

Question 19.14 Consolidation worksheet entries

On 1 July 2015, Zack Ltd acquired all the issued shares (*ex div.*) of William Ltd for \$227 500. At this date the equity of William Ltd consisted of:

Share capital	\$ 150 000
General reserve	34 000
Retained earnings	20 000

At acquisition date, William Ltd reported a dividend payable of \$8000. All the identifiable assets and liabilities of William Ltd were recorded at amounts equal to their fair values except for:

	Carrying amount	Fair value
Plant (cost \$200 000)	\$175 000	\$190 000
Land	150 000	155 000
Inventory	32 000	40 000

The plant was considered to have a further 3-year life. Of the inventory, 90% was sold by 30 June 2016 and the remainder was sold by 30 June 2017. The land was sold in January 2016 for \$170 000. William Ltd had recorded goodwill of \$2000 (net of accumulated impairment losses of \$12 000). William Ltd was involved in a court case that could potentially result in the company paying damages to customers. Zack Ltd calculated the fair value of this liability to be \$8000, even though William Ltd had not recorded any liability.

The following events occurred in the year ending 30 June 2016.

- On 12 August 2015 William Ltd paid the dividend that existed at 1 July 2015.
- On 1 December 2015 William Ltd transferred \$17 000 from the general reserve existing at 1 July 2015 to retained earnings.
- On 1 January 2016 William Ltd made a call of 10c per share on its issued shares. William Ltd had 100 000 shares on issue. All call money was received by 31 January 2016.
- On 29 June 2016 William Ltd reassessed the liability in relation to the court case as the chances of winning the case had improved. The fair value was now considered to be \$2000.

Required

Prepare the consolidation worksheet entries for the preparation by Zack Ltd of its consolidated financial statements at 30 June 2016.

Acquisition analysis at 1 July 2015:

Net fair value of identifiable assets and liabilities of William Ltd	=	(\$150 000 + \$34 000 + \$20 000) (equity)
		+ \$8 000 (1 – 30%) (inventory)
		+ \$15 000 (1 – 30%) (plant)
		+ \$5 000 (1 – 30%) (land)
		- \$8 000 (1 – 30%) (provision for damages)
		- \$2 000 (goodwill)
	=	\$216 000
Consideration transferred	=	\$227 500
Goodwill	=	\$11 500
Goodwill recorded	=	\$2 000
Unrecorded goodwill	=	\$9 500

Worksheet entries at 30 June 2016

1. Business combination valuation entries

Accumulated depreciation – plant	Dr	25 000	
Plant	Cr		10 000
Deferred tax liability	Cr		4 500
Business combination valuation reserve	Cr		10 500
Depreciation expense	Dr	5 000	
Accumulated depreciation (1/3 x \$15 000)	Cr		5 000
Deferred tax liability	Dr	1 500	
Income tax expense	Cr		1 500
Land	Dr	5 000	
Deferred tax liability	Cr		1 500
Business combination valuation reserve	Cr		3 500
Inventory	Dr	800	
Deferred tax liability	Cr		240
Business combination valuation reserve	Cr		560
Cost of sales	Dr	7 200	
Income tax expense	Cr		2 160
Transfer from business combination valuation reserve	Cr		5 040
Accumulated impairment losses	Dr	12 000	
Goodwill	Cr		2 500
Business combination valuation reserve	Cr		9 500
Business combination valuation reserve	Dr	1 400	
Deferred tax asset	Dr	600	
Provision for damages	Cr		2 000
Transfer from business combination valuation reserve	Dr	4 200	
Income tax expense	Dr	1 800	
Gain	Cr		6 000

2. Pre-acquisition entries

At 1/7/15:

Retained earnings (1/7/15)	Dr	20 000	
Share capital	Dr	150 000	
General reserve	Dr	34 000	
Business combination valuation reserve	Dr	23 500	
Shares in William Ltd	Cr		227 500

The entry at 30/06/2016 is affected by:

- 90% of inventory sold, 10% on hand
- re-measurement of liability from \$8000 to \$2000
- \$17 000 transfer from pre-acquisition general reserve
- call of 10c per share on 100 000 shares

Transfer from business combination valuation reserve	Dr	5 040	
Business combination valuation reserve (Sale of inventory)	Cr		5 040
Business combination valuation reserve	Dr	4 200	
Transfer from business combination valuation reserve (Re-measurement of liability)	Cr		4 200
Transfer from general reserve	Dr	17 000	
General reserve	Cr		17 000
Share capital	Dr	10 000	
Shares in William Ltd	Cr		10 000

Question 19.15 Consolidation worksheet entries

Ron Ltd operates a number of supermarkets with an emphasis on the supply of quality produce. The operations of Sam Ltd are primarily in the fine fruit market. Believing that the acquisition of Sam Ltd would enable Ron Ltd to expand its supply of quality produce to its customers, Ron Ltd commenced actions to acquire the shares of Sam Ltd. On 1 July 2013, Ron Ltd acquired all the issued shares (*cum div.*) of Sam Ltd for \$123 500. At this date the equity of Sam Ltd consisted of:

