



COLLEGE OF
ACCOUNTING

FINANCIAL REPORTING | ADVANCED

Advanced Pro Forma Journal Entries: Forex Example

FOREX ANALYSIS OF EQUITY AND PFJE – VIDEO SCRIPT ADVANCED PFJE

The video script refers to this analysis of equity. Once you have attempted your own solution for PFJEs, you may like to compare your entries with the suggested ones. Remember that there is never a right or wrong way to do journal entries – any way that gets the correct answer, is correct. The key check is that you have the correct balance for NCI (R12 480), goodwill of R1 600 and the correct foreign currency gain in the current year (R6 540).

1. Analysis of equity – Subsidiary Inc

	\$'000	Exch rate	100% R'000	70%	NCI – 30%
Stated Cap	1 000		8 000		
Retained income	1 600		12 800		
Revaluation surplus	165		1 320		
Land	375		3 000		
	3 140	8.00	25 120	10 048	
Goodwill	160	8.00	1 280		
Consideration	3 300	8.00	26 400	19 200	7 200
Retained income	700	8.20	5 740		1 722
Forex translation gain			1 860	1 302	558
Group net asset value – prior yr	4 000	8.50	34 000		9 480
Profit	750	9.00	6 750		2 025
Dividends	(350)	9.40	(3 290)		(987)
Forex translation gain			6 540	4 578	1 962
Group net asset value	4 400	10.00	44 000		12 480

The starting point when doing PFJE is that 100% of the subsidiary's translated trial balance is included – the translation gains needed to balance. Rand trial balances are reflected as FCTR.

1	Dr		Stated capital	8 000	
	Dr		Retained earnings	12 800	
	Dr		Revaluation surplus	1 320	
	Dr		Land	3 000	
	Dr		Goodwill	1 280	
		Cr	Investment in subsidiary- cost of 70%		19 200
		Cr	NCI –SFP @ fair value of 30%		7 200
<i>Initial journal entry arising on acquisition of Subsidiary Inc.</i>					
2	Dr		Goodwill (160 x (10.00-8.00))	320	
		Cr	FCTR		320
<i>Restatement of goodwill to closing rate</i>					
3	Dr		Land (375 x (10.00-8.00))	750	
		Cr	FCTR		750
<i>Restatement of fair value adjustment on land to closing rate – cost + fair value adjustment translated at closing rate</i>					

4	Dr		Retained income	1 722	
		Cr	NCI - SFP		1 722
<i>Allocation of NCI share of retained income</i>					
5	Dr		FCTR	558	
		Cr	NCI - SFP		558
<i>Allocation of NCI share of FCTR</i>					
6	Dr		Dividends received	2 303	
	Dr		NCI - SFP	987	
		Cr	Dividends declared		3 290
<i>Elimination inter-company dividend</i>					
7	Dr		FCTR	6 540	
		CR	Foreign currency translation gain - OCI		6 540
<i>Recognition of current year translation gains in OCI – based on group measurement. Starting point is cumulative amount from group perspective in FCTR. Note that translation gains include amounts relating to goodwill as 100% column includes goodwill (as full goodwill method used).</i>					
8	Dr		NCI – attribution profit	2 025	
	Cr		NCI – attribution OCI	1 962	
		Cr	NCI - SFP		3 987
<i>Attribution of comprehensive income – profit separately identified. 30% of restatement of goodwill attributed to NCI as full goodwill method used.</i>					

Check:

NCI = R7 200(1) + R1 722(4) + R558 (5) – R987(6) + R3 987(7) = R12 480 i.e. per A o E
 Goodwill = R1 280 (1) + R320 (2) = R1 600 i.e. \$160 x R10 Land = \$ amount in sub x R10 i.e. as per translated TB + R3 000(1) + R750 (3) i.e. \$375 x R10

Comment:

While it is not necessary to know what the FCTR is in the subsidiary trial balance, it can be calculated as R1 860 + R6 540 (i.e. amounts per A o E) – R320(2) – R750(3) = R7 330.

Proof (also not required, but may assist understanding):

Movement in opening equity:	(1 000 + 1 600 + 165) x (10 - 8)	R5 530
Retained income prior year:	700 x (10 – 8.20)	R1 260
Current year profit:	750 x (10 – 9)	R 750
Current year dividends:	350 x (10 – 9.40)	<u>(R 210)</u>
Impact of items not recognised at year end closing rate by subsidiary		<u>R7 330</u>