Chapter 2 – Consolidated Statement of Financial Position

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| **1. Basic principles of consolidated financial position:**   * Show all assets and liabilities of parent + subsidiary * Intra group items are eliminated.(receivables and payables)   Method of preparing CSFP   * Investment of parent is replaced by the net assets acquired * Cost of investment is cancelled out with the share capital and retained earnings of Sub. * This leaves the Net assets of group (P + S) * Share capital of parent and * Retained earnings of Parent + parent share of post acquisition profit sub   **Standard Steps for Consolidated Financial Position:**   1. Group Structure (% of interest parent holding in subsidiary 2. Net assets of sub. At Acq. & Rep.  |  |  |  | | --- | --- | --- | | Particulars | N A on acq | N A on rep | | Share capital | xx | xx | | Share premium | xx | xx | | Retained earnings | xx | xx | | Fair value increase  Fair value decrease  Depreciation on FV increase  Depreciation on FV decrease | xx  (xx) | xx  (xx)  (xx)  xx | |  | xx | xx |   The depreciation should be calculated from date of acquisition to the date of reporting.  Retained earnings up to acq. is a part of pre acq.   1. Calculation of Cost of investment   Cash consideration xx  Share consideration xx  Deferred consideration xx  Loan consideration xx  ------  xx  In case of deferred consideration, the PV future payment need to be calculated using the rate of discount given based on number of years  (PV of deferred consideration = FV x PV factor at % for stated number of years)   1. Calculation of goodwill—NCI at fair value   Cost of investment by parent xx  Fair value of NCI xx  ----  xx  Less NA on date of acq. ( xx)  -----  Total goodwill xx  Less Impairment of goodwill (xx)  -----  Balance goodwill carried to B/S xx | The impaired goodwill should be shared between the Parent and NCI as per their percentages   * Parent share of impairment of goodwill reduce from group reserves * NCI share of impairment of goodwill reduce NCI share of net assets   Calculation of Goodwill –if NCI proportional method: in such case the goodwill is calculated for the parent only  Cost of investment xx  Less parent share of NA of sub on acq. (xx)  -------  Goodwill xxxx  Less Impairment of goodwill (xx)  ------  Balance goodwill carried to B/S xxx  The entire impairment loss will be reduced from group reserves  Negative goodwill:  If cost of investment is less than net assets acquired it gives negative goodwill, which will be added to group reserves   1. Calculation of NCI share of net assets   Fair value of NCI xxx  NCI share of post acq profits  of subsidiary xxx  (NCI % x post acq profits )  Less NCI share of GW impairment ( xxx)  Less NCI share of URP on Inter  co. sale of inventory (S to A) (xxx)  Less NCI share of URP on inter co  sale of non current assets (xxx)  ------  NCI share of net assets xxx  ( show below equity in B/S)   1. Calculation of group reserves   Parent profits as on reporting xx  Parent % of Sub post acq profits  (Parent % x post acq profits ) xx  Parent share of GW impairment (xx)  Parent share of URP on stocks (xx)  (whether parent sold or Sub sold)  Parent share of URP on inter co.  sale of fixed assets (xx)  Negative goodwill if any xx  (whether parent sold or sub sold) -----  Group reserves carried to BS xx   1. URP on inter co. sale of inventory **( P to S)**   Total URP on unsold goods reduce from group reserves and from inventory  URP on inter co. sale of inventory **(S to P)**  Total URP on unsold goods need to be reduced from group reserves the parent shares and from NCI net assets, NCI share  as well reduce from inventory while consolidating | 1. Elimination of inter co,. balances:   Before eliminate inter company receivables and payables better to reconcile the balances and eliminate the balance from receivables and from payables while consolidation.  Any cash or goods in transit then show the amount in current asset as cash in transit or goods in transit.   1. URP on intercompany sale of fixed assets   The URP on intercompany sale of fixed assets need to be   * reduced from group reserves * reduce from non current assets while consolidation.   10. Midyear acquisitions: If parent acquired the subsidiary during the year then calculate the pre acquisition profits ( all profits up to the date of acquisition are pre acquisition and it will be taken to calculate net assets on acquisition to calculate goodwill. post acquisitions profits will be used to calculate parent share of post acquisition profit of subsidiary to show in group reserves. |  |