

Royal Ltd has a subsidiary, Mall Ltd. Mall is incorporated in America which has the dollar (\$) as its unit of currency and the \$ is the functional currency of Mall. The financial statements of Royal and Mall for the year ended 31 January 2014 are given below :

BALANCE SHEETS AT 31 JANUARY 2014

	Royal £	£	Mall \$	\$
<i>Fixed assets</i>				
Property, plant and equipment	265,456		160,000	
Investment in Mall	<u>54,544</u>	320,000	<u> </u>	160,000
<i>Current assets</i>				
Debtors	66,000		40,000	
Dividend receivable	<u>1896</u>		<u>0</u>	
	<u>67,896</u>		<u>40,000</u>	
<i>Creditors: amounts falling due within one year</i>				
Creditors	32,000		32,000	
Dividends payable	<u>6,000</u>		<u>4,000</u>	
	<u>38,000</u>	<u>29,896</u>	<u>36,000</u>	<u>4,000</u>
		<u>349,896</u>		<u>164,000</u>
<i>Share Capital & Reserves</i>				
Issued share capital (£1/\$1 shares)		160,000		80,000
Profit and Loss A/C Reserve		<u>189,896</u>		<u>84,000</u>
		<u>349,896</u>		<u>164,000</u>

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 2014

	Royal £	Mall \$
Profit before tax	40,000	24,000
Tax	<u>(3,200)</u>	<u>(1,600)</u>
Retained profit	<u>36,800</u>	<u>22,400</u>

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JANUARY 2014

	Royal £	Mall \$
Balance at 31 January 2013	319,096	145,600
Profit for the period	36,800	22,400
Dividends declared	<u>(6,000)</u>	<u>(4,000)</u>
Balance at 31 January 2014	<u>349,896</u>	<u>164,000</u>

Notes to the financial statements

1. On 1 May 2004 Royal purchased 72,000 shares in Mall for \$120,000. The balance on the Profit and Loss Account Reserve of Mall on 1 May 2004 was \$20,000. Mall has not issued any additional shares since 1 May 2004.
2. Both Royal and Mall declared their dividends before 31 January 2014.
3. Relevant rates of exchange are as follows:

<i>Date</i>	<i>Exchange rate (\$ to £1)</i>
1 May 2004	2.2
31 January 2013	1.5
31 January 2014	1.9
Average for the year ended 31 January 2014	1.7

Required

- a) Prepare the consolidated balance sheet at 31 January 2014, the profit & loss account and the statement of consolidated reserves for the year to that date.

(25 marks)

- b) Evaluating FRS23 The Effects of Changes in Foreign Exchange Rates explain the rationale behind the method you have used to translate goodwill.

(5 marks)

30 MARKS)

(TOTAL

QUESTION TWO

a) Translation of Balance Sheet of Mall

	\$	Rate	£
1 Property P+E	160,000	1.9	84210
1 Debtors	40,000	1.9	21053
Creditors	(32000)	1.9	(16842)
Dividends	(4000)	1.9	(2105)
	<u>164,000</u>		<u>86316</u>
1 Share Capital	80,000	2.2	36364
1 Pre-acquisition reserves	20,000	2.2	9091
2 Post-acquisition reserves	<u>64,000</u>	Balance	<u>40861</u>
	<u>164,000</u>		<u>86316</u>

Workings

1) Goodwill	\$	Rate	£
Cost of Investment	120,000		
Net Assets Acquired			
(80,000 + 20,000)			
= 100,000 x 90%	(90,000)		
115/04	<u>30,000</u>	2.2	13636
31/1/14		1.9	<u>15789</u>
Exchange Gain			<u>2153</u>

2) Retained Earnings

1 Royal			189896
1 Mall	40861 x 90%		36775
1 Exchange gain on goodwill to date			<u>2153</u>
			<u>228824</u>

Consolidated Balance Sheet as at 31 January 2014

Fixed Assets

Property P+E (265456 + 84210)

Goodwill (w1)

349666

15789

365455

Current Assets

Debtors (66000 + 21053)

87053

Creditors: Due within one year

Creditors (32000 + 16842)

48842

Dividends Payable

(6000 + 10% x 2105)

6210

55052

Net Current Assets

32001

397456

Minority Interests (10% x 86316)

(8632)

388824

Share Capital

Retained Earnings (w2)

160,000

228824

388824

Translation of Pte A/c of Mall

	\$	Rate	Y
Profit before tax	24000	1.7	14118
Tax	(1600)	1.7	(941)
Retained profit	<u>22400</u>		<u>13177</u>

Consolidated Pte A/c for the year 31/1/14

2	Profit before tax		
	(40,000 - 1896 Divided reserve + 14118)		52,223
	Tax (3200 + 941)		(4141)
	Profit after tax		48081
1	Minority Interest (13177 x 10%)		(1318)
	Profit for Group		<u>46763</u>

Currency Translation Differences

Retranslation of opening net assets

At 1/12/2013 $145600 \div 1.5 = 97067$

At 31/1/2014 $145600 \div 1.9 = 76632$

1 Exchange loss $(20435) \times 90\% = (18391)$

Retranslation of profit after tax

Average rate $22400 \div 1.7 = 13177$

Closing rate $22400 \div 1.9 = 11789$

1 Exchange loss $(1388) \times 90\% = (1249)$

Retranslation of Goodwill in the year

1/12/13 $30,000 \div 1.5 = 20,000$

31/1/14 $30,000 \div 1.9 = 15789$

1 Exchange loss (4211)

Total exchange losses (23851)

Statement of consolidated reserves

1/2/13

Profit for the year

Dividends

Exchange losses

31/1/14

* 211917 Balance

46764

(6000)

(23851)

228824

Proof - Not Needed in Exam

Company net assets

Share Capital

Pre-acq

Post-acq

80,000

20,000

45,000

145,000

Rate

£

2.2

36364

2.2

9091

Rate

51612

1.5

97067

Reserve

Profit 51612 x 90%

159096

(319096 - 160000)

46451

205547

Exchange Movement to Date

(2153 + 4211)

6364

* 211911 ✓