

Acquisition Analysis

At 1 July 2016

FVINA of Son Ltd	Share capital	1,000,000
	Retained earnings	900,000
	General Reserve	500,000
	BCVR- land (1- 0.3)	70,000
	BCVR- Inventory (1- 0.3)	7,000
	BCVR- Plant (1- 0.3)	35,000
	BCVR- provision (1- 0.3)	7,000
	Provision of Liability	-10,000
	Goodwill	-50,000
Net fair value acquired		<u>2,459,000</u>

Consideration Transferred=	2,400,000	
Less dividend payable (cum div)	25000	<u>2,375,000</u>

FVINA >Consideration transferred

Gain on Bargain Purchase	<u>84,000</u>
--------------------------	---------------

At Acquisition Date: 1 July 2016

STEP 2: BCVR Entries

Date	Details	Debit	Credit
1/7/16	Inventory	10,000	
	DTL		3000
	BCVR		7,000
	(Valuation Adjustment for inventory)		
1/7/16	Land	100000	
	DTL		30000
	BCVR		70000
	(Valuation Adjustment for Land)		
1/7/16	Acc. depreciation- plant	50,000	
	Plant		50,000
	Plant	50,000	
	Deferred Tax Liability		15000
	BCVR		35000
	(Valuation Adjustment for plant)		
1/7/16	BCVR	7000	
	DTA	3,000	
	Provision for damages		10,000
	(Recorded provision of damages at fair value)		

STEP 3: Pre-acquisition entries

Retained Earnings (opening)	Dr	\$900,000.00	
Share Capital	Dr	\$1,000,000.00	
General Reserve	Dr	\$500,000.00	
BCVR	Dr	\$119,000.00	
Goodwill	Cr		\$50,000.00
Provision for liability	Cr		\$10,000.00
Gain on Bargain Purchase	Cr		\$84,000.00
Shares in Son Ltd	Cr		\$2,375,000.00
		<u>\$2,519,000.00</u>	<u>\$2,519,000.00</u>

One Year of Acquisition 30 June 2017

Step 2: BCVR entries

Date	Details	Debit	Credit
30/6/17	Depreciation Expense	10,000	
	Acc. depreciation- plant		10,000
	(Recorded Depreciation adjustment for this year)		

30/6/17	Acc. depreciation- plant	60,000	
	Plant		10,000
	Deferred Tax Liability		18000
	BCVR		42000
	(Revaluation of asset- plant to its fair value)		
30/6/17	Cost of Sales	7000	
	Income Tax Expense		2100
	Transfer from BCVR (RE)		4900
	(Adjusted for the 70% inventory sold)		
30/6/17	Land	100000	
	DTL		30000
	BCVR		70000
	(Valuation adjustment for Land)		
30/6/17	BCVR	7000	
	DTA	3,000	
	Provision for damages		10,000
	(Recorded provision of damages at fair value)		

Step 3: Pre-acquisition entries

Retained Earnings (opening)	Dr	\$900,000.00	
Share Capital	Dr	\$1,000,000.00	
General Reserve	Dr	\$500,000.00	
BCVR	Dr	\$119,000.00	
Goodwill	Cr		\$50,000.00
Provision for liability	Cr		\$10,000.00
Gain on Bargain Purchase	Cr		\$84,000.00
Shares in Son Ltd	Cr		\$2,375,000.00
		<u>\$2,519,000.00</u>	<u>\$2,519,000.00</u>
Transfer from BCVR (RE)	Dr	4900	
BCVR	Cr		4900
(Pre-acquisition entries required on consolidation)		<u>\$2,523,900.00</u>	<u>\$2,523,900.00</u>

Second Year of Acquisition 30 June 2018

Step 2: BCVR entries

Date	Details	Debit	Credit
30/6/18	Cost of Sales	3000	
	Income Tax Expense		900
	Transfer from BCVR (RE)		2100
	(Adjusted for the 30% inventory sold)		

30/6/18	Depreciation Expense	10,000	
	Retained earnings (op)	10,000	
	Acc. Depreciation- plant		20,000
	(Recorded depreciation expense for this year)		
	Acc. depreciation- plant	60,000	
	Plant		10,000
	Deferred Tax Liability		18000
	BCVR		42000
	(BCVR entry for the plant for the second year after acquisition)		
	Deferred Tax Liability	6,000	
	Income tax expense		3,000
	Retained Earnings (op)		3,000
	(Tax effect on depreciation adjustment)		
30/6/18	Land	600,000	
	Proceeds on Sale of Land	100,000	
	Carrying amount of land sold		500,000
	(Proceeds on sale of land)		
	Income Tax expense	30,000	
	Deferred Tax Liability (30%)		30,000
30/6/18	BCVR	7000	
	DTA	3,000	
	Provision for damages		10,000
	(Recorded provision of damages at fair value)		

Step 3: Pre-acquisition entries

Retained Earnings (opening)	Dr	\$904,900.00	
Share Capital	Dr	\$1,000,000.00	
General Reserve	Dr	\$500,000.00	
BCVR	Dr	\$114,100.00	
Goodwill	Cr		\$50,000.00
Provision for liability	Cr		\$10,000.00
Gain on Bargain Purchase	Cr		\$84,000.00
Shares in Son Ltd	Cr		\$2,375,000.00
		<u>\$2,519,000.00</u>	<u>\$2,519,000.00</u>
Transfer from BCVR (RE)	Dr	2100	
BCVR	Cr		2100
(Pre-acquisition entries required on consolidation)		<u>\$2,521,100.00</u>	<u>\$2,521,100.00</u>

Step 4- Intra Group Transactions

Transaction Number	Details	Debit	Credit
T1- Dividend Declared			
	Dividend Payable	40,000	
	Dividend Declared (RE)		40,000
	Dividend revenue	40000	
	Dividend receivable		40,000
	(Elimination of dividend from Son Ltd to Parent Ltd)		
T2- Debentures			
	10% Debentures		
	Debentures in Parent Ltd	50,000	
			50,000
	Interest Revenue	3750	
	Interest Expense		3750
	(10% X \$50,000 X 0.75)		
	Interest payable	1250	
	Interest receivable		1250
	(10% X \$50,000 X 0.25)		
T3- Sale of Inventory prior year- Parent Ltd to Son Ltd			
	Sales Revenue	24000	
	Cost of sales		23600
	Inventory		400
	Deferred Tax Asset (30%)	120	
	Income Tax Expense		120
	(Sale of inventory from Parent Ltd to Son Ltd adjustment)		
T4- Sale of Inventory- Son Ltd to Parent Ltd			
	Sales Revenue	60,000	
	Cost of sales		59000
	Inventory		1,000
	DTA (30%)	300	
	Income Tax Expense		300
T5- Sale of equipment Son Ltd to Parent Ltd			
	Proceeds on sale of equipment	55000	
	Equipment	5000	
	Carrying amount of equipment sold		60000
	Income Tax Expense	1500	
	DTL		1500
	Accumulated Depreciation	6000	

Depreciation expense		6000
T6- Furniture acquired by Son Ltd from Parent Ltd		
Proceeds on sale of furniture	45000	
Furniture		5000
Carrying amount of furniture sold		40,000
Deferred Tax Asset	1500	
Income Tax Expense		1500
Accounts payable	10000	
Accounts Receivable		10000