Question 21.4 Full goodwill method, multiple years

On 1 July 2016, Huntsman Ltd acquired 90% the issued shares of Spider Ltd for $140 300. At this date the equity of Spider Ltd consisted of $100 000 share capital and $50 000 retained earnings. All the identifiable assets and liabilities of Spider Ltd were recorded at amounts equal to fair value except for plant for which the carrying amount of $80 000 (net of accumulated depreciation of $40 000) was $3000 less than the fair value. The plant was estimated to have a further 3-year life. The fair value of the non-controlling interest was $15 500. Huntsman Ltd uses the full goodwill method.

The following annual results were recorded by Spider Ltd following the business combination:

Year ended	**Profit/(loss)**	**Other items of comprehensive income**
30 June 2017	**$8 000**	**$2 000**
30 June 2018	**9 000**	**3 000**
30 June 2019	**10 000**	**4 000**
30 June 2020	**11 000**	**5 000**

The other items of comprehensive income relate to the gains on land of Spider Ltd that are recorded at fair value under the revaluation method of measurement. The group transfers the revaluation reserves to retained earnings when an asset is sold or fully consumed.

The tax rate is 30%.

Required

Prepare the consolidation worksheet entries for the preparation of consolidated financial statements of Huntsman Ltd for each of the years ending 30 June 2017–20.

$$\text{Huntsman Ltd} \xrightarrow{90\%} \text{Spider Ltd}$$

Huntsman Ltd 90%
NCI 10%

<u>Acquisition analysis</u>

1 July 2016

Net fair value of identifiable assets and liabilities of Spider Ltd	=	($100 000 + $50 000) (equity) + $3 000 (1 – 30%) (plant)
	=	$152 100
(a) Consideration transferred	=	$140 300
(b) Non-controlling interest	=	$15 500
Aggregate of (a) and (b)	=	$155 800
Goodwill	=	$155 800 – $152 100
	=	$3 700

Goodwill of Spider Ltd

Fair value of Spider Ltd	=	$15 500/0.1
	=	$155 000
Fair value of INA of Spider Ltd	=	$152 100
Goodwill of Spider Ltd	=	$2 900

Goodwill of Huntsman Ltd

Goodwill acquired	=	$3 700
Goodwill of Spider Ltd	=	$2 900
Control premium	=	$800

1. <u>Consolidation Worksheet Entries - 1 July 2016</u>

1. Business combination valuation entries

Accumulated depreciation - plant	Dr	40 000	
Plant	Cr		37 000
Deferred tax liability	Cr		900
Business combination valuation reserve	Cr		2 100
Goodwill	Dr	2 900	
Business combination valuation reserve	Cr		2 900

2. Pre-acquisition entries

Retained earnings (1/7/16)	Dr	45 000	
Share capital	Dr	90 000	
Business combination valuation reserve	Dr	4 500	
Goodwill	Dr	800	
Shares in Spider Ltd	Cr		140 300

3. NCI share of equity at 1 July 2016

Retained earnings (1/7/16)	Dr	5 000	
Share capital	Dr	10 000	
Business combination valuation reserve	Dr	500	
NCI	Cr		15 500
(10% of balances at 1 July 2016)			

2. <u>Consolidation Worksheet Entries - 30 June 2017</u>

1. Business combination valuation entries

Accumulated depreciation - plant	Dr	40 000	
Plant	Cr		37 000
Deferred tax liability	Cr		900
Business combination valuation reserve	Cr		2 100
Depreciation expense	Dr	1 000	
Accumulated depreciation - plant	Cr		1 000
(1/3 x $3 000 p.a.)			
Deferred tax liability	Dr	300	
Income tax expense	Cr		300
Goodwill	Dr	2 900	
Business combination valuation reserve	Cr		2 900

2. Pre-acquisition entry

Retained earnings (1/7/16)	Dr	45 000	
Share capital	Dr	90 000	
Business combination valuation reserve	Dr	4 500	
Goodwill	Dr	800	
Shares in Spider Ltd	Cr		140 300

3. NCI share of equity at 1 July 2016

Retained earnings (1/7/16)	Dr	5 000	
Share capital	Dr	10 000	
Business combination valuation reserve	Dr	500	
NCI	Cr		15 500

