Q-1
Preparation question with helping hands: Simple consolidation

Boo has owned 80% of Goose's equity since its incorporation. On 31 December 20X8 it dispatched goods which cost Rs.80,000 to Goose, at an invoiced cost of Rs.100,000. Goose received the goods on 2 January 20X9 and recorded the transaction then. The two companies' draft accounts as at 31 December 20X8 are shown below.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20X8

	Boo	**Goose**
	Rs.'000	**Rs.'000**
Revenue	5,000	1,000
Cost of sales	2,900	600
Gross profit	2,100	400
Other expenses	1,700	320
Profit before tax	400	80
Income tax expense	130	25
Profit for the year	270	55

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 20X8

	Rs.'000	**Rs.'000**
Assets		
Non-current assets	2,000	200
Current assets		
Inventories	500	120
Trade receivables	650	40
Bank and cash	390	35
	1540	195
Total assets	3,540	395
Equity and liabilities		
Equity		
Share capital	2,000	100
Retained earnings	500	240
	2,500	340
Current liabilities		
Trade payables	910	30
Tax	130	25
	1,040	55
Total equity and liabilities	3,540	395

Required

Prepare a draft consolidated statement of financial position and income statement. It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Q-2
Hideaway (2.5 12/05 amended) 18 mins

Related party relationships are a common feature of commercial life. The objective of IAS 24 Related party disclosures is to ensure that financial statements contain the necessary disclosures to make users aware of the possibility that financial statements may have been affected by the existence of related parties.

Required

(a) Explain why the disclosure of related party relationships and transactions may be important.

(4 marks)

(b) Hideaway is a public listed company that owns two subsidiary company investments. It owns 100% of the equity shares of Benedict and 55% of the equity shares of Depret. During the year ended 30 September

20X5 Depret made several sales of goods to Benedict. These sales totaled 415 million and had cost Depret Rs.14 million to manufacture. Depret made these sales on the instruction of the Board of Hideaway. It is known that one of the directors of Depret, who is not a director of Hideaway, is unhappy with the parent company's instruction as he believes the goods could have been sold to other companies outside the group at the far higher price of Rs.20 million. All directors within the group benefit from a profit sharing scheme.

Required

Describe the financial effect that Hideaway's instruction may have on the financial statements of the companies within the group and the implications this may have for other interested parties.(6 marks)

(Total = 10 marks)

Q-3

Highveldt (2.5 6/05) 45 mins

Highveldt, a public listed company, acquired 75% of Samson's ordinary shares on 1 April 20X4. Highveldt paid an immediate Rs.3·50 per share in cash and agreed to pay a further amount of Rs.108 million on 1 April 20X5. Highveldt's cost of capital is 8% per annum. Highveldt has only recorded the cash consideration of Rs.3·50 per share.

The summarised statements of financial position of the two companies at 31 March 20X5 are shown below:

	Highveldt		Samson	
	Rs.m	**Rs.m**	**Rs.m**	**Rs.m**
Tangible non-current assets (note (i))		420		320
Development costs (note (iv))		Nil		40
Investments (note (ii))		300		20
		720		380
Current assets		133		91
Total assets		853		471
Equity and liabilities				
Ordinary shares of Rs.1 each		270		80
Share premium		80		40
Revaluation surplus		45		nil
Retained earnings – 1 April 20X4	160		134	
year to 31 March 20X5	190		76	
		350		210
		745		330
Non-current liabilities				
10% inter company loan (note (ii))		Nil		60
Current liabilities		108		81
Total equity and liabilities		853		471

The following information is relevant:

(i) Highveldt has a policy of revaluing land and buildings to fair value. At the date of acquisition Samson's land and buildings had a fair value Rs.20 million higher than their book value and at 31 March 20X5 this had increased by a further Rs.4 million (ignore any additional depreciation).

(ii) Included in Highveldt's investments is a loan of Rs.60 million made to Samson at the date of acquisition. Interest is payable annually in arrears. Samson paid the interest due for the year on 31 March 20X5, but Highveldt did not receive this until after the year end. Highveldt has not accounted for the accrued interest from Samson.

(iii) Samson had established a line of products under the brand name of Titanware. Acting on behalf of Highveldt, a firm of specialists, had valued the brand name at a value of Rs.40 million with an estimated life of 10 years as at 1 April 20X4. The brand is not included in Samson's statement of financial position.

(iv) Samson's development project was completed on 30 September 20X4 at a cost of Rs.50 million. Rs.10 million of this had been amortised by 31 March 20X5. Development costs capitalised by Samson at the date of acquisition were Rs.18 million. Highveldt's directors are of the opinion that Samson's development costs do not meet the criteria in IAS 38 'Intangible Assets' for recognition as an asset.

(v) Samson sold goods to Highveldt during the year at a profit of Rs.6 million, one-third of these goods were still in the inventory of Highveldt at 31 March 20X5.

(vi) An impairment test at 31 March 20X5 on the consolidated goodwill concluded that it should be written down by Rs.22 million. No other assets were impaired.

(vii) It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

(a) Calculate the following figures as they would appear in the consolidated statement of financial position of Highveldt at 31 March 20X5:

Goodwill (8 marks)

Non-controlling interest(4 marks)

The following consolidated reserves share premium, revaluation surplus and retained earnings.

(8 marks)

Note. Show your workings

(b) Explain why consolidated financial statements are useful to the users of financial statements (as opposed to just the parent company's separate (entity) financial statements). (5 marks)

(Total = 25 marks)

Q-4
Hample (2.5 6/99 part) 36 mins

Hample is a small publicly listed company. On 1 April 20X8 it acquired 90% of the equity shares in Sopel, a private limited company. On the same day Hample accepted a 10% loan note from Sopel for Rs.200,000 which was repayable at Rs.40,000 per annum (on 31 March each year) over the next five years. Sopel's retained earnings at the date of acquisition were Rs.2,200,000.

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 20X9

	Hample		Sopel	
	Rs.000	**Rs.000**	**Rs.000**	**Rs.000**
Property, plant and equipment			2,120	1,990
Intangible: Software			–	1,800
Investments: equity in Sopel			4,110	–
10% loan note Sopel			200	–
Others			65	210
			6,495	4,000
Current assets				
Inventories	719		560	
Trade receivables	524		328	
Sopel current account	75		–	
Cash	20		–	
		1,338		888
Total Assets		7,833		4,888
Equity and liabilities				
Equity	2,000		1,500	
Equity shares of Rs.1 each	2,000		500	
Share premium	2,900		1,955	
Retained earnings		6,900		3,955
Non-current liabilities				
10% loan from Hample	-		160	
Government grant	230		40	
		230		200
Current liabilities				
Trade payables	475		472	
Hample current account	–		60	
Income taxes payable	228		174	
Operating overdraft	–		27	
		703		733
Total equity and liabilities	7,833			4,888

The following information is relevant.

(a) Included in Sopel's property at the date of acquisition was a leasehold property recorded at its depreciated historical cost of Rs.400,000. On 1 April 20X8 the leasehold was sublet for its remaining life of four years at an annual rental of Rs.80,000 payable in advance on 1 April each year. The directors of Hample are of the opinion that the fair value of this leasehold is best reflected by the present value of its future cash flows. An appropriate cost of capital for the group is 10% per annum.

The present value of a Rs.1 annuity received at the end of each year where interest rates are 10% can be taken as:

	Rs.
3 year annuity	2.50
4 year annuity	3.50

(b) The software of Sopel represents the depreciation cost of the development of an integrated business accounting package. It was completed at a capitalised cost of Rs.2,400,000 and went on sale on 1 April

20X7. Sopel's directors are depreciating the software on a straight-line basis over an eight-year life (ie Rs.300,000 per annum). However, the directors of Hample are of the opinion that a five-year life would be more appropriate as sales of business software rarely exceed this period.

(c) The inventory of Hample on 31 March 20X9 contains goods at a transfer price of Rs.25,000 that were supplied by Sopel who had marked them up with a profit of 25% on cost. Unrealised profits are adjusted for against the profit of the company that made them.

(d) On 31 March 20X9 Sopel remitted to Hample a cash payment of Rs.55,000. This was not received by Hample until early April. It was made up of an annual repayment of the 10% loan note of Rs.40,000 (the interest had already been paid) and Rs.15,000 off the current account balance.

(e) Goodwill is reviewed for impairment annually. At 31 March 20X9 there had been an impairment loss of Rs.120,000 in the value of goodwill since acquisition.

(f) It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

Prepare the consolidated statement of financial position of Hample as at 31 March 20X9.(20 marks)

Q-5

Parentis (2.5 6/07) 45 mins

Parentis, a public listed company, acquired 600 million equity shares in Offspring on 1 April 20X6. The purchase consideration was made up of:

A share exchange of one share in Parentis for two shares in Offspring.
The issue of Rs.100 10% loan note for every 500 shares acquired; and A deferred cash payment of 11 cents per share acquired payable on 1 April 20X7.

Parentis has only recorded the issue of the loan notes. The value of each Parentis share at the date of acquisition was 75 cents and Parentis has a cost of capital of 10% per annum.

The statements of financial position of the two companies at 31 March 20X7 are shown below:

	Parentis		Offspring	
	Rs.m	**Rs.m**	**Rs.m**	**Rs.m**
Assets				
Property, plant and equipment (note (i))		640		340
Investments		120		nil
Intellectual property (note (ii))		nil		30
		760		370
Current assets				
Inventory (note (iii))	76		22	
Trade receivables (note (iii))	84		44	
Bank	nil		4	
Total assets		160		70
		920		440
Equity and liabilities				
Equity shares of 25 cents each		300		200
Retained earnings – 1 April 20X6	210		120	
– year ended 31 March 20X7	90	300	20	140
		600		340
Non-current liabilities				
10% loan notes		120		20
Current liabilities				
Trade payables (note (iii))	130		57	
Current tax payable	45		23	
Overdraft	25	200	Nil	80
		920		440

The following information is relevant:

(i) At the date of acquisition the fair values of Offspring's net assets were approximately equal to their carrying amounts with the exception of its properties. These properties had a fair value of Rs.40 million in excess of their carrying amounts which would create additional depreciation of Rs.2 million in the post acquisition period to 31 March 20X7. The fair values have not been reflected in Offspring's statement of financial position.

(ii) The intellectual property is a system of encryption designed for internet use. Offspring has been advised that government legislation (passed since acquisition) has now made this type of encryption illegal. Offspring will receive Rs.10 million in compensation from the government.

