CHAPTER 17
CONSOLIDATED FINANCIAL STATEMENTS: SUBSIDIARIES

Quick test

Question 1

Consolidated financial statements are required when one entity ***controls*** another.
Control requires:

- power over the investee;
- rights to variable returns from the investee; and
- the ability to affect the amount of the investor's returns

Generally power is present if the investor holds more than 50% of voting shares, but other situations may give power.

(a) A plc will include the net assets which it has acquired in its own separate financial statements in accordance with the relevant accounting standards. It has not acquired a business (o/s expand on this - inputs and processes which have the ability to create outputs, IFRS 3) $\Rightarrow$ no consolidation necessary

(b) Preference shares are ignored since they do not carry votes
60% of voting shares acquired by A plc $\Rightarrow$ power and control
Consolidated financial statements are required

(c) 40% of voting shares acquired by A plc $\Rightarrow$ does not give power
Power to appoint/remove directors $\Rightarrow$ power to direct relevant activities
Consolidated financial statements are required

(d) 45% of voting shares acquired by A plc $\Rightarrow$ does not give power
Agreement with pension fund gives an additional 6% voting rights
Total voting rights controlled = 51% $\Rightarrow$ consolidated financial statements are required

Question 2

P plc
Consolidated statement of financial position

		£
Goodwill (see working)		11,000
Non-current assets	(5,000 + 12,000)	17,000
		28,000
Current assets		
Inventories	(4,000 + 6,000)	10,000
Receivables	(3,000 + 4,000)	7,000
Cash & cash equivalents	(1,000 + 2,000)	3,000
		20,000

Total assets		48,000
Equity		
Share capital	(P only)	25,000
Retained earnings	(P only)	14,000
		39,000
Current liabilities	(3,000 + 6,000)	9,000
Total equity and liabilities		48,000

Working
Goodwill on acquisition

	£
Consideration	29,000
S net assets at acquisition at fair value	18,000
Goodwill	11,000

<u>Question 3</u>

P plc
Consolidated statement of financial position

		£
Goodwill (see working)		500
Net assets	(P + S)	3,000
		3,500
Equity share capital	(P only)	2,000
Retained earnings	(P + post-acq. of S)	
	(1,300 + 200)	1,500
		3,500

Working
Goodwill on acquisition

	£
Consideration	1,800
Book value of net assets acquired	
(≡ Capital + reserves at date of acquisition)	
(pre-acquisition reserves)	1,300
Goodwill	500

The post-acquisition retained earnings of £200 become retained earnings of the group, since they are available to group shareholders.

Question 4

Marks Group plc
Consolidated statement of financial position at 31 December 20X4

		£
Goodwill (see working)		2,000
Non-current assets	(P + S)	96,000
		98,000
Current assets	(P + S)	247,000
Total assets		345,000
Equity share capital	(P only)	100,000
Retained earnings	(P + post-acq. of S)	44,000
	(40,000 + 4,000)	144,000
Current liabilities	(P + S)	201,000
Total equity and liabilities		345,000

Working
Goodwill on acquisition

		£
Consideration		17,000
Fair value of net assets at acquisition	(10,000 + 5,000)	15,000
Goodwill on acquisition		2,000

Question 5

Consolidated statement of financial position at 31 March 20X5

	£
Goodwill (W2)	890
Net assets (P + S)	34,350
	35,240
Equity share capital (P only)	30,000
Retained earnings (W3)	1,775
	31,775
Non-controlling interest (W4)	3,465
	35,240

Workings

W1 Shareholding

2,750/5,000 = 55% Subsidiary

W2 Goodwill on acquisition	£
Consideration	4,850
NCI in FV of net assets on acquisition	
(≡ NCI % x (share capital + reserves))	
(45% x (5,000 + 2,200))	3,240
	8,090
Less: FV of net assets at acquisition	(7,200)
Goodwill	890

W3 Consolidated retained earnings	
P accumulated profits	1,500
P's share of post-acq. profits of S	
(55% x (2,700 - 2,200))	275
	1,775

W4 Non-controlling interest	
45% of net assets of S at statement of financial position date	
(45% x £7,700)	3,465

Develop your understanding

Question 6

If all the activities – developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product – are relevant activities, the investors, Ash and Beech both need to determine whether it is able to direct the activities that *most* significantly affect Chestnut's returns. Accordingly, Ash and Beech both need to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that most significantly affects Chestnut's returns and whether it is able to direct that activity. In determining which investor has power, the companies would consider:

(a) the purpose and design of Chestnut;
(b) the factors that determine the profit margin, revenue and value of the investee as well as the value of the medical product;
(c) the effect on Chestnut's returns resulting from each investor's decision-making authority with respect to the factors in (b); and
(d) Ash's and Beech's exposure to variability of returns.

