Accounting for Corporate Combinations and Associations Australian 7th Edition Arthur Solutions Manual
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Solutions Manual

Chapter 2 Principles of Consolidation

Question 2.1 Objectives of consolidated financial statements *(Sections 2.1 and 2.2)*

The objective of consolidated financial statements is to show the operating results and financial position of a group of business entities under common control as if they are operating as a single entity controlled by the same management, the parent entity.

Consolidated financial statements comprise of one set of financial statements covering the entire group: one consolidated income statement, one consolidated statement of comprehensive income, one consolidated statement of changes in equity, one consolidated statement of financial position, and one consolidated statement of cash flows for the entire group.

The group consists of the parent entity and its subsidiaries, which are controlled by the parent. The parent has the power to govern the financial and operating policies of its subsidiaries, so as to obtain benefits from the activities of its subsidiaries. The management of the parent entity makes decisions relating to the finances and operations of its subsidiaries, and imposes these decisions upon its subsidiaries. Therefore a group effectively operates as one economic entity.

The consolidated financial statements portray the group as if the group is a single economic entity. The consolidated statement of financial position shows all the assets under the control of parent entity management, and how those assets are financed by liabilities and equity of the group. The consolidated income statement, and consolidated statement of comprehensive income shows how well the parent entity management uses the assets of the group to generate profits for the group. Similarly, the consolidated statement of cash flows shows how well the parent entity management used the assets of the group to generate cash flows from operating activities.

The consolidated financial statements show only the effect of transactions between the group, and parties external to the group, and the effect of external events, (e.g. changes in fair values of assets). The effects of all intragroup transactions between entities within the group are eliminated upon consolidation. Intragroup investments, intragroup transactions, intragroup unrealised profits, and intragroup balances have no impact on the consolidated financial statements, because they do not involve parties external to the group.

Investors in the parent entity, and creditors of the parent, have effectively invested in the group. The parent entity has reinvested funds received from investors and creditors into the subsidiaries its controls, via equity investments, and loans. Often a large proportion of the parent's assets are invested into subsidiaries. The income of the parent entity, and the cash flows from operating activities of the parent, are often largely dependent upon dividends/profit distributions, and interest received from its subsidiaries. Therefore investors in the parent, and creditors of the parent, require information about the group. Consolidated financial statements provide information about the group as a whole.

The separate financial statements of the parent entity have limited usefulness for investors and creditors of the parent. Where the parent has invested a major proportion of its assets in subsidiaries, it is difficult for investors and creditors to analyse the performance and financial position of the parent using the financial statements of the parent. In these circumstances:

(1) the profit and operating cash flows of the parent entity is heavily dependent upon dividends/profit distributions, and interest revenue from its subsidiaries. The profit reported by the parent could

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also be affected unrealised profits resulting from intragroup transactions. The profit reported by the parent can easily be manipulated by the parent instructing subsidiaries to increase or decrease dividends, changing interest rates on intragroup loans, and unrealised intragroup profits. In contrast, the effects of all intragroup transactions are eliminated from the consolidated income statement.

(2) the assets in the parent's statement of financial position will consist largely of investments in subsidiaries, and loans to subsidiaries. The parent may have guaranteed some or all debts of subsidiaries. Where the parent entity has not guaranteed the debts of its subsidiaries, the parent is usually equitably obliged to assist a subsidiary in financial difficulty, in order to avoid damage to the reputation/ borrowing capacity of the group. In contrast, the consolidated statement of financial position shows all the underlying assets of the parent and its subsidiaries, (the underlying assets the parent has invested in), and all the liabilities of the group.

Providing consolidated financial statements to investors and creditors of the parent entity, is a more understandable means of providing information about the group, compared to providing separate financial statements of each entity in the group, especially where the parent has a large number of subsidiaries. If the parent entity provided investors and creditors with separate financial statements of each entity in the group, it would be very difficult for investors and creditors to obtain an understanding of the performance and financial position of the group.

Question 2.2 Separate and consolidated financial statements *(Section 2.2)*

Separate statement of financial position of the parent entity:
Separate financial reports, (including a separate statement of financial position), is prepared for each entity in the group, (the parent entity and each of its subsidiaries), at reporting date, which is derived from the separate accounting records maintained by each entity in the group

Consolidated statement of financial position for the group
Consolidated financial reports, (including a consolidated statement of financial position), is prepared for the group, (comprising of the parent entity and all its subsidiaries), at reporting/consolidation date, as if the group is a single entity. The consolidated financial report is derived from the consolidation worksheet at reporting/consolidation date, which consolidates the separate financial statements of each entity in the group, via consolidation worksheet adjusting entries.

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Question 2.3 Inputs, processes and outputs of consolidation accounting *(Section 2.2)*

Inputs, processes, and outputs of consolidation accounting
Inputs of consolidation accounting comprise of:
(1) the separate financial statements of each entity in the group, (the parent entity and each of its subsidiaries), at reporting/consolidation date, which is derived from the separate accounting records maintained by each entity in the group; and
(2) details of pre-acquisition equity of subsidiaries, including fair values and the carrying amounts of subsidiaries' identifiable net assets at acquisition date, and details of intragroup transactions and balances.

Processes of consolidation accounting, **using a consolidation worksheet**, comprise of:
(1) Recording the financial data in the separate financial statements of each entity in the group into a consolidation worksheet;
(2) Preparing **consolidation worksheet adjusting entries**, including:
  (a) consolidation adjusting entries adjusting subsidiaries' identifiable net assets to fair value, based upon information about the fair values and the carrying amounts of subsidiaries' identifiable net assets at acquisition date;
  (b) the investment elimination entry for each subsidiary, based upon information about pre-acquisition equity of each subsidiary; and
  (c) consolidation adjusting entries eliminating intragroup transactions, intragroup unrealised profits and losses, and intragroup balances, (based upon information about intragroup transactions, and intragroup balances) and posting these consolidation worksheet adjusting entries into the consolidation worksheet; and
(3) Calculate the consolidated figures for the group by:
  (a) adding across rows for each financial statement line item, (revenues, expenses, profit appropriations, assets, liabilities, and equity items), in the consolidation worksheet, applying the usual rules of debit and credit used in accounting. Adding across rows for financial statement line items adjusts the balances recorded by individual group entities to obtain the consolidated figure for the group, so that the rows on the consolidation worksheet function as a ledger accounts for the group as a whole;
  (b) adding and/or subtracting consolidated figures for the group in the consolidation worksheet, in the normal manner, to calculate consolidated sub-totals and totals for the group, (consolidated gross profit, consolidated profit for the period, consolidated closing retained earnings, consolidated total equity, consolidated total liabilities and equity, and consolidated total assets).

Output
The consolidated figures for the group, calculated in the consolidation worksheet is used to prepare the consolidated financial report, comprising of a consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated statement of cash flows, and notes to the consolidated financial statements.

Question 2.4 Nature of consolidation adjustments *(Section 2.3)*

Repeating investment elimination entry when consolidating in every reporting period
The investment elimination entry is repeated in consolidation worksheets in each successive reporting period, because consolidation worksheet adjusting entries do not carry forward from one reporting period to the next, as they are not posted to the accounts of either the parent entity or its subsidiaries. At each reporting/consolidation date, the consolidation commences with the accounts of the parent entity, and its subsidiaries at that date, (which do not include the consolidation adjusting entries of previous reporting periods). Where consolidation worksheet adjusting entries from the previous

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reporting period are still relevant in the current reporting period, such as the investment elimination entry, they are repeated in the current period consolidation.

During an accounting period between reporting dates, each entity in the group maintains its own separate accounting records by recording all transactions it engages in, including any transactions with other entities in the group. At the end of the reporting period, each entity in the group prepares its own financial statements. The completed financial statements of each entity in the group, is the starting point for the preparation of consolidated financial statements.

The group as a whole has no separate accounting records, and in particular has no ledger. Consolidation worksheet adjusting entries are prepared at the end of each reporting period, and posted to the consolidation worksheet, which is used to prepare consolidated financial statements.

Question 2.5 Pre-acquisition versus post-acquisition equities *(Section 2.3)*

Pre-acquisition equity of a subsidiary
Pre-acquisition equity of a subsidiary is the issued capital, reserves, and retained earnings (or accumulated losses) of the subsidiary at acquisition date. Acquisition date of a subsidiary is the date the parent entity obtains control of the subsidiary.

The pre-acquisition equity of a subsidiary includes:
(1) the equity recorded by the subsidiary in its separate accounting records on acquisition date; and
(2) the equity of the subsidiary existing on acquisition date, but not recorded by the subsidiary in its accounting records. Unrecorded equity arises from:
    (a) differences between the recorded values of assets and liabilities in the subsidiary's accounts at acquisition date, and their fair value at acquisition date; and
    (b) the existence of identifiable assets and liabilities of the subsidiary, which are not recorded in the subsidiary's accounts at acquisition date.

Therefore, the pre-acquisition equity of the subsidiary is the equity which represents the fair value of the subsidiary's identifiable net assets at acquisition date.

