Consolidated Financial Statements

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Final Level – Consolidated Financial Statements

1. Inter-company items
    a. Current accounts between companies
    b. Debenture investment
    c. Debenture interest receivable and payable
    d. Loan receivable and payable
2. Items in transit
3. Acquisition of Preference share
4. Adjustment for unrealized profit

a. Inventory transfer & GIT

b. PPE disposal

5. Fair value adjustment in subsidiary
6. Dividends from subsidiary

1.0 Inter-Company Receivables and Payable Adjustment

Key Adjustment under SLFRS 10

1. Any inter-company balances between the parent and subsidiaries should be eliminated in full when preparing the consolidated financial statement, such can be in the form of
    a. current or trading accounts (Inter-company debtors & creditors)
    b. loan receivables and payables
    c. debenture investment and liabilities & interest thereon

Question 01

A LTD acquired B 80% on 01.04.2018 and the statement of financial position as at 31.03.2020, were given below

Description	A Ltd	B Ltd
Non-Current Assets		
Ppe	250,000	150,000
Investment - In B Ltd	180,000	
Investments - Other Companies	25,000	15,000
Investment In B Ltd -Debtors	60,000	
Current Assets		
Inventories	40,000	30,000
Trade Debtors	75,000	50,000
Cash	10,000	25,000
Total	**640,000**	**270,000**
Stated Capital & Reserves		
Stated Capital	240,000	100,000
Retained Earning	60,000	25,000
Other Reserves	20,000	10,000
Total Equity	320,000	135,000
Debentures	220,000	100,000
Current Liabilities		
Trade Payables	80,000	30,000
Bank Overdraft	20,000	5,000
Total	**640,000**	**270,000**

Additional information

1. In addition to the acquisition of ordinary shares, A LTD acquired 60% of debentures on 01.04.2018
2. At the date of acquisition, the balances of reserves in B LTD were as follows
   a. Retained Earnings 15,000
   b. Other Reserves 10,000
3. The NCI should be measure at the proportionate of Net Assets method
4. Goodwill was impaired by 5,000
5. A Ltd trade receivable include an amount of 10,000 receivable from B LTD and such was in agreement with B LTD.

Prepare the Consolidated FS of A Group as at 31.03.2020

2.0 Inter-Company Receivables and Payable – Items in transit

As per the SLFRS 10, the any inter-company balances should be eliminated in full when preparing consolidated FS. In few instances the balances between parties may not agree to each other's, this might be due to following

1. Goods in transit – GIT
2. Cash in transit – CIT
3. Mistakes and Errors – ignored

Double entries to adjust the items in transit

1. GIT

   Dr. Consolidated Inventories

   Cr. Consolidated Receivables

2. CIT

   Dr. Consolidated Cash & Cash Equivalent

   Cr. Consolidated Receivables

As a practice, we will adjust these in the parents account only.

Question 02

P LTD acquired S LTD 70% on 01.01.2019 and the statement of financial position as at 31.12.2019, were given below

Description	P Ltd	S Ltd
Non-Current Assets		
Ppe	750,000	450,000
Investment - In S Ltd	500,000	
Loan To S Ltd	90,000	
Current Assets		
Inventories	190,000	160,000
Trade Debtors	175,000	150,000
Current Account – B Ltd	25,000	
Interest Receivable	9,000	
Cash	40,000	35,000
Total	**1,779,000**	**795,000**
Stated Capital & Reserves		
Stated Capital	870,000	455,000
Retained Earning	250,000	115,000
Other Reserves	30,000	40,000
Total Equity	1,150,000	610,000
Debentures	500,000	
Loan From P Ltd		90,000
Current Liabilities		
Trade Payables	80,000	60,000
Interest Payable		9,000
Current Account – A Ltd		18,000

Bank Overdraft	49,000	8,000
Total	**1,779,000**	**795,000**

Additional information

1. In addition to the acquisition of ordinary shares, P LTD granted a loan of 90,000 on 01.01.2019, the associated interest were due as at 31.12.2019
2. At the date of acquisition, the balances of reserves in B LTD were as follows
    a. Retained Earnings 65,000
    b. Other Reserves 40,000
3. The NCI should be measure at the fair values, on the date of acquisition the fair value was 218,000
4. Goodwill was impaired by 20,000
5. The difference in current account is due to following
    a. P Ltd has issued goods worth of 5,000 to S Ltd, but S Ltd received these goods only on 04.01.2020
    b. S Ltd issued a cheque of 2,000 and such was in transit at the time of preparation of FS.