Share capital	\$100 000
Reserves	5 000
Retained earnings	10 000

On 1 July 2013, Sam Ltd had recorded a dividend payable of \$6000 and goodwill of \$5000 (net of accumulated impairment losses of \$7000). The dividend was paid in August 2013. In the previous year's annual report Sam Ltd had reported the existence of a contingent liability for damages based upon a lawsuit by a customer who had slipped on some fallen fruit in one of the stores operated by Sam Ltd. Ron Ltd calculated that this liability had a fair value of \$10 000. Sam Ltd also had some customer databases that were not recorded as assets but Ron Ltd placed fair value of \$6000 on these items. Sam Ltd believed that the databases had a future life of 4 years.

All of the identifiable assets and liabilities of Sam Ltd were recorded at amounts equal to their fair values except for the following:

	Carrying amount	Fair value
Plant (cost \$120 000)	\$94 000	\$96 000
Land	80 000	85 000
Inventory	20 000	24 000

The plant had an expected remaining useful life of 10 years. The land was sold by Sam Ltd in February 2015. The inventory was all sold by 30 June 2014.

In February 2016, Sam Ltd transferred \$3000 of the reserves on hand at 1 July 2013 to retained earnings. The remaining \$2000 was transferred in February 2017.

The court case involving the damages sought by the customer was settled in May 2017. Sam Ltd was required to pay \$7500 to the customer.

Required

Prepare the consolidation worksheet entries for the preparation by Sam Ltd of its consolidated financial statements at 30 June 2017.

At 1 July 2013:

Net fair value of identifiable assets and liabilities of Sam Ltd	=	(\$100 000 + \$5 000 + 10 000) (equity)	
		+ \$2 000 (1 – 30%) (plant)	
		+ \$5 000 (1 – 30%) (land)	
		+ \$4 000 (1 – 30%) (inventory)	
		+ \$6 000 (1 – 30%) (data bases)	
		- \$10 000 (1 -30%) (damages payable)	
		- \$5 000 (goodwill)	
	=	\$114 900	
Consideration transferred	=	\$123 500 - \$6 000 (dividend receivable)	
	=	\$117 500	
Goodwill	=	\$2 600	
Recorded goodwill	=	\$5 000	
Unrecorded goodwill	=	\$(2 400)	

A. Worksheet entries at 30 June 2017:**1. Business combination valuation entries**

Accumulated depreciation	Dr	26 000	
Plant	Cr		24 000
Deferred tax liability	Cr		600
Business combination valuation reserve	Cr		1 400
Depreciation expense	Dr	200	
Retained earnings (1/7/16)	Dr	600	
Accumulated depreciation (1/10 x \$2 000 p.a. for 4 years)	Cr		800
Deferred tax liability	Dr	240	
Income tax expense	Cr		60
Retained earnings (1/7/16)	Cr		180
Amortisation expense – data bases	Dr	1 500	
Income tax expense	Cr		450
Retained earnings (1/7/16)	Dr	3 150	
Transfer from business combination valuation reserve	Cr		4 200
Transfer from business combination valuation reserve	Dr	7 000	
Income tax expense	Dr	3 000	
Damages expense	Cr		7 500
Gain	Cr		2 500
Accumulated impairment losses - goodwill	Dr	7 000	
Business combination valuation reserve	Dr	2 400	
Goodwill	Cr		9 400

2. Pre-acquisition entries

At 1/7/13:

Retained earnings (1/7/13)	Dr	10 000	
Share capital	Dr	100 000	
Reserves	Dr	5 000	
Business combination valuation reserve	Dr	2 500	
Shares in Sam Ltd	Cr		117 500
Dividend payable	Dr	6 000	
Dividend receivable	Cr		6 000

At 30/6/17, the entry at acquisition date is affected by:

- sale of inventory in prior period
- payment of dividend: \$6 000 in prior period
- sale of land in prior period
- transfer from reserves - \$3 000 - in prior period
- transfer from reserve - \$2 000 – in current period
- settlement of court case in current period
- de-recognition of data bases in current period

Retained earnings (1/7/16) *	Dr	19 300	
Share capital	Dr	100 000	
Reserves	Dr	2 000	
Business combination valuation reserve	Cr		3 800
Shares in Sam Ltd	Cr		117 500

* = \$10 000 + \$2 800 (BCVR - inventory) + \$3 500 (BCVR – land) + \$3 000 (reserve transfer)

Transfer from reserves	Dr	2 000	
Reserves	Cr		2 000
Business combination valuation reserve	Dr	7 000	
Transfer from business combination valuation reserve	Cr		7 000
(Court case settled)			
Transfer from business combination valuation reserve	Dr	4 200	
Business combination valuation reserve	Cr		4 200
(Data bases de-recognised)			

Question 20.2 Intragroup transactions

Numbat Ltd owns all of the shares of Goanna Ltd. In relation to the following intragroup transactions, all parts of which are independent unless specified, prepare the consolidation worksheet adjusting entries for preparation of the consolidated financial statements as at 30 June 2016.

