TOPIC 5

ACCOUNTING AND FINANCIAL STATEMENTS FOR INTEREST IN OTHER ENTITIES

QUESTION 1

April 2023 Question Two

Riva Limited operates in a fast moving goods sub-sector. During the year ended 31 March 2023, Riva Limited expanded its operations by acquiring a controlling interest in Sai Limited and a significant influence over the activities of Tutu Limited. The following draft financial statements for the year ended 31 March 2023 relate to the three companies:

Statements of profit or loss for the year ended 31 March 2023:

	Riva Limited Sh."million"	Sai Limited Sh."million"	Tutu Limited Sh."million"
Revenue	4,190	2,600	1,960
Cost of sales	(2,730)	(1,400)	(1,370)
Gross profit	1,460	1,200	590
Distribution costs	(300)	(200)	(190)
Administrative expenses	(500)	(400)	(160)
Profit from operations	660	600	240
Investment income	40	20	30
Finance costs	(80)	(60)	-
Profit before tax	620	560	270
Income tax expense	(180)	(160)	(70)
Profit for the year	440	400	200

Statements of financial position as at 31 March 2023:

Assets:	Riva Limited Sh."million"	Sai Limited Sh."million"	Tutu Limited Sh."million"
Non-current assets:			
Property, plant and equipment	2,070	1,290	950
Investments	1,600	-	-
	3,670	1,290	950
Current assets:			
Inventory	530	390	240
Trade receivables	640	470	270
Financial assets at fair value through	300	150	220

profit or loss			
Cash and bank balances	360	200	320
Total current assets	1,830	1,210	1,050
Total assets	**5,500**	**2,500**	**2,000**
Equity and liabilities:			
Equity:			
Ordinary share capital	2,500	500	500
Share premium	500	200	200
Retained profit	1,020	800	500
Total equity	4,020	1,500	1,200
Non-current liabilities:			
12.5% loan notes	640	480	-
Deferred tax	260	100	200
	900	580	200
Current liabilities:			
Trade payables	420	330	520
Current tax	160	90	80
	580	420	600
Total equity and liabilities	**5,500**	**2,500**	**2,000**

Additional information:

1. On 1 July 2022, Riva Limited acquired an 80% ordinary shareholding in Sai Limited for a cash consideration of Sh.1,100 million. The fair value of assets and liabilities of Sai Limited were equal to their carrying amounts at the date of acquisition.
2. The group policy is to measure the non-controlling interests at their proportionate share of net assets of the subsidiary at the date of acquisition.
3. On 1 January 2023, Riva Limited acquired a 40% ordinary shareholding in Tutu Limited for a cash consideration of Sh.500 million.
4. During the post-acquisition period, Riva Limited sold goods to Sai Limited for Sh.300 million. Riva Limited reported a 20% profit margin on this sale. Half of these goods remained in the ending inventory of Sai Limited at the year end of 31 March 2023.
5. Included in the trade receivables of Riva Limited was Sh.80 million due from Sai Limited. In the books of Sai Limited, the amount due to Riva Limited was shown at Sh.60 million because Sai Limited had remitted Sh.20 million but Riva Limited had not recorded the remittance.
6. On 1 October 2022, Riva Limited sold an assembly plant to Sai Limited for Sh.400 million reporting a 25% profit margin on the selling price and netted off the profit against its cost of sales.
   The group charges depreciation on plant at the rate of 20% per annum on cost on full year basis in the year of asset purchase and none in the year of disposal.
7. Impairment tests carried out on 31 March 2023 revealed that neither the goodwill on acquisition nor the investment in associate had been impaired during the year.

8. None of the group companies paid dividends during the year to 31 March 2023.

Required:

(a) Consolidated statement of profit or loss for the year ended 31 March 2023. (8 marks)

(b) Consolidated statement of financial position as at 31 March 2023. (12 marks)

(Total: 20 marks)

ANSWER

a) Consolidated statement of profit or loss for the year ended 31 March 2023

Rina group

Consolidated income statement for the year ended March 2023

	Shs million
Revenue 4190 + 2600 × $^{9}/_{12}$ - 300	5,840
Cost of sales 2,730 + 1400 × $^{9}/_{12}$ + 30+ 100 – 20 - 300	(3,590)
Caress profit	2,250
Distribution cost 300 + 200 × $^{9}/_{12}$	450
Administrative expenses 500 + 400 × $^{9}/_{12}$	(800)
Operating profit	1,000
Investment income 40 + 20 + $^{9}/_{12}$	55
Finance cost 80 + 60 × $^{9}/_{12}$	(125)
Profit after tax	930
Taxation	(300)
Profit after tax	630
Added: Associate share of PAT 40% × 200 × $^{3}/_{12}$	20
Total profit	650
Attributable to : Parent	586
NCF 20% × (400 × $^{9}/_{12}$ + 20)	64
	650

b) Consolidated statement of financial position as at 31 March 2023

Riva Group

Consolidate statement of financial position as at 31st March 2023

Assets	**Sh million**
Non current assets	
PPE 2070 + 1290 + 20 - 100	3,280
Good will	140
Investment in associate	520
Current Assets	
Inventory 530 + 390 - 30	890
Receivables 640 + 470 - 80	1,030

Financial asset 300 + 150	450	
Cash and bank Balance	580	
	6,890	
Equity and liabilities		
Old share capital	2,500	
Share premium	500	
Retained earnings	1,166	
Non controlling interest	304	
Non current liabilities		
Loan note 640 + 480	1,120	
Deferred tax 260 +100	250	
Current Liabilities		
Trade Payable 420 + 330 - 60	690	
Current Tax 160 + 90	250	
		6,890

Workings:

W1

Inter group sales 300

$$URP = 20\% \times 300 \times \frac{1}{2} = 30$$

W2

Inter Group balances

Cr: Receivables Ac	80	
Dr: Cash A/c		20
Dr: Payables		60

W3

Inter group sale of fixed assets 400

Profit on sale 25%×400 =100

Overcharged depreciation (full year) 20% ×100 = 20

W5

Goodwill on acquisition of Sai ltd

Purchase consideration		1,100
Less : **Net assets acquired**		
Ordinary share capital	500	
Share premium	200	
Pre- Acquisition R.E 800 - (400× $^9/_{12}$)	500	
	1200×80%	960
Goodwill		140

W6

Investment in associate

Cost of investment 500

Add: Changes in R.E 40%×200× $^3/_{12}$ 20

520

W7

Non controlling Interest

At acquisition 20×1200 240

Add: Share of past acquisition net asset 20% × 320 64

304

Retained Earnings = (800-500) +20 depreciation = 320

or

NCI

Ordinary share capital 500

Share premium 200

Retained earnings 800+20 Depreciation 820

1,520×20% = 304

W8

Retained earnings

Parents retained earnings	1,020
Add: **Investee share of post acquisition**	
Sai Ltd 80% x[40 × $^{9}/_{12}$ + 20]	256
Tatu Ltd 40%[200 × $^{3}/_{12}$]	20
Less: unrealized profit	(30)
Profit on sale of asset	(100)
	1,166

QUESTION 2

December 2022 Question Three A

On 1 January 2022, H Limited acquired 80% of the 4 million, Sh.10 ordinary shares of S Limited issued at par value.

The acquisition consideration comprised of three new ordinary shares issued by H Limited in exchange for every five shares acquired in S Limited.

Additionally, H Limited will pay further consideration on 31 December 2022 of Sh.11 per share acquired. H Limited's cost of capital is 10% per annum and the discount factor at 10% for one year is 0.9091.

At the date of acquisition, the fair values of ordinary shares in H Limited and S Limited were Sh.15 and Sh.12 respectively.

The following statements of profit or loss for the year ended 30 September 2022, relate to the two companies:

	H Limited Sh."000"	**S Limited Sh."000"**
Revenue	546,000	420,000
Cost of sales	(378,000)	(300,000)
Gross profit	168,000	120,000
Distribution costs	(36,000)	(24,000)
Administrative expenses	(42,000)	(28,000)
Profit from operations	90,000	68,000
Investment income	6,000	-
Finance costs	(4,000)	(2,000)
Profit before tax	92,000	66,000
Income tax expense	(30,000)	(24,000)
Profit for the year	**62,000**	**42,000**

Additional information:

1. At the date of acquisition, the fair value of S Limited's net assets approximated their carrying values with the exception of an item of plant and equipment which had a fair value of Sh.24 million above its carrying amount. The remaining economic useful life of the plant and equipment at the date of acquisition was six years. Depreciation is charged to cost of sales.
2. Sales from S Limited to H Limited in the post-acquisition period amounted to Sh.30 million. S Limited reported a gross profit margin of 25% on these sales. H Limited's inventory includes one fifth (⅕) of these goods as at 30 September 2022.
3. H Limited's policy is to value the non-controlling interests at fair value at the date of acquisition. For this purpose, S Limited's share price at acquisition date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
4. H Limited's investment income is dividend received from its investment in a 40% owned associate which it has held for several years. The associate reported a profit after tax of Sh.30 million for the year ended 30 September 2022.
5. As at 30 September 2022, no impairment of goodwill was considered necessary.
6. Assume that profits and losses accrued evenly throughout the year.
7. As at 1 October 2021, the retained earnings of S Limited were Sh.16 million.

Required:

(i) Calculate the goodwill arising on the acquisition of S Limited. (4 marks)

(ii) Consolidated statement of profit or loss for H Group for the year ended 30 September 2022. (8 marks)

Note: All workings should be done to the nearest Sh."000".

ANSWER

Goodwill on acquisition of S Ltd

	Sh.000	Sh.000
Purchase consideration –shares (W1)	28,800	
Deferred payment	32,000	60,800
NCI fair value (W4)		9,600
Less: Net assets acquired		
Ordinary share capital	40,000	
Pre-Acquisition retained earnings (W5)	26,500	
Revaluation	2,400	90,500
Goodwill		**20,100**

(ii)

H group
Consolidated income statement for the year ended 30 Sep 2022

	Sh000
Revenue [546,000+(420,000×$^9/_{12}$)-30,000]	831,000
Cost of sales [378,000+(300,000×$^9/_{12}$)+3,000+1500-30,000]	577,500
Gross profit	253,500
Distribution cost [36,000+(24,000×$^9/_{12}$)]	54,000
Administrative expenses [42,000+(28000$_1$×$^9/_2$)]	63,000
Operating profit	136,.500
Gain on bargain purchases (W)	20,100
Share of associate profit 40%×30,000	12,000
	168,600
Finance cost 4,000+(2,000×$^9/_{12}$) +(10%×32,000×$^9/_{12}$)	7,900
Profit before tax	160,700
Tax expense 30,000+(24,000×$^9/_{12}$)	48,000
Profit after tax	112,700
Attributable to : Parent	107,300
NCI 20% [31,500-3,000,1,500]	5,400
	112,700

Workings

W1

H $\xrightarrow{80\%}$ S NCI = 20%

80%×4,000=3,200 shares acquired

Share exchange	$^3/_5$×3,200=1,920×15	28,800
Deferred payment	3,200×11×0.9091	32,000
Purchase consideration		60, 800

W2

Undercharged depreciation

24,000 ÷ 6 = 4,000×$^9/_{12}$ = 3,000 Dr: Cost of sales a/c

Cr: PPE a/c

W3

Inter group sales 30,000

Unrealized profit 25%×30,000×$^1/_5$ = 1,500

W4

Intergroup sales 30,000

$800 \times 12 = 9,600$

W5

Pre- acquisition R.E

$16,000 + (42,000 \times {}^{3}/_{12}) = 26,500$

QUESTION 3

August 2022 Question Two

Kuja Limited has owned 70% of Twende Limited's equity share capital since 1 April 2017.

The acquisition consideration consisted of cash amounting to Sh.3,600 million paid on 1 April 2017. The retained earnings balance of Twende Limited at the date of acquisition stood at Sh.870 million and had no other reserves.

The draft financial statements for the two group companies for the year ended 31 March 2022 were as set out below:

Statement of profit or loss and other comprehensive income for the year ended 31 March 2022:

	Kuja Limited Sh."million"	Twende Limited Sh."million"
Revenue	5,100	1,920
Cost of sales	(4,050)	(1,110)
Gross profit	1,050	810
Distribution costs	(240)	(210)
Administrative expenses	(480)	(230)
Operating profit	330	370
Investment income	160	-
Finance costs	(85)	(125)
Profit before tax	405	245
Income tax expense	(175)	(125)
Profit for the year	230	120
Other comprehensive income:		
Gain on property revaluation	180	100
Total comprehensive income for the year	410	220

Statement of financial position as at 31 March 2022:

	Kuja Limited Sh."million"	Twende Limited Sh."million"
Assets:		
Non-current assets:		
Property, plant and equipment	5,300	5,050
Investment	4,500	-
	9,800	5,050
Current assets:		
Inventory	2,840	1,560
Trade receivables	2,480	1,860
Cash and cash equivalents	1,780	1,030
Total assets	**16,900**	**9,500**
Equity and liabilities:		
Equity:		
Ordinary share capital	5,000	3,000
Share premium	1,000	-
Revaluation surplus	1,550	700
Retained earnings	4,170	2,530
Total equity	11,720	6,230
Non-current liabilities:		
10% loan notes	1,700	1,050
Deferred tax	740	570
Current liabilities:		
Trade payables	2,340	1,300
Current tax	400	350
Total equity and liabilities	**16,900**	**9,500**

Additional information:

1. A fair value exercise carried out on 1 April 2017 concluded that the carrying amounts of Twende Limited's net assets approximated their fair values with the exception of an item of plant and equipment which had a carrying amount of Sh.100 million below its fair value. At 1 April 2017, the plant and equipment had a remaining economic useful life of ten years. Depreciation is charged to cost of sales.
2. It is the group's policy to measure the non-controlling interests at fair value at the date of acquisition. The fair value of the non-controlling interest in Twende Limited on 1 April 2017 was estimated at Sh.1,370 million.
3. Kuja group adopts revaluation model to measure its property, plant and equipment as permitted by International Accounting Standard (IAS) 16 "Property, Plant and Equipment". Revaluation surplus reported by Twende Limited relates to the revaluations conducted in the post-acquisition period.
4. During the year ended 31 March 2022, Twende Limited sold goods worth Sh.200 million to Kuja Limited. Twende Limited reports a gross profit markup of 25% on all

its sales. Kuja Limited still had 25% of these goods in its inventory as at 31 March 2022.

