



★ First Midterm Includes  
chapter (27, 22, 23) (نفس)  
Spring 2019 → H. Qurashi

# Gulf University for Science and Technology

## College of Business Administration

Midterm 1 Examination – Spring 2018-19

Course Code: ACCT401

Section: 51.2

Date: Feb 10, 2019

Student Name:

Student Number:

Marks: 100 /100

# Q1: (40 Marks)

On 1 January 2016 **P Limited** acquired 57% of the equity shares of **S Limited**. The statement of financial position (Balance Sheet) is shown below (all figures in the question are in thousands of USD):

	P Limited	S Limited
Plant, property and Equipment	110	18
Investment in S Limited	36	
Current assets	120	38
<b>Total Assets</b>	<b>266</b>	<b>56</b>
Current liabilities	30	5
Long term loan	31	15
Share capital (\$1 shares)	170	24
Retained Earnings	35	12
<b>Total liabilities and equity</b>	<b>266</b>	<b>56</b>

All assets and liabilities of S Limited were recorded at fair value at the acquisition date. Non-controlling interests are valued at their proportionate share of the identifiable net assets of S Limited.

Prepare a consolidated statement of financial position of the P Limited Group at 1 January 2016.

	P Limited \$ 000	S Limited \$ 000	41%	57%	43%	Consolidated figures \$ 000
<b>Assets</b>						
Plant, property and Equipment	110	18	0			128
Investment in S Limited	36	-		-36		0
Goodwill	-	-		15.48		15.48
Current assets	120	38				158
<b>Total assets</b>	<b>266</b>	<b>56</b>				<b>301.48</b>
<b>Liabilities</b>						
Current liabilities	30	5				35
Long term debt	31	15				46
<b>Equity</b>						
NCI					15.48	15.48
Share capital	170	24		-13.68	-10.32	170
Retained Earnings and Reserves	35	12	0	-6.84	-5.16	35
<b>Total liabilities and equity</b>	<b>266</b>	<b>56</b>				<b>301.48</b>

$$\begin{aligned}
 & \text{F.v of payment (57\%)} \quad 36 \\
 & + \text{NCI (43\%)} \quad 15.48 \\
 & - \text{F.v of Net Assets (36)} \\
 & \hline
 & = \text{Goodwill} \quad 15.48
 \end{aligned}$$

**Q2: (20 Marks)**

Blue plc owns 31% of the equity shares in its associate company, Orange Limited. During the year ended 31 December 2015, Orange sold goods to Blue for \$500,000, which included a profit of \$140,000. A quarter (25%) of these goods are still held in the inventory of Blue at 31 December 2015.

**Required**

$$\text{unsold} = 25\%$$

- 1- What is the amount of unrealized profit associated with the above transaction
- 2- What is the journal entry that should be recorded to eliminate the unrealized profit and which company records it?

**Answer \_ Question 2**

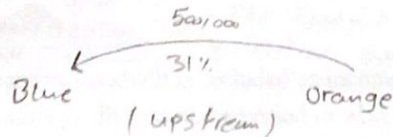
- 1- What is the amount of unrealized profit associated with the above transaction

$$\begin{aligned} \text{unrealized profit} &= \text{profit} \times \text{Equity \%} \times \text{unsold \%} \\ &= 140,000 \times 31\% \times 25\% \\ &= 10,850 \end{aligned}$$

10/20

- 2- The journal entry that should be recorded to eliminate the unrealized profit ?

	Dr	Cr
Share of profit of Associate unrealized profit	155,000 10,850	
Investment in Associate		165,850



$$500,000 \times 31\% = 155,000$$

F.v of Payment 161,000  
- F.v of Net assets 124,000

$(600,000 - 200,000) \times 31\%$

Q3: (40 Marks) = Goodwill 37,000

Bread Plc is the parent of a group of companies. On 1 January 2015, Bread Plc acquired 31% of the ordinary share capital of Sandwich plc at cost of \$ 161,000. At this date, the fair value of Sandwich's assets was \$600,000 and liabilities \$200,000. During the year to 31 December 2015, Sandwich plc made a comprehensive income of \$70,000 resulting from a net income after tax of \$80,000 and an unrealized loss on non-trading securities of \$10,000 (recognized in other comprehensive income). Sandwich also paid dividends of \$2,500.

### Required

- 1- A) Did the acquisition of the 31% share in Sandwich result in a positive or negative goodwill? What is the value of this goodwill? (SHOW CALCULATIONS)  
B) Negative goodwill is included as income in computing the investor's share of the associate's profit/loss in the period in which the investment is made:  
 (A) - TRUE  
 B - FALSE
- 2- Journalize the required entry in the books of Bread at 1 January 2015
- 3- Journalize the required entries in the books of Bread at 31 December 2015
- 4- What is the carrying value for the investment in Sandwich in the books of Bread at 31 December 2015
- 5- An example of an upstream transaction is the sale of goods by an investor to an associate:  
 A - TRUE  
 (B) - FALSE

Investor → associate

### Answer \_ Question 3

- 1- A) Did the acquisition of the 31% share in Sandwich result in a positive or negative goodwill? What is the value of this goodwill? (Show calculations)  
 (600,000 - 200,000) F.v of Payment 161,000  
 x 31% - F.v of Net Assets 124,000  
 = Goodwill 37,000  
 • The Goodwill will not be recorded.  
 • Positive goodwill  
 B) Negative goodwill is included as income in computing the investor's share of the associate's profit/loss in the period in which the investment is made:  
 (A) - TRUE  
 B - FALSE

- 2- Journalize the required entry in the books of Bread at 1 January 2015

Particulars:	Dr	Cr
Investment in Associate	161,000	
Cash		161,000

3- Journalize the required entries in the books of Bread at 31 December 2015

	Dr	Cr
Cash	775	
Investment in Associate		775
Investment in Associate unrealized loss	21,700 3,100	
Share of Profit of Associate		24,800

Dividends = 2,500  
2,500 X 31%  
= 775  
  
Net income  
70,000 X 31%  
= 21,700

12

4- What is the carrying value for the investment in Sandwich in the books of Bread at 31 December 2015?

$$161,000 - 775 + 21,700 = 181,925$$

18

5- An example of an upstream transaction is the sale of goods by an investor to an associate:

- A - TRUE  
B - FALSE

Investor → Associate  
(Downstream)

4

### Extra Credit / Bonus

#### Q4: (10 Marks)

On 1 January 2008, Blue PLC paid \$ 3M to acquire 31% of the equity share capital of White plc. The fair value of net assets of White at 1 January 2008 was \$ 6M. The accumulated losses for White plc for the three years ended 31 December 2010 amounted \$ 12 M. However, White earns a net income after tax of 6 M in 2011.

What is the required accounting entry at 31/12/2011 (record share of profit of Blue PLC)?

Answer \_ Question 4

Journalize the required entry at 31/12/2011?

6 X 31%  
= 1.86 - 0.72  
= 1.14

	Dr	Cr
Investment in Associate	1.14	
Share of Profit of Associate		1.14

F.V of payment 3  
- F.V of Net Assets 1.86  
(6 X 31%)  
= Goodwill 1.14

- ① Purchase:  
Investment in Associate 3  
Cash 3

- ② Dividends  
Cash

Investment to associate

10/10

Share of inv. of ASD 3

Investment in ASD 3

3.72