Post-acquisition equity of a subsidiary
The post-acquisition equity of a subsidiary is the change in the subsidiary's equity after acquisition date until consolidation date. The post-acquisition equity consists of:
(1) the retained profits or accumulated losses of the subsidiary, (i.e. profits and/or losses less dividends/profit distributions), from acquisition date to consolidation date; and
(2) movements in reserves, (e.g. revaluations of property, plant and equipment recorded directly in the revaluation surplus), from acquisition date to consolidation date.

Significance of the distinction between pre-acquisition equity and post-acquisition equity to the consolidation process
The pre-acquisition equity of the subsidiary is eliminated upon consolidation against the parent entity's investment in subsidiary asset, in the investment elimination entry. Any difference between the pre-acquisition equity and the cost of the investment in subsidiary is recognised as goodwill or gain on bargain purchase in the consolidated accounts. Therefore the pre-acquisition equity of the subsidiary is not part of the consolidated equity reported in the consolidated financial statements.

The post-acquisition equity of the subsidiary, after any necessary consolidation adjustments to eliminate the effect of intragroup transactions, is included in the consolidated equity reported in the consolidated financial statements. These post-acquisition profit and losses, are included in consolidated profit or loss, and consolidated equity, because these profits are earned and losses incurred by the subsidiary, while the subsidiary is part of the group. Similarly, post-acquisition movements in reserves are included in consolidated total comprehensive income, and consolidated equity, because these movements in reserves occurred, while the subsidiary is part of the group.

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Question 2.6 Cost of investment in subsidiary *(Section 2.4.1)*

Measuring the cost of investment in a subsidiary

The cost of a parent entity's investment in a subsidiary is measured as the fair value at acquisition date of the consideration transferred by the parent to acquire the investment in subsidiary. The consideration is the sum of the acquisition date fair values of the assets transferred by the parent, the liabilities incurred by the parent to the former owners of the subsidiary, and the equity interests issued by the parent (AASB3.37).

Treatment of each item

The following items should be included in the cost of the acquirer company's investment in the target company:

(1) The fair value of shares in the acquirer company issued to target company shareholders
Explanation: The shares issued by the acquirer company forms part of the consideration paid by the acquirer for its investment in the target company. The shares issued by the acquirer are included in the cost of acquisition of the acquirer's investment in the target company by measuring the shares at their fair value at acquisition date. The best evidence of the fair value of the acquirer's shares is their quoted market price at acquisition date. If the acquirer is not listed on a stock exchange, or the quoted price is considered to be unreliable, other valuation techniques must be used to estimate the fair value of the acquirer's shares, such as prices in recent arm's length transactions, discounted cash flows, option pricing models;

(2) The fair value of probable additional shares in the acquirer company, the acquirer is required to issue to target company shareholders two years after acquisition date, if the market value of the acquirer's shares is below $5.50 on that date
Explanation: The contingent consideration, the additional shares the acquirer may be required to issue two years after acquisition date, forms part of the consideration paid by the acquirer for its investment in the target company (AASB3.39). The probable number of additional shares expected to be issued by the acquirer is included in the cost of acquisition of the acquirer's investment in the target company by measuring the additional shares at their fair value at acquisition date. The fair value of the probable additional shares is measured by discounting the expected market value of the additional shares two years after acquisition date to their present value at acquisition date. [The effect of discounting should be material as the probable additional shares will be issued two years after acquisition date];

(3) The fair value of debt obligations of the target company assumed by the acquirer company – only if the debt obligations are owed by the target company to the former shareholders of the target company
Explanation: The debt obligations of the target company owed to its former shareholders, which are assumed by the acquirer company, forms part of the consideration paid by the acquirer for its investment in the target company. The assumption by the acquirer of debt obligations of the target company owed to the former shareholders of the target company is part of the contract to purchase shares in the target company between the acquirer and the former shareholders of the target company. The debt obligations of the target company are included in the cost of acquisition of the acquirer's investment in the target company by measuring the debt obligations at their fair value at acquisition date. The fair value of the debt obligations is measured by discounting the future cash payments to present value at acquisition date; and

(9) The fair value of unsecured notes issued by the acquirer company to target company shareholders
Explanation: The unsecured notes issued by the acquirer company forms part of the consideration paid by the acquirer for its investment in the target company. The unsecured notes issued by the acquirer are included in the cost of acquisition of the acquirer's investment in the target company by measuring the unsecured notes at their fair value at acquisition date. The fair value of the unsecured notes is measured by discounting the future cash payments to present

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value at acquisition date.

The following items should not be included in the cost of the acquirer company's investment in the target company:

(3) The fair value of debt obligations of the target company assumed by the acquirer company – if the debt obligations of the target company are not owed to the former shareholders of the target company
Explanation: The debt obligations of the target company, which are not owed to its former shareholders, and is assumed by the acquirer company, does not form part of the consideration paid by the acquirer for its investment in the target company. The assumption by the acquirer of debt obligations of the target company owed to other entities, does not involve the former shareholders of the target company, and therefore is not part of the contract to purchase shares in the target company between the acquirer and the former shareholders of the target company. The assumption by the acquirer of debt obligations of the target company owed to other entities is a transaction between the acquirer and the target company;

(4) Stamp duty payable on acquisition of target company shares
Explanation: The stamp duty payable on acquisition of target company shares does not form part of the consideration paid by the acquirer for its investment in the target company. The stamp duty payable is an acquisition related cost, which AASB3.53 requires to be expensed in the period incurred;

(5) Accounting fees for a due diligence report on the target company
Explanation: The accounting fees for a due diligence report on the target company does not form part of the consideration paid by the acquirer for its investment in the target company. The accounting fees is an acquisition related cost, which AASB3.53 requires to be expensed in the period incurred;

(6) Costs incurred by a department in the parent entity formed to facilitate the acquisition of the target company
Explanation: The costs incurred by a department in the parent entity, formed to facilitate the acquisition of the target company, do not form part of the consideration paid by the acquirer for its investment in the target company. The costs incurred by the department are an acquisition related cost, which AASB3.53 requires to be expensed in the period incurred;

(7) Borrowing costs incurred on debt used to finance the acquisition of the target company
Explanation: The borrowing costs incurred on debt used to finance the acquisition of the target company do not form part of the consideration paid by the acquirer for its investment in the target company. The borrowing costs are a finance cost, which is required to be expensed in the period it is incurred;

(8) Allocation of directors' fees for time spent on the acquisition of the target company
Explanation: The portion of directors' fees attributable to the time spent by directors on the acquisition of the target company does not form part of the consideration paid by the acquirer for its investment in the target company. If additional directors' fees are incurred due to time spent on the acquisition of the target company, the additional directors' fees are an acquisition related cost, which AASB3.53 requires to be expensed in the period incurred. Alternatively, if no additional directors' fees are incurred due to the acquisition of the target company, the directors' fees are not an acquisition related cost, but the directors' fees are still expensed in the period incurred; and

(10) Redundancy costs payable to employees of the target company as part of a planned restructuring of the target company
Explanation: The redundancy costs payable to employees of the target company as part of a planned restructuring of the target company does not form part of the consideration paid by the acquirer for its investment in the target company. The redundancy costs payable to employees, does not involve the former shareholders of the target company, and therefore is not part of the contract to purchase shares in the target company between the acquirer and the former shareholders of the target company.
The redundancy costs payable should not be recognised as part of target company's net identifiable assets purchased by the acquirer at acquisition date, because the redundancy costs the acquirer expects to incur, but is not obliged to incur, are not liabilities at acquisition date

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(AASB3.10 and 3.11). Subsequent to acquisition date, the acquirer must recognise a liability for redundancy costs payable in the consolidated financial statements, when the acquirer has detailed formal plan for restructuring, and the acquirer has raised a valid expectation that it will implement the restructuring plan by commencing to implement the restructuring plan, or announcing its main features to those affected by it (AASB137.72).

Question 2.7 Goodwill *(Section 2.4)*

Recognition and initial measurement of goodwill
At acquisition date, goodwill is measured as the excess of the cost of a parent entity's investment in a subsidiary over the equity in fair value of the subsidiary's net identifiable assets acquired by the parent.

In particular, AASB3.32 requires goodwill to be initially measured as the excess of (a) over (b):
(a) The aggregate of:
  (i) the fair value of the consideration transferred by the parent on acquisition date to obtain control of the subsidiary;
  (ii) the value of any non-controlling interest in the subsidiary at acquisition date; and
  (iii) the fair value at acquisition date of the parent's equity in the subsidiary purchased prior to acquisition date, where control of the subsidiary is achieved via several equity purchases on different dates.
(b) The fair value at acquisition date of the net amount of assets acquired and liabilities assumed in the subsidiary.

AASB3 requires goodwill to be initially recognised as an asset only in the consolidated statement of financial position. Goodwill is not recognised in the separate accounts of the parent entity, or the subsidiary.

Impairment and subsequent measurement of goodwill
After recognition, goodwill must be tested annually for impairment, not necessarily at the end of the reporting period, and more frequently if impairment indicators are observed after initial impairment testing, but before the end of the reporting period (AASB136.90 and 136.96). Where goodwill is acquired in a business combination in the current reporting period, the goodwill must be tested for impairment before the end of the reporting period (AASB136.96).

