

Task A8.14: Capital Consolidation

STOCKVELLA Ltd. is an Australian bicycle parts seller. The company provided the balance sheet as below as at 1.01.20X3. The stock is 240 Mountain Bike frames at 1,000.00 AUD/u.

Stockvella Ltd.'s STATEMENT of FINANCIAL POSITION as at 1.01.20X3			
A			C, L
<i>Non-current assets</i>	[AUD]	<i>Equity</i>	[AUD]
P, P, E	80,000.00	Share capital	50,000.00
Intangibles		Reserves	50,000.00
Financial assets		Retained earnings	70,000.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	240,000.00	Long-term Liab. IBL	200,000.00
Accounts receivables		Short-term Liab. A/P	
Prepaid expenses		Provisions	
Cash/Bank	80,000.00	Tax liabilities	30,000.00
Total assets	400,000.00	Total equity and liab.	400,000.00

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

PARADISO Ltd. is a biker shop in Melbourne and discloses the balance sheet below after it bought 70 % of STOCKVELLA Ltd. on 1.01.20X3. PARADISO Ltd. discloses the investment on STOCKVELLA Ltd. at cost of acquisition, which are 125,000.00 AUD. Paradiso Ltd. is parent – STOCKVELLA Ltd. is the subsidiary.

Paradiso Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 1.01.20X3

A				C, L
		[AUD]		[AUD]
<i>Non-current assets</i>			<i>Equity</i>	
P, P, E	100,000.00		Share capital	100,000.00
Intangibles			Reserves	200,000.00
Financial assets			Retained earnings	210,000.00
Investment	125,000.00			
<i>Current assets</i>			<i>Liabilities</i>	
Inventory	300,000.00		Long-term Liab. IBL	
Accounts receivables			Short-term Liab. A/P	
Prepaid expenses			Provisions	
Cash/Bank	75,000.00		Tax liabilities	90,000.00
Total assets	600,000.00		Total equity and liab.	600,000.00

Exhibit 2: PARADISO Ltd.'s balance sheet

During the Accounting period, both companies pay their income tax liabilities. They both sell goods: STOCKVELLA Ltd. sells 40 of the Mountain Bike frames to PARADISO Ltd. at 2,000.00 AUD/u. PARADISO Ltd. sells 300 kids bikes purchased at 750.00 AUD at a selling price of 1,500.00 AUD. At the end of the Accounting period, PARADISO Ltd. still has the frames bought from STOCKVELLA Ltd. on stock. All transactions are on cash. Ignore VAT.

Required: Prepare the group statements for the PARADISO/STOCKVELLA group. Record the consolidations in the consolidation worksheet on the front page.

Solution:

The capital consolidation is recorded by recording the goodwill calculation (70 %) and the minority interest calculation (30 %) as below:

DR Goodwill	6,000.00 AUD
DR Issued Capital	35,000.00 AUD
DR Reserves	35,000.00 AUD
DR Retained Earnings	49,000.00 AUD
CR Investment	125,000.00 AUD

To consider the non-controlling interest holder, 30 % of the subsidiary's equity is added to minority interest.

DR Issued Capital	15,000.00 AUD
DR Reserves	15,000.00 AUD
DR Retained Earnings	21,000.00 AUD
CR Investment	51,000.00 AUD

After the profit is calculated and the balance sheets have been prepared as at 31.12.20X3, the capital consolidation is repeated, and the profit/inventory consolidation takes place. See below the consolidation worksheet.

	SUBSIDIARY	PARENT	AGGR.	CAP. CONS	CAP. CONS	inner-group	CONS. F/S
<i>N-cur Assets</i>							
P,P,E	80,000	100,000	180,000				180,000
Int. assets			0				0
Investments		125,000	125,000	(125,000)			0
Goodwill			0	6,000			6,000
<i>cur Assets</i>							
Inventory	200,000	155,000	355,000			(40,000)	315,000
Receivables			0				0
Prepaid exp.			0				0
Cash	<u>130,000</u>	<u>355,000</u>	<u>485,000</u>				<u>485,000</u>
	<u>410,000</u>	<u>735,000</u>	<u>1,145,000</u>	<u>(119,000)</u>	<u>0</u>	<u>(40,000)</u>	<u>986,000</u>
<i>SH's capital</i>							
Issued capital	(50,000)	(100,000)	(150,000)	35,000	15,000		(100,000)
Reserves	(50,000)	(200,000)	(250,000)	35,000	15,000		(200,000)
Reval. Reserves			0				0
Retained ear.	(98,000)	(367,500)	(465,500)	49,000	21,000	28,000	(367,500)
M.I.			0		(51,000)		(51,000)
<i>Liabilities</i>							
Int. bear. liab.	(200,000)		(200,000)				(200,000)
Payables			0				0
Provisions			0				0
Def. income			0				0
Tax liabilities	<u>(12,000)</u>	<u>(67,500)</u>	<u>(79,500)</u>			<u>12,000</u>	<u>(67,500)</u>
	<u>(410,000)</u>	<u>(735,000)</u>	<u>(1,145,000)</u>	<u>119,000</u>	<u>0</u>	<u>40,000</u>	<u>(986,000)</u>