

# Consolidation – Past Papers

## Chartered Accountancy Corporate Level Financial Reporting and Governance (FRG)

**Sandeepa Jayasekera**

ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,  
Reading for MBA (PIM), CA and CIMA Prize Winner



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# CONSOLIDATION PAST PAPERS

***Sandeepa Jayasekera***

B.Sc. (Acct.) Hons. Gold medal winner, ACA, SAT, ACMA (SL), CIMA Passed Finalist, CA Prize winner for AFR subject and CAB II First in Order of Merit, CIMA Strategic Level Aggregate Prize winner, Reading for MBA (PIM - USJP).

JMC Jayasekera Management Centre

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## Question 35 – Question 06 2015 June

The following statements of financial position as at 31 March 2015 relate to Pink, Quick and Rose, all of which are private limited companies.

|                                     | Rs. '000         |                  |                |
|-------------------------------------|------------------|------------------|----------------|
|                                     | Pink             | Quick            | Rose           |
| <b>Non-current Assets</b>           |                  |                  |                |
| Property                            | 250,000          | 350,000          | 100,000        |
| Plant and machinery                 | 450,000          | 150,000          | 150,000        |
| Investment                          | 1,000,000        | -                | -              |
| AFS Investments                     | 150,000          | -                | -              |
|                                     | <b>1,850,000</b> | <b>500,000</b>   | <b>250,000</b> |
| <b>Current Assets</b>               |                  |                  |                |
| Inventories                         | 200,000          | 100,000          | 25,000         |
| Trade receivables                   | 200,000          | 375,000          | 200,000        |
| Cash                                | 75,000           | 30,000           | 30,000         |
|                                     | <b>475,000</b>   | <b>505,000</b>   | <b>255,000</b> |
| <b>Total Equity and Liabilities</b> | <b>2,325,000</b> | <b>1,005,000</b> | <b>505,000</b> |

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## Question 35 – Question 06 2015 June

|                                     | Rs. '000         |                  |                |
|-------------------------------------|------------------|------------------|----------------|
|                                     | Pink             | Quick            | Rose           |
| <b>Equity</b>                       |                  |                  |                |
| Stated capital                      | 700,000          | 450,000          | 250,000        |
| Other components of equity          | 250,000          | -                | -              |
| Retained earnings                   | 350,000          | 255,000          | 150,000        |
|                                     | <b>1,300,000</b> | <b>705,000</b>   | <b>400,000</b> |
| <b>Non-current liabilities</b>      |                  |                  |                |
| Bank borrowings                     | 550,000          | 150,000          | -              |
|                                     |                  |                  |                |
| <b>Current liabilities</b>          |                  |                  |                |
| Trade payables                      | 425,000          | 150,000          | 105,000        |
| Overdraft                           | 50,000           | -                | -              |
|                                     | <b>475,000</b>   | <b>150,000</b>   | <b>105,000</b> |
| <b>Total equity and liabilities</b> | <b>2,325,000</b> | <b>1,005,000</b> | <b>505,000</b> |

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## Question 35 – Question 06 2015 June

The following additional information is also available :

- On 1 April 2013 Pink acquired 36 million ordinary shares out of the 45 million ordinary shares issued in Quick, for a cash consideration of Rs. 700 million and a balance of Rs. 200 million to be paid on 1 April 2015. Pink has only recorded the cash consideration paid as an investment. Pink's cost of capital is 8%.
- The fair value of the non-controlling interest in Quick as at 1 April 2013 was Rs. 200 million. The group's policy is to measure the non-controlling interest at fair value at the date of acquisition.
- The fair value of the identifiable net assets recognised by Quick as at 1 April 2013 was Rs. 800 million. Quick has an internally-developed brand name which was valued at Rs. 100 million at the date of acquisition and deemed to have a 10 year useful life. This has not been included in the fair value of the net assets.
- The retained earnings of Quick on the date of acquisition were Rs. 150 million and there has been no change to the stated capital since the date of acquisition. The remaining excess in fair value is attributable to a property of Quick which comprises 'land and building'. The building is 40% of the total value of this property. Quick has depreciated the building over its useful life of 40 years and on the date of acquisition the remaining useful life was estimated to be 5 years.

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**Question 35 – Question 06 2015 June**

- (v) Pink acquired 62.5 million out of the 250 million issued ordinary shares in Rose on 1 April 2014 for Rs. 300 million when the retained earnings of Rose were Rs. 50 million.
- (vi) Quick manufactures an item which is used by both Pink and Rose. The items are transferred by Quick at cost plus 20% (mark-up). Pink held Rs. 72 million worth of inventory of this item as at 31 March 2015. During the same period, Pink sold goods to Rose of which Rs. 12 million was in inventory at 31 March 2015. Pink has included a mark-up of 20% on these goods.
- (vii) Pink's books of accounts reflected a payable balance of Rs. 50 million to Quick. This did not agree with Quick's equivalent receivable, as a payment of Rs. 10 million made by Pink was not received by Quick until 4 April 2015.
- (viii) On 1 April 2014 Pink sold a machine to Quick at Rs. 175 million. The carrying value of this machine on the date of the transfer was Rs. 145 million. The remaining useful life of the machine on the date of disposal was 4 years.
- (ix) An impairment test was carried out on 31 March 2015 which concluded that the goodwill of Quick is impaired and should be fully written off. An impairment loss of Rs. 55 million is to be recognised in the investment of Rose.
- (x) On 1 April 2013 Pink purchased an equity instrument at its fair value of Rs. 100 million. On 31 March 2014 the fair value of the instrument amounted to Rs. 150 million. However, on 31 March 2015 the fair value was Rs. 75 million.

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**Question 35 – Question 06 2015 June****Required:**

- (a) Compute the goodwill on acquisition of Quick. 4 marks)
- (b) Prepare a statement showing the components of equity to be shown in the consolidated statement of financial position as at 31 March 2015. (9 marks)
- (c) Prepare the consolidated statement of financial position as at 31 March 2015 (12 marks)

(Total: 25 marks)

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### Question 36 – Question 06 2015 December

The following statements of financial position relate to Platinum (Pvt) Limited (PPL), Silver (Pvt) Limited (SPL) and Alpha (Pvt) Limited (APL) as at 31 March 2015:

| Rs. million               | PPL           | SPL          | APL          |
|---------------------------|---------------|--------------|--------------|
| <b>Non-current assets</b> |               |              |              |
| Freehold property         | 3,900         | 2,500        | 1,000        |
| Plant and machinery       | 1,090         | 750          | 570          |
| Investments               |               |              |              |
| -Silver (Pvt) Ltd         | 3,000         | -            | -            |
| -Alpha (Pvt) Ltd          | 1,000         | -            | -            |
|                           | <b>8,990</b>  | <b>3,250</b> | <b>1,570</b> |
| <b>Current assets</b>     |               |              |              |
| Inventory                 | 1,150         | 600          | 530          |
| Trade receivables         | 660           | 580          | 740          |
| Cash                      | 100           | 240          | 40           |
|                           | <b>1,910</b>  | <b>1,420</b> | <b>1,310</b> |
| <b>Total assets</b>       | <b>10,900</b> | <b>4,670</b> | <b>2,880</b> |

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### Question 36 – Question 06 2015 December

| Rs. million                         | PPL           | SPL          | APL          |
|-------------------------------------|---------------|--------------|--------------|
| <b>Equity</b>                       |               |              |              |
| Stated capital                      | 4,000         | 2,000        | 1,500        |
| Retained earnings                   | 2,920         | 1,700        | 780          |
|                                     | <b>6,920</b>  | <b>3,700</b> | <b>2,280</b> |
| <b>Non-current liabilities</b>      |               |              |              |
| Interest bearing borrowings         | 1,500         | 200          |              |
| <b>Current liabilities</b>          |               |              |              |
| Trade payables                      | 1,360         | 770          | 600          |
| Bank overdraft                      | 1,120         | -            | -            |
|                                     | <b>2,480</b>  | <b>770</b>   | <b>600</b>   |
| <b>Total equity and liabilities</b> | <b>10,900</b> | <b>4,670</b> | <b>2,880</b> |

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**Question 36 – Question 06 2015 December****Additional information:**

- (i) PPL acquired 150 million of the 200 million ordinary shares in SPL on 1 April 2013 for immediate cash consideration of Rs. 3,000 million and further Rs. 500 million to be paid on 1 April 2015. PPL's cost of capital is 10%. However, payment to be made on 1 April 2015 has not yet been recorded in the books of account of PPL. At the date of acquisition, SPL's retained earnings stood at Rs. 1,200 million. There were no changes to the stated capital of SPL since the date of acquisition.
- (ii) At the date of acquiring SPL, the fair value of its freehold property was considered to be Rs. 800 million greater than the value in SPL's statement of financial position. SPL had acquired the property in April 2008 and the building element (comprising 60% of the total value) is depreciated on cost over 50 years.
- (iii) The group policy is to measure the non-controlling interest (NCI) at full fair value. At the date of acquisition of SPL, the fair value of the NCI was estimated as Rs. 1,200 million.
- (iv) From April 2014, SPL started selling its goods to PPL and there were monthly sales from SPL to PPL amounting to Rs. 200 million throughout the year. SPL had marked these up by 25% on cost. PPL held two month's sales of SPL in its inventories as at 31 March 2015.

