

CHAPTER 21

Preparation of consolidated statements of financial position after the date of acquisition

21.1 Introduction

The main purpose of this chapter is to prepare consolidated financial statements after a period of trading.

Objectives

By the end of this chapter, you should be able to:

- account for the post-acquisition profits of a subsidiary;
- eliminate inter-company balances and deal with reconciling items;
- account for unrealised profits on inter-company transactions.

21.2 Pre- and post-acquisition profits/losses

Pre-acquisition profits

Any profits or losses of a subsidiary made **before** the date of acquisition are referred to as **pre-acquisition profits/losses** in the consolidated financial statements. These are represented by net assets that exist in the subsidiary as at the date of acquisition and, as we have seen in Chapter 20, the fair values of these net assets will be dealt with in the goodwill calculation.

Post-acquisition profits

Any profits or losses made **after** the date of acquisition are referred to as **post-acquisition profits**. Because these will have arisen whilst the subsidiary was under the control of the parent company, they will be included in the group consolidated statement of comprehensive income and so will appear in the retained earnings figure in the statement of financial position. The following example for the Bend Group illustrates the approach to dealing with the pre- and post-acquisition profits.

EXAMPLE ● THE BEND GROUP illustrating the treatment of pre- and post-acquisition profits

1 January 20X1

Bend plc acquired 80% of the 10,000 £1 common shares in Stretch plc for £1.50 per share in cash and so gained control.

- Investment in the subsidiary cost £12,000.
- The retained earnings of Stretch plc were £4,000.
- The fair value of the non-controlling interest at the date of acquisition was £2,950.

Note that the retained earnings are required for the goodwill calculation. We will use method 2 to compute the non-controlling interest.

- The fair value of the non-current assets in Stretch plc was £600 above book value. The fair value of the subsidiary's assets are required for the consolidated statement of financial position. In the subsidiary's own accounts the assets may be left at book values or restated at their fair values. If revalued, they will then become subject to the requirements of IAS 16 *Property, Plant and Equipment*¹ which states that revaluations should be made with sufficient regularity that the statement of financial position figure is not materially different from the fair value at that date. This is one reason why the fair value adjustment is usually treated simply as a consolidation adjustment each year.

At 31 December 20X1

The closing statements of financial position of Bend plc and Stretch plc together with the group accounts were as follows:

	<i>Bend</i> £	<i>Stretch</i> £	<i>Group</i> £	
ASSETS				
Non-current assets	26,000	12,000	38,600	Note 3
Goodwill	—	—	350	Note 1
Investment in Stretch	12,000	—	—	
Net current assets	<u>13,000</u>	<u>4,000</u>	<u>17,000</u>	Note 3
Net assets	<u>51,000</u>	<u>16,000</u>	<u>55,950</u>	
EQUITY				
Share capital	16,000	10,000	16,000	Note 4
Retained earnings	<u>35,000</u>	<u>6,000</u>	<u>36,600</u>	Note 4
	51,000	16,000	52,600	
Non-controlling interest	—	—	3,350	Note 2
	<u>51,000</u>	<u>16,000</u>	<u>55,950</u>	

Note 1. Goodwill calculated as at 1 January 20X1

The cost of the parent company's investment in Stretch	£	£
		12,000
<i>Less:</i>		
(a) Share capital		
the parent's share of the subsidiary's share capital:		
80% × share capital of Stretch	(80% × 10,000) =	8,000
(b) Pre-acquisition profit		
the parent's share of the subsidiary's retained earnings:		
80% × retained earnings at 1 January 20X1	(80% × 4,000) =	3,200

(c) Fair value adjustment	
the parent's share of any change in the book values:	
80% × revaluation of fixed assets at 1 January 20X1 (80% × 600)	= 480
	<u>11,680</u>
Goodwill attributable to the parent company shareholders	<u>320</u>
	£
Fair value of non-controlling interest at date of acquisition	2,950
20% of net assets at date of acquisition (10,000 + 4,000 + 600)	(2,920)
Goodwill attributable to the non-controlling interest	<u>30</u>
Total goodwill (£320 + £30)	<u>350</u>

Note 2. Non-controlling interest in the net assets of subsidiary calculated as at 31 December 20X1

