

HALOGEN PLC

On 1 April 2006 Halogen plc acquired a controlling interest of 75% of Stimulus plc, a previously wholly owned subsidiary of Exowner plc for a cash payment of £480 m. The reserves of Stimulus plc at the date of acquisition were:

Profit and loss reserve	£180 million
Revaluation reserve	£40 million

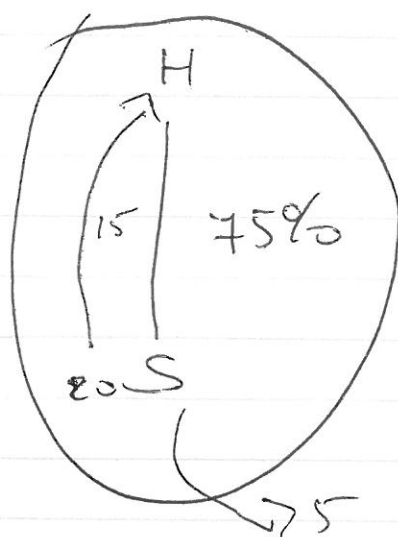
The balance sheets of Halogen plc and Stimulus plc at 31 March 2007 were:

	<i>Halogen plc</i>		<i>Stimulus plc</i>	
	£m	£m	£m	£m
Fixed assets				
Land and buildings		600		200
Plant and equipment		310		130
Motor vehicles		100		nil
Investment (including that in Stimulus plc)		<u>700</u>		<u>60</u>
		1,710		390
 <i>Current assets</i>				
Stock		224		120
Debtors		264		84
Bank		<u>nil</u>		<u>25</u>
		488		229
 <i>Creditors: amounts falling due within one year</i>				
Creditors		128		24
Taxation		94		35
Dividends		50		20
Overdraft		<u>86</u>		<u>nil</u>
		(358)		(79)
 Net current assets			130	150
 <i>Creditors: amounts falling due after more than one year</i>				
10% Debenture			<u>nil</u>	<u>(60)</u>
			1,840	480
 Net assets				
 <i>Share capital and reserves</i>				
Ordinary shares of £1 each			1,000	200
Reserves:				
Share premium		300		nil
Profit and loss account		480		240
Revaluation reserve		<u>60</u>	<u>840</u>	<u>40</u>
			1,840	480

The following information is relevant:

- (i) During the year to 31 March ²⁰⁰⁷~~20X1~~ Halogen plc sold goods at a price of £26 million to Stimulus plc at a mark-up on cost of 30%. Half of these goods were still in stock at the year-end.
- (ii) On 28 March ²⁰⁰⁷~~20X1~~ Stimulus plc recorded a payment of £12 million to settle its current account balance with Halogen plc. Halogen plc had not received this by the year-end. Inter-company current account balances are included in debtors or creditors as appropriate.
- (iii) All goodwill is written off on a straight-line basis over a period of five years.
- (iv) Both companies declared dividends in March ²⁰⁰⁷~~20X1~~. Halogen plc has not accounted for the dividend receivable from Stimulus plc.

(W1)



(W2) NET ASSETS OF SLTD

		At Acq ⁿ t _n	At B/S DATE t _n
Share Capital		200	200
P+L A/C		180	~~240~~
Rev ⁿ Reserve		40	40
		<u>420</u>	<u>480</u>

(W3) CASH IN TRANSIT

Dr	Bank Overdraft (11)	12
CR	Inter-Co Debit	12

W4 Unrealised Profit on Stock (H → S)

$$UNP = 260 \times \frac{30}{130} \times \frac{1}{2} = 30$$

Dr ptl acc (group) 30

cr stocks (H/S) 30

Consolidation Schem

1/ Goodwill

Cost of investment

480

less:

share of net assets acquired
(75% of 420)

(315)

Goodwill

165

less: amortised to date (1/5)

(33)

Intangible Asset

132

2, Minority Interest

$$= 25\% \times 480 = \underline{\underline{120}}$$

3, Consolidated P/L A/C Reserve

$$H (480 + \textcircled{15}) \quad \text{£} 495$$

S:

$$\text{share of post-acq - profits} \quad 45$$
$$75\% \times (240 - 180)$$

$$\text{less: goodwill amortised to date} \quad (33)$$

$$\text{less: unrealised profit on stock} \quad (5)$$

$$\underline{\underline{504}}$$

CONSOLIDATED B/S AT 31-3-07

Intangible Fixed Assets 132

Tangible Fixed Assets

Land + Buildings (600 + 200) 800

Plant + Equipment (310 + 130) 440

Motor Vehicles (100 + 0) 100

Investments (700 - 480 + 60) 280

1752

Current Assets:

Stock (224 + 120 - 3) 341

Debtors (264 + 84 - 12) 336

Bank 25

702

Creditors < 1 yr

Creditors (128 + 24) 152

Tax (94 + 35) 129

Dividends (50 + 5) 55

Overdraft (86 - 12) 74

410

Net Current Assets 292

Total Assets less Current Liabilities 2044

Creditors > 1 yr

10% Debenture

(60)

1984

Share capital	1000
Share premium	300
PRC ACC Reserve	504
Revaluation Reserve (60) ~~1000~~	60
	1864

Minority Interest	120
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1984