Goodwill cannot be tested independently for impairment, because goodwill does not generate cash flows independently of other assets and it is not possible to measure either goodwill or a related impairment loss directly. Therefore, to test goodwill for impairment, goodwill must be allocated amongst the cash generating units expected to benefit from the goodwill (AASB136.80). A cash generating unit "is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows of other assets or groups of assets" (AASB136.6). The cash generating unit to which goodwill is allocated shall be the lowest level within the group at which goodwill is monitored for internal management purposes, and should not be larger than an operating segment as defined in AASB8: Operating Segments (AASB136.80).

Impairment testing is conducted for cash generating units in the same manner as individual assets are tested for impairment. Where the carrying amount of the assets allocated to a cash generating unit exceeds the recoverable amount of the cash generating unit, the cash generating unit is impaired, and must be written down to its recoverable amount, by recognising an impairment loss (AASB136.90). The impairment loss attributable to a particular cash generating unit must be allocated amongst the assets comprising the cash generating unit. Where the cash generating unit includes goodwill, any impairment loss is firstly applied to goodwill (AASB136.104). An impairment loss to goodwill is recorded in the consolidated accounts.

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After initial recognition, goodwill is measured at cost less (any) accumulated impairment losses.

Question 2.8 Gain on bargain purchase of an investment *(Section 2.4)*

Accounting treatment of goodwill required by AASB accounting standards
The statement provided in the question correctly describes the accounting treatment of goodwill required by accounting standards, (although the description provided is incomplete). Where the cost of a parent entity’s investment in a subsidiary exceeds the fair value of the subsidiary’s net identifiable assets acquired by the parent, goodwill is recognised. AASB3 requires goodwill to be initially recognised as an asset in the consolidated statement of financial position. After recognition, goodwill must be tested annually for impairment, in accordance with AASB136. Where the carrying amount of goodwill exceeds its expected recoverable amount, goodwill is impaired, and must be written down to its recoverable amount, by recognising an impairment loss.

Accounting treatment of gain on bargain purchase required by AASB3
The statement provided in the question correctly describes the accounting treatment of gain on bargain purchase required by AASB3, (although the description provided is incomplete). Where the fair value of the subsidiary’s net identifiable assets acquired by the parent exceeds the cost of a parent entity’s investment in a subsidiary, a gain on bargain purchase is identified. Where a gain on bargain purchase is identified, AASB3.36 requires the parent entity to review whether:
(a) all the identifiable assets acquired and liabilities assumed were identified and recognised;
(b) the identifiable assets and liabilities were correctly measured at their fair value at acquisition date;
(c) the cost of investment in subsidiary has been correctly valued;
(d) any non-controlling interest in the subsidiary has been correctly valued; and
(e) where control of the subsidiary is achieved via several equity purchases on different dates, the parent’s equity in the subsidiary purchased prior to acquisition date has been correctly measured at fair value at acquisition date.

If, after conducting the review required by AASB3.36, a gain on bargain purchase remains, AASB3.34 requires the gain on bargain purchase to be recognised as a gain on acquisition date, in the consolidated income statement.

Rationale for the accounting treatment of gain on bargain purchase required by AASB3
The requirement of AASB3 to review the calculation of a gain on bargain purchase, where a gain on bargain purchase is identified, is most likely attributable to the very low probability of the fair value of the subsidiary’s net identifiable assets acquired by the parent exceeding the cost of a parent entity’s investment in a subsidiary. No other AASB accounting standard requires calculations to be reassessed.

Where the parent entity has been able to acquire its investment in the subsidiary for a cost less than the fair value of the subsidiary’s net identifiable assets acquired, the parent has obtained an immediate gain, which should be recognised in consolidated income.

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Question 2.9 Investment elimination entry *(Section 2.3)*

Investment elimination entry
The investment elimination entry refers to the consolidation worksheet adjusting entry which eliminates the parent entity's investment in subsidiary asset against the pre-acquisition equity of the subsidiary acquired by the parent on acquisition date. Any difference between the cost of the parent's investment in subsidiary, and the equity of the subsidiary acquired by the parent on acquisition date is recognised as either goodwill or gain on bargain purchase.

Repeating investment elimination entry in successive reporting periods
The investment elimination entry is repeated in consolidation worksheets in each successive reporting period, because consolidation worksheet adjusting entries do not carry forward from one reporting period to the next, as they are not posted to the accounts of either the parent entity or its subsidiaries. At each reporting/consolidation date, the consolidation commences with the accounts of the parent entity, and its subsidiaries at that date, (which do not include the consolidation adjusting entries of previous reporting periods). Where consolidation worksheet adjusting entries from the previous reporting period are still relevant in the current reporting period, they are repeated in the current period consolidation.

The group as a whole has no separate accounting records, and in particular has no ledger. Consolidation worksheet adjusting entries are prepared at the end of each reporting period, and posted to the consolidation worksheet, which is used to prepare consolidated financial statements.

Events which cause the investment elimination entry to alter from one reporting period to the next
The investment elimination entry in the current reporting period will differ from the investment elimination entry in preceding reporting period, where pre-acquisition retained earnings has been transferred to a reserve, or where a bonus share issue has capitalised part of pre-acquisition equity.

The transfer of pre-acquisition retained profits to a reserve, and a bonus share issue funded from pre-acquisition equity, has the effect of transferring part of pre-acquisition equity from one equity account of the subsidiary to another equity account of the subsidiary. The transfer of part of pre-acquisition equity from one equity account to another equity account, will require corresponding changes in the amounts debited (or credited) to these equity accounts in the investment elimination entry. The investment elimination entry must reflect the classification of pre-acquisition equity at reporting/consolidation date, rather than the classification in the preceding reporting period, (or acquisition date).

Question 2.10 Dividends *(Section 2.3.3)*

Cum-dividend
If shares in a new subsidiary are acquired *cum dividend*, the right to receive the dividend declared but not paid by the subsidiary at acquisition date, accrues to the new shareholder of the subsidiary, the parent entity. The dividend declared but not yet paid by the subsidiary at acquisition date, forms part of what is purchased by the new parent entity.

Ex-dividend
Alternatively, if shares in a new subsidiary are acquired *ex dividend*, right to receive the dividend declared but not paid by the subsidiary at acquisition date, remains with the former shareholders of the subsidiary. The dividend declared but not yet paid by the subsidiary at acquisition date, is not purchased by the new parent entity.

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Question 2.11 Intragroup transactions *(Sections 2.4 and 2.5)*

Consolidation eliminations and adjustments required for the year ending 31 December 20X5:

(a) Elimination of Paredes Ltd's investment in Carlos Ltd against the pre-acquisition equity of Carlos Ltd acquired on 1 January 20X5 and recognition of goodwill
Explanation:
It is necessary to eliminate apparent entity's investment in subsidiary asset and the portion of the subsidiary's pre-acquisition equity acquired by the parent, because a group cannot recognise an investment in itself as an asset, nor can a group recognise equity in itself as equity, because this is inconsistent with presenting the group as a single entity in the consolidated financial report. The elimination of the parent entity's investment in subsidiary asset also avoids double counting of the subsidiary's net assets on acquisition date: firstly as the assets and liabilities of the subsidiary on acquisition date, and secondly as the investment in subsidiary asset. The elimination of the subsidiary's pre-acquisition equity is necessary, because a group can only earn profits from an investment, after the investment occurs.

(b) Elimination of intragroup dividend revenue and intragroup dividend declared
Explanation:
It is necessary to eliminate the effect on intragroup dividends upon consolidation, since a group cannot pay dividends to itself. The dividend revenue is not a valid revenue of the group because no revenue is derived by the group from an external party. Similarly, dividend paid is not a valid profit distribution of the group because no dividend was distributed by the group to shareholders external to the group.

(c) Elimination of intragroup dividend receivable and intragroup dividend payable
Explanation:
It is necessary to eliminate the intragroup balances owing upon consolidation, since a group cannot owe dividends to itself. The dividend receivable is not a valid asset of the group because no asset is receivable by the group from an external party. Similarly, dividend payable is not a valid liability of the group because no dividend is payable by the group to an external party.

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Question 2.12 Goodwill or gain on bargain purchase *(Section 2.4)*

(a) Goodwill or gain on bargain purchase as at 1 July 20X7

Acquisition analysis:

Cost of acquisition of investment in Fate Ltd	*$*
Fair value of purchase consideration for 100% of Fate Ltd's equity[1]	3,200,000
Less fair value of identifiable net assets of Fate Ltd	
Recorded value of equity (equals carrying amount of identifiable net assets)	3,500,000
Add/subtract fair value adjustments to identifiable net assets	-
Fair value of identifiable net assets of Fate Ltd acquired	3,500,000
Gain on bargain purchase: cost of acquisition < fair value of identifiable net assets	(300,000)
	=======

Note:

1 The cost of acquisition of Destiny Ltd's investment in Fate Ltd does not include acquisition related costs incurred by Destiny Ltd: legal costs ($90,000).

