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Consolidation

Part 02
(Goodwill)

Chartered Accountancy
Corporate Level

Financial Reporting and Governance (FRG)

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CA - Corporate Level CONSOLIDATION GOODWILL

Sandeepa Jayasekera
B.Sc. (Acct.) Hons. Gold medal winner, ACA, SAT, ACMA (SL), CIMA Passed Finalist, CA Prize winner for AFR subject and CAB II First in Order of Merit, CIMA Strategic Level Aggregate Prize winner, Reading for MBA (PIM - USJP).

LOLC Group acquires Serendib Hotels from Hemas for Rs.792mn

16 December 2020 09:32 am - 0 - 663 Facebook Twitter More 3 A A A

- **LOLC says acquisition is aimed at capturing post-COVID growth in tourism business**
- **Hemas says divestment is part of group's portfolio direction and focuses on uplifting return on equity from core segments**

LOLC Holdings PLC's strategic investment arm, Browns Investments PLC (BI), yesterday acquired the controlling stake of 55.65 percent of Serendib Hotel PLC, a subsidiary of Hemas Group, for a consideration of Rs.792 million. With this acquisition, BI will hold 56.67 percent of voting shares and 53.48 percent of non-voting shares of Serendib.

http://www.dailymirror.lk/business-news/LOLC-Group-acquires-Serendib-Hotels-from-Hemas-for-Rs-792mn/273-201923

Eden Hotels PLC (Parent)

Serendib Hotels PLC (Subsidiary)

Consideration Rs.792Mn (Share value Rs.14.20)

56.67%

Net Asset Value per Share Rs.18.78

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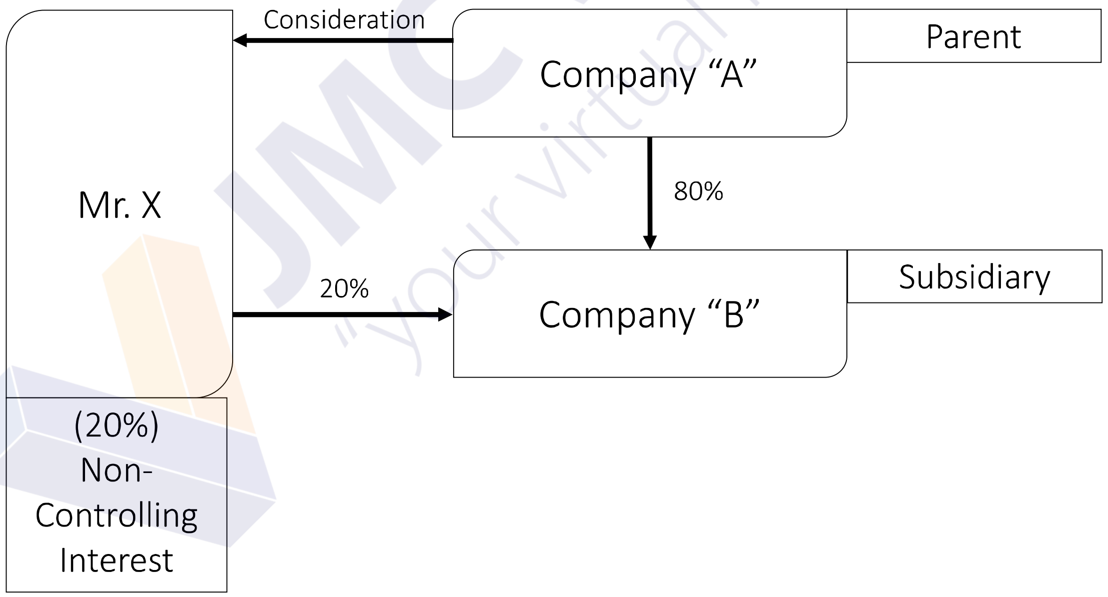

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HAYLEYS GROUP IN HISTORIC ACQUISITION OF SINGER (SRI LANKA) PLC FOR RS. 10.9 BILLION

September 15, 2017

Colombo, September 15, 2017: Hayleys PLC and its subsidiaries are pleased to announce the purchase of 61.73% of shares of Singer (Sri Lanka) PLC, for a consideration of LKR 10.9 billion, making it the single largest acquisition for a listed company in Sri Lanka in recent times.

This strategic acquisition by Hayleys PLC and its subsidiaries is anticipated to yield substantial opportunities for new business synergies within the Hayleys Group. Both Hayleys PLC and Singer (Sri Lanka) PLC collectively account for over 280 years of

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Hayley’s PLC (Parent)

Singer PLC (Subsidiary)

Consideration Rs.10.9bn

61.73%

Goodwill Rs.7.2Bn

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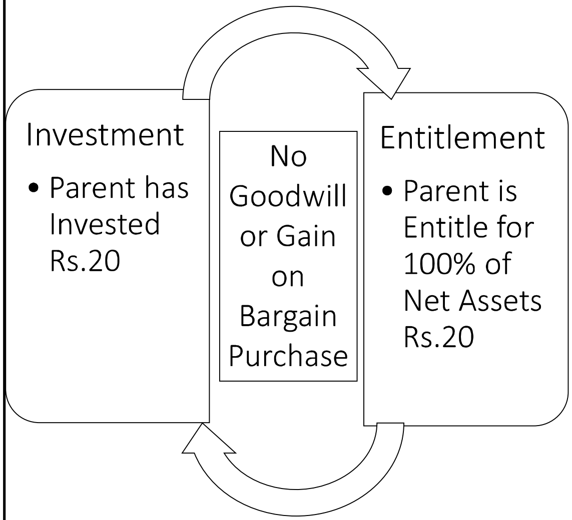
Understanding Goodwill Concept

Example 01

Entity A has acquired 100% of Entity B for Rs.20/-. Following are the Statement of Financial Positions of Entity A and B

Description	Entity A	Entity B
Investment in A	20	0
Other Assets	180	100
Total Assets	**200**	**100**
Equity	100	20
Liabilities	100	80
Total Equity and Liabilities	**200**	**100**

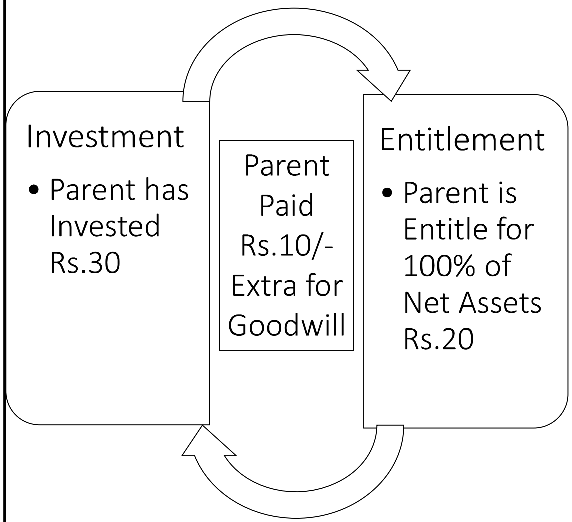


Description	Entity A	Entity B	Adj	Group A
Investment in A	20	0	-20	0
Other Assets	180	100	180+100	280
Total Assets	**200**	**100**		**280**
Equity	100	20	-20	100
Liabilities	100	80	100+80	180
Total Equity and Liabilities	**200**	**100**		**280**

Example 02

Entity A has acquired 100% of Entity B for Rs.30/-. Following are the Statement of Financial Positions of Entity A and B

Description	Entity A	Entity B
Investment in A	30	0
Other Assets	170	100
Total Assets	**200**	**100**
Equity	100	20
Liabilities	100	80
Total Equity and Liabilities	**200**	**100**

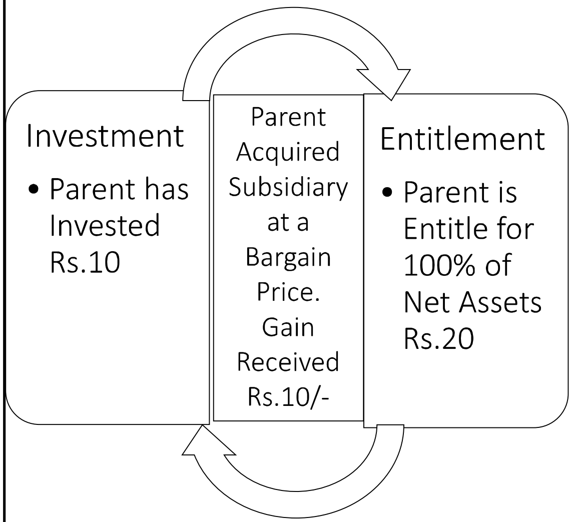


Description	Entity A	Entity B	Adj	Group A
Investment in A	30	-	-20-10	-
Goodwill			+10	10
Other Assets	170	100	170+100	270
Total Assets	**200**	**100**		**280**
Equity	100	20	-20	100
Liabilities	100	80	100+80	180
Total Equity and Liabilities	**200**	**100**		**280**

Example 03

Entity A has acquired 100% of Entity B for Rs.10/-. Following are the Statement of Financial Positions of Entity A and B

Description	Entity A	Entity B
Investment in A	10	0
Other Assets	190	100
Total Assets	**200**	**100**
Equity	100	20
Liabilities	100	80
Total Equity and Liabilities	**200**	**100**



Description	Entity A	Entity B	Adj	Group A
Investment in A	10	-	-20 +10	-
Other Assets	190	100	190+100	290
Total Assets	**200**	**100**		**290**
Equity	100	20	-20+10	110
Liabilities	100	80	100+80	180
Total Equity and Liabilities	**200**	**100**		**290**

- Goodwill is the Additional Amount Invested by Owners to Acquire the Subsidiary
- It's an Intangible Asset in Consolidated Financials

How to Calculate Goodwill?

