

SECTION A

QUESTION 1

Red Ltd acquired 800,000 of Black Ltd's £1 ordinary shares on 1 April 2007 for £2.8 million. The balance sheets of the two companies at 30 September 2008 are shown below:

	Red Ltd		Black Ltd	
	£000	£000	£000	£000
Fixed assets				
Intangible – patents		250		420
Tangible				
Freehold land & buildings	2,560		1,400	
Plant & equipment	<u>1,420</u>	<u>3,980</u>	<u>900</u>	<u>2,300</u>
Investments - in Black Ltd	2,800			
- others	<u>650</u>	<u>3,450</u>		<u>200</u>
		7,680		2,920
Current assets				
Stock	570		400	
Debtors	420		380	
Bank	<u>nil</u>		<u>150</u>	
	<u>990</u>		<u>930</u>	
Creditors: amounts falling due within one year				
Creditors	550		330	
Taxation	140		nil	
Proposed dividends	200		120	
Overdraft	<u>80</u>		<u>nil</u>	
	<u>(970)</u>		<u>(450)</u>	
Net current assets		20		480
Creditors: amounts falling due after more than one year				
Deferred tax		<u>(200)</u>		<u>nil</u>
Net assets		<u>7,500</u>		<u>3,400</u>
Share capital and reserves:				
Ordinary shares of £1 each		2,000		1,000
Reserves:				
Share premium	1,000		500	
Profit and loss account	<u>4,500</u>	<u>5,500</u>	<u>1,900</u>	<u>2,400</u>
		<u>7,500</u>		<u>3,400</u>

The following information is relevant:

- i. The balance on the profit and loss account reserve of Black Ltd at 1 April 2007 was £1,200,000.
- ii. At the date of acquisition, the fair value of Black Ltd's net assets was equal to their book value with the exception of the following:
 - An area of freehold land was included at its cost of £600,000, whereas by 1st April 2007 its fair value had risen to £800,000.
 - Plant and equipment included plant that had a fair value of £400,000 in excess of its carrying value. This plant had a remaining useful life of 5 years. The group calculates depreciation on a straight line basis.
- iii. Consolidated goodwill is written off on a straight line basis over a 5 year life, calculated monthly.
- iv. Red has not accounted for its share of Black Ltd's proposed dividend.
- v. During the year, Black Ltd sold goods to Red Ltd for £150,000. Black Ltd adds a 25% mark up on cost to all of its sales. A third of these goods were included in Red Ltd's stock at 30th September 2008.

Required

- a. Prepare the consolidated balance sheet of Red Ltd as at 30th September 2008. Work to the nearest £.

(35 marks)

CONSOLIDATED BALANCE SHEET AT 30-9-03

	1 1/2	1	
Intangible Fixed Assets (250 + 420 + 112)			782 000
Tangible Fixed Assets (2560 + 1420 + 1400 + 900)	3		6780 000
	+ 200 + 280		
Investments (650 + 200)		1 1/2	850 000
			<u>8392 000</u>

CURRENT ASSETS 1 1/2	
Stock (570 + 400 - 10)	960 000
Debtors (420 + 330) 1 1/2	800 000
Bank 1 1/2	<u>150 000</u>
	- 1910 000

CREDITORS < 1 YR	
Creditors (550 + 330)	880 000 1 1/2
Taxation	140 000 1 1/2
Proposed Dividends (200 + 24)	224 000 2
Overdraft	<u>80 000 1 1/2</u>
	(1324 000)

Net Current Assets 586 000

Total Assets less Current Liabilities 8978 000

Creditors > 1 YR 1 1/2 (200 000)

8778 000

8

Ordinary share capital	1	2000000
Share premium	1	1000000
Profit and Loss account		5004000

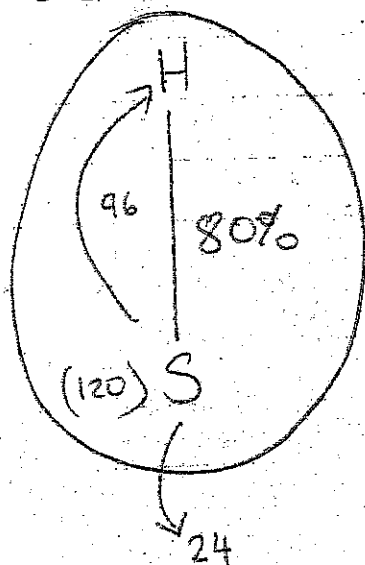
8004000

774000

8778000

WORKINGS

(W1) GROUP STRUCTURE



(W2) NET ASSETS OF SOLAR

	(1-4-02)		(30-9-03)
	AT ACON		AT E/S DATE
	£		£
Share Capital	1000 000	1/2	1000 000
Share Premium	500 000	1/2	500 000
P+L A/c	1200 000	1	1900 000

FAIR VALUE ADJUSTMENTS:

Freehold land	200 000	2	200 000
Plant - cost	400 000	2	400 000
- addnl dep'n (18m)	—	3	(120 000)
	<u>3300 000</u>		<u>3880 000</u>

③ Unrealised Profit on stock

$$\text{Unrealised profit} = 150000 \times \frac{25}{125} \times \frac{1}{3}$$
$$= \underline{\underline{10000}} \quad 2$$

Dr ptl a/c group
minority interest

8000

2000

4 1/2

Cr stock (1/3)

10000

6 1/2

CONSOLIDATION SCHEDULES

(1) Goodwill

£

Cost of Investment

$\frac{1}{2}$ 2800000

less: share of net assets acquired
(80% x 3300000)

$\frac{1}{2}$ (2640000)

Goodwill

160000

less: amortised to date (18m)

$\frac{1}{2}$ (48000)

Intangible Asset

112000

(2) Minority Interest

£

$$M.I. = 20\% \times 3880000 = 776000 \quad 2!$$

less: unrealised profit

(2000)

774000

Consolidated P&L A/C Reserve

£

H plc

1 4500000

add: dividend receivable

2

96000

S plc:

share of post acqⁿ profits
 $80\% \times (1900000 - 1200000)$

2

560000

less: amortisation to date

1 1/2

(48000)

less: unrealised profit in stock

(8000)

less: addⁿ depⁿ on fair value surplus
 $(80\% \times 120,000)$

2 1/2

(96000)

5004000