Prepare the Consolidated FS of P Group as at 31.12.2019

3.0 Acquisition of Preference Share

1. Acquisition of preference shares will not give the control to the parent, as the preference shares will not having voting rights
2. Therefore, acquisition of preference shares will be similar to that of debentures and loans
3. Accordingly, when preparing the consolidated accounts, we need to eliminate the parent's investment in preference shares with that of the preference shares in subsidiary
4. Any remaining part will be considered as liability or equity appropriately

4.0 Unrealized Profit Margin – Inventories and Property, Plant & Equipment

When the goods and assets are sold between the group of companies at a **selling price** and if such items are **unsold or used within the group,** we need to adjust the unrealized profit adjustment. Accordingly, the condition to adjust the URP were,

a. The Inventory or PPE should be transferred at a margin or profit

b. Such Inventories were unsold at the year-end by the other party or were used and depreciated.

4.1. On inventories

The objective of consolidated accounts is to present the financial position of several connected companies as that of a single entity, the group. This means that in a consolidated statement of financial position the only profits recognized should be those earned by the group in providing goods or services to outsiders; and similarly, inventory in the consolidated statement of financial position should be valued at cost to the group.

If Parent is selling to Subsidiary

1. When parent sell the inventories to subsidiary the parent will recognize a profit, in consolidation this profit is knows as URP. (we cannot recognize profit within the group)
2. On the other hand, subsidiary will recognized the inventories at selling price, this is not in accordance with LKAS 02.
3. Therefore we need to eliminate the profit margin from the goods

Double Entries

Dr. Consolidated Retained Earning

Cr. Consolidated Inventory

If Subsidiary is selling to Parent

1. When Subsidiary sell the inventories to parent the Subsidiary will recognize a profit, in consolidation this profit is knows as URP. (we cannot recognize profit within the group)
2. On the other hand, parent will recognized the inventories at selling price, this is not in accordance with LKAS 02.
3. Therefore we need to eliminate the profit margin from the goods

Double Entries

Dr. Post Profit in Subsidiary

Cr. Consolidated Inventory

1. Margin vs Mark-up
   a. Margin is the function of selling price, that means selling price is 100% and cost is lesser than 100%.
   b. Mark-up is the function of cost, that means cost is 100% and the selling price is more than 100%.

Question 03 - 2020 January Question 09

A. The Statements of Financial position of Gajashakthi (Pvt) Ltd. And shakthi (Pvt) Ltd. (SPL) as at 31st March 2019 are as follows:

Statements of Financial position
As at 31st March 2019

(Rs.000)

	GPL	SPL
Assets:		
Non – Current Assets:		
Property, plant and Equipment at cost	52,000	23,500
Accumulated Depreciation	(12,500)	(7,500)
Carrying Value	39,000	16,000
Investment in SPL	40,000	-
Current Assets:		
Inventories	13,100	27,900
Trade and Other Receivables	40,250	10,500
Cash and Cash Equivalents	2,300	1,100
	55,650	39,500
Total Assets	**135,150**	**55,500**
Equity and Liabilities:		
Equity		
Stated capital – Ordinary shares	80,000	35,000
Retained Earnings	13,300	8,150
	93,300	43,150
Non – Current Liabilities:		
Long term Loans	16,200	-
Current Liabilities:		
Trade and Other payables	20,250	11,400
Short Term Loans	5,400	950
	25,650	12,350
Total Equity and Liabilities:	**135,150**	**55,500**

The following additional information is also provided:

1. GPL acquired 80% of ordinary share capital of SPL on 01st April 2018.
2. Fair value of the non – controlling interest on the date of acquisition was Rs. 7.72 million. As at the date of acquisition retained earnings of SPL were Rs. 6 million and the fair value of identifiable net assets of SPL was equal to its book value.
3. As at 31st march 2019, SPL held inventory worth of Rs. 4.5 million purchased from GPL. GPL has sold the goods to SPL at a profit margin of 20% on cost. Further, SPL has a trade payable balance of 2.5 million which is payable to GPL.
4. GPL has obtained a short-term loan of Rs. 4 million from SPL at the interest of 15% per annum on 01st April 2018. Though no capital repayments were made during the year interest on lone for the year was paid by GPL.

