AAT FINANCIAL STATEMENTS COURSE BOOK AND QUESTION BANK SUPPLEMENTS

Some late amendments were incorporated into Chapter 5 Statement of Cash Flows and Chapter 9 Consolidated Statement of Financial Position. The amendments are as follows:

- The reconciliation to net cash from operating activities now starts with profit before tax, not operating profit as previously.

- The goodwill working has been amended, resulting in the need for a separate working for non-controlling interest at acquisition.

These amendments have been incorporated into two supplements, one for the Course Book and one for the Question Bank.

AAT

Financial Statements of Limited Companies

Level 4

Course Book Supplement

For assessments from
1 September 2016

Contents

The statement of cash flows

5

Learning outcomes

1.1	**Explain the regulatory framework that underpins financial reporting** • The purpose of financial statements • Forms of equity, reserves and loan capital
2.1	**Examine the effect of international accounting standards on the preparation of financial statements** • Explain the effect of international accounting standards on the presentation, valuation and disclosure of items within the financial statements • Make any supporting calculations
3.4	**Draft a statement of cash flows** • Make appropriate entries in the statement, using the indirect method, in respect of information extracted from a statement of profit or loss and other comprehensive income for a single year, and statements of financial position for two years, and any additional information provided

Assessment context

Drafting a statement of cash flows may feature as a significant question in your exam. This topic can also be tested in short-form, objective-style tasks.

Qualification context

This topic is new to the Level 4 *Financial Statements of Limited Companies* course.

Business context

All registered companies must prepare a set of financial statements on an annual basis. The statement of cash flows is one of the primary components of a set of financial statements.

Supplement amendments

Amendments are highlighted.

Chapter overview

IAS 1: Set of Financial Statements

- Statement of financial position
- Statement of profit or loss and other comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements

The statement of cash flows

Investing activities

Include:

- Acquisition of PPE
- Disposal of PPE
- Dividends received

Financing activities

Include:

- Share issues
- Bank loans
- Dividends paid

Operating activities

Indirect method

- Start with 'profit before tax'
- Adjustments (depreciation / working capital)

Direct method

Calculate:

- Cash received from customers (W)
- Cash paid to suppliers and employees (W)

Introduction

In this chapter we introduce the **statement of cash flows** (sometimes called the cash flow statement). The statement of profit or loss and other comprehensive income and the statement of financial position provide information about an entity's performance and financial position. The statement of cash flows, as its name suggests, shows the way in which an entity has generated and spent cash. IAS 7 *Statement of Cash Flows* requires companies to include a statement of cash flows in their financial statements and sets out the way in which the statement should be prepared and presented (IAS 7: para. 1).

1 The importance of cash

However profitable a business may appear to be, it will not survive without adequate cash. Businesses need cash to pay suppliers and employees, to pay dividends to shareholders, to repay debt to lenders and to purchase property, plant, equipment and inventories to enable them to go on producing goods or providing services.

The purpose of a statement of cash flows is to show the effect of a company's commercial transactions on its cash balance.

It is thought that users of accounts can readily understand statements of cash flows, as opposed to statements which are subject to manipulation by the use of different accounting policies.

As the statement of profit or loss and other comprehensive income and statement of financial position are prepared under the accruals concept, they do not indicate the cash which has been received or paid at the reporting date. Therefore, the statement of cash flows facilitates an assessment of a company's liquidity.

It also shows how the company uses cash and its ability to generate cash.

Key term

Cash	Cash comprises cash on hand and demand deposits, less any bank overdrafts.
Cash equivalents	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (for example, treasury bills and current asset investments). If a current asset investment is a cash equivalent, this will be made clear in the assessment (IAS 7: para. 7.7–8).

The statement of cash flows identifies cash flows from three types of activity (IAS 7: para. 7.10):

- **Operating activities**
- **Investing activities**
- **Financing activities**

Operating activities

This is a key part of the statement of cash flows because it shows whether the business has generated cash from its operations. Do the operating activities result in a net cash inflow?

IAS 7 (para. 7.14) defines operating activities as the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Cash flows from operating activities consist of:

- Cash received from customers (receipts from the sale of goods or the rendering of services)
- Cash paid to suppliers for goods and services
- Cash paid to and on behalf of employees

In other words, the **net cash flow** from operating activities can be thought of as profit before tax, adjusted for non-cash items.

Investing activities

This section shows the extent to which there has been investment in the business.

For example, there may be investment in property, plant and equipment resulting in a net cash outflow to acquire new non-current assets.

Also, some older items of property, plant and equipment may have been disposed of in return for cash proceeds. This will result in a cash inflow.

Financing activities

There are two main options here – equity and loan financing.

If the business issues shares for cash or borrows money from a bank then there is a cash inflow. The cash proceeds enable the business to survive long term and fund investment.

Conversely, if the business repays a bank loan, for example, then there is a cash outflow.

1.1 Indirect and direct method

IAS 7 (para. 7.18) permits a choice of methods for reporting cash flows from operating activities:

Indirect method –	Profit before tax is adjusted for the effects of any non-cash items and movement in working capital.
Direct method –	Major classes of gross cash flows, ie gross cash receipts and gross cash payments, are disclosed.

Note that the indirect and direct methods are only relevant to the cash flows from operating activities. Cash flows from investing activities and cash flows from financing activities are always reported in the same way.

We will consider both methods in turn.

2 Statement of cash flows – indirect method

With the indirect method of preparing a statement of cash flows we start with the profit before tax figure, and adjust it to arrive at the net cash generated from operating activities.

In the Assessment, the statement of cash flows is normally drafted in two parts, as is illustrated in the proforma below.

2.1 Proforma – Statement of cash flows

XYZ Ltd

Reconciliation of profit before tax to net cash from operating activities for the year ended 31 December 20X2

	£000
Profit before tax	20,500
Adjustments for:	
Depreciation	2,500
Loss on disposal of property, plant and equipment	400
Finance costs	200
Dividends received	(100)
(Increase)/decrease in inventories	(3,000)
(Increase)/decrease in trade receivables	(6,500)
Increase/(decrease) in trade payables	1,000
Cash generated by operations	15,000
Interest paid	(200)
Tax paid	(400)
Net cash from operating activities	14,400

XYZ Ltd
Statement of cash flows for the year ended 31 December 20X2

	£000
Net cash from operating activities	14,400
Investing activities	
Purchase of plant	(14,500)
Receipts from sale of non-current assets	400
Dividends received	100
Net cash used in investing activities	(14,000)
Financing activities	
Proceeds from loan	12,000
Issue of share capital	6,000
Dividends paid	(1,200)
Net cash generated from financing activities	16,800
Net increase/(decrease) in cash and cash equivalents	17,200
Cash and cash equivalents at the beginning of the year	500
Cash and cash equivalent at the end of the year	17,700

Illustration 1 – Statement of cash flows using the indirect method

Bishop Ltd has a profit before tax of £20,500 for the year ended 31 December 20X2. The depreciation charge for the year is £4,000. Profit before tax also includes a loss on disposal of £500 on an item of plant.

Extracts from the statement of financial position are shown below:

	20X2	20X1
	£	£
Inventories	17,400	16,100
Receivables	21,500	20,500
Trade payables	18,400	17,600

Ignore interest and tax.

The company's profit is adjusted for non-cash items in order to arrive at cash generated from operations.

