Rowan and Elm: the equity-method bridge

MODULE 5 / 1 / KEEP PROFIT SEPARATE FROM OCI

Rowan buys 30% of Elm for 138,000. Its share of acquisition FV net assets is 120,000; embedded goodwill is 18,000. Elm reports PAT 64,000, OCI 10,000 after tax and dividends 18,000. Acquisition plant uplift 20,000 has five years remaining; unchanged tax base; 30% tax.

Extra depreciation 20,000/5 = 4,000; tax reversal 1,200. Adjusted profit = 64,000 - 4,000 + 1,200 = 61,200.

Investment bridge	Amount
Cost / opening investment	138,000
Share of adjusted profit: 30% x 61,200	+18,360
Share of separate after-tax OCI: 30% x 10,000	+3,000
Dividend: 30% x 18,000	-5,400
Closing investment	153,960

Goodwill is embedded in the investment, not a separately presented goodwill asset. Do not amortise the embedded goodwill. Fair-value depreciation adjustments still affect the share of profit.

If the investor share of acquisition fair-value net assets instead exceeds cost after reassessment, include the confirmed excess in the investor share of profit for the acquisition period. Do not carry a negative goodwill balance inside the investment.

If a source gives profit and OCI as one amount, obtain the separate components rather than assuming OCI is included in profit. Use the investor ownership interest once.

Historical standards (October 2022 study context). AASB 128 10, 26, 32. Original Accounting Ahead examples.

Equity method: journal cards

MODULE 5 / 2 / ASSUMES EQUITY METHOD IN THE RECORDS

Share of adjusted profit

Dr Investment in associate	18,360
Cr Share of associate profit	18,360

Share of after-tax OCI

Dr Investment in associate	3,000
Cr OCI - associate share	3,000

Dividend received

Dr Cash	5,400
Cr Investment in associate	5,400

If the starting separate records instead use cost

They may already contain Dr cash / Cr dividend income 5,400. Do not repeat the cash receipt. The worksheet conversion removes that income and reduces the investment, alongside the profit/OCI adjustments.

Cost-record conversion for dividend only

Dr Dividend income	5,400
Cr Investment in associate	5,400

Use the appropriate route for the starting accounts. IAS 27 permits equity accounting in separate financial statements; journals are not universally restricted to a consolidation worksheet.

Historical standards (October 2022 study context). AASB 128 10; AASB 127 10, 12. Original Accounting Ahead examples.

Associate transactions and final checks

MODULE 5 / 3 / NOT FULL SUBSIDIARY CONSOLIDATION

Original downstream inventory case: Rowan sells to Elm at profit 9,000; 40% remains. Unrealised profit is 3,600. Rowan owns 30%, giving a pre-tax elimination of 1,080. The remaining 70% relates to unrelated investors.

> Subsidiary: eliminate the internal transaction in full. Associate: apply the investor-share equity-method rule.

For an upstream sale, adjust the associate result used for the investor's share and the retained asset as appropriate; avoid applying ownership twice. Tax effects depend on the actual tax facts and require separate IAS 12 analysis.

Check	What to resolve
Acquisition differences	Separate identifiable fair-value depreciation/amortisation from embedded goodwill.
Dates and policies	Use consistent policies; align reporting dates or apply permitted adjustments and limits.
Unrealised loss	Preserve an impairment or NRV loss supported by the facts.
Impairment	Test the equity-accounted investment as a single asset under IAS 28.
Preference shares	Adjust for relevant cumulative preference dividends before allocating ordinary profit.
Method ceases	Reassess on loss of significant influence/joint control; apply the specified retained-interest/OCI rules.

Historical standards (October 2022 study context). AASB 128 28-43; AASB 112 38-45. Original Accounting Ahead examples.

Rebuild the opening equity-method amount

MODULE 5 / 4 / ONLY WHEN THE STARTING BOOKS STILL USE COST

Separate original case: Willow owns 40% of Fern and carries its investment at original cost 90,000 in the separate opening records. Since acquisition, Fern has earned adjusted after-tax profit 65,000, paid dividends 20,000 and accumulated after-tax OCI 12,000.

All figures are post-acquisition and already reflect applicable fair-value and tax adjustments. Willow recorded its 8,000 dividend receipts in income under cost accounting. There are no impairments, other movements, ownership changes or additional investor tax entries in this illustration.

Retained profit increase = 65,000 - 20,000 = 45,000. Investor share = 40% x 45,000 = 18,000. Opening OCI share = 40% x 12,000 = 4,800.

Opening profit conversion: the dividend was already in income

Dr Investment in associate	18,000
Cr Opening retained earnings	18,000

Opening OCI conversion: keep it out of current profit

Dr Investment in associate	4,800
Cr Opening accumulated OCI	4,800

Opening investment bridge	Amount
Cost balance in starting records	90,000
Cumulative adjusted retained-profit share	+18,000
Cumulative OCI share	+4,800
Correct opening equity-method amount	112,800

These are reporting-worksheet conversions, not new current-year income. Add the current-year profit/OCI/dividend adjustments separately using the current facts. If opening investment already equals 112,800 under the equity method, do not post these opening adjustments again.

Use a complete movement bridge if prior impairment, distributions in excess of profits, losses not recognised or other equity changes exist. Goodwill embedded in the original cost is not added a second time.

Historical standards (October 2022 study context). AASB 128 10, 26, 32; AASB 127 10, 12. Original Accounting Ahead examples.