# CHAPTER 9
# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND ASSOCIATES

**Learning Objectives**



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## I. Introduction

The consolidated statement of profit or loss presents the financial performance of all group entities (i.e. parent and subsidiaries under common control) in one statement.

## II. The Basic Principles for Consolidating the Statement of Profit or Loss

The steps for consolidating the statements of profit or loss are as follows:

(1) Add together the revenues and expenses of the parent and the subsidiary.

If the subsidiary is acquired part-way through the year all the revenues and expenses of the subsidiary must be time apportioned during the consolidation process.

(2) Eliminate intra-group sales and purchases.
(3) Eliminate unrealized profit held in closing inventory relating to intra group trading
(4) Calculate the profits attributable to the non-controlling interests.)

## III. Non-Controlling Interest

| This is calculated as: | |
|---|---|
| NCI % × subsidiary's profit after tax | x |
| Less:<br>NCI % × PURP (when the sub is the seller only) | (x) |
| | x |

Depreciation on fair value adjustments and impairment of goodwill is not examinable for this syllabus.

## IV. Intra-Group Trading

**Sales and purchases**

The effect of intra-group trading must be eliminated from the consolidated statement of profit or loss. Such trading will be included in the sales revenue of one group entity and the purchases of the other.

- Consolidated sales revenue = P's revenue + S's revenue – intra-group sales.
- Consolidated cost of sales = P's COS + S's COS – intra-group purchases.

**Inventory**

If any goods traded between the parent and the subsidiary are included in closing inventory, their value must be adjusted to the lower of cost and net realizable value (NRV)to the group (as in the CSFP).

The adjustment for unrealized profit should be shown as an increase to cost of sales (return inventory back to true cost to group and eliminate unrealized profit).

- Consolidated cost of sales = P's COS + S's COS – intra-group purchases + unrealized profits

**Example:**

On 1 January 20X9 P acquired 60% of the ordinary shares of S.

The following statements of profit or loss have been produced by P and S for the year ended 31 December 20X9.

| | P | S |
|---|---|---|
| | $000 | $000 |
| Revenue | 630 | 260 |
| Cost of sales | (210) | (105) |
| Gross profit | 420 | 155 |
| Distribution costs | (90) | (30) |
| Administration expenses | (60) | (45) |
| Profit from operations | 270 | 80 |
| Investment income from S | 18 | |
| Profit before taxation | 288 | 80 |
| Tax | (65) | (13) |
| Profit for the year | 223 | 67 |

During the year ended 31 December 20X9 P had sold $42,000 worth of goods to S. These goods had cost P $28,000. On 31 December 20X9 S still had half of these goods in inventories at the year end.

Prepare the consolidated statement of profit or loss of P Group for the year ended 31 December 20X9.

**P consolidated statement of profit or loss for the year ended 31 December 20X9**

| | P |
|---|---|
| | $000 |
| Revenue (630 + 260 – 42) | 848 |
| Cost of sales and expenses (210 + 105 – 42 + 7 (W1)) | (280) |
| Gross profit | 568 |
| Distribution costs (90 + 30) | (120) |
| Administration expenses (60 + 45) | (105) |
| Profit from operations | 343 |
| Tax (65 + 13) | (78) |
| Profit for the year | 265 |
| **Amount attributable to:** | |
| Equity holders of the parent (bal fig) | 238.2 |
| Non-controlling interest (W2) | 26.8 |
| | 265 |

(W1) **Unrealised profit in inventory**

| | $000 |
|---|---|
| Selling price | 42 |
| Cost of goods | (28) |
| Total profit | 14 |
| Provision for unrealised profit ½ × $14 | 7 |

(W2) **Non-controlling interest**

NCI share of subsidiary's profit after tax 40% × $67,000 = $26,800

## V. Mid-Year Acquisitions

If a subsidiary was acquired part way through the year, then the subsidiary's results should only be consolidated from the date of acquisition, i.e. the date on which control was acquired.

