# Additional integrated questions

## Group Financial Reporting

## FAC3704

**Department of Financial Accounting**

## QUESTION 1 (27 marks)(32 minutes)

On 1 January 2011, Courtney Ltd acquired 35% of the issued shares of Ballantyne Ltd for R180 000. Courtney Ltd exercised joint control over the financial and operating policy decisions of Ballantyne Ltd since 1 January 2011. The arrangement was classified as a joint venture in accordance with IFRS 11 (*Joint Arrangements*).

The financial accountant of the group prepared the following section of the analysis of owner's equity in Ballantyne Ltd, which you may assume is correct:

| | 100% | 35% |
|---|---|---|
| | **Total** | **At** |
| **At acquisition – 1 January 2011** | **R** | **R** |
| Share capital | 350 000 | 122 500 |
| Retained earnings | 170 000 | 59 500 |
| Mark-to-market reserve | 5 000 | 1 750 |
| | 525 000 | 183 750 |
| Equity represented by gain on bargain purchase | | 3 750 |
| Investment in Ballantyne Ltd at cost price | | 180 000 |

At acquisition date there were no unidentified assets or liabilities and the fair value of the identifiable assets and liabilities of Ballantyne Ltd were considered to be equal to the carrying amounts thereof.

The following is an extract from the trial balance of Ballantyne Ltd for the year ended 31 December 2012:

| | R<br>Dr/(Cr) |
|---|---|
| Share capital – 350 000 ordinary shares | (350 000) |
| Retained earnings – 1 January 2012 | (190 000) |
| Mark-to-market reserve – 1 January 2012 | (13 838) |
| Deferred tax on mark-to-market reserve | (4 092) |
| Accumulated depreciation | (180 000) |
| Trade and other payables | (20 140) |
| Revenue | (390 000) |
| Other income | (8 000) |
| Other comprehensive income (mark-to-market reserve - after tax) | (4 070) |
| Property, plant and equipment | 420 000 |
| Investments in equity instruments: | |
| - Investment in Barton Ltd at fair value | 125 000 |
| - Investment in Fletcher Ltd at fair value | 150 000 |
| Trade receivables | 46 390 |
| Cash and cash equivalents | 12 070 |
| Inventory | 110 000 |
| Dividends paid – 31 December 2012 | 20 000 |
| Cost of sales | 160 000 |
| Other expenses | 69 500 |
| Income tax expense | 47 180 |

**Additional information**

1. During the current year Courtney Ltd started selling inventory to Ballantyne Ltd at a 30% mark-up on the selling price. On 31 December 2012 Ballantyne Ltd had inventory amounting to R70 000 on hand which was purchased from Courtney Ltd.
2. On 31 December 2012, the investment in Ballantyne Ltd was recorded at a fair value of R198 000 in the financial records of Courtney Ltd.
3. Joint ventures are accounted for using the equity method.
4. The group measures its investments in equity instruments at fair value through other comprehensive income. The fair value of all equity instruments is equal to the cost thereof, unless otherwise stated.
5. The SA normal tax rate is 28% and capital gains tax is calculated at 66,6% thereof. You may assume that the tax rate and the capital gains tax rate has remained unchanged since 1 January 2011.
6. Each share carries one vote.

**REQUIRED:**

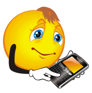
Prepare the **pro-forma journal entries** to account for the joint venture in the financial statements of the Courtney Ltd Group for the year ended 31 December 2012. (27)

Journal narrations are not required.

Your answer must comply with the requirements of International Financial Reporting Standards.

Comparative figures are not required.

Calculations are to be done to the nearest R1.



