

**Task IM-8.10: Consolidated Financial Statements** (based on CPUT materials, W. Lotter)

ADCOCK Ltd. holds 180 shares of BELLMORE Ltd. The total income tax rate is 29%. Dividends are free of tax on capital return.

<b>Example 6</b>			
<b>Statement of profit or loss</b>	<b>A Ltd</b>	<b>B Ltd</b>	
Profit from operations	800	600	
Dividends received from B Ltd	120	-	
Profit before tax	920	600	
Taxation	( 232)	( 174)	
Profit for the year	688	426	
<b>Statement of change in equity</b>	<b>Ret. earnings</b>	<b>Ret. earnings</b>	
Opening balance	120	140	
Profit	688	426	
Dividends	( 600)	( 200)	
Closing balance	208	366	
<b>Statement of financial position</b>			
Property, plant and equipment	500	550	
Investment in B Ltd at cost (180 shares)	250	-	
Current assets	180	160	
	930	710	
Ordinary share capital (500 / 300 shares)	500	300	
Retained income	208	366	
Non-current liabilities	90	30	
Current liabilities	144	14	
	942	710	
<b>Other information</b>	( 12)	-	
A Ltd obtained the shares in B Ltd at <b>1 August 2008</b> when the retained earnings of B Ltd was R50. Included in PPE of A Ltd is plant, sold by B Ltd to A Ltd on 1 October 2013 at CA + 25%, after B Ltd acquired it on 1 October 2012 for R100. The useful life of the plant is 5 years with no residual value.			
Included in the inventory of A Ltd is inventory for R120, acquired from B Ltd at cost+20%. The tax rate is 29% and deferred tax has a credit balance.			
<b>Required</b>			
The consolidated financial statements of A Ltd and its subsidiary B Ltd.			

**Exhibit 1:** task

Firstly, the investment in BELLMORE Ltd. qualifies as a subsidiary.

ADCOCK Ltd. is to prepare consolidated financial statements as at 30.09.20X4. We prepare a consolidation chart for that reason:

The initial consolidation therein is based on the acquisition at R 250.00. The amount is to be compared to R 180.00 share capital and R 50.00 per 300 shares. Hence, the book value of the shares was:  $180 + 180 \times 50/300 = \mathbf{R\ 210.00}$ . The goodwill is:  $250 - 210 = \mathbf{R\ 40.00}$ .

With regard to the initial capital consolidation, the shares and allocated retained earnings of non-controlling interest holders are cancelled out:  $120 + 40\% \times 50 = \mathbf{R\ 140.00}$ .

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS				CONS. F/S
<i>N-cur Assets</i>								
P,P,E	500	550	1,050					1,050
Int. assets			0					0
Investments	250		250	(250)				0
Goodwill			0	40				40
<i>cur Assets</i>	192	160	352					352
Inventory			0					0
Receivables			0					0
Prepaid exp.			0					0
Cash			0					0
	942	710	1,652	(210)	0	0	0	1,442
<i>SH's capital</i>								
Issued capital	500	300	800	(180)	(120)			500
Reserves			0					0
Reval. Reserves			0					0
Retained ear.	208	366	574	(30)	(20)			524
Non-ctrl int.			0		140			140
<i>Liabilities</i>								
Int. bear. liab.	90	30	120					120
Payables	144	14	158					158
Provisions			0					0
Def. income			0					0
Tax liabilities			0					0
	942	710	1,652	(210)	0	0	0	1,442

**Exhibit 2:** Initial consolidation chart 20W9

With regard to the changes in retained earnings, the opening amount of retained earnings is R 140.00 at BELLMORE Ltd. Hence the period between initial acquisition and the actual fiscal year made the subsidiary earn:  $140 - 50 = \mathbf{R\ 90.00}$ . The portion to be added to non-ctrl. interest holders is:  $40\% \times 90 = \mathbf{R\ 36.00}$ .

Again, we combine the initial consolidation bookkeeping entries to:

<b>DR Goodwill</b>	<b>40.00 ZAR</b>
<b>DR Issued capital</b>	<b>300.00 ZAR</b>
<b>DR Retained Earnings</b>	<b>50.00 ZAR</b>
<b>CR Investments</b>	<b>250.00 ZAR</b>
<b>CR Non-ctrl. Interest</b>	<b>140.00 ZAR</b>

The plant bought by BELLMORE Ltd. at R 100.00 was written-off by BELLMORE Ltd. to an extent of R 20 already. It was then sold to ADCOCK at:  $80 \times (1 + 25\%) = \mathbf{R\ 100.00}$ . The intra-group profit is  $100 - 80 = \mathbf{R\ 20.00}$ . The valuation of the plant is to be corrected by R 20.00. As depreciation is to be adjusted as well, the change is:  $20 - 5 = \mathbf{R\ 15.00}$ . The same applies for the profit made by BELLMORE Ltd. due to full consolidation procedure, the intra group profit will not be spit up along the ownership on BELLMORE Ltd.

<b>DR Retained Earnings</b> .....	<b>10.65 ZAR</b>
<b>DR Deferred tax</b> .....	<b>4.35 ZAR</b>
<b>CR P, P, E</b> .....	<b>15.00 ZAR</b>

The inventories that ADCOCK bought from BELLMORE Ltd. were priced at 120 % of the cost of purchase. Hence, the value to be recognised on the balance sheet is:  $120 / 120\% = \mathbf{R\ 100.00}$ . Hence, there is an adjustment required to the extent of:  $100 - 80 = \mathbf{R\ 20.00}$ . This way the inventories are valued at group entry level. The contra entry is made in the Retained Earnings account.

