

GROUP STATEMENTS

THEORY & PREPARATION

Overview

- Companies in a group context
 - a group consists of a parent & all its subsidiaries.
 - An entity that is a parent is required to present consolidated financial statements that satisfy the requirements of IFRS10 unless it is exempt.

Overview

- IFRS10 exemptions from consolidation:
 - parent itself is wholly owned subsidiary or
 - partly owned, & others informed & do not object
 - parent's instruments are not publicly traded
 - parent not in the process of issuing instruments in public markets

Overview

- ultimate or intermediate parent produces compliant consolidated FS available for public use
- parent is an investment entity

Overview

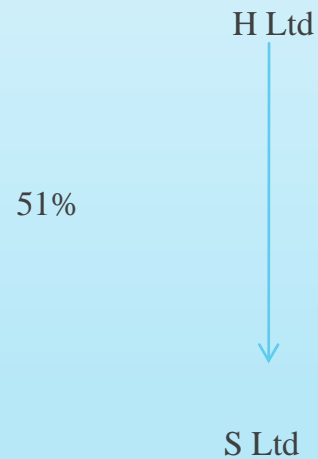
- S. 186 of the Companies & Other Business Entities Act require a parent to lay group financial statements before the company in general meeting when the company's own financial statements are so laid unless it is exempt

Overview

- **Types of groups**

(Can be a simple group or complex group)

- Simple group – consists of a parent & a single subsidiary



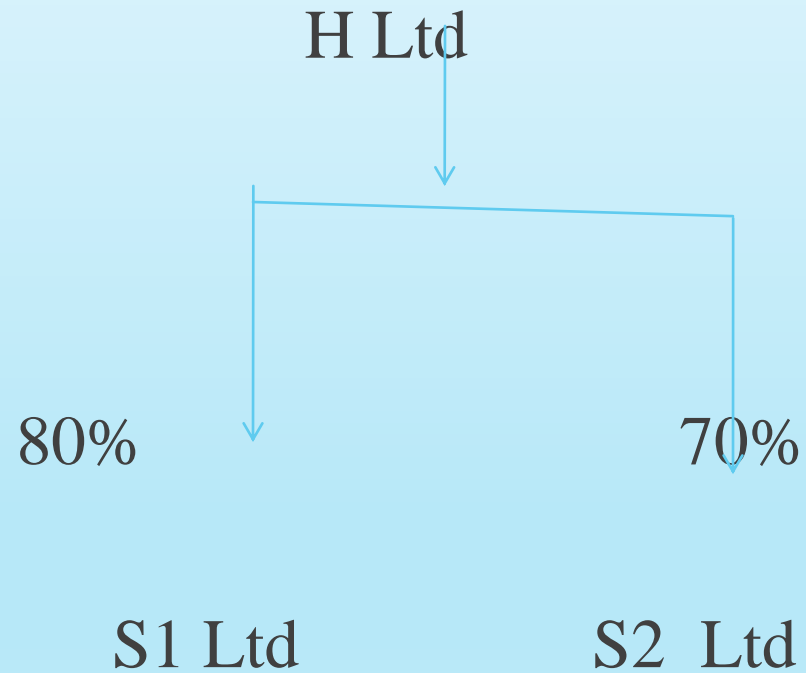
Overview

➤ Complex group – consists of a parent & more than one subsidiary & can be:

- horizontal
- vertical or
- mixed

Overview

- **Horizontal group**



Overview

- **Vertical group**

H Ltd

80%

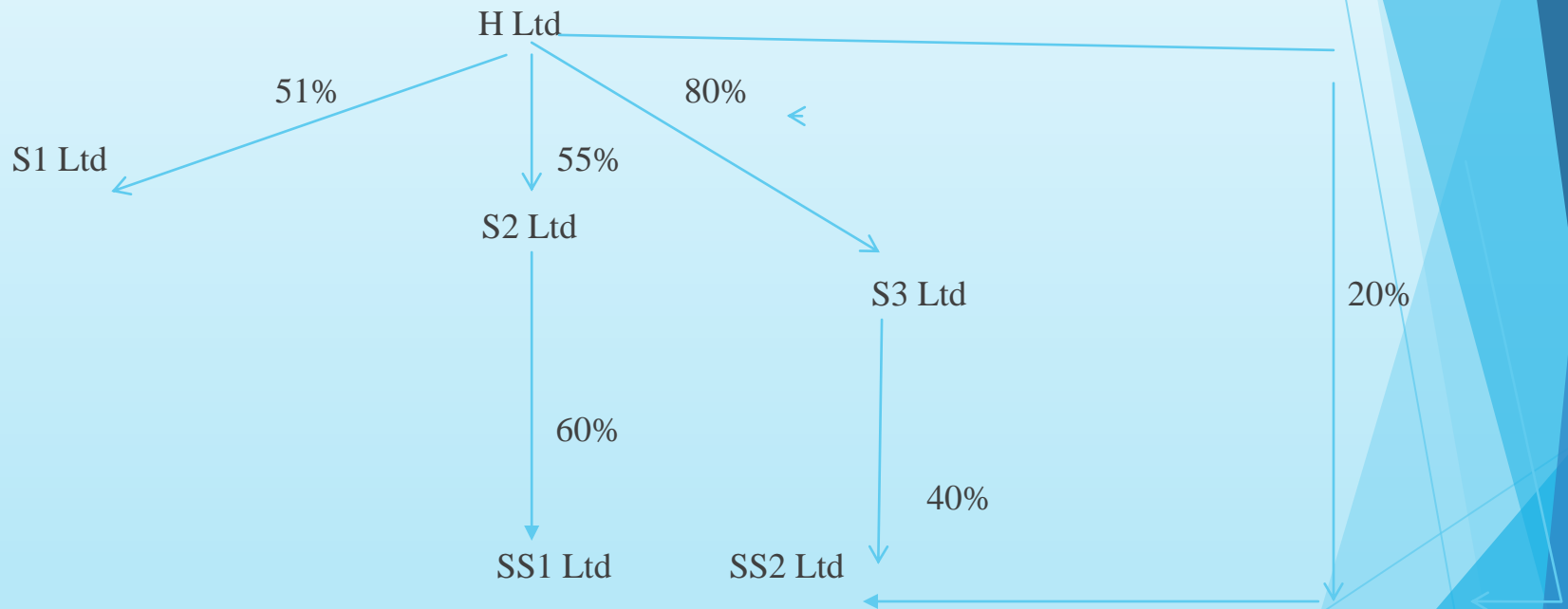
S1 Ltd

60%

S2 Ltd

Overview

- **Mixed group**



Consolidation procedure

- Principle of consolidated statements of a group
 - nothing more than the combined statements of all companies in the group, subject to some adjustments