The acquisition method

4 **An entity shall account for each business combination by applying the acquisition method.**

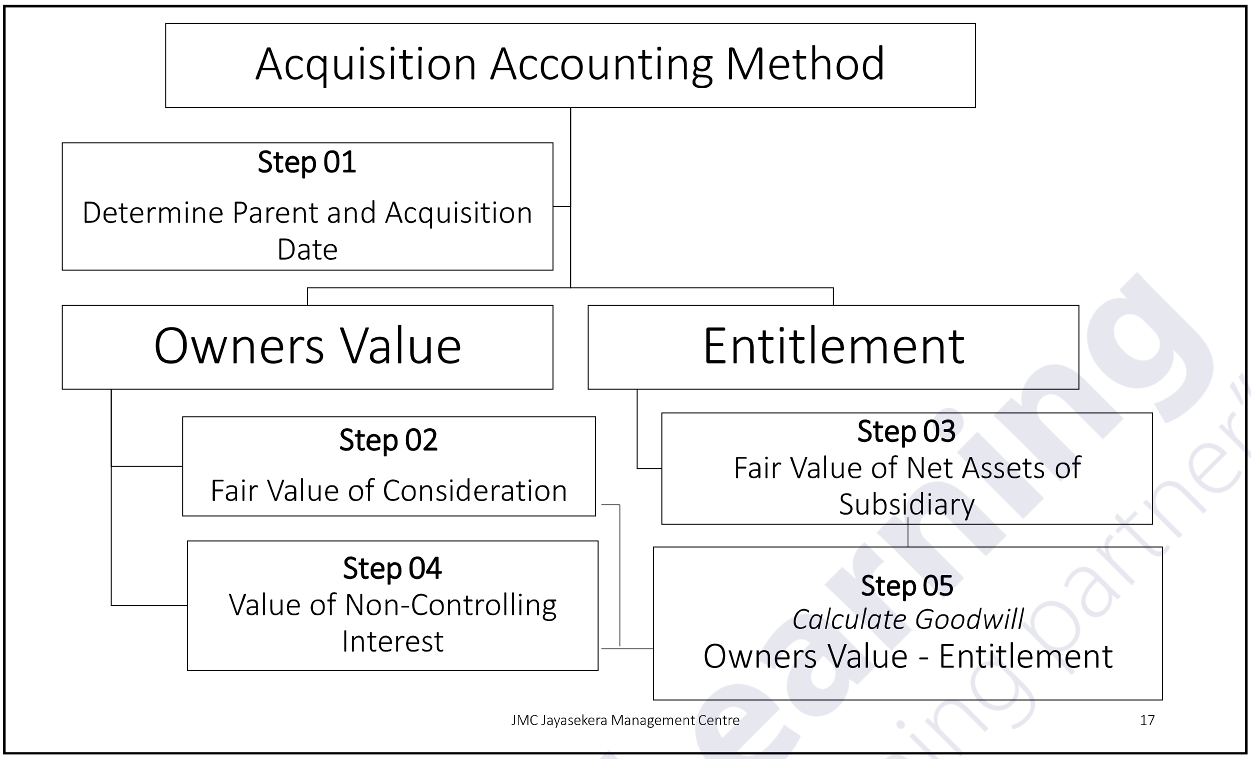
5 Applying the acquisition method requires:

(a) identifying the acquirer;

(b) determining the *acquisition date*;

(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

(d) recognising and measuring goodwill or a gain from a bargain purchase.


Acquisition Accounting Method
Step 01
Determine Parent and Acquisition Date
Owners Value
Entitlement
Step 02
Fair Value of Consideration
Step 03
Fair Value of Net Assets of Subsidiary
Step 04
Value of Non-Controlling Interest
Step 05
Calculate Goodwill
Owners Value - Entitlement
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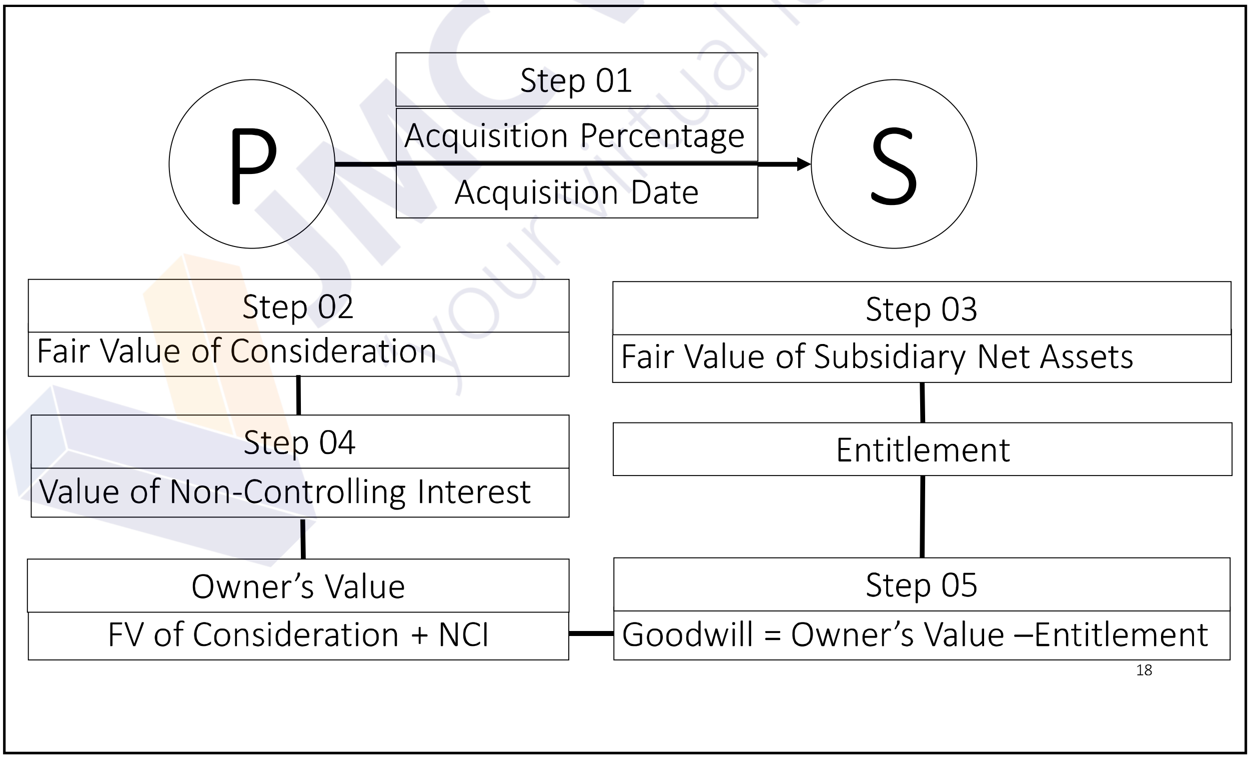
P
Step 01
Acquisition Percentage
Acquisition Date
S
Step 02
Fair Value of Consideration
Step 03
Fair Value of Subsidiary Net Assets
Step 04
Value of Non-Controlling Interest
Entitlement
Owner's Value
FV of Consideration + NCI
Step 05
Goodwill = Owner's Value –Entitlement
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Fair Value of Consideration

Consideration May Include

Cash

- Fair Value = Face Value

Assets Transferred

- Fair Value = Market Value

Shares Issued

- Fair Value = Market Value

Deferred Consideration (Delayed consideration)

- Fair Value = Present Value

Contingent Consideration (Delayed + Condition)

- Fair Value = Probability Weighted Present Value

Consideration Shall Exclude

Transaction Costs

- Lawyer Fees
- Broker Charges
- Documentation Charges

Provisions for Future Losses in Subsidiary

Subsequent Investments by Parent

Question 01

- Anthony purchased 80% of Matheesha's 3,000 shares on 1 January 2020. The consideration included following items.
- Cash consideration paid of Rs 5,500,000/-.
- Land transferred to previous owners of Matheesha which had a market value of Rs. 2,700,000/- and a carrying value of Rs. 2,500,000/-.
- Shares issued of three shares for every four shares acquired of Matheesha. As at acquisition date market price per share of Anthony was Rs.1,000/- and Matheesha was Rs.1,500/-

1.1 Calculate the Fair Value of Share Issue
1.2 Calculate the Land Disposal Gain
1.3 Calculate the Fair Value of Consideration

1.1 Answer
Fair Value of Shares Issued

Fair Value of Shares Issued	=	No of Shares Issued	X	Market Price Per Share of Parent at Acquisition
	=	Subsidiary's Total Number of Shares **X** Acquired Percentage **X** Share Issue Proportion	X	Market Price Per Share of Parent at Acquisition
	=		X	
	=		X	
	=			

Double Entry for Share Issue

- Dr Investment in Subsidiary
- Cr Share Capital of Parent

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1.2 Answer
Land Disposal Gain

Market Value of the Land	=	
Carrying Value of Land	=	
Disposal Gain from Land	=	

Double Entry for Cost of Disposed Land

- Dr Disposal of Land
- Cr Land

Double Entry for Disposal Proceed

- Dr Investment in Subsidiary
- Cr Disposal of Land

Double Entry for Land Disposal Gain

- Dr Disposal of Land
- Cr Other Income (Console Retained Earnings)

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1.3 Answer
Fair value of Consideration

Cash	=	
Land Transferred @ Market Value	=	
Shares Issued @ Fair Value	=	
Total Consideration	**=**	

Double Entry for Cash Consideration

- Dr Investment in Subsidiary
- Cr Cash

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Question 02

- Imraz has invested in 80% of Jesmine's Rs.1,000,000 Rs.10 equity shares.
- Imraz paid Rs.500,000 as a cash consideration.
- Imraz issued 3 shares for every 5 shares acquired. At the date of acquisition, the market value of a Imraz share was Rs.25.
- Imraz agreed to pay Rs.3,630,000 cash 2 years after acquisition.
- Further Rs 1,331,000 cash will be paid 3 years after acquisition if Jesmine achieves a Rs.10Mn profit target at the third year. As of acquisition date the probability of achieving the profit target was assessed as 80%.
- Legal and professional fees incurred in relation to the acquisition were Rs.2,000. (Assume a discount rate of 10%)

2.1 Calculate the Fair Value of Shares Issued
2.2 Calculate the Present Value of Deferred Consideration
2.3 Calculate the Probability Weighted Present Value of Contingent Consideration
2.4 Calculate the Fair Value of Total Consideration

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2.1 - Answer
Fair Value of Shares Issued

Fair Value of Shares Issued	=	No of Shares Issued	X	Market Price Per Share of Parent at Acquisition
	=	Subsidiary's Total Number of Shares **X** Acquired Percentage **X** Share Issue Proportion	X	MPS of Parent at Acquisition
	=		X	
	=		X	
	=			

Double Entry for Share Issue

- Dr Investment in Subsidiary
- Cr Share Capital of Parent

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2.2 – Answer
Present Value of Deferred Consideration

Future Value	=	
Discount Factor (1/1+r^n) r = n =	=	
Present Value	=	

Double Entry for Deferred Consideration

- Dr Investment in Subsidiary
- Cr Deferred Consideration Liability

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2.3 – Answer
Probability Weighted Present Value of Contingent Consideration

Future Value	=	
Probability	=	
Expected Value	=	
Discount Factor (1/r^n) r = n =	=	
Probability Weighted Present Value	=	

Double Entry for Contingent Consideration

- Dr Investment in Subsidiary
- Cr Contingent Consideration Liability

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2.4 - Answer
Fair value of Consideration

Cash	=	
Shares Issued @ Fair Value	=	
Deferred Consideration @ Present Value	=	
Contingent Consideration @ Probability Weighted Present Value	=	
Total Consideration	**=**	

Double Entry for Cash Consideration

- Dr Investment in Subsidiary
- Cr Cash

Double Entry for Professional Fees

- Dr Other Expenses (Console RE)
- Cr Cash

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Question 03

Ronan acquired 75% of Mohan on 01st January 2020 and paid Rs.150, 000/- as the cash consideration to the previous owner of Mohan.

