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Bachelor of Commerce (B2001) | Level 2 • Part B Major | Monash University

Financial accounting

Course Code: ACC2100 • Module 4 Notes

Module 4: Business Combinations, Goodwill & Consolidated Financial Statements

1. Corporate Groups, Control & Business Combinations (AASB 10 & AASB 3)

1.1 Statutory Rationale and the Definition of Control (AASB 10)

Modern Australian corporations frequently expand through corporate groups—holding investments in legally separate subsidiary companies to isolate operational risk, manage regulatory licences, or retain acquired brand identities. While each legal entity prepares separate accounting records under the *Corporations Act 2001 (Cth)*, presenting standalone financial statements of the parent company alone obscures the true economic resources and obligations under its command. Accordingly, *AASB 10 Consolidated Financial Statements* requires a parent entity that controls one or more subsidiaries to present consolidated financial statements depicting the parent and its subsidiaries as a **single economic entity**.

Under *AASB 10* paragraph 7, an investor controls an investee if and only if the investor possesses all three cumulative elements:

1. **Power over the Investee:** The investor holds existing *substantive* rights (such as majority voting shares, contractual rights to appoint key management personnel, or voting rights reinforced by dispersed minority holdings—*de facto* control) that give the investor the current ability to direct the **relevant activities**—those activities that significantly affect the investee's returns.
2. **Exposure, or Rights, to Variable Returns:** The investor's returns from its involvement have the potential to vary as a result of the investee's performance (e.g., dividends, capital appreciation, management fees, or residual synergies).
3. **Ability to Use Power to Affect Returns:** A direct link exists between power and returns, ensuring the investor acts as a **principal** rather than an **agent** exercising delegated decision-making authority on behalf of other stakeholders.

1.2 Acquisition Method Mechanics (AASB 3)

When an acquirer obtains control of a business (an integrated set of inputs and substantive processes capable of producing outputs), *AASB 3 Business Combinations* mandates the **acquisition method**, applied through four sequential steps:

1. **Identify the Acquirer:** Typically the entity transferring cash/assets or issuing voting equity interests that obtains control.
2. **Determine the Acquisition Date:** The date on which the acquirer legally obtains control of the acquiree (settlement/control transfer date, not necessarily contract signing date).
3. **Recognise and Measure Identifiable Assets Acquired, Liabilities Assumed, and any NCI:** Identifiable assets (including previously unrecognised intangible assets such as brand names, customer contracts, and patents that satisfy separability or contractual-legal criteria) and assumed liabilities (including contingent liabilities whose fair value can be measured reliably) are measured

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at their **acquisition-date fair values**. Where fair value differs from the acquiree's existing tax base, a corresponding Deferred Tax Liability (DTL) or Deferred Tax Asset (DTA) is recognised under *AASB 112*.

4. **Recognise and Measure Goodwill or Gain on Bargain Purchase:** Goodwill represents future economic benefits arising from assets that are not capable of being individually identified and separately recognised (such as assembled workforce and expected synergies).

1.3 Consideration Transferred, Goodwill vs Bargain Purchase

Consideration transferred is measured at acquisition-date fair value and comprises the fair value of assets transferred by the acquirer, liabilities incurred to former owners (including deferred cash consideration discounted to present value), equity instruments issued by the acquirer (measured at ASX share price on acquisition date), and any **contingent consideration** (earn-out liabilities measured at acquisition-date fair value, with post-acquisition changes recognised in profit or loss unless classified as equity). Crucially, **acquisition-related costs**—such as investment banking advisory fees, legal due diligence, and stamp duty—are **expensed immediately** in profit or loss under *AASB 3* paragraph 53 (except share-issue transaction costs, which reduce share capital under *AASB 132*).

Comparing aggregate acquisition consideration plus any Non-Controlling Interest (NCI) against the acquisition-date Fair Value of Identifiable Net Assets (FVINA) determines either Goodwill or a Gain on Bargain Purchase:

$$\text{Goodwill} = \text{Consideration Transferred} + \text{NCI}_{\text{acq}} - \text{FVINA}_{\text{acq}}$$

Where: $\text{Consideration Transferred}$ is the acquisition-date fair value of consideration paid by the parent, NCI_{acq} is the Non-Controlling Interest measured at acquisition date (zero if 100% acquired; otherwise measured at either proportionate share of FVINA under the *partial goodwill method* or acquisition-date fair value under the *full goodwill method*), and $\text{FVINA}_{\text{acq}}$ is the acquisition-date Fair Value of Identifiable Net Assets (after accounting for fair value adjustments and associated deferred tax).

If $\text{Consideration Transferred} + \text{NCI}_{\text{acq}} < \text{FVINA}_{\text{acq}}$, a **Gain on Bargain Purchase** arises. Before recognising any gain, *AASB 3* paragraph 36 requires the acquirer to reassess whether all assets acquired and liabilities assumed have been correctly identified and measured; if a shortfall persists, the gain is recognised immediately in consolidated profit or loss (attributable solely to the parent) on the acquisition date.