4. NCI share of equity: 1 July 2016 - 30 June 2017

NCI share of profit	Dr	730	
NCI	Cr		730
(10% [$8000 – ($1 000 - $300))			

Asset revaluation surplus	Dr	200	
NCI	Cr		200
(10% x $2 000)			

3. <u>Consolidation Worksheet Entries - 30 June 2018</u>

Accumulated depreciation - plant	Dr	40 000	
Plant	Cr		37 000
Deferred tax liability	Cr		900
Business combination valuation reserve	Cr		2 100

Depreciation expense	Dr	1 000	
Retained earnings (1/7/17)	Dr	1 000	
Accumulated depreciation - plant	Cr		2 000
(1/3 x $3 000 p.a. for 2 years)			

Deferred tax liability	Dr	600	
Income tax expense	Cr		300
Retained earnings (1/7/17)	Cr		300

Goodwill	Dr	2 900	
Business combination valuation reserve	Cr		2 900

2. Pre-acquisition entry

Retained earnings (1/7/17)	Dr	45 000	
Share capital	Dr	90 000	
Business combination valuation reserve	Dr	4 500	
Goodwill	Dr	800	
Shares in Spider Ltd	Cr		140 300

3. NCI share of equity at 1 July 2016

Retained earnings (1/7/17)	Dr	5 000	
Share capital	Dr	10 000	
Business combination valuation reserve	Dr	500	
NCI	Cr		15 500

4. NCI share of equity: 1 July 2016 - 30 June 2017

Retained earnings (1/7/17)	Dr	730	
Asset revaluation surplus	Dr	200	
NCI	Cr		930

(RE: 10% ($8 000 – [$1 000 - $300])
ARS: 10% x $2 000

This entry is the combination of the previous year's entries for NCI for 1/7/16 – 30/6/17

5. NCI share of equity: 1 July 2017 - 30 June 2018

NCI share of profit	Dr	830	
NCI	Cr		830
(10% ($9 000 – [$1 000 - $300])			
Asset revaluation surplus	Dr	300	
NCI	Cr		300
(10% x $3000)			

4. <u>Consolidation Journal entries - 30 June 2019</u>

1. Business combination valuation entries

Depreciation expense - plant	Dr	1 000	
Income tax expense	Cr		300
Retained earnings (1/7/18)	Dr	1 400	
Transfer from business combination valuation reserve	Cr		2 100
Goodwill	Dr	2 900	
Business combination valuation reserve	Cr		2 900

2. Pre-acquisition entry

Retained earnings (1/7/18)	Dr	45 000	
Share capital	Dr	90 000	
Business combination valuation reserve	Dr	4 500	
Goodwill	Dr	800	
Shares in Spider Ltd	Cr		140 300
Transfer from business combination reserve	Dr	1 890	
Business combination valuation reserve	Cr		1 890

3. NCI share of equity at 1 July 2016

Retained earnings (1/7/17)	Dr	5 000	
Share capital	Dr	10 000	
Business combination valuation reserve	Dr	500	
NCI	Cr		15 500

4. NCI share of equity: 1 July 2016 - 30 June 2018

Retained earnings (1/7/17)	Dr	1 560	
Asset revaluation surplus	Cr	500	
NCI	Cr		2 060

RE: 10% ($8 000 + $9 000 – $1 400 plant)

ARS: 10% ($2 000 + $3 000)

This entry is the combination of the previous year's entries (no. 4 & 5) for NCI for 1/7/16 – 30/6/18

5. NCI share of equity: 1 July 2018 - 30 June 2019

NCI share of profit	Dr	930	
NCI	Cr		930
(10% [10 000– ($1000 - $300)])			
Transfer from business combination valuation reserve	Dr	210	
Business combination valuation reserve	Cr		210
(10% x $2 100 plant)			
Asset revaluation surplus	Dr	400	
NCI	Cr		400
(10% x $4 000)			

5. <u>Consolidation Journal entries - 30 June 2020</u>

1. Business combination valuation entries

Goodwill	Dr	2 900	
Business combination valuation reserve	Cr		2 900

2. Pre-acquisition entry

Retained earnings (1/7/19)	Dr	46 890	
Share capital	Dr	90 000	
Business combination valuation reserve	Dr	2 610	
Goodwill	Dr	800	
Shares in Spider Ltd	Cr		140 300