(iii) Offspring sold Parentis goods for Rs.15 million in the post acquisition period. Rs.5 million of these goods are included in the inventory of Parentis at 31 March 20X7. The profit made by Offspring on these sales was Rs.6 million. Offspring's trade payable account (in the records of Parentis) of Rs.7 million does not agree with Parentis's trade receivable account (in the records of Offspring) due to cash in transit of Rs.4 million paid by Parentis.

(iv) Due to the impact of the above legislation, Parentis has concluded that the consolidated goodwill has been impaired by Rs.27 million.

(v) It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

Prepare the consolidated statement of financial position of Parentis as at 31 March 20X7. (25 marks)

Q-6

Preparation question: Acquisition during the year

Port has many investments, but before 20X4 none of these investments met the criteria for consolidation as a subsidiary. One of these older investments was a Rs.2.3m 12% loan to Alfred which was made in 20W1 and is not due to be repaid until 20Y6.

On 1st November 20X4 Port purchased 75% of the equity of Alfred for Rs.650,000. The consideration was 35,000 Rs.1 equity shares in Port with a fair value of Rs.650,000.

Noted below are the draft income statements and movement in retained earnings for Port and its subsidiary Alfred for the year ending 31st December 20X4 along with the draft statements of financial position as at 31st December 20X4. INCOME STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 20X4

	Port	Alfred
	Rs.000	**Rs.000**
Revenue	100	996
Cost of sales	(36)	(258)
Gross profit	64	738
Interest on loan to Alfred	276	–
Other investment income	158	–
Operating expenses	(56)	(330)
Finance costs	–	(276)
Profit before tax	442	132
Income tax expense	(112)	(36)
Profit for the year	330	
	96	
	Port	Alfred
	Rs.000	**Rs.000**
Opening retained earnings	2,640	235
Profit for the year	330	96
Dividends paid	(70)	–
Closing retained earnings	2,900	331

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 20X4

	Port	Alfred
	Rs.000	**Rs.000**
Assets		
Non-current assets		
Property, plant and equipment	100	3,000
Investments		
Loan to Alfred	2,300	–
Other investments	600	–
	3,000	3,000
Current assets	800	139

Total assets	3,800	3,139
Equity and liabilities		
Equity		
Rs.1 Equity shares	200	100
Share premium	500	85
Retained earnings	2,900	331
	3,600	516
Non-current liabilities		
Loan from Port	–	2,300
Current liabilities		
Sundry	200	323
Total equity and liabilities	3,800	3,139

Questions

Notes

(a) Port has not accounted for the issue of its own shares or for the acquisition of the investment in Alfred.

(b) There has been no impairment in the value of the goodwill.

(c) It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

(a) Prepare the income statement for the Port Group for the year-ending 31 December 20X4, along with a statement of financial position at that date.

(b) Prepare a statement of changes in equity for the Port Group for the year-ending 31 December 20X4.

Q-7

Hillusion (2.5 6/03) 45 mins

In recent years Hillusion has acquired a reputation for buying modestly performing businesses and selling them at a substantial profit within a period of two to three years of their acquisition. On 1 July 20X2 Hillusion acquired 80% of the ordinary share capital of Skeptik at a cost of Rs.10,280,000. On the same date it also acquired 50% of Skeptik's

10% loan notes at par. The summarised draft financial statements of both companies are:

INCOME STATEMENTS: YEAR TO 31 MARCH 20X3

	Hillusion	Skeptic
	Rs.000	**Rs.000**
Sales revenue	60,000	24,000
Cost of sales	(42,000)	(20,000)
Gross profit	18,000	4,000
Operating expenses	(6,000)	(200)
Loan interest received (paid)	75	(200)
Profit before tax	12,075	3,600
Income tax expense	(3,000)	(600)
Profit for the year	9,075	3,000

STATEMENTS OF FINANCIAL POSITION: AS AT 31 MARCH 20X3

	Hillusion	Skeptic
	Rs.000	**Rs.000**
Assets		
Tangible non-current Assets	19,320	8,000
Investments	11,280	Nil
	30,000	8,000
Current assets	15,000	8,000
Total assets	45,600	16,000
	Hillusion	Skeptic
	Rs.000	**Rs.000**
Equity and liability		
Equity		

Ordinary shares of Rs.1 each	10,000	2,000
Retained earnings	25,600	8,400
	35,600	10,400
Non-current liability		
10% loan notes	Nil	2,000
Current liabilities	10,000	3,600
Total equity and liabilities	45,600	16,000

The following information is relevant:

(i) The fair values of Skeptik's assets were equal to their book values with the exception of its plant, which had a fair value of Rs.3·2 million in excess of its book value at the date of acquisition. The remaining life of all of Skeptik's plant at the date of its acquisition was four years and this period has not changed as a result of the acquisition. Depreciation of plant is on a straight-line basis and charged to cost of sales. Skeptik has not adjusted the value of its plant as a result of the fair value exercise.

(ii) In the post acquisition period Hillusion sold goods to Skeptik at a price of Rs.12 million. These goods had cost Hillusion Rs.9 million. During the year Skeptik had sold Rs.10 million (at cost to Skeptik) of these goods for Rs.15 million.

(iii) Hillusion bears almost all of the administration costs incurred on behalf of the group (invoicing, credit control etc.). It does not charge Skeptik for this service as to do so would not have a material effect on the group profit.

(iv) Revenues and profits should be deemed to accrue evenly throughout the year.

(v) The current accounts of the two companies were reconciled at the year-end with Skeptik owing Hillusion Rs.750,000.

(vi) The goodwill was reviewed for impairment at the end of the reporting period and had suffered an impairment loss of Rs.300,000, which is to be treated as an operating expense.

(vii) Hillusion's opening retained earnings were Rs.16,525,000 and Skeptik's were Rs.5,400,000. No dividends were paid or declared by either entity during the year.

(viii) It is the group policy to value the non-controlling interest at acquisition at fair value. The directors valued the non-controlling interest at Rs.2.5m at the date of acquisition.

Required

(a) Prepare a consolidated income statement and statement of financial position for Hillusion for the year to 31 March 20X3 (20 marks)

(b) Explain why it is necessary to eliminate unrealised profits when preparing group financial statements; and how reliance on the entity financial statements of Skeptik may mislead a potential purchaser of the company. (5 marks)

(Total = 25 marks)

Q-8
Hydan (2.5 6/06) 45 mins

On 1 October 20X5 Hydan, a publicly listed company, acquired a 60% controlling interest in Systan paying Rs.9 per share in cash. Prior to the acquisition Hydan had been experiencing difficulties with the supply of components that it used in its manufacturing process. Systan is one of Hydan's main suppliers and the acquisition was motivated by the need to secure supplies. In order to finance an increase in the production capacity of Systan, Hydan made a non-dated loan at the date of acquisition of Rs.4 million to Systan that carried an actual and effective interest rate of

10% per annum. The interest to 31 March 20X6 on this loan has been paid by Systan and accounted for by both companies. The summarised draft financial statements of the companies are:

INCOME STATEMENTS FOR THE YEAR ENDED 31 MARCH 20X6

	Hydan	Systan	
		Pre-requisition	Post-requisition
	Rs.000	**Rs.000**	**Rs.000**
Revenue	98,000	24,000	35,200
Cost of sales	(76,000)	(18,000)	(31,000)
Gross profit	22,000	6,000	4,200
Operating expenses	(11,800)	(1,200)	(8,000)
Interest income	350	nil	nil
Finance costs	(420)	nil	(200)
Profit/(loss) before tax	10,130	4,800	(4,000)

Income tax (expense)/relief	(4,200)	(1,200)	1,000
Profit/(loss) for the year	5,930	3,600	(3,000)

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 20X6

	Hydan	Systan
	Rs.000	**Rs.000**
Non-current assets		
Property, plant and equipment	18,400	9,500
Investments (including loan to Systan)	16,000	nil
	34,400	9,500
Current assets	18,000	7,200
Total assets	52,400	16,700
Equity and liabilities		
Ordinary shares of Rs.1 each	10,000	2,000
Share premium	5,000	500
Retained earnings	20,000	6,300
	35,000	8,800
Non-current liabilities		
7% Bank loan	6,000	nil
10% loan from Hydan	nil	4,000
Current liabilities	11,400	3,900
Total equity and liabilities	52,400	16,700

The following information is relevant:

(i) At the date of acquisition, the fair values of Systan's property, plant and equipment were Rs.1·2 million in excess of their carrying amounts. This will have the effect of creating an additional depreciation charge (to cost of sales) of Rs.300,000 in the consolidated financial statements for the year ended 31 March 20X6. Systan has not adjusted its assets to fair value.

(ii) In the post acquisition period Systan's sales to Hydan were Rs.30 million on which Systan had made a consistent profit of 5% of the selling price. Of these goods, Rs.4 million (at selling price to Hydan) were still in the inventory of Hydan at 31 March 20X6. Prior to its acquisition Systan made all its sales at a uniform gross profit margin.

(iii) Included in Hydan's current liabilities is Rs.1 million owing to Systan. This agreed with Systan's receivables ledger balance for Hydan at the year end.

(iv) An impairment review of the consolidated goodwill at 31 March 20X6 revealed that its current value was Rs.375,000 less than its carrying amount.

(v) Neither company paid a dividend in the year to 31 March 20X6.

(vi) It is group policy to value the non-controlling interest at acquisition at full (or fair) value. Just prior to acquisition by Hydan, Systan's shares were trading at Rs.7.