**<u>QUESTION 1</u> (SUGGESTED SOLUTION)**

| | | | | |
|---|---|---|---|---|
| **J1** | Dr | Mark-to-market reserve (18 000 (198 000 -180 000) x 81,352%) | 14 643 | |
| | Dr | Deferred tax (18 000 x 18,648%) | 3 357 | |
| | Cr | Investment in joint venture – Ballantyne Ltd (SFP) | | 18 000 |
| | *Reversal of MTMR on investment in Ballantyne Ltd* | | | |
| **J2** | Dr | Investment in joint venture – Ballantyne Ltd (given) | 3 750 | |
| | Cr | Retained earnings (gain on bargain purchase) | | 3 750 |
| | *Recording of gain on bargain purchase in the carrying amount of the investment in associate* | | | |
| **J3** | Dr | Investment in joint venture – Ballantyne Ltd (SFP) | 10 093 | |
| | Cr | Retained earnings (190 000 – 170 000) x 35% | | 7 000 |
| | Cr | Mark-to-market reserve (13 838 – 5 000) x 35% | | 3 093 |
| | *Recording of interest in retained earnings and MTMR since acquisition to beginning of the current year* | | | |

| | | | | |
|---|---|---|---|---|
| **J4** | Dr | Investment in joint venture – Ballantyne Ltd (SFP) | 43 887 | |
| | Cr | Share of profit of joint venture (P/L) | | 42 462 |
| | Cr | Share of other comprehensive income of joint venture (OCI) | | 1 425 |
| | *Recognition of share in profit of joint venture* | | | |
| | *(390 000 + 8 000 - 160 000 - 69 500 - 47 180) x 35%* | | | |
| | *Recognition of share in other comprehensive income of joint venture (4 070 x 35%)* | | | |
| **J5** | Dr | Revenue (70 000 x 35%) | 24 500 | |
| | Cr | Cost of Sales (70 000 x $^{70}/_{100}$ x 35%) | | 17 150 |
| | Cr | Investment in joint venture – Ballantyne Ltd (70 000 x $^{30}/_{100}$ x 35%) | | 7 350 |
| | *Elimination of unrealised profit in closing inventory of Ballantyne Ltd* | | | |
| **J6** | Dr | Deferred tax (SFP) (70 000 x $^{30}/_{100}$ x 35% = 7 350 x 28%) | 2 058 | |
| | Cr | Income tax expense (P/L) | | 2 058 |
| | *Tax implication of eliminating unrealised profit in closing inventory of Ballantyne Ltd* | | | |
| **J7** | Dr | Other income (dividend received) (20 000 x 35%) | 7 000 | |
| | Cr | Investment in joint venture – Ballantyne Ltd (SFP) | | 7 000 |
| | *Elimination of dividends received from joint venture (Ballantyne Ltd)* | | | |

**C1 ANALYSIS OF OWNERS EQUITY OF BALLANTYNE LTD**
***(Not required - for tuition purposes only)***

| | **Total** | **Courtney Limited** | | **35%** |
|---|---|---|---|---|
| **At acquisition** | **100%** | **35%** | | **CA** |
| | | **At** | **Since** | |
| Share capital | 350 000 | 122 500 | | |
| Retained earnings | 170 000 | 59 500 | | |
| Mark-to-market reserve | 5 000 | 1 750 | | |
| | 525 000 | 183 750 | | |
| Equity represented by gain on bargain purchase | -3 750 | -3 750 | | |
| Investment in Ballantyne Ltd @ cost price | 521 250 | 180 000 | | 180 000 |
| **Since acquisition** | | | | |
| **To beginning of the current year** | 32 588 | | 13 843 | 13 843 |
| Gain on bargain purchase | 3 750 | | 3 750 | 3 750 |
| Retained earnings (190 000 – 170 000) | 20 000 | | 7 000 | 7 000 |
| Mark-to-market reserve (13 838 – 5 000) | 8 838 | | 3 093 | 3 093 |
| **Current year** | 125 390 | | 43 887 | 43 887 |
| Profit for the year | 121 320 | | 42 462 | 42 462 |
| Other comprehensive income for the year | 4 070 | | 1 425 | 1 425 |
| Dividend paid | -20 000 | | -7 000 | - 7000 |
| | 659 228 | 180 000 | 50 730 | 230 730 |
| <u>CA of investment in JV adjusted for:</u> | | | | |
| Inventory | -21 000 | | -7 350 | -7 350 |
| | | | | **223 380** |

