

FG

The balance sheets of FG (a dollar-based company) and its subsidiary JK (whose functional currency is the Crown) at 31 December 20X8 and their income statements for the 12 months then ended are given below:

Balance sheets at 31 December 20X8

	FG	JK
	\$000	C000
Non-current assets:		
Property, plant and equipment	18,000	27,000
Investments	4,400	-
	<u>22,400</u>	<u>27,000</u>
Current assets:		
Inventories	9,000	16,200
Trade receivables	7,650	13,500
	<u>16,650</u>	<u>29,700</u>
	<u>39,050</u>	<u>56,700</u>
Equity:		
Share capital	10,000	10,000
(\$1/€1 shares)	10,960	16,500
Reserves	<u>20,960</u>	<u>26,500</u>
	9,000	18,000
Non-current liabilities		
Current liabilities:		
Trade payables	3,600	5,400
Bank overdraft	5,490	6,800
	<u>9,090</u>	<u>12,200</u>
	<u>39,050</u>	<u>56,700</u>

Income statements – year ended 31 December 20X8

	FG	JK
	\$000	C000
Revenue	45,000	54,000
Cost of sales	(22,500)	(27,000)
Gross profit	22,500	27,000
Other operating expenses	(13,500)	(14,400)
Profit from operations	9,000	12,600
Investment income	1,600	-
Interest payable	(900)	(1,800)
Profit before tax	9,700	10,800
Income tax expense	(3,240)	(3,800)
Profit for the year	<u>6,460</u>	<u>7,000</u>

Statements of changes in equity – year ended 31 December 20X8

	<i>FG</i>	<i>JH</i>
	\$000	C000
At 1 January 20X8	18,000	23,500
Profit for the year	6,460	7,000
Dividends	(3,500)	(4,000)
At 31 December 20X8	20,960	26,500

Notes to the financial statements:

- (1) On 31 December 20X4, FG purchased 8 million shares in JH. The reserves of JK on this date stood at 4.5 million Crowns.
- (2) Exchange rates at relevant dates have been as follows:

<i>Date</i>	<i>C to the \$</i>
31 December 20X4	4.0
31 December 20X7	2.5
31 December 20X8	2.0
Average rate for year ended 31 December 20X8	2.4

- (3) The non-current liabilities represent long-term borrowings. The long-term borrowings of JK are denominated in Crowns.

Required:

- (a) Translate the balance sheet of JK into dollars (\$) and then prepare the consolidated balance sheet of the FG group at 31 December 20X6. **(12 marks)**
- (b) Translate the income statement of JK into dollars (\$) and then prepare the consolidated income statement of the FG group for the year ended 31 December 20X8. **(4 marks)**
- (c) Prepare the consolidated statement of changes in equity for the year ended 31 December 20X8. Your workings should include a proof of the figure for exchange differences. **(9 marks)**

(Total: 25 marks)

(a) **Balance sheet of JK at 31 December 20X8**

Note: Part (c) asks for a consolidated statement of changes in equity, so the best way to translate the balance sheet is to use the historic rate for share capital and pre-acquisition reserves.

	C000	Rate	\$000
Property, plant and equipment	27,000	2	13,500
Inventory	16,200	2	8,100
Trade receivables	13,500	2	6,750
Trade payables	(5,400)	2	(2,700)
Bank overdraft	(6,800)	2	(3,400)
Non-current liabilities	(18,000)	2	(9,000)
	<u>26,500</u>		<u>13,250</u>
Share capital	10,000	4.0	2,500
Pre-acquisition reserves	4,500	4.0	1,125
Post-acquisition reserves	12,000	balancing figure	9,625
	<u>26,500</u>		<u>13,250</u>

Consolidated balance sheet at 31 December 20X8

	\$000	\$000
ASSETS		
Property, plant and equipment		31,500
Intangible asset: Goodwill (W1)		3,000
Current assets:		
Inventories	17,100	
Trade receivables	14,400	
	<u>31,500</u>	
		<u>66,000</u>

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent:

