

### Approaching Consolidation Questions (3) – CSOCE

The last article on approaching consolidation questions focuses on the consolidated statement of changes in equity (CSOCE). Regardless if it is a standard single company IAS1 style question or a consolidation question, students typically do not give much time or thought to the SOCE. Although it appears relatively infrequently in many exams, it can be easy marks to obtain once you have practiced the statement and can incorporate it effectively into your overall approach to the question. The common trend when a requirement for a SOCE/CSOCE does appear is that the student completely ignores the requirement, and thus gains no marks at all, or makes a minimal attempt at the statement.

#### IAS 1 & SOCE

The statement of changes in equity is one of the core components of a complete set of financial statements as per IAS1. The other key components include the SOFP, SPLOCI, SOCF, notes to the accounts, and comparative information. See IAS1 p 10.

One of the key points to note about the CSOCE is that there is nothing new in this statement – it merely provides a reconciliation of the movements in the equity section of the CSOFP already prepared. Therefore, all work should already be complete for the statement and it can be very easy marks if you have it practiced. For this post we will start with an individual company SOCE and then build up to a CSOCE.

#### Top Tip!

Students should always read the requirements to questions first to be informed as to what is required when reading the question. If you see a requirement for a CSOCE you can then keep this in the back of your mind when reading and use a label (e.g. CSOCE) on the paper if you notice anything relevant for the statement as you go. This avoids forgetting it again when you eventually come back to preparing the CSOCE at the end.

#### Individual Company SOCE

The individual company SOCE provides a reconciliation of the movements in the equity section of the SOFP for the relevant period under review. The statement itself is laid out horizontally with a column for each line item in the equity section. The statement then shows a reconciliation from the opening balance from each line item to the closing balance at the reporting end. There are always a number of common elements to SOCE including;

- Ordinary share capital;
- Share premium (if relevant); and
- Retained earnings.

Furthermore, there are several accounting standards that may result in specific items going through the OCI in the SPLOCI and thus appearing as a separate line item in the equity section of the SOFP and in the SOCE also. Some of these include;

- IAS 16 – revaluation gains/losses;
- IFRS 2 – equity based share based payments; and
- IAS 8 – errors or changes in accounting policies that required prior year restatements.

**Top Tip!**

There are a number of common adjustments/issues to look out for in questions when preparing a SOCE. Having read the requirements first, you will then be aware of the need to prepare a SOCE and you can label these adjustments appropriately as you read the question fully. These include;

- Share issues during the year (NB split between OSC & SP);
- Dividend payments during the year;
- Accounting errors/changes in accounting policies; and
- Revaluations under IAS16.

Approaching the SOCE

The SOCE is typically the last statement to be prepared as it will feed off figures from the SOFP & SPLOCI as well as a number of the adjustments.

**Consol. Statement of Changes in Equity for y/e 31 Dec 2015**

	OSC €'000	Ret. E €'000	Rev Res. €'000	Share Opt. Res. €'000	Total €'000
Op. Balance 1/1	X	X	X	X	X
Changes in Acc. Policy		X/(X)			
Restated Balance	X	X	X	X	X
Dividends		(X)			(X)
Issue of Shares	X				X
Share Option Expense				X	X
TCI for the year		X	X	X	X
Cl. Balance 31/12	X	X	X	X	X

Students should approach preparing the SOCE in three simple steps;

**Step 1**

Set up the framework of the SOCE (after preparing SPLOCI & SOFP);

- Number of columns in the SOCE is equal to the number of line items in the equity section of SOFP
- Input closing balances from SOFP into the SOCE bottom line

**Step 2**

Using your labels and CSPLOCI results (i.e. profit and total comprehensive income), fill in any relevant line items in the SOCE.

**Step 3**

Work back to calculate what the opening balance was for each of the relevant line items at the start of the reporting period.

Consolidated SOCE

The core principles for the CSOCE are the same as with an individual company SOCE with a few additional complications. These additional items include the following;

- Non-controlling interest – this is a separate line item in a CSOFP for the NCI and thus will have its own column in a CSOCE also;
- IAS 21 Foreign Sub – when dealing with a foreign sub under IAS 21 any FX gains/losses are shown through “OCI” and thus will also have their own column in the CSOCE (this will be discussed in more detail in a future post); and
- IFRS10 Disposals – certain disposal scenarios (e.g. no loss of control) will also require an adjustment in the CSOCE (this will be discussed in more detail in a future post).

Approaching the CSOCE

Approaching the CSOCE is the exact same as the individual company SOCE. The CSOCE is typically the last statement to be prepared as it will feed off figures from the CSOFP & CSPLOCI as well as a number of the adjustments.