## **QUESTION 2** (35 marks)(42 minutes)

Mosaic Ltd is a company that manufactures mosaic furniture and invests in other similar entities in South Africa. All the companies in the Mosaic Ltd group have a 28 February year end. The following information was provided by the management of the Mosaic Ltd group:

Extract from the trial balances of the entities in the Mosaic Ltd group for the year ended 28 February 2012:

| | **Mosaic Ltd R Dr/(Cr)** | **Garnet Ltd R Dr/(Cr)** | **Violet Ltd R Dr/(Cr)** |
|---|---|---|---|
| Share capital – 250 000 ordinary shares | (250 000) | - | - |
| Share capital – 200 000 ordinary shares | - | (200 000) | - |
| Share capital – 100 000 ordinary shares | - | - | (100 000) |
| Retained earnings – 1 March 2011 | (750 000) | (480 000) | (180 000) |
| Accumulated depreciation: property, plant and equipment | (150 000) | (280 000) | (80 000) |
| Trade and other payables | (77 800) | (66 000) | (68 000) |
| Profit after tax | (298 800) | (214 560) | (115 920) |
| Property, plant and equipment | 533 600 | 948 560 | 337 920 |
| Investments in equity instruments: | | | |
| - Investment in Garnet Ltd at fair value | 280 000 | - | - |
| - Investment in Violet Ltd at fair value | 140 000 | - | - |
| - Investment in Ruby Red Ltd at fair value | 100 000 | - | - |
| - Investment in Amethyst Ltd at fair value | - | 25 000 | - |
| - Investment in Aquamarine Ltd at fair value | - | - | 20 000 |
| Trade receivables | 115 000 | 45 000 | 58 000 |
| Cash and cash equivalents | 78 000 | 85 000 | 63 000 |
| Inventory | 180 000 | 87 000 | 65 000 |
| Dividends paid – 28 February 2012 | 100 000 | 50 000 | - |

**Additional information**

1. On 1 January 2009 Mosaic Ltd acquired control over Garnet Ltd by purchasing 160 000 of the issued ordinary shares of Garnet Ltd for R280 000 when the retained earnings of Garnet Ltd amounted to R140 000.

2. At the acquisition date the fair value of the identifiable assets and liabilities of Garnet Ltd were considered to be equal to the carrying amounts thereof, except for land which was revalued by R10 000 more than its carrying amount and inventory which was written down by R9 000 to its net realisable value.

3. On 1 March 2011 Mosaic Ltd acquired a 49% interest in Violet Ltd. In terms of the contractual agreement with the other operators, Mosaic Ltd exercises joint control over the economic activities of Violet Ltd. The arrangement is classified as a joint operation as per IFRS 11 *(Joint Arrangements)*. The contract specifies that all revenue, expenses, assets and liabilities are allocated according to the interest held by the operators. At acquisition date, the fair value of the identifiable assets and liabilities of Violet Ltd were considered to be equal to the carrying amounts thereof.

4. During the current year Mosaic Ltd sold inventory of R100 000 to Violet Ltd at a profit of 25% on the cost price of the inventory. On 28 February 2012, Violet Ltd had inventory on hand amounting to R50 000 that was purchased from Mosaic Ltd.

5. On 1 December 2011, Mosaic Ltd sold equipment with a carrying amount of R110 000 to Garnet Ltd for R125 000. On this date the remaining useful life of the equipment was three years. The entity's policy is to provide for depreciation over the expected useful life of the equipment using the straight-line method which is in line with the allowance received from the South African Revenue Service. On 28 February 2012, 40% of the selling price of the equipment was still outstanding and is included in "trade receivables" and "trade and other payables" of Mosaic Ltd and Garnet Ltd respectively.

