CPA

Certified Public Accountant Examination

Stage: Advanced Level 1 A1.3

Subject Title: Advanced Financial Reporting

Revision Guide

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STUDY TECHNIQUE

What is the best way to manage my time?

- **Identify all available free time between now and the examinations.**
- **Prepare a revision timetable with a list of “*must do*” activities.**
- **Remember to take a break (approx 10 minutes) after periods of intense study.**

What areas should I revise?

- **Rank your competence from Low to Medium to High for each topic.**
- **Allocate the least amount of time to topics ranked as high.**
- **Allocate between 25% - 50% of time for medium competence.**
- **Allocate up to 50% of time for low competence.**

How do I prevent myself veering off-track?

- **Introduce variety to your revision schedule.**
- **Change from one subject to another during the course of the day.**
- **Stick to your revision timetable to avoid spending too much time on one topic.**

Are study groups a good idea?

- **Yes, great learning happens in groups.**
- **Organise a study group with 4 – 6 people.**
- **Invite classmates of different strengths so that you can learn from one another.**
- **Share your notes to identify any gaps.**

EXAMINATION TECHNIQUES

INTRODUCTION

Solving and dealing with problems is an essential part of learning, thinking and intelligence. A career in accounting will require you to deal with many problems.

In order to prepare you for this important task, professional accounting bodies are placing greater emphasis on problem solving as part of their examination process.

In exams, some problems we face are relatively straightforward, and you will be able to deal with them directly and quickly. However, some issues are more complex and you will need to work around the problem before you can either solve it or deal with it in some other way.

The purpose of this article is to help students to deal with problems in an exam setting. To achieve this, the remaining parts of the article contain the following sections:

- Preliminary issues

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- An approach to dealing with and s
- Conclusion.

Preliminaries

The first problem that you must deal with is your reaction to exam questions.

When presented with an exam paper, most students will quickly read through the questions and then many will … **PANIC!**

Assuming that you have done a reasonable amount of work beforehand, you shouldn't be overly concerned about this reaction. It is both natural and essential. It is natural to panic in stressful situations because that is how the brain is programmed.

Archaeologists have estimated that humans have inhabited earth for over 200,000 years. For most of this time, we have been hunters, gatherers and protectors.

In order to survive on this planet we had to be good at spotting unusual items, because any strange occurrence in our immediate vicinity probably meant the presence of danger. The brain's natural reaction to sensing any extraordinary item is to prepare the body for 'fight or flight'. Unfortunately, neither reaction is appropriate in an exam setting.

The good news is that if you have spotted something unusual in the exam question, you have completed the first step in dealing with the problem: its identification. Students may wish to use various relaxation techniques in order to control the effects of the brain’s extreme reaction to the unforeseen items that will occur in all examination questions.

However, you should also be reassured that once you have identified the unusual item, you can now prepare yourself for dealing with this, and other problems, contained in the exam paper.

A Suggested Approach for Solving and Dealing with Problems in Exams.

The main stages in the suggested approach are:

1. Identify the Problem
2. Define the Problem
3. Find and Implement a Solution
4. Review

1. Identify the Problem

As discussed in the previous section, there is a natural tendency to panic when faced with unusual items. We suggest the following approach for the preliminary stage of solving and dealing with problems in exams:

Scan through the exam question

You should expect to find problem areas and that your body will react to these items.

PANIC!!

Remember that this is both natural and essential.

Pause

Take deep breaths or whatever it takes to help your mind and body to calm down.

Try not to exhale too loudly – you will only distract other students!

Do something practical

Look at the question requirements.

Note the items that are essential and are worth the most marks.

Start your solution by neatly putting in the question number and labelling each part of your answer in accordance with the stated requirements.

Actively reread the question

Underline (or highlight) important items that refer to the question requirements. Tick or otherwise indicate the issues that you are familiar with. Put a circle around unusual items that will require further consideration.

2. Define the Problem

Having dealt with the preliminary issues outlined above, you have already made a good start by identifying the problem areas. Before you attempt to solve the problem, you should make sure that the problem is properly defined. This may take only a few seconds, but will be time well spent. In order to make sure that the problem is properly defined you should refer back to the question requirements. This is worth repeating: Every year, Examiner Reports note that students fail to pass exams because they do not answer the question asked. Examiners have a marking scheme and they can only award marks for solutions that deal with the issues as stipulated in the question requirements. Anything else is a waste of time. After you have re-read the question requirements ask yourself these questions in relation to the problem areas that you have identified:

Is this item essential in order to answer the question?

Remember that occasionally, examiners will put ‘red herrings’ (irrelevant issues) into the question in order to test your knowledge of a topic.

What’s it worth?

Figure out approximately how many marks the problem item is worth. This will help you to allocate the appropriate amount of time to this issue.

Can I break it down into smaller parts?

In many cases, significant problems can be broken down into its component parts. Some parts of the problem might be easy to solve.

Can I ignore this item (at least temporarily)?

Obviously, you don’t want to do this very often, but it can be a useful strategy for problems that cannot be solved immediately.

Note that if you leave something out, you should leave space in the solution to put in the answer at a later stage. There are a number of possible advantages to be gained from this approach:

1) It will allow you to make progress and complete other parts of the question that you are familiar with. This means that you will gain marks rather than fretting over something that your mind is not ready to deal with yet.
2) As you are working on the tasks that you are familiar with, your mind will relax and you may remember how to deal with the problem area.
3) When you complete parts of the answer, it may become apparent how to fill in the missing pieces of information. Many accounting questions are like jigsaw puzzles: when you put in some of the parts that fit together, it is easier to see where the missing pieces should go and what they look like.

3. Find and Implement a Solution

In many cases, after identifying and defining the problem, it will be easy to deal with the issue and to move on to the next part of the question. However, for complex problems that are worth significant marks, you will have to spend more time working on the issue in order to deal with the problem. When this happens, you should follow these steps:

Map out the problem

Depending on your preferred learning style, you can do this in a variety of ways including diagrams, tables, pictures, sentences, bullet points or any combination of methods. It is best to do this in a working on a separate page (not on the exam paper) because some of this work will earn marks. Neat and clearly referenced workings will illustrate to the examiner that you have a systematic approach to answering the question.

Summarise what you know about the problem

Make sure that this is brief and that it relates to the question requirements. Put this information into the working where you have mapped out the problem. Be succinct and relevant. The information can be based on data contained in the question and your own knowledge and experience. Don’t spend too long at this stage, but complete your workings as neatly as possible because this will maximise the marks you will be awarded.

Consider alternative solutions

Review your workings and compare this information to the question requirements. Complete as much of the solution as you can. Make sure it is in the format as stipulated in the question requirements. Consider different ways of solving the problem and try to eliminate at least one alternative.

Implement a solution

Go with your instinct and write in your solution. Leave extra space on the page for a change of mind and/or supplementary information. Make sure the solution refers to your workings that have been numbered.

