PREPARATION OF FINANCIAL STATEMENTS (Including Consolidated Financial Statements)

Outlines

- Statutory financial statements for incorporated entities.
- Consolidated Financial Statements.

Statutory Financial Statements for Incorporated Entities

IAS 32: FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION OF INFORMATION

The stated objective of IAS 32 is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance, and cash flows.

IAS 32 addresses this in a number of ways: Clarifying the classification of a financial instrument issued by an enterprise as a liability or as equity. Prescribing the accounting for treasury shares (a company's own repurchased shares). Prescribing strict conditions under which assets and liabilities may be offset in the balance sheet. Requiring a broad range of disclosures about financial instruments, including information as to their fair values.

IAS 32 is a companion to **IAS 39 Financial Instruments: Recognition and Measurement**. IAS 39 deals with, among other things, initial recognition of financial assets and liabilities, measurement subsequent to initial recognition, impairment, derecognition, and hedge accounting.

Classification as Liability or Equity

The fundamental principle of IAS 32 is that a financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form. The enterprise must make the decision at the time the instrument is initially recognised. The classification is not subsequently changed based on changed circumstances. [IAS 32.15]

A financial instrument is an equity instrument only if (a) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity and (b) if the instrument will or may be settled in the issuer's own equity instruments, it is either: a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. [IAS 32.16]

Illustration - preference shares

If an enterprise issues preference (preferred) shares that pay a fixed rate of dividend and that have a mandatory redemption feature at a future date, the substance is that they are a contractual obligation to deliver cash and, therefore, should be recognised as a liability. In contrast, normal preference shares do not have a fixed maturity, and the issuer does not have a contractual obligation to make any payment. Therefore, they are equity. [IAS 32.18]

Illustration - puttable instruments

A financial instrument that gives the holder the right to return it to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability – even if the amount of cash or other financial assets is determined on the basis of an index or other variable that has the potential to increase or decrease, or when the legal form of the puttable instrument gives the holder a right to a residual interest in the assets of an issuer. [IAS 32.18]

Illustration - issuance of fixed monetary amount of equity instruments

A contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity's own equity instruments to be received or delivered equals the fixed monetary amount of the contractual right or obligation is a financial liability. [IAS 32.20]

Illustration - one party has a choice over how an instrument is settled

When a derivative financial instrument gives one party a choice over how it is settled (for instance, the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument. [IAS 32.26]

IFRS 7: FINANCIAL INSTRUMENTS – DISCLOSURES

Objective

Users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or of the amount, timing, and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgement about risk ad return.

IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance. Entities should describe the nature and extent of risks arising from financial instruments to which they are exposed during the period under review and at the reporting date, and how they manage those risks.

Key Concepts

1. Four classes of financial assets: Assets carried at fair value through profit and loss, held-to-maturity securities, available-for-sale securities, and loans and receivables.

2. Two classes of financial liabilities: Liabilities carried at fair value through profit and loss, and liabilities measured at amortized cost.

3. Classes of financial instruments: Financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed, and take into account the characteristics of those financial instruments.

4. Reconciliations: Sufficient information must be provided to enable reconciliations with terms presented in the Statement of Financial Position.

ACCOUNTING TREATMENT/DISCLOSURE OVERVIEW

Macro view of disclosure requirements (table 7.1 and 7.2). IFRS 7 requires a determination of the significance of key disclosures, as well as the financial instruments affected, for the financial position and performance of an entity. In addition, the qualitative and quantitative nature and extent of risks arising from financial instruments must be disclosed.

IFRS 9: FINANCIAL INSTRUMENTS

Objective

The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

Scope

An entity shall apply this IFRS to all assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

Recognition and Derecognition

Initial recognition of financial assets

An entity shall recognise a financial asset in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs AG34 and AG35 of IAS 39). When an entity first recognises a financial asset, it shall classify it in accordance with paragraphs 4.1–4.5 and measure it in accordance with paragraph 5.1.1.

3.1.2 A regular way purchase or sale of a financial asset shall be recognised and derecognised in accordance with paragraphs 38 and AG53–AG56 of IAS 39.

Statutory Financial Statements for Incorporated Entities

Example 1

An entity holds investments to collect their contractual cash flows but would sell an investment in particular circumstances.