5. At 31 March 2022, Twende Limited's records showed a receivable due from Kuja Limited of Sh.140 million which corresponded with the balance in Kuja Limited's trade payables.
6. An impairment review conducted on 31 March 2022 revealed that goodwill arising on acquisition of Twende Limited was impaired by 10%. No impairment loss had been reported in prior years.

Required:

(a) Group statement of profit or loss and other comprehensive income for the year ended 31 March 2022. (8 marks)

(b) Group statement of financial position as at 31 March 2022. (12 marks)

ANSWER

a) Group statement of profit or loss and other comprehensive income for the year ended 31 March 2022

Kuja Group
Consolidated statement of comprehensive income
For the year ended 31st march 2022

		Sh million
Revenue 5,100+1,920-200		6,820
Cost of sales(4,050+1,110+10+10-200		(4,980)
Gross profit		1,840
Distribution cost(240+210)		(450)
Administration expenses	(480+230+100)	(810)
Finance cost 85+125		(210)
Profit before tax		370
Investment income		160
		530
Tax expense (175+125)		(300)
Profit after tax		**230**
Other comprehensive income		
Revaluation (180+100		280
Total comprehensive income		**510**
Attributable for profit for the year:		
	NCI 30 %(120-10-10)-30	0
	Parent	230
		230
Other comprehensive income		
To NCI 30% 100		30
Parent		480
		510

b) Group statement of financial Position as at 31 March 2022

Kuja Group

Consolidated statement of financial position as at 31st march 2022

Assets	**Sh'million'**
Non –current Assets	
Property plant and equipment (5,300+5,050+100-50)	10,400
Investment (4,500-3,600)	900
Goodwill (**W**2)	900
Current Assets	
Inventory (2,840+1,560-60)	4,390
Receivables (2,480+1,860-160)	4,200
Cash (1,780+1,030)	2,810
	23,600
Equity and liabilities	
Ordinary share capital	5,000
Share premium	1,000
Revaluation reserve (1,550 + (700×70%)	2,040
Retained earnings (**W**2)	5,220
Non –controlling interest (NCI) (**W**6)	2,030
Non-current liabilities	
10% loan note (1,700+1,050)	2,750
Deferred tax (740+570)	1,310
Current liabilities	
Trade payables (2,340+1,300-1,300)	3,500
Current tax (400+350	750
	23,600

Workings

Kuja $\xrightarrow{70\%}$ Twende

W1

Revaluation 100M

Ownership 100 ÷10 = 10 *to P&L* 10×5=50 → to Subsidiary

W2

Good will on Acquisition of Twende Ltd

Purchase consideration		3,600
NCI Fair value		1,370
Less: **Net asset acquired**		
Ordinary share capital	3,000	

Pre-acquisition Retained earnings	870	
Revaluation	100	(3,970)
Goodwill		1,000
Impairment 10%		(100)
Net Goodwill		**900**

W3

Inter group sales Twende $\xrightarrow{200}$ Kuja

URP $= {}^{25}/_{125} \times 200 \times 25\%$ $=10$

W4

Inter group balance = 140M

W5

Retained earnings	
Holding Company R.E	4,170
Investee share of post-acquisition R.E	
70% (2,530-870-50-10)	1,120
Less: Impairment loss 100×70%	(70)
	5,220

W6

NCI			
NCI at acquisition			1,370
Share of post-acquisition net assets			
R.E 2,530-870	1,660		
Revaluation	700		
Less: URP and Depreciation	(60)		
	2,300×30%		690
Less: Impairment loss 100×30%			(30)
			2,030

QUESTION 4

April 2022 Question Four B

On 1 April 2021, Riziki Limited acquired 75% of the equity shares of Salama Limited when the retained earnings of Salama Limited stood at Sh.234 million. The acquisition consideration consisted of cash amounting to Sh.510 million and share exchange on the basis of 2 ordinary shares of Riziki Limited for every 3 ordinary shares acquired in Salama Limited. The market value of Riziki Limited's shares as at 1 April 2021 was

Sh.16 per share. No accounting entries have been made in respect of the share exchange consideration.

The draft statements of financial position of the two companies as at 31 March 2022 are as presented below:

	Riziki Limited Sh."000"	Salama Limited Sh."000"
Assets:		
Non-current assets:		
Property, plant and equipment	1,595,300	636,400
Investment	575,000	-
	2,170,300	636,400
Current assets:		
Inventory	165,000	160,000
Trade receivables	247,100	107,800
Bank	21,000	13,800
	433,100	281,600
Total assets	**2,603,400**	**918,000**
Equity and liabilities:		
Ordinary share capital (Sh.10 par value)	850,000	300,000
Retained earnings	743,400	358,000
	1,593,400	658,000
Non-current liabilities:		
8% debentures	460,000	40,000
Current liabilities:		
Trade payables	442,000	167,200
Current tax payable	108,000	52,800
Total equity and liabilities	**2,603,400**	**918,000**

Additional Information:

1. The fair values of Salama Limited's net assets approximated their carrying amounts with the exception of a specialised piece of equipment which had a fair value of Sh.120 million in excess of its carrying amount. This equipment had a ten-year remaining useful life on 1 April 2021.
2. It is the group's policy to value the non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest in Salama Limited on 1 April 2021 was estimated at Sh.144
3. During the year to 31 March 2022, Salama Limited sold goods to Riziki Limited for Sh.64 million earning a gross margin of 25% on the sale. Riziki Limited still held Sh.48 million worth of these goods in the inventory at 31 March 2022.

Salama Limited still had the full invoice value of Sh.64 million in its trade receivables at 31 March 2022, however, Riziki Limited's trade payables only showed Sh.34 million as it made a payment of Sh.30 million on 31 March 2022.

4. On 1 April 2021, Riziki Limited also acquired a 30% equity interest in Amua Ltd. for Sh.65 million in cash.
   Amua Limited sustained heavy losses over the last few years and Riziki Limited hoped it would turn it around through its significant influence over Amua Limited. In the year ended 31 March 2022, Amua Limited made a loss of Sh.150 million.
5. Impairment tests performed on 31 March 2022, revealed that the investment in Amua Limited had been impaired by Sh.5 million due to sustained trading losses. However, no impairment was required in respect of goodwill arising on acquisition of Salama Limited.

Required:

(i) Determine the value of investment in Amua Limited as at 31 March 2022. (3 marks)
(ii) Calculate the value of goodwill arising on acquisition of Salama Limited. (3 marks)
(iii) Consolidated statement of financial position for Riziki Group as at 31 March 2022. (8 marks)

ANSWER

i) Investment in AMUA limited Sh 000

Cost of investment	65,000
Less: Share of post acquisition change in net asset 30% ×150,000	45,000
Less: Impairment loss	(5,000)
Investment in associate	**15,000**

ii) Good will on acquisition of salama Ltd

Good will on acquisition of salama Ltd

Purchase consideration -Cash	510,000	
- Shares	240,000	750,000
Add: NCI fair value		144,000
Less: Net assets acquired		
Ordinary share capital	300,000	
Pre-acquisition retained earnings	234,000	
Revaluation	120,000	654,000
Good will		240,000

ii)

Riziki group

Consolidated statement of financial position as at 31 March, 2022

Non current	**Sh 000**
PPE 1,595,300 + 636,000 + 120,000 – 12,000	2,339,700
Goodwill	240,000
Investment in associate	15,000
Current Asset	
Inventory 165 + 160 – 12	313,000
Receivables 247.1 + 107.8 – 64	290,900
Bank 21 + 13.8 + 3.0	64,800
	3,263,400
Equity and liabilities	
Ordinary share capital (850 + 150)	1,000,000
Share premium	90,000
Retained earnings (w1)	768,400
Non controlling interest **(NCI)W5**	169,000
Non current liabilities	
8% debentures 460+40	500,000
Current liabilities	
Trade payables 442 + 167.2 - 3.4	575,200
Current tax 108 + 52.8	160,800
	3,263,400

Workings

W1

Riziki $\xrightarrow{75\ \%}$ salama

75% × 30,000 = 22,500 shares

$^2/_3$ × 22,500 = 15,000 × 116 = 240,000 value of shares capital

Ordinary share capital 15000 share @ 10 = 150,000

Share premium 150000 share @ 6 = 90,000

W2

Revaluation of Equipment	120,000
Depreciation 120,000 ÷ 10 =	12,000

W3

Inter group sales

64,000 URP = 25%×48,000 = 12,000

W4

Inter group balances	64,000
Cash in transit	34,000

W5

NCI

At acquisition	144,000
Add: NCI share of post acquired net asset	
25%×100,000	25,000
	169,000

W6

Group retained earnings

Riziki retained earnings	743,400
Add: Post acquisition profit share in investee	
Salama ltd 75% × (124,000 - 12,000)	75,000
AMUA ltd 30% × 150,000	45,000
Less impairment loss	(5,000)
	768,400

QUESTION 5

December 2021 Question Four

On 1 January 2021, Rangi Ltd. acquired the following in Nzuri Ltd.:

- 80% of the ordinary share capital of Nzuri Ltd. for Sh.20,560,000
- Half of the 10% debentures in Nzuri Ltd.

The summarised financial statements of Rangi Ltd. and Nzuri Ltd. for the year ended 30 September 2021 were as follows:

Income statements for the year ended 30 September 2021:

		Rangi Ltd. Sh."000"	Nzuri Ltd. Sh."000"
Revenue		130,000	48,000
Cost of sales		(90,000)	(40,000)
Gross profit		40,000	8,000
Other income:	Interest received	150	-
	Dividend received	800	-
		40,950	8,000
Expenses:			
Distribution costs		(9,000)	(200)
Administrative expenses		(7,000)	(200)
Finance costs		-	(400)
Profit before tax		24,950	7,200

Income tax expense	(6,000)	(1,200)
Profit after tax	18,950	6,000

Statement of financial position as at 30 September 2021:

	Rangi Ltd. Sh."000"	Nzuri Ltd. Sh."000"
Non-current assets:		
Property, plant and equipment	38,640	16,000
Investments	22,560	-
	61,200	16,000
Current assets:		
Inventories	12,000	6,000
Accounts receivable	8,400	6,800
Cash at bank	13,600	3,200
	34,000	16,000
Total assets	**95,200**	**32,000**
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of Sh.10 each	24,000	4,000
Retained earnings	51,200	16,800
	75,200	20,800
Non-current liability:		
10% debentures		4,000
Current liabilities:		
Accounts payable	15,000	6,400
Current tax	5,000	800
	20,000	7,200
Total equity and liabilities	**95,200**	**32,000**

Additional information:

1. The fair value of the assets of Nzuri Ltd. at the date of acquisition were the same as their book values except for an item of plant whose fair value was more by Sh.6.4 million. As at 1 January 2021, the plant had a remaining useful life of four years. Nzuri Ltd. depreciates plant on straight line basis on cost.

2. During the post acquisition period, inter-company trading that occurred included:

- Rangi Ltd. sold goods to Nzuri Ltd. for Sh.12 million. These goods had cost Rangi Ltd. Sh.18 million.
- Nzuri Ltd. sold some of the goods purchased from Rangi Ltd. at Sh.20 million for Sh.30 million.

3. On 30 June 2021, Rangi Ltd. and Nzuri Ltd. paid dividends of Sh.2 million and Sh.1 million respectively.

4. Included in the accounts receivable and account payable is Sh.1.5 million being the amount Nzuri Ltd. owed Rangi Ltd.

5. Goodwill is considered to be impaired by 25% as at 30 September 2021. Goodwill impaired is classified as an administrative expense by the group companies.