Step 1 Add back depreciation

	Depreciation has been charged in arriving at profit before tax, but it does not involve the movement of cash. Therefore it is added back to profit before tax.
Step 2	Adjust for any profits or losses on the disposal of assets **The cash received from the sale of an asset is not a cash flow from operating activities. The profit or loss on sale must be removed from profit before tax:** • A profit on disposal is deducted • A loss on disposal is added back
Step 4	Adjust to add back interest (finance costs) (not given in this example)
Step 5	Adjust for changes in working capital **(inventories, receivables and payables)** **The movements in working capital represent the differences between sales and cash received and purchases and cash paid.** **Suppose that sales for the year were £100,000. Opening receivables were £20,500 and closing receivables were £21,500. Therefore cash received was £99,000: £1,000 less than the sales figure. The difference between sales and cash inflow is the difference between opening receivables and closing receivables: £1,000.** **Suppose that total expenses were £75,000:** • Opening inventories were £16,100 and closing inventories were £17,400. This means that total purchases were £76,300 (75,000 + 17,400 – 16,100). • Opening payables were £17,600 and closing payables were £18,400. Therefore cash paid was £75,500 (76,300 + 17,600 – 18,400). • The difference between operating expenses and cash inflow is £500, which is the difference between opening and closing inventories (£1,300 increase) less the difference between opening and closing payables (£800 increase). **In practice, we simply adjust profit for the differences between the opening and closing amounts:** • Increase in inventories: deduct £1,300 (cash outflow) • Increase in receivables: deduct £1,000 (cash outflow) • Increase in trade payables: add £800 (cash inflow)

We can now draw up a reconciliation of profit before tax to cash generated from operations:

	£
Profit before tax	20,500
Depreciation	4,000
Loss on disposal of property, plant and equipment	500
Increase in inventories	(1,300)
Increase in receivables	(1,000)
Decrease in payables	800
Cash generated from operations	23,500

Interest paid and tax paid (not given in this example) are then deducted from cash generated from operations to give the net cash from operating activities.

This reconciliation helps users of the financial statements to understand the difference between profit and cash flow. It also shows the movements on the individual items within working capital. This enables users to see how successful or otherwise the entity has been in managing inventories, receivables and payables in order to generate cash.

Most UK companies use the indirect method.

3 Statement of cash flows – calculations in the assessment

Assessment tasks will require you to calculate certain numbers (representing a cash inflow or outflow). These figures will then be included in your statement of cash flow proforma.

In some cases you will be provided with an on-screen working. If so, it is important to complete this, as follow-through marks are available – even if the figure you calculate is incorrect, you will be given credit for transferring your number to the correct place in the statement of cash flow proforma.

Other numbers need to be calculated on scrap paper.

The following information is relevant to the preparation examples which follow.

3.1 Preparation examples for Silver Ltd – task information

You have been asked to prepare the statement of cash flows for Silver Ltd for the year ended 31 December 20X2.

The most recent statement of profit or loss and other comprehensive income and statement of financial position (with comparatives for the previous year) of Silver Ltd are set out below.

Silver Ltd
Statement of profit or loss for the year ended 31 December 20X2

	£000
Revenue	2,553
Cost of sales	(1,814)
Gross profit	739
Dividends received	43
Loss on disposal of property, plant and equipment	(13)
Distribution costs	(125)
Administrative expenses	(294)
Profit from operations	350
Finance costs	(66)
Profit before tax	284
Tax	(140)
Profit for the year	144

Silver Ltd
Statement of financial position as at 31 December 20X2

	20X2	20X1
	£000	£000
Assets		
Non-current assets		
Property, plant and equipment	380	305
Current assets		
Inventories	150	102
Trade receivables	390	315
Cash and cash equivalents	52	1
	592	418
Total assets	972	723
Equity and liabilities		
Equity		
Share capital (£1 ordinary shares)	100	50

	20X2 £000	20X1 £000
Share premium account	60	50
Retained earnings	210	166
	370	266
Non-current liabilities		
Bank loans	100	–
Current liabilities		
Trade payables	227	199
Bank overdraft	85	98
Tax liability	190	160
	502	457
Total liabilities	602	457
Total equity and liabilities	972	723

Further information:

- The total depreciation charge for the year was £90,000.
- Property, plant and equipment costing £85,000 with accumulated depreciation of £40,000 were sold in the year.
- All sales and purchases were on credit. Other expenses were paid for in cash.
- A dividend of £100,000 was paid during the year.

3.2 Operating activities – working capital movement

The movements in working capital represent the differences between sales and cash received, and purchases and cash paid.

When preparing the cash flows from operating activities, the profit before tax figure is adjusted for working capital movement – ie differences between the opening and closing amounts.

Note that the adjustments can be entered in any order. (The computer searches for correct answers and awards marks accordingly.)

Activity 1: Silver Ltd – working capital movement

Required

Show the adjustments in respect of working capital movement in the extract below for Silver Ltd for the year ended 31 December 20X2.

Solution

Reconciliation of profit before tax to net cash from operating activities (extract)

	£000
Profit before tax	X
Adjustments for:	
Cash generated by operations	X

3.3 Operating activities – interest paid and tax paid

The amount of interest paid in respect of bank loans or other financing arrangements will be shown in the statement of profit or loss. It is referred to as 'finance costs'. To prepare the statement of cash flows, interest paid may need to be calculated or simply transferred to the proforma. The interest figure must be removed from (added back to) profit before tax and inserted in the proforma after cash generated by operations.

Tax paid may need to be calculated, as is illustrated in the next example.

Activity 2: Silver Ltd – interest and tax paid

Required

Include the amounts relating to interest paid and tax paid in the extract for Silver Ltd for the year ended 31 December 20X2.

Solution

Reconciliation of profit before tax to net cash from operating activities (extract)

	£000
Cash generated by operations	X
Net cash from operating activities	X

Workings (not provided in the Assessment)

Tax paid	£000

3.4 Operating activities and investing activities – property, plant and equipment (PPE) and dividends received

Property, plant and equipment (PPE) affects cash flows from operating activities and investing activities.

Operating activities

Depreciation is a non-cash expense which must be added back to profit before tax. Further, profit before tax must be adjusted for any profit or loss arising on the sale of PPE, as this is also a non-cash item.

Investing activities

Tasks will often ask you to calculate cash flows relating to the acquisition or disposal of any non-current assets. These cash flows are included in investing activities.

The following on-screen workings may be provided:

Example working – proceeds on disposal on PPE

Proceeds on disposal of property, plant and equipment	£000
Carrying amount of PPE sold	X
Gain/(loss) on disposal	X/(X)
	X

Example working – purchases of PPE

Purchases of property, plant and equipment	£000
Property, plant and equipment at start of year	X
Depreciation charge	(X)
Carrying amount of property, plant and equipment sold	(X)
Property, plant and equipment at end of year	(X)
	(X)

The business may also receive a dividend from an investment it has made in another company. Dividends received are included in cash flows from investing activities.

Activity 3: Silver Ltd – PPE and dividend received

Required

Include the amounts relating to property, plant and equipment and the dividend received in the extracts for Silver Ltd for the year ended 31 December 20X2.

Solution

Reconciliation of profit before tax to net cash from operating activities (extract)

	£000
Profit before tax	284
Adjustments for:	
Adjustment in respect of inventories (150 – 102)	(48)
Adjustment in respect of trade receivables (390 – 315)	(75)
Adjustment in respect of trade payables (227 – 199)	28
Cash generated by operations	
Interest paid	(66)
Tax paid	(110)
Net cash from operating activities	

Statement of cash flows (extract) for the year ended 31 December 20X2

	£000
Net cash from operating activities	
Investing activities	
Net cash used in investing activities	

Workings

Proceeds on disposal of property, plant and equipment	£000

Purchases of property, plant and equipment	£000

3.5 Financing activities – bank loans, shares and dividends

Financing cash flows comprise receipts from, or repayments to, external providers of finance as well as any changes to the contributed equity of the business. Examples of financing cash flows are:

- Cash proceeds or repayments of bank loans
- Cash proceeds from issuing shares
- Dividends paid to shareholders

The cash proceeds or repayments of bank loans and issues of shares are calculated by comparing the closing statement of financial position figures with the opening position for the same items.

Information relating to dividends paid to the reporting company's own equity shareholders will be provided in the 'further information'.

In Assessment questions, dividends paid to equity shareholders should be included in 'financing activities'. However, IAS 7 also permits them to be included in operating activities.

Activity 4: Silver Ltd – financing activities

Required

Include the amounts relating to shares, bank loans and dividend paid in the statement of cash flows extract for Silver Ltd for the year ended 31 December 20X2.