4. Review

After dealing with each problem and question, you should spend a short while reviewing your solution. The temptation is to rush onto the next question, but a few moments spent in reviewing your solution can help you to gain many marks. There are three questions to ask yourself here:

Have I met the question requirements?

Yes, we have mentioned this already. Examiner Reports over the years advise that failure to follow the instructions provided in the question requirements is a significant factor in causing students to lose marks. For instance, easy marks can be gained by putting your answer in the correct format. This could be in the form of a report or memo or whatever is asked in the question. Likewise, look carefully at the time period requested. The standard accounting period is 12 months, but occasionally examiners will specify a different accounting period.

Is my solution reasonable?

Look at the figures in your solution. How do they compare relative to the size of the figures provided in the question?

For example, if Revenue were 750,000 and your Net Profit figure was more than 1 million, then clearly this is worth checking.

If there were some extraordinary events it is possible for this to be correct, but more than likely, you have misread a figure from your calculator. Likewise, the depreciation expense should be a fraction of the value of the fixed assets.

What have I learned?

Very often in exams, different parts of the solution are interlinked. An answer from one of your workings can frequently be used in another part of the solution. The method used to figure out an answer may also be applicable to other parts of your solution.

Conclusion

In order to pass your exams you will have to solve many problems. The first problem to overcome is your reaction to unusual items. You must expect problems to arise in exams and be prepared to deal with them in a systematic manner. John Foster Dulles, a former US Secretary of State noted that: *The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.* We hope that, by applying the principles outlined in this article, you will be successful in your examinations and that you can move on to solve and deal with new problems.

Stage: Advanced Level 1

Subject Title: A1.3 Advanced Financial Reporting
Examination Duration: 3.5 hours (Open Book)

<u>Assessment Strategy</u>

Examination Approach
This examination paper, which uses a case-study format, is the final test of students' ability to understand and apply the theory of financial reporting to a number of practical accounting issues. The case-study is designed to test students' ability to digest a considerable amount of detailed information about the affairs of a single company or group of companies. From that data, students are required to prepare a number of primary statements ie published or consolidated financial statements. A substantial narrative element is included requiring students to prepare both internal and external reports.

The assessment is designed to weight the marks mainly towards the presentational element of both the narrative and computational parts of the case-study. There is a considerable portion of marks available for the display of sound technical judgement. The case-study includes a range of current technical issues requiring, in many situations, substantial adjustments to the draft figures provided in the question. Students are required to demonstrate a strong technical understanding of how to solve external financial reporting issues and display sound professional judgement and ethical sensitivity. They are also required to write reports or memoranda tailored to the technical skills and understanding of various user groups in order to assess their presentation and communication skills.

Examination Format
The examination is open book and of 3.5 hours' duration. The paper consists of one case-study.

Marks Allocation
The total for the papers is 100 marks. The case-study requirement is generally broken down into four or five separate sections with approximately 50% of the marks for technical ability. The balance of the marks is awarded for the ability to:
interpret financial statements; appraise; apply and communicate the theoretical concepts underpinning technical adjustments; and ethical and current issues in financial accounting.

Learning Resources

Core Texts

Connolly / International Financial Accounting and Reporting 3rd ed / CAI 2011 / ISBN 1907214646

Elliot and Elliot, Financial Accounting and Reporting, 2011 Prentice Hall (15th edition) ISBN 978027376088749

Manuals

A1.3 Advanced Financial Reporting – Institute of Certified Public Accountants of Rwanda

Supplementary Texts and Journals

Kirk. R.J. / International Financial Reporting Standards in Depth, Volumes 1 & 2 2005 / ISBN 18 44 802 019.

Collins, McKeith / Financial Accounting and Reporting / McGraw-Hill 2009 / ISBN 9780077114527

Kothari, Barone / Advanced Financial Accounting An International Approach / 2011/ FT Prentice Hall / ISBN 978-0-273-71274-9

Useful Websites

(as at date of publication)

www.icparwanda.com

www.ifac.org/ - The International Federation of Accountants.

www.ifrs.org/ - The International Financial Reporting Standards Foundation.

www.iasplus.com - Deloitte Touche Tohmatsu. Summaries of International Financial Reporting Standards (IFRS).

http://www.ipsas.org/

REVISION QUESTIONS AND SOLUTIONS

Stage: Advanced 1.3

Subject Title: Advanced Financial Reporting

Exercise 1 – IAS 1 (Revised): Presentation of Financial Statements

The following items have been extracted from the trial balance of CRN, a limited liability company

as at 31st December 2009.

	Ref. To Notes	Rwf '000	Rwf '000
Opening Inventory		186,400	
Purchases		1,748,200	
Carriage Inwards		38,100	
Carriage Outwards	2	47,250	
Sales Revenue			3,210,000
Trade Receivables		318,000	
Wages & Salaries	2 and 3	694,200	
Sundry Administrative Expenses	2	381,000	
Allowance for doubtful debts, as at 1st Jan 2009	4		18,200
Bad Debts written off during the year	4	14,680	
Office Equipment as at 1st Jan 2009:			
Cost	5	214,000	
Accumulated Depreciation	5		88,700
Office Equipment: Additions during the year	5	48,000	
Proceeds of sale of items during the year	5		12,600
Interest paid	2	30,000	

Notes:

1. Closing inventory amounted to Rwf 219,600,000

2. Prepayments and accruals:

	Prepayments Rwf '000	Accruals Rwf '000
Carriage Outwards		1,250
Wages & Salaries		5,800
Sundry Administrative Expenses	4,900	13,600
Interest Payable		30,000

3. Wages and salaries cost is to be allocated:

Cost of Sales	10%
Distribution Costs	20%
Administrative Expenses	70%

4. Further bad debts totalling Rwf 8,000,000 are to be written off, and the closing allowance for doubtful debts is to be equal to 5% of the final trade receivables figure. The bad and doubtful debt expense is to be included in administrative expenses.

5. Office equipment:

Depreciation is to be provided at 20% per annum on the straight-line basis, with a full year's charge in the year of purchase and none in the year of sale.

During the year office equipment, which had cost Rwf40,000,000 with accumulated depreciation of Rwf26,800,000 was sold for Rwf12,600,000.

All office equipment is used for administrative purposes.

6. Income Tax of Rwf22,000,000 is to be provided for.

REQUIREMENT:
Prepare the company's Statement of Comprehensive Income for the year ended 31st December 2009 in accordance with IAS 1 Presentation of Financial Statements.

<u>Exercise 2 - IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors</u>

Retro Ltd. changed its accounting policy during the year ended 31st December 2009 with respect to the valuation of its inventories. Up to 2009, inventories were valued using a weighted average (AVCO) cost method. But in 2009, the method was changed to first-in first-out (FIFO). The change occurred as it was considered to reflect more accurately the usage and flow of inventories in the economic cycle. The impact on inventory valuation was determined to be:

At 31st December 2007 an increase of Rwf30,000,000
At 31st December 2008 an increase of Rwf45,000,000
At 31st December 2009 an increase of Rwf60,000,000

Assume the retained earnings of Retro ltd. on the 1st January 2008 were Rwf900,000.