Required:

(a) Group income statement for the year ended 30 September 2021 (10 marks)

(b) Group statement of financial position as at 30 September 2021. (10 marks)

ANSWER

Consolidation

Workings:

Rangi_________80%_______Nzuri ltd

W1 Interest on debenture $10\% \times (\frac{1}{2} \times 4{,}000) \times \frac{9}{12} = 150$

W2 Revaluation 6,400 depreciation $= (6{,}400 \div 4) \times \frac{9}{12} = 1200$

W3 Inter group sales $R - N$ 12,000

W4

Good will on acquisition		**Sh 000**
Purchase consideration		20,560
Less: Net asset acquired		
Ordinary share capital	4,000	
Retained earnings 16,800 - (6,000 × $\frac{9}{12}$	12,300	
Revaluation	6,400	
Dividends 1,000× $\frac{3}{12}$	250	
	22,950	(18,360)
Goodwill		2,200
Impairment 25% × 2,200		(550)
Net Goodwill		**1,650**

W5

NCI

Ordinary share capital	4,000
Retained earnings 16,800 - 1,200	15,600
Fair value adjustment	6,400
	26,000×20% = 5,200

W6

Retained Earnings

Parent Retained Earnings	51,200
Add: Investee share of Post Acquired Retained Earning	
Nzuri 80% $(6000 \times \frac{9}{12} - 1200)$	2,640
Less: Impairment of goodwill	(550)
:Pre acquisition dividend income $1,000 \times \frac{3}{12}) \times 80\%$	(200)
	<u>**53,090**</u>

a) Group statement for the year ended 30 September 2021

Rangi Group

Consolildated income statement for the year ended 30 Sep 2021

	Sh 000
Revenue $130,000 + (48,000 \times \frac{9}{12}) - 12,000$	154,000
Cost of sales $90,000 + (40,000 \times \frac{9}{12}) + 1,200 - 12,000$	<u>(109,200)</u>
Gross profit	44,800
Distribution cost $9,000 (2,000 \times \frac{9}{12})$	9,150
Administrative cost $7,000 + (2,000 \times \frac{9}{12}) + 550$	(7,700)
Finance cost $(4,000 \times \frac{9}{12})$-150	(150)
Profit before tax	27,800
Tax expense $6000+(1200x\frac{9}{12})$	<u>(6,900)</u>
Profit after tax	20,902
Attributable to : NCI $[6,000 \times \frac{9}{12}) - 1,200]$ 20%	<u>(660)</u>
: Parent (20,900 - 660)	20,240
Less: Dividend	<u>(2,000)</u>
Retained profit for the year	<u>**18,240**</u>

b) **Group statement of financial Position as at 30 September 2021**

Rangi Group
Consolidated statement of financial position as at 30 Sept 2021

	Sh 000
Non current assets	
PPE (38,640 + 16,000 + 6,400 - 1,200)	59,840
Good will (W4)	1,650
Current Assets	
Inventories 12,000 + 6,000	18,000
Account receivables 8,400 + 6,800 – 1,500	13,700
Cash at bank 13,600 + 3,200	16,800
	109,990
Equity and liabilities	
Ordinary share capital	24,000
Retained earnings (W6)	53,090
NC1(WS)	5,200
Non current liabilities	
10% debentures 4,000 $\times \frac{1}{12}$	2,000
Current liabilities	
Account payables 15,000 + 6,400 - 1,500	19,900
Current tax 5,000 + 800	5,800
	109,990

QUESTION 6

September 2021 Question Two

Chanda Ltd. acquired 75% of the ordinary share capital of Pete Ltd. on I May 2020 through a share exchange of three shares of Chanda Ltd. for four shares acquired in Pete Ltd. On this date, the ordinary shares of Chanda Ltd. and Pete Ltd. were fair valued at Sh.40 and Sh.20 per share respectively.

The share exchange has not yet been recorded by Chanda Ltd.

Below are the draft financial statements for the two companies for the year ended 3 I October 2020:

Statements of comprehensive income for the year ended 31 October 2020:

	Chanda Ltd.	**Pete Ltd.**
	Sh."Million"	**Sh."Million"**
Revenue	28,200	8,720
Cost of sales	(12,800)	(3,240)
Gross profit	15,400	5,480
Distribution costs	(2,320)	(640)
Administrative expenses	(3,680)	(1,120)
Investment income	1,840	80

Finance costs	(480)	(560)
Profit before tax	10,760	3,240
Income tax expense	(2,060)	(600)
Profit for the year	8,700	2,640
Other comprehensive income:		
Gain on revaluation of land	112	120
Total comprehensive income	8,812	2,760

Statements of financial position as at 31 October 2020:

	Chanda Ltd Sh."Million"	Pete Ltd. Sh."Million"
Assets:		
Non-current assets:		
Property, plant and equipment	24,360	7,560
Financial assets	8,120	2,520
	32,480	10,080
Current assets:		
Inventory	4,832	2,000
Trade receivables	4,768	1,960
Bank	3,200	1,320
Total assets	12,800	5,280
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	8,000	3,200
Revaluation surplus	2260	420
Retained earnings	26,060	4,780
	36,320	8,400
Non-current liabilities:		
10% loan stocks	2,400	3,200
Current liabilities:		
Trade payables	4,920	2,820
Current tax payable	1,640	940
	6,560	3,760
Total equity and liabilities	**45,280.**	**15,360**

Additional information:

1. A fair value exercise conducted on I May 2020 concluded that the carrying amounts of Pete Ltd.'s net assets approximated their fair values with the exception of an item of plant and equipment which had a fair value of Sh.320 million in excess of its carrying amount.
2. As at I May 2020, the item of plant and equipment had a remaining life of four years. Depreciation is being charged on straight-line basis to cost of sales.

3. In the post-acquisition period, Chanda Ltd. sold goods worth Sh.1,560 million to Pete Ltd. Pete Ltd. had one quarter of these goods in inventory as at 31 October 2020. All of these goods had a mark-up on cost of 30%.
4. Chanda Ltd.'s trade receivables include Sh.320 million due from Pete Ltd which did not reconcile with the corresponding trade payables. This was due to cash paid by Pete Ltd. which had not been received by Chanda Ltd. as at 31 October 2020.
5. Chanda Ltd. has a policy of measuring the non-controlling interests at fair value. As at I May 2020, the non-controlling interest in Pete Ltd. were fair valued on the basis of the market price of Pete Ltd.'s ordinary shares.
6. Goodwill arising on acquisition of Pete Ltd was impairment tested on 31 October 2020 and no impairment was deemed necessary.
7. All other comprehensive income occurred after I May 2020. Unless otherwise indicated, all other items of incomes and expenses are deemed to accrue evenly over the year.

Required:

a) Goodwill arising on acquisition of investment in Pete Ltd. (4 marks)
b) Consolidated statement of comprehensive income for the year ended 3 I October 2020. (8 marks)
c) Consolidated statement of financial position as at 31 October 2020. (8 marks)

(Total: 20 marks)

ANSWER

Workings:

W1

Chanda $\longrightarrow$ Pete 320×75% = 240

3	4
x	240

$$x = \frac{3x \times 240}{4} = 180 \text{ shares} \times 40 = 7{,}200$$

Dr: Purchase consideration		7,200
Cr: ord Share capital	18×10	1,800
Cr: share premium	180×30	5,400

W2

Revaluation surplus

Depreciation = 320 ÷ 4 = 80 × $^{6}/_{12}$ = 40

W3

Inter group sales

$$C \xrightarrow{1,560} P \qquad URP = {}^{30}/_{1300} \times 1,560 \times \tfrac{1}{4} = 90$$

W4

Retained earnings

Parent R.E	26,060
Add: Pete post Acquisition share of R.E 75&% $(2,640\times{}^{6}/_{12}-40)$	960
Less: URP	90
	26,930

W5

NIF

At acquisition			16,000
Add: post acquisition changes inner asset - revaluation	120		
	1,280	14,000×25%	350
			1,950

a)

Good will on acquisition of Pete Ltd

Purchase consideration		7,200
NCI Fair value 320×25%×20		1,600
Less: Net asset acquired		
Ordinary share capital	3,200	
Revaluation (420-120)	300	
Revaluation surplus for plant	320	
Pre – Acquisition R.E 4780-$[2640\times{}^{6}/_{12}]$	3,460	(7,280)
Full Goodwill		1,520

b)

Chanda Group Consolidated statement of comprehensive income
For the year ended 31st Oct 2020

	Sh million
Revenue 28,200+$(8,720\times{}^{6}/_{12})$-1,560	31,000
Cost of sales 12,800+$(3,240\times{}^{6}/_{12})$+400+90-1,560	(12,990)
Gross profit	18,010
Investment income 1,840+$(8\times{}^{6}/_{12})$	1,880
Distribution cost 2,320+$640\times{}^{6}/_{12})$	(2,640)
Administrative expenses 3,680+$(1,120\times{}^{6}/_{12})$	(4,240)
Finance cost 480+$(5,600\times{}^{6}/_{12})$	(760)

Profit before tax	12,250
Tax expenses 2,060+(600×$^6/_{12}$)	(2,360)
Profit for the year	9,890
Other comprehensive income	
Gain on revaluation of land (112+120)	232
Total comprehensive income	10,122
Attributable to : NCI 25% (2,640×$^6/_{12}$-40)	320
Paired (9,890-320)	9,570
	9,890

Total comprehensive income: attributable for:

Paired	10,092
NCI 25%×120	300
	10,122

c)

Chanda Group

Consolidated statement of financial position as at 31st Oct 2020

Non-current asset		**Sh million**
PPE	24360+7560+320-40	32,200
Financial Asset	8,120+2,520	10,640
Goodwill		1,520
Current Assets		
Inventory	4,832+2,000-90	6,742
Trade receivables	4,768+1,960-320	6,408
Bank	3,200+1,320+320	4,840
Total assets		62,350
Equity and liabilities		
Ordinary share capital	8,000+1,800	9,800
Share premium		54,000
Retained earning		26,930
NCI		1,950
Revaluation reserve	2,260+(75%×120)	2,350
Non-current liabilities		
10% loan stock	24,000+3,200	5,600
Current liabilities	4,920+2,820	7,740
Current tax payable	1,640+940	2,580
		62,350

QUESTION 7

May 2021 Question Five

On 1 April 2018, Ambaza Ltd. acquired the following investments:

- 1,320,000 equity shares in Rudisha Ltd. at a cost of Sh.27,300,000 when the retained earnings of Rudisha Ltd. were Sh.12,500,000.

- 50% of Rudisha Ltd's 12% debentures at par.

The statement of financial position of the two companies as at 31 March 2020 were as follows:

	Ambaza	Rudisha
Non-current assets:	**Sh."000"**	**Sh."000"**
Property, plant and equipment	37,300	24,060
Investments	52,600	4,800
	89,900	28,860
Current assets:		
Inventories	6,350	5,200
Accounts receivable	4,360	1,950
Bank	1,390	-
	12,100	7,150
Total assets	**102,000**	**36,010**
Equity and liabilities:		
Equity and reserves:		
Ordinary share capital (Sh.10 each)	43,000	16,500
Retained earnings	34,560	8,190
	77,560	24,690
Non-current liabilities:		
12% debentures	8,200	2,800
Deferred tax	3,900	1,200
	12,100	4 000
Current liabilities:		
Accounts payable	5,710	1,760
Taxation	5,330	2,410
Dividends	1,300	1,200
Bank overdraft	-	1,950
	12,340	7,320
	102,000	**36,010**

Additional information:

1. The fair value of Rudisha Ltd.'s assets at the date of acquisition was equal to their carrying value except for an item of plant which had a fair value of Sh.1,600,000 in excess of its carrying value. The plant had a remaining useful life of 4 years.
2. On 15 March 2020, Rudisha Ltd. sold goods to Ambaza Ltd for Sh.700,000, all on credit terms. The goods had not been received by the company as at 31 March 2020 and were not included in closing inventory. No entry had been made in the books of Ambaza Ltd. in respect of this transaction. Rudisha Ltd. sells goods to all customers at a standard mark up of 162/3%.

3. As at 31 March 2020, the account payable of Ambaza Ltd. included Sh.750,000 due to Rudisha Ltd. before taking into account the above transaction.
4. Ambaza Ltd. had not accounted for dividend receivable from Rudisha Ltd.
5. Goodwill arising on acquisition of Rudisha Ltd. was considered impaired by 20% as at 31 March 2020.
6. The fair value attributable to non-controlling interest amounted to Sh.6,800,000.