Solution

Statement of cash flows (extract) for the year ended 31 December 20X2

	£000
Financing activities	
Net cash from financing activities	

3.6 Cash and cash equivalents

To complete the cash flow, the net increase or decrease in cash and cash equivalents must be calculated.

The opening and closing cash and cash equivalent balances are also included.

Activity 5: Silver Ltd – cash

Required

Complete the statement of cash flows for Silver Ltd by including cash and cash equivalents at the beginning and end of the period and the net cash increase in cash and cash equivalents for the year ended 31 December 20X2.

Solution

Reconciliation of profit before tax to net cash from operating activities

	£000
Profit before tax	284
Adjustments for:	
Depreciation	90
Loss on sale of property, plant and equipment	13
Finance costs	66
Dividends received	(43)
Adjustment in respect of inventories (150 – 102)	(48)
Adjustment in respect of trade receivables (390 – 315)	(75)
Adjustment in respect of trade payables (227 – 199)	28
Cash generated by operations	315

Interest paid	(66)
Tax paid	(110)
Net cash from operating activities	139

Statement of cash flows for the year ended 31 December 20X2

	£000
Net cash from operating activities	139
Investing activities	
Proceeds on disposal of property, plant and equipment (W)	32
Purchases of property, plant and equipment (W)	(210)
Dividends received	43
Net cash used in investing activities	(135)
Financing activities	
Proceeds of share issue (160 – 100)	60
Proceeds from bank loans (100 – 0)	100
Dividends paid	(100)
Net cash from financing activities	60
Net increase in cash and cash equivalents	
Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents at the end of the year	

4 Assessment tasks

4.1 Format

There is a lot of information provided in this type of task, including:

- Statement of profit or loss and other comprehensive income;
- Statement of financial position (including a comparative year); and
- Further information.

The requirements to prepare a 'reconciliation of profit before tax to net cash from operating activities' and a 'statement of cash flows' may be split into parts (a) and (b). However, you may find it more efficient to work on the proformas together.

4.2 Approach

When you are preparing a statement of cash flows it is important to have a logical technique.

A recommended approach is to:

(1) Read the requirement and the scenario information.

(2) Consider the additional information. Which numbers in the statement of financial position and statement of profit or loss and other comprehensive income are affected by this?

(3) Work down the statement of financial position, transferring numbers to the proformas or a working. Take account of the additional information.

(4) Work down the statement of profit or loss, transferring numbers to the proformas or a working. Take account of the additional information.

(5) Total your statement of cash flows.

(6) If it doesn't balance, don't worry! It is likely you still have enough marks to obtain competency in the task. Time permitting, you could review your workings to see if you can identify any necessary adjustments.

4.3 Assessment standard question

Now that we have considered the knowledge and techniques required to be successful in this topic we will work through a full *Financial Statements of Limited Companies* Assessment standard question.

Activity 6: Statement of cash flow – Emma Ltd

The summarised accounts of Emma Ltd for the year ended 31 December 20X8 are as follows:

Emma Ltd
Statement of profit or loss for the year ended 31 December 20X8

	£000
Revenue	600
Cost of sales	(319)
Gross profit	281
Dividends received	45
Gain on disposal of property, plant and equipment	15
Distribution costs	(120)
Administrative expenses	(126)
Profit from operations	95
Finance costs	(8)
Profit before tax	87
Tax	(31)
Profit for the year	56

Emma Ltd
Statement of financial position as at 31 December 20X8

	20X8 £000	20X7 £000
Assets		
Non-current assets		
Property, plant and equipment	628	514
Current assets		
Inventories	214	210
Trade receivables	168	147
Cash and cash equivalents	7	0
	389	357
Total assets	1,017	871
Equity and liabilities		
Equity		
Share capital (£1 ordinary shares)	250	200
Share premium account	180	160
Retained earnings	314	282
	744	642
Non-current liabilities		
Bank loans	80	50
Current liabilities		
Bank overdraft	0	14
Trade payables	136	121
Tax liability	57	44
	193	179
Total liabilities	273	229
Total equity and liabilities	1,017	871

Further information:

- The total depreciation charge for the year was £42,000.
- Property, plant and equipment costing £33,000 with accumulated depreciation of £13,000 were sold in the year.

- All sales and purchases were on credit. Other expenses were paid for in cash.
- A dividend of £24,000 was paid during the year.

Required

(a) **Prepare a reconciliation of profit before tax to net cash from operating activities for Emma Ltd for the year ended 31 December 20X8.**

(b) **Prepare the statement of cash flows for Emma Ltd for the year ended 31 December 20X8.**

Note: You don't need to use the workings tables to achieve full marks on the task but the data entered into the working tables will be taken into consideration if you make errors in the proformas.

Solution

Reconciliation of profit before tax to net cash from operating activities

	£000
Adjustments for:	
Cash generated from operations	

Reconciliation picklist: Adjustment in respect of inventories, Adjustment in respect of trade payables, Adjustment in respect of trade receivables, Depreciation, Dividends received, Gain on disposal of property, plant and equipment, Finance costs, Interest paid, Profit before tax, Profit from operations, Profit for the year, Tax paid

Note: In the Assessment picklists will also be provided for the on-screen workings.

Statement of cash flows for the year ended 31 December 20X8

	£000
Net cash from operating activities	
Investing activities	

Net cash used in investing activities	
Financing activities	
Net cash from financing activities	

Statement of cash flows picklist: Cash and cash equivalents at the beginning of the year, Cash and cash equivalents at the end of the year, Dividends paid, Dividends received, Net increase in cash and cash equivalents, Proceeds from bank loans, Proceeds on disposal of property, plant and equipment, Proceeds from issue of share capital, Purchases of property, plant and equipment

Workings (not provided in the Assessment)

Tax paid	£000

Workings (on-screen proforma provided in the Assessment)

Proceeds on disposal of property, plant and equipment	£000

Purchases of property, plant and equipment	£000

5 Statement of cash flows – direct method

As we have seen, IAS 7 provides a choice in the method used to report cash flows from operating activities. The direct method requires companies to look back to their accounting records and extract information relating to gross cash receipts and gross cash payments.

The International Accounting Standard Board encourages use of the direct method where the necessary information is not too costly to obtain, as it provides additional information to users of the financial statements.

However, it is not mandatory under IAS 7 and therefore in practice it is rarely used.

In the Assessment you will not be asked to draft a statement of cash flows using this method. However, you do need to understand how cash flows from operating activities are reported under the direct method.

A proforma for the direct method is as follows:

	£
Cash receipts from customers (W)	X
Cash paid to suppliers and employees (W)	(X)
Cash generated from operations	X
Interest paid	(X)
Tax paid	(X)
Net cash from operating activities	X

The figure for 'cash generated from operations' will be exactly the same as under the indirect method. Also, interest paid and tax paid are calculated in exactly the same way as under the indirect method.

The calculation of cash receipts from customers and cash paid to suppliers and employees will be explained through an illustration.

Illustration 2 – Cash generated from operations

Scenario

Extracts to the financial statements of Jane Ltd for the year ended 31 December 20X1 are as follows:

Jane Ltd
Statement of profit or loss and other comprehensive income (extract) for the year ended 31 December 20X1

	£
Revenue	80,500
Cost of sales	(39,400)
Gross profit	41,100
Other expenses	(23,000)
Profit from operations	18,100

Jane Ltd
Statement of financial position (extract) as at 31 December 20X1

	20X1 £	20X0 £
Current assets		
Inventories	16,000	15,300
Trade receivables	23,250	20,450
Current liabilities		
Trade payables	13,000	11,350

Further information:

- Other expenses includes depreciation of £5,000 and a loss on disposal of a non-current asset of £200.
- Interest paid is £2,000.
- Tax paid is £3,000.

Required

Calculate the cash generated from operations using the direct method for Jane Ltd for the year ended 31 December 20X1.