Consolidation procedure

- Basic consolidation techniques
 - elimination of common items
 - elimination of intercompany items
 - consolidation of remaining items

Consolidation of wholly owned subsidiary at date of acquisition

Example 1

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
ASSETS		
Investment in Kadiki Ltd	10000	nil
Cash & cash equivalents	<u>10000</u>	<u>10000</u>
	<u>20000</u>	<u>10000</u>
Equity & Liabilities		
Ordinary shares of \$1 each	<u>20000</u>	<u>10000</u>

Consolidation of wholly owned subsidiary at date of acquisition

Required

Draft consolidated statement of financial position of Zihombe group at 31 December 2021

Assume that Zihombe Ltd acquired its interest in Kadiki Ltd on 31 December 2021, which is the date on which Kadiki Ltd was incorporated.

Consolidation of wholly owned subsidiary at date of acquisition

Solution to example 1

Journal entry (elimination of common items)

	Dr	Cr
Share capital of Kadiki Ltd	10 000	
Investment I Kadiki Ltd		10 000

Elimination of shareholders equity
of Kadiki Ltd at acquisition

Consolidation of wholly owned subsidiary at date of acquisition

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF ZIHOMBE GROUP AT 31 DECEMBER 2021

ASSETS	\$	
Cash and cash equivalents (10 000 + 10 000)		<u>20 000</u>
EQUITY AND LIABILITIES		
Issued capital – Ordinary shares of \$1 each		<u>20 000</u>

Consolidation of wholly owned subsidiary at date of acquisition

- The following 3 situations can arise when a parent obtains an interest in a subsidiary:
 - the price paid by the parent for its interest in the subsidiary can be equivalent to the value net assets acquired – i.e. *an acquisition at net asset value*.
 - the price paid by the parent for its interest in the **subsidiary can be higher than the net asset value** – *acquisition at a premium (goodwill)*

Consolidation of wholly owned subsidiary at date of acquisition

- the price paid by the parent for its interest in the subsidiary can be lower than the net asset value, in which case this results in *bargain purchase*

Acquisition of a wholly-owned subsidiary at a premium

Example 2

The following represent the abridged statements of financial position of Zihombe Ltd and its wholly owned subsidiary Kadiki Ltd at 31 December 2021, the date Zihombe acquired its interest in Kadiki Ltd

Acquisition of a wholly-owned subsidiary at a premium

Statements of Financial Position at 31 December 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
ASSETS		
Investment in Kadiki Ltd	100 000	nil
Trade & other receivables	60 000	35 000
Cash & cash equivalents	20 000	55 000
	<u>180 000</u>	<u>90 000</u>

Acquisition of a wholly-owned subsidiary at a premium

Equity & Liabilities

Ordinary shares of \$1 each	100 000	50 000
Retained earnings	<u>80 000</u>	<u>40 000</u>
	<u>180 000</u>	<u>90 000</u>

Required

Draft the consolidated statement of financial position for the Zihombe Ltd Group at 31 December 2021.

Acquisition of a wholly-owned subsidiary at a premium

Solution 2

Calculations

1. Analysis of shareholders' equity of Kadiki Ltd

	Total	At	Since
	\$	\$	\$
Share capital	50 000	50 000	nil
Retained earnings	<u>40 000</u>	<u>40 000</u>	<u>nil</u>
	<u>90000</u>	90 000	<u>nil</u>
Investment in Kadiki Ltd		<u>100 000</u>	
Goodwill		<u>10 000</u>	

Acquisition of a wholly-owned subsidiary at a premium

2. Journal entry

	Dr	Cr
Ordinary shares of \$1 each (Kadiki Ltd)	50 000	
Retained earnings (Kadiki Ltd)	40 000	
Goodwill	10 000	
Investment in Kadiki Ltd		100000
Elimination of shareholders' equity of Kadiki Ltd at acquisition		

Acquisition of a wholly-owned subsidiary at a premium

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets

Non-current assets

Goodwill	10 000
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Current assets

Trade & other receivables(60000+35000)	95 000
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Cash & cash equivalents (20000+55000)	<u>75 000</u>
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Total assets	<u>180 000</u>
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Acquisition of a wholly-owned subsidiary at a premium

Equity and Liabilities

Total Equity

Issued capital – Ordinary shares
of \$1 each

100 000

Retained earnings

80 000

Total equity and liabilities

180 000

The Zihombe Ltd paid more than the net asset value of Kadiki Ltd, which means that a premium (goodwill) was paid at acquisition. It is regarded as an intangible asset.

Acquisition of a partly-owned subsidiary at net asset value

- Non- controlling interest (**NCI**)
 - where the parent does not acquire the entire issued share capital of a subsidiary, the owners other than the parent are referred to as non-controlling interests.
 - IFRS10 defines NCI as equity of a subsidiary not attributable directly or indirectly to a parent.

