

Supplement to PBE Paper I

Chapter 1 – Regulatory Framework

(I) Replace the Answer to Exam-Type Question 1(b)(ii) with the following:

The *Framework* advocates that revenue recognition issues are resolved within the definition of assets (gains) and liabilities (losses). Gains include all forms of income and revenue as well as gains on non-revenue items. Gains and losses are defined as increases or decreases in net assets other than those resulting from transactions with owners. In effect a recognisable increase in an asset results in a gain. The more traditional view, which is largely the basis used in HKAS 18 *Revenue*, is that (net) revenue recognition is part of a transactions based accruals or matching process with the statement of financial position recording any residual assets or liabilities such as receivables and payables. The issue of revenue recognition arises out of the need to report company performance for specific periods. The *Framework* identifies three stages in the recognition of assets (and liabilities):

- initial recognition, when an item first meets the definition of an asset;
- subsequent remeasurement, which may involve changing the value (with a corresponding effect on income) of a recognised item; and
- possible derecognition, where an item no longer meets the definition of an asset.

It is the policy of DER Limited to treat the capital-based government grants as deferred credits and release them to income over the life of the asset to which they relate. Deferred credits or deferred income is a liability. Liability refers to an entity's obligations to transfer economic benefits as a result of past transactions or events. Arguably the treatment of government grants under HKAS 20 (as deferred income) does not comply with the Framework as deferred income because it does not meet the definition of a liability. It is because the capital-based government grant is for purchasing non-current assets; it should be recognized over the expected useful lives of the related assets rather than to treat it as a deferred income.

Chapter 2 – Presentation of Financial Statements - 1

(I) Add the following 'latest updates' by the end of paragraph 2.11(a) 'Information to be presented in the statement of financial position':

Latest Updates:

Since the introduction of HKAS 27 (revised) during March 2008, the following amendments should be made in paragraph 2.12(a) of this text:

- (i) Replace 'minority interest(s)' with 'non-controlling interests' in paragraph 2.11(a).
- (ii) Non-controlling interests must be presented in the consolidated statement of financial

position within equity, separately from the equity of the owners of the parent.

(II) Replace paragraph 2.11(c) with the following:

An asset should be classified as **current assets**, which are generally listed in their order of increasing liquidity, when it:

- is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or
- is held primarily for trading purposes; or
- is expected to be realised within 12 months of end of the reporting period; or
- is cash or a cash equivalent asset which is not restricted in its use or not restricted from being exchanged for at least 12 months after the reporting period.

(III) Add the following 'latest updates' by the end of paragraphs 2.11(f) &(g):

Latest Updates:

Since the introduction of HKAS 27 (revised) 'Consolidated And Separate Financial Statements', the item of 'minority interest(s)' is replaced by 'non-controlling interests' in the financial statements. **Non-controlling interest**, according to HKAS 27, refers to the equity in a subsidiary not attributable, directly or indirectly, to a parent.

(IV) Amend paragraph 2.12 Statement of comprehensive income:

Replace "An entity shall present all items of income and expenses recognised in the period" with "An entity shall present all non-owner changes in equity, income and expenses recognised in the period".

(V) The second paragraph of paragraph 2.12(a) 'Information to be presented on the face of the statement of comprehensive income' to be amended as follows:

An entity shall disclose the following items in the statement of comprehensive income as allocations of profit or loss for the period:

- profit or loss for the period attributable to: ~~minority interest~~ **non-controlling interest**, and owners of the parent.
- total comprehensive income for the period attributable to: ~~minority interest~~ **non-controlling interest**, and owners of the parent.
- the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes.

(VI) Paragraph 2.12(b) 'Format of a statement of comprehensive income' & (c) 'Disclosure of tax effects relating to each components of other comprehensive income':

Replace 'minority interest' with 'non-controlling interest'.

(VII) Replace the second paragraph of paragraph 2.14 'Statement of changes in equity' with the following:

This statement is usually presented in columnar form and shows the movements during the period in all the capital and reserve headings which in total make up the equity of the entity. An entity shall present a statement of changes in equity showing in the statement:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with HKAS 8; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each changes resulting from:
 - (i) profit or loss;
 - (ii) each item of other comprehensive income; and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

(VIII) The ‘Statement of changes in equity’ presented in paragraph 2.13:

Replace ‘minority interest’ with ‘non-controlling interest’.

(IX) Paragraph 2.16 ‘Service Concession Arrangements’:

‘HKAS-Int 29 Disclosure – Service Concession Arrangements’ should be read as: ‘HK(SIC)-Int 29 ‘Service Concession Arrangements: Disclosure’.

(X) Paragraph 4.2 ‘Minimum contents of interim financial report’ is amended as follows:

An interim financial report should include, as a minimum, the following components:

- condensed statement of comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparatives for the interim periods (current and year to date) of the preceding financial year. This is presented as either:
 - a condensed single statement; or
 - a condensed separate income statement and a condensed statement of comprehensive income;
- condensed statement showing either all of changes in equity. This statement needs to show changes in equity cumulatively for the current year with comparatives for the corresponding period of the preceding financial year;

(XI) Paragraph 5.2 ‘Classification as held for sale’:

1. Title changed from ‘Classification as held for sale’ to ‘**Classification as held for sale or as held for distribution to owners**’.
2. Amend the second paragraph as follows:

For ~~this to be the case~~ a non-current asset to be classified as held for sale, the following conditions must apply:

- the asset must be available for immediate sale in its present condition subject to the usual terms for sale of such assets (or disposal group); and

- the sale must be highly probable, meaning that:
 - management are committed to a plan to sell the asset
 - there is an active programme to locate a buyer; ~~and~~
 - complete the plan must have been initiated;
 - the asset is being actively marketed at its current fair value;
- the sale is expected to be completed within 12 months of its classification as held for sale; ~~and~~
- it is unlikely that the plan will be significantly changed or will be withdrawn.

To assess whether the sale of the asset is highly probable, the probability of shareholders' approval may also be considered if this is required in the jurisdiction.

3. Add the following paragraphs to the end of paragraph 5.2:

A non-current asset (or disposal group) is classified as held for distribution to owners when the following conditions are met:

- the entity is committed to distribute the asset (or disposal group) to the owners;
- the assets must be available for immediate distribution in their present condition; and
- the distribution must be highly probable when actions to complete the distribution:
 - must have been initiated
 - is expected to be completed within one year from the date of classification.
 - indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn.

To assess whether the distribution to owners is highly probable, the probability of shareholders' approval may also be considered if this is required in the jurisdiction.

(XII) Paragraph 5.3 'Measurement of non-current assets held for sale':

1. Title changed from 'Measurement of non-current assets held for sale' to '**Measurement of non-current assets (or disposal group) held for sale**'.
2. Add the following paragraph at the end of paragraph 5.3:

Non-current assets (or disposal group) that classified as held for distribution to owners should be measured at the lower of their carrying amount and fair value less costs to sell.

(XIII) Exam-Type Question 1(b)(ii) to be amended as:

"The abuse of the principle.....financial position." In relation to the principle of substance over form, discuss how the use of ~~off-statement-of-financial-position-financing~~ ~~off-balance-sheet-financing~~ can mislead users of financial statements..... may mislead them.

Chapter 3 – Presentation of Financial Statements - 2

(I) Add the following paragraph at the end of paragraph 1.2 'Proposed dividends':

Under HKAS 10, dividend declared, after the end of the reporting period but before the

financial statements are authorised for issue, cannot be included as liabilities at the end of the reporting period because no obligation exists at that time. The liability arises at the declaration date so they are non-adjusting events after the reporting period and are disclosed by note as required by HKAS 1. Date of 'dividend declared' refers to the point of time where dividends are appropriately authorised and no longer at the discretion of the entity.