Assume an income tax rate of 30%.

- (a) On 1 July 2015, Numbat Ltd sold an item of plant costing \$15 000 to Goanna Ltd for \$18 000. Numbat Ltd had not charged any depreciation on the plant before the sale. Both entities depreciate assets at 10% p.a. on cost.
- (b) On 1 January 2014, Goanna Ltd sold a new tractor to Numbat Ltd for \$30 000. This had cost Goanna Ltd \$24 000 on that day. Both entities charged depreciation at the rate of 10% p.a. on cost.
- (c) On 1 July 2015, Numbat Ltd sold an item of machinery to Goanna Ltd for \$9000. This item had cost Numbat Ltd \$6000. Numbat Ltd regarded this item as inventory whereas Goanna Ltd intended to use it as a non-current asset. Goanna Ltd charges depreciation at the rate of 10% p.a. on cost.
- (d) In February 2015, Numbat Ltd sold inventory to Goanna Ltd for \$9000, at a mark-up of 20% on cost. One-quarter of this inventory was unsold by Goanna Ltd at 30 June 2015.
- (e) Goanna Ltd sold land to Numbat Ltd in December 2015. The land had originally cost Goanna Ltd \$20 000, but was sold to Numbat Ltd for only \$16 000. To help Numbat Ltd pay for the land, Goanna Ltd gave Numbat Ltd an interest-free loan of \$9000, and the balance was paid in cash. Numbat Ltd has as yet made no repayments on the loan.
- (f) On 1 July 2014, Goanna Ltd rented a spare warehouse to be used jointly by Numbat Ltd and Galah Ltd with each company paying half the agreed rent to Goanna Ltd. The rent paid to Goanna Ltd in the 2014–15 year was \$300 while the rent paid in the 2015–16 year was \$350.

(a)	Proceeds on sale of plant	Dr	18 000	
	Carrying amount of asset sold	Cr		15 000
	Asset	Cr		3 000

OR

	Gain on sale of plant	Dr	3 000	
	Asset	Cr		3000
	Deferred tax asset	Dr	900	
	Income tax expense	Cr		900
	Accumulated depreciation	Dr	300	
	Depreciation expense	Cr		300
	(10% x \$3000 p.a.)			
	Income tax expense	Dr	90	
	Deferred tax asset	Cr		90

(b)	Retained earnings (1/7/15)	Dr	4 200	
	Deferred tax asset	Dr	1 800	
	Tractors	Cr		6 000
	Accumulated depreciation	Dr	1 500	
	Depreciation expense	Cr		600
	Retained earnings (1/7/15)	Cr		900
	(10% x \$6000 p.a. for 2.5 years)			
	Income tax expense	Dr	180	
	Retained earnings (1/7/15)	Dr	270	
	Deferred tax asset	Cr		450
(c)	Sales revenue	Dr	9 000	
	Cost of sales	Cr		6 000
	Machinery	Cr		3 000
	Deferred tax asset	Dr	900	
	Income tax expense	Cr		900
	Accumulated depreciation	Dr	300	
	Depreciation expense	Cr		300
	(10% x \$3000 p.a.)			
	Income tax expense	Dr	90	
	Deferred tax asset	Cr		90
(d)	Retained earnings (1/7/12)	Dr	262.5	
	Income tax expense	Dr	112.5	
	Cost of sales	Cr		375
(e)	Proceeds on sale of land	Dr	16 000	
	Land	Dr	4 000	
	Carrying amount of land sold	Cr		20 000
OR	Land	Dr	4 000	
	Loss on sale of land	Cr		4 000

Income tax expense	Dr	1 200	
Deferred tax liability	Cr		1 200
(30% x \$4 000)			
Loan from Goanna Ltd	Dr	9 000	
Loan to Numbat Ltd	Cr		9 000
(f) Rent revenue	Dr	175	
Rent expense	Cr		175

Question 20.7 Consolidation worksheet

On 1 July 2015, Fluffy Ltd acquired all the issued shares of Glider Ltd. Fluffy Ltd paid \$30 000 in cash and 20 000 shares in Fluffy Ltd valued at \$3 per share. At this date, the equity of Glider Ltd consisted of \$66 000 share capital and \$6000 retained earnings.