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**Question 36 – Question 06 2015 December****Additional information:**

- (v) SPL's current account balance with PPL at 31 March 2015 was Rs. 200 million which did not agree with PPL's corresponding receivable. Although SPL had made a payment of Rs. 100 million on 29 March 2015, the amount had not been received by PPL until 2 April 2015.
- (vi) PPL acquired 45 million out of the 150 million ordinary shares in APL on 1 April 2014 for Rs. 1,000 million when the retained earnings of APL were Rs. 450 million.
- (vii) PPL sold goods to APL during the year and APL had Rs. 250 million worth of goods purchased from PPL in inventories at 31 March 2015. PPL had marked these goods up by 25% on cost.

( Note: Ignore the impact of deferred tax, if any)

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### Question 36 – Question 06 2015 December

#### Required:

- (a) **Compute** the goodwill arising on the acquisition of SPL in the consolidated financial statements of PPL. (4 marks)
- (b) **Prepare** the consolidated statement of financial position of PPL as at 31 March 2015 (16 marks)

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### Question 36 – Question 06 2015 December

PPL intends to expand its investments by acquiring 80% of the equity shares of a Swedish company operating in Sri Lanka. The most recent financial statements of this company carry a disclosure regarding a litigation against it. Accordingly, a counterparty has claimed Rs. 800 million from this company as compensation for breach of a contract. The opinion of the legal advisor is that since the proceedings are still at the initial stage, assessment of the outcome of this litigation is not possible. However, if the judgment is not favourable to the Swedish company, it may have to pay Rs. 500 million to the counterparty. The Swedish company has not recognised a provision in this regard.

#### Required:

- (c) **Assess** the accounting impact of the litigation, if PPL acquires the Swedish company. (05 Marks)
- (Total: 25 marks)

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### Question 37 – Question 06 2016 June

The statement of financial position of Arrow PLC and its investee companies Brown PLC and Crown (Pvt) Limited as at 31 March 2016 are given below.

|                           | Rs. '000         |                |                |
|---------------------------|------------------|----------------|----------------|
|                           | Arrow            | Brown          | Crown          |
| <b>ASSETS</b>             |                  |                |                |
| Non-current assets        |                  |                |                |
| Freehold property         | 290,000          | 250,000        | 100,000        |
| Plant and machinery       | 109,000          | 75,000         | 57,000         |
| Investments               | 480,000          | -              | -              |
|                           | <b>879,000</b>   | <b>325,000</b> | <b>157,000</b> |
| <b>Current assets</b>     |                  |                |                |
| Inventories               | 115,000          | 60,000         | 53,000         |
| Trade receivables         | 66,000           | 58,000         | 74,000         |
| Cash and cash equivalents | 10,000           | 24,000         | 4,000          |
|                           | <b>191,000</b>   | <b>142,000</b> | <b>131,000</b> |
| <b>Total assets</b>       | <b>1,070,000</b> | <b>467,000</b> | <b>288,000</b> |

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### Question 37 – Question 06 2016 June

|                                     | Rs. '000         |                |                |
|-------------------------------------|------------------|----------------|----------------|
|                                     | Arrow            | Brown          | Crown          |
| <b>Equity</b>                       |                  |                |                |
| Stated capital                      | 400,000          | 200,000        | 150,000        |
| Retained earnings                   | 292,000          | 177,000        | 78,000         |
|                                     | <b>692,000</b>   | <b>377,000</b> | <b>228,000</b> |
| <b>Non-current liabilities</b>      |                  |                |                |
| 15% borrowings                      | 130,000          | 20,000         | -              |
|                                     |                  |                |                |
| <b>Current liabilities</b>          |                  |                |                |
| Trade payables                      | 136,000          | 70,000         | 60,000         |
| Borrowings                          | 112,000          | -              | -              |
|                                     | <b>248,000</b>   | <b>70,000</b>  | <b>60,000</b>  |
| <b>Total equity and liabilities</b> | <b>1,070,000</b> | <b>467,000</b> | <b>288,000</b> |

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### Question 37 – Question 06 2016 June

#### Additional information

- (i) Arrow PLC acquired 16 million out of the 20 million ordinary shares of Brown PLC on 1 April 2015 for Rs. 400 million, when the retained earnings of Brown were Rs. 120 million.
- (ii) The total consideration includes a further payment of Rs. 50 million on 1 April 2017.  
Arrow's cost of capital is 10%. It has not recorded the deferred consideration.
- (iii) Brown has internally developed a brand name, which was valued at Rs. 50 million at the date of acquisition. It is deemed to have a useful life of 5 years.
- (iv) At the date of acquisition, the fair value of Brown's freehold property was considered to be Rs. 75 million greater than the value in Brown's statement of financial position. Brown has acquired this property on 1 April 2010 and the building element (comprising 50% of the total value) is depreciated on cost over 50 years.
- (v) There have been no changes in the stated capital of Brown since the date of acquisition.
- (vi) On 1 April 2015 Arrow acquired 6 million out of the 15 million ordinary shares in Crown for Rs. 80 million, when the retained earnings of Crown were Rs. 55 million.

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### Question 37 – Question 06 2016 June

#### Additional information

- (vii) Brown manufactures a product used by both Arrow and Crown. Transfers are made by Brown at cost plus 25%. Arrow held Rs. 40 million worth of inventory of these components as at 31 March 2016.
- (viii) During the period Brown sold goods to Crown of which Crown had Rs. 25 million inventory as at 31 March 2016. Brown had marked these goods by 25%.
- (ix) Brown had invoiced Arrow for goods valued at Rs. 40 million. Although Arrow had sent a payment in full, it had not been received by Brown by 31 March 2016.
- (x) Arrow sold some machinery on 1 April 2015 for Rs. 100 million to Brown. These had a carrying amount of Rs. 75 million in Arrow's books as at that date. The remaining useful life of the assets at the date of disposal was 4 years.
- (xi) Non-controlling interest is measured at fair value. Brown's shares were trading at Rs. 20 just prior to the acquisition by Arrow.
- (xii) The management assessed that 60% of the value of goodwill in Brown was impaired as at 31 March 2016.

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**Question 37 – Question 06 2016 June****Required:**

- (a) Prepare the consolidated statement of financial position of Arrow PLC as at 31 March 2016 (20 marks)
- (b) "Joint arrangements are classified as either joint operations or joint ventures. The terms of the contractual arrangements are key to deciding whether the arrangement is a joint venture or a joint operation" (05 Marks)

Differentiate joint operations and joint ventures in terms of:

- The terms of contractual arrangements
- Rights to assets and obligations for liabilities

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**Question 38 – Question 06 2016 December**

The draft statement of financial position of Adams PLC, Bela (Pvt) Ltd and Cone (Pvt) Ltd as at 31 March 2016 are as follows. *(All values given below, including the values given in additional information are in Rs. '000)*

|                               | Rs. '000         |                  |                |
|-------------------------------|------------------|------------------|----------------|
|                               | Adams            | Bela             | Cone           |
| <b>ASSETS</b>                 |                  |                  |                |
| <b>Non-current assets</b>     |                  |                  |                |
| Property, plant and equipment | 1,032,500        | 402,000          | 210,000        |
| Investment                    | 840,000          | 650,000          | -              |
|                               | <b>1,872,500</b> | <b>1,052,000</b> | <b>210,000</b> |
| <b>Current assets</b>         |                  |                  |                |
| Inventory                     | 510,120          | 85,620           | 65,400         |
| Trade receivables             | 210,890          | 136,900          | 25,300         |
| Receivable from Adams PLC     | -                | 40,000           | -              |
| Cash                          | 684,100          | 24,000           | 15,200         |
|                               | <b>1,405,110</b> | <b>286,520</b>   | <b>105,900</b> |
| <b>Total assets</b>           | <b>3,277,610</b> | <b>1,338,520</b> | <b>315,900</b> |