(II) Paragraph 3.8 'HKFRSs Interpretation':

Replace 'HKFRS-Int 1' with 'HK(IFRIC)-Int 1'.

Chapter 5 – Non-current assets

(I) Amend the last two paragraphs under paragraph 1.8(b) 'The revaluation model':

On revaluation, the increase in carrying amount shall be recognized in other comprehensive income and accumulated in equity and accumulated in equity under the heading of revaluation surplus unless, of course, the increase reverses a previous revaluation decrease of the same asset which was recognised as an expense in the profit or loss. In that case, the increase is credited in the profit or loss.

Conversely, if the revaluation decreases the value of the asset, the decrease has to be recognised in other comprehensive income immediately as an expense in the profit or loss, unless there is a revaluation surplus on the same asset:

- to the extent of any credit balance existing in the revaluation surplus in respect of that asset.; and
- reduces the amount accumulated in equity under the heading of revaluation surplus.

(II) Add the following items to the end of paragraph 1.14 'Disclosure requirements':

- For each major type of depreciable asset, a reconciliation of the carrying amount at the beginning and end of the period showing:
 - additions (including acquisitions through business combinations);
 - assets classified as held for sale or included in a disposal group classified as held for sale in accordance with HKFRS 5 and other disposals;
 - increases or decreases resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;
 - impairment losses recognised or reversed in profit or loss;
 - depreciation; and
 - exchange differences arising on the translation of the financial statements.
- The financial statements shall also disclose:
 - the existence and amounts of restrictions on title of property, plant and equipment pledged as security for liabilities;
 - the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

- the amount of contractual commitments for the acquisition of property, plant and equipment; and
- the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss, if it is not disclosed separately on the face of the statement of comprehensive income.

(III) Replace the content of paragraph 3.2 ‘Definition’ with the following:

HKFRS 3 Business Combinations provides definitions of the following terms:

Goodwill is defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Identifiable asset refers to an asset where it either:

- is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

(IV) Paragraph 3.3 ‘Accounting for goodwill’:

Replace ‘Non-purchased goodwill.....HKAS 38 (see later in this chapter)’ with the following:

According to HKFRS 3, the acquirer is required to measure and recognise goodwill as of the acquisition date as the excess of (a) over (b) below:

- (a) the aggregate of:
 - the consideration transferred measured at acquisition-date fair value;
 - the amount of any non-controlling interest in the acquisition; and
 - in a business combination achieved in stages, the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities.

(V) Delete the content and title (‘Negative goodwill’) of paragraph 3.4.

(VI) Add/ amend the following to Paragraph 5.1 ‘Introduction’:

The objective of HKAS 36.....other than:

- Financial assets included in the scope of ~~(HKAS 32)~~ HKAS 39
- deferred acquisition costs, and intangible assets, arising from an insurer’s contractual rights under insurance contracts (HKFRS 4)

(VII) Amend paragraph 5.3(b) ‘Internal sources of information’:

Changes ~~in the way the~~ with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in which an asset is used ~~have occurred or are imminent~~, or is expected to be used. (example may be to dispose the operations where asset is being used or to make the asset idle).

(VIII) Add the following information to paragraph 5.8 ‘ Recognition of an impairment loss for a cash-generating unit’:

An impairment loss on a non-revalued asset is recognised in profit or loss. As for an impairment loss on a revalued asset, it is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset (that is, the impairment loss on revalued asset reduces the revaluation surplus for that asset).

(IX) Add the following information to paragraph 5.9 ‘ Reversal of an impairment loss’:

A reversal of an impairment loss for an asset shall be recognized immediately in profit or loss. A reversal of an impairment loss on a revalued asset, to the extent that an impairment loss on the same revalued asset was previously recognized in the profit or loss, is recognised in other comprehensive income and increases the revaluation surplus for that asset.

(X) Add the following to end of paragraph 6.7 ‘Measurement after initial recognition’:

The accounting treatments for the changes in the carrying amount of intangible assets using revaluation model, in accordance with HKAS 38, are as follows:

- If an intangible asset’s carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- If an intangible asset’s carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

(XI) Amend paragraph 7.6 ‘Tranfers’:

The paragraphs of “Transfer from **owner-occupied property** to.....recognised in the statement of comprehensive income” should be changed to:

- Transfer from **owner-occupied property** to **investment property** to be carried at fair value – HKAS 16 (cost less depreciation) will have been applied up to the date of the change. On adopting fair value, the treatment of the changes in carrying amount of the property will be to recognize:
 - a decrease in the carrying amount of the property in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that recognised in other comprehensive income and reduces the revaluation surplus within equity.”
 - an increase in the carrying amount, to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The remaining part of the increase is credited directly in equity in recognised in other comprehensive income and increases the revaluation surplus within equity.

(XII) Add the following information to the end of paragraph 7.7 ‘Disposal’:

An investment property shall be derecognized on disposal of when the investment property is permanently withdrawn from us and no future economic benefit is expected from its disposal.

According to the requirements of HKAS 40, at the time of subsequent disposal, the revaluation surplus of the investment property included in equity may be transferred to retained earnings and such transfer from revaluation surplus to retained earnings is not made through profit or loss.

(XIII) Amend paragraph 8.6 ‘Suspension of capitalisation’ as follow:

Capitalisation of borrowing costs should be suspended during extended periods in which active development ~~is interrupted~~ of the qualifying asset is suspended.

Chapter 6 – Inventories and Construction Contracts

(I) Add the following to the end of Paragraph 2.3 ‘Contract costs’:

Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs.

Chapter 7 – Deferred Tax

(I) Paragraph 5.8 ‘Deferred tax relating to non-depreciable assets’:

Replace HKAS-Int 21 with ‘HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*’.

(II) Add paragraph 5.8A ‘Changes in the Tax Status of an enterprise or its shareholders’ after paragraph 5.8

HK(SIC)-Int 25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders* requires an entity to deal with such change by way of:

- The current and deferred tax consequences of a change in tax status shall be included in net profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit or charge to the recognised amount of equity.
- Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in net profit or loss), shall be charged or credited directly to equity.

Chapter 8 – Accounting for Employee Benefits

(I) Insert the following to the end of paragraph 4.10 ‘Disclosure requirements’:

- l. the total and accumulated amount of actuarial gains and losses recognised in other comprehensive income.
- m. the effect of changes of one percentage point in the assumed medical cost trend rates on the aggregate of the current service cost and post-employment medical cost.
- n. the amounts for the current annual period and previous four annual periods of:
 - the present value of the defined benefit obligation,
 - the fair value of the plan assets
 - the surplus or deficit in the plan; and
 - the adjustments on the plan assets and liabilities at end of the reporting period.
- o. the employer’s best estimate of contributions expected to be paid to the plan during the annual period beginning after end of the reporting period.

