Groups & Business Combinations

IFRS 3, IFRS 10, IAS 28 & IFRS 11

A Comprehensive Guide for CTA, PGDA & ITC Students

Prepared for postgraduate accounting students

South Africa

IFRS STUDY GUIDES

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Groups & Business Combinations - Part 1: IFRS 3 Fundamentals

Introduction: Why Business Combinations Matter

Business combinations are among the most complex and heavily tested topics at CTA/PGDA and ITC level. Understanding IFRS 3 is foundational because:

1. It drives consolidation accounting - You can't consolidate without first accounting for the acquisition
2. Goodwill emerges here - The most common intangible asset in practice
3. It affects multiple years - Initial recognition, subsequent measurement, impairment
4. It integrates with other standards - IFRS 10, IAS 36, IAS 28, IFRS 11

> *Group accounting questions typically carry 25-40 marks in exams. Mastering IFRS 3 is non-negotiable.*

What is a Business Combination?

> *IFRS 3.3: A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.*

Breaking Down the Definition

Element	Meaning
Transaction or other event	Can be a purchase, merger, or other arrangement
Acquirer	The entity that obtains control
Control	Power over the investee + variable returns + link
Business	An integrated set of activities and assets capable

What is a Business?

This is a critical question-the answer determines whether IFRS 3 applies.

> *IFRS 3 Appendix A: A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income, or generating other income.*

The Three Elements of a Business

Element	Description
Inputs	Economic resources (employees, materials, rights,
Processes	Activities that convert inputs to outputs (strateg
Outputs	Goods/services to customers, investment income, ot

Minimum Requirements for a Business

To be a business, the acquired set must include, at minimum:
- An input, AND
- A substantive process that together significantly contribute to creating outputs

> *A business doesn't need to include all inputs and processes required-just enough that a market participant could continue producing outputs.*

Business vs. Asset Acquisition

Why Does It Matter?

The accounting differs significantly:

Aspect	Business Combination (IFRS 3)	Asset Acquisition
Goodwill	Recognised	NOT recognised
Measurement	Fair value for all identifiable assets/liabilities	Allocate cost based on relative fair values
Deferred tax	Recognise on fair value adjustments	Generally no deferred tax on initial recognition

Transaction costs	Expense as incurred	Capitalise as part of cost
Contingent consideration	Remeasured through P/L	No remeasurement (fixed at acquisition)

The Concentration Test (Optional Simplification)

IFRS 3 provides an optional concentration test:

> *If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset (or group of similar assets), it's NOT a business.*

If test is met: Asset acquisition (not IFRS 3)
If test is not met: Apply full business assessment

Examples

Scenario	Business?	Reasoning
Acquiring operating factory with employees	[OK] Yes	Inputs + processes + outputs
Acquiring vacant land	[X] No	Single asset, no processes
Acquiring hotel with staff and bookings	[OK] Yes	Full operating business
Acquiring investment property portfolio	Depends	If only properties with no management, likely no
Acquiring mining rights with geological data	[X] No	Assets only, no processes
Acquiring going-concern retail store	[OK] Yes	Complete business operation

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The Acquisition Method

IFRS 3 requires the acquisition method for all business combinations.

The Four Steps

Step	Action
1	Identify the acquirer
2	Determine the acquisition date
3	Recognise and measure identifiable assets, liabili

4	Recognise and measure goodwill or bargain purchase

> *Each step is covered in detail in subsequent parts of this guide.*

Step 1: Identifying the Acquirer

The General Rule

> *IFRS 3.6: For each business combination, one of the combining entities shall be identified as the acquirer.*

Using IFRS 10 Guidance

The acquirer is the entity that obtains control of the other entity (the acquiree). IFRS 10 defines control.

When Control Isn't Obvious

Sometimes identifying the acquirer requires judgment:

Factor	Consideration
Relative voting rights	Entity with largest ownership usually acquirer
Board composition	Who controls the board post-combination?
Senior management	Whose management runs the combined entity?
Relative size	Larger entity is often (but not always) acquirer
Who initiated?	Entity proposing the combination often acquirer
Who pays premium?	Entity paying premium usually acquirer

Reverse Acquisitions

In some cases, the legal acquirer is not the accounting acquirer.

Example:
- Small listed company (Company A) issues shares to acquire large private company (Company B)
- Legally, A acquires B
- BUT: B's shareholders end up controlling the combined entity

- For accounting: B is the acquirer, A is the acquiree

This is a "reverse acquisition" - covered in advanced topics.

Step 2: Determining the Acquisition Date

> *IFRS 3.8: The acquisition date is the date on which the acquirer obtains control of the acquiree.*

Typically This Is:

- The closing date of the transaction
- When consideration is transferred
- When shares are issued
- When assets are received and liabilities assumed

What's NOT the Acquisition Date:

- Date of agreement/offer
- Date of shareholder approval (unless that's when control passes)
- Competition authority approval date (unless control conditional on it)

Why It Matters

The acquisition date determines:
- Fair values for measurement
- When to start consolidating
- When goodwill is calculated
- Cut-off for acquiree's results in group accounts

Step 3: Recognising Identifiable Assets and Liabilities

The Recognition Principle

> *IFRS 3.10: The acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree.*

Recognition Criteria

Assets and liabilities are recognised if they meet the definitions in the Conceptual Framework at the acquisition date.

Identifiable Intangible Assets

A key area where IFRS 3 often adds value:

Intangible Asset	Examples
Marketing-related	Trademarks, brand names, trade dress
Customer-related	Customer lists, customer relationships, order back
Artistic-related	Copyright, musical compositions
Contract-based	Licensing agreements, franchise rights, permits
Technology-based	Patents, software, trade secrets

> *Intangibles are recognised separately from goodwill if they are identifiable (separable OR arise from contractual/legal rights).*

Items NOT Recognised Separately

Item	Treatment
Assembled workforce	Included in goodwill
Potential contracts	Not recognised (contingent asset)
Synergies expected	Included in goodwill

Step 4: Measuring Goodwill

The Goodwill Formula

```
Goodwill = Consideration transferred
         + NCI in acquiree
         + Fair value of previously held interest (if step acquisition)
         - Fair value of identifiable net assets acquired
```

What Goodwill Represents

Goodwill includes:
- Synergies expected from combining operations
- Assembled workforce
- Going concern value
- Expected future benefits not separately identifiable

Negative Goodwill (Bargain Purchase)

If the calculation results in a negative amount:

1. Re-assess the identification and measurement of assets and liabilities
2. Review the measurement of consideration
3. If still negative, recognise as a gain in profit or loss

> *Bargain purchases are covered in Part 3.*

Consideration Transferred

Forms of Consideration

Form	Measurement
Cash	Amount paid
Other assets	Fair value at acquisition date
Liabilities incurred	Fair value at acquisition date
Equity instruments issued	Fair value at acquisition date
Contingent consideration	Fair value at acquisition date

Contingent Consideration

Payment contingent on future events (earnouts, milestones):

Classification	Subsequent Treatment
Liability	Remeasure at fair value through P/L
Equity	No remeasurement

Transaction Costs

> *IFRS 3.53: Acquisition-related costs (legal fees, due diligence, advisory fees) are expensed as incurred.*

Exception: Costs to issue shares are deducted from equity (IAS 32).

Working Example: Basic Business Combination

Facts

On 1 July 20X2, Parent Ltd acquires 100% of Subsidiary Ltd:

Item	Amount
Cash consideration	R5,000,000
Fair value of identifiable assets	R6,200,000
Fair value of liabilities assumed	R2,000,000
Carrying amount of net assets in Sub's books	R3,500,000

Transaction costs incurred: R200,000

Calculations

Step 1: Identify net assets at fair value

	Fair Value
Identifiable assets	6,200,000
Liabilities assumed	(2,000,000)
Fair value of net assets	4,200,000

Step 2: Calculate goodwill

	Amount
Consideration transferred	5,000,000
Less: Fair value of net assets	(4,200,000)
Goodwill	800,000

Step 3: Transaction costs

Transaction costs of R200,000 are expensed in P/L.

Journal Entry at Acquisition Date (in Parent's Books)

```
Dr  Investment in Subsidiary                5,000,000
    Cr  Cash                                        5,000,000

Dr  Acquisition costs (P/L)                   200,000
    Cr  Cash                                          200,000
```

Consolidation Entry at Acquisition

```
Dr  Identifiable assets                     6,200,000
Dr  Goodwill                                  800,000
    Cr  Liabilities assumed                         2,000,000
    Cr  Investment in Subsidiary                    5,000,000
```

Common Student Pitfalls

Pitfall	Correct Approach
Capitalising transaction costs	Always expense (except share issue costs)
Using book values instead of fair values	IFRS 3 requires fair value measurement
Ignoring identifiable intangibles	Separately identify and value intangibles
Confusing business and asset acquisitions	Apply the definition and concentration test
Using wrong date for measurement	Use acquisition date fair values
Adding contingent consideration to goodwill later	Contingent consideration is measured at acquisitio

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Exam Technique

Approaching IFRS 3 Questions

1. Confirm it's a business combination (not asset acquisition)
2. Identify the acquirer (who obtains control?)
3. Determine acquisition date (when does control pass?)
4. List all consideration (cash, shares, contingent)
5. Identify fair values of assets and liabilities
6. Calculate goodwill using the formula
7. Account for transaction costs separately

Common Question Formats

Format	Focus
Calculate goodwill	Fair values, consideration components
Discuss classification	Business vs. asset, reverse acquisition
Prepare consolidation entries	Full IFRS 3 application
Explain treatment of specific items	Transaction costs, contingent consideration

Summary: IFRS 3 Foundation

Concept	Key Point
Business combination	Acquirer obtains control of a business
Business	Inputs + substantive processes (+ outputs)
Acquisition method	4 steps: acquirer, date, net assets, goodwill
Measurement	All at fair value at acquisition date
Goodwill	Excess of consideration over fair value of net ass
Transaction costs	Expense as incurred
Contingent consideration	Include in consideration at fair value; remeasure

What's Next?

In Part 2, we cover the Acquisition Method in depth:

- Detailed guidance on each step
- Measurement of consideration
- Fair value of identifiable assets and liabilities
- Working examples with full calculations

? Next: Part 2 - The Acquisition Method

Groups & Business Combinations - Part 2: The Acquisition Method

The Four Steps in Detail

The acquisition method requires systematic application of four steps. This part provides deep guidance on each.

Step 1: Identifying the Acquirer

The Control Principle

> *IFRS 3.6: The acquirer is the entity that obtains control of the acquiree.*

Control is defined by IFRS 10 (covered in Part 4), but for business combinations, consider:

Indicators for Identifying the Acquirer

Indicator	Acquirer Is Likely...
Relative voting rights	Entity whose shareholders hold largest portion aft
Large minority voting interest	Entity with dominant block if others are dispersed
Board composition	Entity that can appoint/remove majority of board
Senior management	Entity whose management runs combined entity
Terms of exchange	Entity paying a premium over fair value
Relative size	Larger entity (assets, revenues, profit)
Initiator	Entity that initiated the combination

New Entity Formed

If a new entity is formed to effect the combination:

- The new entity is NOT automatically the acquirer

- One of the combining entities that existed before must be identified as the acquirer

Reverse Acquisitions

When the legal acquirer is NOT the accounting acquirer:

Example:
- Small listed entity (A) issues shares to "acquire" large private entity (B)
- After the transaction, B's former shareholders control the combined entity
- Accounting: B is acquirer (even though legally A acquired B)

Why it matters:
- Goodwill calculated on A's assets, not B's
- B's comparative figures used
- Complex fair value adjustments required

Step 2: Determining the Acquisition Date

The Definition

> *IFRS 3.8: The acquisition date is the date on which the acquirer obtains control of the acquiree.*

Practical Determination

Scenario	Acquisition Date
Share purchase agreement	Closing date (when shares transfer)
Merger	Effective date of merger
Conditional on regulatory approval	Date approval is received
All conditions met	Date final condition is satisfied

Why Acquisition Date Matters

Measurement	At Acquisition Date
Fair value of consideration	[OK]

Fair value of identifiable assets/liabilities	[OK]
Fair value of NCI	[OK]
Fair value of previously held interest	[OK]
Calculation of goodwill	[OK]
Start of consolidation	[OK]

Step 3: Recognising and Measuring Identifiable Assets and Liabilities

The Recognition Principle

> *IFRS 3.10: Recognise, separately from goodwill, the identifiable assets acquired and liabilities assumed.*

Recognition Conditions

Condition	Requirement
Meet definition	Must meet definition of asset or liability per Con
Part of the exchange	Must be part of the business combination, not a se

The Measurement Principle

> *IFRS 3.18: The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.*

Fair Value Hierarchy Reminder (IFRS 13)

Level	Source
Level 1	Quoted prices in active markets
Level 2	Observable inputs (comparable transactions)
Level 3	Unobservable inputs (valuation models)

Specific Items: Recognition and Measurement

Intangible Assets

Recognise separately from goodwill if:

1. Separable - Can be sold, transferred, licensed separately, OR
2. Contractual/legal - Arises from contractual or legal rights

Intangible	Typical Valuation Approach
Customer relationships	Multi-period excess earnings method
Trademarks/brands	Relief from royalty method
Technology/patents	Relief from royalty or cost approach
Order backlog	Discounted cash flows
Licenses/permits	Market approach or income approach

Contingent Liabilities

> *IFRS 3.22: Recognise a contingent liability assumed if it is a present obligation arising from past events and its fair value can be measured reliably.*

Note: This differs from IAS 37, which only recognises when outflow is probable.

