

CONSOLIDATED PROFIT AND LOSS ACCOUNT – EXAMPLE 1

On 30th September 2014 John Ltd bought 75% of the 18000 £1 ordinary shares of Lewis Ltd for £300000. The profit and loss accounts of the 2 companies for the year ended 31st December 2014 are as follows:

	John	Lewis
	£'000	£'000
Turnover	5000	1000
Cost of sales	2900	600
Gross profit	2100	400
Administrative expenses	1300	180
Distribution costs	400	140
Operating profit	400	80
Interest payable	20	5
Profit before tax	380	75
Corporation tax	110	20
Profit for the Period	270	55
Profit and loss account reserve b/f	260	185
Profit and loss account reserve c/f	530	240

The following information is also relevant:

- 1 Good will on consolidation is to be amortised monthly over a period of 5 years. This should be treated as an administrative expense

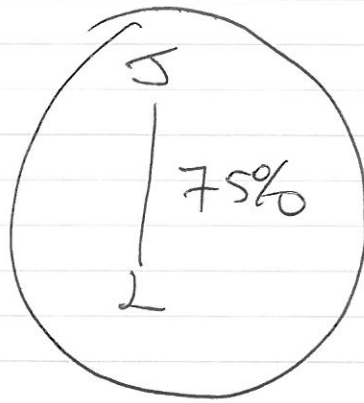
- 2 At the date of acquisition, the fair value of Lewis Ltd's tangible fixed assets exceeded their book value by £60000. The group policy is to depreciate tangible fixed assets at 20% on the straight line basis. Deprecation is shown as an administrative expense.
- 3 In the post-acquisition period John Ltd sold goods to Lewis Ltd for a selling price of £100000. None of these goods are still in the stock of Lewis Ltd at the year end.

REQUIREMENT

Prepare the consolidated profit and loss account of the group for the year ended 31st December 2014.

JOHN + LEWIS LTD

(W1)



(W2) NET ASSETS OF LEWIS LTD

	(30-9-14) AT ACQ ⁿ ~~for~~	(31-12-14) AT B/S DATE ~~Record~~
Share capital	18000	18000
P+L Account:		
At 1-1-14	185000	
Profit for 9 months ($\frac{9}{12} \times 55000$)	41250	
At 31-12-14		240000
FAIR VALUE ADJS:		
• Tangible Fixed Assets - surplus	60000	60000
- add ⁿ dep ⁿ ($60000 \times 20\% \times \frac{3}{12}$)	-	(3000)
	<u>304250</u>	<u>315000</u>

(W3) INTER-GROUP TRADING

DR	TURN OVER	100000
CR	COST OF SALES	100000

CONSOLIDATION SCHEDULES

1/ Goodwill

£

Cost of investment

300000

less: share of net assets acquired
(75% × 304250)

(228188)

Goodwill

71812

Amortised in the period
(71812 × 1/5 × 3/12)

3591

2/ Minority Interest (p+1)

£

Profit after tax of Lewis for 3 months
(55000 × 3/12)

13750

less: add'l dep.

(3000)

10750

Minority Int (p+1) = 25% × 10750 = 2688

CONSOLIDATED P/L A/C For Y/E 31-12-14

£

Turnover	$(5000000 + [1000000 \times \frac{3}{12}] - 100000)$	(W3)	5150000
Cost of Sales	$(2900000 + [600000 \times \frac{3}{12}] - 100000)$	(W3)	(2950000)
Gross Profit			<u>2200000</u>
Admin expenses	$(1300000 + [400000 \times \frac{3}{12}] + 3000)$	(W2) 3591	(1406591)
Distribution costs	$(400000 + [1400000 \times \frac{3}{12}])$	(Sch 1)	(435000)
Operating profit			<u>358409</u>
Interest payable	$(20000 + [5000 \times \frac{3}{12}])$		(21250)
Profit before tax			<u>337159</u>
Tax	$(110000 + [20000 \times \frac{3}{12}])$		(115000)
Profit after tax			<u>222159</u>
Minority interest (Sch 2)			(2688)
Profit attributable to the group			<u><u>219471</u></u>