3. NCI share of equity at 1 July 2016

Retained earnings (1/7/19)	Dr	5 000	
Share capital	Dr	10 000	
Business combination valuation reserve	Dr	500	
NCI	Cr		15 500

4. NCI share of equity: 1 July 2016 - 30 June 2019

Retained earnings (1/7/19)	Dr	2 700	
Asset revaluation surplus	Cr	900	
NCI	Cr		3 600

RE: 10% ($8 000 + $9 000 + $10 000)

ARS: 10% ($2 000 + $3 000 + $4000)

This entry is the combination of the previous year's entries (no. 4 & 5) for NCI for 1/7/16 – 30/6/19

5. NCI share of equity: 1 July 2019 - 30 June 2020

NCI share of profit	Dr	1 100	
NCI	Cr		1 100
(10% x $11 000)			

Asset revaluation surplus	Dr	500	
NCI	Cr		500
(10% x $5 000)			

Question 21.8 Partial and full goodwill methods, dividends

Thorny Ltd acquired 80% of the shares (*cum div.*) of Devil Ltd on 1 July 2016 for $303 000. At this date the shareholders' equity of Devil Ltd consisted of:

Share capital	**$ 150 000**
General reserve	**60 000**
Retained earnings	**75 000**

At this date all the identifiable assets and liabilities of Devil Ltd were recorded at amounts equal to their fair values except for the following:

	Carrying amount	Fair value
Patents	**$100 000**	**$130 000**
Machinery (cost $140 000)	**110 000**	**117 500**
Buildings (cost $32 000)	**25 000**	**25 000**
Inventory	**60 000**	**70 000**

Information about the assets and liabilities of Devil Ltd at 1 July 2016 included:

- **The patents were considered to have an indefinite useful life.**
- **It was estimated that the machinery had a remaining useful life of 5 years. The machinery was sold on 1 January 2019.**
- **At 1 July 2016, Devil Ltd had not recorded an internally developed brand. The fair value placed on the brand was $65 000. It was considered to have an indefinite useful life.**
- **Devil Ltd had recorded goodwill of $7500 from a business combination undertaken in 2014.**
- **One of the liabilities existing at 1 July 2016 was dividends payable of $7500.**

The following events were recorded by Devil Ltd in the years subsequent to the acquisition date:

2016		
Aug.	**15**	**Paid the $7500 dividend on hand at 1 July 2016.**
2017		
June	**28**	**Declared a dividend of $12 000.**
	30	**Reported a profit of $30 000.**
Aug.	**16**	**Paid the $12 000 dividend declared in June.**
2018		
June	**28**	**Transferred half the general reserve existing at 1 July 2016 to retained earnings.**
	29	**Declared a dividend of $9000.**
	30	**Reported a profit of $37 500.**
Aug.	**15**	**Paid the $9000 dividend declared in June.**
Dec.	**29**	**Paid an interim dividend of $7500.**
2019		
June	**26**	**Transferred $9000 from retained earnings to general reserve.**
	28	**Declared a dividend of $12 000.**
	30	**Reported a profit of $45 000.**

Required

A. **Prepare the consolidated worksheet entries for the preparation of the consolidated financial statements of Thorny Ltd at 30 June 2019. Assume Thorny Ltd uses the partial goodwill method.**

B. **As for A except that Thorny Ltd uses the full goodwill method. At 1 July 2016, Thorny Ltd valued the non-controlling interest in Devil Ltd at $73 870.**

80%

Thorny Ltd → Devil Ltd

Thorny Ltd 80%
NCI 20%

A: PARTIAL GOODWILL METHOD

At 1 July 2016:

Net fair value of identifiable assets and liabilities of Devil Ltd	=	($150 000 +$60 000 + $75 000) (equity)
		+ $30 000 (1 – 30%) (patents)
		+ $7 500 (1 – 30%) (machinery)
		+ $10 000 (1 – 30%) (inventory)
		+ $65 000 (1 – 30%) (brand)
		- $7 500 (goodwill)
	=	$356 250
(a) Consideration transferred	=	$303 000 – (80% x $7 500) (divs rec)
	=	$297 000
(b) Non-controlling interest	=	20% x $356 250
	=	$71 250
Aggregate of (a) and (b)	=	$368 250
Goodwill acquired – parent only	=	$368 250- $356 250
	=	$12 000
Unrecorded goodwill acquired	=	$12 000 - (80% x $7 500)
	=	$6 000

Working:

	Devil Ltd
Retained earnings (1/7/16)	*$75 000*
Profit 2016-17	*30 000*
Dividend declared	*(12 000)*
Retained earnings (30/6/17)	*93 000*
Transfer from general reserve	*30 000*
Dividend declared	*(9 000)*
Profit 2017-18	*37 500*
Retained earnings (30/6/18)	*151 500*
Interim dividend paid	*(7 500)*
Transfer to general reserve	*(9 000)*
Dividend declared	*(12 000)*
Profit 2018-19	*45 000*
Retained earnings (30/6/19)	*$168 000*

QUESTION 21.8 (cont'd)

A. CONSOLIDATION WORKSHEET ENTRIES AT 30 JUNE 2019

1. Business combination valuation entries

Patents	Dr	30 000	
Deferred tax liability	Cr		9 000
Business combination valuation reserve	Cr		21 000

Depreciation expense	Dr	750	
Gain on machinery sold *	Dr	3 750	
Income tax expense	Cr		1 350
Retained earnings (1/7/12)	Dr	2 100	
Transfer from business combination valuation reserve	Cr		5 250

** $1500 x 2.5 yrs*

Accumulated depreciation –buildings	Dr	7 000	
Buildings	Cr		7 000

Brand	Dr	65 000	
Deferred tax liability	Cr		19 500
Business combination valuation reserve	Cr		45 500

2. Pre-acquisition entries

Retained earnings (1/7/18) *	Dr	89 600	
Share capital	Dr	120 000	
General reserve	Dr	24 000	
Business combination valuation reserve	Dr	57 400	
Goodwill	Dr	6 000	
Shares in Devil Ltd	Cr		297 000

** (80% x $75 000) + (80% x $30 000) (GR transfer) + 80%(70% x $10000) (BCVR inv)*

Transfer from business combination valuation reserve	Dr	4 200	
Business combination valuation reserve	Cr		4 200

(80% x 70% x $7 500)

3. NCI share of equity at 1/7/16

Retained earnings (1/7/18)	Dr	15 000	
Share capital	Dr	30 000	
General reserve	Dr	12 000	
Business combination valuation reserve	Dr	15 750	
NCI	Cr		72 750

(20% of balances)

QUESTION 21.8 (cont'd)

4. <u>NCI share of equity: 1/7/16 - 30/6/18</u>

Retained earnings (1/7/18) *	Dr	14 880	
Business combination valuation reserve **	Cr		1 400
General reserve	Cr		6 000
NCI	Cr		7 480

**20%[$151 500 - $75 000] - $2 100 machinery)*
*** 20% x 70% x $10 000 inventory*

5. NCI share of equity: 1/7/18 - 30/6/19

NCI share of profit	Dr	8 370	
NCI	Cr		8 370

(20%($45 000 - ($750 + $3750 - $1 350))

General reserve	Dr	1 800	
Transfer to general reserve	Cr		1 800

(20% x $9 000)

Transfer from business combination valuation reserve	Dr	1 050	
Business combination valuation reserve	Cr		1 050

(20% x 70% x $7 500)

NCI	Dr	1 500	
Dividend paid	Cr		1 500

(20% x $7 500)

NCI	Dr	2 400	
Dividend declared	Cr		2 400

(20% x $12 000)

7. Dividend paid

Dividend revenue	Dr	6 000	
Dividend paid	Cr		6 000

(80% x $7 500)

8. Dividend declared

Dividend payable	Dr	9 600	
Dividend declared	Cr		9 600

(80% x $12 000)

Dividend revenue	Dr	9 600	
Dividend receivable	Cr		9 600

QUESTION 21.8 (cont'd)
B: FULL GOODWILL METHOD
At 1 July 2016:

Net fair value of identifiable assets and liabilities of Devil Ltd	=	($150 000 +$60 000 + $75 000) (equity)
		+ $30 000 (1 – 30%) (patents)
		+ $7 500 (1 – 30%) (machinery)
		+ $10 000 (1 – 30%) (inventory)
		+ $65 000 (1 – 30%) (brand)
		- $7 500 (goodwill)
	=	$356 250
(a) Consideration transferred	=	$303 000 – (80% x $7 500) (divs rec)
	=	$297 000
(b) Non-controlling interest	=	$73 870
Aggregate of (a) and (b)	=	$370 870
Goodwill	=	$14 620
Recorded goodwill	=	$7 500
Unrecorded goodwill	=	$7 120

Goodwill of Devil Ltd:

Fair value of Devil Ltd	=	$73 870/0.2
	=	$369 350
Net fair value of identifiable assets and liabilities of Devil Ltd	=	$356 250
Goodwill of Devil Ltd	=	$13 100
Recorded goodwill	=	$7 500
Unrecorded goodwill	=	$5 600

Goodwill of Thorny Ltd:

Goodwill acquired	=	$14 620
Goodwill of Devil Ltd	=	$13 100
Goodwill of Thorny Ltd – control premium	=	$1 520

DIFFERENT ENTRIES:
Business combination valuation entries
There is an extra BCVR entry under the full goodwill method:

Goodwill	Dr	5 600	
Business combination valuation reserve	Cr		5 600

Pre-acquisition entry
The pre-acquisition changes under the full goodwill method:

Retained earnings (1/7/18) *	Dr	89 600	
Share capital	Dr	120 000	
General reserve	Dr	24 000	
Business combination valuation reserve	Dr	61 880	
Goodwill	Dr	1 520	
Shares in Devil Ltd	Cr		297 000

** (80% x $75 000) + (80% x $30 000) (GR transfer) + 80%(70% x $10000) (BCVR inv)*

QUESTION 21.8 (cont'd)

The first step in the calculation of the NCI changes to be:

NCI share of equity at 1/7/16

Retained earnings (1/7/18)	Dr	15 000	
Share capital	Dr	30 000	
General reserve	Dr	12 000	
Business combination valuation reserve *	Dr	16 870	
NCI	Cr		73 870

** now includes 20% x $5 600 of BCVR – goodwill = $1 120*

Question 21.14 Partial and full goodwill methods, consolidation worksheet entries

On 1 July 2012, Fin Ltd acquired 75% of the shares (*cum div.*) of Whale Ltd for $67 500. At this date the equity of Whale Ltd consisted of:

Share capital	**$ 30 000**
General reserve	**3 000**
Retained earnings	**15 000**

At the date of the business combination, all the identifiable assets and liabilities of Whale Ltd had carrying amounts equal to their fair values except for:

	Carrying amount	Fair value
Plant (cost $60 000)	**$40 000**	**$55 000**
Inventory	**25 000**	**31 000**
Receivables	**33 000**	**30 000**

The plant had a further useful life of 5 years. It was sold by Whale Ltd on 1 April 2017 for $3000. At 30 June 2013, all the inventory was sold to entities outside the group. Also, by 30 June 2013, receivables of $33 000 had been collected. One of the liabilities of Whale Ltd at 1 July 2012 was dividend payable of $10 000. The tax rate is 30%. Fin Ltd uses the partial goodwill method.

Additional information

(a) At 30 June 2016, inventory of Fin Ltd included assets sold to it by Whale Ltd for a before-tax profit of $300. These items were sold to external entities during the 2016–17 year.

(b) During the 2016–17 year, Whale Ltd had sold inventory to Fin Ltd for $60 000. The mark-up on sales was 25% on cost. At 30 June 2017, Fin Ltd still had some of this inventory on hand, amounting to items acquired from Whale Ltd for $3000.

(c) On 1 January 2017, Whale Ltd sold plant to Fin Ltd for a before-tax profit of $1200. This plant was carried at $3000 (original cost $20 000) in the records of Whale Ltd at time of sale. Depreciation on this type of plant is calculated using a 20% p.a. straight-line method.