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## Question 38 – Question 06 2016 December

|                                     | Rs. '000         |                  |                |
|-------------------------------------|------------------|------------------|----------------|
|                                     | Adams            | Bela             | Cone           |
| <b>Equity</b>                       |                  |                  |                |
| Stated capital                      | 1,200,000        | 100,000          | 50,000         |
| Retained earnings                   | 1,435,310        | 631,820          | 245,500        |
|                                     | <b>2,635,310</b> | <b>731,820</b>   | <b>295,500</b> |
| <b>Non-current liabilities</b>      |                  |                  |                |
| Long term loan                      | 250,000          | 50,000           | -              |
|                                     | <b>250,000</b>   | <b>50,000</b>    | <b>-</b>       |
| <b>Current liabilities</b>          |                  |                  |                |
| Trade payables                      | 320,800          | 436,700          | 18,400         |
| Payable to Bela (Pvt) Ltd           | 21,500           | -                | -              |
| Overdraft                           | 50,000           | 120,000          | 2,000          |
|                                     | <b>392,300</b>   | <b>556,700</b>   | <b>20,400</b>  |
| <b>Total equity and liabilities</b> | <b>3,277,610</b> | <b>1,338,520</b> | <b>315,900</b> |

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## Question 38 – Question 06 2016 December

## Additional information

- (i) On 31 December 2015, Adams acquired 75% of the 100,000 ordinary shares of Bela for a cash consideration of Rs. 750,000 when Bela's retained earnings were Rs. 520,300 and the fair value of non-controlling interest was Rs. 65,000. Cash paid to acquire Bela and the related legal fees incurred of Rs. 5,000 are shown as 'investment' in Adams' draft financial statements.
- (ii) Fair values of assets and liabilities of Bela at the date of acquisition were equal to their carrying values except for the following:
  - The building had a fair value of Rs. 150,000 in excess of the carrying value. On this date the remaining useful life of the building was estimated to be 20 years.
  - Inventory's fair value was Rs. 5,000 in excess of the carrying value.
- (iii) Bela has disclosed a contingent liability of Rs. 13,000 in its financial statements at the date of acquisition.
- (iv) As at 31 March 2016, Bela has sold all the inventories held at the acquisition date to parties outside the group. Further, there has been no change to the share capital of Bela since acquisition.
- (v) On 1 April 2015, Adams purchased 25% of the 50,000 ordinary shares of Cone (Pvt) Ltd for Rs. 85,000 when Cone's retained earnings were Rs. 120,500.

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**Question 38 – Question 06 2016 December****Additional information:**

- (vi) During the year, Adams sold Rs. 36,000 worth of goods to Cone with a 20% mark-up on cost. As at 31 March 2016, Cone had all these goods in its inventories.
- (vii) An impairment test carried out at the end of the year revealed that 50% of goodwill has been impaired.
- (viii) On 1 March 2015 Adams sold a machine to Bela for Rs. 57,000 which had a carrying amount of Rs. 69,000 at this date. The estimated remaining useful life of the machine was reassessed on the date of sale to be 5 years.
- (ix) During the year Adams purchased goods worth Rs. 40,000 from Bela. Adams has 50% of these goods in its inventories at the year-end. Bela makes all sales at cost plus a mark-up of 25%. On 31 March 2016, Adams sent a cheque amounting to Rs. 18,500 relating to the goods purchased. However, Bela received this cheque on 4 April 2016.
- (x) Ignore taxation.

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**Question 38 – Question 06 2016 December****Required:**

- (a) Prepare the consolidated statement of financial position of Adams PLC as at 31 March 2016 (25 marks)

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### Question 39 – Question 06 2017 June

The statements of financial position of Panda, Sanda and Amda as at 31 March 2017 are given below. All three companies are private limited liability companies.

|                           | Panda         | Sanda         | Amda         |
|---------------------------|---------------|---------------|--------------|
|                           | Rs. million   | Rs. million   | Rs. million  |
| <b>Assets</b>             |               |               |              |
| <b>Non-current assets</b> |               |               |              |
| Property                  | 9,750         | 6,250         | 2,500        |
| Plant and machinery       | 3,975         | 1,875         | 1,425        |
| Investments               | 7,500         | -             | -            |
|                           | <b>21,225</b> | <b>8,125</b>  | <b>3,925</b> |
| <b>Current assets</b>     |               |               |              |
| Inventories               | 2,875         | 1,500         | 1,325        |
| Trade receivables         | 1,650         | 1,450         | 1,850        |
| Cash and cash equivalents | 250           | 600           | 100          |
|                           | <b>4,775</b>  | <b>3,550</b>  | <b>3,275</b> |
| <b>Total assets</b>       | <b>26,000</b> | <b>11,675</b> | <b>7,200</b> |

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### Question 39 – Question 06 2017 June

The statements of financial position of Panda, Sanda and Amda as at 31 March 2017 are given below. All three companies are private limited liability companies.

|                                     | Panda         | Sanda         | Amda         |
|-------------------------------------|---------------|---------------|--------------|
|                                     | Rs. million   | Rs. million   | Rs. million  |
| <b>Equity</b>                       |               |               |              |
| Stated capital                      | 10,000        | 5,000         | 3,750        |
| Retained earnings                   | 7,300         | 4,425         | 1,950        |
|                                     | <b>17,300</b> | <b>9,425</b>  | <b>5,700</b> |
| <b>Non-current liabilities</b>      |               |               |              |
| 10% loan stock                      | 2,500         | 500           | -            |
|                                     |               |               |              |
| <b>Current liabilities</b>          |               |               |              |
| Trade payables                      | 3,400         | 1,750         | 1,500        |
| Borrowings                          | 2,800         | -             | -            |
|                                     | <b>6,200</b>  | <b>1,750</b>  | <b>1,500</b> |
| <b>Total equity and liabilities</b> | <b>26,000</b> | <b>11,675</b> | <b>7,200</b> |

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**Question 39 – Question 06 2017 June****Additional information**

- i. Panda acquired 3 million out of the 5 million ordinary shares in Sanda on 1 April 2011 for Rs. 5,000 million when the retained earnings of Sanda were Rs. 1,000 million. There has been no change to the stated capital of Sanda since 1 April 2011.
- ii. At the date of acquisition of Sanda, the fair value of its property was considered to be Rs. 2,000 million greater than its value stated in Sanda's statement of financial position. Sanda had acquired the property in April 2001 and the building element (comprising 50% of the total value) is depreciated on cost over 50 years from the date of acquisition of the property.
- iii. Panda acquired 1,125,000 of the 3,750,000 ordinary shares in Amda on 1 April 2015 for Rs. 2,500 million when the retained earnings of Amda were Rs. 750 million.
- iv. Sanda manufactures a component used by both Panda and Amda. Transfers are made by Sanda at cost plus 25%. Panda held Rs. 500 million worth of inventory of these components as at 31 March 2017. In the same period, Panda sold goods to Amda of which Amda had Rs. 400 million worth of inventory of these goods at 31 March 2017. Panda had marked these goods up by 25%.
- v. The goodwill in Sanda is 50% impaired and should be written off.
- vi. An impairment loss of Rs. 460 million is to be recognised on the investment in Amda.
- vii. The non-controlling interest of Sanda at the acquisition date is measured at fair value and it was estimated to be Rs. 3,200 million. It is group policy to measure the non-controlling interest at fair value.

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**Question 39 – Question 06 2017 June****Required:**

- (a) Prepare the consolidated statement of financial position of Panda (Pvt) Ltd as at 31 March 2017 (19 marks)
- (b) Sonic (Pvt) Ltd ("Sonic") owns 20% of the voting rights in Bean (Pvt) Ltd ("Bean") and is entitled to appoint one director to the board, which consists of five members. The remaining 80% of the voting rights are held by other two entities, each of which is entitled to appoint two directors. A quorum of four directors and a simple majority of those present are required to make decisions. The other shareholders frequently call board meetings at short notice and make decisions in the absence of Sonic's representative. Sonic has requested financial information from Bean, but this information has not yet been provided. Sonic's representative has attended board meetings, but his suggestions for items to be included on the agenda have been ignored and the other directors have also opposed any suggestions made by him. Sonic considers Bean to be an associate company.