1.4 De Facto Control, Potential Voting Rights & Measurement Period Adjustments

Determining control under *AASB 10* frequently requires careful judgement beyond simple 50%+1 share ownership. An investor holding less than 50% of voting shares (for example, a 42% shareholding in an ASX-listed company) can still exercise **de facto control** if the remaining 58% of shares are widely dispersed among thousands of retail investors who historically do not attend general meetings or coordinate votes, giving the 42% shareholder practical power to appoint the board and direct relevant

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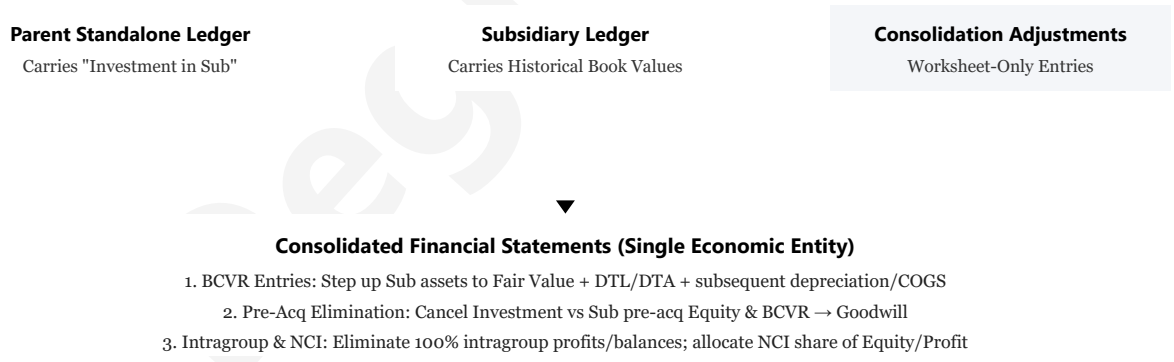
activities. Similarly, **potential voting rights** (such as currently exercisable share options or convertible notes) are factored into the power assessment only if they are *substantive*—meaning the holder has the practical ability to exercise them when decisions about relevant activities need to be made (for example, deeply out-of-the-money options are typically non-substantive).

Under *AASB 3* paragraph 45, if the initial accounting for a business combination is incomplete at the end of the reporting period in which the combination occurs (for instance, pending independent valuation of specialised mining leases or environmental provisions), the acquirer reports **provisional amounts**. During a maximum **measurement period** of one year from the acquisition date, the acquirer retrospectively adjusts those provisional amounts (and Goodwill) to reflect new information obtained about facts and circumstances that existed at the acquisition date. Once the 12-month measurement period closes, subsequent revisions to fair values or contingent consideration estimates are recognised in profit or loss rather than adjusting Goodwill.

2. Consolidation Mechanics: Fair Value Adjustments & Pre-Acquisition Elimination

2.1 Role of the Consolidation Worksheet and BCVR

Because the parent and each subsidiary continue to maintain separate general ledgers as distinct legal entities, consolidation entries are **never posted** into either entity's legal-entity accounting system. Instead, at each reporting date, the group accountant prepares a multi-column **Consolidation Worksheet** combining the trial balances of the parent and subsidiary, posting consolidation journal adjustments solely on the worksheet to eliminate internal balances and align net assets to acquisition-date fair values.



In Australian consolidation accounting (as taught across Monash and Australian professional practice), acquisition-date fair value adjustments are recorded on the worksheet through the **Business Combination Valuation Reserve (BCVR)**—an equity reserve representing the net-of-tax fair value uplift applied to the subsidiary's identifiable assets and liabilities at acquisition date. Because the subsidiary generally retains its historical cost figures in its own books, BCVR entries must be **re-entered on every subsequent consolidation worksheet** until the underlying asset is sold, fully depreciated, or settled.

Consider the lifecycle of common BCVR fair value adjustments under a corporate tax rate t = 30%:

- **Depreciable Plant & Equipment (FV > Carrying Amount):** At acquisition date, Dr Plant / Cr Accumulated Depreciation (or net Plant) for the uplift, Cr DTL for 30% × Uplift, and Cr BCVR for 70% × Uplift. In each subsequent year, the group must recognise *additional depreciation* on the uplift (Uplift / Remaining Useful Life): Dr Depreciation Expense / Cr Accumulated Depreciation, accompanied by a partial reversal of the DTL (Dr DTL / Cr Income Tax Expense for 30% of the extra depreciation).
- **Inventory (FV > Carrying Amount):** At acquisition date, Dr Inventory / Cr DTL (30%) / Cr BCVR (70%). Once that inventory is sold to external customers in the post-acquisition period, the uplift becomes part of consolidated Cost of Goods Sold (Dr COGS / Cr Inventory for the uplift; Dr DTL / Cr Income Tax Expense for 30% of the uplift). In periods *after* the inventory is sold, the BCVR entry converts into a pre-acquisition Retained Earnings adjustment (transferring BCVR into Retained Earnings).
- **Unrecognised Identifiable Intangible (e.g., Brand Name or Patent):** Recognised on consolidation at fair value (Dr Brand Name / Cr DTL 30% / Cr BCVR 70%). If finite-lived, amortised subsequently with corresponding DTL reversal; if indefinite-lived, tested annually for impairment under *AASB 136*.

