December 2019 Q3 (b)

(a) How the disposal should be reflected in the Consolidated Financial Statements of UEL for the year ended 31 March 2019

With the disposal of 50% in BPL, UEL's holding come down to 30%. With this % of holding UEL can appoint 1 director to the BPL's Board.

UEL loses control over BPL with the disposal as with a remaining 30% UEL can exercise significant influence over BPL as it can appoint 1 director out of 4, to the board of BPL. However BPL now becomes an associate of UEL and should be accounted under equity method. As per SLFRS 10 para 25,

- UEL requires to derecognize;
    - o the assets (including goodwill of Rs. 23 million) and liabilities of BPL at their carrying amounts at the date when the control is lost (i.e. 30 Sep 2019)
    - o The carrying amount of any NCI in BPL at the date when control is lost

Carrying amount as at 31 March 2019	Rs. 70 mn
Share of subsequent profits (Rs. 35,420*20%)	Rs. 7.084 mn
Carrying value as at 30 Sep 2019	Rs. 77.084mn

- UEL requires to recognize;
    - o Remaining 30% at fair value as at 30 Sep 2019 (i.e. when the control lost) which is Rs. 107 mn in the consolidated financial statements.
    - o Recognize gain/loss from loss of control attributable to the former controlling interest.
    - o Recognize the interest income on contingent consideration

		Rs. '000
FV of the consideration received		
Cash		200,000
Contingent consideration		
Year 1 (15mn/1.12)	13,393	
Year 2 (10mn/1.12^2)	7,972	
Year 3 (8mn/1.12^3)	5,694	27,059
		227,059
FV of 30% retained		107,000
		334,059
Less:		
Net assets of BPB as at 31/03/2019	315,300	
Profit for the 9 months	35,420	
Goodwill	23,000	
NIC at disposal	77,084	296,636
Gain on disposal		37,423

UEL should consolidate results of BPL up to 30 Sep 2019

Disclosures that are required to be made in the consolidated financial statements for the year ended 31 March 2020

SLFRS 12

The portion of the gain attributable to 30% retained at the date when control is lost.

FV of 30% retained	Rs. 107 mn
CV (30%*(315.3mn+35.42mn))	Rs. 105.216mn
Gain	Rs. 1.784mn

The line item in profit or loss in which the gain or loss is recognized (if not presented separately) to be disclosed.

SLFRS 05

This subsidiary can be identified as a discontinued operation under SLFRS 5. SLFRS 5 requires to disclose;

- A single amount in the statement of comprehensive income comprising the total of
  - o Post tax profit/loss of discontinued operation (i.e. Rs. 35.4mn) and
  - o Post tax gain or loss recognized on the disposal of the disposal group (i.e. Rs. 37.4 mn)

Accordingly, Profit for the year from discontinued operation is Rs. 72.8 mn and need to be presented in the SOCI.

- An analysis of the single amount – this can be presented in the notes

	Rs.000
Revenue	332,100
Cost of Sales	(265,680)
Gross profit	66,420
Administration expenses	(23,100)
Distribution Expenses	(4,300)
Finance Cost	(1,200)
Profit before taxation	37,820
Taxation	(2,400)
Profit after tax	**35,420**

Gain from disposal of the subsidiary – Rs. 37.4 mn
(related income tax expenses also should be disclosed)

- The net cash flow from operating, investing and financing activities should be disclosed

- The amount of income from discontinued operation attributable to owner of the parent (35,420,000*80%+37,423,000 = 65,759,000)
- Comparative amounts in the income statement of discontinued operations need to be presented.
- summarized financial information about the associate should be disclosed
- any other disclosure on SLFRS 12 on associate should also be disclosed.

LKAS 07

- The total consideration paid or received.
- The portion of the consideration consisting of cash and cash equivalents.
- The amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost.
- The amount of the assets and liabilities other than cash or cash equivalents in the disposed subsidiary by classifying each major category

(b) (i) For an entity to be a subsidiary, the investor should have Control over it. Control is the power over relevant activities + Exposure to variable returns + Ability to use power to influence those returns. Relevant activities are activities that significantly affect the results of the entity.