**Required:**

Analyse whether Bean can be considered to be an associate company of Sonic (06 Marks)

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### Question 40 – Question 06 2017 December

On 1 April 2016, Pan PLC ("Pan") acquired 80% of the equity shares of Sage (Pvt) Ltd ("Sage") in a share exchange of two shares in Pan for three shares in Sage. This share issue has not yet been recorded by Pan. At the date of acquisition the shares of Pan had a market value of Rs. 30 each. The summarised draft financial statements of Pan and Sage are given below.

Statements of financial position as at 31 March 2017

|                                 | (Rs.'000)      |               |
|---------------------------------|----------------|---------------|
|                                 | Pan            | Sage          |
| <b>Non-current assets</b>       |                |               |
| Property, plant and equipment   | 101,500        | 31,500        |
| <b>Total non-current assets</b> | <b>101,500</b> | <b>31,500</b> |
| <b>Current assets</b>           |                |               |
| Inventories                     | 15,000         | 6,250         |
| Trade and other receivables     | 17,500         | 7,250         |
| Cash and cash equivalents       | 7,500          | 3,000         |
| <b>Total current assets</b>     | <b>40,000</b>  | <b>16,500</b> |
| <b>Total assets</b>             | <b>141,500</b> | <b>48,000</b> |

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### Question 40 – Question 06 2017 December

|                                        | (Rs.'000)      |               |
|----------------------------------------|----------------|---------------|
|                                        | Pan            | Sage          |
| <b>Equity and liabilities</b>          |                |               |
| <b>Equity</b>                          |                |               |
| Stated capital (issued at Rs. 10 each) | 25,000         | 12,000        |
| Retained earnings                      | 88,500         | 14,250        |
| <b>Total equity</b>                    | <b>113,500</b> | <b>26,250</b> |
| <b>Non-current liabilities</b>         |                |               |
| 12% loan stock                         | 7,500          | 10,000        |
| <b>Total non-current liabilities</b>   | <b>7,500</b>   | <b>10,000</b> |
| <b>Current liabilities</b>             |                |               |
| Trade and other payables               | 13,250         | 8,000         |
| Borrowings                             | 7,250          | 3,750         |
| <b>Total current liabilities</b>       | <b>20,500</b>  | <b>11,750</b> |
| <b>Total equity and liabilities</b>    | <b>141,500</b> | <b>48,000</b> |

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**Question 40 – Question 06 2017 December**

Statements of profit or loss for the year ended 31 March 2017

|                            | (Rs.'000)     |               |
|----------------------------|---------------|---------------|
|                            | Pan           | Sage          |
| Revenue                    | 212,500       | 105,000       |
| Cost of sales              | (157,500)     | (80,000)      |
| <b>Gross profit</b>        | <b>55,000</b> | <b>25,000</b> |
| Administrative expenses    | (15,000)      | (8,750)       |
| Distribution costs         | (5,000)       | (4,250)       |
| Finance costs              | (750)         | (1,000)       |
| <b>Profit before tax</b>   | <b>34,250</b> | <b>11,000</b> |
| Income tax expense         | (11,750)      | (3,500)       |
| <b>Profit for the year</b> | <b>22,500</b> | <b>7,500</b>  |

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**Question 40 – Question 06 2017 December****Additional information**

- At the date of acquisition, the fair values of Sage's assets were equal to their carrying amounts with the exception of an item of plant, which had a fair value of Rs. 1.5 million in excess of its carrying amount. It had a remaining life of five years at the date of acquisition. The plant is depreciated on a straight line basis. Sage has not adjusted the carrying amount of its plant as a result of the fair value exercise.
- During the year Sage sold goods at a price of Rs. 12 million to Pan. Sage made a markup on cost of 40% on these sales. Out of the goods received from Sage, goods costing Rs. 7.5 million were sold by Pan to its customers by 31 March 2017.
- Sage's trade receivables as at 31 March 2017 included Rs. 1.5 million due from Pan, which did not agree with Pan's corresponding trade payable. This was due to cash in transit of Rs. 500,000 from Pan to Sage. Both companies have positive bank balances.
- Pan has a policy of accounting for any non-controlling interest at full fair value. The fair value of the non-controlling interest in Sage at the date of acquisition was estimated to be Rs. 8.5 million. The consolidated goodwill has not suffered any impairment as at 31 March 2017.

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**Question 40 – Question 06 2017 December****Required:**

- (a) Prepare the consolidated statement of Profit or Loss for the year ended 31 March 2017
- (b) Prepare the consolidated statement of financial position as at 31 March 2017 (25 marks)

31

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**Question 41 – Question 06 2018 June**

Maczilion PLC (Maczi) is a large public limited company based in Sri Lanka. It has shareholdings in two other companies; Haczilion PLC (Haczi) and Vaczilion PLC (Vaczi). Statements of financial position as at 31 March 2018 are shown below for all three companies.

|                               | <b>Maczi</b>    | <b>Haczi</b>    | <b>Vaczi</b>    |
|-------------------------------|-----------------|-----------------|-----------------|
|                               | <b>Rs. '000</b> | <b>Rs. '000</b> | <b>Rs. '000</b> |
| <b>Assets</b>                 |                 |                 |                 |
| <b>Non-current assets</b>     |                 |                 |                 |
| Property, plant and equipment | 192,000         | 50,000          | 41,000          |
| Investments                   | 83,000          | 27,000          | -               |
|                               | <b>275,000</b>  | <b>77,000</b>   | <b>41,000</b>   |
| <b>Current assets</b>         |                 |                 |                 |
| Inventories                   | 46,000          | 23,000          | 16,000          |
| Trade and other receivables   | 32,000          | 14,000          | 12,000          |
| Cash and cash equivalents     | 8,000           | 2,000           | -               |
|                               | <b>86,000</b>   | <b>39,000</b>   | <b>28,000</b>   |
| <b>Total assets</b>           | <b>361,000</b>  | <b>116,000</b>  | <b>69,000</b>   |

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## Question 41 – Question 06 2018 June

|                                     | Maczi          | Haczi          | Vaczi         |
|-------------------------------------|----------------|----------------|---------------|
| Equity                              | Rs. '000       | Rs. '000       | Rs. '000      |
| Stated capital                      | 175,000        | 70,000         | 33,000        |
| Retained earnings                   | 132,000        | 16,000         | 12,000        |
|                                     | <b>307,000</b> | <b>86,000</b>  | <b>45,000</b> |
| <b>Non-current liabilities</b>      |                |                |               |
| Retirement benefit obligation       | 12,000         | 7,000          | 4,000         |
|                                     | <b>12,000</b>  | <b>7,000</b>   | <b>4,000</b>  |
| <b>Current liabilities</b>          |                |                |               |
| Trade and other payables            | 29,000         | 18,000         | 13,000        |
| Bank overdraft                      | -              | -              | 7,000         |
| Dividends payable                   | 13,000         | 5,000          | -             |
|                                     | <b>42,000</b>  | <b>23,000</b>  | <b>20,000</b> |
| <b>Total equity and liabilities</b> | <b>361,000</b> | <b>116,000</b> | <b>69,000</b> |

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## Question 41 – Question 06 2018 June

The following additional information is to be taken into account in so far as it is relevant:

- Maczi bought 45 million out of the 50 million ordinary shares in Haczi on 1 April 2017. The consideration consisted of an immediate cash payment of Rs. 58 million together with a deferred payment of Rs. 30 million due on 1 April 2019. The Rs. 58 million has been accounted for, but no record has been made of the deferred payment. Maczi's cost of capital can be taken to be 10%.
- On the acquisition date the fair values of the assets of Haczi were equivalent to their book values with two exceptions. A certain plant was worth Rs. 4 million in excess of its book value on the date Maczi acquired its holding. Further, Haczi's investments carried at Rs. 27 million had a fair value of Rs. 28 million at the acquisition date. The plant was estimated to have had a five-year useful life from the date of acquisition. The value of the investments has not changed since the acquisition date. (Ignore the tax effect of fair valuation of assets).
- Group accounting policy is to value non-controlling interests at fair value at the date of acquisition, and goodwill to be calculated accordingly. On 1 April 2017 the non-controlling interest in Haczi was fair-valued at Rs. 9.2 million. The management assessed that 40% of the value of goodwill in Haczi was impaired as at 31 March 2018.

