Chapter 3 Consolidated Income Statement

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| **1. Principles of consolidated income statement**  **Basic principle:**   * Consolidated I/S shows the profit generated by all the resources of group ie., net assets of P +S * From Revenue to profit all items line by line will be added ( P Revenue + S revenue; P expenditure + S expenditure line by line ) * After Profit after tax reduce the NCI share of profits to calculate group profits   Standard workings required:   * Find out group structure * Find out net assets of subsidiary at acquisition and at reporting * Calculate goodwill * Calculate NCI share of profits * Calculation of NCI in profits :   NCI in profits =  **NCI % of subsidiary’s profit after tax X**  **Less: NCI % of fair value depreciation (X)**  **NCI % of PURP (sub = seller only) (X)**  **NCI % of impairment of goodwill (X)**  **–––––**  **X**  **2. Intra group trading:**   * Entire inter company sale of inventory reduce from consolidated revenue   (P Rev + S Rev – Inter co. sales )   * Entire inter company cost of sales reduce from consolidated cost of sales   (P COS + S COS – inter co. COS)   * Add URP on unsold stock to Consolidated cost of sales * If S sold to P then NCI share of URP reduce from NCI share of profits   **3. Inter company Loans:**   * When inter co. loans exists then there can be interest income to one co. and interest expenditure to another company hence * Reduce from investment income the portion of inter co, interest (investment) income * Reduce from finance cost the inter co. interest expenditure   **4. Inter company dividends:**   * Any dividend income from S should be eliminated from investment income if included in investment income of P * Only parent dividend show in the consolidated income statement * Any dividend or interest from trade investments should appear in consolidated income statement. | **5. Inter company sale of non current assets (fixed assets)**   * Any URP oninter company sale of fixed assets should be added to consolidated cost of sales * If S sold to P then reduce the NCI share of URP from NCI share of profits * Excess depreciation charged by the purchaser of asset should be reduced from total depreciation shown in consolidated income statement.   **6. Impairment of goodwill**   * Only Current year impairment of goodwill add to operating expenses * NCI share of current year impairment of goodwill reduce from NCI share of profits   **7. Fair value adjustments:**   * Any fair value adjustments of depreciable assets there at the time of acquisition of subsidiary, then on the reporting date on such fair value adj. depreciation need to be calculated only for current year and add to the cost of goods sold or as indicated by examiner. * NCI share of fair value depreciation should be reduced from NCI share of profits.   **8. Mid year acquisitions:**   * If subsidiary has been acquired during the current year, then based on the date of acquisition to the date of reporting period only need to be consolidated but not the total revenue and expenditure figures of subsidiary   (suppose subsidiary has been acquired after 4 months of current year then consolidated revenues and expenditure of subsidiary only for 8 months  P revenue + (sub revenue x 8/12 )  P COS + (Sub COS x 8/12)   * Time apportion fair value depreciation, inter company investment income, NCI share of profits   **9.Calculation of NCI share of profits**  NCI % of profit after tax of subsidiary xxx  Less NCI share of URP on unsold stocks ( xxx)  ( Only if S sold to P )  Less NCI share of current year  Impairment of goodwill (xxx)  Less NCI share of fair value depreciation (xxx)  ( on current year depreciation) --------  NCI share of profits xxx  (time apportion the Profit after tax if acquired during the year )  10. Other comprehensive income: If there is other comprehensive income then give share on that to NCI also. |  |  |