At 1 July 2015, all the identifiable assets and liabilities of Glider Ltd were recorded at amounts equal to their fair values except for:

	Carrying amount	Fair value
Plant (cost \$150 000)	\$120 000	\$123 000
Patents	90 000	105 000
Inventory	18 000	22 500

The plant was considered to have a further 5-year life. The patents were sold for \$120 000 to an external entity on 18 August 2015. The inventory was all sold by 30 June 2016.

Additional information

- Fluffy Ltd sells certain raw materials to Glider Ltd to be used in its manufacturing process. At 1 July 2016, Glider Ltd held inventory sold to it by Fluffy Ltd in the previous year at a profit of \$600. During the 2016–17 year, Fluffy Ltd sold inventory to Glider Ltd for \$21 000. None of this was on hand at 30 June 2017.
- Glider Ltd also sells items of inventory to Fluffy Ltd. During the 2016–17 year, Glider Ltd sold goods to Fluffy Ltd for \$4500. At 30 June 2017, inventory which had been sold to Fluffy Ltd at a profit of \$300 was still on hand in Fluffy Ltd's inventory.
- On 1 July 2016, Glider Ltd sold an item of plant to Fluffy Ltd for \$15 000. This plant had a carrying amount in the records of Glider Ltd of \$14 000 at time of sale. This type of plant is depreciated at 10% p.a. on cost.
- On 1 January 2015, Fluffy Ltd sold an item of inventory to Glider Ltd for \$18 000. The inventory had cost Fluffy Ltd \$16 000. This item was classified by Glider Ltd as plant. Plant of this type is depreciated by Glider Ltd at 20% p.a.
- On 1 March 2017, Glider Ltd sold an item of plant to Fluffy Ltd. Whereas Glider Ltd classified this as plant, Fluffy Ltd classified it as inventory. The sales price was \$9000 which included a profit to Glider Ltd of \$1500. Fluffy Ltd sold this to another entity on 31 March for \$9900.
- The tax rate is 30%.

At 30 June 2017, the following financial information was provided by the two companies:

	Fluffy Ltd		Glider Ltd	
	Dr	Cr	Dr	Cr
Sales revenue		64 500		78 000
Cost of sales	30 900		46 350	
Trading expenses	4 800		9 000	
Office expenses	7 950		4 050	
Depreciation expenses	1 800		3 900	
Proceeds on sale of plant		9 000		15 000
Carrying amount of plant sold	7 500		14 000	
Income tax expense	11 100		7 300	
Share capital		96 000		66 000
Retained earnings (1/7/16)		48 000		31 500
Current liabilities		21 100		10 500
Deferred tax liability		11 000		15 000
Plant	57 000		107 250	
Accumulated depreciation – plant		18 300		33 450
Intangibles	12 000		11 100	
Deferred tax assets	8 100		9 450	
Shares in Glider Ltd	90 000		0	
Inventory	28 500		24 600	
Receivables	8 250		12 450	
	<u>267 900</u>	<u>267 900</u>	<u>249 450</u>	<u>249 450</u>

Required

Prepare a consolidation worksheet for the preparation of the consolidated financial statements of Fluffy Ltd at 30 June 2017.

At 1 July 2015:

Net fair value of identifiable assets and liabilities of Glider Ltd	=	\$66 000 + \$6 000 (equity)
		+ \$4 500 (1 – 30%) (inventory)
		+ \$15 000 (1 – 30%) (patents)
		+ \$3 000 (1 – 30%) (plant)
	=	\$87 750
Consideration transferred	=	\$90 000
Goodwill	=	\$2 250

1. Business combination valuation entries

Accumulated depreciation	Dr	30 000	
Plant	Cr		27 000
Deferred tax liability	Cr		900
Business combination valuation reserve	Cr		2 100
Depreciation expense	Dr	600	
Retained earnings (1/7/16)	Dr	600	
Accumulated depreciation	Cr		1 200
(1/5 x \$3000 p.a. for 2 years)			
Deferred tax liability	Dr	360	
Income tax expense	Cr		180

Retained earnings (1/7/16)	Cr		180
Goodwill	Dr	2 250	
Business combination valuation reserve	Cr		2 250

2. Pre-acquisition entries

At 1/7/15:

Retained earnings (1/7/15)	Dr	6 000	
Share capital	Dr	66 000	
Business combination valuation reserve	Dr	18 000	
Shares in Glider Ltd	Cr		90 000

At 30/6/17:

Retained earnings (1/7/16)*	Dr	19 650	
Share capital	Dr	66 000	
Business combination valuation reserve	Dr	4 350	
Shares in Glider Ltd	Cr		90 000

(* = \$6000 + \$3 150 + \$10 500)

3. Sales and profit in closing inventory

Sales revenue	Dr	21 000	
Cost of sales	Cr		21 000
Sales revenue	Dr	4 500	
Cost of sales	Cr		4 200
Inventory	Cr		300
Deferred tax asset	Dr	90	
Income tax expense	Cr		90

