ADVANCED FINANCIAL ACCOUNTING AND REPORTING

AFAR08

CONSOLIDATED FINANCIAL STATEMENTS
(INVESTMENT IN SUBSIDIARY)
INTEGRATED ACCOUNTING REVIEW II: ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE 8: CONSOLIDATED FINANCIAL STATEMENTS

I. NOTES

Consolidation Procedures

PFRS 10 requires parent company to present consolidated financial statements to external reporting. It means that the parent is required to combine the financial statements of all of its controlled subsidiaries. It also defines what constitutes control for the purpose of business combination.

The steps in consolidation are as follows (PFRS 10, B86):

1. Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
2. Offset (eliminate) the carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary. (We will use Determination and Allocation of Excess Schedule and working paper elimination entries for this step)
3. Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full).

Computation Template (Goodwill/Gain on BP)

Determination and Allocation of Excess

<table>
<thead>
<tr>
<th>100%</th>
<th>80%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Controlling</td>
<td>NCI</td>
</tr>
<tr>
<td>FV</td>
<td>xx</td>
<td>xx</td>
</tr>
</tbody>
</table>

Price paid (Consideration transferred)  
Less: BV of net assets acquired  
Excess of cost over BV  
Less: Adjustments to FV  
Goodwill/(Gain on BP)  

Non-Controlling Interest

A parent shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

For measurement of non-controlling interests, PFRS 3 (P19) provides that the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation at either:
(a) fair value; or
(b) the present ownership instruments’ proportionate share in the recognized amounts of the acquiree’s identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs

Determination of Consolidated Balances

At the date of acquisition, only consolidated statement of financial position is prepared. In subsequent years, since the date of acquisition, a complete set of financial is prepared in consolidation. However, special considerations should be taken in determining the consolidated balance of the following:

1. Consolidated net income
2. Share of NCI in net income of subsidiary
3. Controlling interest in net income of subsidiary
4. Consolidated retained earnings

General Format

<table>
<thead>
<tr>
<th>Net income fr its own oper</th>
<th>Parent</th>
<th>Subs</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>xx</td>
<td>xx</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>

Adj: Amortization

<table>
<thead>
<tr>
<th>Realized gross profit</th>
<th>xx - down</th>
<th>xx - up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gross profit</td>
<td>(xx) - down</td>
<td>(xx) - up</td>
</tr>
</tbody>
</table>

Adjusted net income

| xx | xx | xx |
In equity method, the priority areas are the following

a. Investment income

b. Investment account

Computation format (Equity Method)

Net income - S   xx
Adj: Amortization of excess   (xx)
Adj Net income - S   xx
Multiply by   %
Investment income (Equity Method)   xx

Investment in S (beg)   xx
Add: Investment income   xx
Less: Share in div - S   (xx)
Investment in S (end)   xx

II. PROBLEMS

Problem 1 (100% subsidiary): The financial statements for Goodwin Inc., and Corr Company for the year ended December 31, 2019 prior to Goodwin’s business combination transaction regarding Corr follow (in thousands):

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Goodwin</th>
<th>Corr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>P2,700</td>
<td>P600</td>
</tr>
<tr>
<td>Expenses</td>
<td>1,980</td>
<td>400</td>
</tr>
<tr>
<td>Net Income</td>
<td>P720</td>
<td>P200</td>
</tr>
<tr>
<td>Retained earnings, 1/1</td>
<td>P2,400</td>
<td>P400</td>
</tr>
<tr>
<td>Net income</td>
<td>720</td>
<td>200</td>
</tr>
<tr>
<td>Dividends</td>
<td>(270)</td>
<td>(0)</td>
</tr>
<tr>
<td>Retained earnings, 12/31</td>
<td>P2,850</td>
<td>P600</td>
</tr>
</tbody>
</table>
Cash
Receivables and Inventory
Buildings (net)
Equipment (net)
Total assets
Liabilities
Common stock
Additional paid in capital
Retained earnings
Total liabilities and equity