Ronan also agreed to pay followings

Contingent Consideration

An additional amount equal to following year's profits that exceed Rs.30, 000/- Mohan historically has made profits of Rs.20, 000/- to Rs.30, 000/- each year and is forecasted to make a profit of Rs.42,777/-. Probability of occurrence 90%.

Assume 10% as the discount factor

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Question 03

Deferred consideration

- Rs.121,000/- to be paid after 2 years of acquisition
- Assume 10% as the discount factor

Asset transfer

- Ronan transferred a property to the previous owners of Mohan. The property had a market value of Rs. 300,000/-. However, the carrying value was Rs. 320,000/-.

Issue of parent company shares to previous owners

- Mohan had 100,000 shares in issue. Ronan has agreed to issue three shares for every five shares acquired of Mohan's to its previous owners as part of the settlement. Ronan's share trading price is Rs.7 and Mohan's share trading price is Rs.5

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Question 03

3.1 Calculate the probability weighted present value of contingent consideration
3.2 Calculate the finance cost of contingent consideration for year 2020
3.3 Calculate the present value of deferred consideration
3.4 Calculate the finance cost of deferred consideration for year 2020 and 2021
3.5 Calculate the fair value of shares issued
3.6 Calculate the property disposal loss
3.7 Calculate the value of total consideration

33

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3.1 – Answer

Probability Weighted Present Value of Contingent Consideration

Future Value	=	
Probability	=	
Expected Value	=	
Discount Factor (1/r^n) r = n =	=	
Probability Weighted Present Value	=	

Double Entry for Contingent Consideration

- Dr Investment in Subsidiary
- Cr Contingent Consideration Liability

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3.2 – Answer
Finance Cost of Contingent Consideration for the Year 2020

Future Value as at 31/12/2020	=	
(-) Present Value as at 1/1/2020	=	
Finance Cost	=	

Double Entry for Finance Cost

- Dr Finance Cost (Console RE)
- Cr Contingent Consideration Liability

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3.2 – Answer

Future Value as at 31/12/2020

Present Value as at 1/1/2020	=	
Compounding Factor (1+r)^n r = n =	=	
Future Value as at 31/12/2020	=	

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3.3 – Answer
Present Value of Deferred Consideration

Future Value	=	
Discount Factor (1/r^n) r = n =	=	
Present Value	=	

Double Entry for Deferred Consideration

- Dr Investment in Subsidiary 100,000
- Cr Deferred Consideration Liability 100,000

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3.4 – Answer
Finance Cost of Deferred Consideration for the Year 2020

Future Value as at 31/12/2020	=	
(-) Present Value as at 1/1/2020	=	
Finance Cost	=	

Double Entry for Finance Cost

- Dr Finance Cost (Console RE)
- Cr Deferred Consideration Liability

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3.4 – Answer

Future Value as at 31/12/2020

Present Value as at 1/1/2020	=	
Compounding Factor (1+r)^n r = n =	=	
Future Value as at 31/12/2020	=	

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3.4 – Answer

Finance Cost of Deferred Consideration for the Year 2021

Future Value as at 31/12/2021	=	
(-) Present Value as at 1/1/2021	=	
Finance Cost	=	

Double Entry for Finance Cost

- Dr Finance Cost (Console RE)
- Cr Deferred Consideration Liability

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3.4 – Answer

Future Value as at 31/12/2021

Present Value as at 1/1/2021	=	
Compounding Factor (1+r)^n r = n =	=	
Future Value as at 31/12/2021	=	

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3.5 - Answer

Fair Value of Shares Issued

Fair Value of Shares Issued	=	No of Shares Issued	X	Market Price Per Share of Parent at Acquisition
	=	Subsidiary's Total Number of Shares **X** Acquired Percentage **X** Share Issue Proportion	X	MPS of Parent at Acquisition
	=		X	
	=		X	
	=			

Double Entry for Share Issue

- Dr Investment in Subsidiary
- Cr Share Capital of Parent

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3.6 Answer
Property Disposal Loss

Market Value of the Property	=	
Carrying Value of Property	=	
Disposal Loss from Property	=	

Double Entry for the Disposal

- Dr Investment in Subsidiary
- Dr Other Expenses (Console RE)
- Cr Property

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3.7 - Answer
Fair value of Consideration

Cash	=	
Shares Issued @ Fair Value	=	
Deferred Consideration @ Present Value	=	
Property Transferred		
Contingent Consideration @ Probability Weighted Present Value	=	
Total Consideration	**=**	

Double Entry for Cash Consideration

- Dr Investment in Subsidiary
- Cr Cash

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Question 04

- Rachapaajitha acquired 80% of Gonja on 01/01/2020.
- Cash paid Rs 480,000
- Land having a carrying value of Rs. 1,000,000/- was transferred to previous owners of Gonja which had a market value of Rs. 1,200,000/- at the acquisition date.
- Rachapaajitha issued 100,000 shares to the shareholders of Gonja, each with a nominal value of Rs 1 and a market value of Rs 3.20.
- Cash of Rs 220,000 to be paid one year after the date of acquisition.
- Cash of Rs 2,200,000 may be paid one year after the date of acquisition, if Gonja achieves a Rs.10Mn profit target. It is thought that there is only a 40% chance that this will occur. The fair value of this consideration is to be measured at the present value of the expected value. (Discount Rate 10%)
- Legal fees associated with the acquisition amounted to Rs. 15,000.
- Rachapaajitha is expecting to restructure the business and a restructuring expenses is expected to be Rs. 200,000/-
- Gonja's call recording segment is expected to make losses in the first year after acquisition. The expected future loss is Rs. 50,000/-.

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Question 04

4.1 Calculate fair value of share issue and determine the double entry
4.2 Calculate the present value of deferred consideration and determine the double entry
4.3 Calculate the probability weighted present value of contingent consideration and determine the double entry
4.4 Calculate the Land disposal gain and determine the double entry
4.5 Determine the double entry for Cash Consideration
4.6 Explain the accounting treatment for
  4.6.1 Legal fees
  4.6.2 Restructuring provision
  4.6.3 Future losses provision
4.7 Calculate the total fair value of consideration

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Question 04

4.8 Calculate the finance cost of deferred consideration for the year 2020 and determine the double entry
4.9 Calculate the finance cost of contingent consideration for year 2020 and determine the double entry
4.10 Explain the accounting treatment for subsequent changes in circumstance of a contingent consideration as to change in probability or achievement of target and non-achievement of target.
4.11 Provide the double entries in Rachapaajitha's books for
- 4.11.1 Settlement of deferred consideration liability as at 31/12/2020
- 4.11.2 Settlement of contingent consideration liability as at 31/12/2020, if profit target is being achieved.
- 4.11.3 Writing back the contingent consideration liability as at 31/12/2020, if profit target is not being achieved.

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4.1 - Answer
Fair Value of Shares Issued

Fair Value of Shares Issued	=	No of Shares Issued	X	Market Price Per Share of Parent at Acquisition
	=		X	
	=			

Double Entry for Share Issue
- Dr Investment in Subsidiary
- Cr Share Capital of Parent

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4.2 – Answer
Present Value of Deferred Consideration

Future Value	=	
Discount Factor (1/1+r^n) r = n =	=	
Present Value	=	

Double Entry for Deferred Consideration

- Dr Investment in Subsidiary
- Cr Deferred Consideration Liability

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4.3 – Answer
Probability Weighted Present Value of Contingent Consideration

Future Value	=	
Probability	=	
Expected Value	=	
Discount Factor (1/1+r^n) r = n =	=	
Probability Weighted Present Value	=	

Double Entry for Contingent Consideration

- Dr Investment in Subsidiary
- Cr Contingent Consideration Liability

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4.4 Answer
Property Disposal Gain

Market Value of the Property	=	
Carrying Value of Property	=	
Disposal Gain from Property	=	

Double Entry for the Disposal

- Dr Investment in Subsidiary
- Cr Property
- Cr Other Income (Console RE)

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4.5 Answer
Cash Consideration

Double Entry for the Cash Consideration

- Dr Investment in Subsidiary
- Cr Cash

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4.6 Answer
Accounting Treatment

Legal Fees

Legal fees is paid for the lawyer. This was paid as a professional fee for facilitating the transaction. This was not paid as a part of consideration to previous owner of subsidiary. Therefore, Parent shall recognize this as an expense.

Restructuring Provision and Future Losses Provision

Both restructuring and future losses are occurring after the acquisition. Therefore, this is not relevant to acquisition date adjustments. Therefore, these are not adjusted to consideration. Further, such provisions shall be based on LKAS 37.

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4.7 - Answer
Fair value of Consideration

Shares Issued @ Fair Value	=	
Deferred Consideration @ PV	=	
Contingent Consideration @ Probability Weighted PV	=	
Property Transfer	=	
Cash	=	
Total Consideration	**=**	

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4.8 – Answer
Finance Cost of Deferred Consideration for the Year 2020

Future Value as at 31/12/2020	=	
(-) Present Value as at 1/1/2020	=	
Finance Cost	=	

Future Value as at 31/12/2020

Present Value as at 1/1/2020	=	
Compounding Factor (1+r)^n r = n =	=	
Future Value as at 31/12/2021	=	

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55

4.8 – Answer

Double Entry for Finance Cost

- Dr Finance Cost (Console RE)
- Cr Deferred Consideration Liability

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4.9 – Answer
Finance Cost of Contingent Consideration for the Year 2020

Future Value as at 31/12/2020	=	
(-) Present Value as at 1/1/2020	=	
Finance Cost	=	

Future Value as at 31/12/2020

Present Value as at 1/1/2020	=	
Compounding Factor (1+r)^n r = n =	=	
Future Value as at 31/12/2021	=	

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4.9 – Answer

Double Entry for Finance Cost

- Dr Finance Cost (Console RE)
- Cr Contingent Consideration Liability

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4.10 Answer
Contingent Consideration

Achieving the Target

If target is being achieved, the liability booked (800,000 + 80,000) is understated than the real liability (2,200,000). Therefore, under provision shall be provided (1,320,000) and charged to other expenses. This can not be adjusted to Investment in Subsidiary. The reason is that target achieving was occurred after the acquisition date. We can not go back and change the investment in subsidiary figure. Investment in subsidiary shall reflect the circumstances prevailed at acquisition date.

