

Task IM-8.7: Group Accounting (based on CPUT materials, W. Lotter)

The example below covers a reporting period ended 30 June 20X4. MILNERTON Ltd. and AVONTUUR Ltd. 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 | 42 | - |
| Profit before tax | 442 | 200 |
| Taxation | (112) | (56) |
| Profit for the year | 330 | 144 |
| | | |
| Statement of change in equity | Ret. earnings | Ret. earnings |
| Opening balance | 80 | 50 |
| Profit | 330 | 144 |
| Dividends | (100) | (60) |
| Closing balance | 310 | 134 |
| | | |
| Statement of financial position | | |
| Property, plant and equipment | 310 | 300 |
| Investment in A Ltd at cost (140 shares) | 160 | - |
| Current assets | 130 | 65 |
| | 600 | 365 |
| Ordinary share capital (150 / 200 shares) | 150 | 200 |
| Retained income | 310 | 134 |
| Non-current liabilities | 105 | 20 |
| Current liabilities | 35 | 11 |
| | 600 | 365 |
| <u>Other information</u> | - | - |
| M Ltd obtained the shares in A Ltd at 1 July 2009 when the retained earnings of. | | |
| A Ltd was R20. | | |

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 | 160 | | 160 | (160) | | | 0 |
| Goodwill | | | 0 | 6 | | | 6 |
| <i>cur Assets</i> | 130 | 65 | 195 | | | | 195 |
| Inventory | | | 0 | | | | 0 |
| Receivables | | | 0 | | | | 0 |
| Prepaid exp. | | | 0 | | | | 0 |
| Cash | | | 0 | | | | 0 |
| | <u>600</u> | <u>365</u> | <u>965</u> | <u>(154)</u> | <u>0</u> | <u>0</u> | <u>811</u> |
| <i>SH's capital</i> | | | | | | | |
| Issued capital | (150) | (200) | (350) | 140 | | 60 | (150) |
| Reserves | | | 0 | | | | 0 |
| Reval. Reserves | | | 0 | | | | 0 |
| Retained ear. | (310) | (134) | (444) | 20 | 34 | | (390) |
| M.I. | | | 0 | (6) | (34) | (60) | (100) |
| <i>Liabilities</i> | | | | | | | |
| Int. bear. liab. | (105) | (20) | (125) | | | | (125) |
| Payables | (35) | (11) | (46) | | | | (46) |
| Provisions | | | 0 | | | | 0 |
| Def. income | | | 0 | | | | 0 |
| Tax liabilities | | | 0 | | | | 0 |
| | <u>(600)</u> | <u>(365)</u> | <u>(965)</u> | <u>154</u> | <u>0</u> | <u>0</u> | <u>(811)</u> |

Exhibit 1: Consolidation chart

In the consolidation chart, the initial capital consolidation is based on the acquisition of the shares in AVONTUUR Ltd. at a price of R 160. This amount is based on issued capital of R 140 and a proportional profit. The portion of shares bought by MILNERTON Ltd. in 20W9 gives a $140/200 = 70\%$ interest.

The profit of the year is split at a 3 : 7 ratio and gives MILNERTON Ltd. an interest of: $70\% \times 20 = \text{R } 14.00$. This amount of R 14 is relevant for the capital consolidation as the value of AVONTUUR Ltd. was $200 + 20 = \text{R } 220.00$ at that time. The interest of MILNERTON Ltd. therein is: $70\% \times 220 = \text{R } 154.00$. As a consequence, the paid price of R 160.00 exceeds the book value of the investment: $160 - 154 = \text{R } 6.00$. This amount is considered as goodwill.

The amount of retained earnings assigned to non-controlling interest holders is: $20 \times 30\% = \text{R } 6.00$.

The retained earnings of the subsidiary are to be split because we are considering a subsequent consolidation. The amount as at the acquisition of the shares was R 20.00. Thus, the profit earned after acquisition is: $134 - 20 = \text{R } 114.00$. The amount is split at a 3 : 7 ratio and gives a non-controlling interest of: $114 \times 30\% = \text{R } 34.20$. This amount is added to the non-controlling interest as well as the shares: $30\% \times 200 = \text{R } 60.00$. The total of controlling interest contains the profit portion at the time of acquisition, the shares value and the retained earnings after acquisition and equals to: $6 + 60 + 34.2 = \text{R } 100.20$.

The balance sheet below shows the amounts on the group's balance sheet.

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 | 389.80 |
| Goodwill | 6.00 | N-ctrl Interest | 100.20 |
| <i>Current assets</i> | 195.00 | <i>Liabilities</i> | |
| Inventory | | Interest bear liab | 125.00 |
| Accounts receivables | | Accounts payables | 46.00 |
| Prepaid expenses | | Provisions | |
| Cash/Bank | | Tax liabilities | |
| Total assets | 811.00 | Total equity and liab. | 811.00 |

Exhibit 2: consolidated balance sheet

The consolidated income statement is shown below.

The amount for the earnings after taxes does not consider any taxes on capital return, here for the dividend received from the subsidiary AVONTUUR Ltd. Hence, taxation equals to: $600 \times 28\% = 168.00 \text{ EUR}$. The non-controlling interest holders' share of the profit is based on 30% of the profit of the subsidiary: $(200 - (1 - 28\%)) \times 30\% = 43.20 \text{ EUR}$. The remaining amount is the profit share of the controlling interest holders: $((200 + 400) \times (1 - 28\%)) - 43.20 = 388.80 \text{ EUR}$.

**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 2014 | (43 . 20) |
| controlling interest | 388 . 80 |

Exhibit 3: consolidated income statement

The statement of changes in equity is shown below. It shows the acquisition in the first 2 lines. The Profit split in 20W9 – 20X4 is derived from the opening amounts in the single-entity statement of changes in equity as at 1.07.20X3. The amount for the subsidiary is 50.00 EUR. Hence, the profit during this year span equals to: $50 - 20 = \mathbf{30.00 \text{ EUR}}$. The amount allocated to the subsidiary is: $30\% \times 30 = \mathbf{9.00 \text{ EUR}}$. the amount that goes to the controlling interest holders contains the retained earnings from the subsidiary and MILNERTON Ltd.: $(30 - 9) + 80 = \mathbf{R 101.00}$.

In 20X4, the profit is allocated as disclosed on the income statement. 43.20 EUR are allocated to the non-controlling interest holders and 388.80 EUR are allocated to the controlling interest holders.

The dividend paid is removed from equity. Consider that the intra group dividend is not relevant here as it is an internal balance. Hence, only the 18.00 EUR paid to non-controlling interest holders are deducted whereas the dividend to MILNERTON Ltd. by AVONTUUR Ltd. does not change the equity of the group.

The amounts provided by the statement of changes in equity are conform with the balance sheet.

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

| | Share capital c | n-c Interest | R/E c | total |
|------------------------|-----------------|--------------|----------|----------|
| | [R] | | [R] | [R] |
| as at 1.07.20X3 | 150.00 | 60.00 | | 210.00 |
| Goodwill | | 6.00 | | 6.00 |
| Profit share 2009-2014 | | 9.00 | 101.00 | 110.00 |
| | 150.00 | 75.00 | 101.00 | 326.00 |
| Profit 20X4 | | 43.20 | 388.80 | 432.00 |
| Dividend M Ltd. | | | (100.00) | (100.00) |
| Dividend A Ltd. | | (18.00) | 0.00 | (18.00) |
| as at 30.06.20X4 | 150.00 | 100.20 | 389.80 | 640.00 |

Exhibit 4: consolidated statement of changes in equity