Acquisition of a partly-owned subsidiary at net asset value

- Since total equity = net assets, respective interests of the parent & NCI can be determined simply by allocating to each their respective share of equity.
- NCI is presented within equity separately from the equity of the owners of the parent
- Profit or loss & each component of other comprehensive income are attributable to owners of the parent & NCI

Acquisition of a partly-owned subsidiary at net asset value

Example 3

The following are abridged statements of financial position of Zihombe Ltd & Kadiki Ltd at 31 December 2021, the date on which Zihombe Ltd acquired its interest in Kadiki Ltd

Acquisition of a partly-owned subsidiary at net asset value

Statements of Financial Position at 31 December 2021

	Zihombe Ltd	Kadiki Ltd
\$	\$	
ASSETS		
Property, plant & equipment	160 000	160 000
Investment in Kadiki Ltd - 56000 shares at fair value	98 000	nil
Trade & other receivables	<u>140 000</u>	<u>110 000</u>
	<u>398 000</u>	<u>270 000</u>

Acquisition of a partly-owned subsidiary at net asset value

Equity & Liabilities

Ordinary shares of \$1 each	100 000	80 000
Retained earnings	120 000	60 000
Trade & other payables	<u>178 000</u>	<u>130 000</u>
	<u>398 000</u>	<u>270 000</u>

Acquisition of a partly-owned subsidiary at net asset value

Required

Prepare consolidated statement of financial position of Zihombe Ltd Group at 31 December 2021

Acquisition of a partly-owned subsidiary at net asset value

Solution 3

1. Determine percentage interests

Zihombe Ltd acquired 56 000 shares

Kadiki Ltd has 80 000 shares

$$\begin{aligned}\text{Zihombe Ltd's interest} &= \frac{56\,000}{80\,000} \times \frac{100}{1} \\ &= 70\%\end{aligned}$$

Acquisition of a partly-owned subsidiary at net asset value

2. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
	100%	70%		30%
	\$	\$	\$	\$
Share capital	80 000	56 000		24 000
Retained earnings	<u>60 000</u>	<u>42 000</u>		<u>18 000</u>
	<u>140 000</u>	98 000		<u>42 000</u>
Investment in Kadiki Ltd		<u>98 000</u>		
		<u>nil</u>		

Acquisition of a partly-owned subsidiary at net asset value

3. Journal entry

	Dr	Cr
Ordinary shares of \$1 each (Kadiki)	80 000	
Retained earnings (Kadiki Ltd)	60 000	
Investment in Kadiki Ltd		98 000
NCI		42 000
Elimination of shareholders' equity of Kadiki Ltd at acquisition		

Acquisition of a partly-owned subsidiary at net asset value

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equip(160000+160000)	320 000
Current assets	
Trade & other receivables(140000+110000)	<u>250 000</u>
Total assets	<u>570 000</u>

Acquisition of a partly-owned subsidiary at net asset value

Equity and Liabilities

Total Equity

Issued capital – Ordinary shares of \$1 each	100 000
Retained earnings	120 000
Non-controlling interest	42 000

Current liabilities

Trade & other payables (178000+130000)	<u>308 000</u>
Total equity and liabilities	<u>570 000</u>

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Example 4

The following are abridged statements of financial position of Zihombe Ltd & Kadiki Ltd at 31 December 2021, the date on which Zihombe Ltd acquired its interest in Kadiki Ltd

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Statements of Financial Position at 31 December 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
ASSETS		
Property, plant & equipment	160 000	160 000
Investment in Kadiki Ltd	140 000	nil
- 64000 shares at fair value		
Trade & other receivables	98 000	110 000
	<u>398 000</u>	<u>270 000</u>

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Equity & Liabilities

Ordinary shares of \$1 each	100 000	80 000
Retained earnings	120 000	60 000
Trade & other payables	<u>178 000</u>	<u>130 000</u>
	<u>398 000</u>	<u>270 000</u>

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Required

Prepare consolidated statement of Zihombe Ltd Group at 31 December 2021

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Solution 4

1. Determine percentage interests

Zihombe Ltd acquired 64 000 shares

Kadiki Ltd has 80 000 shares

$$\begin{aligned}\text{Zihombe Ltd's interest} &= \frac{64\,000}{80\,000} \times \frac{100}{1} \\ &= 80\%\end{aligned}$$

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

2. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
	100%	80%		20%
	\$	\$	\$	\$
Share capital	80 000	64 000		16 000
Retained earnings	<u>60 000</u>	<u>48 000</u>		<u>12 000</u>
	<u>140 000</u>	112 000		<u>28 000</u>
Investment in Kadiki Ltd		<u>140 000</u>		
Goodwill		<u>28 000</u>		

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

3. Journal entry

	Dr	Cr
Ordinary shares of \$1 each (Kadiki Ltd)	80 000	
Retained earnings (Kadiki Ltd)	60 000	
Goodwill	28 000	
Investment in Kadiki Ltd		140 000
NCI		28 000
Elimination of shareholders' equity of Kadiki Ltd at acquisition		

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equipment(160 000+160 000)	320 000
Goodwill	28 000
Current assets	
Trade & other receivables(98 000+110 000)	<u>208 000</u>
Total assets	<u>556 000</u>

Consolidation *at date of acquisition* of a partly-owned subsidiary acquired at a premium

Equity and Liabilities

Total Equity

Issued capital – Ordinary shares of \$1 each	100 000
Retained earnings	120 000
Non-controlling interest	28 000

Current liabilities

Trade & other payables (178000+130000)	<u>308 000</u>
Total equity and liabilities	<u>556 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Example 5

The following are abridged statements of financial position of Zihombe Ltd & Kadiki Ltd at 31 December 2021.

