	Rain Ltd.		Storm Ltd.		Thunder Ltd.	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Non-current assets:						
Non-current assets						
(net of depreciation)		14,000		6,300		1,700
Shares in subsidiaries		5,000		1,900		-
		19,000		8,200		1,700
Current assets:						
Inventory	2,000		1,200		1,600	
Trade payables	4,800		2,000		800	
Cash	2,700		1,400		1,100	
	9,500		4,600		3,500	
Current liabilities:						
Trade payables	(5,000)		(2,600)		(1,800)	
Net current assets		4,500		2,000		1,700
		23,500		10,200		3,400

	Rain Ltd.	Storm Ltd.	Thunder Ltd.
Financed by:			
Authorised and issued			
Share capital:			
Ordinary shares of Sh.100			
Each fully paid	15,000	5,000	2,000
10% preference shares of Sh. 100			
each fully paid	-	3,000	-
General reserve	6,000	3,000	1,000
Retained Profits	2,500	(800)	400
	23,500	10,200	3,400

Additional information:

1. Rain Ltd. purchased 30,000 ordinary shares in Storm Ltd. on 1 October 2001 for Sh. 3,400,000 and 5,000 preference shares on 1 October 2002 for Sh. 600,000. On 1 October 2002, Rain Ltd. purchased 5,000 ordinary shares in Thunder Ltd. for Sh. 1,000,000. Storm Ltd. purchased 11,000 ordinary shares in Thunder Ltd. for Sh. 1,900,000 on the same date.

2. Balances are as given below:

	Profit and loss account	
Storm Ltd.	1 October 2001	Sh. 500,000 (debit).
	1 October 2002	Sh. 600,000 (debit).
Thunder Ltd.	1 October 2002	Sh. 300,000 (debit).

	General reserve	
Storm Ltd.	1 October 2001	Sh. 1,000,000
	1 October 2002	Sh. 2,000,000
Thunder Ltd.	1 October 2002	-

Dividends: Interim paid		476	
Final proposed		1290	(1766)
Retained profits: For year			223
B/f			3389
C/f			3612

Retained Profit

	B/f	Yr	C/f
	Sh.	Sh.	Sh.
Embamba	1940	(235)	1705
Imani (Merger)	1104	368	1472
	3044	133	3175
Fanya (subsidiary)	345	57	402
Goro (Associate)	-	18	18
Hadithi (J.V.)	-	15	15
Group Co.	3389	223	3612

COC –K

	Sh m		Sh m
J: Investment	375	K: OSC	225
Goodwill: K	45	Share premium	45
		Profit & Loss	60
		Goodwill	90
	420		420

COC – M

	Sh m		Sh m
J: Investment	150	M: OSC	50
		Share premium	40
		Pre aq. Div	50
To P & L	45	P&L	55
	195		195

P&L (working)

	Sh m		Sh m
GW Amortised: K	36		468
GWA L	4.5	Div Received: K	75
UPCS	2	Div. Received: M	50
		Div. Received: N	240
		Div. Received: L	36
		Profit K	63
		Goodwill written back	22.5
		Profit L	9
		Profit M	5
		Goodwill	45
Bal c/d	1436.6	Net P&L	465.6
	1,479.1		1,479.1

Investment in Associate company		
Shares of Net assets		123
Share of goodwill in Assoc.		6
Goodwill on aq.	15	
Goodwill on amortisation	(6)	9

Consolidated balance sheet		Ksh
Non Current assets		
Property plant and equipment		321.00
Goodwill		137.00
		458.00
Current assets		
Inventory	107.50	
A/C receivable	191.00	
Cash at bank	53.00	351.50
Total assets		809.50
Ordinary share capital		400.00
Foreign exchange reserve		20.44
Retained profit		184.96
		605.40
Minority interest		43.10
		648.50
Current liabilties		
Accounts payable	100.00	
Current tax	18.00	
Proposed dividends	47.00	165.00
		813.50

Balance sheet	TA Tsh	Exchange rate	TA Ksh
PPE	1,908.00	1/12	159.00
Current assets			
Inventory	702.00	1/12	58.50
A/C receivable	660.00	1/12	55.00
Bank	264.00	1/12	22.00
	1,626.00		135.50
Current liabilities			
A/C payables	396.00	1/12	33.00
Current tax	132.00	1/12	11.00
Proposed divs	420.00	1/12	35.00

