Introduction

In 2008, the International Accounting Standards Board (IASB) revised International Accounting Standard (IAS 27) (2008) *Consolidated and Separate Financial Statements* and International Financial Reporting Standard 3 (IFRS 3) (2008) *Business Combinations*. The revisions to IAS 27 (2008) and IFRS 3 (2008) were part of the second phase of the business combinations project undertaken between the United States Financial Accounting Standards Board (FASB) and the IASB to improve financial reporting while promoting convergence of accounting standards. The IAS 27 (2008) revisions dealt primarily with accounting for non-controlling interest and for the loss of control of a subsidiary, while the IFRS 3 (2008)revisions were aimed at providing guidance when applying the acquisition method to business combinations. In particular, IFRS 3 (2008) sought to establish principles and requirements for how an acquirer:

- recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
- determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination (IFRS 3, 2008, paragraph IN4).

Prior to the revision of IFRS 3 (2008), reporting entities were required to value non-controlling interest at the proportionate share of the acquiree's identifiable net assets. The revision of IFRS 3 (2008) introduced an option and permitted any non-controlling interest in an acquiree to be measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets (IFRS 3, 2008, paragraph 19)[1,2].

The recent introduction of IFRS 3 (2008) means that this issue has not been fully addressed in recently published undergraduate accounting texts. In part, this omission might be due to some of the complexities involved. Although two recently published texts, Alfredson *et al.* (2009) and Picker *et al.* (2009), have updated their material to take into account revisions to IAS 27 (2008) and IFRS 3 (2008), they fail to address how the impairment of goodwill will impact the measurement of non-controlling interest in the presence of indirect non-controlling interest under the different valuation methods. While recognising the choice IFRS 3 (2008) provides when valuing non-controlling interest, Alfredson *et al.* (2009, p. 1010) and Picker *et al.* (2009, p. 1040), use the following identical rationale to justify their failure to address this issue:

> This choice has no effect on post-acquisition equity. Hence, the calculation of the INCI share of equity is unaffected by which goodwill method is used. **In this chapter, the partial goodwill method is used in all examples** (Emphasis in original).

What this article shows is that the choice made about how to measure non-controlling interest will impact measurements of non-controlling interest and, therefore, the total equity of a consolidated group of entities. In line with previous contributions (Goodwin and Alfredson, 2000; Bradbury and Prangnell, 2005), this paper uses simple illustrations to detail the correct accounting treatment of a contentious issue. This paper contributes to the accounting literature by using two simple illustrations that show the correct treatment of goodwill impairment loss when the non-controlling interest in subsidiaries is measured at fair value, at the proportionate share of the acquiree's identifiable net assets, or a combination of fair value and proportionate share of the acquiree's identifiable net assets.

This paper is structured as follows. First, goodwill in the context of business combinations and the requirements relating to goodwill impairment are considered. Non-controlling interest and how it should be calculated is then described. Finally, two simple cases are used to illustrate how goodwill impairment loss impacts on the measurement of non-controlling interest to be disclosed in financial statements.

Goodwill and goodwill impairment

Goodwill is defined as “an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised” (IFRS 3, 2008; IAS 36, 2008, paragraph 81). In the context of business combinations, the rules for recognising goodwill are provided in IFRS 3 (2008, paragraph 32) as follows.

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (1) over (2) below:

1. the aggregate of:
    - the consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value (see paragraph 37);
    - the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and

- in a business combination achieved in stages (see paragraphs 41 and 42), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

2. the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS.

The above paragraph is simplified in Table I.

From Table I it is clear that goodwill as a resource controlled by the reporting entity from which future economic benefits are expected to arise is a residual. The residual results from a direct measurement of goodwill not being possible (Basis for Conclusions, 2008, paragraph BC238).

Prior to the adoption of International Financial Reporting Standards (IFRS), reporting entities in countries including New Zealand and Australia systematically amortised purchased goodwill over the period in which the benefits were expected to be realised. This period usually had an upper limit of 20 years. Although the usual method of amortisation was the straight line basis, reporting entities were permitted to use other methods if they were considered more appropriate[3]. Adopting IFRSs ensured that this practice ceased, with reporting entities being prohibited from amortising goodwill. Rather, any goodwill acquired in a business combination was to be measured at cost less any accumulated impairment losses (IFRS 3, 2004, paragraph 54). Additionally, goodwill was to be tested annually for impairment "or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36 *Impairment of Assets*" (IFRS 3, 2004, paragraph 55).