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Statements of Financial Position at 31 December 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
ASSETS		
Property, plant & equipment	160 000	180 000
Investment in Kadiki Ltd	124 000	nil
- 80 000 shares at fair value		
Trade & other receivables	<u>114 000</u>	<u>90 000</u>
	<u>398 000</u>	<u>270 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Equity & Liabilities

Ordinary shares of \$1 each	100 000	80 000
Retained earnings	120 000	60 000
Trade & other payables	<u>178 000</u>	<u>130 000</u>
	<u>398 000</u>	<u>270 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
Profit before tax	35 000	23 000
Income tax expense	<u>(11 000)</u>	<u>(7 000)</u>
Profit for the year	<u>24 000</u>	<u>16 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Statement s of changes in equity for the year ended 31 December 2021

	Share capital		Retained earnings		Total	
	Zihombe	Kadiki	Zihombe	Kadiki	Zihombe	Kadiki
Bal 31/12/20	100000	80000	96000	44000	196000	124000
Profit year			24000	16000	24000	16000
Bal 31/12/21	<u>100000</u>	<u>80000</u>	<u>120000</u>	<u>60000</u>	<u>220000</u>	<u>140000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Additional information

- i. Zihombe Ltd acquired its interest in Kadiki Ltd on 1 January 2021 when Kadiki Ltd's retained earnings amounted to \$44 000
- ii. At the date of acquisition consider the carrying amounts of the assets & liabilities of Kadiki Ltd to be equal to the fair value thereof.
- iii. Assume that the cost price or carrying amount equals the current fair value.

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at net asset value

Required

Prepare for Zihombe Ltd Group, consolidated statement of comprehensive income, statement of changes in equity for the year ended 31 December 2021 & statement of financial position at 31 December 2021

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at net asset value

Solution 5

1. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
			100%	
	\$	\$	\$	\$
Share capital	80 000	80 000		
Retained earnings	<u>44 000</u>	<u>44 000</u>		
	<u>124 000</u>	124 000		
Investment in Kadiki Ltd		<u>124 000</u>		
		<u>Nil</u>		

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Current year-

01/01/21 – 31/12/21

Profit for year	<u>16 000</u>	<u>16 000</u>
	<u>140 000</u>	<u>16 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Journal entry

	Dr	Cr
Share capital of Kadiki Ltd	80 000	
Retained earnings	44 000	
Investment I Kadiki Ltd		124 000

Elimination of shareholders equity
of Kadiki Ltd at acquisition

ZIHOMBE LTD GROUP

Consolidated Statement of Profit or Loss & Other Comprehensive Income for the Year ended 31 December 2021

\$

Profit before tax	(35 000 + 23 000)	58 000
Income tax expense	(11 000 + 7 000)	<u>(18 000)</u>
Profit for the year		<u>40 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

ZIHOMBE LTD GROUP

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

Attributable to equity owners of the parent

	Share capital	Retained earnings	Total
Balance 31/12/20	100 000	96 000	196 000
Profit for year		<u>40 000</u>	<u>40 000</u>
Balance 31/12/21	<u>100 000</u>	<u>136 000</u>	<u>236 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equipment(160 000+180 000)	340 000
Current assets	
Trade & other receivables(114 000+90 000)	<u>204 000</u>
Total assets	<u>544 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at net asset value

Equity and Liabilities

Total Equity

Issued capital – Ordinary shares of \$1 each 100 000

Retained earnings 136 000

Current liabilities

Trade & other payables (178000+130000) 308 000

Total equity and liabilities 544 000

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

Example 6

The following are abridged statements of financial position of Zihombe Ltd & Kadiki Ltd at 31 December 2021.

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

Statements of Financial Position at 31 December 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
ASSETS		
Property, plant & equipment	160 000	180 000
Investment in Kadiki Ltd	148 000	nil
- 80 000 shares at fair value		
Trade & other receivables	90 000	90 000
	<u>398 000</u>	<u>270 000</u>

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

Equity & Liabilities

Ordinary shares of \$1 each	100 000	80 000
Retained earnings	120 000	60 000
Trade & other payables	<u>178 000</u>	<u>130 000</u>
	<u>398 000</u>	<u>270 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
Profit before tax	25 000	23 000
Dividend received- subsidiary	<u>10 000</u>	<u>nil</u>
Profit before tax	35 000	23 000
Income tax expense	<u>(11 000)</u>	<u>(7 000)</u>
Profit for the year	<u>24 000</u>	<u>16 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

Statements of changes in equity for the year ended 31 December 2021

	Share capital		Retained earnings		Total	
	Zihombe	Kadiki	Zihombe	Kadiki	Zihombe	Kadiki
Bal 31/12/20	100000	80000	111000	54000	211000	134000
Profit year			24000	16000	24000	16000
Dividend			(15000)	(10000)	(15000)	(10000)
Bal 31/12/21	<u>100000</u>	<u>80000</u>	<u>120000</u>	<u>60000</u>	<u>220000</u>	<u>140000</u>

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

Additional information

- i. Zihombe Ltd acquired its interest in Kadiki Ltd on 1 January 2021 when Kadiki Ltd's retained earnings amounted to \$26 000
- ii. At the date of acquisition consider the carrying amounts of the assets & liabilities of Kadiki Ltd to be equal to the fair value thereof.
- iii. Assume that the cost price of carrying amount equals the current fair value.

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

Required

Prepare for Zihombe Ltd Group

- i. Consolidated statement of comprehensive income for the year ended 31 December 2021
- ii. Consolidated statement of changes in equity for the year ended 31 December 2021
- iii. Statement of financial position at 31 December 2021

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

Solution 5

1. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
		100%		
	\$	\$	\$	\$
Share capital	80 000	80 000		
Retained earnings	<u>26 000</u>	<u>26 000</u>		
	<u>106 000</u>	106 000		
Investment in Kadiki Ltd		<u>148 000</u>		
Goodwill		<u>42 000</u>		

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

*Since acquisition to beginning
of current year*

Retaining earnings

(54000 -26000)	28 000	28 000
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Current year-

01/01/21 – 31/12/21

Profit for year	16 000	16 000
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Dividend paid	<u>(10 000)</u>	<u>(10 000)</u>
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	<u>140 000</u>	<u>34 000</u>
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Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

Journal entry

	Dr	Cr
Share capital of Kadiki Ltd	80 000	
Retained earnings	26 000	
Goodwill	42 000	
Investment I Kadiki Ltd		148 000