Step 1: Calculate cash received from customers by reconstructing the receivables account

	£
Trade receivables balance b/ d	20,450
Revenue	80,500
Trade receivables balance c/ d	(23,250)
Cash received	77,700

Step 2: Calculate purchases

	£
Cost of sales (SPL)	39,400
Add closing inventories (SOFP)	16,000
Less opening inventories (SOFP)	(15,300)
	40,100
Operating expenses (SPL)	23,000
Less depreciation	(5,000)
Less loss on disposal of non-current assets	(200)
Purchases	57,900

Step 3: Calculate cash paid to suppliers and employees by reconstructing the trade payables account

	£000
Trade payables balance b/ d	11,350
Purchases (Step 2 – working)	57,900
Trade payables balance c/ d	(13,000)
Cash paid	56,250

Step 4: Calculate net cash from operating activities

	£000
Cash receipts from customers (W)	77,700
Cash paid to suppliers and employees (W)	(56,250)
Cash generated from operations	21,450
Interest paid	(2,000)
Tax paid	(3,000)
Net cash from operating activities	16,450

Therefore, where companies use the direct method to calculate net cash from operating activities, this final proforma will replace the **Reconciliation of profit before tax to net cash from operating activities** seen under the indirect method.

6 How useful is the statement of cash flows?

6.1 Useful information provided by a statement of cash flows

Most people agree that the statement of cash flows provides useful information. It alerts users to possible liquidity problems by highlighting inflows and outflows of cash.

IAS 7 (para. 4) explains that a statement of cash flows, used together with the rest of the financial statements, can help users to assess:

- The changes in an entity's net assets and its liquidity and solvency
- An entity's ability to generate cash and cash equivalents and to affect the amounts and timing of cash flows in order to adapt to changing circumstances

There are other advantages of presenting a statement of cash flows:

- It shows an entity's ability to turn profit into cash (by allowing users to compare profit with cash flows from operating activities).
- Cash flow is a matter of fact and is difficult to manipulate.
- Cash flow information is not affected by an entity's choice of accounting policies or by judgement.
- The statement may help users to predict future cash flows.
- Cash flow is easier to understand than profit.
- The standard format enables users to compare the cash flows of different entities.

6.2 Limitations of the statement of cash flows

There are some important limits to the usefulness of the statement of cash flows:

- Cash balances are measured at a point in time and, therefore, they can be manipulated. For example, customers may be offered prompt payment discounts or other incentives to make early payment, or an entity may delay paying suppliers until after the year end. These are legitimate ways of managing cash flow (which is part of stewardship), but users may not be aware that this is being done, and may believe that the entity's position is better than it actually is.

- A high bank balance is not necessarily a sign of good cash management. Entities sometimes have to sacrifice cash flow in the short term to generate profits in the longer term by, for example, purchasing new plant and equipment. A business must have cash if it is to survive in the short term; if it is to survive in the longer term it must also make a profit. Focusing on cash may mean that an entity has a healthy bank balance but makes a loss.
- The statement of cash flows is based on historical information and, therefore, it is not necessarily a reliable indicator of future cash flows.

Neither the statement of profit or loss and other comprehensive income nor the statement of cash flows provides a complete picture of an entity's performance or position by itself.

6.3 Interpreting the statement of cash flows

You may wish to come back to this section after you have studied interpretation of financial statements in Chapter 11.

Assessment focus point

You may be asked to interpret a statement of cash flows in the assessment. This can be done by simple observation.

Look at the net cash flow for the period and then at each category of cash flows in turn.

Net cash flow for the period

- Has cash increased or decreased in the period?
- How material is the increase/decrease in cash compared with the entity's cash balances?
- Does the entity have a positive cash balance or an overdraft?

A decrease in cash is not always a bad sign, particularly if the entity has used the cash to finance capital expenditure or has used surplus cash to purchase liquid resources.

Operating activities

- Have inventories, receivables and payables increased or decreased?

A material increase in working capital is a worrying sign, particularly if the entity has a cash outflow from operating activities.

Interest, tax and dividends

Is there enough cash to cover:

- Interest payments?
- Taxation?
- Dividends?

As well as looking at the current period's cash outflows, look at the liabilities in the statement of financial position, if this information is available; these are the next period's cash outflows.

Remember that interest and corporation tax have to be paid when they are due, but the entity can delay payment of equity dividends until the cash is available.

Investing activities

A cash outflow to purchase assets is usually a good sign, because the assets will generate profits (and cash inflows) in future periods.

If there has been capital expenditure, where has the cash come from? Usually it will have come from several sources: operations; issuing shares or loan stock; taking out a loan; taking out an overdraft.

If the entity has taken out or increased an overdraft, this is usually a worrying sign. In theory, a bank overdraft is repayable on demand.

Financing activities

Ask the following questions:

- Is debt increasing or decreasing?
- Will the entity be able to pay its debt interest?
- Will the entity be able to repay the debt (if it falls due in the near future)?
- Is the entity likely to need additional long-term finance? (This might be the case if the bank overdraft is rapidly increasing or nearing its limit, or if the entity has plans to expand in the near future.)

Activity 7: Interpreting the statement of cash flows

Norwood Ltd made a profit from operations of £140,000 but cash generated from operations for the same year was £160,000.

Which of the following is a possible reason for this?

A bonus issue of shares	
An increase in inventories	
An increase in trade payables	
An increase in a long-term loan	

Chapter summary

- Businesses need cash in order to survive.
- Users of the financial statements need information about the liquidity, solvency and financial adaptability of an entity: this is provided by a statement of cash flows.
- IAS 7 requires all companies to include a statement of cash flows in their published financial statements.
- Cash inflows and outflows must be presented under standard headings:
  - Cash flows from operating activities
  - Cash flows from investing activities
  - Cash flows from financing activities
- IAS 7 also requires a note analysing changes in cash and cash equivalents.
- There are two methods of calculating net cash flow from operating activities:
  - List and total the actual cash flows: the direct method
  - Adjust profit for non-cash items: the indirect method
- IAS 7 allows either method.
- Main advantages of cash flow information:
  - It shows an entity's liquidity, solvency and financial adaptability.
  - It allows users to compare profit with net cash flow from operating activities.
  - Cash flow is difficult to manipulate.
  - It is not affected by accounting policies or by estimates.
- Limitations of cash flow information:
  - Cash balances can be manipulated.
  - Businesses need to make profits as well as generate cash: short-term cash management may affect profit in the longer term.
  - It is based on historical information.
- To interpret a statement of cash flows: use simple observation; look at the net cash flow for the period; and at each category of cash flows in turn.

Keywords

- **Cash equivalents:** short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value
- **Cash flows:** inflows and outflows of cash and cash equivalents
- **Cash:** cash in hand and demand deposits (normally) less overdrafts repayable on demand
- **Financing activities:** activities that result in changes in the size and composition of the contributed equity (share capital) and borrowings of the entity
- **Gross cash flows:** the individual cash flows that make up the net cash flows reported under each of the headings in the statement of cash flows
- **Investing activities:** the acquisition and disposal of long-term assets and other investments not included in cash equivalents
- **Net cash flows:** the total cash flows reported under each of the standard headings in the statement of cash flows
- **Operating activities:** the principal revenue-producing activities of the entity and other activities that are not investing or financing activities
- **Statement of cash flows:** primary statement that summarises all movements of cash into and out of a business during the reporting period

Activity answers

Activity 1: Silver Ltd – working capital movement

Show the adjustments in respect of working capital movement in the extract below for Silver Ltd for the year ended 31 December 20X2.

Reconciliation of profit before tax to net cash from operating activities (extract)

	£000
Profit before tax	X
Adjustments for:	
Adjustment in respect of inventories (150 – 102)	(48)
Adjustment in respect of trade receivables (390 – 315)	(75)
Adjustment in respect of trade payables (227 – 199)	28
Cash generated by operations	X

Activity 2: Silver Ltd – interest and tax paid

Include the amounts relating to interest paid and tax paid in the extract for Silver Ltd for the year ended 31 December 20X2.

