

Tango Ltd has a subsidiary, Feast Ltd. Feast is incorporated in America which has the dollar (\$) as its unit of currency and the \$ is the functional currency of Feast. The financial statements of Tango and Feast for the year ended 31 December 2012 are given below :

BALANCE SHEETS AT 31 DECEMBER 2012

	Tango £	£	Feast \$	\$
<i>Fixed assets</i>				
Property, plant and equipment	132,728		80,000	
Investment in Feast	<u>27,272</u>	160,000	<u> </u>	80,000
<i>Current assets</i>				
Debtors	33,000		20,000	
Dividend receivable	<u>948</u>		<u>0</u>	
	<u>33,948</u>		<u>20,000</u>	
<i>Creditors: amounts falling due within one year</i>				
Creditors	16,000		16,000	
Dividends payable	<u>3,000</u>		<u>2,000</u>	
	<u>19,000</u>	<u>14,948</u>	<u>18,000</u>	<u>2,000</u>
		<u>174,948</u>		<u>82,000</u>
<i>Share Capital & Reserves</i>				
Issued share capital (£1/\$1 shares)		80,000		40,000
Profit and Loss A/C Reserve		<u>94,948</u>		<u>42,000</u>
		<u>174,948</u>		<u>82,000</u>

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2012

	Tango £	Feast \$
Profit before tax	20,000	12,000
Tax	<u>(1,600)</u>	<u>(800)</u>
Retained profit	<u>18,400</u>	<u>11,200</u>

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Tango £	Feast \$
Balance at 31 December 2011	159,548	72,800
Profit for the period	18,400	11,200
Dividends declared	<u>(3,000)</u>	<u>(2,000)</u>
Balance at 31 December 2012	<u>174,948</u>	<u>82,000</u>

Notes to the financial statements

1. On 1 May 2004 Tango purchased 36,000 shares in Feast for \$60,000. The balance on the Profit and Loss Account Reserve of Feast on 1 May 2004 was \$10,000. Feast has not issued any additional shares since 1 May 2004.
2. Both Tango and Feast declared their dividends before 31 December 2012.
3. Relevant rates of exchange are as follows:

<i>Date</i>	<i>Exchange rate (\$ to £1)</i>
1 May 2004	2.2
31 December 2011	1.5
31 December 2012	1.9
Average for the year ended 31 December 2012	1.7

Required

- a) Prepare the consolidated balance sheet at 31 December 2012, the profit & loss account and the statement of consolidated reserves for the year to that date.
(25 marks)
- b) Evaluating FRS23 The Effects of Changes in Foreign Exchange Rates explain the rationale behind the method you have used to translate goodwill.
(5 marks)

(TOTAL 30 MARKS)

MODEL ANSWERS

QUESTION TWO

a)

Translation of the balance sheet of Feast

	\$	Rate	£
Property, Plant and equipment	80,000	1.9	42106
Debtors	20,000	1.9	10526
Creditors	(16000)	1.9	(8422)
Dividends Payable	(2000)	1.9	(1052)
	<u>82,000</u>		<u>43158</u>
Share Capital	40,000	2.2	18182
Pre-Acquisition Reserves	10,000	2.2	4546
Post-Acquisition Reserves	<u>32,000</u>	BAL	<u>20430</u>
	<u>82,000</u>		<u>43158</u>

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

FIXED ASSETS

Property, Plant and Equipment	(132728 + 42106)	174834
Goodwill (w1)		<u>7894</u>
		182728

CURRENT ASSETS

Debtors (33000 + 10526)	43526
<u>CREDITORS : DUE WITHIN ONE YEAR</u>	<u>24422</u>
Creditors	<u>3106</u>
Dividends Payable (3000 + [1052 x 10%])	<u>27528</u>

	<u>15998</u>
	198726
	(4316)
	<u>194410</u>

Minority Interest (43158 x 10%)

Share Capital	80000
Profit & Loss Account Reserve (w2)	<u>114410</u>
	<u>194410</u>

WORKINGS

	\$	Rate	£
1) Goodwill	60,000		
Cost of investment			
Net Assets acquired			
(40,000 + 10,000) x 90%	<u>45000</u>		

3	1/5/04	15,000	2.2	6,818
	31/12/12	15,000	1.9	<u>7,894</u>
	Exchange gain			<u>1,076</u>

2)	Profit and loss A/c Reserve			94,948
	Tango			18,386
	Feast 20430 x 90%			<u>1,076</u>
	Exchange gain on goodwill			<u>114,410</u>

Translation of P+L A/C of Feast

	\$	Rate	£
Profit before tax	12,000	1.7	7,058
Tax	<u>(800)</u>	1.7	<u>(470)</u>
Retained profit	<u>11,200</u>		<u>6,588</u>

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

Profit before tax	26,110
(20,000 – 948 dividend receivable)	
+ 7058	
Tax (1600 + 470)	<u>(2070)</u>
Profit after tax	24,040
Minority interest (6588 x 10%)	<u>(658)</u>
Profit for group	<u>23,382</u>

CURRENCY TRANSLATION DIFFERENCES

Retranslation of opening Net Assets	
At 1 January 2012	72800 ÷ 1.5 = 48534
At 31 December 2012	72800 ÷ 1.9 = <u>38316</u>
Exchange loss	<u>(10218)</u>
Group Share (10218) x 90%	(9196)

RETRANSLATION OF PROFIT AFTER TAX

Average rate	6588
Closing rate 11200 ÷ 1.9	<u>(5894)</u>
Exchange loss	<u>(694)</u>

Group share (694 x 90%) (624)

RETRANSLATION OF GOODWILL

1/1/2012	15000/1.5	10,000
31/12/2012		<u>7,894</u>
Exchange loss		<u>(2106)</u>

Total Exchange Losses (11,926)

d) MOVEMENT ON CONSOLIDATED PROFIT AND LOSS ACCOUNT RESERVE

Balance at 1 January 2012	105954 (balance)
Profit for the year	23382
Dividends	(3000)
Exchange losses	<u>(11926)</u>
Balance at 31 December 2012	<u>114410</u>

b)
There are 2 points of view about how goodwill should be translated.

- One considers goodwill to be an asset of the parent. This would mean that goodwill would be translated at the historic note and not retranslated.
- The other considers goodwill to be one of the assets of the acquired entity. It is therefore part of the net investment acquired. This would mean that goodwill should be retranslated at each balance sheet date at the closing rate.

FRS 23 comes down in favour of the second argument.

PROOF to d) NOT NEEDED IN EXAM

Opening Net Assets	\$	Rate	£
SC	40,000	2.2	18182
Pre-acq	10,000	2.2	4546
Post-acq	<u>22800</u>	Bal	<u>25805</u>
	<u>72800</u>	1.5	<u>40333</u>

Tango 79548
Less 25805 x 90% 23224
Ex gain goodwill 502
Closing Goodwill

105954 ✓