

Task IM-8.6: Group Accounting (based on CPUT materials, W. Lotter)

The example below cover 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 110 shares at R1 of AVONTUUR Ltd.

Required: The consolidated financial statements of MILNERTON Ltd and its subsidiary AVONTUUR Ltd. The rate of income tax equals to 28%.

Statement of financial performance	M Ltd	A Ltd
Profit from operations	400	200
Dividends received from A Ltd	33	-
Profit before tax	433	200
Taxation	(112)	(56)
Profit for the year	321	144
Statement of change in equity	Ret. earnings	Ret. earnings
Opening balance	-	-
Profit	321	144
Dividends	(100)	(60)
Closing balance	221	84
Statement of financial position		
Property, plant and equipment	310	300
Investment in A Ltd at cost (110 shares)	110	-
Current assets	55	75
	475	375
Ordinary share capital (150 shares / 200 shares)	150	200
Retained income	221	84
Non-current liabilities	70	80
Current liabilities	34	11
	475	375

Exhibit 1: Case

Solution:

	PARENT	SUBSIDIARY	AGGR.	at acquisition CAP. CONS	year MI (profit)	year MI (shares)	CONS. F/S
<i>N-cur Assets</i>							
P,P,E	310	300	610				610
Int. assets			0				0
Investments	110		110	(110)			0
Goodwill			0				0
<i>cur Assets</i>	55	75	130				130
Inventory			0				0
Receivables			0				0
Prepaid exp.			0				0
Cash			0				0
	<u>475</u>	<u>375</u>	<u>850</u>	<u>(110)</u>	<u>0</u>	<u>0</u>	<u>740</u>
<i>SH's capital</i>							
Issued capital	(150)	(200)	(350)	110		90	(150)
Reserves			0				0
Reval. Reserves			0				0
Retained ear.	(221)	(84)	(305)		(38)		(343)
Non-ctrl int.			0		38	(90)	(52)
<i>Liabilities</i>							
Int. bear. liab.	(70)	(80)	(150)				(150)
Payables	(34)	(11)	(45)				(45)
Provisions			0				0
Def. income			0				0
Tax liabilities			0				0
	<u>(475)</u>	<u>(375)</u>	<u>(850)</u>	<u>110</u>	<u>0</u>	<u>0</u>	<u>(740)</u>

Exhibit 2: Consolidation chart

The retained earnings equals to the profit after taxes and dividend. IE the subsidiary's R/E equal to: $(200 \times (1 - 28\%) - 60) \times 45\% = \mathbf{R\ 37.80}$. The amount of shares is added to non-controlling interest and equals to: $200 \times 45\% = \mathbf{R\ 90.00}$. As a consequence, the non-controlling interest on the consolidated balance sheet equals to: $37.8 + 90 = \mathbf{R\ 127.80}$.

With regard to the share capital, the controlling interest (= R 110.00) is cancelled out due to capital consolidation. The remaining amount of R 90.00 is transferred to the non-controlling interest.

The non-controlling interest on the group's balance sheet contains issued shares and a profit portion: The shares are 90. The profit portion is profit after tax and after dividend times 45%: It is amounting to: $(200 \times (1 - 28\%) - 60) \times 45\% = \mathbf{R\ 37.80}$. The total of the non-controlling interest equals to: $90 + 37.8 = \mathbf{R\ 127.80}$. The portion of the dividend paid to MILNERTON Ltd. equals to: $60 \times 55\% = \mathbf{R\ 33.00}$. (see below in the statement of changes in equity!)

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	267 . 20
		N-ctrl Interest	127 . 80
<i>Current assets</i>	130 . 00	<i>Liabilities</i>	
Inventory		Interest bear liab	150 . 00
Accounts receivables		Accounts payables	45 . 00
Prepaid expenses		Provisions	
Cash/Bank		Tax liabilities	
Total assets	740 . 00	Total equity and liab.	740 . 00

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

The non-controlling interest in the group's EAT equals to: $45\% \times (200 \times (1-28\%)) = \mathbf{R\ 64.80}$. The parent's (= controlling interest) share is: $400 \times (1 - 28\%) + 55\% \times (200 \times (1-28\%)) = \mathbf{R\ 367.20}$. Note, both figures are before dividend and thus differ from retained earnings.

**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	(64.80)
Controlling interest of profit	367.20

Exhibit 4: Consolidated income statement for MILNERTON GROUP

On the statement of changes in equity, the shares of the parent show. The issued capital of the subsidiary (= R 200.00) is deleted by capital consolidation and the non-controlling interest is assigned to the non-controlling interest holders: $200 \times (1 - 55\%) = \mathbf{R\ 90.00}$.

The EAT of A Ltd. equals to: $200 \times (1 - 28\%) = \mathbf{R\ 144.00}$. The non-controlling interest in the profit equals to $144 \times 45\% = \mathbf{R\ 64.80}$. The dividend paid to non-controlling interest holders is $60 \times 45\% = \mathbf{R\ 27.00}$. As an alternative the statement could show the total dividend paid (= R 60) and adds: $60 - 27 = \mathbf{R\ 33.00}$ as dividend received to the retained earnings column.

**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	90.00		240.00
Profit 20X4		64.80	367.20	432.00
Dividend M Ltd.			(100.00)	(100.00)
Dividend A Ltd.		(27.00)	0.00	(27.00)
as at 30.06.20X4	150.00	127.80	267.20	545.00

Exhibit 5: Consolidated statement of changes in equity