The Statement of Comprehensive Incomes prior to adjustment are:

	2009	2008
	Rwf'000	Rwf '000
Revenue	750,000	600,000
Cost of sales	300,000	240,000
Gross Profit	450,000	360,000
Administration Costs	180,000	150,000
Selling and distribution costs	75,000	45,000
Net profit	195,000	165,000

Show how the change in accounting policy impacts upon the Statement of Comprehensive Income and the Statement of Changes in Equity in accordance with the requirements of IAS 8.

Exercise 3 – Advanced Consolidated Statement of Financial Positions

Pink Ltd purchased 80% of the shares in Saffron Ltd on 1st Jan 2008 in a 5 for 2 share exchange. Pink Ltd issued 5 of its own shares for every 2 it acquired in Saffron. The market value of Pink Ltd shares on 1st Jan 2008 was Rwf300 each. The share issue has not yet been recorded in Pink Ltd. The retained earnings of Saffron at acquisition were Rwf43,000,000.

The summarised statements of financial position of both companies are:

Statement of Financial Position at 31st December 2011

	Pink Ltd		Saffron Ltd	
	RWF '000	RWF '000	RWF '000	RWF '000
Assets				
Non-Current Assets				
Property, Plant and Equipment		62,000.00		66,000.00
Investments		2,000.00		1,000.00
		64,000.00		670.00
Current Assets				
Inventory	24,000.00		28,000.00	
Receivables	17,000.00		21,000.00	
Bank	2,000.00		4,000.00	
		43,000.00		53,000.00
		107,000.00		53,670.00
Equity and liabilities				
Capital and reserves				
Ordinary shares of €1 each		40,000.00		15,000.00
Retained Earnings		45,000.00		70,000.00
		85,000.00		85,000.00
Non Current Liabilities				
7% Debentures		0.00		15,000.00
Current Liabilities				
Trade payables	17,000.00		15,500.00	
Taxation	5,000.00		4,500.00	
		22,000.00		20,000.00
		107,000.00		120,000.00

You are provided with the following additional information:

(1) Saffron had plant in its financial statements at the date of acquisition with a carrying value of Rwf10 m but with fair value of Rwf12 m. The plant had a remaining life of 10 years at acquisition.

(2) Goodwill is to be measured in full. The fair value of the non-controlling interests at the date of acquisition was Rwf25,000,000. Goodwill is to be impaired by 30% at the reporting date.

(3) At the start of the current financial year, Pink transferred a machine to Saffron in exchange for Rwf1,500,000. The asset had a remaining economic life of 3 years at the date of transfer. It had a carrying value of Rwf1,200,000 in the books of Pink at the date of transfer.

(4) Saffron sold goods to Pink for Rwf6,000,000, including a mark-up of 20%. At the year end, Pink had 40% of these goods remaining in inventory.

(5) At the year end, Saffron's books showed a receivables balance of Rwf600,000 as being due from Pink. This amount disagreed with the payables balance of Rwf100,000 in Pink's books. The difference is caused by a payment sent to Saffron shortly before the year end, which Saffron had not received prior to cut-off.

Prepare the consolidated Statement of Financial Position for the year ended 31st December 2008.

Exercise 4 – Joint ventures

Augment, a medium-sized listed company, entered into an expansion programme on 1st October 2007. On that date the company purchased from Bagshot two investments in private limited companies:

(a) The entire share capital of Caldershaw; and

(ii) 50% of the share capital of Debut.

Both investments were previously wholly owned by Bagshot. Debut was to be run by Augment and Bagshot as a jointly controlled entity. Augment makes up its financial statements to 30th September each year. The terms of the acquisitions were:

<u>Caldershaw</u>
The total consideration was based on a price earnings (PE) multiple of 12 applied to the reported profit of Rwf2,000 million of Caldershaw for the year to 30th September 2007. The consideration was settled by Augment issuing an 8% Loan Note for Rwf14,000 million (at par) and the balance by a new issue of Rwf1,000 equity shares, based on a market value of Rwf2,500 each.

<u>Debut</u>

The value of Debut at 1st October 2007 was mutually agreed as Rwf37,500million. Augment satisfied its share (50%) of this amount by issuing 7.5 million Rwf1 equity shares (market value Rwf2,500 each) to Bagshot.

Note: Augment has not recorded the acquisition of the above investments or the issuing of the consideration.

The summarised Statement of Financial Position of the three entities at 30th September 2008 are:

	Augment		**Caldershaw**		**Debut**	
	Rwf m	Rwf m	Rwf m	Rwf m	Rwf m	Rwf m
Assets						
Non-current assets						
Property, Plant & Equipment		34,260		27,000		21,060
Current assets						
Inventories	9,640		7,200		18,640	
Trade and other receivables	11,200		5,060		4,620	
Cash	-		3,410		40	
		20,840		15,670		23,300
Total assets		55,100		42,670		44,360
Equity and liabilities						
Equity						
Equity capital Rwf1,000 each	10,000		20,000		25,000	
Retained earnings	20,800		15,000		4,500	
		30,800		35,000		29,500
Current liabilities						
Trade and other payables	17,120		5,270		14,100	
Operating overdraft	1,540		-		-	
Provision for income taxes	5,640		2,400		760	
		24,300		7,670		14,860
		55,100		42,670		44,360

The following information is relevant:

(i) The book values of the net assets of Caldershaw and Debut at the date of acquisition were considered to be a reasonable approximation to their fair values.

(ii) The retained profits of Caldershaw and Debut for the year to 30th September 2008 were Rwf8,000 million and Rwf2,000 million respectively. No dividends have been paid by any of the entities during the year.

(iii) Debut, the jointly controlled entity, is to be accounted for using proportional consolidation, the benchmark treatment in IAS 31 *Interests in Joint Ventures*.

(iv) Negative goodwill should be accounted for in accordance with IFRS 3 *Business Combinations*.

Required

(a) Prepare the journal entries (ignoring narratives) to record the acquisition of Caldershaw and Debut in the accounting records of Augment as at 1st October 2007. Show your workings.

(b) Prepare the Consolidated Statement of Financial Position of Augment as at 30th September 2008.

Exercise 5 - Consolidated Statement of Comprehensive Incomes

Consolidated Statement of Comprehensive Income

H Ltd purchased 80% of S Ltd when the latter company had a balance on its Statement of Comprehensive Income of Rwf800,000. The draft Statement of Comprehensive Incomes of H Ltd and S Ltd are given below.