Elimination of shareholders equity
of Kadiki Ltd at acquisition

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

Dividend received (Zihombe)	10 000	
Dividend paid (Kadiki)		10 000
Elimination of intercompany dividend		

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

ZIHOMBE LTD GROUP

Consolidated Statement of Profit or loss & Other
Comprehensive Income for the Year ended 31 December
2021

	\$
Profit before tax 25 000 + 23 000)	48 000
Income tax expense (11 000 + 7 000)	<u>(18 000)</u>
Profit for the year	<u>30 000</u>

Consolidation *a after date of acquisition* of a wholly-owned subsidiary acquired at a premium

ZIHOMBE LTD GROUP

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

Attributable to equity owners of the parent

	Share capital	Retained earnings	Total
Balance 31/12/20	100 000	139 000	239 000
Profit for year		30 000	30 000
Dividends paid		(15 000)	(15 000)
Balance 31/12/21	<u>100 000</u>	<u>154 000</u>	<u>254 000</u>

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

Zihombe Group

Consolidated Statement of Financial Position at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equipment(160 000+180 000)	340 000
Goodwill	42 000
Current assets	
Trade & other receivables(90 000+90 000)	<u>180 000</u>
Total assets	<u>562 000</u>

Consolidation *a* after date of acquisition of a wholly-owned subsidiary acquired at a premium

Equity and Liabilities

Total Equity

Issued capital – Ordinary shares of \$1 each 100 000

Retained earnings 154 000

Current liabilities

Trade & other payables (178000+130000) 308 000

Total equity and liabilities 562 000

Consolidation of a partly-owned subsidiary *after date of acquisition*

Example 7

The following are abridged statements of financial position of Zihombe Ltd & Kadiki Ltd at 31 December 2021.

Consolidation of a partly-owned subsidiary *after date of acquisition*

Statements of Financial Position at 31 December 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
ASSETS		
Property, plant & equipment	200 000	220 000
Investment in Kadiki Ltd - 30000 shares of \$2 each at fair value	152 500	nil
Trade & other receivables	50 500	80 000
Bank	<u>27 000</u>	<u>45 000</u>
	<u>430 000</u>	<u>345 000</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

Equity & Liabilities

Ordinary shares of \$2 each	100 000	80 000
Retained earnings	270 000	190 000
Trade & other payables	<u>60 000</u>	<u>75 000</u>
	<u>430 000</u>	<u>345 000</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Zihombe Ltd	Kadiki Ltd
	\$	\$
Gross profit	107 000	105 000
Dividend fro subsidiary	<u>7 500</u>	<u>nil</u>
Profit before tax	114 500	105 000
Income tax expense	<u>(34 500)</u>	<u>(35 000)</u>
Profit after tax	<u>80 000</u>	<u>70 000</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

Statement s of changes in equity for the year ended31 December 2021

	Share capital		Retained earnings		Total	
	Zihombe	Kadiki	Zihombe	Kadiki	Zihombe	Kadiki
Bal 31/12/20	100000	80000	210000	130000	310000	210000
Profit year			80000	70000	80000	70000
Dividend			(20000)	(10000)	(20000)	(10000)
Bal 31/12/21	<u>100000</u>	<u>80000</u>	<u>270000</u>	<u>190000</u>	<u>370000</u>	<u>270000</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

Additional information

- i. Zihombe Ltd acquired its interest in Kadiki Ltd on 1 January 2019 when Kadiki Ltd's retained earnings amounted to \$110 000
- ii. At the date of acquisition consider the carrying amounts of the assets & liabilities of Kadiki Ltd to be equal to the fair value thereof.
- iii. Assume that the cost price of carrying amount equals the current fair value.

Consolidation of a partly-owned subsidiary *after date of acquisition*

Solution 7

1. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
		75%		25%
	\$	\$	\$	\$
Share capital	80 000	60 000		20 000
Retained earnings	<u>110 000</u>	<u>82 500</u>		<u>27 500</u>
	<u>190 000</u>	142 500		47 500
Investment in Kadiki Ltd		<u>152 500</u>		
Goodwill		<u>10 000</u>		

Consolidation of a partly-owned subsidiary *after date of acquisition*

*Since acquisition
to beginning of
Current year*

Retaining earnings

(130000 - 110 000)	20000	15 000	5 000
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Current year-

01/01/21 – 31/12/21

Profit for year	70 000	52 500	17 500
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Dividend paid	<u>(10 000)</u>	<u>(7 500)</u>	<u>2 500</u>
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	<u>270 000</u>	<u>60 000</u>	<u>67 500</u>
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Consolidation of a partly-owned subsidiary *after date of acquisition*

2. Journal entry

	Dr	Cr
Share capital of Kadiki Ltd	80 000	
Retained earnings	110 000	
Goodwill	10 000	
Investment I Kadiki Ltd		152 500
NCI		47 500
Elimination of shareholders equity of Kadiki Ltd at acquisition		

Consolidation of a partly-owned subsidiary *after date of acquisition*

Retained earnings

5 000

NCI

5 000

Recording NCI in Kadiki Ltd

for period 01/01/19 to 31/12/20

Consolidation of a partly-owned subsidiary *after date of acquisition*

NCI (SPLOCI)

17 500

NCI (SFP)

17 500

Recording NCI in profit after tax

Consolidation of a partly-owned subsidiary *after date of acquisition*

Dividend received (Zihombe)	7 500	
NCI (SFP)	2 500	
Dividend paid (Kadiki)		10 000

Elimination of intercompany
dividend & recording NCI
in dividend

Consolidation of a partly-owned subsidiary *after date of acquisition*

ZIHOMBE LTD GROUP

Consolidated Statement of Profit or Loss & Other
Comprehensive Income for the Year ended 31
December 2021

	\$
Profit before tax (107 000 + 105 000)	212 000
Income tax expense (34 500 + 35 000)	<u>(69 500)</u>
Profit for the year	<u>142 500</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

Attributable to:

Owners of the parent

125 000

NCI

17 500

142 500

Consolidation of a partly-owned subsidiary *after date of acquisition*

ZIHOMBE LTD GROUP

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

	Attributable to owners of the parent			NCI	Total
	Share capital	Retained earnings	Total		Equity
Balance 31/12/20	100 000	225 000	325 000	52 500	377 500
Profit for year		125 000	125 000	17 500	142 500
Dividends paid		(20 000)	(20 000)	(2 500)	(22 500)
Balance 31/12/21	<u>100 000</u>	<u>330 000</u>	<u>430 000</u>	<u>67 500</u>	<u>497 500</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equipment(200 000+220 000)	420 000
Goodwill	10 000
Current assets	
Trade & other receivables(50 500 + 80 000)	130 500
Cash & cash equivalents (27 000 +45 000)	<u>72 000</u>
Total assets	<u>632 500</u>

Consolidation of a partly-owned subsidiary *after date of acquisition*

Equity and Liabilities

Total Equity

Equity attributable to owners of parent

Issued capital – Ordinary shares of \$2 each	100 000
Retained earnings	330 000
Non-controlling interest	67 500

Current liabilities

Trade & other payables (60 000+75 000)	<u>135 000</u>
Total equity and liabilities	<u>632 500</u>

Acquisition of an interest in a subsidiary during the year

Example 8

The following are statements of financial position of Zihombe Ltd & Kadiki Ltd for the year ended 31 December 2021

Acquisition of an interest in a subsidiary during the year

	Zihombe Ltd	Kadiki Ltd
	\$	\$
Issued share capital	(800 000)	(340 000)
Share premium	nil	(15 000)
Retained earnings -01/01/21	(480 000)	(120 000)
Gross profit	(446 500)	(166 200)
Auditors' remuneration	8 500	5 000
Depreciation	102 000	42 000
Staff costs	95 000	35 000
Interest paid on bank O/D	3 800	nil

Acquisition of an interest in a subsidiary during the year

Income tax expense	12 000	4 200
Dividend declared & paid -31/12/21	80 000	34 000
Property, plant & equipment		
- at carrying amounts	861 600	426 200
Investment in Kadiki Ltd at fair value		
- 238000 shares purchased 01/07/21	364 700	nil
Cash at bank	126 700	51800
Inventory	<u>72 200</u>	<u>43 000</u>

Acquisition of an interest in a subsidiary during the year

Additional information

- i. Kadiki Ltd became a subsidiary of Zihombe Ltd on 1 July 2021
- ii. The profits of Kadiki Ltd were earned evenly throughout the year
- iii. At the date of acquisition, consider the carrying amounts of assets & liabilities of Kadiki Ltd to be equal to the fair values thereof.
- iv. The excess of the purchase price over the net

Acquisition of an interest in a subsidiary during the year

carrying amount of the assets at the date of acquisition was attributed to the difference between the carrying amount & the fair value of land & buildings.

- v. Assume that the cost price of carrying amount equals current fair value

Acquisition of an interest in a subsidiary during the year

Required

Prepare for the Zihombe group:

- i. the consolidated statement of profit or loss & other comprehensive income for the year ended 31 December 2021
- ii. the consolidated statement of changes in equity for the year ended 31 December 2021

Acquisition of an interest in a subsidiary during the year

Solution 8

ZIHOMBE LTD GROUP

Consolidated Statement of Profit or Loss & Other
Comprehensive Income for the Year ended 31 December 2021

	Notes	\$
Gross profit		505 800
[456 500 +(166200/12x6)-23800]		
Other expenses [102000+(42000/12x6) + [95000+(35000/12x6) + [8500+(5000/12x6]		(246 500)
Finance charges		<u>(3 800)</u>
Profit before tax	1	255 500

Acquisition of an interest in a subsidiary during the year

Income tax expense	<u>(14 100)</u>
Profit for the year	<u>241 400</u>

Attributable to:

Owners of the parent (241400 – 12 000) 229 400

Non-controlling interest 12 000

241 400

Acquisition of an interest in a subsidiary during the year

ZIHOMBE LTD GROUP

NOTES TO FINANCIAL STATEMENT FOR THE EAR ENDED 31 DECEMBER 2021

1. Profit before tax is arrived at after taking into account the following:

Expenses

Auditors' remuneration	11 000
Depreciation	123 000
Staff costs	112 500

Acquisition of an interest in a subsidiary during the year

ZIHOMBE LTD GROUP

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

	Attributable to owners of the parent			NCI	Total
	Share capital	Retained earnings	Total		Equity
Balance 31/12/20	800 000	480 000	1280 000		1280 000
Equity on acquisition			156 300	156 300	
Profit for year		229 400	229 400	12 000	241 400
Dividends paid		(80 000)	(80 000)	(10 200)	(90 200)
Balance 31/12/21	<u>800 000</u>	<u>629 400</u>	<u>1 429 400</u>	<u>158 100</u>	<u>1587 500</u>

Acquisition of an interest in a subsidiary during the year

1. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
		70%		30%
	\$	\$	\$	\$
Share capital	340 000	238 000		102 000
Share premium	15 000	10 500		4 500
Retained earnings	120 000	84 000		36 000
Retained earnings	40 000	28 000		12 000
Revaluation L& B	6 000	4 200		1 800
	521 000	364 700		156 300
Investment in Kadiki Ltd		<u>364 700</u>		

Acquisition of an interest in a subsidiary during the year

Current year-

01/07/21 – 31/12/21

Profit for year	40 000	28 000	12 000
Dividend paid	<u>(34 000)</u>	<u>(23 800)</u>	<u>10 500</u>
	<u>527 000</u>	<u>4 200</u>	<u>158 100</u>

