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IFRS® Standard 10 Consolidated Financial Statements

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CASE STUDY - IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS

Introduction

IFRS 10 requires a parent entity to present a consolidated financial statement that reflects the financial position and performance of both the parent and the subsidiaries as a whole. A consolidated financial statement involves a consolidation of the separate financial statements of the partner company and the separate financial statements of the subsidiary/subsidiaries, based on consolidation procedures under the accounting requirements of IFRS 10.

During the consolidation process, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis. The parent entity and its subsidiaries must have uniform accounting policies and reporting dates.

The consolidation procedure includes:

- Combining items like assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries
- Eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary and recognition of goodwill or bargain purchase
- Eliminating intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group in full.

Aim of this case study is to enable the consolidated financial statements to be prepared.

The Case Information

In-Tech Company produces technological products and markets them all over the world. In-Tech Company offers its products to the market at a higher price than the products in the market with the advanced technology it uses, and therefore appeals to people with high income levels. On the other hand, Bay-Tech Company appeals to middle-income people with its technological products. In-Tech Company aims to be a world giant in the technological products market by producing technological products that can be used by both high-income and middle-income people with its new marketing strategy. Therefore, In-Tech Company acquired 70% of Bay-Tech Company on January 1, 2022. Bay-Tech Company's retained earnings amount to CU 40,000 on acquisition date. In-Tech Company has power over Bay-Tech Company. Also, In-Tech Company is exposed or rights to variable returns from its involvement with Bay-Tech Company. In-Tech Company can use its power over the Bay-Tech Company to affect the amount of investor's returns.

The following financial events occurred during the period and these transactions are not included in the financial statements:

Bay-Tech Company purchased technological products from Toratex Company for CU 25,000 and sold them to In-Tech Company for CU 30,000. By the end of the year, In-Tech Company had only been able to sell 40% of the technological products it bought from Bay-Tech Company.

The property, plant and equipment of Bay-Tech Company consist of machines. The machines cost CU 150,000, their accumulated depreciation is CU 60,000 and their fair value is CU 120,000. Bay-Tech

Company plans to use these machines for 3 more years. At the end of 3 years, the useful life of the machines will be exhausted.

30% of Bay-Tech Company is owned by non-controlling interests. In-Tech Company has decided to recognize for non-controlling interests using the proportionate share of net assets method.

The separate statement of financial position of In-Tech Company and Bay-Tech Company as of December 31, 2022 are as follows:

The separate statement of financial position of In-Tech Company and Bay-Tech Company (31.12.2022)

	In-Tech Company, CU	**Bay-Tech Company,** CU
Current Assets	***400,000***	***175,000***
Cash and cash equivalents	340,000	170,000
Trade receivables (Bay-Tech Company)	40,000	-
Inventories	20,000	5,000
Non-Current Assets	***430,000***	***100,000***
Property, Plant and Equipment (PPE)	250,000	100,000
Investment (Bay-Tech Company)	180,000	-
TOTAL ASSETS	**830,000**	**275,000**
Current Liabilities	**-**	***40,000***
Trade Payables (In-Tech Corporation)	-	40,000
Equity	***830,000***	***235,000***
Shares Capital	630,000	180,000
Retained Earnings	200,000	55,000
TOTAL LIABILITIES AND EQUITY	**830,000**	**275,000**

Discussion Questions

1. What is the relationship between In-Tech Company and Bay-Tech Company?
2. Should In-Tech Company prepare consolidated financial statements? Why?
3. If a consolidated financial statement is required, prepare the group's consolidated statement of financial position.

SOLUTION OF CASE STUDY - IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS

1. In-Tech Company has power over Bay-Tech Company. Also, In-Tech Company is exposed or rights to variable returns from its involvement with Bay-Tech Company. In-Tech Company can use its power over the Bay-Tech Company to affect the amount of investor's returns. Therefore, In-Tech Company controls Bay-Tech Company. In-Tech Company is the parent and Bay-Tech Company is a subsidiary of In-Tech Company.
2. As In-Tech Company controls Bay-Tech Company, In-Tech Company presents consolidated financial statements.
3. **Calculations**

Before we can calculate consolidated inventories, firstly we need to calculate total unrealized profit. Bay-Tech Company purchased technological products from Toratex Company for CU 25,000 and sold them to In-Tech Company for CU 30,000. In other words, In-Tech Company purchased technological products from Bay-Tech Company for CU 30,000.

