The Consolidated Statement of Financial Position

1. Introduction

As per SLFRS 10 Consolidated Financial Statements are the financial Statement of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity" which means consolidated financial statements are financial statements that bring the holding (parent) company's subsidiaries into its aggregated accounting figure. The aim of consolidated financial statement is to show the performance of the group as if it were a single economic entity.

The Consolidated Statement of Financial Position shows the resources controlled by the parent (Assets) and the claims on the resources by the parent (Equity) and parties external to the group of entities (Liabilities). The effects of all the intra group transactions are eliminated, since from the economic entity's perspective assets and liabilities cannot be resulted (e.g. Intra group receivables and payable) from the transactions within the group, only from transactions with external parties.

Consolidation schedule

This schedule is used as a tool to add together Parent's and Subsidiary's assets, liabilities and equity and make any necessary adjustments. It includes:

• 100% of Parent's assets, liabilities and equity

• 100% of Subsidiary's assets, liabilities and equity

Consolidated Statement of Financial Position as at 31 March 20XX

	Parent	Subsidiary	Adjustments	Group
Non-Current Assets				
Property, Plant and Equipment	XX	XX	(XX)	XX
Investment	XX	XX	(XX)	XX
Current Assets				
Inventory	XX	XX	(XX)	XX
Trade Receivables	XX	XX	(XX)	XX
Cash and Bank	XX	XX	XX	XX
Total Assets	**XX**	**XX**		**XX**
Equity				
Ordinary Share Capital	XX	XX	(XX)	XX
Retained Earnings	XX	XX	(XX)	XX
Revaluation Reserve	XX	XX	(XX)	XX
Non-Current Liabilities				
Debentures	XX	XX	(XX)	XX
Current Liabilities				
Trade Payables	XX	XX	(XX)	XX
Equity and Liabilities	**XX**	**XX**		**XX**

Method of preparing a consolidated statement of financial position

(a) Restate the assets and liabilities of the subsidiary at its fair value.

(b) Parent's investment in the subsidiary and the parent's portion of net assets of the subsidiary are eliminated against each other.

(c) Non-Controlling Interest (NCI) in the net assets of consolidated subsidiaries should be presented separately under the equity in the consolidated statement of financial position

(d) Goodwill on consolidation should be dealt in accordance with *SLFRS 3- Business Combinations*

(e) Intra group transactions must be accounted for: *SLFRS 10- Consolidated Financial Statements* states that all intragroup balances and transactions, and resulting unrealized profits, should be eliminated in full.

Fair value of Net assets acquired

SLFRS 3 requires that the subsidiary's assets and liabilities are recorded at their fair value at the date of acquisition and production of consolidated accounts. Adjustments will therefore be required where the subsidiary's accounts themselves do not reflect fair value.

Non-Controlling Interest (NCI)

The total assets and liabilities of subsidiary companies are included in the consolidated statement of financial position, even in the case of subsidiaries which are only partly owned. A proportion of the net assets of such subsidiaries in fact belongs to investors from outside the group (NCI). SLFRS 3 defines NCI as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

NCI at the Date of Acquisition

SLFRS 3 allows two alternative ways of calculating NCI in the group statement of financial position at the date of acquisition.

NCI can be measured at:

(a) Its proportionate share of the acquiree's net identifiable assets; or

(b) Fair Value at the date of acquisition (usually based on the market value of the shares held by the NCI at the date of acquisition).

Goodwill

Goodwill on consolidation can be calculated as follows:

fair value of consideration transferred	xxx
Plus Amount of non-controlling interest	xxx
	xxx
Less Fair value of identifiable net assets	(xxx)
Goodwill on acquisition date	xxx

Example 1 – NCI is measured at its proportionate share of the acquiree's net identifiable assets.

ABC PLC acquired 75% of the equity interest in XYZ PLC at 1 January 2017 for Rs. 50 million. The Statement of Financial Position as at 1 January 2017 were as follows:

		Rs.'000
	ABC PLC	XYZ PLC
Assets		
Non-current assets		
Property, plant and equipment	30,000	35,000
Investment in XYZ PLC	50,000	-
	80,000	35,000
Current assets	45,000	35,000
Total assets	125,000	70,000
Equity and liabilities		
Equity		
Ordinary shares	80,000	40,000
Retained earnings	25,000	10,000
	105,000	50,000
Current liabilities	20,000	20,000
Total equity and liabilities	125,000	70,000

Additional information.

1) At the date of acquisition all the assets and liabilities of XYZ PLC were reflected at fair value except land which had a fair value of Rs.5,000,000 in excess of its carrying amount.
2) ABC Group measures the NCI at its proportionate share of the acquiree's net identifiable assets.

