 million net ≤€7.2 million-gross
Employees	≤50	≤50

Note 1: Exception even where the above thresholds are met:

S.280B(5) of CA 2014 excludes the following companies from applying the SCR:

1. a company falling within any provision of Schedule 5 of the Act (e.g. Authorised investment firm, insurance intermediary of any other company carrying on of business by which is required to be authorised by the Central Bank); or
2. a company that is a credit institution or insurance undertaking; or
3. a company with securities regulated on a regulated market; or
4. a holding company of a small group even where the group meets the thresholds where any of the entities in the group come within points 1, 2 and 3 above (this only effects the holding company and not the other companies within the group (other than a company that comes within the remit of points 1-3 above)).

Control examples

Example 1: Exercise of dominant influence

Company A owns 60% of the voting rights of Company B. However Company A allows the other investor who owns the remaining 40% to run Company B with little or no input from Company A. In this case although Company A is not getting involved in the financial and operating policies this is irrelevant when assessing control, as the key point is that they have the ability if Company A wanted to prevent the other investor from making decisions.

Potential voting rights

When assessing whether control exists, an entity should not only review all shares/rights held at that point in time but also options/rights which are exercisable at that point in time. If voting rights cannot be converted or exercised until a future date these are not considered in determining whether control exists.

Example 2: Potential voting rights

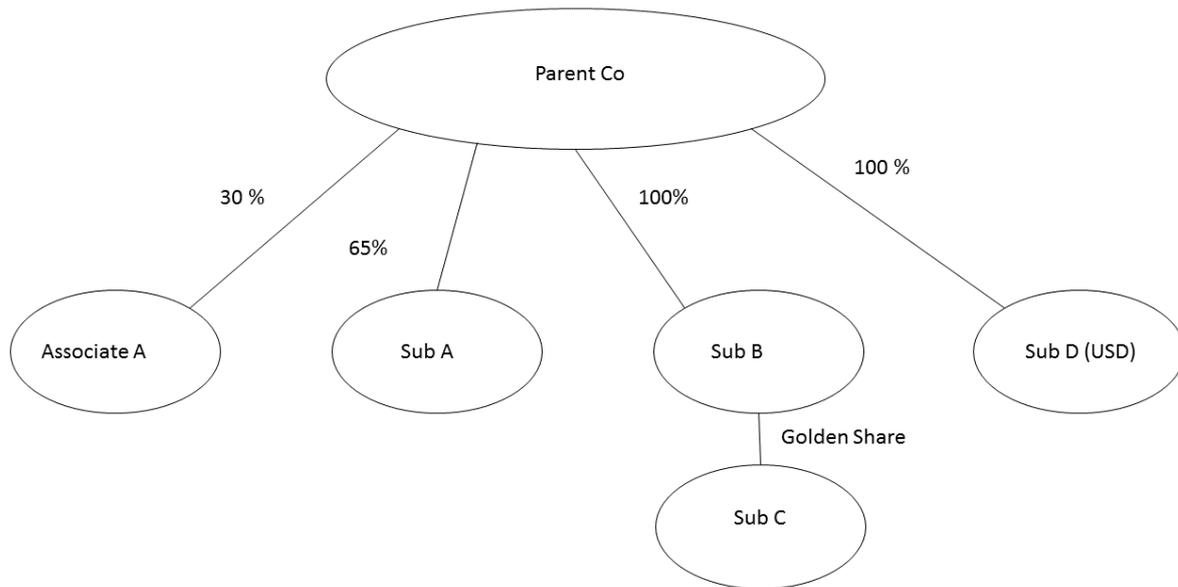
Company A owns 40% of the share capital and voting rights of Company B. It also holds 100% preference shares in Company B which provide a right to a dividend of 5% per annum. These preference shares can be converted at the option of Company A into ordinary shares after 3 years time which would result in the Company obtaining more than 50% of the voting rights (assume 70%).

With regard to the convertible rights here, these cannot be considered by Company A in the control test until after 3 years. So for the first three years assuming Company A does not have the ability to control the composition of the board, Company A would not control Company B and therefore it is not a subsidiary.

However after year 3, even if Company A does not exercise its right to convert at that time, in assessing whether control exists, these exercisable rights should be taken into account and therefore Company B would be a subsidiary of Company A from that date. Note if the option is not exercised after the three years in the consolidated financial statements 60% of the net assets would be allocated to non-controlling interests as that is what the NCI owns at that point in time as the options have not been exercised.

Where the rights are exercisable/convertible in the very near future they may be taken into account so if this is the case judgement will need to be exercised. In addition consideration should be given as to whether an entity will be able to exercise dominant influences i.e. do they have the financial resources etc. to convert rights into shares.

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 = $\text{€}251,500/10\text{yrs life} * 1 \text{ year elapsed since date of acquisition to the start of current year} = \text{€}25,150$ per annum.

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

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

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 $\text{€}5,000$ (i.e. Reversal of the timing difference of inventory ($\text{€}10,000$) and debtors ($\text{€}5,000$) 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 ($\text{€}15,000 + \text{€}20,000$) = $(\text{€}10,000 + \text{€}5,000 + \text{€}35,000) * 10\% = \text{€}5,000$)

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 $\text{€}650,000$ less P&L reserves at date of acquisition of $\text{€}360,000$ plus adjustments of $\text{€}70,150$ - goodwill amortisation of $\text{€}25,150$ 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			7,500
			15,000

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

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		

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	0	-21,000	10,000	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	-	-	-	-																	(3,500)				0	
Income from group undertakings	45,000	0	0	0																		-45,000				-	
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	-3,500	-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	-10,000	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	-	13,500	-	-	-	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

	Parent Co	Sub A	Sub B	Sub C	Sub D	Consolidation journals											31-Dec 2014									
						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	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																			239,450	
Investment property	-	-	100,000	-	-	-																		(100,000)	0	
Financial assets																									0	
Investment in Subsidiary A	828,175					608,175																			0	
Investment in Subsidiary B	100						(100)																		0	
Investment in Subsidiary C				1				(1)																	0	
Investment in Subsidiary D	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)	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)																					(4,053,128)
	-	(60,000)	(10,000)	-	-										70,000											-
Net current assets	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	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)	0	(12,000)	16,796,796	
Creditors: amounts falling due after more than one year																										(20,000)
	0	0	(20,000)	0	0																					
Provision for liabilities																										(69,200)
	-	(45,000)	(10,000)	(1,000)	0	(18,000)					1,500															
Net Assets	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)	0	(8,700)	16,707,596	
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)	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)	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	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				

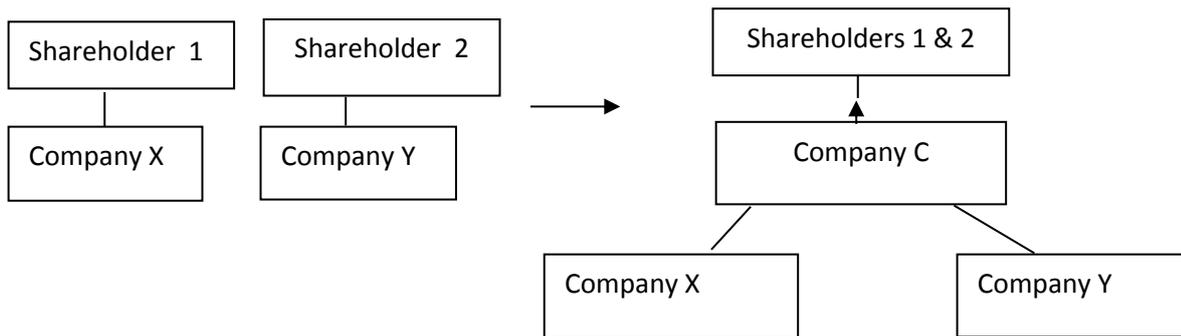
1B	Dr Ordinary Share Capital of Subsidiary B	100	
	Cr Investment in the Individual Entity Financial Statements of Parent Co		100
	Being journal to derecognise the investment in Subsidiary B from the parent balance sheet		
1C	Dr Ordinary Share Capital of Subsidiary C		50,000
	Dr Share Premium		20,000
	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			

Example 1: Identifying the Acquiring company

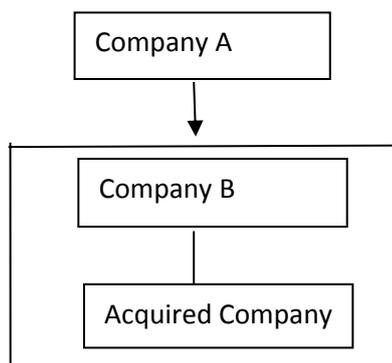
The shareholders of Company X and Y agree to join together under the same group. A new company, Company C is set up with Shareholder 1 and 2 as the owners. A transaction is entered into whereby Company A issues shares to each of its directors in proportion to the fair value of Company X & Y. Assume shares issued to Company X obtained 200 shares and Company Y was issued 100 shares. In this case Company C is not deemed to be the acquirer instead Company X is the acquirer as the fair value of Company X is well in excess of Company Y. Company X would use the purchase accounting method to account for the acquisition. Company C would use merger accounting.