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**Question 41 – Question 06 2018 June**

- iv. Maczi bought 10 million out of the 25 million ordinary shares in Vaczi on 1 July 2017, paying an amount of Rs. 25 million in cash for these shares. This investment has been correctly recorded at cost.
- v. Maczi exercises joint control over its investment in joint venture Vaczi. The stated capitals of Haczi and Vaczi have not changed since their respective dates of acquisition. The retained earnings were as follows on the respective acquisition dates.  
Haczi: Rs. 10.6 million, Vaczi: Rs. 9 million.
- vi. During the financial year ended 31 March 2018 Haczi sold goods to Maczi amounting to Rs. 6 million. These goods were sold inclusive of a mark-up of 50% on cost. 30% of these goods remained in the stock of Maczi at the reporting date. Since acquiring its holding in Vaczi, Maczi purchased Rs. 3 million of goods from Vaczi, which had cost Vaczi Rs. 2 million. All of these remained in inventory at the reporting date.
- vii. There was an intra-group balance of Rs. 2.2 million owed by Maczi to Haczi at the year-end. An amount of Rs. 1.5 million was owed by Maczi to Vaczi at the reporting date.
- viii. Maczi has not accounted for any dividend receivable from its group companies. Both Maczi and Haczi have declared dividends as shown in current liabilities. Haczi's declared dividend relates to the post-acquisition period only.

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**Question 41 – Question 06 2018 June****Required:**

- (a) Prepare the consolidated statement of financial position as at 31 March 2018 (22 marks)
- (b) SLFRS 11 describes two types of Joint Arrangements and specifies the accounting requirement for each. Differentiate the accounting treatment applicable to each type of arrangement (03 Marks)

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### Question 42 – Question 06 2018 December

You have been given the following draft statements of financial position of Rey (Pvt) Ltd (Rey), Key (Pvt) Ltd (Key) and Jey (Pvt) Ltd (Jey) as at 31 March 2018.

|                               | Rey Rs.'000      | Key Rs.'000    | Jey Rs.'000   |
|-------------------------------|------------------|----------------|---------------|
| <b>Assets</b>                 |                  |                |               |
| <b>Non-current assets</b>     |                  |                |               |
| Property, plant and equipment | 560,600          | 172,700        | 66,270        |
| Investments                   | 378,000          | -              | -             |
|                               | <b>938,600</b>   | <b>172,700</b> | <b>66,270</b> |
| <b>Current assets</b>         |                  |                |               |
| Inventory                     | 63,400           | 16,300         | 5,400         |
| Trade receivables             | 84,500           | 97,200         | 17,100        |
| Cash and cash equivalents     | 31,900           | 14,100         | 2,900         |
|                               | <b>179,800</b>   | <b>127,600</b> | <b>25,400</b> |
| <b>Total assets</b>           | <b>1,118,400</b> | <b>300,300</b> | <b>91,670</b> |

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### Question 42 – Question 06 2018 December

|                                     | Rey Rs.'000      | Key Rs.'000    | Jey Rs.'000   |
|-------------------------------------|------------------|----------------|---------------|
| <b>Equity and liabilities</b>       |                  |                |               |
| <b>Equity</b>                       |                  |                |               |
| Stated capital                      | 600,000          | 120,000        | 55,000        |
| Retained earnings                   | 404,500          | 94,500         | 23,670        |
| Revaluation surplus                 | 23,000           | 16,000         | -             |
|                                     | <b>1,027,500</b> | <b>230,500</b> | <b>78,670</b> |
| <b>Non-current liabilities</b>      |                  |                |               |
| Deferred tax liability              | 4,000            | 3,200          | -             |
|                                     |                  |                |               |
| <b>Current liabilities</b>          |                  |                |               |
| Trade payables                      | 74,600           | 43,600         | 8,700         |
| Accrued expenses                    | 12,300           | 23,000         | 4,300         |
|                                     | <b>86,900</b>    | <b>66,600</b>  | <b>13,000</b> |
| <b>Total equity and liabilities</b> | <b>1,118,400</b> | <b>300,300</b> | <b>91,670</b> |

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**Question 42 – Question 06 2018 December****Additional information:**

- i. Rey acquired 80% of Key on 1 July 2017 at a cost of Rs. 300 million, paid in cash. On this date Key had stated capital of Rs. 120 million, retained earnings of Rs. 76 million and a revaluation surplus of Rs. 16 million.
- ii. Fair value of the non-controlling interest of Key as at 1 July 2017 was Rs. 33 million.
- iii. On 1 July 2017, the fair values of assets and liabilities of Key were equal to their carrying values other than the following. No adjustments have been made in Key's draft financial statements relating to the following fair values.
  - Fair value of the land was Rs. 24 million in excess of the carrying value.
  - Fair value of the building was Rs. 12 million in excess of the carrying value. The building has remaining useful life of 30 years.
  - Inventory was found to have a fair value of Rs. 3 million in excess of its carrying value. As at 31 March 2018, this inventory had been sold to a third party.
- iv. In August 2017 Key sold goods to Rey at a price of Rs. 1.3 million based on a 20% mark-up. All these goods remained in Rey's warehouse as at 31 March 2018.

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**Question 42 – Question 06 2018 December****Additional information:**

- vi. On 1 September 2017 Rey acquired 50% of Jey at a cost of Rs. 78 million when Jey had stated capital of Rs. 55 million and retained earnings of Rs. 13 million. The balance 50% of Jey is owned by Bee (Pvt) Ltd. Rey and Bee (Pvt) Ltd have a joint arrangement where each party has the right to the net assets of Jey.
- vii. On 31 March 2018 it was revealed that the investment in Jey has impaired by Rs. 10 million. Use the income tax rate of 28% for any calculations required (Assume that disposal profit from land is taxable at 28%).

**Required:**

- (a) Prepare the consolidated statement of financial position as at 31 March 2018 (20 marks)

40

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### Question 43 – Question 06 2019 June

Red PLC has investments in Blue (Pvt) Ltd (BPL) and Green (Pvt) Ltd (GPL). You have been given the following statements of financial position as at 31 March 2019, of all three companies.

|                               | Red PLC          | BPL            | GPL            |
|-------------------------------|------------------|----------------|----------------|
|                               | Rs. '000         | Rs. '000       | Rs. '000       |
| <b>Non-current assets</b>     |                  |                |                |
| Property, plant and equipment | 534,500          | 208,200        | 252,800        |
| Investments in BPL and GPL    | 440,000          | -              | -              |
|                               | <b>974,500</b>   | <b>208,200</b> | <b>252,800</b> |
| <b>Current assets</b>         |                  |                |                |
| Inventory                     | 456,100          | 95,600         | 87,900         |
| Trade receivables             | 235,700          | 54,200         | 491,300        |
| Amount due from BPL           | 5,300            | -              | -              |
| Cash and cash equivalents     | 23,500           | 14,200         | 6,400          |
|                               | <b>720,600</b>   | <b>164,000</b> | <b>585,600</b> |
| <b>Total assets</b>           | <b>1,695,100</b> | <b>372,200</b> | <b>838,400</b> |

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### Question 43 – Question 06 2019 June

|                                     | Red PLC          | BPL            | GPL            |
|-------------------------------------|------------------|----------------|----------------|
|                                     | Rs. '000         | Rs. '000       | Rs. '000       |
| <b>Equity and liabilities</b>       |                  |                |                |
| <b>Equity</b>                       |                  |                |                |
| Stated capital                      | 1,000,000        | 250,000        | 285,000        |
| Retained earnings                   | 419,900          | 21,400         | 34,300         |
|                                     | <b>1,419,900</b> | <b>271,400</b> | <b>319,300</b> |
| <b>Non-current liabilities</b>      |                  |                |                |
| Deferred tax liability              | 5,200            | -              | -              |
|                                     |                  |                |                |
| <b>Current liabilities</b>          |                  |                |                |
| Trade payables                      | 245,700          | 82,300         | 512,400        |
| Amount due to Red PLC               | -                | 5,300          | -              |
| Accrued expenses                    | 24,300           | 13,200         | 6,700          |
|                                     | <b>270,000</b>   | <b>100,800</b> | <b>519,100</b> |
| <b>Total equity and liabilities</b> | <b>1,695,100</b> | <b>372,200</b> | <b>838,400</b> |

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**Question 43 – Question 06 2019 June****Additional information:**

- i. On 1 July 2018, Red PLC acquired 80% of BPL's 10 million shares, when BPL had retained earnings of Rs. 15.75 million. It paid Rs. 32.50 per share and agreed to pay further Rs. 1 million on 1 July 2019. On 1 July 2018, the fair value of the balance 20% of BPL's share capital was Rs. 18 million. Non-controlling interest at the acquisition date is measured at fair value.
- ii. On 1 July 2018, the fair value of BPL's land was determined as exceeding its carrying value by Rs. 13 million. The building's 'fair value' was Rs. 1.4 million less than the carrying value as at 1 July 2018. The building has a remaining useful life of 10 years.
- iii. On 1 July 2018, the inventory of BPL had a fair value of Rs. 2 million in excess of its carrying value. At 31 March 2019, this inventory had been sold outside the group. Ignore deferred tax implications if any, arising from this adjustment.
- iv. BPL had not recognized its 'brand name' in its financial statements which had a fair value of Rs. 4 million as at 1 July 2018. This brand name has a 20 year useful life. BPL had disclosed a contingent liability which had a fair value of Rs. 3.2 million on 1 July 2018. The maximum exposure of this contingent liability is Rs. 10 million. Ignore deferred tax implications if any from the above adjustments.