In this particular example, Ash and Beech would also consider:

(e) the uncertainty of, and effort required in, obtaining regulatory approval (considering their record of successfully developing and obtaining regulatory approval of medical products); and
(f) which company controls the medical product once the development phase is successful.

Question 7

In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that Marlow plc would not have the practical ability to direct the relevant activities unilaterally. This is the case even if, in the past, Marlow has been able to direct the relevant activities through a sufficient number of other shareholders voting in the same way as it.

Question 8

(a) Amex plc's option is a substantive right that gives it the current ability to direct the relevant activities of Bimex plc even though the option is not currently exercisable. If another shareholder called a special shareholder meeting, Amex plc would be able to exercise the option before the meeting took place, and it is likely that it would exercise this right, and Amex would then have a majority of votes at the meeting.

(b) In this case, there is a significant financial disincentive to Amex plc exercising its rights. Therefore it is unlikely that its rights would be considered substantive.

Question 9

Smith plc
Consolidated statement of financial position at 31 December 20X8

		£
Non-current assets		
Goodwill (W2)		12,000
Property, plant and equipment (W3)		111,000
		123,000
Current assets	(160,000 + 84,000)	244,000
Total assets		367,000
Equity share capital		100,000
Retained earnings (W4)		72,400
		172,400
Non-controlling interest (W5)		12,600
		185,000
Current liabilities	(135,000 + 47,000)	182,000
Total equity and liabilities		367,000

Workings

W1 Shareholding
120,000/(30,000 x 5) = 80% Subsidiary

W2 Goodwill on acquisition	£
Consideration	60,000
NCI in FV of Jones' net assets on acquisition	
(≡ NCI % x (share capital + reserves + FV adjustment))	
20% x (30,000 + 20,000 + 10,000)	12,000
	72,000
Less: FV of net assets at acquisition	(60,000)
Goodwill	12,000

W3 Property, plant and equipment

Smith	85,000
Jones at book value	18,000
FV adjustment on acquisition	10,000
Additional FV depreciation (1 year x 10,000/5)	(2,000)
	111,000

W4 Consolidated retained earnings

Smith	70,000
Share of Jones' post-acq. profits adjusted for additional FV depreciation	
80% x (25,000 – 20,000 – 2,000)	2,400
	72,400

W5 Non-controlling interest

20% x FV of Jones' net assets at statement of financial position date	
20% x (55,000 + 10,000 – 2,000)	12,600

Question 10

Morecombe plc
Consolidated statement of financial position at 31 December 20X6

		£
Goodwill (W2)		6,000
Sundry net assets	(160,000 + 70,000)	230,000
		236,000
Called up share capital		
Equity share capital		20,000
Preference share capital		100,000
Retained earnings (W3)		92,000
		212,000
Non-controlling interest (W4)		24,000
		236,000

Workings

W1 Shareholdings

Equity shares	8,000/10,000 = 80%	Subsidiary
Preference shares	6,000/20,000 = 30%	

W2 Goodwill on acquisition

		£
Consideration (35,000 + 5,000)		40,000
NCI in FV of Wise's net assets on acquisition		
Equity share capital	10,000	
Retained earnings	25,000	
	35,000 x 20%	7,000
Preference share capital	20,000 x 70%	14,000
		61,000
Less FV of net assets at acquisition (35,000 + 20,000)		(55,000)
Goodwill		6,000

W3 Consolidated retained earnings

Morecombe	80,000
Share of Wise's post-acq. profits	
80% x (40,000 - 25,000)	12,000
	92,000

W4 Non-controlling interest

20% x (Wise's equity S/C + reserves) + 70% x preference S/C at 31 December 20X6	
20% x (10,000 + 40,000) + 70% x 20,000	24,000

