

ACC2100 / ACF2100 Financial Accounting

Topic 7 Controlled Entities & Introduction to Consolidation: Lecture Example

Example (PQ19.4)

Note date!	Parent	Control	Subsidiary	Consideration
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On 1 July 2016, John Ltd acquired all the issued shares of Robert Ltd for \$153 000. At this date the equity of Robert Ltd was recorded as follows:

Share capital	\$80 000
General reserve	30 000
Retained earnings	40 000

This is our pre-acq equity

All the identifiable assets and liabilities were recorded at amounts equal to their fair values.

So no BCVR entries required

John Ltd applies the partial goodwill method.

The partial goodwill method (to be covered in topic 9) means we show goodwill in our pre-acq entry, and not the BCVR entries

Required

- Prepare the consolidation worksheet entries at 1 July 2016 and 1 July 2017 assuming John Ltd paid \$153 000 for the shares in Robert Ltd.
- Prepare the consolidation worksheet entries at 1 July 2016 and 1 July 2017 assuming John Ltd paid \$148 000 for the shares in Robert Ltd.
- Prepare the consolidation worksheet entries at 1 July 2016 assuming John Ltd paid \$145 000 for the shares in Robert Ltd and at that date Robert Ltd had recorded goodwill of \$4 000.

Always note dates...
Very important!

Solution

A: Consideration of \$153 000

Worksheet entries at 1 July 2016

STEP 1: Acquisition analysis

At 1 July 2016:

FVINA of Robert Ltd	=	(\$80 000 + \$30 000 + \$40 000) (equity)
	=	
Consideration transferred	=	
Goodwill acquired	=	
	=	

STEP 2: BCVR Entries

None in this example

STEP 3: Pre-acquisition entries

Retained earnings (1/7/16)	Dr
Share capital	Dr
General reserve	Dr
Goodwill	Dr
Shares in Robert Ltd	Cr

We are eliminating the equity acquired, and the asset recorded by John Ltd, to avoid double counting. We also need to add goodwill which arose on acquisition.

Worksheet entries at 1 July 2017

There have been no changes since acquisition, so the entries are the same as above.

Retained earnings (1/7/16)	Dr
Share capital	Dr
General reserve	Dr
Goodwill	Dr
Shares in Robert Ltd	Cr

B: Consideration of \$148 000

Worksheet entries at 1 July 2016

STEP 1: Acquisition analysis

At 1 July 2016:

FVINA of Robert Ltd	=	(\$80 000 + \$30 000 + \$40 000) (equity)
	=	\$150 000
Consideration transferred	=	
Gain on bargain purchase	=	
	=	

STEP 2: BCVR Entries

None in this example

STEP 3: Pre-acquisition entries

Retained earnings (1/7/16)	Dr
Share capital	Dr
General reserve	Dr
Gain on bargain purchase	Cr
Shares in Robert Ltd	Cr

We are eliminating the equity acquired, and the asset recorded by John Ltd, to avoid double counting. We also need to add gain on bargain purchase (income) which arose on acquisition.

Worksheet entries at 1 July 2017

There has been only one change since acquisition...gain on bargain purchase has been closed to retained earnings (remember, all income and expense accounts are closed to profit/RE at the end of each year)

Retained earnings (1/7/17) (40 000 – 2 000)	Dr
Share capital	Dr
General reserve	Dr
Shares in Robert Ltd	Cr

C: Consideration of \$145 000 and recorded goodwill of \$4 000

Worksheet entries at 1 July 2016

STEP 1: Acquisition analysis

At 1 July 2016:

FVINA of Robert Ltd	=	(\$80 000 + \$30 000 + \$40 000) (equity)
		- \$4 000 (goodwill)
	=	
Consideration transferred	=	
Gain on bargain purchase	=	
	=	

STEP 2: BCVR Entries

None in this example

STEP 3: Pre-acquisition entries

Retained earnings (1/7/16)	Dr
Share capital	Dr
General reserve	Dr
Goodwill	Cr
Gain on bargain purchase	Cr
Shares in Robert Ltd	Cr

We are eliminating the equity acquired, and the asset recorded by John Ltd, to avoid double counting. From the group's point of view, we should have \$1 000 gain, and no goodwill. So, we eliminate goodwill and add gain on bargain purchase.

We will now apply the same consolidation procedures for all of our questions.