Operating Leases (Acquiree as Lessee)

Under IFRS 16:

- Recognise ROU asset and lease liability at acquisition
- Measure lease liability at PV of remaining payments
- ROU asset equals lease liability (adjusted for favourable/unfavourable terms)

Reacquired Rights

If acquiree has a license from acquirer that is "reacquired":

- Recognise as intangible asset
- Measure based on remaining contractual term (exclude renewals)
- Any settlement gain/loss recognised in P/L

Employee Benefit Plans

- Measure defined benefit obligations per IAS 19
- Recognise plan assets at fair value
- No separate recognition of unrecognised past service cost

Indemnification Assets

If seller indemnifies acquirer for specific liabilities:
- Recognise indemnification asset
- Measure on same basis as indemnified item
- Subject to collectability assessment

Fair Value Adjustments: Common Items

Property, Plant and Equipment

Carrying Amount in Acquiree's	Fair Value at Acquisition
R10,000,000	R15,000,000
Fair value uplift	R5,000,000

This uplift:
- Creates deferred tax liability (R5m x tax rate)
- Is depreciated post-acquisition (increases depreciation expense)

Inventory

Type	Fair Value Basis
Finished goods	Selling price less costs to sell and reasonable ma
Work in progress	Selling price less costs to complete, sell, and ma
Raw materials	Replacement cost

Financial Instruments

Generally measured at fair value (IFRS 9 hierarchy applies).

Deferred Tax

Recognise deferred tax on fair value adjustments:

Item	Deferred Tax Treatment
Asset FV > carrying amount	Deferred tax liability
Liability FV > carrying amount	Deferred tax asset
Intangibles recognised	Deferred tax liability (no initial recognition exe

Important: The initial recognition exemption in IAS 12 does NOT apply to business combinations.

Working Example: Fair Value Adjustments

Acquiree's Statement of Financial Position (Book Values)

Assets	Book Value (R)
Property, plant & equipment	8,000,000
Inventory	2,500,000
Trade receivables	1,800,000
Cash	700,000
Total assets	13,000,000

Liabilities	Book Value (R)
Trade payables	1,500,000
Deferred tax liability	400,000
Total liabilities	1,900,000
Net assets (book value)	11,100,000

Fair Value Information

Item	Book Value	Fair Value	Adjustment
PPE	8,000,000	11,000,000	+3,000,000

Inventory	2,500,000	2,800,000	+300,000
Customer relationships	-	1,500,000	+1,500,000
Trade receivables	1,800,000	1,700,000	-100,000
Contingent liability	-	(400,000)	-400,000

Tax rate: 28%

Calculating Fair Value of Net Assets

	R
Book value of net assets	11,100,000
Fair value adjustments:	
PPE uplift	+3,000,000
Inventory uplift	+300,000
Customer relationships	+1,500,000
Receivables impairment	-100,000
Contingent liability	-400,000
Subtotal of adjustments	+4,300,000
Deferred tax on adjustments (4,300,000 x 28%)	(1,204,000)
Fair value of net assets	14,196,000

Consideration Transferred

Components of Consideration

Component	Measurement
Cash	Amount paid
Assets transferred	Fair value at acquisition date
Liabilities incurred	Fair value at acquisition date
Equity issued	Fair value at acquisition date

Contingent consideration	Acquisition-date fair value

Equity Instruments Issued

Measure at acquisition date fair value:
- For listed shares: Quoted price
- For unlisted shares: Valuation required

Contingent Consideration

Payment contingent on future events:

Examples	
Earnout based on future profits	
Payments if milestones achieved	
Additional shares if targets met	

Initial measurement: Fair value at acquisition date

Subsequent measurement:

Classification	Treatment
Financial liability	Remeasure at fair value through P/L
Equity	No remeasurement

Working Example: Consideration with Multiple Components

Facts

Parent acquires 100% of Target:

Consideration Component	Details
Cash	R8,000,000 paid at closing
Shares issued	500,000 shares, market price R12 each
Contingent consideration	R2,000,000 payable if EBITDA targets met (fair val

Transaction costs	R400,000

Calculate Total Consideration

Component	R
Cash	8,000,000
Shares (500,000 x R12)	6,000,000
Contingent consideration (FV)	1,500,000
Total consideration	15,500,000

Transaction costs: Expensed in P/L (R400,000)

Journal Entries (Parent's Books)

Investment recognition:

```
Dr  Investment in Target                    15,500,000
    Cr  Cash                                          8,000,000
    Cr  Share capital (500,000 x par value)              XXX
    Cr  Share premium (balancing figure)                 XXX
    Cr  Contingent consideration payable          1,500,000
```

Transaction costs:

```
Dr  Acquisition costs (P/L)                    400,000
    Cr  Cash                                            400,000
```

Step 4: Recognising Goodwill

The Goodwill Calculation

```
Goodwill = Consideration transferred
         + Fair value of NCI (if not 100% acquisition)
         + Fair value of previously held equity interest (if step acquisition)
         ? Fair value of identifiable net assets
```

100% Acquisition

Component	Amount
Consideration transferred	R15,500,000
Less: FV of net assets	(R14,196,000)
Goodwill	R1,304,000

Less Than 100% Acquisition

If NCI exists, two options for measuring NCI at acquisition:

Option	NCI Measured At
Full goodwill method	Fair value of NCI
Partial goodwill method	NCI's share of identifiable net assets

> *Choice is made per transaction (not a policy choice).*

Example: 80% Acquisition

	Full Goodwill	Partial Goodwill
Consideration (80%)	12,400,000	12,400,000
NCI (20%)	3,500,000 (FV)	2,839,200 (20% x 14,196,000)
Total	15,900,000	15,239,200
Less: FV net assets	(14,196,000)	(14,196,000)
Goodwill	1,704,000	1,043,200

Subsequent Treatment of Goodwill

No Amortisation

Goodwill is not amortised under IFRS.

Annual Impairment Testing

> *IAS 36: Test goodwill for impairment at least annually, and whenever there are indicators of impairment.*

Goodwill must be allocated to cash-generating units (CGUs) for impairment testing.

Measurement Period

The 12-Month Window

> *IFRS 3.45: The acquirer has 12 months from the acquisition date to finalise the accounting for the business combination.*

Provisional Amounts

If initial accounting is incomplete:
- Use provisional amounts
- Adjust during measurement period as information becomes available
- Retrospective adjustment (restate comparatives)

After Measurement Period

Changes to initial accounting are recognised as:
- Error corrections, OR
- Changes in estimates (prospective)

Transaction Costs vs. Share Issue Costs

Type	Treatment
Transaction costs (legal, due diligence, advisory)	Expense in P/L
Share issue costs (underwriting, registration)	Deduct from equity

Why the difference?

- Transaction costs relate to the acquisition (an expense)

- Share issue costs are costs of raising capital (equity transaction)

Common Student Pitfalls

Pitfall	Correct Approach
Capitalising transaction costs	Expense in P/L
Using acquiree's book values	Use fair values at acquisition date
Forgetting deferred tax on fair value adjustments	Calculate and include in net assets
Not recognising identifiable intangibles	Identify and value separately from goodwill
Ignoring contingent consideration	Include at fair value in consideration
Measuring NCI incorrectly	Choose full or partial goodwill method and apply c
Amortising goodwill	Goodwill is NOT amortised-test for impairment

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Exam Technique

Standard Calculation Structure

Step 1: Calculate consideration

Component	R
Cash	
Shares issued (number x price)	
Deferred consideration (PV)	
Contingent consideration (FV)	
Total	

Step 2: Calculate fair value of net assets

	Book Value	FV Adjustment	Fair Value
PPE			

Intangibles			
Inventory			
Receivables			
Liabilities			
Deferred tax adjustment			
Net assets			

Step 3: Calculate goodwill

	R
Consideration	
+ NCI (if applicable)	
? FV of net assets	
Goodwill	

Summary

Element	Key Point
Acquirer	Entity obtaining control
Acquisition date	Date control obtained
Assets/liabilities	Fair value at acquisition date
Intangibles	Separately identify if separable or contractual
Deferred tax	Recognise on all fair value adjustments
Consideration	All components at fair value
Transaction costs	Expense
Goodwill	Consideration + NCI ? FV net assets
NCI	Full or partial goodwill method

What's Next?

In Part 3, we cover Goodwill and Bargain Purchases in depth:

- Goodwill impairment testing
- Allocation to CGUs
- Bargain purchase accounting
- Contingent consideration remeasurement

? Previous: Part 1 - IFRS 3 Fundamentals

? Next: Part 3 - Goodwill & Bargain Purchases

Groups & Business Combinations - Part 3: Goodwill & Bargain Purchases

Understanding Goodwill

What is Goodwill?

> *IFRS 3.32: 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.*

What Does Goodwill Include?

Component	Description
Synergies	Cost savings, revenue enhancements from combining
Assembled workforce	Trained employees (not separately recognisable)
Going concern value	Value of operating as a going concern
Expected growth	Future opportunities and expansion potential
Market position	Competitive advantages not separately identifiable

The Goodwill Calculation (Recap)

```
Goodwill = Consideration transferred
         + Amount of NCI
         + Fair value of previously held interest
         ? Fair value of identifiable net assets acquired
```

Subsequent Measurement of Goodwill

The Key Principle

> *Goodwill is not amortised. It is tested for impairment at least annually.*

Why No Amortisation?

- Goodwill has an indefinite useful life (or can't be determined)
- Impairment testing captures value decline more accurately
- Prevents arbitrary expense allocation

Goodwill Impairment Testing

The Framework (IAS 36)

Goodwill must be:
1. Allocated to cash-generating units (CGUs)
2. Tested for impairment annually (and when indicators exist)
3. Written down if recoverable amount < carrying amount

What is a Cash-Generating Unit?

> *IAS 36.6: A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups.*

Allocating Goodwill to CGUs

Rule	Requirement
Allocation level	Lowest level at which goodwill is monitored for in
Maximum size	Not larger than an operating segment (IFRS 8)
Must reflect synergies	Allocate to CGUs expected to benefit from synergie

The Impairment Test

```
Compare:
??? Carrying amount of CGU (including allocated goodwill)
??? Recoverable amount of CGU (higher of fair value less costs to sell OR value in use)

If Carrying Amount > Recoverable Amount:
??? Impairment loss = Difference
    ??? First: Reduce goodwill
    ??? Then: Reduce other assets pro-rata (but not below individual recoverable amounts)
```

Working Example: Goodwill Impairment

Facts

Parent acquired Subsidiary on 1 January 20X1.

At 31 December 20X2:

CGU Assets	Carrying Amount
Goodwill	R2,000,000
Property	R5,000,000
Plant & equipment	R3,000,000
Inventory	R1,500,000
Receivables	R500,000
Total	R12,000,000

Recoverable amount (value in use): R9,500,000

Impairment Calculation

	R
Carrying amount	12,000,000
Recoverable amount	9,500,000
Impairment loss	2,500,000

Allocation of Impairment

Step 1: Write off goodwill first

	Before	Impairment	After
Goodwill	2,000,000	(2,000,000)	0

Remaining impairment: R2,500,000 ? R2,000,000 = R500,000

Step 2: Allocate remaining impairment to other assets

Allocation basis: Pro-rata to carrying amounts

Asset	CA	%	Impairment Allocated
Property	5,000,000	50%	250,000
Plant	3,000,000	30%	150,000
Inventory	1,500,000	15%	75,000
Receivables	500,000	5%	25,000
Total	10,000,000	100%	500,000

Note: Check that no asset is reduced below its individual recoverable amount.

Journal Entry

```
Dr  Impairment loss (P/L)                  2,500,000
    Cr  Goodwill                                        2,000,000
    Cr  Property                                          250,000
    Cr  Accumulated depreciation - P&E                    150,000
    Cr  Inventory                                          75,000
    Cr  Allowance for receivables                          25,000
```

Reversal of Goodwill Impairment

> *IAS 36.124: Impairment losses recognised for goodwill shall NOT be reversed in a subsequent period.*

Why No Reversal?

- Would effectively be recognising internally generated goodwill
- This is prohibited by IAS 38

- Any increase in value is new internally generated goodwill, not a reversal

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Contingent Consideration

Initial Recognition (Recap)

Contingent consideration is included in the consideration at acquisition-date fair value.

Subsequent Measurement

Classification	Treatment
Financial liability	Remeasure at fair value through P/L
Equity	No remeasurement

Classification Criteria

If settlement is...	Classification
Cash or other assets	Liability (IFRS 9)
Issue of shares (fixed number for fixed amount)	Equity
Variable number of shares	Liability

Working Example: Contingent Consideration

At acquisition (1 January 20X1):
- Additional payment of R3,000,000 if target EBITDA achieved in Year 1
- Probability-weighted fair value: R2,400,000 (80% probability)

Classification: Liability (cash payment)

At 31 December 20X1:
- Target was achieved
- Now certain that R3,000,000 is payable

Journal Entry:

```
Dr  Fair value adjustment (P/L)              600,000
    Cr  Contingent consideration liability           600,000
(To increase liability from R2,400,000 to R3,000,000)
```

On payment:

```
Dr  Contingent consideration liability     3,000,000
    Cr  Cash                                       3,000,000
```

> *Changes in contingent consideration do NOT adjust goodwill after the measurement period. They go through P/L.*

Bargain Purchases (Negative Goodwill)

What is a Bargain Purchase?

