Big Co Consolidation and Margin

Big Co acquired 60% of the share capital of Little Co on 1 September 20X6.

Extracts from their statements of profit or loss for the year ended 31 December 20X6 are shown below:

	Big Co	Little Co
	$ '000	**$ '000**
Revenue	1,530	690
Cost of sales	(620)	(450)
Gross profit	910	240
Expenses	(130)	(60)
Profit before tax	780	180

Big Co paid $2.4 million for 60% of Little Co on 1 September 20X6. On the date of acquisition the non-controlling interest was valued at $1.6 million. Net assets of Little Co were valued at $3 million including retained earnings of $2 million.

Little Co sold goods to Big Co for $120,000 after they had become a subsidiary. Little Co had made a gross profit margin of 40% on these goods. Big Co still had half of them in inventory at the year end.

Tasks

Click the **Plan answer** button top-right of this screen to activate the word-processing response area. The word-processing box opens below the question and expands when used. Record your answers to the tasks in this area.

Task 1 Use the information given above for Big Co and Little Co to complete the following extract (record your answer in the word-processing area).

Consolidated statement of profit or loss for year ended 31 December 20X6

	$ '000
Revenue	a) $_____ i) 1,530 + 690 ii) 1,530 + 690 − 120 iii) 1,530 + (690 × 4/12) − 120 iv) 1,530 + (690 × 4/12 × 60%) − 120
Cost of sales	b) $_____
Gross profit	c) $_____
Expenses	d) $_____
Profit before tax	e) $_____

Task 2 Using the information given above for Big Co and Little Co calculate the value of goodwill that was purchased by Big Co. (record your answer in the word-processing area)

Task 3 What value should be included in the consolidated statement of financial position for consolidated retained earnings and NCI assuming Big Co's retained earnings were $18.2 million on 31

[redacted]

	$
Consolidated retained earnings	a) $_____
b) _____ i) Non-controlling interest (included in Equity) ii) Non-current liabilities iii) Non-current asset iv) Current liabilities	c) $_____

Task 4 Which ONE of the following statements is most likely to be true regarding the gross profit margins of Big Co and Little Co? (record your answer in the word-processing area)

A. Big Co has a gross profit margin of 59.5% whereas Little Co has a gross profit margin of 54.8%
B. Big Co has a larger gross profit margin because being a larger company it gets lower discounts on its purchases
C. Little Co has a larger gross profit margin because it sells its goods at a higher price
D. Little Co has a smaller gross profit margin because it is unable to purchase goods as cheaply as Big Co

B I S U

Plan your response here

[redacted]

Confirm

Skip

Heavy Co SOFP and Liquidity

Heavy Co acquired 90% of the share capital of Light Co on 1 January 20X1.

Extracts from their statements of financial position as at 31 December 20X8 are shown below:

	Heavy Co	Light Co
	$ '000	**$ '000**
Tangible non-current assets	3,400	1,750
Investment in Light Co	4,000	
Current Assets		
Inventory	43	21
Trade receivables	102	65
Bank and cash	34	18
	7,579	1,854
Equity and Liabilities		
Share capital	3,800	1,000
Retained earnings	3,435	680
Non-current Liabilities	250	150
Current Liabilities	94	24
	7,579	1,854

Heavy Co paid $4 million for 90% of Light Co on 1 January 20X1. On the date of acquisition non-controlling interest was valued at $0.3 million. Light Co had retained earnings of $180,000 at acquisition.

Heavy Co sold goods to Light Co for $45,000 during 20X8. Heavy Co marked up their goods by 50%. Light Co still had a third of these goods in inventory at the year end.

At the year end, Light Co owed Heavy Co $12,000.

Tasks

Click the **Plan answer** button top-right of this screen to activate the word-processing response area. The word-processing box opens below the question and expands when used. Record your answers to the tasks in this area.

Task 1 Use the information from Heavy Co and Light Co's statements of financial position to complete the following consolidated financial statement extract (record your answer in the word-processing area).