However where an entity sets up a 100% subsidiary and provides funds to this new company to invest in another entity/business combination and the transaction is performed on an arm's length basis, the acquirer would be the new company. Here there was no issue of shares to the combining entities. In reality as it is an intermediate parent, it may be exempt from preparing consolidated financial statements.

Example 1a: Identifying the acquirer

Company A set up a new Company as a 100% subsidiary, Company B with the sole purpose to acquire a business/shares of another entity. Company A provides the funds to Company B to allow it to acquire the business and charges market interest. In this case the acquirer of the business is Company B and not Company A.



Example 2: Changes in contingent consideration – change in estimate

Company A acquires Company B at the start of year 1. The purchase price was CU1,000,000 and a further CU300,000 will be payable in three years time if the future profits remain at CU350,000 or a further CU370,000 if profits increase to CU450,000 for each of the four years.

At the start of year 1, in calculating the business combination cost, Company A would have to assess if it is probable that the company will maintain the profit level. If we assume that it is probable that the CU300,000 will be maintained and the CU450,000 will not be obtained. Then the present value of the CU300,000 should be recognised within goodwill as a cost of the business combination. Assume goodwill before accounting for the business combination is CU100,000 and the discount rate is 5%. Assume the amortisation of goodwill is 10 years.

The present value of CU300,000 in 3 years time is CU259,151 ($CU300,000 / (1.05)^3$). Three years is used here as the fair value is determined at the date of acquisition. The deemed interest on the unwinding of the discount would be:

End of year 1:	CU12,958 (CU259,151 X 5%)
End of year 2:	CU13,605 ((CU259,151 + CU12,958) X 5%)
End of year 3:	CU14,286 ((CU259,151 + CU12,958 + CU13,605) X 5%)

Therefore this CU259,151 will be added to goodwill i.e. Dr goodwill, Cr provisions. The posting for the unwinding of the discount at the end of year 1 would be to: Cr provision for contingent consideration CU12,958, Dr interest expense CU12,958.

Assume at the end of year 2 the company believes CU450,000 profits will be achieved in each of these years so the probable consideration to be paid is CU370,000. In this case the entity should use the discount rate at the end of year 2 to determine the present value however here as this is repayable within one year no discounting has been performed. The adjustment posted at the end of year 2 would be:

	CU	CU
Dr Goodwill	67,429***	
Dr Amortisation of Goodwill on Adjustment in P&L	16,857**	
Cr Provision for Contingent Consideration		84,286*

*Total carrying amount of provision at end of year 2 = CU259,151 + interest for year 1 of CU12,958 + interest for year 2 of CU13,605 = CU285,714.

The carrying amount of CU285,714 less the required provision based on the new estimate of CU370,000 = CU84,286

**Amortisation of additional goodwill = $CU84,286 / 10 \text{ yrs} \times 2 \text{ yrs}$ as two years have elapsed = CU16,857

***Goodwill adjustment = CU84,286 less the amortisation of CU16,857 that would have been charged if this were recognised initially = CU67,429.

As can be seen no prior period adjustment is required as it is a change in accounting estimate.

In this case the company could also choose to amortise the updated goodwill figure over the remaining life instead of posting a catch up amortisation charge e.g. the new goodwill figure could be CU291,670.

Carrying amount of goodwill at end of year 2:	
(CU259,151 / 10 yrs X 8 yrs)	= CU207,321
Additional amount posted	= <u>CU84,286</u>
	CU291,607

This CU291,607 would then be depreciated over the remaining life of 8 years.

Example 3: Contingent consideration – No provision booked in year 1

If we assume in the above example that a reliable estimate cannot be measured at the date of acquisition and therefore no provision was posted but at the end of year 2 a reliable estimate of CU300,000 can be made. The adjustment required would be to:

	CU	CU
Dr Goodwill	217,687*	
Dr Amortisation of Goodwill on Adjustment in P&L	54,422**	
Cr Provision for Contingent Consideration		272,109***

*Goodwill adjustment = CU272,109 less the amortisation of CU27,211 that would have been charged if this were recognised initially= CU244,898. Adjustment set against goodwill as required by Section 19.13 of FRS 102.

**Amortisation of additional goodwill = CU272,109/10yrs*2yrs as two years have elapsed= CU54,422

***The present value of CU300,000 in 2 years time is CU272,109 (CU300,000/(1.05)^2). Two years is used here as the fair value is determined at the date of the change in estimate. If the discount rate was different at that time than the discount rate at the date of the initial acquisition the new discount rate would be used.

The entity can instead also choose to amortise the CU272,109 over the remaining 8 years from that date.

As can be seen no prior year adjustment is required as it is a change in accounting estimate.

Example 4: Net investment in a foreign operation

Parent A loaned CU100,000 to Sub A on 1 February (Sub A has a functional currency in FC) which is neither planned nor likely to occur in the foreseeable future, so the entity is regarded as a net investment in a foreign operation. The foreign exchange rate at the date of receipt by Sub A was FC1=CU1.20. The spot rate at 31 December is FC1=CU1.15 and the year end for both companies is 31 December. Assume the average rate in the year was FC1=CU1.17. The journals to be posted for FX are:

Sub A

	FC	FC
Dr Bank	83,333	
Cr Amounts Due to Parent A (CU100,000/1.2)		83,333

Being journal to reflect receipt of loan at transaction date

At year end

	FC	FC
Dr FX Loss P&L	3,623	
Cr Amounts Due to Parent A ((CU100,000/1.15)=FC86,956-FC83,333)		3,623

Being journal to reflect unrealised FX loss due to retranslation to year end rate (as required by Section 30.9 of FRS 102)

Parent A

No FX effect as it was issued in CU.

Consolidated accounts

	CU	CU
Dr Unrealised FX in OCI	4,239	
Cr FX in Profit and Loss		4,239

(FC3,623*1.17)

Being journal to reclassify the FX loss from P&L to OCI assuming average rate for the year was used in the consolidation. This would then be recognised in a separate component in equity. This is required by Section 30.12 of FRS 102. Note this cannot be applied to trade creditors or debtor balances.

Group reorganisations and merger accounting

Section 19.27 of FRS 102 makes it clear that group reconstructions can apply the merger accounting method if the following conditions are:

- (a) the use of the merger accounting method is not prohibited by company law or other relevant legislation;
- (b) the ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged; and
- (c) no non-controlling interest in the net assets of the group is altered by the transfer.

A group reconstruction arises in any one of the following arrangements:

- (a) the transfer of an equity holding in a subsidiary from one group entity to another;
- (b) the addition of a new parent entity to a group;
- (c) the transfer of equity holdings in one or more subsidiaries of a group to a new entity that is not a group entity but whose equity holders are the same as those of the group's parent; or
- (d) the combination into a group of two or more entities that before the combination had the same equity holders.

Merger accounting differs from the purchase method of accounting as follows:

- Under merger accounting, the results, balance sheet and cashflows of the acquiree are shown in the current and comparative financial year of the parent consolidated accounts regardless of what period in the year this was acquired as per Section 19.30 of FRS 102
Under purchase method accounting, the results are only shown from the date of acquisition and the comparative figures on first acquisition does not include the acquirees results
- Merger accounting does not require the net assets of the acquiree to be fair valued (AS PER Section 19.29 of FRS 102) whereas purchase accounting does, and any fair value adjustments must be accounted for in the parent.
- Merger accounting does not require goodwill to be calculated whereas purchase accounting does.

As per Section 19.31 of FRS 102, the difference between the fair value of the consideration given and the normal value of the shares in the acquiree entity is recognised within equity as a movement in other reserves and shown in the statement of changes in equity

Merger expenses

As per Section 19.32 of FRS 102, all costs directly attributable to the merger must be expensed.

See application of merger accounting in example 20 below at 19.13.2.2.

Note where inter group sales are made the normal rules with regard to intergroup balances/sales/profits are applied to eliminate these.

Example 5: Group reorganisations (Section 19)

Company A who is a member of a group with Parent A, acquires Company B from Parent A on 1 March in return for the issuance of 100 CU1 ordinary shares for CU1,801 each i.e. CU180,100. This CU180,100 is equivalent to the net assets of Company B. Company A applies merger accounting and the year end is 31 December. The profit for the 9-month period to 31 December in Company B was CU20,000 and the profit made for the full year is CU60,000.