(II) Paragraph 6.3 ‘The requirements of HKFRS 2’:

Insert the following just before paragraph 6.3(a) ‘Measurement principles for equity-settled transactions’:

Recognition of share-based payments

An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognize:

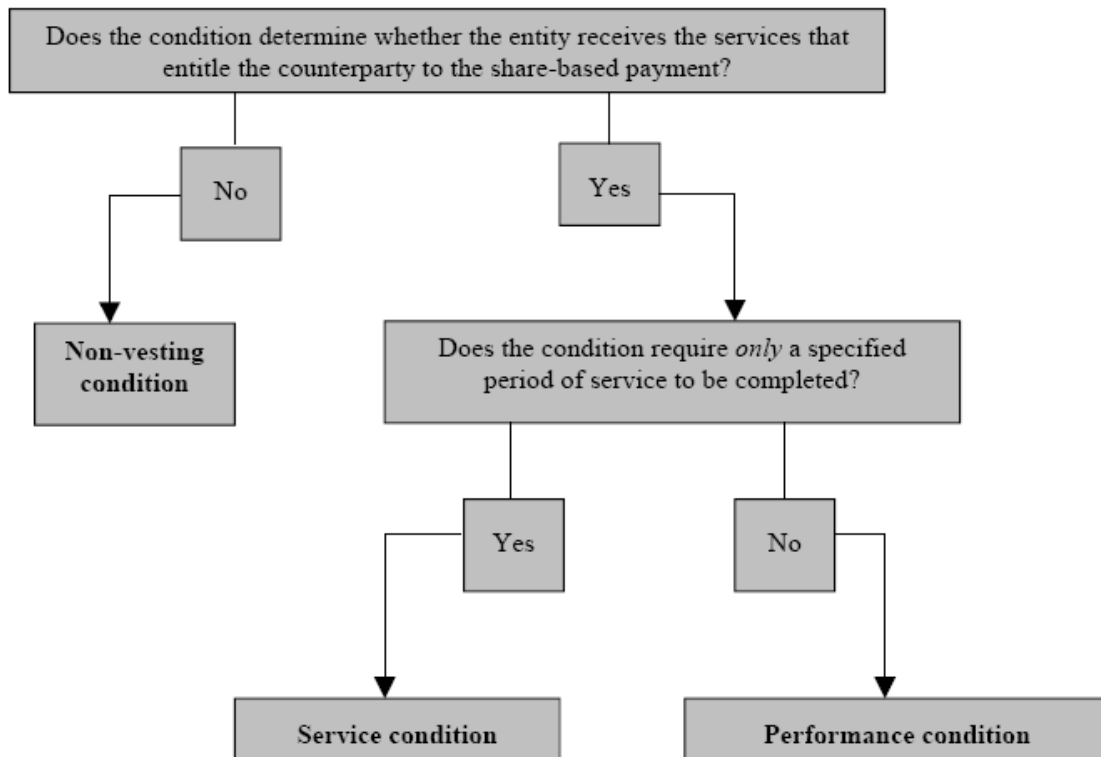
- a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction.
- a liability if the goods or services were acquired in a cash-settled share-based payment transaction.
- as expenses when the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets.

(III) Add the following information at the beginning of Paragraph 6.5 ‘Vesting conditions’:

HKFRS 2 defines vesting conditions as “the conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement”. The counterparty to complete either one of the following:

- Service conditions – refers to a specified period of service.
- Performance conditions – refers to a specified period of service and specified performance targets to be met.

The following flowchart, which is extracted from Appendix B of the Guidance on Implementing HKFRS 2 *Share-based Payment*, illustrates the evaluation of whether a condition is a service or performance condition or a non-vesting condition:



Chapter 9 – Accounting for Leases

(I) Insert the following to end Paragraph 3.5 ‘Operating lease’:

Incentives for an operating lease shall be recognised as part of the net consideration agreed for the use of the leased asset. HK(SIC)- Int 15 *Operating Leases - Incentives* states the treatments of incentives for the agreement of an operating lease “the lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset”.

(II) Insert a new Paragraph 4.2A ‘Operating lease’ before Paragraph 4.3 ‘Presentation in accounts’:

Lease income from operating leases should be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. HK(SIC)- Int 15 requires lessor to recognise the aggregate cost of incentives as “a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished”.

(III) Paragraph 4.3(a) ‘Operating leases’:

Delete the second paragraph: “Lease income from operating leases.....leased asset is diminished.”

(IV) Paragraph 5 ‘Classification of leases’:

Replace ‘HKAS – Int 27’ with ‘HK(IFRIC) – Int 4’.

Chapter 10 – Foreign Currency

(I) Amend paragraph 4.2(a) ‘Statement of financial position’:

“All assets and liabilities are....three column working as follows:

| <i>Subsidiary’s results</i> | <i>Functional currency</i> | <i>Rate</i> | <i>Presentation Currency</i> ” |
|-----------------------------|----------------------------|-------------|--------------------------------|
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(II) Minority interest’ to be amended to ‘non-controlling interests’ in paragraph 4.4(b) ‘Minority interest’.

Chapter 11 – Revenue Recognition and Financial Instruments

(I) Amend Paragraph 5.1 ‘ Introduction’:

“IAS 32 (HKAS 32 in Hong Kong) is the first part ...presentation. ~~Excluded~~ Items that are excluded from its scope are:

- interests in subsidiaries, associates or joint ventures
- ~~retirement benefit plans or investments~~
- ~~employers’ obligations under employee stock options and stock purchase plans~~
- ~~obligations under insurance contracts~~
- employers’ rights and obligations under employee benefit plans HKAS 19 Employee Benefits
- contracts for contingent consideration in a business combination (applies only to the acquirer)
- financial instruments that are within the scope of HKFRS 4 Insurance Contracts because they contain a discretionary participation feature.
- financial instruments, contracts and obligations under share-based payment transactions to which HKFRS 2 Share-based Payment”.

Chapter 12 – Group Accounting - 1

(I) Paragraph 1.1 ‘What is a group?’:

Amend the last two paragraphs:

“Sec 125(1) of the Companies Ordinance provides that the form of group accounts should be consolidated accounts, comprising a consolidated ~~statement of financial position~~ balance sheet and a consolidated profit or loss ~~statement of comprehensive income~~.

In July 2004, HKAS 27 *Consolidated and Separate Financial Statements* was issued and an entity shall apply HKAS 27 for annual periods beginning on or after 1 January 2005. This standard was revised during 2008 and the revised standard HKAS 27 (Revised) is applicable for annual periods beginning on or after 1 July 2009.”

(II) Paragraph 1.2 ‘Normal form of group accounts’:

Amend the second paragraph as follows:

~~“There are four International Accounting Standards relevant to the preparation of consolidated financial statements are:~~

HKFRS 3 Business combinations (Issued ~~August 2004~~ November 2005, revised March 2008)

HKAS 27 Consolidated and separate financial statements (~~Revised December 2004~~ Issued November 2005, revised March 2008 and December 2008)

HKAS 28 Investments in associates (Issued March 2004, revised October 2008)

HKAS 31 Interests in joint ventures (Issued December 2004, revised October 2008).”

(III) Paragraph 1.3(b) ‘Exemptions from the requirement to prepare consolidated financial statements’:

- Replace ‘minority interest’ with ‘non-controlling interest’.

(IV) Replace Paragraph 2.2 (d) ‘Recognition of Identifiable Assets and Liabilities’ with the following:

(d) Recognition of identifiable assets acquired and liabilities assumed

HKFRS 3 requires that the acquirer to recognise separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquisition at the acquisition date only if they satisfy the following criteria at that date:

- The identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree exchanged in the business combination transaction (not the result of separate transactions).
- Assets other than intangible assets – it is probable that associated future economic benefits will flow to the acquirer and its fair value can be measured reliably

- Liabilities other than contingent liability – it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and its fair value can be measured reliably
- Intangible assets – its fair value can be measured reliably.
- Contingent liabilities - it is a present obligation that arises from past events and its fair value can be measured reliably. Whether it is probable or not probable that an outflow of resources embodying economic benefits will be required to settle the obligation is not considered.