You are required to:

(a) Calculate the Goodwill arising from the consolidation. (05 marks)

(b) Prepare the consolidated statement of financial position as at 3st march 2019. (14 marks)

Goods in transit

When the goods are dispatched by one party to another at the end of the year, if the other party may not receive on the due date. We need to adjust GIT, as the GIT is part of closing stocks, we need to adjust the URP

So the adjustment for URP should be adjusted for both unsold stock and URP.

Question 04

SAM LTD acquired BAM LTD 60% on 01.01.2017 and the statement of financial position as at 31.12.2019, were given below

Description	SAM Ltd	BAM Ltd
Non-Current Assets		
Ppe	50,000	30,000
Investment - In S Ltd	35,000	
Investment - In S Ltd Pre.Share	10,000	
Current Assets		
Inventories	19,000	16,000
Trade Debtors	17,500	15,000
Current Account – B Ltd	2,500	
Cash	4,000	3,500
Total	**138,000**	**64,500**
Stated Capital & Reserves		
Stated Capital – Os	70,000	30,000
Retained Earning	25,000	5,000
Other Reserves	3,000	4,000
Total Equity	98,000	39,000
Debentures	27,000	
Pre.Shares – Redemable		10,000
Current Liabilities		
Trade Payables	8,000	10,000
Current Account – A Ltd		500
Bank Overdraft	5,000	5,000

Total	**138,000**	**64,500**

Additional information

1. In addition to the acquisition of ordinary shares, SAM LTD has acquired 100% redeemable preference shares in BAM Ltd
2. At the date of acquisition, the balances of reserves in B LTD were as follows
   a. Retained Earnings 10,000
   b. Other Reserves 4,000
3. The NCI should be measure at the fair values, on the date of acquisition the fair value was 25,000
4. Goodwill was impaired by 2,000
5. SAM has sold 7,000 worth of (Selling Price to BAM) goods to BAM during the year at a margin of 25% on cost, but BAM has only received 5,000 worth of goods and out of the goods received 40% of these goods were unsold during the year.

   Prepare the Consolidated FS of P Group as at 31.12.2019

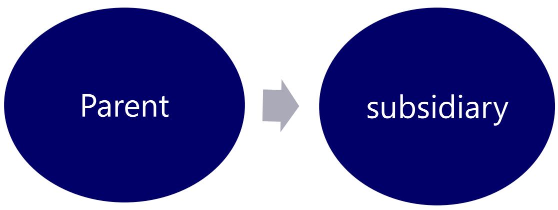
4.2 URP on PPE

In their individual accounts the companies concerned will treat the transfer just like a sale between unconnected parties: the selling company will record a profit or loss on sale, while the purchasing company will record the asset at the amount paid to acquire it, and will use that amount as the basis for calculating depreciation.

On consolidation, the usual 'group entity' principle applies. The consolidated statement of financial position must show assets at their cost to the group, and any depreciation charged must be based on that cost.

If Parent is selling to Subsidiary

1. When parent sell PPE to Subsidiary, parent will recognize the disposal profit. Under group accounts such will be URP
2. On the other hand, subsidiary will record the assets at a higher price and depreciate accordingly, in the group accounts this will create an excessive depreciation and such depreciation should be reversed.

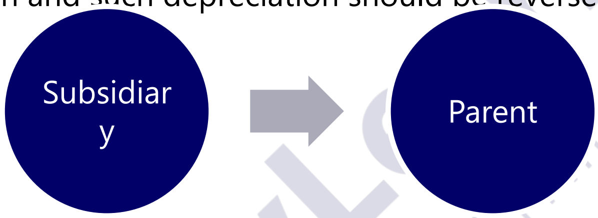


URP
Dr. Consolidated Retained Earnings
Cr. Consolidated PPE

Excess DepreciationDr. Consolidated PPE
Cr. Post Profit in Subsidiary

If Subsidiary is selling to Parent

1. When Subsidiary sell PPE to Parent, Subsidiary will recognize the disposal profit. Under group accounts such will be URP
2. On the other hand, Parent will record the assets at a higher price and depreciate accordingly, in the group accounts this will create an excessive depreciation and such depreciation should be reversed.



