Consolidated Statement of Profit or Loss (Consolidated Comprehensive Income Statement)

Introduction

As per SLFRS 10 Consolidated Financial Statements are the financial Statement of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity" which means consolidated financial statements are financial statements that bring the holding (parent) company's subsidiaries into its aggregated accounting figure. The aim of consolidated financial statement is to show the performance of the group if it was a single entity.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income will show the results derived from operations with parties external to the group of entities. The effects of all the intra group transactions are eliminated, since from the economic entity's perspective income will not be derived as a result of the transactions within the group, only from transactions with external parties.

As per SLFRS 10 profit or loss and the total comprehensive income must be divided among parent and non-controlling interest.

Profit attributable to Non-controlling interest is calculated as: **Realized profit of subsidiary* NCI%**

Realized profit is calculated as: **Profit of subsidiary-unrealized profits**

Total comprehensive income attributable to NCI is calculated as: **Profit attributable to NCI+ Other comprehensive income*NCI%**

Intra-group Transactions

Intra group transactions refer to transactions that have taken place between separate legal entities of an economic entity which requires accounting in the financial statement of those individual entities but any amount owing and receivable between members of the economic entity and any intra company transaction which creates profit or loss should not be identified in the accounts of the economic entity & be eliminated when preparing consolidated financial statements until it is realized which means till the risk and rewards transfers to the external party.

Examples

- Intra group services
- Intra group sales of inventory
- Intra group payment of dividend
- Intra group sales of non-current assets

Intra-group Services

Intra group services are services which are provided by individual entities or group members that benefit group as a whole. Services such as administration, information technology, finance, or distribution are provided in an arm's length relationship with the central organization.

Intra group services are the simplest form of intra group transaction. They create service revenues and expenses in the accounts of respective entities. Revenue of one entity balance out from expenses of another entity and there is no effect on the group profit.

Example

Company B is a subsidiary of company A. Company A rent out its premises to company B for Rs.1,200,000 annually. Company A records Rs.1,200,000 as a rent income of its accounts and simultaneously company B records Rs.1,200,000 as a rent expense in their accounts.

The effect of intragroup services must be eliminated from the consolidated income statement.

- Consolidated other income = Parent's other income + Subsidiary's other income – intragroup service income (1,200,000)
- Consolidated administrative expenses = Parent's administrative expenses + Subsidiary's administrative expenses – intragroup service expenses.(1,200,000)

Intra group sale of inventory

Entities that are related often sell inventory to one another within group which is known as intra group sale of inventory. Any intra group inventory sales will result in the individual entities recording sales and purchases, respectively for the amount of the transaction but from the group perspective revenue should not be recognized until an external sale of inventory has been taken place.

Example

Company B is a subsidiary of company A and company A makes sales of Rs.100,000 worth inventory to company B & company B sales that particular inventory for Rs. 150,000 to an external party. If we simply aggregate sales of company A and company B for the consolidation purposes, it would appear that the economic entity's total sale of Rs.250,000 but this is totally incorrect from the economic entity perspective. The only sale that is entitled to appear in the consolidation statement should be Rs.150,000.

The effect of intragroup trading must be eliminated from the consolidated income statement.

- Consolidated sales revenue = Parent's revenue (150,000)+ Subsidiary's revenue(100,000) – intragroup sales (100,000) = 150,000.
- Consolidated cost of sales = Parent's COS + Subsidiary's COS – intragroup sales.(Rs.100,000)

Unrealized Profit

If goods have been sold from one company to another within the group with profit and if a portion of goods are in stock or in transit at the end of year , unrealized profit on such stocks should be eliminated when preparing consolidated financial statements.

Example – A Ltd (Parent) sold goods to B ltd (Subsidiary) at cost plus 25% amounting to value of Rs.325,000 out of which goods to the value of Rs 125,000 was remained in the stock of B Ltd at the year end.

Unrealized profit on stock = 125,000/125 * 25 = 25,000

Rs 25,000 should be eliminated when preparing consolidated financial statements

Intra group payment of dividend

Dividends that pay out of post-acquisition profit is some form of intra company transaction. Intra group dividend payment should be eliminated from the consolidated financial statements by being consistent with the fact that *"you cannot pay dividend to yourself"*. Hence A payment of a dividend by Subsidiary to Parent will need to be cancelled. Only dividend paid to the external parties should be shown in the consolidated financial statements. Consistently non-controlling interest & shareholders of the parent company will be the external parties.