Consol. Statement of Changes in Equity for y/e 31 Dec 2015							
	OSC	Ret. E	Rev Res.	Fx Res.	NCI	Total	
	€'000	€'000	€'000	€'000	€'000	€'000	
Op. Balance 1/1	3	X	X	X	X	X	
Acquisition		X			X	X	
Dividends		(X)			(X)	(X)	
Disposal	2				(X)	(X)	
Issue of Shares		X				X	
TCl for the year		X	X	X	X	X	
Cl. Balance 31/12	1	X	X	X	X	X	

Students should approach the CSOCE in three simple steps;

**Step 1**

Set up the framework of the CSOCE (after preparing CSPLOCI & CSOFP);

- The number of columns in the CSOCE is equal to the number of line items in the equity section of CSOFP
- Input closing balances from CSOFP into the CSOCE bottom line

**Step 2**

Using your labels and CSPLOCI results (i.e. profit and total comprehensive split between NCI & Parent), fill in the relevant line items in the CSOCE.

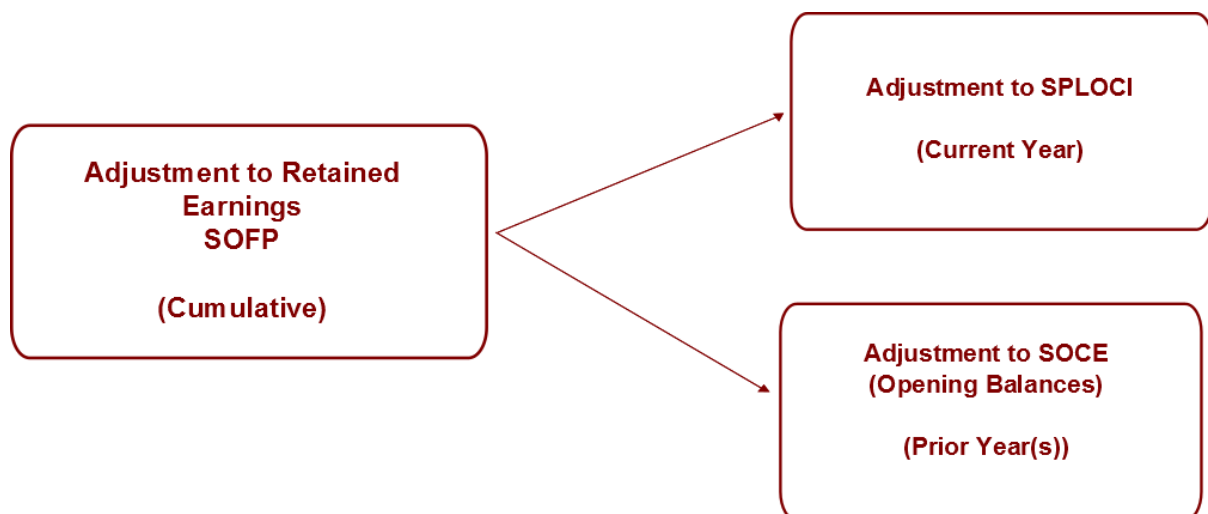
**Step 3**

Work back to calculate what the opening balance was for each of the relevant line items at the start of the reporting period.

**Dividends & CSOCE**  
 In a consolidation question there can now be dividends paid by the parent (in Ret Earnings column as normal) and dividends paid by the Sub to the NCI (this would show up in the NCI column in the CSOCE). Note: any dividends paid by Sub to Parent (i.e. intragroup dividends) never go into the CSOCE and should be eliminate on consolidation.

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. Any adjustments that occurred in a prior year (e.g. multiple years of depreciation adjustment, prior year goodwill impairment) will not appear in the CSPLOCI but will go straight to the CSOCE and appear via adjustments to the opening balances.

**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)**



**Top Tip! Step 3 – Proving Opening Balances**

While it is not required in questions, it is possible to prove if the opening balances you have obtained from the CSOCE are correct. This can be a helpful tutorial tool to use when studying to understand the relationship between current year and prior year adjustments to retained earnings/NCI and how they impact the CSOCE balances. You should review the sample question provided below which proves the opening balances of Group Retained Earnings & the NCI in the CSOCE.

**Summary – Consolidated Statement of Changes in Equity**

The CSOCE is often neglected by a lot of students when dealing with consolidations. This is despite it not being an overly difficult requirement when presented and requires limited, if any, additional work to be done that has not already been completed for the CSPLOCI & CSOFP. Students should ensure they always read the requirements first to be informed when reading the question what is required of them. If a CSOCE is required, you can then embed this into your overall approach to the question and when you see relevant information in the notes (e.g. share issue during the year, dividends paid) you can put a label (e.g. “CSOCE”) in a noticeable colour so you can readily pick these issues up at the end when preparing the CSOCE. This may seem basic but such an approach can save you a lot of time in an exam setting rather than going back over all the notes & adjustments in depth at the end again to figure out what needs to go into the CSOCE.

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

The accompanying example question (CAP2 FR A’14 Q2 – Gamba Plc) focuses on the preparation of the CSOFP, CSPLOCI & CSOCE. Included is a suggested solution using the labelling approach outlined above as well as some guidance regarding the steps to follow when preparing the CSOFP, CSPLOCI & CSOCE.