Statement of Comprehensive Income	**H Ltd**	**S Ltd**
	Rwf '000	Rwf '000
Sales	5,000	2,000
Cost of sales	(1,800)	(900)
Gross profit	3,200	1,100
Operating expenses	(1,000)	(400)
Profit	2,200	700
Dividends received/receivable	240	-
Profit before tax	2,440	700
Tax	(800)	(200)
Profit after tax	1,640	500
Dividends	(400)	(300)
Retained	1,240	200
Brought forward	3,200	1,200
	4,440	1,400

Requirement:

Prepare a consolidated Statement of Comprehensive Income, using the proportion of net assets method.

You are informed of the following:

H Ltd sold goods to S Ltd valued at Rwf600,000. None of these goods remain in the closing inventory of S Ltd.

<u>Exercise 6 - Consolidated Statement of Comprehensive Incomes</u>

H Ltd purchased 75% of S Ltd when the latter company had a balance on its Statement of Comprehensive Income of Rwf500,000. H Ltd also bought 50% of S Ltd's debentures. The draft Statement of Comprehensive Income of H Ltd and S Ltd are given below.

Statement of Comprehensive Income	**H Ltd**	**S Ltd**
	Rwf '000	Rwf '000
Sales	12,400	6,300
Cost of sales	(4,800)	(2,900)
Gross profit	7,600	3,400
Administration	(1,200)	(700)
Distribution	(800)	(400)
Interest payable	(600)	(300)
Dividends receivable	300	-
Profit before tax	5,300	2,000
Tax	(2,000)	(900)
Profit after tax	3,300	1,100
Dividends	(600)	(400)
Transfer to reserves	(500)	(200)
Retained	2,200	500
Brought forward	5,800	1,100
	8,000	1,600

Requirement:
Prepare a consolidated Statement of Comprehensive Income, using the proportion of net assets method.

You are informed of the following:

(a) H Ltd bought goods to S Ltd valued at Rwf2,000,000. Half of these goods were in H Ltd closing inventory. The profit margin was 20%.

(b) H Ltd has not yet recorded interest receivable from S Ltd.

Exercise 7 - Associate companies in the Statement of Comprehensive Income

H Ltd acquired 80 % of S Ltd and 40% of A Ltd when both companies had nil reserves. The Statement of Comprehensive Incomes of each entity are as follows:

	H Ltd	**S Ltd**	**A Ltd**
	Rwf '000	Rwf '000	Rwf '000
Profit	1,100	520	210
Interest	(100)	(20)	(10)
Profit before tax	1,000	500	200
Tax	(400)	(200)	(80)
Profit after tax	600	300	120
Balance brought forward	1,400	500	180
Balance carried forward	2,000	800	300

Requirement:
Prepare the consolidated Statement of Comprehensive Income.

Exercise 8 - Associate companies in the Statement of Comprehensive Income

Using the same facts as Exercise 9 except, when H Ltd acquired 80% of S Ltd and 40% of A Ltd, the latter companies' reserves were Rwf200,000 and Rwf80,000 respectively, calculate the retained profits brought forward at the start of the year.

Exercise 9 - Goodwill on Acquisition of an Associate

PGY acquired 70% of SNW 3 years ago. Total Goodwill arising on acquisition was Rwf350 million. The Statement of Comprehensive Incomes of both companies are as follows:

Statement of Comprehensive Incomes for the Year Ended 31st December 2011

	PGY	SNW
	Rwf m	Rwf m
Revenue	1,000	260
Cost of Sales	750	80
Gross Profit	250	180
Operating expenses	(60)	(35)
Finance costs	(25)	(15)
Investment Income	20	-
Profit before tax	185	130
Tax	(100)	(30)
Profit for the year	85	100

Statements of Changes in Equity

	PGY	SNW
	Rwf m	Rwf m
Retained earnings b/f	1,575	770
Profit for the eyar	85	100
Dividends paid	(60)	(20)
Retained earnings c/f	1,600	850

You are provided with the following additional information:

1. SNY had plant in its Statement of Financial Position at the date of acquisition with a carrying value of Rwf100,000,000 but a fair value of Rwf120,000,000. The plant had a remaining life of 10 years at acquisition. Depreciation is charged to cost of sales.

2. Goodwill is to be measured in full Goodwill is to be impaired by 30% at the reporting date, of which 1/3rd relates to the current year.

2. SNW sold some goods to PGY for Rwf60,000,000 at a mark-up of 20%, during the year. 40% of the goods remained unsold at the year end.

3. The dividends shown in the Statements of Changes in Equity had been paid by both companies on 1st Dec 2011 to their respective shareholders.

Prepare the consolidated Statement of Comprehensive Income for the year ended 31st December 2011, using the Fair Value Method.

Exercise 10 – IAS 21: The Effects of Changes in Foreign Exchange Rates

MMO, a public limited company, owns 75% of the ordinary share capital of RBM, a public limited company which is situated in Burundi. MMO acquired RBM on 1st May 20X3 for 120 million Burundi Francs (Bfr) when the retained profits of RBM were 80 million Bfr. RBM has not revalued its assets or issued any share capital since its acquisition by MMO. The following financial statements relate to MMO and RBM.

Statements of financial position at 30th April 20X4

	MMO	RBM
	Rwf m	Bfr m
Property, plant and equipment	297	146
Investment in RBM	48	-
Loan to RBM	5	-
Current assets	355	102
	705	248
Capital and reserves		
Ordinary shares of Rwf1,000/1,000Bfr	60	32
Share premium account	50	20
Retained earnings	360	95
	470	147
Non-current liabilities	30	41
Current liabilities	205	60
	705	248

Statements of Comprehensive Income for year ended 30th April 20X4

	MMO	RBM
	Rwf m	Bfr m
Revenue	200	142
Cost of sales	(120)	(96)
Gross profit	80	46
Distribution and administrative expenses	(30)	(20)
Operating profit	50	26
Interest receivable	4	-
Interest payable	-	(2)
Profit before taxation	54	24
Income tax expense	(20)	(9)
Profit for the year	34	15

The following information is relevant to the preparation of the consolidated financial statements of MMO:

(a) During the financial year RBM has purchased raw materials from MMO and denominated the purchase in Bfr in its financial records. The details of the transaction are set out below:

	Date of Transaction	Purchase Price	Profit Percentage on Selling Price
		Rwf m	
Raw materials	1st February 20X4	6	20%

At the year-end, half of the raw materials purchased were still in the inventory of RBM. The inter-company transactions have not been eliminated from the financial statements and the goods were recorded by RBM at the exchange rate ruling on 1st February 20X4. A payment of Rwf6 million was made to MMO when the exchange rate was 2.2 Bfr to Rwf1. Any exchange gain or loss arising on the transaction is still held in the current liabilities of RBM.

(b) MMO had made an interest free loan to RBM of Rwf5 million on 1st May 20X3. The loan was repaid on 30th May 20X4. RBM had included the loan in non-current liabilities and had recorded it at the exchange rate at 1st May 20X3.