(b) Goodwill or gain on bargain purchase as at 5 July 20X7

Acquisition analysis:

Cost of acquisition of investment in Fate Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Fate Ltd's equity		3,200,000
Less fair value of identifiable net assets of Fate Ltd		
Recorded value of equity (equals carrying amount of identifiable net assets)		3,500,000
Add/subtract fair value adjustments to identifiable net assets		-
Understatement of liability for employee entitlements	(120,000)	
Understatement of fair value of inventory ($420,000 - $600,000)	(180,000)	(300,000)
Adjusted Fair value of identifiable net assets of Fate Ltd acquired		3,200,000
No goodwill nor Gain on bargain purchase: cost of acquisition = fair value of identifiable net assets		0
		=======

Exercise 2.1 Consolidation of two statements of financial position at acquisition date *(Section 2.4)*

Consolidation worksheet 1 April 20X8						
	Financial statements		**Consolidation adjustments**			**Result**
	$000	**$000**	**1 April 20X8**			**$000**
	Guerreiro Ltd	**Katia Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Shareholders' equity						
Issued capital	1,300	700	700	(a)		1,300
Retained earnings	600	420	420	(a)		600
	-------	-------				-------
Total shareholders' equity	1,900	1,120				1,900
Liabilities						
Debentures payable	550	-				550
Other liabilities	1,000	580				1,580
	-------	-------				-------
Total liabilities and equity	3,450	1,700				4,030
	====	====				====
Assets						
Other assets	2,000	1,700				3,700
Investment in subsidiary	1,450	-		(a)	1,450	-
Goodwill	-	-	330	(a)		330
	-------	-------				-------
Total assets	3,450	1,700				4,030
	====	====				====

Acquisition analysis:

Cost of acquisition of investment in Katia Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Katia Ltd's equity		1,450,000
Less fair value of identifiable net assets of Katia Ltd		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	700,000	
Retained earnings	420,000	1,120,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Katia Ltd acquired		1,120,000
Goodwill: cost of acquisition > fair value of identifiable net assets		330,00
		=======

Consolidation worksheet adjusting entries required at 1 April 20X8:

(a) Elimination of Guerreiro Ltd's investment against the pre-acquisition equity of Katia Ltd acquired on 1 April 20X8 and recognition of goodwill

	$	**$**
Dr. Issued capital	700,000	
Dr. Retained earnings	420,000	
Dr. Goodwill	330,000	
Cr. Investment in subsidiary		1,450,000

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Guerreiro Ltd Group Consolidated statement of financial position as at 1 April 20X8	
	$000
Shareholders' equity	
Issued capital	1,300
Retained earnings	600
Total shareholders' equity	1,900
Liabilities	
Debentures payable	550
Other liabilities	1,580
Total shareholders' equity and liabilities	4,030
	====
Assets	
Other assets	3,700
Goodwill	330
Total assets	4,030
	====

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Exercise 2.2 Consolidation at acquisition, goodwill or gain on bargain purchase ***(Sections 2.4 and 2.5)***

(a) Dulce Ltd paid $5,700,000 cash for shares in Pontes Ltd

Acquisition analysis:

Cost of acquisition of investment in Pontes Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Pontes Ltd's equity		5,700,000
Less fair value of identifiable net assets of Pontes Ltd		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	2,400,000	
General reserve	1,900,000	
Retained earnings	1,100,000	5,400,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Pontes Ltd acquired		5,400,000
Goodwill: cost of acquisition > fair value of identifiable net assets		300,000
		=======

Consolidation worksheet adjusting entries required at 1 July 20X9:

(a) Elimination of Dulce Ltd's investment against the pre-acquisition equity of Pontes Ltd acquired on 1 July 20X9 and recognition of goodwill

	$	**$**
Dr. Issued capital	2,400,000	
Dr. General reserve	1,900,000	
Dr. Retained earnings	1,100,000	
Dr. Goodwill	300,000	
Cr. Investment in Pontes Ltd		5,700,000

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Consolidation worksheet 1 July 20X9						
	Financial statements		**Consolidation adjustments**			**Result**
	$000	**$000**	**1 July 20X9**			**$000**
	Dulce Ltd	**Pontes Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Shareholders' equity						
Issued capital	7,800	2,400	2,400	(a)		7,800
General reserve	3,500	1,900	1,900	(a)		3,500
Retained earnings	2,000	1,100	1,100	(a)		2,000
	---------	-------				---------
Total shareholders' equity	13,300	5,400				13,300
Liabilities						
Loans	5,200	2,800				8,000
	---------	-------				---------
Total liabilities and equity	18,500	8,200				21,300
	=====	====				=====
Assets						
Cash	600[1]	300				900
Inventory	4,300	3,100				7,400
Property, plant and equipment	7,900	4,800				12,700
Investment in Pontes Ltd	5,700	-		(a)	5,700	-
Goodwill	-	-	300	(a)		300
	---------	-------				---------
Total assets	18,500	8,200				21,300
	=====	====				=====

Note to the consolidation worksheet:

1 Cash = 6,300,000 (balance at 30 June 20X9) – 5,700,000 (cash paid for shares in Pontes Ltd) = 600,000

(b) Dulce Ltd paid $5,200,000 cash for shares in Pontes Ltd

Acquisition analysis:

Cost of acquisition of investment in Pontes Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Pontes Ltd's equity		5,200,000
Less fair value of identifiable net assets of Pontes Ltd		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	2,400,000	
General reserve	1,900,000	
Retained earnings	1,100,000	5,400,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Pontes Ltd acquired		5,400,000
Gain on bargain purchase: cost of acquisition < fair value of identifiable net assets		(200,000)
		=======

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Consolidation worksheet adjusting entries required at 1 July 20X9:

(a) Elimination of Dulce Ltd's investment against the pre-acquisition equity of Pontes Ltd acquired on 1 July 20X9 and recognition of gain on bargain purchase

	$	$
Dr. Issued capital	2,400,000	
Dr. General reserve	1,900,000	
Dr. Retained earnings	1,100,000	
Cr. Gain on bargain purchase (profit for the period)		200,000
Cr. Investment in Pontes Ltd		5,200,000

This consolidation worksheet adjusting entry allows the gain on bargain purchase arising from the acquisition of Pontes Ltd to be recognised in profit for the period in the year of acquisition, (as required by AASB3.34), in the consolidated financial statements of the Dulce Ltd group.

In subsequent reporting periods following acquisition, the gain on bargain purchase must be included in the opening balance of retained earnings of the group because the gain occurred in a prior period.

Consolidation worksheet 1 July 20X9

	Financial statements $000	$000	Consolidation adjustments 1 July 20X9			Result $000
	Dulce Ltd	**Pontes Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Shareholders' equity						
Profit for the period	-	-		(a)	200	200
Retained earnings-opening	2,000	1,100	1,100	(a)		2,000
	---------	-------				---------
Retained earnings-closing	2,000	1,100				2,200
Issued capital	7,800	2,400	2,400	(a)		7,800
General reserve	3,500	1,900	1,900	(a)		3,500
	---------	-------				---------
Total shareholders' equity	13,300	5,400				13,500
Liabilities						
Loans	5,200	2,800				8,000
	--------	-------				---------
Total liabilities and equity	18,500	8,200				21,500
	=====	====				=====
Assets						
Cash	1,100[1]	300				1,400
Inventory	4,300	3,100				7,400
Property, plant and equipment	7,900	4,800				12,700
Investment in Pontes Ltd	5,200	-		(a)	5,200	-
	---------	--------				---------
Total assets	18,500	8,200				21,500
	=====	====				=====

Note to the consolidation worksheet:

1 Cash = 6,300,000 (balance at 30 June 20X9) – 5,200,000 (cash paid for shares in Pontes Ltd) = 1,100,000

Exercise 2.3 Consolidation adjustments to eliminate the cost of investment and intragroup dividends *(Section 2.5)*

(a) Consolidation worksheet adjusting entries required at 30 June 20X5

Acquisition analysis:

Cost of acquisition of investment in Ruas Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Ruas Ltd's equity		9,000,000
Less fair value of identifiable net assets of Ruas Ltd at acquisition date		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	3,500,000	
Retained earnings	4,200,000	7,700,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Ruas Ltd acquired		7,700,000
Goodwill: cost of acquisition > fair value of identifiable net assets		1,300,000
		========

Consolidation worksheet adjusting entries required at 30 June 20X5:

(a) Elimination of Misia Ltd's investment against the pre-acquisition equity of Ruas Ltd acquired in 20X2 and recognition of goodwill

	$	$
Dr. Issued capital	3,500,000	
Dr. Retained earnings at 1/7/20X4	4,200,000	
Dr. Goodwill	1,300,000	
Cr. Investment in Ruas Ltd		9,000,000

(b) Elimination of intragroup dividend paid

	$	$
Dr. Dividend revenue	400,000	
Cr. Dividend paid		400,000

(b) Consolidated profit for year ended 30 June 20X5

Consolidated profit for the year ended 30 June 20X5
= Profit of Misia Ltd – intragroup dividend revenue[1] + Profit of Ruas Ltd
= $1,800,000 – $400,000 + $700,000
= $2,100,000

Note

1 The profit of Misia Ltd includes dividend revenue of $400,000 received from Ruas Ltd. The intragroup dividend revenue is eliminated upon consolidation.

