**Approaching Consolidation Questions (2) – CSPLOCI**

This is the second article on approaching consolidation questions which will focus on preparing the consolidated statement of profit and loss and other comprehensive income (CSPLOCI). The first article in this series focused on preparing the consolidated statement of financial position (CSOFP) with a particular emphasis on the two main methods to approaching the question – T account and columnar. With the CSOFP prepared, the next step in preparing consolidated financial statements is the CSPLOCI. Note that regardless of the approach used in preparing the CSOFP, you will likely prepare the CSPLOCI the same way as the differences in approaches really only apply to the preparation of the CSOFP.

**CSPLOCI Framework**

Depending on your approach, you may prefer to set up a template framework for the CSPLOCI at the outset of the question (e.g. column for parent, column for each subsidiary and perhaps 1 or 2 columns for adjustments and then a totals/group column). Some students prefer to have a placeholder structure set up for each of the financial statements required and then slot in the adjustment figures as they work through each adjustment in the question as opposed to leaving everything until the end but this is entirely personal preference for each student. If you do wish to prepare an outline structure for the CSPLOCI at the start of the question, make sure you leave some spare lines for any additional expenses, associates, JVs etc. that may appear in the question.

Below is an example of the outline template for the CSPLOCI;

**Statement of Profit & Loss and Other Comprehensive Income for y/e 31 Dec 201[x]**

| | | X/12 | | | |
|---|---|---|---|---|---|
| | Parent | Sub | Adj | | Group |
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| Revenue | X | X | (X) | | X |
| Cost of Sales | (X) | (X) | X | (X) | (X) |
| GP | X | X | | | X |
| Other Income | X | | | (X) | - |
| Operating Expenses | (X) | (X) | (X) | (X) | (X) |
| Share of Profit of Associate | | | | X | X |
| Share of Profit of JV | | | | X | X |
| Profit before Tax | X | X | | | X |
| Income Tax | (X) | (X) | | | (X) |
| Profit after Tax | X | X | | | X |
| | | | | | |
| Other Comprehensive Income | | | | | |
| Revaluation Gain | X | X | | | X |
| Total Comprehensive Income | X | X | | | X |
| | | | | | |
| Profit attributable to: | | | | | |
| Owners of Parent | | | | | X |
| Non Controlling Interests | | | | | X |
| | | | | | X |
| | | | | | |
| Total Comprehensive Income attributable to: | | | | | |
| Owners of Parent | | | | | X |
| Non Controlling Interests | | | | | X |
| | | | | | X |

**Note 1:** There is additional section in the bottom of the CSPLOCI dealing with the Non-Controlling Interest (highlighted with red brackets above) compared to the single company SPLOCI. We will discuss this in detail later in the article.

**Note 2:** You should never have a column for an associate or joint venture. These entities are not consolidated, they are accounted for using the equity method under IAS28.

> **Top Tip!**
> In preparing the template of the CSPLOCI above you will notice a yellow box over the subsidiary column. This is a useful trick to remind you to always ask yourself how many months of the subsidiary's results should be included in the CSPLOCI. This is a common error for students who forget to pro-rata the subsidiary's results when there is a mid-year acquisition/disposal.

**Approaching the CSPLOCI**

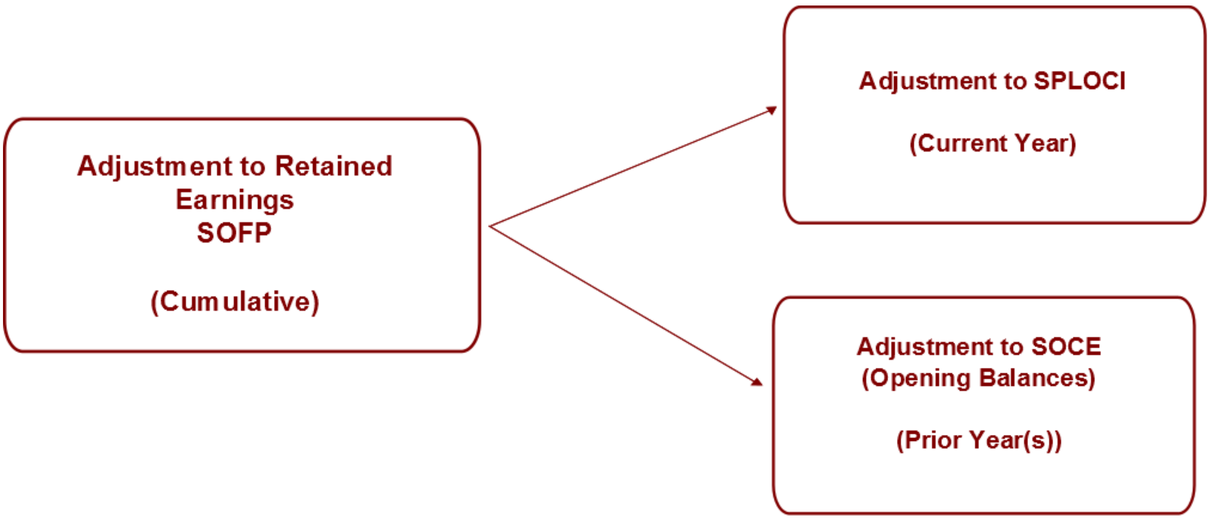
The key issues in the preparation of the CSPLOCI are to;