The adjustment for dividend received by parent from subsidiary should be shown as a deduction to other income in the **adjustments' column in the consolidation schedule.**

Intra group sales of non-current assets

Intra company sales are not restricted to the sale of inventory it could be extended to noncurrent asset sales even. From a separate entity perspective gain or loss arise from sales of non current asset can be accounted in their respective accounts but from a group entity perspective no gain or losses are permitted to be account thus if it had been recognized in the separate legal entities it needs to be eliminated for the consolidation purposes.

Assume there are two companies called alpha & beta of which beta is a subsidiary of company alpha and company alpha sold a machine which had been purchased years ago has a carrying value of Rs.600,000 to Company beta at a price of Rs.750,000 which resulted in a profit of Rs.150,000. This profit must be eliminated in full in preparing consolidated income statement.

The adjustment for profit on intra group sales of non-current assets should be shown as a deduction to other income in the **adjustments' column in the consolidation schedule.**

Assume that previously discussed machine has remaining useful life of 10 consequently it will be depreciated by company beta 75000 (750000 /10) annually. It's totally correct from a separate entity perspective but it is not allowed from a group entity perspective as the amount 750000 is not its real carrying value it should be 600000. Hence depreciation should be 60000(600000/10) annually. Therefore the additional depreciation of Rs.15,000 must be eliminated when preparing the consolidated income statement.

Other aspects of Consolidation

Fair value of Net assets acquired

SLFRS 3 requires that the subsidiary's assets and liabilities are recorded at their fair value for the purposes of the calculation of goodwill at the date of acquisition and production of consolidated accounts. When the adjustments are made to the non-current assets in order to reflect the fair values, it might have implications on depreciation. When preparing consolidated income statement, this should be taken into account.

Goodwill

Goodwill on consolidation can be calculated as follows

fair value of consideration transferred	xxx
Plus – Fair value of non-controlling interest	xxx
	xxx
Less – Fair value of identifiable net assets	(xxx)
Goodwill on acquisition date	xxx

Example 1

On 1 of April 2016 Sun Ltd acquired 80% of the issued capital of Moon Ltd for Rs.5,000,000. At the date of acquisition share capital and retained earnings of Mood Ltd were as follows.

Share capital	2,000,000
Retained earnings	2,500,000
	4,500,000

At the date of acquisition carrying value of all the assets and liabilities of beta were reflected at fair value except land which had a fair value of Rs.1,000,000 in excess of its carrying amount. Fair value of NCI is Rs.2,000,000 at the date of acquisition.

Required to calculate Goodwill on acquisition
Answer

fair value of consideration transferred	5,000
Plus Amount of non-controlling interest	2,000
	7,000
Less Fair value of identifiable net assets	
Share capital	(2,000)
Retained earnings	(2,500)
Fair value changes	(1,000)
Goodwill on acquisition date	1,500

Example 2

Alpha PLC acquired 75% of equity capital of Beta for a consideration of Rs.6.5 million on 1 April 2016. At the date of acquisition the net assets of Beta comprised as follows.

	Rs.
Share capital	4,000,000
Retained Earnings	1,500,000
Revaluation Reserve	1,000,000
Net Assets	6,500,000

At the date of acquisition carrying value of all the assets and liabilities of beta were reflected at fair value except building which had a fair value of Rs.1,500,000 in excess of its carrying amount. At that date the remaining useful life of building is determined to be 15 years. The goodwill at the date of acquisition is measured at full goodwill method where the fair value of NCI is measured as Rs 2,500,000.

The statement of Profit or Loss and Other Comprehensive Income for the year ended 31st March 2017 are as follows:

(Rs'000)

	Alfa	Beta
Revenue	5,000	3,900
Cost of Sales	(2,220)	(1,800)
Gross Profit	2780	2,100
Other Income	370	
Administrative Expenses	(175)	(200)
Selling and distribution costs	(150)	(100)
Finance Expenses	(75)	(50)
Other Expenses	(20)	(10)
Profit Before Tax	2,730	1,740
Income Tax	(600)	(400)
Profit for the year	2,130	1,340
Other Comprehensive Income		
Gain on revaluation of PPE	200	100
Total comprehensive income	2,330	1,440

1) Alfa provides management consultancy services to beta at a fee of Rs250,000 annually from date of acquisition.

