

F3 CASE 10-PEDANTIC GROUP

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	<u>(63,000)</u>	<u>(32,000)</u>
Gross profit	22,000	10,000
Distribution costs	(2,000)	(2,000)
Administrative expenses	(6,000)	(3,200)
Finance costs	<u>(300)</u>	<u>(400)</u>
Profit before tax	13,700	4,400
Income tax expense	<u>(4,700)</u>	<u>(1,400)</u>
Profit for the year	<u>9,000</u>	<u>3,000</u>

Statements of financial position as at 30 September 2008

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

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 land, which had a fair value of \$2 million in excess of its carrying amount. 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

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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) 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.

Required:

- (a) Prepare the consolidated income statement for Pedantic for the year ended 30 September 2008.**
- (b) Prepare the consolidated statement of financial position for Pedantic as at 30 September 2008.**