When the fair value of identifiable net assets acquired exceeds the consideration paid.

```
"Negative Goodwill" = FV of net assets ? Consideration ? NCI
```

Why Might This Occur?

Reason	Example
Distressed sale	Seller under financial pressure
Forced sale	Regulatory requirement to divest
Measurement at different dates	Market decline between agreement and closing
Synergies not reflected in price	Buyer captures more value than paid
Errors in valuation	Initial measurement was incorrect

Accounting Treatment

> *IFRS 3.34: Before recognising a bargain purchase gain, reassess whether all assets and liabilities have been correctly identified and measured.*

Process:

1. Re-examine the identification and measurement of:
2. Identifiable assets
3. Liabilities assumed
4. NCI
5. Consideration transferred
6. Review procedures used to measure fair values
7. If bargain purchase still exists after reassessment:
8. Recognise the gain immediately in profit or loss

Working Example: Bargain Purchase

Facts:

Parent acquires 100% of Target:

Component	Amount (R)
Cash consideration	8,000,000
Fair value of identifiable net assets	9,500,000

Calculation:

	R
Consideration	8,000,000
Fair value of net assets	(9,500,000)
Bargain purchase gain	(1,500,000)

After reassessment: All amounts confirmed correct.

Journal Entry (Consolidation):

```
Dr  Net assets (at fair value)              9,500,000
    Cr  Investment in Target                          8,000,000
    Cr  Bargain purchase gain (P/L)                   1,500,000
```

Presentation

The bargain purchase gain is presented in:
- Profit or loss as a separate line item or disclosed in notes
- Typically in "Other income" or similar

NCI and Goodwill: Full vs. Partial Method

The Two Approaches (Recap)

Method	NCI Measurement	Goodwill Includes
Full goodwill	Fair value of NCI	Goodwill attributable to NCI
Partial goodwill	NCI's share of FV of net assets	Only parent's share of goodwill

Impact on Impairment Testing

Full goodwill method:
- Total goodwill allocated to CGU
- Compare total carrying amount to recoverable amount
- Impairment split between parent and NCI

Partial goodwill method:
- Only parent's goodwill is recognised
- For impairment testing, must "gross up" goodwill to include notional NCI portion
- This ensures the CGU is tested on a consistent basis

Working Example: Partial Goodwill Impairment

Facts:
- 80% acquisition, partial goodwill method
- Goodwill recognised: R800,000 (parent's share only)
- CGU carrying amount (including goodwill): R5,800,000
- Recoverable amount: R4,500,000

Step 1: Gross up goodwill for testing

Parent's goodwill: R800,000 = 80% of total
Implied total goodwill: R800,000 ÷ 80% = R1,000,000

Step 2: Adjusted carrying amount

	R
Carrying amount per books	5,800,000
Add: Notional NCI goodwill (R1m ? R800k)	200,000
Adjusted carrying amount	6,000,000

Step 3: Compare to recoverable amount

	R
Adjusted carrying amount	6,000,000
Recoverable amount	4,500,000
Total impairment	1,500,000

Step 4: Allocate impairment

First to goodwill:
- Total goodwill (grossed up): R1,000,000
- Impairment to goodwill: R1,000,000 (fully impaired)
- But only R800,000 is recognised ? recognise R800,000

Remaining impairment (R1,500,000 ? R1,000,000 = R500,000):
- Allocate to other assets of CGU (parent's 80% share)
- Amount recognised: R500,000 x 80% = R400,000

Total impairment recognised:
- Goodwill: R800,000
- Other assets: R400,000
- Total: R1,200,000

Goodwill in Consolidated Financial Statements

Presentation

Statement	Treatment
Statement of Financial Position	Presented as a separate intangible asset
Statement of Comprehensive Income	Impairment losses shown in operating expenses or s
Statement of Cash Flows	Non-cash impairment added back in operating activi

Disclosure Requirements

Disclosure	Details
Carrying amount by CGU	For each CGU with significant goodwill

Basis of recoverable amount	Value in use or fair value less costs of disposal
Key assumptions	Discount rate, growth rates, projection period
Sensitivity analysis	Effect of reasonably possible changes

Common Student Pitfalls

Pitfall	Correct Approach
Amortising goodwill	No amortisation-impairment testing only
Adjusting goodwill for contingent consideration ch	Changes go to P/L after measurement period
Reversing goodwill impairment	Goodwill impairment is NEVER reversed
Recognising bargain gain without reassessment	Must reassess all measurements first
Forgetting to gross up partial goodwill for impair	Required to test CGU on consistent basis
Ignoring NCI share of impairment	Full goodwill method means NCI bears portion

Exam Technique

Goodwill Calculation Questions

Standard structure:

	R
Consideration:	
- Cash	X
- Shares (number x FV)	X
- Deferred consideration (PV)	X
- Contingent consideration (FV)	X
Total consideration	X
NCI at [state method]	X

Previously held interest (if applicable)	X
Total	X
Less: FV of identifiable net assets	(X)
Goodwill	X

Impairment Questions

1. Identify the CGU and its carrying amount
2. State the recoverable amount (value in use or FVLCOD)
3. Calculate impairment (if any)
4. Allocate: first to goodwill, then pro-rata to other assets
5. Show journal entry

Bargain Purchase Questions

1. Calculate the "negative goodwill"
2. State requirement to reassess
3. Conclude bargain purchase exists
4. Recognise gain in P/L

Summary

Topic	Key Point
Goodwill nature	Future benefits not separately identifiable
Subsequent measurement	Impairment testing, no amortisation
Impairment	Allocate to CGUs, test annually, first reduce good
Reversal	Never reversed for goodwill
Contingent consideration	Changes to P/L after measurement period
Bargain purchase	Reassess, then recognise gain in P/L
NCI methods	Full vs. partial affects goodwill amount

What's Next?

In Part 4, we cover IFRS 10 Control:

- Definition of control
- Power over the investee
- Exposure to variable returns
- Link between power and returns
- De facto control and structured entities

? Previous: Part 2 - The Acquisition Method

? Next: Part 4 - IFRS 10 Control

Groups & Business Combinations - Part 4: IFRS 10 Control

The Central Concept

Control is the foundation of consolidation. An investor consolidates an investee only when it controls that investee.

> *Getting the control assessment wrong means either:*
> *- Consolidating an entity that should NOT be consolidated, OR*
> *- Failing to consolidate an entity that SHOULD be consolidated*
> *Both result in materially misstated financial statements.*

Definition of Control

> *IFRS 10.6: An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.*

The Three Elements of Control

All three must be present simultaneously:

Element	Question
Power	Does the investor have the current ability to dire
Variable returns	Is the investor exposed to, or have rights to, var
Link	Can the investor use its power to affect the retur

```
CONTROL = Power + Variable Returns + Link between Power and Returns
```

Element 1: Power

What is Power?

> *IFRS 10.10: Power arises from rights. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities.*

Relevant Activities

Relevant activities are the activities that significantly affect the investee's returns.

Examples of Relevant Activitie
Selling and purchasing goods/services
Managing financial assets
Selecting, acquiring, or disposing of assets
Researching and developing new products
Determining a funding structure
Setting operating and capital budgets

Rights That Give Power

Type of Right	Example
Voting rights	Majority shareholding
Contractual rights	Management agreement, service contract
Potential voting rights	Options, convertible instruments
Other arrangements	Franchise rights, special purpose entity control

---

Power Through Voting Rights

The Simple Case: Majority

If the investor holds >50% of voting rights:
- Generally has power
- Unless other factors negate this (see protective rights)

Less Than Majority Can Still Have Power

Scenario	Example
Largest single holder with dispersed other holding	35% with no other shareholder above 5%
Contractual arrangements giving control	Shareholder agreements to vote together
History of other shareholders not exercising votes	Historically don't attend AGMs
Potential voting rights	Options to acquire sufficient shares

De Facto Control

Even without majority voting rights, an investor may have de facto control if:

1. The investor has the largest block of voting rights
2. Other holdings are widely dispersed
3. Other shareholders are passive and unlikely to organise
4. The investor has practical ability to direct activities unilaterally

---

Potential Voting Rights

When to Consider

Potential voting rights must be:
1. Currently exercisable or convertible
2. Substantive (not protective)
3. Considered along with other facts

Example

Investor	Current Shares	Options Held	If Exercised
A	40%	15%	55%
B	35%	0%	35%
Others	25%	0%	10%

Analysis:
- If A's options are currently exercisable and substantive, A has power

- Must consider economic incentive to exercise

Substantive vs. Protective Rights

Substantive Rights

Rights that give the holder the practical ability to exercise them.

Considerations:
- Barriers to exercise (regulatory, financial, practical)
- Exercise requires agreement of multiple parties
- Party with right can benefit from exercise

Protective Rights

Rights designed to protect the holder's interest without giving power over the investee.

Protective Rights (Do NOT give
Approval of amendments to articles
Approval of extraordinary transactions
Veto over capital expenditure above a threshold
Requiring supermajority for major decisions
Minority veto rights over fundamental changes

> *Protective rights are like a safety net-they prevent harm but don't direct the business.*

Element 2: Variable Returns

What Are Variable Returns?

> *IFRS 10.15: Returns that are not fixed and have the potential to vary as a result of the performance of an investee.*

Examples of Variable Returns

Type	Examples
Positive returns	Dividends, interest, fees, changes in investment v
Negative returns	Losses, exposure to credit risk, liquidity support
Direct returns	Dividends, capital appreciation
Indirect returns	Economies of scale, access to proprietary knowledg

The Spectrum

Returns can be:
- Only positive potential
- Only negative potential (exposure to losses)
- Both positive and negative

Only ONE type of exposure is needed-you can have control even if returns are only negative.

Element 3: Link Between Power and Returns

The Connection

> *IFRS 10.17: An investor controls an investee only if the investor can use its power to affect its returns from the investee.*

Principal vs. Agent

A critical question: Is the investor acting as a principal or an agent?

Role	Relationship to Returns
Principal	Uses power for own benefit
Agent	Uses power on behalf of another (the principal)

An agent does NOT have control-the agent acts on behalf of the principal.

Indicators of an Agent

Factor	Agent Characteristics
Scope of decision-making	Limited, specified in advance
Rights of other parties	Principal can remove agent without cause
Remuneration	Fixed or limited; not significantly exposed to var
Exposure to returns	Limited to fee income; no significant investment

Working Example: Fund Manager

Facts:
- Fund Manager (FM) manages an investment fund
- FM has full discretion over investment decisions
- FM earns 2% management fee + 20% performance fee
- FM holds 10% investment in fund
- Investors can remove FM with 30-day notice

Analysis:

Element	Assessment
Power?	Yes-discretion over investments
Variable returns?	Yes-fees + 10% investment
Link?	FM makes decisions affecting returns

But: Is FM a principal or agent?

Factor	Assessment
Removal rights	Investors can remove easily ? AGENT
Remuneration	Performance fee = variable, but...
Overall exposure	10% + fees vs. 90% investor exposure

Conclusion: FM is likely an agent acting on behalf of investors. FM does NOT control the fund.

Structured Entities

What Are They?

> *Structured entities are entities designed so that voting rights are NOT the dominant factor in deciding control.*

Characteristics:
- Narrow, well-defined objective
- Insufficient equity to finance activities
- Financing through debt or other instruments
- Contractual arrangements dominate

Examples

Type	Purpose
Securitisation vehicles	Holding financial assets
Asset-backed financing	Ring-fencing assets
Some investment funds	Specific investment mandate
Research entities	Externally funded R&D

Assessing Control

For structured entities:
- Focus on purpose and design
- Identify relevant activities
- Determine who directs those activities
- May require judgment on power through contractual arrangements

Reassessing Control

When to Reassess

Control is reassessed when facts and circumstances indicate a change:

Trigger	Example
Changes in voting rights	Share transactions
Changes in contractual arrangements	Amended shareholder agreement
Lapse of rights	Options expire
New potential voting rights	Convertibles issued
Changes in relevant activities	Business model changes

Implications of Reassessment

Change	Accounting
Control obtained	Consolidate from that date (acquisition accounting
Control lost	Deconsolidate from that date (disposal accounting)
Control retained	Continue consolidating; NCI adjustments if ownersh

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Investment Entities

The Exception

> *IFRS 10.31: An investment entity shall not consolidate its subsidiaries. Instead, it measures investments at fair value through profit or loss.*

Criteria for Investment Entity

Must meet ALL:

1. Obtains funds from investors for investment management services
2. Commits to investors that its purpose is investing for capital appreciation, investment income, or both
3. Measures and evaluates performance of substantially all investments on a fair value basis

Typical Characteristics

- More than one investment
- More than one investor

- Investors are not related parties
- Ownership through equity or similar interests

Exception to the Exception

An investment entity MUST consolidate subsidiaries that:
- Provide services relating to the investment entity's investment activities
- Are not themselves investment entities

Common Student Pitfalls

Pitfall	Correct Approach
Assuming 50%+ = control	Consider all facts-substantive rights, potential v
Ignoring protective rights	Protective rights don't give power
Confusing agent for principal	Agent acts for others; limited exposure
Ignoring variable returns	Returns include negative exposure (losses)
Not reassessing control	Reassess when facts change
Treating all structured entities the same	Analyse purpose, design, and relevant activities

---

Exam Technique

Control Assessment Questions

Structure:

1. Identify the three elements (power, returns, link)
2. Assess POWER:
3. What are the relevant activities?
4. Who can direct them?
5. What rights exist (voting, contractual, potential)?
6. Are rights substantive or protective?
7. Assess VARIABLE RETURNS:
8. What returns is the investor exposed to?