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4.10 Answer
Contingent Consideration

Not Achieving the Target

If target is not being achieved, the liability booked (800,000 + 80,000) is overstated as there's no liability. Therefore, the booked liability shall be written back. This can not be adjusted to Investment in Subsidiary. The reason is that target not achieving was occurred after the acquisition date. We can not go back and change the investment in subsidiary figure. Investment in subsidiary shall reflect the circumstances prevailed at acquisition date. The written back will be adjusted to other expenses as a credit

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4.11 Answer
Accounting Treatment

Deferred Consideration Settlement

Dr. Deferred Consideration Liability 220,000
Cr. Cash 220,000

Contingent Consideration Settlement – Target Achieved

Under Provision

Dr. Other Expenses (Console RE) 1,320,000
Cr. Contingent Consideration Liability 1,320,000

Settlement

Dr. Contingent Consideration Liability 2,200,000
Cr. Cash 2,200,000

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4.11 Answer
Accounting Treatment

Contingent Consideration Settlement – Target Not Achieved

Over Provision

Dr. Contingent Consideration Liability 880,000
Cr. Other Expenses (Console RE) 880,000

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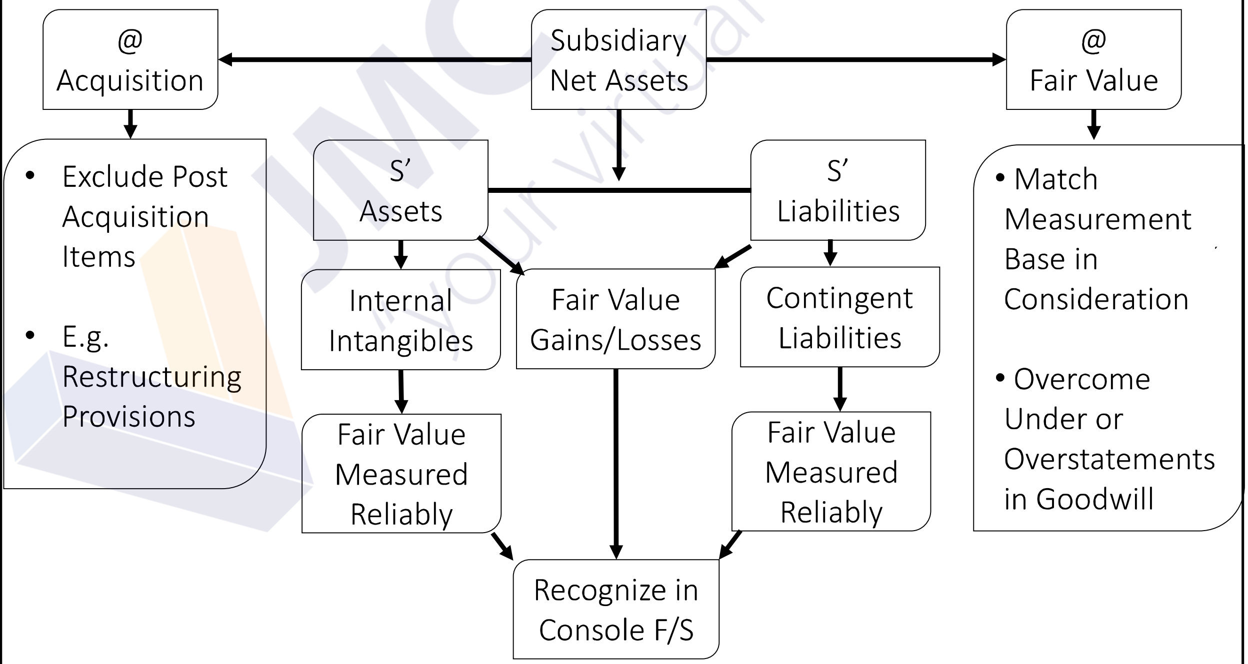
Fair Value of Subsidiary's Identifiable Net Assets



Example – Why we need to take Fair Value of Subsidiary Net Assets!

P acquired 100% of S paying Rs.100 to previous owner. The Book Value of Net Assets at Acquisition was Rs.60. There was a fair value gain of Rs.20 on a Land.

Goodwill – Without Fair Value Gain Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill – With Fair Value Gain Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill will be overstated by Fair Value Gain Rs.20

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Example – Why we need to take Fair Value of Subsidiary Net Assets!

P acquired 100% of S paying Rs.100 to previous owner. The Book Value of Net Assets at Acquisition was Rs.60. There was a fair value loss of Rs.10 on a building.

Goodwill – Without Fair Value Loss Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill – With Fair Value Loss Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill will be understated by Fair Value Loss Rs.10

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Example – Why we need to adjust Internally generated Intangible Assets of Subsidiary!

P acquired 100% of S paying Rs.100 to previous owner. The Book Value of Net Assets at Acquisition was Rs.60. There was an unrecognized brand name worth of Rs.15

Goodwill – Without Intangible Asset Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill – With Intangible Asset Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill will be overstated by Intangible Asset Rs.15

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Example – Why we need to adjust Contingent Liabilities of Subsidiary!

P acquired 100% of S paying Rs.100 to previous owner. The Book Value of Net Assets at Acquisition was Rs.60. There was a pending court case against the Subsidiary of Rs.20.

Goodwill – Without Contingent Liability Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill – With Contingent Liability Adjustment	
Investment	
(-) Net Assets	
Goodwill	

Goodwill will be understated by Contingent Liability Rs.20

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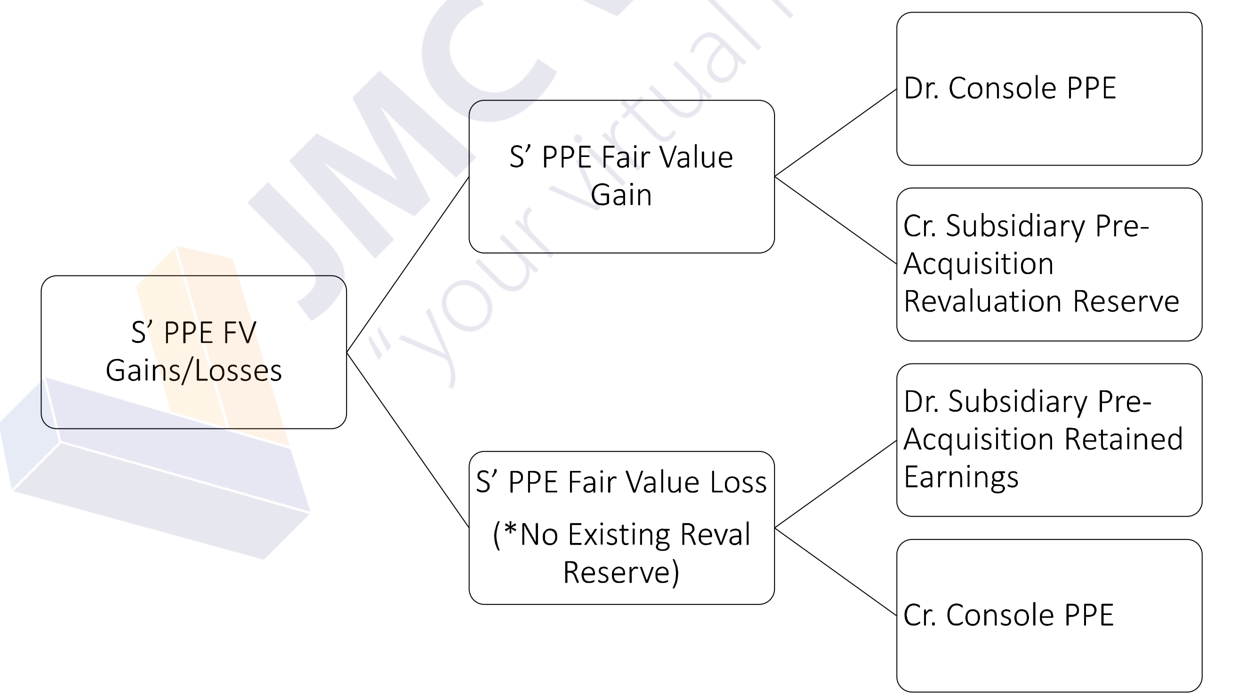
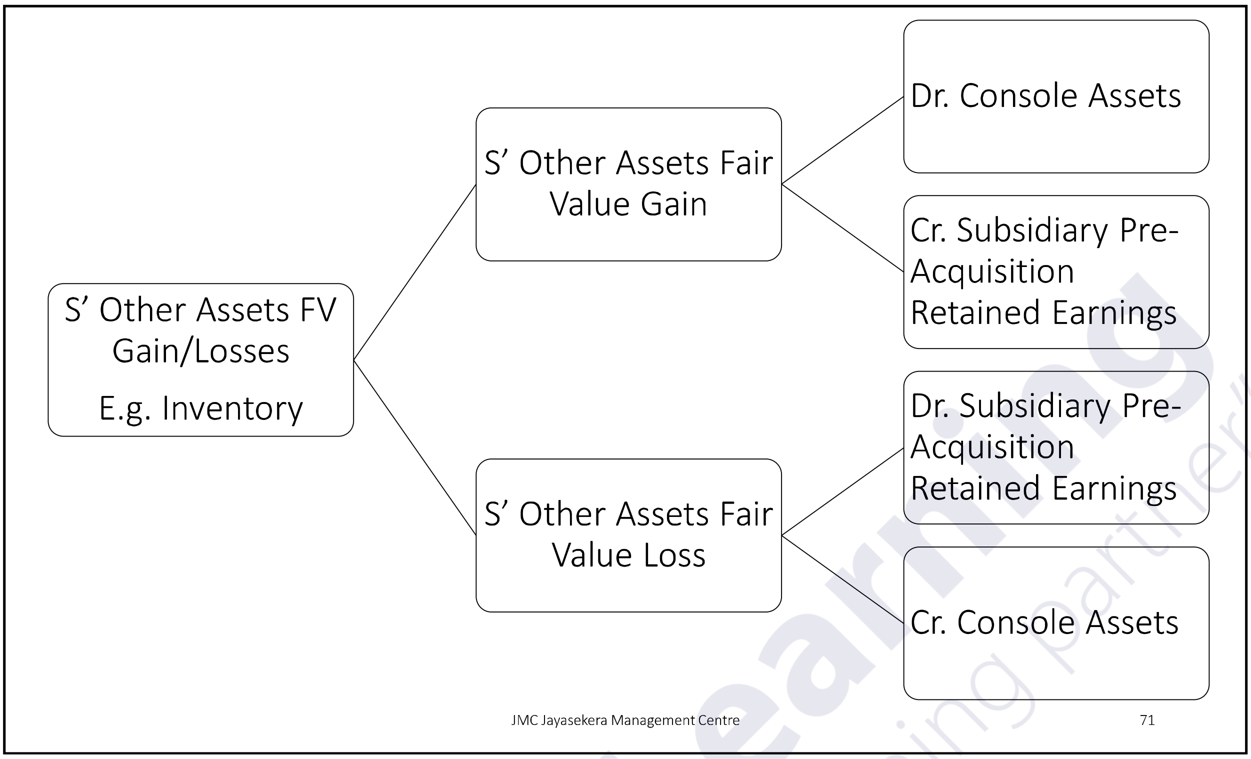
Double Entries Relevant to Fair Value Adjustments