Required:

Consolidated statement of financial position as at 31 March 2020. (Total: 20 marks)

ANSWER

Ambaza Group Consolidated statement of financial position as at 31st march 2020

Non -current assets	**sh. "000"**
PPE (37,300 + 24,060 + 1,600 – 800)	62,160
Investments 52,600 + 4,800 – 27,300 – 1,400	28,700
Goodwill	2,800
Current assets	
Inventories 6350 + 5200 – 100 + 700	12,150
Receivables 4,360 +1950 -700 – 750	4,860
Bank	1,390
	112,060
Equity and liabilities	
Ordinary share capital	43,000
Retained profit	30,788
NCI	5,622
Non-current liabilities	
12% debentures 8,200 + 1,400	9,600
Deferred tax 3,900 + 1,200	5,100
Current liabilities	
Account payable 5710 + 1760 -750	6,720
Taxation 5330 + 2410	7,740
Dividend 1300 + (1200 × 20%)	1,540
Bank overdraft	1,950
	112,060

Workings

W1

Ambaza ⟶ Radisha

Ownership 1,320 ÷1,650 × 100 = 80% ⟶ Subsidiary

Good will

Purchase consideration	27,300

Less: **Net asset acquired**		
Ordinary share capital	15,500	
Retained earnings	12,500	
Recollection	1,600	
	30,600 × 80%	(24,480)
		2,820
Add: NCI goodwill = 6,800 – (20% × 30,600)		680
Full goodwill		3,500
Impairment 20%× 3500		(700)
Net Goodwill		**2,800**

W2

Intergroup sales 700

Unrealized profit $=\frac{16.67}{116.67} \times 700 = 100$

W3

Depreciation of PPE =1600 ÷ 4 = 400 × 2 = 800

W4

NCI

Ordinary share capital	16,500	
Retained earnings	7,290	
Recollection	1,600	
	25,390×20% =	5,078
		544
Add: NCI good w		**5,622**

W5

Retained earnings

Parents retained earnings			34,560
Dividend receivable 1200 × 80%			960
Add: **Investee share of post acquisition R.E**			
Balance b/d	8,190		
Less: pre –acquisition R.E	(12,500)		
Depreciation	(800)		
Unrealized profit	(100)		
	(5210)× 80%		(416.8)
Less: Impairment 20% × 2820			(564)
			30,788

QUESTION 8

November 2019 Question four B

On 1 July 2018, Beyond Ltd. held a number of insignificant investments in equity instruments that do not have a quoted price and are therefore carried at cost. During the year ended 30 June 2019, Beyond Ltd. acquired a subsidiary company, Horizon Ltd. and an associate company, Sky Ltd.

The draft summarised statements of financial position of Beyond Ltd. and its subsidiary company as at 30 June 2019 are shown below:

	Beyond Ltd.	Horizon Ltd.
Assets:	Sh."000"	Sh."000"
Non-current assets:		
Property, plant and equipment	1,162,800	321,390
Investments	774,500	-
	1,937,300	321,390
Current assets:		
Inventories	523,600	398,500
Trade and other receivables	401,860	203,650
Cash and cash equivalents	52,600	1,100
	978,060	603,250
Total assets	**2,915,360**	**924,640**
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 each)	600,000	200,000
Share premium	100,000	50,000
Retained earnings	1,776,260	502,540
	2,476,260	752,540
Current liabilities:		
Trade and other payables	385,200	148,500
Income tax	53,900	23,600
	439,100	172,100
Total equity and liabilities	**2,915,360**	**924,640**

Additional information:

1. Beyond Ltd. acquired 80% of the ordinary shares of Horizon Ltd. on 1 January 2019. The purchase consideration was made up of cash of Sh.650 million paid on 1 January 2019 and a further cash payment of Sh.147 million deferred until 1 January 2020. No accounting entries have been made in respect of the deferred cash payment. An appropriate discount rate is 5% per annum. Beyond Ltd. recognises goodwill on non controlling interest using the fair value method.
2. The fair value of the assets, liabilities and contingent liabilities as at 1 January 2019 were equal to their carrying value with the exception of a machine which had a fair value of Sh.60 million in excess of its carrying amount. This machine had a 6 years remaining useful life on 1 January 2919.

3. The fair value of the non controlling interest in Horizon Ltd. on 1 January 2019 was estimated at Sh.150 million.
4. In June 2019, Horizon Ltd. sold goods to Beyond Ltd. for Sh.16 million. Half of these goods were still held in the stock of Beyond Ltd. on 30 June 2019. Horizon Ltd. marks up all goods by 20%.
5. On 30 June 2019, Horizon Ltd.'s trade receivables still included the Sh.16 million due from Beyond Ltd. However, Beyond Ltd.'s trade payables only included Sh.11 million in respect of this transaction as it had made a payment of Sh. 5 million to Horizon Ltd. on 30 June 2019.
6. On 1 July 2018, Beyond Ltd. acquired 30% of the ordinary shares in Sky Ltd. for cash payment of Sh.120.5 million which gave Beyond Ltd. significant influence over Sky Ltd. At that date, a property owned by Sky Ltd. had a fair value of Sh.50 million in excess of its carrying amount. This property had a remaining useful life of 20 years on 1 July 2018.
7. In the year ended 30 June 2019, Horizon Ltd. made a profit of Sh.56.8 million out of which it paid a dividend of Sh.20 million on 30 April 2019. Beyond Ltd. debited the dividend received to cash and credited it to investments.

Required:

Consolidated statement of financial position as at 30 June 2019 (16 marks)

ANSWER

Consolidated statement of financial position as at 30 June 2019

Beyond Ltd

Consolidated statement of financial position as at 30th June 2019

	Sh."000"
Non-current assets	
PPE (1,162,800+321,390+60,000-5000)	1,539,190
Goodwill	145,860
Investment in associate	120,500
Current assets	
Inventories (523,600+398,500 – 1,333)	920,764
Trade receivables (401,860+203,650 – 16,000	589,510
Cash and cash equivalent (52,600 + 1100)	53,700
Cash in transit	5,000
	3,374,524
Equity and liabilities	
Ordinary share capital	600,000
Share premium	100,000
Non-controlling interest	152,413.4
Retained earnings	1,781,910.6
Current liabilities	

Trade and other payables (385,200+148,500 - 11,000	522,700
Income tax (53,900 + 23,600)	77,500
Deferred payment	140,000
	3,374,524

Workings

Note 1:

Goodwill on acquisition of Horizon

Purchase consideration		650,000
Deferred payment 147,000 $(1 + 0.05)^{-1}$		140,000
		790,000
NCI fair value		150,000
***Less:* Net assets acquired**		
Ordinary share capital	200,000	
Share premium	50,000	
Retained earnings 502,540 – $(36,800\times\frac{6}{12})$	484,140	
Fair value adjustment	60,000	(794,140)
Goodwill		**145,860**

56.8 – 20 = 36.8 (36,800)

Note 2:

Depreciation of fair value adjustments

$\frac{60,000}{6} = 10,000 \times \frac{6}{12} = 5,000$ Dr: cost of sales, Cr: PPE

Note 3:

Inter-group sales

Horizon $\xrightarrow{16,000}$ Beyond

URP = $\frac{20}{120} \times 16,000 \times \frac{1}{2} = 1,333$

Note 4:

Inter-group balances

Dr: payables 11,000

Dr: bank / cash 5,000

Cr: receivables 16,000

Note 5:

NCI	
Fair value at acquisition	150,000
Add: share of post-acquisition profit	
20% (502,540 – 484,140 – 5,000 – 1,333)	2,413.4
	152,413.4

QUESTION 9

May 2019 Question Two

Fanaka Ltd. acquired 90% of the ordinary shares of Sh.10 par value in Mali Ltd. on 1 January 2015 when Mali Ltd. had revenue reserves of Sh.1,500 million.
Mali Ltd. acquired 160 million ordinary shares of Sh.10 par value in Kwetu Ltd. on I January 2016 when Kwetu Ltd. had revenue reserves of Sh.500 million.

The financial statements of the three companies for the year ended 31 December 2018 are provided below.

Income statement

	Fanaka Ltd.	**Mali Ltd.**	**Kwetu Ltd.**
	Sh."million"	**Sh."million"**	**Sh."million"**
Revenue	7,200	4,700	2,450
Cost of sales	(5,400)	(3,760)	(1,715)
Gross profit	1,800	940	735
Investment income	218	40	-
	2,018	980	735
Operating expenses	(740)	(390)	(295)
Profit before tax	1,278	590	440
Income tax expense	(420)	(230)	(176)
Profit after tax	858	360	264
Dividend - Paid	(200)	(120)	(100)
- Proposed	(300)	(120)	(100)
Retained profit	358	120	64

Statements of financial position as at December 2018:

	Fanaka Ltd.	**Mali Ltd.**	**Kwetu Ltd.**
	Sh."million"	**Sh."million"**	**Sh."million"**
Non-current assets:			
Property, plant and equipment	15,500	9,700	6,500
Goodwill	-	-	500
Investment in - Mali Ltd.	8,400	-	-
- Kwetu Ltd.	-	3,500	-

Current assets	4,400	2,800	1,700
	28,300	**16,000**	**8,700**
Equity and liabilities:			
Ordinary share capital	10,000	6,000	4,000
Share premium	4,000	2,500	2,500
Revenue reserves	3,800	2,720	1 354
	17,800	11,220	7,854
Non-current liabilities:			
Bank loan	8,000	3,000	-
Current liabilities	2,500	1,780	846
	10,500	4,780	846
	28,300	**16,000**	**8,700**

Additional information:

1. On 31 December 2017, Mali Ltd. held stock bought from Fanaka Ltd. for Sh.120 million and on which Fanaka Ltd. had made a profit of 331/3% on cost.
2. In the year ended 31 December 2018, Fanaka Ltd. made sales of Sh.400 million to Mali Ltd. at a profit of 20% on selling price. One quarter of the goods purchased by Mali Ltd. from Fanaka Ltd. in the year remained unsold as at 31 December 2018.
3. All the three companies paid the interim dividend on 15 June 2018. No company has accrued its share of proposed dividend from either its subsidiary or associate company.
4. The inter-company outstanding balances as a result of trading were as follows:
   - Due from Fanaka Ltd. to Mali Ltd. Sh.45 million.
   - Due from Mali Ltd. to Kwetu Ltd. Sh.20
5. Any goodwill on acquisition of the subsidiary or associate is considered impaired by 20%.
6. Fair value of tangible assets were not materially different from their book values on the date Fanaka Ltd. acquired its control in Mali Ltd. and on the date Mali Ltd. acquired its holding in Kwetu Ltd.

Required:

(a) Consolidated income statement for the year ended 31 December 2018. (8 marks)

(b) Consolidated statement of changes in equity. (2 marks)

(c) Consolidated statement of financial position as at 31 December 2018. (10 marks)

ANSWER

Consolidated income statement for the year ended 31 December 2018

Note 1:

Fanaka Ltd

↓ 90%

Mali Ltd

↓ 40% 160÷ 400=0.4

Kwetu

Note 2:

Inter group sales Fanaka $\xrightarrow{400}$ Mali

URP balance but 31/12/17 = ¼ ×120 = 30 30

URP balance c/d 31/12/17 = 20% ×400×$^1/_4$ = 20 *Dr inventory*

10 *Cr: cost of sale*

Note 3:

Inter group balance= 45

W1:

Goodwill		
	Mali	**Kwetu**
Purchase consideration	8,400	90%×3,500=3,150
Net asset Acquired		
Ordinary share capital	6,000	4,000
Share premium	2,500	2,500
Revenue reserve (pre)	1,500	500
	10,000×90%(9,000)	7,000×90×40(2,520)
	(600)	(630)

Impairment = 20%×630=126

W 2:

Investment in Associate

Cost of investment	3150	Impairment of goodwill	126
Add: post acquisition changes			
R:E 90×40%(1354-500)	307	Balance c/d	3331
	3457		3457

W 3:

NCI

Ordinary share capital	6,000
Share premium	2,500
Returned earnings	2,720
	11,220×10% =1,122

Fanaka group

Consolidated income statement for the year ended 31 Dec. 2018

	Sh million
Revenue 7 ,200 +4,700-400	11,500
Cost of sales 5,400 +3,760 – 400-10	(8,750)
Gross profit	2,750
Expenses	
Operating expenses 740+390	(1,130)
Impairment of goodwill	(126)
Profit before tax	1,494
Tax expense 420+230	(650)
Profit after tax	844
Associate share of PAT = 36%×264	95
	939
Accountable to : NCI 360%×10%	(36)
:Pannell	**903**

c) Consolidated statement of financial position as at 31 December 2018

Fanaka group

Consolidated statement of financial position as at 31 December 2018

Non-current assets	**Sh million**
PPE 15,500 + 9,700	25,200
Goodwill 630-126	504
Investment in associate	3,331
Current asset 4,400+2,800+10-45	7,165
	36,200
Equity & liabilities	
Ordinary share capital	10,000
Share premium	4,000
Non controlling interest	1,122

Capital reserve (negative goodwill)	600
Retained earnings	5,243
Non-current liabilities	
Bank loan 800+3000	11,000
Current liabilities	4,235
	36,200

QUESTION 10

May 2018 Question Five A

On 1 April 2017, H Ltd. acquired four million of the ordinary shares of S Ltd., paying Sh.4.50 per share. At the same time, H Ltd. purchased Sh.500,000 of S Ltd.'s 10% redeemable preference shares. At the acquisition date, the retained earnings of S Ltd. were Sh.400,000.

The following are the draft statements of financial position of the two companies as at 31 March 2018:

	H Ltd. Sh."000"	**H Ltd. Sh."000"**
Non-current assets:		
Land and buildings	22,000	12,000
Plant and equipment	20,450	10,220
Investments in S Ltd.:		
Equity	18,000	
Preference shares	500	
	60.950	22,220
Current assets:		
Inventories	9,850	6,590
Trade receivables	11,420	3,830
Cash and bank	490	-
	21,760	10,420
	82710	**32,640**
Equity:		
Ordinary shares (Sh. 1 each)	10,000	5,000
10% preference shares		2,000
Retained earnings	51,840	14,580
	61,840	21,580
Non-current Liabilities:		
10% Debentures 2022	12,000	4,000
Current liabilities:		
Trade payables	6,400	4,510
Bank overdraft		570
Taxation	2,470	1,980
	8,870	7,060
Total equity and liabilities	**82,710**	**32,640**

Extracts from the income statement of S Ltd. before intra group adjustments for the year to 31 March 2018 were as follows:

	Sh."000"
Profit before tax	5,400
Taxation expenses	(1,600)
	3,800

Additional information:

1. Included in the land and buildings of S Ltd. is a large piece of development land at a cost of Sh.5 million. The fair value of the land on the date S Ltd. was acquired was Sh.7 million and by 31 March 2018, this value had risen to Sh.8.5 million. The group's valuation policy for development land is that it should be carried at fair value and not depreciated.