(c) The fair value of the net assets of RBM at the date of acquisition is to be assumed to be the same as the carrying value. Goodwill is to be calculated using the traditional method of only calculating goodwill acquired by the parent i.e. the non-controlling interest is calculated as a proportionate share of the subsidiary's net assets with no goodwill allocated.

(d) RBM operates with a significant degree of autonomy in its business operations.

(e) The following exchange rates are relevant to the financial statements:

Bfr to Rwf	
30th April/1st May 20X3	2.5
1st November 20X3	2.6
1st February 20X4	2.0
30th April 20X4	2.1
Average rate for year to 30th April 20X4	2.0

(f) MMO has paid a dividend of Rwf8 million during the financial year.

REQUIREMENT:

Prepare a consolidated statement of comprehensive income for the year ended 30th April 20X4 and a consolidated statement of financial position at that date in accordance with International Financial Reporting Standards.

Suggested solutions

Solution 1

CRN Limited
Statement of Comprehensive Income for the year ended 30th September 2009

	Rwf '000	Rwf '000
Sales Revenue		3,210,000
Cost of Sales (W1)		(1,823,100)
Gross Profit		1,386,900
Distribution Costs (W1)	(188,500)	
Administrative Expenses (W1)	(944,680)	(1,133,180)
Profit from operations		253,720
Interest payable (30,000 + 30,000)		(60,000)
Profit before Tax		193,720
Income Tax		22,000
Profit for the Year		171,720

Working 1

		Cost of Sales Rwf '000	Distribution Costs Rwf '000	Administrative Expenses Rwf '000
Opening Inventory		186,400		
Purchases		1,748,200		
Carriage Inwards		38,100		
Carriage Outwards (47,250 + 1,250)			48,500	
Wages and Salaries	694,200			
	5,800			
	700,000	70,000	140,000	490,000
Sundry administrative expenses (381,000 + 13,600 – 4,900)				389,700
Bad and doubtful debts (14,680 + 8,000 – 2,700)				19,980
Depreciation of office equipment 20% x (214,000 – 40,000 + 48,000)				44,400
Loss on sale				600
Closing inventory		(219,600)		
		1,823,100	188,500	944,680

SOLUTION 2

After adjusting, the Statement of Comprehensive Incomes would be as follows:

	2009	2008*(restated)*
	Rwf '000	Rwf '000
Revenue	750,000	600,000
Cost of sales	285,000	225,000
Gross Profit	465,000	375,000
Administration Costs	180,000	150,000
Selling and distribution costs	75,000	45,000
Net profit	210,000	180,000

In each year, the cost of sales will be reduced by Rwf15,000,000 (as the increase in closing inventory exceeds the increase in opening inventory). As the cost of sales falls, the net profit rises.

The Statement of Changes in equity will reflect the impact on the retained earnings of Retro Ltd. as follows:

	Rwf '000
At 1st January 2008 as originally stated	900,000
Change in Accounting Policy for valuation of inventory	30,000
At 1st January 2008 as restated	930,000
Net profit for year as restated	180,000
At 31st December 2008	1,110,000
Net profit for year	210,000
At 31st December 2008	1,320,000

Solution 3

Step 1 Establish Group Structure

	SAFFRON
Group	80%
NCI	20%

Saffron is a subsidiary acquired 3 years ago.

Step 2 Adjustments

(i) Record the purchase of Saffron

Saffron has	150,000 shares
Pink acquired	80%
Thus:	
Pink acquired	120,000 shares.

Terms of Share Exchange 5 for 2

Shares issued by Pink	(120,000/2) x 5 = 300,000 shares	
Fair Value of Shares	Rwf300 per share	
Total Consideration		300,000 shares x Rwf300 = Rwf 90m

Debit	Investment in Saffron	90	
Credit	Share capital Pink		30
Credit	Share premium Pink		60

(ii) Revaluation at acquisition

Debit	PPE	2	
Credit	Revaluation at acq. date and date of SFP		2

Depreciation

$\frac{200}{10\text{ yrs}}$ = 200 p.a.
x 3 years
0.6

Debit	Retained Reserves (S)	0.6	
Credit	PPE		0.6

(iii) Sale of Non-Current Asset at a profit
0.3

Credit	PPE		0.3

Depreciation

$\frac{300}{3\text{ years}}$ = 100 p.a.
x 1 year
100

Debit	PPE	0.1	
Credit	Retained Earnings (S)		0.1

(iv) Inter company profit on inventory

6	=	cost + 20% (or 120% of cost)
5	=	cost
1	=	profit
x 40%		
4m		

Debit	Retained Earnings (S)	0.4	
Credit	Inventory		0.4

(v) Inter company debt

Debit	Cash	0.5	
Credit	receivables		0.5

Then:

Debit	Payables		0.1
Credit	Receivables		0.1

Step 3	Goodwill – Fair value			At Acquisition Date	At SOFP Date
				Rwf m	*Rwf m*
	Saffron net assets				
	Share capital			15	15
	Retained earnings			43	70
	Fair value adj PPE			2	2
	Dep'n adj:PPE				-1
	Dep'n adj				0
	Inventory Adj				-0
	Net assets of Saffron			60	86
	Cost of Investment				90
	Less assets acquired		80%		-48
					42
	Fair value of NCI at Acq	given			25
	Less				
	NCI share of net assets		20%		-12
	Goodwill on Acq - NCI share				13
	Total goodwill		42	13	55
	Good will impairment		55	0	17
	Adjustment			Dr	Cr
	Goodwill				17
	Retained earnings	17	80%	13	
	NCI			3	
	Goodwill to be consolidated				55
					-17
					39
Step 4	Calculate NCI			*Rwf '000*	*Rwf '000*
	Share of net assets at SFP		20%	86	17
	Share of Goodwill				13
	Goodwill amortized/impaired				-3
					27

Step 5 Calculate Consolidated Reserves

The consolidated reserves will be the reserves of the Parent Company's (as adjusted for consolidation purposes) ***plus*** the group share of the post acquisition reserves of the Subsidiary (as adjusted for consolidation purposes).