Question 11

Ant plc
Consolidated statement of financial position at 30 June 20X8

	£
Non-current assets	
Property, plant and equipment (W2)	410,000
Current assets (270,000 + 186,000)	456,000
Total assets	866,000
Equity	
Equity share capital	200,000
Share premium account	25,000
Retained earnings (W3)	167,400
	392,400
Non-controlling interest (W4)	111,600
	504,000

Current liabilities (225,000 + 137,000)	362,000
Total equity and liabilities	866,000

Workings

W1 Goodwill on acquisition

			£
Consideration			110,000
NCI in FV of Dec's net assets on acquisition			
Equity share capital	90,000		
Share premium	9,000		
Retained earnings	50,000		
FV adjustment	40,000		
	189,000	x 40%	75,600
Preference share capital	40,000	x 80%	32,000
			217,600
Less FV of net assets at acquisition (189,000 + 40,000)			(229,000)
Gain on bargain purchase			(11,400)

Note – at the acquisition date balances on the share premium account (and any other reserves) of the subsidiary are included in the calculation of goodwill arising on the acquisition of the *equity shares*. Any post-acquisition movements on these reserves would form part of the consolidated reserves.

W2 Property, plant and equipment

	£
Ant	220,000
Dec at book value	170,000
FV adjustment on acquisition	40,000
Additional FV depreciation (4 years x 40,000/8)	(20,000)
	410,000

W3 Consolidated retained earnings

Ant	150,000
Gain on bargain purchase	11,400
	161,400
Share of Dec's post-acq. profits adjusted for FV depreciation	
60% x (80,000 – 50,000 – 20,000)	6,000
	167,400

W4 Non-controlling interest

40% x (Dec's equity S/C + reserves + FV adjustment)

Equity share capital	90,000		
Share premium	9,000		
Retained earnings	80,000		
FV adjustment	40,000		
Less: FV depreciation	(20,000)		
	199,000	x 40%	79,600

80% x preference S/C (80% x 40,000)	32,000
	111,600

Question 12

P plc
Consolidated statement of financial position at 31 December 20X3

		£
Goodwill		1,800
Other non-current assets	(90,000 + 38,200 + 31,400)	159,600
Net current assets	(80,500 + 19,200 + 14,600)	114,300
		275,700
Equity share capital		200,000
Retained earnings		29,720
General reserve	(P only)	23,000
		252,720
Non-controlling interest		22,980
		275,700

Workings

W1 Shareholdings

S1	40,000/50,000 = 80%	Subsidiary
S2	27,000/36,000 = 75%	Subsidiary

W2 Goodwill on acquisition
Goodwill is calculated separately for each acquisition.

	£
Consideration S1	49,000
NCI in FV of S1's net assets on acquisition	
≡ 20% x (equity S/C + pre-acq. reserves)	
20% x (50,000 + 3,000 + 6,000)	11,800
	60,800
Less: FV of S1's net assets on acquisition	(59,000)
Goodwill	1,800
Consideration S2	30,500
NCI in FV of S2's net assets on acquisition	
≡ 25% x (equity S/C + pre-acq. reserves)	
25% x (36,000 + 4,800 + 1,800)	10,650
	41,150
Less: FV of S2's net assets on acquisition	(42,600)
Gain on a bargain purchase	(1,450)

Note – the two goodwill figures are not netted off.

W3 Consolidated retained earnings

P	27,000
Gain on bargain purchase (see W2)	1,450
	28,450
Share of S1's post-acq. losses (80% x (1,600))	(1,280)
Share of S2's post-acq. profits (75% x 3,400)	2,550
	29,720

W4 Non-controlling interest

Share of S1's net assets at 31 December 20X3	
≡ 20% x S1's equity S/C + reserves at 31 December 20X3	
20% x 57,400	11,480
Share of S2's net assets at 31 December 20X3	
≡ 25% x S2's equity S/C + reserves at 31 December 20X3	
25% x 46,000	11,500
	22,980

Question 13

P plc
Consolidated statement of financial position at 31 December 20X5

		£
Goodwill		1,600
Other non-current assets	(9,000 + 5,200)	14,200
		15,800
Current assets		
Inventories	(3,100 + 7,200 – 50)	10,250
Receivables	(4,900 + 3,800 – 600)	8,100
Bank	(1,100 + 1,400)	2,500
		20,850
Total assets		36,650
Equity		
Share capital		20,000
Retained earnings		5,150
		25,150
Non-controlling interest		6,200
		31,350
Current liabilities	(3,800 + 2,100 – 600)	5,300
Total equity and liabilities		36,650