2. On the date of acquisition of S Ltd., the company's plant and equipment included plant that had a fair value of Sh.4 million in excess of its carrying value.

   This plant had a remaining useful life of 5 years. The group calculates depreciation on a straight-line basis. The fair value of the other net assets of S Ltd. approximated their carrying values.

3 During the year, S Ltd. sold goods to II Ltd. for Sh.1.8 million. S Ltd. adds a 20% mark up on cost to all its sales. Goods with a transfer price of Sh.450,000 were included in the inventory of 11 Ltd. as at-31 March 2018. The balance of the current accounts off] Ltd. and S Ltd. was Sh.240,000 on 31 March 2018.

4. An impairment test carried out on 31 March 2018 showed that the consolidated goodwill was impaired by Sh.1,488,000.

5. S Ltd. had paid its preference dividend in full and ordinary dividends of Sh.500,000.

Required:
Consolidated statement of financial position of H Ltd. and its subsidiary S Ltd. as at 31 March 2018. (14 marks)

ANSWER

Consolidated statement of financial position of H Ltd. And its subsidiary dividends of sh. 500,000

Note 1:

Fair value adjustment for land

Carrying amount	5,000
Fair value of acquisition	7,000
Fair value gain	2,000
Total fair value gain = 8500- 5000=	3,500

Note 2:

Plant &equipment

Fair value gain =	4,000
Deprecation= 4000÷5=	800

Note 3:

Inter group sales

$S \xrightarrow{1800} H$

Unrealized profit = $\frac{20}{100}\times 450 = 75$ *Dr: Cost of sales*

Cr: Closing stock

Inter group balance = 240: *Dr: Payables*

Cr: Receivable

Note 4:

Goodwill on acquisition

Purchase consideration 18,000+500=		18,500
Net asset acquired		
Ordinary share capital	5,000	
Return earning	400	
Fair value adjustment(2,000+4,000)	6,000	
	11,400×80%	(9,120)
Preference shares		(500)
Goodwill		8,880
Impairment for the year		(1,488)
Net goodwill		7,392

Workings

W1

Retained earnings

Parent retained earning	51,840
Add: investee(s ltd) post – acquisition R.E	
80 % (14,580-400-800-75	10,644
Less: impairment of goodwill	(1,488)
	60,996

W2

Non – controlling interest (NCI)		
Ordinary share capital	5,000	
Retained earnings=14,580-800-75	13,705	
Revaluation – 4000+3500	7,500	
	26,205×20%=	5,931
Add: preference share		1,500
NCI		7,431

H group

Consolidated statement of financial position as at 31 march 2018

Asset	**Sh 000**
Non – current assets	
Land and buildings 22,000+12,000+3,500	37,500
Plant& equipment 20,450+10,220+4,000-800	33,870
Goodwill	7,392
Current assets	
Inventories 9,850+6,590+75	16,365
Trade receivables02 11,420+3,820-240	15,000
Cash and bank	490
	110,617
Equity and liabilities	
Ordinary share capital	10,000
10% preference share	500
Returned earning w1	60,996
Non-controlling interest w2	7,431
Non-current liabilities	
10% debentures 12,000+4,000	16,000
Current liabilities	
Trade payables 6,400+4,510-240	10,670
Bank overdraft	570
Taxation 2,470+1,980	4,450
	110,617

QUESTION 11

November 2017 Question Two B

Mwanzo Ltd., Safari Ltd. and Upya Ltd. operate in the clothing industry. The following information relates to the financial position of the three companies as at 30 September 2017:

	Mwanzo Ltd. Sh."000"	Safari Ltd. Sh."000"	Upya Ltd. Sh."000"
Non-current assets:			
Property, plant and equipment	7,960	4,600	2,680
Patents	500	840	-
Investments in: Safari Ltd.	5,000		
Upya Ltd.	1,600		
Others	300	400	120
	15,360	5,840	2,800
Current assets:			
Inventories	1,140	800	600
Trade receivables	840	760	800
Bank		300	240
	1,980	1,860	1,640
Total assets	**17,310**	**7,700**	**4,440**
Equity and liabilities:			
Equity and reserves:			
Ordinary shares of Sh.20 each	4,000	2,000	1,000
Reserves: Share premium	2,000	1,000	200
Revenue reserves	9,000	3,300	2,400
	15,000	6,800	3,600
Non-current liabilities:			
Deferred tax	400	-	160
Current liabilities:			
Trade payables	1,500	900	560
Current tax	280	-	120
Bank overdraft	160	-	
	1,940	900	680
Total equity and liabilities	**17,340**	**7,700**	**4,440**

Additional information:

1. Mwanzo Ltd. acquired its investments as shown below:

Company	Number of shares acquired	Cost of investment Sh."000"	Retained earnings Sh."000"	Date of acquisition
Safari Ltd.	80,000	5,000	2,400	1 October 2015
Upya Ltd.	20,000	1,600	1,600	1 October 2016

2. At the date of its acquisition, the fair value of Safari Ltd.'s net assets were equal to their book values, with the exception of land that had a fair value of Sh.400,000 in excess of its book value.

3. On 1 September 2017. Mwanzo Ltd. processed an invoice for Sh.100,000 in respect of an agreed allocation of management fee to Safari Ltd. As at 30 September 2017. Safari Ltd. had not accounted for this transaction. Prior to this, the current accounts between the two companies had been agreed at Safari Ltd. owing Sh.140,000 to Mwanzo Ltd. (included in trade receivables and trade payables respectively).

4. During the year ended 30 September 2017, Upya Ltd. sold goods to Mwanzo Ltd. at a selling price of Sh.280,000, which gave Upya Ltd. a profit of 40% on cost. Mwanzo Ltd. had half of these goods in inventory as at 30 September 2017.

5. The fair value of the non-controlling interest (NCI) in Safari Ltd. was Sh.1,500,000.

Required:
Group statement of financial position as at 30 September 2017. (14 marks)

ANSWER

Workings
Note 1:

Group structure
Mwanzo safari ltd 80,000÷ $100{,}000 \times 100Q = 80\%$
Mwanzo upya ltd 20,000÷ $50{,}000 \times 100Q = 40\%$

Note 2:
Fair value gain of hand 400

Note 3
Returned earnings

	Mwanzo ltd.	Safari ltd	Upya ltd
Balance b/d	9000	3800	2400
Less: Pre-acquisition profit		(2400)	(1600)
Less: Management fee		1400	800
		(100)	
		1300	

Investee share of profit	
Safari ltd (80% ×1300)	1,040
Upya ltd (40% ×800)	320
Balance c/d	10,360
Less: unrealised Profit	(16)
	10,344

W4

Non- controlling interest NCA	
Equity share	1,500
Post –Acquisition reserves (20%×1300)	260
	1,760

W5

Receivables of Mwanzo Ltd	
Payables of Safari Ltd	140
Management Fee	100
	240

W6

Investment in Upya ltd	1,600
Post –Acquisition (40%×800)	320
	1,920

Goodwill on acquisition				
	Safari Ltd		**Upya ltd**	
Purchase consideration		5,000		1,600
NCI fair value		1,500		____
		6,500		1,600
Less: Net asset acquired				
Ordinary shares	2,000		1,000	
Share premium	1,000		200	
Fair value adjustment	400		-	
Pre-acquisition reserves	2,400	(5,800)	1,600	
			28×40%	(1,120)
Goodwill		700		480

W6

Unrealised profits for delivery

Selling price of goods = Sh. 280,000
Cost of good sold: let it be x

Profit = 40% on cost = $0.4x$
Profit = selling price – cost.

$$0.4\,x = 280{,}000 - x$$
$$1.4x = 280000$$

$$x = Sh\ 200{,}000$$

Profit = 280,000-200000=80,000
For remaining goods = ½× 80,000 = 40,000

Mwanzo share = 40%×40,000 = 16,000

b) Statement of financial position at at 30 September 2017

Mwanzo group
Consolidated statement of financial position as at 30/9/2017

Non current assets	**Sh "000"**
PPE 7960+4600+400	12,960
Patents 500+840	1,340
Goodwill	700
Investment in Associate	1,920
Others 300+400	700
Current assets	
Inventories 1140 +800-16	1,924
Trade receivables 840+760-240	1,360
Bank	300
Total assets	21,204
Equity & liabilities	
Ordinary shares	4,000
Reserves: Share premium	2,000
Revenue reserves	10,334
NCI	1,760
Non-current liabilities	
Defered tax	400
Current liabilities	
Trade payables 1500+900-140	2,260
Current tax	280

Bank overdraft	160
	21,204

QUESTION 12

May 2017 Question Four

The following financial statements relate to Hema Ltd and its investment companies Shuka Ltd and Ajabu Ltd for the year ended 30 April 2017:

Income statements for the year ended 30 April 2017

	Hema Ltd Sh. "million"	Shuka Ltd Sh. "million"	Ajabu Ltd Sh. "million"
Revenue	1,200	600	300
Cost of sales	(650)	(250)	(100)
Gross profit	550	350	200
Investment income	70	-	1
Distribution cost	(100)	(40)	(30)
Administrative expense	(130)	(90)	(50)
Finance cost	(40)	(20)	(20)
Profit before tax	350	200	101
Income Tax expense	(70)	(50)	(31)
Profit for the year	280	150	70
Dividends paid	(50)	(50)	(30)
Retained profits for the year	230	100	40
Retained profit brought forward	480	275	160
Retained profits carried forward	710	375	200

Statement of financial position as at 30 April 2017

Assets	**Hema Ltd Sh. "million"**	**Shuka Ltd Sh. "million"**	**Ajabu Ltd Sh. "million"**
Non-current assets:			
Property, plant and equipment	1,250	800	650
Intangible assets	200	70	80
investments	850	50	20
	2,300	920	750
Current assets:			
Inventory	200	75	60
Trade and other receivables	300	90	80
Financial assets at fair value	30	20	10
Cash and cash equivalents	150	40	40
	680	225	190
Total assets	**2,980**	**1,145**	**940**
Equity and liabilities:			

Equity:			
Ordinary share capital	1,000	200	200
Share premium	300	50	50
Revaluation reserve	200	50	50
Retained profits	710	375	200
	2,210	675	500
Non-current liabilities:			
10% loan stock	500	200	200
Current liabilities:			
Trade and other payables	250	250	220
Current tax	20	20	20
	270	270	240
Total equity and liabilities	**2,980**	**1,145**	**940**

Additional information:

1. Hema Ltd acquired the investments in other companies as follows:

Company	Date	Shareholding	Cost of purchase Sh. "million"	Revaluation reserve Sh. "million"	Retained profits Sh. "million"
Shuka Ltd	1 May 2014	80%	300	20	80
Ajabu Ltd	1 May 2015	40%	200	25	150

Hema Ltd also invested in half of the 10% loan stock in shuka Ltd.

2. The fair value of the non-controlling interest in shuka Ltd was Sh. 75 million on May 2014.
3. During the year ended 30 April 2017, Hema Ltd sold goods to shuka Ltd and Ajabu Ltd as follows

	Selling price sh."million"	Mark up %	% of goods held on in stock
Shuka Ltd	100	25	50
Ajabu Ltd	50	25	Nil

4. On 1 May 2016 Hema Ltd sold Shuka Ltd an item of plant for sh. 200 million reporting a 25% profit on cost of the plant. The group charges depreciation at 20% per annum on cost of plant.
5. All the goodwill of the two companies in which Hema Ltd has invested are estimated to be impaired by 60% to the year ended 30 April 2017. 20% of the impairment relates to the current year.
6. Trade receivables and trade payables included Sh. 50 million due from Shuka Ltd to Hema Ltd and Sh. 10 million due from Ajabu Ltd to Hema Ltd.
7. All dividends and interests had been paid by the end of the year.

