

On 1 April 2013, He plc acquired 3 million of She plc's ordinary shares, paying £3.30 each. At the date of acquisition, the retained profits of She plc were £2,800,000.

Reproduced below are the draft balance sheets of the two companies as 31 March 2015.

	He		She	
	£000	£000	£000	£000
Fixed assets				
Land and buildings		45,000		10,000
Plant and equipment		16,920		8,330
Investment in She plc – equity		<u>9,900</u>		<u>-</u>
		71,820		18,330
Current assets				
Stocks	8,250		4,350	
Debtors	9,660		2,650	
Cash at bank	<u>540</u>		<u>-</u>	
	18,450		7,000	
Creditors: amounts falling due within one year				
Creditors	4,600		2,440	
Bank overdraft	-		650	
Provision for taxation	2,330		890	
Provision for dividends - ordinary	<u>600</u>		<u>400</u>	
	7,530		4,380	
Net current assets		10,920		2,620
Creditors: amounts falling due after more than one year				
10% debentures 2018		<u>(7,240)</u>		<u>(2,490)</u>
Net assets		<u>75,500</u>		<u>18,460</u>
Share capital and reserves				
Ordinary shares of £1 each		15,000		5,000
Share premium		-		1,000
Profit and loss reserve		<u>60,500</u>		<u>12,460</u>
		<u>75,500</u>		<u>18,460</u>

The following information is relevant:

- i) Included in the land and buildings of She plc is a large area of development land at its cost of £2.4m. Its fair value at the date She plc was acquired was £4.4m and, by 31 March 2015, this had risen to £6.5m. The group valuation policy for development land is that it should be carried at fair value and not depreciated.

- ii) Also at the date of She plc's acquisition, the plant and equipment included plant that had a fair value of £3.6m in excess of its carrying value. This plant had a remaining life of eight years. The group calculates depreciation on a straight-line basis. The fair value of She plc's other net assets approximated their carrying value.
- iii) During the year, She plc sold goods to He plc for £2.0m. She plc adds a 20% mark-up on cost to all its sales. Goods with a selling price of £600,000 were included in He plc's stock at 31 March 2015.
- iv) The balance on the current accounts of the parent and subsidiary was £220,000 on 31 March 2015.
- v) He plc had not accounted for any dividends receivable from She plc.
- vi) Consolidated goodwill is written off on a straight-line basis over a four year life.

Required

Prepare the consolidated balance sheet of He plc at 31 March 2015.

Show all workings.

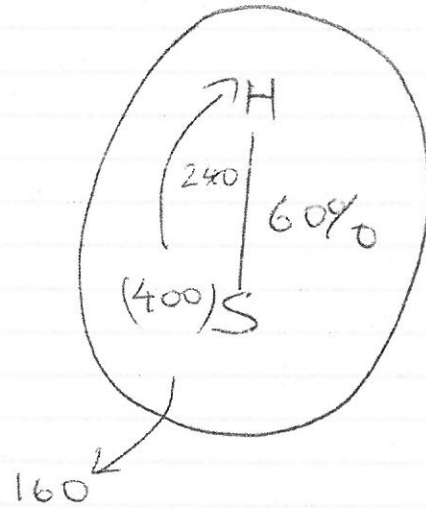
Work to the nearest £'000.

(32 MARKS)

QUESTION ONE

JAN 16
EXAM

(W1) GROUP STRUCTURE



$$\frac{3m}{5m} = \underline{60\%}$$

(W2) NET ASSETS OF THE LTD

	(1-4-13) AT ACCT £1000	(31-3-15) AT & S BALANCE £1000
Share capital	5000	5000
Share premium	1000	1000
PLC A/C Reserve	2800	12460
FAIR VALUE ADJS:		
Land - surplus	2000	4100
Plant - surplus	3600	3600
- addnl depn (3600 x 1/8 x 2)	-	(900)
	<u>14400</u>	<u>25260</u>

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

$$UNP = \cancel{20/120} \times 600000 = \frac{£1000}{100}$$

Dr p+l acc (group)
 minority interest 60
 40

Cr stock (S/S) 100

(W4) CURRENT ACCOUNTS

Dr Creditors 220

Cr Debtors 220

CONSOLIDATION SCHEDULES

1/ Goodwill

	£1000
Cost of investment	9900
less: share of net assets acquired (60% x 14400)	(8640)
Goodwill	
	1260
less: amortised to date (2/4 x 1260)	(630)
Intangible Asset	
	630

2/ Minority Interest

	£1000
= 40% x 25260 =	10104
	~~10104~~
less: minority interest	(40)
	10064

3, CONSOLIDATED P&L ACC RESERVE

flows

HE (60500 + 240)

60740

Share

Share of post acquisition profits
 $60\% \times (12460 - 2800)$

5796

less: UNP on stock

(60)

less: goodwill amortised to date

(630)

less: group share of add'l dep-
 $(60\% \times 900)$

(540)

65306

CONSOLIDATED BALANCE SHEET AT 31-12-15

	flow	flow
Intangible Fixed Assets: goodwill		630
Tangible Fixed Assets: L+B (45000 + 10000 + 4100)		59100
P+M (16920 + 8330 + 2700)		27950
		<u>87680</u>

Current Assets:

Stock (8250 + 4350 - 100)	12500
Debtors (9660 + 2650 - 220)	12090
Cash at Bank	<u>540</u>
	<u>25130</u>

CREDITORS < 1 YEAR:

Creditors (4600 + 2440 - 200)	6820
Bank overdraft	650
Tax (2330 + 890)	3220
Dividends (600 + 160)	<u>760</u>
	<u>11450</u>

Net Current Assets 13680

Total Assets less Current Liabilities 101360

CREDITORS > 1 YEAR:

10% Debentures (7240 + 2490)	(9730)
	<u>91630</u>

	£1000
Ordinary share capital	15000
Profit + Loss Account	65306
Revaluation Reserve ($60\% \times [4100 - 2000]$)	1260
	81566

Minority Interest	10064
	91630