

Chapter 24

GROUP STATEMENT OF PROFIT AND LOSS

1. Basic consolidation

Example 1 – Basic consolidation (revision)

Keswick Co acquired 80% of the share capital of Derwent Co on 1 June 20X5.

The summarised draft statements of profit or loss for Keswick Co and Derwent Co for the year ended 31 May 20X6 are shown below:

	<i>Keswick</i>	<i>Derwent</i>
	<i>\$000</i>	<i>\$000</i>
Revenue	8,400	3,200
Cost of sales	(4,600)	(1,700)
Gross profit	<u>3,800</u>	<u>1,500</u>
Operating expenses	(2,200)	(960)
Profit before tax	<u>1,600</u>	<u>540</u>
Tax	(600)	(140)
Profit for the year	<u>1,000</u>	<u>400</u>

Prepare the Keswick group consolidated statement of profit or loss for the year ended 31 May 20X6.



Consolidated statement of profit and loss and other comprehensive income

	X/12			
	<i>P</i>	<i>S</i>	<i>Adj.</i>	<i>Group</i>
Revenue	X	X	(X)	X
COS	(X)	(X)	X	
-PUP (Inventory)	(X)	(X)		(X)
-FV adj (extra dep ⁿ)		(X)		
Gross profit				X
Dist costs	(X)	(X)		(X)
Admin exp.	(X)	(X)		
-Impairment		(X)		(X)
Finance cost	(X)	(X)	X	(X)
Investment income	X	X	(X)	X
-Dividend from S/A	(X)			
Associate (P's % x A's PFY) - impairment				X
Profit before tax				X
Taxation	(X)	(X)		(X)
PFY		X		X
Revaluation gain	X	X		X
Associate				X
TCI		X		X
		Parent (β)		X
		NCI = NCI% x S's TCI		X



2. Basic consolidation (mid-year acquisition)

Example 2 – Basic consolidation (mid-year acquisition)

Statements of profit or loss for the year-ended 31 December 20X5

	<i>Vader</i>	<i>Maul</i>
	<i>\$'000</i>	<i>\$'000</i>
Revenue	1,645	1,280
Cost of sales	(1,205)	(990)
Gross profit	440	290
Distribution costs	(100)	(70)
Administrative expenses	(90)	(50)
Profit before interest and tax	250	170
Finance costs	(55)	(30)
Investment income	10	
Profit before tax	205	140
Taxation	(35)	(28)
Profit for the year	170	112

Additional information:

1. On 1 July 20X5, Vader acquired 80% of the equity shares of Maul. It is the group policy to measure the non-controlling interest at acquisition at fair value.
2. Maul declared a dividend during the year of \$10,000.
3. An impairment review at the reporting date revealed the goodwill in Maul to be impaired by \$20,000
4. Assume that the profits accrue evenly.

Prepare a consolidated statement of profit or loss for the Vader group for the year-ended 31 December 20X5



3. Adjustments

Intra-group trading transactions

E.g. sales, loans/debenture interest and management charges

- Remove the expense – adjustment column
- Remove the income – adjustment column

Unrealised profits

PUP adjustment on goods unsold at year-end (cost structures) by increasing C'o'S in seller's column.

Fair value adjustment

Any additional, annual depreciation on the fair value increase of S's net assets is adjusted through C'o'S in S's column.

Example 3 – Unrealised profits

Statement of profit or loss for the year ended 31 December 20X5

	<i>Gary</i> \$000	<i>Nick</i> \$000
Revenue	120,000	90,000
Cost of sales	(70,000)	(40,000)
Gross profit	50,000	50,000
Operating expenses	(20,000)	(35,000)
Profit from operations	30,000	15,000
Finance cost	(2,000)	(500)
Profit before tax	28,000	14,500
Income tax expense	(6,000)	(3,000)
Profit for the year	22,000	11,500

Additional information:

- Gary acquired 80% of Nick on 1 January 20X5. Goodwill on acquisition has been impaired by \$1m during the year and should be charged to operating expenses. Full goodwill method
- During the year Nick sold \$10m goods to Gary at a mark-up of 25% on cost. One quarter of those goods are in inventory at the year end.

Prepare the Gary Group consolidated statement of profit or loss for the year to 31 December 20X5.



4. Group disposals

A group structure can change if the parent company sells the shares in an entity (subsidiary). At this level only the full disposal of a subsidiary is examinable, whereby the parent has control and then following the disposal of shares no longer owns any further shares.

Control -> no control

1. Calculate a group profit or loss on disposal of the subsidiary.
2. The revenues and costs of the subsidiary must be consolidated up to the date of the disposal

(W) Group profit/loss on disposal

	\$m
Proceeds	X
Add: non-controlling interest	X
Less: net assets at disposal	(X)
Less: goodwill	(X)
Group profit or loss on disposal	<u>X</u>

Example 4

Socks owned 90% of Mogs before it decided to sell all of its investment on 31 December 2017 for \$200 million. The non-controlling interest at that date was \$15 million.

The goodwill on acquisition was \$38 million and the net assets at the date of disposal were \$150 million.

Calculate the group profit on disposal that will appear in the group financial statements of Socks group for the year-ended 31 December 2017.