6. The Mosaic Ltd group measures its investments in equity instruments at fair value through other comprehensive income. The fair value of the investments in equity instruments is equal to the cost price thereof, unless otherwise stated.

7. The Mosaic Ltd group elected to measure non-controlling interests at fair value (full goodwill method) at acquisition date. Goodwill was tested for impairment at 28 February 2012 and it was determined that the goodwill relating to Garnet Ltd was impaired by R2 000.

8. The market value of Garnet Ltd's shares at 1 January 2009 was R1,75 per share.

9. The SA normal tax rate is 28% and capital gains tax is calculated at 66,6% thereof. You may assume that the tax rate has remained unchanged since 1 January 2009.

10. Each share carries one vote.

**REQUIRED:**

**(a)** Prepare **only** the **asset section** (including deferred tax asset) of the consolidated statement of financial position of the Mosaic Ltd Group as at 28 February 2012. (30)

**(b)** Calculate the amount that will be disclosed as **non-controlling interests** in the consolidated statement of financial position of the Mosaic Ltd Group as at 28 February 2012. (5)

Your answer must comply with the requirements of International Financial Reporting Standards.

All amounts must be rounded off to the nearest R1.

Comparative figures and notes to the consolidated financial statements are **not** required.

## QUESTION 2 (SUGGESTED SOLUTION)

### PART A

**MOSAIC LIMITED GROUP**
**Consolidated Statement of Financial Position as at 28 February 2012**

| | | |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | 1 322 093 |
| Property, plant and equipment | (533 600 + 948 560 + 165 581(337 920 x 49%) + 10 000 - 15 000 (125 000 - 110 000) - 150 000 - 280 000 - 39 200 (80 000 x 49%) + 1 250 (15 000/3 x $^{3}/_{12}$)) | 1 174 791 |
| *Investment in Ruby Red Ltd | | 100 000 |
| *Investment in Amethyst Ltd | | 25 000 |
| *Investment in Aquamarine Ltd | (20 000 x 49%) | 9 800 |
| Goodwill | (8 345 - 2 000 + 2 800) | 9 145 |
| Deferred tax asset | (-1 865 (10 000 x 18,648%) + 1 372 (4 900 x 28%) + 4 200 (15 000 x 28%) - 350 (1 250 x 28%) | 3 357 |
| | | |
| **Current assets** | | 626 240 |
| Trade and other receivables | 115 000 + 45 000 + 28 420 (58 000 x 49%) - 50 000 (125 000 x 40%) | 138 420 |
| Cash and cash equivalents | 78 000 + 85 000 + 30 870 (63 000 x 49%) | 193 870 |
| Inventory | 180 000 + 87 000 + 31 850 (65 000 x 49%) - 4 900 (50 000 x $^{25}/_{125}$ x 49%) | 293 950 |
| | | |
| **Total assets** | | 1 948 333 |

*May combine under one line item

### PART B

| | | |
|---|---|---|
| **Non-controlling interests** | | |
| At acquisition date fair value | (200 000 x 20% x R1,75) | 70 000 |
| Since acquisition date | ((480 000 - 140 000 + 6 480) x 20%) | 69 296 |
| Current year: | | |
| Profit for the year | ((214 560 - 2 000) x 20%) | 42 512 |
| Dividend paid | (50 000 x 20%) | (10 000) |
| | | 171 808 |

<u>Alternative calculation:</u>

| | | |
|---|---|---|
| Balance at beginning of year | | 139 296[1] |
| Total comprehensive income for the year: | | |
| Profit for the year | ((214 560 - 2 000) x 20%) | 42 512 |
| Dividends paid | (50 000 x 20%) | (10 000) |
| Closing balance | | 171 808 |

[1]70 000 (200 000 x 20% x R1,75) + 68 000 ((480 000 - 140 000) x 20%) + 1 296 (6 480 x 20%) = 139 296

**QUESTION 2**
**PART A – CALCULATIONS**

| |
|---|
| Note: It is important to note that preparing an analysis of owners' equity is for calculation purposes only - it is not required disclosure. |