	£
(a) Subsidiary share capital	
Non-controlling interest in the share capital of Stretch (20% × 10,000) =	2,000
(b) Total retained earnings as at 31 December 20X1	
Non-controlling interest in the retained earnings of Stretch (20% × 6,000) =	1,200
(c) Fair value adjustment of subsidiary's fixed assets	
Non-controlling interest in any revaluation reserve (20% × 600) =	<u>120</u>
Statement of financial position figure for non-controlling interest in the net assets of Stretch as at 31.12.20X1	<u>3,320</u>
Non-controlling interest in goodwill	<u>30</u>
	<u>3,350</u>

Note 3. Add together the assets and liabilities of the parent and subsidiary for the group accounts

	<i>Parent</i>		<i>Subsidiary</i>	<i>Group</i>
	£		£	£
Non-current other than goodwill	26,000	+	(12,000 + Revaluation 600)	38,600
Goodwill			as calculated in Note 1	350
Net current assets	13,000	+	4,000	<u>17,000</u>
Total				<u>55,950</u>

Note 4. Calculate the consolidated share capital and reserves for the group accounts

		£	£
Share capital (parent company only)			16,000
Reserves:			
Retained earnings (parent company)		35,000	
Parent's share of the post-acquisition retained profit of the subsidiary			
80% of (accumulated profit at 31.12.20X1 less accumulated profit at 1.1.20X1)		<u>1,600</u>	
Total shareholders' interest			<u>52,600</u>

Notes:

- 1 The £4,000 pre-acquisition retained profit of the subsidiary is needed to calculate the goodwill.
- 2 The non-controlling shareholders are entitled to their percentage share of the closing net assets. The pre-acquisition and post-acquisition division is irrelevant to the minority – they are entitled to their percentage share of the total retained earnings at the date the consolidated statement of financial position is prepared.

21.3 Inter-company balances

We have seen above that we set off the parent's investment in a subsidiary against the parent's share of the subsidiary's share capital and reserves (retained earnings plus/minus revaluation changes) as at the date of acquisition.

However, there are likely to be other balances in the statements of financial position of both the parent and the subsidiary company arising from inter-company (also referred to as intra-group) transactions. These will require adjustment in order that the group accounts do not double count assets and/or liabilities. These are normally referred to as consolidation adjustments and would be authorised as consolidation journal entries by a responsible officer such as the finance director. The following are examples of intra-group or inter-company transactions which we will now consider:

- preferred shares held by a parent in its subsidiary;
- bonds held by a parent in its subsidiary;
- inter-company balances arising from inter-company sales or other transactions such as inter-company loans;
- inter-company dividends payable/receivable.

These are discussed below in relation to preparation of the consolidated statement of financial position and are included in the comprehensive example, the Prose Group, below. Their significance as far as the group income is concerned will be explained when we refer to the preparation of the annual statement of comprehensive income in the next chapter.

21.3.1 Preferred shares

A parent company, in addition to the common shares by which it gained control, may have acquired preferred shares in the subsidiary. If so, any amount paid by the parent company will be included within the investment in subsidiary figure that appears in the parent company's statement of financial position. Just as the common shares represent part of the net assets acquired, so the parent's share of the preferred shares in the subsidiary's statement of financial position will represent part of the net assets acquired and will be included in the calculation of goodwill.

Any preferred shares not held by the parent are part of the non-controlling interest – this applies even though the parent might itself hold less than 50% of the preferred shares – it is not necessary for the parent to hold a majority of the preferred shares.

Where preferred shares are recognised as liabilities of the subsidiary under IAS 32 *Financial Instruments: Presentation and Disclosure*, they are accounted for in the same way as bonds. On consolidation, the preferred shares purchased by the parent and included in the cost of investment will be cancelled out against the liability of the subsidiary.

21.3.2 Bonds

As with the preferred shares, any bonds in the subsidiary's statement of financial position that have been acquired by the parent will represent part of the net assets acquired and will be included in the calculation of goodwill.

However, the amount of bonds not held by the parent will not be part of the non-controlling interest as they do not bestow any rights of ownership on shareholders. They are, effectively, a form of long-term loan, and will be shown as such in the consolidated statement of financial position.

