1 Prestend

Prestend is the parent company of Northon. The following are the statements of financial position for both companies as at 31 October 20X7.

	Prestend		Northon	
	$'000	$'000	$'000	$'000
Assets				
Non-current assets				
Property, plant and equipment		4,200		3,300
Investments: shares in Northon at cost		3,345		-
Current assets				
Inventory	1,500		800	
Trade receivables	1,800		750	
Bank	600	3,900	350	1,900
Total assets		11,445		5,200
Equity and liabilities				
Equity				
$1 ordinary shares		9,000		4,000
Retained earnings		525		200
		9,525		4,200
Current liabilities				
Trade payables	1,220		200	
Tax	700	1,920	800	1,000
Total equity and liabilities		11,445		5,200

The following information is also available.

(a) Prestend purchased 2,800,000 shares in Northon a year ago when Northon had retained earnings of $60,000. The fair value of the non-controlling interest at the date of acquisition was $1,415,000.

(b) During the year Prestend sold goods with an invoice value of $240,000 to Northon. These goods were invoiced at cost plus 20%. Half of the goods are still in Northon's inventory at the year end.

(c) Northon owes Prestend $30,000 at 31 October 20X7 for goods it purchased during the year.

(d) At the date of acquisition, the fair values of Northon's assets were equal to their carrying amounts with the exception of an item of land, which had a fair value of $200,000 in excess of its carrying amount.

(e) Consolidated goodwill was impaired by $100,000 at 31 October 20X7.

Required

Prepare the consolidated statement of financial position for the Prestend group as at 31 October 20X7.

2 Parentis

Parentis, a public listed company, acquired 600 million equity shares in Offspring on 1 April 2006. The purchase consideration was made up of:

A share exchange of one share in Parentis for two shares in Offspring;

The issue of $100 10% loan note for every 500 shares acquired; and

A deferred cash payment of 11 cents per share acquired payable on 1 April 2007.

Parentis has only recorded the issue of the loan notes. The value of each Parentis share at the date of acquisition was 75 cents and Parentis has a cost of capital of 10% per annum.

The statements of financial position of the two companies at 31 March 2007 are shown below:

	Parentis		Offspring	
	$'m	$'m	$'m	$'m
Assets				
Property, plant and equipment (note (i))		640		340
Investments		120		nil
Intellectual property (note (ii))		nil		30
		760		370
Current assets				
Inventory (note (iii))	76		22	
Trade receivables (note (iii))	84		44	
Bank	nil	160	4	70
Total assets		920		440
Equity and liabilities				
Equity shares of 25 cents each		300		200
Retained earnings – 1 April 2006	210		120	
– year ended 31 March 2007	90	300	20	140
		600		340
Non-current liabilities				
10% loan notes		120		20
Current liabilities				
Trade payables (note (iii))	130		57	
Current tax payable	45		23	
Overdraft	25	200	nil	80
Total equity and liabilities		920		440

The following information is relevant:

(i) At the date of acquisition the fair value of Offspring's net assets were approximately equal to their carrying amounts with the exception of its properties. These properties had a fair value of $40 million in excess of their carrying amounts which would create additional depreciation of $2 million in the post acquisition period to 31 March

2007. The fair values have not been reflected in Offpring's statement of financial position.

(ii) The intellectual property is a system of encryption designed for internet use. Offspring has been advised that government legislation (pass since acquisition) has now made this type of encryption illegal. Offspring will receive $10 million in compensation from the government.

(iii) Offspring sold Parentis goods for $15 million in the post acquisition period $5 million of these goods are included in the inventory of Parentis at 31 March 2007. The profit made by Offspring on these sales was $6 million. Offspring's trade payable account (in records of Parentis) of $7 million does not agree with Parentis's trade receivable account (in records of Offspring) due to cash in transit of $4 million paid by Parentis.

(iv) Due to the impact of the above legislation, Parentis has concluded that the consolidated goodwill has been impaired by $28 million.

(v) It is the group policy to value the non-controlling interest at full fair value. The fair value of the non-controlling interest at te date of acquisition was estimated at $97 million.

Required

Prepare the consolidated statement of financial position of Parentis as at 31 March 2007.

3 On 1 April 2008, Pedantic acquired 60% of the equity share capital of Sophistic in a share exchange of two shares in Pedantic for three shares in Sophistic. The issue of shares has not yet been recorded by Pedantic. At the date of acquisition shares in Pedantic had a market value of $6 each. Below are the summarised draft financial statements of both companies.