Reconciliation of profit before tax to net cash from operating activities (extract)

	£000
Cash generated by operations	X
Interest paid	(66)
Tax paid (W)	(110)
Net cash from operating activities	X

Workings (not provided in the Assessment)

Tax paid	£000
Balance b/d	160
Statement of profit or loss and other comprehensive income charge	140
Balance c/d	(190)
Tax paid	110

Activity 3: Silver Ltd – PPE and dividend received

Include the amounts relating to property, plant and equipment and the dividend received in the extracts for Silver Ltd for the year ended 31 December 20X2.

Reconciliation of profit before tax to net cash from operating activities

	£000
Profit before tax	284
Adjustments for:	
Depreciation	90
Loss on disposal of property, plant and equipment	13
Finance costs	66
Dividends received	(43)
Adjustment in respect of inventories (150 – 102)	(48)
Adjustment in respect of trade receivables (390 – 315)	(75)
Adjustment in respect of trade payables (227 – 199)	28
Cash generated by operations	315
Interest paid	(66)
Tax paid	(110)
Net cash from operating activities	139

Statement of cash flows (extract) for the year ended 31 December 20X2

	£000
Net cash from operating activities	139
Investing activities	
Proceeds on disposal of property, plant and equipment (W)	32
Purchases of property, plant and equipment (W)	(210)
Dividends received	43
Net cash used in investing activities	(135)

Workings

Proceeds on disposal of property, plant and equipment	£000
Carrying amount of property, plant and equipment sold (85 – 40)	45
Loss on disposal	(13)
	32

Purchases of property, plant and equipment	£000
Property, plant and equipment at start of year	305
Depreciation charge	(90)
Carrying amount of purchases of property, plant and equipment sold	(45)
Property, plant and equipment at end of year	(380)
Total purchases of property, plant and equipment additions	(210)

Activity 4: Silver Ltd – financing activities

Include the amounts relating to shares, bank loans and dividend paid in the statement of cash flows extract for Silver Ltd for the year ended 31 December 20X2.

Statement of cash flows (extract) for the year ended 31 December 20X2

	£000
Financing activities	
Proceeds of share issue (160 – 100)	60
Proceeds from bank loans (100 – 0)	100
Dividends paid	(100)
Net cash from financing activities	60

Activity 5: Silver Ltd – cash

Complete the statement of cash flows for Silver Ltd by including cash and cash equivalents at the beginning and end of the period and the net cash increase in cash and cash equivalents for the year ended 31 December 20X2.

Reconciliation of profit before tax to net cash from operating activities

	£000
Profit before tax	284
Adjustments for:	
Depreciation	90
Loss on sale of property, plant and equipment	13
Finance costs	66
Dividends received	(43)
Adjustment in respect of inventories (150 – 102)	(48)
Adjustment in respect of trade receivables (390 – 315)	(75)
Adjustment in respect of trade payables (227 – 199)	28
Cash generated by operations	315
Interest paid	(66)
Tax paid (W)	(110)
Net cash from operating activities	139

Statement of cash flows for the year ended 31 December 20X2

	£000
Net cash from operating activities	139
Investing activities	
Proceeds on disposal of property, plant and equipment (W)	32
Purchases of property, plant and equipment (W)	(210)
Dividends received	43
Net cash used in investing activities	(135)
Financing activities	
Proceeds of share issue (160 – 100)	60
Proceeds from bank loans (100 – 0)	100
Dividends paid	(100)
Net cash from financing activities	60
Net increase in cash and cash equivalents	64
Cash and cash equivalents at the beginning of the year (98 – 1)	(97)
Cash and cash equivalents at the end of the year (85 – 52)	(33)

Activity 6: Statement of cash flow – Emma Ltd

(a) Prepare a reconciliation of profit before tax to net cash from operating activities for Emma Ltd for the year ended 31 December 20X8.

(b) Prepare the statement of cash flows for Emma Ltd for the year ended 31 December 20X8.

Reconciliation of profit before tax to net cash from operating activities

	£000
Profit before tax	87
Adjustments for:	
Depreciation	42
Finance costs	8
Dividends received	(45)
Gain on disposal of property, plant and equipment	(15)
Adjustment in respect of trade receivables (168 – 147)	(21)
Adjustment in respect of inventories (214 – 210)	(4)
Adjustment in respect of trade payables (136 – 121)	15

	£000
Cash generated from operations	67
Interest paid	(8)
Tax paid (W)	(18)
	41

Statement of cash flows for the year ended 31 December 20X8

	£000
Net cash from operating activities	41
Investing activities	
Proceeds on disposal of property, plant and equipment (W)	35
Purchases of property, plant and equipment (W)	(176)
Dividends received	45
Net cash used in investing activities	(96)
Financing activities	
Proceeds from issue of share capital (250 + 180 – 200 – 160)	70
Proceeds from bank loans (80 – 50)	30
Dividends paid	(24)
Net cash from financing activities	76
Net increase in cash and cash equivalents	21
Cash and cash equivalents at the beginning of the year	(14)
Cash and cash equivalents at the end of the year	7

Workings (not provided in the Assessment)

Tax paid	£000
Balance b/d (SOFP)	44
Tax charge (SPL)	31
Balance c/d (SOFP)	(57)
	18

Workings (on-screen proforma provided in the Assessment)

Proceeds on disposal of property, plant and equipment	£000
Carrying amount of property, plant and equipment sold (33 – 13)	20
Gain on disposal	15
	35

Purchases of property, plant and equipment	£000
Property, plant and equipment at start of year	514
Depreciation charge	(42)
Carrying amount of property, plant and equipment sold	(20)
Property, plant and equipment at the end of year	(628)
	(176)

Activity 7: Interpreting the statement of cash flows

Which of the following is a possible reason for this?

A bonus issue of shares	
An increase in inventories	
An increase in trade payables	✓
An increase in a long-term loan	

An increase in inventories reduces cash generated from operations. A bonus issue of shares does not affect cash. An increase in long-term loans increases the overall cash balance for the year, but as it is a financing cash flow it is not included in cash generated from operations.

Test your learning

1 IAS 7 requires all companies to present a statement of cash flows.

Is this statement true or false?

True	
False	

2 Which of the following items does **not** meet the IAS 7 definition of cash?

Bank current account in foreign currency	
Bank overdraft	
Petty cash float	
Short-term deposit	

3 Listed below are four transactions that will result in cash inflows or outflows. Complete the table to show the way in which each of the cash flows should be classified in the statement of cash flows.

Transactions:

(a) Increase in short-term deposits classified as cash equivalents
(b) Issue of ordinary share capital
(c) Receipt from sale of property, plant and equipment
(d) Tax paid

Classification	Items
Operating activities	
Investing activities	
Financing activities	
Increase/decrease in cash and cash equivalents	

4 (a) Alexander plc has calculated net cash flow from operating activities by listing and totalling the actual cash flows as shown below:

	£000
Cash receipts from customers	32,450
Cash paid to suppliers and employees	(26,500)
Cash generated from operations	5,950
Interest paid	(300)
Tax paid	(800)
Net cash from operating activities	4,850

This method of calculating and presenting net cash from operating activities is called:

The direct method	
The indirect method	

(b) IAS 7 does not allow the method illustrated above.

Is this statement true or false?

True	
False	

5 The following information relates to the property, plant and equipment of Bromley Ltd:

	20X2	*20X1*
	£	£
Cost	480,000	400,000
Accumulated depreciation	(86,000)	(68,000)
Carrying amount at 31 December	394,000	332,000

During the year ended 31 December 20X2 an asset, which had originally cost £20,000 and had a carrying amount of £8,000, was sold for £5,600.

(a) What amount should be included in the statement of cash flows for the year ended 31 December 20X2 under the heading 'investing activities'?

Cash inflow of £5,600	
Cash outflow of £64,400	
Cash outflow of £94,400	
Cash outflow of £100,000	

(b) What amount of depreciation should be added back to profit before tax in the reconciliation of profit before tax to net cash from operating activities?

