Chapter 10
DISPOSALS

Total disposal
Partial disposal:
- o Remains a subsidiary
- o Becomes `an associate
- o Trade investment

Deemed disposal

Basic principles

In an acquisition, the fundamental principles to be observed are that profits should be consolidated only while the parent/subsidiary relationship exists. Similarly the equity basis should be adopted in relation to earnings only while an investing/associate relationship exists. The same principle must be adopted where there is a disposal of shares in a subsidiary or associate in that the consolidated accumulated profits should include the subsidiary's or the associate's results up to the data of disposal plus the gain or loss on sale of the investment.

There are three main problem areas: -

a) The computation of the gain or loss arising from the viewpoint of
   i) the separate accounts of the investing company
   ii) the consolidated accounts
b) The movement in reserves of
   i) the investing company
   ii) the group
c) the treatment of any income tax liability arising on sale

IFRS10

IFRS3 requires the consolidated income statement to include the results of the disposed subsidiary up to the effective date of disposal.

IFRS5

IFRS5 will require the disposal to be shown either as continuing or discontinued depending on whether the sale leads to activities being discontinued. The gain or loss will be disclosed after operating profits assuming that it is material.

Suggested procedures

CSOFP

Step-1 Ascertain group structure/pre-acquisition reserves
Step-2 Calculate goodwill arising on consolidation
Step-3 Calculate the profit or loss on disposal of investment in parent company's book
Step-4 Calculate the consolidated reserves
Step-5 Prepare pro-forma CSOFP

CSOCI

Step-6 Ascertain net assets at disposal
Step-7 Calculate profit or loss on disposal of investment in consolidation books; reconcile with step-3
Step-8 Prepare consolidation income statement working schedule
Step-9 Prepare pro-forma CSOCI

It has been assumed above that question required full set of accounts; in the examination the question will most probably concentrate on the CSOCI.

FULL DISPOSAL

Statement of Financial Position

There will be neither an NCI and nor addition of assets and liabilities of subsidiary with the group as there is not a status of a subsidiary at the date of Statement of Financial Position.

- The following double entries will be incorporated at date of disposal from group point of view: -

Cash (Debit)	x	
NCI (Share of net assets at date of disposal) (Debit)	x	
Net assets in Subsidiary at date of disposal (Credit)		x
Goodwill (un-impaired at date of disposal) Credit		x
Consolidated retained earnings		x
Tax payable (if any)		x

Statement of Comprehensive Income

- The subsidiary is consolidated till the date of disposal.
- The NCI in income statement will be based on percentage before disposal.
- Group gain on disposal will be presented.
- The subsidiary should be taken as discontinued operation under IFRS-5.

Parent company		**Group**	
Disposal proceeds	x	Disposal proceeds	x
Less:		Less:	
Carrying value of investment	(x)	Share of Net assets held at the date of disposal	(x)
Gains / (losses) previously recognized in OCI	x	Group goodwill (Not yet written off)	(x)
		Gains / (losses) previously recognized in OCI	x
Profit before tax	X	Gain before tax	X
Tax	(x)	Tax	(x)
Profit after tax-gain to parent	x	Gain after tax	x

Example-1

Total disposal

You are given the statement of financial position of P and its two subsidiaries Y and Z as at 31 December 20.X1 and income statements for the year ended 31 December 20.X1 as shown below:

	P	**Y**	**Z**
	Rs.000	**Rs.000**	**Rs.000**
Investments:			
Cost of 80% interest in Y	13,000		
Cost of 75% interest in Z	11,000		
Suspense account – disposal proceeds Z	(18,900)		
Other sundry net assets	59,300	30,000	20,000
	64,400	30,000	20,000
Share capital - Rs.1 ordinary shares	30,000	10,000	10,000
Retained profits	34,400	20,000	10,000
	64,400	30,000	20,000