In the consolidated financial statements of Company A the following would be shown assuming the below results. Note the profit made for the full year is included, the date of acquisition is irrelevant. If in the below analysis, the nominal value of shares issued in Company B was less than the actual amount issued to Company B, the other reserve would be reduced to a negative by the difference and therefore on occasion there can be a debit balance in the other reserve.

	Company A	Company B	Consol adjustment	Group
Balance sheet				
Fixed assets	CU	CU	CU	CU
Property, plant and equipment	100,000	120,000		220,000
Investment in Company B	180,100	-	(180,100)	-
Intangible assets	20,000	24,000		44,000
	300,100	144,000	(180,100)	264,000
Inventory	10,000	12,000		22,000
Debtors	30,000	36,000		66,000
Cash	119,800	24,100		143,900
	159,800	72,100		231,900
Creditors	(30,000)	(36,000)		(66,000)
Net current assets	129,800	36,100		66,100
Net assets	429,900	180,100		429,900
Ordinary share capital	101	200	(200)	101
Other reserves	179,900	-	(179,900)	
Profit and loss reserves	249,899	179,900		429,799
Capital and reserves	429,900	180,100	(180,100)	429,900
* Nominal value of shares issued		100		
* Nominal value of shares acquired		200		
Difference		(100)		
Premium on issue of shares not treated as a share premium		180,000		
Total shown in other reserves		179,900		
Profit and loss				
Turnover	200,000	240,000		440,000
Cost of sales	(110,000)	(132,000)		(242,000)
Gross profit	90,000	108,000		198,000
Administrative expenses	(40,000)	(48,000)		(88,000)
Net profit	50,000	60,000		110,000
Note the prior year comparative would be shown in the very same way with the 200 being shown as issued in the prior year				

The above example assumes shares were acquired, merger accounting can also apply when an entity acquires the trade and net assets as opposed to shares (i.e. the acquisition of a business in return for their issuance of shares in itself.) Applying this to the above example the journals would be:

	CU	CU
Dr Net Assets	180,100	
Cr Ordinary Share Capital		100
Cr Merger Reserve	180,000	

Fair valuing assets and liabilities on acquisition under the purchase method

Restructuring provisions

The acquirer can only recognise restructuring provisions if they have been recognised by the acquiree i.e. if they have been publically announced (they meet the definition of a provision in Section 21 of FRS 102). This is stated in Section 19.18 of FRS 102.

The fact that the entity may intend ceasing factory lines for example should not be incorporated into the fair value instead the depreciation of the asset should be adjusted.

Measurement of contingent liabilities

Section 19.15 of FRS 102 provides detailed conditions with regard to recognition of the assets and liabilities acquired. Accounting for intangibles and contingent liabilities is different than any other standard, in that these can be measured where they can be reliably measured. There is no need for there to be a probable outflow of economic benefits.

Although Section 21-Provisions does not allow recognition of contingent liabilities in general Section 19.15(c) of FRS 102 makes it clear that a provision should be recognised for a contingent liability in a business combination. Where in a business combination, contingent liabilities exists, these are required to be fair valued where they can be reliably measured as stated in Section 19.20 of FRS 102. Where this is included in the fair values this results in goodwill being increased (if positive goodwill is recognised) or decreased (where negative goodwill is recognised) as stated in Section 19.20 of FRS 102 increases goodwill, Disclosure is required under Section 19.20 of FRS 102 detailing the fact that a liability has been recognised.

Examples of contingent liabilities may be a tax exposure which was not required to be provided in the acquirees books or legal cases would be another example.

Contingent liability – right of reimbursement

If under the purchase agreement the acquirer is indemnified, the acquirer cannot net the contingent liability with the asset. The asset must be assessed in its own rights and recognised separately at acquisition. An asset should only be recognised where it is virtually certain that it will be achieved.

Fair valuing contingent consideration

The fair value is based on the amount that a third party would charge to assume the contingent liability. Regardless of probability, any acquirer would charge something for to take on a potential liability. Where the liability is more than expected, the increase is posted to the profit and loss as stated in Section 19.21 of RS 102.

Future losses - non-recognition of liabilities in determining allocation of cost

As per Section 19.18 (b) of FRS 102. Future losses expected to be incurred are not considered to be liabilities incurred which is in line with Section 21 of FRS 102 and are therefore ignored when identifying liabilities of the acquired entity.

Determining fair value of property, plant and equipment (including consideration of grants)

When determining the fair value of PPE, it would be good practice to review the guidance on revaluations contained in Section 17.15C and 17.15D of FRS 102. This would suggest that non-specialised property should be valued at market prices by a qualified valuer. The valuer should ignore government grants when valuing PPE as these are fair valued separately usually at the amount to be repaid in the event of a condition in the grant being breached.

In the consolidated financial statements any fair value adjustments to PPE will result in additional / reduction in the depreciation to these accounts. This is made clear in Section 19.16 of FRS 102.

For specialised PPE, the fair value can be determined from a future cash flow approach or a depreciated replacement cost approach.

Determining fair value of intangible assets

Where no active market exists the fair value would be the amount the acquirer would have paid for the asset in an arm's length transaction between knowledgeable willing parties based on best information available. Section 18 (see 18.4.2) provides further details on this. There must be either a legal or contractual right but in addition there must be a history or evidence of exchange transactions for the same or similar assets.

This would be done by looking at the multiples used for similar assets

IAS 38 of IFRS noted that it may not always be easy to place values on the intangibles and stated in that case where the below procedures reflected current transactions and practices in the industry the entity could value it by:

- discounting estimated future net cash flows from the asset; or
- estimating the costs that the entity avoids by owning the intangible asset and not needing to:
 - license it from another party in an arm's length transaction;
 - recreate or replace it.

Examples of intangibles which would usually be recognised in a business combination if they can be reliably measured are:

- trademarks, trade names, certification marks
- internet domain names
- newspaper mastheads
- non-competition agreements
- customer lists (separable)
- non-contractual customer relationships
- advertising, construction, service or supply contracts
- user rights
- patented technology
- computer software and mask works
- franchise agreements

Determining fair value of inventory

FRS 102 provides no guidance on fair valuing inventory however IFRS 3 states that:

- finished goods should be valued using selling prices less costs of disposal and a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods.

- WIP should be valued at the selling price of the finished goods less costs to complete, cost of disposal and a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods.

It would be reasonable that the above guidance be used under FRS 102.

Example 6: Valuing work in progress

Company A acquired Company B. As part of the assets acquired it included work in progress for bicycles with a cost in the acquire books at CU100,000. The selling price of these bikes when they are finished goods is CU300,000.

In the fair value exercise, the acquirer would need to determine how much extra it will cost to complete. This can be done by looking at the total costs it would be expected that Company B would incur to produce these bikes in full. Assume the total cost to complete is CU250,000, therefore a profit of CU50,000 would have been made.

In order to determine the fair value, the following calculation would be required to determine the profit allowance of CU20,000:

CU50,000 being the profit that would have been made * (CU150,000 being the costs incurred to date / CU250,000 being the total cost to produce the bikes) =CU30,000

Therefore the fair value of the WIP would be CU120,000 (CU300,000-CU150,000-CU30,000 being the profit element).

Determining fair value of financial instruments

The rules in Section 11-Basic Financial Instruments and Section 12-Other Financial Instruments should be followed when fair valuing these instruments. Depending on the accounting framework adopted by the acquiree this may result in differences especially where fair valuing is not required.

Under Section 11 basic financial instruments excluding investments which are less than 20% (i.e. which do not give significant influence), these instruments should be held at amortised costs. Where these are not carried at amortised cost, a fair value adjustment will be required.

For complex instruments, such as forward contracts these should be fair valued at the date of acquisition.

In the majority of cases, debtors, creditors, are not usually significantly different from the book values unless the acquiree did not account for financing transactions.

The majority of differences between fair value and book value are:

- Difference in the carrying amount of debtors due to an over/under provision in the books of the acquiree. Under Section 19.19 of FRS 102, an entity has 12 months from the date of acquisition to determine the fair values of the assets and liabilities. Therefore, during these 12 months facts will emerge which will provide evidence that there is an over/under provision. See example 12 at 19.10.2.1 which illustrates how this adjustment would be accounted for i.e. as prior year adjustment or not and the effect it has on goodwill.
- Loans in the acquirer not charged at market rates. In this case the acquirer will have to determine the amortised cost of these loans and identify the financing element. See Section 11 of FRS 102 for how this measurement is carried out.

Deferred revenue should only be recognised as part of the liabilities taken over to the extent that it relates to an outstanding performance obligation assumed by the acquirer. The fair value of the

obligation at the date of acquisition is recognised. This is likely to be lower than the acquirees book value as the amount of revenue that another party would expect to receive on meeting that obligation would not include any profit element relating to the selling or other efforts completed by the acquiree.

