CHAPTER 11

CONSOLIDATION OF STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows

There was no change in group structure during the year

3 Additional Working Notes:
- Investment in associate
- Goodwill
- Non-Controlling Interest

There was a change in group structure during the year (Disposal or Acquisition)

A new Subsidiary was acquired during the year

An Existing Subsidiary was disposed off during the year

Investment in Subsidiary – The outflow made to acquire the subsidiary will be shown in Investing Activities

Regarding the balances of assets, liabilities, & equity – the balances of assets and liabilities appearing on the date of acquisition of the subsidiary have been incorporated into Group FS but these were purchased by subsidiary at the time when that was not part of group. So these are not group cash outflows.

Additional Working Notes:
- Cost of Control
- Business Purchase Account

Inflow from disposal – the consideration received for the equity share given up
Will be shown in Investing Activities

Regarding the balances of assets, liabilities, & equity – The subsidiary has been disposed off and the closing balances of assets and liabilities of group do not include subsidiary assets and liabilities but the opening balances of group does include subsidiary disposed off.

Additional Working Notes:
- Disposal Account
- Business Sale Account

Investment in associate

B/F	xxx	xxx	Cash
P & L	xxx		
		xxx	C/D

Share of profit in P&L
- Adjustment in cash flow from operating activities

Dividend paid by associate
- Inflow in cash flow from investing activities

Goodwill

B/F	xxx	xxx	P & L
		xxx	C/D

Impairment charged in P&L
– Adjustment in cash flow from operating activities

Non- Controlling Interest

Cash	xxx	xxx	B/F
		xxx	P & L
C/D	xxx		

Dividend paid to NCI
- Outflow in cash flow from financing activities

Disposal

Investment	xxx	xxx	Cash
P & L	xxx	xxx	P & L

Gain or loss booked in P&L
- Adjustment in cash flow from operating activities

Business Purchase and Sale accounts incorporate the effect of the purchase or disposal:

- ⇛ **Dr.** Asset & **Cr.** Business Purchase Account **OR** **Dr.** Business Sale Account & **Cr.** Asset With FV of asset on DOA
- ⇛ **Dr.** BPA & **Cr.** Liability **OR** **Dr.** Liability & **Cr.** BSA With FV of liability on DOA
- ⇛ The balancing figure will be the net assets of the subsidiary on the Date Of Acquisition (DOA) and are to be allocated to NCI and CRE.

PRACTICE QUESTIONS

Question #1 Investment acquired during the year

Following is the information concerning the Investor Group for the year ended December 31, 20X3

Consolidated Income statement

	20X3 Rs. (000)	20X3 Rs. (000)
Profit from operations		
Group	16,600	
Associates	980	17,580
Income tax expense		
Group	7,900	
Associates	420	(8,320)
Profit after tax		9,260
Non controlling interest		(1550)
Group profit for the year		7,710

Consolidated statement of changes in equity

	20X3 Rs. (000)
Opening balance at 1-1-20X3	21,845
Profit for the year	7,710
Dividend paid	(2,100)
New shares issued	2,000
	29,455

Consolidated balance sheet

	20X3 Rs. (000)	20X3 Rs. (000)	20X2 Rs. (000)	20X2 Rs. (000)
Non-current assets				
Investment in associates	6,200		5,700	
Goodwill on acquisition	680		280	
Property, plant and equipment	21,200	28,080	16,900	22,880
Current assets				
Inventories	16,600		12,200	
Receivables	15,000		9,300	
Cash	50	31,650	1,445	22,945
		59,730		45,825
Capital and reserves				

Issued capital	14,000		13,000	
Share premium	2,645		1,645	
Accumulated profits	12,810	29,455	7,200	21,845
Non controlling interest		8,200		6,600
Long term loans		1,655		5,280
Current liabilities				
Trade payables	7,700		5,800	
Taxation	9,100		4,900	
Bank overdraft	3,620	20,420	1,400	12,100
		59,730		45,825

Notes

1 On July 01, 20X3 the Investor Group acquired 80% of the issued share capital of Vulnerable Limited, whose net assets at the date were as follows:

	Rs. (000)
Property, plant and equipment	2,600
Inventories	900
Receivables	980
Cash	200
Trade payables	(1,380)
Tax	(300)
	3,000

2 The purchase consideration was Rs.2.8 million in cash

3 Depreciation charged in the year amounted to Rs. 2,200,000. There were no disposals of property, plant and equipment during the year.