Income statements

	Rs.000	**Rs.000**	**Rs.000**
Sales revenue	100,000	55,500	25,800
Operating costs	(50,000)	(27,750)	(12,900)
Dividends receivable – Y	4,000		
Profit before tax	54,000	27,750	12,900
Taxation	(16,000)	(9,250)	(4,300)

Profit after tax	38,000	18,500	8,600
Dividends proposed	(15,000)	(5,000)	(4,000)
Retained profits for year	23,000	13,500	4,600
Retained profit b/f	11,400	6,500	5,400
Retained profit c/f	34,400	20,000	10,000

1. P acquired its 80% stake in Y on 1 January 19.x6 when its accumulated profits were Rs.5m. The fair value of NCI was Rs. 3.5 m.
2. P acquired its 75% stake in Z on 1 January 19.x6 when its accumulated profits were Rs.4m. The fair value of NCI was Rs. 4.5 m.
3. The balance on the suspense account represents the disposal proceeds of all the shares in Z, the date of sale being 30 September 20.X1. Capital gains tax of Rs.1.3m is expected to be payable on the disposal gain, and no provision has been made by P.
4. Goodwill is capitalized and tested annually for impairment (IFRS3). No impairment has been detected to date.
5. Dividends appropriated by Z were all declared before the year- end but after the date of disposal.

You are required to prepare the consolidated statement of financial position, income statement and statement of changes in equity for the P group for the year ended 31 December 20.X1?

Partial disposals: Partial disposal remaining as a subsidiary

Statement of Financial Position

- The NCI is based on the year end percentage.
- The change in NCI is shown as adjustment to the parent's equity, the double entries will be: -

Cash (Debit)	x	
Capital Reserve		x
Capital Reserve (Debit-with the amount of net assets + goodwill transferred*)	x	
NCI (Credit)		x

- Goodwill on acquisition is un-changed in the CSOFP.

* The goodwill only transfers to NCI if NCI is measured at date of acquisition at Fair value.

Statement of Comprehensive Income

- The subsidiary is consolidated in full for the whole year.
- The NCI in income statement will be based on percentage before and after disposal
- There is no profit or loss on disposal

Parent company		**Group**	
Disposal proceeds	X	Disposal proceeds	x
Less:		Less:	
Proportionate share of carrying value of investment	(x)	Share of net assets transferred to NCI by Group	(x)
Fair value gain / loss previously recognized in OCI	x	Increase in NCI Goodwill at disposal (Only Full)	(x)
Profit before tax	X	Adjustment to parent's equity before tax	x
Tax	(x)	Tax	(x)
Profit after tax-gain to parent*	X	Adjustment to parent's equity after tax	x

*The gain or loss recognized by the parent company will be eliminated while preparing group financial statements.

Example-2

You are given the statement of financial position of P and its two subsidiaries Y and Z as at 31 December 20.X1 and profit and loss accounts for the year ended 31 December 20.X1 as shown below:

	P	Y	Z
	Rs.000	**Rs.000**	**Rs.000**
Investments:			
Cost of 80% interest in Y	13,000		
Cost of 75% interest in Z	11,000		
Suspense account – disposal proceeds Z	(3,600)		
Other sundry net assets	47,000	30,000	20,000
	67,400	30,000	20,000
Equity:			
Share capital - Rs.1 ordinary shares	30,000	10,000	10,000
Accumulated profits	37,400	20,000	10,000
	67,400	30,000	20,000

Income statements

	Rs.000	Rs.000	Rs.000
Sales revenue	100,000	55,500	25,800
Operating costs	(50,000)	(27,750)	(12,900)
Dividends receivable – Y	4,000		
Dividends receivable – Z	3,000		
Profit before tax	57,000	27,750	12,900
Income tax expenses	(16,000)	(9,250)	(4,300)
Profit after tax	41,000	18,500	8,600
Dividends	(15,000)	(5,000)	(4,000)
Retained profits for year	26,000	13,500	4,600
Retained profit b / f	11,400	6,500	5,400
	37,400	20,000	10,000

