

Chapter 24

GROUP ACCOUNTS THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

1. Introduction

We have seen in the previous chapters that when one company controls another it is necessary for us to prepare a Consolidated Statement of Financial Position.

Similarly it is necessary for us to prepare a Consolidated Statement of Profit or Loss and we will look at how this is prepared in this chapter.

2. The Principles

As with the Consolidated Statement of Financial Position, the aim of the Consolidated Statement of Profit or Loss is to show the results of the group as if it were a single entity.

We will use the same principles as we applied for the Statement of Financial Position in that we will show the total profits made by the group and then show the extent to which these profits are owned by the parent company and are owned by the non-controlling interest.



Example 1

P acquired 80% of the share capital of S on that company's incorporation in 2008.

The respective Statements of Profit or Loss of the two companies for the year ended 31 December 2009 are as follows:

	<i>P</i>	<i>S</i>
Revenue	52,000	24,000
Cost of sales	12,000	10,000
Gross profit	40,000	14,000
Expenses	8,000	4,000
Profit before taxation	32,000	10,000
Income tax	12,000	3,000
Profit for the year	20,000	7,000

Note: movement on retained earnings

Retained earnings brought forward	80,000	20,000
Profit for the year	20,000	7,000
Retained earnings carried forward	100,000	27,000

Prepare the Consolidated Statement of Profit or Loss and the movement on retained earnings for the P group.

In the previous example, P acquired S on the date of S's incorporation and is therefore entitled to its share of all S's retained earnings.

However, if P acquired S at a later date then P is only entitled to its share of S's post-acquisition retained earnings (just as when we prepared the Consolidated Statement of Financial Position).



Example 2

P acquired 60% of S on 1 January 2008, at which date the retained earnings of S were \$8,000.

The respective Statements of Profit or Loss of the two companies for the year ended 31 December 2010 are as follows:

	<i>P</i>	<i>S</i>
Revenue	85,000	31,000
Cost of sales	21,000	12,000
Gross profit	64,000	19,000
Expenses	12,000	7,000
Profit before taxation	52,000	12,000
Income tax	16,000	4,000
Profit for the year	36,000	8,000
Note: movement on retained earnings		
Retained earnings brought forward	120,000	17,000
Profit for the year	36,000	8,000
Retained earnings carried forward	156,000	25,000

Prepare the Consolidated Statement of Profit or Loss and the movement on retained earnings for the P group.



3. Inter entity (or intra-group) trading

Just as with the Consolidated Statement of Financial Position, the Consolidated Income Statement should show the results of the group as though it were a single entity.

When one company in the group sells goods to another company in the group, then the sales will have been included in the revenue of the selling company and an identical amount will have been included in the cost of sales of the other company. However, as far as the group's dealings with outsiders is concerned, no transaction has taken place.

In the Consolidated Statement of Profit or Loss, the figure for sales revenue should represent sales to outsiders, and the figure for cost of sales should represent purchases from outsiders. We will therefore need to reduce both the sales revenue and the cost of sales by the value of the inter entity sales during the year.

You will also remember from the previous chapter that if any goods sold at a profit within the group are still in inventory, then the unrealised profit needs to be excluded from the group profit.

We will achieve this (i.e. reduce the group profit) by increasing the cost of sales for the group by the amount of the unrealised profit in inventory.

Example 3

P acquired 55% of S on 1 June 2008.

The Statements of Profit or Loss for the two companies for the year ended 31 May 2009 are as follows:

	<i>P</i>	<i>S</i>
Revenue	120,000	110,000
Cost of sales	55,000	50,000
Gross profit	65,000	60,000
Expenses	9,000	10,000
Profit before taxation	56,000	50,000
Income tax	20,000	14,000
Profit for the year	36,000	36,000

During the year S sold goods to P for \$28,000 (including a mark-up of 40%). One quarter of these goods remained in P's inventory at the year end.

Prepare a Consolidated Statement of Profit or Loss for the P group.

WHEN YOU FINISHED THIS CHAPTER YOU SHOULD ATTEMPT THE [ONLINE FA MCQ TEST](#)