9. Are they positive, negative, or both?
10. Assess the LINK:
11. Is the investor acting as principal or agent?
12. Can power be used to affect returns?
13. CONCLUDE on whether control exists

Example Answer Structure

> *"IFRS 10 requires three elements for control: power over the investee, exposure to variable returns, and a link between power and returns.*
> *Power: Entity A holds 45% of voting rights, with remaining shareholders holding less than 5% each. Given the dispersed ownership and A's track record of directing board decisions, A has de facto power over the relevant activities.*
> *Variable returns: A is exposed to dividends, capital appreciation, and potential losses-all variable returns.*
> *Link: A uses its power to appoint management and set strategy, directly affecting returns. A is not acting as an agent for other shareholders.*
> *Conclusion: A controls the investee and must consolidate."*

Summary

Concept	Key Point
Control	Power + Variable returns + Link
Power	Current ability to direct relevant activities
Relevant activities	Activities significantly affecting returns
Voting rights	Main source of power, but not the only one
De facto control	Possible without majority voting rights
Variable returns	Can be positive, negative, or both
Principal vs. agent	Agent has power but doesn't control
Protective rights	Do NOT give power
Structured entities	Assess purpose, design, contractual control
Investment entities	Exception-fair value, not consolidation

What's Next?

In Part 5, we cover Consolidation Procedures:
- Uniform accounting policies
- Elimination of intragroup transactions
- Unrealised profits
- Intragroup dividends
- Pro-forma consolidation journal entries

? Previous: Part 3 - Goodwill & Bargain Purchases

? Next: Part 5 - Consolidation Procedures

Groups & Business Combinations - Part 5: Consolidation Procedures

The Purpose of Consolidation

> *Consolidated financial statements present the financial position and results of a group as if it were a single economic entity.*

The parent and its subsidiaries are presented as one entity, which requires:
- Combining like items
- Eliminating intragroup transactions
- Adjusting for differences in accounting policies
- Recognising non-controlling interests

Basic Consolidation Requirements

IFRS 10 Principles

Requirement	Reference
Combine like items of assets, liabilities, equity,	IFRS 10.B86
Eliminate carrying amount of parent's investment	IFRS 10.B86(a)
Eliminate intragroup balances and transactions	IFRS 10.B86(c)
Eliminate unrealised profits in intragroup transac	IFRS 10.B86(c)

Uniform Accounting Policies

The Requirement

> *IFRS 10.B87: Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and events.*

What This Means

If the subsidiary uses different policies:

1. Identify the differences
2. Make adjustments to align with group policy
3. Adjustments are made in the consolidation workings

Common Differences

Area	Example
Inventory valuation	FIFO vs. weighted average
Depreciation method	Straight-line vs. reducing balance
PPE measurement	Cost vs. revaluation
Investment property	Fair value vs. cost
Revenue recognition	Timing differences

Working Example: Policy Alignment

Subsidiary uses revaluation for PPE; Parent uses cost model (group policy).

	Subsidiary Books	Adjustment	Group
PPE carrying amount	R5,000,000	(R1,200,000)*	R3,800,000
Revaluation surplus	R1,200,000	(R1,200,000)	-

*Reverse the revaluation to cost model (simplified-actual calculation considers depreciation differences)

Uniform Reporting Dates

The Requirement

> *IFRS 10.B92: The financial statements of parent and subsidiaries shall be prepared as of the same reporting date.*

When Dates Differ

If impracticable to align:
- Maximum difference: 3 months
- Make adjustments for significant transactions between dates
- Disclose the different date and reason

Elimination of Intragroup Balances

What to Eliminate

Balance Type	Elimination
Parent's investment in subsidiary	Against subsidiary's equity
Intragroup receivables/payables	Eliminate in full
Intragroup loans	Eliminate in full

Investment Elimination Entry

At acquisition and each subsequent period:

```
Dr  Share capital (Subsidiary)                XXX
Dr  Retained earnings at acquisition (Sub)    XXX
Dr  Fair value adjustments (at acquisition)   XXX
Dr  Goodwill                                  XXX
    Cr  Investment in Subsidiary                      XXX
    Cr  NCI (at acquisition)                          XXX
```

Intragroup Balances

Example:
- Parent has receivable from Subsidiary: R500,000
- Subsidiary has payable to Parent: R500,000

Elimination:

```
Dr  Intragroup payable (Subsidiary)          500,000
    Cr  Intragroup receivable (Parent)               500,000
```

Elimination of Intragroup Transactions

Revenue and Expenses

All intragroup revenue and expenses must be eliminated:

Transaction	Elimination
Sales from P to S	Eliminate P's revenue and S's purchases
Interest on intragroup loans	Eliminate interest income and expense
Management fees	Eliminate fee income and expense
Dividends from S to P	Eliminate S's dividend and P's dividend income

Working Example: Intragroup Sales

During the year:
- Parent sold goods to Subsidiary for R2,000,000
- These goods were purchased by Parent for R1,500,000
- All goods sold externally by Subsidiary for R2,800,000

Elimination of intragroup sale:

```
Dr  Revenue (Parent)                       2,000,000
    Cr  Cost of sales (Subsidiary)                 2,000,000
```

Note: No unrealised profit adjustment needed if goods were sold externally.

Unrealised Profits: Inventory

The Concept

If goods sold between group companies remain in inventory at year-end, any intragroup profit is unrealised from a group perspective.

Calculation

```
Unrealised profit = Closing intragroup inventory x Profit margin
```

Downstream vs. Upstream

Direction	From	To	Adjustment Against
Downstream	Parent	Subsidiary	Parent (100%)
Upstream	Subsidiary	Parent	Subsidiary (P% + NCI%)

Working Example: Downstream Inventory

Facts:
- Parent sold goods to Subsidiary during the year
- Sales value: R1,000,000
- Cost to Parent: R700,000
- At year-end, 40% remains in Subsidiary's inventory

Calculation:

	R
Intragroup sales	1,000,000
Intragroup cost	700,000
Profit margin	30%
Closing inventory (at transfer price)	400,000 (40% x R1m)
Unrealised profit	120,000 (R400,000 x 30%)

Adjustment:

```
Dr  Cost of sales (or Retained earnings if prior year)    120,000
    Cr  Inventory                                                  120,000
```

Working Example: Upstream Inventory

Facts:

- Subsidiary (80% owned) sold goods to Parent
- Sales value: R500,000
- Cost to Subsidiary: R350,000
- At year-end, 20% remains in Parent's inventory
- NCI: 20%

Calculation:

	R
Profit margin	30%
Closing inventory	100,000 (20% x R500k)
Unrealised profit	30,000

Adjustment (split between parent and NCI):

	Parent Share (80%)	NCI Share (20%)
Unrealised profit	24,000	6,000

```
Dr  Cost of sales                          30,000
    Cr  Inventory                                  30,000
```

The effect on retained earnings is split 80/20.

Unrealised Profits: Non-Current Assets

The Concept

When one group company sells a non-current asset to another at a profit, that profit is unrealised from a group perspective until:
- The asset is sold externally, OR
- The profit is realised through depreciation

Treatment

1. Eliminate the unrealised profit on transfer
2. Adjust depreciation for the fair value difference
3. Each year, a portion of the profit becomes "realised" through excess depreciation

Working Example: PPE Transfer

Facts:
- On 1 January 20X1, Parent sold equipment to Subsidiary
- Carrying amount in Parent's books: R400,000
- Sale price: R600,000
- Remaining useful life: 4 years
- 80% ownership

Step 1: Unrealised profit at transfer

	R
Sale price	600,000
Carrying amount	400,000
Unrealised profit	200,000

Year 1 adjustments:

Eliminate unrealised profit:

```
Dr  Gain on sale (P/L or Retained earnings)    200,000
    Cr  Property, plant & equipment                    200,000
```

Adjust depreciation:

	Sub's Depreciation	Correct (Group)	Adjustment
Annual depreciation	150,000 (600k ÷ 4)	100,000 (400k ÷ 4)	50,000

```
Dr  Accumulated depreciation                    50,000
    Cr  Depreciation expense                           50,000
```

Net unrealised profit at end of Year 1:

	R
Original unrealised profit	200,000
Realised through depreciation (Year 1)	(50,000)
Remaining unrealised	150,000

Over Time

Year	Realised	Cumulative Realised	Remaining

1	50,000	50,000	150,000
2	50,000	100,000	100,000
3	50,000	150,000	50,000
4	50,000	200,000	0

Intragroup Dividends

The Concept

Dividends paid by a subsidiary to the parent are:
- Income in the parent's separate financial statements
- But NOT income from a group perspective (just movement of cash within group)

Treatment

Eliminate:
- Dividend income in parent
- Dividend paid in subsidiary (from retained earnings)

Exception: Dividends to NCI are NOT eliminated-they represent a distribution to parties outside the group.

Working Example

Subsidiary declares R100,000 dividend:
- Parent owns 80%: receives R80,000
- NCI owns 20%: receives R20,000

Elimination (parent's share only):

```
Dr  Dividend income (Parent P/L)              80,000
    Cr  Dividends paid (Subsidiary)                    80,000
```

The R20,000 to NCI remains as a distribution.

Deferred Tax on Consolidation Adjustments

When Deferred Tax Arises

Adjustment	Deferred Tax Impact
Fair value uplift on assets	DTL on temporary difference
Unrealised profit elimination	DTA (profit eliminated but tax was paid)
Intragroup asset transfer profit	DTA (until realised through depreciation)

Working Example: Unrealised Profit DTax

Facts:
- Unrealised profit in inventory: R120,000
- Tax rate: 28%

The selling company already paid tax on the R120,000 profit.

From a group perspective:
- Profit eliminated ? no group profit
- But tax was paid ? recognise DTA

```
Dr  Deferred tax asset                          33,600
    Cr  Deferred tax expense (P/L)                      33,600
(R120,000 x 28%)
```

The Pro-Forma Consolidation Journal

Standard Set of Entries

At acquisition:
1. Eliminate investment and recognise fair value adjustments, goodwill, NCI

Each period:
2. Eliminate intragroup balances
3. Eliminate intragroup revenue/expenses
4. Eliminate unrealised profits (inventory, PPE)
5. Adjust for depreciation on fair value adjustments
6. Eliminate intragroup dividends
7. Recognise deferred tax on adjustments
8. Allocate profits to NCI

Common Student Pitfalls

Pitfall	Correct Approach
Not eliminating both sides of intragroup transacti	Always eliminate revenue AND expense (or receivabl
Confusing downstream vs upstream	Downstream = from parent; Upstream = from sub (NCI
Forgetting to adjust depreciation on transferred a	Excess depreciation realises the unrealised profit
Eliminating dividends to NCI	Only eliminate parent's portion; NCI dividend is a
Ignoring deferred tax on elimination adjustments	Consider DTA/DTL implications
Using subsidiary's policies without adjustment	Align to group policy

Exam Technique

Consolidation Workings

Use structured workings:

W1: Group structure
- % owned, dates, method

W2: Net assets of subsidiary

	At Acquisition	At Year-End	Post-Acq Movement
Share capital	X	X	-
Retained earnings	X	X	X
Fair value adjustments	X	X*	- or X
Total	X	X	X

W3: Goodwill

	R
Consideration	X
NCI at acquisition	X
Less: FV of net assets	(X)
Goodwill	X

Less: Impairment	(X)
Carrying amount	X

W4: Non-controlling interest

	R
NCI at acquisition	X
NCI share of post-acquisition RE	X
NCI share of unrealised profit adj	(X)
NCI at year-end	X

W5: Consolidated retained earnings

	R
Parent's retained earnings	X
Parent's share of sub's post-acq RE	X
Less: Unrealised profit	(X)
Less: Goodwill impairment	(X)
Consolidated RE	X

Summary

Procedure	Key Point
Uniform policies	Align subsidiary to group policy
Reporting dates	Same date (max 3-month difference)
Investment elimination	Investment ? Subsidiary equity + FV adj + Goodwill
Intragroup balances	Eliminate receivables and payables
Intragroup transactions	Eliminate revenue and expenses
Unrealised profit - Inventory	Eliminate at year-end; split for upstream
Unrealised profit - PPE	Eliminate profit; adjust depreciation to realise
Intragroup dividends	Eliminate parent's share only
Deferred tax	Consider DTA/DTL on all adjustments

What's Next?

In Part 6, we cover Non-Controlling Interests in depth:

- Measurement at acquisition
- NCI in profit or loss
- Changes in NCI without loss of control
- Comprehensive examples

? Previous: Part 4 - IFRS 10 Control

? Next: Part 6 - Non-Controlling Interests

Groups & Business Combinations - Part 6: Non-Controlling Interests

What is a Non-Controlling Interest?

> *IFRS 10 Appendix A: A non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent.*

In Simple Terms

If Parent owns 80% of Subsidiary:
- 80% = Parent's interest
- 20% = Non-controlling interest (NCI)

NCI represents the portion of the subsidiary owned by outside shareholders.

NCI at Acquisition: Two Methods

The Choice

IFRS 3 permits a choice for measuring NCI at acquisition date:

Method	NCI Measured At
Full goodwill (Option 1)	Fair value of NCI
Partial goodwill (Option 2)	NCI's proportionate share of identifiable net asse

> *The choice is made per acquisition (not a blanket policy). Different acquisitions can use different methods.*

Method 1: Full Goodwill (Fair Value of NCI)

NCI is measured at its fair value at acquisition date.