1. P acquired its 80% stake in Y on 1 January 19.x6 when its accumulated profits were Rs.5m. The fair value of NCI was Rs. 3.5 m.
2. P acquired its 75% stake in Z on 1 January 19.x6 when its accumulated profits were Rs.4m. The fair value of NCI was Rs. 4.5 m.
3. The balance on the suspense account represents the disposal proceeds of 1.5m shares (15%) in Z, the date of sale being 30 September 20.X1. A capital gains tax liability of Rs.240,000 is expected to be payable on the disposal gain, and no provision has been made by P.
4. Goodwill arising on consolidation is capitalized and tested annually for impairment (IFRS3). No impairment has been detected to date.
5. Dividends appropriated by Z were all paid before the disposal of shares.

You are required to prepare the consolidated statement of financial position, income statement and statement of changes in equity for the P group for the year ended 31 December 20.X1?

Partial disposals: Partial disposal and subsidiary becomes an associate

Statement of Financial Position

- The remaining investment in subsidiary disposed off is recognized in CSOFP at date of disposal at FV plus share of any post disposal profit/gains/ (losses).i.e. use equity method thereafter.
- Derecognize full goodwill belonging to group.

- Derecognize NCI and net assets of subsidiary disposed off.
- The following double entries will be incorporated at date of disposal from group point of view: -

Cash (Debit)	x	
Investment in Associate (Debit)	x	
NCI (Share of net assets at date of disposal) (Debit)	x	
Net assets in Subsidiary at date of disposal (Credit)		x
Goodwill (un-impaired at date of disposal) Credit		x
Consolidated retained earnings		x

Statement of Comprehensive Income

- The subsidiary is consolidated till the date of disposal.
- The NCI in income statement will be based on percentage before disposal
- Group gain on disposal will be presented
- The subsidiary should be taken as discontinued operation under IFRS-5
- Take share of profit after tax of associated under equity method thereafter.

Parent company		**Group**	
Disposal proceeds	x	Disposal proceeds	x
		Fair value of any investment retained	x
Less:		Less:	
Cost of investment	(x)	Share of Net assets held at the date of disposal	(x)
Gains / (losses) previously recognized in OCI	X	Group goodwill (Not yet written off)	(x)
		Gains / (losses) previously recognized in OCI	x
Profit before tax	x	Gain before tax	x
Tax	(x)	Tax	(x)
Profit after tax-gain to parent	x	Gain after tax	X

Example-3

You are given the statement of financial position of P and its two subsidiaries Y and Z as at 31 December 20.X1 and profit and loss accounts for the year ended 31 December 20.X1 as shown below:

	P	**Y**	**Z**
	Rs.000	**Rs.000**	**Rs.000**
Investments:			
Cost of 80% interest in Y	13,000		
Cost of 75% interest in Z	11,000		
Suspense account – disposal proceeds -z	(11,000)		
Other sundry net assets	52,600	30,000	20,000
	65,600	30,000	20,000
Equity:			
Share capital - Rs.1 ordinary shares	30,000	10,000	10,000
Accumulated profits	35,600	20,000	10,000
	65,600	30,000	20,000

Income statements

	Rs.000	**Rs.000**	**Rs.000**
Sales revenue	100,000	55,500	25,800
Operating costs	(50,000)	(27,750)	(12,900)
Dividends receivable – Y	4,000		
Dividends receivable – Z	1,200		

Profit before tax	55,200	27,750	12,900
Income tax expenses	(16,000)	(9,250)	(4,300)
Profit after tax	39,200	18,500	8,600
Dividends	(15,000)	(5,000)	(4,000)
Retained profits for year	24,200	13,500	4,600
Retained profit b/f	11,400	6,500	5,400
	35,600	20,000	10,000

1. P acquired its 80% stake in Y on 1 January 19.x6 when its accumulated profits were Rs.5m. The fair value of NCI was Rs. 3.5 m.
2. P acquired its 75% stake in Z on 1 January 19.x6 when its accumulated profits were Rs.4m. The fair value of NCI was Rs. 4.5 m.
3. The balance on the suspense account represents the disposal proceeds of 4.5m shares (45%) in Z, the date of sale being 30 September 20.X1. A capital gains tax liability of Rs.750,000 is expected to be payable on the disposal gain, and no provision has bee made by P.
4. Dividends appropriated by Z were all paid after the disposal of shares.
5. The fair value of remaining equity interest is Rs.12.5 million.

