

On 1 June 20X6, Kutchen Co acquired 70% of the equity interests of House Co. The purchase consideration comprised 20 million shares of \$1 of Kutchen Co at the acquisition date and a further 5 million shares on 31 December 20X7 if House Co's net profit after taxation was at least \$4 million.

The market price of Kutchen Co's shares on 1 June 20X6 was \$2 per share and that of House Co was \$4.20 per share. It is felt that there is a 20% chance of the profit target being met.

In accounting for the acquisition of House Co, the finance director did not take into account the non-controlling interest in the goodwill calculation. He determined that a bargain purchase of \$8 million arose on the acquisition of House Co being the purchase consideration of \$40 million less the fair value of the identifiable net assets of House Co acquired on 1 June 20X6 of \$48 million. This valuation was included in the group financial statements above.

After the directors discovered the error, they decided to measure the non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest (NCI) in House Co was to be based upon quoted market prices at acquisition. House Co had issued share capital of \$1 each, totaling \$13million at 1 June 20X6 and there has been no change in this amount since acquisition.