Required:

Prepare the Consolidated Statement of Financial Position as at 1 January 2017.

Solution

Consolidation Procedure

(a) Restate the assets and liabilities of the subsidiary at its fair value.

This requires the adjustments of Rs.5 million to the PPE and Fair value adjustments reserve. (This adjustment is indicated as A)

(b) Parent's investment in the subsidiary and the parent's portion of net assets of the subsidiary are eliminated against each other.

This require the elimination of Rs.50 million investment against the net assets of the subsidiary (share capital Rs.40 x 75%, retained earnings Rs.10 x 75%, fair value adjustment Rs.5 x 75%)

(This adjustment is indicated as B)

(c) Non-Controlling Interest (NCI) in the net assets of consolidated subsidiaries should be presented separately under the equity in the consolidated statement of financial position

(This adjustment is indicated as C)

The amount of net assets attributable to non-controlling interests is calculated as follows.

NCI share of share capital (25% x Rs.40,000)	10,000
NCI share of retained earnings (25% x Rs.10,000)	2,500
NCI share of fair value adjustment (25% x Rs.5,000)	1,250
	13,750

(d) Goodwill on consolidation should be dealt in accordance with *SLFRS 3- Business Combinations.*

(This adjustment is indicated as D)

Goodwill can be calculated as follows:

Fair value of consideration transferred	50,000
Plus Amount of non-controlling interest (55,000*25%)	13,750
	63,750
Less Fair value of identifiable net assets	
Share capital	(40,000)
Retained earnings	(10,000)
Fair value adjustment	(5,000)
Goodwill on acquisition date	8,750

ABC Group's

Consolidated Statement of Financial Position as at 1 January 2017 (Rs.'000)

	ABC	**XYZ**	**Adjustments**	**Group**
Non-Current Assets				
PPE	30,000	35,000	5,000 (A)	70,000
Investment	50,000	-	-50,000 (B)	-
Goodwill			8,750 (D)	8,750
Current Assets	45,000	35,000		80,000
Total Assets	**125,000**	**70,000**		**158,750**
Equity				
Ordinary Share Capital	80,000	40,000	-30,000 (B)-10,000 (C)	80,000
Retained Earnings	25,000	10,000	-7,500 (B)-2,500 (C)	25,000
Fair value adjustment			5,000 (A) -3,750 (B)-1,250 (C)	-
NCI			13,250 (C)	13,250
Current Liabilities	20,000	20,000		40,000
Equity and Liabilities	**125,000**	**70,000**		**158,750**

NCI is measured at its Fair Value at the Date of Acquisition

When NCI, is measured at its fair value, the implications are that there is a part of goodwill which is attributable to the NCI and subsequent impairment losses of goodwill must also be applied against the NCI .

The value of goodwill attributable to the NCI can be calculated as follows:

Goodwill attributable to NCI= Fair value of NCI-NCI's Proportionate share of the acquiree's net identifiable assets

Example 2 – NCI is measured at its fair value at the date of acquisition

Assume all the information in the above example 1 is same except NCI is measured at its fair value as at 1 January 2017. The market value per share as at 1 January 2017, was Rs.1.50.

Solution

The above consolidation procedure in example 1 is applicable here except,

- The amount of non-controlling interests is calculated as follows.

  Fair value of NCI = Rs.1.50 per share * 10,000 shares (40,000* 25%) = Rs. 15,000

- Goodwill can be calculated as follows:

Fair value of consideration transferred	50,000
Plus Amount of non-controlling interest	15,000
	65,000
Less Fair value of identifiable net assets	
Share capital	(40,000)
Retained earnings	(10,000)
Fair value adjustment	(5,000)
Goodwill on acquisition date	10,000

ABC Group

Consolidated Statement of Financial Position as at 1 January 2017 (Rs.'000)

	ABC	XYZ	Adjustments	Group
Non-Current Assets				
PPE	30,000	35,000	5,000 (A)	70,000
Investment	50,000	-	-50,000 (B)	-
Goodwill**			10,000 (D)	10,000
Current Assets	45,000	35,000		80,000
Total Assets	**125,000**	**70,000**		**160,00**
Equity				
Ordinary Share Capital	80,000	40,000	-30,000 (B)-10,000 (C)	80,000
Retained Earnings	25,000	10,000	-7,500 (B)-2,500 (C)	25,000
Fair value adjustment			5,000 (A) -3,750 (B)-1,250 (C)	-
NCI			15,000 (C)	15,000
Current Liabilities	20,000	20,000		40,000
Equity and Liabilities	**125,000**	**70,000**		**160,000**

***Goodwill attributable to the NCI*= 15,000 - 13,500

= 1,500

***Goodwill attributable to the Parent = 8,500*

NCI at reporting date

To measure NCI at the reporting date, the post-acquisition share of net assets attributable to the NCI should be added to the NCI at the date of acquisition.