4. Profit in opening inventory of Glider Ltd

Retained earnings (1/7/16)	Dr	420	
Income tax expense	Dr	180	
Cost of sales	Cr		600

5. Sale of Plant - current period

Proceeds on sale of plant	Dr	15 000	
Carrying amount of plant sold	Cr		14 000
Plant	Cr		1 000
Deferred tax asset	Dr	300	
Income tax expense	Cr		300
Accumulated depreciation - plant	Dr	100	
Depreciation expense (10% x \$1000)	Cr		100
Income tax expense	Dr	30	
Deferred tax asset	Cr		30

6. Sale of Inventory classified as Plant : prior period

Retained earnings (1/7/16)	Dr	1 400	
Deferred tax asset	Dr	600	
Plant	Cr		2 000
Accumulated depreciation	Dr	1000	
Depreciation expense	Cr		400
Retained earnings (1/7/16)	Cr		600
(20% x \$2000 p.a. for 1.5 years)			
Income tax expense	Dr	120	
Retained earnings (1/7/16)	Dr	180	
Deferred tax asset	Cr		300

7. Sale of Plant classified as Inventory: current period

Proceeds on sale of plant	Dr	9 000	
Carrying amount of plant sold	Cr		7 500
Cost of sales	Cr		1 500

	Fluffy Ltd	Glider Ltd		Adjustments			Group
				Dr	Cr		
Sales revenue	64 500	78 000	3 3	21 000 4 500			117 000
Cost of sales	30 900	46 350			21 000 4 200 600 1 500	3 3 4 7	49 950
Gross profit	33 600	31 650					67 050
Trading expenses	4 800	9 000					13 800
Office expenses	7 950	4 050					12 000
Depreciation	1 800	3 900	1	600	100 400	5 6	5 800
	14 550	16 950					31 600
Profit from trading	19 050	14 700					35 450
Proceeds from sale of plant	9 000	15 000	5 7	15 000 9 000			0
Carrying amount of plant sold	7 500	14 000			14 000 7 500	5 7	0
Gain/loss on sale of machinery	1 500	1 000					0
Profit before tax	20 550	15 700					35 450
Tax expense	11 100	7 300	4 5 6	180 30 120	180 90 300	1 3 5	18 160
Profit	9 450	8 400					17 290
Retained earnings (1/7/16)	48 000	31 500	1 2 4 6 6	600 19 650 420 1 400 60	180 200	1 6	57 750

Retained earnings (30/6/17)	57 450	39 900					75 040
Share capital	96 000	66 000	2	66 000			96 000
BCVR	--	--	2	4 350	2 100	1	0
					2 250	1	
<i>Total equity</i>	153 450	105 900					171 040
Current liabilities	21 100	10 500					31 600
Deferred tax liability	11 000	15 000	1	360	900	1	26 540
<i>Total liabilities</i>	32 100	25 500					58 140
<i>Total equity and liabilities</i>	185 550	131 400					229 180

	Fluffy Ltd	Glider Ltd		Adjustments			Group
				Dr	Cr		
Plant	57 000	107 250			27 000	1	134 250
					1 000	5	
					2 000	6	
Accumulated depreciation	(18 300)	(33 450)	1	30 000	1 200	1	(22 250)
			5	100			
			6	600			
Intangibles	12 000	11 100					23 100
Shares in Glider Ltd	90 000	-			90 000	2	0
Deferred tax asset	8 100	9 450	3	90	30	5	18 330
			5	300	180	6	
			6	600			
Inventory	28 500	24 600			300	3	52 800
Receivables	8 250	12 450					20 700
Goodwill	0	0	1	2 250			2 250
<i>Total assets</i>	185 550	131 400		177 210	177 210		229 180

Question 20.13 Consolidation worksheet, consolidated financial statements

On 1 July 2015, Ghost Ltd acquired all the shares of Bat Ltd for \$330 000 on an *ex-div.* basis. On this date, the equity and liabilities of Bat Ltd included the following balances:

Share capital	\$	200 000
General reserve		25 000
Retained earnings		45 000
Dividend payable		10 000
Provisions		169 500

At acquisition date, all the identifiable assets and liabilities of Bat Ltd were recorded at amounts equal to fair value except for:

	Carrying amount	Fair value
Plant and equipment (cost \$300 000)	\$186 000	\$190 000
Trademark	100 000	110 000
Inventory	70 000	80 000
Land	50 000	70 000
Goodwill	25 000	55 000
Machinery (cost \$18 000)	15 000	16 000

Goodwill was not impaired in any period. The plant and equipment had a further 5-year life at acquisition date and was expected to be used evenly over that time. The trademark was considered to have an indefinite life. The machinery, which was estimated to have a further 4-year life at acquisition date, was sold on 1 January 2017. Any adjustments for differences between carrying amounts at acquisition date and fair values are made on consolidation.