Step 2 Translation of subsidiary's Balance Sheet

	TA Ksh.	Exchange Rate	TA Ksh.
Non-current Assets			
Land and Buildings	1764	$\frac{1}{7}$ Rate on 1.10.95	252
Equipment	84	$\frac{1}{7}$ Rate on 1.10.95	12
Motor Vehicles	60	$\frac{1}{7}$ Rate on 1.10.95	6
	1908		270
Current Assets			
Inventory	702	$\frac{1}{11}$ Rate stock was acquired	64
Receivables	660	$\frac{1}{12}$ Rate on b/sheet	55
Bank	264	$\frac{1}{12}$ Rate on b/sheet	22
	1626		141
Current Liabilities			
Payables	396	$\frac{1}{12}$ Rate on b/sheet	33
Taxation	132	$\frac{1}{12}$ Rate on b/sheet	11
Proposed Dividends	420	$\frac{1}{12}$ Rate on b/sheet	35
	948		79
Net Current Assets	678		62
Net Assets	2586		332
Ordinary Shares	1400	$\frac{1}{7}$ Rate of acquisition of sub	200
P & L - Pre-acquisition	630	$\frac{1}{7}$ Rate of acquisition of sub	90
Post acquisition 1186 - 630	556	Balancing Figure	42
	2586		332

(ii) If an entity ceases to classify a component as held for sale, the results of that component previously presented in discontinued operations must be reclassified and included in income from continuing operations for all periods presented.

The formats of the income statements showing the disposal of a group (subsidiaries) is given as follows:

	Continuing Operations	Discontinued Operations	Enterprise as a whole
	shm	**Shm**	**Shm**
Revenue	X	X	X
Cost of Sales	(X)	(X)	(X)
Gross Profit	X	X	X
Other Incomes	X	X	X
	X	X	X
Distribution Costs	(X)	(X)	(X)
Administration Costs	(X)	(X)	(X)
Other Expense	(X)	(X)	(X)
Finance costs	(X)	(X)	(X)
Profit before tax	X	X	X
Income tax Expense	(X)	(X)	(X)
Profit for the period	X	X	X

Alternatively a firm can present the results as follows and the detail break down given by way of notes to the accounts:

	Shm
Revenue	X
Cost of Sales	(X)
Gross Profit	X
Other Incomes	X
	X
Distribution Costs	(X)
Administration Costs	(X)
Other Expense	(X)
Finance costs	(X)
Profit before tax	X
Income tax Expense	(X)
Profit for the period from continuing operations	X
Profit for the period from discontinued operations	X

Example

Udi Supermarket Limited (USL) is a company quoted on the Nairobi Stock Exchange. In the early 1990's it diversified its operations by purchasing 100% of the shares of United Autos Limited (UAL) on 1 November 1990, 80% of the shares of Utility Chemicals Limited (UCL) on 31 October 1991 and 70% of the shares in Uday Drycleaners Limited (UDL) on 30 April 1992. Each company operates in different business segment. In the year ended 31 October 1999, USL decided to sell its entire 100% shareholding in UAL, and half of its shareholding in UCL. The sale of shares in UAL took place in a single transaction on 30 June 1999 for Sh.162 million and the sale of shares in UCL took place in a single transaction on 31 July 1999 for Sh. 169 million. In both cases proceeds were credited into the account for the investment in the books of USL. The financial statements of the four companies for the year ended 31 October 1999 were as follows.

Profit and loss accounts for the year ended 31 October 1999

	USL	**UAL**	**UCL**	**UDL**

Prepare the consolidated income statement for the year ended 31 October 1999 and the consolidated balance sheet as at 31 October 1999 in accordance with International Financial Reporting Standards.

Solution

USL and its subsidiaries

Consolidated income statement for the year ended 31st Oct 1999

	Continuing	**Discontinuing**	**Enterprise as a whole.**
	Sh/Millions	**Sh/Millions**	**Sh. Millions**
Sales	2730	560	3290
Cost of sales	(1850)	(420)	(2270)
Gross profit	880	140	1020
Other incomes(profit on disp)	57		57
Share of PBT in Associate	10		10
Distribution costs	(215)	(80)	(295)
Administration costs	(230)	(80)	(310)
Other expenses (loss on disp)	0	(148)	(91)
Finance cost	(50)	0	(50)
Profit before tax	452	(168)	274
Income tax Expense	(121)	-	(121)
Profit for the period	331	(168)	284