URP
Dr. Post Profit in Subsidiary
Cr. Consolidated PPE

Excess DepreciationDr. Consolidated PPE Cr. Consolidated Retained Earnings

Key Point

1. Excess Depreciation on PPE should be adjusted from the date of purchases to the reporting date

Question 05 – 2016 January Question 09 - Modified

(a) Anula PLC acquired 80% of the ordinary share capital of khema Ltd. On 01st April 2014.

Statements of Financial position of Anula PLC and Kehema Ltd. As at 31st march 2015 are given below:

Statements of Financial position
As t 31st march 2015

(Rs. 000)

	Anula PLC	Kehema Ltd
Assets:		
Non – Current Assets(as written down value) :		
Property, plan and Equipment	28,600	9,550
	28,600	9,550
Investment		
Ordinary shares of Kehema Ltd	13,500	-
Current Assets		
Inventories	5,650	3,300
Trade Receivables	6,430	4,425
Cash and Cash Equipment	1,210	525
	13,290	8,250
	55,390	17,800
Equity and Liabilities:		
Equity:		
Stated capital – ordinary shares	41,000	13,000
Reserves:		
General Reserves	1,100	600
Retained Earnings	4,120	1,800
	5,220	2,400
Liabilities:		
Non – Current Liabilities		
Bank lone	-	860
Current Liabilities:		
Trade payables	8,500	1,350
Accrued Expenses	550	155

Income tax payable	120	35
	9,170	1,540
	55,390	17,800

The following additional information is also provided:

1. On the date of acquisition, fair value of non-controlling interest was valued at Rs.3,900,000/-.
2. Following ledger balances were appeared in the books of Khema Ltd. as at 01st April 2014:

   General Reserve - Rs.400,000/-

   Retained earnings - Rs.400,000/-
3. On 31st March 2015 Anula PLC identified that the Goodwill on consolidation had been impaired by Rs.60,000/-.
4. Anula PLC sells goods to Khema Ltd. at a profit margin of 20% on cost. Rs.66,000/- worth

   of stock purchased from Anula PLC was included in the inventory of Khema Ltd. as at 31st March 2015.
5. On 02nd April 2014 Anula PLC sold a motor car having a carrying value of Rs.1,600,000/- to Khema Ltd. for Rs.1,760,000/-. Motor vehicles of both the companies are depreciated on the straight-line basis at 25% on cost.

You are required to:

Prepare the Statement of Consolidated Financial Position of Anula PLC as at 31st March 2015

Question 06 – 2018 June Question 09 – Modified

Mega trading Ltd. (MT) acquired 80% of the ordinary share capital of Tiny Toys Ltd. (TT) for Rs. 20 million on 01st April 2017. The Statement of financial position of MT and TT as at 31st March 2018 are as follows:

Statement of financial position
As at 31st march 2018

(Rs,000)

	MT	TT
Non – Current Assets:		
Property, plant & Equipment - Cost	60,000	15,000
Accumulated Depreciation	(12,000)	(6,000)
Carrying value	48,000	9,000
Investment in TT	20,000	
Current Assets:		
Inventories	15,100	18,000
Trade Receivables	40,250	10,500
	55,350	28,500
Total Assets	123,350	37,500
Equity:		
Stated Capital – Ordinary shares	78,000	20,000
Retained Earnings	8,750	4,600
	86,750	24,600
Non – Current Liabilities:		
Bank Loan	10,600	-
Current Liabilities:		
Trade payables	15,100	10,500
Bank Loan	4,800	-
Bank overdrafts	6,100	2,400
	26,000	12,900
Total Equity and Liabilities	**123,350**	**37,500**

The following additional information is also provided:

1. As at the date of acquisition, the Retained Earnings of TT were Rs.1,200,000/-

.