HKFRS 3 specifies that an asset is identifiable under either one of the following situations:

- asset that is separable regardless of whether the entity intends to do so. ‘Separable’ here refers to the capability of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged.
- asset that arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

(V) Replace Paragraph 2.2(e) ‘Goodwill’ with the following:

(e) Goodwill and bargain purchase

(i) Goodwill

HKFRS 3 requires that the acquirer shall, at the acquisition date, recognise goodwill acquired in a business combination as an asset; and measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Goodwill as of the acquisition date should be measured as the excess of (1) over (2) below:

- (1) the aggregate of:
 - the consideration transferred measured at acquisition-date fair value;
 - the amount of any non-controlling interest in the acquiree; and
 - the acquirer’s previously held equity interest in the acquiree at the acquisition-date fair value in the case of a business combination achieved in stages.
- (2) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at fair value.

This goodwill arising on consolidation must be tested for impairment at least annually in accordance with HKAS 36, or more frequently if circumstances indicate that it might be impaired.

(ii) Bargain purchase

An acquirer may make a bargain purchase at the business combination transaction. Bargain purchase refers to a business combination in which the amount of (2) exceeds the aggregate of the amounts specified in (1) above. The acquirer shall recognise the resulting gain on the bargain purchase in profit or loss on the acquisition date and the gain shall be attributed to the acquirer.

(VI) Replace Paragraph 2.2(f) ‘Disclosure for business Combination’ with the following:

(f) Disclosures for business combination

The acquirer is required to disclose information about the following items:

- Nature and financial effect of a business combination that occurs either: (i) during the current reporting period or (ii) after the end of the reporting period but before the financial statements are authorised for issue.
- the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.
- names of the combining enterprises, the acquisition date and the percentage of equity instruments acquired.

(VII) Add the following to Paragraph 3 ‘Preparing the consolidated statement of financial position’:

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:


- The carrying amount of the parent’s investment in each subsidiary and the parent’s portion of equity of each subsidiary are eliminated
- (a) Non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;
- (b) Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent’s ownership interests in them.
- (c) Intragroup balances, transactions, income and expenses shall be eliminated in full.
- (d) The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date.
- (e) When the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent’s financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent’s financial statements.
- (f) Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- (g) The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in HKFRS 3. Income and expenses of

the subsidiary shall be based on the values of the assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date.

- (h) Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. As for the total comprehensive income, it must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(VIII) Amend Paragraph 3.2 'Goodwill on consolidation':

Goodwill represents the difference between the amount paid to acquire the net assets of a subsidiary and the fair value of those net assets. It may be **positive** or **negative**. the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

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|--|
|  KEY POINT |
| <p>Goodwill represents the difference between the amount paid to acquire the net assets of a subsidiary and the fair value of those net assets. It may be positive or negative future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.</p> |

Where the cost of the investment is less than the net assets purchased, a credit balance arises on the consolidation, i.e. a profit. This is known as **negative goodwill gain** on a bargain purchase. ~~HKFRS 3 has changed the previous treatment of negative goodwill.~~ In accordance with the requirements of HKFRS 3, it is first necessary to review the values placed on identifiable assets and liabilities to ensure that they have been properly stated.

After this review has been carried out, it is possible that some **negative goodwill gain** on a bargain purchase will still remain. It should be recognised immediately as a profit in the consolidated statement of comprehensive income.

(IX) Amend paragraph 3.6 'Minority interests' as follows:

3.6 ~~Minority Interests~~ Non-controlling interests

What happens if P owns only 80% of the ordinary shares of S? In this case there is said to be a **minority interest non-controlling interests** of 20%. What problems do this present?

Therefore, the generally accepted solution is to consolidate all the subsidiary's net assets and then bring in a **counterbalancing liability non-controlling interests** on the consolidated statement of financial position to represent that part of the assets controlled but not owned.

This **liability non-controlling interests** is presented separately in the consolidated statement of financial position, forming part of the total equity of the group.

The statement of financial position format in HKAS 1 (~~not obligatory but obviously recommended for examination use~~) includes the **minority interest non-controlling interests** immediately after the subtotal of capital and reserves.

KEY POINT

A counterbalancing liability non-controlling interests on the consolidated statement of financial position represents the net assets which are controlled but not owned.

~~This liability is referred to as minority interests~~ The non-controlling interests is presented on the statement of financial position immediately after the subtotal of capital and reserves.

(X) Replace Example 5 and its solution (in Paragraph 3.6) with the following:

EXAMPLES

P Limited (P) acquired 40,000 \$1 shares in S Limited (S) on 30 June 2008 for \$70,000, when the retained earnings of S amounted to \$15,000. The statement of financial position of P Limited at 31 December 2008 are as follows:

P Limited
Statements of financial position at 31 December 2008

| | <i>P</i> | <i>S</i> |
|-------------------------------------|----------|----------|
| | \$000 | \$000 |
| Property, plant and equipment | 50 | 40 |
| Investment in S at cost | 70 | – |
| Trade receivables | 20 | 30 |
| Cash and cash equivalents | 10 | 10 |
| | ---- | ---- |
| | 150 | 80 |
| | ---- | ---- |
| Ordinary share capital (\$1 shares) | 100 | 50 |
| Retained earnings | 30 | 20 |
| Trade and other payables | 20 | 10 |
| | ---- | ---- |
| | 150 | 80 |
| | ---- | ---- |

The following information is also available:

- At the date of business combination, the fair value of non-controlling shareholding in S was \$15,000.
- The P Group uses the full goodwill method to value the non-controlling interest.
- There has been no impairment of goodwill since acquisition.

Required:

Prepare the consolidated statement of financial position at 31 December 2008.

Solution

Step 1 Establish the group structure

P owns 40,000 of the \$1 shares of S out of the total share of S of 50,000. Therefore P owns 80% (40,000/50,000) of S .

Step 2 Net assets of subsidiary

| | <i>At date of acquisition</i> | <i>At reporting date</i> |
|-------------------|-----------------------------------|------------------------------|
| | \$000 | \$000 |
| Share capital | 50 | 50 |
| Retained earnings | 15 | 20 |
| | <u>65</u> | <u>70</u> |

Step 3 Goodwill

| | | |
|---|-------------|-------------|
| | \$000 | \$000 |
| Cost of investment | | 70 |
| Less: parent's share of net assets at acquisition | | |
| 80% × \$65 | | <u>(52)</u> |
| Goodwill - parent's share | | 18 |
| Fair value of non-controlling interest at acquisition | 15 | |
| Less: Non-controlling interest's share of net assets at acquisition | | |
| 20% x 65 | <u>(13)</u> | |
| Non-controlling interest's share of goodwill | | <u>2</u> |
| Total goodwill | | <u>20</u> |

Step 4 Calculate the non-controlling interest

| | |
|--|-----------|
| | \$000 |
| Share of subsidiary's net assets at reporting date | |
| 20% x \$70 | 14 |
| Non-controlling interest's share of goodwill | <u>2</u> |
| | <u>16</u> |

Step 5 Consolidated retained earnings

| | |
|---|-----------|
| | \$000 |
| P's retained earnings | 30 |
| P's share of S's post-acquisition retained earnings | |
| 80% x (\$20 - \$15) | <u>4</u> |
| | <u>34</u> |

Taking the balances from the consolidation schedules and then adding the other statement of financial position items together, the consolidated statement of financial position at 31 December 2008 can be constructed:

P Limited and its subsidiaries
Statement of financial position
As at 31 December 2008

| | \$000 |
|---|-------|
| ASSETS | |
| Non-current assets | |
| Property, plant and equipment (\$50 + \$40) | 90 |
| Goodwill on Business Combination | 20 |
| | 110 |
| Current assets | |
| Trade receivables (\$20 + \$30) | 50 |
| Cash and cash equivalents (\$10 + \$10) | 20 |
| | 70 |
| Total assets | 180 |
| EQUITY AND LIABILITIES | |
| Equity | |
| Ordinary share capital at \$1 each | 100 |
| Retained earnings | 34 |
| | 134 |
| Non-controlling interest | 16 |
| Total equity | 150 |
| Current liabilities | |
| Trade and other payables (\$20 + \$10) | 30 |
| Total current liabilities | 30 |
| Total equity and liabilities | 180 |

Conclusion

This last example includes all the three basic elements of preparing a consolidated statement of financial position:

- reserves in subsidiary company
- acquisition of less than 100% of S's shares
- acquisition earlier than current reporting date.