Required

(a) Prepare the consolidated income statement for the year ended 31 March 20X6 and the consolidated statement of financial position at that date. (20 marks)

(b) Discuss the effect that the acquisition of Systan appears to have had on Systan's operating performance. (5 marks)

(Total = 25 marks)

Q-9
Hydrate (2.5 12/02 amended) 36 mins

Hydrate is a public company operating in the industrial chemical sector. In order to achieve economies of scale, it has been advised to enter into business combinations with compatible partner companies. As a first step in this strategy Hydrate acquired all of the ordinary share capital of Sulphate by way of a share exchange on 1 April 20X2. Hydrate issued five of its own shares for every four shares in Sulphate. The market value of Hydrate's shares on 1

April 20X2 was Rs.6 each. The share issue has not yet been recorded in Hydrate's books. The summarised financial statements of both companies for the year to 30 September 20X2 are:

INCOME STATEMENT – YEAR TO 30 SEPTEMBER 20X2

	Hydrate	Sulphate
	Rs.000	**Rs.000**
Sales revenue	24,000	20,000
Cost of sales	(16,600)	(11,800)
Gross profit	7,400	8,200
Operating expenses	(1,600)	(1,000)
Profit before tax	5,800	7,200
Taxation	(2,000)	(3,000)
Profit for the year	3,800	4,200

STATEMENT OF FINANCIAL POSITION – AS AT 30 SEPTEMBER 20X2

	Rs.000	**Rs.000**	**Rs.000**	**Rs.000**
Non-current assets				
Property, plant and equipment		64,000		35,000
Investment		Nil		12,800
		64,000		47,800
Current assets				
Inventory	22,800		23,600	
Trade receivables	16,400		24,200	
Bank	500	39,700	200	48,000
Total assets		103,700		95,800
Equity and liabilities				
Ordinary shares of Rs.1 each		20,000		12,000
Reserves:				
Share premium	4,000		2,400	
Retained earnings	57,200	61,200	42,700	45,100
		81,200		57,100
Non-current liabilities				
8% loan rate		5,000		18,000
Current liabilities				
Trade payables	15,300		17,700	
Taxation	2,200	17,500	3,000	20,700
		103,700		95,800

The following information is relevant.

– The fair value of Sulphate's investment was Rs.5 million in excess of its book value at the date of acquisition. The fair values of Sulphate's other net assets were equal to their book values.
– Goodwill was reviewed at 30 September 20X2. A Rs.3m impairment loss is to be recognised.
– No dividends have been paid or proposed by either company.

Required
Prepare the consolidated income statement, statement of changes in equity, and statement of financial position of Hydrate for the year to 30 September 20X2. (20 marks)

Q-10
Preparation question: Laurel

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Laurel acquired 80% of the ordinary share capital of Hardy for Rs.160,000 and 40% of the ordinary share capital of Comic for Rs.70,000 on 1 January 20X7 when the retained earnings balances were Rs.64,000 in Hardy and Rs.24,000 in Comic. Laurel, Comic and Hardy are public limited companies.

The statements of financial position of the three companies at 31 December 20X9 are set out below:

	Laurel	Hardy	Comic
	Rs.000	**Rs.000**	**Rs.000**
Non-current assets			
Property, plant and equipment	220	160	78

Investments	230		
	450	160	78
Current assets			
Inventories	384	234	122
Trade receivables	275	166	67
Cash at bank	42	10	34
	701	410	223
	1,151	570	301
Equity			
Share capital – Rs.1 ordinary shares	400	96	80
Share premium	16	3	-
Retained earnings	278	128	97
	694	227	177
Current liabilities			
Trade payables	457	343	124
	1,151	570	301

You are also given the following information:

1 On 30 November 20X9 Laurel sold some goods to Hardy for cash for Rs.32,000. These goods had originally cost Rs.22,000 and none had been sold by the year-end. On the same date Laurel also sold goods to Comic for cash for Rs.22,000. These goods originally cost Rs.10,000 and Comic had sold half by the year end.

2 On 1 January 20X7 Hardy owned some items of equipment with a book value of Rs.45,000 that had a fair value of Rs.57,000. These assets were originally purchased by Hardy on 1 January 20X5 and are being depreciated over 6 years.

3 Group policy is to measure non-controlling interests at acquisition at fair value. The fair value of the non-controlling interests in Hardy on 1 January 20X7 was calculated as Rs.39,000.

4 Cumulative impairment losses on recognised goodwill amounted to Rs.15,000 at 31 December 20X9. No impairment losses have been necessary to date relating to the investment in the associate.

Required

Prepare a consolidated statement of financial position for Laurel and its subsidiary as at 31 December 20X9, incorporating its associate in accordance with IAS 28.

Q-11
Preparation question: Tyson

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Below are the statements of comprehensive income of Tyson, its subsidiary Douglas and associate Frank at 31 December 20X8. Tyson, Douglas and Frank are public limited companies.

	Rs.000	**Rs.000**	**Rs.000**
Revenue	500	150	70
Cost of sales	(270)	(80)	(30)
Gross profit	230	70	40
Other expenses	(150)	(20)	(15)
Finance income	15	10	–
Finance costs	(20)	–	(10)
Profit before tax	75	60	15
Income tax expense	(25)	(15)	(5)
PROFIT FOR THE YEAR	50	45	10
Other comprehensive income:			
Gains on property revaluation, net of tax	20	10	5
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	70	55	15

You are also given the following information:

1 Tyson acquired 80,000 shares in Douglas for Rs.188,000 3 years ago when Douglas had a credit balance on its reserves of Rs.40,000. Douglas has 100,000 Rs.1 ordinary shares.

2 Tyson acquired 40,000 shares in Frank for Rs.60,000 2 years ago when that company had a credit balance on its reserves of Rs.20,000. Frank has 100,000 Rs.1 ordinary shares.

3 During the year Douglas sold some goods to Tyson for Rs.66,000 (cost Rs.48,000). None of the goods had been sold by the year end.

4 Group policy is to measure non-controlling interests at acquisition at fair value. The fair value of the non-controlling interests in Douglas at acquisition was Rs.40,000. An impairment test carried out at the year end resulted in Rs.15,000 of the recognised goodwill relating to Douglas being written off and recognition of impairment losses of Rs.2,400 relating to the investment in Frank.

Required

Prepare the consolidated statement of comprehensive income for the year ended 31 December 20X8 for Tyson, incorporating its associate.

Q-12
Hepburn (2.5 pilot paper) 45 mins

(a) On 1 October 20X0 Hepburn acquired 80% of the equity share capital of Salter by way of a share exchange. Hepburn issued five of its own shares for every two shares in Salter. The market value of Hepburn's shares on 1 October 20X0 was Rs.3 each. The share issue has not yet been recorded in Hepburn's books. The summarised financial statements of both companies are:

INCOME STATEMENTS YEAR TO 31 MARCH 20X1

	Hepburn	Salter
	Rs.000	**Rs.000**
Sales revenues	1,200	1,000
Cost of sales	(650)	(660)
Gross profit	550	340
Operating expenses	(120)	(88)
Finance costs	Nil	(12)
Profit before tax	430	240
Income tax expense	(100)	(40)
Profit for the year	330	200

STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 20X1

	Hepburn		Salter	
	Rs.000	**Rs.000**	**Rs.000**	**Rs.000**
Assets				
Non-current assets		620		660
Property, plant & equipment		20		10
Investments		640		670
Current assets				
Inventory	240		280	
Accounts receivable	170		210	
Bank	20	430	40	530
Total assets		1,070		1,200
Equity and liabilities				
Equity		400		150
Equity shares of Rs.1 each		450		700
Retained earnings		850		850
Non-current liabilities				
8% debentures		Nil		150
Current liabilities				
Trade accounts payable	170		155	
Current tax payable	50	220	45	200
Total equity and liabilities		1,070		1,200

The following information is relevant:

(i) The fair values of Salter's assets were equal to their book values with the exception of its land, which had a fair value of Rs.125,000 in excess of its book value at the date of acquisition.

(ii) In the post acquisition period Hepburn sold goods to Salter at a price of Rs.100,000, this was calculated to give a mark-up on cost of 25% to Hepburn. Salter had half of these goods in inventory at the year end.

(iii) Consolidated goodwill is reviewed annually for impairment. At 31 March 20X1 its impaired value was Rs.180,000.

(iv) The current accounts of the two companies disagreed due to a cash remittance of Rs.20,000 to Hepburn on 26 March 20X1 not being received until after the year end. Before adjusting for this, Salter's debit balance in Hepburn's books was Rs.56,000.

(v) It is the group policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required
Prepare a consolidated income statement and statement of financial position for Hepburn for the year to 31 March 20X1. (20 marks)

(b) At the same date as Hepburn made the share exchange for Salter's shares, it also acquired 6,000 'A' shares in Woodbridge for a cash payment of Rs.20,000. The share capital of Woodbridge is made up of:

Equity voting A shares	10,000
Equity non-voting B shares	14,000

All of Woodbridge's equity shares are entitled to the same dividend rights; however during the year to 31 March 20X1 Woodbridge made substantial losses and did not pay any dividends.

Hepburn has treated its investment in Woodbridge as an ordinary long-term investment on the basis that:

(i) It is only entitled to 25% of any dividends that Woodbridge may pay
(ii) It does not have any directors on the board of Woodbridge
(iii) It does not exert any influence over the operating policies or management of Woodbridge

Required
Comment on the accounting treatment of Woodbridge by Hepburn's directors and state how you believe the investment should be accounted for. (5 marks)
Note. You are not required to amend your answer to part (a) in respect of the information in part (b).
(Total = 25 marks)

Q-13
Holdrite (2.5 12/04) 45 mins

Holdrite purchased 75% of the issued share capital of Staybrite and 40% of the issued share capital of Allbrite on 1 April 20X4.

Details of the purchase consideration given at the date of purchase are:

Staybrite: a share exchange of 2 shares in Holdrite for every 3 shares in Staybrite plus an issue to the shareholders of Staybrite 8% loan notes redeemable at par on 30 June 20X6 on the basis of Rs.100 loan note for every 250 shares held in Staybrite.

Allbrite: a share exchange of 3 shares in Holdrite for every 4 shares in Allbrite plus Rs.1 per share acquired in cash. The market price of Holdrite's shares at 1 April 20X4 was Rs.6 per share.

The summarised income statements for the three companies for the year to 30 September 20X4 are:

	Holdrite	Staybrite	Allbrite
	Rs.000	**Rs.000**	**Rs.000**
Revenue	75,000	40,700	31,000
Cost of Sales	(47,400)	(19,700)	(15,300)
Gross Profit	27,600	21,000	15,700
Operating expenses	(10,480)	(9,000)	(9,700)
Operating Profit	17,120	12,000	6,000
Interest expense	(170)		
Profit before tax	16,950	12,000	6,000
Income tax expense	(4,800)	(3,000)	(2,000)

Profit for the year	12,150	9,000	4,000

The following information is relevant:

(i) A fair value exercise was carried out for Staybrite at the date of its acquisition with the following results:

	Book Value	Fair Value
	Rs.'000	**Rs.'000**
Land	20,000	23,000
Plant	25,000	30,000

The fair values have not been reflected in Staybrite's financial statements. The increase in the fair value of the plant would create additional depreciation of Rs.500,000 in the post acquisition period in the consolidated financial statements to 30 September 20X4.