The revision of IFRS 3 (2008) saw the goodwill accounting requirements being incorporated into IAS 36 (2008). Specifically, IAS 36 (2008, paragraph 90) requires:

> A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss in accordance with paragraph 104.

Although the IAS 36 (2008) requirements are more detailed than those contained in IFRS 3 (2004), the underlying principles articulated in IFRS 3 (2004) remain the same. Finally, goodwill impairment testing can take place at any time during the reporting period provided the test is performed at the same time each year.

Calculation of non-controlling interest

IAS 27 (2008) saw the previously used term "minority interest" changed to "non-controlling interest". The IASB argued that the term "non-controlling interest" was a more accurate descriptor than "minority interest" as the owner of a minority interest in an entity might in fact control the entity, while the owners of a majority interest might not be able to exercise control (IAS 27, 2008).

Non-controlling interest then is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent" (IFRS 3, 2008). Treating non-controlling interest as equity is consistent with the entity perspective favoured by the IASB. Additionally, this treatment confirms the view that non-controlling interest is not a liability as it fails to meet the definition of a liability in the *Framework for the Preparation and Presentation of Financial Statements* (IAS 27, 2008).

The steps necessary to undertake a consolidation, and in particular the calculation of non-controlling interest, are detailed in IAS 27 (2008, paragraph 18):

1. non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and
2. non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of:

- the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3; and
- the non-controlling interests' share of changes in equity since the date of the combination.

As indicated earlier, IFRS 3 (2008, paragraph 19) provides reporting entities with the following choices when measuring non-controlling interests:

> For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Permitting the choice of two valuation methods provides reporting entities with flexibility when accounting for business combinations. For example, an entity can measure non-controlling interest at fair value for the first acquisition while measuring non-controlling interest at the proportionate share of the acquiree's identifiable net assets for a subsequent acquisition.

Permitting non-controlling interest to be measured in different ways gives rise to the issue of how any goodwill impairment loss attributed to non-controlling interest is allocated. Appendix C to IAS 36 (2008, paragraph C6) provides clarity by stating:

> If a subsidiary, or part of a subsidiary, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.

Following the guidance provided by IAS 27 (2008), the non-controlling interest in the two cases that follow is measured in three steps as follows:

1. Non-controlling interests' share in the net assets (equity) of subsidiaries at the dates the parent entity acquired the subsidiaries. This requires the non-controlling interest's share of the pre-acquisition balances of contributed equity, retained earnings and reserves to be recorded.
2. Non-controlling interests' share in the changes in post acquisition equity. This is achieved through recording of the non-controlling interest's share of the post acquisition movements in retained earnings and reserves.
3. Non-controlling interests' share in the profit or loss of the subsidiaries in the current period. At the end of the reporting period the non-controlling interest's share in profit for the year, distributions and transfers made and movements in reserves for the year must be recorded (Deegan and Samkin, 2009, p. 863).

The measurement of non-controlling interest in Snapper Limited assuming the management of Kingfish Limited measures non-controlling interest at the proportionate share of the acquiree's identifiable net assets is detailed in Table II.

In the above scenario, no goodwill impairment losses have been taken into account in the measurement of the non-controlling interest in Snapper Limited. However, if management of Kingfish Limited measures the non-controlling interest in Snapper Limited at fair value, then consistent with IAS 36 (2008), paragraph C6, goodwill impairment losses must be allocated between the parent and the non-controlling interest on the same basis as that on which profit and loss is allocated. This allocation is detailed in Table III.

Note that although the journal entry to account for the impairment of goodwill is the same in both cases, there is a difference in the amount of the non-controlling interest recognised in earnings and retained earnings under the two approaches. These differences are detailed in Table IV.

Including the goodwill impairment in the calculation of the non-controlling interest ensures that the IAS 36 (2008)requirements regarding the allocation of the impairment between the parent and the non-controlling interest are met.

Illustration 2 extends the scenario to incorporate a subsidiary of Snapper Limited which ensures that valuation of non-controlling interest includes indirect non-controlling interest. IFRS 3 (2008) permits non-controlling interest in an acquiree to be measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Reporting entities, therefore, have the choice of which measure to use in each business combination. Table V details the different combinations available when valuing the non-controlling interest in the subsidiaries Snapper Limited and Piper Limited is considered.

