

Black (25 marks)

You are the consolidation accountant of Black. Black prepares its financial statements using International Accounting Standards. Black has a subsidiary, White. White is incorporated in a country that has the Tot as its unit of currency and the Tot is the functional currency of White. The accepted abbreviation for the Tot is 'T'. The financial statements of Black and White for the year ended 30 June 20X1 are given below:

BALANCE SHEETS AT 30 JUNE 20X1

	Black £'000	White T'000
<i>Fixed assets</i>		
Property, plant and equipment	30,000	50,000
Investment in White	<u>14,000</u>	
	44,000	50,000
<i>Current assets</i>		
Inventories	10,000	16,000
Receivables	12,000	18,000
Cash	<u>60</u>	<u>80</u>
	22,060	34,080
	<u>66,060</u>	<u>84,080</u>
<i>Equity</i>		
Issued share capital (£1/T1 shares)	25,000	40,000
Retained earnings	<u>29,060</u>	<u>24,080</u>
	54,060	64,080
<i>Current liabilities</i>		
Trade payables	7,000	11,000
Tax	1,000	2,000
Declared dividend	1,000	2,000
Bank overdraft	<u>3,000</u>	<u>5,000</u>
	12,000	20,000
	<u>66,060</u>	<u>84,080</u>

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 30 JUNE 20X1

	Black £'000	White T'000
Turnover	12,000	20,000
Cost of sales	<u>(6,000)</u>	<u>(10,000)</u>
Gross profit	6,000	10,000
Other operating expenses	<u>(3,000)</u>	<u>(5,000)</u>
Profit from operations	3,000	5,000
Finance cost	<u>(100)</u>	<u>(200)</u>
Profit before tax	2,900	4,800
Income tax expense	<u>(900)</u>	<u>(1,600)</u>
Profit for the period	<u>2,000</u>	<u>3,200</u>

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 20X1

	Black £'000	White T'000
Balance at 30 June 20X0	53,060	62,880
Profit for the period	2,000	3,200
Dividends	<u>(1,000)</u>	<u>(2,000)</u>
Balance at 30 Jun 20X1	<u>54,060</u>	<u>64,080</u>

Notes to the financial statements

- 1 On 1 July 20W5, Black purchased 30 million shares in White for 42 million Tots. The balance on the retained earnings of way on 1 July 20W5 was 8 million Tots. White has not issued any additional shares since 1 July 20W5.
- 2 Black had not made any entries in its financial statements regarding the dividend receivable from White. Both Black and White declared their dividends before 30 June 20X1.
- 3 On 30 June 20X1, Black invoices White for a management charge of £250,000 for the year ended 30 June 20X1. This amount was included in the revenue and receivables of Black. White received the invoice before closing its books for the year ended 30 June 20X1 and entered it using the closing rate of exchange to translate the sum into Tots. The relevant amount was included in the other operating expenses and trade payables of White. There was no other trading between the two entities.
- 4 Relevant rates of exchange are as follows.

Date	Exchange rate (Tots to £1)
1 July 20W5	3
30 June 20X0	3.75
30 June 20X1	4
Average for the year ended 30 June 20X1	3.85

Required

- (a) Translate the balance sheet of White into dollars (£) using the presentation currency (closing rate) method. (4 marks)
- (b) Prepare the consolidated balance sheet of the Black group at 30 June 20X1. (10 marks)
- (c) Prepare the consolidated income statement of the Black Group for the year ended 30 June 20X1. (5 marks)
- (d) Prepare a statement showing the foreign exchange differences arising on consolidation. (6 marks)

Black

(a) TRANSLATION OF THE BALANCE SHEET OF WHITE

	T'000	Rate	£'000
Property, plant and equipment	50,000	4	12,500
Inventories	16,000	4	4,000
Receivables	18,000	4	4,500
Cash	80	4	20
	<u>84,080</u>		<u>21,020</u>
Issued share capital	40,000	3	13,333
Pre-acquisition reserves	8,000	3	2,666
Post-acquisition reserves (24,080 – 8,000)	16,080	4	20
	<u>64,080</u>		<u>16,020</u>
Trade payables	11,000	4	2,750
Tax	2,000	4	500
Proposed dividend	2,000	4	500
Bank overdraft	5,000	4	1,250
	<u>84,080</u>		<u>21,020</u>

