Task IM-8.11: Consolidated Financial Statements (based on CPUT materials, W. Lotter)

CROMWELL Ltd. holds 208 out of 400 shares of DANE Ltd.
See below the description of the case:

Statement of profit or loss	**C Ltd**		**D Ltd**	
Profit from operations	900		700	
Dividends received from D Ltd	156		-	
Profit before tax	1 056		700	
Taxation	(261)		(203)	
Profit for the year	795		497	
Statement of change in equity	**Ret. earnings**		**Ret. earnings**	
Opening balance	140		170	
Profit	795		497	
Dividends	(700)		(300)	
Closing balance	235		367	
Statement of financial position				
Property, plant and equipment	550		650	
Investment in D Ltd at cost (208 shares)	250		-	
Current assets	192		180	
	992		830	
Ordinary share capital (500 / 400 shares)	500	#	400	
Retained income	235		367	
Non-current liabilities	117		50	
Current liabilities	140		13	
	992		830	
Other information	-		-	
C Ltd obtained the shares in D Ltd at **1 July 2008** when the retained earnings of.				
D Ltd was R60. Included in PPE of D Ltd is plant, sold by C Ltd to D Ltd on 1 October				
2013 at CA + 30%, after C Ltd acquired it on 1 October 2012 for R200. The useful life				
of the plant is 4 years with no residual value.				
Included in the inventory of D Ltd is inventory for R150, acquired from C Ltd at cost+20%.				
The tax rate is 29% and deferred tax has a credit balance.				

Exhibit 1: Case

Solution:

We acknowledge that DANE Ltd. is a subsidiary of CROMWELL Ltd with the latter one holding 208/400 = 52% of the subsidiary's shares. Consolildated financial statements are to be prepared. We start with a consolidation chart. Therein the initial capital consolidation has been entered already.

The book value of DANE at the time of acquisition was 400 + 60 = **R 460.00**. The portion of the investment is valued at: 460 × 52% = **R 239.20**. This amount results in a goodwill of: 250 – 239.20 = **R 10.80**. For the initial capital consolidation the book value of the investment is removed from the equity section. It equals to 208 + 52% × 60 = **R 239.20**. Observe the column CapCons.

The portion of the equity (= share capital and retained earnings) assigned to non-controlling interest holders at the time of acquisition is: 192 + 60 × (1 – 52%) = 192 + 28.80 = **R 220.80**.

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS	CAP. CONS			CONS. F/S
N-cur Assets								
P,P,E	550	650	1,200					1,200
Int. assets			0					0
Investments	250		250	(250)				0
Goodwill			0	**10.80**				**11**
cur Assets	170	180						
Inventory			0					0
Receivables			0					0
Prepaid exp.			0					0
Cash			0					0
	970	*830*	*1,800*	*(239.20)*	*0*	*0*	*0*	*1,561*
SH's capital								
Issued capital	(500)	(400)	(900)	208	192			(500)
Reserves			0					0
Reval. Reserves			0					0
Retained ear.	(213)	(367)	(580)	31.20	28.80			(520)
M.I.			0		**(220.80)**			**(221)**
Liabilities								
Int. bear. liab.	(117)	(50)	(167)					(167)
Payables	(140)	(13)	(153)					(153)
Provisions			0					0
Def. income			0					0
Tax liabilities			0					0
	(970)	*(830)*	*(1,800)*	*239.20*	*0*	*0*	*0*	*(1,561)*

Exhibit 2: Consolidation chart (20W9)

We combine the initial consolidation of capital and refer thereto as the initial consolidation bookkeeping entry. It reads:

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DR Goodwill ........................      10.80 ZAR
DR Issued Capital ..................     400.00 ZAR
DR Retained Earnings ...............      60.00 ZAR
CR Investment ......................     250.00 ZAR
CR Non-ctrl Interest ...............     220.80 ZAR
```

During the period between acquisition and the actual fiscal year, DANE Ltd increased retained earnings from 60 to 170. Hence the increase equals to 170 – 60 = **R 110.00**. The split is at a 48 : 52 ratio meaning the amount for the subsidiary is: 110 × 48% = **R 52.80**. The amount of CROMWELL Ltd. is 110 – 52.80 = **R 57.20**.

The plant was bought by CROMWELL Ltd at R 200.00 and written off by R 50.00. Hence, DANE Ltd. bought it at: 150 × (1 + 30%) = **R 195.00**. The intra group profit is: 150 × 30% = **R 45.00**. The removal of the profit leads to a decrease of income taxes to the extent of 45 × 29% = **R 13.05**. The difference in depreciation equals to: 45/3 = **R 15.00**. As the difference is at the subsidiary, changes are made in the non-ctrl interest and in the retained earnings as well. We have to reduce the profit of the parent by R 45.00. The profit of the subsidiary is increased by R 15 for higher depreciation. The latter one leads to an tax reduction of 15 × 29% = **R 4.35**. The amount is to split between parent and subsidiary at a 48 : 52 ratio. At the same time the plant is revalued: The value is: 150 – 50 = **R 100.00** instead of 195 – 65 = **R 130.00**. Hence the difference in valuation is: 130 – 100 = **R 30.00**. The amount reflects the decrease in profit and its in crease by depreciation: -45 + 15 = **-R 30.00**. The pretax amount is 30 × (1 – 29%) = **R 21.30** and the portion for taxation is 30 × 29% = **R 8.70**.

With regard to the inventories, the amount was 150 but should be clear of intra group profit. Hence the amount is: 150/120% = **R 125.00**. Pretax profit is to be decreased by 150 - 125 = **R 25.00**. The intra group profit of 25 is to be deducted from the income statement. At the same time the tax impact is to be considered as a tax reduction: 25 × 29% = **R 7.25**. We deduct the value of R 25 from the inventories and reduce profit by the amount of 25 – 7.25 = **R 17.75**. The amount of 7.25 is a reduction of income tax liabilities, recorded as long-term debts.

For the consolidated income statement we reduce the operating profit by: 45 – 15 = **R 30.00** for the plant deal and depreciation and for R 25 for the inventory sale. Taxed are reduced by R 8.70 for the plant and by R 7.25 for the inventories sold lower. Hence, the income statement discloses an operating profit of: 900 + 700 – 30 - 25 = **R 1,545.00** before taxation. After taxes the amount is: 1,545 × (1 – 29%) = **R 1,096.95**. The amount of the profit for DANA Ltd. is: R 497. The amount is split at a 48 : 52 ratio: 48% × 497 = **R 238.56**. The amount for the controlling interest holders is: 1,096.95 – 238.56 = **R 858.39**.

The changes in retained earnings due to intra group profits (sales) are: 21.30 + 17.75 = **R 39.05**.

	AGGR.	CAP. CONS	between	Inventory	Plant	profit	dividend	CONS. F/S
N-cur Assets								
P,P,E	1,200				(30)			1,170
Int. assets	0							0
Investments	250	(250)						0
Goodwill	0	**10.80**						**11**
cur Assets	372			(25)				347
Inventory	0							0
Receivables	0							0
Prepaid exp.	0							0
Cash	0							0
	1,822	*(239.20)*	*0*	*(25)*	*(30)*	*0*	*0*	*1,528*
SH's capital								
Issued capital	(900)	400						(500)
Reserves	0							0
Reval. Reserves	0							0
Retained ear.	(602)	60.00	52.80	17.75	21.30	238.56	(144)	(356)
Non-ctrl. int.	0	(220.80)	**(52.80)**			**(238.56)**	**144**	**(368)**
Liabilities								
Int. bear. liab.	(167)			7.25	8.70			(151.05)
Payables	(153)							(153.00)
Provisions	0							0
Def. income	0							0
Tax liabilities	0							0
	(1,822)	*239.20*	*0*	*25*	*30*	*0*	*0*	*(1,528)*

Exhibit 3: final consolidation chart

Cromwell Group's
consolidated **STATEMENT of PROFIT & LOSS and OTHER COMPREHENSIVE INCOME for the year ended 30.09.20X4**

	[R]
Revenue	
Other income	
Materials	
Labour	
Depreciation	
Other expenses	
Earnings before int. & taxes (EBIT)	1,545.00
Interest	
Earnings before taxes (EBT)	1,545.00
Income tax expenses	(448.05)
Deferred taxes	
Earnings after taxes (EAT)	1,096.95
non-ctrl. interest	238.56
ctrl interest	858.39

Exhibit 4: consolidated income statement

The statement of changes in equity is disclosed below:

Cromwell Group's
STATEMENT of CHANGES in EQUITY
as at 30.09.20X4

	Share capital	non-ctrl. int.	R/E ctrl	total
	[R]	[R]	[R]	[R]
At time of acquisition	500.00	not rel.	140.00	640.00
At time of acquisition		220.80		220.80
between		52.80	57.20	110.00
Profit 20X4		238.56	858.39	1,096.95
Dividend 20X4			(700.00)	(700.00)
Dividend 20X4		(144.00)		(144.00)
as at 30.09.20X4	500.00	368.16	355.59	1,223.75

Exhibit 5: consolidated statement of changes in equity

Cromwell Group's
consolidated **STATEMENT of FINANCIAL POSITION**
as at 30.09.20X4

A		C, L	
Non-current assets	[R]	*Equity*	[R]
P, P, E	1,170.00	Share capital	500.00
Intangibles		Reserves	
Investments		Retained earnings	355.59
Goodwill	10.80	Non-ctrl. interest	368.16
Current assets	347.00	*Liabilities*	
Inventory		Interest bear liab	151.05
Accounts receivables		Accounts payables	153.00
Prepaid expenses		Provisions	
Cash/Bank		Tax liabilities	
Total assets	1,527.80	***Total equity and liab.***	1,527.80

Exhibit 6: consolidated balance sheet

Example 7 ANSWER			
Interest in D Ltd =208/400 =		**52.0%**	
Analysis of interest in D Ltd	**Total**	**52%**	**48%**
At acquisition			
Ordinary share capital	400	208	192
Retained earnings	60	31	29
	460	239	221
Investment in D Ltd		(250)	
GOODWILL		(11)	
Since acquisition until beginning of this year			
Retained earnings (170 - 60)	110	57	53
Current year			
Profit after tax	497	258	239
Dividend	(300)	(156)	(144)
	767	399	368

	C Ltd	**D Ltd**
1/10/12	200	
30/9/13	-50	
1/10/13	150	195
30/9/14	-50	-65
	100	130

Consolidated statement of profit or loss		
	Note	**R**
Profit (900 + 700 - 30 - 25)		1 545
Taxation (261 + 203 - 9 - 7)		(448)
Profit of the group for the year		1 097
Profit share of non-controlling shareholders		(239)
Profit share of controlling shareholders		858

Consolidated statement of change in equity	
	Ret. earnings
Opening balance (140 + 57)	197
Profit share of controlling shareholders	858
Dividends	(700)
Closing balance	355.4 4 0

Consolidated statement of financial position	
Property, plant and equipment (550 + 650 -**30**)	1 170
Goodwill	11
Current assets (192 + 180 - **25**)	347
	1 528
Ordinary share capital	500
Retained earnings	355
Interest of controlling shareholders	855
Interest of non-controlling shareholders	368
SHAREHOLDERS INTEREST	1 224
Non-current liabilities (117 + 50 - **9** - **7**)	151
Current liabilities (140 + 13)	153
	1 528
	0