# HA2032
# Corporate Accounting

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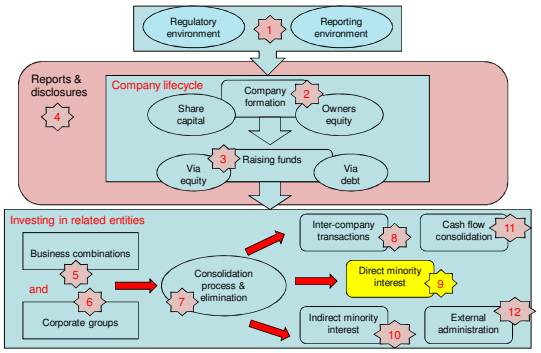
## Topic 9
## Direct Non-controlling Interest

## Studying Corporate Accounting






## Introduction

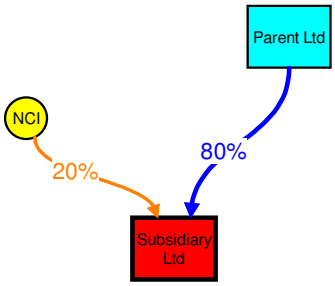
- Non-controlling shareholders refer to all shareholders of subsidiary companies that are not members of the same group
- The entitlements of non-controlling shareholders, called non-controlling interest (NCI), is defined as:

  'the equity in a subsidiary not attributable, directly or indirectly, to a parent'

  (AASB 127.4)



## Non-controlling interest






## Reporting NCI

- Entity concept
  - No one shareholder interest is separately identified
  - No need to distinguish parent and other shareholders, all are simply contributors of equity capital to the group

  Thus, consolidated capital, reserves and retained profits represent the interests of all shareholders



## Reporting NCI (contd)

- However, under AASB 127, NCI must be:
  - included as a separate item of consolidated owners' equity
- AASB 101 specifies separate disclosure, in the consolidated financial statement:
  - NCI in the consolidated profit or loss
  - NCI in consolidated total comprehensive profit (in comprehensive profit statement *and* changes in equity statement)
  - NCI in total consolidated owners' equity

## Reporting NCI

TABLE 21.1 Specimen consolidated statements: Extracts

**Consolidated balance sheet as at 30 June 20X2**
**Owners' equity extract**

| | Note | $000 | Parent interest $000 | Non-controlling interest (NCI) $000 |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | | 5 360 | 5 000 | 360 |
| Reserves | 4 | 1 000 | 900 | 100 |
| Retained profits | 3 | 1 400 | 1 200 | 200 |
| *Owners' equity* | | 7 760 | 7 100 | 660 |

**Consolidated comprehensive profit statement for the year ended 30 June 20X2**

| | Note | $000 | Parent interest $000 | Non-controlling interest (NCI) $000 |
|---|---|---|---|---|
| Profit or loss for the period | | 500 | 470 | 30 |
| Other comprehensive profit: | | | | |
| Gain on revaluation of properties | | 355 | 330 | 25 |
| Available for sale investments: | | | | |
| Remeasurement increment | | 240 | 240 | — |
| Exchange difference on translating foreign operations | | 300 | 280 | 20 |
| *Total comprehensive profit* | | 1 395 | 1 320 | 75 |

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## Calculation of direct NCI

- Impact of direct NCI on the consolidation process will be examined:
  1 Consolidated equity
  2 Consolidation difference
  3 Intra-group transactions and related profit
  4 Dividends
  5 Direct entries to equity.



## Calculation of direct NCI

- Basic rule
  - apply the percentage ownership interest of NCI to each owners' equity category of subsidiary **at reporting date**
  - assumes that ownership interest = interest in profits



## 1. Direct NCI in owners equity

- Substitution elimination:
  - Partial elimination only (only the parent's share).
- To display NCI allocation, extended worksheet is used with two additional columns, as shown on the next slide.



## Example

- Menotti Ltd bought 60% of Glass Ltd on 1/1/X5
- Glass's assets are at fair value
- Owner's equity of Glass at 1/1/X5
  - Capital $800
  - Reserves $500
  - Retained profits $100
- Task: requires substitution elimination entry.



## Example

- Substitution elimination entry is:

| | | |
|---|---|---|
| Dr | Capital | 480 |
| Dr | Reserves | 300 |
| Dr | Retained profits | 60 |
| Cr | Investment in Glass | 840 |

- Each amount is 60% of the Glass Ltd's control date equity item
- Observe that *in this example* there is no consolidation difference

