

Pre-Workshop Materials

Workshop 1 Session 3

Resolving accounting issues

You are required to research annual reports issued by listed companies in Hong Kong with the year ended on or before 31 December 2011 which include the disclosure notes relating to HKAS 17 Leases.

You should bring copies of the relevant disclosure notes to Workshop 1, and be prepared to share them with your workshop group.

Note: You may visit www.hkex.com.hk to search for the required listing documents. Select the quick link 'For Issuers and Listed Companies'; you will be able to search the annual reports issued by listed companies in Hong Kong.

Workshop 2 Session 7

Case Study (Consolidation)

The Newcastle Holding Company Ltd ('Newcastle') operates outlets worldwide selling electrical goods on both a wholesale and retail basis.

Newcastle has owned 50% of the ordinary shares in a distribution company, The Corbridge Company ('Corbridge'), for a number of years. The other 50% of shares in Corbridge are owned by a company otherwise unrelated to Newcastle, The Morpeth Company ('Morpeth'). Both Newcastle and Morpeth have rights to the net assets of Corbridge and so are joint venturers. Newcastle's shares in Corbridge cost HK\$34.5 million and at the date of acquisition, Corbridge had retained earnings of HK\$45 million.

On 1 April 2011, Newcastle acquired 80% of the HK\$1 ordinary shares of a competitor, The Hexham Company ('Hexham'), at a cost of HK\$57 million in cash, when the retained earnings of that company were HK\$49 million.

At 31 March 2012, the statements of financial position of the three companies were as follows:

	Newcastle HK\$000	Hexham HK\$000	Corbridge HK\$000
Non-current assets			
Property, plant and equipment	168,400	65,670	85,176
Intangible assets	12,430	8,500	5,600
Investment in Hexham	57,000	-	-
Investment in Corbridge	34,500	-	-
	<u>272,330</u>	<u>74,170</u>	<u>90,776</u>
Current assets			
Inventories	28,900	12,340	10,440
Trade receivables	42,450	12,675	16,230
US receivable	-	5,625	-
Cash	1,630	-	4,570
	<u>72,980</u>	<u>30,640</u>	<u>31,240</u>
	<u>345,310</u>	<u>104,810</u>	<u>122,016</u>
Equity			
HK\$1 ordinary share capital	60,000	12,000	20,000
Retained earnings	210,330	66,000	74,000
	<u>270,330</u>	<u>78,000</u>	<u>94,000</u>
Non-current liabilities			
Deferred tax liability	19,340	8,500	3,510
Provision	100	-	96
	<u>19,440</u>	<u>8,500</u>	<u>3,606</u>
Current liabilities			
Overdraft	-	2,450	-
Trade payables	33,250	12,110	13,930
Finance lease obligation	4,700	-	-
Income tax payable	4,150	2,450	3,500
Accrual	13,440	1,300	6,980
	<u>55,540</u>	<u>18,310</u>	<u>24,410</u>
	<u>345,310</u>	<u>104,810</u>	<u>122,016</u>

The statements of comprehensive income for the three companies for the year ended 31 March 2012 were as follows:

	Newcastle HK\$000	Hexham HK\$000	Corbridge HK\$000
Revenue	240,120	85,770	102,300
Cost of sales	<u>(167,500)</u>	<u>(52,300)</u>	<u>(61,700)</u>
Gross profit	72,620	33,470	40,600
Distribution costs	(23,100)	(6,520)	(12,400)
Administrative expenses	(26,900)	(6,450)	(10,340)
Exchange loss	-	(225)	-
Other gains and losses	200	(15)	-
Profit before interest and tax	<u>22,820</u>	<u>20,260</u>	<u>17,860</u>
Finance charge	(450)	(60)	(30)
Profit before tax	<u>22,370</u>	<u>20,200</u>	<u>17,830</u>
Income tax charge	<u>(3,810)</u>	<u>(3,200)</u>	<u>(5,530)</u>
Profit for the year	<u>18,560</u>	<u>17,000</u>	<u>12,300</u>
Total comprehensive income	<u>18,560</u>	<u>17,000</u>	<u>12,300</u>

Further information:

1. In accordance with HKFRS 3 (Revised), Newcastle chose to measure the non-controlling interest in Hexham at fair value on the date of acquisition. Immediately before the acquisition, the market value of an ordinary share in Hexham was HK\$5.20.
2. On 1 April 2011 the fair value of Hexham's receivables book was HK\$500,000 in excess of its book value. All accounts receivable at this date were either settled or written off during the course of the year ended 31 March 2012.
3. Since acquisition, Hexham has sold goods to Newcastle for HK\$750,000, including a mark up of 25%. Half of these goods remain in stock at the year end. Hexham's statement of financial position includes a receivable in respect of sales to Newcastle of HK\$250,000. Newcastle reports an intercompany payable of HK\$240,000. The difference is due to cash in transit.
4. On 30 September 2011 Newcastle transferred a machine to Hexham at a price of HK\$190,000. The machine originally cost HK\$400,000 on 1 October 2005 and was assessed as having a useful life of 10 years. The remaining useful life is unchanged as a result of the transfer.
5. Hexham made a significant sale to a large American electronic goods distributor in February 2012 and has an outstanding account receivable denominated in US dollars at the year end. In accordance with HKAS 21, the dollar receivable has been translated at the year end exchange rate of 1 US\$: 7.5 HK\$ and the exchange difference arising reported in profit or loss. This is the only exchange difference reported in Hexham's profit or loss.
6. There has been no impairment of goodwill in the year ended 31 March 2012.
7. Neither Hexham nor Corbridge has paid a dividend in the year ended 31 March 2012.

Required

- (a) **prepare the consolidated statement of financial position for the Newcastle Group at 31 March 2012**
- (b) **prepare the consolidated statement of comprehensive income for the Newcastle Group for the year ended 31 March 2012**
- (c) **research cash flow disclosures made in annual reports issued by listed companies in Hong Kong with the year ended on or before 31 December 2011**

You should work to the nearest HK\$000. Ignore deferred tax arising on consolidation adjustments.

Note: You are expected to prepare the detailed working schedule and journal entries to support your calculations. You should be prepared to share your answers with the workshop group about the rationale of each adjustment made.