

SECTION A

QUESTION ONE

Below are the summarised balance sheets for two companies as at 31 March 2012:

	JAMES £million	£million	DEAN £million	£million
<u>Fixed assets</u>				
Tangible		420		170
Investments – in Dean		228		-
- in other		<u>89</u>		<u>20</u>
		<u>737</u>		<u>190</u>
<u>Current assets</u>				
Stock	101		140	
Debtors	75		68	
Cash at bank	<u>12</u>		<u>15</u>	
	188		223	
Creditors: amounts falling due within 1 year	<u>(172)</u>		<u>(145)</u>	
Net current assets		16		78
Creditors: amounts falling due within more than 1 year				
10% loan notes		<u>(180)</u>		<u>(30)</u>
Net assets		<u>573</u>		<u>238</u>
<u>Capital and reserves</u>				
Equity shares of £1 each		400		105
Share premium	50		nil	
Profit and loss account	<u>123</u>	<u>173</u>	<u>133</u>	<u>133</u>
		<u>573</u>		<u>238</u>

Notes:

James is a public listed company that acquired the following investments:

- i) Investment in Dean
On 1 April 2010 James acquired 63 million shares in Dean for an immediate cash payment of £228 million. Dean's profit and loss account reserve at the date of acquisition was £108 million.
- ii) At the date of acquisition, Dean owned a recently built property that was carried at its (depreciated) construction cost of £45 million. The fair value of this property at the date of acquisition was £75 million and it had an estimated remaining life of 10 years.

For many years Dean has been selling some of its products under the brand name of 'JD'. At the date of acquisition the directors of James valued this brand

at £16 million with a remaining life of 4 years. The brand is not included in Dean's balance sheet.

The fair values of all other identifiable assets and liabilities of Dean were equal to their carrying values at the date of acquisition.

- iii) The stock of James Ltd at 31 March 2012 includes goods supplied by Dean for £75 million (at selling price from Dean). Dean adds a mark-up of 25% on cost when selling goods to James.
- iv) None of the companies have paid any dividends for many years.
- v) The goodwill of Dean has an estimated life of six years.
- vi) On 31 March 2012 Dean remitted to James a cash payment of £16 million. This was not received by James until early April 2012.

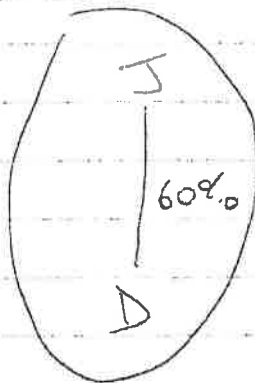
Required

Prepare a consolidated balance sheet of the James group as at 31 March 2012.

(32 MARKS)

①

W1 GROUP STRUCTURE



$$\frac{63m}{105m} = \underline{\underline{60\%}}$$

W2 NET ASSETS OF DEAN LTD

	At Acq £m	At 9/5 DATE £m
Share capital	105	105
P+L A/C	108	133
FAIR VALUE ADJS:		
• Brand - surplus	16	16
- addnl amt (16/4 x 2 yrs)	-	(8)
• Property - surplus	30	30
- addnl depn (30/10 x 2 yrs)	-	(6)
	<u>259</u>	<u>270</u>

(W3) UNREALIZED PROFIT ON STOCK (~~D~~ → ~~D~~)

$$UNP = 75m \times \frac{25}{125} = 15m$$

Dr p+l acc (group) 9m
 M. I. 6m

Cr stock 15m

(W4) CASH IN TRANSIT

Dr Cash at Bank 16m

Cr Inter-group debt 16m

CONSOLIDATION SCHEDULES

1. GOODWILL

Cost of investment

£
228

less: share of net assets acquired
(60% × 259)

(155.4)

Goodwill

72.6

less: amortisation to date ($\frac{2}{6}$)

(24.2)

INTANGIBLE ASSET

48.4

2. MINORITY INTEREST

M.I. = 40% × 270 =

£
108

less UNP on stock

(6)

102

3. CONSOLIDATED P/L A/C RESERVE

JAMES

£

123

DEAN

Share of post-acq. profits
 $60\% \times (133 - 108)$

15

less: UNP on stock

(9)

less: goodwill amortised to date

(24.2)

less: group share of add'l dep.
 $(60\% \times 6)$

(3.6)

less: group share of add'l amt.
 $(60\% \times 8)$

(4.8)

96.4

CONSOLIDATED BALANCE SHEET At 31-3-12

	£m	£m
Intangible Fixed Assets - goodwill		48.4
- brand		8

Tangible Fixed Assets (420 + 170 + 30 - 6)	614
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Investments (89 + 20)	109
	779.4

CURRENT ASSETS

Stock (101 + 140 - 15)	226
Debtors (75 + 68 - 16)	127
Cash at Bank (12 + 15 + 16)	43
	396

Creditors < 1 year (172 + 145)	(317)
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Net Current Assets	79
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Total Assets less Current Liabilities	858.4
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Creditors > 1 year 10% loan notes (180 + 30)	(210)
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	648.4
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Share capital
Share premium
P&L Account

£-

400

50

96.4

546.4

Minority Interest

102

648.4