**ANALYSIS OF OWNER'S EQUITY OF GARNET LTD**

| | Total | At | Since | NCI |
|---|---|---|---|---|
| | **100%** | **80%** | | **20%** |
| **At Acquisition** | | | | |
| Share capital | 200 000 | 160 000 | | 40 000 |
| Retained earnings | 140 000 | 112 000 | | 28 000 |
| Adjustment for inventory (9 000 x 72%) | (6 480) | (5 184) | | (1 296) |
| Revaluation surplus (10 000 x 81,352%) | 8 135 | 6 508 | | 1 627 |
| | 341 655 | 273 324 | | 68 331 |
| Equity presented by goodwill | 8 345 | 6 676 | | 1 669 |
| Investment in Garnet Ltd and NCI | 350 000 | 280 000 | | 70 000 |
| | | | | |
| **Since acquisition** | | | | |
| To beginning of the current year | | | | |
| Adjusted retained earnings | 346 480 | | 277 184 | 69 296 |
| Retained earnings (480 000 - 140 000) | 340 000 | | 272 000 | 68 000 |
| Reversal of inventory adjustment in current year | 6 480 | | 5 184 | 1 296 |
| Current year | | | | |
| Adjusted net profit for the year | 212 560 | | 170 048 | 42 512 |
| Net profit for the year | 214 560 | | 171 648 | 42 912 |
| Impairment of goodwill | -2 000 | | -1 600 | -400 |
| | | | | |
| Dividend paid | (50 000) | | (40 000) | (10 000) |
| | 852,560 | 280,000 | 402,048 | 171,808 |

**OR**
**Goodwill can be calculated using the proof of goodwill method:**

| | |
|---|---|
| Consideration paid | 280 000 |
| Plus: fair value of non-controlling interests (200 000 x 20% x 1,75) | 70 000 |
| | 350 000 |
| Less: net asset value at acquisition date | (341 655) |
| Goodwill | 8 345 |

**OR**
**Goodwill can be calculated by preparing the at acquisition journal entry:**

| | | |
|---|---|---|
| Dr Share Capital | 200 000 | |
| Dr Retained earnings at acquisition date (140 000 – 6 480) | 133 520 | |
| Dr Revaluation surplus | 8 135 | |
| Dr Goodwill (balancing) | 8 345 | |
| Cr Investment in Garnet Ltd at cost | | 280 000 |
| Cr Non-controlling interests | | 70 000 |

**ANALYSIS OF OWNER'S EQUITY OF VIOLET LTD**

| | Total | | Mosaic Ltd |
|---|---|---|---|
| | **100%** | | **49%** |
| **At Acquisition** | | | At |
| Share capital | 100 000 | | 49 000 |
| Retained earnings | 180 000 | | 88 200 |
| | 280 000 | | 137 200 |
| Equity presented by goodwill | 2 800 | | 2 800 |
| Investment in Violet Ltd @ cost price | 282 800 | | 140 000 |

From the above it should be clear that there are many methods that may be applied to obtain the correct answer. It is important for you to decide which method works the best for you and apply that method in an examination. Do not apply more than one method or you will be wasting time.

It is of the utmost importance to realise that an analysis of equity is only a calculation and will earn you no marks in an examination unless the amounts calculated using the analysis have been correctly disclosed.

**QUESTION 3 (38 marks) (46 minutes)**

The following information was provided by the financial manager of the Rocky Ltd group:

Extracts from the trial balances of the entities in the Rocky Ltd group for the year ended 28 February 2012:

| | **Rocky Ltd** | **Trail Ltd** | **Cliff Ltd** |
|---|---|---|---|
| | **R** | **R** | **R** |
| **Debits** | | | |
| Property, plant and equipment at carrying amount | 434 400 | 226 000 | 285 200 |
| Investment in equity instruments: | | | |
| - Trail Ltd at fair value | 368 000 | - | - |
| - Cliff Ltd at fair value | - | 185 000 | - |
| Trade and other receivables | 72 000 | 176 000 | 226 000 |
| Inventories | 124 500 | 248 010 | 133 222 |
| Cash and cash equivalents | 187 800 | 227 300 | 195 660 |
| Loan to Trail Ltd | 145 000 | - | - |
| Finance costs | - | 18 125 | - |
| Other expenses | 42 700 | 78 000 | 25 300 |
| Income tax expense | 135 324 | 60 249 | 52 052 |
| Dividends paid - 28 February 2012 | 26 000 | 34 000 | 18 000 |
| **Credits** | | | |
| Share capital - 500 000 ordinary shares | (500 000) | - | - |
| - 190 000 ordinary shares | - | (402 000) | - |
| - 220 000 ordinary shares | - | - | (220 000) |
| Mark-to-market reserve | (24 420) | (12 210) | - |
| Retained earnings - 1 March 2011 | (194 324) | (185 084) | (370 734) |
| Deferred tax on mark-to-market reserve | (5 580) | (2 790) | - |
| Loan from Rocky Ltd | - | (145 000) | - |
| Trade and other payables | (285 400) | (176 392) | (133 500) |
| Gross profit | (354 000) | (273 000) | (186 000) |
| Other income | (172 000) | (38 300) | (25 200) |
| Other comprehensive income (revaluation of land, after tax) | - | (17 908) | - |

**Additional information**

1. On 1 December 2008, Rocky Ltd acquired control over Trail Ltd by purchasing 142 500 ordinary shares in Trail Ltd. On this date the retained earnings of Trail Ltd amounted to R54 260. The consideration paid was settled with R220 000 in cash and the transfer of land with a market value of R118 000.

2. On 28 February 2009, Trail Ltd acquired 77 000 ordinary shares in Cliff Ltd. The full consideration of R170 000 was paid in cash. From this date Trail Ltd exercised significant influence over the financial and operating policy decisions of Cliff Ltd. At the date of acquisition Cliff Ltd's retained earnings amounted to R294 000.

3. On the acquisition dates of Trail Ltd and Cliff Ltd the fair value of all assets and liabilities were considered to be equal to the carrying amounts thereof and there were no unidentified assets, liabilities or contingent liabilities.

4. On 1 June 2010, Trail Ltd sold a manufacturing machine to Rocky Ltd for R152 000. The profit on the sale of the machine amounted to R34 600 and on that date the machine had a remaining useful life of three years. The depreciation written off on the machine was in line with the allowance received from the South African Revenue Service.

5. On 1 March 2011, Rocky Ltd issued an interest bearing loan (payable annually in arrears) of R145 000 to Trail Ltd. The loan bears interest at 12,5% per annum. The interest payment received by Rocky Ltd is included in "other income" and the interest payment made by Trail Ltd is included in "finance charges".

6. Since 1 December 2008, Rocky Ltd sold inventory to Trail Ltd at a mark-up of 15% on the cost price. On 28 February 2012 Trail Ltd had inventory to the amount of R92 000 on hand that was purchased from Rocky Ltd (28 February 2011: R69 000).

7. The Rocky Ltd group elected to measure non-controlling interests in an acquiree at their proportional share of the acquiree's identifiable net assets (partial goodwill method).

8. The Rocky Ltd group measures its investments in equity instruments at fair value through other comprehensive income. The fair value of all equity instruments is equal to the cost thereof, unless otherwise stated.

9. You may assume that the SA normal tax rate remained unchanged at 28% and the capital gains tax inclusion rate was 66,6% since 1 December 2008.

10. Each share carries one vote.

**REQUIRED:**

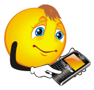
Prepare the **consolidated statement of profit or loss and other comprehensive income** for the Rocky Ltd Group for the year ended 28 February 2012. (24)

(b) Prepare **only** the **retained earnings column** in the consolidated statement of changes in equity of the Rocky Ltd Group for the year ended
28 February 2012. (14)

Your answer must comply with the requirements of International Financial Reporting Standards.