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Exercise 2.4 Consolidation adjustments to eliminate investment impairment, intragroup dividends and recognition of goodwill impairment ***(Sections 2.4 and 2.5)***

(a) Consolidation worksheet adjusting entries required at 30 June 20X9

Acquisition analysis:

Cost of acquisition of investment in Teresa Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Teresa Ltd's equity		4,500,000
Less fair value of identifiable net assets of Teresa Ltd at 1 July 20X4		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	1,200,000	
Retained earnings	1,800,000	3,000,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Teresa Ltd acquired		3,000,000
Goodwill: cost of acquisition > fair value of identifiable net assets		1,500,000
		========

Consolidation worksheet adjusting entries required at 30 June 20X9:

(a) Reversal of impairment loss recognised by Lusofonia Ltd in a previous reporting period (20X4 - 20X5) relating to its investment in Teresa Ltd

	$	**$**
Dr. Accumulated impairment loss – Investment in Teresa Ltd	140,000	
Cr. Retained earnings at 1/7/20X8		140,000

(b) Elimination of Lusofonia Ltd's investment against the pre-acquisition equity of Teresa Ltd acquired on 1 July 20X4 and recognition of goodwill

	$	**$**
Dr. Issued capital	1,200,000	
Dr. Retained earnings at 1/7/20X8	1,800,000	
Dr. Goodwill	1,500,000	
Cr. Investment in Teresa Ltd		9,000,000

(c) Elimination of intragroup dividend declared

	$	**$**
Dr. Dividend revenue	90,000	
Cr. Dividend declared		90,000

(d) Elimination of intragroup dividend payable

	$	**$**
Dr. Dividend payable	90,000	
Cr. Dividend receivable		90,000

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(e) Recognition of goodwill impairment losses for the previous reporting period (20X7 - 20X8) of $700,000, (i.e. $1,500,000 – $800,000) and for the current reporting period (20X8 – 20X9) of $400,000 (i.e. $800,000 - $400,000)

	$	$
Dr. Retained earnings at 1/7/20X8	700,000	
Dr. Impairment loss - Goodwill	400,000	
Cr. Accumulated impairment loss - Goodwill		1,100,000

(b) Consolidated dividend payable as at 30 June 20X9

Consolidated dividend payable as at 30 June 20X9
= Dividend payable of Lusofonia Ltd[2] + Dividend payable of Teresa Ltd – intragroup dividend payable[1]
= $1,500,000 + $90,000 - $90,000
= $2,100,000

Justification

1 The dividend payable by Teresa Ltd of $90,000 is entirely payable to the parent company, Lusofonia Ltd. The intragroup dividend payable is eliminated upon consolidation.

2 The dividend payable by Lusofonia Ltd of $1,500,000, is the dividend payable reported in the consolidated statement of financial position, because this dividend is payable to shareholders of the parent company, who are external parties to the group.

(c) Consolidated profit for year ended 30 June 20X9

Consolidated profit for the year ended 30 June 20X5
= Profit of Lusofonia Ltd – intragroup dividend revenue[1] – goodwill impairment loss[2] + Profit of Teresa Ltd
= $2,500,000 – $90,000 - $400,000 + $170,000
= $2,180,000

Note:

1 The profit of Misia Ltd includes dividend revenue of $90,000 received from Ruas Ltd. The intragroup dividend revenue is eliminated upon consolidation.

2 Consolidated profit for the year is also reduced by the goodwill impairment loss of $400,000 recognised for the current year (20X8 – 20X9).

Exercise 2.5 Consolidation worksheet adjusting entries, with two subsidiaries *(Sections 2.3, 2.4 and 2.5)*

(a) Carrying amount of investment in subsidiaries as at 30 June 20X8

Carrying amount of investment in Terra Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Terra Ltd *(equity and dividend payable)*	7,000,000	
Less dividend receivable by Mariza Ltd from Terra Ltd at acquisition date	(100,000)	
Carrying amount of investment in Terra Ltd as at 30 June 20X8		6,900,000
Carrying amount of investment in Lisboa Ltd		
Fair value of purchase consideration for 100% of Lisboa Ltd	2,000,000	
Less accumulated impairment loss – investment in Lisboa Ltd	(300,000)	
Carrying amount of investment in Lisboa Ltd as at 30 June 20X8		1,700,000
Carrying amount of investment in subsidiaries as at 30 June 20X8		8,600,000
		========

(b) Consolidation worksheet adjusting entries required at 30 June 20X9

(a) Elimination of Mariza Ltd's investment against the pre-acquisition equity of Terra Ltd acquired on 1 July 20X2 and recognition of goodwill

Acquisition analysis:

Cost of acquisition of investment in Terra Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Terra Ltd's equity		6,900,000
Less fair value of identifiable net assets of Terra Ltd at 1 July 20X2		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital ($3,400,000 + $600,000 bonus share issue[1])	4,000,000	
General reserve ($1,500,000 - $600,000 bonus share issue[1])	900,000	
Retained earnings	1,300,000	6,200,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Terra Ltd acquired		6,200,000
Goodwill: cost of acquisition > fair value of identifiable net assets		700,000
		========

Note

1 Pre-acquisition general reserve used by Terra Ltd to fund the bonus share issue on 1 March 20X4
= $1,500,000 (general reserve at acquisition date, 1 July 20X2) – $900,000 (general reserve at 30 June 20X8)
= $600,000
The bonus share issue resulted in the transfer of $600,000 from general reserve to issued capital.

	$	**$**
Dr. Issued capital	4,000,000	
Dr. General reserve	900,000	
Dr. Retained earnings at 1/7/20X7	1,300,000	
Dr. Goodwill	700,000	
Cr. Investment in Terra Ltd		6,900,000

(b) Elimination of intragroup dividend paid by Terra Ltd to Mariza Ltd

	$	$
Dr. Dividend revenue	550,000	
Cr. Dividend paid		550,000

(c) Reversal of impairment loss recognised by Mariza Ltd in a previous reporting period (20X5 - 20X6) relating to its investment in Lisboa Ltd

	$	$
Dr. Accumulated impairment loss – Investment in Lisboa Ltd	300,000	
Cr. Retained earnings at 1/7/20X7		300,000

(d) Elimination of Mariza Ltd's investment against the pre-acquisition equity of Lisboa Ltd acquired on 1 July 20X5 and recognition of gain on bargain purchase

Acquisition analysis:

Cost of acquisition of investment in Lisboa Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Lisboa Ltd's equity		2,000,000
Less fair value of identifiable net assets of Lisboa Ltd at 1 July 20X5		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	2,800,000	
Accumulated losses	(600,000)	2,200,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Lisboa Ltd acquired		2,200,000
Gain on bargain purchase: cost of acquisition < fair value of identifiable net assets		(200,000)
		=======

	$	$
Dr. Issued capital	2,800,000	
Cr. Retained earnings at 1/7/20X7 (accumulated losses)		600,000
Cr. Retained earnings at 1/7/20X7[1]		200,000
Cr. Investment in Lisboa Ltd		2,000,000

Note

1 In subsequent reporting periods following acquisition, the gain on bargain purchase must be included in the opening balance of retained earnings of the group because the gain occurred in a prior period.

(e) Elimination of intragroup dividend paid by Lisboa Ltd to Mariza Ltd

	$	$
Dr. Dividend revenue	120,000	
Cr. Dividend paid		120,000

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(c) Consolidation worksheet at 30 June 20X8 showing consolidated profit, consolidated changes in retained earnings, and consolidated shareholder's equity

Consolidation worksheet 30 June 20X8							
	Financial statements			**Consolidation adjustments**			**Result**
	\$000	**\$000**	**\$000**		**30 June 20X8**		**\$000**
	Mariza Ltd	**Terra Ltd**	**Lisboa Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Shareholders' equity							
Profit for the period[2]	2,100	1,000	250	550	(b)		580
				120	(e)		
Retained earnings-1/7/20X7[1]	4,200	3,150	20	1,300	(a)(c)	300	7,170
					(d)	600	
					(d)	200	
Dividends paid	(1,200)	(550)	(120)		(b)	550	(1,200)
					(e)	120	
	---------	---------	-------				---------
Retained earnings-30/6/20X8	5,100	3,600	150				6,550
Issued capital	8,700	4,000	2,800	4,000	(a)		8,700
				2,800	(d)		
General reserve	4,600	900	-	900	(a)		4,600
	---------	--------	-------				---------
Total shareholders' equity	18,400	8,500	2,950				19,850
	=====	=====	====				=====
Assets							
Investment in Terra Ltd	6,900	-	-		(a)	6,900	-
Investment in Lisboa Ltd	2,000	-	-		(d)	2,000	-
Accumulated impairment loss	(300)	-	-	300	(c)		-
Goodwill				700	(a)		700

Note to the consolidation worksheet:

1 Retained earnings 1/7/20X7 = Retained earnings-30/6/20X8 + Dividends paid - Profit for the period

2 The profit of Mariza Ltd includes dividend revenue of \$550,000 received from Terra Ltd, and \$120,000 received from Lisboa Ltd. The elimination of intragroup dividend revenue upon consolidation results in consolidated profit for the year being reduced.