2.2 Worked Acquisition Analysis & Pre-Acquisition Elimination Example (AUD)

On 1 July 2026, Southern Cross Holdings Ltd acquires 100% of the issued shares of Bass Strait Components Pty Ltd for A$1,450,000 cash, plus A$35,000 in legal and advisory due diligence fees paid in cash. At 1 July 2026, Bass Strait's equity comprised Share Capital of A$600,000, General Reserve of A$120,000, and Retained Earnings of A$280,000 (Total Book Equity = A$1,000,000). At acquisition date, Bass Strait's identifiable assets and liabilities were at fair value except for three items (corporate tax rate = 30%):

1. **Inventory:** Carrying amount A$150,000; Fair value A$190,000 (all sold externally during FY2027).
2. **Machinery:** Cost A$500,000, Accumulated Depreciation A$200,000 (Carrying amount A$300,000); Fair value A$420,000; remaining useful life at 1 July 2026 is 4 years (straight-line, zero residual value).
3. **Unrecognised Customer Contract Intangible:** Fair value A$100,000; finite useful life of 5 years from 1 July 2026.

Step 1: Acquisition Analysis at 1 July 2026

Note that the A$35,000 advisory fee is expensed in Southern Cross Holdings' own profit or loss and excluded from consideration transferred. Compute FVINA at 1 July 2026:

Acquisition Analysis Component	Gross / Book Amount (AUD)	Tax Effect at 30% (AUD)	Net Equity Value (AUD)
Book Equity of Bass Strait (Share Capital + Reserves + Ret. Earnings)	1,000,000	—	1,000,000
BCVR: Inventory uplift (190,000 – 150,000)	40,000	(12,000)	28,000

Acquisition Analysis Component	Gross / Book Amount (AUD)	Tax Effect at 30% (AUD)	Net Equity Value (AUD)
BCVR: Machinery uplift (420,000 – 300,000)	120,000	(36,000)	84,000
BCVR: Customer Contract Intangible	100,000	(30,000)	70,000
Fair Value of Identifiable Net Assets (FVINA)			**1,182,000**
Consideration Transferred (100% cash)			1,450,000
Goodwill on Acquisition (1,450,000 – 1,182,000)			**268,000**

Step 2: Consolidation Worksheet Entries at 30 June 2027 (One Year Post-Acquisition)

At 30 June 2027: (a) the acquisition-date inventory was sold externally, so the A$40,000 uplift flows through COGS (and DTL of A$12,000 reverses through Income Tax Expense), leaving an after-tax Retained Earnings impact of A$28,000; (b) machinery incurs 1 year of extra depreciation of 120,000 / 4 = A$30,000 (with DTL reversal of A$9,000); (c) the customer contract incurs 1 year of amortisation of 100,000 / 5 = A$20,000 (with DTL reversal of A$6,000).

Worksheet Ref	Consolidation Journal Entry Account	Debit (AUD)	Credit (AUD)
BCVR-1 (Inv)	Cost of Goods Sold (Inventory sold in FY2027)	40,000	
	Income Tax Expense (40,000 × 30%)		12,000
	Business Combination Valuation Reserve (BCVR)		28,000
BCVR-2 (Mach)	Accumulated Depreciation – Machinery (netting prior accum. dep.)	200,000	
	Machinery (500,000 – 420,000 = 80,000 gross reset; net +120,000)		80,000
	Deferred Tax Liability (120,000 × 30%)		36,000
	Business Combination Valuation Reserve (BCVR)		84,000
BCVR-2b (Dep)	Depreciation Expense – Machinery (120,000 / 4 yrs)	30,000	
	Deferred Tax Liability (30,000 × 30%)	9,000	
	Accumulated Depreciation – Machinery		30,000
	Income Tax Expense		9,000

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Worksheet Ref	Consolidation Journal Entry Account	Debit (AUD)	Credit (AUD)
BCVR-3 (Intang)	Customer Contract Intangible	100,000	
	Deferred Tax Liability		30,000
	Business Combination Valuation Reserve (BCVR)		70,000
BCVR-3b (Amort)	Amortisation Expense – Customer Contract (100,000 / 5 yrs)	20,000	
	Deferred Tax Liability (20,000 × 30%)	6,000	
	Accumulated Amortisation – Customer Contract		20,000
	Income Tax Expense		6,000
Pre-Acq Elim	Share Capital (Bass Strait)	600,000	
	General Reserve (Bass Strait)	120,000	
	Retained Earnings (opening, 1 July 2026)	280,000	
	Business Combination Valuation Reserve (28,000 + 84,000 + 70,000)	182,000	
	Goodwill	268,000	
	Investment in Bass Strait Components Pty Ltd		1,450,000

