



The *IFRS for SMEs* 2

Quiz and Discussion
Section 9 Consolidated and Separate Financial Statements
Section 19 Business Combinations and Goodwill
Michael Wells
Day 3 17:30 to 18:00

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Question 1: A owns 30% of voting interests in Z and owns convertible debt issued by Z such that, if A chooses to convert, it would have a 60% voting interest in Z.
How should A account for its investment in Z?

- Consolidate?
- Equity method?
- Whatever policy A has adopted for its other associates?

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Question 2: Same as question 1. A also prepares separate financial statements in compliance with the IFRS for SMEs.
How should A account for its investment in Z in its separate financial statements?

- Cost less impairment?
- Fair value with changes in profit or loss?
- Choose an accounting policy of either a. or b. above?

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Question 3: A owns 60% of voting interest in B.
B owns 70% of voting interest in C.
How should A account for its investment in C in its consolidated financial statements?

- Consolidate?
- Equity method?
- Whatever policy A has adopted for its other associates?

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Question 4: A owns 60% and 30% of voting interest in B and C respectively.
B also owns 30% of voting interest in C.
How should A account for its investment in C in its consolidated financial statements?

- Consolidate?
- Equity method?
- Whatever policy A has adopted for its other associates?

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Question 5: A owns 100% of C. C sells goods to A at 25% markup on cost. At year end A holds goods purchased from C at a cost of 125. The group (A & B consolidated) should measure this inventory at:

- a. 125?
- b. 100?
- c. 75?
- d. 150?



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Question 6: P owns 100% of shares of S. In which cases need P not prepare consolidated financial statements?

- a. P is a clothing retailer and S is a construction contractor?
- b. P acquired two subs, R and S, and intends to resell S within 12 months?
- c. Same as b, but S is P's only sub?
- d. A owns 100% of P, and A prepares IFRS financial statements?
- e. S is in bankruptcy and being managed by a court-appointed trustee.



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Question 7: P buys 60% of S for 100. FV of S's assets = 120. FV of S's liabilities = 50. How much goodwill and NCI is recognised?

- a. Goodwill 30 and NCI 28
- b. Goodwill 30 and NCI 0
- c. Goodwill 58 and NCI 28
- d. Goodwill 97 and NCI 67
- e. More than one of the above is permitted by the IFRS for SMEs



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Question 8: P buys 100% of S from Mr X. P pays 100 up front and agrees to pay Mr X another 60 if the patents for which S has applied are granted. Both P and Mr X think there's a 'better than even' chance of the patents being granted. FV of S's identifiable assets is 80. How much goodwill is recognised at acquisition date?

- a. 20
- b. 35
- c. 60
- d. 80



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Question 9: Same as question 8 except both P and Mr X think there's a 'less than even' chance of the patents being granted. FV of S's identifiable assets is 80.

How much goodwill is recognised at acquisition date?

- a. 20
- b. 35
- c. 60
- d. 80



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Question 10: Since its formation Z was owned 75% by A & 25% by B. When Z's equity was CU100,000, A acquired B's 25% interest in Z at its fair value of CU60,000.

How would A present the acquisition of the shares in B in its consolidated statement of changes in equity?



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Question 10 continued: A presents a separate line item in which it shows:

- CU25,000 as a reduction in NCI?
- CU60,000 as a reduction in NCI?
- CU25,000 as a reduction in NCI & CU35,000 as a reduction in retained earnings.



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- **Question 11:** Same as question 10 except A sold 25% of the shares in Z. A did not lose control of Z.
- **How would A present the disposal of the shares in B in its consolidated statement of changes in equity?**



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Question 11 continued: A presents a separate line item in which it shows:

- CU25,000 as an increase in NCI?
- CU60,000 as an increase in NCI?
- CU25,000 as an increase in NCI & CU35,000 as an increase in retained earnings.



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Question 12: On 1/1/20X1 A has 100 issued voting shares. On 2/1/20X1 A acquires 100% of B from B's shareholders in exchange for 150 A voting shares.

Who is the acquirer in this business combination?

- A?
- B?
- Neither A nor B?



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Question 13: A & B transfer their businesses to Z. In return A & B each received 50% of the voting shares in Z. A & B each appoint 3 members to Z's 6 member board of directors. A also appoints the chairman of Z. The chairman has a casting vote.

Who is the acquirer?

- A?
- B?
- Neither A nor B?



Questions or comments?

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