

Question Six

Extracts from the consolidated financial statements of the AH Group for the year ended 30 June 2005 are given below:

AH Group: Consolidated income statement for the year ended 30 June 2005

	2005 \$000
Revenue	85,000
Cost of sales	<u>59,750</u>
Gross profit	25,250
Operating expenses	<u>5,650</u>
Profit from operations	19,600
Finance cost	<u>1,400</u>
Profit before disposal of property	18,200
Disposal of property (note 2)	<u>1,250</u>
Profit before tax	19,450
Income tax	<u>6,250</u>
Profit for the period	<u>13,200</u>
Attributable to:	\$000
Minority interest	655
Group profit for the year	<u>12,545</u>
	<u>13,200</u>

AH Group: Extracts from statement of changes in equity for the year ended 30 June 2005

	Share capital \$000	Share premium \$000	Consolidated revenue reserves \$000
Opening balance	18,000	10,000	18,340
Issue of share capital	2,000	2,000	
Profit for period			12,545
Dividends			<u>(6,000)</u>
Closing balance	<u>20,000</u>	<u>12,000</u>	<u>24,885</u>

AH Group: Balance sheet, with comparatives, at 30 June 2005

	2005 \$000	2004 \$000
ASSETS		
Non-current assets		
Property, plant and equipment	50,600	44,050
Intangible assets (note 3)	<u>6,410</u>	<u>4,160</u>
	57,010	48,210
Current assets		
Inventories	33,500	28,750
Trade receivables	27,130	26,300
Cash	<u>1,870</u>	<u>3,900</u>
	<u>62,500</u>	<u>58,950</u>
	<u>119,510</u>	<u>107,160</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	20,000	18,000
Share premium	12,000	10,000
Consolidated revenue reserves	<u>24,885</u>	<u>18,340</u>
	56,885	46,340
Minority interest	3,625	1,920

Non-current liabilities

Interest-bearing borrowings	18,200	19,200
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Current liabilities

Trade payables	33,340	32,810
Interest payable	1,360	1,440
Tax	<u>6,100</u>	<u>5,450</u>
	<u>40,800</u>	<u>39,700</u>
	<u>119,510</u>	<u>107,160</u>

Notes:

- Several years ago, AH acquired 80% of the issued ordinary shares of its subsidiary, BI. On 1 January 2005, AH acquired 75% of the issued ordinary shares of CJ in exchange for a fresh issue of 2 million of its own \$1 ordinary shares (issued at a premium of \$1 each) and \$2 million in cash. The net assets of CJ at the date of acquisition were assessed as having the following fair values:

	\$000
Property, plant and equipment	4,200
Inventories	1,650
Receivables	1,300
Cash	50
Trade payables	(1,950)
Tax	<u>(250)</u>
	<u>5,000</u>

- During the year, AH disposed of a non-current asset of property for proceeds of \$2,250,000. The carrying value of the asset at the date of disposal was \$1,000,000. There were no other disposals of non-current assets. Depreciation of \$7,950,000 was charged against consolidated profits for the year.
- Intangible assets comprise goodwill on acquisition of BI and CJ (2004: BI only). Goodwill has remained unimpaired since acquisition.

Required:

Prepare the consolidated cash flow statement of the AH Group for the financial year ended 30 June 2005 in the form required by IAS 7 *Cash flow statements*, and using the indirect method. Notes to the cash flow statement are NOT required, but full workings should be shown.

(Total for Question Six = 25 marks)

Answer to Question Six

AH Group: consolidated cash flow statement for the year ended 30 June 2005

	\$000	\$000	Ref. to working
Cash flows from operating activities			
Profit before taxation	19,450		
Adjustments for:			
Profit on disposal of property	(1,250)		
Depreciation	7,950		
Finance cost	<u>1,400</u>		
	27,550		
Decrease in receivables	470		1
(Increase) in inventories	(3,100)		1
(Decrease) in trade payables	<u>(1,420)</u>		1
Cash generated from operations	23,500		
Interest paid	(1,480)		2
Income taxes paid	<u>(5,850)</u>		2
Net cash from operating activities		16,170	
Cash flows from investing activities			
Acquisition of subsidiary (net of cash)	(1,950)		3
Purchase of property, plant and equipment	(11,300)		4
Proceeds from sale of property	<u>2,250</u>		
Net cash used in investing activities		(11,000)	
Cash flows from financing activities			
Repayment of interest-bearing borrowings	(1,000)		
Dividends paid by AH	(6,000)		
Dividends paid to minority	<u>(200)</u>		5
Net cash used in financing activities		<u>(7,200)</u>	
Net decrease in cash		(2,030)	
Cash at beginning of period		<u>3,900</u>	
Cash at end of period		<u>1,870</u>	

Working 1 – working capital changes

	Receivables \$000	Inventories \$000	Trade payables \$000
Closing balance	(27,130)	(33,500)	(33,340)
Less: Acquired with CJ	<u>1,300</u>	<u>1,650</u>	<u>1,950</u>
	(25,830)	(31,850)	(31,390)
Opening balance	26,300	28,750	32,810
Decrease/increase/decrease	<u>470</u>	<u>(3,100)</u>	<u>1,420</u>

Working 2 – Interest and income taxes

	Interest \$000	Income taxes \$000
Liability brought forward	1,440	5,450
Liability acquired with CJ	-	250
Charge to income statement	1,400	6,250
Liability carried forward	<u>(1,360)</u>	<u>(6,100)</u>
Balance: Amount paid	<u>1,480</u>	<u>5,850</u>

Working 3 – Acquisition of subsidiary

	<i>\$000</i>
Cash element of consideration	2,000
Less: Cash acquired with CJ	<u>(50)</u>
	<u>1,950</u>

Working 4 – Purchase of property, plant and equipment

	<i>\$000</i>
Balance brought forward	44,050
Acquired with CJ	4,200
Disposal at net book value	(1,000)
Depreciation for year	(7,950)
Less: Balance carried forward	<u>(50,600)</u>
Balance: Purchased	<u>(11,300)</u>

Working 5 – dividend paid to minority

	<i>\$000</i>
Balance brought forward	1,920
Profit attributable to minority	655
Acquired with CJ (\$5,000 x 25%)	1,250
Less: Balance carried forward	<u>(3,625)</u>
Balance: Dividend paid	<u>200</u>