Goodwill includes:
- Parent's share of goodwill
- NCI's share of goodwill (imputed)

How to determine NCI fair value:
- Quoted market price (if shares are listed)
- Valuation techniques (DCF, comparable transactions)
- May differ from proportionate share of consideration paid

Method 2: Partial Goodwill (Share of Net Assets)

NCI is measured as its proportionate share of the acquiree's identifiable net assets.

Goodwill includes:
- Only the parent's share of goodwill

Comparison Example

Facts:
- Parent acquires 80% of Subsidiary for R4,000,000
- Fair value of identifiable net assets: R4,500,000
- Fair value of NCI (20%): R1,100,000

	Full Goodwill	Partial Goodwill
Consideration (80%)	4,000,000	4,000,000
NCI at acquisition	1,100,000 (FV)	900,000 (20% x 4,500,000)
Total	5,100,000	4,900,000
Less: FV net assets	(4,500,000)	(4,500,000)
Goodwill	600,000	400,000

The difference (R200,000) represents NCI's share of goodwill.

NCI in the Statement of Financial Position

Components

Component	Calculation

NCI at acquisition	Per method chosen above
+ NCI share of post-acquisition profits	NCI% x Subsidiary's post-acquisition retained earn
? NCI share of post-acquisition losses	NCI% x Subsidiary's post-acquisition losses
? NCI share of dividends	NCI% x Dividends declared
± NCI share of OCI	NCI% x Subsidiary's OCI movements
± Adjustments	Unrealised profits (upstream), impairment

Working Example: NCI Movement

Facts:
- Acquisition date: 1 January 20X1
- NCI at acquisition (partial method): R900,000
- NCI%: 20%
- Subsidiary's post-acquisition profit (20X1): R500,000
- Subsidiary's dividend declared: R100,000
- Upstream unrealised profit (Year 1): R50,000

Calculation:

	R
NCI at acquisition	900,000
NCI share of profit (20% x 500,000)	100,000
NCI share of dividend (20% x 100,000)	(20,000)
NCI share of unrealised profit (20% x 50,000)	(10,000)
NCI at 31 December 20X1	970,000

NCI in Profit or Loss

Presentation

> *IFRS 10.B94: Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to non-controlling interests.*

The Split

	Parent	NCI	Total
Consolidated profit for the year	X	X	X
Other comprehensive income	X	X	X
Total comprehensive income	X	X	X

Loss Absorption

> *IFRS 10.B94: A subsidiary may have cumulative losses that exceed the NCI in its equity. The excess, and any further losses, are attributed to NCI even if this results in a deficit balance.*

This means:
- NCI can go negative
- NCI absorbs its share of losses regardless
- No "cap" on NCI's loss absorption

Changes in Ownership Without Loss of Control

The Concept

If the parent's ownership in a subsidiary changes but control is retained, this is an equity transaction.

> *IFRS 10.23: Changes in a parent's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.*

No New Goodwill or Gain/Loss

What Happens	What Doesn't Happen
Adjust NCI for change in %	Recognise gain or loss in P/L
Adjust parent's equity	Recalculate goodwill
	Remeasure assets/liabilities

The Mechanics

Parent buys more shares (say 80% ? 90%):

	Debit	Credit
NCI (10% of net assets)		X
Cash (consideration)		X
Equity (parent's reserve)	X or	X

Balancing figure goes to parent's equity (often a separate reserve).

Working Example: Increase in Ownership

Facts:
- Parent owns 80% of Subsidiary
- Subsidiary's net assets: R5,000,000
- Parent acquires additional 10% for R600,000
- NCI before: 20% x R5,000,000 = R1,000,000
- NCI after: 10% x R5,000,000 = R500,000

Calculation:

	R
Consideration paid	600,000
NCI transferred (10% x R5m)	500,000
Excess to equity	(100,000)

Journal Entry:

```
Dr  NCI                                  500,000
Dr  Equity reserve (parent)              100,000
    Cr  Cash                                     600,000
```

Working Example: Decrease in Ownership (Retaining Control)

Facts:
- Parent owns 90% of Subsidiary
- Subsidiary's net assets: R5,000,000
- Parent sells 10% for R700,000
- NCI before: 10% x R5,000,000 = R500,000
- NCI after: 20% x R5,000,000 = R1,000,000

Calculation:

	R
Cash received	700,000
NCI transferred (10% x R5m)	500,000
Excess to equity	200,000

Journal Entry:

```
Dr  Cash                                    700,000
    Cr  NCI                                         500,000
    Cr  Equity reserve (parent)                     200,000
```

No gain or loss in profit or loss!

NCI and Goodwill Impairment

Full Goodwill Method

Under full goodwill:
- Total goodwill (parent + NCI share) is tested for impairment
- Impairment is allocated between parent and NCI

Example:
- Goodwill: R600,000 (parent R480,000 + NCI R120,000)
- Impairment: R150,000

Allocation:
- Parent (80%): R120,000
- NCI (20%): R30,000

Partial Goodwill Method

Under partial goodwill:
- Only parent's goodwill is recognised
- For impairment testing, goodwill is grossed up (notionally)
- Impairment is recognised only for parent's portion

NCI in Other Comprehensive Income

Treatment

NCI receives its share of all OCI items:

OCI Item	NCI Treatment
Revaluation surplus	NCI% of revaluation
Foreign currency translation	NCI% of translation differences
Cash flow hedge reserve	NCI% of hedge movements
Remeasurement of defined benefit plans	NCI% of remeasurement

Presentation

In the Statement of Comprehensive Income:

```
Total comprehensive income for the year    X

Attributable to:
  Owners of the parent                     X
  Non-controlling interests                X
                                           X
```

NCI Disclosures

Required Disclosures (IFRS 12)

Disclosure	Requirement
NCI composition	For each subsidiary with material NCI
Name and principal place of business	Of subsidiary
Proportion held by NCI	% ownership
P/L attributable to NCI	Amount
Accumulated NCI	Amount in equity
Summarised financial information	For material subsidiaries

Summarised Information

For each subsidiary with material NCI, disclose:
- Revenue, profit/loss
- Total assets, liabilities
- Dividends paid to NCI
- Cash flows (operating, investing, financing)

Common Student Pitfalls

Pitfall	Correct Approach
Mixing up full and partial goodwill	Choose one method per acquisition; apply consisten
Recognising gain on NCI transactions	Changes without loss of control go through EQUITY
Capping NCI losses	NCI absorbs losses even if negative
Forgetting NCI share of upstream unrealised profit	Upstream adjustments are split between parent and
Ignoring NCI in OCI	NCI shares in all comprehensive income items
Not disclosing material NCI	IFRS 12 requires extensive disclosure

---

Exam Technique

NCI Calculation Questions

Standard working:

	R
NCI at acquisition:	
- Fair value of NCI, OR	X
- NCI% x FV of net assets	X
NCI share of post-acquisition RE	X
NCI share of post-acquisition OCI	X
NCI share of dividends	(X)

Adjustments:	
- Upstream unrealised profit (NCI%)	(X)
- Goodwill impairment (NCI share if full)	(X)
NCI at reporting date	X

NCI in P/L

	R
Subsidiary profit for the year	X
Adjustments (unrealised profit, etc.)	(X)
Adjusted subsidiary profit	X
x NCI%	
NCI share of profit	X

Summary

Concept	Key Point
NCI definition	Equity in subsidiary not attributable to parent
Measurement at acquisition	Full goodwill (FV) or Partial (share of net assets
Subsequent measurement	NCI at acquisition + share of post-acq movements
Changes without loss of control	Equity transaction-no P/L impact
Loss absorption	NCI absorbs losses even if balance goes negative
Impairment	Full: split with NCI; Partial: parent only
OCI	NCI shares in OCI proportionately
Disclosure	Extensive for material NCI (IFRS 12)

What's Next?

In Part 7, we cover IAS 28 Associates and the Equity Method:

- Significant influence
- Equity method mechanics
- Upstream and downstream transactions
- Impairment of investments in associates

? Previous: Part 5 - Consolidation Procedures

? Next: Part 7 - IAS 28 Associates

Groups & Business Combinations - Part 7: IAS 28 Associates & Equity Method

What is an Associate?

> *IAS 28.3: An associate is an entity over which the investor has significant influence.*

Significant Influence Defined

> *IAS 28.3: Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control.*

The Key Distinction

Relationship	Power Level	Accounting
Subsidiary	Control	Consolidation
Joint venture	Joint control	Equity method
Associate	Significant influence	Equity method
Investment	No significant influence	IFRS 9 (Fair value)

Identifying Significant Influence

The Rebuttable Presumption

> *IAS 28.5: If an investor holds, directly or indirectly, 20% or more of voting power, it is presumed to have significant influence (unless clearly demonstrated otherwise).*

Indicators of Significant Influence

Even without 20%, significant influence may exist if:

Indicator
Representation on the board of directors
Participation in policy-making processes
Material transactions between investor and investe
Interchange of managerial personnel
Provision of essential technical information

When 20%+ Does NOT Equal Significant Influence

Significant influence can be rebutted if:
- Another party has control
- The investor is excluded from decision-making
- Contractual arrangements limit the investor's influence

The Equity Method

The Core Principle

> *IAS 28.10: Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.*

Key Features

Feature	Treatment
Initial recognition	At cost
Share of profit/loss	Recognise in P/L
Share of OCI	Recognise in OCI
Dividends received	Reduce carrying amount (not income)
Uniform policies	Required where practicable

The "One-Line Consolidation"

The equity method is sometimes called "one-line consolidation" because:
- Only ONE line in the SFP (Investment in associate)
- Only ONE line in P/L (Share of associate's profit)
- But it reflects the investor's share of net assets and profits

---

Initial Recognition

At Cost

Component	Include in Cost
Purchase price	[OK]
Transaction costs	[OK] (unlike subsidiaries)
Contingent consideration	[OK] (at fair value)

Implicit Goodwill and Fair Value Adjustments

At acquisition, calculate:
1. Fair value of identifiable net assets
2. Implicit goodwill (excess of cost over share of FV net assets)

This is NOT separately presented but is embedded in the investment carrying amount.

Working Example: Initial Recognition

Facts:
- Investor acquires 30% of Associate for R3,000,000
- Associate's identifiable net assets at fair value: R8,000,000
- Transaction costs: R50,000

Calculation:

	R
Cost (purchase price + transaction costs)	3,050,000
Share of FV of net assets (30% x R8m)	2,400,000

Implicit goodwill	650,000

Journal Entry:

```
Dr  Investment in Associate                  3,050,000
    Cr  Cash                                          3,050,000
```

The R650,000 goodwill is NOT separately recognised-it's embedded in the investment.

Subsequent Measurement

Share of Profit or Loss

Each period:

1. Take associate's profit/loss for the period
2. Adjust for investor's share
3. Adjust for unrealised profits and fair value amortisation
4. Recognise in investor's P/L

Journal Entry

```
Dr  Investment in Associate                    XX
    Cr  Share of profit of associate (P/L)             XX
```

Dividends

Dividends reduce the carrying amount (not income):

```
Dr  Cash/Receivable                            XX
    Cr  Investment in Associate                        XX
```

Share of OCI

Recognise investor's share of associate's OCI in investor's OCI:

```
Dr  Investment in Associate                    XX
    Cr  OCI (e.g., revaluation reserve)                XX
```

Fair Value Adjustments (Embedded Goodwill)

The Concept

If the investor paid more than the proportionate share of book value, there may be:
1. Fair value adjustments on specific assets
2. Implicit goodwill

Treatment of Fair Value Adjustments

Depreciable assets:
- Amortise the fair value adjustment over remaining useful life
- Reduces share of associate's profit

Land (non-depreciable):
- No amortisation
- Realised on disposal

Working Example

Facts:
- 30% acquired for R3,000,000
- Associate's book value of net assets: R7,000,000
- Fair value adjustment on PPE: R1,000,000 (remaining life 10 years)
- Share of FV net assets: 30% x R8,000,000 = R2,400,000
- Implicit goodwill: R3,000,000 ? R2,400,000 = R600,000

Annual adjustment:
- FV adjustment amortisation: R1,000,000 ÷ 10 = R100,000
- Investor's share: 30% x R100,000 = R30,000

Each year:

```
Dr  Share of profit of associate (P/L)          30,000
    Cr  Investment in Associate                         30,000
```

Intragroup Transactions with Associates

Unrealised Profits

Unrealised profits on transactions between investor and associate must be eliminated to the extent of the investor's interest.

Downstream Transactions

Investor sells to Associate:

Adjustment:
- Eliminate investor's share of unrealised profit
- Reduce investor's profit (not associate's)

Calculation:

```
Unrealised profit in associate's inventory x Investor's %
```

Upstream Transactions

Associate sells to Investor:

Adjustment:
- Eliminate investor's share of unrealised profit
- Reduce share of associate's profit

Calculation:

```
Unrealised profit in investor's inventory x Investor's %
```

Working Example: Upstream

Facts:
- Investor owns 30% of Associate
- During the year, Associate sold goods to Investor for R500,000
- Associate's cost: R350,000
- At year-end, 40% remains in Investor's inventory

Calculation:

	R
Profit margin	30%
Closing inventory	200,000 (40% x R500k)
Unrealised profit	60,000 (R200k x 30%)

Investor's share (30%)	18,000

Adjustment:

```
Dr  Share of profit of associate              18,000
    Cr  Investment in Associate                      18,000
```

Losses of Associates

Absorbing Losses

The investor recognises its share of losses until the investment is reduced to zero.