(XI) Amend Paragraph 3.7 ‘Minority interests and fair value adjustments’ as follows:

Minority interests non-controlling interest and fair value adjustments

In calculating goodwill,.....pre-acquisition reserves.

If there is a ~~minority interest~~ non-controlling interest to consider, the appropriate fraction of the fair value adjustment must be allocated to the ~~minority interest~~ non-controlling interest.

For example, if.....consolidation schedules.

~~80% of this surplus will be included in the goodwill calculation, while the minority’s 20% share will be included in the minority interest working.~~

The routine steps for preparing consolidated statement of financial position consolidation are:

- establish the group structure
- goodwill consolidation schedule
- ~~accumulated profits~~ retained earnings consolidation schedule
- ~~minority interest~~ non-controlling interest consolidation schedule
- consolidated statement of financial position preparation.

(XII) Paragraph 4 ‘Step-by-step procedure of preparing consolidated statement of financial position’:

- Amend Steps 2 to 5 as follows:

Step 2 Net assets of subsidiary

| | <i>At date of acquisition</i> | <i>At reporting date</i> |
|-------------------|-------------------------------|--------------------------|
| | \$ | \$ |
| Share capital | x | x |
| Retained earnings | x | x |
| Other reserves | x | x |
| | x | x |
| | x | x |

Step 3 Goodwill

| | | |
|---|----|----|
| | \$ | \$ |
| Cost of investment | | x |
| Less: parent's share of net assets at acquisition | | x |
| Goodwill on business combination - parent's share | | x |
| Fair value of non-controlling interest at acquisition | x | |
| Less: Non-controlling interest's share of net assets at acquisition | x | |
| Non-controlling interest's share of goodwill | | x |

| | |
|----------------|---|
| Total goodwill | x |
|----------------|---|

Step 4 Calculate the non-controlling interest

| | |
|--|----|
| | \$ |
| Share of subsidiary's net assets at reporting date | x |
| Non-controlling interest's share of goodwill | x |
| | x |

Step 5 Consolidated retained earnings

| | |
|---|----|
| | \$ |
| Parent's retained earnings | x |
| Parent's share of Subsidiary's post-acquisition retained earnings | x |
| | x |
| Less: Goodwill impairments to date | x |
| | x |

- Amend activity 1 as follows:

ACTIVITY 1

P acquired the shares in S on 1 January 20X4, when S had retained earnings of \$6,000. The summarised draft statements of financial position of the companies in a group at 31 December 20X4 were:

| | <i>P</i> | <i>S</i> |
|----------------------------------|----------|----------|
| | \$ | \$ |
| Property, plant and equipment | 100,000 | 30,000 |
| Trade receivables | 4,000 | 3,000 |
| Cash and cash equivalents | 2,000 | 1,000 |
| Investment in S (shares at cost) | 27,000 | – |
| | 133,000 | 34,000 |
| Share capital @\$1 | 100,000 | 20,000 |
| Retained earnings | 22,000 | 8,000 |
| Trade Payables | 11,000 | 6,000 |
| | 133,000 | 34,000 |

There has been no impairment of goodwill since acquisition.

Required:

- (1) Prepare the consolidated statement of financial position at 31 December 20X4, if P acquired all the shares in S for \$27,000 on 1 January 20X4.
- (2) Prepare the consolidated statement of financial position at 31 December 20X4, if P acquired 16,000 ordinary shares in S for \$27,000. At the date of business

- combination, the fair value of non-controlling shareholding in S was \$15,000.
- (3) Only 16,000 ordinary shares in S were purchased by P for \$27,000 on 1 January 20X4. At the date of business combination, the fair value of non-controlling shareholding in S was \$15,000. Property which was not depreciated was estimated by the directors of P to be under-valued by \$5,000 on 1 January 20X4. No adjustment has been made in the books of S.
- (i) prepare the journal entries to record the change in fair value of property in subsidiary; and
 - (ii) prepare the consolidated statement of financial position at 31 December 20X4.

(XIII) Amend answer to Activity 1:

- (1) Replace ‘minority interest’ with ‘non-controlling interest’.
- (2) Replace the answer with the following:

| P and its subsidiaries | |
|------------------------------------|-------|
| Statement of financial position | |
| As at 31 December 20X4 | |
| | \$000 |
| ASSETS | |
| Non-current assets | |
| Property, plant and equipment | 130.0 |
| Goodwill on Business Combination | 16.0 |
| | 146.0 |
| Current assets | |
| Trade receivables | 7.0 |
| Cash and cash equivalents | 3.0 |
| | 10.0 |
| Total assets | 156.0 |
| EQUITY AND LIABILITIES | |
| Equity | |
| Ordinary share capital at \$1 each | 100.0 |
| Retained earnings | 23.6 |
| | 123.6 |
| Non-controlling interest | 15.4 |
| Total equity | 139.0 |
| Current liabilities | |
| Trade and other payables | 17.0 |
| Total current liabilities | 17.0 |
| Total equity and liabilities | 156.0 |

Step 1 Establish the group structure

| | |
|--------------------------|------------|
| | % |
| Parent | 80 |
| Non-controlling interest | 20 |
| | <u>100</u> |

Step 2 Net assets of subsidiary

| | <i>At date of acquisition</i> | <i>At reporting date</i> |
|-------------------|-----------------------------------|------------------------------|
| | \$000 | \$000 |
| Share capital | 20 | 20 |
| Retained earnings | 6 | 8 |
| | <u>26</u> | <u>28</u> |

Step 3 Goodwill

| | \$000 | \$000 |
|--|-------|-------------|
| Cost of investment | | 27.0 |
| Less: parent's share of net assets at acquisition (\$26 x 80%) | | (20.8) |
| Goodwill on business combination - parent's share | | <u>6.2</u> |
| Fair value of non-controlling interest at acquisition | 15.0 | |
| Less: Non-controlling interest's share of net assets at acquisition (\$26 x 20%) | (5.2) | |
| Non-controlling interest's share of goodwill | | <u>9.8</u> |
| Total goodwill | | <u>16.0</u> |

Step 4 Calculate the non-controlling interest

| | \$000 |
|---|-------------|
| Share of subsidiary's net assets at reporting date (\$28 x 20%) | 5.6 |
| Non-controlling interest's share of goodwill | 9.8 |
| | <u>15.4</u> |

Step 5 Consolidated retained earnings

| | \$000 |
|---|-------------|
| P's retained earnings | 22.0 |
| P's share of S's post-acquisition retained earnings (\$2 x 80%) | 1.6 |
| | <u>23.6</u> |

- (3) Replace the answer with the following:

- (i) The journal entries to record the change in value of property in S:

| | | | |
|-----|-------------------------------|---------|---------|
| Dr. | Property, plant and equipment | \$5,000 | |
| | Cr. Revaluation reserves | | \$5,000 |

