AAT Group Company Accounts mastercourse
29 October 2013

Case study 1
Preparing the consolidated profit and loss account

For the purposes of this case study, we shall use the question that appeared in the December 2010 Drafting Financial Statements (DFS) examination.

The Managing director of Wewill plc has asked you to prepare the statement of profit or loss for the group. The company has one subsidiary undertaking, Rokyu Ltd. The statement of profit or loss of the two companies for the year-ended 31 October 2010 are set out below.

Statements of profit or loss for the year ended 31 October 2010

	Wewill plc	**Rokyu Ltd**
	£'000	**£'000**
Revenue	36,400	14,600
Cost of sales	(20,020)	(6,935)
Gross profit	16,380	7,665
Other income - dividend from Rokyu Ltd	860	
Distribution costs	(6,552)	(3,358)
Administrative expenses	(4,004)	(1,898)
Profit from operations	6,684	2,409
Finance costs	(675)	(154)
Profit before tax	6,009	2,255
Tax	(1,468)	(445)
Profit after tax	4,541	1,810

Further information:

1. Wewill plc acquired 80% of the ordinary share capital of Rokyu Ltd on 1 November 2009.
2. During the year Rokyu Ltd sold goods which had cost £1,000,000 to Wewill plc for £1,400,000. All of the goods had been sold by Wewill plc by the end of the year.

Required:
Draft a consolidated statement of profit or loss for Wewill plc and its subsidiary undertaking for the year ended 31 October 2010.

Case study 2
Goodwill calculation – gross and proportionate method

On 31 December 20X0, Company A acquired an 80% controlling stake in Company B for a purchase consideration of $100,000. On that date the fair value of the minority (non-controlling) interests were valued at $20,000 and the fair value of the net assets of Company B were $90,000. At the year-end 31 December 20X1, the net assets of Company B were $120,000.

Required

(a) Calculate the value of goodwill under the gross method; and

(b) Calculate the value of goodwill under the proportionate method.

Case study 3
Preparation of a consolidated balance sheet

For the purposes of this case study, we will use an exam question from the June 2010 Drafting Financial Statements (DFS) examination. Goodwill is calculated under the proportionate method.

The managing director of Glebe plc has asked you to prepare the statement of financial position for the group. Glebe plc has one subsidiary undertaking, Starks Ltd. The statements of financial position of the two companies as at 31 March 2010 are set out below.

Statements of financial position as at 31 March 2010

	£'000	**£'000**
Assets		
Non-current assets		
Property, plant and equipment	36,890	25,600
Investment in Starks Ltd	18,000	
	54,890	25,600
Current assets		
Inventories	15,560	4,222
Trade and other receivables	6,570	3,486
Cash and cash equivalents	234	127
	22,364	7,835
Total assets	77,254	33,435
Equity and liabilities		
Equity		
Share capital	32,000	10,000
Share premium	8,000	4,000
Retained earnings	12,249	12,650
Total equity	52,249	26,650
Non-current liabilities		
Long-term loans	13,000	5,000
	13,000	5,000
Current liabilities		
Trade and other payables	9,335	1,655
Tax liabilities	2,670	130
	12,005	1,785
Total liabilities	25,005	6,785
Total equity and liabilities	77,254	33,435

Further information

1. The share capital of Starks Ltd consists of ordinary shares of £1 each. Ownership of these shares carries voting rights in Starks Ltd. There have been no changes to the balances of share capital and share premium during the year. No dividends were paid or proposed by Starks Ltd during the year.
2. Glebe plc acquired 7,000,000 shares in Starks Ltd on 1 April 2009.
3. On 1 April 2009 the balance of retained earnings of Starks Ltd was £7,540,000.
4. The fair value of the non-current assets of Starks Ltd at 1 April 2009 was £26,300,000. The book value of the non-current assets at 1 April 2009 was £23,900,000. The revaluation has not been recorded in the books of Starks Ltd (ignore any effect on the depreciation for the year).
5. Included in trade and other receivables for Glebe plc and in trade and other payables for Starks Ltd is an inter-company transaction for £700,000 that took place in early March 2010.
6. The directors of Glebe plc have concluded that goodwill has been impaired by 15% during the year.
7. Glebe plc have decided non-controlling interests will be valued at their proportionate share of net assets.

Required:
Draft the consolidated statement of financial position for Glebe plc and its subsidiary undertaking as at 31 March 2010.

Case study 4
Sale of a subsidiary

P Ltd purchased an 80% shareholding in S Ltd for £80,000 during 20X1 when the fair value of S's net assets was £87,500. Goodwill on consolidation that arose on the acquisition is being amortised over its estimated useful life of ten years and a full year's charge for amortisation was made in the consolidated financial statements to 31 December 20X1. The parent sold its investment in the subsidiary on 31 December 20X4 for £100,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was £112,500.