Investment Carrying Amount	Treatment of Losses
> 0	Reduce investment
= 0	Stop recognising (unless obligation exists)

Long-Term Interests

If the investor has long-term interests (e.g., loans to associate):
- After investment reaches zero, apply losses to long-term interests
- In reverse order of seniority

Resuming Profit Recognition

If the associate becomes profitable:
1. First, recover unrecognised losses
2. Then resume normal equity accounting

Working Example: Loss Absorption

Facts:
- Investment carrying amount: R500,000
- Long-term loan to associate: R200,000
- Investor's 30% share of associate's loss: R800,000

Allocation:

	R
Investment balance	500,000
Share of loss applied to investment	(500,000)
Investment reduced to	0
Remaining loss to absorb	300,000
Applied to loan	(200,000)
Loan reduced to	0
Unrecognised loss (memorandum)	100,000

Impairment of Investment in Associate

When to Test

Apply IAS 36 impairment indicators, including:
- Significant financial difficulty of associate
- Significant adverse changes in associate's environment
- Dividend distributions exceeding total comprehensive income

Impairment Calculation

	R
Carrying amount of investment	X
Recoverable amount (higher of VIU and FVLCOD)	(X)
Impairment loss	X

Treatment

Impairment loss recognised in P/L. Can be reversed if conditions improve.

> *Goodwill embedded in the investment is NOT tested separately-the investment is tested as a single asset.*

Discontinuing the Equity Method

When to Discontinue

Scenario	Action
Loss of significant influence	Stop equity method
Associate becomes subsidiary	Apply IFRS 3 (business combination)
Associate becomes joint venture	Continue equity method
Associate goes into liquidation	Stop when significant influence lost

Accounting on Discontinuation

1. Measure any retained interest at fair value
2. Recognise gain/loss on deemed disposal
3. Reclassify OCI to P/L (if required by the related standard)

Working Example: Loss of Significant Influence

Facts:
- Investor sells half of 30% holding (now holds 15%)
- Carrying amount before sale: R2,000,000
- Sale proceeds (for 15%): R1,200,000
- Fair value of retained 15%: R1,200,000
- Share of associate's revaluation reserve: R150,000

Calculation:

	R
Proceeds received	1,200,000
Fair value of retained interest	1,200,000
Total	2,400,000
Carrying amount of investment	(2,000,000)
Reclassification of OCI	150,000
Gain on disposal	550,000

Entries:

```
Dr  Cash                                    1,200,000
Dr  Financial asset (FVOCI or FVPL)         1,200,000
    Cr  Investment in Associate                        2,000,000
    Cr  Gain on disposal (P/L)                           400,000

Dr  Revaluation reserve (OCI)                 150,000
    Cr  Gain on disposal (P/L)                           150,000
```

Presentation and Disclosure

Statement of Financial Position

Line Item	Presentation
Investment in associate	Non-current assets (unless held for sale)

Statement of Profit or Loss

Line Item	Presentation
Share of profit of associates	After operating profit, before tax (typically)

Key Disclosures (IFRS 12)

Disclosure
Nature and extent of significant influence
Summarised financial information of associates
Carrying amount of investment
Fair value (if available)
Unrecognised share of losses

Common Student Pitfalls

Pitfall	Correct Approach
Treating dividends as income	Dividends reduce carrying amount, not income
Expensing transaction costs	Capitalise as part of investment cost
Ignoring fair value adjustments	Amortise FV adjustments on depreciable assets
Full elimination of unrealised profits	Only eliminate investor's share
Continuing to recognise losses past zero	Stop at zero (unless obligations exist)
Recognising implicit goodwill separately	Embedded in investment, not separate

Exam Technique

Investment in Associate Working

	R
Cost at acquisition	X
Share of post-acquisition retained earnings	X
Share of post-acquisition OCI	X
Less: Dividends received	(X)
Less: Amortisation of FV adjustments	(X)
Less: Unrealised profits	(X)
Less: Impairment	(X)
Carrying amount	X

Share of Associate's Profit Working

	R
Associate's profit for year	X
x Investor's %	X
Less: Amortisation of FV adjustments	(X)
Less: Unrealised profit (current year)	(X)
Share of profit recognised	X

Summary

Concept	Key Point
Significant influence	Power to participate but not control
Presumption	20%+ = significant influence (rebuttable)
Equity method	One-line consolidation
Initial measurement	At cost (including transaction costs)
Subsequent measurement	Cost + share of profits ? dividends
Dividends	Reduce carrying amount
Unrealised profits	Eliminate investor's share only
Losses	Reduce investment to zero; stop unless obligations
Implicit goodwill	Embedded, not separately recognised

What's Next?

In Part 8, we cover IFRS 11 Joint Arrangements:
- Joint control definition
- Joint operations vs. joint ventures
- Accounting for each type

? Previous: Part 6 - Non-Controlling Interests

? Next: Part 8 - IFRS 11 Joint Arrangements

Groups & Business Combinations - Part 8: IFRS 11 Joint Arrangements

What is a Joint Arrangement?

> *IFRS 11.4: A joint arrangement is an arrangement of which two or more parties have joint control.*

Joint Control Defined

> *IFRS 11.7: Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.*

Key Characteristics

Element	Requirement
Contractual arrangement	Must be a binding agreement
Shared control	Two or more parties
Unanimous consent	All controlling parties must agree on relevant act

Joint Control vs. Other Relationships

Relationship	Control Type	Decision-Making
Subsidiary	Control (IFRS 10)	Parent can decide unilaterally
Associate	Significant influence	Can participate but not control
Joint arrangement	Joint control	Unanimous consent required

Assessing Joint Control

Questions to ask:

1. Is there a contractual arrangement?
2. Does the arrangement give parties control over relevant activities?
3. Do decisions require unanimous consent of controlling parties?

Types of Joint Arrangements

IFRS 11 identifies two types:

Type	Structure	Parties Have Rights To
Joint operation	Not through a separate vehicle, OR separate	Assets and obligations for liabilities
Joint venture	Through a separate vehicle where parties or	Net assets of the arrangement

Determining the Type

```
Is the arrangement structured through a SEPARATE VEHICLE?
?
??? NO ? JOINT OPERATION
?
??? YES ? Does the legal form give parties direct rights to assets/obligations?
          ?
          ??? YES ? JOINT OPERATION
          ?
          ??? NO ? Do contractual terms give direct rights?
                    ?
                    ??? YES ? JOINT OPERATION
                    ?
                    ??? NO ? Do other facts/circumstances give direct rights?
                              ?
                              ??? YES ? JOINT OPERATION
                              ??? NO ? JOINT VENTURE
```

Factors Indicating Joint Operation

Even with a separate vehicle, it's a joint operation if:

Factor	Indicates Joint Operation
Parties take substantially all output	[OK]
Arrangement depends on parties for cash flows	[OK]
Parties have rights to assets and obligations for	[OK]

Legal form doesn't provide separation	[OK]

Accounting for Joint Operations

The Approach

A joint operator recognises:

In its Financial Statements
Its assets, including its share of jointly held as
Its liabilities, including its share of jointly in
Its revenue from sales of its share of output
Its share of revenue from joint sales
Its expenses, including its share of jointly incur

No Separate "Investment" Line

Unlike the equity method:
- No single "Investment in Joint Operation" line
- Assets and liabilities are recognised directly
- Revenue and expenses flow through normal line items

Working Example: Joint Operation

Facts:
- Entity A and Entity B enter into a joint operation
- Each has 50% interest
- The JO owns equipment costing R2,000,000
- Annual operating expenses: R800,000
- Revenue from sales: R1,500,000

Entity A's accounting:

Line Item	A's Share (50%)
PPE	R1,000,000

Revenue	R750,000
Operating expenses	R400,000

Journal entries:

Share of equipment:

```
Dr  Property, plant & equipment            1,000,000
    Cr  Cash/Payable                                   1,000,000
```

Share of revenue and expenses:

```
Dr  Trade receivables/Cash                   750,000
    Cr  Revenue                                        750,000

Dr  Operating expenses                       400,000
    Cr  Cash/Trade payables                            400,000
```

Accounting for Joint Ventures

The Approach

A joint venturer recognises its interest using the equity method (IAS 28).

Same as Associates

Treatment	Requirement
Initial recognition	At cost
Subsequent measurement	Cost + share of profit ? dividends
Dividends	Reduce carrying amount
Unrealised profits	Eliminate investor's share
Losses	Reduce to zero unless obligations exist

Presentation

Statement	Presentation

SFP	Investment in joint venture (non-current asset)
P/L	Share of profit of joint venture

Joint Operations vs. Joint Ventures: Comparison

Aspect	Joint Operation	Joint Venture
Rights	To assets and obligations for liabilities	To net assets
Accounting	Proportionate (line by line)	Equity method
SFP presentation	Assets and liabilities included directly	Single investment line
P/L presentation	Revenue and expenses included directly	Share of profit line
Typical structure	Unincorporated, or specific contractual terms	Incorporated separate entity

Transactions with Joint Arrangements

Joint Operations

Transactions between a joint operator and the joint operation:
- Recognise gains/losses only to the extent of other parties' interests
- Similar to intragroup elimination but limited to other parties' share

Joint Ventures

Apply equity method principles:
- Eliminate investor's share of unrealised profits
- Same as associate treatment

Working Example: Sale to Joint Operation

Facts:
- Entity A has 40% interest in a joint operation
- A sells inventory to the JO for R100,000

- Cost to A: R70,000
- At year-end, 50% remains unsold by JO

Calculation:

	R
Sales price	100,000
Cost	70,000
Profit	30,000
Remaining in JO inventory	50%
Unrealised profit	15,000
A's share of unrealised profit (40%)	6,000
Recognisable profit	24,000 (30,000 ? 6,000)

Entity A eliminates R6,000 of profit (its share of unsold inventory profit).

Separate Financial Statements

Choices for Joint Ventures and Associates

In separate financial statements, an entity can account for investments in joint ventures and associates at:

Method	Standard
Cost	IAS 27
Fair value through P/L	IFRS 9
Equity method	IAS 28

Joint Operations

No "investment" is recognised-assets and liabilities are included directly (same in separate and consolidated).

Changes in Interest in Joint Arrangements

Acquiring Interest

Joint operation:
- Recognise share of assets and liabilities
- Apply IFRS 3 if acquiring a business (for additional interest)

Joint venture:
- Initial cost = consideration transferred
- Apply IAS 28 equity method

Disposing of Interest

Joint operation:
- Derecognise share of assets and liabilities disposed
- Recognise gain/loss

Joint venture:
- Apply IAS 28 guidance on disposal of associates/JVs
- Remeasure retained interest at fair value if significant influence lost

---

Common Student Pitfalls

Pitfall	Correct Approach
Treating all joint arrangements the same	Distinguish joint operations (proportionate) from
Using equity method for joint operations	Joint operations = line by line, NOT equity method
Ignoring the classification assessment	Apply IFRS 11 flowchart considering legal form, te
Confusing joint control with significant influence	Joint control requires unanimous consent
Recognising full profit on sales to JO	Eliminate share of unrealised profits

---

Exam Technique

Classification Questions

Structure:

1. Is there a contractual arrangement giving joint control?
2. Is the arrangement through a separate vehicle?
3. If yes, do parties have rights to assets (JO) or net assets (JV)?
4. Conclude on classification
5. State accounting treatment

Calculation Questions

Joint operation:
- Show proportionate share of each asset/liability/revenue/expense
- Eliminate share of unrealised profits

Joint venture:
- Use equity method workings (same as associate)

Summary

Concept	Key Point
Joint arrangement	Two or more parties with joint control
Joint control	Unanimous consent required for relevant activities
Joint operation	Rights to assets and obligations for liabilities ?
Joint venture	Rights to net assets ? equity method
Classification	Based on legal form, contractual terms, other fact
Transactions	Eliminate share of unrealised profits

What's Next?

