



Gulf University for Science and Technology

College of Business Administration

Midterm 2 Examination – Spring 2018-19

Course Code: ACCT401 Section: 51.2

Date: March 17, 2019

Student Name:

Student Number:

Marks: 60 /100

Imp → G.W.R.E ✓
 amort → F.A, NCI, R.E ✓
 A/c Profit → F.A, R.E (-)
 Realized gains → F.A, R.E ✓

Q1 - (100 Marks)

ATCO plc acquired 79% of ENMAX plc's share capital at 1 January 2009. The balance on ENMAX plc's retained earnings at that date was \$2,000 and share capital \$3,000. ENMAX has not issued any shares since that date. The following information is also relevant:

- ✓ A- In arriving at the consideration for the shares in ENMAX, the fair value of ENMAX's property, plant and equipment was agreed at **\$300 below** the book value - 10 years remaining life. O.V
- ✓ B- During the current year 2010, ENMAX plc sold inventory to ATCO plc for \$ 1,000 after a mark-up of 30%. By 31 December 2010, 80% of these goods were sold by the ATCO.
- ✓ C- Goodwill was impaired by \$1,500 during the year 2010.
- D- At 1 January 2010, the ATCO plc sold a depreciable plant asset to ENMAX plc for \$10,000. This asset was purchased by the ATCO at 1 January 2005 for \$ 10,000 and was depreciated using the straight-line method over its 10 years useful life and zero residual value. After the sale, the plant asset is depreciated by ENMAX plc using the straight-line method over its remaining useful life of 5 years.
- E- ENMAX plc accounts receivable at 31 December 2010 include a \$300 due from ATCO plc.
- F- Non-controlling interests are valued at their proportionate share of the fair value identifiable net assets acquired.

The statements of financial position for the two companies were as follows as at 31 December 2010

	ATCO \$	ENMAX \$
Non-Current Assets		
Plant property and Equipment	13,460	8,000
Investment in ENMAX plc at cost	9,500	
Current Assets		
Inventory	1,800	670
Accounts Receivable	2,000	750
Cash	450	-
Total Assets	27,210	9,420
Current Liabilities		
Accounts payable	1,210	2,420
Equity		
Share Capital	10,000	3,000
Retained Earnings	16,000	4,000
Total Liabilities and Equity	27,210	9,420

① F.V payment (79%) 9,500
 + NCI (21%) 987
 - F.V Net asset (4,700) →
 = G.W 5,787
 Impairment (1,500)
 = 4,287

R.E
 2,000 + 3,000 = 2
 - O.V 300 ÷ 10 = 30 x 2
 = 60 amort
 4,700

ATCO ← (upstream) → ENMAX
 Sales 1,000
 - cost (769.23) $\frac{1,000}{1+30\%}$
 = G.P 230.76
 X Res 80%
 = Unrealized 184.61 ← Inventory

←

Answer sheet Q1:

- 1- The fair value of net assets of ENMAX plc at the acquisition date at 1 January 2009 is: (Show calculations)

$$\begin{aligned} & \text{R.E. + Capital} = 0. \text{v} \\ & 2,000 + 3,000 - 300 \\ & = 4,700 \end{aligned}$$

- 2- The share of Non-controlling interests in the net assets of ENMAX plc at the acquisition date at 1 January 2009 is: (Show calculations)

$$\begin{aligned} & \text{F.V. net assets} = 4,700 \\ & 4,700 \times 21\% = 987 \end{aligned}$$

- 3- Goodwill arising on acquisition at 1 January 2009 is: (Show calculations)

$$\begin{aligned} & \text{F.V. payment} \quad 9,500 \\ & + \text{NCI} \quad 987 \\ & - \text{F.V. Net assets} (4,700) \\ & = \text{Goodwill} \quad 5,787 \end{aligned}$$

- 4- The amount of unrealized profit in relation to the sale of merchandise inventory from ENMAX plc to ATCO plc (identified in part B) is:

$$\begin{aligned} & \text{Sales} \quad 1,000 \\ & - \text{cost} \quad (769.23) \\ & = \text{G.P.} \quad 230.76 \end{aligned}$$

$\times \text{Remaining } 80\%$
 $= \text{Unrealized profit } 184.61$

- * 5- The worksheet journals entries that should be recognized in relation to the sale of the depreciable **plant asset** identified in part D are

	Dr	Cr
Retained earnings Sales - Revenue Profit Acc'd Dep cost of good sold	1,000 1,000	1,000 Revenue
Dep exp cost of good sold Acc'd Dep Inventory	5,100	5,100

3

24

30/6

6 - The consolidated statements of financial position of the ATCO group as at 31 December 2010

	ATCO S	ENMAX S	410	79%	21%	Impaired	Inventory	amortisation	AVD	AVD	AVR	AVP	Groups
Non-Current Assets													
Plant property and Equipment	13,460	8,000	(300)					60	(500)	500			21,220
Investment in ENMAX plc at cost	9,500			(9,500)									0
Goodwill				5,787		(1,500)							4,287
Current Assets													
Inventory	1,800	670					(124.64)						2,285.39
Accounts Receivable	2,000	750									(300)		2,450
Cash	450	-											450
Total Assets	27,210	9,420											30,692.39
Current Liabilities													
Accounts payable	1,210	2,420									(300)		3,330
Equity													
NCI					1407		(39.76)	12.6					1380.84
Share Capital	10,000	3,000		(2,370)	(630)								10,000
Retained Earnings and reserves	16,000	4,000	(300)	(1,343)	(777)	(1,500)	(145.34)	47.4	(5,000)	500			15,981.56
Total Liabilities and Equity	27,210	9,420											30,692.4

2,000 - 300
= 1,700 x 79%

30



EXTRA CREDIT / BONUS

Q2: (5 Marks)

Parent sells inventory to subsidiary at a cost of \$100,000 plus 50% mark-up. At year end one-third of this remains unsold. The parent owns 100% of the subsidiary.
The amount of **unrealized profit** in relation to the sale of merchandise inventory is:

- A - \$ 50,000
- B - \$70,000
- C - \$150,000
- D - \$ 100,000
- E - None of the above

