ACCAspace

Professional Accounting Education

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ACCA Research Institute

ACCA F7

Financial Reporting(INT.)

财务报告（国际会计准则）

Chapter 11 consolidated FS（1）

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1 基本合并原则

2 编制合并报表与NOTES相关的会计处理

Many large businesses consist of several companies controlled by one central or administrative company.

Together these companies are called a **group**. The controlling company, called the parent or **holding company**, will own some or all of the shares in the other companies, called **subsidiaries**.

Investment	Criteria	Required treatment in group accounts
Subsidiary	**Control**	**Full consolidation**
Associate	**Significant influence**	**Equity accounting**
Investment which is none of the above	Asset held for accretion of wealth	As for single company accounts per IFRS 9

Parent: An entity that has one or more subsidiaries.

Subsidiary: An entity controlled by another entity (the parent).

Trade (simple) investment : An investment in the shares of another entity that is held for the accretion of wealth, and is not an associate or a subsidiary.

Associate: An entity that the parent has significant influence over.

Non-controlling interest Shareholding in the subsidiary that is not owned by the parent.

Control: The power to govern the financial and operating policies of an entity.

Significant influence: The power to participate in the financial and operating policies of an entity.

Mid-year acquisition：We must only include the part of the subsidiary's results that arose after acquisition, i.e. whilst under the control of the parent. If the acquisition occurred in the middle of the year, we should only include the second half of the subsidiaries results for the year.

基本的合并原则 (SOFP)

基本的合并原则（SOPL)

与NOTES 相关的知识点

Consideration

- Cost of Investment(consideration)

Cash consideration =no. of share acquired X cash amount/share

Share exchange (3 steps)

-No. of shares acquired

-Shares issued from P in return

-Value of P’s shares

The consideration can be the cash paid right now by the parent company, or it can be deferred consideration or contingent consideration.

- **Deferred Consideration**

This is the share or cash to be issued or paid in the future.

For cash: We need to **discount** the total future cash payment to be included in the fair value of consideration.

For shares: We need to use:

Number of shares to be issued in the future X Share price (Now)

- **Contingent Consideration**

This is cash or shares to be paid or issued in the future depending on whether company can meet with targets.

So we need to use:

Probability to meet with targets X Fair value of contingent consideration (Cash or Shares)

Cash in transit

Cash has been sent by one group entity but has not been received and so it not recorded in the books of the other group entity.

So we need to make this adjustment:

- DR Bank (cash in transit)
- CR Receivables (in seller's book)

Good in transit

Goods have been sent by one entity but have not been received and so are not recorded in the books of the other group entity.

So we need to make this adjustment:

- DR inventory (goods in transit)
- CR Payable (in buyer’s book)

Intra-group trading

Trade receivable/trade payable

Inventory

FV adjustment

- Sometimes, at the point of acquisition, the recorded book value of an item in the subsidiary statement of financial position is different to its fair value.

- A subsidiary's net assets should be adjusted to fair value before goodwill is calculated and the fair value adjustments included in the group figures.

- Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When acquiring the subsidiary and we have found out that the intangible asset of the subsidiary worth at $20m(Fair value) has not been considered when preparing the individual financial statements.

- DR Intangible Asset $20m
- CR Subsidiary's net asset $20m

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Thank You!