The direct and indirect ownership interests in Snapper Limited and Piper Limited are detailed in Table VI. The reason for this calculation is that, consistent with IAS 27 (2008), indirect non-controlling interest equity holders are entitled to a share in the post acquisition profits or losses of the sub-subsidiary. Calculating indirect non-controlling interest in equity ensures any post acquisition profits or losses are correctly calculated and allocated to the non-controlling interest in earnings for the current year and appropriate adjustments are made to opening retained earnings to account for the share of earnings from the date of acquisition to the beginning of the current reporting period.

Where direct and indirect holdings are held in a subsidiary and non-controlling interests in profits or losses requires calculation, how goodwill impairment losses are allocated to the different reporting entities is critical. There are a number of alternative treatments. First, all goodwill impairment losses could be allocated to the ultimate parent entity in the group (in this case, Kingfish Limited). Second, the goodwill impairment losses could be allocated to the immediate parent entity of the sub-subsidiary (Snapper Limited is the immediate parent entity of Piper Limited). Third, the goodwill impairment losses could be allocated to the sub-subsidiary (Piper Limited) (Deegan, 2010). While this issue is not dealt with specifically in the accounting standards, the appropriate treatment of goodwill impairment losses relating to an investment in a subsidiary depends upon how the non-controlling interest is measured.

Table VII details how the non-controlling interest in Snapper Limited and Piper Limited is measured when the management of Kingfish Limited and Snapper Limited value non-controlling interest in subsidiaries at the proportionate share of the acquiree's identifiable net assets.

Table VIII details how the non-controlling interest in Snapper Limited and Piper Limited is measured when the management of Kingfish Limited and Snapper Limited value non-controlling interest in subsidiaries at fair value.

Table IX details how the non-controlling interest in Snapper Limited and Piper Limited is measured when the management of Kingfish Limited value non-controlling interest in Snapper Limited at fair value and the management of Snapper Limited value non-controlling interest in Piper Limited at the proportionate share of the acquiree's identifiable net assets.

In Table X the measurement of non-controlling interest in Snapper Limited and Piper Limited is measured where the management of Kingfish Limited measures non-controlling interest in Snapper Limited at the proportionate share of the acquiree's identifiable net assets, while the management of Snapper Limited measures the non-controlling interest in Piper Limited at fair value.

The differences in the amount of non-controlling interest in earnings for the current year, the statement of financial position non-controlling interest balance, closing retained earnings and total equity under the four scenarios considered in Illustration 2 are summarised in Table XI.

Rules for accounting for goodwill impairment loss

Some rules for accounting for goodwill impairment loss when measuring non-controlling interest under both valuation methods can be summarised as follows.

Non-controlling interest in Snapper Limited and Piper Limited measured at the proportionate share of the acquiree's identifiable net assets

If the non-controlling interest in the immediate parent (Snapper Limited) and the sub-subsidiary (Piper Limited) is measured at the proportionate share of the acquiree's identifiable net assets under a sequential consolidation approach goodwill impairment losses are not deducted from profit for the year when measuring non-controlling interest. This is consistent with the position taken in Illustration 1, as under this method of valuation, goodwill impairment losses are not allocated to the non-controlling interest. The logic behind this position is that goodwill has been calculated in accordance with the parent entity[7] concept of consolidation However, when the multiple consolidation approach described in this paper is used, the goodwill impairment losses relating to the purchase of the sub-subsidiary (Piper Limited) should be attributed to (any) non-controlling interest in the immediate parent (Snapper Limited) entity of the sub-subsidiary (Piper Limited), and the ultimate parent interest (Kingfish Limited) in the sub-subsidiary (Piper Limited).

Non-controlling interest in Snapper Limited and Piper Limited measured at fair value

If the non-controlling interest in the immediate parent (Snapper Limited) and the sub-subsidiary (Piper Limited) is measured at fair value, then any goodwill impairment losses associated with the acquisition of the immediate parent (Snapper Limited) and the sub-subsidiary (Piper Limited) must be deducted from the respective profits for the year. Any goodwill impairment losses from the previous period and associated with the immediate parent or sub-subsidiary must be deducted from the respective post acquisition retained earnings. This is consistent with the position taken in Illustration 1, as under this method of valuation goodwill impairment losses are allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated. The logic behind this position is that the goodwill relating to both the immediate parent's (Snapper Limited's) interest in the sub-subsidiary (Piper Limited) and the non-controlling interest in the sub-subsidiary (Piper Limited) is recognised upon consolidation, because goodwill is calculated in accordance with the entity perspective[8] of consolidation.

