

Week3 Fair value adjustment and tax effect

- FVA of land on consolidation

Land

FVA

DTL

Elimination of investment:

Share capital

FVA

Retained earnings

Goodwill

Investment in sub

- Intragroup transfer of land to FV

➤ In current period

Eliminate gain on sale of land

(difference btw profits of S and P's)

Gain on sale of land

FVA

ITE

➤ In subsequent period

Close FVA to RE

Retained earnings b/f

FVA

- FVA of depreciable asset

➤ In current period

Recognise FV increment at acquisition:

Accumulated depreciation-plant

Plant

NOTE: do this journal entry only when question tells accumulated depreciation at the date of acquisition. If question didn't tell, only record:

Plant

FVA

DTA

Or combine these journal entries to:

Accumulated depreciation-plant

Plant

FVA

DTA

Then eliminate investment.

➤ 1 year since acquisition

FVA is the same

Accumulated depreciation

- Plant
- FVA
- DTL

Record additional depreciation expense

- Depreciation expense
- Accumulated depreciation
- DTL
- ITE

- 2 years since acquisition
- FVA is the same.*

Record additional depreciation expense

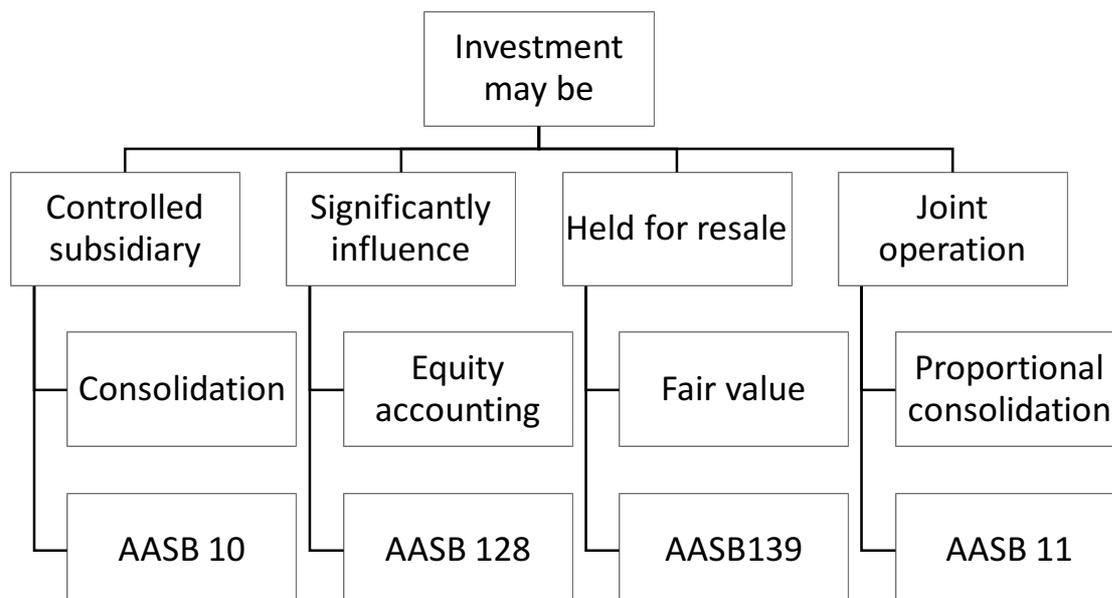
- Depreciation expense
- Retained earnings b/f
- Accumulated depreciation
- DTA
- Retained earnings b/f
- ITE

