

FAIR VALUE ADJUSTMENTS

Below are the summarised balance sheets for two companies as at 31 March 2015:

	PAUL		SMITH	
	£million	£million	£million	£million
<u>Fixed assets</u>				
Tangible		520		280
Investments – in Smith		268		-
- in other		<u>77</u>		<u>40</u>
		<u>865</u>		<u>320</u>
<u>Current assets</u>				
Stock	142		160	
Debtors	95		88	
Cash at bank	<u>8</u>		<u>22</u>	
	<u>245</u>		<u>270</u>	
Creditors: amounts falling due within 1 year	<u>(200)</u>		<u>(165)</u>	
Net current assets		45		105
Creditors: amounts falling due within more than 1 year				
10% loan notes		<u>(180)</u>		<u>(20)</u>
Net assets		<u>730</u>		<u>405</u>
<u>Capital and reserves</u>				
Equity shares of £1 each		500		145
Share premium	100		nil	
Profit and loss account	<u>130</u>	<u>230</u>	<u>260</u>	<u>260</u>
		<u>730</u>		<u>405</u>

- i) On 1 July 2014 Paul acquired 87 million shares in Smith for an immediate cash payment of £268 million. Smith's profit and loss account reserve at 1st April 2014 was £120 million.
- ii) At the date of acquisition of Smith owned a recently built property that was carried at its (depreciated) construction cost of £62 million. The fair value of this property at the date of acquisition was £92 million and it had an estimated remaining life of 15 years.

For many years Smith has been selling some of its products under the brand name of 'PS'. At the date of acquisition the directors of Paul valued this brand at £20 million with a remaining life of 5 years. The brand is not included in Smith's balance sheet.

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

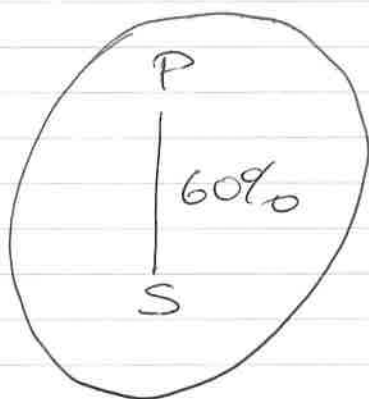
- iii) The stock of Smith at 31 March 2015 includes goods supplied by Paul for £54 million (at selling price from Paul). Paul adds a mark-up of 20% on cost when selling goods to Smith.

- iv) The goodwill of Smith has an estimated life of four years, calculated monthly in the year of acquisition
- v) On 31 March 2015 Smith remitted to Paul a cash payment of £12 million. This was not received by Smith until early April 2015.

Required

Prepare a consolidated balance sheet of the Paul group as at 31 March 2015.

W1 GROUP STRUCTURE



$$\frac{87m}{145m} = \underline{60\%}$$

W7 NET ASSETS OF SMITH LTD

	1-7-14 AT ACQW £m	31-3-15 AT B/S DATE £m
Share capital	145	145
P+L Account:		
At 1-4-14	120	
Profit for 3 months ($\frac{3}{12} \times 140$)	35	
At 31-3-15		260
Fair Value ADSS:		
• Property - surplus	30	30
- addnl depn ($30 \times \frac{1}{15} \times \frac{9}{12}$)	-	(1.5)
• Brand - surplus	20	20
- addnl amortn ($20 \times \frac{1}{5} \times \frac{9}{12}$)	-	(3)
	<u>350</u>	<u>450.5</u>

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

$$UNP = 54m \times 20/120 = \underline{9m}$$

Dr	p+l a/c (group)	9m
Cr	stock (b/s)	9m

(W4) CASH IN TRANSIT

Dr	BANK	12m
Cr	Inter-co Debtor	12m

CONSOLIDATION SCHEDULES

1/ GOODWILL

	£m
Cost of investment	268

less: share of net assets acquired (60% × 350)	(210)
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Goodwill	<u>58</u>
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less: amortised to date (58m × 1/4 × 9/12)	(10.9)
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Intangible Asset	<u><u>47.1</u></u>
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2, Minority Interest

$$= 40\% \times 450.5m$$

=

$$\begin{array}{r} \text{£m} \\ 1810.2 \\ \hline \end{array}$$

3, Consolidated P+L A/c Reserve

£m

PAUL

130

SMITH:

Share of post-acqⁿ profits
 $60\% \times (260m - 155m)$

63

less: UNP on stock

(9)

less: goodwill amortised to date

(10.9)

less: group share of addⁿ depⁿ + amortⁿ
 $60\% \times (0.5 + 3)$

(2.7)

170.4

CONSOLIDATED BALANCE SHEET At 31-3-15

	£m	£m
Intangible Fixed Assets: goodwill : brand (20-3)		47.1
Tangible Fixed Assets (520 + 280 + 30 - 1.5)		17.0
		828.5
Investments (77 + 40)		117.0
		<u>1009.6</u>
Current Assets:		
Stock (142 + 160 - 9)	293	
Debtors (95 + 88 - 12)	171	
Cash at Bank (8 + 22 + 12)	42	
	<u>506</u>	
Creditors < 1 year (200 + 165)	(365)	
Net Current Assets		141
Total Assets less Current Liabilities		<u>1150.6</u>
Creditors > 1 year:		
10% loan notes (180 + 20)		(200)
		<u>950.6</u>
Share capital		500.0
Share premium		100.0
Profit + loss account		<u>170.4</u>
		770.4
Minority interest		180.2
		<u>950.6</u>