Required:

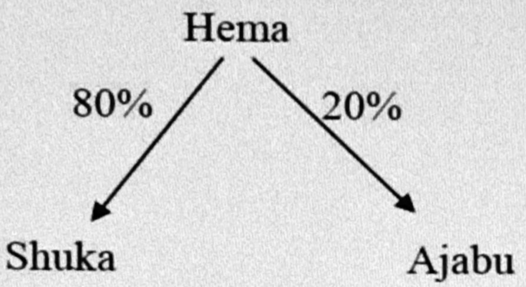
a) Consolidated income statement for the year ended 30 April 30 2017. (10 marks)
b) Statement of changes in equity for the year ended 30 April 2017 (2 marks)
c) Consolidated statement of financial position as at 30 April 2017 (8 marks)

(Total: 20 marks)

ANSWER

Workings

Note 1:



Note 2:

Loan investment $200 \times \frac{1}{2} = 100$

Interest on loan $10\% \times 100 = 10$ *Dr: Finance cost*
Cr: Investment income

Note 3:

Inter group sales:

Hema $\xrightarrow{100}$ shuka URP = $\frac{25}{100} \times 100 \times 50\% = 10$ *Dr: cost of sales*
Cr: inventory

Hema $\xrightarrow{50}$ Ajabu URP = $\frac{25}{125} \times 50 \times 0 = 0$

Inter group sale of fixed asset:	
Hema $\xrightarrow{200}$ Shuka	: Profit $\frac{25}{125} \times 200 = 40$
	: Overcharged depreciation = 20% 40=8

Note 6:

Inter group balances 50

W1

Goodwill				
	Shuka		Ajabu	
Purchase consideration		300	200	
Fair value of Net		75		
Less: net asset acquired				
Ordinary share capital	200		200	
Share premium	50			
Revelation reserve	20		25	
Returned earning	80		150	
	350	(350)	425x40%	(170)
Good will		25		30

Impairment loss = 60 % (25+30) = 33×20% = 6.6 P&L
NCL goodwill = 75 – (20% ×350) = 5
Loss for NCI = 60% ×5 = 3×20% = 0.6

Investment income = 70 - (50×80% + 30×40%) - 10 = 8

W1

Investment in Associate

Cost of investment	200
Add: Post acquisition changes in net asset	
Returned earnings 40% (200-150)	20
Revaluation 40% x(50-25)	10
	230

W2

Revaluation reserve

20+80% (50-20) + (50-25) = 234

W3

Returned earnings

Parent retained earnings 710-10-40 =	660
Add: Investee share of post acquisition RE	
Shuka: 80% (375-80+80)	242.4
Ajabu: 40% (200-150)	20
	922.4

W4

NCI

Shuka = 20% (200+50+50+375+8)	136.6
Goodwill = 5-3	2
	138.6

a) Statement of changes in equity for the year ended 30 April 2017

Hema group

Consolidated income statement for the year ended 30 April 2017

	Sh millions
Revenue 1200 + 600-100	1,700
Cost of sales 650 + 250 + 10+ 40-80-100	(842)
Gross profit	858
Investment Income	8
Distribution cost (100+40)	(140)
Administrative expense 130+90	(220)
Finance cost 40+20-10	(50)
Impairment of goodwill	(6.6)
Profit before tax	449.4
Income tax expense (70+50)	(120)
P.A.T	329.4
Add: Share of associate PAT = 40%×70	28
Total income	357.4
Attributable to :NCI: 20% (150+8) - 0.6	31
:Parent	326.4
	357.4

c) Consolidated statement of financial position as at 30 April 2017

Hema Group

Consolidated statement of financial position as at 30th April 2017.

Asset	**shs million**
Non current Assets	
PPE 1,	2,018
250+800+8-40	
Intangible assets = 200+70	270
Goodwill 25+30 – 33	22
Investment in Associate (W1)	230
Investment 850+50-100-300-200	300
Current Assets	
Inventory 200+75-10	265
Trade receivables 300+90-50	340
Financial asset at fair value 30+20	50
Cash and cash equivalent 150+40	190
	3,685

Equity and liabilities	
Ordinary share capital	1,000
Share premium	300
Revaluation reserve W2	234
Retained profit W3	922.4
Non-current liabilities	
10% loan stock = 500+200-100	600
Current liabilities trade and other payable 250+250-50	450
Current tax (20+20)	40
	3,685

QUESTION 13

November 2016 Question Four

The following information was extracted from the financial statements of A Ltd, B Ltd and C Ltd for the year ended 30 September 2016:

Statement of financial position as at 30 September 2016:

	A Ltd Sh. "million"	B Ltd Sh. "million"	C ltd Sh. "million"
Non-current assets:			
Property, plant and equipment	950	750	450
Investment	700	-	-
Intangible assets	200	150	100
Current assets			
Inventories	250	200	120
Trade receivables	220	170	80
Financial assets at fair value	180	130	120
Cash and bank balances	100	50	80
Total assets	**2,600**	**1,450**	**950**
Equity and liabilities:			
Equity and reserves			
Ordinary share capital (sh. 10 per value)	500	200	100
Share premium	200	100	50
Retained earnings	400	350	250
Shareholders' funds	1100	650	400
Non-current liabilities:			
10% debentures	600	200	200
Deferred tax	250	100	50
Current Liabilities:			
Trade payables	300	250	150
Current tax	250	150	100
Proposed dividends	100	100	50
Total equity and liabilities	2,600	1,450	950

Additional information:

1. A Ltd Acquired its investments as shown below:

Company	Number of share acquired	Cost of investment Sh. "million"	Retained earnings Sh. "million"	Date of acquisition
B. Ltd	16 million	480	150	1 October 2014
C. Ltd	3 million	120	100	1 October 2015

A Ltd also invested in half of the 10% debentures of B. Ltd. the fair value of the non-controlling interest is B Ltd

2. Immediately prior to the date of its acquisition. B Ltd revalued its non-current assets in readiness for the acquisition as shown below:

Item	Carrying amount Sh. "million"	Fair value Sh. "million"	Remaining life (years)
Equipment	250	290	10
patents	150	160	5

Equipment and patents are depreciated or amortised on a straight –line basis over their remaining useful lives respectively

3. During the year, A Ltd sold a non-current asset to B Ltd for Sh. 180 million. A Ltd marked up the equipment at 20% on cost. B Ltd included the equipment in its non-current assets and charged depreciation at the rate of 20% per annum on costs.
4. B Ltd sold inventories to A Ltd during the year for Sh. 150 million. B Ltd marked up these goods at 50% on cost. Half of these goods were still held by A Ltd as at the year end.
5. A Ltd owed B Ltd sh. 100 million as at the year end with regard to the transaction in note 4 above. The books of A Ltd however showed that it owed B Ltd only sh. 80 million. A Ltd has send a cheque to B Ltd on 25 September 2016 which was not received by B Ltd until 5 October 2016.
6. The group uses the full goodwill method. However it does not amortize goodwill, instead goodwill is assessed for impairment annually. Impairment test for the ended 30 September 2016 revealed that none of the goodwill had suffered any impairment since acquisition.

Required:

Group statement of financial position as at 30 September 2016 **(20 marks)**

ANSWER

Workings

Note 1:

$$\begin{array}{ccc} & A & \\ 16 \div 20 = 80\% \swarrow & & \searrow 3 \div 10 = 30\% \\ B & & C \end{array}$$

Investment in debenture = ½ × 200 = 100

Interest on debenture = 10% × 100 = 10

Note 2:

Revaluation

Equipment 290 -250 = 40 depreciation is 40÷10 = 4×2 = 8

Patent = 160 – 150 = 10 amortization 10 ÷ 5 = 2×2 = 4

Note 3:

Intergroup sale of asset

$A \xrightarrow{180} B$ profit = $\frac{20}{120} \times 180 = 30$

Depreciation = 20% × 30 = 6

Note 4:

Inter group sales

$B \xrightarrow{150} A$ $\frac{50}{150} \times 150 \times ½ = 25$

Note 5:

Inter group balances

Dr: payables	80
Dr: cash in transit	20
Cr: receivables	100

W1:

__**Goodwill**__

Purchase consideration		480
Fair value		120
Less: Net asset acquired		
Ordinary share capital	200	
Share premium	100	

Retained earnings (pre-acquisition)	150	
Revaluation (40+10)	50	(500)
Goodwill		100

W2:

Investment in C (associate)

Purchase consideration	120
Add: post acquisition changes in net asset	
Retained earnings: 30% (250 -100) =	45
Dividend receivable 30% × 50 =	15
	180

W 3:

Retained earnings

Parent R.E (400-30)	370	370
Add: investee share of post-acquisition retained earning		
B Ltd = 80% (350 - 150 + 6 - 8 - 4 - 25)	135.2	135.2
C Ltd: 30% (250 – 100)	45	45
Dividend receivable (100×80%) + (30% × 50)		95
		645.2

W 4:

Non – controlling interest

Ordinary share capital	200	
Share premium	100	
Retained earnings (350 + 6 – 8 – 4 – 25)	319	
Revaluation (40 +10)	50	
	669 ×20% =	133.8
NCI goodwill = 120 - (20% × 500)		20
		153.8

A Group

Consolidated statement of financial position as at 30 September 2016

	Sh. million	Sh. million
Assets		
Non-current assets		
PPE (950 + 750 + 40 – 8 +6-30)		1,708
Investment (700 – 100 – 480 – 120)		0
Intangible asset (200 + 150 + 10 - 4)		356
Goodwill		100
Investment in C		180
Current assets		
Inventories (250 + 200 – 20)	425	
Trade receivables (220 + 170 – 100)	290	
Financial asset at fair value (180 + 130)	310	
Cash and bank balance (100 + 50 + 20)	170	1,195
		3,539
Equity and liabilities		
Ordinary share capital	500	
Share premium	200	
Retained earnings	645.2	
NCI	153.8	1,499
Non – current liabilities		
10% debenture (600 + 200 – 100)	700	
Deferred tax (250+100)	350	1,050
Current liabilities		
Trade payables (300 + 250 – 80	470	
Current tax (250 + 150)	400	
Proposed dividend (100+100 – 80)	120	990
		3,539

QUESTION 14

May 2016 Question Four

Jamii Ltd is a listed company operating in the service industry. During the year ended 30April 2016,the company acquired two companies, Bora Ltd. and Njema Ltd. as part of its expansion plan. The following statements of comprehensive income relate to Jamii Ltd. and its investee companies Bora Ltd. and Njema Ltd. for the year ended 30 April 2016:

	Jamii Ltd. Sh. "million"	Bora Lt Sh. "million"	Njema Ltd. Sh. "million"
Revenue	102,180	52,800	33,150
Cost of sales	(76,635)	(36,990)	(26,520)
Gross profit	25,545	15,810	6,630
Investment income	584	60	-

	26,129	15,870	6,630
Operating expenses:			
Distribution expenses	(12,810)	(7,260)	(2,880)
Administrative expenses	(7,779)	(4,815)	(1,695)
Finance costs	(720)	(600)	(45)
Profit before taxation	4,820	3,195	2,010
Income tax expense	(1,530)	(1,125)	(645)
Profit after tax	3,290	2,070	1,365
Other comprehensive income:			
Revaluation of intangible asset	-	530	-
Total comprehensive income	3,290	2,600	1,365

Additional information:

1. On 1 May 2015, Jamii Ltd. acquired 80% of 1,125 million ordinary shares of Sh.10 each in Bora Ltd. for Sh.18,000 million. As at that date, the share premium account of Bora Ltd. had a balance of Sh.3,750 million while retained profit was Sh.3,705 million.
2. On 1 November 2015, Jamii Ltd. acquired 50% of 600 million ordinary shares of Sh.10 each of Njema Ltd. for Sh.6,300 million. As at that date, the share premium account of Njema Ltd. had a balance of Sh,1,500 million. The retained profit as at 1 May 2015 was Sh.2,085 million. The profit of Njema Ltd. accrued evenly throughout the year. The investment should be accounted for using the equity method.
3. On the date of acquisition of Bora Ltd., the property, plant and equipment of the company had a fair value which was in excess of book value by Sh.390 million, with a remaining useful life of 5 years.
4. The fair value of net assets acquired in Njema Ltd. approximated the book value as at the date of acquisition.
5. During the year ended 30 April 2016, Bora Ltd. sold goods worth Sh.6,000 million to Jamii Ltd. Bora Ltd. had marked up the goods by 25% above the cost. One quarter of these goods were included in the closing inventory of Jamii Ltd.
6. The goodwill arising on acquisition of the investee companies had suffered impairment losses to the extent of 25% during the year ended 30 April 2016. The group's policy is to apply the partial goodwill method.