21.3.3 Inter-company balances arising from sales or other transactions

IAS 27 requires inter-company balances to be eliminated in full.²

Eliminating inter-company balances

If entries in the parent's records and the subsidiary's records are up to date, the same figure will appear as a balance in the current assets of one company and in the current liabilities of the other. For example, if the parent company has supplied goods invoiced at £1,500 to its subsidiary, there will be a receivable for £1,500 in the parent statement of financial position and a payable for £1,500 in the subsidiary's statement of financial position. These need to be cancelled, i.e. eliminated, before preparing the consolidated accounts. In accounting terminology, this would be described as offsetting.

Reconciling inter-company balances

In practice, temporary differences may arise for such items as inventory or cash in transit that are recorded in one company's books but of which the other company is not yet aware, e.g. goods or cash in transit. In such a case the records will require reconciling and updating before proceeding. In a multinational company, this can be an extremely time-consuming exercise.

The following is an extract from the Sanitec International S.A. 2004 financial statements:

All significant inter-company balances and transactions have been eliminated in consolidation.

21.3.4 Inter-company dividends payable/receivable

If the subsidiary company has declared a dividend before the year-end, this will appear in the current liabilities of the subsidiary company and in the current assets of the parent company and must be cancelled before preparing the consolidated statement of financial position. If the subsidiary is wholly owned by the parent the whole amount will be cancelled. If, however, there is a non-controlling interest in the subsidiary, the non-cancelled amount of the dividend payable in the subsidiary's statement of financial position will be the amount payable to the non-controlling interest and will be reported as part of the non-controlling interest in the consolidated statement of financial position. Where a dividend has not been declared by the year-end date there is no liability under IAS 10 *Events After the Balance Sheet Date* and there should, therefore, be no liability reported under International Accounting Standards.

21.4 Unrealised profit on inter-company sales

Where sales have been made between two companies within the group, there may be an element of profit that has not been realised by the group if the goods have not then been sold on to a third party before the year-end. We will illustrate with the Many Group which consists of a parent, Many plc, and a subsidiary, Few plc.

Intra-group sales realised by sale to a third party (not a group member)

Assume, for example, that Many plc buys £1,000 worth of goods for resale and sells them to Few plc for £1,500, making a profit of £500. At the date of the statement of financial position, if Few plc still has these goods in inventory, the group has not yet made any profit

on these goods and the £500 is therefore said to be ‘unrealised’. It must be removed from the consolidated statement of financial position by:

- reducing the retained earnings of Many by £500;
- reducing the inventories of Few by £500.

The £500 is called a provision for unrealised profit.

If these goods are eventually sold by Few to customers outside the group for £1,800, the profit made by the group will be £800, the difference between the original cost of the goods to Many, £1,000, and the eventual sales price of £1,800. It follows from this that it is only necessary to provide for an unrealised profit from intra-group sales to the extent that the goods are still in the inventories of the group at the statement of financial position date.

The following extract from the 1999 accounts of Bayer Schering Pharma AG is an example of consolidation policy:

Inter-company profits and losses, sales, income and expenses, receivables and liabilities between companies included in the consolidation have been eliminated.

The comprehensive example below for the Prose Group incorporates the main points dealt with so far on the preparation of a consolidated statement of financial position.

EXAMPLE ● THE PROSE GROUP

On 1 January 20X1 Prose plc acquired 80% of the equity shares in Verse plc for £21,100, 20% of the preferred shares for £2,000 and 10% of the bonds for £900, and gained control. The retained earnings as at 1 January 20X1 were £4,000. The fair value of the land in Verse was £1,000 above book value. During the year Prose sold some of its inventory to Verse for £3,000, which represented cost plus a mark-up of 25%. Half of these goods are still in the inventory of Verse at 31/12/20X1. Prepare a consolidated statement of financial position as at 31 December 20X1. Note that depreciation is not charged on land. Method 1 is used to compute the non-controlling interest.

Note: Just as in the Bend plc example above, it is helpful to structure the information before preparing your consolidation, as follows:

1 January 20X1 – the date of acquisition

- Prose acquired 80% of the equity shares for £21,100 for cash and so gained control.
- Prose acquired 20% of the preferred shares in Verse for £2,000.
- Prose acquired 10% of the bonds in Verse for £900.
- The total cost of the investment is therefore £24,000.
- The retained earnings in Verse were £4,000, i.e. this is the pre-acquisition profit of which 80% will be included in the goodwill calculation.
- The fair value of the non-current assets in Verse was £1,000 above book value, i.e. the non-current assets of the subsidiary will be increased in the consolidated statement of financial position.