In practice this will require time apportionment of the results of S in the year of acquisition. For this purpose, unless indicated otherwise, assume that revenue and expenses accrue evenly. After time-apportioning S's results, deduct post-acquisition intra-group items as normal.

**Example:**

The following statements of profit or loss have been produced by P and S for the year ended 31 March 20X9.

| | P | S |
|---|---|---|
| | $000 | $000 |
| Revenue | 151,800 | 108,850 |
| Cost of sales | (71,900) | (51,100) |
| Gross profit | 79,900 | 57,750 |
| Operating expenses | (35,600) | (25,650) |
| Profit from operations | 44,300 | 32,100 |
| Investment income | 1,400 | 600 |
| Profit before taxation | 45,700 | 32,700 |
| Tax | (23,100) | (16,300) |
| Profit for the year | 22,600 | 16,400 |

- On 30 November 20X8 P acquired 75% of the issued ordinary share capital of S. No dividends were paid by either entity during the year. The investment income is from listed investments and has been correctly accounted for.
- The profit of both entities are deemed to accrue evenly over the year

Prepare the consolidated statement of profit or loss of P Group for the year ended 31 March 20X9.

**P consolidated statement of profit or loss for the year ended 31 March 20X9**

| | $000 |
|---|---|
| Revenue | 188,083 |
| (151,800 + (108,850 × 4/12)) | |
| Cost of sales | (88,933) |
| (71,900 + (51,100 × 4/12)) | |
| Gross profit | 99,150 |
| Operating expenses | (44,150) |
| (35,600 + (25,650 × 4/12)) | |
| Profit from operations | 55,000 |
| Investment income | 1,600 |
| (1,400 + (600 × 4/12)) | |
| Profit before taxation | 56,600 |
| Tax | (28,533) |
| (23,100 + (16,300 × 4/12)) | |
| Profit for the year | 28,067 |
| Amount attributable to: | |
| Equity holders of the parent | 26,700 |
| Non-controlling interest | 1,367 |
| (25% × (16,400 × 4/12)) | |
| | 28,067 |

**Note:**

P acquired 75% of the issued ordinary share capital of S on 30 November 20X8. This is the date on which control passed and hence the date from which the results of S should be reflected in the consolidated statement of profit or loss.

All reserves earned by S in the four months since that date are post-acquisition reserves.

The previous eight months' profit from 1 April 20X8 to 30 November 20X9 are all pre-acquisition.

## VI. IAS 28 Investments in Associates and Joint Ventures

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Please note that joint ventures are not part the syllabus.

Significant influences is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investor is presumed to have significant influences over another entity when it has a shareholding in that other entity between 20% and 50%.

**Principles of Equity Accounting**

Equity accounting is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the associate.

The effect of this is that the consolidated statement of financial position includes:

- A single 'investments in associates' line within non-current assets which includes the group share of the assets and liabilities of any associate.

The consolidated statement of profit or loss includes:

- A single 'share of profit of associates' line which includes the group share of any associate's profit after tax.

**The associate is included as a non-current asset investment calculated as:**

| | $000 |
|---|---|
| Cost of investment | X |
| Share of post-acquisition profits | X |
| Less: impairment losses | (X) |
| Less: group share of PURP (P=seller) | (X) |
| | X |

The group share of the associate's post-acquisition profit or losses and any impairment of the investment in the associate will also be included in the group retained earnings calculation.

**The equity method of accounting requires that the consolidated statement of profit of loss:**

- Does not include dividends from the associate
- Instead, it includes the group share of the associate's profit after tax less any impairment of the associate in the year (included after group profit from

operation in arriving at the group profit before tax in the consolidate statement of profit or loss).

## VII. Trading with the Associate

Generally the associate is considered to be outside the group as the investor is only able to exercise significant influence, rather than control.

Therefore any sales or purchases between group companies and the associate are not normally eliminated and will remain part of the consolidated figures in the statement of profit or loss.

Instead it is normal practice to adjust for the group share of any unrealized profit in inventory.