£6,000	
£18,000	
£26,000	
£30,000	

6 The statement of financial position of Orion Ltd as at 30 June 20X5 is provided below, together with comparative figures:

	20X5		*20X4*	
	£000	£000	£000	£000
Assets				
Non-current assets:				
Property, plant and equipment		2,030		1,776
Current assets:				
Inventories	1,009		960	
Trade and other receivables	826		668	
Cash	25		100	
		1,860		1,728
Total assets		3,890		3,504
Equity and liabilities				
Equity:				
Share capital		1,200		1,200
Share premium		200		200
Retained earnings		1,171		1,028

		2,571		2,428
Non-current liabilities:				
Long-term loan		610		460
Current liabilities:				
Trade and other payables	641		563	
Tax liabilities	68		53	
		709		616
Total liabilities		1,319		1,076
Total equity and liabilities		3,890		3,504

Further information:

(a) No non-current assets were sold during the year. The depreciation charge for the year amounted to £305,000.

(b) The profit before tax for the year ended 30 June 20X5 was £270,000. Interest of £62,000 was charged in the year. The tax charge for the year was £68,000.

(c) A dividend of £59,000 was paid during the year.

Required

(a) Prepare a reconciliation of profit before tax to net cash from operating activities for Orion Ltd for the year ended 30 June 20X5.

(b) Prepare a statement of cash flows for Orion Ltd for the year ended 30 June 20X5.

(Complete the left-hand columns by writing in the correct line item or narrative from the list provided.)

Reconciliation of profit before tax to net cash from operating activities for the year ended 30 June 20X5

	£000
▼	
▼	
▼	
▼	
▼	
▼	
Cash generated from operations	
▼	
▼	
Net cash from operating activities	

Picklist for line items:

Depreciation
Increase/decrease in inventories
Increase/decrease in receivables
Increase/decrease in trade payables

Finance costs
Interest paid
Profit before tax
Tax paid

Statement of cash flows for the year ended 30 June 20X5

	£000	£000
Net cash from operating activities		
Investing activities:		
▼		
Net cash used in investing activities		
Financing activities:		
▼		
▼		
Net cash from financing activities		
Net increase/(decrease) in cash and cash equivalents for the year		
Cash and cash equivalents at the beginning of the year		
Cash and cash equivalents at the end of the year		

Picklist for line items:

Dividends paid
Increase/decrease in long-term loan
Purchase of property, plant and equipment

Working

Property, plant and equipment	£000
▼	
▼	
▼	

Picklist for line items:

Depreciation
Property, plant and equipment at the beginning of the year
Property, plant and equipment at the end of the year

7 The statement of cash flows of Keynes Ltd is shown below.

Reconciliation of profit before tax to net cash from operating activities for the year ended 31 December 20X5

£000

Profit before tax	3,654
Adjustments for:	
Depreciation	1,400
Finance costs	560
Decrease in inventories	280
Increase in receivables	(910)
Increase in trade payables	32
Cash generated from operations	5,016
Interest paid	(560)
Tax paid	(1,170)
Net cash from operating activities	3,286

Statement of cash flows for the year ended 31 December 20X5

	£000	£000
Net cash from operating activities		3,286
Investing activities		
Purchase of property, plant and equipment	(2,830)	
Proceeds on disposal of property, plant and equipment	96	
		(2,734)
Net cash used in investing activities		
Financing activities		
Repayment of loan stock	(310)	
Dividends paid	(480)	
Net cash used in financing activities		(790)
Net decrease in cash and cash equivalents for the year		(238)
Cash and cash equivalents at the beginning of the year		240
Cash and cash equivalents at the end of the year		2

Prepare brief notes to answer the questions below.

Do you think that the company is having problems in managing its cash flow? If not, can you explain why?

Group accounts: the consolidated statement of financial position

9

Learning outcomes

1.1	**Explain the regulatory framework that underpins financial reporting** • The purpose of financial statements • Forms of equity, reserves and loan capital • Sources of regulation: international accounting standards and company law (Companies Act 2006)
2.1	**Examine the effect of international accounting standards on the preparation of financial statements** • Explain the effect of international accounting standards on the presentation, valuation and disclosure of items within the financial statements • Make any supporting calculations
3.2	**Draft a statement of financial position** • Make appropriate entries in the statement in respect of information extracted from a trial balance and additional information
4.2	**Draft a consolidated statement of financial position for a parent company with one partly-owned subsidiary** • Consolidate each line item in the statement of financial position • Calculate and treat goodwill, non-controlling interest, pre- and post-acquisition profits, equity and unrealised profit on inventories • Treat adjustment to fair value, impairment of goodwill and intercompany balances

Assessment context

You will be required to prepare a consolidated statement of financial position or a consolidated statement of profit or loss. On-screen workings will be provided for some of the calculations.

Qualification context

Consolidated financial statements are only tested in this course.

Business context

Many larger businesses are part of a group of companies (ie there is a parent company and at least one subsidiary). They are required to prepare financial statements for the shareholders of the group.

Supplement amendments

Amendments are highlighted.

1 No changes

2 No changes

3 No changes

4 No changes

5 Goodwill

5.1 Position to date

So far in this chapter the cost of the investment equalled the value of the **identifiable** net assets acquired and, accordingly, no surplus or deficit remained on cancellation.

In practice, where a parent acquires a subsidiary the cost of the investment is almost always more than the total fair value of the subsidiary's individual assets and liabilities. The difference represents goodwill.

5.2 Goodwill

Where the cost of the **business combination** is greater than the net assets acquired, the investor has paid for something more than the net assets of the acquired business.

The difference is called 'goodwill' and is measured as:

	£
Consideration transferred	X
Less fair value of identifiable assets and liabilities at acquisition	(X)
	X

Note: 'Consideration' is the price paid. In the Assessment, the net assets are represented by share capital and reserves. (Fair-value adjustments are considered in a later section.)

5.3 Accounting treatment

Goodwill is capitalised as an asset on the statement of financial position.

An example of the goodwill working is as follows:

Goodwill	£000
Consideration	X
Non-controlling interests at acquisition*	X
Net assets acquired	(X)
Impairment of goodwill	(X)
	X

*Non-controlling interest is discussed in the next section.

Note that the goodwill working has replaced the 'cancellation' working seen previously.

As goodwill is an intangible non-current asset with an indefinite useful life, an impairment test is conducted at least annually. Any resulting impairment loss is recognised against consolidated goodwill.

The double entry to record an impairment of goodwill is:

	Debit £	Credit £
Retained earnings (reduce reserves)	X	
Goodwill (reduce asset)		X

Activity 4: Thatch plc

Thatch Plc acquired 100% of the issued share capital and voting rights of Straw Ltd on 1 January 20X6 for £8,000,000. At that date Straw Ltd had issued share capital of £3,000,000 and retained earnings of £2,000,000.

Extracts of the statements of financial position for the two companies at 31 December 20X6, as well as further information, are shown below.

	Thatch Plc £000	Straw Ltd £000
Assets		
Property, plant and equipment	10,000	5,000
Investment in Straw Ltd	8,000	–
	18,000	5,000
Current assets	4,000	5,000
Total assets	22,000	10,000
EQUITY AND LIABILITIES		
Equity		
Share capital (£1 ordinary shares)	9,000	3,000
Retained earnings	6,000	5,000
	15,000	8,000

	Thatch Plc £000	Straw Ltd £000
Liabilities		
Non-current liabilities	2,000	–
Current liabilities	5,000	2,000
	7,000	2,000
Total equity and liabilities	22,000	10,000

Further information:

In the current year, the directors of Thatch Plc have concluded that goodwill is impaired by £1,000,000.

Required

Draft the consolidated statement of financial position for Thatch Plc and its subsidiary undertaking as at 31 December 20X6.