By the end of the year, In-Tech Company had only been able to sell 40% of the technological products it bought from Bay-Tech Company. In other words, 60% of the technological products remained unsold.

Unsold inventory cost of In-Tech Company (CU30,000*60%)	CU18,000
Unsold inventory cost of Group (CU25,000*60%)	CU15,000
Total unrealized profit (CU18,000 – CU15,000)	CU3,000

Now we can calculate consolidated inventories.

(+) In-Tech Company's inventories	CU20,000
(+) Bay-Tech Company's inventories	CU5,000
(-) Total unrealized profit	CU(3,000)
= Consolidated inventories	**CU22,000**

Before we can calculate the consolidated property, plant and equipment, firstly we need to calculate the fair value adjustment at the end of the period.

Fair value adjustments:	
(+) Fair value	CU120,000
(-) Carrying amount *Carrying amount = Cost price – Accumulated depreciation* *Carrying amount = 150,000 – 60,000 = 90,000 PB*	CU (90,000)
= Fair value adjustment on 01.01.2022	CU30,000
(-) Depreciation of fair value adjustment *(The machine will be used for another three years. So, 30,000/3=10,000)*	CU10,000
= Fair value adjustment on 31.12.2022 (30,000-10,000)	CU20,000

Now we can calculate consolidated property, plant and equipment (PPE).

(+) In-Tech Company's property, plant and equipment	CU250,000
(+) Bay-Tech Company's property, plant and equipment	CU100,000
(+) Fair value adjustment on 31.12.2022	CU20,000
= Consolidated property, plant and equipment	**CU370,000**

Before we can calculate goodwill, firstly we need to calculate the Bay-Tech Company's net assets at the date of acquisition (01.01.2022).

(+) Bay-Tech Company's share capital	CU180,000
(+) Bay-Tech Company's retained earnings	CU40,000
(+) Fair value adjustment on 01.01.2022	CU 30,000
= Bay-Tech Company's net assets on 01.01.2022	CU**250,000**

Now we can calculate goodwill.

(+) Fair value of consideration	CU180,000
(+) Non-controlling interest at acquisition (01.01.2022) *(30% on Bay-Tech Company's net assets. So, 250,000*30%=75,000)*	CU75,000
(-) Bay-Tech Company's net assets on 01.01.2022	CU(250,000)
= Goodwill	CU**5,000**

Before we can calculate consolidated retained earnings, firstly we need to calculate Bay-Tech Company's post-acquisition retained earnings.

(+) Bay-Tech Company's retained earnings of statement of financial position	CU55,000
(-) Bay-Tech Company's retained earnings at acquisition (01.01.2022)	CU(40,000)
(-) Post-acquisition fair value adjustment	CU(10,000)
(-) Post-acquisition of total unrealized profit	CU(3,000)
(=) Bay-Tech Company's post-acquisition retained earnings	CU**2,000**

Now we can calculate consolidated retained earnings.

(+) In-Tech Company's retained earnings	CU200,000
(-) In-Tech Company's share on post-acquisition retained earnings *(70% on Bay-Tech Company's post acquisition retained earnings. So, 2.000*70%=1,400)*	CU1,400
(=) Consolidated retained earnings	CU**201,400**

Calculation of non-controlling interests using the proportionate share of net assets method:

(+) Non-controlling interest at acquisition	CU75,000
(+) Non-controlling interest on post-acquisition retained earnings *(30% on Bay-Tech Company's post-acquisition retained earnings. So, 2,000*30%=600)*	CU600
(=) Non-controlling interest on 31.12.2022	CU**75,600**

Group Consolidated Statement of Financial Position (31.12.2022)

	Group Consolidated Statement of Financial Position, CU
Current Assets	***532,000***
Cash and cash equivalents	510,000
Trade receivables (Bay-Tech Company)	0
Inventories	22,000
Non-Current Assets	***375,000***
Property, Plant and Equipment (PPE)	370,000
Goodwill	5,000
Investment (Bay-Tech Company)	0
TOTAL ASSETS	**907,000**
Current Liabilities	***0***
Trade Payables (In-Tech Corporation)	0
Equity	***907,000***
Shares Capital	630,000
Retained Earnings	201,400
Non-controlling interest	75,600
TOTAL LIABILITIES AND EQUITY	**907,000**