Share capital	10,000
Reserves (W2)	<u>20,160</u>
	30,160
Minority interest (W3)	<u>2,650</u>
	32,810
Non-current liabilities:	
Long-term borrowings	18,000
Current liabilities	
Trade payables	6,300
Bank overdraft	<u>8,890</u>
	15,190
	<u>66,000</u>

(b) Income statement of JK for the year ended 31 December 20X8

	C000	Rate	\$000
Revenue	54,000	2.4	22,500
Cost of sales	(27,000)	2.4	(11,250)
	<u>27,000</u>		<u>11,250</u>
Gross profit			
Operating expenses	(14,400)	2.4	(6,000)
	<u>12,600</u>		<u>5,250</u>
Profit from operations			
Interest payable	(1,800)	2.4	(750)
	<u>10,800</u>		<u>4,500</u>
Profit before tax			
Income tax expense	(3,800)	2.4	(1,583)
	<u>7,000</u>		<u>2,917</u>
Profit for the year			

Consolidated income statement for the year ended 31 December 20X8

	\$000
Revenue	67,500
Cost of sales	(33,750)
	<u>33,750</u>
Gross profit	
Operating expenses	(19,500)
	<u>14,250</u>
Profit from operations	
Finance costs	(1,650)
	<u>12,600</u>
Profit before tax	
Income tax expense	(4,823)
	<u>7,777</u>
Profit for the year	

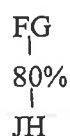
Attributable to:	
Equity holders of the parent	7,194
Minority interest ($20\% \times 2,917$)	583
	<u>7,777</u>

(c) **Consolidated statement of changes in equity for the year ended 31 December 20X8**

	\$000
At 1 January 20X8 (W5)	23,520
Profit for the year attributable to equity holders of the parent	7,194
Dividends paid	(3,500)
Exchange differences (W7)	2,946
	<u>30,160</u>
At 31 December 20X8	

Workings

(W1) **Group structure**



(W2) **Goodwill**

	C000
Cost of investment ($4,400 \times 4$)	17,600
Less: Share of net assets acquired: ($80\% \times 14,500$)	(11,600)
	<u>6,000</u>
Translated to dollars at each year end:	\$000
At acquisition (4)	1,500
At 1 January 20X8 (2.5)	2,400
At 31 January 20X8 (2)	<u>3,000</u>

(W3) **Consolidated reserves**

	\$000
FG:	10,960
JK: group share of post-acquisition profits ($80\% \times 9,625$)	7,700
Exchange gain on retranslation of goodwill ($3,000 - 1,500$) (W2)	1,500
	<u>20,160</u>

(W4) **Minority interest**

	\$000
Minority share of net assets at balance sheet date: ($20\% \times 13,250$)	2,650

(W5) Opening equity

	\$000
FG:	18,000
JK: group share of post-acquisition profits ($80\% \times 5,775$) (W6)	4,620
Exchange gain on retranslation of goodwill ($2,400 - 1,500$) (W2)	900
	<u>23,520</u>

(W6) Opening post-acquisition reserves in JK

	C000	Rate	\$000
Share capital	10,000	4.0	2,500
Pre-acquisition reserves	4,500	4.0	1,125
Post-acquisition reserves	9,000	balancing figure	5,775
	<u>23,500</u>	2.5	<u>9,400</u>

(W7) Exchange differences (proof)

	\$000	\$000
Exchange differences on re-translation of opening net assets of JK:		
At rate on 1 January 20X8 ($23,500 \div 2.5$)	9,400	
At rate on 31 December 20X8 ($23,500 \div 2.0$)	(11,750)	
	<u>2,350</u>	
Exchange gain		
Group share (80%)		1,880
Exchange differences on re-translation of profit for the year:		
At average rate	2,917	
At rate on 31 December 20X8 ($7,000 \div 2.0$)	(3,500)	
	<u>583</u>	
Exchange gain		
Group share (80%)		466
Exchange difference on retranslation of goodwill ($3,000 - 2,400$) (W2)		600
		<u>2,946</u>