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ACC / ACF2100
Topic 8: Consolidation:
Wholly Owned Subsidiaries
 (Leo et al. Chapter 19)






Learning Objectives


1. Discuss the nature of the group covered in this chapter, and the initial adjustments required in the consolidation worksheet
2. Prepare an acquisition analysis for the parent's acquisition in a subsidiary
3. Prepare the worksheet entries at the acquisition date, being the business combination valuation entries and the pre-acquisition entries
4. Prepare the worksheet entries in periods subsequent to the acquisition date, adjusting for movements in assets and liabilities since acquisition date and dividends from pre-acquisition equity

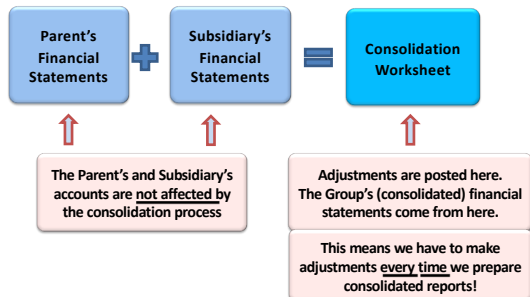
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Remember...the consolidation process


- Consolidated financial statements
 - Involves the preparation of a single set of financial statements for a group of companies
 - Involves combining the financial statements of the individual entities in a group
 - The reports show the financial position and financial performance of the group of entities
 - Presented as if they were a single economic entity
 - This is done in a separate consolidation worksheet
 - The individual accounts of the parent and subsidiaries are NOT affected

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Remember...the consolidation process



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The consolidation process



- Step 1 → Acquisition analysis (last week)
- Step 2 → Business combination valuation entries (new this week)
- Step 3 → Pre-acquisition entries (last week)
- Step 4 → Intragroup transactions (topic 8)
- Step 5 → Non-controlling interest (topic 9)

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BCVR entries



- Business combination valuation adjustments are required when:
 - BV (CA) of subsidiary assets and liabilities **does not equal FV**
 - A **contingent liability** exists
- **Business Combination Valuation Reserve (BCVR)** account is used to record these adjustments
 - To increase or decrease subsidiary's recorded assets and liabilities book values to fair value
 - To recognise previously unrecognised assets (e.g. internally generated intangibles) at fair value
 - To recognise subsidiary's contingent liabilities as liabilities at fair value
- The BCVR is similar to the Asset Revaluation Surplus

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BCVR entries



- It is possible for some of the **BCVR adjustments to be made directly in the books of the subsidiary**
 - AASB 116 allows the use of fair value basis for measurement of PPE
- In some cases, other accounting standards prevent the adjustment from being made in the subsidiaries' books
 - AASB 102 requires all inventory to be recorded at the lower of cost or NRV, therefore any increase to FV of inventory cannot be made in the subsidiary's books
 - AASB 138 does not allow the subsidiary to recognise internally generated goodwill
- As a result, it is **more likely that these adjustments will be made via BCVR entries in the consolidation worksheet**

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BCVR entries



- Where the valuation adjustment is done in the ARS account in the subsidiary's books... **it is recorded in the G/L and therefore automatically carries forward to future periods once entered**
- **However...**
- Where the valuation adjustment is done as part of the BCVR entries on consolidation (in the worksheet) it **must be manually carried forward to future periods**
- Because we need to post adjustments **every time** we prepare consolidated reports

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BCVR entries subsequent to acquisition date



- A consequential **depreciation adjustment** is required in relation to depreciable assets that are revalued to fair value on acquisition of a subsidiary
- **Subsidiary depreciates the asset based on its cost**
- **Group depreciates the asset based on its fair value**
- From a consolidated (group's) perspective, the depreciation charge is understated
- Assets on hand at acquisition may have been **sold / written off**
- Need to consider effect on any BCVR entries

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BCVR entries: Example



Hitech Ltd acquired all of the shares of Lotech Ltd on 1 July 2016.
All assets were recorded at fair value, except for the following:

	Carrying amount	Fair value
Inventory	\$10 000	\$12 000
Land	\$250 000	\$260 000
Plant (cost \$200 000)	\$150 000	\$190 000

All inventory was sold in August 2016. Land was sold in May 2018. Plant has a further four-year life with zero residual value.
The tax rate is 30%.

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BCVR entries at 1 July 2016



Inventory, land, and plant are still on hand

DR Inventory	2,000	
CR DTL	600	30%
CR BCVR	1,400	70%
DR Land	10,000	
CR DTL	3,000	30%
CR BCVR	7,000	70%

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BCVR entries at 1 July 2016



Inventory, land, and plant are still on hand

DR Accumulated depn	50,000	
CR Plant	10,000	
CR DTL	12,000	30%
CR BCVR	28,000	70%

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BCVR entries at 30 June 2017



- Inventory sold in current year, land and plant are still on hand

DR	Cost of sales	2,000
	CR Income tax expense	600
	CR Transfer from BCVR (RE)	1,400

DR	Land	10,000
	CR DTL	3,000
	CR BCVR	7,000

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BCVR entries at 30 June 2017



- Inventory sold in current year, land and plant are still on hand

DR	Accumulated depn	50,000
	CR Plant	10,000
	CR DTL	12,000
	CR BCVR	28,000

- Depn recorded by subs: \$37 500 (\$150 000 / 4 yrs)
- Depn recorded by group: \$47 500 (\$190 000 / 4 yrs)
- Adjustment required: \$10 000 p.a.

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BCVR entries at 30 June 2017



- Inventory sold in current year, land and plant are still on hand

DR	Depreciation expense	10,000
	CR Accumulated depn	10,000

DR	Deferred tax liability	3,000
	CR Income tax expense	3,000

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BCVR entries at 30 June 2018



▪ Inventory sold in previous year, land sold in current year, plant still on hand

No BCVR entry required for inventory

DR	Carrying amount of land sold	10,000
	CR Income tax expense	3,000
	CR Transfer from BCVR (RE)	7,000

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BCVR entries at 30 June 2018



▪ Inventory sold in previous year, land sold in current year, plant still on hand

DR	Accumulated depn	50,000
	CR Plant	10,000
	CR DTL	12,000
	CR BCVR	28,000
DR	Depreciation expense	10,000 2018 depn
DR	RE (op)	10,000 2017 depn
	CR Accumulated depn	20,000
DR	Deferred tax liability	6,000
	CR Income tax expense	3,000 2018 tax
	CR RE (op)	3,000 2017 tax

See lecture handout... 17



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After the mid-semester break...

Consolidation: Intragroup transactions