[redacted]

	$ '000
Tangible non-current assets	a) $_____
b) _____ i) Investment in subsidiary ii) Investments iii) Goodwill	c) $_____
Current assets	
Inventory	d) $_____
Trade receivables	e) $_____
Bank and cash	f) $_____
Current Liabilities	g) $_____

Task 2 What amount should be shown for share capital in the consolidated statement of financial position as at 31 December 20X8? (record your answer in the word-processing area)

Task 3 If Heavy Co bought a 40% interest in a company, how would the investment be shown in the consolidated statement of financial position? (record your answer in the word-processing area)

A. Cost
B. Market value
C. Cost plus investor's share of profits
D. Cost plus investor's share of post-acquisition profit

Task 4 Which of the following statements concerning the liquidity of Heavy Co and Light Co is true? (record your answer in the word-processing area)

A. Heavy Co has substantially better liquidity than Light Co
B. Light Co's current ratio and acid test ratio are more than double those of Heavy Co
C. Heavy Co has an acid test ratio of 1.9
D. Light Co has a current ratio of 3.5

B I S U

Plan your response here

Report Content Errors

[redacted]

MTQ3: Shadi Sole Trader TB and Financial Statements

Shadi Sole Trader TB and Financial Statements

Shadi is a sole trader who has an accounting year end of 31 December 20X4. The following trial balance has been extracted from the general ledger.

Accounts	DR	CR
	$	$
Buildings at cost	340,000	
Buildings accumulated depreciation, 1 January 20X4		102,000
Office equipment at cost	18,400	
Office equipment accumulated depreciation, 1 January 20X4		11,040
Capital		50,000
Sales		64,200
Purchases	38,620	
Bank balance	1,360	
Drawings	15,000	
Expenses	13,670	
Trade receivables	4,300	
Trade payables		6,450
Sales returns	4,320	
Purchase returns		3,100
Bank loan repayable in 15 years		80,000
Cash	250	
Inventory at 1 January 20X4	4,890	
Profit brought forward at 1 January 20X4		124,020
	440,810	440,810

The following additional information has also been supplied:

- Closing inventory is valued at $6,200.
- After the year end it was found that an item of inventory which had been valued at $2,100 had a net realisable value of $1,600.
- A customer who owed $1,200 at the year end has since been declared bankrupt.
- Buildings are depreciated at 2% per annum on their original cost and office equipment are depreciated over 10 years on a straight-line basis.

[redacted]

Tasks

Click the **Plan answer** button top-right of this screen to activate the word-processing response area. The word-processing box opens below the question and expands when used. Record your answers to the tasks in this area.

Task 1 Use the information from Shadi's trial balance to complete the following financial statement extract.

Extract from a statement of profit or loss for the year ended 31 December 20X4.

	$	$
Sales		a) $_____
b) _____ Less sales returns Plus sales returns Less purchase returns Plus purchases		c) _____ Add Deduct d) $_____ 4,320 3,100
Cost of Sales:		
e) _____ Opening Inventory Closing Inventory Expenses Depreciation	f) $_____	
Purchases	g) $_____	
Purchase returns	h) $_____ i) _____ i) Add ii) Deduct	
j) _____ Opening Inventory Closing Inventory Expenses Depreciation	k) $_____ l) _____ Add Deduct	
Gross profit		m) $_____ 25,170 25,670 26,390

[redacted]

Task 2 After adjusting, as necessary, for the items in the additional information, **how much should Shadi include in her statement of profit or loss for total overhead expenses**?

Task 3 Using the information from Shadi's trial balance complete the following extract:

Current Assets	
Inventory	1. $_____
Trade Receivables	2. $_____
Bank and Cash	3. $_____
Capital at year-end	4. $_____ 159,020 189,020 109,020 + profit for the year 159,020 + profit for the year

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Plan your response here

Report Content Errors

[redacted]

Arbalest Financial Statements

The summarised statement of financial position of Arbalest at 30 September 20X5 was as follows:

	Cost	*Aggregate Depreciation*	*Carrying amount*
	$000	$000	$000
Non-current assets			
Land	2,000	0	2,000
Buildings	1,500	450	1,050
Plant and equipment	2,800	1,000	1,800
	6,300	1,450	4,850
Current assets			3,180
Total assets			8,030
Equity and liabilities			
Equity shares ($0.50 each)			1,500
Share premium account			400
Retained earnings			4,060
			5,960
Current liabilities			2,070

[redacted]

During the year ended 30 September 20X6 the company had the following transactions:

(1) 1 November 20X5: The company made an issue to its members of one share for every three held (a rights issue) at a price of $1.50 per share. All the rights issue shares were taken up.

(2) 1 December 20X5: Sale for $70,000 of an item of plant and equipment which cost $1,000,000 and had a carrying amount of $200,000.

(3) 1 March 20X6: A bonus (capitalisation) issue of one share for every one held at that date, using the share premium account as far as possible for the purpose.

(4) 1 June 20X6: Purchased a new factory block for $3,000,000 (including land $600,000).