3. Intragroup Transactions and Unrealised Profit Eliminations (AASB 10)

3.1 Single-Economic-Entity Principle and Elimination Logic

Under *AASB 10* paragraph B86(c), intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between entities of the group must be **eliminated in full** (100% elimination, irrespective of whether the subsidiary is wholly owned or partly owned). From the perspective of the consolidated economic entity, one group member cannot sell inventory to another group member at a profit until those goods are sold onward to an external customer outside the group, nor can a subsidiary pay a dividend that constitutes external group income.

Crucially, eliminating unrealised profit changes consolidated accounting carrying amounts without altering the separate taxable incomes of the parent and subsidiary filed with the ATO (assuming entities are not consolidated for tax purposes, or tracking standalone entity tax bases). Therefore, reducing consolidated asset carrying amounts (such as closing inventory or transferred equipment) below their legal-entity tax base ($CA < TB$) creates a **temporary difference and Deferred Tax Asset (DTA)** on consolidation at the corporate tax rate t.

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3.2 Intragroup Services, Loans, and Dividends

- **Intragroup Management Fees, Rent & Interest:** Eliminate 100% of intragroup revenue against the counterparty's expense (e.g., Dr Interest Revenue / Cr Interest Expense), and eliminate any unpaid year-end receivable/payable (Dr Loan Payable / Cr Loan Receivable). Because revenue and expense cancel equally, there is no net profit impact and no deferred tax adjustment.
- **Intragroup Dividends:** When a subsidiary pays or declares a dividend to its parent, the parent records Dividend Revenue and the subsidiary debits Retained Earnings (Dividend Paid/Declared). On consolidation, eliminate the parent's Dividend Revenue against the subsidiary's Dividend Paid/Declared (Dr Dividend Revenue / Cr Dividend Paid; and if declared but unpaid at year-end, Dr Dividend Payable / Cr Dividend Receivable). Where NCI exists, only the parent's percentage share of the subsidiary's dividend is eliminated against the parent's revenue; the NCI share represents distributions to external non-controlling shareholders and reduces total NCI equity.

3.3 Intragroup Sales of Inventory (Current & Subsequent Period)

When one group entity sells inventory to another at a markup above cost, two worksheet adjustments are required:

1. **Eliminate 100% of Intragroup Sales and Purchases (COGS):** Dr Sales Revenue / Cr Cost of Goods Sold for the total intragroup invoice price, ensuring group turnover is not inflated by internal transfers.
2. **Eliminate Unrealised Profit in Remaining Closing Inventory:** For any portion of the intragroup goods still held by the purchasing entity at year-end, gross profit embedded in closing inventory is unrealised from the group's standpoint. We reduce Closing Inventory (via Cr Inventory) and increase COGS (Dr COGS), while recognising a consolidated Deferred Tax Asset (Dr DTA / Cr Income Tax Expense for t × Unrealised Profit).
3. **Subsequent Period Reversal (Opening Inventory):** When that opening inventory is sold to external customers in the following year, the consolidated profit deferred in Year 1 becomes realised in Year 2. On the Year 2 worksheet, we debit Opening Retained Earnings for the after-tax unrealised profit ((1 – t) × Unrealised Profit), debit Income Tax Expense for the reversing tax effect (t × Unrealised Profit), and credit Cost of Goods Sold for the full pre-tax unrealised profit.

3.4 Intragroup Transfers of Depreciable PPE

When one group company sells a depreciable asset (such as machinery or a vehicle) to another group company at a gain or loss, the purchasing entity records the asset at the internal transfer price and depreciates that inflated (or deflated) amount. On consolidation, the group must restore the asset to its original cost and accumulated depreciation as if the internal transfer never occurred:

- **In the Year of Transfer:** (a) Eliminate the internal Gain on Sale (Dr Gain on Sale / Cr PPE to remove the markup, or adjust Cost and Accumulated Depreciation back to original group historical cost); (b) Recognise DTA on the unrealised gain (t × Gain: Dr DTA / Cr Income Tax Expense); (c) Reverse excess depreciation charged by the buyer during the year (Excess Depreciation = Unrealised Gain / Remaining Useful Life: Dr Accumulated Depreciation / Cr Depreciation Expense) and reverse the corresponding portion of DTA (Dr Income Tax Expense / Cr DTA for t × Excess Depreciation).

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- **In Subsequent Years:** The transfer-year Gain on Sale sits inside Opening Retained Earnings (net of tax), so the adjustment debits Opening Retained Earnings ((1 – t) × Unrealised Gain) and DTA (t × Remaining Unrealised Gain), adjusts PPE back to original cost, and cumulatively reverses prior and current years' excess depreciation until the asset is fully depreciated or sold outside the group.