(i) Identify the relevant adjustments to the CSPLOCI from the notes to the question; and

(ii) Track if these are adjustments are to the parent's or subsidiary's profits (as this may impact the NCI calculation).

Whatever approach you take to consolidation questions, you must be able to link the impact of typical consolidation adjustments (e.g. unrealised profits, fair value adjustments) across the three financial statements – CSOFP, CSPLOCI & CSOCE. Students are typically comfortable in understanding the impact of the adjustments on the CSOFP line items but are weaker in terms of the CSPLOCI & CSOCE.

**Any adjustment to the retained earnings account in the CSOFP will also require an adjustment in the CSPLOCI (if in current year) and/or the CSOCE (if prior year related)**



**Example – Fair Value Adjustment**
P Ltd acquired 75% of S Ltd on 1 January 2012. At the date of acquisition the fair value of property was €1.2m higher than its book value. The group depreciation policy is to depreciate property over 50 years. The current year end is 31 December 2016.

The initial issue for this fair value adjustment would be to increase the fair value of net assets at acquisition by €1.2m which would have an impact on the goodwill calculation.

Subsequently, an adjustment is required to depreciation each year to reflect the additional depreciation that is required to be charged on the increased value of the property. Thus an extra €24,000 must be charged each year in depreciation (€1.2m/50). This is in the subsidiary's accounts as that is where the property is – thus this will impact the NCI's allocation of profits. There will be 5 years of adjustments required (2012-2016 inclusive); 4 of these will go through the CSOCE (prior years) and 1 year will go through the CSPLOCI (current year).

| | | |
|---|---|---|
| CR Property | | €120,000 (5*24,000) |
| DR Retained Earnings (Group) | €90,000 (75%) | |
| DR NCI | €30,000 (25%) | |

Cumulative impact of depreciation adjustment - CSOFP

| | |
|---|---|
| €24,000 **CSPLOCI** adjustment | *****S** |
| €96,000 **CSOCE** adjustment | **CSOCE** |

(split between opening retained earnings (75%) and opening NCI (25%)in the CSOCE)

My suggested approach is to use a labelling system that will track the impact each consolidation adjustment will have, if any, on the CSPLOCI & CSOCE. Students should prepare all the usual consolidation adjustments in an appendix (labelling each one (e.g. J1/W1) to help the examiner track your workings) and as you work through each of these you can note what line items are affected by the adjustment. This ensures that when you are preparing the financial statements at the end you do not need to "dig into" each adjustment again but merely look for each relevant label.

My labelling system uses a column in the appendix to note if the adjustment will impact the CSPLOCI (in which case I label it with ***) and I also label using an "S" if this adjustment impacts the subsidiary's profits. This "S" label will be important when calculating the portion of the subsidiary's profits attributable to the NCI which we will discuss in more detail below. The choice of labels is arbitrary and students can pick whatever they wish as long as they understand their purpose.

**Example – Goodwill Impairment**
P Ltd acquired 75% of S Ltd on 1 January 2012. At the date of acquisition the goodwill was €500,000. The NCI was measured as its fair value at the date of acquisition. Goodwill was subsequently impaired by €100,000 in 2014 and €150,000 in 2016. The current year end is 31 December 2016.

| | | |
|---|---|---|
| CR Goodwill | | €250,000 |
| DR Retained Earnings (Group) | €187,500 (75%) | |
| DR NCI | €62,500 (25%) | |

Cumulative impact of goodwill impairment (CSOFP) – NCI allocated portion as initially measured at fair value

| | | |
|---|---|---|
| €150,000 **CSPLOCI** adjustment | (2016 impairment) | *****S** |
| €100,000 **CSOCE** adjustment | (2014 impairment) | **CSOCE** |

(split between opening retained earnings (75%) and opening NCI (25%)in the CSOCE)

**Finishing the CSPLOCI**

Once you have identified all the relevant adjustments required to the CSPLOCI, the final issue is calculating the relevant proportion of the subsidiary's profits attributable to the NCI for the period. As mentioned above, the first key point is to ensure you have the appropriate figures for the subsidiary's SPLOCI included - **watch out for any mid-year acquisitions/disposals in which case you will need to pro rata the subsidiary's SPLOCI before including it in the CSPLOCI**.