Required: - Prepare Cash flow statement for the Investor Group

Question #2-Investment disposed off during the year

Following is the information concerning the JCN Group for the year ended December 31, 20X0

Consolidated Income statement

	20X0 Rs. (000)
Profit from operations	
Group	20,000
Finance cost	(1,400)
Gain on disposal	700
Profit before tax	19,300
Tax expense	(6,500)
Profit after tax	12,800
Non controlling interest	(1,000)
Group profit for the year	11,800

Consolidated statement of changes in equity

	20X0 Rs. (000)
Opening balance at 1-1-20X0	49,500
Profit for the year	11,800
Dividend paid	(3,000)

58,300

Consolidated balance sheet

	20X0 Rs. (000)	20X0 Rs. (000)	20W9 Rs. (000)	20W9 Rs. (000)
Non-current assets				
Property, plant and equipment		51,350		50,000
Current assets				
Inventories	25,000		23,000	
Receivables	21,000		19,000	
Cash	6,000	52,000	2,000	44,000
		103,350		94,000
Capital and reserves				
Issued capital	20,000		20,000	
Accumulated profits	38,300	58,300	29,500	49,500
Non controlling interest		5,050		5,750
Long term loans		9,500		12,500
Current liabilities				
Trade payables	18,500		16,250	
Taxation	6,000		5,000	
Bank overdraft	6,000	30,500	5,000	26,250
		103,350		94,000

Notes

1. On June 30, 20X0 the JCN disposed off its investment in Pear a subsidiary in which it had a shareholding of 80%. The proceeds were Rs. 5.5 million. Details of disposal were as follows: -

	Rs. (000)
Property, plant and equipment	4,000
Inventories	2,000
Receivables	2,500
Trade payables	(1,500)
Bank overdraft	(200)
Tax	(300)
Long term loan	(500)
	6,000

2. JCN had acquired its investment on June 30, 20V8 for Rs.1.9 million when the net assets of Pear were Rs. 2 million. Goodwill was found to be impaired several years ago and so was fully written off before the start of current year.
3. Depreciation charged during the year in the consolidated income statement amounted to Rs. 10.1 million. There were no disposal of property, plant and equipment by the group other than those effectively made upon disposal of the investment in the Pear.

Required: - Prepare Cash flow statement for the Investor Group

Question #3-Foreign Subsidiary

Following is the information concerning the ETAC Group for the year ended December 31, 20X0

Consolidated Income statement

	20X0 Rs. (000)
Revenue	30,000
Cost of sales	(20,000)
Gross profit	10,000
Other operating expenses	(6,000)
Profit from operations	4,000
Finance cost	(1,000)
Profit before tax	3,000
Tax	(1,000)
Profit after tax	2,000
Non controlling interest	(300)
Group profit for the year	1,700

Consolidated statement of changes in equity

	20X0 Rs. (000)
Opening balance at 1-1-20X3	6,200
Profit for the year	1,700
Dividend paid	(1,200)
Exchange difference	250
	6,950

Consolidated balance sheet

	20X0 Rs. (000)	**20X0 Rs. (000)**	**20W9 Rs. (000)**	**20W9 Rs. (000)**
Non-current assets				
Property, plant and equipment		15,450		11,500
Current assets				
Inventories	4,000		3,500	
Receivables	5,000		4,500	
Cash	600	9,600	500	8,500
		25,050		20,000
Capital and reserves				
Issued capital	4,000		4,000	
Accumulated profits	2,950	6,950	2,200	6,200
Non controlling interest		3,300		3,050
Long term loans		6,000		3,000
Current liabilities				
Trade payables	4,200		3,900	
Taxation	1,000		850	
Bank overdraft	3,600	8,800	3,000	7,750
		25,050		20,000

Notes

1 The exchange difference on translation of the opening net assets and profits of the foreign subsidiary were as follows: -

	Rs. (000)
Property, plant and equipment	225
Inventories	75
Receivables	95
Cash	10
Trade payables	(65)
Tax payable	(20)
Bank overdraft	(60)
Profits for the year	50
	310

2 The group share of these differences is included in the consolidated equity. The exchange difference on profits all related to operating items excluding depreciation.