<b>DR Retained Earnings</b> .....	<b>14.20 ZAR</b>
<b>DR Deferred Tax</b> .....	<b>5.80 ZAR</b>
<b>CR Inventories</b> .....	<b>20.00 ZAR</b>

We prepare next the income statement which is to be adjusted for the intra group profits earned by BELLMORE Ltd. and adjustments made at ADCOCK Ltd.

BELLMORE Ltd.'s profit is to be adjusted: The amount along the single-entity income statement is  $600 \times (1 - 29\%) = \mathbf{R\ 426.00}$ . For consolidated financial statements we make two adjustments: (1) for the inventories, (2) for the plant.

(1) The inventories sale does not count for the consolidated/separted financial statements and BELLMORE Ltd.'s profit is decreased by R 20.00. The tax impact is:  $20 \times 29\% = \mathbf{R\ 5.80}$ . At ADCOCK Ltd. the goods are still on stock.

(2) The sale of the plant is overrated to an extent of R 20.00. The value should be R 80.00 instead of 100.00. The profit reduction is compensated by higher depreciation (instead for writing off R 80 over 4 years, ADCOCK Ltd. writes off 100 over 4 years.). Hence, the consolidated profit is to be adjusted by:  $5 - 20 = -\mathbf{R\ 15.00}$ . The tax impact thereon is:  $-15 \times 29\% = -\mathbf{R\ 4.35}$ .

In total the profit after taxes for BELLMORE Ltd. is:  $426 - 20 + 5.80 - 20 + 5 + 4.35 = \mathbf{R\ 401.15}$ . All changes are made with BELLMORE Ltd.

On the consolidated income statement, we adjust the profit by R 20.00 for the inventories and R 15.00 for the plant. We also adjust the tax by R 5.80 and R 4.35. See below the consolidated statement of profit and loss.

**Adcock Groups's**  
**consolidated STATEMENT of PROFIT & LOSS**  
**and OTHER COMPREHENSIVE INCOME**  
**for the year ended 30.09.20X4**

	[EUR]
Revenue	
Other income	
	0 . 00
Materials	
Labour	
Depreciation	
Other expenses	
<b>Earnings before int. &amp; taxes (EBIT)</b>	<b>1 , 400 . 00</b>
__profit consolidation	<b>(35 . 00)</b>
<b>Earnings before taxes (EBT)</b>	<b>1 , 365 . 00</b>
Income tax expenses	<b>(395 . 85)</b>
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<b>969 . 15</b>
non-ctrl interest (401.15 × 40%)	<b>160 . 46</b>
ctrl-interest	<b>808 . 69</b>

**Exhibit 3:** consolidated income statement

Observe the consolidation chart.

	AGGR.	CAP. CONS	plant	inventories	between	actual period	dividend	CONS. F/S
<i>N-cur Assets</i>								
P,P,E	1,050		(15)					1,035
Int. assets	0							0
Investments	250	(250)						0
Goodwill	0	<b>40</b>						<b>40</b>
<i>cur Assets</i>	352			(20)				332
Inventory	0							0
Receivables	0							0
Prepaid exp.	0							0
Cash	0							0
	1,652	(210)	(15)	(20)	0	0	0	1,407
<i>SH's capital</i>								
Issued capital	800	(300)						500
Reserves	0							0
Reval. Reserves	0							0
Retained ear.	574	(50)	(10.65)	(14.20)	(36)	(160.46)	80.00	<b>383</b>
Non-ctrl int.	0	140			<b>36</b>	<b>160.46</b>	<b>(80.00)</b>	<b>256</b>
<i>Liabilities</i>								
Int. bear. liab.	120		(4.35)	(5.80)				110
Payables	158							158
Provisions	0							0
Def. income	0							0
Tax liabilities	0							0
	1,652	(210)	(15)	(20)	0	0	0	1,407

**Exhibit 4:** Consolidation chart (20X4)

The statement of changes in equity is disclosed below:

<b>Adcock Group's</b> <b>STATEMENT of CHANGES in EQUITY</b> <b>as at 30.09.20X4</b>				
	Share capital	non-ctrl interest	R/E c	total
	[R]	[R]	[R]	[R]
as at 1.10.20X3	500.00	120.00	120.00	740.00
R/E at acquisition		20.00		20.00
Profit between		36.00	54.00	90.00
Profit 20X4		160.46	808.69	969.15
Dividend A Ltd.			(600.00)	(600.00)
Dividend B Ltd.		(80.00)		(80.00)
as at 30.09.20X4	500.00	256.46	382.69	1,139.15

**Exhibit 5:** consolidated statement of changes in equity

See below the consolidated balance sheet:

<b>Adcock Group's</b> <b>consolidated STATEMENT of FINANCIAL POSITION</b> <b>as at 30.09.20X4</b>			
A			C, L
<i>Non-current assets</i>	[R]	<i>Equity</i>	[R]
P, P, E	1,035.00	Share capital	500.00
Intangibles		Reserves	
Investments		Retained earnings	382.69
Goodwill	40.00	Non-ctrl int.	256.46
<i>Current assets</i>	332.00	<i>Liabilities</i>	
Inventory		Interest bear liab	109.85
Accounts receivables		Accounts payables	158.00
Prepaid expenses		Provisions	
Cash/Bank		Tax liabilities	
<b>Total assets</b>	<b>1,407.00</b>	<b>Total equity and liab.</b>	<b>1,407.00</b>

**Exhibit 6:** Consolidated balance sheet