Non-controlling interest in Snapper Limited measured at fair value and Piper Limited measured at the proportionate share of the acquiree's identifiable net assets

If the non-controlling interest in the sub-subsidiary (Piper Limited) is measured at the proportionate share of the acquiree's identifiable net assets and the non-controlling interest in the immediate parent (Snapper Limited) is measured at fair value, then any goodwill impairment losses associated with the acquisition of the sub-subsidiary and the immediate parent must be deducted from the immediate parent (Snapper Limited) subsidiary's profit for the year when measuring non-controlling interest. Any goodwill impairment losses associated with the immediate parent or sub-subsidiary in previous reporting periods must be deducted from the post acquisition retained earnings of the immediate parent (Snapper Limited). The logic behind this position is that the goodwill relating to both the immediate parent's (Snapper Limited) interest in the sub-subsidiary (Piper Limited), and the non-controlling interest in the sub-subsidiary (Piper Limited), is recognised upon consolidation, because goodwill is calculated in accordance with the entity perspective of consolidation. Therefore, parts of the goodwill impairment losses relating to the purchase of a sub-subsidiary (Piper Limited) should be attributed to (any) non-controlling interest in the immediate parent (Snapper Limited) entity of the sub-subsidiary (Piper Limited), and to the ultimate parent interest (Kingfish Limited) in the sub-subsidiary (Piper Limited). Consequently, goodwill impairment losses relating to the purchase of a sub-subsidiary (Piper Limited) should be attributed to the immediate parent entity of the sub-subsidiary (Snapper Limited).

Non-controlling interest in Snapper Limited measured at the proportionate share of the acquiree's identifiable net assets and Piper Limited measured at fair value

If the non-controlling interest in the immediate parent (Snapper Limited) is measured at the proportionate share of the acquiree's identifiable net assets and the non-controlling interest in the sub-subsidiary (Piper Limited) is measured at fair value, then any goodwill impairment losses associated with the acquisition of the sub-subsidiary must be deducted from the sub-subsidiary's profit for the year when measuring non-controlling interest. Any goodwill impairment losses associated with the sub-subsidiary in previous reporting periods must be deducted from the post acquisition retained earnings of the sub-subsidiary (Piper Limited).

Conclusion

This paper illustrates how the impairment of purchased goodwill should be treated when calculating and accounting for non-controlling interest. It is an area that, if not correctly considered, will lead to incorrect measures attributed to non-controlling interest in earnings. From the above calculations, it is clear that the contention referred to earlier by Alfredson *et al.* (2009, p. 1010) and Picker *et al.* (2009, p. 1040) that the choice between the methods of measuring non-controlling interest "has no effect on post-acquisition equity" is misleading. The method used to measure non-controlling and the associated goodwill impairment impacts the amount of non-controlling interest disclosed in the statement of financial position and on the face of the statement of comprehensive income. Failure to correctly calculate non-controlling interest has consequences. For example, earnings per share is calculated on the basis of "profit or loss attributable to ordinary equity holders of the parent entity" (IAS 33, 2003, paragraph 12). Incorrectly calculating non-controlling interest will have a flow-on effect when calculating earnings per share and diluted earnings per share.

This paper has a number of limitations. It does not look at the reasons behind the IASB decision to allow two methods of valuing non-controlling interest. In addition, it does not examine the allocation of goodwill impairment expenses to individual components of cash generating units.

Elimination of investment in Snapper Limited	Snapper Limited	Kingfish Limited's 70% interest	30% non-controlling interest
Fair value of consideration transferred	4,500,000	4,500,000	
Plus: non-controlling interest at fair value ($4,500,000 × 30/70)	1,928,571		1,928,571
	6,428,571		
Less fair value of identifiable assets acquired and liabilities assumed			
Contributed equity on acquisition date	4,800,000	3,360,000	1,440,000
Retained earnings on acquisition date	900,000	630,000	270,000
	5,700,000	3,990,000	
Goodwill on acquisition date	728,571	510,000	218,571

Graphic 1

Elimination of investment in Piper Limited	Piper Limited	Snapper Limited's 80% interest	20% non-controlling interest
Fair value of consideration transferred	4,000,000	4,000,000	
Plus: non-controlling interest at fair value ($4 000 000 × 20/80)	1,000,000		1,000,000
	5,000,000		
Less fair value of identifiable assets acquired and liabilities assumed			
Contributed equity on acquisition date	3,100,000	2,480,000	620,000
Retained earnings on acquisition date	600,000	480,000	120,000
	3,700,000	2,960,000	
Goodwill on acquisition date	1,300,000	1,040,000	260,000