Income statements for the year ended 30 September 2008

	Pedantic	Sophistic
	$'000	$'000
Revenue	85,000	42,000
Cost of sales	(63,000)	(32,000)
Gross profit	22,000	10,000
Distribution costs	(2,000)	(2,000)
Administrative expenses	(6,000)	(3,200)
Finance costs	(300)	(400)
Profit before tax	13,700	4,400
Income tax expense	(4,700)	(1,400)
Profit for the year	9,000	3,000

Statements of financial position as at 30 September 2008

	Pedantic	Sophistic
Assets		
Non-current assets		
Property, plant and equipment	40,600	12,600
Current assets	16,000	6,600
Total assets	56,600	19,200
Equity and liabilities		
Equity shares of $1 each	10,000	4,000
Retained earnings	35,400	6,500
	45,400	10,500
Non-current liabilities		
10% loan notes	3,000	4,000
Current liabilities	8,200	4,700
Total equity and liabilities	56,600	19,200

The following information is relevant:

(i) At the date of acquisition, the fair values of Sophistic's assets were equal to their carrying amounts with the exception of an item of plant, which had a fair value of $2 million in excess of its carrying amount. It had a remaining life of five years at that date [straight-line depreciation is used]. Sophistic has not adjusted the carrying amount of its plant as a result of the fair value exercise.

(ii) Sales from Sophistic to Pedantic in the post acquisition period were $8 million. Sophistic made a mark up on cost of 40% on these sales. Pedantic had sold $5·2 million (at cost to Pedantic) of these goods by 30 September 2008.

(iii) Other than where indicated, income statement items are deemed to accrue evenly on a time basis.

(iv) Sophistic's trade receivables at 30 September 2008 include $600,000 due from Pedantic which did not agree with Pedantic's corresponding trade payable. This was due to cash in transit of $200,000 from Pedantic to Sophistic. Both companies have positive bank balances.

(v) Pedantic has a policy of accounting for any non-controlling interest at fair value. For this purpose the fair value of the the non-controlling interest in Sophistic at the date of acquisition was estimated to be $5.9 million. Consolidated goodwill was not impaired at 30 September 2008.

Required:

(a) Prepare the consolidated income statement for Pedantic for the year ended 30 September 2008. (9 marks)

(b) Prepare the consolidated statement of financial position for Pedantic as at 30 September 2008. (16 marks)

Note: a statement of changes in equity is not required.

(25 marks)

HENRIED

4 On 1 April 2009 Picant acquired 75% of Sander's equity shares in a share exchange of three shares in Picant for every two shares in Sander. The market prices of Picant's and Sander's shares at the date of acquisition were $3·20 and $4·50 respectively.

In addition to this Picant agreed to pay a further amount on 1 April 2010 that was contingent upon the post-acquisition performance of Sander. At the date of acquisition Picant assessed the fair value of this contingent consideration at $4·2 million, but by 31 March 2010 it was clear that the actual amount to be paid would be only $2·7 million (ignore discounting). Picant has recorded the share exchange and provided for the initial estimate of $4·2 million for the contingent consideration.

On 1 October 2009 Picant also acquired 40% of the equity shares of Adler paying $4 in cash per acquired share and issuing at par one $100 7% loan note for every 50 shares acquired in Adler. This consideration has also been recorded by Picant.

Picant has no other investments.

The summarised statements of financial position of the three companies at 31 March 2010 are:

	Picant	Sander	Adler
Assets	$'000	$'000	$'000
Non-current assets			
Property, plant and equipment	37,500	24,500	21,000
Investments	45,000	nil	nil
	82,500	24,500	21,000
Current assets			
Inventory	10,000	9,000	5,000
Trade receivables	6,500	1,500	3,000
Total assets	99,000	35,000	29,000
Equity and liabilities			
Equity			
Equity shares of $1 each	25,000	8,000	5,000
Share premium	19,800	nil	nil
Retained earnings – at 1 April 2009	16,200	16,500	15,000
– for the year ended 31 March 2010	11,000	1,000	6,000
	72,000	25,500	26,000
Non-current liabilities			
7% loan notes	14,500	2,000	nil
Current liabilities			
Contingent consideration	4,200	nil	nil
Other current liabilities	8,300	7,500	3,000
Total equity and liabilities	99,000	35,000	29,000

The following information is relevant:

(i) At the date of acquisition the fair values of Sander's property, plant and equipment was equal to its carrying amount with the exception of Sander's factory which had a fair value of $2 million above its carrying amount. Sander has not adjusted the carrying amount of the factory as a result of the fair value exercise. This requires additional annual depreciation of $100,000 in the consolidated financial statements in the post-acquisition period.

Also at the date of acquisition, Sander had an intangible asset of $500,000 for software in its statement of financial position. Picant's directors believed the software to have no recoverable value at the date of acquisition and Sander wrote it off shortly after its acquisition.