Workings

W1 Shareholding
6,000/10,000 = 60% Subsidiary

W2 Goodwill on acquisition	£
Consideration	9,700
NCI in FV of S's net assets on acquisition	
≡ 40% x (equity S/C + pre-acq. reserves)	
40% x (10,000 + 3,500)	5,400
	15,100
Less: FV of S's net assets on acquisition	(13,500)
Goodwill	1,600

W3 Unrealised profit in inventories	
25% x £200	50

W4 Consolidated retained earnings		
P		4,000
Less: unrealised profit in inventories		(50)
Share of S's post-acq. profits	(60% x 2,000)	1,200
		5,150

W5 Non-controlling interest	
40% x S's net assets at 31 December 20X5	
40% x 15,500	6,200

Question 14

Seneley group
Consolidated statement of financial position at 30 September 20X6

		£000
Non-current assets		
Goodwill (W3)		58
Other non-current assets	(225 + 300 + 220)	745
		803
Current assets		
Inventories	(225 + 150 + 45 – 3 (W2))	417
Receivables	(240 + 180 + 50 – 50 (W6))	420
Cash and cash equivalents	(50 + 10 + 5)	65
		902
Total assets		1,705
Equity		
Share capital		800
Retained earnings (W4)		290.6
		1,090.6

Non-controlling interest (W5)		184.4
Total equity		1,275
Current liabilities	(320 + 90 + 70 – 50 (W6))	430
Total equity and liabilities		1,705

Workings

1. % shareholdings

Lowe	320,000/400,000	=	80% Subsidiary
Wright	140,000/200,000	=	70% Subsidiary

2. Unrealised profit in inventories

	£000
Profit made by Lowe (a subsidiary) ½ x 40% x 15	3

Upstream sale – Lowe's non-controlling interest are charged with 20% of this

3. Goodwill on acquisition

Note – separate calculations for each acquisition

	£000
Lowe - Consideration	450
Non-controlling interest at acquisition	
≡ 20% x (equity S/C + pre-acq. reserves)	
20% x (400 + 90)	98
	548
Less: Net assets at acquisition	(490)
Goodwill	58
Wright – Consideration	130
Non-controlling interest at acquisition	
≡ 30% x (equity S/C + pre-acq. reserves)	
30% x (200 + 60)	78
	208
Less: Net assets at acquisition	(260)
Gain on bargain purchase *	(52)

* take to statement of profit or loss (i.e. consolidated retained earnings)

4. Consolidated retained earnings

Seneley's retained earnings	200
Add: Gain on bargain purchase credit	52
Share of Lowe's post-acq. profits (adjusted for unrealised profit in inventories)	
80% x (150 – 90 – 3)	45.6
Share of Wright's post-acq. losses	
70% x (50 – 60)	(7)
	290.6

5. Non-controlling interest

20% x Lowe's equity S/C + reserves at 30 September 20X6 (adjusted for unrealised profit in inventories)	
(20% x (550 – 3))	109.4
30% x Wright's equity S/C + reserves	
(30% x 250)	75
	184.4

6. Intra-group balances	Receivables	Payables
Seneley	20,000	5,000
Lowe	25,000	20,000
Wright	5,000	25,000
	50,000	50,000

Eliminate £50,000 in total from consolidated receivables/payables

Take it further

Question 15

B plc
Consolidated statement of financial position at 30 November 20X4

		£
Non-current assets		
Goodwill (W2)		3,000
Property, plant & equipment (W3)		177,660
		180,660
Current assets		
Inventory	(17,000 + 13,390 – 2,000 (W5))	28,390
Receivables	(10,000 + 11,000 – 2,500)	18,500
Bank		2,000
		48,890
Total assets		229,550
Equity		
Share capital		100,000
Retained earnings (W6)		85,640
		185,640
Non-controlling interest (W7)		16,410
Total equity		201,050
Current liabilities		
Bank overdraft	(3,000 – 2,500 cash-in-transit)	500
Payables	(20,000 + 7,000)	27,000