Required:

a) Computation of goodwill on each investment. (4 marks)

b) Group statement of comprehensive income for the year ended 30 April 2016. (12 marks)

c) Group statement of changes in equity for the year ended 30 April 2016. (4 marks)

(Total: 20 marks)

ANSWER

(Group)

Workings

Jamii $\xrightarrow{80\%}$ Bora

Jamii $\xrightarrow{50\%}$ Njema

a) Computation of goodwill on each investment

Goodwill on acquisition

	Bora		Jamii	
Purchase consideration		18,000		6,300
Net asset acquired				
Ordinary share capital	11,250		6,000	
Share premium	3,750		1,500	
Retained earnings	3,705		2,767.5	
Revaluation	390		-	
	19,095×80%	(15,276)	10,267.5×50%	(5,133.75)
Goodwill		**2,724**		**1,166.25**

Retained earnings for Jamii on 1 November 2015 = 2,085 + (1,365×$\frac{6}{12}$) = 2,767.5

Working

Note 1

Depreciation of revalued PPE = 390 ÷ 5 = 78

Note 2

Inter group sales

Bora $\xrightarrow{6,000}$ Jamii URP = $\frac{25}{125} \times 6,000 \times \frac{1}{4} = 300$

Note 3

Impairment loss for goodwill

25% (2,724 + 1,166.25) = 972.5

b) Group statement of comprehensive income for the year ended 30 April 2016

Jamii Group

Consolidated statement of comprehensive income for the year ended 30/4/2016

	Sh. million
Revenue (102,180 + 52,800 – 6000	148,980
Cost of sale (76,635+36,990+78+300 - 6,000	(108,003)
Gross profit	40,977
Investment income (584+60)	644
Expenses	
Distribution expenses (12,810 +7,260)	(20,070)
Administration expenses (7,779 + 4,815+ 972.5)	(13,566.5)
Finance cost (720 +600)	(1,320)
Profit before tax	6,664.5
Income tax expense (1,530+1,125)	(2,655)
Profit after tax	4,009.5
Associate share of PAT (50% $\times$1,365$\times\frac{6}{12}$)	341.25
Total profit	4,350.75
Attributable to: Parent	4,012.35
NCI 20% (2070-78-300)	338.4
	4,350.75

c) Group statement of changes in equity for the year ended 30 April 2016

Statement for Changes in equity for this case cannot be prepared because old share and share premium for the parent has not been provided

QUESTION 15

November 2015 Question Five

The following is an extract of the financial statements of A Ltd, B Ltd and C Ltd for the years ended 30 September 2015:

Income statement for the year ended 30 September 2015

	A Ltd. Sh. "million"	B Ltd. Sh. "million"	C Ltd. Sh. "million"
Revenue	9,120	4,940	4,560
Cost of sales	(3,610)	(1,092)	(1,064)
Gross profit	5,510	3,848	3,496
Distribution cost	(665)	(425)	(380)
Administrative expenses	(695)	(170)	(380)
Finance cost	(65)	(20)	
Profit before tax	4,085	3,230	2,736
Income tax expense	(1,660)	(1,078)	(848)

Profit for the period	2,425	2,152	1,888
Retained profit brought forward	7, 612	1,452	1,250

Statement of financial position as at 30 September 2015

	A Ltd. Sh. "million"	B Ltd. Sh. "million"	C Ltd. Sh. "million"
Non-current assets			
Property, plant and equipment	6,096	4,855	2,612
Investments	4,350	50	-
	10,446	4,905	2,612
Current assets			
Inventory	1,460	853	737
Accounts receivable	1,880	765	573
Cash and bank balances	1,224	187	468
	4,564	1,805	1,778
Total assets	**15,010**	**6,710**	**4,390**
Equity and Liabilities:			
Capital and Reserves:			
Ordinary share capital	2,600	1,600	400
Share premium	1,500	300	-
Retained profit	8,237	3,604	3,138
	12,337	5,504	3,538
Non-current Liability			
Loan from bank	650	200	-
Current liabilities			
Trade payables	1,463	646	382
Current tax	560	360	220
Bank overdraft	-	-	250
	2,023	1,006	852
Total equity and liabilities	**15,010**	**6,710**	**4,390**

Additional information:

1. A Ltd acquired 40% of C Ltd on 1 October 2014 for Sh. 700 million
2. A Ltd also acquired 80% of the ordinary shares of B Ltd on 1 January 2015 at a cost of sh. 3,430 million. The fair value of non-controlling interests as at this date amounted to Sh. 800 million.
3. The fair value of B Ltd's plant and equipment on the date of acquisition was sh. 210 million above the book value with exactly 5 years remaining on the useful life of this property.

4. During the year ended 30 September 2015, B Ltd sold goods to A Ltd for sh. 140 million, B Ltd marked up the goods at 16 $^{2}/_{3}$ % on the cost. Half of the goods remained in the stock of A Ltd as at the year end.

5. As at 30 September 2015, A Ltd owed B Ltd sh. 80 million while C Ltd Sh. 15 million.

6. Goodwill was impaired as follows:
   B Ltd 25%
   C Ltd 10%

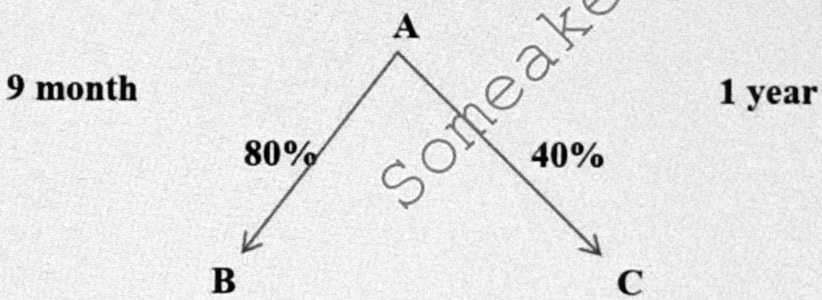
Required:
Prepare the following financial statements in the books of A Ltd for the year ended 30 September 2015:

a) Consolidated statement of comprehensive income. (7 marks)
b) Statements of changes in equity. (3 marks)
c) Statement of financial position. (10 marks)

(Total: 20 marks)

ANSWER

Workings



Fair value gain 210

$$\text{Depreciation} = 210 \div 5 = 42 \times \frac{9}{12} = 31.5$$

Inter group sales

$$B \xrightarrow{140} A \qquad URP = \frac{16.67}{116.67} \times 140 \times \frac{1}{2} = 10$$

Inter group balances <u>80</u>

W 1:

Good will				
	B		**C**	
Purchase consideration		3,430		700
Fair value of NCI		800		
Less: net asset acquired				
Ordinary share capital	1,600		400	
Share premium	300		-	
Revaluation	210		-	
Pre-retained earnings $1,452+\left(2,152 \times \frac{3}{12}\right)$	1,990	(4,100)	1,250	
			1,650×40%	(660)
Goodwill		130		40
Impairment	(25%×130	32.5	10% × 40	(4)
Net goodwill		**97.5**		**36**

NCI goodwill = 800 – (4,100×20%) = -20
Impairment loss = 25% × 20 = 5
Net NCI goodwill -20 -5 = -**25**

W 2:

Retained earnings

Parent R.E (A Ltd)	8,237
Add: investee post acquisition R.E	
B Ltd = 80% $(2,152 \times \frac{9}{12} - 315 - 10)$	1,258
C Ltd = 40% (1,888)	755
Impairment of goodwill (32.5+4)	(36.5)
	10,213.3

NCI

Ordinary share capital	1,600	
Share premium	300	
Revaluation	210	
Retained earnings (3,604 -10-31.5)	3,562.5	
	5,672.5×20%	=1,134.5
NCI goodwill		(20)
		1,114.5

Investment in associate

Purchase consideration	700
Add: changes in net asset	
R.E = 40% (1,888)	755.2
Less: impairment of goodwill	(4)
	1,451.2

a) Consolidated statement of comprehensive income

A group **Consolidated statement of comprehensive income for the year ended 30/09/2015**	
	Sh. "million"
Revenue $9{,}120 + (4{,}940 \times \frac{9}{12}) - 140$	12,685
Cost of sales $3{,}610 + \left(1{,}092 \times \frac{9}{12}\right) + 10 + 31.5 - 140$	(4,330.5)
Gross profit	8,354.5
Distribution cost $665 + \left(428 \times \frac{9}{12}\right)$	(986)
Administration expense $695 + \left(170 \times \frac{9}{12}\right)$	(822.5)
Finance cost $65 + \left(20 \times \frac{9}{12}\right)$	(80)
Impairment of goodwill 32.5 + 4	(36.5)
Profit before tax	6,429.5
Tax expense $1{,}660 + \left(1{,}078 \times \frac{9}{12}\right)$	(2,468.5)
Profit after tax	3,961
Add: associate share of PAT = 40% × 1,888	755.2
	4,716.2
Attributable to:- - Parent - NCI :- 20% $\left(2{,}152 \times \frac{9}{12} - 31.5 - 10\right) + 5$	 4,396.7 319.5
	4,716.2

b) Statement of changes in equity

A Group

Consolidated statement of changes in equity for the year ended 30 September 2015

	Ord. share capital	Share premium	Retained profit	NCI
Balance b/d	2,600	1,500	7,612	800
Profit for the year	-	-	4,396.5	319.5
Dividend (2,425+7,612-8,237)	-	-	(1,800)	(10)
	2,600	**1,500**	**10,213.5**	**1,114.5**

c) Statement of financial position

A Group

Consolidated statement of financial position as at 30 September 2015

	Sh. "million"
Asset	
Non-current assets	
PPE 6,096+4,855+210-31.5	11,129.5
Investment 4,350 + 50 – 720 - 3,430	270
Goodwill	97.5
Investment in associate	1,451.2
Current assets	
Inventory 1,460 + 853 -10	2,303
Receivables 1,880 +765 - 80	2,565
Cash and bank balance 1,224 + 187	1,411
	19,227.2
Equity and liabilities	
Ordinary share capital	2,600
Share premium	1,500
Retained profit	10,213.5
Non-controlling interest (NCI)	1,114.5
Non-current liabilities	
Loan from bank (650+200)	850
Current liabilities	
Trade payables (1,463+646-80)	2,029
Current tax (560+360)	920
	19,227

QUESTION 16

Pilot Paper September 2015 Question One

On 1 October 2014, P Ltd. acquired 60% of the equity share capital of S Ltd. in a share exchange of two shares of P Ltd. For three shares of S Ltd. on this date, shares of P Ltd were trading at Sh. 8 each.

Below are the financial statements of the two companies for the year ended 31 March 2015

Income statements for the year ended 31 March 2015:

	P Ltd	S Ltd
	Sh. "000"	Sh. "000"
Revenue	170,000	84,000
Cost of sales	(126,000)	(64,000)
Gross profit	44,000	20,000
Distribution costs	(4,000)	(4,000)
Administrative expenses	(12,000)	(6,400)
Finance Costs	(600)	(800)
Profit before tax	27,400	8,800
Income tax expense	(9,400)	(2,800)
Profit for year	**18,000**	**6,000**

Statement of financial position as at 31 March 2015

	Sh. "000"	Sh. "000"
Assets		
Non-current assets		
Property, plant and equipment	60,900	18,900
Investment property	20,300	6,300
	81,200	25,200
Current assets		
Inventory	12,080	5,000
Receivables	11,920	4,900
Bank	8,000	3,300
	32,000	**13,200**
	113,200	**38,400**
Equity and liabilities		
Capital and reserves		
Ordinary share capital (sh. 1 each)	20,000	8,000
Retained earnings	70,800	13,000
	90,800	**21,000**
Non-current liabilities		
10% loan notes	6,000	8,000
Current liabilities		
Trade payables	12,300	7,050

Accruals	4,100	2,350
	16,400	**9,400**
	113,200	**38,400**

Additional information:

1. The issue of shares on acquisition of S Ltd. has not yet been recorded by P Ltd.
2. As at the acquisition date, fair values of S Ltd.'s asset were equal to their carrying amount except for an item of plant, which had a fair value of 2 million in excess of the carrying amount. The plant had a remaining useful life 5 years as at the acquisition date .S Ltd. has not revalued its assets.
3. Sales from S Ltd, to Patterson Ltd. In the post-acquisition period amounted to Sh. 8 million. S Ltd. made a markup of 40%. Sh.2.8 million of these goods at cost to P Ltd. were still included in inventory on 31 March 2015.
4. S Ltd.'s trade receivables include Sh. 800,000 due from P Ltd. which did not agree with the corresponding payables. This was due to cash paid by P Ltd. which was yet to be received by S Ltd.
5. P Ltd. has a policy of accounting for any non-controlling interest at fair value. Fair value of goodwill attributable to non-controlling interest in S Ltd. was Sh.2.4 million.
6. Neither of the company declared dividends in the year ended 31 March 2015.