If the acquiree's deferred revenue does not relate to an outstanding performance obligation but to goods or services that have already been delivered, no liability should be recognised by the acquirer.

Example 7: Deferred revenue

Company A acquired Company B. Part of the net liabilities taken over was deferred revenue of CU40,000 for an outstanding service contract which has to be performed. In fair valuing this obligation Company A determines that another third party would take this outstanding contracts work on and would have charged CU35,000. Company A should include in the acquisition cost calculation the CU35,000 and not the CU40,000.

Example 8: Favorable/unfavorable contract

Company A acquired Company B. It has an operating lease on a property at an unfavorable rate. The market rent for a similar property in the area is CU6,000 per annum however the rate charged to Company B is CU10,000. This lease has 10 years to run. The provision to be recognised at acquisition date at its fair value is CU40,000 $((CU10,000 - CU6,000) * 10\text{yrs})$. This CU40,000 increases the goodwill.

Each year CU4,000 will be released to the consolidated profit and loss.

The opposite would occur if an asset was to be recognised.

CRO Number - XXXX

Parent (Holdings) Limited and its Subsidiary Companies

Directors' Report & Consolidated Financial Statements

Year Ended 31 December 2017

These financial statements are a simple set of consolidated financial statements – They are full FRS 102 financial statements and are not small companies regime consolidated financial statements. They incorporate the requirements of the Companies (Accounting) Act 2017. Note for groups above the small companies regime thresholds/requirements it would make sense to only adopt Companies (Accounting) Act 2017 for periods beginning on or after 1 January 2017 (i.e. it may be better not to voluntarily early adopt as the consolidation thresholds reduce and Scope of the Section 357 guarantee is expanded under CAA 2017).

Note this simple set has the Audit opinion for periods beginning on or after 17 June 2016. For periods from that date the ISA's issued by IAASA are applicable which require a new form of auditors report.

These financial statements are solely illustrative and intended to be used exclusively for educational and training purposes. They provide guidance in relation to the format and contents of FRS 102 company Consolidated financial statements prepared under FRS 102 and Companies Act 2014 as amended by Companies (Accounting) Act 2017. They do not purport to give definitive advice in any form. Despite taking every care in the preparation of this document OmniPro does not take any legal responsibility for the contents of these financial statements and the consequences that may arise due to any errors or omissions. OmniPro shall therefore not be liable for any damage or economic loss occasioned to any person acting on, or refraining from any action, as a result of or based on the material contained in this publication.

Parent (Holdings) Limited and its Subsidiary Companies

Year Ended 31 December 2017

Contents

	Page
Directors and Other Information	3
Directors' Report	4 - 6
Directors' Responsibilities Statement	7
Independent Auditor's Report to the Members	8 - 9
Consolidated Profit and Loss Account	10
Consolidated Statement of Changes in Equity	11
Company Statement of Changes in Equity	12
Consolidated Balance Sheet	13
Company Balance Sheet	14
Consolidated Cashflow Statement	15
Statement of Accounting Policies	16 - 21
Notes to the Financial Statements	22 - 33

Parent (Holdings) Limited and its Subsidiary Companies

Year Ended 31 December 2017

Directors and Other Information

Directors	Mr XXXX Mr XXXX
Secretary	Mr XXXX
Auditors	Auditor & Co. XXXXX Accountants and Statutory Audit Firm XX Street Town Co XXX
Bankers	Omnipro Bank XX Street Town Co XXX
Solicitors	XX & Co XX Street Town Co XXX
Registered Office	XX Street Town Co XXX

The directors present their annual report and audited financial statements of the group for the year ended 31 December 2017.

Directors and secretary

The names of persons who at any time during the financial year were directors of the company are as follows:

Mr XXX

Mr XXX

Mr XXX held the position of company secretary for the duration of the financial year.

Principal Activities and Business Review

The company is an investment holding company.

The principal activity of the group is that of a XXX stockholding business carried on in the Republic of Ireland that distributes a broad range of XXXXXXXXX products to the engineering, agricultural and related sectors.

There have been no significant changes in the company's activities during the financial year. The group has continued to improve performance in recent years. The group achieved turnover of €XXXXXXXXXX in 2017 (2016: €XXXXXXXXXX) which represents an increase of 3.6% on the prior year allowing the firm to increase profitability levels in a challenging industry. Volume sales increased by X% on the previous year. The gross profit margin for the year was XXX% (2016: XXX%) and the operating profit margin of X% (2016: X%), this increase in margin was due to favourable market conditions. Solid operating profits of €XXXXXX were recorded in 2017 (2016: €XXXXXX).

The net assets of the group at year end was €XXXXXXXX (2016: €XXXXXXXX) and the directors are satisfied with the level of retained reserves at the year end.

Future Developments

The directors are not expecting to make any significant changes in the nature of the business in the near future.

Results and Dividends

The retained profit of the group for the financial year amounted to €XXXXXXX (2016: €XXXXXXX) and this was transferred to reserves at the year end. The directors have not declared a dividend for the year (2016: €Nil).

Principal Risks and Uncertainties

In common with all companies and groups operating in Ireland in this sector, the risk and uncertainties facing the company relate to the macro economic environment in Ireland and internationally. A reduction in economic growth in Ireland could adversely affect the company's revenues and operating margins. Global growth patterns may affect demand and pricing for XXX. The company must continue to compete successfully to maintain and develop a strong market position as it continues to face strong competition in the market place. Existing products may be replaced by substitute products and, as a result, the company may lose market share in the markets for those products. The company has long experience in dealing with these risks and continues to streamline its cost base as appropriate to ensure it remains competitive.

Financial Risk Management

Through financial instruments held the company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and cash flow risk.

Price Risk

The group is exposed to the price risk of commodities through its operations. The directors believe that the cost of managing this risk is in excess of the potential benefits given the size of the company. The directors, however, review the appropriateness of this policy on an annual basis.

Credit Risk

Credit risk is the risk that one party to a financial transaction will cause financial loss for that other party by failing to discharge an obligation. Group policies are aimed at minimising such losses, and requires that appropriate credit checks are carried out on new customers before sales are made. All customers have individual credit limits that are reviewed on an ongoing basis by the board. Provisions for bad debts are made based on historical evidence and any new events which might indicate a reduction in the recoverability of cash flows.

Liquidity Risk

The group maintains a mix of long and short term finance to ensure the company has sufficient funds available to meet obligations as they fall due. It holds excess cash so that it can meet its obligations at any point in time.

Cash Flow Risk

The group holds both interest bearing assets and liabilities. Assets include cash balances which earn a fixed rate of interest. The company policy is to maintain debt at a fixed rate to ensure future interest cash flows.

Director's and Secretary's interests

The interest of the directors and secretary in the share capital of Parent (Holdings) Limited at 31 December 2017 and 31 December 2016 was as follows:

Parent (Holdings) Limited	Ordinary shares of €0.01 each	
	2017 Number	2016 Number
Mr XXX	XX	XX
Mr XXX	XX	XX

Parent (Holdings) Limited	Preference shares of €1 each	
	2017 Number	2016 Number
Mr XXX	XX	XX
Mr XXX	XX	XX

Events after the Balance Sheet date

There were no events after the balance sheet date which requires disclosure.

Accounting Records

The Directors acknowledge their responsibilities under Section 281 to Section 285 of the Companies Act 2014 to keep adequate accounting records for the group.

In accordance with Section 330 of the Companies Act 2014:

- so far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware; and
- each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 383(2) of the Companies Act 2014, the auditors, Auditor & Co. XXXXX Accountants and Statutory Audit Firm will continue in office.

On behalf of the board

Mr XXX
Director

Mr XXX
Director

DATE:

The directors' are responsible for preparing the directors' report and the financial statements in accordance with applicable Irish law and regulations.

Irish Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with Companies Act 2014 and accounting standards issued by the Financial Reporting Council including FRS 102 The Financial Reporting Standard applicable in the UK and Ireland (Generally Accepted Accounting Practice in Ireland). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the group and parent company as to the financial year end and of the profit or loss of the group for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards and note the effect and the reasons for any material departure from those standards
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board

Mr XXX
Director

Mr XXX
Director

DATE: _____

We have audited the financial statements of Parent (Holdings) Limited for the year ended 31 December 2017, which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheet, the Group and Parent Company Statement of Changes in Equity, the Group Statement of Cashflows and the related notes including the summary of accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council (Generally Accepted Accounting Practice in Ireland), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the group and parent company as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and
- have been prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Irish Auditing and Accounting Service Authority ("IAASA") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report¹, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

¹ The term used to describe the annual report should be the same as that used by the directors.