Step 5	Calculated consolidated reserves			RWF m	RWF m
	Per SOFP			45.00	
	Profit on Sale of asset			-0.30	
	Goodwill impaired			-13.20	
					31.50
	Per SOFP			70.00	
	FV Adjustment re PPE			2.00	
	Dep'n adj:PPE			-0.60	
	Dep'n adj goodwill			0.10	
	Inventory Adj			-0.40	
				71.10	
	At Acquisition	43	2	45.00	
	Poist Acquisition			26.10	
				0.80	20.88
	Consolidated Reserves				52.38

Step 6

Pink Group - Statement of Financial Position at 31 March 2008

	Rwf '000	Rwf '000
Assets		
Non-current Assets		
PPE	129	
Goodwill	39	
Investments	3	
		171
Current Assets		
Stocks WIP Finished Goods	52	
Receivables	37	
Bank & Cash	7	
		96
		266
Equity & Liabilities		
Capital & Reserves	70	
Share premium	60	
Retained earnings	52	
		182
NCI - added as Saffron is part of Group		27
		209
Non-current Liabilities	15	
Current Liabilities Trade Payables	32	
Taxation	10	
		57
		266

6. Prepare Consolidated SFP

BCP Group

Consolidated Statement of Financial Position as at 31st March 20X7

	Rwf m	Rwf m
Non current assets:		
Property, Plant & Equipment (3,820 + 4,425)		8,245
Goodwill		460
Investment in associate (Note 1)		420
		9,125
Current assets:		
Inventory (2,740 + 1,280 – 40)	3,980	
Receivables (1,960 + 980 – 250)	2,690	
Bank (1,260 + 50 cash in transit)	1,310	
		7,980
Total assets		17,105
Equity attributable to equity holders of the parent:		
Ordinary shares of 25c each		4,000
Reserves:		
Share premium	800	
Retained earnings	4,272	
		5,072
		9,072
Non-Controlling Interest		233
		9,305
Current liabilities:		
Trade payables (2,120 + 3,070 – 200)	4,990	
Bank overdraft	2,260	
Taxation (400 + 150)	550	
		7,800
Total equity and liabilities		17,105

Note 1:
Investment in associated company

	Rwf m
Share of net assets [(800 x 40%) – 10 inventory]	310
Goodwill	110
	420

Notice in the Statement of Financial Position above, there is only one figure concerning the investment in the associate. The individual assets and liabilities of the associate company are not included in the group accounts. BCP does not control RHW.

Solution 4

(a) Recording the acquisition of Caldershaw.

Consideration is Rwf2,000 million x 12 = Rwf24,000 million

Rwf14,000 m loan notes given. Thus, the balance of Rwf10,000m satisfied by shares. Market value of the shares was Rwf2,500. This means that 4 million shares were issued.

Therefore:

		Rwf m	Rwf m
Dr	Investment in Caldershaw	24,000	
Cr	8% Loan notes		14,000
Cr	Equity shares		4,000
Cr	Share premium		6,000

Recording the purchase of Debut.

Value of Debut is Rwf37,500 million

The value of Augments share 50% is Rwf18,750 million

Augment issued 7.5 million shares with a market value of Rwf2,500 each.

Therefore:

		Rwf m	Rwf m
Dr	Investment in Debut	18,750	
Cr	Share capital		7,500
Cr	Share premium		11,250

(b) **1. Establish group structure**

	Caldershaw	Debut
Group	100%	50%
Non-Controlling Interest	-	-
Joint Venture		50%

Clearly, Caldershaw is a subsidiary. Debut is being run as a joint venture and the proportional consolidation method is required.

2. Adjustments

In this question there are no journal adjustments required, apart from the need to record the investments, as seen above.

3. Calculate Goodwill

Caldershaw

First, determine the net assets of Caldershaw

	At date of Acquisition	**At date of SFP**
	Rwf m	***Rwf m***
Share Capital	20,000	20,000
P/L reserves	7,000*	15,000
	27,000	35,000

* 15,000 – 8,000

Cost of Investment	24,000
Less:	
Share of Net assets Acquired (27,000 x 100%)	27,000
Negative Goodwill	3,000

The negative goodwill is credited in full immediately to the consolidated reserves.

Debut

First, determine the net assets of Debut

	At date of Acquisition	**At date of SFP**
	Rwf m	***Rwf m***
Share Capital (50%)	12,500	12,500
P/L reserves	1,250*	2,250**
	13,750	14,750

*(4,500 – 2,000) x 50%

**4,500 x 50%

Cost of Investment	18,750
Less:	
Share of Net assets Acquired	13,750
Goodwill	5,000

The goodwill is not impaired and so will be shown at 5,000m in the Consolidated SFP

4. Calculate NCI

Not Applicable in this question

5. Calculate Consolidated Reserves

Augment

Per SFP		20,800
Negative Goodwill		3,000
		23,800

Caldershaw

Per SFP	15,000	
At Acquistion	7,000	

Post Acquistion	8,000	
Group share	x 100%	
		8,000
Debut		
Per SFP (50%)	2,250	
At Acquisition (50%)	1,250	
Post Acquisition		1,000
Total		32,800

Augment Consolidated Statement of Financial Position as at 30th September 2008

	Rwf m	Rwf m
Assets		
Non-current assets		
Property Plant & Equipment	71,790	
Goodwill	5,000	
		76,790
Current assets		
Inventories	26,160	
Trade and Other Receivables	18,570	
Cash	3,430	
		48,160
		124,950
Equity and Liabilities		
Capital and Reserves		
Equity capital	21,500	
Share premium	17,250	
Consolidated Accumulated Profit	32,800	
		71,550
Non-current liabilities		
8% Loan notes		14,000
Current liabilities		
Trade payables	29,440	
Overdraft	1,540	
Provision for Income Tax	8,420	39,400
		124,950

Solution 5

Consolidated Statement of Comprehensive Income

Columnar Workings	**H Ltd**	**S Ltd**	**Adj.**	**Total**
	Rwf ‘000	Rwf’000	Rwf ‘000	Rwf ‘000
Sales	5,000	2,000	(600)	6,400
Cost of sales	(1,800)	(900)	600	(2,100)
Gross profit	3,200	1,100		4,300
Operating expenses	(1,100)	(400)		(1,400)
Profit	2,200	700		2,900
Dividends received / receivable	240	-		-
Eliminated	(240)	-		-
Profit before tax	2,200	700		2,900
Taxation	(800)	(200)		(1,000)
	1,400	500		1,900
Non-Controlling Interest	-	(100)		(100)
	1,400	400		1,800
Dividends payable	(400)	-		(400)
	1,000	400		1,400
Brought forward	3,200	1,200		-
Non-Controlling Interest 1,200 x 20%	-	(240)		-
Pre Acquisition 800 x 80%	-	(640)		-
	3,200	320		3,520
Carried forward	4,200	720		4,920

The balance carried forward of Rwf4,920 must be broken down between the amount retrained in the parent company and the subsidiary.

	H Ltd	**S Ltd**	**Total**
	Rwf ‘000	Rwf ‘000	Rwf ‘000
Carried forward	4,200	720	4,920
Dividend shuffle	240	(240)	-
Retained	4,400	480	4,920

H Ltd

Consolidated Statement of Comprehensive Income year ended …..