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**Question 43 – Question 06 2019 June****Additional information:**

- v. On 1 April 2018, Red PLC acquired 12 million shares of GPL, which is equivalent to 49% of GPL's shares, by paying Rs. 15 per share, when GPL's retained earnings was Rs. 19.2 million. The balance 51% of GPL shares is owned by Orange PLC. As at 1 April 2018 Red PLC and Orange PLC jointly controlled GPL.
- vi. Red PLC's cost of capital is 9% and income tax rate is 28%.
- vii. Stated capital of BPL and GPL have not been changed since investment by Red PLC.

**Required:**

Prepare the consolidated statement of financial position of Red PLC as at 31 March 2019 (25 Marks)

44

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**Question 44 – Question 06 2019 December**

The statements of financial position of Jay PLC (JP) and its investee companies, Kay (Pvt) Ltd (KPL) and Que (Pvt) Ltd (QPL) as at 31 December 2018 are given below.

|                               | JP               | KPL              | QPL              |
|-------------------------------|------------------|------------------|------------------|
|                               | Rs. '000         | Rs. '000         | Rs. '000         |
| <b>Non-current assets</b>     |                  |                  |                  |
| Property, plant and equipment | 1,320,800        | 551,300          | 776,800          |
| Investments                   | 980,000          | -                | -                |
|                               | <b>2,300,800</b> | <b>551,300</b>   | <b>776,800</b>   |
| <b>Current assets</b>         |                  |                  |                  |
| Inventory                     | 67,540           | 245,200          | 113,400          |
| Trade receivables             | 145,700          | 197,900          | 281,500          |
| Amount due from KPL           | 72,000           | -                | -                |
| Cash and cash equivalents     | 123,450          | 14,700           | 12,700           |
|                               | <b>408,690</b>   | <b>457,800</b>   | <b>407,600</b>   |
| <b>Total assets</b>           | <b>2,709,490</b> | <b>1,009,100</b> | <b>1,184,400</b> |

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**Question 44 – Question 06 2019 December**

|                                     | JP               | KPL              | QPL              |
|-------------------------------------|------------------|------------------|------------------|
|                                     | Rs. '000         | Rs. '000         | Rs. '000         |
| <b>Equity and liabilities</b>       |                  |                  |                  |
| <b>Equity</b>                       |                  |                  |                  |
| Stated capital                      | 1,200,600        | 400,000          | 600,000          |
| Retained earnings                   | 1,131,890        | 388,300          | 389,500          |
|                                     | <b>2,332,490</b> | <b>788,300</b>   | <b>989,500</b>   |
| <b>Non-current liabilities</b>      |                  |                  |                  |
| Retirement benefit obligation       | 145,600          | -                | 3,400            |
| Deferred tax liability              | 25,400           | 2,300            | 1,600            |
|                                     | <b>171,000</b>   | <b>2,300</b>     | <b>5,000</b>     |
| <b>Current liabilities</b>          |                  |                  |                  |
| Trade payables                      | 200,400          | 150,700          | 180,800          |
| Amount due to JP                    | -                | 60,000           | -                |
| Accrued expenses                    | 5,600            | 7,800            | 9,100            |
|                                     | 206,000          | 218,500          | 189,900          |
| <b>Total equity and liabilities</b> | <b>2,709,490</b> | <b>1,009,100</b> | <b>1,184,400</b> |

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**Question 44 – Question 06 2019 December****Additional information:**

- i. On 1 February 2018, JP acquired 60% of the ordinary shares of KPL and obtained control of the company. An immediate cash payment of Rs. 680 million was made and a further Rs. 20 million is to be paid in 2 years after the acquisition. On the date of acquisition, KPL's stated capital and retained earnings were Rs. 400 million and Rs. 120 million respectively. The non-controlling interest was measured as a proportion of the net assets of KPL.
- ii. The due diligence review carried out on 1 February 2018 revealed the following.
  - Land had a fair value in excess of its carrying amount, of Rs. 24 million. The fair value of the building, which had a remaining useful life of 20 years, was found to have a fair value in excess of its carrying amount, of Rs. 230 million. Realised gains of land and building are subjected to, income tax at the rate of 28%.
  - KPL has a pension plan for its employees. The estimated liability as at 1 February 2018 was Rs. 40 million. However, KPL has not recorded this liability in its financial statements due to an oversight. Once pension benefits are paid to employees, such payments are deductible for income tax purposes.
  - KPL has an internally developed brand name, which was valued at Rs. 10 million and deemed to have an indefinite useful life. Ignore any tax impact resulting from this.

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**Question 44 – Question 06 2019 December**

- (iii) JP acquired 30% of the ordinary shares of QPL on 1 January 2017 for Rs. 300 million when its retained earnings were Rs. 210 million. On 15 July 2018, QPL paid an interim dividend of Rs. 20 million to its shareholders. There has been no change to QPL's stated capital since acquisition.
- (iv) In March 2018, QPL made sales of Rs. 52 million to KPL at cost plus 20% mark-up. At the end of the year, KPL had 50% of these goods in its inventory.
- (v) During the year JP also made sales to QPL of Rs. 46 million at a profit margin of 25%. At the end of the year, QPL had all these goods in its inventory.
- (vi) Rs. 12 million paid by KPL to JP on the reporting date has not yet been received by JP.
- (vii) On 31 December 2018, it was revealed that the investment in QPL had impaired by Rs. 4 million.
- (viii) JP, KPL and QPL pay income tax at the rate of 28%. Use the discount rate of 10% for any calculations required.

**Required:**

Prepare the consolidated statement of financial position of JP as at 31 December 2018.

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**Question 45 – Question 06 2020 December**

On 1 October 2019, Ranmal (Pvt) Ltd (RPL) acquired 75% of the equity shares of Tex (Pvt) Ltd (TPL). Both companies have a common financial year that ends on 31 March. You have been provided the following information in relation to both companies. The statements of financial position as at 31 March 2020 are given below.

| Rs. '000                      | RPL              | TPL            |
|-------------------------------|------------------|----------------|
| <b>Non-current assets</b>     |                  |                |
| Property, plant and equipment | 1,120,300        | 220,300        |
| Intangible assets             | 20,100           | 12,000         |
| Investment in subsidiary      | 250,000          |                |
| Investment in associate (MPL) | 75,000           |                |
|                               | <b>1,465,400</b> | <b>232,300</b> |
| <b>Current assets</b>         |                  |                |
| Inventory                     | 213,400          | 89,400         |
| Trade receivables             | 93,200           | 103,100        |
| Prepayments                   | 60,000           | 5,000          |
| Cash and cash equivalents     | 23,200           | 13,400         |
|                               | <b>389,800</b>   | <b>210,900</b> |
| <b>Total assets</b>           | <b>1,855,200</b> | <b>443,200</b> |

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**Question 45 – Question 06 2020 December**

| Rs. '000                            | RPL              | TPL            |
|-------------------------------------|------------------|----------------|
| <b>Equity and liabilities</b>       |                  |                |
| <b>Equity</b>                       |                  |                |
| Stated capital                      | 700,000          | 150,000        |
| Retained earnings                   | 760,700          | 181,000        |
|                                     | <b>1,460,700</b> | <b>331,000</b> |
| <b>Non-current liabilities</b>      |                  |                |
| Retirement benefit obligation       | 73,800           | 9,800          |
| Deferred tax liability              | 3,400            | 700            |
|                                     | <b>77,200</b>    | <b>10,500</b>  |
| <b>Current liabilities</b>          |                  |                |
| Trade payables                      | 241,700          | 93,900         |
| Accrued expenses                    | 75,600           | 7,800          |
|                                     | <b>317,300</b>   | <b>101,700</b> |
| <b>Total equity and liabilities</b> | <b>1,855,200</b> | <b>443,200</b> |

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**Question 45 – Question 06 2020 December**

1. RPL paid cash amounting to Rs. 250 million immediately to acquire TPL. Additionally, RPL also agreed to pay Rs. 75 million on 1 October 2021. The fair value of the remaining 25% on this date was estimated to be Rs. 30 million. Non-controlling interest is measured at fair value. The retained earnings balance of TPL as at 1 October 2019 was Rs. 132 million. The stated capital of TPL has not changed since the date of acquisition.
2. Fair values of the net assets of TPL on 1 October 2019 were equal to their carrying values except for a building that had a fair value of Rs. 10 million in excess of its carrying value. Fair value gains of buildings are subject to tax at the time of realization. The building has a remaining useful life of 15 years.
3. TPL had an internally developed intangible asset that was not recognised in its financial statements. The fair value of this intangible asset as at 1 October 2019 was Rs. 16 million and it has an indefinite useful life. Fair value gains of this intangible asset are subject to tax at the time of realization.
4. It was revealed that 20% of the goodwill that arose from the acquisition of TPL was impaired as at 31 March 2020.

