

Chapter 22

Answer to example 1 – Investor ratios

EPS 56.7c = Earnings/No. shares in issue = 22,680/40,000

Dividend cover 5.4 times = EPS/DPS = 56.6c/10.5c

Dividend yield 8.75% = DPS/Price per share = 10.5c/\$1.20 x 100%

P/E ratio 2.12 = Share price/EPS = \$1.20/56.6c

NOTE: No. shares in issue = \$20m/50c = 40m shares

Chapter 23

Answer to example 1 – Basic consolidation

	<i>Peter Group</i> \$000
Other assets (1,500 + 1,200)	2,700
Total assets	2,700
Equity share capital	1,000
Retained earnings	1,100
	2,100
Liabilities (400 + 200)	600
Total equity and liabilities	2,700

Answer to example 2 – Basic consolidation (continued)

	<i>Peter Group</i> \$000
Other assets (1,900 + 1,450)	3,350
Total assets	3,350
Equity share capital	1,000
Retained earnings (=1,400 + (100% x (900 – 750)))	1,550
	2,550
Liabilities (500 + 300)	800
Total equity and liabilities	3,350



Answer to example 3 – Non-controlling interest

	<i>Pierre Group</i> <i>\$000</i>
Other assets (1,900 + 1,450)	3,350
Total assets	<u>3,350</u>
Equity share capital	1,000
Retained earnings (1,200 + (80% x (900 – 750)))	1,320
	<u>2,320</u>
Non-controlling interest (25% x (250 + 750)) + (25% x (900 – 750))	230
	<u>2,550</u>
Liabilities (500 + 300)	800
Total equity and liabilities	<u>3,350</u>

Answer to example 4 – Goodwill

(i) Proportionate share of net assets method

	\$
FV of consideration	156,000
NCI at acquisition (25% x 170,000)	42,500
FV of net assets at acquisition	<u>(170,000)</u>
Goodwill at acquisition	28,500

(ii) Fair value method

	\$
FV of consideration	156,000
NCI at acquisition	52,000
FV of net assets at acquisition (W2)	<u>(170,000)</u>
Goodwill at acquisition	38,000



Answer to example 5 – Basic consolidation (revision)

(a) Goodwill

	\$	\$
Cost of investment		1,380,000
NCI at acquisition		450,000
Net assets		
	Share capital	1,000,000
	Retained earnings	480,000
		(1,480,000)
Goodwill		
		350,000

(b) Non-controlling interests

	\$
NCI at acquisition	450,000
NCI% of post-acquisition profits 25% x (660,000 – 480,000)	45,000
NCI at reporting date	
	495,000

(c) Other figures

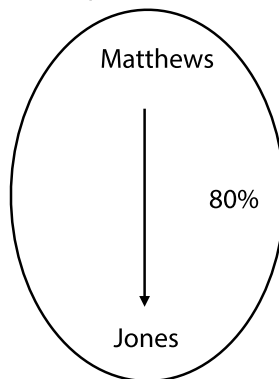
(i) Investment = **\$nil**(ii) Other assets = 4,500 + 2,400 = **\$6,900,000**(iii) Share capital = **\$2,000,000** (100% P only)(iv) Retained earnings = 2,040 + [75% x (660 – 480)] = **\$2,175,000**(v) Liabilities = 1,840 + 740 = **\$2,580,000**

Answer to example 6 – Workings

	<i>Matthews Group \$000</i>
Non-current assets (1,000 + 500)	1,500
Goodwill (W3)	500
Current assets (800 + 600)	1,400
Total assets	<u>3,400</u>
Equity share capital (\$1)	500
Retained earnings (W5)	<u>1,040</u>
	1,540
Non-controlling interest (W4)	<u>260</u>
	1,800
Liabilities (1,100 + 500)	1,600
Total equity and liabilities	<u>3,400</u>

Workings

W1) Group Structure



W2) Net assets of subsidiary

	<i>At reporting date</i>	<i>At acquisition</i>	<i>Post acquisition</i>
Equity shares	200	200	
Ret. earnings	<u>400</u>	<u>100</u>	
	600	300	<u>300</u>

W3) Goodwill

FV of consideration (shares/cash)	600
NCI at acquisition (FV)	<u>200</u>
	800
FV of net assets at acquisition (W2)	<u>(300)</u>
Goodwill at acquisition	500



W4) Non-controlling interests

NCI @ acqn (W3)	200
Add: 20% x 300 (W2)	60
	260

W5) Group retained earnings

100% P	800
Add: 80% x 300 (W2)	240
	1,040

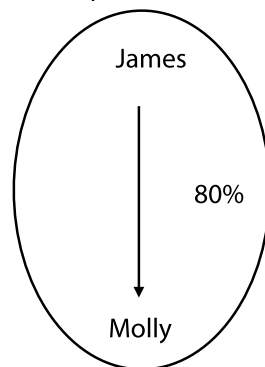
Answer to example 7 – Unrealised profits

*James
Group
\$'000*

Non-current assets	
PPE	
(900 + 500)	1,400
Goodwill (W3)	650
Current Assets	
(700 + 600 – 10 (PUP))	1,290
	3,340
Share Capital	500
Retained earnings (W5)	992
Non-controlling interest (W4)	248
Current liabilities	
(1,100 + 500)	1,600
	3,340

WORKINGS

W1) Group Structure



W2) Net assets of subsidiary

	<i>At reporting date</i>	<i>At acquisition</i>	<i>Post acquisition</i>
Equity shares	200	200	
Ret. earnings	400	150	
PUP (20/120 x 120 x 1/2)	(10)		
	<u>590</u>	<u>350</u>	<u>240</u>

W3) Goodwill

FV of consideration (shares/cash)	800
NCI at acquisition (FV)	200
	<u>1,000</u>
FV of net assets at acquisition (W2)	(350)
Goodwill at acquisition	<u>650</u>

W4) Non-controlling interests

NCI @ acqn (W3)	200
Add: 20% x 240 (W2)	48
	<u>248</u>

W5) Group retained earnings

100% P	800
Add: 80% x 240 (W2)	192
	<u>992</u>

Answer to example 8 – Share exchange

- No. S shares acquired = $80\% \times 10,000,000 = 8,000,000$
- No. P shares issued = $8,000,000 \times 1 / 4 = 2,000,000$
- Value of P shares issued = $2,000,000 \times \$3 = \$6,000,000$ (cost of investment)
- Journal entry

Dr Investment	\$6,000,000
Cr Share capital	\$2,000,000
Cr Share premium (β)	\$4,000,000

Answer to example 9 – Deferred consideration

Share exchange

- No. S shares acquired = $80\% \times 30,000,000 = 24,000,000$
- No. P shares issued = $24,000,000 \times 2 / 3 = 16,000,000$
- Value of P shares issued = $16,000,000 \times \$2 = \$32,000,000$ (cost of investment)

Deferred consideration

PV of consideration = $24,000,000 \times \$1 \times 0.91 = 21,840,000$

Total consideration

= $32,000,000 + 21,840,000 = \$53,840,000$ 