2) During the year ended 31 March 2017, Beta Purchased Rs.1,000,000 worth of goods from Alfa. Out of these goods half (1/2) of goods remained unsold in the premises of company Beta. The sales policy of Alfa is to add 25% of mark up to its cost.

3) During the year ended 31 March 2017, Alfa Purchased Rs.1,500,000 worth of goods from Alfa. Out of these goods one third (1/3) of goods remained unsold in the premises of company Alfa. The sales policy of Beta is to keep 25% margin from sales price.

4) On the acquisition date Beta sold a motor vehicle to Alfa at a selling price of Rs.750,000 which had carrying amount of Rs.550,000. The remaining useful life of vehicle is estimated to be 10 years.

5) During the year company Alfa and Beta paid a dividend of Rs.300,000 and Rs.200,000 respectively.

Required:

a) Calculate the Goodwill at the date of acquisition

b) Prepare the consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2017.

Answer

a) Goodwill calculation

fair value of consideration transferred	6,500
Plus Amount of non-controlling interest	2,500
	9,000
Less Fair value of identifiable net assets (6,500 +1,500)	(8,000)
Goodwill on acquisition date	1,000

b)

	Alfa	Beta	Adjustments	Group
Revenue	5,000	3,900	-1,000 (c)-1,500(c)	6,400
Cost of Sales	2,220	1,800	-1,000(c)+100(d)-1,500(c)+125(d)	(1,745)
Gross Profit	2780	2,100		4,655
Other Income	500	200	-250 (b)- 200(e)-150(g)	100
Administrative Expenses	(175)	(300)	-100 (a)-250 (b)	(125)
Selling and distribution costs	(150)	(100)	-20(f)	(230)
Finance Expenses	(75)	(50)		(125)
Other Expenses	(20)	(10)		(30)
Profit Before Tax	2,860	1,840		4,245
Income Tax	(600)	(400)		(1000)
Profit for the year	2,260	1,440		3,245
Other Comprehensive Income				
Gain on revaluation of PPE	200	100		300
Total comprehensive income	2,460	1,540		3,545

Profit attributable to				
Owners of the parent			(3,245-258.75)	2,986.25
Non-controlling interest				258.75
Total comprehensive income attributable to				
Owners of the parent			(3,545-283.75)	3,261.25
Non-controlling interest				283.75

a. Additional depreciation of buildings
b. Management consultancy fees
c. Intragroup sales
d. Unrealized profit on sale of goods
e. Unrealized gain on sale of motor vehicles
f. Additional depreciation of motor vehicle
g. dividend income

Workings

Additional building depreciation by beta

Excess of carrying value - 1,500,000
Depreciation overcharged - 1,500,000/15 = 100,000

Unrealized profit- Sale of goods by Alfa

Sales	125	1,000,000
Cost of sales	100	800,000
Profit	25	200,000
Unrealized Profit	200,000*1/2	100,000

Unrealized profit- Sale of goods by Beta

Sales	100	1,500,000
Cost of sales	75	1,125,000
Profit	25	375,000
Unrealized Profit	375,000*1/3	125,000

Unrealized profit- Sale of motor vehicle by Beta

Selling price	750,000
Carrying amount	(550,000)
Unrealized profit	200,000
Additional depreciation per annum	200,000/10=20,000

Profit attributable to NCI

Profit of Beta	1,440
Additional building depreciation	(100)
Unrealized profit from sale of goods	(125)
Unrealized profit from sale of motor vehicle	(200)
Realization of profit from sale of motor vehicle (additional depreciation)	20
Realized profit	1,035
Profit share of NCI (1,035*25%)	258.75

The additional depreciation that is being charged on motor vehicle must be seen as a realization of unrealized profit from sale of motor vehicle over the years.

Total comprehensive income attributable to NCI

Profit share of NCI (1,035*25%)	258.75
Other comprehensive income share (100*25%)	25
Total comprehensive income share	283.75