		Rwf '000
Sales		6,400
Cost of sales		(2,100)
Gross profit		4,300
Operating expenses		(1,400)
Profit before tax		2,900
Taxation		(1,000)
Profit for period		1,900
Attributable as follows:		
Equity holders in parent		1,800
Non-Controlling Interest		100
		1,900
Movement in Reserves:		
Retained reserves brought forward		3,520
Profit for period		1,800
Dividends		(400)
Retained reserves carried forward		4,920
Retained as follows:	H Ltd	4,440
	S Ltd	480
		4,920

Solution 6

Consolidated Statement of Comprehensive Income
Columnar Workings

Columnar Workings	**H Ltd**	**S Ltd**	**Adj.**	**Total**
	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Sales	12,400	6,300	(2,000)	16,700
Cost of Sales	(4,800)	(2,900)	2,000	(5,900)
Inventory profit (2,000 x ½ x 20%)	-	(200)		-
Gross profit	7,600	3,200		10,800
Administration	(1,200)	(700)		(1,900)
Distribution	(800)	(400)		(1,200)
Interest payable	(600)	(300)		(750)
Interest receivable	150	-		-
Dividend receivable	300	-		-
Elimination	(300)	-		-
Profit before tax	5,150	1,800		6,950
Taxation	(2,000)	(900)		(2,900)
Profit after tax	3,150	900		4,050
Non-Controlling Interest 900 x 25%	-	(225)		(225)
	3,150	675		3,825
Dividends	(600)	-		(600)
Transfer to reserves	(500)	(150)		(650)
Retained for year	2,050	525		2,575
Brought forward	5,800	1,100		-
Non-Controlling Interest 1,100 x 25%	-	(275)		-
Pre Acquisition 500 x 75%	-	(375)		-
	5,800	450		6,250
Carried forward	7,850	975		8,825
Dividend shuffle	300	(300)		-
	8,150	675		8,825

H Ltd
Consolidated Statement of Comprehensive Income for the year ended ….

	Rwf
Sales	16,700
Cost of sales	(5,900)
Gross profit	10,000
Administration	(1,900)
Distribution	(1,200)
Interest payable	(750)
Profit before tax	6,950
Taxation	(2,900)
Profit for the period	4,050
Attributable as follows:	
Attributable to equity holders of parent (bal. fig)	3,825
Non-Controlling Interest (as calculated)	225
	4,050

Statement of Changes in Equity

	Accumulated Reserves Rwf	Other Reserves Rwf	Total Rwf
Opening reserves b/f	6,250	-	6,250
Profit for year	3,825		3,825
Dividends	(600)		(600)
Transfers to reserves	(650)	650	-
Closing reserves c/f	8,825	650	9,475

Solution 7

	H Ltd	S Ltd	Total
	Rwf '000	Rwf '000	Rwf '000
Profit	1,100	520	1,620
Interest	(100)	(20)	(120)
Profit before tax	1,000	500	1,500
Tax	(400)	(200)	(600)
Profit after tax	600	300	900
Non-Controlling Interest	-	(60)	(60)
	600	240	840
Brought forward	1,400	500	-
Non-Controlling Interest	-	(100)	-
Pre-acquisition	-	Nil	-
Group share	1,400	400	1,800
Carried forward	2,000	640	2,640

Associate Company:

Share of profit after tax Rwf120,000 x 40% = Rwf48,000

Share of profit brought forward (Rwf180,000 – 0) x 40% = Rwf72,000

Consolidated Statement of Comprehensive Income

	Rwf '000
Group Profit	1,620
Interest Payable:	(120)
	1,500
Share of Profit in Associate	48
Profit before Tax	1,548
Tax	(600)
Profit for year	948

Attributable as follows:

Equity holders in parent	888
Non-Controlling Interest	60
	948

Movement in Reserves

Retained Reserves brought forward (see note)	1,872
Profit for year	888
Retained reserves carried forward	2,760

Note: Retained Reserves Brought Forward	Rwf '000
H	1,400
S	400
A	72
	1,872

If there are profits at the date of the acquisition of the associate, these must be considered when calculating group's share of post-acquisition profits of the associate brought forward from earlier years.

Solution 8

Retained Reserves Brought Forward	Rwf '000
H	1,400
S (Rwf500 - Rwf200) x 80%	240
A (Rwf180 - Rwf80) x 40%	40
	1,680

In the consolidated statement of changes in equity, the investor's share of the total recognised gains and losses of its associates should be included , for example if there is a revaluation of property in the associate, the group's share of this should be included in statement of changes in equity.

Solution 9

PGY GROUP

Consolidated Statement of Comprehensive Income for the 12 months ended 31ST December 2007

	Rwf m
Revenue (1,000 + 260 – 60)	1,200
Cost of sales (750 + 80 – 60 + 4 (inventory) + 2 (depreciation))	776
Gross Profit	424
Operating Expenses (65 + 35 + 35)	(130)
Finance Costs (25 + 15)	(40)
Investment Income (20 – (70% x 20))	6
Profit before tax	260
Tax (100 + 30)	(130)
Profit after tax	130
Attributable to:	
NCI Share	17.7
Parent Shareholders	112.3

Goodwill Impaired:

30% x 350 = 105

1/3rd relates to current year, this 35 is the impaired amount for the current year.

NCI share of the impairment: 30% x 105 = 35

NCI share of profit

	Rwf m
SNW Profit after Tax	100
Less:	
Depreciation	(2)
Profit in inventory	(4)
	94
NCI share 30%	28.2
Impairment (35 x 30%)	(10.5)
	17.7

Solution 10

Step 1: Establish Group Structure

	RBM
Group	75%
NCI	25%
	Subsidiary
	1 year

Step 2: Adjustments

2.1 **Inter Company Purchases**

RBM purchased goods from MMO and paid for them prior to the year end. The FX rate between the date of purchase and date of settlement changed, giving rise to a gain or loss. This exchange gain or loss is still held in the current liabilities of RBM, according to the question.

Thus, calculate the FX gain/loss arising and treat it properly in the accounts.

Initially, the transaction was recorded at Rwf6m x 2 = 12 million Bfr.

The cost of settlement was Rwf6m x 2.2 = 13.2 million Bfr.

Thus, RBM suffered a loss of 1.2 million Bfr. Adjust its Statement of Comprehensive Income to reflect this loss ***before*** translating the financial statements.

		Bfr m	Bfr m
Debit	I/S (RBM)	1.2	
Credit	Current Liabilities		1.2

2.2 **Inter Company Loan**

The loan was made by MMO to RBM on the 1st day of the accounting period and repaid by RBM after the year end.

Thus, this monetary liability existed at the year end and as such, needs to be retranslated at the closing rate. Any gain or loss arising must be adjusted for in RBM's Statement of Comprehensive Income, again, ***before*** translation.

Initially, the loan would have been recorded at Rwf5m x 2.5 = 12.5 million Bfr.

At year end, the loan is retranslated at Rwf5m x 2.1 = 10.5 million Bfr.

Thus, there is a gain of 2 million crowns.

		Bfr m	Bfr m
Debit	Loan Account	2	
Credit	I/S (RBM)		2

Remember to eliminate the inter-company loan on consolidation.

