

Answer to model questions – July 2022 pre seen

1.) Shareholding % of CAPL – post transaction

Shareholder	Existing %	Number of shares	Change	Number of shares after change	Shareholding % - post transaction
Saman Herath	40%	3,200,000	(1,400,000)	1,800,000	18.00%
Ruwan Herath	20%	1,600,000		1,600,000	16.00%
Hansini Herath	20%	1,600,000		1,600,000	16.00%
Blue-Rock Capital	20%	1,600,000	1,400,000	3,000,000	30.00%
Blue-Rock Capital - new share issue			2,000,000	2,000,000	20.00%
Total	100%	8,000,000	2,000,000	10,000,000	100.00%

2.) Status of control of CAPL

Control is the power over relevant activities of an entity, exposure to variable returns and ability use power to affect the amount of returns. Control is obtained by acquiring majority voting rights, having the ability to appoint majority of the members to the board of directors (governing body), ability to appoint key management personnel etc.

In this case BRC acquires 50% of the voting rights and establishes the ability to appoint 3 of the 6 members of the Board of Directors. Therefore, that doesn't give a conclusive view on whether BRC has control over CAPL. Further analysis of the arrangement indicates that the chairman of the Board will be appointed by BRC and the chairman having a casting vote enables BRC to push its decisions through in case other board members disagrees to a certain decision. Further, the composition of the Strategic Decision Committee to whom the Managing Director Reports to appears to have the ability to make decisions over "Relevant Activities" of the entity. Since that committee will comprise of the members appointed by BRC it could be concluded that BRC will be able to exercise control over CAPL.

3.) Financial reporting implications

As CAPL becomes a subsidiary of BRC, BRC is required to calculate goodwill on acquisition on 31.3.2022 as follows.

- I. Measure the existing investment at fair value of Rs.560mn (Rs. 350 x 1.6mn shares) and recognize difference of Rs.160mn between that amount and the carrying amount of Rs.400 in the P&L
- II. Measure the contingent payment on the share acquisition from Saman at fair value (Rs. 97mn) and recognize it as a liability in the financials of BRC

III. Calculate goodwill as follows. For this purpose NCI is measured at fair value.

Consideration for new shares	Rs'
Equity value as at 31.3.2022	2,242,000,000
Number of shares	8,000,000
NAPS - in Rs'	280.25
Multiple	1.25
Fair value per share - Rs'	350.31
Rounded to the nearest rupee - Rs'	350

Goodwill calculation - acquisition of CAPL	Rs'mn	Rs'mn	Remarks
Investment			
- Subscription to new shares		700	2mn x Rs.350
- Purchase of shares from Saman			
- Upfront payment		343	1.4mn x 70% x Rs.350
- Contingent payment		97	(1.4mn x 30% x Rs.350) / 1.1 ² x 80%
Fair value of existing investment		560	FV change of Rs.160mn to P&L
Total Investment		1,700	
NCI at fair value		1,750	10mn x 50% x Rs.350
		3,450	
Less : FV of NA			
Reported equity	2,242		
New share issue	700		
FV Adjustments			
- Contingent liability - legal cases	(25)		
- Contingent liability - Penalty	(20)		
- Intangible assets - patents	100		
- Inventories	144		
- FV adjustment on loans	131		
- Deferred tax - tax rate change	(33)		
- Deferred tax - above FV change			
- Legal case	7.5		
- Penalty	-		Not deductible for tax
- Intangible assets	-		Not claimable for tax
- Inventories	(43.2)		
- Loans	(39.3)	(3,164)	
Goodwill		286	

Upon calculating the Goodwill as above it will be recognized as an asset on the Group Statement of financial position of BRC together with the fair value adjustment to the respective item.

As CAPL becomes a subsidiary with effect from 31st March 2022, a full set of consolidated financial statements should be prepared by BRC consolidating all assets and liabilities of CAPL. The P&L items will be consolidated with effect from 1st April 2022.

4.) a) Acquisition of IMIL by CAPL

Since CAPL is a subsidiary of BRC and as CAPL can exercise control over IMIL through its 60% ownership, IMIL becomes an indirect subsidiary of BRC. Therefore, BRC should calculate goodwill on the acquisition IMIL on 31.3.2022. For this purpose the financials of IMIL will be translated to LKR as follows.

Translation of IMIL SFP

Item	INR'mn	Exchange rate	LKR'mn
Property, plant and equipment	120	5	600
FV adjustment	10	5	50
Intangible assets	10	5	50
Inventory	100	5	500
Trade and other receivables	120	5	600
Cash and cash equivalents	30	5	150
Total assets	390		1,950
Capital and reserves			
Share capital	50	5	250
Revaluation reserve	20	5	100
Retained earnings	40	5	200
FV adjustment	10	5	50
Acquisition date net assets	120		600
Post acquisition profits	-	5	-
Equity before FCTR	120		600
FCTR	-	5	-
Total equity	120		600
Non-current liabilities			
Interest bearing borrowings	120	5	600
Retirement benefit obligation	10	5	50
Current liabilities			
Bank overdrafts	30	5	150
Trade payables	110	5	550
Total equity and liabilities	390		1,950

Using the translated numbers the goodwill on the acquisition will be calculated and accounted as follows.

Company	Effective holding %	NCI %
CAPL	50.00%	50.00%
IMIL	30.00%	70.00%

Rs'mn

Consolidation working	GW - CAPL	NCI - CAPL	GW - IMIL	NCI - IMIL	RE
GW and NCI of CAPL	286	1,750			
Investment in IMIL - by CAPL – INR 100 x 5 = 500		(250)	250		
NCI – 600 x 70%			420	420	
NA			(600)		
GW of IMIL			70		
Retained earnings of BRC					XXX
Total	220	1,500	70	420	

A goodwill of Rs.70mn and an NCI of Rs.420mn will be recognized in the consolidated statement of financial position of BRC as arising from the acquisition of IMIL.

In addition to that, all the assets and liabilities of IMIL (translated amounts) will be included in the consolidated statement of financial position.

b) Effect of the fluctuation in the exchange rate

In subsequent reporting periods the financial statements of IMIL will be translated as follows.

- All assets and liabilities at the reporting date – At reporting date exchange rate
- Post acquisition profits and other gains – at an average rate during the period such profit was made
- Acquisition date equity and FV adjustments – at acquisition date rate
- Any difference on the above should be accumulated in a separate reserve within equity as foreign currency translation reserve (FCTR). Such reserve will be shared between NCI (at 70%) and Parent – BRC (at 30%)

The goodwill that arose on the acquisition should also be treated as an asset of the foreign subsidiary and should be denominated in the foreign currency. Therefore, the value of the goodwill in INR at the acquisition date is LKR 70mn / 5 = INR 14mn

At each reporting period end the INR 14mn goodwill should be re translated using the reporting date exchange rate and any difference should also be considered as a foreign currency translation reserve. Since

the goodwill on the acquisition date was calculated using the partial goodwill method (NCI at % of Net assets), the entire goodwill is attributable to the Parent entity. Thus, the entire reserve on the re translation should be credited to the Parent's FCTR