<table>
<thead>
<tr>
<th>Description</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>240</td>
</tr>
<tr>
<td>Receivables and Inventory</td>
<td>1,200</td>
</tr>
<tr>
<td>Buildings (net)</td>
<td>2,700</td>
</tr>
<tr>
<td>Equipment (net)</td>
<td>2,100</td>
</tr>
<tr>
<td>Total assets</td>
<td>6,240</td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,500</td>
</tr>
<tr>
<td>Common stock</td>
<td>1,080</td>
</tr>
<tr>
<td>Additional paid in capital</td>
<td>810</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,850</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>6,240</td>
</tr>
</tbody>
</table>

On December 31, 2019, Goodwin issued P600 in debt and 30 shares of its P10 par value common stock to the owners of Corr to purchase all of the outstanding shares of that company. Goodwin shares had a fair value of P40 per share. Goodwin paid P25 to a broker for arranging the transaction. Goodwin paid P35 in stock issuance costs. Corr’s equipment was actually worth P1,400 but its buildings were only valued at P560.

1. If the combination is accounted for as an acquisition, at what amount is the investment recorded in Goodwin’s books?
   a. P1,540  
   b. **P1,800**  
   c. P1,825  
   d. P1,860

2. Compute the consolidated revenues for 2019
   a. P3,300  
   b. **P2,700**  
   c. P1,540  
   d. P720

3. Assuming the combination is accounted for as an acquisition, compute the consolidated expenses for 2019
   a. P1,980  
   b. **P2,005**  
   c. P2,015  
   d. P2,040

4. Compute the consolidated cash account at December 31, 2019
   a. P460  
   b. P435  
   c. P425  
   d. **P400**
5. Compute the consolidated buildings (net) account at December 31, 2019
   a. P2,700  
   b. P3,370  
   c. P3,260  
   d. P3,300

6. Compute the consolidated equipment (net) account at December 31, 2019
   a. P2,100  
   b. P3,200  
   c. P3,300  
   d. P3,500

7. Assuming the combination is accounted for as an acquisition, compute the consolidated goodwill account at December 31, 2019:
   a. P 0  
   b. P100  
   c. P125  
   d. P160

8. Compute the consolidated common stock account at December 31, 2019
   a. P1,080  
   b. P1,380  
   c. P1,480  
   d. P2,280

9. Compute the additional paid in capital account at December 31, 2019
   a. P810  
   b. P1,350  
   c. P1,675  
   d. P1,910

10. Assuming the combination is accounted for as an acquisition, compute the consolidated retained earnings at December 31, 2019
    a. P2,800  
    b. P2,825  
    c. P2,850  
    d. P3,425

Problem 2 (Partially-Owned Subsidiary): Company Z acquires 80% of Company Y for P10 million, carrying value of Company Y net assets at the time of acquisition being P6,000,000 and fair value of these net identifiable assets being P8,000,000
Determine the following:

1. Goodwill arising on consolidation is to be valued on the proportionate basis
   a. P1,600,000  
   b. P2,000,000  
   c. P3,600,000  
   d. P4,500,000

2. Non-controlling interest arising on consolidation is to be valued on the proportionate basis
   a. P1,200,000  
   b. P1,600,000  
   c. P2,500,000  
   d. P3,000,000

3. Goodwill arising on consolidation is to be valued on the fair value basis
   a. P1,600,000  
   b. P2,000,000  
   c. P3,600,000  
   d. P4,500,000

4. Non-controlling interest arising on consolidation is to be valued on the fair value basis
   a. P1,200,000  
   b. P1,600,000  
   c. P2,500,000  
   d. P3,000,000
Problem 3 (Partially-Owned Subsidiary): Entity Subsidiary has 40% of its shares publicly traded on an exchange. Entity Parent purchases the 60% non-publicly traded shares in one transaction, paying P6,300,000. Based on the trading price of the shares of Entity Subsidiary at the date of gaining control a value of P4,000,000 assigned to the 40% non-controlling interest (or fair value of non-controlling interest), indicating that Entity Subsidiary has paid a control premium of P300,000. The fair value of Entity Subsidiary’s net assets is P7,000,000 and a carrying value of P5,000,000.