	27,500
Total equity and liabilities	229,550

Workings

1. % shareholding
A has 50,000 x 5 = 250,000 shares
B acquired 200,000/250,000 = 80% Subsidiary

2. Goodwill on acquisition

	£
Consideration	63,000
Non-controlling interest at acquisition at fair value	
≡ 20% x (equity S/C + pre-acq. reserves + fair value adjustment)	
20% x (50,000 + 15,000 + 5,000)	14,000
	77,000
Less: Net assets at acquisition at fair value	70,000
Goodwill on acquisition	7,000
Impairment at 31 November 20X4	(4,000)
	3,000

3. Consolidated property, plant & equipment

B	108,000
A per statement of financial position	65,610
Adjustment for fair value at acquisition	5,000
Less: additional depreciation (W4)	(950)
	69,660
	177,660

4. Additional depreciation on revalued assets

Revaluation adjustment (86,000 - 81,000)	5,000
Additional depreciation 20X3 10% x 5,000	500
Additional depreciation 20X4 10% x 4,500	450
	950

5. Unrealised profit in inventories
Selling price of goods = 30,000
Profit given mark-up of 25% = 25/125 x 30,000 = 6,000
Unrealised profit in closing inventory = $^{1}/_{3}$ x 6,000 2,000

Profit made was in subsidiary A – since upstream sale.
A's non-controlling interest of 20% is charged with 20% x 2,000
Consolidated retained earnings are charged with 80% x 2,000

6. Consolidated retained earnings

B's retained earnings	80,000
Goodwill impairment	(4,000)
Share of A's post-acq. profits (adjusted for additional depreciation and provision for unrealised profit in inventories)	
80% x (30,000 - 15,000 – 950 – 2,000)	9,640
	85,640

7. Non-controlling interest

20% x A's equity S/C + reserves (adjusted for fair values and provision for unrealised profit in inventories)	
20% x (80,000 + 5,000 – 950 – 2,000)	16,410

Question 16

Brodick plc
Consolidated statement of profit or loss for the year ended 30 April 20X7

		£000
Revenue	(1,100 + 500 + 130 – 50)	1,680
Cost of sales	(630 + 300 + 70 – 50 + 3)	953
Gross profit		727
Administrative expenses (W4)		290
Profit before tax		437
Tax	(65 + 10 + 20)	95
Profit after tax		342
Attributable to:		
Owners of Brodick (balancing figure)		330.6
Non-controlling interest (W5)		11.4
Profit for the financial year		342

Consolidated statement of changes in equity for the year ended 30 April 20X7

	Share capital	*Retained earnings*	*NCI*	*Total*
	£000	£000	£000	£000
At 1st May 20X6	5,000	452 (W6)	337.2 (W7)	5,789.2
Profit for year		330.6	11.4	342
Dividends paid		(200)	(10) (W8)	(210)
At 30th April 20X7	5,000	582.6 (W9)	338.6 (W10)	5,921.2

Workings

W1 Shareholdings

Lamlash	800,000 / 1,000,000 =	80%
Corrie	240,000 / 400,000 =	60%

W2 Investment income check

		£000
Lamlash	80% x 30	24
Corrie	60% x 10	6
Investment income in Brodick		30

W3 Unrealised profit in inventories

¼ x 40,000 x 30%	3

This profit is in Lamlash – Lamlash's non-controlling interest will need to be charged with its share.

W4 Administrative expenses

	£000
Brodick	105
Lamlash	150
Corrie	20
Additional depreciation from fair value adjustment (10 + 5)	15
	290

W5 Non-controlling interest

Lamlash	PAT		40	
	Unrealised profit in inventory		(3)	
	Additional depreciation		(10)	
		20% x	27	5.4
Corrie	PAT		20	
	Additional depreciation		(5)	
		40% x	15	6
				11.4

W6 Retained earnings at start of year

Brodick				460
+ share of subsidiaries' post-acq. profits adjusted for additional depreciation				
Lamlash	(106 – 56)		50	
Additional depreciation	(6 x 10)		(60)	
		80% x	(10)	(8)
Corrie	(30 – 20)		10	
Additional depreciation	(2 x 5)		(10)	
		60% x	-	-
				452

