ACCA
Financial Reporting

Train the Trainer – Marking Insights Exercise
September/December 2017 – Question 32

Sample Answers

Marking Practice Script 1

Workings

(1) Goodwill

Cost of investment		120,000
NCI		15,000
Net assets acquired:		
Share capital	60,000	
Retained earnings	34,000	
Revaluation surplus	4,000	
		(98,000)
		36,400

Consolidated statement of financial position

	$'000
Non-current assets	
Property plant & equipment (392,000 + 84,000)	476,000
Goodwill	
Current assets (94,700 + 44,650 – 2,000 (W)	36,400
Equity:	
Share capital	190,000
Retained earnings (W)	210,400
Revaluation surplus	41,400
Non-controlling interest	15,500
Current liabilities (137,300 + 28,150)	
Non-current liabilities	
Deferred consideration	28,000

(2) PURP $8m x 25% = 2

(3) Retained earnings

	Party		Streamer
At 30.9.20X5	210,000		36,500
PURP (W2)	(2,000)		
At acquisition			(34,000)
			2,500
Share of Streamer post acq'n (80% x 500)	400		
	210,400		

(b)

The consolidated FS will not show the results of Streamer Co separately. The results of all group companies will be added together with adjustments which include estimates. Subsidiaries are included at fair value which is an estimate. Goodwill is included and may have to be written down if it is impaired.

The individual financial statements of Streamer will be more useful as these will show its individual profits, assets and liabilities, letting the purchaser analyse the company's performance.

Marking Practice Script 2

Consolidated statement of financial position at 30 September 20X5

		$'000
Non-current assets		
Property plant & equipment	(392,000 + 84,000)	476,000
Goodwill	(W1)	32,400
Current assets	(96,700 + 44,650 – 200 (W3))	141,150
Total assets		649,550
Equity:		
Share capital		109,000
Retained earnings	(W3)	212,232
Non-controlling interest	(W4)	
Non-current liabilities		
Deferred consideration		24,000
Current liabilities	(137,300 + 28,150)	165,450
Total equity and liabilities		

Workings

(1) Goodwill

Consideration			$'000
Cash			92,000
Deferred	(28m x 0.857)		24,000
			116,000
NCI			15,000
Less: net assets acquired			
Share capital		60,000	
Retained earnings		34,000	
Revaluation surplus		4,000	
Fair value adj		600	
			(98,600)
			32,400

(2) Fair value adjustments

	At acquisition	Balance – to ret e	30 Sept 20X5
Inventory	600	590	60 (10% x 600)

(3) Retained earnings

	Party	Streamer
At 31 Sept 20X5	210,000	36,500
Fair Value adj (W2)		540
PURP (1m x 25/125)	(200)	
At acquisition		(34,000)
		3,040
Share of Streamer post-acq (80% x 3,040)	2,432	
	212,232	

(4) Non-controlling interest

Two methods – fair

Part (b)

To make decisions about whether it is worth purchasing the company Streamer Co, the information in the consolidated financial statements of Party Co Group would not be useful. Any analysis that you did using the consolidated figures, on profitability, returns etc might not reflect the performance of Streamer Co, rather of the group as a whole and Streamer's individual performance may be better or worse than that of the group as a whole.

It would seem that the individual financial statements of Streamer would be more useful, and would certainly let more analysis be done on that company in isolation but there may be distortions arising from its transactions with Party Co.

For example, in the current year $8million of goods were purchased by Streamer at a reduced margin, saving Streamer purchase costs of $1.6 million.