In Part 9, we cover Step Acquisitions and Disposals:
- Achieving control in stages
- Partial disposal retaining control
- Losing control
- Deemed disposals

? Previous: Part 7 - IAS 28 Associates

? Next: Part 9 - Step Acquisitions & Disposals

Groups & Business Combinations - Part 9: Step Acquisitions & Disposals

Overview

Changes in ownership percentages are common in practice. This part covers:

1. Step acquisitions - Achieving control in stages
2. Partial disposals retaining control - Equity transactions
3. Loss of control - Full disposal accounting
4. Deemed disposals - Dilution without sale

Part A: Step Acquisitions (Achieving Control in Stages)

The Scenario

An investor may:
1. Hold an existing investment (associate, financial asset)
2. Acquire additional shares
3. Achieve control through the additional acquisition

The Accounting Treatment

> *IFRS 3.41-42: When control is achieved in stages, the acquirer shall:*
> *1. Remeasure the previously held interest at acquisition-date fair value*
> *2. Recognise a gain or loss on the remeasurement in profit or loss (or OCI as appropriate)*

The Key Principle

On the date control is achieved:
- It's as if the entity sold the previous investment
- And acquired 100% (or controlling interest) at fair value

The Calculation

Component	Treatment
Previously held interest	Remeasure to fair value ? Gain/loss
New consideration	Include in goodwill calculation
Total consideration for goodwill	FV of previous + New consideration

Working Example: Step Acquisition

Facts:
- 1 January 20X1: Parent acquired 25% of Target for R500,000
- Equity method applied (significant influence)
- 31 December 20X2: Carrying amount of investment: R650,000 (including share of profits)
- 1 January 20X3: Parent acquires additional 55% for R1,650,000, achieving control
- Fair value of previously held 25% on 1 January 20X3: R700,000
- Fair value of identifiable net assets of Target: R2,500,000
- NCI to be measured at fair value: R500,000

Step 1: Remeasure previously held interest

	R
Fair value of 25% at acquisition date	700,000
Carrying amount	(650,000)
Gain on remeasurement (P/L)	50,000

Step 2: Calculate goodwill

	R
Fair value of previously held 25%	700,000
Consideration for additional 55%	1,650,000
Fair value of NCI (20%)	500,000
Total	2,850,000
Less: FV of identifiable net assets	(2,500,000)
Goodwill	350,000

Journal entries:

Remeasure previous investment:

```
Dr  Investment in Target                          50,000
    Cr  Gain on remeasurement (P/L)                        50,000
```

Acquisition of additional shares:

```
Dr  Investment in Target                       1,650,000
    Cr  Cash                                               1,650,000
```

Consolidation entries:

```
Dr  Net assets (at FV)                         2,500,000
Dr  Goodwill                                     350,000
    Cr  Investment in Target (700k + 1,650k)               2,350,000
    Cr  NCI                                                  500,000
```

OCI Reclassification

If the previously held interest was a FVOCI investment:
- Accumulated OCI is reclassified to P/L (or retained earnings) on remeasurement

---

Part B: Partial Disposal Retaining Control

The Scenario

Parent sells part of its shareholding but retains control.

The Accounting Treatment

> *IFRS 10.23: Changes in ownership that do NOT result in loss of control are equity transactions.*

What This Means

What Happens	What Doesn't Happen
Adjust NCI	Recognise gain/loss in P/L
Adjust parent's equity	Recalculate goodwill
	Remeasure assets/liabilities

The Mechanics

1. Calculate the difference between:
2. Proceeds received
3. The adjustment to NCI (share of net assets transferred)
4. Recognise the difference in equity (often a "Changes in ownership reserve")

Working Example: Partial Disposal Retaining Control

Facts:
- Parent owns 80% of Subsidiary
- Parent sells 10% for R600,000
- Subsidiary's consolidated net assets: R4,000,000
- NCI before sale: 20% x R4,000,000 = R800,000
- NCI after sale: 30% x R4,000,000 = R1,200,000

Calculation:

	R
Proceeds received	600,000
Increase in NCI (10% x R4m)	(400,000)
Credit to equity	200,000

Journal Entry:

```
Dr  Cash                                    600,000
    Cr  NCI                                         400,000
    Cr  Equity reserve (parent)                     200,000
```

No gain or loss in P/L!

Part C: Loss of Control (Full Disposal)

The Scenario

Parent disposes of enough shares to lose control over the subsidiary.

The Accounting Treatment

IFRS 10.25: On loss of control, the parent shall:

1. *Derecognise assets and liabilities of the subsidiary*
2. *Derecognise goodwill*
3. *Derecognise NCI*
4. *Recognise fair value of any retained interest*
5. *Recognise gain or loss in P/L*
6. *Reclassify OCI items to P/L (where required)*

The Calculation

	R
Proceeds from disposal	X
Fair value of retained interest	X
Total	X
Carrying amount of net assets disposed	(X)
Carrying amount of goodwill	(X)
NCI derecognised	X
OCI reclassified	X/(X)
Gain/(loss) on disposal	X

What Happens to Retained Interest

New Relationship	Accounting
Associate (significant influence)	Equity method at FV on disposal date
Financial investment	IFRS 9 at fair value
Joint venture	Equity method at FV

Working Example: Loss of Control

Facts:

- Parent owns 80% of Subsidiary
- Parent sells 60% for R3,000,000
- Retains 20% (significant influence-associate)
- At disposal date:
  - Subsidiary's net assets (consolidated): R4,000,000

- Goodwill: R500,000
- NCI (20%): R800,000
- FCTR in OCI (group share): R200,000

- Fair value of retained 20%: R1,100,000

Calculation:

	R
Proceeds from sale (60%)	3,000,000
Fair value of retained 20%	1,100,000
Total	4,100,000
Net assets derecognised	(4,000,000)
Goodwill derecognised	(500,000)
NCI derecognised (credit back)	800,000
FCTR reclassified to P/L	200,000
Gain on disposal	600,000

Journal Entries:

Deconsolidation:

```
Dr  Cash                                  3,000,000
Dr  Investment in Associate (retained)    1,100,000
Dr  NCI                                     800,000
    Cr  Net assets                                  4,000,000
    Cr  Goodwill                                      500,000
    Cr  Gain on disposal (P/L)                        400,000
```

Reclassification of OCI:

```
Dr  FCTR (OCI)                              200,000
    Cr  Gain on disposal (P/L)                          200,000
```

Total gain: R400,000 + R200,000 = R600,000 [OK]

Part D: Deemed Disposals (Dilution)

The Scenario

A subsidiary issues new shares to third parties:
- Parent doesn't participate
- Parent's percentage ownership decreases
- But no cash changes hands (from parent's perspective)

The Accounting Treatment

If control is retained:
- Treat as equity transaction (same as partial disposal)
- No gain/loss in P/L

If control is lost:
- Apply loss of control accounting
- Recognise gain/loss in P/L

Working Example: Deemed Disposal Retaining Control

Facts:
- Parent owns 80% (800,000 shares) of Subsidiary
- Subsidiary issues 200,000 new shares to third party for R1,000,000
- Total shares now: 1,200,000
- Parent's new holding: 800,000 / 1,200,000 = 66.67%
- Net assets before issue: R4,000,000
- Net assets after issue: R5,000,000

Parent's analysis:

	Before	After
% owned	80%	66.67%
Share of net assets	R3,200,000	R3,333,333

	R
Share of net assets after	3,333,333
Share of net assets before	(3,200,000)
Increase in parent's equity	133,333

But parent received no cash-this is an equity adjustment:

Journal Entry:

```
Dr  NCI                                    133,333
    Cr  Equity reserve (parent)                    133,333
```

(Exact entries depend on the specific circumstances)

Summary of Transactions

Transaction	Control Status	Accounting
Step acquisition	Gain control	Remeasure previous holding at FV; calculate goodv
Partial disposal - retain control	Keep control	Equity transaction; no P/L
Full disposal	Lose control	Deconsolidate; recognise gain/loss; FV retained in
Deemed disposal - retain control	Keep control	Equity transaction
Deemed disposal - lose control	Lose control	Full disposal accounting

---

Common Student Pitfalls

Pitfall	Correct Approach
Not remeasuring previous holding on step acquisiti	Remeasure to fair value; recognise gain/loss
Recognising gain/loss on partial disposal retainin	Equity transaction-no P/L impact
Forgetting to reclassify OCI on loss of control	Reclassify items required by relevant standards
Using book value for retained interest	Measure at fair value on disposal date
Forgetting to derecognise NCI	NCI is removed on loss of control

---

Exam Technique

Step Acquisition Questions

1. State the fair value of previously held interest

2. Calculate gain/loss on remeasurement
3. Calculate goodwill using total fair value (previous + new + NCI)
4. Show journal entries

Disposal Questions

1. Identify whether control is retained or lost
2. If retained: equity transaction (show working)
3. If lost: full disposal accounting (show calculation and entries)
4. Don't forget OCI reclassification

Standard Calculation Format

Loss of control:

	R
Proceeds	X
+ Fair value of retained interest	X
Total	X
? Net assets derecognised	(X)
? Goodwill derecognised	(X)
+ NCI derecognised	X
+ OCI reclassified	X
Gain/(Loss)	X

What's Next?

In Part 10, we cover Foreign Subsidiaries (IAS 21 Integration):
- Functional currency determination
- Translation of foreign operations
- Exchange differences on consolidation
- Goodwill in foreign currency

? Previous: Part 8 - IFRS 11 Joint Arrangements

? Next: Part 10 - Foreign Subsidiaries

Groups & Business Combinations - Part 10: Foreign Subsidiaries (IAS 21 Integration)

Introduction

When a group includes foreign operations (subsidiaries, associates, joint ventures, or branches with a different functional currency), IAS 21 The Effects of Changes in Foreign Exchange Rates applies.

This part covers:
1. Functional currency determination
2. Translation of foreign operations
3. Exchange differences on consolidation
4. Goodwill and fair value adjustments

Functional Currency

The Definition

> *IAS 21.8: Functional currency is the currency of the primary economic environment in which the entity operates.*

Determining Functional Currency

Factor	Primary Consideration
Sales currency	Currency in which sales prices are denominated and
Competition/regulation	Currency that mainly influences sales prices
Cost currency	Currency of labour, materials, and other costs
Financing	Currency in which funds from financing are generat

Indicators for Foreign Operations

Indicator	Suggests Same FC as Parent	Suggests Different FC
Activities are extension of parent	[OK]	
High proportion of transactions with parent	[OK]	
Cash flows directly affect parent	[OK]	
Operates independently		[OK]
Local transactions are primary		[OK]
Local financing without parent support		[OK]

Example

A South African parent has a UK subsidiary:
- Sales in GBP to UK customers
- Costs in GBP (UK staff, UK suppliers)
- Financed by UK banks

Functional currency of subsidiary: GBP

Translation to Presentation Currency

When Translation is Needed

If an entity's functional currency differs from its presentation currency, the financial statements must be translated.

Translation Method

Item	Exchange Rate
Assets and liabilities	Closing rate at reporting date
Income and expenses	Rate at date of transaction (or average rate as ap
Equity items	Historical rate

Exchange Differences

> *IAS 21.39: Exchange differences arising on translation are recognised in OCI (foreign currency translation reserve-FCTR).*

Consolidation of Foreign Subsidiaries

Step-by-Step Process

1. Prepare foreign subsidiary's financial statements in its functional currency
2. Adjust for group accounting policies
3. Translate to parent's presentation currency
4. Perform normal consolidation procedures

Translation of Subsidiary's Financial Statements

Statement	Translation
Assets and liabilities	Closing rate
Revenue and expenses	Average rate (or transaction date rate)
Dividends	Rate on declaration date
Share capital	Historical rate (acquisition date)
Pre-acquisition retained earnings	Historical rate (acquisition date)
Post-acquisition retained earnings	Translated P/L less translated dividends

---

Goodwill and Fair Value Adjustments

The Question

In which currency is goodwill expressed?

IAS 21 Requirement

> *IAS 21.47: Goodwill and fair value adjustments to assets/liabilities are treated as assets and liabilities of the foreign operation.*

What This Means

Item	Treatment
Goodwill	Expressed in subsidiary's functional currency; tra
Fair value adjustments	Same-treated as subsidiary's assets/liabilities

Exchange Differences on Goodwill

The exchange difference arising from translating goodwill at different rates:
- Recognised in OCI (FCTR)
- Part of the translation differences on the net investment

Working Example: Foreign Subsidiary

Facts

Acquisition:
- SA Parent acquired 100% of UK Sub on 1 January 20X1
- Consideration: £1,000,000
- Fair value of net assets acquired: £800,000
- Goodwill: £200,000

Exchange rates (ZAR/GBP):

Date	Rate
1 January 20X1 (acquisition)	20.00
31 December 20X1 (closing)	22.00
Average 20X1	21.00

UK Sub's financial statements at 31 December 20X1:

	£

Net assets (excluding goodwill)	900,000
Profit for year	100,000
Dividends declared (30 June)	-

Step 1: Translate Net Assets

Item	£	Rate	ZAR
Opening net assets	800,000	20.00	16,000,000
Profit for year	100,000	21.00	2,100,000
Closing net assets	900,000		
At closing rate	900,000	22.00	19,800,000

Step 2: Calculate FCTR on Net Assets

	ZAR
Closing net assets at closing rate	19,800,000
Opening net assets at historical rate	(16,000,000)
Profit at average rate	(2,100,000)
FCTR on net assets	1,700,000

Step 3: Translate Goodwill

	£	Rate	ZAR
Goodwill at acquisition	200,000	20.00	4,000,000
Goodwill at closing rate	200,000	22.00	4,400,000
FCTR on goodwill			400,000

Step 4: Total FCTR

Component	ZAR
FCTR on net assets	1,700,000
FCTR on goodwill	400,000

Total FCTR	2,100,000

Consolidated Amounts (Parent's Perspective)

Item	ZAR
Goodwill	4,400,000
Net assets from Sub	19,800,000
FCTR (OCI)	2,100,000

Net Investment in Foreign Operation

What Constitutes Net Investment

The net investment includes:
- Equity investment in subsidiary
- Long-term receivables/payables that are "in substance" part of the investment

Exchange Differences on Monetary Items

If parent has a long-term loan to/from foreign subsidiary:

> *IAS 21.32: Exchange differences on monetary items forming part of the net investment are recognised in OCI in consolidated FS.*

Example

Parent has a USD loan to US subsidiary of $1,000,000:
- No repayment planned in foreseeable future
- Forms part of net investment
- Exchange differences ? OCI (FCTR)

Disposal of Foreign Operation

On Disposal

When a foreign operation is disposed of:

> *IAS 21.48: The cumulative FCTR is reclassified to profit or loss as part of the gain or loss on disposal.*

