ACCAspace
Professional Accounting Education

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ACCA F7

Financial Reporting(INT.)

财务报告（国际会计准则）

Chapter 11 consolidated FS（2）

ACCA Lecturer: Roy Wang

1 **Goodwill**

2 **Example**

Goodwill

There are basically **two methods** in goodwill calculation per IFRS3.

IFRS 3 allows two alternative ways of calculating non-controlling interest in the group statement of financial position. Non-controlling interest can be valued at:

(a) Its proportionate share of the fair value of the subsidiary's net assets; or

(b) Full (or fair) value (usually based on the market value of the shares held by the non-controlling interest).

You are required to be able to apply both of these methods in F7. The exam question will tell you which method to use. If you are required to use the 'full (or fair) value' method, then you will be given the share price or told what the fair value of the non-controlling interest is. You will normally be required to use the fair value method.

- **Full goodwill method**

FV of consideration	X
FV of NCI(full goodwill)*	X
FV of net assets	(X)
Goodwill	**X**

Partial goodwill method

FV of consideration	X
NCI:proportionate share of net asset(partial goodwill) *	**X**
FV of net assets	(X)
Goodwill	**X**

- Positive GW:

Capitalise and test annually for impairment

Negative GW:

Reassess and then credit any remainder to profit or loss attributable to the parent

P acquired 75% of the shares in S on 1 January 2007 when S had retained earnings of $15,000. The market price of S's shares just before the date of acquisition was $1.60. P values NCI at fair value. Goodwill is not impaired.

The statements of financial position of P and S at 31 December 20X7 were as follows:The statements of financial position of P and S at 31 December 20X7 were as follows:

20X7.12.31

	P	*S*
Property, plant and equipment	60,000	50,000
Shares in S	68,000	–
	128,000	50,000
Current assets	52,000	35,000
	180,000	85,000
Share capital – $1 shares	100,000	50,000
Retained earnings	70,000	25,000
	170,000	75,000
Current liabilities	10,000	10,000
	180,000	85,000

After buying this subsidiary and you have paid **more than** its net asset and the excess amount is called goodwill which represents future economic benefit that company might generate and for its good reputation and some other intangible assets such as customer database. But is it really as good as you think it should be? Well, that’s why we have to carry out an **impairment review at the year-end** for the subsidiary to see whether what we bought is actually as good as we think it should be.

We do not amortize goodwill simply because goodwill has an **infinite life** which means we will never know when the company goes burst in the future and also we can’t measure reliably about the future benefit that company can generate and amortization is like depreciation for tangible non-current asset which match the future revenue that company generates

So instead we carry out an **impairment review** for the goodwill at the end of each year for subsidiary and associate we bought. using this asset against its cost.

The double entry to write off the impairment is:

DEBIT Group retained earnings CREDIT Goodwill

However, when NCI is valued at **fair value** the goodwill in the statement of financial position includes goodwill attributable to the NCI. In this case the double entry will reflect the NCI proportion based on their shareholding as follows.

DEBIT Group retained earnings   CREDIT Goodwill

DEBIT Non-controlling interest

Example

At 31 December 20X4 the statements of financial position of P and S were as follows:

	P	*S*
	$’000	$’000
Non-current assets		
Property, plant and equipment	56,600	16,200
Investment in S (at cost)	13,800	–
	70,400	16,200
Current assets		
Inventories	2,900	1,200
Trade receivables	3,300	1,100
Cash	1,700	100
	7,900	2,400
	78,300	18,600

	P	S
Equity	$'000	$'000
Share capital ($1 shares)	8,000	2,400
Reserves	54,100	10,600
	62,100	13,000
Non-current liabilities		
Long-term borrowings	13,200	4,800
Current liabilities		
Trade and other payables	3,000	800
	78,300	18,600

Notes:

(1) On 1 April 20X4 P purchased a 80% holding in S for $13.8m in cash. S' total comprehensive income for the year ended 31 December 20X4 was $2.0m, accruing evenly over the year. S did not pay any dividends in the year.

(2) At the date of acquisition, the fair value of S' assets were equal to their carrying amounts with the exception of the items listed **below** which exceeded their carrying amounts as follows:

	$'000
Inventories	300
Plant and equipment (10 year remaining useful life)	1,200
	1,500

S has not adjusted the carrying amounts as a result of the fair value exercise.

The inventories were sold by S before the year end.

(3) The non-controlling interest in S is to be valued at its fair value of $3.2m at the date of acquisition. An impairment test conducted at the year end revealed that the consolidated goodwill of S was impaired by $150,000.

(4) On 1 October 20X4, S sold goods to P for $200,000 at a gross profit margin of 40%. The goods were still in P inventories at the year end. No other sales were made between P and S in the year. At 31 December 20X4 P current account with S was $130,000 (credit). This did not agree with the equivalent balance in S' books due to cash in transit of $70,000 which was not received by S until after the year end.

Required

Prepare the consolidated statement of financial position of the P Group as at 31 December 20X4

W1 Group structure

P

31.12.x4   80%

S

OCI:$2.0m

reserve@acq date:
10.6-2*9/12

W2 GW

		$'000
Consideration		13,800
NCI		3,200
Less:Identifiable net asset:		
Share capital	2,400	
Reserve	9,100	
FV adj	1,500	
		(13,000)
GW@acq date		4,000
Impairment loss		(150)
GW@Y/E		3,850

W3 FV adj($'000)

	@acq	movement	Y/E
Inventory	300	(300)	0
P&E	1,200	1200*9/120=(90)	1,110
Total	1,500	(390)	1,110

W4 Intra-group trading(S—P) $'000

1、cash in transit

DR: cash 70

CR:T.R 70

2、cancel the TR and TP

DR: TP 130

CR:TR 130

3、URP

Sales 200

Cost 120

Profit 80

DR:R.E(cost of sales) 80

CR:Inventory 80

W5 Reserve

		P	S
		$'000	$'000
Per Q		54,100	10,600
FV adj(w3)			(390)
URP(w4)			(80)
Pre- acq	10,600-2000*9/12		(9,100)
			1,030
Share of post acq reserve	1,030*80%	824	
Less:Impairment loss	150*80%	(120)	
Reserve @Y/E		54,804	

W6 NCI

	$'000
@Acq	3,200
Share of post acq reserve1,030*20%	206
Impairment loss 150*20%	(30)
NCI@Y/E	3,376

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Thank You!