

### Question 03

Riverdale Tours Pvt LTD (RTL) is a popular travel agency in Maldives among budget & luxury travelers. It had a strong financial performance in the past couple of years and the board of directors (BOD) of PTL considered to acquire RTL as part of its growth strategy and with the view of foreign expansion.

Accordingly on 31 March 2023, PTL acquired 360 million ordinary shares in RTL by way of exchange of shares. PTL issued 1 share for every 4 shares of RTL acquired. The fair value of a PTL share was Rs. 3 and that of a RTL share was Rs. 2. PTL incurred Rs. 3 million on directly attributable expenses in relation to the acquisition of RTL. These expenses are carried under deposits and prepayments. Further PTL has paid Rs. 25Mn of cash consideration to RTL shareholders by issuing their own share to SPL.

A due diligence exercise was carried out on RTL by the BOD of PTL and the following were noted:

- (i) The intangible assets recognized in RTL's financial statements represent the cost incurred to develop and promote the Riverdale brand name. The fair value of the brand as at the acquisition date was Rufiyaa. 80 million.
- (ii) Other investments represent investments made in Maldivian corporate bonds classified as hold to collect and sell. The fair value of the bonds is Rufiyaa. 190 million.
- (iii) The previous general manager (GM) of RTL has filed a case against the company for unlawful dismissal and claims Rufiyaa. 60 million as compensation. PTL is of the view that it is probable that the GM would win the case.
- (iv) Non-controlling interest shall be measured at the fair value on the acquisition date.
- (v) RTL is liable for income tax at 12%.

The following is the summarized Statement of Financial Position of RTL as at 31 March 2023.

<b>Assets</b>	<b>Rufiyaa. '000</b>
<b>Non-current assets</b>	
Property, plant and equipment	55,000
Intangible assets	5,000
Other investments	15,000
	<b>75,000</b>
<b>Current assets</b>	
Inventory	3,000
Trade and other receivables	2,500
Cash & cash equivalents	5,000
	6,000
<b>Total assets</b>	<b>81,000</b>
<b>Equity &amp; Liabilities</b>	
<b>Shareholders' Equity</b>	
Stated capital ( Rs. 20 per share )	40,000

Retained earnings	20,000
	<b>60,000</b>
<b>Non-current liabilities</b>	
Interest bearing borrowings	6,000
Deferred tax	5,000
	<b>11,000</b>
<b>Current liabilities</b>	
Trade & other payables	4,000
Interest bearing borrowing (overdraft)	6,000
	<b>10,000</b>
<b>Total liabilities</b>	
<b>Total equity and liabilities</b>	<b>81,000</b>

The following exchange rates are relevant for the preparation of the group financial statements:

	LKR to Rufiyaa
31 March 2023	8
1 April 2022	9
Average	7

**Required:**

- (a) **Prepare** the consolidated statement of financial position of SPL as at 31 March 2023 after considering the information provided in the above scenario.
- (b) **Advise** the directors of SPL regarding the process that should be in place to identify and disclose the related party transactions of SPL group.
- (c) Prepare a report to the BOD evaluating the performance of SPL over the last 2 years by comparing the company and the industry. You may support your report with appropriate ratio calculations. Your calculations should be based on the balances given in the pre-seen (before adjustments).