Although an entity may consider, among other information, the financial assets' fair values from a liquidity perspective (i.e. the cash amount that would be realised if the entity needs to sell assets); the entity's objective is to hold the financial assets and collect the contractual cash flows. Some sales would not contradict that objective.

Example 2

An entity's business model is to purchase portfolios of financial assets, such as loans. Those portfolios may or may not include financial assets with incurred credit losses. If payment on the loans is not made on a timely basis, the entity attempts to extract the contractual cash flows through various means—for example, by making contact with the debtor by mail, telephone or other methods.

Statutory Financial Statements for Incorporated Entities

In some cases, the entity enters into interest rate swaps to change the interest rate on particular financial assets in a portfolio from a floating interest rate to a fixed interest rate.

The objective of the entity's business model is to hold the financial assets and collect the contractual cash flows. The entity does not purchase the portfolio to make a profit by selling them.

The same analysis would apply even if the entity does not expect to receive all of the contractual cash flows (e.g. some of the financial assets have incurred credit losses).

Moreover, the fact that the entity has entered into derivatives to modify the cash flows of the portfolio does not in itself change the entity's business model.

If the portfolio is not managed on a fair value basis, the objective of the business model could be to hold the assets to collect the contractual cash flows.

Consolidated Financial Statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Consolidated financial statements provide a comprehensive overview of a company's operations. Without them, investors would not have an idea of how well an enterprise as a whole is doing.

The composition of the Consolidated Financial Statements are Consolidated Balance Sheet and Profit & Loss Account.

Consolidated Balance Sheet

Consolidated (Group) Balance Sheet is to combine the information in the balance sheet of the holding company and that of the subsidiary with such adjustments as the directors of the holding company think necessary.

Terminologies

Before going into details let us consider some of the terminologies that we will be using in relation to the consolidation schedule under the purchase or acquisition method.

Consolidated Financial Statements… cont

1. Cost of Acquisition: - This is the amount paid by the holding company to acquire the shares in the subsidiary and may consist of partly cash, shares, loan stock or debenture.
2. Pre-Acquisition Reserve: - This is the reserve of the subsidiary existing at the date of acquisition of controlling interest by the holding company.
3. Post-Acquisition Reserve: - Is the reserve of the subsidiary generated by it subsequent to the date of acquisition of controlling interest by the holding company.
4. Net Asset: - From the consolidation schedule point of view, it refers to share capital and reserves of the subsidiary at any time. Net assets at the date of acquisition represent the subsidiary's share capital and the pre-acquisition reserve.
5. Goodwill on Consolidation: - This is the difference in consolidation arising when the cost of acquisition paid by the holding company for the shares acquired in the subsidiary is more than the acquired net asset of the subsidiary. Acquired net asset of the subsidiary represents the holding company's share of the net asset of the subsidiary existing at the date of acquisition.
6. Capital Reserve on Consolidation: - This is the difference in consolidation arising when the cost of acquisition paid by the holding company for the shares acquired in the subsidiary is less than the acquired net asset of that company.
7. Minority Interest: - This is the net asset of the subsidiary attributable to interest which is not owned directly or indirectly through subsidiaries by the holding company.

Illustration

	Blue Plc. ₦'000	Black Plc. ₦'000	White Plc. ₦'000
Plant & Machinery	25,000	2,000	10,000
Other fixed assets	115,000	45,000	38,000
Investment in subsidiaries			
Shares in Black Ltd	56,500	-	-
Shares in White Ltd	29,300	-	-
Current assets:			
Stocks	45,600	30,000	15,000
Debtors	32,400	27,600	9,000
Bills receivable	-	12,000	
Dividend receivable	3,200	-	-
Cash and bank balance	18,200	6,400	7,500
Due to Blue Plc.	-	3,000	2,000
	325,200	126,000	81,500
Financed by:	*Blue*	*Black*	*White*
Ordinary shares cap	100,000	40,000	40,000
10% preference	50,000	20,000	-
General reserves	82,400	25,000	11,500
Profit and loss	42,500	22,000	3,500
15% debentures	15,000	10,000	-
Creditors	25,500	5,000	9,500
Bills payable	-	-	15,000
Dividend proposed	5,000	4,000	2,000
Due from: Black Ltd	3,000	-	-
White Ltd	1,800	-	-
	325,200	126,000	81,500