The following format can be used to calculate the post-acquisition share of net assets attributable to the NCI

Net Assets	Acquisition Date	Reporting Date
Share Capital	XX	XX
Retained Earnings	XX	XX
Fair value Changes	XX	XX
Total Net Assets	XXX	XXX
NCI at the date of acquisition (1)	XX	
Post-acquisition share of Net assets attributable to NCI [(total net assets at reporting date-total net assets at acquisition date) x % of NCI] (2)		XX
NCI at the reporting date (1+2)		XXX

Group Retained Earnings at the Reporting Date

The group retained earnings at the reporting date can be calculated as follows:

Parent's retained earnings at the reporting date	XX
Subsidiary's retained earnings at the reporting date	XX
Deduct: Subsidiary's retained earnings at the acquisition date	(XX)
Post-acquisition share of net assets attributable to NCI	(XX)
Group retained earnings attributable to Parent	XX

Intra Group Transactions

Intra group transactions refer to transactions that have taken place between separate legal entities of an economic entity which requires accounting in the financial statement of those individual entities. But any amount owing and receivable between members of the economic entity and any intra company transaction which creates profit or loss should not be identified in the accounts of the economic entity & be eliminated when preparing consolidated financial statements until it is realized which means till the risk and rewards transfers to the external party. Intra group transactions may lead to the following problem areas:

- Current accounts between P and S
- Unrealised profits on sales of inventory
- Unrealised profits on sales of non-current assets
- Dividends.
- Goodwill impairment

Current Accounts

If parent and subsidiary trade with each other then this will probably be done on credit basis leading to:

- A receivables (current) account in one company's SFP statement of financial position (SFP)
- A payables (current) account in the other company's SFP.

These are amounts owing within the group rather than outside the group and therefore they must not appear in the consolidated statement of financial position. They are therefore cancelled (contra's) against each other on consolidation.

Cash/goods in transit

At the year end, current accounts may not agree, owing to the existence of in transit items such as goods or cash.

The usual rules are as follows:

- If the goods or cash are in transit between parent and subsidiary, make the adjustments to the stateme nt of financial position of the recipient:

  Cash in transit is adjusted by:
  Adding Cash in transit
  Deducting Receivables current account

  Goods in transit is adjusted by:
  Adding inventory
  Deducting payables current account
  this adjustment is for the purpose of consolidation only.

Once in agreement, the current accounts may be cancelled as part of the process of cross casting the asse ts and liabilities. This means that reconciled current account balance amounts are removed from both receivables and payables in the consolidated statement of financial position.

Unrealized Profit

Profits made by members of a group on transactions with other group members are:

- recognised in the accounts of the individual companies concerned, but
- in terms of the group as a whole, such profits are unrealised and must be eliminated from the con solidated accounts.

Unrealized profit may arise within a group scenario on

- inventory where companies trade with each other
- Non current assets where one group company has transferred an asset to another.

Unrealized Profit in Inventory

When one group company sells goods to another a number of adjustments may be needed.

- Current accounts must be cancelled.
- Where goods are still held by a group company, any unrealised profit must be cancelled.
- Inventory must be included at original cost to the group

Adjustments for unrealized profit in inventory

The process to adjust is:

1) Determine the value of closing inventory included in an individual company's accounts which has been purchased from another company in the group.
2) Use mark-up or margin to calculate how much of that value represents profit earned by te selling company.
3) Make the adjustments. These will depend on who the seller is

Unrealized Profit in Noncurrent Assets

The easiest way to calculate the adjustment required is to compare the carrying amount (CA) of the asset now with the CA that it would have been held at had the transfer never occurred:

CA at reporting date	X
CA at reporting date if intra-group transfer had not occurred	(X)
Adjustment required	X

The calculated amount should be:

(1) deducted when adding across P's non-current assets + S's non-current assets

(2) deducted in the retained earnings of the seller

Dividends

When a subsidiary company pays a dividend during the year the accounting treatment is not difficult. Suppose S Co, a 60% subsidiary of P Co, pays a dividend of Rs.1,000 on the last day of its accounting period. Its total reserves before paying the dividend stood at Rs.5,000.