You are required to prepare the consolidated statement of financial position and income statement for the year ended 31 December 20X1?

Partial disposals: Partial disposal and subsidiary becomes an ordinary investment

Statement of Financial Position

- The investment is recognized in CSOFP at date of disposal FV.
- Derecognize full goodwill belonging to group.
- Derecognize NCI and net assets of subsidiary disposed off.
- The following double entries will be incorporated at date of disposal from group point of view: -

Cash (Debit)	x		
Investment under IAS -39 (Debit)	x		
NCI (Share of net assets at date of disposal) (Debit)		x	
Net assets in Subsidiary at date of disposal (Credit)			x
Goodwill (un-impaired at date of disposal) Credit			x
Consolidated retained earnings		x	

Statement of Comprehensive Income

- The subsidiary is consolidated till the date of disposal.
- The NCI in income statement will be based on percentage before disposal
- Group gain on disposal will be presented
- The subsidiary should be taken as discontinued operation under IFRS-5

Parent company		**Group**	
Disposal proceeds	X	Disposal proceeds	X
		Fair value of any investment retained	X
Less:		Less:	
Cost of investment	(x)	Share of Net assets held at the date of disposal	(x)
Gains / (losses) previously recognized in OCI	x	Group goodwill (Not yet written off)	(x)
		Gains / (losses) previously recognized in OCI	x
Profit before tax	X	Gain before tax	X
Tax	(x)	Tax	(x)
Profit after tax-gain to parent	X	Gain after tax	x

Example-4

You are given the statement of financial position of P and its two subsidiaries Y and Z as at 31 December 20.X1 and profit and loss accounts for the year ended 31 December 20.X1 as shown below:

	P	Y	Z
	Rs.000	**Rs.000**	**Rs.000**
Investments:			
Cost of 80% interest in Y	13,000		
Cost of 75% interest in Z	11,000		
Suspense account – disposal proceeds Z	(15,000)		
Other sundry net assets	55,800	30,000	20,000
	64,800	30,000	20,000
Equity:			
Share capital - Rs.1 ordinary shares	30,000	10,000	10,000
Accumulated profits	34,800	20,000	10,000
	64,800	30,000	20,000

Income statements

	Rs.000	Rs.000	Rs.000
Sales revenue	100,000	55,500	25,800
Operating costs	(50,000)	(27,750)	(12,900)
Dividends receivable – Y	4,000		
Dividends receivable – Z	400		
Profit before tax	54,400	27,750	12,900
Income tax expenses	(16,000)	(9,250)	(4,300)
Profit after tax	38,400	18,500	8,600
Dividends	(15,000)	(5,000)	(4,000)
Retained profits for year	23,400	13,500	4,600
Retained profit b/f	11,400	6,500	5,400
	34,800	20,000	10,000

1. P acquired its 80% stake in Y on 1 January 19.x6 when its accumulated profits were Rs.5m.
2. P acquired its 75% stake in Z on 1 January 19.x6 when its accumulated profits were Rs.4m.
3. The balance on the suspense account represents the disposal proceeds of 6.5m shares (65%) in Z, the date of sale being 30 September 20.X1. A capital gains tax liability of Rs.1,000,000 is expected to be payable on the disposal gain, and no provision has been made by P.
4. Dividends appropriated by Z were all paid after the disposal of shares.
5. The fair value of remaining equity interest is Rs.5.5 million at date of disposal and Rs. 5.7 million at reporting date. The investment is classified as At FV through P&L.

You are required to prepare the consolidated statement of financial position and income statement for the year ended 31 December 20X1?