S’ Other Assets FV Gain/Losses
E.g. Inventory
S’ Other Assets Fair Value Gain
Dr. Console Assets
Cr. Subsidiary Pre-Acquisition Retained Earnings
S’ Other Assets Fair Value Loss
Dr. Subsidiary Pre-Acquisition Retained Earnings
Cr. Console Assets
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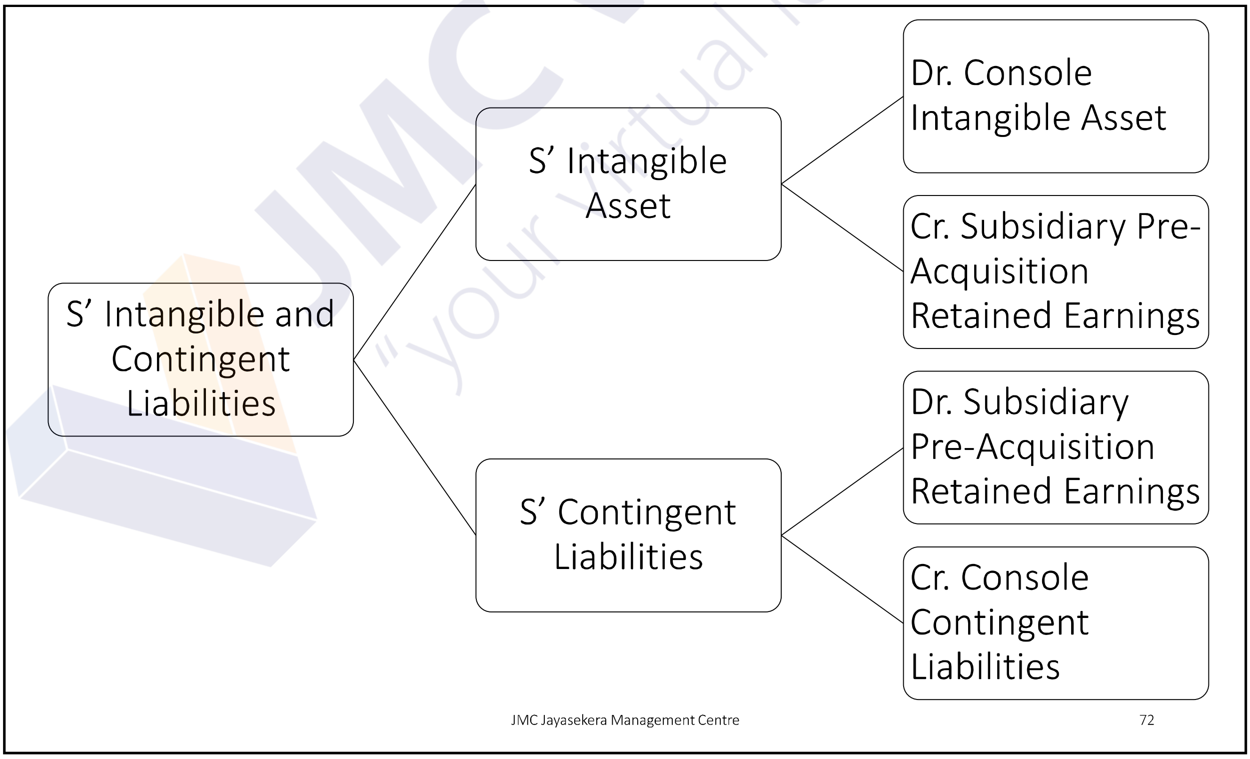

S’ Intangible and Contingent Liabilities
S’ Intangible Asset
Dr. Console Intangible Asset
Cr. Subsidiary Pre-Acquisition Retained Earnings
S’ Contingent Liabilities
Dr. Subsidiary Pre-Acquisition Retained Earnings
Cr. Console Contingent Liabilities
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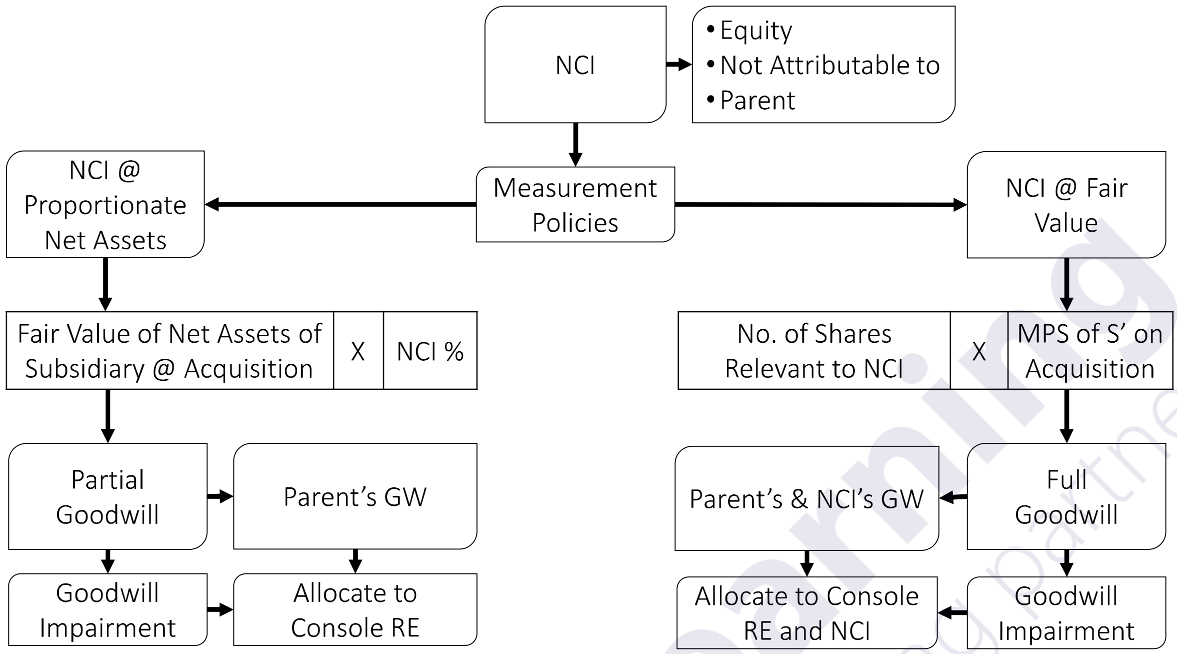
- PPE Subsequent Depreciation on FV Gain/Loss
  - Under Depreciation on Fair Value Gain
    - Dr. Subsidiary Post-Acquisition Retained Earnings
    - Cr. Console PPE
  - Over Depreciation on Fair Value Gain
    - Dr. Console PPE
    - Cr. Subsidiary Post-Acquisition Retained Earnings

Non-Controlling Interest



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GOODWILL

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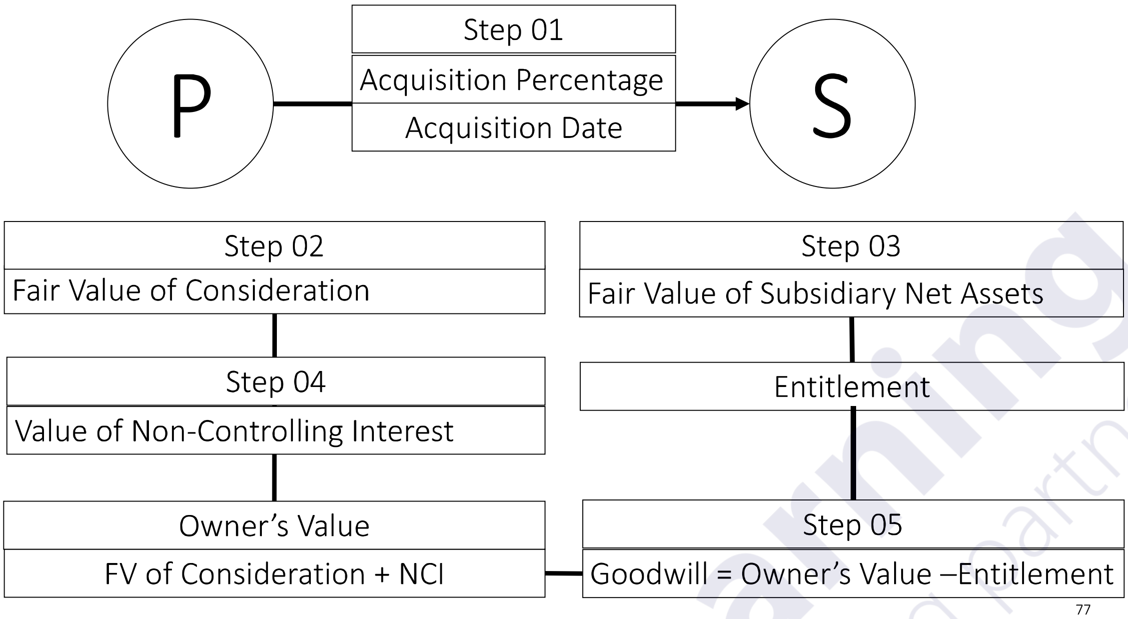

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Determinants of Goodwill

- Staff Expertise
- Customer Loyalty
- Reputation
- Locational Advantage
- Quality of Service