(d) Financial information provided by Whale Ltd concerning events affecting it during the 2016–17 year was as follows:

Profit for the year	**$23 400**
Retained earnings at 1 July 2016	**30 000**
	53 400
Dividend paid	**(12 000)**
Dividend declared	**(6 000)**
Transfer to general reserve	**(1 500)**
	19 500
Retained earnings at 30 June 2017	**$33 900**

Whale Ltd also reported a comprehensive income for the year of $34 650, which included gains on revaluation of land of $750 as the asset revaluation surplus in relation to the land had increased from $3000 to $3750 over the year.

Required

A. Prepare the consolidation worksheet entries for the preparation of the consolidated financial statements of Fin Ltd at 30 June 2017.

B. Prepare the consolidation worksheet entries that would be used at 30 June 2017 if Fin Ltd had used the full goodwill method and the fair value of the non-controlling interest at 1 July 2012 was $19 500.

	75%	
Fin Ltd	⟶	**Whale Ltd**
		Fin Ltd *75%*
		NCI *25%*

A: PARTIAL GOODWILL METHOD

<u>Acquisition analysis</u>

At 1 July 2012:

Net fair value of identifiable assets and liabilities of Whale Ltd	=	(\$30 000 + \$3 000 + \$15 000) (equity)
		+ \$15 000 (1 – 30%)(plant)
		+ \$6 000 (1 – 30%) (inventory)
		- \$3 000 (1 – 30%) (receivables)
	=	\$60 600
(a) Consideration transferred	=	\$67 500 – (75% x \$10 000) (div)
	=	\$60 000
(b) Non-controlling interest	=	25% x \$60 600
	=	\$15 150
Aggregate of (a) and (b)	=	\$75 150
Goodwill	=	\$75 150 - \$60 600
	=	\$14 550

1. Business combination valuation entries at 30/6/17

Depreciation expense	Dr	2 250	
Gain/(loss) on sale of plant	Dr	750	
Income tax expense	Cr		900
Retained earnings (1/7/12)	Dr	8 400	
Transfer from business combination valuation reserve	Cr		10 500

(Depreciation is 20% x \$15 000 per annum)

2. Pre-acquisition entries at 30/6/17

<u>Pre-acquisition entries at 1/7/12</u>

Retained earnings (1/7/12)	Dr	11 250	
Share capital	Dr	22 500	
Business combination valuation reserve	Dr	9 450	
General reserve	Dr	2 250	
Goodwill	Dr	14 550	
Shares in Whale Ltd	Cr		60 000

QUESTION 21.14 (cont'd)

Pre-acquisition entry at 30/6/17

Retained earnings (1/7/16) *	Dr	12 825	
Share capital	Dr	22 500	
Business combination valuation reserve **	Dr	7 875	
General reserve	Dr	2 250	
Goodwill	Dr	14 550	
Shares in Whale Ltd	Cr		60 000

** 75%[$15 000 + $4 200 (inventory) – $2 100 (receivables)]*
*** 75% x $10 500 plant*

Transfer from business combination valuation reserve	Dr	7 875	
Business combination valuation reserve	Cr		7 875
(75% x $10 500)			

3. NCI share of equity at 1/7/12

Retained earnings (1/7/16)	Dr	3 750	
Share capital	Dr	7 500	
Business combination valuation reserve	Dr	3 150	
General reserve	Dr	750	
NCI	Cr		15 150
(25% of balances)			

4. NCI share of equity: 1/7/12 - 30/6/16

Retained earnings (1/7/15)	Dr	1 650	
Asset revaluation surplus (1/7/15)	Dr	750	
Business combination valuation reserve	Cr		525
NCI	Cr		1 875

RE: 25% ($30 000 - $15 000 - $8 400)
BCVR: 25% (70% [$6 000 - $3 000])
ARS: 25% x $3 000

QUESTION 21.14 (cont'd)

5. NCI share of equity: 1/7/16 - 30/6/17

NCI share of profit	Dr	5 325	
NCI	Cr		5 325
(25%($23 400 – ($2 250 + $750 - $900)))			
General reserve	Dr	375	
Transfer to general reserve	Cr		375
(25% x $1 500)			
Gains/Losses on revaluation of land	Dr	187.50	
NCI	Cr		187.50
(25% x $750)			
Transfer from business combination valuation reserve	Dr	2 625	
Business combination valuation reserve	Cr		2 625
(Sale of plant: 25% x $10 500)			
NCI	Dr	3 000	
Dividend paid	Cr		3 000
(25% x $12 000)			
NCI	Dr	1 500	
Dividend declared	Cr		1 500
(25% x $6 000)			