Example-5

Deemed Disposals

A deemed disposal may arise where the parent company does not take up its full allocation of rights in a rights issue so that the parent company's attributable shareholding is reduced. This deemed disposal has the same effect as a direct disposal of shares. The accounting treatment will be the same as above.

Other examples where a deemed disposal may arise are:

- Parent company does not take up its full share of a scrip dividends
- Subsidiary issued shares to other non group parries
- Another party exercises its options or warrants

P acquired an 80% shareholding in S on 1 January 1991 for Rs.180m. The fair values of net assets of S on 1 January 1991 were Rs.200m and had an issued shares capital of Rs.100m in Rs.1 shares. On 31 December 2001 S made a right issue of one for one at Rs.3. Pa did not take up its rights issue but all other shareholders in S subscribed in full. The net assets of S on 31 December 2001 were Rs.320m before the rights issue. Goodwill arising on consolidation is amortized over 20 years (Before IFRS3).

You are required to calculate the group profit or loss on deemed disposal at 31 December 2001.

Example -6 (Discontinued Operations)

Balboa, a public limited company, has acquired two subsidiaries during the accounting period. The details of the acquisitions are as follows:

Company	Date of acquisition	Ordinary share capital	Reserves at acquisition	Fair value of net assets at acquisition	Cos of investment	Ordinary share capital of Rs. 1 acquired
		Rs. m	**Rs. m**	**Rs. m**	**Rs. M**	**Rs. m**
Borbon	1 May 20X4	500	750	1,400	1,332	450
Carbonell	1 October 20x4	300	180	640	476	210

The draft income statements for the year ended 31 December 20x4 are:

	Balboa	Borbon	Carbonell
Revenue	4,700	3,300	1,800
Cost of sales	(3,700)	(2,400)	(1,400)
Gross profit	1,000	(900)	(400)
Other income	150	30	--
Distribution cost	(270)	(210)	(180)
Administrative expenses	(220)	(180)	(80)
Finance cost	(110)	(60)	(20)
Profit before tax	550	480	120
Income tax expense	(180)	(150)	(40)
Profit for the year	370	330	80

The following information is relevant to the preparation of the group financial statements.

(a) The investment in Borbon was acquired as part of a growth strategy of the group. The difference between fair value and book value on acquisition relates to properties, with an average remaining useful life of 10 years at the date of acquisition. Borbon made a dividend payment of Rs.50m on 20 October 20X4 out of post acquisition profits and this is included in Balboa's 'other income'.

(b) Carbonell was acquired exclusively with a view to sale and at 31 December 20X4 meets the criteria of being a disposal group. The fair value of Carbonell at 31 December 20X4 is Rs.710m and the estimated selling costs of the shareholding in Carbonell are Rs.14m.

The difference between fair value and book value at acquisition related to land held by Carbonell. Carbonell did not pay any dividends in the post-acquisition period.

(c) At 1 January 20X4, Borbon held an investment in the quoted debenture loans of another company, correctly carried at Rs.113m, which it intended to hold to its maturity date, 31 December 20X4, when they were to be redeemed at Rs.115m. The debentures had an effective interest rate is 5.5%. On 1 January 20X4 the company received a letter indicating the investee was suffering financial difficulties and was expected to enter liquidation. The letter indicated that the bond would be repaid on its original repayment date 31 December 20X4, but that no further interest would be paid. This is indeed what happened. Other than recording the cash received on 31 December 20X4, no further adjustments have been made. The letter was not considered an adjusting event after the balance sheet date affecting the 20X3 financial statements.

(d) Calculations conducted at the yearend showed the recoverable amount (based on continuing use) of Borbon to be Rs.1,660m and that of Carbonell was Rs.690m at 31 December 20X4. Impairment losses on goodwill are charged to cost of sales.

(e) Assume that profits accrue evenly throughout the year and ignore any taxation effects.

Required

Prepare a consolidated income statement for the Balboa Group for the year ended 31 December 20X4 in accordance with International Financial Reporting Standards.