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Exercise 2.6 Calculation of cost of acquisition and recording the acquisition *(Section 2.4.1)*

(a) Cost of investment in Arnauth Ltd

Cost of acquiring issued capital of Arnauth Ltd:		
Fair value of ordinary shares issued by Mafalda Ltd	*$*	*$*
700,00 ordinary shares x $5-00 current market value		3,500,000
Fair value of unsecured notes (liabilities) issued by Mafalda Ltd		
Present value of principle repayment		
30,000 (unsecured notes) x $100 (face value) x 0.58349 (present value of $1 due in 7 years, discounted at 8% current market interest rate)	1,750,471	
Present value of annual interest payment		
30,000 (unsecured notes) x $100 (face value) x 6% (nominal interest rate) x 5.20637 (present value of an annuity of $1 per year for 7 years, discounted at 8% current market interest rate)	937,147	2,687,618
Cost of acquisition of Mafalda Ltd's investment in Arnauth Ltd[1]		6,187,618
		========

Note:

1 The cost of acquisition of Mafalda Ltd's investment in Arnauth Ltd does not include acquisition related costs incurred by Mafalda Ltd: cost of issuing ordinary shares ($30,000); cost of issuing unsecured notes ($32,382); investment advisors fees ($265,000); and legal costs ($72,000).

(b) Journal entries recorded by Mafalda Ltd relating to acquisition of Arnauth Ltd

(a) Record acquisition of issued capital of Arnauth Ltd

	$	**$**
Dr. Investment in Arnauth Ltd	6,187,618	
Cr. Purchase consideration payable		6,187,618

(b) Record payment of purchase consideration for acquisition of Arnauth Ltd

	$	**$**
Dr. Purchase consideration payable	6,187,618	
Cr. Issued capital		3,500,000
Cr. Unsecured notes payable		2,687,618

(c) Record payment of share issue costs

	$	**$**
Dr. Issued capital	30,000	
Cr. Cash		30,000

(d) Record payment of unsecured notes issue costs

	$	**$**
Dr. Unsecured notes payable	32,382	
Cr. Cash		32,382

(e) Record payment to Diaro & Encantamento for investment advice

	$	$
Dr. Acquisition expense	265,000	
Cr. Cash		265,000

(f) Record payment of legal costs

	$	$
Dr. Acquisition expense	72,000	
Cr. Cash		72,000

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Exercise 2.7 Consolidation at acquisition date and reporting dates with a gain on bargain purchase *(Sections 2.4 and 2.5)*

Consolidation worksheet at 1 January 20X6

Consolidation worksheet 1 January 20X6						
	Financial statements		**Consolidation adjustments**			**Result**
	$000	**$000**	**1 January 20X6**			**$000**
	Moura Ltd	**Ana Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Shareholders' equity						
Profit for the period	-	-		(a)	40	40
Retained earnings-opening	560	490	490	(a)		560
	---------	-------				---------
Retained earnings-closing	560	490				600
Issued capital	850	300	300	(a)		850
	---------	-------				---------
Total shareholders' equity	1,410	790				1,450
Liabilities						
Long term liabilities	1,840	510				2,350
	--------	--------				---------
Total liabilities and equity	3,250	1,300				3,800
	=====	=====				=====
Assets						
Cash	180	70				250
Inventory	370	240				610
Property, plant and equipment	1,950	990				2,940
Investment in Ana Ltd	750	-		(a)	750	-
	--------	--------				--------
Total assets	3,250	1,300				3,800
	=====	=====				=====

Acquisition analysis:

Cost of acquisition of investment in Ana Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Ana Ltd's equity		750,000
Less fair value of identifiable net assets of Ana Ltd at 1 January 20X6		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	300,000	
Retained earnings	490,000	790,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Ana Ltd acquired		790,000
Gain on bargain purchase: cost of acquisition < fair value of identifiable net assets		(40,000)
		=======

Consolidation worksheet adjusting entries required at 1 January 20X6:

(a) Elimination of Moura Ltd's investment against the pre-acquisition equity of Ana Ltd acquired on 1 January 20X6 and recognition of gain on bargain purchase

	$	$
Dr. Issued capital	300,000	
Dr. Retained earnings at 1/1/20X6	490,000	
Cr. Gain on bargain purchase (profit for the period)[1]		40,000
Cr. Investment in Ana Ltd		750,000

Note:

1 This consolidation worksheet adjusting entry allows the gain on bargain purchase arising from the acquisition of Ana Ltd to be recognised in profit for the period in the year of acquisition, (as required by AASB3.34), in the consolidated financial statements of the Moura Ltd group.

Consolidation worksheet at 31 December 20X6

Consolidation worksheet 31 December 20X6						
	Financial statements		**Consolidation adjustments**			**Result**
	$000	**$000**	**31 December 20X6**			**$000**
	Moura Ltd	**Ana Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Income statement						
Revenue	2,560	950	50	(b)		3,460
Gain on bargain purchase	-	-		(a)	40	40
Expenses	(2,390)	(840)				(3,230)
	---------	-------				---------
Profit for the period	170	110				270
Retained earnings 1/1/20X6	560	490	490	(a)		560
Dividends	(80)	(50)		(b)	50	(80)
	---------	-------				--------
Shareholders' equity						
Retained earnings 31/12/20X6	650	550				750
Issued capital	850	300	300	(a)		850
	---------	-------				--------
Total shareholders' equity	1,500	850				1,600
Liabilities						
Dividends payable	80	50	50	(c)		80
Long term liabilities	1,920	630				2,550
	--------	--------				--------
Total liabilities and equity	3,500	1,530				4,230
	=====	=====				=====
Assets						
Cash	230	120				350
Dividends receivable	50	-		(c)	50	-
Inventory	490	350				840
Property, plant and equipment	1,980	1,060				3,040
Investment in Ana Ltd	750	-		(a)	750	-
	--------	--------				--------
Total assets	3,500	1,530				4,230
	=====	=====				=====

Consolidation worksheet adjusting entries required at 31 December 20X6:

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(a) Elimination of Moura Ltd's investment against the pre-acquisition equity of Ana Ltd acquired on 1 January 20X6 and recognition of gain on bargain purchase

	$	$
Dr. Issued capital	300,000	
Dr. Retained earnings at 1/1/20X6	490,000	
Cr. Gain on bargain purchase[1]		40,000
Cr. Investment in Ana Ltd		750,000

Note:

1 This consolidation worksheet adjusting entry allows the gain on bargain purchase arising from the acquisition of Ana Ltd to be recognised in profit for the period in the year of acquisition, (as required by AASB3.34), in the consolidated financial statements of the Moura Ltd group.

(b) Elimination of intragroup dividend declared

	$	$
Dr. Dividend revenue	50,000	
Cr. Dividends		50,000

(c) Elimination of intragroup dividend payable

	$	$
Dr. Dividend payable	50,000	
Cr. Dividend receivable		50,000

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Exercise 2.8 Consolidation at reporting date with dividends from post-acquisition profits *(Section 2.5)*

(a) Dividends recorded in separate accounts of Carminho Ltd and Fado Ltd

Journal entries recorded by Carminho Ltd relating to dividends

(a) Record interim dividend received by Carminho Ltd from Fado Ltd

		$	$
30 November 20X8	Dr. Cash	150,000	
	Cr. Dividend revenue		150,000

(b) Record final dividend receivable by Carminho Ltd from Fado Ltd

		$	$
30 June 20X9	Dr. Dividend receivable	180,000	
	Cr. Dividend revenue		180,000

(c) Record final dividend declared by Carminho Ltd

		$	$
30 June 20X9	Dr. Dividend declared	740,000	
	Cr. Dividend payable		740,000

Journal entries recorded by Fado Ltd relating to dividends

(a) Record interim dividend declared and paid by Fado Ltd to Carminho Ltd

		$	$
30 November 20X8	Dr. Dividend paid	150,000	
	Cr. Cash		150,000

(b) Record final dividend declared by Fado Ltd to Carminho Ltd

		$	$
30 June 20X9	Dr. Dividend declared	180,000	
	Cr. Dividend payable		180,000

(b) Consolidation worksheet at 30 June 20X9

Consolidation worksheet 30 June 20X9						
	Financial statements		**Consolidation adjustments 30 June 20X9**			**Result**
	$000	**$000**				**$000**
	Carminho Ltd	**Fado Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Income statement						
Sales revenue	6,400	2,840				9,240
Dividend revenue	330	-	150	(b)		-
			180	(c)		
Expenses	(5,050)	(2,130)				(7,180)
	---------	-------				---------
Profit for the period	1,680	710				2,060
Retained earnings 1/7/20X8	2,290	4,030				6,320
Dividend paid	-	(150)		(b)	150	-
Dividend declared	(740)	(180)		(c)	180	(740)
	---------	-------				--------
Shareholders' equity						
Retained earnings 30/6/20X9	3,230	4,410				7,640
Issued capital	8,920	850	850	(a)		8,920
	---------	-------				---------
Total shareholders' equity	12,150	5,260				16,560
Liabilities						
Borrowings	9,550	3,670				13,220
Dividends payable	740	180	180	(d)		740
	---------	--------				--------
Total liabilities and equity	22,440	9,110				30,520
	======	=====				=====
Assets						
Cash	940	220				1,160
Trade receivable	1,560	730				2,290
Dividends receivable	180	-		(d)	180	-
Property, plant and equipment	18,910	8,160				27,070
Investment in Fado Ltd	850	-		(a)	850	-
	---------	--------				---------
Total assets	22,440	9,110				30,520
	======	=====				======

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Consolidation worksheet adjusting entries required at 30 June 20X9:

(a) Elimination of Carminho Ltd's investment against the pre-acquisition equity of Fado Ltd contributed by Carminho Ltd on 1 January 20X0

	$	$
Dr. Issued capital[1]	850,000	
Cr. Investment in Fado Ltd[1]		850,000

Note:

1 On 1 January 20X0, Carminho Ltd registered Fado Ltd as a company, and subscribed for all of Fado Ltd's initial issued capital by contributing capital of $850,000. Therefore Carminho Ltd's investment in Fado Ltd is $850,000, and Fado Ltd's initial (pre-acquisition) equity is also $850,000.