During the year ended 30 June 2016, all inventories on hand at acquisition date were sold, and the land was sold on 1 June 2017. Any valuation reserves created are transferred on consolidation to retained earnings when assets are sold or fully consumed.

Additional information

- Of the interim dividend paid by Bat Ltd in the current year, \$5000 was from profits before acquisition date. All other dividends were from current year profits. Shareholder approval is not required in relation to dividends.
- On 1 July 2016, Bat Ltd has on hand inventory worth \$12 000, being transferred from Ghost Ltd in June 2016. The inventory had previously cost Ghost Ltd \$8000. On 31 March 2017, Bat Ltd transferred an item of plant with a carrying amount of \$10 000 to Ghost Ltd for \$15 000. Ghost Ltd treated this item as inventory. The item was still on hand at the end of the year. Bat Ltd applied a 20% depreciation rate to this plant.
- On 1 January 2017, Bat Ltd acquired \$8000 inventory from Ghost Ltd. This inventory originally cost Ghost Ltd \$5000. The profit in inventory on hand at 30 June 2017 was \$1000.
- During the year ending 30 June 2017, Bat Ltd sold inventory costing \$12 000 to Ghost Ltd for \$18 000. Two-thirds of this was sold to external parties for \$9000.
- On 1 January 2016, Ghost Ltd sold furniture to Bat Ltd for \$8000. This had originally cost Ghost Ltd \$12 000 and had a carrying amount at the time of sale of \$7000. Both entities charge depreciation at a rate of 10% p.a.
- Ghost Ltd sold some land to Bat Ltd in December 2016. The land had originally cost Ghost Ltd \$25 000, but was sold to Bat Ltd for only \$20 000. To help Bat Ltd pay for the land,

Ghost Ltd gave Bat Ltd an interest-free loan of \$12 000. Bat Ltd has as yet made no repayments on the loan.

(g) The tax rate is 30%.

On 30 June 2017 the trial balances of Ghost Ltd and Bat Ltd were as follows:

Debit balances	Ghost Ltd	Bat Ltd
Shares in Bat Ltd	\$325 000	—
Cash	7 800	\$35 000
Receivables	6 000	20 000
Inventory	20 000	50 000
Deferred tax assets	10 200	—
Machinery	15 000	15 000
Plant and equipment	113 000	300 000
Land	25 000	50 000
Furniture	7 000	8 000
Trademark	—	100 000
Goodwill	—	25 000
Cost of sales	162 000	128 000
Other expenses	53 000	41 000
Income tax expense	20 000	18 000
Interim dividend paid	12 000	10 000
Final dividend declared	6 000	4 000
Loan to Bat Ltd	12 000	—
	\$794 000	\$804 000
Credit balances		
Share capital	\$312 000	\$200 000
General reserve	20 000	25 000
Retained earnings (1/7/16)	30 000	45 000
Final dividend payable	6 000	4 000
Current tax liabilities	8 000	2 500
Provisions	78 000	169 500
Loan from Ghost Ltd	—	12 000
Sales	220 000	182 000
Other income	62 000	20 000
Gains(losses) on sale of non-current assets	22 000	25 000
Accumulated depreciation – plant and equipment	34 000	114 000
Accumulated depreciation – machinery	1 000	3 000
Accumulated depreciation – furniture	1 000	2 000
	\$794 000	\$804 000

Required

Prepare the consolidation worksheet for Ghost Ltd for the preparation of consolidated financial statements at 30 June 2017.

At 1 July 2015:

Net fair value of identifiable assets,
liabilities and contingent liabilities
of Bat Ltd

$$\begin{aligned}
 = & (\$200\,000 + \$25\,000 + \$45\,000) \text{ (equity)} \\
 & + \$10\,000 (1 - 30\%) \text{ (inventory)} \\
 & + \$20\,000 (1 - 30\%) \text{ (land)} \\
 & + \$4\,000 (1 - 30\%) \text{ (plant \& equipment)} \\
 & + \$1\,000 (1 - 30\%) \text{ (machinery)} \\
 & + \$10\,000 (1 - 30\%) \text{ (trademark)}
 \end{aligned}$$

		- \$25 000 (goodwill)	
Net fair value acquired	=	\$276 500	
Cost of combination	=	\$330 000	
Goodwill acquired	=	\$53 500	
Unrecorded goodwill acquired	=	\$53 500 – \$25 000	
	=	\$28 500	