- (ii) Consolidated statement of financial position:

| | | |
|--|--|---------------------|
| P Limited and its subsidiaries | | |
| Statement of financial position | | |
| As at 31 December 20X4 | | |
| | | \$000 |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | | 135.0 |
| Goodwill on Business Combination | | 11.0 |
| | | <u>146.0</u> |
| Current assets | | |
| Trade receivables | | 7.0 |
| Cash and cash equivalents | | 3.0 |
| | | <u>10.0</u> |
| Total assets | | <u><u>156.0</u></u> |
| EQUITY AND LIABILITIES | | |
| Equity | | |
| Ordinary share capital at \$1 each | | 100.0 |
| Retained earnings | | 23.6 |
| | | <u>123.6</u> |
| Non-controlling interest | | 15.4 |
| Total equity | | <u>139.0</u> |
| Current liabilities | | |
| Trade and other payables | | 17.0 |
| Total current liabilities | | <u>17.0</u> |
| Total equity and liabilities | | <u><u>156.0</u></u> |
| Goodwill | | |
| | | \$000 |
| Cost of investment | | 27.0 |
| Less: parent's share of net assets at acquisition (\$31 x 80%) | | <u>(24.8)</u> |
| Goodwill on business combination - parent's share | | 2.2 |
| Non-controlling interest's share of goodwill | | 8.8 |
| Total goodwill | | <u>11.0</u> |

Calculate the non-controlling interest

| | |
|---|-------------|
| | \$000 |
| Share of subsidiary's net assets at reporting date (\$33 x 20%) | 6.6 |
| Non-controlling interest's share of goodwill | 8.8 |
| | <u>15.4</u> |

Revaluation reserves - The revaluation reserve is a pre-acquisition reserve and therefore none will be included in group reserves.

(XIV) Paragraph 5.2 'Current accounts':

- Add the following to Example 6:**

The fair value of non-controlling interest at date of acquisition was \$6,000.

- Replace steps 3, 4 & 6 and consolidated statement of financial position for the solution of Example 6 with the following:**

Step 3: Net assets of subsidiary

| | <i>At date of acquisition</i> | <i>At reporting date</i> |
|-------------------|-----------------------------------|------------------------------|
| | \$000 | \$000 |
| Share capital | 10 | 10 |
| Retained earnings | 12 | 20 |
| | <u>22</u> | <u>30</u> |

Step 4: Goodwill

| | \$000 | \$000 |
|--|-------|-------------------|
| Cost of investment | | 19.0 |
| Less: parent's share of net assets at acquisition (\$22 x 75%) | | <u>(16.5)</u> |
| Goodwill on business combination - parent's share | | 2.5 |
| Fair value of Non-controlling interest at date of acquisition | 6.0 | |
| Non-controlling interest's share of goodwill at date of acquisition (\$22x25%) | (5.5) | 0.5 |
| Total goodwill | | <u><u>3.0</u></u> |

Step 6: Calculate the non-controlling interest

| | |
|---|------------|
| | \$000 |
| Share of subsidiary's net assets at reporting date (\$30 X 25%) | 7.5 |
| Non-controlling interest's share of goodwill | 0.5 |
| | <u>8.0</u> |

P and its subsidiary

Consolidated statement of financial position at 31 December 20X4

| | |
|---|--------|
| | \$ |
| Goodwill (Step 4) | 3,000 |
| Sundry net assets | 57,000 |
| Cash and cash equivalents (10,000 + 23,000 + 1,000) | 34,000 |
| | ----- |
| | 94,000 |
| | ----- |
| Share capital | 50,000 |
| Retained earnings (Step 5) | 36,000 |
| Non-controlling interest (Step 6) | 8,000 |
| | ----- |
| Total equity | 94,000 |
| | ----- |

(XV) Paragraph 5.3(c) 'Conclusion':

Change 'minority interest(s)' to 'non-controlling interest'.

- **Add the following to Example 7:**

The fair value of non-controlling interest at date of acquisition was \$36,000.

- **Replace steps 3, 4 & 6 and consolidated statement of financial position for the solution of Example 6 with the following:**

Step 3: Net assets of subsidiary

| | <i>At date of acquisition</i> | <i>At reporting date</i> |
|-------------------|-----------------------------------|------------------------------|
| | ----- | ----- |
| | \$000 | \$000 |
| Share capital | 40 | 40 |
| Retained earnings | 50 | 60 |
| | ----- | ----- |
| | 90 | 100 |
| | ===== | ===== |

Step 4: Goodwill

| | | |
|---|--------|--------|
| | \$000 | \$000 |
| Cost of investment | | 75.0 |
| Less: parent's share of net assets at acquisition (\$90 x 80%) | | (72.0) |
| Goodwill on business combination - parent's share | | ----- |
| | | 3.0 |
| Fair value of non-controlling interest at acquisition | 36 | |
| Less: Non-controlling interest's share of net assets at acquisition | (18.0) | |
| | ----- | |
| Non-controlling interest's share of goodwill | | 18.0 |
| Total goodwill | | ----- |
| | | 21.0 |
| | | ===== |

Step 6: Calculate the non-controlling interest

| | |
|--|-------------|
| | \$000 |
| Share of subsidiary's net assets at reporting date (\$100 x 20%) | 20.0 |
| Non-controlling interest's share of goodwill | 18.0 |
| | <u>38.0</u> |
| Less: unrealised profit in inventory (\$1 x 20%) | (0.2) |
| | <u>37.8</u> |

P and its subsidiary
Consolidated statement of financial position at 31 December 20X4

| | |
|--|----------------|
| | \$ |
| ASSET | |
| Non-current assets | |
| Property, plant and equipment (80 + 90) | 170,000 |
| Goodwill (Step 3) | <u>21,000</u> |
| | <u>191,000</u> |
| Current assets | |
| Inventory (12 + 5 – 1) (Step 2) | 16,000 |
| Other current assets (103 + 105) | <u>208,000</u> |
| | <u>224,000</u> |
| Total assets | <u>415,000</u> |
| EQUITY AND LIABILITIES | |
| Equity attributable to owners of the parent | |
| Share capital | 50,000 |
| Retained earnings (Step 5) | <u>127,200</u> |
| | 177,200 |
| Non-controlling interest (Step 6) | <u>37,800</u> |
| Total equity | <u>215,000</u> |
| Current liabilities | |
| Trade and other payables (100 + 100) | <u>200,000</u> |
| Total current liabilities | <u>200,000</u> |
| Total equity and liabilities | <u>415,000</u> |

(XVI) Paragraph 6.1 'Preference shares in a subsidiary company':

- Change 'minority interest(s)' to 'non-controlling interest'.
- Replace 6.1(b) 'Goodwill on consolidation' with the following:

(b) Goodwill on consolidation

| | | |
|---|----|----|
| | \$ | \$ |
| Cost of investment (ordinary + preference shares) | | X |
| Less: Net assets acquired | | |
| A% × (ordinary shares + profit and loss) | | |

| | | |
|--|-------------|------------|
| at date of acquisition | | (X) |
| Preference share capital | X | |
| Group share | <u>× C%</u> | <u>(X)</u> |
| Goodwill on consolidation – parent’s share | | X |
| Fair value of non-controlling interest at acquisition | X | |
| Less: Non-controlling interest’s share of net assets at date of acquisition | <u>X</u> | |
| Non-controlling interest’s share of goodwill | | <u>X</u> |
| Total goodwill | | <u>X</u> |

- Replace 6.1(d) ‘Minority interest’ with the following:

(d) Non-controlling interest

| | | |
|---|------|----------|
| | \$ | \$ |
| Net assets of S attributable to ordinary shareholdings: | | |
| Ordinary share capital | X | |
| Retained earnings | X | |
| | ---- | |
| | X | |
| Non-controlling interest’s share | × B% | |
| | ---- | X |
| Attributable to preference shareholdings: | | |
| Preference share capital | X | |
| Non-controlling interest’s share | × D% | |
| | ---- | X |
| | | ---- |
| Share of subsidiary’s net assets at reporting date | | X |
| Non-controlling interest’s share of goodwill | | <u>X</u> |
| | | <u>X</u> |