PAST PAPERS

Q-1 GIF Holdings Limited (GIF) held 75% shares of JPG Limited (JPG) and 30% shares of BMP Limited (BMP). Their summarized balance sheets as at June 30, 2005 are as follows:

	GIF	**JPG**	**BMP**
	Rupees in million		
Investments at cost in:			
JPG Limited	450	-	-
BMP Limited	250	-	-
Other Net assets	1,690	1,000	800
	2,390	**1,000**	**800**
Share capital (Rs.10 per share)	100	100	50
Accumulated profits	2,290	900	750
	2390	**1,000**	**800**

Following additional information is also available:

(a) GIF acquired the shares of JPG many years ago when the reserves of JPG were Rs. 500 million. The reserves of BMP were Rs. 650 million when GIF bought its 30% holding on July 01, 2004.

(b) The following transactions have taken place from July 01, 2005 to June 30, 2006:

- On January 01, 2006, GIF acquired a further 2,500,000 shares in BMP for Rs. 705 million, the fair value of already held investment at that date was Rs. 425 million.
- On April 01, 2006 GIF sold its entire interest in JPG for Rs. 1.1 billion in cash. Tax arising on this transaction was Rs. 83 million.
- The draft results of the individual companies in the period since July 01, 2005 are as follows:

	GIF	**JPG**	**BMP**	
	For the year ended		**For the six months ended**	
	June 30, 2006		**Dec. 31, 2005**	**June 30, 2006**
	Rs. in million		**Rs. in million**	
Turnover	4,000	5,400	2,500	3,000
Profit before tax	400	**320**	**300**	**340**
Tax	(140)	(112)	(105)	(119)
Profit after tax	260	208	195	221

(c) While preparing the results for the year ended June 30, 2006, GIF has not given effect to the disposal of its holding in JPG.

(d) Directors of GIF have indicated that costs of Rs. 70 million incurred and charged by BMP in its draft results for the six-months ended June 30, 2006 had been incurred prior to its acquisition by GIF, whereas they were recorded after January 1, 2006.

(e) BMP has now decided to write off a debtor balance of Rs. 40 million of which Rs. 30 million had been outstanding since December 31, 2005. For the purpose of consolidation, Rs. 30 million will be considered to have been written off prior to January 1, 2006.

(f) GIF is a regular supplier to BMP, and makes a pre-tax profit of 20% on sales. Sales by GIF to BMP in the six-months ended June 30, 2006 were Rs. 800 million. Goods invoiced at Rs. 450 million were still in BMP's stock as at June 30, 2006.

(g) Goods invoiced by GIF to BMP in June 2006 at Rs.150 million were not reflected in BMP's accounts as at June 30, 2006 as they had not been delivered to BMP till then.

(h) The management of GIF tested the goodwill amount by comparing it with its recoverable amount and decided to reduce its value by 2.5% at June 30, 2006.

(i) Applicable tax rate is 35%. Ignore deferred tax.

Required: Prepare the consolidated statement of comprehensive income, statement of changes in equity of GIF Holdings Limited for the year ended June 30, 2006 and the consolidated statement of financial position as at June 30, 2006?

Q-2 Ahmed Limited (AL) is a manufacturer of leather shoes and allied products. On January 1, 2003 it acquired the shares of the following companies:

- Bilal Limited (BL) – 90% voting interest;
- Jamal Limited (JL) – 60% voting interest.

BL further acquired 30% shares of JL on January 1, 2004.