3.5 Worked Intragroup Inventory & Equipment Examples (AUD)

Assume a 30% corporate tax rate for all entities.

Example A — Intragroup Inventory (Year 1 and Year 2): During FY2027, Subsidiary Ltd sells goods costing A$160,000 to Parent Ltd for A$220,000 (an intragroup markup profit of A$60,000). By 30 June 2027, Parent Ltd has sold 75% of those goods to external retailers and holds 25% in closing inventory. During FY2028, Parent Ltd sells the remaining 25% of those goods to external customers.

- **Unrealised profit in 30 June 2027 closing inventory:** 25% × 60,000 = A$15,000 (Tax effect at 30% = A$4,500; after-tax unrealised profit = A$10,500).
- **FY2027 Consolidation Entries:**
  - (1) Dr Sales Revenue A$220,000 / Cr Cost of Goods Sold A$220,000 (eliminate full intragroup turnover).
  - (2) Dr Cost of Goods Sold A$15,000 / Cr Inventory A$15,000 (eliminate unrealised profit in closing inventory).
  - (3) Dr Deferred Tax Asset A$4,500 / Cr Income Tax Expense A$4,500 (tax effect on unrealised profit).
- **FY2028 Consolidation Entry (Opening Inventory Realisation):** Dr Opening Retained Earnings (1 July 2027) A$10,500; Dr Income Tax Expense A$4,500 / Cr Cost of Goods Sold A$15,000.

Example B — Intragroup Sale of Depreciable Equipment: On 1 July 2026, Parent Ltd sells a CNC milling machine to Subsidiary Ltd for A$180,000 cash. Parent Ltd originally bought the machine for A$200,000 and had recorded A$70,000 accumulated depreciation up to 1 July 2026 (carrying amount = A$130,000), generating an internal Gain on Sale of 180,000 – 130,000 = A$50,000. Subsidiary Ltd depreciates the machine straight-line over its remaining 5-year useful life (A$36,000/year vs original group depreciation of 130,000 / 5 = A$26,000/year, yielding excess depreciation of A$10,000/year).

- **FY2027 Consolidation Entries (30 June 2027):**
  - (1) Dr Gain on Sale of Equipment A$50,000; Dr Equipment (200,000 – 180,000) A$20,000 / Cr Accumulated Depreciation – Equipment A$70,000 (restoring Equipment to original A$200,000 cost and A$70,000 opening accum. dep.).
  - (2) Dr Deferred Tax Asset A$15,000 / Cr Income Tax Expense A$15,000 (30% × 50,000).
  - (3) Dr Accumulated Depreciation – Equipment A$10,000 / Cr Depreciation Expense A$10,000 (reversing Year 1 excess depreciation: 50,000 / 5).
  - (4) Dr Income Tax Expense A$3,000 / Cr Deferred Tax Asset A$3,000 (30% × 10,000).

Net FY2027 consolidation impact on profit: pre-tax profit decreases by 50,000 – 10,000 = A$40,000, and tax expense decreases by 15,000 – 3,000 = A$12,000, leaving a net after-tax consolidated profit reduction of A$28,000 and a closing DTA of A$12,000.

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4. Non-Controlling Interest (NCI) & Comprehensive Consolidation Worksheet

4.1 Nature and Measurement of NCI (Partial vs Full Goodwill)

When a parent entity owns more than 50% (or otherwise holds control) but less than 100% of a subsidiary's ordinary shares, the remaining equity interest held by external minority shareholders is termed the **Non-Controlling Interest (NCI)**. Under *AASB 10* paragraph 22, NCI is presented in the consolidated Statement of Financial Position **within equity**, separately from the equity of the owners of the parent, and consolidated profit or loss and total comprehensive income are attributed between owners of the parent and the NCI.

Under *AASB 3* paragraph 19, the acquirer may elect on a transaction-by-transaction basis to measure NCI at the acquisition date using one of two methods:

1. **Partial Goodwill Method (Proportionate Share of FVINA):** NCI at acquisition date equals NCI% × FVINA_{acq}. Under this method, recognised goodwill belongs 100% to the parent (no goodwill is attributed to NCI).
2. **Full Goodwill Method (Fair Value Basis):** NCI at acquisition date is measured at the fair value of the NCI shares (typically observed from ASX quoted share prices of the remaining shares or independent valuation). Under this method, total goodwill includes both the parent's goodwill and the NCI's goodwill, meaning any subsequent goodwill impairment under *AASB 136* is allocated between the parent and NCI according to their respective ownership or goodwill shares.