Opinions on other matters prescribed by Companies Act 2014

In our opinion, based on the work undertaken in the course of the audit:

- we have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited².
- the financial statements are in agreement with the accounting records.
- the information given in the Director's Report is consistent with the financial statements.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and parent Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made³. We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out on page ...], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and otherwise comply with Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and the parent Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

Or

Further details relating to our work as auditor is set out in the Scope of Responsibilities Statement contained in the appendix of this report, which is to be read as an integral part of our report.⁴

Or Alternatively include full content of the appendix within the body of this Audit Report

² Where the company has material branches, this notation can be expanded by including "and information and returns adequate for our audit have been received from branches of the company not visited by us."

³ Sections 307 to 308 CA 2014 – Particulars of loans by the company to Directors or guarantees/quasi loans provided for the benefit of the directors are not disclosed in the accounts

⁴ Inclusion of the Appendix in full (and without modification) is necessary to meet the requirements of ISA 700. Please see Appendix preceding this audit report.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members as a body in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters that we are required to state to them in the audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company or the company's members as a body for our audit work, for this report, or for the opinions we have formed.⁵

Signed by:

Persons Signing

For and on behalf of Auditor & Co
XXXX Accountants & Statutory Audit Firm
31 XXX Street
XXXX Accountants & Statutory Audit Firm
XXXX

Date: _____

⁵ Paragraph included as best practice

	Notes	31-Dec 2017 €	31-Dec 2016 €
Turnover	5	23,352,422	22,120,191
Cost of sales		(17,351,088)	(17,126,076)
Gross profit		6,001,334	4,994,115
Distribution costs		(4,360,451)	(3,441,829)
Administrative expenses		(899,152)	(769,259)
Operating profit	6	741,731	783,027
Interest receivable and similar expenses	7	22,422	12,107
Interest payable	8	(2,628)	(963)
Profit before taxation		761,525	794,171
Tax on profit	9	(149,787)	(121,823)
Profit for the financial year		611,738	672,348
Profit for the financial year attributable to:			
Non-controlling interests		611,738	672,348
Owners of the parent company		-	-
		611,738	672,348

	Called up Share Capital	Capital Redemption reserve	Profit and Loss Account	Total Equity
	€	€	€	€
Balance at 1 January 2016	15,937	1,400,000	10,499,673	11,915,610
Profit for the year	-	-	702,132	702,132
Change in useful life of goodwill which previously used the default rate of 20 years	-	-	(29,784)	(29,784)
Balance at 31 December 2016	15,937	1,400,000	11,172,021	12,587,958
Balance at 1 January 2017	15,937	1,400,000	11,172,021	12,587,958
Profit for the year	-	-	611,738	611,738
Balance at 31 December 2017	<u>15,937</u>	<u>1,400,000</u>	<u>11,783,759</u>	<u>13,199,696</u>

The capital redemption reserve fund was created on redemption of XXXXXXXX preference shares.

	Called up Share Capital €	Capital Redemption reserve €	Profit and Loss Account €	Total Equity €
Balance at 1 January 2016	15,937	1,400,000	400,000	1,815,937
Profit for the year	-	-	-	-
Balance at 31 December 2016	15,937	1,400,000	400,000	1,815,937
Balance at 1 January 2017	15,937	1,400,000	400,000	1,815,937
Profit for the year	-	-	-	-
Balance at 31 December 2017	<u>15,937</u>	<u>1,400,000</u>	<u>400,000</u>	<u>1,815,937</u>

The capital redemption reserve fund was created on redemption of XXXXXX preference shares.

	Notes	31-Dec 2017 €	31-Dec 2016 €
Fixed assets			
Intangible assets	13	244,749	326,332
Tangible assets	14	1,645,891	1,601,675
		<u>1,890,640</u>	<u>1,928,007</u>
Current assets			
Stocks	16	7,488,171	6,137,809
Debtors	17	6,708,321	7,208,371
Cash at bank and in hand		820,980	804,376
		<u>15,017,472</u>	<u>14,150,556</u>
Creditors: amounts falling due within one year	18	(3,708,416)	(3,490,605)
Net current assets		<u>11,309,056</u>	<u>10,659,951</u>
Net Assets		<u>13,199,696</u>	<u>12,587,958</u>
Capital and reserves			
Called up share capital	20	15,937	15,937
Capital redemption reserve		1,400,000	1,400,000
Profit and loss account		11,783,759	11,172,021
		<u>13,199,696</u>	<u>12,587,958</u>

The financial statements were approved by the Board of Directors on
 issue on . They were signed on its behalf by

and authorised for

 Mr XXXX
 Director
DATE:

Mr XXXX
 Director

	Notes	31-Dec 2017 €	31-Dec 2016 €
Fixed assets			
Financial assets	15	1,815,437	1,815,437
Current assets			
Cash at bank and in hand		500	500
		500	500
Net Assets		1,815,937	1,815,937
Capital and reserves			
Called up share capital	20	15,937	15,937
Capital redemption reserve		1,400,000	1,400,000
Profit and loss account		400,000	400,000
		1,815,937	1,815,937

Parent (Holdings) Limited's has availed of the exemption contained in Section 304 of Companies Act 2014 not to present the Parent Entity Profit and Loss Account and as a result the Parent Entity Profit and Loss Account has not been presented. The profit for the year was €XXXX (2016: €XXXX).

The financial statements were approved by the Board of Directors on _____ and authorised for
 Mr XXXX Mr XXXX
 Director Director
DATE: _____

	Notes	31-Dec 2017 €	31-Dec 2016 €
Cash flows from operating activities			
Cash generated from/(used in) operations	24	398,020	(415,716)
Taxation (paid)/refunded		(237,146)	35,491
Net cash generated from/(used in) operating activities		160,874	(380,225)
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(222,945)	(249,013)
Proceeds on disposal of tangible fixed assets		58,881	51,400
Interest received		22,422	12,104
Net cash used in investing activities		(141,642)	(185,509)
Cash flows from financing activities			
Interest paid		(2,628)	(963)
Net cash used in financing activities		(2,628)	(963)
Net increase/(decrease) in cash and cash equivalents	25	16,604	(566,697)
Cash and cash equivalents at beginning of year		804,376	1,326,179
		820,980	759,482

1 ACCOUNTING POLICIES

Parent (Holdings) Limited and its Subsidiary Companies is a customer focused and growth orientated stockholding business that distributes a broad range of XXXXXXXX products to the engineering, agricultural and related sectors. Its operations base and registered office is at XX Co XX.

The company is a limited liability company limited by shares incorporated in Ireland. The company is tax resident in Ireland. **The Company's registered office is XXX, Co. XXX and the Company registration number is 123435**

The Company and Consolidated financial statements have been prepared by Parent (Holdings) Limited in accordance with accounting standards issued by the Financial Reporting Council, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102").

The significant accounting policies adopted by the Group and applied consistently in the preparation of these financial statements are as follows:

(a) Basis of preparation

The Financial Statements are prepared on the going concern basis, under the historical cost convention and comply with the financial reporting standards of the Financial Reporting Council and the Companies Act 2014.

The financial statements are prepared in Euro which is the functional currency of the group.

(b) Basis of consolidation

The Group financial statements reflect the consolidation of the results, assets and liabilities of the parent undertaking, the Company and all of its subsidiaries. Where a subsidiary is acquired or disposed of during the financial year, the Group financial statements include the attributable results from, or to, the effective date when control passes.

(c) Subsidiary Undertakings

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are capitalised with the cost of the investment. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non- controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

(d) Currency

(i) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in euro, which is the company's functional and presentation currency and is denoted by the symbol "€".

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. The primary exchange rates used for the translation of results, cash flows and balance sheets into euro were are as follows:

	2017	2016
	€1=£1stg	€1=£1stg
Year end	0.7375	0.7849
Average rate	0.7344	0.8092

All foreign exchange gains and losses are presented in the profit and loss account within 'distribution expenses'.

(e) Turnover

Turnover is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Turnover comprises the fair value of consideration received and receivable exclusive of value added tax and after discounts and rebates.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(f) Interest income

Interest income is recognised using the effective interest method.

(g) Taxation

The company is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current tax

Current tax is calculated on the profits for the period. Current tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current or deferred taxation assets and liabilities are not discounted.

(h) Tangible fixed assets

(i) Cost

Tangible fixed assets are recorded at historical cost, less accumulated depreciation.

(ii) Depreciation

Depreciation is provided on tangible fixed assets, on a straight-line basis, so as to write off their cost less residual amounts over their estimated useful economic lives.

Freehold Premises	2%-5% straight line on cost
Motor vehicles	20%-33 $\frac{1}{3}$ % straight line on cost
Fixtures & fittings	20% straight line on cost
Plant and machinery	12.5%-33 $\frac{1}{3}$ % straight line on cost

The company's policy is to review the remaining useful economic lives and residual values of tangible fixed assets on an on-going basis and to adjust the depreciation charge to reflect the remaining estimated useful economic life and residual value.

