ANSWER

Q1 Fair Value

Q Calculate the goodwill arising at acquisition.

A

FV of parent's investment		$
Shares issued	(3/2 x 75% x 40,000 x $3.20)	144,000
Contingent consideration		50,000
		194,000
FV of the NCI	($4.50 x 25% x 40,000)	45,000
FV of the net assets		(20,000)
Goodwill at acquisition		219,000

Explanation

The fair value of the contingent consideration at the date of the acquisition remains $50,000. Just because several years later the value has changed does not alter the assessment of the fair value at the date of acquisition.

The liability has been reduced and that will be reflected in the financial statements. There is a profit that is recorded and not an adjustment to the goodwill.

Goodwill at acquistion must be calculated with ingredients that are measured at the date of acquistion.

ANSWER

Q2 Rhys has trees

Q Calculate the fair value of the plantation of the 200 trees at the reporting date.

A The carrying value will be the fair value.

The fair value is level 3 and has to be computed.

It will be present value of the future cash flow

The trees are three years from maturity.

The asset at fair value 200 trees x $10 x 0.751 = $1,503. (Where 0.751 is $1/1.1^3$)

We can further say that given that last year the fair value was $1,203 there has been a profit of $300.

IAS 41 requires that this is recognised in profit or loss.