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Question 05

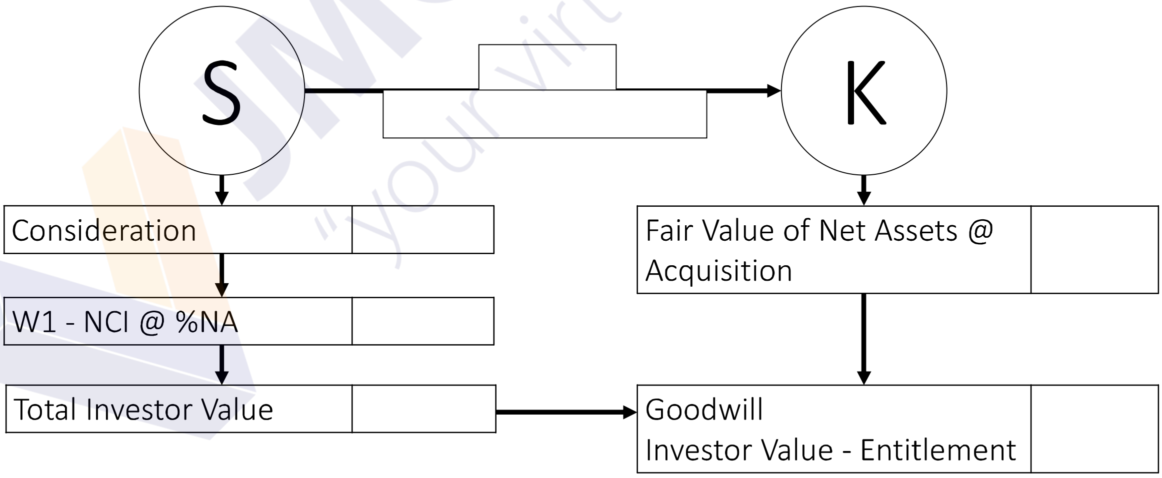
Sameera purchased 60% of Kumar's 3,000, Rs.1/- shares on 1 January 2020. Sameera paid Rs 5,500 cash consideration. On 1 January 2020, the Fair value of Kumar's net assets was Rs 5,000. Kumar's share price at this date was Rs.2.25.

Calculate the total Goodwill and Goodwill relevant to parent and NCI separately valuing the NCI:

5.1 Using the proportionate net assets method

5.2 Using the fair value method

Answer 5.1 – Goodwill if NCI @ %NA



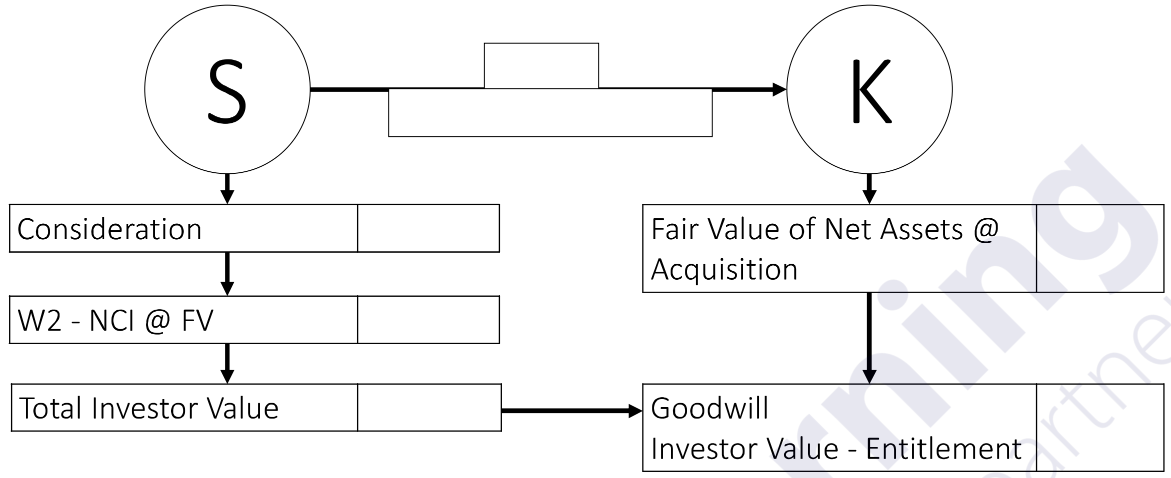
Answer 5.1
Working 01 – NCI @ Proportionate Net Assets

Subsidiary's Fair Value of Net Assets at Acquisition Day	
NCI Percentage	
NCI @ Proportionate Net Assets	

Answer 5.1 – Goodwill belong to Parent and NCI when NCI Measured @ %NA

Description	Parent's Goodwill	NCI's Goodwill	Total Goodwill
Ownership %			
Investor Value			
(-) Entitlement			
Goodwill			
Remarks			

Answer 5.2 – Goodwill if NCI @ FV



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Anwer 5.2
Working 02 – NCI @ Fair Value

No. of Shares Belong to NCI	
Subsidiary's Market Price per Share at Acquisition	
NCI @ Fair Value	

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Answer 5.2 – Goodwill belong to Parent and NCI when NCI Measured @ FV

Description	Parent's Goodwill	NCI's Goodwill	Total Goodwill
Ownership %			
Investor Value			
(-) Entitlement			
Goodwill			
Remarks			

Question 06

Suchin Ltd purchased 80% of share capital of Dolan on 1/1/20. On this date statement of financial position of Dolan was as follows

PPE	60,000
Trade Receivables	7,000
Cash	3,000
Total Assets	**70,000**
Stated Capital	20,000
Retained Earnings	20,000
Liabilities	30,000
Total Liabilities	**70,000**

Question 06

- Suchin paid Rs.30, 000/- to Dolan's previous owners to acquire Dolan.
- Rs.2,000/- was incurred by Suchin as the legal charges.
- Suchin transferred the ownership of a Machine having a carrying value of Rs.40, 000/- and market value of Rs.46,000/- to the previous owners of Dolan.
- Further Suchin issued 4 shares in exchange of every 10 shares of Dolan. Market value of a Dolan share was Rs.9/-and market value of an Suchin share was Rs.6/-. Dolan has 10,000 shares in issue.
- Suchin also entered into an agreement with Dolan's previous owner to pay an additional Rs.24,200/- on 1/1/22, in relation to the acquisition. Discount rate applicable is 10%.
- Suchin agreed to pay further Rs.12,100/- on 1/1/22 if Dolan achieves a revenue target of Rs.300,000/-. It was assumed that there's a 50% probability is there to achieve the profit target.

Question 06

Calculate

6.1 Fair Value of consideration

6.2 Calculate NCI measured at fair value

6.3 Calculate Goodwill if NCI measured at fair value

6.4 Calculate NCI measured at proportionate share of net assets

6.5 Calculate Goodwill if NCI measured using proportionate net assets

Answer 6.1
Fair value of Consideration

Cash	=	
Legal Charges Note 01		
W1 - Machine Transferred	=	
W2 Shares Issued @ Fair Value	=	
W3 Deferred Consideration	=	
W4 Contingent Consideration	=	
Total Consideration	=	

Note 01 – Legal Charges

- Not a Part of Consideration. Charged to PnL
- Dr Other Expenses (Console RE)
- Cr Cash

Cash Consideration

- Dr Investment in Subsidiary
- Cr Cash

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Answer 6.1
Working 01 Machine Disposal Gain

Market Value of the Machine	=	
Carrying Value of Machine	=	
Disposal Gain from Machine	=	

Double Entry for Disposal of Machine

- Dr Investment in Subsidiary
- Cr Property Plant and Equipment
- Cr Other income (Console RE)

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Answer 6.1
Working 02 Market Value of Shares Issued

Fair Value of Shares Issued	=	No of Shares Issued	X	Market Price Per Share of Parent at Acquisition
	=	Subsidiary's Total Number of Shares **X** Acquired Percentage **X** Share Issue Proportion	X	Market Price Per Share of Parent at Acquisition
	=		X	
	=		X	
	=			

Double Entry for Share Issue

- Dr Investment in Subsidiary
- Cr Share Capital of Parent

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Question 6.1
Working 03 Present Value of Deferred Consideration

Future Value	=	
Discount Factor (1/1+r^n) r = n =	=	
Present Value	=	

Double Entry for Deferred Consideration

- Dr Investment in Subsidiary
- Cr Deferred Consideration Liability

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Answer 6.1 - Working 04 Probability Weighted Present Value of Contingent Consideration

Future Value	=	
Probability	=	
Expected Value	=	
Discount Factor (1/r^n) r = n =	=	
Probability Weighted Present Value	=	

Double Entry for Contingent Consideration

- Dr Investment in Subsidiary
- Cr Contingent Consideration Liability

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Answer 6.1
Fair value of Consideration

Cash	=	
Legal Charges Note 01		
W1 - Machine Transferred	=	
W2 Shares Issued @ Fair Value	=	
W3 Deferred Consideration	=	
W4 Contingent Consideration	=	
Total Consideration	**=**	

Note 01 – Legal Charges

- Not a Part of Consideration. Charged to PnL
- Dr Other Expenses (Console RE)
- Cr Cash

Cash Consideration

- Dr Investment in Subsidiary
- Cr Cash

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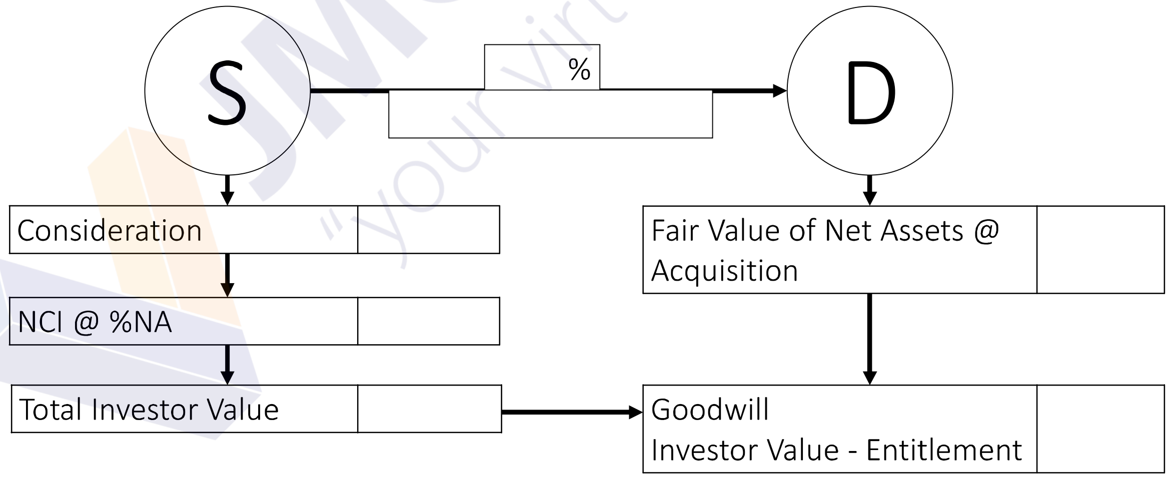
Answer 6.2 NCI @ Proportionate Net Assets