Fully depreciated property, plant & equipment are retained in the cost of property, plant & equipment and related accumulated depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the financial statements and the net amount, less proceeds from disposal, is charged or credited to the profit and loss account.

(iii) Impairment

Assets not carried at fair value are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk free rate and the risks inherent in the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

(i) Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at historical cost less provision for impairments in value where applicable.

(j) Stocks

Stocks comprise goods held for resale. Stocks are stated at the lower of cost and net realisable value. Cost is calculated on a first in, first out basis and includes invoice price, import duties and transportation costs. Net realisable value comprises the actual or estimated selling price less all further costs to completion or to be incurred in marketing, selling and distribution.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

(k) Trade and other debtors

Trade and other debtors are recognised initially at transaction price (including transaction costs) unless a financing arrangement exists in which case they are measured at the present value of future receipts discounted at a market rate. Subsequently these are measured at amortised cost less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. All movements in the level of provision required are recognised in the profit and loss.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(m) Creditors and accruals

Creditors and accruals are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors and accruals are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

(n) Borrowings

Borrowings are recognised initially at the transaction price (present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in interest expense.

Borrowings are classified as current liabilities unless the Company has a right to defer settlement of the liability for at least 12 months after the reporting date.

(o) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(p) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(q) Employee Benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Annual bonus plans

The company recognises a provision and an expense for bonuses where the company has a legal or constructive obligation as a result of past events and a reliable estimate can be made.

(iii) Defined contribution pension plans

The Company operates a defined contribution plan. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate fund. Under defined contribution plans, the company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the company pays contributions to privately administered pension plans on a contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(r) Share capital

Ordinary and preference shares are classified as equity where they meet the definition of equity in Section 22 of FRS 102. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Goodwill

Goodwill represents the excess of consideration paid for the acquisition of shares in subsidiaries over the fair value of the identifiable assets and liabilities. Goodwill is amortised to the profit and loss account on a straight line basis over its estimated useful life. The estimated useful lives of goodwill is 5 years which is the default rate under FRS 102 as detailed in note 3. Useful life is determined by reference to the period over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets.

Goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Establishing useful economic lives for depreciation/amortisation purposes of tangible and intangible fixed assets

Long-lived assets, consisting primarily of tangible and intangible fixed assets, comprise a significant portion of the total assets. The annual depreciation/amortisation charge depends primarily on the estimated useful economic lives of each type of asset and estimates of residual values. The directors regularly review these asset useful economic lives and change them as necessary to reflect current thinking on remaining lives in light of prospective economic utilisation and physical condition of the assets concerned. Changes in asset useful lives can have a significant impact on depreciation and amortisation charges for the period. Detail of the useful economic lives is included in the accounting

(c) Inventory provisioning

The group holds a significant volume of inventory. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the estimated realisable value and the estimated costs to completion. The level of provision required is reviewed on an on-going basis and has been disclosed in note 16.

(c) Providing for doubtful debts

The group makes an estimate of the recoverable value of trade and other debtors. The company uses estimates based on historical experience in determining the level of debts, which the company believes, will not be collected. These estimates include such factors as the current credit rating of the debtor, the ageing profile of debtors and historical experience. Any significant reduction in the level of customers that default on payments or other significant improvements that resulted in a reduction in the level of bad debt provision would have a positive impact on the operating results. The level of provision required is reviewed on an ongoing basis and has been disclosed in note 17.

4 TURNOVER

Turnover is derived from the single activity of the Group that of selling XXX products. As permitted by Schedule 3 paragraph 65(6) of the Companies Act 2014, the directors have availed of the exemption not to disclose turnover by market as in the opinion of the directors the disclosure of this information would be seriously prejudicial to the interests of the Group.

5 OPERATING PROFIT

Operating profit is stated after charging:	2017	2016
	€	€
Depreciation	147,094	137,308
Amortisation of goodwill	81,583	81,582
Directors' remuneration	614,594	388,376
Profit of disposal of fixed assets	(27,246)	(1,865)
Rentals under operating leases	-	-
Movement on stock provision	56,070	-
Stock used in the period recognised as an expense in cost of sales	17,351,088	17,126,076
Foreign exchange gain	(283,195)	(159,103)
Auditors' remuneration including out of pocket expenses		
Audit of group financial statements	11,000	11,000
Non audit services	-	-
Tax Advisory services	-	-
	<hr/>	<hr/>

6 INTEREST RECEIVABLE AND SIMILAR INCOME

Interest earned on assets held at amortised cost:		
Deposit interest	22,422	12,107
	<hr/>	<hr/>

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	€	€
Interest charged on financial liabilities carried at amortised cost:		
On bank loans and overdrafts	2,628	963
	<hr/>	<hr/>

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2017 €	2016 €
a) Tax expense in profit and loss:		
Current tax expense:		
Irish corporation tax on profits for the year	120,614	121,823
Adjustments in respect of prior periods	29,173.00	-
	<u>149,787</u>	<u>121,823</u>
Deferred tax expense:		
Origination and reversal of temporary difference	-	-
	<u>149,787</u>	<u>121,823</u>

(b) Reconciliation of tax charge

The tax assessed for the period is higher than the standard rate of corporation tax in Ireland for the year end 31 December 2017 of 12.5% (2016: 12.5%). The differences are explained below.

	2017 €	2016 €
Profit on ordinary activities before tax	<u>761,525</u>	<u>794,171</u>
Tax calculated at Irish tax rates of 12.5% (2016: 12.5%)	95,191	99,271
<i>Effects of:</i>		
Non deductible expenses	19,840	12,649
Income taxed at higher rates	2,803	1,513
Deferred tax not previously recognised - capital allowances/depreciation in excess of depreciation/capital allowances	(331)	9,201
Deferred tax not previously recognised - losses forward utilised	-	(2,491)
Close company surcharge	3,111	1,680
Tax charge for year	<u>120,614</u>	<u>121,823</u>

9 EMPLOYEES

The average monthly number of employees was:

	2017	2016
Sales and distribution	14	14
Administration	6	6
	<u>20</u>	<u>20</u>

Operating costs

	2017 €	2016 €
Staff costs:		
Wages and salaries	1,294,823	1,159,456
Social welfare costs	93,551	85,294
Retirement Benefits – defined contribution plans	254,437	160,389
	<u>1,642,811</u>	<u>1,405,139</u>

10 DIRECTORS REMUNERATION AND TRANSACTIONS

	2017	2016
	€	€
Remuneration		
Salary	308,794	286,000
Retirement Benefits	20,220	8,000
	329,014	294,000

11 RESULTS ATTRIBUTABLE TO PARENT (HOLDINGS) LIMITED

Parent (Holdings) Limited has availed of the exemption contained in Section 304(2) of the Companies Act 2014 and as a result its profit and loss account, together with the information supplementing the profit and loss account has not been presented. Parent (Holdings) Limited's result for the year after tax was €XX (2016: €XX).

12 INTANGIBLE ASSETS - GROUP

	Goodwill	
	2017	2016
	€	€
<u>Costs</u>		
At beginning of year and end of year	514,774	514,774
<u>Amortisation</u>		
At beginning of year	188,442	106,860
Charge for Year	81,583	81,582
At end of year	270,025	188,442
<u>Net book value</u>		
At 31 December	244,749	326,332

Goodwill arises from the acquisition of a 100% interest in Sub Co Limited a number of years ago. This goodwill is being amortised over a five year period.

13 **TANGIBLE ASSETS - GROUP⁶**

	Land & Buildings €	Plant & Machinery €	Fixtures & Fittings €	Motor Vehicles €	Total €
Costs					
At beginning of year	1,483,515	662,281	80,483	304,519	2,530,798
Additions in year	-	155,591	3,639	63,715	222,945
Disposals in year	-	(133,451)	-	(30,600)	(164,051)
At end of year	1,483,515	684,421	84,122	337,634	2,589,692
Depreciation					
At beginning of year	239,794	491,033	79,311	118,985	929,123
Charge for Year	25,232	49,785	530	71,547	147,094
On disposals	-	(101,816)	-	(30,600)	(132,416)
At end of year	265,026	439,002	79,841	159,932	943,801
Net book value					
At 31 December 2017	1,218,489	245,419	4,281	177,702	1,645,891
At 31 December 2016	1,243,721	171,248	1,172	185,534	1,601,675

⁶ Para 48, Sch III, CA 2014 – Requires the presentation of cost, accumulated depreciation and net book value. Sch 3(5)(2) no longer requires the movement on the prior year fixed asset note to be included

15	FINANCIAL ASSETS - COMPANY	2017	2016
		€	€
	Shares in subsidiary undertakings - cost	1,815,437	1,815,437

Subsidiary undertakings

Company Name	Country of Incorporation	Details of investment	Proportion held by company	Registered Office	Principle Activity
Sub Co 1 Limited	Ireland	25,000 ordinary shares of €1.27 each	100%	XXX Co XXXXX	XXX Stockholding
Sub Co 2 Limited	Ireland	2 ordinary shares of €1 each	100%	XXX Co XXXXX	Dormant company

In the opinion of the directors the shares in the company's subsidiaries are worth at least the amounts at which they are stated in the balance sheet.