HENRIED

(ii) At 31 March 2010 Picant's current account with Sander was $3·4 million (debit). This did not agree with the equivalent balance in Sander's books due to some goods-in-transit invoiced at $1·8 million that were sent by Picant on 28 March 2010, but had not been received by Sander until after the year end. Picant sold all these goods at cost plus 50%.

(iii) Picant's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Sander's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(iv) Impairment tests were carried out on 31 March 2010 which concluded that the value of the investment in Adler was not impaired but, due to poor trading performance, consolidated goodwill was impaired by $3·8 million.

(v) Assume all profits accrue evenly through the year.

Required:

(a) Prepare the consolidated statement of financial position for Picant as at 31 March 2010. (21 marks)

(b) Picant has been approached by a potential new customer, Trilby, to supply it with a substantial quantity of goods on three months credit terms. Picant is concerned at the risk that such a large order represents in the current difficult economic climate, especially as Picant's normal credit terms are only one month's credit. To support its application for credit, Trilby has sent Picant a copy of Tradhat's most recent audited consolidated financial statements. Trilby is a wholly-owned subsidiary within the Tradhat group. Tradhat's consolidated financial statements show a strong statement of financial position including healthy liquidity ratios.

Required:

Comment on the importance that Picant should attach to Tradhat's consolidated financial statements when deciding on whether to grant credit terms to Trilby. (4 marks)

(25 marks)

HENRIED

5 On 1 April 2011, Pyramid acquired 80% of Square's equity shares by means of an immediate share exchange and a cash payment of 88 cents per acquired share, deferred until 1 April 2012. Pyramid has recorded the share exchange, but not the cash consideration. Pyramid's cost of capital is 10% per annum.

The summarised statements of financial position of the two companies as at 31 March 2012 are:

	Pyramid	Square
Assets	**$'000**	**$'000**
Non-current assets		
Property, plant and equipment	38,100	28,500
Investments – Square	24,000	
– Cube at cost (note (iv))	6,000	
– Loan notes (note (ii))	2,500	
– Other equity (note (v))	2,000	nil
	72,600	28,500
Current assets		
Inventory (note (iii))	13,900	10,400
Trade receivables (note (iii))	11,400	5,500
Bank (note (iii))	900	600
Total assets	98,800	45,000
Equity and liabilities		
Equity		
Equity shares of $1 each	25,000	10,000
Share premium	17,600	nil
Retained earnings – at 1 April 2011	16,200	18,000
– for year ended 31 March 2012	14,000	8,000
	72,800	36,000
Non-current liabilities		
11% loan notes (note (ii))	12,000	4,000
Deferred tax	4,500	nil
Current liabilities (note (iii))	9,500	5,000
Total equity and liabilities	98,800	45,000

The following information is relevant:

(i) At the date of acquisition, Pyramid conducted a fair value exercise on Square's net assets which were equal to their carrying amounts with the following exceptions:

– An item of plant had a fair value of $3 million above its carrying amount. At the date of acquisition it had a remaining life of five years. Ignore deferred tax relating to this fair value.

– Square had an unrecorded deferred tax liability of $1 million, which was unchanged as at 31 March 2012.

Pyramid's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose a share price for Square of $3·50 each is representative of the fair value of the shares held by the non-controlling interest.

(ii) Immediately after the acquisition, Square issued $4 million of 11% loan notes, $2·5 million of which were bought by Pyramid. All interest due on the loan notes as at 31 March 2012 has been paid and received.

(iii) Pyramid sells goods to Square at cost plus 50%. Below is a summary of the recorded activities for the year ended 31 March 2012 and balances as at 31 March 2012:

	Pyramid $'000	Square $'000
Sales to Square	16,000	
Purchases from Pyramid		14,500
Included in Pyramid's receivables	4,400	
Included in Square's payables		1,700

On 26 March 2012, Pyramid sold and despatched goods to Square, which Square did not record until they were received on 2 April 2012. Square's inventory was counted on 31 March 2012 and does not include any goods purchased from Pyramid.

On 27 March 2012, Square remitted to Pyramid a cash payment which was not received by Pyramid until 4 April 2012. This payment accounted for the remaining difference on the current accounts.

(iv) Pyramid bought 1·5 million shares in Cube on 1 October 2011; this represents a holding of 30% of Cube's equity. At 31 March 2012, Cube's retained profits had increased by $2 million over their value at 1 October 2011. Pyramid uses equity accounting in its consolidated financial statements for its investment in Cube.

(v) The other equity investments of Pyramid are carried at their fair values on 1 April 2011. At 31 March 2012, these had increased to $2·8 million.

(vi) There were no impairment losses within the group during the year ended 31 March 2012.

Required:

Prepare the consolidated statement of financial position for Pyramid as at 31 March 2012.

(25 marks)