Acquisition of an interest in a subsidiary during the year

2. Analysis of income statement items

	Total	1/1/2021 to 30/06/2021	01/07/2021 to 31/12/2021
Gross profit	166 200	83 100	83 100
Auditors' remuneration	(5 000)	(2 500)	(2 500)
Depreciation	(42 000)	(21 000)	(21 000)
Staff cost	(35 000)	(17 500)	(17 500)
Income tax	<u>(4 200)</u>	<u>(2 100)</u>	<u>(2 100)</u>
Profit earned year	<u>80 000</u>	<u>40 000</u>	<u>40 000</u>

Acquisition of an interest in a subsidiary during the year

3. Journal entries

	Dr	Cr
Share capital of Kadiki Ltd	340 000	
Share premium	15 000	
Revaluation reserve	6 000	
Retained earnings	160 000	
Investment I Kadiki Ltd		364 700
NCI		156 300
Elimination of shareholders equity of Kadiki Ltd at acquisition		

Acquisition of an interest in a subsidiary during the year

NCI (SPLOCI)	12 000
NCI (SFP)	12 000
Recording NCI in profit after tax	

Acquisition of an interest in a subsidiary during the year

Dividend received (Zihombe)	23 800
NCI (SFP)	10 200
Dividend paid (Kadiki)	34 000

Elimination of intercompany
dividend & recording NCI
in dividend

Elimination of intercompany transactions

- IFRS10 requires that all intragroup balances be eliminated on consolidation
 - Unrealised profit in trading inventory
 - Profits or losses on transactions which did not take place with a person or company outside the group should be eliminated.
 - A very important aspect of consolidation is to start by determining which company is selling the inventory & which company is buying them

Elimination of intercompany transactions

- If parent sells inventory to subsidiary, the profit is made by parent & no adjustment to NCI is necessary
- If subsidiary sells inventory to the parent, the profit is made by the subsidiary & NCI must be adjusted by their percentage shareholding in the profit/loss. This adjustment is made in the analysis of shareholder's equity

Elimination of intercompany transactions

□ Example 9 [Parent sells inventory to subsidiary]

The following are the trial balances of Zihombe Ltd & its subsidiary Kadiki Ltd at 31 December 2021

Elimination of intercompany transactions

	Zihombe Ltd	Kadiki Ltd
	\$	\$
Issued share capital -\$1 Ordinary	(200 000)	(100 000)
Retained earnings	(120 000)	(80 000)
Profit before tax	(80 000)	(60 000)
Investment in Kadiki Ltd		
-80 000 ordinary shares \$1 each FV	80 000	nil
Property, plant & equipment	200 000	200 000
Inventories	50 000	30 000
Trade & other receivables	70 000	50 000
Trade & other payables	(30 000)	(60 000)
Taxation for the year	<u>30 000</u>	<u>20 000</u>

Elimination of intercompany transactions

➤ **Additional information**

- i. Zihombe Ltd acquired its interest in Kadiki Ltd at the time of incorporation of Kadiki Ltd.
- ii. Kadiki Ltd purchased all its inventory from Zihombe Ltd at cost plus 25%. The inventory on Kadiki Ltd's books amounted to \$20 000 at 1 January 2021.
- iii. Zihombe Ltd's total sales to Kadiki Ltd during 2021 amounted to \$100 000.
- iv. Assume that the cost price or carrying amount equals current fair value

Elimination of intercompany transactions

Required

Prepare consolidated annual financial statements for the Zihombe Ltd Group for the year ended 31 December 2021

Elimination of intercompany transactions

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equipment(200 000+200 000)	400 000
Current assets	
Inventories [50 000 +30 000 -(30000x25/125)]	74 000
Trade & other receivables(70 000+50 000)	<u>120 000</u>
Total assets	<u>594 000</u>

Elimination of intercompany transactions

Equity and Liabilities

Total Equity

Equity attributable to owners of parent

Issued capital – Ordinary shares of \$1 each	200 000
Retained earnings	260 000
Non-controlling interest	44 000

Current liabilities

Trade & other payables (30 000 + 60 000)	<u>90 000</u>
Total equity and liabilities	<u>594 000</u>

Elimination of intercompany transactions

ZIHOMBE LTD GROUP

Consolidated Statement of Profit or Loss & Other
Comprehensive Income for the Year ended 31 December
2021

	\$
Profit before tax	138 000
[80000+60000-100000 (sales)+100000(purchases) – (30 000 x 25/125)+(20 000 x 25/125)]	
Income tax expense (30 000 + 20 000)	<u>(50 000)</u>
Profit for the year	<u>88 000</u>

Elimination of intercompany transactions

Attributable to:

Owners of the parent (88 000 – 8 000) 80 000

Non-controlling interest 8 000

88 000

Elimination of intercompany transactions

ZIHOMBE LTD GROUP

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

	Attributable to owners of the parent			NCI	Total
	Share capital	Retained earnings	Total		Equity
Balance 31/12/20	200 000	180 000 *	380 000	36 000	416 000
Profit for year		80 000	80 000	8 000	88 000
Balance 31/12/21	<u>200 000</u>	<u>260 000</u>	<u>460 000</u>	<u>44 000</u>	<u>504 000</u>

*[120 000 – (20 000x 25/125) = 64 000]

Elimination of intercompany transactions

1. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
			80%	20%
	\$	\$	\$	\$
<i>At acquisition</i>				
Share capital		100 000	80 000	20 000
Investment in Kadiki Ltd			<u>80 000</u>	
			<u>NIL</u>	

Elimination of intercompany transactions

Since acquisition to beginning of current year

Retained earnings	80 000	64 000	16 000
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Current year-

Profit for year	<u>40 000</u>	<u>32 000</u>	<u>8 000</u>
	<u>220 000</u>	<u>96 000</u>	<u>44 000</u>

Elimination of intercompany transactions

2. Journal entries

	Dr	Cr
Share capital of Kadiki Ltd	100 000	
Goodwill	NIL	
Investment I Kadiki Ltd		80 000
NCI		20 000
Elimination of shareholders equity of Kadiki Ltd at acquisition		