3 The depreciation of property, plant and equipment for the year Rs. 1,600,000. No disposals took place during the year.

4 Goodwill on acquisition was fully written off several years before the start of the current financial year.

Required: - Prepare Cash flow statement for the ETACH Group

PAST PAPERS

Q-1

Following is the consolidated balance sheet of Iqbal Limited as at June 30, 2007:

	2007	2006
	Rupees in million	
ASSETS		
Non-Current Assets		
Tangible fixed assets	2,142	1,927
Goodwill	343	305
	2,485	2,232
Current Assets		
Cash and bank	808	700
Investments	982	560
Trade receivables	1,128	1,168
Inventory	1,850	1,715
	4,768	4,143
TOTAL ASSETS	7,253	6,375
EQUITY AND LIABILITIES Equity		
Ordinary shares of Rs. 10 each	505	450
8% preference shares of Rs. 10 each	600	600
Share premium	55	-
Revaluation reserves	140	-

Accumulated profits	2,670	2,480
	3,970	3,530
Minority Interest	238	200
	4,208	3,730
Liability against assets subject to finance lease	300	420
Deferred tax	75	55
Current Liabilities		
Running finance	940	900
Trade payables	950	720
Income tax payable	600	450
Dividends payable	180	100
	2,670	2,170
TOTAL EQUITY AND LIABILITIES	7,253	6,375

Following further information has been extracted from the records:

(i) Iqbal Limited has two subsidiaries i.e. Faiz Limited and Badar Limited.

(ii) The factory buildings of Faiz Limited and Badar Limited were revalued during the year and the surplus arising on the revaluation was credited to a revaluation reserve account.

(iii) Certain plant and machineries belonging to Faiz Limited, acquired under finance lease arrangement, were capitalized at Rs. 50 million.

(iv) On September 30, 2006, equipment costing Rs. 55 million carried in the books of Iqbal Limited at Rs. 35 million as at June 30, 2006 was completely destroyed by fire. Insurance proceed of Rs. 40 million was received on November 17, 2006. There was no other disposal of tangible fixed assets in any of the three companies.

(v) Total depreciation in the consolidated profit and loss account amounted to Rs. 314 million which included depreciation on leased assets amounting to Rs. 38 million.

(vi) 80% of the paid-up capital of Faiz Limited was acquired during the year for Rs. 110 million. The payment was made by issuing 5.5 million ordinary shares of Rs. 10 each at 100% premium. The net assets of Faiz Limited at the date of acquisition were as follows:

	Rs. in million
Tangible fixed assets	60
Inventories	20
Trade receivables	25
Cash	10
Trade payables	(25)
	90

vii) Provision made during the year, for current and deferred tax amounted to Rs. 200 million and Rs. 20 million respectively.

(viii) Profit allocated to minority shareholders amounted to Rs. 35 million.

(ix) The details relating to dividend paid by Iqbal Limited for the year are as follows:

	2007	2006
Declared on	June 15, 2007	June 15, 2006
Paid on	August 31, 2007	August 31, 2006
Amount	Rs. 180 million	Rs. 100 million

Required:

Prepare the consolidated cash flow statement for the year ended June 30, 2007. Show necessary workings.

Q-2

The following balances were extracted from the Consolidated Income Statement and Consolidated Statement of Financial Position of Karachi Group Limited for the year ended June 30, 2010.

	2010 Rs. (m)
Operating profit	189
Share of profit from associate	5
Financial charges	(14)
Profit before tax	180
Taxation	(65)
Profit for the year	115
Attributable to: -	
Owners of the parent	100
Non-controlling interest	15
	115

Consolidated statement of financial position

	2010 Rs. (m)	2009 Rs. (m)		2010 Rs. (m)	2009 Rs. (m)
Equity and liabilities			**Assets**		
Equity			**Non-current assets**		
Share capital	200	200	Property, plant and equipments	510	500
Retained earnings	320	250			
	520	450	Investment in associates	12	10
Non-controlling interest	28	10	Intangible assets	30	25
	548	460		552	535
Long term loans	125	120			
Current liabilities			**Current assets**		
Current portion of long term loans	20	--	Inventories	261	200
Trade creditors and other payables	262	287	Trade debtors and other receivables	180	162
Accrued financial charges	8	5	Short term deposits	10	--
Taxation	60	50	Cash and bank	20	25
	350	342		471	387
Total equity and liabilities	**1,023**	**922**	**Total assets**	**1,023**	**922**

i) One of KGL's three subsidiaries, Auto Engineering Works Limited was acquired on July 01, 2009 by purchase of 80% shareholding for Rs. 30 million. Fair value of the assets and liabilities were as follows: -