Notes to the consolidated annual financial statements and comparative figures are not required.

Calculations are to be done to the nearest R1.



## QUESTION 3 (SUGGESTED SOLUTION)

**PART A**

**ROCKY LTD GROUP**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2012**

| | | |
|---|---|---|
| Gross Profit | (354 000 + 273 000 - 12 000 (92 000 x $^{15}/_{115}$) + 9 000 (69 000 x $^{15}/_{115}$)) | 624 000 |
| Other Income | (172 000 + 38 300 - 25 500 (34 000 x 75%) – 6 300 (18 000 x 35%) -18 125 (145 000 x 12,5%)) | 160 375 |
| Share of profit from associate | (186 000 + 25 200 - 25 300 - 52 052) x 35% *(See also analysis Cliff Ltd)* | 46 847 |
| Finance cost | (18 125 – 18 125) | - |
| Other expenses | (42 700 + 78 000 -11 533) | (109 167) |
| Income tax expense | (135 324 + 60 249 + 3 229 (11 533 x 28%) - 3 360 (12 000 x 28%) + 2 520 (9 000 x 28%)) | (197 962) |
| **Profit for the year** | | 524 093 |
| **Other comprehensive income** | | |
| **Items that will not be reclassified to profit or loss:** | | |
| Revaluation surplus (given) | | 17 908 |
| **Total comprehensive income for the year** | | 542 001 |
| | | |
| Profit attributable to: | | 524 093 |
| Owners of parent (balancing) | | 473 149 |
| Non-controlling interests | | 50 944[1] |
| | | |
| Total comprehensive income attributable to: | | 542 001 |
| Owners of parent (balancing) | | 486 580 |
| Non-controlling interests | | 55 421[2] |

[1] 154 926 (273 000 + 38 300 -18 125 - 78 000 - 60 249) - 6 300 *(Cliff div)* + 11 533 *(PPE)* + 46 847 *(Cliff profit)* = 203 777 x 25 % = 50 944

[2] 50 944 + 4 477 (17 908 x 25%) = 55 421

## PART B

**ROCKY LTD GROUP**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2012**

| | | |
|---|---|---|
| **Retained earnings** | | |
| Balance as at 1 March 2011 | *See calc below* | 303 712 |
| Total comprehensive income for the year | | |
| Profit for the year | *Part A* | 473 149 |
| Dividends paid (given) | | (26 000) |
| Balance as at 28 February 2012 | | 750 860 |

| | | |
|---|---|---|
| Opening retained earnings calculation: | | |
| Retained earnings – Rocky Ltd (given) | 194 324 | |
| Retained earnings – Trail Ltd “group” | 111 673 | C1 |
| Gain on bargain purchase on acquisition of Trail Ltd | 4 195 | |
| Unrealised profit on intragroup sale of inventory (69 000 x $^{15}/_{115}$) x 72% = 6 480 OR (9 000 – 2 520) | (6 480) | |
| | 303 712 | |

| | | |
|---|---|---|
| **C1** | | |
| Retained earnings – Trail Ltd (185 084 – 54 260) | 130 824 | |
| Gain on bargain purchase Cliff Ltd | 9 900 | |
| Retained earnings - Cliff Ltd | 26 857 | C2 (analysis) |
| Elimination of profit on sale of machine | (34 600) | |
| Tax on profit on sale of machine (34 600 x 28%) | 9 688 | |
| Depreciation on machine (34 600 /3 x $^{9}/_{12}$) | 8 650 | |
| Tax on depreciation (8 650 x 28%) | (2 422) | |
| | 148 897 | |
| x 75% | 111 673 | |

