QUESTION 60: ADVANCED CONSOLIDATION

The following draft statements of financial positions relate to Glove, Body and Fit, all public limited companies as at 31 May 2007:

	Glove $m	Body $m	Fit $m
Property, plant and equipment	260	20	26
Investment in Body	60		
Investment in Fit		30	
Other Investments (at FV thru OCI)	10		
Current assets	65	29	20
Total assets	**395**	**79**	**46**
Ordinary shares	150	40	20
Other reserves	30	5	8
Retained earnings	135	25	10
	315	70	38
Non-current liabilities	45	2	3
Current liabilities	35	7	5
Total equity and liabilities	395	79	46

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

(i) Glove acquired 80% of the ordinary shares of Body on 1 June 2005 when Body's other reserves were $4 million and retained earnings were $10 million. The fair value of the net assets of Body was $60 million at 1 June 2005. Body acquired 70% of the ordinary shares of Fit on 1 June 2005 when the other reserves of Fit were $8 million and retained earnings were $6 million. The fair value of the net assets of Fit at the date was $39 million. The excess of the fair value over the net assets of Body and Fit is due to an increase in the value of non depreciable land of the companies. There have been no issues of ordinary shares in the group since 1 June 2005.

(ii) Body owns several trade names which are highly regarded in the market place. Body has invested a significant amount in marketing these trade names and has expensed the costs. None of the trade names has been acquired externally and therefore the costs have not been capitalised in the statement of financial position of Body. On the acquisition of Body by Glove, a firm of valuation experts valued the trade names at $5 million and this valuation had been taken into account by Glove when offering $60 million for the investment in Body. The valuation of the trade names is not included the fair value of the net assets of Body above. Group policy is to amortise the intangible assets over ten years.

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(iii) On 1 June 2005, Glove introduced a new defined benefit retirement plan. The following information relates to the retirement plan:

	31 May 2006 $m	31 May 2007 $m
Present value of obligation	20.0	26.0
Fair value of plan assets	16.0	21.9

The defined benefit liability is included in non-current liabilities at its value of 31 May 2006.

(iv) Glove has issued 30,000 convertible bonds with a three year term repayable at par. The bonds were issued at par with a face value of $1,000 per bond. Interest is payable annually in arrears at a nominal interest rate of 6%. Each bond can be converted at any time up to maturity into 300 shares of Glove. The bonds were issued on 1 June 2006 when the market interest rate for similar debt without the conversion option was 8% per annum. Glove does not wish to account for the bonds at fair value though profit or loss. The interest has been paid and accounted for in the financial statements. The bonds have been included in the non- current liabilities at their face value of $30 million and no bonds were converted in the current financial year.

(v) On 31 May 2007, Glove acquired plant with a fair value of $6 million. In exchange for the plant, the supplier received land, which was currently not in use, from Glove. The land had a carrying value of $4 million and an open market value of $7 million. In the financial statements at 31 May 2007, Glove had made a transfer of $4 million from land to plant in respect of this transaction.

(vi) Goodwill has been tested for impairment at 31 May 2006 and 31 May 2007 and no impairment loss occurred. Goodwill is to be calculated as acquired by the parent and the non controlling interest as a proportionate share of the subsidiary's net assets.

(vii) Ignore any tax effects.

Required:
Prepare the consolidated statement of financial position of Glove Group at 31 May 2007 in accordance with the IFRSs.

(30 marks)

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ANSWER TO QUESTION 60: ADVANCED CONSOLIDATION

Glove Group
Consolidated Statement of Financial Position as at 31 May 2007

	$000	$000
PPE $260,000+20,000+26,000+11,000 **J1** +2,000 **J7**	319,000	
Investments (FVTOCI)	10,000	
Intangibles – Trade name $5,000 **J2** -1,000 **J3**	4,000	
Goodwill **W3**	10,160	343,160
Current assets $65,000+29,000+20,000		114,000
		457,160
Share Capital	150,000	
Other reserves **W6**	32,246	
Retained earnings **W6**	149,864	
	332,210	
NCI **W5**	28,920	361,130
Non-current liabilities $45,000+2,000+3,000+ 100 **J4** - 1,546 **J5** + 476 **J6**		49,030
Current Liabilities $35,000+7,000+5,000		47,000
		457,160