a) Rs.400 of the dividend is paid to non-controlling shareholders. The cash leaves the group and will not appear anywhere in the consolidated statement of financial position. This requires no adjustment in consolidation
b) Rs. 600 dividends received by the parent is appearing under the parent's retained earnings. This represents the part of post-acquisition share of retained earnings attributable to parent. Hence, we are not going to make any adjustment to this.
c) The remaining balance of retained earnings in S Co's statement of financial position (Rs.4,000) will be consolidated in the normal way. The group's share (60% * Rs.4,000 = Rs.2,400) will be included in group retained earnings in the statement of financial position; Then the total share of post-acquisition share of retained earnings attributable to parent will become Rs.3000 (600+2,400)
d) The non-controlling interest share (40% * Rs.4,000 = Rs.1,600) is credited to the non-controlling interest account in the statement of financial position.

Goodwill impairment

Goodwill must be tested for impairment annually. The accounting treatment for impairment depends on the how the NCI is measured. Accounting treatment can be summarized as follows:

- If NCI is measured at its proportionate share of the acquiree's net identifiable assets method, the total goodwill is attributable to parent: Consequently, the impairment loss is entirely attributable to parent. Hence impairment loss is adjusted against the parents' retained earnings.
- If NCI is measured at its fair value, there is a share of goodwill attributable to the NCI as well, consequently, the impairment loss must be divided among the parent and NCI. Hence impairment loss is adjusted against the subsidiary's retained earnings.

Example 3

ABC PLC acquired 75% of the equity interest in XYZ PLC at 1 January 2017 for Rs. 50 million. The Statement of Financial Position as at 31 March 2018 were as follows

		Rs.'000
	ABC PLC	XYZ PLC
Assets		
Non-current assets		
Property, plant and equipment	35,000	25,000
Investment in XYZ PLC	50,000	-
	85,000	25,000
Current assets		
Inventory	10,000	5,000
Receivables	30,000	20,000
Cash	10,000	10,000
Total assets	135,000	60,000
Equity and liabilities		
Equity		
Rs.1 ordinary shares	80,000	40,000
Retained earnings	35,000	15,000
	115,000	55,000
Current liabilities	20,000	5,000
Total equity and liabilities	135,000	60,000

Additional information.

1) At the date of acquisition all the assets and liabilities of XYZ PLC were reflected at fair value except land which had a fair value of Rs.5,000,000 in excess of its carrying amount.
2) The retained earnings at the date of acquisition was Rs. 10,000,000
3) ABC Group measures the NCI at its proportionate share of the acquiree's net identifiable assets.
4) During the year ended 31 March 2018, XYZ PLC Purchased Rs.1,000,000 worth of goods from ABC PLC. Out of these goods half (1/2) of them remained unsold in the premises of company XYZ. The sales policy of ABC PLC is to add 25% of mark up to its cost.
5) During the year ended 31 March 2018, ABC Purchased Rs.1,500,000 worth of goods from XYZ PLC. Out of these goods one third (1/3) of them remained unsold in the premises of company ABC. The sales policy of XYZ PLC is to keep 25% margin from sales price.
6) On 1 April 2017, XYZ PLC sold a motor vehicle to ABC PLC for Rs.600,000, the carrying amount of the motor vehicle at the date of sale stood at Rs.400,000. The remaining useful life of motor vehicle at the date of sale was 4 years.
7) As at 31 March 2018, the intra group receivables stood at Rs.1,000,000 and group payables stood at Rs.800,000. The difference was due to the cash in transit.
8) During the year company ABC PLC and XYZ PLC paid a dividend of Rs.300,000 and Rs.200,000 respectively.
9) As at 31 March 2018, goodwill had been impaired by Rs.750,000.

Required:

Prepare the Consolidated Statement of Financial Position as at 31 March 2018.

Solution

Consolidation Procedure

(a) Restate the assets and liabilities of the subsidiary at its fair value.

This requires the adjustments of Rs.5 million to the PPE and Fair value adjustments of reserve. (This adjustment is indicated as A)

(b) Parent's investment in the subsidiary and the parent's portion of net assets of the subsidiary are eliminated against each other.

This require the elimination of Rs.50 million investment against the net assets of the subsidiary (share capital Rs.40 x 75%, retained earnings Rs.10 x 75%, fair value adjustment Rs.5 x 75%)

(This adjustment is indicated as B)

(c) Intra group transactions must be accounted for: *SLFRS 10- Consolidated Financial Statements* states that all intragroup balances and transactions, and the resulting unrealized profits, should be eliminated in full.