W7 Non-controlling interest at start of year

Lamlash	Share capital	1,000	
	Retained earnings	106	
	FV adjustment	100	
	Additional depreciation (6 x 10)	(60)	
		20% x 1,146	229.2
Corrie	Share capital	200	
	Retained earnings	30	
	FV adjustment	50	
	Additional depreciation (2 x 5)	(10)	
		40% x 270	108
			337.2

W8 Non-controlling interest dividends

Lamlash	20% x 30,000	6
Corrie	40% x 10,000	4
		10

[Note – in an exam you would NOT be expected to produce the following proofs – just add the columns in the statement of changes in equity to give closing balances and, if necessary, transfer these balances into the consolidated statement of financial position. They are given here for completeness.

W9 Proof of retained earnings at end of year

Brodick			590
+ share of subsidiaries' post-acq. profits adjusted for additional depreciation and PUP in inventory			
Lamlash	((106 + 40 – 30) – 56)	60	
Unrealised profit in inventories		(3)	
Additional depreciation	(7 x 10)	(70)	
		80% x (13)	(10.4)
Corrie	(40 – 20)	20	
Additional depreciation	(3 x 5)	(15)	
		60% x 5	3
			582.6

W10 Proof of non-controlling interest at end of year

Lamlash	Share capital	1,000
	Retained earnings	
	(RE b/f + PAT – divi paid – PUP)	
	(106 + 40 – 30 – 3)	113
	FV adjustment	100
	Additional depreciation (7 x 10)	(70)

		20% x 1,143	228.6
Corrie	Share capital	200	
	Retained earnings		
	(RE b/f + PAT – divi paid)		
	(30 + 20 – 10)	40	
	FV adjustment	50	
	Additional depreciation (3 x 5)	(15)	
		40% x 275	110
			338.6]

Question 17

Norbreck plc
Consolidated statement of comprehensive income for the year ended 30 September 20X7

		£000
Revenue	(1,700 + 450 - 50)	2,100
Cost of sales	(920 + 75 - 50 + 2(W4))	947
Gross profit		1,153
Administrative expenses	(300 + 175 + deprn. 15 + goodwill impairment loss 8)	498
Profit before tax		655
Tax	(30 + 20)	50
Profit after tax		605
Attributable to:		
Owners of Norbreck		572.4
Non-controlling interest	(W6)	32.6
		605

Norbreck plc
Consolidated statement of changes in equity for the year ended 30 September 20X7

	Share capital	*Retained earnings*	*NCI*	*Total*
	£000	£000	£000	£000
At 1 Oct 20X6	900	336 (W7)	122 (W8)	1,358
Profit for year		572.4	32.6	605
Dividends paid		(90)	(10)	(100)
At 30 Sep 20X7	900	818.4 (W9)	144.6 (W10)	1,863

Norbreck plc
Consolidated statement of financial position at 30 September 20X7

		£000
Non-current assets		
Property, plant & equipment (W3)		1,825
Goodwill (W2)		20
		1,845
Current assets		
Inventories	(300 + 250 – 2)	548
Receivables	(200 + 150)	350
Cash & cash equivalents		70
		968
Total assets		2,813
Equity		
Called up share capital		900
Retained earnings (W9)		818.4
		1,718.4
Non-controlling interest (W10)		144.6
		1,863
Current liabilities		
Trade payables		240
Other creditors		230
		470
Provisions for liabilities and charges		480
		950
Total equity and liabilities		2,813

Workings

1. Shareholding

Bispham 320,000 / 400,000 = 80%

2. Goodwill

Consideration			500
Non-controlling interest at acquisition			
20% x Bispham's share capital		400	
Pre-acq. retained earnings		40	
Fair value adjustment		150	
	20% x	590	118
			618
Less: Net assets at acquisition			590

Goodwill on acquisition	28
Impairment loss	(8)
	20

3. Property, plant & equipment

Norbreck		1,280
Bispham		440
Fair value adjustment		150
Less: additional depreciation	(3 x 15)	(45)
		1,825

4. Unrealised profit in inventories

25/125 x 50,000 x $^1/_5$ 2

This profit is in Bispham – Bispham's non-controlling interest will need to be charged with its share.

