

Background

Hill is a public limited company which has investments in a number of other entities. All of these entities prepare their financial statements in accordance with International Financial Reporting Standards. Extracts from the draft individual statements of profit or loss for Hill, Chandler and Doyle for the year ended 30 September 20X6 are presented below.

	Hill	Chandler	Doyle
	\$m	\$m	\$m
Profit/(loss) before taxation	(45)	67	154
Taxation	9	(15)	(31)
	—	—	—
Profit/(loss) for the period	(36)	52	123
	—	—	—

Acquisition of 80% of Chandler

Hill purchased 80% of the ordinary shares of Chandler on 1 October 20X5. Cash consideration of \$150 million has been included when calculating goodwill in the consolidated financial statements. The purchase agreement specified that a further cash payment of \$32 million becomes payable on 1 October 20X7 but no entries have been posted in the consolidated financial statements in respect of this. A discount rate of 5% should be used.

In the goodwill calculation, the fair value of Chandler's identifiable net assets was deemed to be \$170 million. Of this, \$30 million related to Chandler's non-depreciable land. However, on 31 December 20X5, a survey was received which revealed that the fair value of this land was actually only \$20 million as at the acquisition date. No adjustments have been made to the goodwill calculation in respect of the results of the survey. The non-controlling interest at acquisition was measured using the proportionate method as \$34 million (\$170m x 20%).

As at 30 September 20X6, the recoverable amount of Chandler was calculated as \$250 million. No impairment has been calculated or accounted for in the consolidated financial statements.

Disposal of 20% holding in Doyle

On 1 October 20X4, Hill purchased 60% of the ordinary shares of Doyle. At this date, the fair value of Doyle's identifiable net assets was \$510 million. The non-controlling interest at acquisition was measured at its fair value of \$215 million.

Goodwill arising on the acquisition of Doyle was \$50 million and had not been impaired prior to the disposal date. On 1 April 20X6, Hill disposed of a 20% holding in the shares of Doyle for cash consideration of \$140 million. At this date, the net assets of Doyle, excluding goodwill, were carried in the consolidated financial statements at \$590 million.

From 1 April 20X6, Hill has the ability to appoint two of the six members of Doyle's board of directors. The fair value of Hill's 40% shareholding was \$300 million at that date.

Issue of convertible bond

On 1 October 20X5, Hill issued a convertible bond at par value of \$20 million and has recorded it as a non-current liability. The bond is redeemable for cash on 30 September 20X7 at par. Bondholders can instead opt for conversion in the form of a fixed number of shares. Interest on the bond is payable at a rate of 4% a year in arrears. The interest paid in the year has been presented in finance costs. The interest rate on similar debt without a conversion option is 10%.

Discount factors

Year	Discount rate 5%	Discount rate 10%
1	0.952	0.909
2	0.907	0.826

Required:

(a) (i) In respect of the investment in Chandler, explain, with suitable calculations, how goodwill should have been calculated, and show the adjustments which need to be made to the consolidated financial statements for this as well as any implications of the recoverable amount calculated at 30 September 20X6. (13 marks)