(b) Elimination of intragroup interim dividend paid

	$	$
Dr. Dividend revenue	150,000	
Cr. Dividend paid		150,000

(c) Elimination of intragroup final dividend declared

	$	$
Dr. Dividend revenue	180,000	
Cr. Dividend declared		180,000

(d) Elimination of intragroup final dividend payable

	$	$
Dr. Dividend payable	180,000	
Cr. Dividend receivable		180,000

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Exercise 2.9 Consolidation at reporting date with gain on bargain purchase and investment impairment ***(Sections 2.4 and 2.5)***

(a) Journal entries recorded in separate accounts of Amendoeira Ltd relating to investment in Joana Ltd for the year ending 30 June 20X4

(a) Record acquisition of ordinary shares in Joana Ltd by Amendoeira Ltd

		$	$
1 July 20X3	Dr. Investment in Joana Ltd	2,400,000	
	Cr. Cash (750,000 ordinary shares x $3.20)		2,400,000

(b) Record dividend received by Amendoeira Ltd from Joana Ltd

		$	$
29 December 20X3	Dr. Cash	320,000	
	Cr. Dividend revenue		320,000

(c) Recognise impairment loss relating to investment in Joana Ltd

		$	$
29 December 20X3	Dr. Impairment loss – investment in Joana ltd	320,000	
	Cr. Accumulated impairment loss – Investment in Joana Ltd		320,000

(b) Consolidated financial statements for the year ending 30 June 20X4

Consolidation worksheet 30 June 20X4						
	Financial statements		Consolidation adjustments 30 June 20X4			Result
	$000	$000				$000
	Amendoeira Ltd	**Joana Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Income statement						
Ticketing revenue	15,300	6,800				22,100
Dividend revenue	320	-	320	(c)		-
Gain on bargain purchase				(b)	120	120
Depreciation expense	(2,430)	(720)				(3,150)
Other expenses	(12,400)	(6,490)		(a)	320	(18,570)
	-----------	---------				----------
Profit (loss) for the period	790	(410)				500
Retained earnings 1/7/20X3	1,860	1,020	1,020	(b)		1,860
Dividend paid	(510)	(320)		(c)	320	(510)
	--------	-------				--------
Shareholders' equity						
Retained earnings 30/6/20X4	2,140	290				1,850
Issued capital	4,800	1,500	1,500	(b)		4,800
	--------	-------				---------
Total shareholders' equity	6,940	1,790				6,650
Liabilities						
Borrowings	5,750	1,530				7,280
Trade payables	980	440				1,420
	---------	--------				--------
Total liabilities and equity	13,670	3,760				15,350
	======	=====				=====
Assets						
Property, plant and equipment	7,910	2,550				10,460
Prepayments	2,570	780				3,350
Trade receivables	750	280				1,030
Cash	360	150				510
Investment in Joana Ltd (net)[1]	2,080	-	320	(a)(b)	2,400	-
	---------	--------				---------
Total assets	13,670	3,760				15,350
	======	=====				======

Note:

1 In Amendoeira Ltd's statement of financial position its investment in Joana Ltd is stated net of accumulated impairment losses [$2,400,000 (cost of investment in Joana Ltd) - $320,000 (accumulated impairment loss)]

Consolidation worksheet adjusting entries required at 30 June 20X4:

(a) Reversal of impairment loss recognised by Amendoeira Ltd in the current reporting period (20X3 - 20X4) relating to its investment in Joana Ltd

	$	$
Dr. Accumulated impairment loss – Investment in Joana Ltd	320,000	
Cr. Impairment loss (included in Other expenses)		320,000

(b) Elimination of Amendoeira Ltd's investment against the pre-acquisition equity of Joana Ltd acquired on 1 July 20X3 and recognition of gain on bargain purchase

Acquisition analysis:

Cost of acquisition of investment in Joana Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Joana Ltd's equity		2,400,000
Less fair value of identifiable net assets of Joana Ltd at 1 July 20X3		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	1,500,000	
Retained earnings	1,020,000	2,520,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Joana Ltd acquired		2,520,000
Gain on bargain purchase: cost of acquisition < fair value of identifiable net assets		(120,000)
		=======

	$	$
Dr. Issued capital	1,500,000	
Dr. Retained earnings at 1/7/20X3	1,020,000	
Cr. Gain on bargain purchase		120,000
Cr. Investment in Joana Ltd		2,400,000

(c) Elimination of intragroup dividend paid

	$	$
Dr. Dividend revenue	320,000	
Cr. Dividend paid		320,000

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Consolidated Financial Statements for the year ending 30 June 20X4

Amendoeira Ltd Group **Consolidated income statement for the year ending 30 June 20X4**	
	$000
Income	
Ticketing revenue	22,100
Gain on bargain purchase	120
Total income	22,220
Expenses	
Depreciation expense	(3,150)
Other expenses	(18,570)
Profit for the year	500
	======
Profit for the year attributable to the equity holders of Amendoeira Ltd	500

Amendoeira Ltd Group **Consolidated statement of comprehensive income for the year ending 30 June 20X4**	
	$000
Profit for the year	500
Other comprehensive income	0
Total comprehensive income for the year	500
	===
Total comprehensive income attributable to the equity holders of Amendoeira Ltd	500

Amendoeira Ltd Group **Consolidated statement of changes in equity for the year ending 30 June 20X4**	**Issued capital $000**	**Retained earnings $000**	**Total equity $000**
Opening balance at 1/7/20X3	4,800	1,860	6,660
Total comprehensive income attributable to the equity holders of Amendoeira Ltd	-	500	500
Dividend paid	-	(510)	(510)
Closing balance at 30/6/20X4	4,800	1,850	6,650
	=====	=====	=====

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Amendoeira Ltd Group Consolidated statement of financial position as at 30 June 20X4	
	$000
Shareholders' equity	
Issued capital	4,800
Retained earnings	1,850
Total shareholders' equity	6,650
Liabilities	
Borrowings	7,280
Trade payables	1,420
Total shareholders' equity and liabilities	15,350
	=====
Assets	
Property, plant and equipment	10,460
Prepayments	3,350
Trade receivables	1,030
Cash	510
Total assets	15,350
	=====

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Exercise 2.10 Consolidation at reporting date with goodwill and consistent accounting policy issue *(Section 2.2.4 and 2.4)*

Consolidation worksheet adjusting entries required at 30 June 20X7:

(a) Elimination of Branco Ltd's investment against the pre-acquisition equity of Sensus Ltd acquired on 1 July 20X3 and recognition of goodwill

Acquisition analysis:

Cost of acquisition of investment in Sensus Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Sensus Ltd's equity		6,400,000
Less fair value of identifiable net assets of Sensus Ltd at 1 July 20X3		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	1,600,000	
Retained earnings	3,400,000	5,000,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Sensus Ltd acquired		5,000,000
Goodwill: cost of acquisition > fair value of identifiable net assets		1,400,000
		========

	$	**$**
Dr. Issued capital	1,600,000	
Dr. Retained earnings at 1/7/20X6	3,400,000	
Dr. Goodwill	1,400,000	
Cr. Investment in Sensus Ltd		6,400,000

(b) Recognition of goodwill impairment losses for the previous reporting period (20X5 - 20X6) of $200,000, (i.e. $1,400,000 – $1,200,000) and for the current reporting period (20X6 – 20X7) of $400,000 (i.e. $1,200,000 - $800,000)

	$	**$**
Dr. Retained earnings at 1/7/20X6	200,000	
Dr. Impairment loss - Goodwill	400,000	
Cr. Accumulated impairment loss - Goodwill		600,000

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(c) Adjustment to the depreciation of plant and equipment recorded by Sensus Ltd, to align the depreciation charged with the accounting policies of the Branco Ltd group/parent company and AASB accounting standards.

	$	$
Dr. Retained earnings at 1/7/20X6[1] (390,000 + 420,000 + 360,000)[2]	1,170,000	
Dr. Depreciation expense - Plant and equipment[1]	480,000	
Cr. Accumulated depreciation - Plant and equipment[1]		1,650,000

Explanations:

1 AASB127.24 requires the consolidated financial report to be prepared using uniform accounting policies for similar transactions and other events in similar circumstances. The financial statements provided by the Cuban subsidiary, Sensus Ltd, to its parent company, Branco Ltd, for consolidation purposes, were prepared using different depreciation policies for plant and equipment, from that used by Branco Ltd and the Branco Ltd group. Sensus Ltd prepared its financial statements using an annual depreciation rate of 8% for its plant and equipment, as required by Cuban generally accepted accounting principles. However, Branco Ltd uses an annual depreciation rate of 20% for its plant and equipment in its own separate accounts and in the consolidated accounts of the Branco Ltd group. Therefore adjustments must be made to the depreciation recorded by Sensus Ltd, such that it is based on an annual depreciation rate of 20%, in order to achieve uniformity in accounting policies when preparing the consolidated financial report.