During 20X1

- Prose sold some of its inventory to Verse for £3,000, which represented cost plus a mark-up of 25%.

At 31 December 20X1

- Half of the goods sold by Prose were still in the inventory of Verse, i.e. there is unrealised profit, and both the consolidated gross profit and inventories in the consolidated statement of financial position will need to be reduced by the amount unrealised.
- The closing statements of financial position of Prose and Verse at 31 December 20X1 together with the group accounts were as follows:

	<i>Prose</i>	<i>Verse</i>	<i>Group</i>	
	£	£	£	
ASSETS				
<i>Non-current assets</i>				
(including land)	25,920	43,400	70,320	Note 4
Goodwill	—	—	8,900	Note 1
Investment in Verse	24,000	—	—	Note 1
<i>Current assets</i>				
Inventories	9,600	4,000	13,300	Note 4
Verse current account	8,000			Note 2(bi)
Bond interest receivable	35			Note 2(bii)
Other current assets	<u>1,965</u>	<u>3,350</u>	<u>5,315</u>	Note 4
Total assets	<u>69,520</u>	<u>50,750</u>	<u>97,835</u>	
EQUITY and LIABILITIES				
Equity share capital	24,000	11,000	24,000	Note 5
Preferred shares	4,000	8,000	4,000	Note 5
Retained earnings	<u>30,000</u>	<u>8,500</u>	<u>33,300</u>	Note 5
	58,000	27,500	61,300	
Non-controlling interest	—	—	10,500	Note 3
<i>Non-current liabilities</i>				
Bonds	5,000	7,000	11,300	Note 6
<i>Current liabilities</i>				
Prose current account		8,000		
Bond interest payable		350	315	Note 2(bii)
Other current liabilities	<u>6,520</u>	<u>7,900</u>	<u>14,420</u>	Note 4
	<u>69,520</u>	<u>50,750</u>	<u>97,835</u>	

Note 1. Calculation of goodwill (note that this calculation will be the same as when calculated at the date of acquisition)

	£	£
The cost of the parent company's investment for common shares, additional paid in capital, preferred shares and bonds		24,000
<i>Less:</i>		
(a i) parent's share of the subsidiary's equity share capital:		
80% × common shares of Verse	(80% × 11,000)	= 8,800
(a ii) parent's share of the subsidiary's retained earnings:		
80% × retained earnings balance at		
1 January 20X1	(80% × 4,000)	= 3,200

(a iii) parent's share of any change in subsidiary's book values:			
	80% × revaluation of land at 1 January 20X1	(80% × 1,000)	= 800
(a iv) parent's share of preferred shares:			
	20% × preferred shares of Verse	(20% × 8,000)	= 1,600
(a v) parent's share of bonds:			
	10% × bonds of Verse	(10% × 7,000)	= 700
			<u>15,100</u>
(a vi) Goodwill in statement of financial position			<u><u>8,900</u></u>

Note 2. Inter-company adjustments

- (b i) The current accounts of £8,000 between the two companies are cancelled.
Note that the accounts are equal which indicates that there are no items such as goods in transit or cash in transit which would have required a reconciliation.
- (b ii) The bond interest receivable by Prose is cancelled with £35 (10% of £350) of the bond interest payable by Verse leaving £315 (90% of £350) payable to outsiders. This is not part of the non-controlling interest as bond holders have no ownership rights in the company.
- (b iii) Provision for unrealised profit on the inventory of Verse
- The mark-up on the inter-company sales was $£3,000 \times \frac{25}{125} = £600$
- Half the goods are still in inventories at the statement of financial position date so provide $\frac{1}{2} \times £600$ for the unrealised profit = **£300**

Note 3. Calculation of non-controlling interest as at 31/12/20X1

Note that:

- the non-controlling interest is calculated as at the year-end while goodwill is calculated at the date of acquisition.