Depreciation of plant is charged to cost of sales.

(ii) The details of each company's share capital and reserves at 1 October 20X3 are:

	Holdrite	Staybrite	Allbrite
	Rs.000	**Rs.000**	**Rs.000**
Equity shares of Rs.1 each	20,000	10,000	5,000
Share premium	5,000	4,000	2,000
Retained earnings	18,000	7,500	6,000

(iii) In the post acquisition period Holdrite sold goods to Staybrite for Rs.10 million. Holdrite made a profit of Rs.4 million on these sales. One-quarter of these goods were still in the inventory of Staybrite at 30 September 20X4.

(iv) Impairment tests on the goodwill of Staybrite and Allbrite at 30 September 20X4 resulted in the need to write down Staybrite's goodwill by Rs.750,000.

(v) Holdrite paid a dividend of Rs.5 million on 20 September 20X4. Staybrite and Allbrite did not make any dividend payments.

(vi) It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

(a) Calculate the goodwill arising on the purchase of the shares in Staybrite and the carrying value of Allbrite at 1 April 20X4. (8 marks)

(b) Prepare a consolidated income statement for the Holdrite Group for the year to 30 September 20X4. (15 marks)

(c) Show the movement on the consolidated retained earnings attributable to Holdrite for the year to 30 September 20X4. (2 marks)

(Total = 25 marks)

Note. The additional disclosures in IFRS 3 Business combinations relating to a newly acquired subsidiary are not required.

Q-14
Hapsburg (2.5 6/04) 45 mins

(a) Hapsburg, a public listed company, acquired the following investments:

– On 1 April 20X3, 24 million shares in Sundial. This was by way of an immediate share exchange of 2 shares in Hapsburg for every 3 shares in Sundial plus a cash payment of Rs.1 per Sundial share payable on 1 April 20X6. The market price of Hapsburg's shares on 1 April 20X3 was Rs.2 each.

– On 1 October 20X3, 6 million shares in Aspen paying an immediate Rs.2·50 in cash for each share. Based on Hapsburg's cost of capital (taken as 10% per annum), Rs.1 receivable in three years' time can be taken to have a present value of Rs.0·75.

Hapsburg has not yet recorded the acquisition of Sundial but it has recorded the investment in Aspen.

The summarised statements of financial position at 31 March 20X4 are:

	Hapsburg			Sundial		Aspen
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**

Non-current assets		41,000		34,800		37,700
Property, plant and equipment		15,000		3,000		Nil
Investments		56,000		37,800		37,700
Current assets						
Inventory	9,900		4,800		7,900	
Trade and other receivables	13,600		8,600		14,400	
Cash	1,200		3,800		Nil	
		24,700		17,200		22,300
Total assets		80,700		55,000		60,000
Equity and liabilities						
Equity						
Ordinary shares Rs.1 each		20,000		30,000		20,000
Reserves:						
Share premium	8,000		2,000		Nil	
Retained earnings	10,600	18,600	8,500	10,500	8,000	8,000
		38,600		40,500		28,000
Non-current liabilities						
10% loan note		16,000		4,200		12,000
Current liabilities						
Trade and other payables	16,500		6,900		13,600	
Bank overdraft	Nil		Nil		4,500	
Taxation	9,600	26,100	3,400	10,300	1,900	20,000
Total equity and liabilities		80,700		55,000		60,000

The following information is relevant:

(i) Below is a summary of the results of a fair value exercise for Sundial carried out at the date of acquisition:

Asset	Carrying value at acquisition	Fair value at acquisition	Notes
	Rs.000	**Rs.000**	
Plant	10,000	15,000	Remaining life at acquisition four years
Investments	3,000	4,500	No change in value since acquisition

The book values of the net assets of Aspen at the date of acquisition were considered to be a reasonable approximation to their fair values.

(ii) The profits of Sundial and Aspen for the year to 31 March 20X4, as reported in their entity financial statements, were Rs.4·5 million and Rs.6 million respectively. No dividends have been paid by any of the companies during the year. All profits are deemed to accrue evenly throughout the year.

(iii) In January 20X4 Aspen sold goods to Hapsburg at a selling price of Rs.4 million. These goods had cost Aspen Rs.2·4 million. Hapsburg had Rs.2·5 million (at cost to Hapsburg) of these goods still in inventory at 31 March 20X4.

(iv) Impairment losses recognised for group purposes since acquisition are Rs.3,200,000 on the recognised goodwill of Sundial and Rs.750,000 on the investment in Aspen.

(v) Depreciation is charged on a straight-line basis.

(vi) It is the group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

Prepare the consolidated statement of financial position of Hapsburg as at 31 March 20X4.(20 marks)

(b) Some commentators have criticised the use of equity accounting on the basis that it can be used as a form of off balance sheet financing.

Required

Explain the reasoning behind the use of equity accounting and discuss the above comment. (5 marks)

(Total = 25 marks)

Q-15
Hedra (2.5 12/05)   45 mins

Hedra, a public listed company, acquired the following investments:

(i) On 1 October 20X4, 72 million shares in Salvador for an immediate cash payment of Rs.195 million. Hedra agreed to pay further consideration on 30 September 20X5 of Rs.49 million if the post acquisition profits of Salvador exceeded an agreed figure at that date (ignore discounting). Salvador also accepted a Rs.50 million 8% loan from Hedra at the date of its acquisition.

(ii) On 1 April 20X5, 40 million shares in Aragon by way of a share exchange of two shares in Hedra for each acquired share in Aragon. The share market value of Hedra 's shares at the date of this share exchange was Rs.2.50. Hedra has not yet recorded the acquisition of the investment in Aragon.

	Hedra		Salvador		Aragon	
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Non-current assets						
Property, plant and equipment		358		240		270
Investments - in Savador		245		Nil		Nil
- Others		45		Nil		Nil
		648		240		270
Current assets						
Inventory	130		80		110	
Trade receivables	142		97		70	
Cash and bank	nil	272	4	181	20	200
		920		421		470
Equity and liabilities						
Ordinary shares capital (Rs.1 each)		400		120		100
Reserves:						
Share premium	40		50		Nil	
Revolution surplus	15		Nil		Nil	
Retained earnings	240	295	60	110	300	300
		695		230		400
Non-current liabilities						
8% loan note	Nil		50		Nil	
Deferred tax	45	45	Nil	50	nil	Nil
Current liabilities						
Trade payables	118		141		40	
Bank overdraft	12		Nil		Nil	
Current tax payable	50	180	Nil	141	30	70
Total equity and liabilities		920		421		470

The following information is relevant.

(a) Fair value adjustments and revaluations:

(i) Hedra's accounting policy for land and buildings is that they should be carried at their fair values. The fair value of Salvador's land at the date of acquisition was Rs.20 million in excess of its carrying value. By 30 September 20X5 this excess had increased by a further Rs.5 million. Salvador's buildings did not require any fair value adjustments. The fair value of Hedra's own land and buildings at 30 September 20X5 was Rs.12 million in excess of its carrying value in the above statement of financial position.

(ii) The fair value of some of Salvador's plant at the date of acquisition was Rs.20 million in excess of its carrying value and had a remaining life of four years (straight–line depreciation is used)

(iii) At the date of acquisition Salvador had unrelieved tax losses of Rs.40 million from previous years. Salvador had not accounted for these as a deferred tax asset as its directors did not believe the company would be sufficiently profitable in the near future. However, the directors of Hedra were confident that these losses would be utilised and accordingly they should be recognised as a deferred tax asset. By 30 September 20X5 the group had not yet utilised any of these losses. The income tax rate is 25%.

(b) The retained earnings of Salvador and Aragon at 1 October 20X4, as reported in their separate financial statements, were Rs.20 million and Rs.200 million respectively. All profits are deemed to accrue evenly throughout the year.

(c) An impairment test on 30 September 20X5 showed that consolidated goodwill should be written down by

Rs.20million. Hedra has applied IFRS 3 Business combinations since the acquisition of Salvador.

(d) The investment in Aragon has not suffered any impairment.

(e) It is the group policy to value non-controlling interest at acquisition at full (or fair) value. The directors value the goodwill attributable to the non-controlling interest at acquisition at Rs.10m.

Required

Prepare the consolidated statement of financial position of Hedra as at 30 September 20X5.(25 marks)

Q-16

Hosterling (2.5 12/06) 45 mins

Hosterling purchased the following equity investments:

On 1 October 20X5: 80% of the issued share capital of Sunlee. The acquisition was through a share exchange of three shares in Hosterling for every five shares in Sunlee. The market price of Hosterling's shares at 1 October 20X5 was Rs.5 per share.

On 1 July 20X6: 6 million shares in Amber paying Rs.3 per share in cash and issuing to Amber's shareholders 6% (actual and effective rate) loan notes on the basis of Rs.100 loan note for every 100 shares acquired.

The summarised income statements for the three companies for the year ended 30 September 20X6 are:

	Hosterling	Sunlee	Amber
	Rs.000	**Rs.000**	**Rs.000**
Revenue	105,000	62,000	50,000
Cost of sales	(68,000)	(36,500)	61,000)
Gross profit/(loss)	37,000	25,500	11,000)
Other income (note (i))	400	nil	nil
Distribution costs	(4,000)	(2,000)	(4,500)
Administrative expenses	(7,500)	(7,000)	(8,500)
Finance costs	(1,200)	(900)	Nil
Profit/(loss) before tax	24,700	15,600	(24,000)
Income tax (expense)/credit	(8,700)	(2,600)	4,000
Profit/(loss) for the year	16,000	13,000	(20,000)

The following information is relevant:

(i) The other income is a dividend received from Sunlee on 31 March 20X6.

(ii) The details of Sunlee's and Amber's share capital and reserves at 1 October 20X5 were:

	Sunlee	Amber
	Rs.000	**Rs.000**
Equity shares of Rs.1 each	20,000	15,000
Retained earnings	18,000	35,000

A fair value exercise was carried out at the date of acquisition of Sunlee with the following results:
The fair values have not been reflected in Sunlee's financial statements.

	Carrying amount	Fair value	Remaining life (straight line)
	Rs.000	**Rs.000**	
Intellectual property	18,000	22,000	Still in development
Land	17,000	20,000	Not applicable
Plant	30,000	35,000	Five years

No fair value adjustments were required on the acquisition of Amber.

Plant depreciation is included in cost of sales.