Additional Information:

1. Blue Plc. Acquired its 80% interest in Black Plc. when the general reserve and profit and loss account were ₦15,000,000 and ₦10,000,000 respectively and its 75% interest in White ltd when the general reserve balance was ₦5,000,000 and a debit balance of ₦4,500,000 in the profit and loss account.
2. During the year Blue Plc. transferred a plant costing ₦2,000,000 to White Ltd at ₦3,000,000
3. Included in the stock of Black Plc. were goods worth ₦6,000,000 purchased from Blue Plc. It is the policy of Blue Plc. to invoice goods at cost plus 25%.
4. An amount of ₦200,000 remitted from White Ltd to Blue plc. is still in transit at year end.
5. Part of the bills receivable accepted from White Ltd has been discounted by Black Ltd.
6. Blue Plc. is yet to accrue for its dividend receivable from White Ltd.
7. All the preference shares in Black Ltd are held outside the group.
8. It is group's policy to account for its shares of inters company profits. All shares are denominated in ₦1 per shares par value.

Required:

Prepare the Consolidated Balance sheet of Blue group as at 31st March 2002 show all relevant workings. Ignore adjustments for excess depreciation arising to transfer of plant.

Blue Plc. and its Subsidiaries
Consolidated Balance sheet as at 31st March 2002

	₦'000	₦'000
Fixed Assets:		
Plant & machinery	36,000	
Other fixed assets	198,000	234,000
Goodwill on consolidation		3,425
		237,425
Current assets:		
Stock	89,400	
Debtors	69,000	
Bill receivable	12,000	
Dividend receivable	4,700	
Cash and bank balances	32,300	207,400
		444,825
Financed by:		
Ordinary share capital		100,000
10% Preference shares capital		50,000
Reserves		95,275
Profit and Loss		57,400
15% Debenture		25,000
Creditors		40,000
Bills payable		15,000
Dividend proposed		11,000
Minority interest		51,150
		444,825

Workings

1. Unrealized profit on Plant:

	₦
Transfer price of plant	3,000,000
Less: cost of plant	(2,000,000)
Unrealized profit	1,000,000

2. Unrealized profit on stock:

$$\frac{\text{Cost}}{1} + \frac{25 \text{ cost}}{100} = 6{,}000{,}000$$

$$\frac{100 \text{ cost} + 25 \text{ cost}}{100} = 6{,}000{,}000$$

$$125 \text{ cost} = 600{,}000{,}000$$

$$\text{Cost} = \frac{600{,}000{,}000}{125} = \text{N}4{,}800{,}000$$

Unrealized profit = N6,000,000 – N4,800,000
= N1,200,000

3. Items on Transit:

Due to Blue Plc.

Black Ltd	N3,000,000	
White Ltd	N2,000,000	
	N5,000,000	

Due from:

Black Ltd	3,000,000	
White Ltd	1,800,000	N4,800,000
Cash in transit	N 200,000	

Accounting Entry:

Dr. Consolidated cash and bank

Cr. Due from Black and White Ltd

Dividend Receivable from White Ltd

4. Dividend of White Ltd N2,000,000

75% thereof N1,500,000

Accounting Entries:

Dr. Dividend receivable

Cr. Consolidated profit and Loss

Consolidation Schedule

		COC Blue in Black	M.I	COC Blue in White	M.I	Cons. Res. N'000	Cons. P&L N'000
Black Ltd	N'000	80%	20%	75%	25%		
Ordinary shares	40,000	32,000	8,000				
General reserve	25,000	12,000	5,000			8,000	
Profit & loss	22,000	8,000	4,400				9,600
White Ltd							
Ordinary Shares	40,000			30,000	10,000		
General reserve	11,500			3,750	2,875	4,875	
Profit & Loss	3,500			(3,375)	875		6,000
		52,000		30,375			
Investment at cost		(56,500)		(29,300)			
Goodwill/Capital Res		(4,500)		1,075			
Transfer of Cap Res		1,075		(1,075)			
Goodwill		3,425		-			
Unrealized profit on plant							(1,000)
Unrealized profit on stock							(1,200)
Dividend due from White Ltd							1,500
Transfer of Blue Plc's							
Reserve and P & L account					20,000	82,400	42,500
			17,400		33,750	95,275	57,400

Consolidated Profit and Loss

Group Profit and Loss Account is to combine the information in the accounts of the holding company and that of the subsidiary with such adjustments as the directors of the holding company think necessary.

