

Hanford plc acquired six million of Stopple plc's ordinary shares on 1 April 2001 for an agreed consideration of £25 million.

The draft balance sheets of the two companies at 30 September 2001 are:

	Hanford plc		Stopple plc	
	£000	£000	£000	£000
Fixed assets				
Land and buildings		32,060		9,400
Plant and equipment		46,480		17,780
Investment in Stopple plc		<u>25,000</u>		<u>nil</u>
		103,540		27,180
Current assets				
Stock	7,450		4,310	
Debtors	12,960		4,330	
Cash and bank	<u>nil</u>		<u>520</u>	
	20,410		9,160	
Creditors: amounts falling due within one year				
Creditors and accruals —	5,920		4,160	
Bank overdraft	1,700		nil	
Provision for taxation	1,870		1,380	
Proposed final dividend	<u>1,200</u>		<u>800</u>	
	(10,690)		(6,340)	
Net current assets		9,720		2,820
Creditors: amounts falling due after more than one year				
8% debentures 2004	<u>nil</u>		<u>(6,000)</u>	
Net assets	<u>113,260</u>		<u>24,000</u>	
Share capital and reserves				
Ordinary shares of £1 each		30,000		8,000
Reserves				
Share premium	20,000		2,000	
Profit and loss reserve				
b/f 1 October 2000	51,260		6,000	
For the year to 30 September 2001	<u>12,000</u>	<u>83,260</u>	<u>8,000</u>	<u>16,000</u>
		113,260		24,000

The following information is relevant:

- i. At the date of acquisition, the fair value of Stopple plc's land was £4 million in excess of its carrying value.

Also, at the date of acquisition, an item of plant and machinery which was currently stated at its net book value of £2.5 million was valued at a fair value of £3.1 million. At the date of acquisition, the item of plant had a remaining useful life of 3 years.

The fair value of Stopple plc's other net assets approximated to their carrying value.

- ii. During the year Hanford plc had purchased goods from Stopple plc at a transfer price of £900,000. Stopple plc had marked these goods up at a profit of 20% on cost.

Two thirds of these goods are in Hanford plc's stock at 30 September 2001.

- iii. On 30 September 2001 Stopple plc remitted to Hanford plc a cash payment of £450,000. This was not received by Hanford until 4 October 2001.

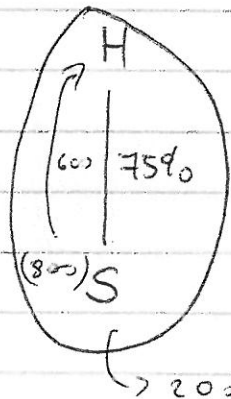
- iv. Consolidated goodwill is written off on a straight line basis over a 5 year life, with time apportionment in the year of acquisition.

Required

Prepare the consolidated balance sheet of Hanford plc at 30 September 2001.

WORKINGS

(W1) GROUP STRUCTURE



OF DIVD RECEIVABLE BY H; 6/12
is PRE-ACQW

Dr p+l acc group 300
CR cost of investment in S 300

(W2) NET ASSETS OF S LTD

	(1-4-01)		(30-9-01)
	AT ACQW		AT QS DATE
	£1000		£1000
Share capital	8000	1/2	8000
Share premium	2000	1/2	2000
Profit + Loss Account:			
at 1-10-00	6000	1/2	
Profit for 6m ($8000 \times \frac{1}{12}$)	4000	1	
at 30-9-01			14000 1/2

FAIR VALUE ADJUSTMENTS:

Land	4000	1 1/2	4000
Plant + Machinery - cost	600	1 1/2	600
- addnl dep ⁿ ($600 \times \frac{1}{3} \times \frac{1}{12}$)	-	2 1/2	(100)
	<u>24600</u>		<u>28500</u>

(W3) UNREALISED PROFIT ON STOCK (S → H)

$$UNP = 900\,000 \times \frac{20}{120} \times \frac{2}{3} = 100\,000 \text{ £}$$

Dr group ptl a/c	75000	
minority interest	25000	4 1/2
Cr stock (b/i)		100000

(W4) CASH IN TRANSIT

Dr cash at bank	450000	1
Cr intra group debtor		450000 1 1/2

CONSOLIDATION SCHEDULES

1/ Goodwill

£'000

Cost of investment	$\frac{1}{2}$ 25000
less: pre-acq ⁿ dividend	2 (300)
less: share of net assets acquired (75% $\times$ 24600)	$1\frac{1}{2}$ (18450)

Goodwill 6250

less: amortised to date (6m) $1\frac{1}{2}$ (625)

Intangible Asset 5625

2/ Minority interest

£'000

= 25% $\times$ 28500 = 2 7125

less: unrealised profit on stock (25)

7100

3, CONSOLIDATED PROFIT AND LOSS ACCOUNT

£1000

H-	1/2 63260
less: pre-acq ⁿ dividend	1 1/2 (300)
S:	
share of post-acq ⁿ profit	1 1/2 3000
[75% X (14000 - 10000)]	

less: goodwill w/o to date	1 (625)
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less: unrealised profit on stock	(75)
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less: group share of add ⁿ dep ⁿ on fair value surplus	2 (75)
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65185

62

(i) (A) CONSOLIDATED BALANCE SHEET AT 30-9-01

£000 £

Intangible fixed assets

1 5625

Tangible fixed assets:

Land + Buildings ($32060 + 9400 + 4000$)

45460

Plant + Equipment ($46480 + 17780 + 600 - 100$)

64760

115845

Current Assets

Stock ($7450 + 4310 - 100$)

11660

Debtors ($12960 + 4330 - 450 - 600$)

16240

Cash at Bank ($520 + 450$)

970

28870

Creditors < 1 yr

Creditors and accruals ($5920 + 4160$)

10080

Bank overdraft (1700)

1700

Taxation ($1870 + 1380$)

3250

Dividend ($1200 + 200$)

1400

16430

Net Current Assets

12440

Total Assets less current liabilities

128285

Creditors > 1 yr

(6000)

122285

£'000

Share capital	- -	1	30000
Share premium		1	20000
Profit and Loss Account	-		<u>65185</u>
			115185

Minority Interest 7100

122285