Determine the following:

5. Goodwill arising on consolidation is to be valued on the proportionate basis
   a. P1,200,000
   b. P2,100,000
   c. P3,300,000
   d. P4,120,000

6. Non-controlling interest arising on consolidation is to be valued on the proportionate basis
   a. P2,000,000
   b. P2,800,000
   c. P4,000,000
   d. P4,120,000

7. Goodwill arising on consolidation is to be valued on the fair value basis
   a. P1,200,000
   b. P2,100,000
   c. P3,300,000
   d. P4,120,000

8. Non-controlling interest arising on consolidation is to be valued on the fair value basis
   a. P2,000,000
   b. P2,800,000
   c. P4,000,000
   d. P4,120,000

9. Fair value basis. Assume the price paid amounted to P6,294,000 which includes control premium of P294,000 with no fair value of non-controlling interest given. Goodwill arising on consolidation is to be valued on the fair value basis
   a. P2,100,000
   b. P3,300,000
   c. P3,294,000
   d. P4,120,000

Problem 4 (Step Acquisition): Pares Company acquires 15 percent of Serap’s Company’s common stock for P500,000 cash and carries the investment as a financial asset. A few months later, Pares purchases another 60 percent of Serap’s Company’s stock for P2,160,000. At that date, Serap Company reports identifiable assets with a book value of P3,900,000 and a fair value of P5,100,000 and it has liabilities with a book value and fair value of P1,900,000. The fair value of the 25% non-controlling interest in Serap Company is P900,000.

10. Goodwill arising on consolidation is to be value on the proportionate basis
    a. P84,000
    b. P100,000
    c. P300,000
    d. P400,000

11. Non-controlling interest arising on consolidation is to be value on the proportionate basis
    a. P300,000
    b. P500,000
    c. P800,000
    d. P900,000
12. Goodwill arising on consolidation is to be value on the fair value basis
   a. P84,000   b. P100,000   c. P300,000   d. **P400,000**

13. Non-controlling interest arising on consolidation is to be value on the fair value basis
   a. P300,000   b. P500,000   c. P800,000   d. **P900,000**

14. The remeasurement gain or loss to be recognized to profit and loss account if 15% ownership is a
    FVTPL (fair value through profit and loss) when the additional shares are acquired
    a. Zero   b. **P40,000 gain**   c. P40,000 loss   d. P68,000 loss

15. The remeasurement gain or loss to be recognized to profit and loss account if 15% ownership is a
    FVOCI (fair value through other comprehensive income) when the additional shares are acquired
    a. Zero   b. P40,000 gain   c. P40,000 loss   d. P68,000 loss

Problem 5 (Gain from Bargain Purchase): Parlor Company acquires 75 percent of Salon Company’s
common stock for P225,000 cash. At that date, the non-controlling interest in Salon has a book value of
P52,500 and a fair value of P82,000. Also on that date, Salon reports identifiable assets with a book value
of P400,000 and a fair value of P510,000, and it has liabilities with a book value and fair value of P190,000

16. Gain on bargain purchase arising on consolidation if fair value of net identifiable assets is to be
    valued on the proportionate basis:
    a. Zero   b. P13,000   c. **P15,000**   d. P17,333

17. Gain on bargain purchase arising on consolidation if fair value of net identifiable assets is to be
    valued on the fair value basis:
    a. Zero   b. **P13,000**   c. P15,000   d. P17,333

Problem 6 (Deconsolidation): Pedro Company owns 80,000 shares of Santa Corporation’s 100,000
outstanding common shares, acquired at book value. The December 31, 2018 consolidated balance sheet
presented by Pedro and Santa included net assets of Santa in the amount of P600,000. On January 1, 2019,
Pedro sells 70,000 shares of Santa for P490,000. The fair value of Pedro’s remaining 10% interest in Santa
is P70,000. What amount of gain or loss, if any, should be recognized on the sale of Pedro’s shares resulting
in deconsolidation, and how much of that should be attributed to Pedro?

18. Determine the gain or loss on disposal (or deconsolidation)
    a. P40,000 loss   b. P80,000 loss   c. P10,000 gain   d. **P80,000 gain**
Problem 7 (Partially-Owned Subsidiary): Power Corporation acquired 70 percent of Silk Corporation’s common stock on December 31, 2019. Balance sheet data for the two companies immediately following acquisition follow:

<table>
<thead>
<tr>
<th>Item</th>
<th>Power</th>
<th>Silk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>P44,000</td>
<td>P30,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>110,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>130,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Land</td>
<td>80,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Buildings and equipment</td>
<td>500,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>(223,000)</td>
<td>(165,000)</td>
</tr>
<tr>
<td>Investment in Silk Corporation stock</td>
<td>150,500</td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>P791,500</td>
<td>P405,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>P61,500</td>
<td>P28,000</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>95,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>280,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Common stock</td>
<td>150,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>205,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Total liabilities and stockholders’ equity</td>
<td>P791,500</td>
<td>P405,000</td>
</tr>
</tbody>
</table>

After the date of business combination, the book values of Silk’s net assets and liabilities approximated their fair value except for inventory, which had a fair value of P85,000, and land, which had a fair value of P45,000. The fair value of non-controlling interest was P64,500 on December 31, 2019. For each of the questions below, indicate the appropriate total that should appear in the consolidated balance sheet immediately after the business combination on the basis of full goodwill (fair value) approach.

1. What amount of inventory will be reported?
   a. P179,000    b. P200,000    c. P210,500    d. P215,000
2. What amount of goodwill will be reported?
   a. P 0                   b. P28,000                   c. **P40,000**                   d. P52,000

3. What amount of total assets will be reported?
   a. P1,081,000               b. **P1,121,000**               c. P1,196,500               d. P1,231,500

4. What amount of Investment in Silk will be reported?
   a. P 0                   b. P140,000                   c. P150,500               d. P215,000

5. What amount of total liabilities will be reported?
   a. P265,000               b. P436,500                   c. P622,000               d. **P701,500**

6. What amount will be reported as non-controlling interest?
   a. P42,000               b. P52,500                   c. P60,900               d. **P64,500**

7. What amount of parent’s share or controlling interest in related earnings will be reported?
   a. P295,000               b. P268,000                   c. P232,000               d. **P205,000**

8. What amount of consolidated retained earnings will be reported?
   a. P295,000               b. P268,000                   c. P232,000               d. **P205,000**

9. What amount of stockholders’ equity will be reported?
   a. P355,000               b. P397,000                   c. **P419,500**                   d. P495,000

10. Par Company owns 60% of Sub Company’s outstanding capital stock. On May 1, 2019, Par advanced Sub P70,000 in cash, which was still outstanding at December 31, 2019. What portion of this advance should be eliminated in the preparation of the December 31, 2019 consolidated balance sheet?
    a. **P70,000**                   b. P42,000                   c. P28,000               d. Zero

11. Dean, Inc. owns 100% of Roy Corporation, a consolidated subsidiary, and 80% of Wall, Inc., an unconsolidated subsidiary at December 31. On the same date, Dean has receivables of P200,000 from Roy and P175,000 from Wall. In its December 31 consolidated balance sheet, Dean should report accounts receivable from investees at:
    a. P 0                   b. P35,000                   c. **P175,000**                   d. P235,000
Problem 8 (Consolidated Net Income): On January 1, 2013 P Company acquired 80% interest in S Company for P2,000,000 cash. The stockholders’ equity of S at the time of acquisition is P1,875,000. On January 1, 2013, NCI is measured at its implied fair value. The excess of cost over book value of interest acquired is allocated to the following assets:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>P100,000</td>
</tr>
<tr>
<td>Building</td>
<td>P200,000</td>
</tr>
</tbody>
</table>

During 2013, S Company reported total comprehensive income of P500,000 and paid dividends of P100,000.

1. What is the fair value of NCI on January 1, 2013?
   a. P500,000
   b. P375,000
   c. P525,000
   d. P400,000

2. How much goodwill (gain on acquisition) is reported in the consolidated statement of financial position on January 1, 2013?
   a. P325,000
   b. P200,000
   c. P(325,000)
   d. P(375,000)

3. What is the consolidated total comprehensive income attributable to parent on December 31, 2013, if P’s net income for 2013 is P600,000
   a. P860,000
   b. P888,000
   c. P808,000
   d. P948,000

4. What is the NCI in net assets of subsidiary on December 31, 2013?
   a. P455,000
   b. P552,000
   c. P495,000
   d. P495,900

Problem 9 (Non-Controlling Interest): Power Corporation purchased a 70% interest in Star Company on January 1, 2013 for P140,000, when Star’s stockholders’ equity consisted of P30,000 common stock, P100,000 additional paid-in-capital, and P200,000 retained earnings. Income and dividends data for Star are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (or loss)</td>
<td>P50,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>5,000</td>
</tr>
<tr>
<td>NCI is measured at fair value</td>
<td></td>
</tr>
</tbody>
</table>