USL ltd and its subsidiaries

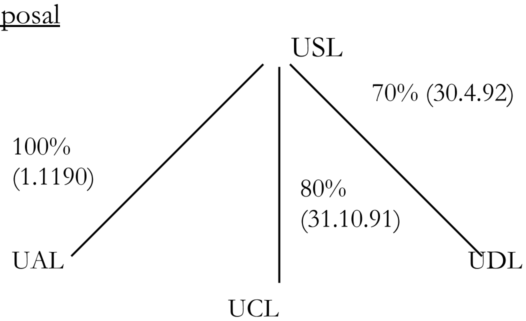
Consolidated balance sheet as at 31st October 1999

Property, plant and equipment	1,040
Investment in associates	104
Current assets	446
	1,590
Financed by	500
Share capital	693
Profit and loss A/C	135
Minority interest	
Share holders funds	1328
Current liabilities	262
	1590

Workings

(i) Structures.

(a) Before disposal



Goodwill	80	40	60

	UAL Sh/Millions	UCL Sh/Millions
Proceeds	162	169
Dividends sold	-	(10)
	162	159
Cost of investment	(168)	(104)
Gain/loss as per Holding company	(6)	55
Goodwill amortised	80	20
Increase in value of net assets		
UAL (260 – 38)	(222)	
UCL 40% (155 – 110)	-	(18)
	(148)	57

Minority interest		
UCL: 20% x 80 x 9/12	12	
UDL: 30% x 110	33	
Profit attrie to members of group		(45)
Dividend: - Interim paid		118
Proposed		(50)
Retained earnings for the yr		(50)
		18

			Sh. Millions
Retained earning B/forward (545 – 40)			505
Goodwill amortised	UAL	(80)	
	UCL	(40)	
	UDL	(60)	(180)
			325
UAL = 250 + 30 – 38			242
UCL = 80% (160 – 20 – 110)			24
UDL = 70% (250 – 30 – 100			84
			675
Retained earnings for year			18
			693

Workings:

Consolidated P &L A/C

Loss on sale of shares in UAL	6	USL	545
Premium Amortised	20	Dividend sold	10
COC 70% x 100	70	Gain on sale of shares UCL	55
Minority Interest 30% x 250	75	Dividend receivable:	
Goodwill amortised	60	UCL: 40% x 40	16
CBS	693	UDL: 70% x 40	28
		Investment in:	
		Associates	20

		UDL	250

Minority Interest

		Share capital: 30% x 200	60
CBS	135	P& L A/C	75
	135		135

Investment in Associates A/C

Balance B/f	104	Premium Amortised	20
Post – acquisition retained earnings:			
40% (160 – 110)	20	CBS	104
	124		124

Current Assets

USL	300	Intra group trading	28
UDL	130		
Dividend from: UCL	16		
UDL	28	CBS	446
	474		474

Current Liabilities A/C

Intra-group trading	28	USL	210
CBS	262	UDL	80
	290		290

Income from Ugeni Ltd.	8	-
Interest payable	(22)	(102)
Operating profit before tax	271	357
Taxation	(79)	(153)
Profit on ordinary activities after tax	192	204
Dividends paid	(20)	(52)
Retained profits for the year.	172	152

Additional information:

1. During the year, Ugeni Ltd. sold goods to Umma for TR 104 million and made a profit of TR 26 million on the transaction. All of the goods, which were exchanged on 30 June 2000 remained unsold at the year end. At 31 December 1999 there were goods sold by Ugeni Ltd. to Umma Ltd held in the stock of Umma Ltd. These goods were valued at Ksh.6 million on which Ugeni Ltd. made a profit of Ksh.2 million.
2. Ugeni Ltd. paid the dividend for the year ended 31 December 2000 on 30 June 2000. No other dividend was proposed for the year. The tax effect has been accounted for and may be ignored.
3. The fair value of the net assets of Ugeni Ltd. at the date of acquisition was TR 1,040 million. The fair value increment all due to tangible fixed assets has not however been incorporated in the books of Ugeni Ltd.
4. Goodwill does not influence with changes in the exchange rate and is to be impaired at 33.3333333% per annum. Treat this goodwill as an asset of the holding co.
5. Tangible non current assets are depreciated over five years on a straight-line basis with a full year's charge provided in the year of acquisition.
6. A loan of Ksh.50 million was raised by Ugeni Ltd. from Umma Ltd on 31 May 2000. The loan is interest free and is repayable in 2009. The loan is included in the cost investment in Ugeni Ltd. An amount of TR 65 million had been paid to Umma Ltd on 31 December 2000 in part settlement on the loan. The amount had not been received by Umma Ltd. and had not been included in its financial statements as at 31 December 2000.
7. The following exchange rates are relevant for translation:

Trins (TR) to the K Shilling:

30 April 1999	4.0
31 December 1999	4.6
1 January 2000	4.7
31 May 2000	5.3
30 June 2000	5.2
31 December 2000	5.0
Weighed average for 2000	5.1

8. The group policy is to issue the net investment method and average rates in the profit and loss account.

Required:

(a). Consolidated profit and loss account for the year ended 31 December 2000 (11 marks)
(b). Consolidated balance sheet as at 31 December 2000 (10 marks)
(c). Statement for the movement in consolidated reserves for the year ended 31 December 2000 (4 marks)

(Total: 25 marks)

QUESTION FOUR

P. Limited is a company quoted on the Nairobi Stock Exchange. Its area of operations is capital equipment. It purchased 80% of the ordinary share capital of Q Limited on 1 January 1998. Q Limited is a leading producer of cement and lime in the area. P. Limited purchased 75% of the ordinary share of the capital of R Limited on 1 January 1999. R. Ltd. is a leading producer of decorative coatings. This market has suffered a major decline since the investment was made. A suitable purchaser bought the complete shareholding on 31 August 2002.

		2996
Current Assets		
Inventory	1074	
Accounts receivable	1542	
Cash	240	2856
TOTAL ASSETS		5852
Ordinary Share Capital		600
Revaluation reserve (60% x 260)		156
Retained Earnings		2390
Shareholder's Funds		3146
Minority Interest		1244
		4390
Current Liabilities		
Accounts payable	912	
Taxation	70	
Proposed dividends	480	1462
TOTAL EQUITY & LIABILITIES		5852

Workings:

Group PPE

	Sh.		Sh.
A	1280	Depreciation FV adj:	
B	920	Group P & L (36% X 3)	108
E	700	MI (64% X 3)	192
Coc: FV adj	21.6	Bal c/d	2957
MI: FV adj	38.4		
	2960		2960

GROUP A/c Receivable

	Sh.		Sh.
A	680	Due from E A	36
B	540	B	32
E	390	Bal c/d	1542
	1610		1610

COC

	Sh.		Sh.
Inv. in B	840	B: OSC (60% x 500)	300
		P & L (60% x 800)	480
		G/will -amortised	60
Inv. In E (60% x 750)	450	E OSC (36% x 500)	180
		P & L (36% x 460)	165
		FV adj	
		PPE (36% X 60)	21.6
		Inv. (36% x 20)	7.2
		Int. (35% x 10)	3.6

CBs	59.1	Share premium	4
		Revaluation reserves	5.5
		Profit and loss account	41.9
	63.4		63.4

Tangible Assets

Umma Ltd	945	Depreciation adjustment	
Ugeni Ltd.	378	27.5/5x2	11
Revaluation reserves (1040 - 930) /4	27.5	CBs	1339
	1350		1350

Consolidated profit and loss account

Cost of control (80%x152.5)	122	Umma Ltd.	895
		Ugeni Ltd.	225.1
Depreciation adjustment	11		
Ups 26/3.2	5		
Minority interests	41.9		
Goodwill amortised 12/3x 20/12	6.7		
CBs	934		
	1120.6		1120.6

Net current Assets

Umma Ltd.	735	UPS	5
Ugeni Ltd.	129	CBS	872
Cash in transit	13		
	877		877

Creditors falling due after one year

Inter group	37	Umma Ltd.	375
CBs	561	Ugeni Ltd.	223
	598		598

Exchange Con

Balance	21.6	Minority interest (20%x21.6)	4.3
		CBS	17.3
	21.6		21.6.

Minority Interest

80%x(40+2-5-5.5)	25.2
Profit attributable to members	205

Tangible non current assets	92,000
Investment in associated undertakings	3,286
	95,286
Loans due from associated undertakings	2,000
Net current assets	55,524
	152,810
Ordinary shares	60,000
Preference shares	20,000
Reserves	41,664
Minority interests	21,146
Loans	10,000
	152,810