

Assignment 1 (30% of Total Mark) – Due Date: 04/01/11

Part a (15% of Total Mark)

H Bhd has a 75% holding in the ordinary shares of S Sdn Bhd and 40% in A Sdn Bhd. Shares in S were acquired in 2006 when its retained earnings were RM120 million. The shares in A S/B were acquired in 2004 when its retained earnings were RM50 million. Below are the balance sheets for the three companies as at 31 December 2009.

| | H Bhd | S Bhd | A S/B |
|--------------------------------|----------------|----------------|----------------|
| | RM | RM | RM |
| | million | million | million |
| Non-current assets | | | |
| Freehold land | 788 | 350 | - |
| Plant and equipment (NBV) | 140 | 189 | 320 |
| | 928 | 539 | 320 |
| Development projects | 320 | 200 | - |
| Investment in S Bhd | 354 | - | - |
| Investment in A S/B | 160 | - | - |
| | 834 | 200 | - |
| Current assets | | | |
| Inventories | 60 | 280 | 310 |
| Accounts receivable | 36 | 196 | 160 |
| Cash at bank | 56 | 34 | 250 |
| | 152 | 510 | 720 |
| Current liabilities | | | |
| Accounts payable | 35 | 210 | 200 |
| Taxation | 45 | 29 | 80 |
| | 80 | 239 | 280 |
| Non-current liabilities | | | |
| 10% Debentures | - | - | - |
| | | 60 | |
| | 1,834 | 950 | 760 |
| Financed by: | | | |
| Ordinary shares of RM1 each | 500 | 200 | 200 |
| Retained earnings: | | | |
| Balance on 1 January 2009 | 854 | 522 | 440 |
| Profit for the year | 480 | 228 | 120 |
| | 1,834 | 950 | 760 |

Additional information:

- i) To reflect the fair value of the subsidiaries' net assets at the acquisition date, the directors of H determined that S's freehold land had a fair value of RM450 million. S has not acquired nor disposed off any land since 2006.
- ii) Investment in S Bhd includes 10% Debentures purchased at par for RM 24 million.
- iii) S Bhd sold a piece of equipment to H Bhd in 2009 for RM20 million and made a profit of RM5 million. The remaining useful life of this plant and equipment at that time was 5 years.
- iv) During the year, A S/B sold items of inventories at the invoiced value of RM20 million to H Bhd. RM12.5 million of these goods are still in stock at the end of the year. Side normally charges a mark-up of 25% on cost.
- v) Full provision of depreciation is provided for in the year of purchase and none in the year of sale.
- vi) Assume that revenue and expenditure accrue evenly throughout the year.
- vii) Ignore taxation.

Required:

- a) Prepare the consolidated balance sheet as at 31 December 2009. Show all relevant workings. **(50 marks)**

Part b (15% of Total Mark)

High Bhd acquired shares in two other companies as follows:

| Date of acquisition | Company | % of equity shares acquired | Cost of Investment | Ordinary Share capital (RM1 par value) at date of acquisition | Company's reserves at date of acquisition |
|---------------------|------------|-----------------------------|--------------------|---|---|
| | | | RM'000 | RM'000 | RM'000 |
| 01/11/2007 | Swift Bhd | 75% | 1,300 | 800 | 400 |
| 01/05/2009 | Arthur Bhd | 30% | 285 | 300 | 150 |

The summarised draft profit and loss accounts of the companies for the year ended 31 October 2009 were:

| | High RM'000 | Swift RM'000 | Arthur RM'000 |
|--------------------------|----------------|-----------------|------------------|
| Turnover | 10,500 | 7,500 | 4,400 |
| Cost of sales | -7,350 | -5,000 | -3,200 |
| Gross Profit | 3,150 | 2,500 | 1,200 |
| Other operating expenses | -1,700 | -1,100 | -440 |
| Profit before taxation | 1,450 | 1,400 | 760 |
| Taxation | -430 | -420 | -200 |
| Profit after taxation | 1,020 | 980 | 560 |
| Dividend proposed | -500 | -400 | -200 |
| Retained profit | 520 | 580 | 360 |

Additional information:

- Goodwill on acquisition of Swift was impaired by RM80,000 as at 31 October 2009 and is to be written off as an expense.
- On 1 October 2009 Swift sold goods to High at a margin of 20%. These goods had a sales value of RM200,000. As at 31 October 2009, High still held RM140,000 of these goods in stocks.
- High has not yet accounted for any dividends receivable from Swift or Arthur. The dividends from Arthur all relate to the post-acquisition period.
- High requires Arthur to bring its depreciation methods in line with the group accounting policies. The directors have estimated that this would reduce the profit of Arthur for the year ended 31 October 2009 by RM100,000. Ignore any effect on the taxation charge.
- The retained profit brought forward at 1 November 2008 for the three companies was:

| | RM'000 |
|--------|--------|
| High | 2,400 |
| Swift | 1,800 |
| Arthur | 600 |

Required:

- Calculate the goodwill on acquisition of Swift and Arthur. **(10 marks)**
- Prepare the Consolidated income statement of the group for the year ended 31 October 2009. **(30 marks)**
- Prepare the consolidated statement of reserves of the group for the year ended 31 October 2009. **(10 marks)**