

SECTION A

QUESTION 1

- a. On 1 April 2000, Hardy plc acquired 4 million of Sibling plc's ordinary shares, paying £4.50 each. At the date of acquisition, the retained profits of Sibling plc were £8,400,000.

Reproduced below are the draft balance sheets of the two companies as 31 March 2003.

	Hardy		Sibling	
	£000	£000	£000	£000
Fixed assets				
Land and buildings		22,000		12,000
Plant and equipment		20,450		10,220
Investment in Sibling plc – equity		<u>18,000</u>		<u>-</u>
		60,450		22,220
Current assets				
Stocks	10,350		6,590	
Debtors	11,420		3,830	
Cash and bank	<u>490</u>		<u>-</u>	
	22,260		10,420	
Creditors: amounts falling due within one year				
Creditors	5,600		3,810	
Bank overdraft	-		770	
Provision for taxation	2,470		1,980	
Provision for dividends –ordinary	<u>800</u>		<u>500</u>	
	(8,870)		(7,060)	
Net current assets		13,390		3,360
Creditors: amounts falling due after more than one year				
10% debentures 2006		<u>(12,000)</u>		<u>(4,000)</u>
Net assets		<u>61,840</u>		<u>21,580</u>
Share capital and reserves				
Ordinary shares of £1 each		10,000		5,000
Share premium		-		2,000
Profit and loss reserve		<u>51,840</u>		<u>14,580</u>
		<u>61,840</u>		<u>21,580</u>

Extracts from the profit and loss account of Sibling plc, before intra-group adjustments for the year to 31 March 2003 are as follows:

	£000
Profit before tax	5,400
Taxation	<u>(1,600)</u>
	<u>3,800</u>

The following information is relevant:

- i. Included in the land and buildings of Sibling plc is a large area of development land at its cost of £5m. Its fair value at the date Sibling plc was acquired was £7m and, by 31 March 2003, this had risen to £8.5m. 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 Sibling plc's acquisition, the plant and equipment included plant that had a fair value of £4m in excess of its carrying value. This plant had a remaining life of five years. The group calculates depreciation on a straight-line basis. The fair value of Sibling plc's other net assets approximated their carrying value.
- iii. During the year, Sibling plc sold goods to Hardy plc for £1.8m. Sibling plc adds a 20% mark-up on cost to all its sales. Goods with a selling price of £450,000 were included in Hardy plc's stock at 31 March 2003.
- iv. The balance on the current accounts of the parent and subsidiary was £240,000 on 31 March 2003.
- v. Hardy plc had not accounted for any dividends receivable from Sibling plc.
- vi. Consolidated goodwill is written off on a straight-line basis over a five year life.

Required

Prepare the consolidated balance sheet of Hardy plc at 31 March 2003. Show all workings. Work to the nearest £.

(45 marks)

① CONSOLIDATED BALANCE SHEET AT 31-3-02

	£1000	£1000
Fixed Assets		
Intangible Fixed Assets	1	352
Tangible Fixed Assets (W5)		69770
		<u>70122</u>

CURRENT ASSETS $\frac{1}{2}$	
Stock (10350 + 6590 - 75)	16865
Debtors (11240 + 3830 - 240)	15010
Cash $\frac{1}{2}$	$\frac{1}{2}$ 490
	<u>32365</u>

Creditors: Amounts due within one year	
Creditors (5000 + 3810 - 240)	9170
Bank Overdraft	$\frac{1}{2}$ 770
Taxation (2470 + 1950)	$\frac{1}{2}$ 4450
Dividends ordinary (800 + 500 - 400)	900
	<u>15290</u>

Net Current Assets 17075

Creditors: Amounts due after more than one year $\frac{1}{2}$ (16000)

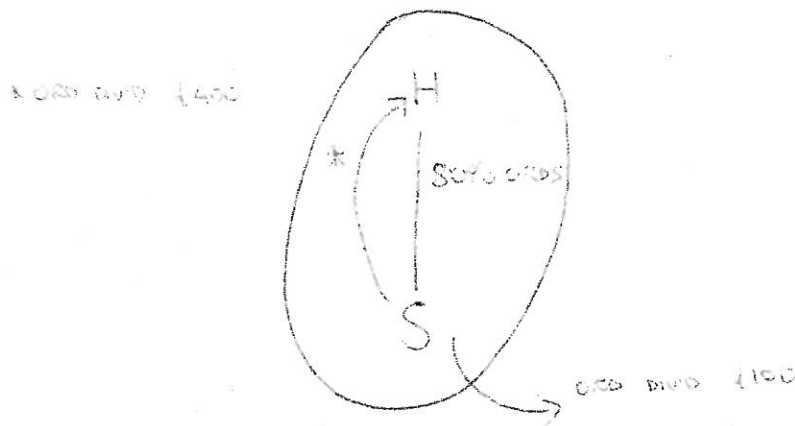
71197

Ordinary share capital	1	10000
P&A/C Reserve (W2)		54676
Revaluation Reserve (80% x 1500)	2	1200
Minority Interest		5321
		<u>71197</u>

WORKINGS:

W1

GROUP STRUCTURE



W2

NET ASSETS OF SIBCO LTD

	(1-4-00)	(31-3-03)
	AT ACQ ⁿ	AT B/S DATE
	£'000	£'000
Ordinary share capital	5000	$\frac{1}{2}$ 5000
Share Premium a/c	2000	$\frac{1}{2}$ 2000
P&L A/C Reserve	8400	2 14580
Fair Value Surplus		
(i) Land + Bldgs - cost	2000	3 3500
- dep'n	—	—
(ii) Plant + Egt - cost	4000	$\frac{1}{2}$ 4000
- dep'n	—	$2\frac{1}{2}$ (2400)
	<u>21400</u>	<u>26680</u>

W3 Unrealised Profit

$$\text{Unrealised profit} = \frac{20}{120} \times 450000 = £75000 \quad 2$$

Dr	pl a/c (group)	60000	
	M.I.	15000	4 1/2
Cr	stock (1/2)		75000

W4 Current Accounts

Dr	creditors	240000	
Cr	debtors		240000

W5 Tangible Fixed Assets

		1/2	1 1/2	£'000
L + B :	22000	+ 12000	+ 3500	= 37500
P + E :	20450	+ 10220	+ 1600	= 32270
		1/2	1 1/2	
				<u>69770</u>

CONSOLIDATION SCHEDULES:

(1) Goodwill £'000 £'000

Cost of investment: orls (4M x 4.50) 1 18000

less: share of net assets acquired
(80% x 21400) 2 (17120)

Goodwill 880

less: amortised to date ($\frac{3}{5}$) $1\frac{1}{2}$ (528)

Intangible Asset 352

(2) Minority Interest £'000

MI = $\frac{1}{5}$ 20% x 26680 2 5336

provⁿ for unrealised profit (15)

5321

(3) Consolidated P+L A/C Reserve

H plc
add dividends receivable from S

£1000

51840 $\frac{1}{2}$
400 $\frac{1}{2}$

S plc
share of post acqⁿ profits
 $80\% \times (14580 - 8400)$

4944 $1\frac{1}{2}$

less: goodwill amortised to date

(528) 1

less: provⁿ for unrealised profit

(60)

less: deprⁿ on fair value surplus $(80\% \times 2400)$

(1920) 2

54676