Partial Disposal

Scenario	FCTR Treatment
Dispose retaining control	Proportionate FCTR attributed to NCI (no P/L)
Dispose losing control	Cumulative FCTR reclassified to P/L
Dispose reducing to associate	Proportionate FCTR reclassified to P/L

Working Example: Disposal of Foreign Sub

Facts:
- Parent sells 100% of foreign subsidiary
- Cumulative FCTR: R2,100,000 (credit)
- Proceeds: R25,000,000
- Carrying amount of net investment: R24,200,000

Gain on disposal:

	ZAR
Proceeds	25,000,000
Carrying amount (net assets + goodwill)	(24,200,000)
FCTR reclassified	2,100,000
Gain on disposal	2,900,000

Hyperinflationary Economies

IAS 29 Requirement

If the foreign subsidiary's functional currency is that of a hyperinflationary economy:

1. First, restate the subsidiary's FS for inflation (IAS 29)
2. Then translate to presentation currency at closing rate for all items

Indicators of Hyperinflation

Indicator
Population keeps wealth in non-monetary assets or
Prices quoted in stable foreign currency
Credit sales/purchases at prices compensating for
Interest rates, wages, prices linked to price inde
Cumulative inflation over 3 years approaches or ex

Common Student Pitfalls

Pitfall	Correct Approach
Translating goodwill at historical rate	Goodwill is subsidiary's asset-translate at closin
Recognising translation differences in P/L	Translation differences go to OCI (FCTR)
Forgetting to reclassify FCTR on disposal	Cumulative FCTR goes to P/L on loss of control
Using closing rate for P/L items	Use average rate (or transaction date) for income/
Ignoring monetary items in net investment	Include long-term items with no planned settlement
Applying IAS 21 before IAS 29	For hyperinflation: IAS 29 first, then translate a

Exam Technique

Foreign Subsidiary Questions

Standard approach:

1. Identify functional currencies (parent and subsidiary)
2. Translate subsidiary FS to presentation currency:

3. Assets/liabilities: Closing rate
4. P/L items: Average rate
5. Equity: Historical rate
6. Calculate FCTR (balancing figure in translation)
7. Translate goodwill at closing rate; calculate FCTR on goodwill
8. Prepare consolidation entries as normal
9. On disposal: Reclassify cumulative FCTR

Translation Working

	FC	Rate	PC
Assets and liabilities		Closing	
Net assets at acquisition	X	Hist	X
Post-acq RE	X	Various	X
Total translated net assets			X
Check: Net assets x closing	X	Closing	X
FCTR (balancing)			X

Goodwill Translation

	FC	Rate	PC
Goodwill at acquisition	X	Hist	X
Goodwill at closing rate	X	Closing	X
FCTR on goodwill			X

Summary

Concept	Key Point
Functional currency	Currency of primary economic environment
Translation method	Assets/liabilities at closing; P/L at average
Exchange differences	Recognised in OCI (FCTR)
Goodwill	Treated as subsidiary's asset; translated at closi

Net investment	Includes long-term monetary items
Disposal	Cumulative FCTR reclassified to P/L
Hyperinflation	Apply IAS 29 first; then translate at closing rate

---

What's Next?

In Part 11, we cover Exam Strategy for Groups Questions:
- Structured approach
- Time allocation
- Common mark-losing errors
- Comprehensive worked example

? Previous: Part 9 - Step Acquisitions & Disposals

? Next: Part 11 - Exam Strategy

Groups & Business Combinations - Part 11: Exam Strategy

The Importance of Group Questions

Group accounting questions are the pinnacle of financial reporting exams at CTA/PGDA and ITC level:

- Typically carry 25-40 marks per paper
- Test integration of multiple standards
- Require both calculation and discussion skills
- Distinguish between competent and exceptional students

> *You cannot pass a financial reporting exam without being competent at group questions. This part gives you the tools to excel.*

Understanding What Examiners Want

The Mark Allocation Reality

Component	Typical Marks
Goodwill calculation	4-6 marks
NCI calculation	3-4 marks
Consolidated retained earnings	4-6 marks
Intragroup eliminations	3-5 marks
Fair value adjustments	2-4 marks
Discussion/principles	4-8 marks
Presentation/disclosure	2-4 marks

What Earns Marks

Action	Marks
Showing your workings	[OK] Every logical step
Labelling calculations	[OK] Helps marker follow
Stating principles	[OK] Discussion marks
Cross-referencing	[OK] W1, W2, W3 approach
Correct final figures	[OK] Obviously

What Loses Marks

Error	Mark Impact
Arithmetic errors	Cascade through all workings
Unlabelled calculations	Marker can't give partial credit
Missing eliminations	Direct deductions
Wrong consolidation method	Fundamental error
Time mismanagement	Incomplete answers

The Standard Working Structure

The W1-W5 Approach

Use a structured working paper approach:

Working	Purpose
W1	Group structure and dates
W2	Net assets of subsidiary
W3	Goodwill
W4	Non-controlling interest
W5	Consolidated retained earnings

Additional workings as needed:
- W6 | Intragroup eliminations
- W7 | Fair value adjustments

- W8 | Investment in associate

W1: Group Structure

Always start with a clear group diagram:

```
  Parent Ltd
                ?
          ??????????????
          ?             ?
         80%           30%
          ?             ?
     Subsidiary     Associate
     (1 Jan X1)     (1 Jul X2)
```

Include:

- Percentage holdings
- Acquisition dates
- Type of relationship (subsidiary, associate, JV)
- Any changes during the period

W2: Net Assets of Subsidiary

This is your foundation working. Get this right, and everything else follows.

	At Acquisition	At Reporting Date	Movement
Share capital	X	X	-
Share premium	X	X	-
Retained earnings	X	X	X
Revaluation reserve	X	X	X
Sub-total	X	X	X
Fair value adjustments:			
- PPE	X	X	-
- Inventory (if still held)	X	-	(X)
- Intangibles	X	X	-

- Contingent liability	(X)	(X)	-
Less: Additional depreciation	-	(X)	(X)
FV of net assets	X	X	X

Key Points

- Use fair values at acquisition for the acquisition column
- Adjust for subsequent changes (depreciation, realisation)
- The movement column is used in W4 and W5

W3: Goodwill

	R
Consideration:	
Cash	X
Shares issued (number x FV)	X
Deferred consideration (PV)	X
Contingent consideration (FV)	X
Total consideration	X
NCI at acquisition (per method)	X
Total	X
Less: FV of net assets at acquisition (W2)	(X)
Goodwill at acquisition	X
Less: Impairment to date	(X)
Carrying amount	X

Don't Forget

- State which NCI method is used (full or partial)
- Include ALL consideration components
- Show impairment separately

W4: Non-Controlling Interest

	R
NCI at acquisition:	
- Fair value, OR	X
- NCI% x FV of net assets	X
NCI share of post-acquisition movement (W2)	X
NCI share of impairment (if full goodwill)	(X)
NCI share of unrealised profit (upstream)	(X)
NCI at reporting date	X

For Statement of P/L

	R
Subsidiary's profit for year	X
Adjustments:	
- Additional depreciation	(X)
- Unrealised profit (upstream)	(X)
- Impairment (NCI share if full)	(X)
Adjusted profit	X
x NCI%	
NCI share of profit	X

W5: Consolidated Retained Earnings

	R
Parent's retained earnings	X
Parent's share of subsidiary's post-acq RE:	
- Post-acquisition movement (W2) x P%	X
Adjustments:	

- Unrealised profit (downstream - full)	(X)
- Unrealised profit (upstream - P share)	(X)
- Goodwill impairment (P share)	(X)
- Additional depreciation on FV adj (P share)	(X)
Share of associate's post-acquisition profits	X
Consolidated retained earnings	X

Handling Complex Scenarios

Step Acquisitions

Additional steps:
1. Calculate gain on remeasurement of previous holding
2. Include FV of previous holding in goodwill calculation

Disposals During the Year

Additional steps:
1. Time-apportion subsidiary's profits
2. Calculate gain on disposal
3. Show where sub drops out of consolidation

Foreign Subsidiaries

Additional steps:
1. Translate subsidiary FS before consolidation
2. Calculate FCTR as balancing figure
3. Translate goodwill at closing rate

Multiple Subsidiaries

Create separate W2, W3, W4 for each subsidiary, then combine in W5

Time Management

For a 30-Mark Group Question

Activity	Suggested Time
Read and understand	4-5 minutes
Draw group structure (W1)	2 minutes
Net assets working (W2)	5 minutes
Goodwill (W3)	4 minutes
NCI (W4)	4 minutes
Retained earnings (W5)	5 minutes
Intragroup eliminations	4 minutes
Discussion/disclosure	4 minutes
Review	2 minutes
Total	~35 minutes

> *If stuck on one aspect, move on. Partial marks are available for each working.*

Common Mark-Losing Errors

Top 10 Mistakes

#	Mistake	How to Avoid
1	Using book values instead of fair values	Always use FV at acquisition in W2
2	Forgetting additional depreciation	FV adjustments on PPE ? depreciation adjustment
3	Wrong NCI method	State your method clearly
4	Missing unrealised profit eliminations	Systematic check for intragroup inventory and PPE
5	Not time-apportioning	Mid-year acquisitions require proportioning
6	Capitalising transaction costs	Always expense (except share issue costs)
7	Adding contingent consideration changes to	Changes go to P/L after measurement period

8	Forgetting deferred tax on FV adjustments	Calculate and include in net assets
9	Wrong treatment of upstream vs downstrean	Downstream = 100% to parent; Upstream = split
10	Arithmetic errors	Check your additions; use calculator memory

---

Discussion Question Technique

The Structure

1. State the relevant principle (quote IFRS)
2. Apply to the scenario (use specific facts)
3. Conclude (accounting treatment)

Example

> *"IFRS 10.23 states that changes in ownership interest that do not result in loss of control are accounted for as equity transactions.*
> *In this case, Parent sold 10% of Subsidiary, reducing its holding from 80% to 70%. Since Parent retains control (70% > 50% and no loss of control indicators), this is an equity transaction.*
> *Therefore, no gain or loss is recognised in profit or loss. The difference between proceeds (R600,000) and the adjustment to NCI (10% x net assets = R400,000) is recognised directly in equity."*

SA-Specific Context

Common Industry Scenarios

Industry	Typical Group Issues
Mining	Environmental provisions, exploration assets, func
Retail	Franchise arrangements, store operations as CGUs
Financial services	Structured entities, consolidation of funds
Property	Investment property fair values, joint operations

Manufacturing	Intercompany inventory, PPE transfers

JSE Considerations

- BEE ownership structures may create NCI complexity
- Pyramid structures common in SA groups
- Ring-fenced assets and structured entities

Comprehensive Exam-Style Question

Question

Holdings Ltd (Holdings) is a South African company with a 31 December year-end. The following information relates to its group structure:

Subsidiary Ltd (Sub)
- Holdings acquired 80% of Sub on 1 January 20X1 for R4,800,000
- At acquisition, Sub's net assets (book value) were R5,000,000
- Fair value adjustments at acquisition:
  - Land undervalued by R400,000
  - Equipment undervalued by R200,000 (remaining life 4 years)
  - Customer relationships identified: R300,000 (5-year life)
- NCI is measured at fair value: R1,250,000 at acquisition
- At 31 December 20X3, Sub's retained earnings are R2,500,000 (were R1,800,000 at acquisition)
- Tax rate: 28%

Intragroup Transactions
- During 20X3, Holdings sold inventory to Sub for R600,000 (cost R450,000)
- At year-end, 25% remains in Sub's inventory
- Holdings charged Sub management fees of R120,000
- Sub declared dividends of R200,000 in 20X3

Additional Information
- Goodwill was impaired by R100,000 in 20X2
- Holdings' retained earnings at 31 December 20X3: R8,500,000

Required:
Calculate the following as at 31 December 20X3:

(a) Goodwill (5 marks)

(b) Non-controlling interest (5 marks)

(c) Consolidated retained earnings (6 marks)

Total: 16 marks

Model Answer

```
Holdings Ltd
    ?
   80% (1 Jan 20X1)
    ?
Subsidiary Ltd
```

Final Checklist

Before submitting your group answer:

Check	[OK]
Group structure drawn?	
All workings labelled (W1-W5)?	
FV adjustments at acquisition included?	
Additional depreciation/amortisation calculated?	
Deferred tax on FV adjustments included?	
NCI method stated?	
Unrealised profits identified and eliminated?	
Downstream vs upstream correctly handled?	
Intragroup dividends eliminated?	
Goodwill impairment included?	
Time apportionment applied (if mid-year)?	
Figures cross-referenced to workings?	
Arithmetic checked?	

Key Takeaways

1. Structure is everything - Use W1-W5 consistently
2. Fair values at acquisition - The foundation of everything
3. Movement analysis - Drives NCI and consolidated RE
4. Show your workings - Partial marks are valuable
5. Practice, practice, practice - Speed comes with repetition
6. Read the question carefully - Identify all components required

---

Conclusion

Congratulations on completing this comprehensive guide on Groups & Business Combinations! You now have:

- Deep understanding of IFRS 3 acquisition method
- Mastery of IFRS 10 control concepts
- Skills in consolidation procedures
- Knowledge of NCI, associates, and joint arrangements
- Capability to handle complex scenarios
- Exam technique to maximise marks

Go forth and conquer those group questions!

? Previous: Part 10 - Foreign Subsidiaries

? Back to: IFRS 16 Leases | IFRS 15 Revenue