

SECTION A

QUESTION ONE

On 1 April 2011, Harry plc acquired 4 million of Sally plc's ordinary shares, paying £3.50 each. At the date of acquisition, the retained profits of Sally plc were £3,200,000.

Reproduced below are the draft balance sheets of the two companies as 31 March 2014.

	Harry		Sally	
	£000	£000	£000	£000
Fixed assets				
Land and buildings		45,000		10,000
Plant and equipment		12,820		8,330
Investment in Sally plc – equity		<u>14,000</u>		<u>-</u>
		71,820		18,330
Current assets				
Stocks	8,250		4,350	
Debtors	9,660		2,650	
Cash and 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	2,930		1290	
	<u>7,530</u>		<u>4,380</u>	
Net current assets		10,920		2,620
Creditors: amounts falling due after more than one year				
10% debentures 2017		<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 Sally plc is a large area of development land at its cost of £1.8m. Its fair value at the date Sally plc was acquired was £3.6m and, by 31 March 2014, this had risen to £5.8m. 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 Sally plc's acquisition, the plant and equipment included plant that had a fair value of £2.4m in excess of its carrying value. This plant had a remaining life of six years. The group calculates depreciation on a straight-line basis. The fair value of Sally plc's other net assets approximated their carrying value.
- iii) During the year, Sally plc sold goods to Harry plc for £3.0m. Sally plc adds a 20% mark-up on cost to all its sales. Goods with a selling price of £600,000 were included in Harry plc's stock at 31 March 2014.
- iv) The balance on the current accounts of the parent and subsidiary was £50,000 on 31 March 2014.
- v) Consolidated goodwill is written off on a straight-line basis over a ten year life.

Required

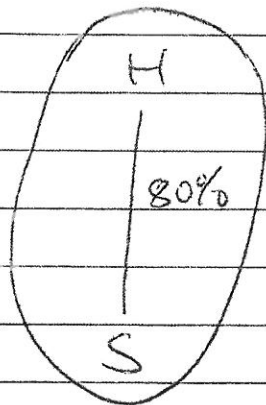
Prepare the consolidated balance sheet of Harry plc at 31 March 2014. Show all workings. Work to the nearest £.

(32 MARKS)

SEPT 2014

QUESTION 1

(W1) GROUP STRUCTURE



$$\frac{4m}{5m} = \underline{\underline{80\%}}$$

(W2) NET ASSETS OF SACE LTD

	1-4-11		31-3-14
	At Acct		At 8/8 DATE
	£1000		£1000
Share capital	5000		5000
Share premium	1000	?	1000
P+L A/C Reserve	3200	1	12460

FAIR VALUE ASSETS:

• Land - surplus	1800	?	4000
• Plant - surplus	2400		2400
- add'l dep'n	-		(1200)
(2400 x 1/6 x 3 yrs)			
	<u>13400</u>		<u>23660</u>

(W3) Unrealised Profit On Stock (S → H)

$$UNP = \frac{20}{120} \times 600\,000 = \frac{100\,000}{100}$$

Dr p+l acc (grp) 80
M. I. 20

Cr stock 100

~~Answer~~

(W4) Current Accounts

Dr Creditors 50

Cr debtors 50

CONSOLIDATION SCHEDULES

1/ Goodwill

£1000

Cost of investment

14000

less:

share of net assets acquired
(80% x 13400)

(10720)

Goodwill

3280

less:

amortised to date $(3280 \times \frac{1}{10} \times 3)$

(984)

INTANGIBLE ASSET

2296

2/ Minority Interest

£1000

MI = 20% x 23660 =

4732

less: UNP on stock

(20)

4712

3/ CONSOLIDATED P+L A/C RESERVE

£1000

HARRY

60500

SARCY:

Share of post-acqⁿ profits
 $80\% \times (12460 - 3200)$

117 7408

less: goodwill amortised to date

(984)

less: UNP on stock

(80)

less: group share of add'l depⁿ
 $(80\% \times 1200)$

(960)

65884

CONSOLIDATED BALANCE SHEET AT 31-3-14

	£000	£000
Intangible Fixed Assets: goodwill		2296
Tangible Fixed Assets: L+B (45000 + 10000 + 4000)		59000
P+M (12820 + 8330 + 1200)		22350
		<u>83646</u>
Current Assets:		
Stock (8250 + 4350 - 100)	12500	
Debtors (9660 + 2650 - 50)	12260	
Cash + Bank	540	
	<u>25300</u>	
Creditors < 1 Year:		
Creditors (4600 + 2440 - 50)	6990	
Overdraft	650	
Tax (2930 + 1290)	4220	
	<u>11860</u>	
Net Current Assets		13440
Total Assets less Current Liabilities		<u>97086</u>
Creditors > 1 Year		
10% Debentures (7240 + 2490)		(9730)
		<u><u>87356</u></u>

f1000

Ordinary share capital

15000

P+L A/C Reserve

65884

Revaluation Reserve ($80\% \times 2200$)

1760

82644

Minority Interest

4712

87356 ~~80000~~