Steps to Consolidated Profit and Loss Account

Let us now consider the steps as highlighted in the format above. Note that while answering examination question you need not indicate the steps as we have done above. In these steps, whenever you see H + S, we mean holding company's figure plus subsidiary's figure. If there is adjustment, a note explaining how to effect this will follow. We therefore proceed as follows:

(1) **Turnover: -** H + S. This should exclude intra-group sales. Where the consolidated schedule is used, this adjustment should be in the column of the company making the sales.

(2) **Cost of Sales: -** H + S. Intra-group costs of sales should also be eliminated. This cost should be the cost to the buying company and not the cost to the selling company and therefore will be the same as the selling price. You may be surprised at this since the adjustment is to be effected in the column of the selling company but note that we are talking of column not profit. Moreover this is only workings, our final figure being those shown in the group profit and loss column.

Adjustment for unrealised profit will also pass through cost of sales and should be effected in holding company's column always irrespective of whatever makes the sales. Our accounting entry will be.

DR Cost of Sales

CR Stock

This is because there is no profit and loss as obtains in group balance sheet adjustment. We are trying to determine the profit and therefore any entry that normally affect the profit and loss account will now affect the particular expense heading. You would have observed that a debit to cost of sales will increase it and consequently reduce profit.

(3) Distribution cost: - H + S

(4) Admin. Expenses: - H + S

Where there is intra group transfer of assets resulting in

- Unrealized profit
- Over depreciation

These adjustments may affect, cost of sales, distribution costs or admin. expenses depending on the asset in question. In this situation accounting entry for unrealized profit will be the asset in question. In this situation accounting entry for unrealized profit will be:-

DR	Cost of Sales/Distribution/Admin Expenses
CR	Asset

While for the over-depreciation it will be

DR	Provision for depreciation
CR	Cost of Sales/Distribution costs/Admin Expenses.

(5) Other Operating Income: - H + S. eliminate intra-group.

(6) Income from Shares in related Company: Take the % of the holding company

(7) Income from other fixed asset investment: H + S. No Adjustments

(8) Interest Receivable & similar Income: H + S. Eliminate intra-group

(9) Interest payable & similar charges: H + S. Eliminate intra-group

(10) Tax on profit on ordinary activity. H + S. No Adjustment.

(11) Preference Dividend of Subsidiary: - This should be shared between holding company and minority interest. The holding company's share should be analysed into pre and post acquisition. Only the post acquisition dividend should be consolidated.

(12) **Minority Interest in the Profit for the year: -** It is calculated by applying minority interest percentage holding on the subsidiary's profit after tax and preference dividend.

(13) **Pre-acquisition Profit: -** This will be applicable for acquisition during the year where the whole year consolidation method is used. It is calculated using the formula:

$$\frac{\text{No. of Months Pre}}{12} \times \frac{\text{Balance of Subsidiary's}}{\text{Profit After deducting minority interest}}$$

$$\text{\% Holding} \times \frac{\text{No. of Months Pre}}{12} \times \frac{\text{Balance of Subsidiary's Profit before deducting}}{\text{Minority interest}}$$

This step will not apply where the part year method is adopted to account for purchase of subsidiary during the year.

(14) **Extra-ordinary Item: -** Extraordinary item for holding company should be accounted for as given. Where it is a profit, it should be added but if a loss it should be deducted. Extraordinary item for a subsidiary should also be accounted for the same way except that the figure will be the holding company's share of the post extraordinary item in the subsidiary.

(15) **Ordinary Dividend of Subsidiary: -** Under this step we determine the holding company's share of the post acquisition ordinary dividend of the subsidiary. This will be deducted from subsidiary's profit and added to the holding company. The resultant effect in the consolidated profit and loss account column will be nil. The purpose of this step is to determine that portion of the groups profit that has been dealt with in the account of the holding company.