4.2 Three-Step NCI Allocation Methodology & Upstream vs Downstream Rule

To determine the closing NCI balance and NCI share of current-period profit, Australian consolidation practice applies a rigorous **three-step NCI equity allocation**:

- **Step 1 — NCI Share of Pre-Acquisition Equity:** Equals NCI% × (Pre-Acquisition Equity + Acquisition-Date BCVR), or the acquisition-date fair value of NCI if the full goodwill method is elected.
- **Step 2 — NCI Share of Post-Acquisition Movements Prior to Current Period:** Equals NCI% × (Subsidiary Opening Retained Earnings − Pre-Acquisition Retained Earnings + Post-Acquisition Reserve Movements), adjusted for any prior-period post-acquisition BCVR depreciation/amortisation and prior-period **upstream** unrealised profit adjustments (after tax).
- **Step 3 — NCI Share of Current-Period Profit or Loss & Dividends:** Equals NCI% of the subsidiary's adjusted current-period profit after tax (minus NCI% of current-period dividends paid/declared by the subsidiary). Crucially:
  - **Upstream Transactions (Subsidiary → Parent):** The profit or loss was originally recorded in the *subsidiary's* books. Eliminating an upstream unrealised profit (or realising a prior-year upstream profit) directly adjusts the subsidiary's profit, so **NCI absorbs its percentage share** of upstream after-tax adjustments!
  - **Downstream Transactions (Parent → Subsidiary):** The profit or loss was originally recorded in the *parent's* books. Eliminating a downstream unrealised profit affects only the parent's profit, so **NCI is completely unaffected** by downstream eliminations.

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$$\text{NCI Profit Share}_t = \text{NCI\%} \times (\text{Sub PAT}_t - \text{BCVR Dep/COGS (After Tax)}_t \mp \text{Upstream Unrealised Profit Adj (After Tax)}_t)$$

Where: $\text{NCI\%}$ is the non-controlling ownership percentage, Sub PAT_t is the subsidiary's reported standalone profit after tax in period t, $\text{BCVR Dep/COGS (After Tax)}_t$ is post-acquisition after-tax additional depreciation/amortisation/COGS arising from acquisition-date fair value uplifts, and $\text{Upstream Unrealised Profit Adj (After Tax)}_t$ subtracts current-year closing upstream unrealised profit (after tax) and adds back opening upstream unrealised profit realised in period t (after tax).

4.3 Comprehensive End-to-End Worked Consolidation Case Study & Worksheet (AUD)

On 1 July 2026, **Horizon Ltd** acquired **80%** of the ordinary shares of **Coastal Pty Ltd** for A$920,000 cash. At 1 July 2026, Coastal Pty Ltd's equity comprised Share Capital of A$500,000 and Retained Earnings of A$300,000 (Total Book Equity = A$800,000). At acquisition date, all identifiable net assets of Coastal Pty Ltd were recorded at fair value except for Manufacturing Equipment, which had a carrying amount of A$200,000 (cost A$300,000, accumulated depreciation A$100,000) and a fair value of A$280,000, with a remaining useful life of 4 years (straight-line, zero residual value). Horizon Ltd elects the **partial goodwill method** for NCI. The Australian corporate tax rate is **30%**.

Additional Transactions During FY2027 (Year Ended 30 June 2027):

1. **Upstream Inventory Sale (Coastal → Horizon):** During FY2027, Coastal sold inventory costing A$90,000 to Horizon for A$140,000. At 30 June 2027, 40% of those goods remain unsold in Horizon's warehouse (unrealised profit = 40% × 50,000 = A$20,000; tax effect at 30% = A$6,000; after-tax unrealised profit = A$14,000).
2. **Intragroup Dividend:** During FY2027, Coastal declared and paid an interim cash dividend of A$50,000. Horizon received and recorded its 80% share (A$40,000) as Dividend Revenue; the remaining A$10,000 was paid to the 20% NCI shareholders.
3. **Intragroup Management Fee:** Horizon charged Coastal A$30,000 for head-office management services, fully paid in cash before 30 June 2027.

Part 1: Acquisition Analysis at 1 July 2026

- Equipment fair value uplift = 280,000 − 200,000 = A$80,000. Associated DTL at 30% = A$24,000. Net BCVR uplift = A$56,000.
- Total FVINA of Coastal at 1 July 2026 = 800,000 + 56,000 = A$856,000.
- Parent's 80% share of FVINA = 80% × 856,000 = A$684,800.
- NCI's 20% share of FVINA (partial goodwill basis) = 20% × 856,000 = A$171,200.
- **Goodwill on Acquisition** = 920,000 − 684,800 = A$235,200.

Part 2: Summary of Consolidation Worksheet Journal Entries at 30 June 2027

1. **(a) BCVR Equipment Uplift & Year 1 Extra Depreciation:**

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- Dr Accum. Dep. – Equipment A$100,000 / Cr Equipment A$20,000 / Cr DTL A$24,000 / Cr BCVR A$56,000.
- Dr Depreciation Expense (80,000 / 4) A$20,000 / Cr Accum. Dep. – Equipment A$20,000; and Dr DTL A$6,000 / Cr Income Tax Expense A$6,000 (after-tax extra BCVR depreciation = A$14,000).