16	STOCKS	Group
		2017
		€
	Finished goods	7,488,171
		6,137,809
		7,488,171
		6,137,809

Stocks are stated after provisions for impairment of €XXXXX (2016: €Nil).

17	DEBTORS	Group
		2017
		€
	Trade debtors	6,397,702
	Accrued income ⁷	-
	Prepayments and other debtors	310,619
		7,007,844
		6,708,321
		7,208,371

The fair values of Debtors and Prepayments approximate to their carrying amounts. Trade debtors are stated after provisions for impairments of €XXXXX (2016: €XXXXX).

⁷ Sch 3 Formats as amended by CAA 2017 requires accrued income to be shown separately in the notes.

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group	
	2017	2016
	€	€
Trade creditors	3,101,437	2,297,827
Corporation tax	27,964	121,823
PAYE/PRSI	85,607	79,746
Other creditors and accruals	189,285	681,895
Value added tax	304,123	309,314
	<u>3,708,416</u>	<u>3,490,605</u>

OmniPro Bank Commercial Services Limited and OmniPro Bank Ireland Limited hold a debenture over all sums due under this facility and a floating charge on the assets of the group.

Trade and other creditors are payable at various dates in the next X months in accordance with the usual suppliers usual and customary terms. Tax and social securities are repayable at various dates over the coming months in line with tax authority guidelines.

19 FINANCIAL INSTRUMENTS

	Note	Company	Group	Company	Group
		2017	2016	2017	2016
		€	€	€	€
Financial assets measured at amortised cost					
Trade and other debtors	17	-	6,674,506	-	7,207,395
Cash and short term deposits		500	820,980	500	804,376
Financial liabilities measured at amortised cost					
Trade creditors	18	-	3,101,437	-	2,297,827
Accruals for goods and services	18	-	189,285	-	681,895
Taxation creditors	18	-	417,694	-	510,883

20 SHARE CAPITAL

	2017	2016
	€	€
Authorised Share Capital		
99,990,000 (2016: 99,990,000) ordinary shares of €0.01 each	999,900	999,900
12,160 (2016: 12,160) preference shares of €1.27 each	15,443	15,443
	<u>1,015,343</u>	<u>1,015,343</u>
Allotted, called up and fully paid– presented as equity		
10,000 (2016: 10,000) ordinary shares of €0.01 each	494	494
12,160 (2016: 12,160) preference shares of €1 each (see (i) below)	15,443	15,443
	<u>15,937</u>	<u>15,937</u>

(i) The redeemable preference shares are classified as equity in accordance with Section 22 of FRS 102 (liabilities and equity). The rights attaching to these preference shares are as follows:

- on a winding up of the company to a return of capital paid up or deemed paid up on each such share and otherwise shall not be entitled to participate further in the assets or profits of the company.

20 SHARE CAPITAL (continued)

- the preference shares carry no right to vote at general meetings of the company or to receive a dividend.

21 CONTINGENCIES

There were no contingencies at 31 December 2017 (2016: €nil)

22 COMMITMENTS

The group had entered into commitments to purchase tangible fixed assets totalling €XXXXXX at the year end (2016: €XXXXX). There were no other commitments entered into at the year end (2016: €Nil).

23 RETIREMENT BENEFITS INFORMATION

	2017	2016
	€	€
	254,437	160,389

Retirement Benefit costs

The company operates an externally funded defined contribution scheme that covers substantially all the employees of the company. The assets of the scheme are vested in independent trustees for the sole benefit of these employees. Contributions outstanding at year end amounted to €Nil (2016: €Nil).

24 RECONCILIATION OF PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2017	2016
	€	€
Profit after taxation	611,738	672,348
Addback/Deduct		
Tax expense	149,787	121,823
Interest receivable and similar income	(22,422)	(12,107)
Interest expense	2,628	963
Operating profit	741,731	783,027
Adjustment for		
Depreciation	147,094	137,308
Goodwill amortisation	81,583	81,582
Gain on disposal of tangible fixed assets	(27,246)	(1,865)
Changes in working capital		
Increase in stocks	(1,350,362)	(684,698)
Decrease/(increase) in debtors and prepayments	493,550	(600,538)
Increase/(decrease) in creditors and accruals	311,670	(130,532)
Cash generated from/(used in) operations	398,020	(415,716)

25 ANALYSYS OF CASH & CASH EQUIVALENT

	At 31 Dec 2016	Cash flow	Other non- cash items	At 31 Dec 2017
	€	€	€	€
Cash in hand	804,376	16,604	-	820,980
	<u>804,376</u>	<u>16,604</u>	<u>-</u>	<u>820,980</u>

26 RELATED PARTY TRANSACTIONS

There were no transactions entered into with related parties during the year ended 31 December 2017 and 31 December 2016.

Key management includes the Board of Directors and members of the Group Management who have responsibility for planning, directing and controlling the activities of the group. The compensation paid or payable to key management for employee services is shown below:

	2017 €	2016 €
Key management compensation		
Salaries and other short-term employee benefits	308,794	286,000
Post-employment benefits	20,220	8,000
	<u>329,014</u>	<u>294,000</u>

27 POST BALANCE SHEET EVENTS

There have been no significant events affecting the group since the year-end.

28 APPROVAL OF THE FINANCIAL STATEMENTS

The directors approved the financial statements on _____

Question – I am performing an audit of a consolidation of a group what do I need to do to structure an audit file?

Question – I am performing an audit of a consolidation of a dormant holding company and its subsidiaries what do I need to do?

There is no set format for the preparation of a consolidated audit file structure, however the two most common file structures are explained as part of this query. Throughout this response it is assumed that the subsidiaries of the group are also audited as the parent company is only a holding company with no activity and the total size of the subsidiaries and group exceed the group audit exempt thresholds. In addition, it is assumed the appointed auditor and firm to the parent company are also the auditors to the subsidiaries.

For each subsidiary there is a separate individual fully documented audit file, as each subsidiary has separate financial statements which contain their own Auditors Reports.

The group financial statements contains an auditors report which encompasses an opinion on the consolidated primary statements and the parent holding company primary statements as well as accounting policies and notes for both parent and group. As the auditors report provides an opinion on both group and parent, the consolidation process must be audited and documented accordingly as well as the parent itself.

Option 1

The first way a consolidated file is prepared (which in fact is the most common way) is where one single file is prepared encompassing both the parent and the consolidation process of the entire group. How is this done:

1. A single planning section is prepared which documents both the parent and the group.
 - a. One planning memo is prepared that documents under each area, the considerations for the parent and then is followed by the Group considerations. (i.e. Knowledge of the entity should detail the parent and then group as a whole) (Ethical considerations should be done for the parent only and then followed by the Group as a whole) Risk assessments should be done for the parent on its own and then followed by the group as a whole (including consolidation risk aspects for the presentation of numbers in the Financial statements and eliminations).
 - b. Materiality should have three types of materiality documented and set.
 - i. A materiality level for the parent based on the numbers as presented in the primary statements of the parent entity and then,
 - ii. A Group materiality level for Overall, performance and Trivial is set for the consolidated numbers presented. This is separate again to those numbers set within the parent entity or those in the subsidiary audit files.
 - iii. A Component Materiality is the materiality for a component entity of the group which is determined by the group engagement team. While this is more relevant where there is different auditors for the parent and subsidiaries (i.e. Group and network audit firms). Nonetheless where the auditor is the auditor of the group and its subsidiaries, the auditor must ensure that the component materiality shall be lower than the Group Materiality set as a whole.

How might a Group audit materiality level be set? There are several methods to this, but one method might be to: generate the consolidated P&L and Balance sheet having eliminated intercompany balances and transactions and then apply % rates for Turnover, PBT, Gross Assets and Net Assets (as appropriate) to derive an overall group materiality level which is based on overall group numbers. **Note:** Testing or work done in the subsidiaries and the parent audit files based on their own audit materiality levels set may need to be extended based on the Group audit Materiality Thresholds set, as explained.

When can Group audit materiality be an amount lower than that set in the subsidiary? If the subsidiaries have significant intercompany/related party transactions taking place that the P&L or the Balance Sheet could be significantly inflated (i.e. High Turnover and Debtors) then when these intercompany transactions and balances are eliminated on consolidation that the overall group Turnover and Assets are significantly smaller than the main principle subsidiaries, attentively there may be goodwill that is eliminated on consolidation.