(iv) In the year ended 30 September 20X6 Hosterling sold goods to Sunlee at a selling price of Rs.18 million. Hosterling made a profit of cost plus 25% on these sales. Rs.7.5 million (at cost to Sunlee) of these goods were still in the inventories of Sunlee at 30 September 20X6.

(v) Impairment tests for both Sunlee and Amber were conducted on 30 September 20X6. They concluded that the goodwill of Sunlee should be written down by Rs.1.6 million and, due to its losses since acquisition, the investment in Amber was worth Rs.21.5 million.

(vi) All trading profits and losses are deemed to accrue evenly throughout the year.

(vii) It is group policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

(a) Calculate the goodwill arising on the acquisition of Sunlee at 1 October 20X5. (5 marks)

(b) Calculate the carrying amount of the investment in Amber at 30 September 20X6 under the equity method prior to the impairment test. (4 marks)

(c) Prepare the consolidated income statement for the Hosterling Group for the year ended 30 September 20X6. (16 marks)

(Total = 25 marks)

Q-17
Pumice (pilot paper) 45 mins

On 1 October 20X5 Pumice acquired the following non-current investments:

– 80% of the equity share capital of Silverton at a cost of Rs.13.6 million
– 50% of Silverton's 10% loan notes at par
– 1.6 million equity shares in Amok at a cost of Rs.6.25 each.

The summarized draft statements of financial position of the three companies at 31 March 20X6 are:

	Punic	Silverton	Amok
	Rs.000	**Rs.000**	**Rs.000**
Non-current assets			
Property, plant and equipment	20,000	8,500	16,500
Investments	26,000	Nil	1,500
	46,000	8,500	18,000
Current assets	15,000	8,000	11,000
Total assets	61,000	16,500	29,000
Equity and liabilities			
Equity			
Equity shares of Rs.1 each	10,000	3,000	4,000
Retained earnings	37,000	8,000	20,000
	47,000	11,000	24,000
Non-current liabilities			
8% loan note	4,000	Nil	Nil
10% loan note	Nil	2,000	Nil
Current liabilities	10,000	3,500	5,000
Total equity and liabilities	61,000	16,500	29,000

The following information is relevant:

(i) The fair values of Silverton's assets were equal to their carrying amounts with the exception of land and plant. Silverton's land had a fair value of Rs.400,000 in excess of its carrying amount and plant had a fair value of Rs.1.6 million in excess of its carrying amount. The plant had a remaining life of four years (straight-line depreciation) at the date of acquisition.

(ii) In the post acquisition period Pumice sold goods to Silverton at a price of Rs.6 million. These goods had cost Pumice Rs.4 million. Half of these goods were still in the inventory of Silverton at 31 March 20X6. Silverton had a balance of Rs.1.5 million owing to Pumice at 31 March 20X6 which agreed with Pumice's records.

(iii) The net profit after tax for the year ended 31 March 20X6 was Rs.2 million for Silverton and Rs.8 million for Amok. Assume profits accrued evenly throughout the year.

(iv) An impairment test at 31 March 20X6 concluded that consolidated goodwill was impaired by Rs.400,000 and the investment in Amok was impaired by Rs.200,000.

(v) No dividends were paid during the year by any of the companies.

(vi) It is group policy to value non-controlling interest at acquisition at full (or fair) value. The directors valued the non-controlling interest at acquisition at Rs.3m.

Required

(a) Discuss how the investments purchased by Pumice on 1 October 20X5 should be treated in its consolidated financial statements. (5 marks)

(b) Prepare the consolidated statement of financial position for Pumice as at 31 March 20X6. (20 marks)

(Total = 25 marks)

Q -18 Horsefield

Horsefield, a public company, acquired 90% of Sandfly's Rs.1 ordinary shares on 1 April 20X0 paying Rs.3.00 per share. The balance on Sandfly's retained earnings at this date was Rs.800,000. On 1 October 20X1, Horsefield acquired 30% of Anthill's Rs.1 ordinary shares for Rs.3.50 per share. The statements of financial position of the three companies at 31 March 20X2 are shown below.

	Horsefield		Sandfly		Anthill	
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Non-current assets						
Property, plant and equipment		8,050		3,600		1,650
Investments		4,000		910		nil
		12,050		4,510		1,650
Current assets						
inventory	830		340		250	
Accounts: receivables	520		290		350	
Bank	240		nil		100	
		1590		630		700
Total assets		13,640		5,140		2,350
Equity and liabilities						
Equity						
Reserves		5,000		1,200		600
Retained earnings b/f	6,000		1,400		800	
Profit year to 31 March 20X2	1,500		900		600	
		7,500		2,300		1400
		12,500		3,500		2,000
Non-current liabilities						
10% loan notes		500		240		nil
Current liabilities						
Accounts payable	420		960		200	
Taxation	220		250		150	
Overdraft	Nil		190		nil	
		640		1400		350
Total equity and liabilities		13,640		5,140		2350

The following information is relevant.

(i) Fair value adjustments
On 1 April 20X0 Sandfly owned a property that had a fair value of Rs.120,000 in excess of its book value. The value of this property has not changed since acquisition.

Just prior to its acquisition, Sandfly was successful in applying for a six-year licence to dispose of hazardous waste. The licence was granted by the government at no cost. However, Horsefield estimated that the licence was worth Rs.180,000 at the date of acquisition.

(ii) In January 20X2 Horsefield sold goods to Anthill for Rs.65,000. These were transferred at a mark up of 30% on cost. Two thirds of these goods were still in the inventory of Anthill at 31 March 20X2.

(iii) To facilitate the consolidation procedures the group insists that all intragroup current account balances are settled prior to the year-end. However, a cheque for Rs.40,000 from Sandfly to Horsefield was not received until early April 20X2. Intragroup balances are included in accounts receivable and payable as appropriate.

(iv) There are no indications that goodwill has been impaired.

(v) Anthill is to be treated as an associate of Horsefield.

(vi) It is group policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

(a) Prepare the consolidated statement of financial position of Horsefield as at 31 March 20X2 in accordance with IFRS 3 Business combinations. (20 marks)

(b) Discuss the matters to consider in determining whether an investment in another company constitutes associate status. (5 marks)

(Total = 25 marks)

Q-19 Hanford

Hanford acquired six million of Stopple's ordinary shares on 1 April 20X1 for an agreed consideration of Rs.25 million. The consideration was settled by a share exchange of five new shares in Hanford for every three shares acquired in Stopple, and a cash payment of Rs.5 million. The cash transaction has been recorded, but the share exchange has not.

The draft statements of financial position of the two companies at 30 September 20X1 are:

	Hanford		Stopple	
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**
Assets				
Non-current assets				
Property, plant and equipment		78,540		27,180
Investments in Stopple		5,000		nil
		83,540		27,180
Current assets				
Inventory	7,450		4,310	
Trade receivables	12,960		4,330	
Cash and Bank	nil		520	
		20,410		9,160
Total assets		103,950		36,340
Equity and liabilities				
Equity				
Ordinary shares of Rs.1 each		20,000		8,000
Reserves				
Share premium	10,000		20,000	
Retained earning				
As 1 October 20X0	51,260		6,000	
For the year to 31 September 20X1	13,200		8,800	
		74,460		16,800
		94,460		24,800
Non-current liabilities				
8% loan notes 20X4		nil		6,000
Current liabilities				
Accounts payable and accruals	5,920		4,160	
Bank overdraft	1,700		nil	
Provision for taxation	1,870		1,380	
		9,490		5,540
Total equity and liabilities		103,950		36,340

The following information is relevant.

(a) The fair value of Stopple's land at the date of acquisition was Rs.4 million in excess of its carrying value. Stopple's financial statements contain a note of a contingent asset for an insurance claim of Rs.800,000 relating to some inventory that was damaged by a flood on 5 March 20X1. The insurance company is disputing the claim. Hanford has taken legal advice on the claim and believes that it is highly likely that the insurance company will settle it in full in the near future.

(b) At the date of acquisition Hanford sold an item of plant that had cost Rs.2 million to Stopple for Rs.2.4 million. Stopple has charged depreciation of Rs.240,000 on this plant since it was acquired.

(c) Hanford's current account debit balance of Rs.820,000 with Stopple does not agree with the corresponding balance in Stopple's books. Investigations revealed that on 26 September 20X1 Hanford billed Stopple

Rs.200,000 for its share of central administration costs. Stopple has not yet recorded this invoice. Inter company current accounts are included in accounts receivable or payable as appropriate.

(d) Stopple paid a dividend of Rs.400,000 on 30 September 20X1. The profit and dividend of Stopple are deemed to accrue evenly throughout the year. Stopple's retained profit of Rs.8.8 million for the year to 30 September 20X1 as shown in its statement of financial position is after the deduction of the dividend. Hanford's policy is to credit to income only those dividends received from post acquisition profits. Hanford has not yet accounted for the dividend from Stopple. The cheque has been received but not banked.

(e) At the year-end an impairment review was carried out on the consolidated goodwill arising on the acquisition of Stopple, and an impairment loss of Rs.595,000 was identified. No adjustment has yet been made for this.

(f) It is group policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

(a) Prepare the consolidated statement of financial position of Hanford at 30 September 20X1. (20 marks)

(b) Suggest reasons why a parent company may not wish to consolidate a subsidiary company, and describe the circumstances in which non-consolidation of subsidiaries is permitted by International Financial Reporting Standards. (5 marks)

(Total = 25 marks)

Q- 20

On 1 October 2006 Plateau acquired the following non-current investments:

– 3 million equity shares in Savannah by an exchange of one share in Plateau for every two shares in Savannah plus Rs.1.25 per acquired Savannah share in cash. The market price of each Plateau share at the date of acquisition was Rs.6 and the market price of each Savannah share at the date of acquisition was Rs.3.25.

– 30% of the equity shares of Axle at a cost of Rs.7·50 per share in cash.

Only the cash consideration of the above investments has been recorded by Plateau. In addition Rs.500,000 of professional costs relating to the acquisition of Savannah are also included in the cost of the investment.