Graphic 2

	$
Fair value of consideration transferred	xxx
Plus: amount of non-controlling interest	xxx
Plus: fair value of any previously held equity interest in the acquiree	xxx
	xxx
Less: fair value of identifiable assets acquired and liabilities assumed	xxx
Goodwill on acquisition date	xxx

Table 1. Calculation of goodwill impairment

Table I

Calculation of goodwill impairment

On 1 April 2007, Kingfish Limited acquired 70 per cent of the equity of Snapper Limited[1] for $1,500,000. On the date of acquisition, the equity of Snapper Limited is as follows:

	Snapper Limited $
Contributed equity on acquisition date	4,800,000
Retained earnings on acquisition date	900,000
	5,700,000

The abbreviated financial statements of Kingfish Limited and Snapper Limited at 31 March 2009 are as follows:

	Kingfish Limited $000	Snapper Limited $000
Statement of comprehensive income (extract)		
Profit before tax	3,880	1,950
Tax	(1,350)	(635)
Profit for the year	2,530	1,315
Retained earnings – 1 April 2008	5,650	1,475
Dividends declared	(900)	(340)
Retained earnings – 31 March 2009	7,280	2,450

	Kingfish Limited $000	Snapper Limited $000
Statement of financial position (extract)		
Equity		
Contributed equity	12,500	4,800
Revaluation surplus	2,100	–
Retained earnings	7,280	2,450
	21,880	7,250

The management of Kingfish Limited believe that the goodwill acquired in the acquisition of Snapper Limited has been impaired as follows:

	$
Goodwill impairment loss – reporting period 31 March 2008	80,000
Goodwill impairment loss – reporting period 31 March 2009	50,000
	130,000

Illustration 1.

Illustration 1

Calculation of non-controlling interest in Snapper Limited	Snapper Limited	30% non-controlling interest
(i) Non-controlling interests on acquisition date		
Contributed equity on acquisition date	4,800,000	1,440,000
Retained earnings on acquisition date	900,000	270,000
	5,700,000	
Total goodwill*	–	–
	5,700,000	1,710,000
(ii) Non-controlling interest in movements in reserves between the date of the parent entity's acquisition and the beginning of the current reporting period		
Retained earnings – post acquisition Snapper Limited ($1,475,000-900,000)	575,000	
Adjusted post-investment retained earnings – 1 April 2008	575,000	172,500
(iii) Non-controlling interest in the current period's profit		
Profit for the year	1,315,000	
Adjusted profit for the year	1,315,000	394,500
Dividends declared	(340,000)	(102,000)
		2,175,000

Note: *As non-controlling interest is measured at the proportionate share of the acquiree's identifiable net assets, no goodwill on acquisition is shown in this calculation

The journal entries necessary to account for the goodwill impairment losses and the non-controlling interest in Snapper Limited are detailed below

Journal entries

Recognition of goodwill impairment losses for 2008 and 2009

			Dr	Cr
Dr		Retained earnings – 1 April 2008	80,000	
Dr		Goodwill impairment loss Other expenses – impairment of goodwill	50,000	
	Cr	Accumulated impairment – goodwill		130,000

Recognition of non-controlling interest and non-controlling interest in earnings of Snapper Limited

			Dr	Cr
Dr		Contributed equity	1,440,000	
Dr		Retained earnings – 1 April 2008 ($270,000 + 172,500)	442,500	
Dr		Non-controlling interest in earnings	394,500	
	Cr	Dividends declared		102,000
	Cr	Non-controlling interest (statement of financial position)		2,175,000

Table II. Calculating the non-controlling interest in Snapper Limited where non-controlling interest is measured at the proportionate share of the Snapper Limited's identifiable net assets

Table II

Calculating the non-controlling interest in Snapper Limited where non-controlling interest is measured at the proportionate share of the Snapper Limited's identifiable net assets

[illegible]

Table III

Calculating the non-controlling interest in Snapper Limited where non-controlling interest is measured at fair value

	Non-controlling interest in earnings ($)	Retained earnings 1 April 2008 ($)
Non-controlling interest measured at proportionate share of the acquiree's identifiable net assets	394,500	442,500
Non-controlling interest measured at fair value	379,500	418,500
Difference	15,000	24,000

Table IV. Differences in non-controlling interest in earnings and opening retained earnings under two valuation approaches

Table IV

Differences in non-controlling interest in earnings and opening retained earnings under two valuation approaches