			£
(c i) Subsidiary share capital			
	Non-controlling interest in the equity shares of Verse	(20% × 11,000)	= 2,200
(c ii) Total retained earnings as at 31 December 20X1			
	Non-controlling interest in the retained earnings of Verse	(20% × 8,500)	= 1,700
(c iii) Fair value adjustment of subsidiary's non-current assets			
	Non-controlling interest in the revaluation of land	(20% × 1,000)	= 200
(c iv) Subsidiary preferred shares			
	Non-controlling interest in the preferred shares of Verse	(80% × 8,000)	= 6,400
	Statement of financial position figure		<u><u>10,500</u></u>

Note 4. Add together the following assets and liabilities of the parent and subsidiary for the group accounts

	<i>Parent</i>	<i>Subsidiary</i>	£
Non-current assets other than goodwill	25,920	+ (43,400 + revaluation 1,000)	= <u>70,320</u>
Inventories	9,600	+ (4,000 – provision for unrealised profit 300)	= <u>13,300</u>
Other current assets	1,965	+ 3,350	= <u>5,315</u>
Other current liabilities	6,520	+ 7,900	= <u>14,420</u>

Note 5. Calculate the consolidated share capital and reserves for the group accounts

Share capital:			£	£
Equity share capital	(parent company's only)			<u>24,000</u>
Preferred shares	(parent company's only)			<u>4,000</u>
Retained earnings	(parent company's)	=	30,000	
Less: Provision for unrealised profit			<u>(300)</u>	
				29,700
Parent's share of the post-acquisition profit of the subsidiary				
80% × 8,500			6,800	
Less: 80% of pre-acquisition profits	(80% × 4,000)		<u>(3,200)</u>	
				<u>3,600</u>
Retained earnings in the consolidated statement of financial position				<u>33,300</u>

Note 6. Bonds

Bonds	<i>Parent</i>	+	<i>Subsidiary</i>	=	£
	5,000		(7,000 – inter-company 700)		<u>11,300</u>

The following is presented in schedule format:

	<i>Prose</i>	<i>Verse</i>	<i>Adjustments</i>		<i>Group</i>
	£	£	<i>DR</i>	<i>CR</i>	£
ASSETS					
<i>Non-current assets</i>					
(including land)	25,920	43,400	800 aiii		70,320
			200 ciii		
Goodwill	—	—	8,900 avi		8,900
Investment in Verse	24,000	—		(8,800) ai	
				(3,200) aii	
				(800) aiii	
				(1,600) aiv	
				(700) av	
				(8,900) avi	
<i>Current assets</i>					
Inventories	9,600	4,000		(300) biii	13,300
Verse current account	8,000			(8,000) bi	
Bond interest receivable	35			(35) bii	
Other current assets	<u>1,965</u>	<u>3,350</u>			<u>5,315</u>
Total assets	<u>69,520</u>	<u>50,750</u>			<u>97,835</u>

EQUITY and LIABILITIES

Equity share capital	24,000	11,000	(8,800) ai (2,200) ci	24,000
Preferred shares	4,000	8,000	(1,600) aiv (6,400) civ	4,000
Retained earnings	<u>30,000</u>	<u>8,500</u>	(3,200) aii (1,700) cii (300) biii	<u>33,300</u>
	58,000	27,500		61,300
Non-controlling interest	—	—	2,200 ci 1,700 cii 200 ciii 6,400 civ	10,500
<i>Non-current liabilities</i>				
Bonds	5,000	7,000	(700) av	11,300
<i>Current liabilities</i>				
Prose current account		8,000	(8,000)	2,200
Bond interest payable		350		315
Other current liabilities	<u>6,520</u>	<u>7,900</u>	(35)	<u>6,400</u>
	<u>69,520</u>	<u>50,750</u>	<u>42,835</u>	<u>42,835</u>
				<u>97,835</u>

21.5 Provision for unrealised profit affecting a non-controlling interest

Where a subsidiary with a non-controlling interest sells goods to a parent company at a mark-up, the non-controlling interest must be charged with their share of any provision for unrealised profit. For example, if Verse had sold goods to Prose for £3,000, including a mark-up of 25%, the non-controlling interest would have been charged with 20% of the provision for unrealised profit ($20\% \times £300 = £60$). The group would have been charged with the remaining £240.