Following balances appear in the books of AL, BL and JL as at December 31, 2004:

	Al	**BL**	**JL**
		Rupees in thousands	
Investment in BL	500,000	-	-
Investment in KL	250,000	150,000	-
Plant and machinery	680,000	648,800	500,000
Equipment	-	1,200	-
Liabilities	(300,000)	(110,000)	(100,000)
Capital	(600,000)	(450,000)	(300,000)
Retained earnings	(400,000)	(120,000)	(80,000)
Dividends declared	200,000	20,000	10,000
Sales	(1,200,000)	(800,000)	(600,000)
Cost of sales and expenses	894,000	663,000	570,000
Dividend income	(24,000)	(3,000)	-
Other information relating to past period is as follows			
Retained earnings (January 1, 2003)	(300,000)	(90,000)	(40,000)
Net profit for 2003	(140,000)	(60,000)	(50,000)
Dividend declared 2003	40,000	30,000	10,000
Retained earnings (December 31, 2003)	(400,000)	(120,000)	(80,000)

Note: Figures in brackets represent credit balances.

Required: You are required to prepare consolidated statement of financial position, statement of changed in equity and statement of comprehensive income for the year ended December 31, 2004?

Q-3 The statements of financial position of Habib Limited (HL), Faraz Limited (FL) and Momin Limited (ML) as at June 30, 2009 are as follows:

	HL	**FL**	**ML**

	Rupees in million		
Assets			
Non-current assets			
Property, plant and equipment	978	595	380
Investments in FL - at cost	520	-	-
Investments in ML - at cost	300	-	-
	1,798	595	380
Current assets			
Stocks in trade	210	105	125
Trade and other receivables	122	116	128
Cash and bank	20	38	37
	352	259	290
Total assets	**2,150**	**854**	**670**
Equity and liabilities			
Equity			
Ordinary shares capital (Rs. 10 each)	800	360	100
Retained earnings	784	354	450
	1,584	714	550
Non-current liablities			
12% debentures	270	-	-
Current liabilities			
Short term loan	124	-	-
Trade and other payables	172	140	120
	296	140	120
Total equity and liabilities	**2,150**	**854**	**670**

Following additional information is also available:

(i) HL acquired 60% shares of FL on January 1, 2003 for Rs. 400 million when the retained earnings of FL stood at Rs. 250 million. On January 1, 2006, a further 20% shares in FL were acquired for Rs. 120 million. FL's retained earnings on the date of second acquisition were Rs. 400 million.

(ii) 70% shares of ML were acquired by HL for Rs. 300 million, on July 1, 2006 when ML's retained earnings stood at Rs. 260 million. On December 31, 2008, HL disposed off its entire holding in ML for Rs. 500 million. The disposal of shares has not yet been recorded in HL's financial statements.

(iii) On January 1, 2009, FL purchased a machine for Rs. 20 million and immediately sold it to HL for Rs. 24 million. However, no payment has yet been made by HL. The estimated useful life of the machine is 4 years and HL charges depreciation on the straight line method.

(iv) During the year, HL sold finished goods to FL at cost plus 20%. The amount invoiced during the year amounted to Rs. 75 million. 60% of these goods had been sold by FL till June 30, 2009.

(v) During the year ended June 30, 2009, FL and ML earned profits of Rs. 10 million and Rs. 50 million respectively. The profits had accrued evenly, throughout the year.

(vi) An impairment review at year end indicated that 15% of the goodwill recognized on acquisition of FL, is required to be written off.

(vii) HL values the non-controlling interest at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required: Prepare the consolidated statement of financial position of HL as at June 30, 2009 in accordance with the requirements of International Financial Reporting Standards? (Ignore current and deferred tax implications.)

Q-4 The following summarized statements of financial position pertain to Bee Limited and its investee companies as at December 31, 2011.

	Bee Limited Rs. (m)	Cee Limited Rs. (m)	Tee Limited Rs. (m)
Assets			
Non-current assets			
Property, plant and equipment	75,600	2,800	800
Investment in Cee Limited – at cost	3,900	--	--
Investment in Tee Limited – at cost	300	--	--
	79,800	2,800	800
Current assets			
Stock in trade	24,100	1,700	700
Trade and other receivables	16,400	2,900	820
Cash and bank	800	700	--
	41,300	5,300	1,520
Total assets	**121,100**	**8,100**	**2,320**
Equity and liabilities			
Equity			
Ordinary share capital	44,300	2,800	1000
Retained earnings	15,800	1,200	900
	60,100	4,000	1,900
Long term loan	36,400	--	
Current liabilities			
Trade and other payables	24,600	4,100	300
Bank overdraft			120
	24,600	4,100	420
Total equity and liabilities	**121,100**	**8,100**	**2,320**

