Task IM-8.9: Consolidated Financial Statements (based on CPUT materials, W. Lotter)

XOLANI Ltd. holds an interest in YAZO Ltd. and ZOMBA Ltd. It holds 210 shares of YAZO Ltd. and 50 shares of ZOMBA Ltd. Accordingly, the percentages are 210/300 = **70%** and 50/200 = **25%**. YAZO Ltd. is a subsidiary, as XOLANI holds the majority of shares whereas ZOMBA Ltd. is classified as an associated company.

See below the situation of the companies:

Statement of financial position	X Ltd	Y Ltd	Z Ltd	
Property, plant and equipment	470	400	300	
Investment in Y Ltd at cost (210 shares)	230	-		
Investment in Z Ltd at cost (50 shares)	55			
Current assets	45	120	40	
	800	520	340	
Ordinary share capital (400 / 300 / 200 shares)	400	300	200	
Retained income	150	50	32	
Non-current liabilities	200	150	90	
Current liabilities	50	20	18	
	800	520	340	
Other information	-	-		
X Ltd obtained the shares in Y Ltd and Z Ltd at **1 August 2009** when the retained				
earnings of Y Ltd was R20 and of Z Ltd was R12.				

Required: Prepare consolidated financial statements of XOLANI Group as at 30.09.20X4.

Solution:

We start our considerations based with the associate company ZOMBA Ltd. The company was bought in 20W9 at R 55.00. The value at this time was 50 + 12/4 = **R 53.00**. As the cost price was R 55.00, the company was acquired at a price which exceeds the book value. There is a goodwill of: 55 – 53 = **R 2.00** to be recorded. (*Note, the associate is carried at costs.*)

The book value of the entire associated company is now R 20 higher, which gives an increase of the portion of YOLANI Ltd. of: 20/4 = **R 5.00**.

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DR Investments in ZOMBA Ltd. ........        5.00 ZAR
CR Retained Earnings ...............        5.00 ZAR
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With regard to YAZO Ltd. consolidated financial statements are required. We prepare a consolidation chart and make the initial consolidation bookkeeping entries. Note, the revaluation of the interest in ZOMBA Ltd. is considered in the parent's column.

The purchase of YAZO Ltd. was at R 230.00 for 70 % of the shares. The value of the business at that time was 300 + 20 = **R 320.00**. The book value of the acquisition was: 320 × 70% = **R 224.00**. The subsidiary requires the disclosure of a goodwill to the extent of: 230 – 224 = **R 6.00**. For the initial capital consolidation, 70 % of the issued capital (= 70% × 300 = **R 210.00**) and of the retained earnings (= 70% × 20 = **R 14.00**)

are cancelled out. The other portion is allocated to non-controlling interest holders. It gives 300 – 210 = **R 90.00** in share capital and 20 – 14 = **R 6.00** in retained earnings. For further consideration, we combine the initial consolidation bookkeeping entries:

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DR Goodwill .........................          6.00 ZAR
DR Issued Capital ..................        300.00 ZAR
DR Retained Earnings ...............         20.00 ZAR
CR Investments in Y ................        230.00 ZAR
CR Non-ctrl Interest ...............         96.00 ZAR
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See below the initial consolidation in detail:

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS				CONS. F/S
N-cur Assets								
P,P,E	470	400	870					870
Int. assets			0					0
Investments	290		290	(230)				60
Goodwill	0		0	**6**				**6**
cur Assets	45	120	165					
Inventory			0					0
Receivables			0					0
Prepaid exp.			0					0
Cash			0					0
	805	520	1,325	(224)	0	0	0	1,101
SH's capital								
Issued capital	(400)	(300)	(700)	210	90			(400)
Reserves			0					0
Reval. Reserves			0					0
Retained ear.	(155)	(50)	(205)	20				(185)
Non-ctrl int.			0	(6)	**(90)**			**(96)**
Liabilities								
Int. bear. liab.	(200)	(150)	(350)					(350)
Payables	(50)	(20)	(70)					(70)
Provisions			0					0
Def. income			0					0
Tax liabilities			0					0
	(805)	(520)	(1,325)	224	0	0	0	(1,101)

Exhibit 2: Initial consolidation chart 20W9

We next prepare an consolidated income statement. As the associated company ZOMBA Ltd. is considered already, no further calulation is required.

The changes in equity of YAZO Ltd. after acquisition are: 50 – 20 = **R 30.00**. Although the changes in equity have been considered already, the allocation to non-controlling interest holders is still outstanding. It is: 30% × 30 = **R 9.00**. We „record":

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DR Retained Earnings ...............          9.00 ZAR
CR Non-ctrl Interest ...............          9.00 ZAR
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This will give us the consolidation chart as below:

	PARENT	SUBSIDIARY	AGGR.	CAP. CONS	CAP. CONS	profit	CONS. F/S
N-cur Assets							
P,P,E	470	400	870				870
Int. assets			0				0
Investments	288		288	(230)			58
Goodwill	2		0	**6**			**6**
cur Assets	45	120	165				165
Inventory			0				0
Receivables			0				0
Prepaid exp.			0				0
Cash			0				0
	805	520	1,325	(224)	0	0	1,101
SH's capital							
Issued capital	400	300	700	(210)	(90)		400
Reserves			0				0
Reval. Reserves			0				0
Retained ear.	155	50	205	(20)		(9)	176
Non ctrl Int.			0	6	**90**	**9**	**105**
Liabilities							
Int. bear. liab.	200	150	350				350
Payables	50	20	70				70
Provisions			0				0
Def. income			0				0
Tax liabilities			0				0
	805	520	1,325	(224)	0	0	1,101

Exhibit 3: Consolidation chart 20X4

We also prepare a consolidated statement of changes in equity for the XOLANI group.

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

	Share capital	Non-ctrl Int	R/E ctrl	total
	[EUR]	[EUR]	[EUR]	[EUR]
as at 1.10.20X3	400.00			400.00
Associates			5.00	5.00
initial consolidation		96.00		96.00
profit subsidiary		9.00	21.00	30.00
profit parent			150.00	150.00
Additions to reserves				0.00
as at 30.09.20X4	400.00	105.00	176.00	681.00

Exhibit 4: consolidated SCE

The consolidated balance sheet is conform with the statement of changes in equity, observe below:

Xolani Group's
consolidated **STATEMENT of FINANCIAL POSITION**

A			as at 30.09.20X4		C, L
Non-current assets	[EUR]		*Equity*	[EUR]	
P, P, E	870.00		Share capital	400.00	
Intangibles			Reserves		
Financial assets	58.00		Retained earnings	176.00	
Goodwill	8.00		Non-ctrl interest	105.00	
Current assets	165.00		*Liabilities*		
Inventory			Interest bear liab	350.00	
Accounts receivables			Accounts payables	70.00	
Prepaid expenses			Provisions		
Cash/Bank			Tax liabilities		
Total assets	1,101.00		***Total equity and liab.***	1,101.00	

Exhibit 5: consolidated balance sheet