5. Investment income check

80% x Bispham's dividend

80% x 50,000 = 40,000 = Investment income in Norbreck

6. Non-controlling interest (Inc. St.)

Bispham profit after tax		180	
Unrealised profit in inventory		(2)	
Additional depreciation		(15)	
	20% x	163	32.6

7. Consolidated retained earnings at start of year

Norbreck			320
Share of post-acq. profits of Bispham			
90 – 40		50	
Additional FV depreciation (2 x 15)		(30)	
	80% x	20	16
			336

8. Non-controlling interest at start of year

20% x Bispham's share capital		400	
Retained earnings		90	
Fair value adjustment		150	
Additional depreciation (2 x 15)		(30)	
	20% x	610	122

[Proof of closing balances (not required in exam questions):

9. Consolidated retained earnings at end of year (SoFP)

Norbreck			720
Less: goodwill impairment loss			(8)
			712
Share of post-acq. profits of Bispham			
120 – 40		180	
Unrealised profit in inventory		(2)	
Additional FV depreciation (3 x 15)		(45)	
	80% x	133	106.4
			818.4

10. Non-controlling interest at end of year (SoFP)

Net assets		620	
Fair value adjustment		150	
Additional FV depreciation (3 x 15)		(45)	
Unrealised profit in inventory		(2)	
	20 % x	723	144.6 **]**

Question 18

Old plc
Consolidated statement of profit or loss for the year ended 30 April 20X6

		£000
Revenue	(1,250 + 875 + 487.5 – 150)	2,462.5
Cost of sales	(760 + 570 + 352.5 – 150 + 1 (W3))	1,533.5
Gross profit		929
Distribution expenses	(125 + 85 + 45)	(255)
Administrative expenses	(28 + 40 + 54)	(122)
Profit before tax		552
Tax	(125 + 75 + 15)	215
Profit for the year		337

Attributable to:	
Shareholders of Old plc (balancing figure)	328.6
Non-controlling interest (W4)	8.4
Profit for the financial year	337

Old plc
Consolidated statement of changes in equity for the year ended 30 April 20X6
Consolidated retained earnings

		£000
Balance at 1 May 20X5 (W5)		64
Profit for year		328.6
Dividends paid	(45 + 68)	(113)
Balance at 30 April 20X6 (W6)		279.6

Workings

W1 Shareholdings

In Field	100% owned for whole year
In Lodge Ltd	120/200 = 60% purchased 3 months after start of year i.e. $^{9}/_{12}$ of profits of Lodge included in consolidated income statement

W2 Lodge Ltd

	£000	£000
Revenue	650 x $^{9}/_{12}$	487.5
Cost of sales	470 x $^{9}/_{12}$	352.5
Distribution expenses	(60) x $^{9}/_{12}$	(45)
Administrative expenses	(72) x $^{9}/_{12}$	(54)
Tax	(20) x $^{9}/_{12}$	(15)

W3 Unrealised profit in inventories

Opening inventory in Old	0.25 x 36,000	9
Closing inventory in Old	0.25 x 40,000	10
		1

Profit made by Field. Note – no non-controlling interest in Field.

W4 Non-controlling interest

40% of $^{9}/_{12}$ of profits after tax of Lodge	40% x 21,000	8.4

W5 Retained earnings at start of year

Old plc		30
Field Ltd.	100% x (40 – 6)	34
		64

(No post-acquisition profits of Lodge at the start of the year)

W6 Retained earnings at end of year – proof

Old	217
Provision for unrealised profits in inventories	(1)
Field Ltd. 100% x (66 – 6)	60
Lodge Ltd. 60% x (48 – 42 (W7))	3.6
	279.6

W7 Lodge retained earnings on acquisition

Year's profit after tax (after 3 months)	$^{3}/_{12}$ x 28	7
20X5 final dividend paid		(15)
		(8)
Retained earnings brought forward		50
		42

Question 19

Gold plc
Consolidated statement of profit or loss for the year ended 31 December 20X8

		£000
Revenue	(4,250 + 900 – 200 Mgt charge)	4,950
Cost of sales	(2,300 + 150)	2,450
Gross profit		2,500
Administrative expenses (W3)		(985.1)
Profit before tax		1,514.9
Tax	(275 + 40)	(315)
Profit for year		1,199.9
Attributable to:		
Shareholders in Gold plc (balancing figure)		1,124.84
Non-controlling interest (W4)		75.06
		1,199.9