Solution

Thatch Plc

Consolidated statement of financial position as at 31 December 20X6

	£000
ASSETS	
Non-current assets	
Total assets	
EQUITY AND LIABILITIES	
Equity	
Liabilities	

	£000
Total equity and liabilities	

Workings (not provided in the CBT)

Group structure

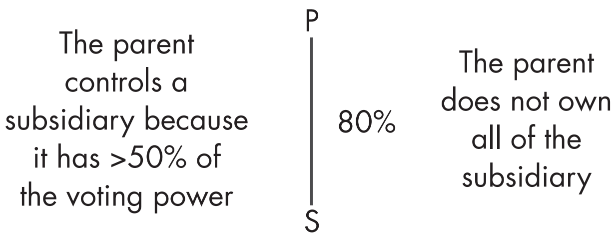
Workings (on-screen proforma provided in the CBT)

Goodwill	£000

Retained earnings	£000

6 Non-controlling interests in the group statement of financial position

6.1 What are non-controlling interests?



The **non-controlling interest** (NCI) is the 'equity in a subsidiary not attributable, directly or indirectly, to a parent' (IFRS 10: para. 22), ie the non-group shareholders' interest in the net assets of the subsidiary.

6.2 Points to note

(a) You do not have to own 100% of a company to control it.

(b) The group accounts will need to show the extent to which the assets and liabilities are controlled by the parent so we still add across, line by line, the parent and 100% of the subsidiary.

(c) The group accounts will also need to show the extent that the subsidiary's net assets are owned by other parties, namely the non-controlling interest. This results in a new working for the non-controlling interest (NCI).

For background information it is useful to be aware that there are two methods of valuing the non-controlling interest at acquisition (IFRS 3: para. 19):

- Fair value method
- Proportionate share method

In the *Financial Statements of Limited Companies* CBT the proportionate share method will be used. Therefore, task data will state that:

'Parent Plc has decided that non-controlling interest will be valued at their proportionate share of net assets.'

An example of the NCI working is as follows:

NCI	£000
Share capital – attributable to NCI	X
Share premium – attributable to NCI	X
Retained earnings – attributable to NCI	X
Revaluation reserve – attributable to NCI	X
	X

Activity 5: Apple Ltd

Apple Ltd acquired 600,000 £1 ordinary shares in Orange Ltd for £4,000,000 on 1 January 20X2. At that date, the capital and reserves of Orange Ltd were:

	£000
Share capital (£1 ordinary shares)	1,000
Retained earnings	5,000
	6,000

Calculate the amount of goodwill arising on the acquisition.

£	

Activity 6: Church plc

Church Plc acquired 75% of the issued share capital and voting rights of Steeple Ltd at the date of the latter's incorporation on 1 January 20X5. The consideration was £5,000,000.

Extracts of the statements of financial position for the two companies at 31 December 20X6 are shown below.

	Church Plc £000	Steeple Ltd £000
ASSETS		
Non-current assets		
Property, plant and equipment	10,000	7,000
Investment in Steeple Ltd	5,000	–
	15,000	7,000
Current assets	8,500	5,000
Total assets	23,500	12,000
EQUITY AND LIABILITIES		
Equity		
Share capital (£1 ordinary shares)	12,000	4,000
Retained earnings	1,500	1,000
	13,500	5,000
Liabilities		
Non-current liabilities	4,000	2,000
Current liabilities	6,000	5,000
	10,000	7,000
Total equity and liabilities	23,500	12,000

Further information:

- Church Plc has decided that non-controlling interest will be valued at its proportionate share of net assets.

Required

Draft the consolidated statement of financial position for Church Plc and its subsidiary undertaking as at 31 December 20X6.

Solution

Church Plc

Consolidated statement of financial position as at 31 December 20X6

	£000
ASSETS	
Non-current assets	
Total assets	
EQUITY AND LIABILITIES	
Equity	
Total equity	
Liabilities	
Total equity and liabilities	

Workings (not provided in the CBT)

Group structure

Non-controlling interest at acquisition	£000

Non-controlling interest at year end	£000

Workings (on-screen proforma provided in the CBT)

Goodwill	£000

Retained earnings	£000

7 Intra-group adjustments

7.1 to 7.5

No changes

Activity 8: Door plc

Door Plc acquired 60% of the issued share capital and voting rights of Window Ltd on 31 December 20X0 for £27,000,000. At that date, Window Ltd had issued share capital of £10,000,000 and retained earnings of £32,000,000.

Below are the statements of financial position for both companies at 31 December 20X1.

	Door Plc £000	Window Ltd £000
ASSETS		
Non-current assets		
Property, plant and equipment	200,000	40,000
Investment in Window Ltd	27,000	–
	227,000	40,000
Current assets		
Inventories	22,000	18,000
Trade and other receivables	75,000	49,000
Cash and cash equivalents	4,000	15,000
	101,000	82,000
Total assets	328,000	122,000
EQUITY AND LIABILITIES		
Equity		
Share capital	100,000	10,000
Retained earnings	147,000	42,000
	247,000	52,000
Non-current liabilities		
Bank loan	–	20,000
Current liabilities		
Trade and other payables	81,000	50,000
Total liabilities	81,000	70,000
Total equity and liabilities	328,000	122,000

Further information:

(a) There was cash in transit of £4,000,000 from Door Plc to Window Ltd at year end.

(b) Included in Window Ltd's trade and other receivables is £40,000,000 owed from Door Plc. Included in Door Plc's trade and other payables is £36,000,000 due to Window Ltd.

(c) During the year, Window Ltd sold some inventory to Door Plc for £40,000,000. These goods had cost Window Ltd £30,000,000. Half of these goods still remain in inventories at the year end. There were no intra-group balances outstanding at the end of the year in respect of this transaction in trade receivables or trade payables.

(d) Door Plc has decided that non-controlling interest will be valued at its proportionate share of net assets.

Required

Draft the consolidated statement of financial position for Door Plc and its subsidiary undertaking as at 31 December 20X1.

Solution

Door Plc
Consolidated statement of financial position

	£000
ASSETS	
Non-current assets	
Current assets	
Total assets	
EQUITY AND LIABILITIES	
Total equity	
Non-current liabilities	

	£000
Current liabilities	
Total liabilities	
Total equity and liabilities	

Workings (not provided in the CBT)

Group structure

Non-controlling interest at acquisition	£000

Non-controlling interest at year end	£000

Adjustment for cash in transit

Adjustment for cash in transit	Debit £000	Credit £000

Intra-group cancellation

Eliminate intra-group payables and receivables	Debit £000	Credit £000

Trade receivables	£000

Workings (on-screen proforma provided in the CBT)

Goodwill	£000

Inventories	£000
Consolidated inventories (prior to any company adjustment)	
Inter-company adjustment	

Retained earnings	£000

7.2 Intra-group loans

A company may make a loan to another member of the group. Where this arises it must be eliminated in the consolidated financial statements.

For example, if a parent has made a loan of £10,000 to a subsidiary, and this is outstanding at the year end, the journal to eliminate it in the group statement of financial position is:

Intra-group cancellation

Eliminate intra-group loan and loan receivable	Debit £	Credit £
Intra-group loan payable (subsidiary – SOFP)	10,000	
Intra-group loan receivable (parent – SOFP)		10,000

8 Fair value adjustments

Let us remind ourselves that goodwill is defined as:

	£
Consideration transferred	X
Less fair value of identifiable assets and liabilities at acquisition	(X)
	X

Assets and liabilities in an entity's own financial statements are often not stated at their fair value.

The identifiable assets and liabilities of subsidiaries are, therefore, required to be brought into the consolidated financial statements at their fair value rather than their book value.

The difference between fair values and book values is a consolidation adjustment. In the group financial statements adjustments need to be made to:

- Non-current assets (which reflects control of assets on the SOFP)
- Goodwill (amount attributable to the parent in respect of the fair value adjustment)
- Non-controlling interest (amount attributable to NCI in respect of the fair value adjustment)

Illustration 5 – Fair value adjustments

Hardy Plc acquired 80% of the issued share capital and voting rights of Woolf Ltd on 31 December 20X1 for £3,000,000.

Statements of financial position (extract) as at 31 December 20X1

	Hardy Plc £000	Woolf Ltd £000
Non-current assets		
Property, plant and equipment	5,000	2,200
Investment in Woolf Ltd	3,000	____
	8,000	2,200
Equity		
Share capital	5,000	2,000
Retained earnings	900	500
	5,900	2,500

Further information:

- At 31 December 20X1 the fair value of the non-current assets of Woolf Ltd was £300,000 more than carrying value. This valuation has not been recorded in the books of Woolf Ltd (ignore any effect of depreciation for the year).
- Hardy Plc has decided that non-controlling interest will be valued at their proportionate share of net assets.

