Chuckle Co has equity interests in several companies including Grin Co. The directors of Chuckle Co have prepared an incorrect spreadsheet of the consolidated statement of financial position at 1 April 20X6 (exhibit 4). All goodwill other than that relating to Grin Co has been impaired. The financial year end is 31 March each year.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Initial acquisition of Grin Co - initial purchase of 30% of Grin Co on 1 April 20X4.
2. Subsequent acquisition of Grin Co - subsequent 18% purchase of Grin Co and the purchase of share options on 1 April 20X6.
3. Fair value of net assets of Grin Co - at 1 April 20X6.
4. Draft consolidated SOFP - Draft consolidated statement of financial position (SOFP) at 1 April 20X6.

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

1. Initial acquisition of Grin Co

On 1 April 20X4, Chuckle Co acquired 30% of the equity shares of Grin Co. The consideration consisted of $100 million cash. The carrying amount of the net assets of Grin Co on 1 April 20X4 was $286 million which was the same as the fair value. Since then, Grin Co has been stated at cost in the consolidated financial statements of Chuckle Co.

The remaining 70% of the equity of Grin Co at 1 April 20X4 was owned by a few other investors, none of which owned more than 10% of the equity of Grin Co. Analysis shows that all shareholders have voted independently in the past. There has been no clear past voting pattern suggesting that Chuckle Co is unable to directly influence the economic decisions of the other investors. Chuckle Co and Grin Co share some key management personnel.

The carrying amount of the net assets of Grin Co on 31 March 20X6 was $348 million. The increase in the net assets of Grin Co since acquisition was solely due to profits. Grin Co has paid no dividends since 1 April 20X4.

2. Subsequent acquisition of Grin Co

Chuckle Co acquired a further 18% of Grin Co's equity on 1 April 20X6.

The remaining 52% of the equity of Grin Co at 1 April 20X6 is owned by a few other investors, none of which own more than 10% of the equity of Grin Co.

On 1 April 20X6, Chuckle Co also acquired some share options in Grin Co exercisable any time until 31 March 20X7. The exercise price of the options at 1 April 20X6 was just above the market price of Grin Co's shares. Grin Co has been profitable for a number of years and the share price has been on an upwards trend which is expected to continue. Chuckle Co would increase its ownership to 60% should it exercise its rights. It is believed that there would be additional cost savings should the additional shares be acquired as decisions at board level could be made more efficiently.

3. **Fair value of net assets of Grin Co**

The directors of Chuckle Co have prepared a spreadsheet of the consolidated statement of financial position (SOFP) as at 1 April 20X6 (Exhibit 4). The investments in Grin Co have been stated at cost ($100 million and $66 million) and the net assets of Grin Co have been included at their carrying amounts. The equity of Grin Co has also been included as a balancing figure. Goodwill has not been calculated.

The consideration for the further 18% of the equity shares of Grin Co on 1 April 20X6 is included in the SOFP at the cash amount of $66 million. The fair value of the original 30% equity interest was $127 million at 1 April 20X6.

The carrying amounts of the net assets of Grin Co on 1 April 20X6 were as follows:

	$ millions
Non-current assets	355
Current assets	214
Deferred tax liability	(16)
Current liabilities	(205)
Total	348

Included within the non-current assets is some land. The carrying amount of this land at 1 April 20X6 is $50 million but its fair value is assessed to be $60 million at this date. Current assets include finished goods with a cost of $84 million. The fair value of these goods is $131 million.

On 1 April 20X6, the directors of Chuckle Co also identified that Grin Co had an internally generated database of customers who were likely to be interested in purchasing their products. Although there were no contractual or legal rights associated with this database, a professional expert has estimated that competitors of Grin Co would be prepared to pay $5 million for this database. Grin Co has not recognised the database as an asset within the individual financial statements.

The current rate of tax is 20%. This rate should be applied to any fair value adjustments deemed necessary.

Chuckle Co measures the non-controlling interest as a proportionate share of the net assets at the date of acquisition.

4. Draft consolidated SOFP

	$m
Assets	
Non-current Assets	
Property, Plant and Equipment	2,021
Investment in Associate	100
Further investment in associate	66
Goodwill	
Other non-current assets	186
	2,373
Current Assets	542
Total Assets	2,915
Equity	
Equity attributable to equity holders of the company	
Share capital	150
Other components of equity	370
Retained earnings	1,157
Total Equity	1,677
Non-Controlling Interest	
Grin's equity	348
Liabilities	
Non-Current Liabilities	
Deferred income tax liabilities	314
	662

Current Liabilities	576
Total Liabilities	1,238
Total equity and Liabilities	2,915

Requirements

(a)(i) Using exhibit 1 only, discuss why Grin Co should be classified as an associate, and not a subsidiary, on 1 April 20X4.

(4 marks)

(a)(ii) Using exhibit 1 only, explain how Grin Co should be accounted for as an associate using the equity method in the consolidated statement of financial position of Chuckle Co at 31 March 20X6.

(3 marks)

(b) Using exhibit 2, explain briefly why the classification of Chuckle Co's investment in Grin Co should change on 1 April 20X6 to that of a subsidiary.

(3 marks)

(c)(i) Using exhibit 2, explain briefly how the additional purchase of the 18% equity in Grin Co should be accounted for in the consolidated financial statements of Chuckle Co.

(2 marks)

(c)(ii) Using exhibit 3, explain how the fair value of the non-current and current assets of Grin Co at 1 April 20X6 (including any deferred tax adjustments) should be calculated.

(6 marks)

(c)(iii) Using the pre-populated spreadsheet response option with exhibit 3 and your previous answers, adjust the spreadsheet prepared by the directors of Chuckle Co in order to prepare a corrected consolidated statement of financial position at 1 April 20X6.The spreadsheet should take into account the following:

- **accounting for the associate using the equity method;**
- **the change in classification from associate to subsidiary;**
- **the fair value adjustments on acquisition; and**
- **goodwill using the proportionate share of net assets method to calculate the non-controlling interest.**

(12 marks)

(30 marks)