The summarised draft statements of financial position of the three companies at 30 September 2007 are:

	Plateu	Savannah	Axle
	Rs.'000	**Rs.'000**	**Rs.'000**
Assets			
Non-current assets			
Property, plant and equipment	18,400	10,400	18,000
Investments in Savannah and Axle	13,250	nil	nil
Available-for-sale investments	6,500	nil	nil
	38,150	10,400	18,000
Current assets			
Inventory	6,900	6,200	3,600
Trade receivables	3,200	1,500	2,400
Total assets	48250	18,100	24,000
Equity and liabilities			
Equity shares of Rs.1 each	10,000	4,000	4,000
Retained earnings			
– at 30 September 2006	16,000	6,000	11,000
– for year ended 30 September 2007	9,250	2,900	5,000
	35,250	12,900	20,000
Non-current liabilities			
7% Loan notes	5,000	1,000	1,000
Current liabilities	8,000	4,200	3,000

Total equity and liabilities	48,250	18,100	24,000

The following information is relevant:

(i) At the date of acquisition Savannah had five years remaining of an agreement to supply goods to one of its major customers. Savannah believes it is highly likely that the agreement will be renewed when it expires. The directors of Plateau estimate that the value of this customer based contract has a fair value of £1 million and an indefinite life and has not suffered any impairment.

(ii) On 1 October 2006, Plateau sold an item of plant to Savannah at its agreed fair value of Rs.2·5 million. Its carrying amount prior to the sale was Rs.2 million. The estimated remaining life of the plant at the date of sale was five years (straight-line depreciation).

(iii) During the year ended 30 September 2007 Savannah sold goods to Plateau for Rs.2·7 million. Savannah had marked up these goods by 50% on cost. Plateau had a third of the goods still in its inventory at 30 September 2007. There were no intra-group payables/receivables at 30 September 2007.

(iv) Impairment tests on 30 September 2007 concluded that neither consolidated goodwill nor the value of the investment in Axle were impaired.

(v) The available-for-sale investments are included in Plateau's statement of financial position (above) at their fair value on 1 October 2006, but they have a fair value of Rs.9 million at 30 September 2007.

(vi) No dividends were paid during the year by any of the companies.

(vii) It is the group policy to value non-controlling interest at acquisition at full (or fair) value. For this purpose the share price of Savannah at this date should be used.

Required

(a) Prepare the consolidated statement of financial position for Plateau as at 30 September 2007. (20 marks)

(b) A financial assistant has observed that the fair value exercise means that a subsidiary's net assets are included at acquisition at their fair (current) values in the consolidated statement of financial position. The assistant believes that it is inconsistent to aggregate the subsidiary's net assets with those of the parent because most of the parent's assets are carried at historical cost.

Required

Comment on the assistant's observation and explain why the net assets of acquired subsidiaries are consolidated at acquisition at their fair values. (5 marks)

(Total = 25 marks)

Q-21

On 1 April 2008, Pedantic acquired 60% of the equity share capital of Sophistic in a share exchange of two shares in Pedantic for three shares in Sophistic. The issue of shares has not yet been recorded by Pedantic. At the date of acquisition shares in Pedantic had a market value of Rs.6 each. Below are the summarised draft financial statements of both companies.

Income statements for the year ended 30 September 2008

	Pedantic	**Sophistic**
	Rs.'000	**Rs.'000**
Revenue	85,000	42,000
Cost of sales	(63,000)	(32,000)
Gross profit	22,000	10,000
Distribution costs	(2,000)	(2,000)
Administrative expenses	(6,000)	(3,200)
Finance costs	(300)	(400)
Profit before tax	13,700	4,400
Income tax expense	(4,700)	(1,400)
	9,000	3,000
Statements of financial position as at 30 September 2008		
Assets		
Non-current assets		
Property, plant and equipment	40,600	12,600
Current assets	16,000	6,600
Total assets	56,600	19,200

Equity and liabilities		
Equity shares of Rs.1 each	10,000	4,000
Retained earnings	35,400	6,500
	45,400	10,500
Non-current liabilities		
10% loan notes	3,000	4,000
Current liabilities	8,200	4,700
Total equity and liabilities	56,600	19,200

The following information is relevant:

(i) At the date of acquisition, the fair values of Sophistic's assets were equal to their carrying amounts with the exception of an item of plant, which had a fair value of Rs.2 million in excess of its carrying amount. It had a remaining life of five years at that date [straight-line depreciation is used]. Sophistic has not adjusted the carrying amount of its plant as a result of the fair value exercise.

(ii) Sales from Sophistic to Pedantic in the post acquisition period were Rs.8 million. Sophistic made a mark up on cost of 40% on these sales. Pedantic had sold Rs.5·2 million (at cost to Pedantic) of these goods by 30 September 2008.

(iii) Other than where indicated, income statement items are deemed to accrue evenly on a time basis.

(iv) Sophistic's trade receivables at 30 September 2008 include Rs.600,000 due from Pedantic which did not agree with Pedantic's corresponding trade payable. This was due to cash in transit of Rs.200,000 from Pedantic to Sophistic. Both companies have positive bank balances.

(v) Pedantic has a policy of accounting for any non-controlling interest at fair value. For this purpose the fair value of the goodwill attributable to the non-controlling interest in Sophistic is Rs.1·5 million. Consolidated goodwill was not impaired at 30 September 2008.

Required:

(a) Prepare the consolidated income statement for Pedantic for the year ended 30 September 2008. (9 marks)

(b) Prepare the consolidated statement of financial position for Pedantic as at 30 September 2008. (16 marks)

Note: a statement of changes in equity is not required.

(25 marks)

Q-22

Below are the summarised statements of financial position for three companies as at 31 March 2009:

	Pacemaker		Syclop		Vardine	
	Rs.'million	**Rs.'million**	**Rs.'million**	**Rs.'million**	**Rs.'million**	**Rs.'million**
Assets						
Non-current assets		520		280		240
Property, plant and equipment		345		40		nil
Current assets						
Inventory	142		160		120	
Trade receivables	95		88		50	
Cash and bank	8	245	22	270	10	180
Total assets		1,110		590		420
Equity and liabilities						
Equity shares of Rs.1each		500		145		100
Share premium	100		nil		nil	
Retained earnings	130	230	260	260	240	240
		730		405		340
Non-current liabilities						
10% loan notes		180		20		nil

Current liabilities	200	165	80
Total equity and liabilities	1,110	590	420

Notes:

Pacemaker is a public listed company that acquired the following investments:

(i) Investment in Syclop

On 1 April 2007 Pacemaker acquired 116 million shares in Syclop for an immediate cash payment of Rs.210 million and issued at par one 10% Rs.100 loan note for every 200 shares acquired. Syclop's retained earnings at the date of acquisition were Rs.120 million.

(ii) Investment in Vardine

On 1 October 2008 Pacemaker acquired 30 million shares in Vardine in exchange for 75 million of its own shares. The stock market value of Pacemaker's shares at the date of this share exchange was Rs.1·60 each. Pacemaker has not yet recorded the investment in Vardine.

(iii) Pacemaker's other investments, and those of Syclop, are available-for-sale investments which are carried at their fair values as at 31 March 2008. The fair value of these investments at 31 March 2009 is Rs.82 million and Rs.37 million respectively. Other relevant information:

(iv) Pacemaker's policy is to value non-controlling interests at their fair values. The directors of Pacemaker assessed the fair value of the non-controlling interest in Syclop at the date of acquisition to be Rs.65 million.

There has been no impairment to goodwill or the value of the investment in Vardine.

(v) At the date of acquisition of Syclop owned a recently built property that was carried at its (depreciated) construction cost of Rs.62 million. The fair value of this property at the date of acquisition was Rs.82 million and it had an estimated remaining life of 20 years.

For many years Syclop has been selling some of its products under the brand name of 'Kyklop'. At the date of acquisition the directors of Pacemaker valued this brand at Rs.25 million with a remaining life of 10 years. The brand is not included in Syclop's statement of financial position.

The fair value of all other identifiable assets and liabilities of Syclop were equal to their carrying values at the date of its acquisition.

(vi) The inventory of Syclop at 31 March 2009 includes goods supplied by Pacemaker for Rs.56 million (at selling price from Pacemaker). Pacemaker adds a mark-up of 40% on cost when selling goods to Syclop. There are no intra-group receivables or payables at 31 March 2009.

(vii) Vardine's profit is subject to seasonal variation. Its profit for the year ended 31 March 2009 was Rs.100 million.

Rs.20 million of this profit was made from 1 April 2008 to 30 September 2008.

(viii) None of the companies have paid any dividends for many years.

Required:

Prepare the consolidated statement of financial position of Pacemaker as at 31 March 2009.

(25 marks)

Q-23

On 1 April 2009 Pandar purchased 80% of the equity shares in Salva. The acquisition was through a share exchange of three shares in Pandar for every five shares in Salva. The market prices of Pandar's and Salva's shares at 1 April 2009 were Rs.6 per share and Rs.3.20 respectively.

On the same date Pandar acquired 40% of the equity shares in Ambra paying Rs.2 per share.

The summarised income statements for the three companies for the year ended 30 September 2009 are:

	Pandar	**Salva**	**Ambra**
	Rs.'000	**Rs.'000**	**Rs.'000**
Revenue	210,000	150,000	50,000
Cost of sales	(126,000)	(100,000)	(40,000)
Gross profit	84,000	50,000	10,000
Distribution costs	(11,200)	(7,000)	(5,000)
Administrative expenses	(18,300)	(9,000)	(11,000)
Investment income (interest and dividends)	9,500		

Finance costs	(1,800)	(3,000)	nil
Profit (loss) before tax	62,200	31,000	(6,000)
Income tax (expense) relief	(15,000)	(10,000)	1,000
Profit (loss) for the year	47,200	21,000	(5,000)

The following information for the equity of the companies at 30 September 2009 is available:

Equity shares of Rs.1 each	200,000	120,000	40,000
Share premium	300,000	nil	nil
Retained earnings 1 October 2008	40,000	152,000	1,5000
Profit (loss) for the year ended 30 September 2009	47,200	21,000	(5,000)
Dividends paid (26 September 2009)	nil	(8,000)	nil

The following information is relevant:

(i) The fair values of the net assets of Salva at the date of acquisition were equal to their carrying amounts with the exception of an item of plant which had a carrying amount of Rs.12 million and a fair value of Rs.17 million. This plant had a remaining life of five years (straight-line depreciation) at the date of acquisition of Salva. All depreciation is charged to cost of sales.

In addition Salva owns the registration of a popular internet domain name. The registration, which had a negligible cost, has a five year remaining life (at the date of acquisition); however, it is renewable indefinitely at a nominal cost. At the date of acquisition the domain name was valued by a specialist company at Rs.20 million. The fair values of the plant and the domain name have not been reflected in Salva's financial statements.