1. Business combination valuation entries at 30 June 2017

Gain (loss) on sale of non-current assets	Dr	20 000	
Income tax expense	Cr		6 000
Transfer from business combination valuation reserve	Cr		14 000
Trademark	Dr	10 000	
Deferred tax liability	Cr		3 000
Business combination valuation reserve	Cr		7 000
Accumulated depreciation - P&E	Dr	114 000	
Plant and equipment	Cr		110 000
Deferred tax liability	Cr		1 200
Business combination valuation reserve	Cr		2 800
Depreciation expense - P&E	Dr	800	
Retained earnings (1/7/16)	Dr	800	
Accumulated depreciation - P&E (\$4 000 /5)	Cr		1 600
Deferred tax liability	Dr	480	
Income tax expense	Cr		240
Retained earnings (1/7/16)	Cr		240
Depreciation expense – machinery	Dr	125	
Gain (loss) on sale of non-current assets	Dr	625	
Income tax expense	Cr		225
Retained earnings (1/7/16)	Dr	175	
Transfer from business combination valuation reserve	Cr		700

2. Pre-acquisition entry 30/6/15

Retained earnings	Dr	45 000	
Share capital	Dr	200 000	
General reserve	Dr	25 000	
Business combination valuation reserve	Dr	31 500	
Goodwill	Dr	28 500	
Shares in Bat Ltd	Cr		330 000

Pre-acquisition entry 30/6/17

Retained earnings* (1/7/16)	Dr	52 000	
Share capital	Dr	200 000	
General reserve	Dr	25 000	
Business combination valuation reserve	Dr	24 500	

Goodwill	Dr	28 500	
Shares in Bat Ltd	Cr		330 000
* \$45 000 + \$7000 BCVR - Inventory			

Transfer from business combination valuation reserve	Dr	14 000	
Business combination valuation reserve Cr			14 000

Transfer from business combination valuation reserve	Dr	700	
Business combination valuation reserve Cr			700

Shares in Bat Ltd	Dr	5 000	
Interim dividend paid	Cr		5 000

3. Interim dividend paid

Dividend revenue	Dr	5 000	
Interim dividend paid	Cr		5 000

4. Final dividend declared

Dividend payable	Dr	4 000	
Final dividend declared	Cr		4 000

Dividend revenue	Dr	4 000	
Dividend receivable	Cr		4 000

5. Inter-entity sales of inventory: Profit in opening inventory

Retained earnings (1/7/16)	Dr	2 800	
Income tax expense	Dr	1 200	
Cost of sales	Cr		4 000

6. Transfer of plant to inventory: Ghost Ltd – Bat Ltd

Gain (loss) on sale of non-current assets	Dr	5 000	
Inventory	Cr		5 000

Deferred tax asset	Dr	1 500	
Income tax expense	Cr		1 500

7. Intragroup sales of inventory: Profit in ending inventory

Sales	Dr	8 000	
Cost of sales	Cr		7 000
Inventory	Cr		1 000

Deferred tax asset	Dr	300	
Income tax expense	Cr		300

8. Intragroup sales of inventory: Profit in ending inventory

Sales	Dr	18 000	
Cost of sales	Cr		16 000
Inventory	Cr		2 000
Deferred tax asset	Dr	600	
Income tax expense	Cr		600

9. Sale of Furniture

Retained earnings (1/7/16)	Dr	700	
Deferred tax asset	Dr	300	
Furniture	Cr		1 000

10. Depreciation

Accumulated depreciation - furniture	Dr	150	
Depreciation expense	Cr		100
Retained earnings (1/7/16)	Cr		50
Income tax expense	Dr	30	
Retained earnings (1/7/16)	Dr	15	
Deferred tax asset	Cr		45

QUESTION 20.13 (cont'd)

11. Sale of land: Ghost Ltd to Bat Ltd

Land	Dr	5 000	
Gain (loss) on sale of non-current assets	Cr		5 000
Income tax expense	Dr	1 500	
Deferred tax liability	Cr		1 500
Loan from Ghost Ltd	Dr	12 000	
Loan to Bat Ltd	Cr		12 000

Financial Statements	Ghost Ltd	Bat Ltd	Adjustments				Group
				Dr	Cr		
Sales revenue	220 000	182 000	7 8	8 000 18 000			376 000
Other income	62 000	20 000	3 4	5 000 4 000			73 000
	282 000	202 000					449 000
Cost of sales	162 000	128 000			4 000 7 000 16 000	5 7 8	263 000
Other expenses	53 000	41 000	1 1 1	800 125	100	10	94 825
	215 000	169 000					357 825
Trading profit	67 000	33 000					81 175