(b) CONSOLIDATED BALANCE SHEET AT 30 JUNE 20X1

	£'000	£'000
<i>Fixed assets</i>		
Property, plant and equipment		42,500
Intangible assets (W1)		1,500
		<u>44,000</u>
<i>Current assets</i>		
Inventories	14,000	
Receivables (12,000 + 4,500 – 250)	16,250	
Cash	80	
		<u>30,330</u>
		<u>74,330</u>
<i>Equity</i>		
Issued share capital		25,000
Retained reserves (W2)		28,950
		<u>53,950</u>
Minority interest (25% × 16,020)		4,005
		<u>57,955</u>
<i>Current liabilities</i>		
Trade payables (7,000 + 2,750 – 250)	9,500	
Tax	1,500	
Proposed dividend (1,000 + (25% × 500))	1,125	
Bank overdraft	4,250	
		<u>16,375</u>
		<u>74,330</u>

(c) CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 20X1

	£'000
Turnover (12,000 + 5,195 – 250)	16,945
Cost of sales (6,000 + 2,597)	(8,597)
Gross profit	8,348
Other operating expenses (3,000 + 1,299 – 250)	(4,049)
Profit from operations	4,299
Finance cost (100 + 52)	(152)
Profit before tax	4,147
Tax (900 + 416)	(1,316)
Profit after tax	2,831
Minority interest (25% × 831)	(208)
Net profit for the group	<u>2,623</u>

Note: See W3 for the translation of White's income statement.

(d) CURRENCY TRANSLATION DIFFERENCES

	£'000	£'000
On retranslation of opening net assets (W4):		
At 30 June 20X0 (62,880 @ 3.75)	(16,768)	
At 30 June 20X1 (62,880 @ 4)	<u>15,720</u>	
	(1,048)	
Group share (75%)		(786)
On retranslation of net profit for the year:		
At average rate	(831)	
At closing rate (3,200 @ 4)	<u>800</u>	
	(31)	
Group share (75%)		<u>(23)</u>
		(809)
On retranslation of goodwill (W1):		
At 30 June 20X0 (6,000 @ 3.75)	(1,600)	
At 30 June 20X1 (6,000 @ 4)	<u>1,500</u>	
	(100)	
		<u>(100)</u>
		<u>(909)</u>

Workings

1	Goodwill	T'000	T'000	Rate	£'000
	Cost of combination		42,000		
	Less share capital	40,000			
		<u>8,000</u>			
		48,000			
	Group share 75%		<u>36,000</u>		
			6,000	3	2,000
	Foreign exchange loss		<u>6,000</u>	4	<u>(500)</u>
					1,500
2	Retained reserves				£'000
	Black				29,060
	Dividend received (75% × 500)				375
					<u>29,435</u>
	White (75% × 20)				15
	Foreign exchange loss on goodwill				<u>(500)</u>
					28,950
3	Translation of income statement of White	T'000	Rate	£'000	
	Revenue	20,000	3.85	5,195	
	Cost of sales	<u>(10,000)</u>	3.85	<u>(2,597)</u>	
	Gross profit	10,000		2,598	
	Other operating expenses	<u>(5,000)</u>	3.85	<u>(1,299)</u>	
	Profit from operations	5,000		1,299	
	Finance cost	<u>(200)</u>	3.85	<u>(52)</u>	
	Profit before tax	4,800		1,247	
	Tax	<u>(1,600)</u>	3.85	<u>(416)</u>	
	Profit after tax	<u>3,200</u>		831	
4	Opening net assets	T'000	Rate	£'000	
	Issued share capital	40,000	3	13,333	
	Pre-acquisition reserves	8,000	3	2,666	
	Post-acquisition reserves	<u>14,880</u>	(bal)	<u>768</u>	
	Net assets	<u>62,880</u>	3.75	<u>16,768</u>	

MOVEMENT ON CONSOLIDATED P&L A/C RESERVE

	£'000
Bal at 1-7-X0 (W3)	28236
Profit for the year	2623
Dividends	(1000)
Exchange diffs	(909)
	<u>28950</u>

(W3)	£'000
Share (29060 - 1000)	28060

WHITE:

75% X 768 (W4)	576
less: exchange loss on goodwill to date (500 - 100) (W3) (D)	<u>(400)</u>
	<u>28236</u>