Subsidiary's Fair Value of Net Assets at Acquisition Day SC 20,000 + RE 20,000	
NCI Percentage	
NCI @ Proportionate Net Assets	

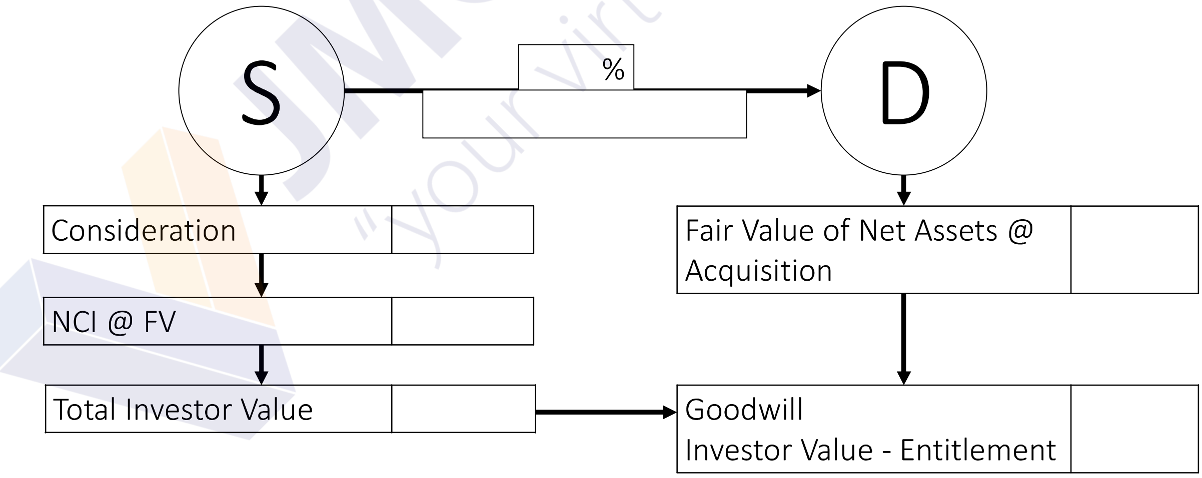
Answer 6.3 Goodwill if NCI @ %NA



Answer 6.4 NCI @ Fair Value

No. of Shares Belong to NCI	
Subsidiary's Market Price per Share at Acquisition	
NCI @ Fair Value	

Answer 6.5 Goodwill if NCI @ FV



Question 07

- Spain acquired 80% of the share capital of Madrid paying consideration of Rs 8 million. At acquisition, the statement of financial position of Madrid showed equity share capital of Rs 3 million (Rs.10 per share) and retained earnings of Rs 4.5 million.
- The market price per share of Madrid as at the acquisition date was Rs.30 per share.
- Following additional information provided regarding the net assets of the Madrid.
- Freehold land with a book value of Rs 400,000 but a market value of Rs 900,000
- Machinery with a book value of Rs 1.2 million. No reliable market value exists for these items. They would cost Rs 1.5 million to replace as new. The machinery has an expected life at 10 years and Madrid's machines are 4 years old.

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Question 07

- An equipment with a book value of Rs.1 million. The market value details were not available. However, the details obtained to assess the market value using income approach were as follows.
  - Remaining useful life was 05 years
  - Cash inflows expected per annum over the useful life Rs.800,000/-
  - Cash outflows expected per annum over the useful life Rs.500,000/-
  - Residual value expected at the end of useful life Rs.101,082/-
  - 10% discount rate assumed
- The fair value of all other assets and liabilities are approximately equal to book value.
- Madrid's brand name was internally generated and so is not recognized in their statement of financial position. However, valuation experts have estimated its fair value to be Rs 800,000. The brand name has a remaining useful life of 05 years.

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Question 07

- A Supplier of Madrid has filed a case against the company claiming a compensation of Rs.200,000/- for a returned cheque. This case was not finalized at the date of acquisition.
- The directors of Spain intend to close down one of the divisions of Madrid and wish to provide for operating losses up to the date of closure which is estimated at Rs 729,000.
- An investment in plant and machinery will be required to bring the remaining production line of Madrid up to date. This will amount to Rs 1,200,000 in the next 12 months.

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Question 07

Calculate

7.1 The fair value of net assets acquired of Subsidiary

7.2 Explain the Accounting Treatments for

- Subsidiary PPE fair value Gains/Losses at acquisition
- Subsidiary Internally Generated Intangible Assets
- Subsidiary Contingent Liabilities at Acquisition
- Subsidiary Future Operating Losses
- Future Investments to be Made in Subsidiary

7.3 Goodwill if NCI measured at fair value

7.4 Goodwill if NCI measured at proportionate net assets

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Answer 7.1
Fair value of Subsidiary Net Assets @ Acquisition

Stated Capital	=	
Retained Earnings	=	
Book Value of Net Assets of S' @ Acquisition	=	
Fair Value Adjustments	=	
W1 - Revaluation Reserve (Land)	=	
W2 - Revaluation Loss (Machine)	=	
W4 - Revaluation Gain (Equipment)	=	
W6 - Retained Earnings (Brand Name)	=	
W7 - Retained Earnings (Contingent Liabilities)	=	
Total Fair Value of Net Assets of S' @ Acquisition	**=**	

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Answer 7.1
Working 01
Land Fair Value Adjustment

Market Value of the Land	=	
Carrying Value of Land	=	
Revaluation Gain from Land	=	

Double Entry for Land Revaluation Reserve

- Dr Consolidated PPE
- Cr Goodwill

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Answer 7.1
Working 02
Machine Fair Value Adjustment

Market Value of the Machine	=	
Carrying Value of Machine	=	
Revaluation Gain/Loss from Machine	=	

Double Entry for Machine Revaluation Loss

- Dr Goodwill
- Cr Console PPE

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Answer 7.1
Working 03
Machine Market Value

Replacement Cost	=	
(-) Accumulate Depreciation Expected Useful Life = Age of Existing Asset =	=	
Depreciated Replacement Cost (Market Value Equivalent)	=	

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Answer 7.1
Working 04
Equipment Fair Value Adjustment

Market Value of the Equipment	=	
Carrying Value of Equipment	=	
Revaluation Gain from Equipment	=	

Double Entry for Equipment Revaluation Gain

- Dr Consolidated PPE
- Cr Goodwill

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Answer 7.1
Working 05 Equipment Market Value

	1-5	5
Cash Inflows		
Cash Outflows		
Residual Value		
Net Cashflow		
Annuity Factor or Discount Factor		
Present Value		
Total Present Value		

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Answer 7.1
Working 06
Internally Generated Brand Name

Double Entry to Recognize Internally Generated Brand Name

- Dr Consolidated IA
- Cr Goodwill

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Answer 7.1
Working 07
Contingent Liability

Double Entry to Recognize Contingent Liability

- Dr Goodwill
- Cr Console Contingent Liability

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Answer 7.2
Future Operating Losses

Future operating losses are occurring after the acquisition. Further, as per LKAS 37 future losses shall not be provided. Therefore, such provision shall not be adjusted to subsidiary net assets at acquisition

Future Investment

Future investment is occurring after the acquisition. Therefore, such provision shall not be adjusted to subsidiary net assets at acquisition

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Answer 7.1
Fair value of Subsidiary Net Assets @ Acquisition

Stated Capital	=	
Retained Earnings	=	
Book Value of Net Assets of S' @ Acquisition	=	
Fair Value Adjustments	=	
W1 - Revaluation Reserve (Land)	=	
W2 - Revaluation Loss (Machine)	=	
W4 - Revaluation Gain (Equipment)	=	
W6 - Retained Earnings (Brand Name)	=	
W7 - Retained Earnings (Contingent Liabilities)	=	
Total Fair Value of Net Assets of S' @ Acquisition	**=**	

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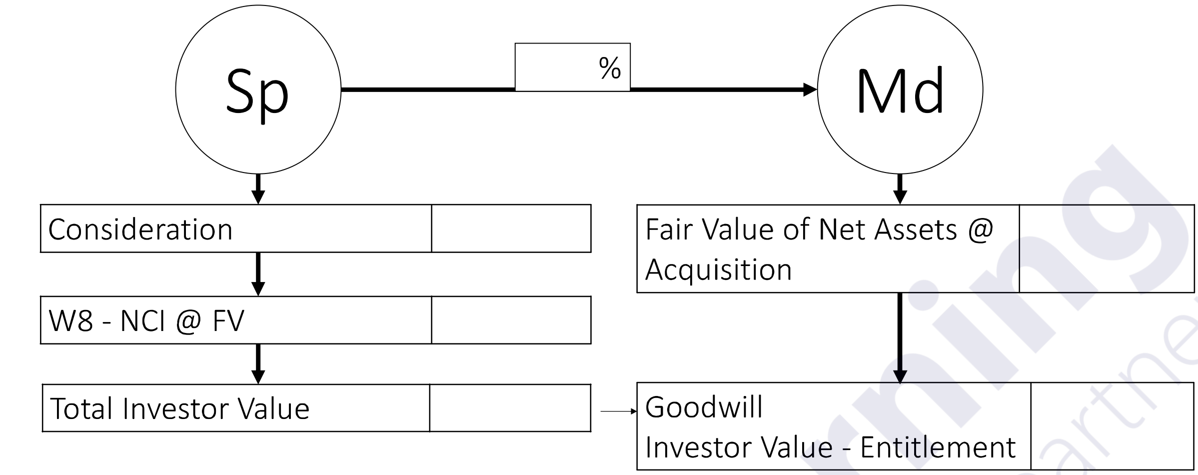
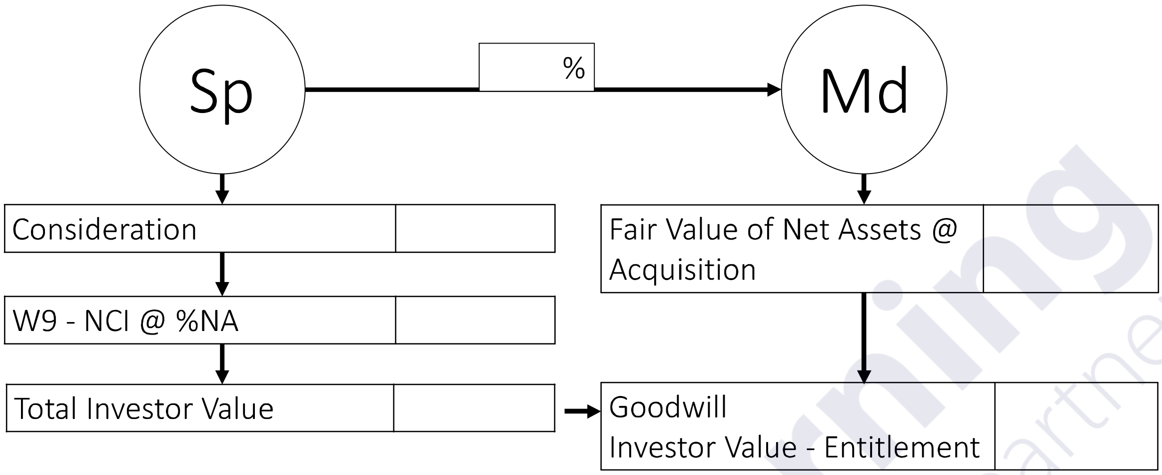
Answer 7.3 – Goodwill if NCI @ FV



Answer 7.3
Working 08 – NCI @ Fair Value

No. of Shares Belong to NCI	
Subsidiary’s Market Price per Share at Acquisition	
NCI @ Fair Value	

Answer 7.4 – Goodwill if NCI @ %NA



Answer 7.3
Working 09 – NCI @ Proportionate Net Assets

Subsidiary's Fair Value of Net Assets at Acquisition Day	
NCI Percentage	
NCI @ Proportionate Net Assets	

Question 08

Wellington purchased 80% of the equity share capital of Boot on 1 April 2019.