W1 GROUP STRUCTURE

Body	Subsidiary	Acquisition: **1 Jun 2005**	Group **80%**	NCI **20%**
Fit	Subsidiary	Acquisition: **1 Jun 2005**	Group **80% x 70% = 56%**	NCI **44%**

W2 NET ASSETS (of subsidiaries) AT ACQUISITION

$000	Body	Fit
Equity share capital	40,000	20,000
Other reserves (pre)	4,000	8,000
Retained earnings (pre)	10,000	6,000
J1	6,000	5,000
J2	5,000	
	65,000	**39,000**

W3 GOODWILL

	Body	Fit
Investment [60,000] ; [30,000 - 6,000 **J8**]	60,000	24,000
Less: [65,000 **W2** x 80%] ; [39,000 **W2** x 56%]	(52,000)	(21,840)
	8,000	**2,160**

W4 POST ACQUISITION RESERVES

	OR		RE	
	Body	Fit	Body	Fit
Balance	1,000	0	15,000	4,000
J3			(1,000)	
	1,000	**0**	**14,000**	**4,000**

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W5 NON CONTROLLING INTEREST	**Body**	**Fit**
[65,000 **W2** x 20%] ; [39,000 **W2** x 44%]	13,000	17,160
[1,000 **&** 14,000 **W4** x 20%] ; [0 **&** 4,000 **W4** x 44%]	3,000	1,760
J8	(6,000)	
	10,000	**18,920**

W6 GROUP RESERVES	**OR**	**RE**
Parent reserves	30,000	135,000
J4		(100)
J5	1,546	
J6		(476)
J7		2,000
	31,546	136,424
Body [1,000 **W4** x 80%] ; [14,000 **W4** x 80%]	800	11,200
Fit [0 **W4** x 56%] ; [4,000 **W4** x 56%]	0	2,240
	32,346	**149,864**

JOURNAL ENTRIES WITH WORKINGS	**$ 000**	
	Dr.	**Cr.**

			Dr.	Cr.
(i)	1	PPE (non-depreciable land)	11,000	
		RE (pre) – Body		6,000
		RE (pre) – Fit		5,000

Fair value adjustment	***Body***	***Fit***
Share capital	40,000	20,000
Other reserves	4,000	8,000
Retained earnings	10,000	6,000
Fair value adjustment (β)	**6,000**	**5,000**
Total fair value of net assets	*60,000*	*39,000*

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			Dr.	Cr.
(ii)	2	Intangible asset (trade name)	5,000	
		RE (pre) - Body		5,000

An internally generated intangible asset is not normally recognized under IAS 38 but where it forms part of the business acquired, IFRS 3 requires separate recognition of that intangible if its fair value can be measured reliably even if it involves the use of experts. Thus, the trade name should be recognized.

			Dr.	Cr.
(ii)	3	RE – Body	1,000	
		Intangible asset (trade name)		1,000

Amortization of trade name = $5,000/10 years x 2 years =**$1,000**

			Dr.	Cr.
(iii)	4	RE (Parent)	100	
		Non-current liabilities (Defined benefit obligation)		100

Opening liability $20,000 – 16,000 = $4,000
Closing liability $26,000 – 21,900 = $4,100
Increase to be recorded = $100

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(iv)	5	Non-Current liabilities	1,546	
		Other reserves (Parent) – equity		1,546

Date		$000	DF @ 8%	$000
31 May 20X7	Interest	1,800	1/1.08	1,667
31 May 20X8	Interest	1,800	$1/1.08^2$	1,543
31 May 20X9	Interest and Principal	31,800	$1/1.08^3$	25,244
	Total liability component			28,454
	Total equity element (β)			**1,546**
	Total (as given)			30,000

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(iv)	6	RE (Parent) – Finance Costs	476	
		Non-Current liabilities		476

Finance cost at effective interest rate = $28,454 x 8% = $2,276
Finance cost paid already recorded = $1,800
Difference to be recognized = **$476**

(v)	7	PPE (Plant)	2,000	
		RE (Parent) – Gain on disposal		2,000

The acquired asset in exchange should be measured at fair value of asset acquired if the fair value is clearly evident (IAS 16.24-26). So, the plant should be valued at $6,000 and difference should be recognized in profit or loss.

(-)	**8**	NCI (Body)	6,000	
		Investment in Fit (sub-subsidiary)		6,000

Indirect investment
30,000 x 20% = $6,000

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