- Amend the last paragraph of Example 6:
 - Show the consolidation schedules and shareholdings in S workings following as at 31 January 20X5:
 - (1) Shareholdings in S;
 - (2) Parent’s share of goodwill on consolidation;
 - (3) Consolidated retained earnings; and
 - (4) Non-controlling interest’s share of subsidiary’s net assets at reporting date.
- Amend the solution to Example 6:

Parent’s share of goodwill on consolidation:

| | | |
|---|----|----------|
| | \$ | \$ |
| Cost of investment (90 + 22) | | 112,000 |
| Less: Parent’s share of net assets at acquisition | | |
| 70% × (100,000 + 10,000) | | (77,000) |
| Preference share capital | | |
| 50,000 × 40% | | (20,000) |

15,000

Non-controlling interest's share of subsidiary's net assets at reporting date:

| | \$ | \$ |
|---|----|--------|
| Net assets of S at reporting date: | | |
| Attributable to ordinary shareholdings: | | |
| $30\% \times (100,000 + 30,000)$ | | 39,000 |
| Attributable to preference shareholdings: | | |
| $50,000 \times 60\%$ | | 30,000 |
| | | ----- |
| | | 69,000 |
| | | ----- |

(XVII) Paragraph 6.2 'Loan notes in a subsidiary company':

- Change 'minority interest(s)' to 'non-controlling interest'.
- Add the following paragraph just before "**You are required** to.....show." in ACTIVITY 2:

Additional information relevant for preparing consolidated statement of financial position:

- At the date of business combination, the fair value of non-controlling shareholding in Minimus was \$78,625.
- The Maximus Group uses the full goodwill method to value the non-controlling interest.
- There has been no impairment of goodwill since acquisition.
- Current assets include:

| | Maximus | Minimus |
|---------------------------|----------------|----------------|
| | \$ | \$ |
| Trade receivables | 100,000 | 100,000 |
| Inventory | 60,000 | 40,000 |
| Cash and cash equivalents | <u>40,000</u> | <u>3,500</u> |
| | <u>200,000</u> | <u>143,500</u> |

- Replace steps 3, 5 & 6 in Answer to Activity 2:

Step 3: Goodwill

| | \$ | \$ |
|--|---------|-----------|
| Cost of investment (185 + 55) | | 240,000 |
| Less: Share of net assets at acquisition | | |
| Ordinary share capital | 120,000 | |
| Revaluation reserve | 12,000 | |
| Retained earnings | 30,500 | |
| | ----- | |
| | 162,500 | |
| | × 75% | |
| | ----- | (121,875) |

| | | |
|--|----------|----------|
| Preference share capital | 80,000 | |
| | × 62.5% | |
| | ----- | (50,000) |
| Goodwill on business combination – parent's share | | 68,125 |
| Fair value of non-controlling interest at acquisition | 78,625 | |
| Less: Non-controlling interest's share of net assets at acquisition: | | |
| Attributable to ordinary shareholdings | | |
| 25% x (\$120,000 + \$12,000 + \$30,500) | (40,625) | |
| Attributable to ordinary shareholdings | | |
| 37.5% x \$80,000 | (30,000) | |
| | ----- | |
| Non-controlling interest's share of goodwill | | 8,000 |
| | | ----- |
| Total Goodwill | | 76,125 |
| | | ===== |

Step 5: Non-controlling interest

| | | |
|--|---------|--------|
| | \$ | \$ |
| Net assets of Minimus | | |
| Attributable to ordinary shareholdings | | |
| Ordinary share capital | 120,000 | |
| Revaluation reserve | 30,000 | |
| Retained earnings | 66,000 | |
| | ----- | |
| | 216,000 | |
| Non-controlling interest's share | × 25% | |
| | ----- | 54,000 |
| Attributable to preference shareholdings | | |
| Preference share capital | 80,000 | |
| Non-controlling interest's share | × 37.5% | |
| | ----- | 30,000 |
| | | ----- |
| Share of subsidiary's net assets at reporting date | | 84,000 |
| Non-controlling interest's share of goodwill | | 8,000 |
| | | ----- |
| Non-controlling interest | | 92,000 |
| | | ===== |

Step 6: Prepare the consolidated statement of financial position.

**Consolidated statement of financial position of Maximus and its subsidiary
Minimus at 31 December 20X4**

| | |
|----------------------------------|---------|
| | \$ |
| ASSETS | |
| Non-current assets | |
| Property, plant and equipment | 605,000 |
| Goodwill on Business Combination | 76,125 |
| | ----- |
| | 681,125 |
| Current assets | |
| Trade receivables | 200,000 |

| | |
|------------------------------------|------------------|
| Inventory | 96,200 |
| Cash and cash equivalents | 43,500 |
| | <hr/> |
| | 339,700 |
| | <hr/> |
| Total assets | <u>1,020,825</u> |
| EQUITY AND LIABILITIES | |
| Equity | |
| Ordinary share capital at \$1 each | 500,000 |
| Revaluation surplus | 63,500 |
| Retained earnings | 172,825 |
| | <hr/> |
| | 736,325 |
| Non-controlling interest | 92,000 |
| | <hr/> |
| Total equity | <u>828,325</u> |
| Non-current liabilities | |
| 7% loan notes | 30,000 |
| | <hr/> |
| | 30,000 |
| Current liabilities | |
| Trade and other payables | 162,500 |
| | <hr/> |
| Total current liabilities | <u>162,500</u> |
| Total liabilities | <u>192,500</u> |
| Total equity and liabilities | <u>1,020,825</u> |

(XVIII) Paragraph 7.1 ‘Introduction’:

- Delete the last paragraph “However, HKAS 10.....follow this practice.”

(XIX) Paragraph 7.3 ‘Dividend not accrued’:

- Add the following paragraph just before “Prepare the.....20X4” in EXAMPLE 9:

Additional information relevant for preparing consolidated statement of financial position:

- At the date of business combination, the fair value of non-controlling shareholding in subsidiary was \$21,400.
 - There has been no impairment of goodwill since acquisition.
- Delete the following paragraph in EXAMPLE 9:

~~Goodwill has been fully written off.~~

- Replace steps 3& 5 and Consolidated Statement of Financial Position in Solution to EXAMPLE 9:

Step 3: Goodwill

| | | |
|---|----------|----------|
| | \$ | \$ |
| Cost of investment | | 55,000 |
| Less: Parent's share of net assets at acquisition | | |
| 80% x (50,000 + 12,000) | | (49,600) |
| Preference share capital | | |
| 30% x 10,000 | | (3,000) |
| | | ----- |
| Goodwill on business combination – parent's share | | 2,400 |
| Fair value of non-controlling interest at acquisition | 21,400 | |
| Less: Non-controlling interest's share of net assets at acquisition | | |
| Attributable to ordinary shareholdings | | |
| 20% x (\$50,000 + \$12,000) | (12,400) | |
| Attributable to preference shareholdings | | |
| 70% x \$10,000 | (7,000) | |
| | | ----- |
| Non-controlling interest's share of goodwill | | 2,000 |
| | | ----- |
| Total goodwill | | 4,400 |
| | | ===== |

Step 5: Minority interest

| | | |
|--|--------|--------|
| Net assets | \$ | \$ |
| Attributable to ordinary shareholdings | | |
| Ordinary share capital | 50,000 | |
| Accumulated profits (42,000 – 2,000) | 40,000 | |
| | | ----- |
| | | 90,000 |
| Minority share | × 20% | |
| | | ----- |
| | | 18,000 |
| Attributable to preference shareholdings | | |
| Preference share capital | 10,000 | |
| | × 70% | |
| | | ----- |
| | | 7,000 |
| | | ----- |
| | | 25,000 |
| Non-controlling interest's share of goodwill | | 2,000 |
| | | ----- |
| | | 27,000 |
| | | ===== |