Consideration includes following items

- Cash paid Rs 500,000
- Machine which had a carrying value of Rs. 750,000/- was transferred to the previous owners of Boot The machine had a market value of Rs. 800,000/- as at the acquisition date.
- Wellington issued four shares for every three shares acquired to the shareholders of Boot. Wellington's market price per share as at acquisition date was Rs.8.75/-
- Cash of Rs 440,000 to be paid one year after the date of acquisition.

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Question 08

Consideration includes following items

- Cash of Rs 1,100,000 may be paid one year after the date of acquisition, if Boot achieves a revenue target of Rs.200Mn in the year 2019/20. It is thought that there is only 80% chance that this will occur. The fair value of this consideration is to be measured at the present value of the expected value. Financials prepared for the year ended 31/3/2020 of Boot reflects a revenue of Rs.210Mn.
- Legal fees associated with the acquisition amounted to Rs. 25,000.
- Assume a discount rate of 10%.

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Question 08

Fair value of Net Assets of the Subsidiary

- Boot's share capital is made up of Rs. 3,000,000 Rs 10 shares and it had retained earnings of Rs 1,000,000 at the date of acquisition.
- Boot's property plant and equipment which had a carrying value of Rs. 3,200,000/- The fair value of those assets were Rs. 4,000,000/- as at the date of acquisition. The property plant and equipment had a remaining useful life of 04 years.
- Boot had an internally generated brand name which had a market value of Rs.500, 000/-. The brand name had a useful life of 05 years.
- An employee filed a case against Boot claiming a compensation of Rs.300, 000/-. The case was not finalized as at the acquisition date.

Non-Controlling Interest

- The fair value of the NCI at 1 April 2019 was Rs 1,250,000.

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Question 08

8.1 Calculate the value of total consideration

8.2 Determine the double entries in Parent Company's books for the consideration.

8.3 Calculate the fair value of net assets of subsidiary at acquisition

8.4 Calculate and Explain the depreciation on fair value gain in subsidiary property plant and equipment for the year 2019/20

8.5 Calculate and Explain the amortization of intangible asset for the year 2019/20

- Calculate the goodwill
  - NCI at fair value method
  - NCI at proportion of net assets method
- Determine the double entries in for Goodwill in Consolidated Books

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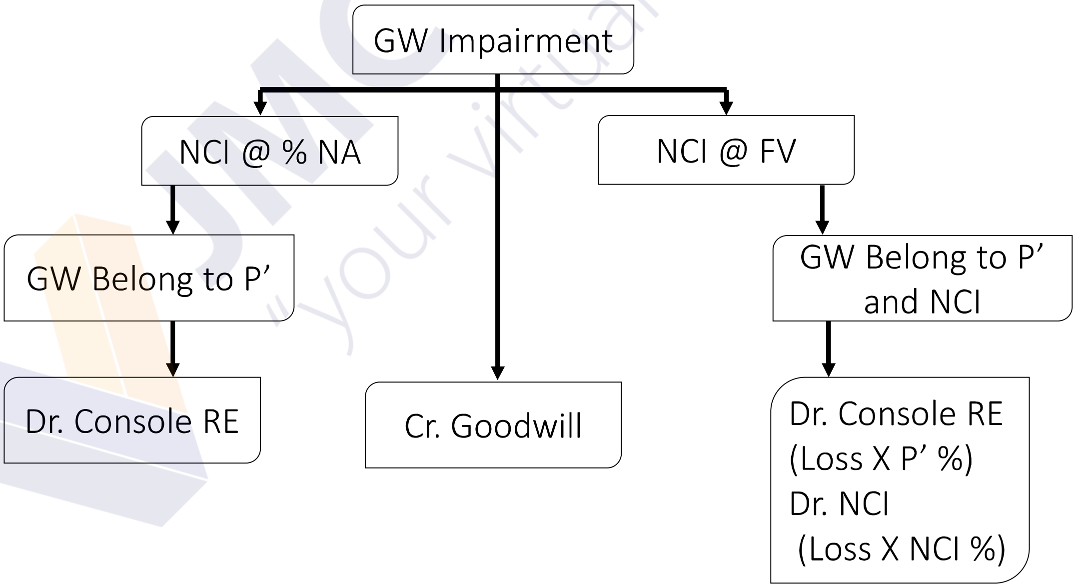
IMPAIRMENT OF GOODWILL



Question 09

- H purchased 80% of S's on 1 January 2020. S paid Rs 6,000 cash for their investment. At 1 January 2020, the value of S's net assets was Rs 6,200. S's share price at this date was Rs 3.75
- S had 2,000 shares in issue.

Calculate

The goodwill arising on the acquisition of S, valuing the NCI:

09.1 Using the fair value method

09.2 Using the proportion of net assets method

If Goodwill is impaired by 20%, provide the double entries if NCI valued using

09.3 Using the fair value method

09.4 Using the proportion of net assets method

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GAIN ON BARGAIN PURCHASE

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Investor Value

Entitlement

Who is Entitled for Gain on Bargain Purchase? Parent or NCI?

GW			
	P	NCI	Total
%	80%	20%	100%
Inv	400	100	500
Ent	320	80	400
GW	80	20	100

GBP			
	P	NCI	Total
%	80%	20%	100%
Inv	240	60	300
Ent	320	80	400
GBP	80	20	100

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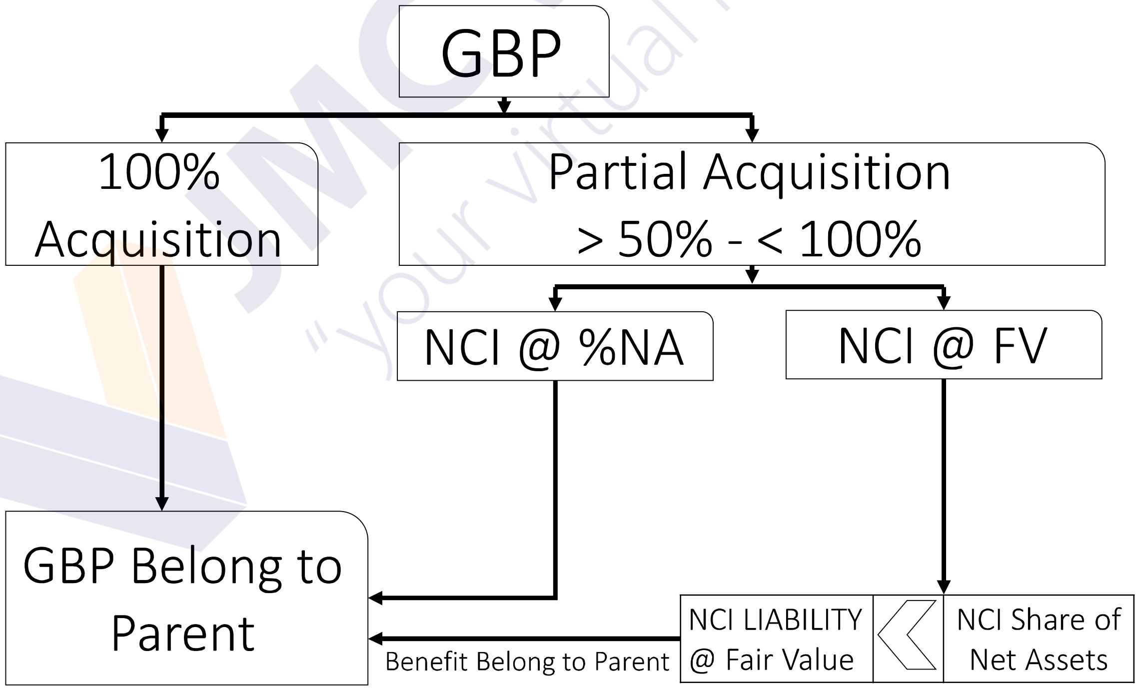

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Question 10

- P Ltd purchased 70% of the share capital of S on 1/4/19 by paying Rs.250, 000/- in cash.
- P Agreed to pay an additional amount equal to 10% of the following year's profits if it exceeds Rs.500, 000/-. It's forecasted that S would make a profit of Rs.1, 100, 000/-. Discount rate applicable is 10%. A probability of occurrence of 100% assumed.
- P has given a Land to the previous owners of S as part of the settlement. The carrying value of the land is Rs.100, 000/- and the market value is Rs.150, 000/-.
- On 1/4/19 the statement of financial position of S was as follows

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Question 10

	Rs.000
PPE	800
Trade Receivables	150
Cash	50
Total Assets	**1000**
Stated Capital	500
Retained Earnings	200
Liabilities	300
Total Liabilities	**1000**

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Question 10

- On this date the PPE of S limited included a land carried at a value of Rs.300, 000/-, which had a fair value of Rs.400, 000/-.
- S was catering to a very specific customer segment and had a very well recognized trade mark and it was valued at Rs.40, 000/-. This has not been recognized in individual financials of S.
- An employee had filed a case against the company claiming a compensation of Rs.60, 000/-, no provision has been made in this regard.
- S Ltd had 1,000 shares in issue and market price of a share was Rs.750/- each.

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Question 10

Calculate,

10.1 Fair value of consideration

10.2 Fair value of the net assets acquired of S

10.3 Gain on Bargain Purchase on Acquisition if Non-Controlling interest was measured using proportionate net assets method

10.4 Gain on Bargain Purchase on Acquisition if Non-Controlling interest was measured using fair value method

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