21.6 Uniform accounting policies and reporting dates

Consolidated financial statements should be prepared using uniform accounting policies. If it is not practicable then disclosure must be made of that together with details of the items involved.³

The financial statements of the parent and subsidiaries used in the consolidated accounts are usually drawn up to the same date but IAS 27 allows up to three months' difference providing that appropriate adjustments are made for significant transactions outside the common period.⁴

Extract from the 2009 Annual Report of the National Grid plc

Where necessary, adjustments are made to bring the accounting policies applied under UK generally accepted accounting principles (UK GAAP), US generally accepted accounting principles (US GAAP) or other frameworks used in the individual financial statements of the Company, subsidiaries and joint ventures into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

21.7 How is the investment in subsidiaries reported in the parent's own statement of financial position?

IAS 27 gives the parent a choice as to how to report the investment.⁵ It can either report the investment at cost, or report it in accordance with the provisions of IAS 39 *Financial Instruments: Recognition and Measurement*. Cost in this context means the fair value of the consideration at the date of acquisition.

Summary

When consolidated accounts are prepared after the subsidiary has traded whilst under the control of the parent, the goodwill calculation remains as at the date of the acquisition but all inter-company transactions have to be eliminated.

REVIEW QUESTIONS

- 1 The 2006 accounts of Eybl International state:

Elimination of intra-group balances
Advances . . . arising in the course of business between the companies included in the consolidation . . . are eliminated.

 - (a) Discuss three examples of inter-company (also referred to as intra-group) accounts.
 - (b) Explain what is meant by 'have been eliminated'.
 - (c) Explain what effect there could be on the reported group profit if inter-company transactions were not eliminated.
- 2 Explain why the non-controlling interest is calculated as at the year-end whilst goodwill is calculated at the date of acquisition.
- 3 Explain why pre-acquisition profits of a subsidiary are treated differently from post-acquisition profits.
- 4 Explain the effect of a provision for unrealised profit on a non-controlling interest:
 - (a) where the sale was made by the parent to the subsidiary; and
 - (b) where the sale was made by the subsidiary to the parent.

EXERCISES

An extract from the solution is provided on the Companion Website (www.pearsoned.co.uk/elliott-elliott) for exercises marked with an asterisk (*).

Question 1

Sweden acquired 100% of the equity shares of Oslo on 1 March 20X1 and gained control. At that date the balances on the reserves of Oslo were as follows:

The Revaluation reserve	– Kr10 million
Retained earnings	– Kr70 million

The statements of financial position of the two companies at 31/12/20X1 were as follows:

	<i>Sweden</i> <i>Krm</i>	<i>Oslo</i> <i>Krm</i>
ASSETS		
<i>Non-current assets</i>		
Property, plant and equipment	264	120
Investment in Oslo	200	
Current assets	<u>160</u>	<u>140</u>
Total assets	<u><u>624</u></u>	<u><u>260</u></u>
EQUITY AND LIABILITIES		
Kr10 shares	400	110
Retained earnings	104	80
Revaluation reserve	<u>20</u>	<u>10</u>
	524	200
Current liabilities	<u>100</u>	<u>60</u>
Total equity and liabilities	<u><u>624</u></u>	<u><u>260</u></u>

Notes:

- 1 The fair values were the same as the book values on 1/3/20X1.
- 2 There have been no movements on share capital since 1/3/20X1.
- 3 20% of the goodwill is to be written off as an impairment loss.
- 4 Method 1 is to be used to compute the non-controlling interest.

Required:

Prepare a consolidated statement of financial position for Sweden as at 31 December 20X1.

* Question 2

Summer plc acquired 60% of the common shares of Winter Ltd on 30 September 20X1 and gained control. At the date of acquisition, the balance of retained earnings of Winter was £35,000.

At 31 December 20X1 the statements of financial position of the two companies were as follows:

	<i>Summer</i> <i>£000</i>	<i>Winter</i> <i>£000</i>
ASSETS		
<i>Non-current assets</i>		
Property, plant and equipment	200	200
Investment in Winter	141	
Current assets	<u>100</u>	<u>140</u>
Total assets	<u><u>441</u></u>	<u><u>340</u></u>
EQUITY AND LIABILITIES		
Equity shares	200	180
Retained earnings	<u>161</u>	<u>40</u>
	361	220
Current liabilities	<u>80</u>	<u>120</u>
Total equity and liabilities	<u><u>441</u></u>	<u><u>340</u></u>

Notes:

- 1 The fair value of the non-controlling interest at the date of acquisition was £92,000. The non-controlling interest is to be measured using method 2. The fair values of the identifiable net assets of Winter at the date of acquisition were the same as their book values..
- 2 There have been no movements on share capital since 30/9/20X1.
- 3 16.67% of the goodwill is to be written off as an impairment loss.