## Example

**Consolidation worksheet at 31 December 20X5: Balance sheet**

| | Menotti | Glass | Sum | Eliminations | | | | Group | Allocation to shareholders | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Dr | | Cr | | | NCI | Parent |
| Paid-up capital | 1 000 | 800 | 1 800 | 480 | 1 | | | 1 320 | 320 | 1 000 |
| Reserves | 400 | 500 | 900 | 300 | 1 | | | 600 | 200 | 400 |
| Retained profits | 600 | 200 | 800 | 60 | 1 | | | 740 | 80 | 660 |
| *Owners' equity* | 2 000 | 1 500 | 3 500 | | | | | 2 660 | 600 | 2 060 |
| Investment in Glass | 840 | – | 840 | | 1 | 840 | | – | | |
| Other net assets | 1 160 | 1 500 | 2 660 | | | | | 2 660 | | |
| *Net assets* | 2 000 | 1 500 | 3 500 | 840 | | 840 | | 2 660 | | |

**40%** of subsidiary

**60%** of post control subsidiary

**+ 100%** of parent



## 1. Direct NCI in owners equity (contd)

- Allocation technique
  - Calculate NCI for each owners' equity category
  - Deduct it from each of these categories
  - Assign remainder to parent shareholders.
- Calculating NCI: the basic rule
  - Apply percentage ownership to each owner equity category of the subsidiary *as at the reporting date.*
- Note that:
  - When unrealised profit is present, the basic rule needs to be modified
  - Pre-control equity is not of concern to NCI
  - NCI cannot be determined from aggregate date, it needs calculation.



## 2. Direct NCI & consolidation difference

- Consolidation difference: the difference between the subsidiary's equity acquired at control date and the price paid for that equity
- NCI unaffected by:
  - Consolidation difference
  - Impairment of the difference



## 3. Direct NCI & intra-groups

- AASB 127 requires:
  - Elimination in full of intra-group transactions, regardless of the size of parent interest in a subsidiary
  - Does not explain how to deal with NCI.



## 3. Direct NCI & intra-groups (contd)

- Entity concept view
  - Events are examined only in terms of their impact on the group itself
  - A group grows or declines as a result of transactions with external parties
  - Thus, eliminate transactions and their effects on all account balances
  - Inappropriate to apportion these eliminations to different owners
  - However, this does not facilitate separate NCI disclosure requirement.



## 3. Direct NCI & intra-groups (contd)

- Five points to remember when allocating consolidated owners' equity (OE) to NCI and parent interest:
  1. All Intra-group exchanges are eliminated in full
  2. Consolidated items that have to be allocated are: all OE items in balance sheet; profit or loss; start and end balances of retained profits, reserves and other appropriations account
  3. Examine how eliminations of profit affect the NCI and parent shareholder interest.

## 3. Direct NCI & intra-groups (contd)

4 Attribute identified unrealised profit to NCI and parent by identifying the selling party

5 Allocate the unrealised profit.

- Refer to examples 20.3 & 20.4 for NCI and profit elimination



## 4. Direct NCI & dividends

- Nature of transaction
  - Parent company dividend → external transaction → reflected in financial statement
  - Wholly owned subsidiary dividend → internal transaction (since dividend is passed to parent company) → eliminate
  - Partly owned subsidiary dividend → both internal and external → eliminate and in consolidated financial statement respectively.
    - The external part is attributable to direct NCI = Total dividend x NCI portion (%)



## Example 20.5

On 1 January 20X4, Meale Ltd paid $27 500 for 75% of the shares of Vine Ltd. Financial statements for the two companies at the start and end of the year are shown below. Interim dividends are appropriated from retained profits and declared dividends from current-year profits. Ignore disposal of intangibles.

MEALE LTD and VINE LTD
20X4 financial statements

| | Meale | | Vine | |
|---|---|---|---|---|
| | 1 Jan 20X4 | 31 Dec 20X4 | 1 Jan 20X4 | 31 Dec 20X4 |
| | $ | $ | $ | $ |
| **Balance sheet** | | | | |
| Investment in Vine | 27 500 | 26 000 | — | — |
| Dividend receivable | — | 1 875 | — | — |
| Other assets | 34 500 | 41 000 | 26 000 | 30 500 |
| Total assets | 62 000 | 68 875 | 26 000 | 30 500 |
| *less* Dividend payable | 5 000 | 5 000 | — | 2 500 |
| *Net assets* | 57 000 | 63 875 | 26 000 | 28 000 |
| Paid-up capital | 50 000 | 50 000 | 20 000 | 20 000 |
| Retained profits | 7 000 | 13 875 | 6 000 | 8 000 |
| *Owners' equity* | 57 000 | 63 875 | 26 000 | 28 000 |

