

8: THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Adjustments to the provisional figures may be made up to the point the acquirer receives all the necessary information (or learns that it is not obtainable), with a corresponding **adjustment to goodwill**, but the measurement period cannot exceed **one year from the acquisition date**.

Thereafter, **goodwill is only adjusted for the correction of errors**.

Lecture example 1a

Exam standard section B (all exams) – 4 marks

ABC acquired 300,000 of DEF's 400,000 ordinary shares during the year ended 28 February 20X5. DEF was purchased from its directors who will remain directors of the business.

The purchase consideration comprised:

- \$250,000 in cash payable at acquisition
- \$88,200 payable 2 years after acquisition
- \$100,000 payable in 2 years' time if profits exceed \$2m
- New shares issued in ABC on a 1 for 3 basis

The consideration payable in two years after acquisition is a tough target for the directors of DEF and so its fair value (taking into account the time value of money) has been measured at only \$30,750.

The market value of ABC's shares on the acquisition date was \$7.35.

An appropriate discount rate for use where relevant is 5%.

Required

- 1 How much is the consideration that has been/will be paid in cash to include in the calculation of goodwill on acquisition?
A \$338,200
B \$250,000
C \$330,500
D \$360,750
- 2 How much is the consideration payable in shares that will be included in the calculation of goodwill on acquisition?
A \$530,000
B \$735,000
C \$706,667
D \$980,000

Solution

Lecture example 1b

Exam standard section B (CBE only) – 4 marks

ABC acquired 300,000 of DEF's 400,000 ordinary shares during the year ended 28 February 20X5. DEF was purchased from its directors who will remain directors of the business.

The purchase consideration comprised:

- \$250,000 in cash payable at acquisition
- \$88,200 payable 2 years after acquisition
- \$100,000 payable in 2 years' time if profits exceed \$2m
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Required

- 1 How much is the consideration that has been/will be paid in cash to include in the calculation of goodwill on acquisition?

\$

- 2 How much is the consideration payable in shares that will be included in the calculation of goodwill on acquisition?

\$

Solution

Answers to Lecture Examples

Chapter 8

Answer to Lecture Example 1a

1	D		
		Cash	250,000
		Deferred consideration $(88,200 \times (\frac{1}{1.05^2}))$	80,000
		Contingent consideration	<u>30,750</u>
			<u>360,750</u>
2	B		
		Shares in ABC $(300,000/3 \times \$7.35)$	<u>735,000</u>

Answer to Lecture Example 1b

1	\$360,750		
		Cash	250,000
		Deferred consideration $(88,200 \times (\frac{1}{1.05^2}))$	80,000
		Contingent consideration	<u>30,750</u>
			<u>360,750</u>
2	\$735,000		
		Shares in ABC $(300,000/3 \times \$7.35)$	<u>735,000</u>

Answer to Lecture Example 2

(a)	PORTUS GROUP		
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20X4		\$'000
	<i>Non-current assets</i>		
	Property, plant and equipment $(56,600 + 16,200 + (W5) 1,110)$	73,910	
	Goodwill (W2)	3,850	
		<u>77,760</u>	
	<i>Current assets</i>		
	Inventories $(2,900 + 1,200)$	4,100	
	Trade receivables $(3,300 + 1,100)$	4,400	
	Cash $(1,700 + 100)$	<u>1,800</u>	
		<u>10,300</u>	
		<u>88,060</u>	
	<i>Equity attributable to owners of the parent</i>		
	Share capital (\$1 shares)	8,000	
	Reserves (W3)	54,868	
		<u>62,868</u>	
	Non-controlling interests (W4)	3,392	
		<u>66,260</u>	