		Rwf m	Rwf m
Debit	Non-Current Liabilities	5	
Credit	Loan to RBM		5

Therefore, RBM has generated a net FX gain of 2m – 1.2m = 0.8m Bfr, in respect of both the loan and the purchases. This is adjusted for in its Statement of Comprehensive Income, and subject to translation.

2.3 **Inter Company Profit on Inventory**

MMO sold Rwf6m goods to RBM. Includes margin of 20%. At year end, ½ the goods remain.

Rwf6m x 20% x ½ = Rwf0.6m

		Rwf m	Rwf m
Debit	I/S (reserves) MMO	0.6	
Credit	Inventory		0.6

Eliminate inter-company sales and cost of sales of Rwf6m in the consolidated Statement of Comprehensive Income.

<u>Step 3: Translate the Statement of Comprehensive Income of RBM, at the average rate for the year</u>

	Bfr m	Rate	Rwf m
Revenue	142.0	2	71.0
Cost of sales	-96.0	2	-48.0
Gross profit	46.0		23.0
Distribution and Administration	-20.0	2	-10.0
Interest payable	-2.0	2	-1.0
Net Foreign Exchange gain	0.8	2	0.4
Profit before tax	24.8		12.4
Income tax expense	-9.0	2	-4.5
Profit after tax	15.8		7.9

Step 4: Calculate Goodwill arising on acquisition

(i) Calculate goodwill in foreign currency

(ii) Translate goodwill at the spot rate at acquisition

(iii) Translate goodwill at the closing rate at year end

(iv) The difference represents either a gain or loss and is shown in reserves

		Bfr m	Bfr m
Cost of investment			120
Less:			
	Share capital	32	
	Share premium	20	
	Reserves at acquisition	80	
		132	
	Group share	75%	
			-99
Goodwill in foreign currency			21
			Rwf m
Translate at acquisition	21/2.5		8.4
Translate at reporting date	21/2/1		10.0
Gain (to reserves)			1.6

Goodwill at the Reporting Date in the Consolidated SOFP is Rwf10m

Step 5: Translate the SOFP of RBM

		Bfr m	Rate		Rwfm
Tangible non current assets		146.0	2.1		69.50
Current assets		102.0	2.1		48.60
		248.0			118.10
Ordinary share capital		32.0	2.5		12.80
Share premium		20.0	2.5		8.00
Reserves: Pre-Acq		80.0	2.5		32.00
Post-Acq (bal fig)		15.8		(bal fig)	17.60
		147.8			70.40
Non-Current liabilities	(41 – 2)	39.0	2.1		18.60
Current liabilities	(60 + 1.2)	61.2	2.1		29.10
		248.0			118.10

Step 6: Prepare the Consolidated Statement of Comprehensive Income and SOFP

Statement of Comprehensive Income

	MMO Rwf m	RBM Rwf m	Adjust. Rwf m	Total Rwf m
Revenue	200.0	71.0	-6.0	265.0
Cost of sales	-120.0	-48.0	6.0	-162.6
Inventory profit	-0.6			
Gross profit	79.4	23.0		102.4
Admin & Distribution	-30.0	-10.0		-40.0
Interest receivable	4.0			4.0
Interest payable		-1.0		-1.0
FX gain		0.4		0.4
Profit before tax	53.4	12.4		65.8
Tax	-20.0	-4.5		-24.5
Profit after tax	33.4	7.9		41.3

NCI: Rwf7.9m x 25% = Rwf1.975m, say Rwf2m

MMO Group

Consolidated Statement of Comprehensive Income for the year ending 30th April 20X4

	Rwf m
Revenue	265.0
Cost of sales	-162.6
Gross profit	102.4
Administration & Distribution expenses	-40.0
Interest receivable	4.0
Interest payable	-1.0
FX gain	0.4
Profit before tax	65.8
Tax	-24.5
Profit for the year	41.3
Other Comprehensive Income	
Gain on retranslation of Goodwill	1.6
Exchange gain on translation of financial statements (see below)	9.7
Total Comprehensive Income	52.6
<u>Profit attributable as follows</u>:	
Equity holders of parent	3.3
NCI	2.0
	41.3
<u>Total Comprehensive Income attributable as follows:</u>	
Equity holders of parent (39.3 + 1.6 + 7.3)	48.2
NCI (2 + 2.4)	4.4
	52.6

MMO Group
Consolidated Statement of Financial Position at 30th April 20X4

	Rwfm	Rwfm
Assets		
Non Current Assets		
Intangibles: Goodwill		10.0
Tangibles (297 + 69.5)		366.5
Current Assets (355 + 48.6 – 0.6)		403.0
		779.5

Equity and Liabilities	Rwfm	Rwfm
Equity		
Share capital		60.0
Share premium		50.0
Reserves (see below)		374.2
		484.2
NCI (see below)		17.6
		501.8
Non-current Liabilities (30 + 18.6 – 5)		43.6
Current liabilities (205 + 29.1)		234.1
		779.5

<u>Note 1: NCI in SOFP</u>
On translation of RBM's SOFP in Step 5 earlier, the net assets (capital and reserves) were translated as Rwf70.4m in total.

Thus, NCI is Rwf70.4m x 25% = Rwf17.6m

<u>Note 2: Consolidated Reserves</u>

	Rwf m	Rwf m
Per SOFP	360.0	
Inventory profit	-0.6	
Gain on retranslation of goodwill	1.6	
		361.0
RBM:		
Group share of post-acq reserves		
75% x 17.6 (17.6 was calculated in the retranslated SOFP of RBM in Step 5)		13.2
		374.2

<u>Note 3: Exchange Difference</u>
In the Consolidated Accounts, the exchange difference will comprise:

(i) Exchange difference on translation of the financial statements

(ii) Exchange difference on retranslation of goodwill

The total exchange difference shall be disclosed as other comprehensive income.

There are two ways in which the exchange difference arising on the translation of the financial statements can be calculated.

Method 1:

	Rwf m
Opening reserves	32.0
Profit for year	7.9
	39.9
Closing reserves	49.6
Exchange difference	9.7

Group share Rwf9.7m x 75% = Rwf7.275m, say Rwf7.3m
NCI share Rwf9.7m x 25% = Rwf2.425m, say Rwf2.4m

Method 2:

Opening net assets (32 + 20 + 80) = 132m crowns

		Rwfm
Opening net assets at last year's closing rate (2.5)		52.8
Opening net assets at this year's closing rate (2.1)		62.9
	Gain	10.1

Profit for year = 15.8m crowns

		Rwfm
Profit for year at average rate (2.0)		7.9
Profit for year at closing rate (2.1)		7.5
	Loss	0.4

Total Net Gain 10.1 – 0.4 = 9.7

Group share Rwf9.7m x 75% = Rwf7.275m, say Rwf7.3m
NCI share Rwf9.7m x 25% = Rwf2.425m, say Rwf2.4m

The exchange difference arising in respect of goodwill was calculated earlier.