(16) **Appropriation:-**

(a) **Dividend:** The one to be considered is that the holding company alone

(b) **Transfer to reserves:** Should comprise holding company and its share of post acquisition transfer to reserve in the subsidiary.

(17) **Group Retained Profit Brought Forward: -** Again this should be made up of holding company and its share of the post acquisition profit of the subsidiary at the beginning of the year. Where the shares in the subsidiary is acquired at the beginning or during the year, there will be no retained profit brought forward. This is because everything will be pre-acquisition profit. Note that there are circumstances under which the retained profit of the holding company at the beginning of the year may require adjustment. Example: prior year adjustment. If this is the case you should remember to adjust for it.

Illustration

Abuja Ltd. acquired 80% of the shares in Kwali Ltd on 1st January. 2008. The Profit and Loss Accounts of the two companies for the year ended 31st December 2010 were as follows.

	Abuja Ltd.	Kwali Ltd.
	₦	₦
Turnover	10,000,000	7,000,000
COGS	(3,000,000)	(2,000,000)
Gross Profit	7,000,000	5,000,000
Distribution Costs	(300,000)	(200,000)
Administrative Costs	(200,000)	(100,000)
Operating profit	6,500,000	4,700,000
Income from Associated Company	400,000	-
Income from Fixed Asset Invest.	700,000	550,000
Interest & Similar Income	505,000	330,000
Interest & Similar Charges	(40,000)	(80,000)
Profit before Tax	8,065,000	5,500,000
Tax @ 30%	2,419,000	1,650,000
Profit after Tax	5,645,500	3,850,000

Extra Ordinary Income	465,000	-
	6,110,500	3,850,000
Appropriation		
Divided Proposed	(2,100,000)	(500,000)
Transfer to Gen. Revenue	(1,200,000)	(640,000)
Retained Profit for the year	2,810,500	2,710,000
Retained Profit b/f	1,200,000	1,100,000
	4,010,500	3,810,000

Abuja Ltd acquired shares in Kwali Ltd when the P&L account of Kwali Ltd stood at ₦700,000

Required:

Prepare the Consolidated P & L of Abuja Ltd. & its subsidiary Kwali Ltd. for the year ended 31 Dec. 2010. Show all workings.

Solution

Abuja Plc. and its Subsidiary Kwali Ltd

Consolidated Profit and Loss for the year ended 31st December 2008

	₦
Turnover	17,000,000
COGS	(5,000,000)
Gross profit	12,000,000
Distribution Cost	(500,000)
Administrative expenses	(300,000)
Operating profit	11,200,000
Income from fixed asset Invest.	1,250,000
Interest Rec. and similar income	835,000
Interest payable & similar charges	(120,000)
Profit before tax	13,165,000
Tax	(4,069,500)
PAT	9,095,500
Minority Interest (wk. 1)	(770,000)
	8,325,500
Extra Ordinary income	465,000
Profit attributable to the group	8,990,500

Appropriation

Dividend proposed	(2,100,000)
Transfer to reserve (wk. 2)	(1,712,000)
Reserved profit for the year	4,978,500
Reserved profit b/fwd. (wk. 3)	1,520,000
Retained profit c/fwd.	6,492,500

Workings

1. Minority Interest 20% x ₦3,850,000 = ₦770,000

2. Transfer to General Reserve
   80% x 640,000 + 1,200,000 = ₦1,712,000

3. On retained profit

Abuja	1,200,000	
Kwali	1,100,000	
Pre-acquisition reserve	(700,000)	
Post-acquisition retained	400,000 x 80%	320,000
		1,520,000

Review Questions

1: Consolidated Balance Sheet

The following are the Balance Sheet of Umaru Ltd. and subsidiaries, Adamu and Usman as at 31st March, 2007.