In these situations then the materiality level set at a group level could be lower than that which was set at the subsidiary level, accordingly it might then be the case that items which were scoped out as not being material for the subsidiary audit will now require audit work to be done on them for the Group audit file as they are below the group materiality threshold set..

Note: At the planning process for the group and subsidiaries, when it has been determined that consolidation is required. When documenting materiality for the each subsidiary, the parent and the group as a whole, if the group materiality is lower than that of the subsidiary materiality level, ensure the materiality level of the subsidiary is lowered to an amount lower than the group level set. This is to ensure work done in the subsidiary is sufficient for group reporting purposes, to reduce work

- c. The engagement budget for work to be done appropriately only one budget which encompasses both the group and parent
 - d. Any planning communications with team members or those in governance should document the audit process in its entirety and therefore detail the parent audit and then the consolidation audit process.
 - e. A single Letter of engagement covering both the group and the parent engagement and financial statements can be issued (this may also incorporate the audits for the subsidiaries as well).
2. Audit Execution – for each section of the file,
- a. A lead schedule for the parent should be included and then followed by a group consolidated lead schedule with an overall auditors conclusions on the section covering both parent and group.
 - b. If there are any items requiring testing in the parent these should be detailed and the testing documented.
 - i. All relevant sections that represent areas and numbers as presented in the primary statements, these might be Investment in subsidiaries, creditors/debtors for intercompany amounts, reserves and share

- capital, in addition tax sections should still be documented and reviewed to ensure group reliefs or group tax implications have no impact to the dormant company tax computation.
- ii. As this is a holding company, the investment in subsidiaries section should be fully documented including consideration of the value of the cost / carrying amount of the investment in the subsidiaries, if there is an impairment trigger and it requires impairment below the current carrying value.
- c. As each subsidiary has its own separate audit file, the group audit file can leverage off of work done in the subsidiaries file for each area and cross refer to each individual subsidiary and the relevant working papers of their relevant sections for testing work done. However as detailed in Option 1 b(v) above if group materiality is lower than the materiality levels set in a subsidiary that items not previously tested fall within scope for testing then this should be documented accordingly. Note: As part of each section of the group file consideration for the consolidation process and eliminations should be documented. In some cases
- i. a whole section of the file details the consolidation process, detailing a table of each subsidiaries total numbers side by side, the parent and then details of the eliminations that are relevant in a separate column with a final total consolidation column that displays the numbers as per each lead schedule and the consolidated financial statements. As part of the file, each elimination journal is broken down, explained and tested. The auditors documentation in accordance with ISA 230 details the objective, the work done and an overall auditors conclusion. Where relevant Audit Evidence (ISA 500) is attached to the file to support the journals ((i.e. a nominal listing of intercompany sales by one company and the corresponding purchases listing received by the related company) or (if a foreign subsidiary documentation supporting the testing of the fx rates used for the consolidation and recording of transactions during the year)).
 - ii. Another way the consolidation process is documented in files, is that in each section of the file, to support the consolidated lead schedule presented, the testing of the consolidation process specific to that area is documented, rather than being done as a standalone section (as detailed above). Documentation and testing of the consolidation process continues to be the same as detailed above.
3. Audit Completion – this is documented in the same manner as planning.
- a. A letter of representation should be signed encompassing both the parent entity and the group. (as a best practice a listing of the consolidation journal adjustments that have been made which encompass the eliminated intercompany transactions and balances should be signed off as agreed by the directors and those charged with governance).
 - b. As there are separate materiality levels for both group and parent, there may be separate summaries of unadjusted differences to be considered and presented to management.
 - c. Analytical reviews should be performed for the parent entity and separately the group as a whole, with clear documentation demonstrating an understanding of what the principle movements are in relation to having gained the knowledge from the work done in the audit of the parent, its subsidiaries and the group as a whole.

- d. Subsequent events should be documented for the parent entity and also the group as a whole.
- e. Going Concern ISA 570 discusses the entity specifically as part of its objective. In this case; it is the parent, however the parent being dormant will be intrinsically linked to the subsidiaries continuation, therefore the file should detail the parent and the subsidiaries consideration of;
 - i. their ability to continue
 - ii. their impact on the parent and group; or
 - iii. if appropriate their actual inability to continue.

Then from the overall assessment you conclude on the parent and the group's ability to continue as a going concern as that is basis on which the financial statements are prepared.

- f. In forming the auditors' opinion and considering its form and structure the auditor should document its considerations of their conclusions formed for the various sections of the parent and then consider their conclusions formed on each section of the consolidation process, as the report is covering both the parent and the group presented financial statements therefore consideration of both must be documented.

Option 2

The second option in presenting structured audit file is the auditor can prepare:

- 1. A standalone Dormant Company audit file as the entity is only a holding company.
 - a. This encompasses a full planning section including materiality levels specific and relevant for the parent.
 - b. Audit Execution sections
 - i. should contain lead schedules and working papers for all relevant sections that represent areas and numbers as presented in the primary statements, these might be Investment in subsidiaries, creditors/debtors for intercompany amounts, reserves and share capital, in addition tax sections should still be documented and reviewed to ensure group reliefs or group tax implications have no impact to the dormant company tax computation.
 - ii. As this is a holding company, the investment in subsidiaries section should be fully documented including consideration if the value of the cost of investment in the subsidiaries requires impairment below their current carrying value or if there is an impairment trigger.
 - c. The Completion sections, should be completed from a high level as to whether there were any issues in the parent that might affect the auditors opinion formed, however the more detailed considerations could be done as part of the overall group conclusion and audit opinion formed.
- 2. For the group –
 - a. A single Letter of engagement covering both the group and the parent engagement and financial statements can be issued.
 - b. Planning needs to be documented from the overall group and consolidation basis,
 - i. detail the structure of the group,
 - ii. its ownership, its principle subsidiaries and the management structure of the group and particularly those that control, run and make decisions on behalf of the group

- iii. The principle audit risks to the group as a whole (including consolidation risk aspects for the presentation of numbers in the Financial statements and eliminations)
 - iv. Ethical considerations should be looked at in the context of the group as a whole, i.e. Total fee's for the group for audit and non-audit services and what services are provided to all subsidiaries of the group etc.
 - v. Set a Group materiality level for Overall, performance and Trivial. (see option 1 - 1b(v) for group materiality considerations)
- c. As each subsidiary and the parent company have separate audit files the group audit file can leverage off of work done in the subsidiaries files for each area and cross refer to each individual subsidiary and parent file and their relevant sections for testing work done. At a minimum the consolidation file for each execution area should have a Lead Schedule, with an overall auditor's conclusion for that section. However as detailed in 1b(v) if group materiality is lower than the materiality levels set in a subsidiary that items not previously tested fall within scope for testing then this should be documented accordingly.

Note: As part of each section of the group file consideration for the consolidation process and eliminations should be documented. In some cases

- i. a whole section of the file details the consolidation process, detailing a table for the parent and the subsidiaries total numbers side by side, and a column detailing the eliminations that are relevant to the final total consolidation column which displays the numbers as per each lead schedule and the consolidated financial statements. As part of the file, each elimination journal is broken down, explained and tested. The auditors documentation in accordance with ISA 230 details the objective, the work done and an overall auditors conclusion. Where relevant audit evidence (ISA 500) is attached to the file to support the journals ((i.e. a nominal listing of intercompany sales by one company and the corresponding purchases listing received by the related company) or (if a foreign subsidiary documentation supporting the testing of the fx rates used for the consolidation and recording of transactions during the year)).
- ii. Another way the consolidation process is documented in files, is that in each section of the file, to support the consolidated lead schedule presented in that section. The testing of the consolidation process specific to that area is documented, rather than being done as a standalone section (as detailed above). Documentation and testing of the consolidation process continues to be the same as detailed above.

The Completion section of the consolidated audit file continues to the same as a standard audit. However as certain considerations are specific to the parent entity work required may be reduced accordingly. (i.e. Going Concern, under ISA 570's objective details the entities ability. In this case that is the parent, however the parent being dormant will be intrinsically linked to the subsidiaries continuation, therefore the parent file should detail the parent and the subsidiaries consideration and accordingly the group file can then cross refer to the parent file). Subsequent events should be assessed from the group as a whole. A detailed completion Analytical review for the group audit should be performed demonstrated understanding of what the principle movements are in relation to having gained the knowledge from the work done in the audit of the parent, its subsidiaries and the group as a whole. As part of the completion process detailed documentation having considered each section of the

consolidation process and your conclusions formed the impact on the form and structure of your auditors opinion particularly in the context of the consolidation but that the opinion is part of the overall opinion of the group and parent financial statements and cross refer to the parent file where the parent specific considerations are made.

DRAFT