Required:

Prepare a consolidated statement of financial position for Summer plc as at 31 December 20X1.

Question 3

On 30 September 20X0 Gold plc acquired 75% of the equity shares, 30% of the preferred shares and 20% of the bonds in Silver plc and gained control. The balance of retained earnings on 30 September 20X0 was £16,000. The fair value of the land owned by Silver was £3,000 above book value. No adjustment has so far been made for this revaluation.

The statements of financial position of Gold and Silver at 31 December 20X1 were as follows:

	<i>Gold</i>	<i>Silver</i>
	£	£
ASSETS		
Property, plant and equipment (including land)	82,300	108,550
Investment in Silver	46,000	—
Current assets:		
Inventory	23,200	10,000
Silver current account	20,000	
Bond interest receivable	175	
Other current assets	5,000	7,500
Total assets	<u>176,675</u>	<u>126,050</u>
EQUITY AND LIABILITIES		
Equity share capital	60,000	27,600
Preferred shares	10,000	20,000
Retained earnings	75,000	21,200
	<u>145,000</u>	<u>68,800</u>
Non-current liabilities – bonds	12,500	17,500
Current liabilities		
Gold current account		20,000
Bond interest payable	625	875
Other current liabilities	18,550	18,875
Total equity and liabilities	<u>176,675</u>	<u>126,050</u>

Notes:

- 1 20% of the goodwill is to be written off as an impairment loss.
- 2 During the year Gold sold some of its inventory to Silver for £3,000, which represented cost plus a mark-up of 25%. Half of these goods are still in the inventory of Silver at 31/12/20X1.
- 3 There is no depreciation of land.
- 4 There has been no movement on share capital since the acquisition.
- 5 Method 1 is to be used to compute the non-controlling interest.

Required:

Prepare a consolidated statement of financial position as at 31 December 20X1.

Question 4

Prop and Flap have produced the following statements of financial position as at 31 October 2008:

	<i>Prop</i>		<i>Flap</i>	
	\$m	\$m	\$m	\$m
ASSETS				
<i>Non-current assets</i>				
Plant and equipment		2,100		480
Investments		800		
<i>Current assets</i>				
Inventories	800		280	
Receivables	580		280	
Cash and cash equivalents	400		8	
		<u>1,860</u>		<u>708</u>
Total assets		<u>4,760</u>		<u>1,188</u>
EQUITY and LIABILITIES				
Equity share capital		2,400		680
Retained earnings		<u>860</u>		<u>200</u>
		3,260		880
<i>Non-current liabilities</i>				
Long-term borrowing		400		
<i>Current liabilities</i>				
Payables	1,100		228	
Bank overdraft	—		<u>80</u>	
		<u>1,100</u>		<u>308</u>
Total equity and liabilities		<u>4,760</u>		<u>1,188</u>

The following information is relevant to the preparation of the financial statements of the Prop Group:

- (i) Prop acquired 80% of the issued ordinary share capital of Flap many years ago when the retained earnings of Flap were \$72 million. Consideration transferred was \$800 million. Flap has performed well since acquisition and so far there has been no impairment to goodwill.
- (ii) At the date of acquisition the plant and equipment of Flap was revalued upwards by \$40 million, although this revaluation was not recorded in the accounts of Flap. Depreciation would have been \$32 million greater had it been based on the revalued figure.
- (iii) Flap buys goods from Prop upon which Prop earns a margin of 20%. At 31 October 2008 Flap's inventories include \$180 million goods purchased from Prop.
- (iv) At 31 October 2008 Prop has receivables of \$140 million owed by Flap and payables of \$60 million owed to Flap.
- (v) The market price of the non-controlling interest shares just before Flap's acquisition by Prop was \$1.30. It is the group's policy to value the non-controlling interest at fair value.

Required:

Prepare the Prop Group consolidated statement of financial position as at 31 October 2008.

(Association of International Accountants)

References

- 1 IAS 16 *Property, Plant and Equipment*, IASB, revised 2003, para. 31.
- 2 IAS 27 *Consolidated and Separate Financial Statements*, IASB, revised 2008, para. 20.
- 3 *Ibid.*, para. 24.
- 4 *Ibid.*, paras 22 and 23.
- 5 *Ibid.*, para. 38.