The following information is also available:

(i) Bee holds 252 million shares of Cee which were acquired in 2005 when the retained earnings of Cee stood at Rs. 350 million. At the date of acquisition, the fair values of Cee's net assets were the same as their carrying amounts with the exception of a legal claim having a fair value of Rs. 7 million which had been disclosed in the financial statements as a contingent liability. The claim was settled on 30 November 2011, for the same amount.

(ii) Bee acquired 80% share capital of Tee several years ago for Rs. 1,200 million when Tee's retained earnings stood at Rs. 100 million. On 1 October 2011, Bee sold 75% of its holding in Tee for Rs. 2,000 million. On the date of disposal, the fair value of remaining holding was Rs. 650 million.

(iii) During the year, Cee sold goods to Bee at cost plus 25%. The amount invoiced during the year amounted to Rs. 32 million. 40% of these goods were held by Bee at year end. Bee has paid Rs. 20 million against the invoiced amount, upto 31 December 2011.

(iv) At year end, an impairment review indicated that 10% of Cee's goodwill is required to be written off.

(v) During the year ended 31 December 2011, Cee and Tee earned profits after tax of Rs. 250 million and Rs. 200 million respectively. It may be assumed that the profits had accrued evenly throughout the year.

(vi) Bee follows a policy of valuing the non-controlling interest at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required

Prepare the consolidated statement of financial position of Bee Limited as at 31 December 2011 in accordance with the requirements of International Financial Reporting Standards. (24 marks)

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Following are the extracts from the draft financial statements of three companies for the year ended 30 June 2012:

	Tiger Limited (TL)	Panther Limited (PL)	Leopard Limited (LL)
		Rs. in million	
Revenue	6,760	568	426
Cost of sales	(4,370)	(416)	(218)
Gross profit	2,390	152	208
Operating expenses	(1,270)	(54)	(132)
Profit from operations	1,120	98	76
Investment income	730	-	10
Profit before taxation	1,850	98	86
Income tax expense	(400)	(20)	(17)
Profit for the year	1,450	78	69

	Ordinary share capital of Rs. 10 each			Retained earnings		
	TL	PL	LL	TL	PL	LL
			Rs. in million			
As on 1 July 2011	10,000	800	600	2,380	270	70
Final dividend for the year ended 30 June 2011	-	-	-	(1,000)	-	(60)
Profit for the year	-	-	-	1,450	78	69
As on 30 June 2012	10,000	800	600	2,830	348	79

The following information is also available:

(i) Several years ago, TL acquired 64 million shares in PL for Rs. 1,000 million when PL's retained earnings were Rs. 55 million. Up to 30 June 2011, cumulative impairment losses of Rs. 50 million had been recognized in the consolidated financial statements, in respect of goodwill.
On 31 December 2011, TL disposed off its entire holding in PL for Rs. 1,300 million.

(ii) On 1 July 2011, 42 million shares of LL were acquired by TL for Rs. 550 million. An impairment review at 30 June 2012 indicated that goodwill recognized on acquisition has been impaired by Rs. 7 million.

(iii) During the year, LL sold goods costing Rs. 50 million to TL at a mark-up of 20% on cost. 40% of these goods remained unsold on 30 June 2012.

(iv) Investment income appearing in TL's separate income statement includes profit on sale of PL's shares and dividend received from LL.

(v) TL values the non-controlling interest at its proportionate share of the fair value of the subsidiary's identifiable net assets.

It may be assumed that profits of all companies had accrued evenly during the year.

Required:

Prepare TL's consolidated income statement and consolidated statement of changes in equity for the year ended 30 June 2012 in accordance with the requirements of International Financial Reporting Standards. ***(Ignore deferred tax implications)*** (23)