2. Fair value of the non-controlling interest was Rs.5,000,000/- and the fair value of identifiable net assets of TT was equal to its book value as at the date of acquisition.
3. On 01st October 2017, TT sold one of its delivery vans which had a carrying value of Rs.2.5 million to MT for Rs.3 million. Both companies depreciate their Motor Vehicles over 5 years on the straight-line basis at cost. (after disposal they have depreciated for the next 5 years)
4. During the year, TT has sold goods for Rs.600,000/- to MT with a profit margin of 20% on

   cost. As at 31st March 2018, ½ of those goods were in the inventory of MT.
5. Trade receivables of TT included Rs.25,000/- which is due from MT for the sales

   transactions made during the year.

   Using the above information, You are required to:

   (a) Compute the goodwill arising from the consolidation.

   (b) Prepare the Consolidated Statement of Financial Position as at 31st March 2018.

5.0 Fair value adjustment in subsidiary

SLFRS 03 requires to measure the investment made by the parent with the fair value of net assets in subsidiary.

How to calculate the Net Assets

Net assets = (Total Assets – Total Liabilities) or (Stated Capital + Reserves)

1. Generally, the assets can be recorded either at cost model or revaluation model, if subsidiary is recording the assets at the cost the fair value of net assets are higher than that of it carrying or book value.
2. if the fair value of net assets is higher than, that of carrying value the difference is considered to be revaluation
3. this exercise was carried out as at the acquisition date, therefore any revaluation adjustment in subsidiary will be considered as pre-revaluation.
4. The revaluation can be attributed to either depreciable assets or non-depreciable assets, if it is a depreciable asset then the subsidiary could have understated the depreciation charge from the date of revaluation to the reporting date. So we need to depreciate and provide for the difference.

1. Revaluation Dr. Consolidated PPE Cr. Revaluation Pre-Reserves	1. Revaluation Dr. Consolidated PPE Cr. Revaluation Pre-Reserves 2. Additional Depreciation Dr. Post-Profit In Subsidiary Cr. Consolidated PPE

1. As the revaluation adjustment was carried-out at the date of acquisition, it will be always pre-acquisition profit, therefore will be taken to goodwill calculation
2. The depreciation on these assets arose after the acquisition, therefore that will be adjusted in the post-acquisition period
3. It should be adjusted from the acquisition date to the reporting date.

Question 07

Statements of Financial Position of P and S as at 30 June 20X8 are given below:

	P	S
	$	$
Non-current assets:		
Land	4,500	2,500
Plant & equipment	2,400	1,750
Investments	8,000	
	14,900	4,250
Current assets		
Inventory	3,200	900
Receivables	1,400	650
Bank	600	150
	5,200	1,700
	20,100	5,950
Ordinary share capital 50c	5,000	1,000
Retained earnings	8,300	3,150
	13,300	4,150
Non-current liabilities		
8% loan stock	4,000	500
Current liabilities	2,800	1,300
	20,100	5,950

(i) P acquired 75% of S on 1 July 20X5 when the balance on S's retained earnings was $1,150.

(ii) P paid $3,500 for its investment in the share capital of S. At the same time, P invested in 60% of S's 8% loan stock.

(iii) At the reporting date P recorded a payable to S of $400. This did not agree to the corresponding amount in S's financial statements of $500. The difference is explained as cash in transit.

(iv) At the date of acquisition it was determined that S's land, carried at cost of $2,500 had a fair value of $3,750. S's plant was determined to have a fair value of $500 in excess of its carrying value and had a remaining life of 5 years at this time.

These values had not been recorded by S.

(v) The P group uses the fair value method to value the non-controlling interest. for this purpose, the subsidiary share price at the date of acquisition should be used. The subsidiary share price at acquisition was $2.20 per share.

(vi) Goodwill has impaired by $100.

Required:

Prepare the consolidated statement of financial position of the P group as at 30 June 2018.