(5) 1 July 20X6: Purchased plant and equipment for $1,600,000.

(6) 30 September 20X6: The company decided to revalue the land held at 30 September 20X5 from $2,000,000 to $2,500,000. The company depreciation policies are:

Land	no depreciation
Buildings	2% per annum on cost, straight-line basis
Plant and equipment	10% per annum on cost, straight-line basis

Proportionate depreciation is allowed for in the year of purchase of an asset, with none in the year of disposal.

Profit for the year was $370,000.

Tasks

Click the **Plan answer** button top-right of this screen to activate the word-processing response area. The word-processing box opens below the question and expands when used. Record your answers to the tasks in this area.

Task 1 Use the information above to complete the Statement of changes in equity as at 30 September 20X6**.**

	Share	*Share*	*Revaluation*	*Retained*	*Total*

[redacted]

	$000	$000	$000	$000	$000
At 1 October 20X5			0		
Rights issue			0	0	
Bonus issue			0		
Total comprehensive income for the year	0	0			
At 30 September 20X6					

Task 2. Complete the note showing Arbalest's movements of non-current assets, as required by IAS 16 *Property, Plant and Equipment*.

Movements on non-current assets for the year ended 30 September 20X6:

	Land	*Building*	*Plant and equipment*	*Total*
	$000	$000	$000	$000
Cost				
At 1 October 20X5	2,000	1,500	2,800	6,300
Additions				
Disposals				
Revaluation				

[redacted]

Depreciation				
At 1 October 20X5	0	450	1,000	1,450
Charge for the year	0			
Disposals				
At 30 September 20X6	0			

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Plan your response here

Report Content Errors

[redacted]

Haydn and Strauss Acquisition

Haydn acquired 75% of the share capital of Strauss on 1 January 20X3 when the balance on Strauss's retained earnings was $24,000 and there was no revaluation surplus. Strauss has not issued or redeemed any share capital since 1 January 20X3.

Their respective statements of financial position as at 31 December 20X6 are as follows:

	Haydn	Strauss
Non-current assets	$	$
Tangible	131,500	144,000
Investment in Strauss	93,500	–
	225,000	144,000
Current assets	57,000	110,400
	282,000	254,400
Equity share capital, $1	50,000	36,000
Share premium	–	24,000
Revaluation surplus	50,000	12,000
Retained earnings	150,000	120,000
	250,000	192,000
Current liabilities	32,000	62,400
	282,000	254,400

[redacted]

Non-controlling interest is valued at fair value, which is based on the market price of Strauss's shares, which on 1 January 20X3 balance of $3,000, owed by Strauss to Haydn.

Tasks

Click the **Plan answer** button top-right of this screen to activate the word-processing response area. The word-processing box opens below the question and expands when used. Record your answers to the tasks in this area.

Task 1 Complete the following to determine the goodwill arising on acquisition.

Value of investment at acquisition

Investment in Strauss held by Haydn	Select one
Select one	Select one

Total value of investment at acquisition **(A)**

Fair value of Strauss' net assets at acquisition

Equity share capital	Select one
Share premium account	Select one
Revaluation surplus	Select one
Select one	Select one

Total fair value of Strauss' net assets at acquisition **(B)**

Goodwill at acquisition expressed as a formula

Select one

[redacted]

Task 2 Calculate the following figures which will be reported in Haydn's consolidated statement of financial position as at 31

Investment in Strauss	$ _____
Tangible non-current assets	$ _____
Current assets	$ _____
Equity share capital	$ _____
Share premium account	$ _____
Revaluation surplus	Select one
Retained earnings	$ _____
Current liabilities	$ _____

Task 3 Haydn sold goods to Strauss during the year, at a profit, and Strauss still held one quarter of these goods at the year end.

Consolidated revenue should be calculated using which of the following formulae?

- ☐ Haydn + 75% Strauss − 100% intra-group revenue
- ☐ Haydn + 100% Strauss − 25% intra-group revenue
- ☐ Haydn + 100% Strauss − 100% intra-group revenue
- ☐ Haydn + 75% Strauss − 25% intra-group revenue

Task 4 Haydn is considering acquiring a number of equity shares in Bach.

Which TWO of the following would indicate that Haydn has significant influence over Bach?

- ☐ Haydn has the ability to dictate strategic policy
- ☐ There is an interchange of managerial personnel between the two companies
- ☐ Haydn provides essential technical assistance to Bach
- ☐ Haydn has control of the board of directors

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[redacted]

[redacted]