Gold plc
Consolidated statement of changes in equity for the year ended 31 December 20X8

	Equity share capital	*Retained earnings*	*NCI*	*Total*
	£000	£000	£000	£000
At 1 Jan 20X8	2,250	249.6 (W5)	219.8 (W6)	2,719.4
Profit for year		1,124.84	75.06	1,199.9
Dividends paid		(270)	(50) (W7)	(320)
At 31 Dec 20X8	2,250	1,104.44 (W10)	244.86 (W11)	3,599.3

Gold plc
Consolidated statement of financial position at 31 December 20X8

		£000
Non-current assets		
Property, plant & equipment (W9)		4,214.3
Goodwill (W8)		300
		4,514.3
Current assets		
Inventories	(750 + 500)	1,250
Receivables	(500 + 300 – 50)	750
Cash & cash equivalents	(100 + 60)	160
		2,160
Total assets		6,674.3
Equity		
Equity share capital		2,250
Retained earnings		1,104.44
		3,354.44
Non-controlling interest		244.86
		3,599.3
Current liabilities		
Trade payables	(1,075 + 320 – 50)	1,345
Other payables	(200 + 340)	540
		1,885
Provisions for liabilities and charges	(1,150 + 40)	1,190
Total equity and liabilities		6,674.3

Workings

W1 Shareholdings

Equity shares	560,000/700,000 = 80%	Subsidiary
Preference shares	150,000/200,000 = 75%	

W2 Gold investment income check		£000	
From Silver:			
Equity dividend	(80% x 100)	80	
Preference dividend	(75% x 120)	90	
Investment income in Gold's statement of profit or loss			170

i.e. No other investment income from outside the group

W3 Administrative expenses

Gold	750
Silver	350
Less: Management charge	(200)
Add: FV depreciation (W9)	14.7
Add: Goodwill impairment (W8)	70.4
	985.1

W4 Non-controlling interest (SoPL)

Silver PAT		360	
Additional depreciation from fair value adjustment		(14.7)	
		345.3	
Less: preference dividend (in full)		(120)	
	20% x	225.3	45.06
Add: preference dividend paid to non-controlling preference shareholders	25% x	120	30
			75.06

W5 Consolidated retained earnings at start of year

Gold			300
Share of post-acq. losses of Silver			
100 – 112		(12)	
Additional depreciation (W9)		(51)	
	80% x	(63)	(50.4)
			249.6

W6 Non-controlling interest at start of year

Equity share capital		700	
Retained earnings		100	
Fair value adjustment		100	
Additional depreciation (W9)		(51)	
	20% x	849	169.8
Preference share capital	25% x	200	50
			219.8

W7 Dividends paid to NCI

Equity dividend	(20% x 100)	20
Preference dividend	(25% x 120)	30
		50

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W8 Goodwill on acquisition

Consideration			1,250
Non-controlling interest in FV of Silver's net assets at acquisition			
Equity share capital		700	
Retained earnings		112	
Fair value adjustment		100	
	20% x	912	182.4
Preference share capital	25% x	200	50
			1,482.4
Less: Net assets at acquisition			(1,112)
Goodwill on acquisition			370.4
Impairment loss			(70.4)
Goodwill at 31 December 20X8			300

W9 Property, plant & equipment

Gold	3,200
Silver	980
Fair value adjustment	100
Less: additional depreciation (see below)	(65.7)
	4,214.3

Additional depreciation from fair value adjustment of Silver's PPE

(NB – reducing balance method)

1 Jan 20X6 fair value adjustment	100
Additional depreciation y/e 31 Dec 20X6	30
	70
Additional depreciation y/e 31 Dec 20X7	21
	49
Additional depreciation y/e 31 Dec 20X8	14.7
	34.3

[Proof of closing balances:

W10 Consolidated retained earnings at end of year

Gold			1,125
Less: goodwill impairment loss			(70.4)
			1,054.6
Share of post-acq. profits of Silver			
240 - 112		128	
Additional depreciation		(65.7)	
	80% x	62.3	49.84
			1,104.44

W11 Non-controlling interest at end of year

Equity share capital		700	
Retained earnings		240	
Fair value adjustment		100	
Additional depreciation		(65.7)	
	20% x	974.3	194.86
Preference share capital	25% x	200	50
			244.86]