

Heavy plc

As on 31 March 19X1 the draft balance sheets of Heavy plc and its subsidiary, Side Ltd showed the following positions:

	<i>Heavy plc</i>		<i>Side Ltd</i>	
	£	£	£	£
Fixed assets (tangible)		180,000		40,000
Investment in Side Ltd		49,200		—
		<u>229,200</u>		<u>40,000</u>
Current assets				
Stock	40,000		32,000	
Inter-company account	—		10,500	
Cash at bank and in hand	—		3,000	
	<u>40,000</u>		<u>45,500</u>	
Creditors: Amounts falling due within one year				
Bank overdraft	6,000		—	
Trade creditors	41,000		17,000	
Inter-company account	8,000		—	
	<u>55,000</u>		<u>17,000</u>	
Net current (liabilities)/assets		<u>(15,000)</u>		<u>28,500</u>
Total assets less current liabilities		214,200		68,500
Creditors: Amounts falling due after more than one year				
Debenture loan		<u>(50,000)</u>		<u>—</u>
		<u>164,200</u>		<u>68,500</u>
Financed by:				
Share capital – £1 ordinary shares		100,000		10,000
Share premium account		20,000		10,000
Profit and loss account		44,200		48,500
		<u>164,200</u>		<u>68,500</u>

You are given the following additional information:

- (1) Shortly before the year-end, Heavy plc paid £2,500 to Side Ltd. At 31 March 19X1, Side Ltd had not yet received this amount.
- (2) During the year, Heavy plc sold goods to Side Ltd amounting to £100,000 at a standard mark-up of 25% on cost. Side Ltd still had £15,000 of these goods in stock at the year-end.
- (3) It has been decided that Heavy plc and Side Ltd should declare dividends of 10 pence per share and 20 pence per share respectively for the year ended 31 March 19X1.

- (4) Heavy plc acquired 80% of the issued share capital of Side Ltd on 1 April 19X0. Side Ltd made a profit available for distribution for the year of £10,500.
- (5) It is group accounting policy to amortise goodwill on consolidation over a period of 5 years.

Required

Prepare the consolidated balance sheet of Heavy plc as on 31 March 19X1, together with your consolidation schedules.

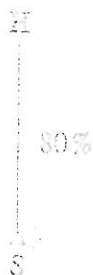
Note: Ignore advance corporation tax.

Consolidated balance sheet as on 31 March 19X1

	£	£
Intangible asset (2800 - 560)		2 240
Fixed assets: Tangible assets (180 + 40)		220,000
		<u>222 240</u>
Current assets		
Stocks (40 - 3 + 32)	69,000	
Cash at bank and in hand (3 + 2.5) (W6)	5,500	
	<u>74,500</u>	
Creditors: Amounts falling due within one year		
Bank loans and overdrafts	6,000	
Trade creditors (41 + 17)	58,000	
Proposed dividends - parent company	10,000	
- minority interests	400	
	<u>74,400</u>	
Net current assets		<u>100</u>
Total assets less current liabilities		<u>222 340</u>
Creditors: Amounts falling due after more than one year		
Debenture loans		(50,000)
		<u>172 340</u>
Capital and reserves		
Called-up share capital - £1 ordinary shares	100,000	
Share premium account	20,000	
Profit and loss account (W5)	39,040	
	<u>159,040</u>	
Minority interests (W4)		<u>13,300</u>
		<u>172 340</u>

Workings

(1) Group structure



(2) Net assets of Side Ltd

	<i>Balance sheet date</i>		<i>Acquisition</i>
	£	£	£
Share capital		10,000	10,000
Share premium		10,000	10,000
Profit and loss			
Per question	48,500		
Dividend proposed	(2,000)		
		<u>46,500</u>	<u>38,000</u>
		<u>66,500</u>	<u>58,000</u>

Reserves at acquisition = £48,500 - £10,500

(3) Goodwill

	£
Cost of acquisition	49,200
Share of net assets acquired	
80% × 58,000 (W2)	(46,400)
	<u>2,800</u>

(4) Minority interest

20% × 66,500 (W2)	<u>13,300</u>
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(5) Profit and loss

	£
Heavy plc	44,200
Dividend proposed	(10,000)
Dividend receivable (80% × 2,000)	1,600
Side Ltd post-acquisition	6,800
[80% × (46,500 - 38,000) (W2)]	
<i>Amortisation of goodwill</i>	(560)
Stock - provision for unrealised profit (W7)	(3,000)
	<u>39,040</u>

(6) Cash in transit

	£	£
Dr Cash at bank	2,500	
Cr Inter-company account		2,500

(7) Stock - provision for unrealised profit

	£	£
Dr Profit and loss account (25/125 × 15,000)	3,000	
Cr Stock		3,000