No fair value adjustments were required on the acquisition of the investment in Ambra.

(ii) Immediately after its acquisition of Salva, Pandar invested Rs.50 million in an 8% loan note from Salva. All interest accruing to 30 September 2009 had been accounted for by both companies. Salva also has other loans in issue at 30 September 2009.

(iii) Pandar has credited the whole of the dividend it received from Salva to investment income.

(iv) After the acquisition, Pandar sold goods to Salva for Rs.15 million on which Pandar made a gross profit of 20%. Salva had one third of these goods still in its inventory at 30 September 2009. There are no intra-group current account balances at 30 September 2009.

(v) The non-controlling interest in Salva is to be valued at its (full) fair value at the date of acquisition. For this purpose Salva's share price at that date can be taken to be indicative of the fair value of the shareholding of the non-controlling interest.

(vi) The goodwill of Salva has not suffered any impairment; however, due to its losses, the value of Pandar's investment in Ambra has been impaired by Rs.3 million at 30 September 2009.

Required:

(a)

(i) Calculate the goodwill arising on the acquisition of Salva at 1 April 2009; (6 marks)

(ii) Calculate the carrying amount of the investment in Ambra to be included within the consolidated statement of financial position as at 30 September 2009. (3 marks)

(b) Prepare the consolidated income statement for the Pandar Group for the year ended 30 September 2009. (16 marks)

(25 marks)

Q-24

On 1 April 2009 Picant acquired 75% of Sander's equity shares in a share exchange of three shares in Picant for every two shares in Sander. The market prices of Picant's and Sander's shares at the date of acquisition were Rs.3·20 and Rs.4·50 respectively.

In addition to this Picant agreed to pay a further amount on 1 April 2010 that was contingent upon the post-acquisition performance of Sander. At the date of acquisition Picant assessed the fair value of this contingent consideration at Rs.4·2 million, but by 31 March 2010 it was clear that the actual amount to be paid would be only Rs.2·7 million (ignore discounting). Picant has recorded the share exchange and provided for the initial estimate of Rs.4·2 million for the contingent consideration.

On 1 October 2009 Picant also acquired 40% of the equity shares of Adler paying Rs.4 in cash per acquired share and issuing at par one Rs.100 7% loan note for every 50 shares acquired in Adler. This consideration has also been recorded by Picant.

Picant has no other investments.

The summarised statements of financial position of the three companies at 31 March 2010 are:

		Sandar Rs.'000	Adler Rs.'000	Picant Rs.'000
Assets				
Non-current assets				
Property, plant and equipment		37,500	24,500	21,000
Investments		45,000	nil	nil
Current assets				
Inventory		10,000	9,000	5,000
Trade receivables		6,500	1,500	3,000
Total assets		99,000	35,000	29,000
Equity and liabilities				
Equity				
Equity shares of Rs.1 each		25,000	8,000	5,000
Share premium		19,800	nil	nil
Retained earnings	– at 1 April 2009	16,200	16,500	15,000
	– for the year ended 31 March 2010	11,000	1,000	6,000
Non-current liabilities				
7% loan notes		14,500	2,000	nil
Current liabilities				
Contingent consideration		4,200	nil	nil
Other current liabilities		8,300	7,500	3,000
Total equity and liabilities		99,000	35,000	29,000

The following information is relevant:

(i) At the date of acquisition the fair values of Sander's property, plant and equipment was equal to its carrying amount with the exception of Sander's factory which had a fair value of Rs.2 million above its carrying amount. Sander has not adjusted the carrying amount of the factory as a result of the fair value exercise. This requires additional annual depreciation of Rs.100,000 in the consolidated financial statements in the post-acquisition period.

Also at the date of acquisition, Sander had an intangible asset of Rs.500,000 for software in its statement of financial position. Picant's directors believed the software to have no recoverable value at the date of acquisition and Sander wrote it off shortly after its acquisition.

(ii) At 31 March 2010 Picant's current account with Sander was Rs.3·4 million (debit). This did not agree with the equivalent balance in Sander's books due to some goods-in-transit invoiced at Rs.1·8 million that were sent by Picant on 28 March 2010, but had not been received by Sander until after the year end. Picant sold all these goods at cost plus 50%.

(iii) Picant's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Sander's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(iv) Impairment tests were carried out on 31 March 2010 which concluded that the value of the investment in Adler was not impaired but, due to poor trading performance, consolidated goodwill was impaired by Rs.3·8 million.

(v) Assume all profits accrue evenly through the year.

Required:

(a) Prepare the consolidated statement of financial position for Picant as at 31 March 2010. (21 marks)

(b) Picant has been approached by a potential new customer, Trilby, to supply it with a substantial quantity of goods on three months credit terms. Picant is concerned at the risk that such a large order represents in the current difficult economic climate, especially as Picant's normal credit terms are only one month's credit. To support its application for credit, Trilby has sent Picant a copy of Tradhat's most recent audited consolidated financial statements. Trilby is a wholly-owned subsidiary within the Tradhat group. Tradhat's consolidated financial statements show a strong statement of financial position including healthy liquidity ratios.

Required:
Comment on the importance that Picant should attach to Tradhat's consolidated financial statements when deciding on whether to grant credit terms to Trilby. (4 marks)

(25 marks)

Q-25

On 1 June 2010, Premier acquired 80% of the equity share capital of Sanford. The consideration consisted of two elements: a share exchange of three shares in Premier for every five acquired shares in Sanford and the issue of a Rs.100 6% loan note for every 500 shares acquired in Sanford. The share issue has not yet been recorded by Premier, but the issue of the loan notes has been recorded. At the date of acquisition shares in Premier had a market value of Rs.5 each and the shares of Sanford had a stock market price of Rs.3·50 each. Below are the summarised draft financial statements of both companies.

Statements of comprehensive income for the year ended 30 September 2010

	Premier	**Sanfrod**
	Rs.'000	**Rs.'000**
Revenue	92,500	45,000
Cost of sales	(70,500)	(36,000)
Gross profit	22,000	9,000
Distribution costs	(2,500)	(1,200)
Administrative expenses	(5,500)	(2,400)
Finance costs	(100)	nil
Profit before tax	13,900	5,400
Income tax expense	(3,900)	(1,500)
Profit for the year	10,000	3,900
Other comprehensive income:		
Gain on revaluation of land (note (i))	500	nil
Total comprehensive income	10,500	3,900

Statements of financial position as at 30 September 2010

Assets		
Non-current assets		
Property, plant and equipment	25,500	13,900
Investments	1,800	nil
	27,300	13,900
Current assets	12,500	2,400
Total assets	39800	16,300
Equity and liabilities		
Equity		
Equity shares of Rs.1 each	12,000	5,000
Land revaluation reserve – 30 September 2010 (note (i))	2,000	nil
Other equity reserve – 30 September 2009 (note (iv))	500	nil
Retained earnings	12,300	4,500
	26,800	9,500
Non-current liabilities		
6% loan notes	3,000	nil

Current liabilities	10,000	6,800
Total equity and liabilities	39,800	16,300

The following information is relevant:

(i) At the date of acquisition, the fair values of Sanford's assets were equal to their carrying amounts with the exception of its property. This had a fair value of Rs.1·2 million below its carrying amount. This would lead to a reduction of the depreciation charge (in cost of sales) of Rs.50,000 in the post-acquisition period. Sanford has not incorporated this value change into its entity financial statements.
Premier's group policy is to revalue all properties to current value at each year end. On 30 September 2010, the value of Sanford's property was unchanged from its value at acquisition, but the land element of Premier's property had increased in value by Rs.500,000 as shown in other comprehensive income.

(ii) Sales from Sanford to Premier throughout the year ended 30 September 2010 had consistently been Rs.1 million per month. Sanford made a mark-up on cost of 25% on these sales. Premier had Rs.2 million (at cost to Premier) of inventory that had been supplied in the post-acquisition period by Sanford as at 30 September 2010.

(iii) Premier had a trade payable balance owing to Sanford of Rs.350,000 as at 30 September 2010. This agreed with the corresponding receivable in Sanford's books.

(iv) Premier's investments include some available-for-sale investments that have increased in value by Rs.300,000 during the year. The other equity reserve relates to these investments and is based on their value as at 30 September 2009. There were no acquisitions or disposals of any of these investments during the year ended 30 September 2010.

(v) Premier's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Sanford's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(vi) There has been no impairment of consolidated goodwill.

Required:

(a) Prepare the consolidated statement of comprehensive income for Premier for the year ended 30 September 2010.

(b) Prepare the consolidated statement of financial position for Premier as at 30 September 2010.

The following mark allocation is provided as guidance for this question:
(a) 9 marks
(b) 16 marks

(25 marks)

Q-26

On 1 October 2010 Prodigal purchased 75% of the equity shares in Sentinel. The acquisition was through a share exchange of two shares in Prodigal for every three shares in Sentinel. The stock market price of Prodigal's shares at 1 October 2010 was Rs.4 per share.

The summarised statements of comprehensive income for the two companies for the year ended 31 March 2011 are:

	Prodigal Rs.'000	**Sentinel Rs.'000**
Revenue	450,000	240,000
Cost of sales	(260,000)	(110,000)
Gross profit	190,000	130,000
Distribution costs	(23,600)	(12,000)
Administrative expenses	(27,000)	(23,000)
Finance costs	(1,500)	(1,200)
Profit before tax	137,900	93,800
Income tax expense	(48,000)	(27,800)
Profit for the year	89,900	66,000

Other comprehensive income

Gain on revaluation of land (note (i))	2,500	1000
Loss on fair value of equity financial asset investment	(700)	(400)
	1,800	600
Total comprehensive income	91,700	66,600

The following information for the equity of the companies at 1 April 2010 (i.e. before the share exchange took place) is available:

Equity shares of Rs.1 each	250,000	160,000
Share premium	100,000	nil
Revaluation reserve (land)	8,400	nil
Other equity reserve (re equity financial asset investment)	3,200	2,200
Retained earnings	90,000	125,000

The following information is relevant:

(i) Prodigal's policy is to revalue the group's land to market value at the end of each accounting period. Prior to its acquisition Sentinel's land had been valued at historical cost. During the post acquisition period Sentinel's land had increased in value over its value at the date of acquisition by Rs.1 million. Sentinel has recognised the revaluation within its own financial statements.

