TOPIC 4 – CONSOLIDATION: Acquisition date and subsequently periods

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Consolidation process

1. Timeline

2. Acquisition analysis
   - Conducted at acquisition date
   - To recognise identifiable assets and liabilities of the subsidiary at fair value
   - To determine if there is any Goodwill or Gain on Bargain purchase
   - Comparing cost of acquisition with fair value of identifiable net assets (FVINA)

3. BCVR journal entries
   - Business Combination valuation Reserve (BCVR) is an equity account
   - To recognise any unrecorded equity of the subsidiaries

4. Pre-acquisition journal entries
   - To eliminate 'Investment in subsidiaries' out of Group account (prevent double counting of asset)
   - To eliminate the pre-acquisition equity at consolidation out of Group account (prevent double counting of equity)
   - Recognise 'Gain on bargain of purchase' (if any)

Acquisition analysis:

- Parent has no previously held equity interest in subsidiary
- Parent has previously held equity interest in subsidiary: FV of previous investment is added to purchase consideration
- Subsidiary has recorded goodwill: must be subtracted from the FVINA and calculated goodwill
- Subsidiary has recorded dividends payable: must be subtracted from the purchase consideration (if a cum div)
  - Subsidiary has a 'dividend payable'
  - Parent has a 'dividend receivable'

  Intra-group transaction must be eliminated

  - DR Dividend payable
    CR Dividend receivable

Note:

- ***Ex. Div***:
  - Dividends are paid to shareholders who own the shares when it is declared
  - Parent only acquire shares
  - No effect on acquisition analysis
- ***Cum. Div***:
  - Dividends are paid to shareholders who own the shares when it is paid
  - Parent acquires: dividend receivable and investment in subsidiary (i.e. shares)
- Tax effect of a difference between carrying amount and tax base of any asset caused by revaluation has to be recognised
- Recognise assets and liabilities not recognised in record of subsidiaries (i.e. unrecorded assets, contingent liabilities)

Business combination valuation revaluation (BCVR) entries

- Goodwill adjustment does not give rise to a deferred tax asset or liability as an excluded difference
- Gain on bargain of purchase has no effect on BCVR entries, unless subsidiary has previously recorded goodwill
- Subsidiary has previously recorded goodwill: DR BCVR and CR Goodwill, and
  CR Gain on bargain of purchase (in pre-acquisition entry)
- Subsidiary has not previously recorded goodwill: CR Gain on bargain of purchase (in pre-acquisition entry)

At acquisition date	At end of first year	In subsequent periods
<u>Goodwill</u> Goodwill BCVR ***(To record goodwill)***	**<u>Goodwill</u> (impairment)** Goodwill BCVR ***(To recognise goodwill)*** Impairment expense Accumulated impairment loss ***(To recognise impairment)***	**<u>Goodwill</u>** Goodwill BCVR ***(To recognise goodwill)*** Retained Earnings (1/7/1X) Accumulated impairment loss ***(To recognise impairment)***
<u>Inventory</u> Inventory DTL BCRV ***(To record inventory at fair value)***	**<u>Inventory</u> (all sold)** Cost of sale (COS) ITE RE/Transfer from BCVR ***(To record sale of revalue inventory)***	**<u>Inventory</u> (all sold)** No adjustment entry
<u>Equipment</u> Accumulated depreciation Equipment ***(To record at carrying amount)*** Equipment DTL BCRV ***(To revalue to fair value)***	**<u>Equipment</u> (not sold)** Accumulated depreciation Equipment ***(To record at carrying amount)*** Equipment DTL BCRV ***(To revalue to fair value)*** Depreciation expense Accumulated depreciation ***(To record depreciation charged)*** DTL ITE ***(To reduce DTL previously recognised)***	**<u>Equipment</u> (not sold)** Accumulated depreciation Equipment ***(To record at carrying amount)*** Equipment DTL BCRV ***(To revalue to fair value)*** Depreciation expense Retained Earnings (1/7/1X) Accumulated depreciation ***(To record depreciation charged)*** DTL ITE Retained Earnings (1/7/1X) ***(To reduce DTL previously recognised)***
<u>Land</u> Land DTL BCVR ***(To record land at fair value)***	**<u>Land</u> (sold)** Gain on sale ITE RE/ Transfer from BCVR ***(To record sale of revalued land)***	**<u>Land</u> (sold)** No adjustment entry
<u>Contingent liability</u> BCVR DTA Contingent liability ***(To record contingent liability)***	**<u>Contingent liability</u> (settled)** RE/ Transfer from BCVR ITE *(= DTA)* Legal settlement expense Gain on settlement ***(To record settlement of contingent liability)***	**<u>Contingent liability</u> (settled)** No adjustment entry

Pre-acquisition entry

<table>
<tr><th>At acquisition date</th><th>At end of first year</th><th>In subsequent periods</th></tr>
<tr>
<td>Share capital
General reserve
Retained Earnings (1/7/1X)
        Investment in sub
(To eliminate investment in sub)</td>
<td>Share capital
General reserve
Retained Earnings (1/7/1X)
        Investment in sub
(To eliminate investment in sub)</td>
<td>Share capital
General reserve
Retained Earnings (1/7/1X)
        Investment in sub
(To eliminate investment in sub)

Retained Earnings (1/7/1X) + inventory + land – contingent liability

BCVR – inventory – land + contingent liability</td>
</tr>
<tr>
<td><u>Dividend payable in sub</u>

Dividend payable
        Dividend receivable
(To eliminate intra-group dividend)</td>
<td>No adjustment entry</td>
<td rowspan="2">No adjustment entry</td>
</tr>
<tr>
<td>No adjustment entry</td>
<td><u>Transfer</u>

RE/Transfer from BCVR
        BCVR
(To record transfer from BVCR)

Inventory + land – contingent liability</td>
</tr>
</table>