	Rs. In Millions
Property, plant and equipments	20.50
Inventories	10.00
Trade debtors and other receivables	8.00
Cash and bank	6.00
Trade creditors and other payables	(17.00)
	27.50

It is KGL's policy to value the non controlling interest at its proportionate share of fair value of the subsidiaries net assets.

ii) Book value of intangible assets on July 01, 2009 included trademark of Rs. 6 million. There was 50% impairment in the value of trademarks during the year ended June 30, 2010.

iii) The following information pertaining to property, plant and equipment is available: -

- Total depreciation charge for the year was Rs. 70 million
- A machine costing Rs. 10 million and having book value of Rs. 6.5 million was traded in with another machine having fair value of Rs. 7 million with an additional cash payment of Rs. 1 million
- Fully depreciated assets costing Rs. 10 million were scrapped during the year.
- Proceed of a long term loan amounting to Rs. 5 million were specifically used for purchase of property, plant and equipment.

iv) On August 5, 2010 the board of directors proposed a final dividend at 20% for the year ended June 30, 2010 (2009 15% dividend declared on August 10, 2009)

Required:

Prepare a consolidated statement of cash flows under the indirect method for the year ended June 30, 2010 including notes thereto as required by IAs 7.

Q-3

Alpha Pakistan Limited (APL) is a listed company and has 60% holding in Bravo Limited (BL). The company is in the process of preparation of its consolidated financial statements for the year ended 30 September 2011. Following are the extracts from the information that has been gathered so far:

Consolidated Statement of Comprehensive Income (Draft) 2011

	Rs. in million
Sales	65,000
Cost of products sold	(59,110)
Other operating income	2,000
Operating expenses	(3,000)
Financial expenses	(890)
Income tax expense	(1,200)
Profit for the year	2,800
Profit attributable to	
Owners of the holding company	2,500
Non-controlling interest	300
	2,800

Consolidated Statement of Financial Position (Draft)

	2011	2010		2011	2010
	Rs. in million			Rs. in million	
Equity and liabilities			Assets		
Share capital (Rs. 10) each	550	500	Property, plant and equipment	1,100	900
Retained earnings	5,950	3,600	Goodwill	15	15
Non-controlling interest	235	120	Long term receivables	24	29
Long term loans	440	145	Stock in trade	6,760	4,280
Deferred tax	210	10	Trade debts	7,534	5,421
Trade and other payables	4,688	3,970	Other receivables	900	725
Accrued financial expenses	35	30	Cash and bank balances	2,645	2,980
Provision for taxation	200	25			
Short term borrowings	6,670	5,950			
	18,978	14,350		18,978	14,350

Following additional information is available:

- During the year, BL sold goods amounting to Rs. 140 million to APL at a margin of 25% of cost. 40% of the above amount remained unpaid and 30% of the goods remained unsold as on 30 September 2011. No adjustments in this regard have been made in the above statements.
- Depreciation charge for the year was Rs. 75 million and Rs. 15 million for APL and BL respectively.
- During the year APL acquired property, plant and equipment amounting to Rs. 250 million against a long term loan.
- The amount of long term receivables represents present value of interest free loans to employees. The gross value of the loans is Rs. 27 million (2010: Rs. 33 million).
- Operating expenses include bad debt expenses amounting to Rs. 44 million. During the year, trade debtors amounting to Rs. 30 million were written off.
- Trade and other payables include APL's unclaimed dividend amounting to Rs. 8 million (2010:Rs. 10 million). At APL's Board meeting held on 30 November 2011, final cash dividend of Rs. 3.0 per share has been proposed (2010: Final cash dividend of Rs 2.0 per share and 10% bonus shares).

Required:

Prepare a consolidated statement of cash flows including all relevant notes for Alpha Pakistan Limited for the year ended 30 September 2011 using the direct method in accordance with International Financial Reporting Standards. (Ignore corresponding figures.)