2. **(b) Pre-Acquisition Elimination (80% Parent Share):**
   - Dr Share Capital (80% × 500,000) A$400,000; Dr Opening Retained Earnings (80% × 300,000) A$240,000; Dr BCVR (80% × 56,000) A$44,800; Dr Goodwill A$235,200 / Cr Investment in Coastal Pty Ltd A$920,000.
3. **(c) Upstream Inventory Elimination:**
   - Dr Sales Revenue A$140,000 / Cr Cost of Goods Sold A$140,000.
   - Dr Cost of Goods Sold A$20,000 / Cr Inventory A$20,000; and Dr Deferred Tax Asset A$6,000 / Cr Income Tax Expense A$6,000.
4. **(d) Intragroup Dividend & Management Fee:**
   - Dr Dividend Revenue (Horizon) A$40,000 / Cr Dividend Paid (Coastal) A$40,000.
   - Dr Service Fee Revenue (Horizon) A$30,000 / Cr Administration Expense (Coastal) A$30,000.
5. **(e) NCI Allocation Entries (20%):**
   - **Step 1 (Pre-Acquisition NCI Equity):** Dr Share Capital A$100,000; Dr Opening Retained Earnings A$60,000; Dr BCVR A$11,200 / Cr Non-Controlling Interest (Equity) A$171,200.
   - **Step 2 (Post-Acquisition Prior Periods):** A$0 (acquired on 1 July 2026, beginning of current financial year).
   - **Step 3 (Current FY2027 NCI Profit Share & Dividend):** Coastal's standalone Profit After Tax is A$161,000 (Sales A$700,000, COGS A$380,000, Operating Expenses A$90,000, Profit Before Tax A$230,000, Income Tax Expense A$69,000). Adjusting Coastal's standalone PAT of A$161,000 for after-tax BCVR extra depreciation (–A$14,000) and after-tax upstream unrealised inventory profit (–A$14,000) yields Adjusted Coastal Profit = 161,000 – 14,000 – 14,000 = A$133,000. Thus, NCI Profit Share = 20% × 133,000 = A$26,600 (Dr NCI Share of Profit – Income Statement A$26,600 / Cr NCI Equity A$26,600), and NCI share of Coastal's A$50,000 dividend reduces NCI Equity by 20% × 50,000 = A$10,000 (Dr NCI Equity A$10,000 / Cr Dividend Paid A$10,000).

Part 3: Full Multi-Column Consolidation Worksheet for FY2027 (AUD)

Financial Statement Line Item	Horizon Ltd (AUD)	Coastal Pty Ltd (AUD)	Dr Adj. (AUD)	Cr Adj. (AUD)	Consolidated Group (AUD)
Income Statement (FY2027)					
Sales Revenue	1,500,000	700,000	140,000		2,060,000
Dividend & Service Fee Revenue	70,000	0	70,000		0

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Financial Statement Line Item	Horizon Ltd (AUD)	Coastal Pty Ltd (AUD)	Dr Adj. (AUD)	Cr Adj. (AUD)	Consolidated Group (AUD)
Cost of Goods Sold	(900,000)	(380,000)	20,000	140,000	(1,160,000)
Depreciation & Operating Expenses	(310,000)	(90,000)	20,000	30,000	(390,000)
Profit Before Income Tax	**360,000**	**230,000**			**510,000**
Income Tax Expense (30% on operating)*	(96,000)	(69,000)		12,000	(153,000)
Consolidated Profit After Tax	**264,000**	**161,000**			**357,000**
Attributable to: NCI (20% of A$133,000)			26,600		26,600
Attributable to: Owners of Horizon Ltd					330,400
Statement of Changes in Equity					
Retained Earnings (1 July 2026)	540,000	300,000	300,000		540,000
Add: Profit Attributable to Owners	264,000	161,000			330,400
Less: Dividends Paid	(100,000)	(50,000)		50,000	(100,000)
Retained Earnings (30 June 2027)	**704,000**	**411,000**			**770,400**
Statement of Financial Position (30 Jun 2027)					
Cash & Receivables	384,000	731,000			1,115,000
Inventory	250,000	180,000		20,000	410,000
Deferred Tax Asset (consolidation)	0	0	6,000		6,000
Investment in Coastal Pty Ltd	920,000	0		920,000	0
Equipment (Cost)	600,000	300,000		20,000	880,000