Question 08 – 2017 June Question 09

The following statements of financial position were extracted from the books of Mega supplies (Pvt) Ltd. (MSL) and smart Technologies (Pvt) Ltd. (SLT) as at 31st March 2017.

statements of financial position
as at 31st March 2017

(Rs.000)

	Mega Supplies (pvt) Ltd.(MSL)	Smart Technologies (pvt) Ltd.(STL)
Assets		
Non – Current Assets:		
Property, Plant and Equipment – at cost	50,000	21,500
Accumulated Depreciation	(15,000)	(7,500)
Carrying Value	35,000	14,000
Investment in STL	20,000	-
	55,000	14,000
Current Assets:		
Inventories	12,100	10,900
Trade Receivables	36,400	9,600
	48,500	20,500
Total Assets	103,500	34,500
Equity and Liabilities		
Equity:		

Stated capital	40,000	15,000
Retained Earnings	22,500	14,600
Total Equity	62,500	29,600
Non – Current Liabilities		
Bank Loans	20,400	-
Current Liabilities:		
Trade and Other payables	5,500	2,500
Bank Overdrafts	15,100	2,400
	20,600	4,900
Total Equity and Liabilities	**103,500**	**34,500**

The Following additional information is also provided:

1) On 01st April 2016, MSL acquired 80% of the ordinary share capital of STL.
2) The fair value of the Property, plant and Equipment of STL on the date of Rs.19 million.
3) On the date of acquisition, the fair value of the non – controlling interest and retained earnings that appeared in the books of STL were Rs.10 million.
4) Both companies depreciate property, plant and Equipment at the rate of on the straight – line basis.
5) During the month of march 2017, MSL include Rs.200,000/- which is due from SLT made during the Year.

   Using the above information,

   You are required to:

   i) Compute the Goodwill arising from the consolidation. (05 marks)

   ii) Compute the Non – controlling interest as at 31st March 2017. (03 marks)

   iii) Prepare the consolidated statement of financial position as at 31st march 2017. (11 marks)

Consolidated Statements of Financial Position of P GROUP

Non-current assets:	
Plant & equipment 35,000+14000+4300+700-3800	50,200
Investments 20,000-20,000	0
Goodwill	3,300

Current assets	
Inventory 12,100+10,900-20.83	22,979.17
Receivables 36400+9600-200	45,800
	122,279.17
Ordinary share capital 50c	40,000
Retained earnings	26,559.17
	66,559.17
Nci	10,020
	76,579.17
Bank Loan	20,400
Non-current liabilities	
Trade pay 5500+2500-200	7,800
Bank od 15100+2400	17,500
	122,279.17

Working 01 Goodwill			
Investment	20,000	80%	
NCI	9,000	20%	
Total	29,000		
Net Assets			
Stated Capital	(15,000)		
Pre-Profit	(10,000)		
Revaluation (19,000-18,300)	(700)	(25,700)	100%
Goodwill		3,300	

Working 02 Consolidated RE	
BBF	22,500
Share of Post Profit (5100*80%)	4,080
URP	(20.83)
Balance	**26,559.17**

Working 03 - NCI	
BBF	9,000
Share of profit (5100*20%)	1,020
Balance	**10,020**

Working 04 - Post Profit		
BBF	4,600	
Old Dep Reve	4,300	(21,500*20%)
New Dep Rev	(3,800)	(19,000*20%)

Working 05 URP Inventories	
URP = 500,000 * 25 = 125,000 / 120 *20	20.833

Working 06 Fair Value	
Carrying Value as at Reporting Date	14,000
Reverse 1 Year Dep (21,500*20%)	4,300

Adjusted CV	18,300
Fair Value	19,000
Revaluation	700

So the Adjusted Depreciation will be based on 19,000, 19,000 *20% = 3,800

6.0 Dividends Paid by Subsidiary

Definition – Dividends are the distribution out of the profit to the share holders

Stage 01 – Dividends are Paid and Received properly by both of the parties

As it was properly accounted, no consolidation adjustment is required

Stage 02 – Dividends are Payable and Receivable properly by both of the parties

As it is accounted as receivable and payable, we only need to adjust the inter-company (That is the extent of dividend receivable of parent with subsidiary) any remaining amount will be taken as NCI dividends payable.