Required:

(a) **Calculate the gain on the sale of the investment; and**

(b) **Show how the group's profit and loss account as at 31 December 20X4 would show any gain or loss arising on the sale of the subsidiary.**

Case study 5
Partial disposal – subsidiary to subsidiary

P Ltd purchased 100% of S Ltd for £500,000 during 19X0 when the fair value of S's net assets was £400,000. Goodwill arising on the acquisition prior to the implementation of FRS 10 was written off directly to reserves in the year of acquisition. The parent sold 40% of its investment in S in December 19X5 for £450,000. The book value of the subsidiary's net assets included in the consolidated balance sheet on the date of the sale was £800,000.

Required:

(a) **Show how any gain or loss on the sale would be calculated and shown in the parent's accounts; and**

(b) **Show how the gain on the sale of the subsidiary in the group's profit and loss account would be shown.**

Case study 6
Subsidiary entity to an associate

A parent purchased a 100% subsidiary for £500,000 during 19X1 when the fair value of the subsidiary's net assets was £400,000. Goodwill arising on the acquisition prior to the implementation of FRS 10 was written off directly to reserves in the year of acquisition. The parent sold 60% interest for £675,000, leaving the parent with 40% and significant influence.

Required:

(a) Calculate the gain or loss to be included in the parent's profit and loss account; and

(b) Show how the gain on the sale of the subsidiary would be included in the group accounts.

Case study 7
Subsidiary to investment

A parent purchased a 100% ownership interest in a subsidiary for £500,000 during 19X1 when the fair value of the subsidiary's net assets was £400,000. Goodwill arising on the acquisition prior to the implementation of FRS 10 was written off direct to reserves in the year of acquisition. The parent sold a 90% interest for £855,000, leaving the parent with a 10% investment.

Required:

(a) **Show how the gain or loss on the sale of the investment would be shown in the parent's profit and loss account; and**

(b) **Show how the group's profit and loss account would record the disposal.**

Case study 8
Deemed disposals

Parent loses control of a subsidiary

A parent owns 600,000 of the 1 million shares in a subsidiary giving the parent a 60% holding. The net assets of the subsidiary in the consolidated financial statements are £100 million. When the parent acquired the subsidiary, goodwill arose amounting to £12 million, which has not suffered any impairment. The subsidiary issues a further 500,000 shares to a third party investor for £90 million, resulting in the parent's shares falling from 60% to 40% (600,000 shares / 1.5 million shares). As the parent's ownership has fallen from 60% to 40%, there is no longer a parent-subsidiary relationship but the undertaking is accounted for as an associate.

Required:

Calculate the gain or loss on the deemed disposal.

Parent retains control of a subsidiary

Facts are the same as above, except that the subsidiary issues a further 90,909 shares to a third party for £17 million. The parent's ownership interest is diluted from 60% to 55% (600,000 shares / 1,909,909). The parent still retains control of the subsidiary as the holding is still more than 50% following the deemed disposal.

Required:

Show how this deemed disposal will be accounted for in the consolidated financial statements.

Case study 9
Accounting for a profit-making associate

On 31 December 2010, Rio Co invests a sum of $10,000 in Molly Co in return for a 25% holding in the voting rights in Molly. On 31 December 2011, the resulting profit of Molly was $7,000.
Required:
Show how the investment will be recorded in the books of Rio Co on initial recognition and as at 31 December 2011.

Case study 10
Loss-making associate

On 1 April 2011, Bharat Co invests $5 million in exchange for a 30% share of the equity of Lauren Co. In addition, Bharat also makes a loan to Lauren of $9 million, which is unsecured, and Bharat has not committed itself to any further funding. The financial statements of Lauren Co as at 31 March 2012 show a loss of $20 million.

Required:

Show how Bharat should account for the $20 million loss that Lauren has made during the year.

Case study 11
Dealing with profits and dividends from an associate

Irene Interiors (Irene) owns a 35% holding in Leyla's Luxurious Lounges (Leyla) which cost Irene $80,000 on 31 December 2010. On 31 December 2011, the profit of Leyla was $70,000 and it had proposed a dividend (prior to the year-end) of $10,000.

Required:

Show how the profit and the dividend is to be accounted for in the books of Irene.

Case study 12
Equity accounting a jointly controlled entity

On 31 December 2010, Victor Ventures invests in 50% of Joint Venture Co which costs Victor $100.
On 31 December 2011, Joint Venture Co makes a profit of $60.

Required:
Show how the above will be accounted for in the books of Victor Ventures.