

Task A8.13: Capital Consolidation

RIETGAT Ltd. is an Australian pizza restaurant. The company discloses the balance sheet below as at 31.12.20X3. MILLWOOD (Pty) Ltd. is a transport business, based in Australia as well. Its balance sheet is disclosed below, too.

Rietgat Ltd.'s STATEMENT of FINANCIAL POSITION as at 31.12.20X3			
A			C, L
<i>Non-current assets</i>	[AUD]	<i>Equity</i>	[AUD]
P, P, E	56,000.00	Share capital	50,000.00
Intangibles		Reserves	20,000.00
Financial assets		Retained earnings	21,000.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	10,000.00	Long-term Liab. IBL	
Accounts receivables		Short-term Liab. A/P	
Prepaid expenses		Provisions	
Cash/Bank	34,000.00	Tax liabilities	9,000.00
Total assets	100,000.00	Total equity and liab.	100,000.00

Exhibit 1: RIETGAT Ltd.'s balance sheet before acquisition

Millwood (Pty) Ltd.'s STATEMENT of FINANCIAL POSITION as at 31.12.20X3			
A			C, L
<i>Non-current assets</i>	[AUD]	<i>Equity</i>	[AUD]
P, P, E	40,000.00	Share capital	25,000.00
Intangibles		Reserves	5,000.00
Financial assets		Retained earnings	7,000.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	500.00	Long-term Liab. IBL	9,000.00
Accounts receivables	1,000.00	Short-term Liab. A/P	1,000.00
Prepaid expenses	500.00	Provisions	
Cash/Bank	8,000.00	Tax liabilities	3,000.00
Total assets	50,000.00	Total equity and liab.	50,000.00

Exhibit 2: MILLWOOD (Pty) Ltd.'s balance sheet

On 4.01.20X4, RIETGAT Ltd. acquires 75% of the shares of MILLWOOD (Pty) Ltd. RIETGAT Ltd. is the parent corporation, MILLWOOD (Pty) Ltd. is the subsidiary. For the deal, RIETGAT Ltd. pays the previous owner Mike Millwood the demanded price of 28,000.00 AUD.

(1) Required: Prepare a capital consolidation and disclose the consolidated balance sheet for the RIETGAT-MILLWOOD group.

Both companies pay income taxes. There is no appropriation of profits, the profit from previous years are carried forward to 20X4.

After the Accounting period 20X4, the income statements below are disclosed.

Rietgat Ltd.'s STATEMENT of PROFIT & LOSS and OTHER COMPREHENSIVE INCOME for the year ended 31.12.20X4	
	[AUD]
Revenue	120,000.00
Other income	
	120,000.00
Materials	(66,000.00)
Labour	(35,000.00)
Depreciation	(5,000.00)
Other expenses	(2,000.00)
Earnings before int. & taxes (EBIT)	12,000.00
Interest	
Earnings before taxes (EBT)	12,000.00
Income tax expenses	(3,600.00)
Deferred taxes	
Earnings after taxes (EAT)	8,400.00

Exhibit 3: RIETGAT Ltd.'s income statement

**Millwood (Pty) Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X4**

	[AUD]
Revenue	90,000.00
Other income	—
	90,000.00
Materials	(30,000.00)
Labour	(45,000.00)
Depreciation	(4,500.00)
Other expenses	0.00
Earnings before int. & taxes (EBIT)	10,500.00
Interest	(500.00)
Earnings before taxes (EBT)	10,000.00
Income tax expenses	(3,000.00)
Deferred taxes	—
Earnings after taxes (EAT)	7,000.00

Exhibit 4: MILLWOOD (Pty) Ltd.'s income statement

For the preparation of the balance sheet assume, materials are bought and paid on cash on demand (no changes in inventories). MILLWOOD (Pty) Ltd. pays-off 1,000.00 AUD of its bank loan at the end of 20X4. The bank loan is disclosed based on IAS 1, but values are at settlement amounts (no effective interest method applies).

No appropriation of profits applies in both companies: 100 % remain in retained earnings.

