Consolidation

- CA Section 201 (3A) requires all Holding Co to present consolidated accounts
- Section 5 (1) (a) define subsidiary as follows:
- Controls Board
- Control more than half of voting rights
- Holds more than half of issued shares

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Exemption

- FRS 27 Para 10 provides that parents do not need a consolidated account on the following:

- parent is a wholly or partly owned subsidiary
- parent's debt or equity is not listed
- Ultimate or immediate parent produce consolidated accounts

Important Factors to Note

- Date of Acquisition
- It is the point of time to determine pre and post acquisition profits.
- It is a point of time to assess the fair value of Assets and Liabilities as defined by FRS 103

- Cost of Acquisition
- FRS 103 defined cost as fair value of given, equity issued and other cost that are directly attributable.

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Factors to consider when Calculating Goodwill

- Subsidiary's Net Assets
- Fair Value and restatement of assets and liabilities
- Recognized and Unrecognized Assets/Liabilities
- Treatment of Goodwill
- FRS 12 deferred tax consideration
- Minority Interest

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After Year of Acquisition

- Issues to look out for

- Post Acquisition Income
- Intra group balances
- Intra group transactions
- Income related or Balance Sheet related
- Minority Interest

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Auditing Consolidation

- Confirm acquisition date
- Review F/S on that date for fair value adjustments
- Review Goodwill calculations
- Check subsequent adjustments
- Check minority interest
- Parent Company Auditors responsible for subsidiary F/S
- Review Cash flow workings
- Review Dividend paid by subsidiary

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Changing Shareholders' Interest

- Acquisition of new subsidiary
- Piece Meal Acquisition
- Disposal of Subsidiary
- Unconsolidated Subsidiary
- Subsidiary issuing new shares

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Acquisition of New Subsidiary

- If acquired in the middle of the year, 2 method of consolidating Income Statement:
- Whole Year Approach
- Part Year Approach
- FRS 27 did not give preference to which approach as such we can choose either one.

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Piece Meal Acquisition

- FRS 103 Para 41 refer to this as step acquisition.
- Para 42 requires us to re-measure previously held equity at the final acquisition date at fair value before calculating goodwill.
- Charge all post acquisition profits at the date of final acquisition to Retained Earnings.
- Associates no problem. AFS where fair value posted to reserve. Reverse to RE.

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Disposal of Subsidiary

- FRS 27 Para 30 states that Group must calculate the net gain/loss arising from disposal.
- The group should offset sale proceed against net assets of Subsidiary.
- If the disposal happens in the middle of the year, the results of the subsidiary prior to the disposal must be included in the consolidation.

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Unconsolidated Subsidiary

- FRS 27 Para 16 provides that subsidiary can be excluded under 2 conditions:
- Control is temporary
- Management must be actively looking for a buyer. Investment classified as Held for Sale under FRS 105.
- If not consolidated, investment subjected to conditions under FRS 39.

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Subsidiary issuing New Shares

- Two Factors may affect the interest of the Group:
- Change in Parent's interest. Increased/Reduced
- Price of new shares does not conform to NTA of subsidiary

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Subsidiary issuing New Shares

	Price>NTA	Price=NTA	Price<NTA
Parent's interest increase	**Goodwill**	**Nil**	**Negative Goodwill**
Parent's interest remains	Nil	Nil	Nil
Parent's interest decrease	Gain	Nil	Loss

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Complex Group Structure

- Two Methods
- Consolidation to Consolidation Method

- Indirect Method

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Foreign Subsidiary

- Two processes involved
- Translation Process
- Consolidation Process

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Translation Methods

- Closing /rate Method
- Current/Non-current Method
- Monetary/Non-monetary Method
- Temporal Method

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Translation Method Specified by FRS 21

- FRS 21 provides that for translation use

- Closing Rate for Balanced Sheet except Equity and Retained profits
- Average rate for Income Statement
- Translation difference taken straight to Equity

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Consolidated Cash flow

- Issues to discuss

- Minority Interest
- Associated disposal of Subsidiary
- Acquisition/Disposal of Subsidiary
- Foreign Subsidiary

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Disclosures in Notes to the Accounts

- ***Principles of consolidation***
- The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the statement of financial position date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.
- All intra-group balances, transactions, income or expenses and profits or losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.
- Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.
- Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition its measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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Disclosures in Notes to the Accounts

- ***Group accounting***
- Subsidiaries
- Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting right that are currently exercisable of convertible are considered when assessing whether the Group controls another entity.
- The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of minority interest.
- Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.
- In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.
- Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interest are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.