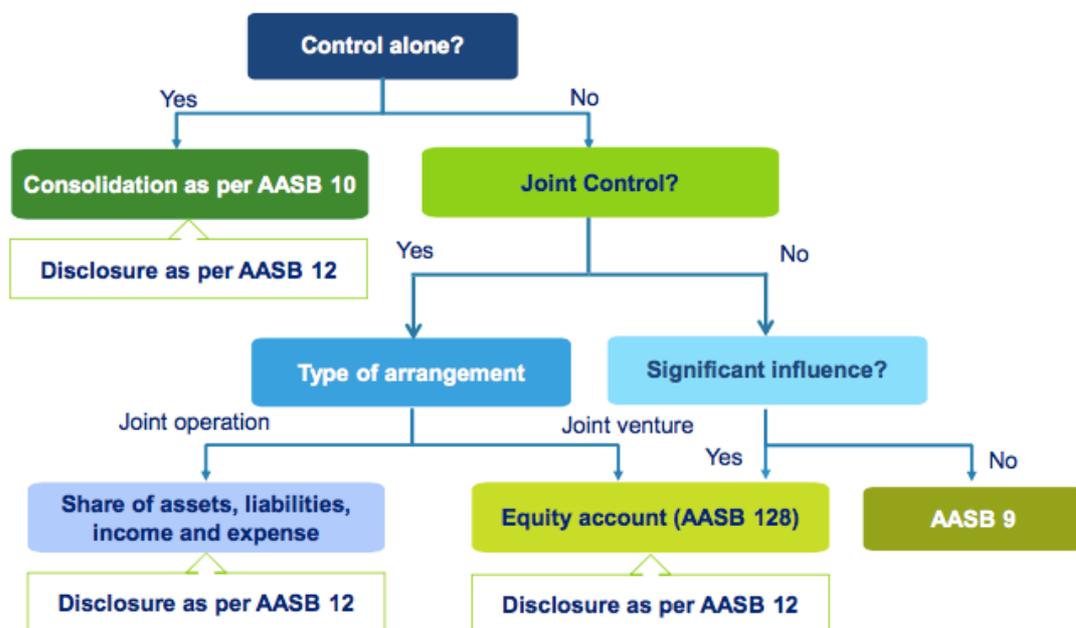
- When asset is fully depreciated
- FVA is still the same*

Close depreciation expense to retained earnings

- Retained earnings b/f
- Accumulated depreciation
- DTA
- Retained earnings b/f

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Week 6 Partly owned subsidiaries: Direct non-controlling interest

- Summary of consolidation process
 1. Obtain trial balance of parent and subsidiary
 2. Line by line aggregation in full on CFS
 3. Do consolidation adjustment/elimination in full to determine consolidated group REAL
 4. Examine group equity and group profit and apply a consistent rule to determine a reasonable split between direct NCI and PI for disclosure
 5. The consolidation adjustment journal entries alter only slightly if the parent owns <100% → only eliminate dividend paid to parent, and only eliminate upstream transaction.

AASB 127 Separate financial statements

- AASB 127:4: NCI is the equity in a subsidiary not attributable, directly or indirectly, to a parent.
- AASB 127:18 (C): NCI in the net asset consists of:
 - i) amount of NCI at the date of original combination calculated in accordance with AASB3 and
 - ii) NCI's share of changes in equity since the date of combination
- AASB127:27: NCI shall be presented in the CFS within equity, separately from the parent.
- AASB101 requires allocation of NCI to be disclosed in CFS as follows:
 - NCI in equity (equity section of consolidated balance sheet)
 - NCI in P/L (on face of consolidated income statement)
 - NCI in total income and expenses for the period (on the face of consolidated statement of changes in equity)
- Residual interest method to calculate NCI
 - treat PI as the residual interest after deducting NCI using final column from consolidation worksheet to pick up share capital, reserves, contributed op. retained earnings, contributed P/L, dividend distribution to the group and transfer to or from

reserves for the current period.

- Steps to prepare memorandum account
 1. insert sections for each components of sub's equity
 2. put in balances as per sub's financial statements or sub's column in CWS
 3. adjust for upstream unrealized profit and depreciation
 4. add and then multiply by %
- AASB3:19 allows choices between full method and partial method to measure goodwill.
 - Full method: $\text{goodwill} = (\text{consideration} + \text{FV of NCI}) - \text{FVNIA}$
 - Partial method (lower): $\text{goodwill} = \text{consideration} - \text{FVNIA} * \% \text{ of PI}$

See lec example.

Both goodwill and NCI are higher under full method because full method allocates goodwill to NCI while partial method doesn't.