Gains/losses on sale of non-current assets	22 000	25 000	1 1 6	20 000 625 5 000	5 000	11	26 375
Profit before tax	89 000	58 000					117 550
Tax expense	20 000	18 000	5 10 11	1 200 30 1 500	6 000 240 225 1 500 300 600	1 1 1 6 7 8	31 865
Profit	69 000	40 000					85 685
Retained earnings (1/7/16)	30 000	45 000	1 1 2 5 9 10	800 175 52 000 2 800 700 15	240 50	1 10	18 800
Transfer from BCV reserve	0	0	2	14 700	14 000 700	1 1	0-
	99 000	85 000					104 485
Dividend paid	12 000	10 000			5 000 5 000	2 3	12 000
Dividend declared	6 000	4 000			4 000	4	6 000
	18 000	14 000					18 000
Retained earnings (30/6/17)	81 000	71 000					86 485
Share capital	312 000	200 000	2	200 000			312 000
General reserve	20 000	25 000	2	25 000			20 000
BCVR	-	-	2	9 800	7 000 2 800	1 1	-
<i>Total Equity</i>	413 000	296 000					418 485
Deferred tax liabilities	-	-	1	480	3 000 1 200 1 500	1 1 11	5 220
Dividend payable	6 000	4 000	4	4 000			6 000
Current tax liability	8 000	2 500					10 500
Loan from Ghost Ltd	-	12 000	11	12 000			
Provisions	78 000	169 500					247 500
<i>Total Liabilities</i>	92 000	188 000					269 220
<i>Total Liabilities + Equity</i>	<u>505 000</u>	<u>484 000</u>					<u>687 705</u>

	Ghost Ltd	Bat Ltd		Adjustments			Group
				Dr	Cr		
Shares in Bat Ltd	325 000	--			325 000	2	--
Cash	7 800	35 000					42 800
Inventory	20 000	50 000			5 000 1 000 2 000	6 7 8	62 000
Receivables	6 000	20 000			4 000	4	22 000
Land	25 000	50 000	11	5 000			80 000
Plant & equipment	113 000	300 000			110 000	1	303 000
Accumulated depreciation – P & E	(34 000)	(114 000)	1	114 000	1 600	1	(35 600)
Machinery	15 000	15 000					30 000
Accumulated depreciation – Mach.	(1 000)	(3 000)					(4 000)
Furniture	7 000	8 000			1 000	9	14 000
Accumulated depreciation – Furn.	(1 000)	(2 000)	10	150			(2 850)
Trademark		100 000	1	10 000			110 000
Goodwill	-	25 000	2	28 500			53 500
Deferred tax assets	10 200	-	6 7 8 9	1 500 300 600 300	45	10	12 855
Loan to Bat Ltd	12 000	-			12 000	11	
<i>Total assets</i>	505 000	484 000					687 705

QUESTION 20.13 (cont'd)

GHOST LTD
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for financial year ended 30 June 2017

Income:	
Sales revenue	\$376 000
Other income	<u>73 000</u>
	<u>449 000</u>
Expenses:	
Cost of sales	263 000
Other	<u>94 825</u>
	<u>333 800</u>
Trading profit	81 175
Gains/(losses) on sale of non-current assets	<u>26 375</u>
Profit before income tax	117 550
Income tax expense	<u>31 865</u>
Profit for the period	<u>\$85 685</u>
Other items of comprehensive income	0
Comprehensive income	<u>\$85 685</u>

GHOST LTD
Consolidated Statement of Changes in Equity
for the financial year ended 30 June 2017

Comprehensive income for the period	<u>\$85 685</u>
Retained earnings:	
Balance at 1 July 2016	\$18 800
Profit for the period	85 685
Dividend paid	(12 000)
Dividend declared	<u>(6 000)</u>
Balance at 30 June 2017	<u>\$86 485</u>
General reserve:	
Balance at 1 July 2016	\$20 000
Balance at 30 June 2017	<u>\$20 000</u>
Share capital:	
Balance at 1 July 2016	\$312 000
Balance at 30 June 2017	<u>\$312 000</u>

QUESTION 20.13 (cont'd)

GHOST LTD
Consolidated Statement of Financial Position
as at 30 June 2017

ASSETS**Current Assets**

Cash		\$42 800
Inventories		62 000
Receivables		<u>22 000</u>

Total Current Assets 126 800

Non-current Assets

Property, plant and equipment		
Land		\$80 000
Plant & Equipment	\$303 000	
Accumulated depreciation	<u>(35 600)</u>	267 400
Machinery	\$30 000	
Accumulated depreciation	<u>(4 000)</u>	26 000
Furniture	\$14 000	
Accumulated depreciation	<u>(2 850)</u>	11 150
Trademark		110 000
Goodwill	53 500	
Tax assets: Deferred tax asset		<u>12 855</u>

Total Non-current Assets 560 905

Total Assets \$687 705

EQUITY AND LIABILITIES**Equity**

Share capital	\$312 000
General reserve	20 000
Retained earnings	<u>86 485</u>

Total Equity \$418 485

Current Liabilities

Dividend payable	6 000
Current tax liabilities	10 500
Provisions	<u>247 500</u>

Total Current Liabilities 264 000

Non-current Liabilities:

Deferred tax liabilities	5 220
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Total Non-current Liabilities 5 220

Total Liabilities \$269 220

Total Equity and Liabilities \$687 705