5. If Power reported separate income from own operations of P120,000 for 2013, what is the consolidated total comprehensive income for 2013?
   a. P113,870
   b. P170,000
   c. P115,370
   d. P116,500
6. What is the NCI at December 31, 2013?
   a. P149,600   b. P148,000   c. **P73,500**   d. P151,370

7. Simple Company, a 70%-owned subsidiary of Punter Corporation, reported net income of P240,000 and paid dividends totalling P90,000 during Year 3. Year 3 amortization differences between current fair values and carrying amounts of Simple’s identifiable net assets at the date of business combination was P45,000. The non-controlling interest in net income of Simple for Year 3 was
   a. **P58,500**   b. P13,500   c. P27,000   d. P72,000

8. Primer Company acquired an 80% interest in SealCoat Company on January 1, 20x4 for P450,000 cash when SealCoat Company had a common stock of P250,000 and retained earnings of P250,000. All excess was attributable to plant assets with a 10-year life. SealCoat Company made P50,000 in 20x4 and paid no dividends. Primer Company’s separate net income in 20x4 was P625,000. The controlling interest in consolidated net income for 20x4 is
   a. P675,000   b. **P665,000**   c. P660,000   d. P625,000

9. Park Company acquired 90% interest in Southwest Company on December 31, 20x4 for P320,000. During 20x5 Southwest had a net income of P22,000 and paid a cash dividend of P7,000. Applying the **cost method** would give a debit balance in the Investment in Southwest Company account at the end of 20x5 of:
   a. P335,000   b. P333,500   c. P313,700   d. **P320,000**

Problem 10 (Equity Method): Pedro purchased 100% of the common stock of Sanburn Company on January 1, 20x4, for P500,000. On that date, the stockholders’ equity of Sanburn Company was P380,000. On the purchase date, inventory of Sanburn Company, which was sold during 20x4, was understated by P20,000. Any remaining excess of cost over book value is attributable to building with a 20-year life. The reported income and dividends paid by Sanburn Company were as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>20x4</th>
<th>20x5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>P80,000</td>
<td>P90,000</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

1. Using cost method, which of the following amounts are correct?
   Investment income 20x4   Investment account balance, 12/31/20x4
   a. **P10,000**   b. **P500,000**
2. Using cost method, which of the following amounts are correct?

<table>
<thead>
<tr>
<th></th>
<th>Investment income 20x5</th>
<th>Investment account balance, 12/31/x5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. <strong>P10,000</strong></td>
<td><strong>P500,000</strong></td>
<td></td>
</tr>
<tr>
<td>b. P70,000</td>
<td>P570,000</td>
<td></td>
</tr>
<tr>
<td>c. P70,000</td>
<td>P550,000</td>
<td></td>
</tr>
<tr>
<td>d. P10,000</td>
<td>P550,000</td>
<td></td>
</tr>
</tbody>
</table>

3. Using equity method, which of the following amounts are correct?

<table>
<thead>
<tr>
<th></th>
<th>Investment income 20x4</th>
<th>Investment account balance, 12/31/x4</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. P55,000</td>
<td>P555,000</td>
<td></td>
</tr>
<tr>
<td>b. <strong>P55,000</strong></td>
<td><strong>P545,000</strong></td>
<td></td>
</tr>
<tr>
<td>c. P90,000</td>
<td>P565,000</td>
<td></td>
</tr>
<tr>
<td>d. P80,000</td>
<td>P570,000</td>
<td></td>
</tr>
</tbody>
</table>

4. Using equity method, which of the following amounts are correct?

<table>
<thead>
<tr>
<th></th>
<th>Investment income 20x5</th>
<th>Investment account balance, 12/31/x5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. P55,000</td>
<td>P545,000</td>
<td></td>
</tr>
<tr>
<td>b. P55,000</td>
<td>P555,000</td>
<td></td>
</tr>
<tr>
<td>c. <strong>P90,000</strong></td>
<td><strong>P620,000</strong></td>
<td></td>
</tr>
<tr>
<td>d. P90,000</td>
<td>P570,000</td>
<td></td>
</tr>
</tbody>
</table>