Furthermore, it is unlikely that you will be simply required to multiply the NCI ownership % by the profits from the subsidiary's own SPLOCI taken from the question. There will likely be some consolidation related adjustments that will impact on the subsidiary's profits for the year (e.g. unrealised profit, additional depreciation, goodwill impairment). All such adjustments need to be taken into account when determining the relevant share of profits for the NCI. This is where the "S" label referenced above become useful – by having these adjustments already labelled you just identify which adjustments are subsidiary related (i.e. have the "S") and incorporate these into the NCI allocation.

**Example – Profit Split**

Total group profit in the CSPLOCI of P Group for the year ended 31 December 2016 was €1,560,000. This included the SPLOCI of S Ltd, a 75% subsidiary of P Ltd, which showed a profit of €400,000 for the year ended 31 December 2016. S Ltd was acquired in 2012. The NCI was measured as its fair value at the date of acquisition. Goodwill was subsequently impaired by €150,000 in 2016. At the date of acquisition the fair value of property was €1.2m higher than its book value. The group depreciation policy is to depreciate property over 50 years.

Using the examples already covered, there are two adjustments to the CSPLOCI for the year ended 31 December 2016;
Goodwill Impairment - €150,000; and
Depreciation - €24,000 (1.2m/50)
Note we only look at the impact on the current year for the CSPLOCI – any prior year adjustments (i.e. 2015 and before) will be dealt with through the CSOCE.

As both adjustments impact the subsidiary's profits, they will also impact the calculation of the NCI's portion of profits.
NCI portion of profits for y/e 31 December 2016;
(€400,000-€150,000-€24,000)*25% = €56,500
Extract from Consolidated Statement of Profit & Loss

| | €'000 |
|---|---|
| Profit for the year | 1,560 |
| Profit attributable to: | |
| Owners of Parent | 1,503.5 |
| Non-Controlling Interest | 56.5 |

**Top Tip – Adjustment Column!**

When filling in the adjustment columns in the CSPLOCI it is important to put the full amount of the relevant adjustment (e.g. goodwill impairment of €150,000 or depreciation adjustment of €24,000 as above) before allocating to NCI and parent based on ownership split. The apportionment of the adjustments based on ownership split occurs at the bottom of the CSPLOCI as the example above illustrates.

In some questions, where there are elements that go into the "Other Comprehensive Income" section of the CSPLOCI (e.g. property revaluation gain/losses, IAS19 actuarial gains/losses) you will have to prepare a second allocation between the NCI and the owners of the parent for the **Total Comprehensive Income** line also. Thus you will have two allocations - one for profit for the year and one for total comprehensive income for the year.

**Example – Total Comprehensive Income Split**
Same example as above but S Ltd. also has a revaluation gain for the year of €130,000.

This revaluation gain will be shown in the Other Comprehensive Section of the CSPLOCI for the full amount. A further apportionment will then be required at the bottom of the CSPLOCI for Total Comprehensive Income, similar to what has been done for profit in the exam above.

As both adjustments impact the subsidiary's profits, they will also impact the calculation of the NCI's portion of profits.
NCI portion of revaluation gain (shown in NCI); €130,000*25% = €32,500
Group portion of revaluation gain (shown in Group Reval. Res.) ; €130,000*75% = €97,500

Extract from Consolidated Statement of Profit & Loss

| | |
|---|---|
| Total Comprehensive Income for the year | 1,690 (1,560 + 130 assuming no other reval. gain) |
| Total Comprehensive Income attributable to: | |
| Owners of Parent | 1,601 (1,503.5+97.5) |
| Non-Controlling Interest | 89 (56.5 + 32.5) |

**Summary - CSPLOCI**

The CSPLOCI can often be neglected by many students as they put their focus on mastering the CSOFP and its associated adjustments. However, in many questions the CSPLOCI can represent a significant portion of marks and should not be ignored. The setting up of the CSPLCOI framework (P+S+Adj+G columns) is relatively straightforward at the start and allows you to fill in adjustments as you work through the question. It is vital for students to understand the inherent links between the CSOFP & CSPLOCI (as well as the CSOCE, which we will cover in the final article in this series) when preparing adjustments for questions. You should ensure that whatever approach you utilise for consolidation questions can note when adjustments impact the CSPLOCI (e.g. by using the label *** in your workings) and if this impacts the subsidiary's profits (e.g. using an "S" label").

**Example Question & Solution – CSOFP & CSPLOCI**

The accompanying example question (CAP2 FR S'13 Q2 – Able Plc) focuses on the preparation of the CSOFP and the CSPLOCI (the CSOCE is also included for completeness – we will cover this in the final article of this series). Included is a suggested solution using the labelling approach outlined above as well as some guidance regarding the steps to follow when preparing the CSPLOCI & CSOFP.