

QUESTION ONE

Below are the summarised balance sheets for two companies as at 31 March 2013:

	SWAN £million	£million	LAKE £million	£million
<u>Fixed assets</u>				
Tangible		360		240
Investments – in Lake		265		-
- in other		<u>45</u>		<u>30</u>
		<u>670</u>		<u>270</u>
<u>Current assets</u>				
Stock	84		98	
Debtors	52		42	
Cash at bank	<u>14</u>		<u>25</u>	
	<u>150</u>		<u>165</u>	
Creditors: amounts falling due within 1 year	<u>(132)</u>		<u>(77)</u>	
Net current assets		18		88
Creditors: amounts falling due within more than 1 year				
10% loan notes		<u>(134)</u>		<u>(63)</u>
Net assets		<u>554</u>		<u>295</u>
<u>Capital and reserves</u>				
Equity shares of £1 each		350		160
Share premium	40		10	
Profit and loss account	<u>164</u>	<u>204</u>	<u>125</u>	<u>135</u>
		<u>554</u>		<u>295</u>

Notes:

Swan is a public listed company that acquired the following investments:

- i) Investment in Lake
On 1 April 2011 Swan acquired 120 million shares in Lake for an immediate cash payment of £265 million. Lake's profit and loss account reserve at the date of acquisition was £84 million.

- ii) At the date of acquisition, Lake owned a recently built property that was carried at its (depreciated) construction cost of £26 million. The fair value of this property at the date of acquisition was £56 million and it had an estimated remaining life of 10 years.

For many years Lake has been selling some of its products under the brand name of 'SL'. At the date of acquisition the directors of Swan valued this brand at £24 million with a remaining life of 6 years. The brand is not included in Lake's balance sheet.

The fair values of all other identifiable assets and liabilities of Lake were equal to their carrying values at the date of acquisition.

- iii) The stock of Swan Ltd at 31 March 2013 includes goods supplied by Lake for £72 million (at selling price from Swan). Lake adds a mark-up of 20% on cost when selling goods to Swan.

- iv) None of the companies have paid any dividends for many years.
- v) The goodwill of Lake has an estimated life of ten years.
- vi) On 31 March 2013 Lake remitted to Swan a cash payment of £2 million. This was not received by Swan until early April 2013.

Required

Prepare a consolidated balance sheet of the Swan group as at 31 March 2013.

(32 MARKS)

①

CONSOLIDATED BALANCE SHEET AT 31-3-13

Intangible Fixed Assets: goodwill	fm	fm
brand		27.2
Tangible Fixed Assets (360 + 240 + 30 - 6)		16.0
Investments - other (45 + 35)		~~624.0~~
		75.0
		<u>742.2</u>

Current Assets	
Stock (84 + 98 - 12)	170
Debtors (52 + 42 - 2)	92
Cash (14 + 25 + 2)	41
	<u>303</u>

CREDITORS < 1 year (132 + 77) (209.)

Net Current Assets 94

Total Assets less Current Liabilities 836.2

CREDITORS > 1 year
10% Loan Notes (134 + 65) (199)

637.2

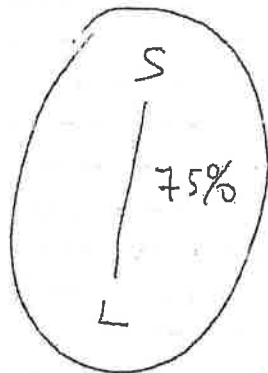
Share capital 350
Share premium 40

Profit + Loss Account 168.5

Minority Interest 80.8

639.2

(W1) GROUP STRUCTURE



$$\frac{120m}{160m} = \underline{\underline{75\%}}$$

(W2) NET ASSETS OF LAKE LTD

	AT ACQ ⁿ £m	AT B/S DATE £m
Share capital	160	160
Share premium	10	10
Profit + loss Account	84	125

FAIR VALUE ADJS:

• Property - surplus	30	30
- actual dep ⁿ (30m. x 1/10 x 2)	-	(6)
• Brand - surplus	24	24
- actual amort ⁿ (24 x 1/6 x 2)	-	(8)
	<u>308</u>	<u>385</u>

(W3) UNREMISED PROFIT ON STOCK (L → S)

$$UNP = 40m \times 20/100 = \underline{\underline{£12m}}$$

Dr p+l acc (group) 9
minority interest 3

Cr stock (b/p) 12

(W4) CASH IN TRANSIT

Dr Cash at Bank 2m

Cr Inter-co debtor with Lake 2

CONSOLIDATION SCHEDULES

1/ Goodwill

Cost of investment 265

less: share of net assets acquired (237)
(75% x 312)

Goodwill 38

less: amortised to date (2/10) (6.8)

~~Goodwill~~ Intangible Asset 27.2

2 MINORITY INTEREST

$$\begin{aligned} &= 25\% \times 343.5 = 85.8 \\ &\text{less UNP on stock} \quad (3) \\ &\underline{\underline{80.8}} \end{aligned}$$

(3) CONSOLIDATED P/L A/C RETAINED

	£m
SWAN	164
LAKE	
share of post acq. profits $75\% \times (125 - 84)$	30.8
less: UNP on stock	(9)
less goodwill amortised to date	(6.8)
less: group share of intangible assets $(75\% \times 6)$	(4.5)
less: group share of intangible assets $(75\% \times 8)$	(6)
	<u><u>108.5</u></u>