Unrealized profit- Sale of goods by ABC PLC (This adjustment is indicated as F)

Sales	125	1,000,000
Cost of sales	100	800,000
Profit	25	200,000
Unrealized Profit	200,000*1/2	100,000

Unrealized profit- Sale of goods by XYZ PLC (This adjustment is indicated as G)

Sales	100	1,500,000
Cost of sales	75	1,125,000
Profit	25	375,000
Unrealized Profit	375,000*1/3	125,000

Unrealized profit- Sale of motor vehicle by XYZ PLC (This adjustment is indicated as H)

Carrying amount at reporting date	450,000
Carrying amount at reporting date if the intra group transaction had not been occurred	(350,000)
Unrealized profit	100,000

Current account (This adjustment is indicated as I)

Adjust cash account by adding Rs.200,000 and adjust receivables by deducting Rs.200,000. Then eliminate the receivables and payables against each other.

Dividends

No adjustments are required for dividends

Goodwill impairment (This adjustment is indicated as J)

This must be adjusted to the parent's retained earnings.

(d) Non-Controlling Interest (NCI) in the net assets of consolidated subsidiaries should be presented separately under the equity in the consolidated statement of financial position

(The NCI at the date of acquisition is indicated as C and Post acquisition Share of NCI is indicated as E)

The amount of net assets attributable to non-controlling interests is calculated as follows.

(Rs.'000)

Net Assets	Acquisition Date	Reporting Date
Share Capital	40,000	40,000
Retained Earnings	10,000	15,000
Fair value Changes	5,000	5,000
Adjustments		
Unrealized profit in inventory		(125)
Unrealized profit on sale of MV		(100)
Total Net Assets	55,000	59,775
NCI at the date of acquisition (1) 55,000*25%	13,750	
Post-acquisition share of Net assets attributable to NCI [(59,775-55,000) x 25%] (2)		1,193.75
NCI at the reporting date (1+2)		14,943.75

(e) Goodwill on consolidation should be dealt in accordance with *SLFRS 3- Business Combinations.*

(This adjustment is indicated as D) **(Rs.'000)**

Goodwill can be calculated as follows:

Fair value of consideration transferred	50,000
Plus Amount of non-controlling interest (55,000*25%)	13,750
	63,750
Less Fair value of identifiable net assets	
Share capital	(40,000)
Retained earnings	(10,000)
Fair value adjustment	(5,000)
Goodwill on acquisition date	8,750

The group retained earnings at the reporting date can be calculated as follows:

(Rs.'000)

Parent's retained earnings at the reporting date	35,000
Subsidiary's retained earnings at the reporting date	15,000
Deduct: Subsidiary's retained earnings at the acquisition date	(10,000)
Deduct: Unrealized Profit in sale of inventory by parent	(100)
Deduct: Goodwill impairment	(750)
Deduct: Unrealized Profit in sale of inventory by subsidiary	(125)
Deduct: Unrealized Profit in sale of MV by subsidiary	(100)
Post-acquisition share of net assets attributable to NCI	(1,193.75)
Group retained earnings attributable to Parent	37,731.25

Alternatively **(Rs.'000)**

Parent's retained earnings at the reporting date	35,000
Deduct: Unrealized Profit in sale of inventory by parent	(100)
Deduct: Goodwill impairment	(750)
Post-acquisition share of net assets attributable to Parent (59,775-55,000)= 4775*75%	3,581.25
Group retained earnings attributable to Parent	37,731.25

ABC Group's

Consolidated Statement of Financial Position as at 31 March 2018 (Rs.'000)

	ABC	XYZ	Adjustments	Group
Non-Current Assets				
PPE	35,000	25,000	5,000 (A) -100(H)	64,900
Investment	50,000	-	-50,000 (B)	-
Goodwill			8,750 (D)-750 (J)	8,000
Current Assets				
Inventory	10,000	5,000	-100 (F) -125(G)	14,775
Receivables	30,000	20,000	-200 (I) -800 (I)	49,000
Cash	10,000	10,000	+200 (I)	20,200
Total Assets	**135,000**	**60,000**		**156,875**
Equity				
Ordinary Share Capital	80,000	40,000	-30,000 (B)-10,000 (C)	80,000
Retained Earnings	35,000	15,000	-7,500 (B)-2,500 (C)-1,193.75 (E)-100 (F)-125 (G) -100 (H)- 750 (J)	37,731.25
Fair value adjustment			5,000 (A) -3,750 (B)-1,250 (C)	-
NCI			13,750 (C) + 1193.75 (E)	14,943.75
Current Liabilities	20,000	5,000	-800 (I)	24,200
Equity and Liabilities	**135,000**	**60,000**		**156,875**