## Example 20.5

| | Meale 31 Dec 20X4 $ | Vine 31 Dec 20X4 $ |
|---|---|---|
| **Income statement for year ended 31 December 20X4** | | |
| Revenues | | |
| Dividend revenue | 1 875 | — |
| Other revenues | 40 000 | 32 000 |
| Total revenues | 41 875 | 32 000 |
| Total expenses | (27 000) | (25 500) |
| Profit or loss | 14 875 | 6 500 |

| | Meale 31 Dec 20X4 $ | Vine 31 Dec 20X4 $ |
|---|---|---|
| **Notes to the financial statements** | | |
| *Retained profits* | | |
| Retained profits 1 January 20X4 | 7 000 | 6 000 |
| Profit or loss | 14 875 | 6 500 |
| Available for appropriation | 21 875 | 12 500 |
| *less* Dividends | | |
| Paid interim | 3 000 | 2 000 |
| Declared final | 5 000 | 2 500 |
| Retained profits 31 December 20X4 | 13 875 | 8 000 |



## Example 20.5

The eliminations in journal entry format are as follows:

| | | | | |
|---|---|---|---|---|
| 1 | Dr | Dividend (revenue) | 3 375 | |
| | Cr | Interim dividend | | 1 500 |
| | Cr | Declared dividend (retained profits appropriation) | | 1 875 |
| | *Eliminates intra-group dividends interim and declared dividend* | | | |
| 2 | Dr | Paid-up capital | 15 000 | |
| | Dr | Retained profits (SOP balance) | 4 500 | |
| | Dr | Consolidation goodwill | 8 000 | |
| | Cr | Investment in subsidiary | | 27 500 |
| | *Substitution elimination* | | | |
| 3 | Dr | Dividend payable | 1 875 | |
| | Cr | Dividend receivable | | 1 875 |
| | *Eliminates intra-group debt in respect of the declared dividend* | | | |
| 4 | Dr | Total expenses | 1 700 | |
| | Cr | Accumulated goodwill impairment | | 1 700 |
| | *Record impairment of consolidation goodwill* | | | |
| 5 | Dr | Accumulated impairment of investment | 2 300 | |
| | Cr | Total expenses | | 2 300 |
| | *Eliminate parent's impairment of investment* | | | |



## Example 20.5

*Solution:*

Consolidation worksheet at 31 December 20X4: Combined

| | Meal | Vine | Sum | Eliminations Dr | | Eliminations Cr | Group | Allocation to shareholders NCI | Allocation to shareholders Parent |
|---|---|---|---|---|---|---|---|---|---|
| **Profit or loss statement** | | | | | | | | | |
| Dividend revenue | 3 375 | — | 3 375 | 3 375 | 1 | | — | | |
| Other revenues | 38 500 | 32 000 | 70 500 | | | | 70 500 | | |
| Total revenues | 41 875 | 32 000 | 73 875 | | | | 70 500 | | |
| Total expenses | 27 000 | 25 500 | 52 500 | 1 700 | 4/5 | 2 300 | 51 900 | | |
| Profit or loss | 14 875 | 6 500 | 21 375 | | | | 18 600 | 1 625 | 16 975 |
| *Retained profits analysis* | | | | | | | | | |
| Retained profits 1 January 20X4 | 7 000 | 6 000 | 13 000 | 4 500 | 2 | | 8 500 | 1 500 | 7 000 |
| Profit available | 21 875 | 12 500 | 34 375 | | | | 27 100 | 3 125 | 23 975 |
| *less* Appropriations | | | | | | | | | |
| Interim dividend | 3 000 | 2 000 | 5 000 | | 1 | 1 500 | 3 500 | 500 | 3 000 |
| Declared dividend | 5 000 | 2 500 | 7 500 | | 1 | 1 875 | 5 625 | 625 | 5 000 |

# Example 20.5

*Solution:*

**Consolidation worksheet at 31 December 20X4: Combined**

| | Meal | Vine | Sum | Eliminations Dr | | Eliminations Cr | Group | Allocation to shareholders NCI | Allocation to shareholders Parent |
|---|---|---|---|---|---|---|---|---|---|
| **Profit or loss statement** | | | | | | | | | |
| Dividend revenue | 3 375 | — | 3 375 | 3 375 | 1 | | — | | |
| Other revenues | 38 500 | 32 000 | 70 500 | | | | 70 500 | | |
| Total revenues | 41 875 | 32 000 | 73 875 | | | | 70 500 | | |
| Total expenses | 27 000 | 25 500 | 52 500 | 1 700 | 4/5 | 2 300 | 51 900 | | |
| Profit or loss | 14 875 | 6 500 | 21 375 | | | | 18 600 | 1 625 | 16 975 |
| *Retained profits analysis* | | | | | | | | | |
| Retained profits 1 January 20X4 | 7 000 | 6 000 | 13 000 | 4 500 | 2 | | 8 500 | 1 500 | 7 000 |
| Profit available | 21 875 | 12 500 | 34 375 | | | | 27 100 | 3 125 | 23 975 |
| *less* Appropriations | | | | | | | | | |
| Interim dividend | 3 000 | 2 000 | 5 000 | | 1 | 1 500 | 3 500 | 500 | 3 000 |
| Declared dividend | 5 000 | 2 500 | 7 500 | | 1 | 1 875 | 5 625 | 625 | 5 000 |


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