	Snapper limited	Piper limited
Non-controlling interest measured at	Fair value	Fair value
Non controlling interest measured at	Proportionate share of the acquiree's identifiable net assets	Proportionate share of the acquiree's identifiable net assets
Non-controlling interest measured at	Fair value	Proportionate share of the acquiree's identifiable net assets
Non-controlling interest measured at	Proportionate share of the acquiree's identifiable net assets	Fair value

Table V.
Different combinations of valuing non-controlling interest available in Illustration 2

Table V

Different combinations of valuing non-controlling interest available in Illustration 2

Illustration 2

	Snapper Limited % interest	Piper Limited % interest
Kingfish Limited's interest		
Direct	70	–
Indirect	–	56
Non-controlling interest		
Direct	30	20
Indirect	–	24
	100	100

Table VI.
Ownership interests in Snapper Limited and piper Limited

Table VI

Ownership interests in Snapper Limited and piper Limited

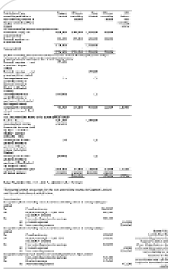

Table VII

Calculating the non-controlling interest in Snapper Limited and Piper Limited where the non-controlling interest in both subsidiaries is measured at the proportionate share of the acquiree's identifiable net assets

Table VIII

Calculating the non-controlling interest in Snapper Limited and Piper Limited where the non-controlling interest in both subsidiaries is measured at fair value

Table IX

Calculating the non-controlling interest in Snapper Limited and Piper Limited where management of Kingfish Limited measured non-controlling interest in Snapper Limited at fair value and the management of Snapper Limited measured non-controlling interest in Piper Limited at the proportionate share of the acquiree's identifiable net assets

Table X

Calculating the non-controlling interest in Snapper Limited and Piper Limited where management of Kingfish Limited measured non-controlling interest in Snapper Limited at the proportionate share of the acquiree's identifiable net assets, while the management of Snapper Limited measured non-controlling interest in Piper Limited at fair value

Table XI

Differences in the amount of non-controlling interest in earnings, the statement of financial position non-controlling interest balance, closing retained earnings and total equity

	2018			
	Non-controlling interest in earnings[a]	Closing retained earnings	Non-controlling interest[b]	Total equity
Non-controlling interest in Snapper Limited and Piper Limited measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets	801,100	9,140,800	3,690,200	27,581,000
Non-controlling interest in Snapper Limited and Piper Limited measured at fair value	806,300	9,214,000	4,014,071	27,888,371
Non-controlling interest in Snapper Limited measured at fair value and non-controlling interest in Piper Limited measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets	876,100	9,138,800	3,779,771	27,568,371
Non-controlling interest in Snapper Limited measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets and non-controlling interest in Piper Limited measured at fair value	881,300	9,175,000	3,848,000	27,601,000

Notes: [a]Statement of comprehensive income; [b]statement of financial position

Table XI. Differences in the amount of non-controlling interest in earnings, the statement of financial position non-controlling interest balance, closing retained earnings and total equity

Notes

Non-controlling interest in an acquiree measured at fair value is sometimes called the "full goodwill method" while non-controlling interest measured at the proportionate share of the acquiree's identifiable net assets is sometimes called the "partial goodwill method".

IFRS 3 (2008) and IAS 27 (2008) are to be applied prospectively to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The IASB permitted earlier application.

In Australia, however, this did not extend to including the inverse sum-of-digits method (see Deegan, 2010, p. 274 for a more complete discussion).

For the purposes of this paper, in Illustration 1 the subsidiary Snapper Limited, and in Illustration 2, the subsidiaries Snapper Limited and Piper Limited, are assumed to be cash generating units.

Calculation of goodwill on acquisition date where the non-controlling interest in Snapper Limited is measured at fair value:Graphic 1

Calculation of goodwill on acquisition date where the non-controlling interest in Snapper Limited is measured at fair value:Graphic 2

Under the parent entity perspective of consolidation, the economic entity consists of the net assets of the parent and the net assets of the subsidiary but the non-controlling interest is regarded as a liability to the economic entity. Under this concept, the parent shareholders are equity while the non-controlling interest is a liability.

Under the entity perspective (also known as the entity theory) the reporting entity has a substance of its own, separate from that of its owners. Under the entity perspective, the economic entity consists of the net assets of the parent as well as the net assets of the subsidiary. Also, the non-controlling interest is regarded as an equity holder in the group. Under the entity perspective, both the parent shareholders and non-controlling interest are equity.

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