

Task IM-8.5: Group Accounting (based on CPUT materials, W. Lotter)

The example below covers a reporting period ended 30 June 20X4. MILNERTON Ltd. and AVONTUUR publish the financial statements below. MILNERTON Ltd. obtains the shares in AVONTUUR Ltd. at 1.07.20X3. MILNERTON Ltd. holds 120 shares at R1 of AVONTUUR

Required: The consolidated financial statements of MILNERTON Ltd and its subsidiary AVONTUUR Ltd.

Statement of financial performance	M Ltd	A Ltd
Profit before tax	400	200
Taxation	(112)	(56)
Profit for the year	288	144
Statement of change in equity	Ret. earnings	Ret. earnings
Opening balance	-	-
Profit	288	144
Dividends	(100)	-
Closing balance	188	144
Statement of financial position		
Property, plant and equipment	310	300
Investment in A Ltd at cost (120 shares)	120	-
Current assets	40	75
	470	375
Ordinary share capital (150 shares / 200 shares)	150	200
Retained income	188	144
Non-current liabilities	97	20
Current liabilities	35	11
	470	375

Exhibit 1: Case

Solution:

The consolidation sheet shows the aggregated balance sheet for the MILNERTON Group. The R 120 in issued capital do not survive consolidation of capital at the time of aquisition.

The amount of retained earnings for A Ltd. is added to the non-controlling interest holders to an extent of $120/200 = 60\%$. As a consequence, retained earnings are added to an extent of 40% to the non-controlling interest holders. $144 \times 40\% = \mathbf{R\ 57.80}$. The shares that belong to the non-controlling interest holders are added to non-controlling interest item as well. (= R 80.00) Now, the total of non-controlling interest equals to $57.8 + 80 = \mathbf{R\ 137.80}$.

The balance sheet for the group is derived from the CONS.F/S column in exhibit 1.

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS	MI (profit)	MI (shares)	CONS. F/S
<i>N-cur Assets</i>							
P,P,E	310	300	610				610
Int. assets			0				0
Investments	120		120	(120)			0
Goodwill			0				0
<i>cur Assets</i>	40	75	115				115
Inventory			0				0
Receivables			0				0
Prepaid exp.			0				0
Cash			0				0
	<u>470</u>	<u>375</u>	<u>845</u>	<u>(120)</u>	<u>0</u>	<u>0</u>	<u>725</u>
<i>SH's capital</i>							
Issued capital	(150)	(200)	(350)	120		80	(150)
Reserves			0				0
Reval. Reserves			0				0
Retained ear.	(188)	(144)	(332)		58		(274)
Non-ctrl. int			0		(58)	(80)	(138)
<i>Liabilities</i>							
Int. bear. liab.	(97)	(20)	(117)				(117)
Payables	(35)	(11)	(46)				(46)
Provisions			0				0
Def. income			0				0
Tax liabilities			0				0
	<u>(470)</u>	<u>(375)</u>	<u>(845)</u>	<u>120</u>	<u>0</u>	<u>0</u>	<u>(725)</u>

Exhibit 2: Consolidation chart

Milnerton Group's consolidated STATEMENT of FINANCIAL POSITION as at 30.06.20X4			
A			C, L
<i>Non-current assets</i>	[R]	<i>Equity</i>	[R]
P, P, E	610.00	Share capital	150.00
Intangibles		Reserves	
Financial assets		Retained earnings	274.40
		N-ctrl Interest	137.60
<i>Current assets</i>	115.00	<i>Liabilities</i>	
Inventory		Interest bear liab	117.00
Accounts receivables		Accounts payables	46.00
Prepaid expenses		Provisions	
Cash/Bank		Tax liabilities	
Total assets	725.00	Total equity and liab.	725.00

Exhibit 3: MILNERTON GROUP's balance sheet (consolidated)

On the income statement for the group the total profit of both group companies is disclosed. The EBT equal to $400 + 200 = \text{R } 600$. The total of income taxes is amounting to: $600 \times 28\% = \text{R } 168.00$. As a consequence, the EAT for the group equal to: $600 - 168 = \text{R } 432.00$.

In order to calculate the non-controlling interest in EAT, we only refer to the profit of AVONTUUR Ltd: $200 \times (1 - 28\%) \times 40\% = \text{R } 57.60$. The remaining amount is allocated to the group: $432 - 57.6 = \text{R } 374.40$.

**Milnerton Group's
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 30.06.20X4**

	[R]
Revenue	
Other income	
Materials	
Labour	
Depreciation	
Other expenses	
Earnings before int. & taxes (EBIT)	600 . 00
Interest	
Earnings before taxes (EBT)	600 . 00
Income tax expenses	(168 . 00)
Deferred taxes	
Earnings after taxes (EAT)	432 . 00
non-controlling interest	(57 . 60)
Controlling interest of profit	374 . 40

Exhibit 4: Consolidated income statement for MILNERTON GROUP

On the group statement of changes in equity, we distinguish between controlling interest and non-controlling interest. Both belong to the group!

The share capital of the controlling interest on the group did not survive consolidation. As a consequence, only the R 150.00 in share capital for MILNERTON Ltd. are disclosed. With regard to the subsidiary, the amount of shares that are linked to the non-controlling interest are visible: $200 \times 40\% = \mathbf{R\ 80.00}$.

The profit is taken from the group's income statement. It equals to R 57.60.

The dividend paid is 100.00, as paid by MILNERTON Ltd. The amount is to be deducted from the group's equity.

The total of equity equals to the total of the equity section on the balance sheet: $150 + 274.4 + 137.6 = \mathbf{R\ 562.00}$.

**Milnerton Group's
STATEMENT of CHANGES in EQUITY
as at 30.06.20X4**

	Share capital c	n-c Interest	Retained earnings	total
	[R]	[R]	[R]	[R]
as at 1.07.20X3	150.00	80.00		230.00
Profit 20X4		57.60	374.40	432.00
Dividend 20X4			(100.00)	(100.00)
as at 30.06.20X4	150.00	137.60	274.40	562.00

Exhibit 5: Consolidated statement of changes in equity