6. Dividend paid

Dividend revenue	Dr	9 000	
Dividend paid	Cr		9 000
(75% x $12 000)			

7. Dividend declared

Dividend payable	Dr	4 500	
Dividend declared	Cr		4 500
(75% x $6 000)			
Dividend revenue	Dr	4 500	
Dividend receivable	Cr		4 500

QUESTION 21.14 (cont'd)

8 Sale of inventory in prior period: Fin Ltd– Whale Ltd

Retained earnings (1/7/16)	Dr	210	
Income tax expense	Dr	90	
Cost of sales	Cr		300

9. NCI adjustment

NCI share of profit	Dr	52.50	
Retained earnings (1/7/16)	Cr		52.50
(25% x $210)			

10. Profit in closing inventory: Fin Ltd – Whale Ltd

Sales	Dr	60 000	
Cost of sales	Cr		59 400
Inventory	Cr		600
Deferred tax asset	Dr	180	
Income tax expense	Cr		180

11. NCI adjustment

NCI	Dr	105	
NCI share of profit	Cr		105
(25% x $420)			

12. Sale of non-current asset: Fin Ltd – Whale Ltd

Gain on sale of non-current assets	Dr	1 200	
Plant	Cr		1 200
Deferred tax asset	Dr	360	
Income tax expense	Cr		360

13. NCI adjustment

NCI	Dr	210	
NCI share of profit	Cr		210
(25% x $840)			

QUESTION 21.14 (cont'd)

14. Depreciation

Accumulated depreciation	Dr	120	
Depreciation expense	Cr		120
(1/2 x 20% x $1200)			
Income tax expense	Dr	36	
Deferred tax asset	Cr		36

15. NCI adjustment

NCI share of profit	Dr	21	
NCI	Cr		21
(25% x $84)			

B: FULL GOODWILL METHOD

Acquisition analysis

At 1 July 2012

Net fair value of identifiable assets and liabilities of Whale Ltd	=	($30 000 + $3 000 + $15 000) (equity)
		+ $15 000 (1 – 30%)(plant)
		+ $6 000 (1 – 30%) (inventory)
		- $3 000 (1 – 30%) (receivables)
	=	$60 600
(a) Consideration transferred	=	$67 500 – (75% x $10 000) dividend
	=	$60 000
(b) Non-controlling interest	=	$19 500
Aggregate of (a) and (b)	=	$79 500
Goodwill	=	$18 900

Goodwill of Whale Ltd:

Fair value of Whale Ltd	=	$19 500/25%
	=	$78 000
Net fair value of identifiable assets and liabilities of Whale Ltd	=	$60 600
Goodwill of Whale Ltd	=	$17 400

Goodwill of Fin Ltd:

Goodwill acquired	=	$18 900
Goodwill of Whale Ltd	=	$17 400
Goodwill of Fin Ltd – control premium	=	$1 500

DIFFERENT ENTRIES

1. Business combination valuation entries at 30/6/17

An additional entry is required:

Goodwill	Dr	17 400	
Business combination valuation reserve	Cr		17 400

2. **Pre-acquisition entry at 30/6/13:**

Retained earnings (1/7/16) *	Dr	12 825	
Share capital	Dr	22 500	
Business combination valuation reserve **	Dr	20 925	
General reserve	Dr	2 250	
Goodwill	Dr	1 500	
Shares in Whale Ltd	Cr		60 000

** 75%[$15 000 + $4 200 (inventory) – $2 100 (receivables)]*

*** 75% ($10 500 plant + $17 400 goodwill)*

3. NCI share of equity at 1/7/12

Retained earnings (1/7/16)	Dr	3 750	
Share capital	Dr	7 500	
Business combination valuation reserve	Dr	7 500	
General reserve	Dr	750	
NCI	Cr		19 500

** 25% x ($10 500 + $4 200 - $2 100 + $17 400)*