Elimination of intercompany transactions

	Dr	Cr
Retained earnings	16 000	
NCI		16 000

Recording NCI in Kadiki Ltd for
the period ended 31/12/2020

Elimination of intercompany transactions

NCI (SPLOCI)	8 000	
NCI (SFP)		8 000

Recording NCI in profit after tax

Elimination of intercompany transactions

Income – sales (Zihombe Ltd)	100 000	
Cost of sales – (Kadiki Ltd)		100 000

Elimination of intercompany sales

Elimination of intercompany transactions

Cost of sales (Zihombe Ltd)	6 000
Inventory (Kadiki Ltd)	6 000

Elimination of unrealised intercompany profit included in closing inventory of Kadiki Ltd [$30\,000 \times 25/125$]

Elimination of intercompany transactions

Retained earnings (Zihombe Ltd) 4 000

Cost of sales (Zihombe Ltd) 4 000

Elimination of unrealised intercompany

Profit included in opening inventory of

Kadiki Ltd [20 000 x 25/125]

Elimination of intercompany transactions

- **NB** – the parent sold inventory to the subsidiary. The unrealised profit was therefore included in the profit of Zihombe Ltd. Consequently no adjustment is made in the analysis of shareholder's equity, but only in the consolidated statement of profit or loss & other comprehensive income

Elimination of intercompany transactions

□ Example 10 [Subsidiary sells inventory to parent]

The following are the trial balances of Zihombe Ltd & its subsidiary Kadiki Ltd at 31 December 2021

Elimination of intercompany transactions

➤ Additional information

- i. Zihombe Ltd acquired its interest in Kadiki Ltd at the time of incorporation of Kadiki Ltd.
- ii. Zihombe Ltd Ltd purchased all its inventory from Kadiki Ltd at cost plus 25%. The inventory on Zihombe Ltd's books amounted to \$40 000 at 1 January 2021.
- iii. Total sales of Kadiki to Zihombe Ltd during 2021 amounted to \$100 000.
- iv. Assume that the cost price or carrying amount equals the current fair value

Elimination of intercompany transactions

Required

Prepare consolidated annual financial statements for the Zihombe Ltd Group for the year ended 31 December 2021

□ Solution 10

Elimination of intercompany transactions

Consolidated Statement of Financial Position of Zihombe Group at 31 December 2021

Assets	\$
Non-current assets	
Property, plant & equipment(200 000+200 000) 000	400
Current assets	
Inventories [50 000 +30 000 -(50 000 x 25/125)]	70 000
Trade & other receivables(70 000+50 000)	<u>120 000</u>
Total assets	<u>590 000</u>

Elimination of intercompany transactions

ZIHOMBE LTD GROUP

Consolidated Statement of Profit or Loss & Other
Comprehensive Income for the Year ended 31 December
2021

	\$	
Profit before tax	138 000	
[80000+60000-100000 (sales)+100000(purchases)- (50 000 x 25/125) +40 x 25/125)]		
Income tax expense (30 000 + 20 000) <u>000)</u>		<u>(50</u>
Profit for the year		<u>88 000</u>

Elimination of intercompany transactions

Attributable to:

Owners of the parent (88 000 – 7 600) 80 400

Non-controlling interest 7 600

88 000

Elimination of intercompany transactions

ZIHOMBE LTD GROUP

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

	Attributable to owners of the parent			NCI	Total
	Share capital	Retained earnings	Total		Equity
Balance 31/12/20	200 000	177 6 00 *	377 600	34 400	412 000
Profit for year		80 400	80 400	7 600	88 000
Balance 31/12/21	<u>800 000</u>	<u>258 000</u>	<u>458 000</u>	44 000	<u>500 000</u>

*[120 000 +57 600]

Elimination of intercompany transactions

1. Analysis of shareholders' equity of Kadiki Ltd at 31 December 2021

	Zihombe Ltd			
	Total	At	Since	NCI
			80%	20%
	\$	\$	\$	\$
<i>At acquisition</i>				
Share capital		100 000	80 000	20 000
Investment in Kadiki Ltd			<u>80 000</u>	
		<u>NIL</u>		

Elimination of intercompany transactions

Since acquisition to beginning of current year

Retained earnings	72 000	57 600	14 400
[80000- (40000x25/125)]			

Current year-

Profit for year

[60000-(20000+40000+25/125)-50000x25/125)]	<u>38 000</u>	<u>30 400</u>	<u>7 600</u>
	<u>210 000</u>	<u>88 000</u>	<u>42 000</u>

Elimination of intercompany transactions

2. Journal entries

	Dr	Cr	
Share capital of Kadiki Ltd		100 000	
Goodwill		NIL	
Investment I Kadiki Ltd 000			80
NCI		20 000	
Elimination of shareholders equity of Kadiki Ltd at acquisition			

Elimination of intercompany transactions

	Dr	Cr
Retained earnings	14 400	
NCI		14 400

Recording NCI in Kadiki Ltd for
the period ended 31/12/2020

Elimination of intercompany transactions

NCI (SPLOCI)	7 600
NCI (SFP)	7 600

Recording NCI in profit after tax

Elimination of intercompany transactions

Retained earnings (Kadiki Ltd)	8 000	
Cost of sales (Kadiki Ltd)		8 000

Elimination of unrealised intercompany
Profit included in opening inventory of
Kadiki Ltd [40 000 x 25/125]

Elimination of intercompany transactions

- **N.B.**

Since the subsidiary sold inventory to the parent the adjustment in respect of unrealised profit should also be brought into account in the analysis of shareholder's equity

Elimination of intercompany transactions

Income – sales (Kadiki Ltd)	100 000	
Cost of sales – (Zihombe Ltd)		100 000

Elimination of intercompany sales

Elimination of intercompany transactions

Income – Sales Kadiki Ltd	10 000	
Cost of sales (Zihombe Ltd)		10 000

Elimination of unrealised intercompany profit included inclosing inventory of Zihombe Ltd ($50000 \times 25/125$)