2 The adjustments relating to depreciation expense in previous reporting periods must be made to the opening balance of retained earnings.

(d) Recognition of tax effect relating to depreciation adjustment attributable to aligning the accounting policies of Sensus Ltd with the accounting policies of the Branco Ltd group/parent company and AASB accounting standards.

	$	$
Dr. Deferred tax asset (1,650,000 x 40%)[1]	660,000	
Cr. Retained earnings at 1/7/20X6 (1,170,000 x 40%)[1]		468,000
Cr. Income tax expense (480,000 x 40%)[1]		192,000

Note:

1 Assume that the applicable Cuban tax rate is 40%

Exercise 2.11 Consolidation after acquisitions, two subsidiaries and different acquisition dates *(Sections 2.3, 2.4 and 2.5)*

(a) Consolidation worksheet adjusting entries required at 30 June 20X6

(a) Elimination of Amalia Ltd's investment against the pre-acquisition equity of Rodrigues Ltd acquired on 1 July 20X2 and recognition of goodwill

Acquisition analysis:

Cost of acquisition of investment in Terra Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Rodrigues Ltd *(equity and dividend payable)*	5,700,000	
Less dividend receivable by Amalia Ltd from Rodrigues Ltd at acquisition date	(300,000)	
Fair value of purchase consideration for 100% of Amalia Ltd's equity		5,400,000
Less fair value of identifiable net assets of Amalia Ltd at 1 July 20X2		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital ($2,200,000 + $540,000 bonus share issue[1])	2,740,000	
General reserve	1,700,000	
Retained earnings ($1,100,000 - $540,000 bonus share issue[1])	560,000	5,000,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Amalia Ltd acquired		5,000,000
Goodwill: cost of acquisition > fair value of identifiable net assets		400,000
		========

Note

1 The bonus share issue resulted in the transfer of $540,000 from retained earnings to issued capital

	$	$
Dr. Issued capital	2,740,000	
Dr. General reserve	1,700,000	
Dr. Retained earnings at 1/7/20X5	560,000	
Dr. Goodwill	400,000	
Cr. Investment in Rodrigues Ltd		5,400,000

(b) Recognition of goodwill impairment losses for the previous reporting period (20X4 - 20X5) of $250,000, (i.e. $400,000 – $150,000)

	$	$
Dr. Retained earnings at 1/7/20X5	250,000	
Cr. Accumulated impairment loss - Goodwill		250,000

(c) Elimination of intragroup dividend paid by Rodrigues Ltd to Amalia Ltd

	$	$
Dr. Dividend revenue	340,000	
Cr. Dividend paid		340,000

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(d) Reversal of impairment loss recognised by Amalia Ltd in the current reporting period (20X5 - 20X6) relating to its investment in Olympia Ltd

	$	$
Dr. Accumulated impairment loss - Investment in Olympia Ltd	120,000	
Cr. Impairment loss - investment in Olympia Ltd		120,000

(e) Elimination of Amalia Ltd's investment against the pre-acquisition equity of Olympia Ltd acquired on 1 July 20X5 and recognition of gain on bargain purchase

Acquisition analysis:

Cost of acquisition of investment in Olympia Ltd	*$*	*$*
Fair value of purchase consideration for 100% of Olympia Ltd's equity		2,300,000
Less fair value of identifiable net assets of Olympia Ltd at 1 July 20X5		
Recorded value of equity (equals carrying amount of identifiable net assets)		
Issued capital	1,500,000	
Retained earnings	(900,000)	2,400,000
Add/subtract fair value adjustments to identifiable net assets		-
Fair value of identifiable net assets of Olympia Ltd acquired		2,400,000
Gain on bargain purchase: cost of acquisition < fair value of identifiable net assets		(100,000)
		=======

	$	$
Dr. Issued capital	1,500,000	
Dr. Retained earnings at 1/7/20X5	900,000	
Cr. Gain on bargain purchase		100,000
Cr. Investment in Olympia Ltd		2,300,000

(f) Elimination of intragroup dividend paid by Olympia Ltd to Amalia Ltd

	$	$
Dr. Dividend revenue	90,000	
Cr. Dividend paid		90,000

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(b) Consolidated financial statements for the year ending 30 June 20X6

Consolidation worksheet 30 June 20X6

	Financial statements			**Consolidation adjustments 30 June 20X6**			**Result**
	$000	**$000**	**$000**				**$000**
	Amalia Ltd	**Rodrigues Ltd**	**Olympia Ltd**	**Debit**	**Ref.**	**Credit**	**Group**
Income statement							
Sales revenue	14,900	6,380	2,490				23,770
Dividend revenue	430	-	-	340	(c)		-
				90	(f)		
Gain on bargain purchase	-	-	-		(e)	100	100
Impairment loss expense	(120)	-	-		(d)	120	-
Other expenses	(13,800)	(5,760)	(2,330)				(21,890)
	-----------	----------	---------				----------
Profit for the period	1,410	620	160				1,980
Retained earnings 1/7/20X5	3,600	1,040	900	560	(a)		3,830
				250	(b)		
				900	(e)		
Dividend paid	(790)	(340)	(90)		(c)	340	(790)
					(f)	90	
	--------	--------	-------				--------
Shareholders' equity							
Retained earnings 30/6/20X6	4,220	1,320	970				5,020
Issued capital	5,900	2,740	1,500	2,740	(a)		5,900
				1,500	(e)		
General reserve	4,100	2,120	-	1,700	(a)		4,520
	---------	--------	--------				---------
Total shareholders' equity	14,220	6,180	2,470				15,440
Liabilities	10,480	4,630	1,340				16,450
	---------	---------	--------				--------
Total liabilities and equity	24,700	10,810	3,810				31,890
	======	=====	=====				=====
Assets							
Cash	1,160	780	270				2,210
Trade receivables	3,670	1,710	640				6,020
Inventory	4,920	2,350	860				8,130
Investment in subsidiaries (net)[1]	7,580	-	-	120	(d)(a)	5,400	-
					(e)	2,300	
Property, plant and equipment	7,370	5,970	2,040				15,380
Goodwill	-	-	-	400	(a)		400
Accumulated impairment loss	-	-	-		(b)	250	(250)
	---------	---------	--------				---------
Total assets	24,700	10,810	3,810				31,890
	======	=====	=====				======

Note:

1 In Amalia Ltd's statement of financial position its investment in subsidiaries is stated net of accumulated impairment losses [$5,400,000 (cost of investment in Rodrigues Ltd) + $2,300,000 (cost of investment in Olympia Ltd) - $120,000 (accumulated impairment loss)]

Consolidated Financial Statements for the year ending 30 June 20X6

Amalia Ltd Group
Consolidated income statement for the year ending 30 June 20X6

	$000
Income	
Sales revenue	23,770
Gain on bargain purchase	00
Total income	23,870
Expenses	
Other expenses	(21,890)
Profit for the year	1,980
	======
Profit for the year attributable to the equity holders of Amalia Ltd	1,980

Amalia Ltd Group
Consolidated statement of comprehensive income for the year ending 30 June 20X6

	$000
Profit for the year	1,980
Other comprehensive income	0
Total comprehensive income for the year	1,980
	=====
Total comprehensive income attributable to the equity holders of Amalia Ltd	1,980

Amalia Ltd Group
Consolidated statement of changes in equity for the year ending 30 June 20X6

	Issued capital $000	General reserve $000	Retained earnings $000	Total equity $000
Opening balance at 1/7/20X5	5,900	4,520[1]	3,830	14,250
Total comprehensive income attributable to the equity holders of Amalia Ltd	-	-	1,980	1,980
Dividend paid	-	-	(790)	(790)
Closing balance at 30/6/20X6	5,900	4,520	5,020	15,440
	=====	=====	=====	=====

Note:

1 Assume that there were no changes in the general reserve of Amalia Ltd group during the year ending 30 June 20X6. Therefore the opening balance of general reserve on 1 July 20X5 for Amalia Ltd group must be $4,520,000. The general reserve of Rodrigues Ltd increased from $1,700,000 on 1 July 20X2 to $2,120,000 on 30 June 20X6. Insufficient information is provided in the question to determine whether any of this increase in Rodrigues Ltd's general reserve occurred during the year ending 30 June 20X6. Furthermore, insufficient information is provided in the question to determine whether any change occurred in Amalia Ltd's general reserve during the year ending 30 June 20X6.

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Amalia Ltd Group **Consolidated statement of financial position as at 30 June 20X6**	
	$000
Shareholders' equity	
Issued capital	5,900
General reserve	4,520
Retained earnings	5,020
Total shareholders' equity	15,440
Liabilities	16,450
Total shareholders' equity and liabilities	31,890
	=====
Assets	
Cash	2,210
Trade receivables	6,020
Inventory	8,130
Property, plant and equipment	15,380
Goodwill	400
Accumulated impairment loss	(250)
Total assets	31,890
	=====

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