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**Question 45 – Question 06 2020 December**

5. On 1 February 2020, RPL bought 25% of the equity shares of Meg (Pvt) Ltd (MPL) for Rs. 75 million when its stated capital and retained earnings were Rs. 40 million and Rs. 32 million respectively. MPL made Rs. 23 million of net profit for the year ended 31 March 2020, which was deemed to accrue evenly throughout the year.
6. In March 2020 MPL made sales amounting to Rs. 4.5 million to TPL at cost plus mark-up of 20%. TPL had all these goods in stock as at 31 March 2020.
7. All the companies apply full SLFRSs in preparing their financial statements.
8. Use the following rates for any calculation required.

Income tax rate: 28%

Discount rate: 12%

**Required:**

**Prepare** the consolidated statement of financial position of RPL Group as at 31 March 2020. **(Total: 20 marks)**

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**Question 51 – Question 06 2021 February**

Honex PLC (Hon) is a large public limited company based in Sri Lanka. It has shareholdings in two other companies, Vonex PLC (Von) and Linex PLC (Lin). Statements of financial position are shown below for all three companies as at 31 March 2019.

| Rs. '000                      | Hon              | Von            | Lin            |
|-------------------------------|------------------|----------------|----------------|
| <b>Non-current assets</b>     |                  |                |                |
| Property, plant and equipment | 940,000          | 700,000        | 352,000        |
| Intangible assets             | 160,000          | 75,000         | 35,000         |
| Investments                   | 980,000          |                |                |
|                               | <b>2,080,000</b> | <b>775,000</b> | <b>387,000</b> |
| <b>Current assets</b>         |                  |                |                |
| Inventory                     | 200,000          | 80,000         | 135,000        |
| Trade receivables             | 150,000          | 100,000        | 90,000         |
| Cash and cash equivalents     | 25,000           | 30,000         | 15,000         |
|                               | <b>375,000</b>   | <b>210,000</b> | <b>240,000</b> |
| <b>Total assets</b>           | <b>2,455,000</b> | <b>985,000</b> | <b>627,000</b> |

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| Rs. '000                            | Hon              | Von            | Lin            |
|-------------------------------------|------------------|----------------|----------------|
| <b>Equity and liabilities</b>       |                  |                |                |
| <b>Equity</b>                       |                  |                |                |
| Stated capital                      | 710,000          | 275,000        | 245,000        |
| Revaluation Reserve                 | 220,000          | 162,000        | 28,000         |
| Retained earnings                   | 760,000          | 114,000        | 85,000         |
|                                     | <b>1,690,000</b> | <b>551,000</b> | <b>358,000</b> |
| <b>Non-current liabilities</b>      |                  |                |                |
| Retirement benefit obligation       | 168,000          | 52,000         | 17,000         |
| Long Term Borrowings                | 162,000          | 118,000        | 95,000         |
| Other Non-Current Liabilities       | 72,000           | 44,000         | 55,000         |
|                                     | <b>402,000</b>   | <b>214,000</b> | <b>167,000</b> |
| <b>Current liabilities</b>          |                  |                |                |
| Trade payables                      | 298,000          | 177,000        | 79,000         |
| Short-Term Borrowings               | 65,000           | 43,000         | 23,000         |
|                                     | <b>363,000</b>   | <b>220,000</b> | <b>102,000</b> |
| <b>Total equity and liabilities</b> | <b>2,455,000</b> | <b>985,000</b> | <b>627,000</b> |

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**Question 51 – Question 06 2021 February**

1. Hon bought 40 million out of the 50 million ordinary shares in Von on 1 April 2018 for Rs. 11.25 per share. A consultancy fee of Rs. 8 million paid on this acquisition was also included in the carrying amount of investments in Hon's financial statements.
2. Hon also bought 20 million out of the 40 million ordinary shares in Lin on 1 July 2018, paying an amount of Rs. 12 per share plus a transaction cost of Rs. 2 million associated with this share purchase. Total payment made on this acquisition was included in the carrying amount of investments in Hon's financial statements. Hon exercises joint control over its investment in joint venture - Lin.
3. The stated capital of Von and Lin has not changed since their respective dates of acquisition. The retained earnings of Von and Lin at the dates of acquisition were Rs. 70 million and Rs. 58 million respectively. Also revaluation reserves of Von and Lin at the dates of acquisition were Rs. 130 million and Rs. 15 million respectively.

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**Question 51 – Question 06 2021 February**

4. Group accounting policy is to value non-controlling interest at fair value at the dates of acquisition, and goodwill should be calculated accordingly. On 1 April 2018, the non-controlling interest in Von was fair-valued at Rs. 112.5 million. The management assessed that 25% of the value of goodwill in Von was impaired as at 31 March 2019.
5. On the acquisition date, the fair value of the assets of Von were equivalent to their carrying amounts with two exceptions. A motor vehicle with a four-year remaining useful life which was worth Rs. 10 million in excess of its carrying value. Also, a land with a carrying amount of Rs. 125 million and a fair value of Rs. 150 million. These fair value adjustments have not been reflected in the individual financial statements of Von.
6. During the financial year ended 31 March 2019, Hon had sold goods to Von amounting to Rs. 30 million. These goods were sold inclusive of a mark-up of 25% on cost. 40% of these goods remained in the stock of Von at the reporting date. Since acquiring its holding in Lin, Hon sold goods with a margin of 25% to Lin which had cost Lin Rs. 6 million. All of these remained in the inventory at the reporting date.

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**Question 51 – Question 06 2021 February**

7. Carrying value of investments of Hon includes costs incurred on acquisitions of shares of both Von and Lin. The balance amount represents the carrying value of quoted investments made with the expectation of obtaining short term gains by trading. However, the fair value of these investments at the end of reporting period was Rs. 278 million.
8. Ignore tax effects of above transactions/adjustments unless specifically mentioned.

**Required:**

**Prepare** the consolidated statement of financial position of Honex PLC as at 31 March 2019.

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**Question 52 – Question 06 2021 July**

On 1 October 2020, Dock PLC (Dock) purchased 49% of the equity shares of Mack (Pvt) Ltd (Mack). The remaining 51% of the shares are held by a number of unrelated shareholders and none of them individually hold more than 1%. These other shareholders do not have any agreement to act collectively with regard to the activities of Mack.

On 1 January 2021, Dock purchased 40% of the ordinary shares of Ram (Pvt) Ltd (Ram) by paying Rs. 400 million in cash. Dock can appoint one director (out of four directors) to the director board of Ram.

The draft statements of financial position of Dock, Mack and Ram as at 31 March 2021 are as follows.