Given the fact that capital expenditure above 50mn is infrequent, and that right alone doesn't give the investor power over relevant activities indicates that UEL doesn't have control over BPL any more. This is more of a protective right. Therefore, the disposal calculation will not change.

(b) (ii) In determining control, existing voting rights are considered together with potential voting rights. Potential voting are considered only if they are substantive. In this case since the options are exercisable at the fair value of the shares, there's no discussion relating to whether the options are in-the-money or out-of-money.

Further, as the information required to exercise the options are to be obtained from the party to whom the shares were sold, it cannot be considered as substantive and therefore should be ignored in the control evaluation. Therefore, control will be determined based on existing voting rights of UEL which is only 30% and thus, the decision to account for the disposal and discontinue consolidation doesn't change.

June 2019 Q3 Answers

(a) (i) Impact on the financial statements for the year ended 31 March 2019 if CBC acquires the machineries of Juizie (Pvt) Ltd.

As per SLFRS 3, acquiring only the machineries do not meet the definition of a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Inputs and processes can also form a business without the output. But in this case, CBC purchases only inputs i.e. machineries without any processes. Accordingly, this is **an asset acquisition.**

Since machineries are non-current assets that are expected to be used in the production of goods, such machineries meet the definition of property, plant and equipment under LKAS 16.

This will have the following impact on the financial statements for the year ended 31 March 2019.

Machineries should be recognised initially at cost. Cost includes cash price equivalent of Rs. 630 million plus directly attributable costs (professional fees in this case) of Rs. 1.2 million. The PV of the 150 million payable in 2020 (150 /1.15) = 130 mn needs to be recognized as a liability.

The difference between the total payment and the cash price equivalent is considered as interest over the period of credit. Accordingly, Rs. 20mn should be recognized as interest expense in the financial statements for the year ending 31 March 2020. This interest cannot be capitalized as per LKAS 23.

(ii) Impact on the financial statements for the year ended 31 March 2019 if CBC acquires 70% shares of Juizie (Pvt) Ltd (Juizie).

With the acquisition of 70% shares, CBC becomes the major shareholder of Juizie. In this case, it is straightforward that CBC controls Juizie due to its 70% shareholding. But it is required to make sure that Ravi does not control Juizie by any other contractual arrangement.

Accordingly, CBC becomes the parent and Juizie becomes the subsidiary. CBC has to prepare consolidated financial statements.

CBC needs to compute goodwill at the date of acquisition.

Goodwill computation	Rs. '000	
Consideration transferred		
Immediate payment		500,000
Contingent consideration	(40/1.15)	34,782
NCI (634,894*30%)		190,468
		718,770
Net assets		
Stated capital	700,000	
Retained earnings	(209,290)	
	490,710	
FV increase of machineries	179,200	
DT on FV increase	(50,176)	
Brand name	28,000	
DT	~~(7,840)~~	
Payable to CEO	(5,000)	634,894
Goodwill		90,972

NO DT ON BRAND NAME

DT ON PAY TO CEO.

Acquisition related costs of Rs. 4.3 mn should be expensed.

Employment contract of CEO of Juizie (Pvt) Ltd
Juizie (Pvt) Ltd has entered into this contract before the negotiations of the business combination began and the purpose of the agreement was to obtain the service of the CEO. Thus, as per para 51 and 52 of SLFRS 3, there is no evidence that the contract was arranged primarily to provide benefits to CBC or the combined entity. Therefore, the liability to pay Rs. 5 million should be included in the application of the acquisition method.

(b) As per SLFRS 3, during the measurement period, which shall not exceed one year from the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect the new information obtained. Accordingly, goodwill should be recomputed using the new fair value of the brand name. Brand name should be recognized at the new fair value. Non-controlling interest should be computed using the fair value of net assets after considering the new fair value of brand name and deferred tax on that. These adjustments should be made to the comparative amounts in the financial statements for the year ending 31 March 2020.