	Umaru	Adamu	Usman
	₦	₦	₦
Ord. Share Cap @ ₦1 each fully paid	400,000	360,000	320,000
General Reserve	120,000	-	-
Profit and Loss Account	170,000	54,400	40,000
	690,000	414,400	360,000
Debenture 10% secured	350,000	260,000	80,000
Current liabilities			
Current Account with Umaru Ltd	-	30,000	2,000
Sundry creditors	300,000	120,000	80,000
Taxation	100,000	80,000	60,000
Bank overdraft	200,000	80,000	
	1,640,000	984,400	582,000
Fixed Assets:			
Plant and Machinery	342,500	245,500	191,000
Freehold and property	300,000	150,000	91,500
Furniture and fittings	51,500	30,500	25,450
	694,000	426,000	307,950
Investment in Adamu Ltd			
240,000 ordinary shares at cost	350,000	-	-
Investment in Usman Ltd			
80,000 ordinary shares at cost	148,000	-	-
Investment in Usman Ltd			
200,000 shares at cost	-	340,000	-
Current Asset:			
Current Account with Umaru	40,000	-	-
Current Account with Adamu	5,000	-	-
Stocks	170,500	103,800	125,010
Sundry Debtors	232,500	114,600	146,040
Cash			3,000
	1,640,000	984,400	582,000

Additional Information:

Umaru Ltd. purchased its shares in Adamu Ltd. on 31st March 2002 when Adamu Ltd. Profit and Loss Account had a credit balance of ₦42,000.

Both Umaru Ltd. and Adamu Ltd. purchased their shares in Usman Ltd. on 31st March 2003, when Usman Ltd. Profit and Loss Account had a credit balance of ₦32,000.

Cheques of ₦10,000 from Adamu Ltd. to Umaru Ltd. and of ₦3,000 from Usman Ltd. to Umaru Ltd. were in transit at 31st March, 2007.

Umaru Ltd. sold goods to Adamu Ltd. during the year ended 31st March 2007, at cost plus $33^1/_3$%. Adamu Ltd. had ₦49,600 in value of these stocks on hand at the year end.

Required:

Prepare the Consolidated Balance Sheet as at 31st March, 2007.

2: Consolidated Balance Sheet

Jos Plc has two subsidiaries Sokoto Ltd and Lokoja Ltd, the companies' Balance Sheet as at 31st March 2002 are set out below:

	Jos Plc	Sokoto Plc	Lokoja Plc
Fixed Assets	**₦'000**	**₦'000**	**₦'000**
Freehold Land & Building	200,000	100,000	-
Plant & Machinery	80,000	50,000	120,000
Other Fixed Assets	120,000	180,000	100,000
Investment in subsidiaries at cost			
Shares in Sokoto Ltd	165,000		
Shares in Lokoja Ltd	102,000		
Current Assets			
Stock	60,000	45,000	38,000
Debtors	80,000	59,000	42,000
Cash & bank Balance	64,400	28,000	19,500
Bill receivable	-	-	20,000
Dividend receivable	16,000	-	-
Amounts due from - Sokoto	20,000	-	-
Lokoja	18,000	-	-
	925,400	462,000	339,500
Financed by:			
Ordinary share capital	500,000	100,000	100,000
10% preference share capital	100,000	50,000	-
Profit and loss account	80,000	60,000	55,000
General reserve	90,000	70,000	80,000
Current liabilities:			
Creditors	65,400	117,000	69,500
Proposed dividend	50,000	20,000	12,000
Bills payable	-	35,000	-
Bank overdraft	40,000	-	10,000
Amount due to Jos Plc	-	10,000	13,000
	925,400	462,000	339,500

Additional information:

Jos Plc. acquired 80,000,000 ordinary shares in Sokoto Ltd several years ago when the profit and loss account and General balances were ₦20, 000,000 and ₦28, 000,000 respectively. The balances in these accounts when Jos Plc. acquired 70,000,000 ordinary shares in Lokoja Ltd were ₦25, 000,000 and ₦30, 000,000 respectively.

The sum of ₦26, 000,000 incurred by Jos Plc. in Acquiring 40% of the preference shares in Sokoto Ltd is included in the amount of the cost of investment in the subsidiary.

The Plant and Machinery of Lokoja Ltd at year end included a plant worth ₦50,000,000 transferred from Jos Plc. it is the policy of Jos Plc. to transfer assets at cost Plus 25%. Also the group's policy is to adjust for its share of such unrealized income.

In order to meet urgent financial obligation, Lokoja Ltd discounted part of the bills receivable from Sokoto Ltd before its maturity.