Stage 03 – Dividends are Payable by Subsidiary and not accounted by Parent

As it was not accounted as receivable by parent, we need to account for the dividend receivable as

Dr. Dividends Receivable

Cr. Consolidated RE

Then the receivable in the parent should be eliminated with the subsidiary dividends payable.

Question 09 – 2019 January Q 9

The following statements of financial position were extracted from Indochem PLC (ICL) and Takasago (Pvt) Ltd. (TL) as at 31st March 2018.

Statements of Financial Position
as at 31st March 2018.

(Rs,000)

	ICL	TL
Non – Current Assets:		
Property, plant and Equipment at cost	55,000	15,000
Accumulated Depreciation	(12,000)	(6,000)
Carrying Value	43,000	9,000
Investment in TL	25,000	-
Current Assets:		
Inventories	20,100	20,500
Short term Loans given to TL	5,500	-
Trade Receivables	34,750	10,500
Cash and Cash equivalents	6,500	4,600
Total Assets	134,850	44,600
Equity:		
Stated Capital – Ordinary shares	82,000	20,000
Retained Earnings	15,750	6,700
Non – Current Liabilities:		
Bank Loans	10,200	-
Current Liabilities:		
Trade payables	13,100	8,000
Bank Loan	5,200	-
Short term Loan from ICL	-	5,500
Other payables	8,600	4,400
Total Equity and Liabilities	**134,850**	**44,600**

The following additional information is also provided:

1) ICL acquired 80% of the ordinary share capital of TL on 01st April 2017 for Rs. 25 million.

2) The fair value of non – controlling interest as at the date of acquisition was Rs. 4.42 million. As at the date of acquisition, retained earnings were Rs.2.1 million and the fair value of identifiable net assets of TL was equal to its book value.

3) As at 31st March 2018, TL held an unsold stock worth of Rs. 3 million bought from ICL. ICL has sold the goods to TL with a profit margin of 20% on selling price.

4) TL has obtained a loan of Rs.5.5 million on 01st April 2017 from ICL at the rate of 15% per annum. Interest for the year has been paid and no capital repayment was made during the year.

5) Trade receivables of ICL included an amount of Rs.2.5 million receivable from TL.TL raised a cheque for Rs.1 million and sent it to ICL. ICL did not receive this cheque until 31st march 2018.

6) Retained earnings of ICL includes an interim dividend of Rs.1 million received from TL on 01st march 2018. Dividends were paid by TL using the profit for the year.

You are required to:

a) Compute the Goodwill arising from the consolidation. (05 marks)

b) Prepare the consolidated statement of financial position as at 31st march 2018. (14 marks)

Question 10

On 1 January 2015 Karl bought 60% of Susan paying $76,000 cash. the summarized Statements of Financial Position for the two companies as at 31 December 2017 are:

	Karl $	Susan $
Non-current assets		
Property, plant $ equipment	138,000	115,000
Investments	96,000	-
Current assets		
Inventory	15,000	17,000
Receivables	19,000	20,000
Cash	4,000	-
	272,000	152,000
Share capital	50,000	40,000
Retained earnings	189,000	69,000
	239,000	109,000
Non-current liabilities		
8% loan notes	-	20,000
Current liabilities	33,000	21,000
Dividend Payable		2,000
	272,000	152,000

The following information is relevant:

i) The inventory of Karl includes $8,000 of goods purchased for cash from Susan at cost plus 25%.

ii) On 1 July 2017 Karl transferred an item of plant to Susan for $15,000. Its carrying amount at that date was $10,000. The asset had a remaining useful economic life of 5 years.

iii) The Karl Group values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 40% non-controlling interest was $50,000.

iv) An impairment loss of $1,000 is to be charged against goodwill at the year-end.

v) Susan earned a profit of 60,000 prior to the acquisition.

vi) The loan note in Susan's books represents monies borrowed from Karl during the year. all of the loan note interest has been accounted for.

vii) Included in Karl's receivables is $4,000 relating to inventory sold to Susan during the year. Susan raised a cheque for $2,500 and sent it to Karl on 29 December 20X7. Karl did not receive this cheque until 4 January 2018.

viii) Susan declared and accounted a dividend of $ 2,000 and such was not yet accounted by Karl

Required:

Prepare the consolidated statement of financial position as at 31 December 2017.