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## Question 52 – Question 06 2021 July

| Rs. '000                      | Dock             | Mack           | Ram              |
|-------------------------------|------------------|----------------|------------------|
| <b>Non-current assets</b>     |                  |                |                  |
| Property, plant and equipment | 1,500,200        | 600,100        | 890,500          |
| Intangible assets             | 150,900          | -              | 12,000           |
| Investments                   | 530,000          |                |                  |
|                               | <b>2,181,100</b> | <b>600,100</b> | <b>902,500</b>   |
| <b>Current assets</b>         |                  |                |                  |
| Inventory                     | 80,300           | 134,900        | 221,400          |
| Trade and Other receivables   | 470,500          | 230,100        | 228,000          |
| Receivable from Mack          | 20,000           | -              | -                |
|                               | <b>570,800</b>   | <b>365,000</b> | <b>449,400</b>   |
| <b>Total assets</b>           | <b>2,751,900</b> | <b>965,100</b> | <b>1,351,900</b> |

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| Rs. '000                            | Dock             | Mack           | Ram              |
|-------------------------------------|------------------|----------------|------------------|
| <b>Equity and liabilities</b>       |                  |                |                  |
| <b>Equity</b>                       |                  |                |                  |
| Stated capital                      | 1,000,000        | 200,000        | 400,000          |
| Retained earnings                   | 1,011,300        | 440,600        | 554,200          |
|                                     | <b>2,011,300</b> | <b>640,600</b> | <b>954,200</b>   |
| <b>Non-current liabilities</b>      |                  |                |                  |
| Defined benefit obligation          | 123,400          | 77,600         | 82,400           |
| Deferred Taxation                   | 23,000           | 10,000         | 12,000           |
|                                     | <b>146,400</b>   | <b>87,600</b>  | <b>94,400</b>    |
| <b>Current liabilities</b>          |                  |                |                  |
| Trade and other payables            | 560,200          | 200,900        | 280,300          |
| Payable to Dock                     | -                | 20,000         | -                |
| <b>Accrued Expenses</b>             | 34,000           | 16,000         | 23,000           |
|                                     | <b>594,200</b>   | <b>236,900</b> | <b>303,300</b>   |
| <b>Total equity and liabilities</b> | <b>2,751,900</b> | <b>965,100</b> | <b>1,351,900</b> |

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**Question 52 – Question 06 2021 July****Additional information**

1. The consideration paid by Dock to purchase the shares of Mack consists of the following.

- Cash paid on 1 October 2020: Rs. 130 million
- 2.5 million shares of Dock (market value of a share on 1 October 2020 and 31 March 2021 were Rs. 100 and Rs. 120 respectively)
- Rs. 50 million to be paid on 1 October 2021 (discount rate is 8%)

2. The fair values of assets and liabilities of Mack on 1 October 2020 were equal to their carrying values, except for the following.

- Land had a fair value of Rs. 60 million in excess of its carrying value. Fair value gains are taxable at 10% at the time of realisation.
- Fair value of the inventory was more than its carrying value by Rs. 7 million. This inventory was sold outside the group in March 2021.

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**Question 52 – Question 06 2021 July****Additional information**

- Mack has not recognised an internally generated brand which had a fair value of Rs. 32 million. It has an unlimited useful life.

3. Mack and Ram have recorded net profits of Rs. 90 million and Rs. 120 million respectively for the year ended 31 March 2021, which accrued evenly over the year.

4. Dock uses the proportionate method to measure non-controlling interest (NCI).

5. The stated capital of Mack and Ram has not changed since the date of investment by Dock.

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### Question 52 – Question 06 2021 July

#### Additional information

6. In February 2021, Mack purchased goods from Dock for Rs. 15 million. 50% of these goods were held in the inventory of Mack as at 31 March 2021. Dock makes a 15% profit margin on all of its sales.

7. Other than recording the cash paid to purchase the shares in Mack and Ram as investments, Dock has not accounted for any other information given.

8. Use the tax rate of 24% for any calculations required, unless stated otherwise.

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### Question 52 – Question 06 2021 July

#### Required:

(i) **Explain** whether Dock PLC should consider the investment in Mack and Ram as subsidiaries, associates or joint ventures. (3 marks)

(ii) **Prepare** the consolidated statement of financial position of Dock PLC as at 31 March 2021. (17 marks)

**(Total: 20 marks)**

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**Question 53 – Question 06 2021 December**

Zen PLC (Zen) acquired 80% of the equity shares of York (Pvt) Ltd (York) on 1 June 2020 when the retained earnings of York stood at Rs. 110 million. The stated capital of York has not changed since 1 June 2020. Other than recording the cash paid, Zen has not made any adjustments to the financial statements arising from the information given below.

On 31 December 2020, Zen and Rigen (Pvt) Ltd (Rigen) entered into a contractual arrangement to establish a new company called Wox (Pvt) Ltd (Wox) by investing equally. The main feature of Wox is that the assets and liabilities held by it are its own assets and liabilities, and not the assets and liabilities of Zen and Rigen. Zen and Rigen each have a 50% ownership interest in Wox.

The statements of financial position of Zen, York and Wox as at 31 March 2021 are given below.

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**Question 53 – Question 06 2021 December**

| Rs. '000                      | Zen              | York             | Wox              |
|-------------------------------|------------------|------------------|------------------|
| <b>Non-current assets</b>     |                  |                  |                  |
| Property, plant and equipment | 1,470,500        | 990,700          | 500,200          |
| Intangible assets             | 2,300            | 4,500            | 990              |
| Investments in York           | 250,000          |                  |                  |
| Investments in Wox            | 75,000           |                  |                  |
|                               | <b>1,797,800</b> | <b>995,200</b>   | <b>501,190</b>   |
| <b>Current assets</b>         |                  |                  |                  |
| Inventory                     | 1,040,700        | 380,300          | 700,400          |
| Trade and Other receivables   | 2,200,700        | 260,800          | 1,000,200        |
| Receivable from Mack          | 123,900          | 42,800           | 14,500           |
|                               | <b>3,365,300</b> | <b>683,900</b>   | <b>1,715,100</b> |
| <b>Total assets</b>           | <b>5,163,100</b> | <b>1,679,100</b> | <b>2,216,290</b> |

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| Rs. '000                            | Zen              | York             | Wox              |
|-------------------------------------|------------------|------------------|------------------|
| <b>Equity and liabilities</b>       |                  |                  |                  |
| <b>Equity</b>                       |                  |                  |                  |
| Stated capital                      | 700,000          | 200,000          | 150,000          |
| Retained earnings                   | 1,240,800        | 275,800          | 23,000           |
|                                     | <b>1,940,800</b> | <b>475,800</b>   | <b>183,000</b>   |
| <b>Non-current liabilities</b>      |                  |                  |                  |
| Deferred Taxation                   | 150,800          | 72,300           | 13,400           |
| Defined benefit obligation          | 53,400           | 17,600           | 25,600           |
|                                     | <b>204,200</b>   | <b>89,900</b>    | <b>39,000</b>    |
| <b>Current liabilities</b>          |                  |                  |                  |
| Trade and other payables            | 2,970,600        | 1,090,000        | 1,973,000        |
| Accrued Expenses                    | 47,500           | 23,400           | 31,290           |
|                                     | <b>3,018,100</b> | <b>1,113,400</b> | <b>2,004,290</b> |
| <b>Total equity and liabilities</b> | <b>5,163,100</b> | <b>1,679,100</b> | <b>2,216,290</b> |

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### Question 53 – Question 06 2021 December

#### Additional information

- Consideration agreed by Zen to acquire 80% of York is as follows.
  - Rs. 250 million in cash paid immediately
  - Rs. 50 million to be paid after 2 years from the date of acquisition
- The fair value of the remaining 20% of York as at 1 June 2020 was Rs. 55 million. Zen uses the fair value method to account for non-controlling interest.
- The fair values of assets and liabilities of York as at 1 June 2020 were equal to their carrying amounts, except for the following.
  - The fair value of the land was Rs. 30 million in excess of its carrying amount. Fair value gains are taxable at the normal tax rate at the time of realisation.
  - The fair value of the building was Rs. 10 million lower than its carrying amount. These losses are deductible for income tax purposes at the time of realisation. The building's remaining useful life is 7 years.

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**Question 53 – Question 06 2021 December****Additional information**

- York has not recognised the internally-generated trade name, which had a fair value of Rs. 7 million, in line with LKAS 38 Intangible Assets. This trade name has a 10-year useful life, and it does not have any tax impact.
  - Trade debtors have impaired by Rs. 700,000. York has not recognised this impairment in its financial statements. The impairment is deductible for tax purposes only at the time of writing off the debtors' balance from the accounts in future.
4. York has disclosed a contingent liability arising from a legal case, which had a fair value of Rs. 20 million as at 1 June 2020, in its financial statements.

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**Question 53 – Question 06 2021 December****Additional information**

5. Zen sold a machine to York on 1 January 2021 for Rs. 4 million. The carrying amount of the machine on this date was Rs. 3 million in Zen's books. The remaining useful life of the machine was 10 years at the date of disposal.
6. Zen, York and Wox are liable to pay income tax at the rate of 24%.
7. Use a 10% discount rate for any calculations required.

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**Question 53 – Question 06 2021 December****Required:**

- (a) Explain the accounting treatment to be applied on Wox by Zen. (2 marks)
- (b) Prepare the consolidated statement of financial position of Zen as at 31 March 2021. (18 marks)

**(Total: 20 marks)**

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