(ii) Immediately after the acquisition of Sentinel on 1 October 2010, Prodigal transferred an item of plant with a carrying amount of Rs.4 million to Sentinel at an agreed value of Rs.5 million. At this date the plant had a remaining life of two and half years. Prodigal had included the profit on this transfer as a reduction in its depreciation costs. All depreciation is charged to cost of sales.

(iii) After the acquisition Sentinel sold goods to Prodigal for Rs.40 million. These goods had cost Sentinel Rs.30 million. Rs.12 million of the goods sold remained in Prodigal's closing inventory.

(iv) Prodigal's policy is to value the non-controlling interest of Sentinel at the date of acquisition at its fair value which the directors determined to be Rs.100 million.

(v) The goodwill of Sentinel has not suffered any impairment.

(vi) All items in the above statements of comprehensive income are deemed to accrue evenly over the year unless otherwise indicated.

Required

(a)

(i) Prepare the consolidated statement of comprehensive income of Prodigal for the year ended 31 March 2011;

(ii) Prepare the equity section (including the non-controlling interest) of the consolidated statement of financial position of Prodigal as at 31 March 2011.

Note: you are NOT required to calculate consolidated goodwill or produce the statement of changes in equity. The following mark allocation is provided as guidance for this requirement:

(i) 14 marks

(ii) 7 marks

(21 marks)

(b) IFRS 3 Business combinations permits a non-controlling interest at the date of acquisition to be valued by one of two methods:

(i) at its proportionate share of the subsidiary's identifiable net assets; or

(ii) at its fair value (usually determined by the directors of the parent company).

Required:

Explain the difference that the accounting treatment of these alternative methods could have on the consolidated financial statements, including where consolidated goodwill may be impaired.(4 marks)

(25 marks)

Q-27

On 1 October 2010, Paladin secured a majority equity shareholding in Saracen on the following terms:

an immediate payment of $4 per share on 1 October 2010; and
a further amount deferred until 1 October 2011 of $5-4 million.

The immediate payment has been recorded in Paladin's financial statements, but the deferred payment has not been recorded. Paladin's cost of capital is 8% per annum.

On 1 February 2011, Paladin also acquired 25% of the equity shares of Augusta paying $10 million in cash. The summarised statements of financial position of the three companies at 30 September 2011 are:

		Paladin	Saracen	Augusta
Assets		**$'000**	**$'000**	**$'000**
Non-current assets				
Property, plant and equipment		40,000	31,000	30,000
Intangible assets		7,500		
Investments - Saracen (8 million shares at $4 each)		32,000		
- Augusta		10,000	nil	nil
		89,500	31,000	30,000
Current assets				
Inventory		11,200	8,400	10,000
Trade receivables		7,400	5,300	5,000
Bank		3,400	nil	2,000
Total assets		111,500	44,700	47,000
Equity and liabilities				
Equity				
Equity shares of $1 each		50,000	10,000	10,000
Retained earnings	- at 1 October 2010	25,700	12,000	31,800
	- for year ended 30 September 2011	9,200	6,000	1,200
		84,900	28,000	43,000
Non-current liabilities				
Deferred tax		15,000	8,000	1,000
Current liabilities				
Bank		nil	2,500	nil
Trade payables		11,600	6,200	3,000
Total equity and liabilities		111,500	44,700	47,000

The following information is relevant:

(i) Paladin's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose the directors of Paladin considered a share price for Saracen of $3-50 per share to be appropriate.

(ii) At the date of acquisition, the fair values of Saracen's property, plant and equipment was equal to its carrying amount with the exception of Saracen's plant which had a fair value of $4 million above its carrying amount. At that date the plant had a remaining life of four years. Saracen uses straight-line depreciation for plant assuming a nil residual value.

Also at the date of acquisition, Paladin valued Saracen's customer relationships as a customer base intangible asset at fair value of $3 million. Saracen has not accounted for this asset. Trading relationships with Saracen's customers last on average for six years.

(iii) At 30 September 2011, Saracen's inventory included goods bought from Paladin (at cost to Saracen) of $2-6 million. Paladin had marked up these goods by 30% on cost. Paladin's agreed current account balance owed by Saracen at 30 September 2011 was $1-3 million.

(iv) Impairment tests were carried out on 30 September 2011 which concluded that consolidated goodwill was not impaired, but, due to disappointing earnings, the value of the investment in Augusta was impaired by $2-5 million.

(v) Assume all profits accrue evenly through the year.

Required:
Prepare the consolidated statement of financial position for Paladin as at 30 September 2011.

(25 marks)

Q-28

On 1 April 2011, Pyramid acquired 80% of Square's equity shares by means of an immediate share exchange and a cash payment of 88 cents per acquired share, deferred until 1 April 2012. Pyramid has recorded the share exchange, but not the cash consideration. Pyramid's cost of capital is 10% per annum.

The summarised statements of financial position of the two companies as at 31 March 2012 are:

	Pyramid $'000	Square $'000
Assets		
Non-current assets		
Property, plant and equipment	38,100	28,500
Investments - Square	24,000	
- Cube at cost (note (iv))	6,000	
- Loan notes (note (ii))	2,500	
- Other equity (note (v))	2,000	nil
	72,600	28,500
Current assets		
Inventory (note (iii))	13,900	10,400
Trade receivables (note (iii))	11,400	5,500
Bank (note (iii))	900	600
Total assets	98,800	45,000
Equity and liabilities		
Equity		
Equity shares of $1 each	25,000	10,000
Share premium	17,600	Nil
Retained earnings - at 1 April 2011	16,200	18,000
- for year ended 31 March 2012	14,000	8,000
	72,800	36,000
Non-current liabilities		
11% loan notes (note (ii))	12,000	4,000
Deferred tax	4,500	Nil
Current liabilities (note (iii))	9,500	5,000
Total equity and liabilities	98,800	45,000

The following information is relevant:

(i) At the date of acquisition, Pyramid conducted a fair value exercise on Square's net assets which were equal to their carrying amounts with the following exceptions:

- An item of plant had a fair value of $3 million above its carrying amount. At the date of acquisition it had a remaining life of five years. Ignore deferred tax relating to this fair value.
- Square had an unrecorded deferred tax liability of $1 million, which was unchanged as at 31 March 2012.

Pyramid's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose a share price for Square of $3-50 each is representative of the fair value of the shares held by the non-controlling interest.

(ii) Immediately after the acquisition, Square issued $4 million of 11% loan notes, $2-5 million of which were bought by Pyramid. All interest due on the loan notes as at 31 March 2012 has been paid and received.

(iii) Pyramid sells goods to Square at cost plus 50%. Below is a summary of the recorded activities for the year ended 31 March 2012 and balances as at 31 March 2012:

	Pyramid $'000	Square $'000
Sales to Square	16,000	
Purchases from Pyramid		14,500
Included in Pyramid's receivables	4,400	
Included in Square's payables		1,700

On 26 March 2012, Pyramid sold and despatched goods to Square, which Square did not record until they were received on 2 April 2012. Square's inventory was counted on 31 March 2012 and does not include any goods purchased from Pyramid.

On 27 March 2012, Square remitted to Pyramid a cash payment which was not received by Pyramid until 4 April 2012. This payment accounted for the remaining difference on the current accounts.

(iv) Pyramid bought 1-5 million shares in Cube on 1 October 2011; this represents a holding of 30% of Cube's equity. At 31 March 2012, Cube's retained profits had increased by $2 million over their value at 1 October 2011. Pyramid uses equity accounting in its consolidated financial statements for its investment in Cube.

(v) The other equity investments of Pyramid are carried at their fair values on 1 April 2011. At 31 March 2012, these had increased to $2-8 million.

(vi) There were no impairment losses within the group during the year ended 31 March 2012.

Required:
Prepare the consolidated statement of financial position for Pyramid as at 31 March 2012.

(25 marks)

Q-29

On 1 January 2012, Viagem acquired 90% of the equity share capital of Greca in a share exchange in which Viagem issued two new shares for every three shares it acquired in Greca. Additionally, on 31 December 2012, Viagem will pay the shareholders of Greca $1-76 per share acquired. Viagem's cost of capital is 10% per annum.

At the date of acquisition, shares in Viagem and Greca had a stock market value of $6-50 and $2-50 each, respectively.

Income statements for the year ended 30 September 2012

	Viagem	**Greca**
	$'000	**$'000**
Revenue	64,600	38,000
Cost of sales	(51,200)	(26,000)
Gross profit	13,400	12,000
Distribution costs	(1,600)	(1,800)
Administrative expenses	(3,800)	(2,400)
Investment income	500	nil
Finance costs	(420)	nil
Profit before tax	8,080	7,800
Income tax expense	(2,800)	(1,600)
Profit for the year	5,280	6,200
Equity as at **1 October 2011**		
Equity shares of $1 each	30,000	10,000
Retained earnings	54,000	35,000

The following information is relevant:

(i) At the date of acquisition, the fair values of Greca's assets were equal to their carrying amounts with the exception
of two items:
- An item of plant had a fair value of $1-8 million above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.
- Greca had a contingent liability which Viagem estimated to have a fair value of $450,000. This has not changed as at 30 September 2012.

Greca has not incorporated these fair value changes into its financial statements.

(ii) Viagem's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Greca's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(iii) Sales from Viagem to Greca throughout the year ended 30 September 2012 had consistently been $800,000 per month. Viagem made a mark-up on cost of 25% on these sales. Greca had $1-5 million of these goods in inventory as at 30 September 2012.

(iv) Viagem's investment income is a dividend received from its investment in a 40% owned associate which it has held for several years. The underlying earnings for the associate for the year ended 30 September 2012 were $2 million.

(v) Although Greca has been profitable since its acquisition by Viagem, the market for Greca's products has been badly hit in recent months and Viagem has calculated that the goodwill has been impaired by $2 million as at 30 September 2012.

Required:

(a) Calculate the consolidated goodwill at the date of acquisition of Greca.

(b) Prepare the consolidated income statement for Viagem for the year ended 30 September 2012.

The following mark allocation is provided as guidance for these requirements:

(a) 7 marks

(b) 14 marks

(21 marks)

(c) The carrying amount of a subsidiary's leased property will be subject to review as part of the fair value exercise on acquisition and may be subject to review in subsequent periods.

Required:

Explain how a fair value increase of a subsidiary's leased property on acquisition should be treated in the consolidated financial statements; and how any subsequent increase in the carrying amount of the leased property might be treated in the consolidated financial statements.

Note: Ignore taxation. (4 marks)

(25 marks)