Required:

(i) Consolidated statement of comprehensive income for the year ended 31 March 2015. (10 marks)

(ii) Consolidated statement of financial position at 31 March 2015. (10 marks)

(Total: 20 marks)

ANSWER

$$P \xrightarrow[\text{6 months}]{60} S$$

$8{,}000 \times 60\% = 4{,}800$ then $\frac{2}{3} \times 4{,}800 = 3{,}200 \times 8 = 25{,}600$

Dr: purchase consideration	25,600
Cr: ordinary share capital 3,200 ×1 =	3,200
Cr: share premium 3,200 × 7 =	22,400

Revaluation = 2,000

Depreciation $= 2{,}000 \div 5 = 400 \times {}^{6}/_{12} = 200$

Inter-group sales

8,000

S $\longrightarrow$ P = URP = $\frac{40}{140} \times 2,800 = 800$ (*Add:* Cost of sales, *Less:* closing stock)

Inter-group balances 800

Determining Good will

Goodwill		
Purchase consideration		25,600
Net Assets		
Ordinary share capital	8,000	
Revaluation	2,000	
Retained earnings (13,000-3,000)	10,000	
	20,000 × 60%	(12,000)
		13,600
NCI goodwill		2,400
Full goodwill		16,000

NCI

Ordinary share	8,000	
Revaluation	2,000	
Retained earnings (13,000-800-200)	12,000	
	22,000× 40%	8,800
Add: NCI goodwill		2,400
		11,200

Retained earnings

Parent R.E	70,800
Add: investee share of post acquisition R.E	
Subsidiary 60% (3,000 -800-200)	1,200
	72,000

i. Consolidated statement of comprehensive income for the year ended 31st March 2015

P group **Consolidated statement of comprehensive income for the year ended 31 March 2015**	
	Sh. "000"
Revenue $\left[170{,}000 + \left(84{,}000 \times \frac{6}{12}\right) - 8{,}000\right]$	204,000
Cost of sales $\left[126{,}000 + \left(64{,}000 \times \frac{6}{12}\right) + 800 + 200 - 8{,}000\right]$	(151,000)
Gross profit	53,000
Distribution expenses $\left(4{,}000 + 4{,}000 \times \frac{6}{12}\right)$	(6,000)
Administration expense $\left(12{,}000 + 6{,}400 \times \frac{6}{12}\right)$	(15,200)
Finance cost 600 + $\left(800 \times \frac{6}{12}\right)$	(1,000)
Profit before tax	30,800
Tax expense 9,400 + ($\frac{6}{12} \times 2{,}800$)	(10,800)
Profit after tax	20,000
Attributable to NCI = 40% (3,000 – 400 – 800	(800)
Attributable to parent	**19,200**

ii. Consolidated statement of financial position as at 31 March 2015

P Group

Consolidated statement of financial position as at 31 March 2015

	Sh. "000"
Assets	
Non-current asset	
PPE 60,900+18,900+2,000 - 200	81,600
Investment property	26,600
Goodwill	16,000
Current assets	
Inventory 12,080 +5,000 – 800	16,280
Receivables 11,920+4,900 – 800	16,020
Bank 8,000+3,300	11,300
Cash at transit	800
	168,600
Equity and liabilities	
Ordinary share capital (20,000 + 3,200)	23,200
Share premium	22,400
Retained earnings	72,000
NCI	11,200
Non- Current liabilities	
10% loan note (6 + 8)	14,000

Current liabilities	
Payables 12,300 + 7050	19,350
Accruals 4,100 + 2,350	6,450
	168,600

QUESTION 17

Pilot Paper September 2015 Question Three B

Fulcon Ltd deals in Italian shoes. It has head office in Westlands, Nairobi and branches in several parts of the city. Accounts of all branches are maintained in the head office books. The following information relates to transactions carried by Eastlands branch for the year ended 31 December 2014. The amounts are stated at selling price.

	Sh. "000"
Opening inventory	31,680
Goods received from head office	700,368
Goods received from southlands office	3,360
Goods send to northlands branch from Eastlands branch	4,320
Goods returned to Eastlands branch by credit customers	5,280
Goods returned to Northlands branch by an Eastlands branch customer	1,932
Goods returned to head office	8,160
Goods stolen from Eastlands branch	5,760
Cash sales	316,800
Credit sales	370, 116

Additional information:

1. Goods were marked at normal markup of $\frac{3}{5}$.
2. To clear some old stocks, goods with normal selling price of 3 million were marked down by 20%. Two thirds of these goods had been sold as at 31 December 2014.
3. Other than the goods stolen there were no shortages of surpluses for goods in the year.

Required:

(a) Eastlands branch inventory account for year ended 31 December 2014. (6 marks)

(b) Eastlands branch markup account for year ended 31 December 2014. (6 marks)

(c) Goods send to Eastlands Branch account for the year ended 31 December 2014. (4 marks)

ANSWER

Fulcon Ltd.

Branches

Mark-up = $^3/_5$

Converting mark-up to margin $\frac{3}{5+3} = \frac{3}{8}$

Cost price = $\frac{5}{8}$

i. Eastlands branch inventory account for the year ended 31 December 2014

Eastlands branch Inventory account for the year ended 31 Dec 2014			
	Sh. "000"		**Sh. "000"**
Balance b/d	31,680	Goods sent to Northlands	4,320
Goods from head office	700,368	Returns to head office	8,160
Goods from Southlands	3,360	Goods stolen	5,760
Return inwards	5,280	Cash sales	316,800
		Credit sales	370,116
		Marked down goods (20% ×3,000)	600
		Balance c/d	34,932
	740,688		**740,688**

ii. Eastlands branch markup account for year ended 31 December 2014

Eastlands branch Markup account for the year ended 31 Dec 2014			
	Sh. "000"		Sh. "000"
Goods sold to Northland $\left(\frac{3}{8} \times 4{,}320\right)$	1,620	Balance b/d $\left(\frac{3}{8} \times 31{,}680\right)$	11,880
Returns to head office $\left(\frac{3}{8} \times 8{,}160\right)$	3,060	Goods from head office $\left(\frac{3}{8} \times 700{,}368\right)$	262,638
Goods returned by Eastlands customer to Northlands $\left(\frac{3}{8} \times 1{,}932\right)$	724.5	Goods from Southlands $\left(\frac{3}{8} \times 3{,}360\right)$	1,260
Goods stolen $\left(\frac{3}{8} \times 5{,}760\right)$	2,160		
Marked down in selling price	600		
Gross profit (bal. figure)	254,514		
Balance c/d $\left(\frac{3}{8} \times 34{,}932\right)$	13,099.5		
	275,778		**275,778**

iii. **Goods sent to Eastlands branch for the year ended 31 December 2014**

Goods sent to Eastlands branch account For the year ended 31 Dec 2014			
	Sh "000"		Sh. "000"
Goods to Northland $\left(\frac{5}{8} \times 4,320\right)$	2,700	Goods from head office $\left(\frac{5}{8} \times 700,368\right)$	437,730
Return to Northlands $\left(\frac{5}{8} \times 1,932\right)$	1,207.5	Goods from Southland $\left(\frac{5}{8} \times 3,360\right)$	2,100
Return to head office $\left(\frac{5}{8} \times 8,160\right)$	5,100		
Head office purchases bal. figure	430,822.5		
	439,830		439,830

QUESTION 18

May 2015 Question Four

X Ltd. Company quoted on the securities exchange, acquired sh. 960 million of the share capital of Y Ltd. On April 2011. X Ltd also acquired Sh. 165 million of the share capital of Z ltd. On 1 September 2011. At the time of acquisitions, the retained earnings of Y Ltd. and Z Ltd. were 2,400 million and sh. 807 million respectively while the fair values of the net assets of Y Ltd. and Z Ltd. were Sh. 2400 million and Sh. 1,956 million respectively.

The financial statements of the three companies for the year ended 31 march 2015 were as follows:

Income statement for the year ended 31 march 2015

	X Ltd Sh. "million"	Y Ltd Sh. "million"	Z ltd Sh. "million"
Revenue	18,000	12,600	7,380
	(8,400)	(8,820)	(3,198)
	9,600	3,780	4,182
Investment income	780	-	-
	10,380	3,780	4,182
Distribution costs	(1,800)	(270)	(600)
Administrative expenses	(900)	(600)	(588)
Finance costs	(150)	(240)	(90)
Profit before tax	7,530	2,670	2,904
Income tax expense	(1,200)	(822)	(1,116)
Profit for the year	6,330	1, 848	1,788
Retained earnings brought forward	1,710	1,839	879
	8,040	3,687	2,667

Dividends	(750)	(900)	(240)
Retained earnings carried forward	7,290	2,787	2,427

Statements of financial position as at 31 march 2015

	X Ltd	Y Ltd	Z Ltd
Non-recurrent assets	Sh. "million"	Sh. "million"	Sh. "million"
Property, plant and equipment	4, 620	2,760	1,326
Intangible assets	-	1,050	81
Investment in Y Ltd	2, 295	-	-
Investment in Z Ltd	609	-	-
	7,524	3,810	1,407
Current assets:			
Inventory	2,160	4,380	622
Accounts receivable	2,850	1,587	990
Cash and cash equivalents	5,880	1,530	1,479
	10, 890	7, 497	3,111
Total assets	**18,414**	**11,307**	**4,518**
Capital and liabilities			
Equity and reserves			
Ordinary share capital (sh 10 per value)	4,500	1,200	660
Share premium	6,84	420	249
Retained earnings	7,290	2,787	2, 427
	12,474	4,407	3,336
Current liabilities			
Trade and other payables	5,940	6,900	1,182
	18,414	**11,307**	**4,518**

Additional information

1. During the year ended 31 March 2015, Y Ltd sold goods to X Ltd for Sh. 3,900 million. Y ltd made a profit of 30% on the selling price. Sh. 420 million of these goods were held by X Ltd as at 31 march 2015. On 31 march 2014, X Ltd held sh. 180 million of the goods that had been purchased from Y Ltd at the same gross profit margin
2. Annual impairment tests have indicated impairment loss of sh. 300 million relating to the goodwill of Y Ltd which included sh. 75 million of the goodwill impaired on the year ended 31 March 2015. The goodwill of Z Ltd has not been impaired.
3. The fair value difference of the net assets of Y Ltd relates to plant being depreciated over a useful life of ten years from the acquisition date while the fair value difference of the net assets of Z Ltd relates to land.

4. Y Ltd intangible assets include sh. 261 million being expense incurred on staff training on the use of new technology conducted during the year. The directors of Y Ltd believe that the expenditure should be capitalized since the expenses were incurred before the new business had commenced.

5. Y Ltd has not issued new share capital since acquisition.

6. Investment income of X Ltd relates to dividends received from Y Ltd and Z Ltd.

Required:

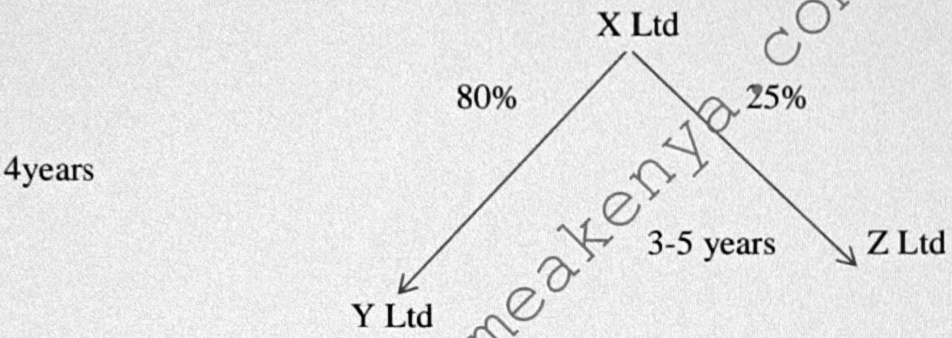
(a) Group statement of comprehensive income for the year ended 31 March 2015. (10 marks)

(b) Group statement of financial position as at 31 March 2015. (10 marks)

(Total: 20 marks)

ANSWER

Workings



Inter-group sales Y $\xrightarrow{\textbf{3,900}}$ **X**

End ⟶ 30% × 420 = 126

Beginning ⟶ 30% × 180 = (54)

URP = 72

Intangible asset = 261 to administration expense

Investment income	780
Less dividend	
- 80% × 900	(720)
- 25% × 240	(60)
	0

Goodwill

Cost of investment	2,295
Net asset acquired (2,400 × 80%)	(1,920)
Goodwill	375
Impairment	(300)
Net goodwill	**75**

Investment in associate

Cost of investment	609
Changes in net asset	
Retained earnings 25%(2,427 – 807)	405
	1,014

Non-controlling interest (NCI)

Ordinary share capital	1,200
Share premium	420
Revaluation	300
Retained earnings (2,787 -120 – 126 – 261)	2,280
	4,200 ×20% = 840

Net asset adjustment

	X	Y
Fair value	2,400	1,956
Carrying amount of net asset	2,100	1,716
Revaluation gain	300	240

Depreciation = $\frac{300}{10}$ = 30 × 4 = 120

Retained earnings

Present retained earning	7,290
Impairment loss	(300)
	6,990
Add: investee post acquisition share	
Y Ltd = 80% (2,787 – 480 – 261 – 126 – 120)	1,440
Z Ltd = 25% (2,427 – 807)	405
	8,835

a) Group statement of comprehensive income for the year ended 31 March 2015

Y Group

Consolidated income statement for the year ended 31 March 2015

	Sh. "million"
Revenue (18,000 +12,600 – 3,900)	26,700
Cost of sales (8,400 + 8,820 + 72 – 3,900 + 30)	13,422
Gross profit	13,278
Expenses	
Distribution expenses (1,800 + 270)	(2,070)
Administration expense (900 + 600 +261)	(1,761)
Finance cost (150 + 240)	(390)
Impairment of goodwill	(75)
Profit before tax	8,982
Tax expense (1,200 + 822)	(2,022)
Profit after tax	6,960
Associate share of PAT = 25% × 1,788	447
	7,407
Attributable to NIC 20% (1,848 – 30 – 261 – 72)	(297)
To parent	7,110

b) Group statement of financial position as at 31 March 2015

X Group

Statement of financial position as at 31 March 2015

	Sh. "million"
Assets	
Non-current assets	
PPE (4,620 + 2,760 + 300 – 120)	7,560
Intangible asset (1,050 – 261)	789
Goodwill	75
Investment in associate	1,014
Current assets	
Inventory (2,160 + 4,380 - 126	6,414
Receivable (2,850 +1,587)	4,437
Cash and cash equivalent (5,880 + 1,530)	7,410
Total assets	**27,699**
Equity and liabilities	
Ordinary share capital	4,500
Share premium	684
Retained earnings	8,835
N.C.I	840
Liabilities	
Trade and other payables (5,940 + 6,900)	12,840
	27,699