

PRACTICE AND REVISION KIT (For exams in December 2019 and June 2020)

Updated 09/12/19

Mock exam 1, Question 1

The summarised statement of changes in equity shows that Beta and Gamma both paid dividends in the year. This is an error. Neither company paid dividends during the year to 31 March 20X8. The corrected summarised statement of changes in equity for Alpha, Beta and Gamma are shown below, with the corrections highlighted.

Summarised statements of changes in equity

Balance on 1 April 20X7	420,000	280,000	180,000
Total comprehensive income for the year	112,000	86,000	63,000
Dividends paid on 31 December 20X7	<u>(42,000)</u>	<u>Nil</u>	<u>Nil</u>
Balance on 31 March 20X8	<u>490,000</u>	<u>366,000</u>	<u>243,000</u>

Note 3 incorrectly stated that Alpha paid \$145m in cash for the equity shares. This is an error, the amount paid should be \$137m in cash. Note 3 also incorrectly stated that the fair value of the net assets at acquisition was £170m. This is an error, the fair value of net assets should be \$162m. These corrections are highlighted below:

Note 3 – Alpha's investment in Gamma

On 1 April 20X2, Alpha acquired 40 million of the 50 million equity shares in Gamma and gained control of Gamma. Alpha paid **\$137 million** in cash for the equity shares.

On 1 April 20X2, the carrying amount of the net assets of Gamma in its individual financial statements was \$150 million and the fair value of the net assets was **\$162 million**.

The errors in Note 3 require corrections to the solution, these corrections are highlighted in yellow below.

1 Consolidated statement of profit or loss and other comprehensive income of Alpha for the year ended 31 March 20X8

	\$'000
Revenue (W1)	1,448,000
Cost of sales (W2)	<u>(855,300)</u>
Gross profit	592,700
Distribution costs (38,000 + 34,000 + 27,000 × 8/12)	(90,000)
Administrative expenses (64,000 + 56,000 + 51,000 × 8/12 – 4,800 + 5,000)	(154,200)
Investment income	32,000

Profit on disposal of Gamma (W3)	6,160
Finance costs (30,000 + 20,000 + 18,000 × 8/12 + 125 (W9))	<u>(62,125)</u>
Profit before tax	324,535
Income tax expense (W7)	<u>(86,000)</u>
Profit for the year	238,535
Other comprehensive income:	
Items that will not be reclassified to profit or loss	
Re-measurement loss on defined benefit retirement pension plan	(1,175)
Total comprehensive income for the year	<u>237,360</u>
Profit attributable to:	
Owners of Alpha (balancing figure)	208,775
Non-controlling interest (W8)	<u>29,760</u>
	238,535
Total comprehensive income attributable to:	
Owners of Alpha (balancing figure)	207,600
Non-controlling interest (as above)	<u>29,760</u>
	237,360

3	<i>Profit on disposal of Gamma</i>	\$'000
	Disposal proceeds	196,000
	Net assets of Gamma at date of disposal (W4)	(228,050)
	Goodwill of Gamma at date of disposal (W5)	(10,000)
	Non-controlling interest in Gamma at date of disposal (W6)	<u>48,210</u>
	So profit on disposal equals	<u>6,160</u>

5	<i>Goodwill of Gamma at date of disposal</i>	\$'000
	Cost of investment in Gamma	137,000
	Non-controlling interest in Gamma at date of acquisition (10,000 × \$3.50)	35,000
	Fair value of net assets at date of acquisition:	<u>(162,000)</u>
	So goodwill on acquisition equals	<u>10,000</u>

6	<i>Non-controlling interest in Gamma at date of disposal</i>	\$'000
	Non-controlling interest at date of acquisition (W5)	35,000
	Increase since acquisition (20% × (228,050 (W4) – 162,000 (W5)))	<u>13,210</u>
	So non-controlling interest on disposal equals	<u>48,210</u>