Upminster and its subsidiary
Consolidated statement of financial position
as at 31 December 20X4

| | | |
|----------------------------|----|---------|
| | \$ | \$ |
| Non-current assets: | | |
| Tangible assets (100 + 92) | | 192,000 |
| Goodwill (Step 3) | | 4,400 |
| Current assets (45 + 31) | | 76,000 |

| | | |
|---|---------|---------------------------|
| Total assets | | ----- 290,400 ===== |
| Capital and reserves: | | |
| Ordinary share capital | 100,000 | |
| Retained earnings | 111,000 | ----- |
| | | 211000 |
| Non-controlling interests | | 27,000 ----- |
| Total equity | | 238,000 |
| Current liabilities: | | |
| Sundry payables (20 + 11) | 31,000 | |
| Dividend payable to minority shareholders | 3,400 | ----- |
| | | 34,400 ----- |
| Total equity and liabilities | | 272,400 ===== |

(XX) Amend Paragraph 7.4 ‘Loan interest payable by a subsidiary’:

The receiving company should....liability, not as part of ~~minority interests~~ non-controlling interest.

(XXI) Amend Paragraph 8.1 ‘Disclosure requirements – HKFRS 3’:

- after the ~~statement of financial position date~~ end of the reporting period but before the financial statements are authorized for issue.

(XXII) Conclusion:

The basic procedure for.....deal with:

- cancelling items
- goodwill on acquisition
- ~~minority interest~~ non-controlling interest
- inter-company transactions.

(XXIII) EXAM-TYPE QUESTION 1:

- Insert the following to EXAM-TYPE QUESTION 1:

At the date of business combination, the fair value of non-controlling shareholding in Dixie was \$15,000. The Pixie Group uses the full goodwill method to value the non-controlling interest. There has been no impairment of goodwill since acquisition.

- Replace the consolidated statement of financial position, workings 6, 7 & 8 in Answer to EXAM-TYPE QUESTION 1 with the following:

Pixie and its subsidiary

Consolidated statement of financial position as at 31 December 20X9

\$

ASSETS

| | |
|----------------------------------|-----------------------|
| Non-current assets | |
| Tangible assets | 320,600 |
| Goodwill on Business Combination | 6,500 |
| | <u>327,100</u> |
| Current assets | 149,500 |
| Total assets | <u><u>476,600</u></u> |

EQUITY AND LIABILITIES

| | |
|------------------------------------|-----------------------|
| Equity | |
| Ordinary share capital at \$1 each | 200,000 |
| Retained earnings | 150,685 |
| | <u>350,685</u> |
| Non-controlling interest | 47,715 |
| Total equity | <u>398,400</u> |
| Current liabilities | |
| Trade and other payables | 78,200 |
| Total current liabilities | <u>78,200</u> |
| Total liabilities | <u>78,200</u> |
| Total equity and liabilities | <u><u>476,600</u></u> |

(W6) Goodwill

| | | |
|---|----------|---------------------|
| | \$ | \$ |
| Cost of investment | | 73,000 |
| Less: Share of net assets at acquisition | | |
| 75% × 70,000 (W5) | | (52,500) |
| Preference share capital | | |
| 40% × 40,000 | | (16,000) |
| | | <u>4,500</u> |
| Goodwill on acquisition – parent’s share | | 4,500 |
| Fair value of non-controlling interest at acquisition | 43,500 | |
| Less: Non-controlling interest’s share of net assets at acquisition | | |
| Attributable to ordinary shareholdings | | |
| 25% × (\$50,000 + \$20,000) | (17,500) | |
| Attributable to preference shareholdings | | |
| 60% × \$40,000 | (24,000) | |
| | ----- | |
| Non-controlling interest’s share of goodwill | | 2,000 |
| | | ----- |
| Total goodwill | | <u><u>6,500</u></u> |
| | | ===== |

| | | |
|--|---------|---------|
| (W7) Consolidated retained earnings | | |
| | \$ | \$ |
| Pixie : Per question | 120,000 | |
| Add: dividends receivable (W4) | 2,435 | |
| | ————— | 122,435 |
| Dixie: 75% (38,000 – 7,000 (W3) – 20,000) (W5) | | 8,250 |
| | | ————— |
| Add: Proposed dividend | | 130,685 |
| | | 20,000 |
| | | ————— |
| | | 150,685 |
| | | ===== |
| (W8) Minority interest | | \$ |
| Net assets of Dixie | | |
| 25% × (88,000 (W5) – 7,000) | | 20,250 |
| Preference share capital | | |
| 60% × 40,000 | | 24,000 |
| | | ————— |
| | | 44,250 |
| Non-controlling interest's share of goodwill | | 2,000 |
| | | ----- |
| | | 46,250 |
| Add: dividend due to minority | | 1,465 |
| | | ----- |
| | | 47,715 |
| | | ===== |

Chapter 13 – Group Accounting - 2

- (I) Change all 'minority interest(s)' of this chapter to 'non-controlling interest'.
- (II) Paragraph 1.5 'Accumulated profits brought forward':
- Change 'accumulated profits' to 'retained earnings'.
- (III) Amend the Consolidated Statement of Financial Position, Workings (3) and (4) in EXAMPLE 9

H Limited and its subsidiaries

Consolidated statement of financial position as at 31 March 20X7

| | | |
|--|---------------|------------|
| | \$000 | |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment (3,820 + 4,425) | 8,245 | |
| Goodwill (W3) | 485 | |
| Investment in associate (W6) | <u>420</u> | |
| | <u>9,200</u> | |
| Current assets | | |
| Inventory (2,740 + 1,280 – 40) | 3,980 | |
| Trade receivables (1,960 + 980 – 250) | 2,690 | |
| Cash and cash equivalence(1,260 + 50 cash in transit) | <u>1,310</u> | |
| | <u>7,980</u> | |
| Total assets | <u>17,130</u> | |
| EQUITY AND LIABILITIES | | |
| Equity attributable to owners of the parent | | |
| Ordinary shares of 25 cents each | 4,000 | |
| Share premium | 800 | |
| Retained earnings (W5) | <u>4,272</u> | |
| | 9,072 | |
| Minority interest (W4) | <u>258</u> | |
| Total equity | <u>9,330</u> | |
| Current liabilities | | |
| Trade payables (2,120 + 3,070 – 200) | 4,990 | |
| Bank overdraft | 2,260 | |
| Current tax payable (400 + 150) | <u>550</u> | |
| Total current liabilities | <u>7,800</u> | |
| Total equity and liabilities | <u>17,130</u> | |
| | | |
| (W3) Goodwill | \$000 | \$000 |
| Cost of investment (0.75 × 1,600) | | 1,200 |
| Net assets acquired (80% × 925 (W1)) | | <u>740</u> |
| Goodwill at acquisition – Parent’s share | | 460 |
| Fair value of non-controlling interest at acquisition | 210 | |
| Less: Non-controlling interest’s share of net assets at acquisition 20% x (\$500 + \$120 + \$300) | <u>185</u> | |
| Non-controlling interest’s share of goodwill | | 25 |
| | | ----- |
| Total goodwill | | 485 |
| | | ===== |

| | |
|--|-------|
| (W4) Non-controlling interest | \$000 |
| Share of net assets (20% × 1,165) | 233 |
| Non-controlling interest's share of goodwill | 25 |
| | ----- |
| | 258 |
| | ===== |

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Remark: This PBE Paper I has been updated on HKFRS and HKAS as of 30 November 2008.