

. Working 1 — Ownership percentage

Royal's ownership = $72,000 \div 80,000 \times 100 = 90\%$.

- Royal's share: 90%.

W2 Net assets of Ltd

	01/05/2004 At acqn	31/01/2014 At b/s date
Share capital	80,000	80,000
P and L account reserve		
	20,000	84,000
	100,000	164,000

. Working 2 — Goodwill at acquisition

Cost of investment	120,000
less:	
Share of net assets acquired (90% x 100,000)	90,000
Goodwill	<u>30,000</u>

Goodwill in pounds at acquisition = $\$30,000 \div 2.20 = \text{£}13,636.36$.

. Working 3 — Translate Mall's balance sheet

Assets and liabilities of the foreign operation are generally translated at the closing rate of \$1.90 per £1.

Asset / liability	Amount (\$)	Rate	Amount (£)
Property, plant and equipment	160,000	1.90	84,210.53
Debtors	40,000	1.90	21,052.63
Creditors	(32,000)	1.90	(16,842.11)
Dividends payable	(4,000)	1.90	(2,105.26)
Net assets	164,000	—	86,315.79

Equity translation working

Equity item	Amount (\$)	Rate	Amount (£)
Share capital	80,000	2.20	36,363.64
Pre-acquisition reserves	20,000	2.20	9,090.91
Post-acquisition reserves	64,000	Balancing figure	40,861.24
Total equity	164,000	—	86,315.79

Post-acquisition reserves (balancing figure) = $\text{£}86,315.79 - \text{£}36,363.64 - \text{£}9,090.91 = \text{£}40,861.24$.

. Working 4 — Translate Mall's profit and loss account

Use the average rate of \$1.70 per £1, assuming it reasonably approximates the rates on the transaction dates.

Item	Amount (\$)	Rate	Amount (£)
Profit before tax	24,000	1.70	14,117.65
Tax expense	(1,600)	1.70	(941.18)
Profit after tax	22,400	—	13,176.47

. Working 5 — Exchange difference on goodwill

Description		Amount (£)
Goodwill at 31 January 2013	\$30,000 ÷ 1.50	20,000.00
Goodwill at 31 January 2014	\$30,000 ÷ 1.90	(15,789.47)
Exchange loss for the year	£20,000.00 – £15,789.47	4,210.53

. Working 6 — M.I

M.I = 10% × translated closing net assets of £86,315.79 = £8,631.58, rounded to £8,632.

. Consolidated profit and loss account

Item	Calculation	Amount (£)
Profit before tax	40,000 + 1,896 + 14,118	52,223
Tax	3,200 + 941	(4,141)
Profit after tax		48,082
Minority Interest	13,177 × 10%	(1,318)
Profit For Group		46,764

Commented [BM1]: 90% x 2,105 Dividends = 1,896

. Consolidated balance sheet — layout and checks

Item	Calculation / Note	Amount (£)
Fixed Assets		
Property PPE	265,456 + 84,210	349,666
Goodwill (W1)	Retranslated at closing rate	15,789
Current Assets		
Debtors	66,000 + 21,053	87,053
Current Liabilities		
Creditors	32,000 + 16,842	(48,842)
Payable Dividends	6,000 + 2,105	(8,210)
Net Current Assets		32,001
Total Net Assets		397,456
Minority Interest	10% × 86,316	(8,632)
Net Assets		388,824
Capital & Reserves		
Share Capital	Royal Issued Capital	160,000
Retained Earnings (W2)	Group Retained Earnings	228,824
Total Equity		388,824

. Retained earnings

A. Royal Ltd

Retained earnings = £189,896

B. Exchange Gain on Mall Ltd Reserves

1. Opening exchange difference

$$\$64,000 \div 1.5 = £42,667$$

$$£42,667 - £40,861 = £1,806$$

2. Profit retranslation difference

- At average rate: $\$22,400 \div 1.7 = £13,177$
- At closing rate: $\$22,400 \div 1.9 = £11,789$
- Difference: $£13,177 - £11,789 = £1,388$

3. Royal's 90% share

$$(£1,806 + £1,388) \times 90\% \approx £2,153$$

C. Mall Ltd Reserves

$$£40,861 \times 90\% = £36,775$$

Total Group Retained Earnings

Item	Amount
Royal Ltd	£189,896
Mall Ltd reserves	£36,775
Exchange gain	£2,153
Total	£228,824

Summary Translation Differences

Retranslation of Net Assets:

- At 31/1/2013: $\$145,600 / 1.5 = £97,067$
- At 31/1/2014: $\$145,600 / 1.9 = £76,632$
- Exchange loss = $(20,435) \times 90\% = (18,391)$

Retranslation of Profit:

- Average rate: $\$22,400 / 1.7 = £13,177$
- Closing rate: $\$22,400 / 1.9 = £11,789$
- Exchange loss = $(1,388) \times 90\% = (1,249)$

Retranslation of Goodwill in the Year:

- At 31/1/13: $\$30,000 / 1.5 = £20,000$
- At 31/1/14: $\$30,000 / 1.9 = £15,789$
- Exchange loss = $(4,211)$

Total Exchange Losses = (23,851)

Profit Needed in the Group

1. Calculate Mall's opening reserves

Translate Mall's opening net assets into pounds using the opening exchange rate of \$1.50 = £1.

Item	Calculation	Amount (£)
Total net assets	\$145,600 ÷ 1.50	97,067
Share capital	\$80,000 ÷ 2.20	(36,364)
Pre-acquisition reserves	\$20,000 ÷ 2.20	(9,091)
Post-acquisition reserves	Balance	51,612

2. Calculate the group's basic opening reserves

Item		Amount (£)
Royal's reserves	£319,096 – £160,000	159,096
Royal's 90% share of Mall's reserves	£51,612 × 90%	46,451
Total basic reserves		205,547

3. Add the exchange movements

Item	Amount (£)
Post-acquisition currency movement	2,153
Goodwill currency movement	4,211
Total exchange movements	6,364

4. Calculate total group opening reserves

£205,547 + £6,364 £= **211,911**

Statement of Consolidated Reserves

Item	Amount (£)
Opening group reserves	211,911
Profit attributable to group	46,764
Royal's dividend	(6,000)
Exchange losses	(23,851)
Closing reserves as supplied	228,824

Commented [BM2]: From the balance sheet of royal