Goods worth ₦10, 000,000 and ₦5, 000,000 consigned to Sokoto Ltd and Lokoja Ltd respectively by Jos Plc. were still in transit at year end.

Jos Plc. is yet to accrue for its shares of dividend receivable from Lokoja Ltd.

All the shares of the companies involved are denominated at ₦1 per share value

It is the group policy to offset all bank overdrafts against favourable bank balances.

Required:
Prepare the consolidated balance sheet of Jos Plc. group as at 31st March 2002 showing clearly relevant workings.

3: Consolidated Profit & Loss A/c

The abridged profit and loss accounts of Theresa Limited; Talatu limited and Elizabeth limited for the year 31st December 2005 were as follows:

	Theresa Ltd.	Talatu Ltd.	Elizabeth Ltd.
	₦	₦	₦
Turnover	3,000,000	1,000,000	800,000
Balance b/f at 1st Jan	45,000	30,000	25,000
Profit on trading	240,000	120,000	70,000
	285,000	150,000	95,000
Director's emolument	25,000	8,000	4,000
Auditors	2,000	1,000	800
Depreciation	40,000	22,000	15,000
Share issue cost Bal			
Written off	3,000	-	-
Transfer to Gen. Res.	30, 000	-	10,000
Debenture interest	20,000	5,000	-
Tax charge on trading	70,000	40,000	20,000
Proposed dividends			
Ordinary shares	40,000	25,000	10,000
Balance c/f @ 31/12	55,000	49,000	35,200
	285,000	150,000	95,000

The Director of Theresa limited are not directors of Talatu Limited or Elizabeth limited

Theresa limited acquired 80% of the ordinary shares in Talatu Limited when the company was formed five years ago

Theresa limited acquired 40% of the ordinary shares in Elizabeth Limited as from 1st January 2005

The rate of company tax may be assumed to be 50%

Detailed workings should be shown and any assumptions stated clearly.

Required:

Prepare the consolidation Profit and Loss account of Theresa limited for the year ended 31st December 2005.

4: Consolidated Profit & Loss A/c

Adebayo Ltd. has a subsidiary Beauty Ltd. The company acquired 500,000 shares in beauty Ltd. on 31st Dec. 2006 when the P & L of beauty Ltd. stood at ₦300, 000 and the ordinary share capital stood at 800,000 shares of N1 each. The P & L A/c of the two companies for the year ended 31st December 2008 were as follows.

	Adebayo Ltd.	Beauty Ltd.
	₦	₦
Turnover	8,000,000	6,000,000
COGS	(2,500,000)	1,200,000
	5,500,000	4,800,000
Selling & Dist. Expenses	(600,000)	(300,000)
Administrative Expenses	(480,000)	220,000
Operating profit	4,420,000	4,280,000
Fixed Int. Charges	80,000	70,000
Profit before Tax	4,340,000	4,210,000
Tax @ 30%	1,302,000	1,263,000
Profit after Tax	3,038,000	2,947,000
Appropriation		
Divided paid / proposed	(800,000)	(700,000)
Transfer to Gen. Revenue	(200,000)	(100,000)
Returned Profit for the year	2,038,000	2,147,000
Retained Profit b/f	432,000	300,000
	2,470,000	**2,447,000**

Additional Information:

1. During the year Adebayo Ltd. sold goods to Beauty Ltd. for ₦800,000. It is the policy of the group to invoice goods @ cost of 20%.

2. Adebayo Ltd transferred Motor Vehicle to Beauty Ltd during the year for ₦400,000. It is the policy of the group to transfer fixed assets at a margin of 15%.

3. There was over provision for depreciation on Furniture and Fittings during the year for ₦60,000.

Required:

Prepare the consolidated P & L of Adebayo Ltd. & its subsidiary Beauty Ltd. for the year ended 31 Dec. 2008 show all workings.

References

- Adejola, P. A (2010): Revision Pack on Advanced Corporate Reporting for Professionals, Conversion and Undergraduate Students, Danladi Press, Abuja.
- Adejola, P. A. (2011): Financial Accounting and Reporting Standards for Students and Professionals, Revised Edition
- Aborode, R. Advanced Financial Accounting, Lagos: Masterstroke Consulting