(2) Required: Prepare a consolidated balance sheet for the RIETGAT-MILLWOOD group as at 31.12.20X4.

Solution:

For the acquisition, the compensation is paid on cash:

Rietgat Ltd.'s
STATEMENT of FINANCIAL POSITION

A		as at 4.01.20X4		C, L		
Non-current assets		[AUD]		Equity		[AUD]
P, P, E		56,000.00		Share capital		50,000.00
Intangibles				Reserves		20,000.00
Investment		28,000.00		Retained earnings		21,000.00
Current assets				Liabilities		
Inventory		10,000.00		Long-term Liab. IBL		
Accounts receivables				Short-term Liab. A/P		
Prepaid expenses				Provisions		
Cash/Bank		6,000.00		Tax liabilities		9,000.00
Total assets		100,000.00		Total equity and liab.		100,000.00

Exhibit 5: RIETGAT Ltd.'s single entity F/S after acquisition

The capital consolidation is shown in the consolidation worksheet in exhibit 6:

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS	non-CTRL-i	CONS. F/S
<i>N-cur Assets</i>						
P,P,E	56,000	40,000	96,000			96,000
Int. assets			0			0
Investments	28,000		28,000	(28,000)		0
Goodwill			0	250		250
<i>cur Assets</i>						
Inventory	10,000	500	10,500			10,500
Receivables		1,000	1,000			1,000
Prepaid exp.		500	500			500
Cash	6,000	8,000	14,000			14,000
	<u>100,000</u>	<u>50,000</u>	<u>150,000</u>	<u>(27,750)</u>	<u>0</u>	<u>122,250</u>
<i>SH's capital</i>						
Issued capital	(50,000)	(25,000)	(75,000)	18,750	6,250	(50,000)
Reserves	(20,000)	(5,000)	(25,000)	3,750	1,250	(20,000)
Reval. Reserves			0			0
Retained ear.	(21,000)	(7,000)	(28,000)	5,250	1,750	(21,000)
M.I.			0		(9,250)	(9,250)
<i>Liabilities</i>						
Int. bear. liab.		(9,000)	(9,000)			(9,000)
Payables		(1,000)	(1,000)			(1,000)
Provisions			0			0
Def. income			0			0
Tax liabilities	(9,000)	(3,000)	(12,000)			(12,000)
	<u>(100,000)</u>	<u>(50,000)</u>	<u>(150,000)</u>	<u>27,750</u>	<u>0</u>	<u>(122,250)</u>

Exhibit 6: Consolidation worksheet

In order to simplify the calculation, we combine the consolidation Bookkeeping entry:

DR Goodwill	250.00 AUD
DR Issued Capital	25,000.00 AUD
DR Reserves	5,000.00 AUD
DR Retained Earnings	7,000.00 AUD
CR Investment	28,000.00 AUD
CR Non-ctrl. Interest	9,250.00 AUD

The consolidated balance sheet is disclosed in exhibit 7:

**Rietgat-Millwood-group's
STATEMENT of FINANCIAL POSITION**

A		as at 4.01.20X4		C, L	
<i>Non-current assets</i>		[AUD]		<i>Equity</i>	
P, P, E	96,000.00			Share capital	50,000.00
Intangibles				Reserves	20,000.00
Investment	0.00			Retained earnings	21,000.00
Goodwill	250.00			non-ctrl.-Int	9,250.00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	10,500.00			Long-term Liab. IBL	9,000.00
Accounts receivables	1,000.00			Short-term Liab. A/P	1,000.00
Prepaid expenses	500.00			Provisions	
Cash/Bank	14,000.00			Tax liabilities	12,000.00
Total assets	122,250.00			Total equity and liab.	122,250.00

Exhibit 7: Group statement as at 4.01.20X4 (acquisition)

After the companies recorded profit, the single entity balance sheets look as below:

**Rietgat Ltd.'s
STATEMENT of FINANCIAL POSITION**

A		as at 31.12.20X4		C, L	
<i>Non-current assets</i>		[AUD]		<i>Equity</i>	
P, P, E	51,000.00			Share capital	50,000.00
Intangibles				Reserves	20,000.00
Investment	28,000.00			Retained earnings	29,400.00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	10,000.00			Long-term Liab. IBL	
Accounts receivables				Short-term Liab. A/P	
Prepaid expenses				Provisions	
Cash/Bank	14,000.00			Tax liabilities	3,600.00
Total assets	103,000.00			Total equity and liab.	103,000.00

Exhibit 8: Single entity B/S for RIETGAT Ltd. (20X4)

**Millwood (Pty) Ltd.'s
STATEMENT of FINANCIAL POSITION**

A		as at 31.12.20X4		C, L	
<i>Non-current assets</i>		[AUD]		<i>Equity</i>	
P, P, E	35,500.00			Share capital	25,000.00
Intangibles				Reserves	5,000.00
Financial assets				Retained earnings	14,000.00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	500.00			Long-term Liab. IBL	8,000.00
Accounts receivables	1,000.00			Short-term Liab. A/P	1,000.00
Prepaid expenses	500.00			Provisions	
Cash/Bank	18,500.00			Tax liabilities	3,000.00
Total assets	56,000.00			Total equity and liab.	56,000.00

Exhibit 9: Single entity B/S for MILLWOOD (Pty) Ltd. (20X4)

We prepare the consolidation worksheet and apply the capital consolidation as before. With regard to the profit, no intra group profit portions are relevant. However, 25 % of the profit at MILLWOOD (Pty) Ltd. is assigned to the non-controlling interest holders:

Below the consolidation worksheet and the consolidated balance sheet are displayed:

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS	non-CTRL-i	CONS. F/S
<i>N-cur Assets</i>						
P,P,E	51,000	35,500	86,500			86,500
Int. assets			0			0
Investments	28,000		28,000	(28,000)		0
Goodwill			0	250		250
<i>cur Assets</i>						
Inventory	10,000	500	10,500			10,500
Receivables		1,000	1,000			1,000
Prepaid exp.		500	500			500
Cash	14,000	18,500	32,500			32,500
	<u>103,000</u>	<u>56,000</u>	<u>159,000</u>	<u>(27,750)</u>	<u>0</u>	<u>131,250</u>
<i>SH's capital</i>						
Issued capital	(50,000)	(25,000)	(75,000)	25,000		(50,000)
Reserves	(20,000)	(5,000)	(25,000)	5,000		(20,000)
Reval. Reserves			0			0
Retained ear.	(29,400)	(14,000)	(43,400)	7,000	1,750	(34,650)
M.I.			0	(9,250)	(1,750)	(11,000)
<i>Liabilities</i>						
Int. bear. liab.		(8,000)	(8,000)			(8,000)
Payables		(1,000)	(1,000)			(1,000)
Provisions			0			0
Def. income			0			0
Tax liabilities	(3,600)	(3,000)	(6,600)			(6,600)
	<u>(103,000)</u>	<u>(56,000)</u>	<u>(159,000)</u>	<u>27,750</u>	<u>0</u>	<u>(131,250)</u>

Exhibit 10: Consolidation worksheet (20X4)

Rietgat-Millwood-group's
STATEMENT of FINANCIAL POSITION
as at 4.01.20X4

A			C, L
	[AUD]		[AUD]
<i>Non-current assets</i>		<i>Equity</i>	
P, P, E	86,500.00	Share capital	50,000.00
Intangibles		Reserves	20,000.00
Investment	0.00	Retained earnings	34,650.00
Goodwill	250.00	non-ctrl.-Int	11,000.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	10,500.00	Long-term Liab. IBL	8,000.00
Accounts receivables	1,000.00	Short-term Liab. A/P	1,000.00
Prepaid expenses	500.00	Provisions	
Cash/Bank	32,500.00	Tax liabilities	6,600.00
Total assets	131,250.00	Total equity and liab.	131,250.00

Exhibit 11: Consolidated balance sheet for the group (20X4)