## QUESTION 3 – Calculations Part A and Part B

### C2 Analysis of shareholders equity of Trail Limited

| | 100% Total R | | 75% At R | 75% Since R | 25% NCI R |
|---|---|---|---|---|---|
| **At acquisition** | | | | | |
| Share capital | 402 000 | | 301 500 | | 100 500 |
| Retained earnings | 54 260 | | 40 695 | | 13 565 |
| | 456 260 | | 342 195 | | 114 065 |
| Gain on bargain purchase | (4 195) | | (4 195) | | |
| Consideration paid and NCI (220 000 + 118 000) | **452 065** | | **338 000** | | **114 065** |
| **Since acquisition to current period** | **148 897** | | | **111 673** | **37 224** |
| Retained earnings (185 084 - 54 260) | 130 824 | | | 98 118 | |
| Gain on bargain purchase Cliff Ltd | 9 900 | **C3** | | 7 425 | |
| Retained earnings - Cliff Ltd | 26 857 | **C3** | | 20 143 | |
| Elimination of intra-group profit on sale of machine | (34 600) | | | (25 950) | |
| Tax on profit on sale of machine (34 600 x 28%) | 9 688 | | | 7 266 | |
| Depreciation on machine (34 600 /3 x $^{9}/_{12}$) | 8 650 | | | 6 488 | |
| Tax depreciation (8 650 x 28%) | (2 422) | | | (1817) | |
| **Current year** | **203 777** | | | **152 833** | **50 944** |
| Profit for the year | 154 926[1] | | | 116 195 | |
| Dividend received from Cliff Ltd included in Trail Ltd's profits | (6 300) | **C3** | | (4 725) | |
| Depreciation on machine (34 600 / 3years) | 11 533 | | | 8 650 | |
| Tax depreciation (11 533 x 28%) | (3 229) | | | (2 422) | |
| Profit for the year - Cliff Ltd | 46 847 | **C3** | | 35 135 | |
| Other comprehensive income (given) | 17 908 | | | 13 431 | 4 477 |
| Dividends paid (given) | (34 000) | | | (25 500) | (8 500) |
| | **788 647** | | | **252 436** | **198 210** |

[1] 273 000 + 38 300 - 18 125 - 78 000 - 60 249 = 154 926

**C3 Analysis of shareholders equity of Cliff Limited**

| | 100% | 35% | | |
|---|---|---|---|---|
| **At acquisition** | **TOTAL R** | **AT R** | **SINCE R** | **CA R** |
| Share capital | 220 000 | 77 000 | | |
| Retained earnings | 294 000 | 102 900 | | |
| | 514 000 | 179 000 | | |
| Gain on bargain purchase | (9 900) | (9 900) | | |
| Consideration paid | 504 100 | 170 000 | | 170 000 |
| **Since acquisition** | 76 734 | | 36 757 | 36 757 |
| Gain on bargain purchase | | | 9 900 | 9 900 |
| Retained earnings: (370 737 - 294 000) | 76 734 | | 26 857 | 26 857 |
| **Current year** | 133 848 | | 46 847 | 46 847 |
| Profit for the year (186 000 + 25 200 - 52 052) | 133 848 | | 46 847 | 46 847 |
| Dividends paid (given) | (18 000) | | (6 300) | (6 300) |
| | 696 682 | | 77 304 | 247 304 |

The group is a vertical group. The analysis of Cliff Ltd (bottom entity) will be prepared first. As Trail Ltd has a 35% interest in Cliff Ltd, 35% of the equity of Cliff Ltd will be attributable to Trail Ltd.

Rocky Ltd in turn owns 75% of Trail Ltd. It is important to realise that due to Trails 35% interest in Cliff Ltd, Rocky Ltd also owns *75% of the 35% equity of Cliff Ltd owned by Trail Ltd.*

For example, per C3 (analysis), Cliff Ltd made a profit of R133 848. Of this, Trail Ltd owns 35% (R46 847). Rocky Ltd owns 75% of Trail Ltd and is therefore entitled to 75% x R46 847 = R35 135 (*or* 133 848 x 35% x 75% = R35 135), and the NCI the remaining 25% (R11 712). *(Refer also analysis of Trail Ltd).*