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Financial Statement Line Item	Horizon Ltd (AUD)	Coastal Pty Ltd (AUD)	Dr Adj. (AUD)	Cr Adj. (AUD)	Consolidated Group (AUD)
Accumulated Depreciation – Equipment	(220,000)	(150,000)	100,000	20,000	(290,000)
Goodwill	0	0	235,200		235,200
Total Assets	**1,934,000**	**1,061,000**			**2,356,200**
Payables & Loans	430,000	150,000			580,000
Deferred Tax Liability (24,000 – 6,000)	0	0	6,000	24,000	18,000
Total Liabilities	**430,000**	**150,000**			**598,000**
Net Assets	**1,504,000**	**911,000**			**1,758,200**
Share Capital	800,000	500,000	500,000		800,000
BCVR	0	0	56,000	56,000	0
Retained Earnings (30 June 2027)	704,000	411,000			770,400
Parent Equity	**1,504,000**	**911,000**			**1,570,400**
Non-Controlling Interest (171,200 + 26,600 – 10,000)	0	0	10,000	197,800	187,800
Total Consolidated Equity	**1,504,000**	**911,000**			**1,758,200**

**Note: Horizon Ltd's standalone income tax expense of A$96,000 equals 30% of its taxable operating profit excluding the A$40,000 franked intragroup dividend (360,000 – 40,000 = 320,000 × 30% = 96,000). Consolidated Income Tax Expense of A$153,000 equals exactly 30% of Consolidated Profit Before Tax of A$510,000, confirming complete tax-effect integrity across all consolidation adjustments.*

4.4 Year 2 Consolidation Roll-Forward & Full Goodwill NCI Comparison

To consolidate Horizon Ltd and Coastal Pty Ltd accurately in **Year 2 (FY2028, year ended 30 June 2028)**, the worksheet must carry forward the cumulative effects of Year 1 adjustments into Opening Retained Earnings (1 July 2027) and recognise Year 2 movements:

1. **Year 2 BCVR Equipment Depreciation:** Re-enter the acquisition-date BCVR uplift (Net A$56,000, DTL A$24,000), record Year 1's prior extra depreciation against Opening Retained Earnings (14,000 after tax: Dr Opening Retained Earnings A$14,000; Dr DTL A$6,000 / Cr Accum.

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Dep. A$20,000), and record Year 2's current extra depreciation (Dr Depreciation Expense A$20,000 / Cr Accum. Dep. A$20,000; Dr DTL A$6,000 / Cr Income Tax Expense A$6,000).

2. **Year 2 Upstream Opening Inventory Realisation:** Assuming Horizon Ltd sells the remaining 40% of FY2027 intragroup inventory to external customers in FY2028, record Dr Opening Retained Earnings A$14,000; Dr Income Tax Expense A$6,000 / Cr Cost of Goods Sold A$20,000.
3. **Year 2 Three-Step NCI Roll-Forward:**
   - **Step 1 (Pre-Acquisition NCI Equity):** Remains A$171,200 (Dr Share Capital A$100,000; Dr Opening Retained Earnings A$60,000; Dr BCVR A$11,200 / Cr NCI Equity A$171,200).
   - **Step 2 (Post-Acquisition Movements from 1 Jul 2026 to 1 Jul 2027):** Coastal's Opening Retained Earnings at 1 July 2027 equals its 30 June 2027 closing balance of A$411,000, representing a book increase of 411,000 − 300,000 = A$111,000 (FY2027 PAT A$161,000 minus FY2027 Dividend A$50,000). Adjusting for Year 1 after-tax BCVR depreciation (−A$14,000) and Year 1 after-tax upstream closing inventory profit (−A$14,000) yields adjusted post-acquisition Opening Retained Earnings movement of 111,000 − 14,000 − 14,000 = A$83,000. NCI's 20% share is 20% × 83,000 = A$16,600 (Dr Opening Retained Earnings A$16,600 / Cr NCI Equity A$16,600). Notice that Step 1 + Step 2 equals 171,200 + 16,600 = A$187,800, matching the exact 30 June 2027 closing NCI balance from Year 1!
   - **Step 3 (Current FY2028 NCI Profit Share):** Equals 20% of Coastal's FY2028 standalone PAT, minus 20% of Year 2 after-tax BCVR depreciation (−14,000), **plus** 20% of the Year 1 upstream inventory profit realised externally in FY2028 (+14,000).

Comparison Under the Full Goodwill Method (AASB 3 para 19)

Suppose instead that at 1 July 2026, Horizon Ltd had elected the **full goodwill method** and the fair value of the 20% NCI shares at acquisition date was A$210,000 (instead of proportionate FVINA of A$171,200). Total acquisition-date Goodwill would increase by the NCI goodwill component of 210,000 − 171,200 = A$38,800, raising consolidated Goodwill from A$235,200 to A$274,000 (920,000 + 210,000 − 856,000), and raising Step 1 NCI Equity to A$210,000. If Coastal Pty Ltd's CGU subsequently suffered a A$50,000 goodwill impairment loss under *AASB 136*, that impairment loss would be attributed between Horizon Ltd and NCI in proportion to their goodwill shares (or 80% / 20% where goodwill is allocated pro-rata), reducing NCI's share of consolidated profit accordingly.

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