Complete the extracts to the consolidated statement of financial position for Hardy Plc and its subsidiary undertaking for the year ended 31 December 20X1.

Hardy Plc
Consolidated statement of financial position (extract) as at 31 December 20X1

	Hardy Plc £000
Non-current assets	
Goodwill	760
Property, plant and equipment (5,000 + 2,200 + 300)	7,500
	8,260
Equity	
Share capital – £1 ordinary shares	5,000
Retained earnings	900
Non-controlling interest	560
	6,460

Workings (not provided in the CBT)

Group structure

Hardy Plc

$\downarrow$ 80%

Woolf Ltd

Workings (on-screen proforma provided in the CBT)

Goodwill	**£000**
Consideration	3,000
Non-controlling interest at acquisition	560
Net assets acquired	(2,800)
	760

Non-controlling interest (NCI) at acquisition/ year end	£000
Share capital – attributable to NCI (2,000 × 20%)	400
Retained earnings – attributable to NCI (500 × 20%)	100
Revaluation reserve – attributable to NCI (300 × 20%)	60
	560

9 Assessment-standard question

Now that we have considered a range of consolidation adjustments we will work through an Assessment-standard question.

The next example provides the necessary practice in preparing a consolidated statement of financial position.

In group accounts questions you will be required to process a number of adjustments in one question.

To be successful in these tasks, a solid method is vital. The steps you should follow are to:

(1) Read the requirement(s) and scan the task.

(2) Review the 'further information' carefully and identify which on-screen workings are available.

(3) Work methodically down the statements of financial position for the parent and the subsidiary. Enter the figures:

- In a financial statement proforma (if they require no further adjustment)
- In an on-screen working (if they require adjustment and an on-screen working is provided)
- On scrap paper (if they require adjustment and an on-screen working is not provided)

(4) Complete the workings and include your totals in the proforma.

(5) Then, total your consolidated statement of financial position.

(6) Review your answer carefully, checking you have dealt with all the items. Does it make sense?

Note: In the Assessment you will need to click on a pop-up box for the 'further information'.

Activity 9: Morse Plc

Morse Plc acquired 60% of the issued share capital and voting rights of Lewis Ltd on 1 January 20X0 for £24,000,000. At that date, Lewis Ltd had issued share capital of £10,000,000, share premium of £5,000,000 and retained earnings of £11,263,000.

Extracts of the statements of financial position for the two companies at 31 December 20X0 are shown below.

Statements of financial position as at 31 December 20X0

	Morse Plc £000	Lewis Ltd £000
ASSETS		
Non-current assets		
Property, plant and equipment	63,781	27,184
Investment in Lewis Ltd	24,000	–
	87,781	27,184
Current assets		
Inventories	18,283	14,684
Trade and other receivables	29,474	14,023
Cash and cash equivalents	2,872	88
	50,629	28,795
Total assets	138,410	55,979
EQUITY AND LIABILITIES		
Equity		
Share capital	45,000	10,000
Share premium	13,000	5,000
Retained earnings	33,416	17,763
Total equity	91,416	32,763
Non-current liabilities		
Long-term loans	25,000	8,000
Current liabilities		
Trade and other payables	16,231	15,042
Tax liability	5,763	174

	Morse Plc	Lewis Ltd
	£000	£000
	21,994	15,216
Total liabilities	46,994	23,216
Total equity and liabilities	138,410	55,979

Further information:

(a) At 1 January 20X0 the fair value of the non-current assets of Lewis Ltd was £2,500,000 more than carrying amount. This valuation has not been recorded in the books of Lewis Ltd (ignore any effect of depreciation for the year).

(b) Included in Morse Plc's trade and other receivables is £13,000,000 owed from Lewis Ltd. Included in Lewis Ltd's trade and other payables is £13,000,000 due to Morse Plc.

(c) During the year Morse Plc sold some inventory to Lewis Ltd for £50,000,000. These goods had cost Morse Plc £30,000,000. A quarter of these goods still remain in inventories at the year end. There were no intra-group balances outstanding at the end of the year in respect of this transaction in trade receivables or trade payables.

(d) The directors of Morse Plc have concluded that goodwill has been impaired by £674,000 during the year.

(e) Morse Plc has decided that non-controlling interest will be valued at its proportionate share of net assets.

Required

Draft the consolidated statement of financial position for Morse Plc and its subsidiary undertaking as at 31 December 20X0.

Solution

Morse Plc
Consolidated statement of financial position as at 31 December 20X0

	£000
ASSETS	
Non-current assets	
Current assets	
Total assets	
EQUITY AND LIABILITIES	
Total equity	
Non-current liabilities	
Current liabilities	
Total liabilities	
Total equity and liabilities	

Picklist: Cash and cash equivalents, Goodwill, Inventories, Long-term loans, Property, plant and equipment, Non-controlling interest, Retained earnings, Share capital, Share premium, Tax liability, Trade and other payables, Trade and other receivables, Non-controlling interest at acquisition, Non-controlling interest at year end, Net assets acquired

Workings (not provided in the CBT)

Group structure

Non-controlling interest at acquisition	£000

Non-controlling interest at year end	£000

Eliminate intra-group receivable and payable	Debit £000	Credit £000

Workings (on-screen proforma provided in the CBT)

Goodwill	£000

Inventories	£000
Consolidated inventories (prior to any company adjustment)	
Inter-company adjustment	

Retained earnings	£000

Note: In the Assessment picklists for the narrative entries are provided for the on-screen workings.

Activity answers

Activities 1 to 3 - no changes

Activity 4: Thatch plc

Draft the consolidated statement of financial position for Thatch Plc and its subsidiary undertaking as at 31 December 20X6.

Thatch Plc
Consolidated statement of financial position as at 31 December 20X6

	£000
ASSETS	
Non-current assets	
Property, plant and equipment (10,000 + 5,000)	15,000
Goodwill (W)	2,000
	17,000
Current assets (4,000 + 5,000)	9,000
Total assets	26,000
EQUITY AND LIABILITIES	
Equity	
Share capital	9,000
Retained earnings (W)	8,000
	17,000
Liabilities	
Non-current liabilities	2,000
Current liabilities (5,000 + 2,000)	7,000
	9,000
Total equity and liabilities	26,000

Workings (not provided in the CBT)

Group structure

Thatch Plc

↓ 100%

Straw Ltd

Workings (on-screen proforma provided in the Assessment)

Goodwill	**£000**
Consideration	8,000
Net assets acquired: £3m + £2m	(5,000)
Impairment	(1,000)
	2,000

Retained earnings	**£000**
Parent	6,000
Subsidiary – attributable to Thatch Plc (5,000 – 2,000) × 100%	3,000
Less impairment	(1,000)
	8,000

Activity 5: Apple Ltd

Calculate the amount of goodwill arising on the acquisition.

£	400,000

Goodwill:

	£000
Consideration (price paid)	4,000
Non-controlling interest at acquisition	2,400
Net assets acquired: £1m + £5m	(6,000)
	400
Working: non-controlling interest at acquisition	£000
Share capital attributable to NCI (40% × 1,000)	400
Retained earnings attributable to NCI (40% × 5,000)	2,000
	2,400

Activity 6: Church plc

Draft the consolidated statement of financial position for Church Plc and its subsidiary undertaking as at 31 December 20X6.

Church Plc
Consolidated statement of financial position as at 31 December 20X6

	£000
ASSETS	
Non-current assets	
Property, plant and equipment (10,000 + 7,000)	17,000
Goodwill (W)	2,000
	19,000
Current assets (8,500 + 5,000)	13,500
Total assets	32,500
EQUITY AND LIABILITIES	
Equity	
Share capital	12,000
Retained earnings (W)	2,250
Non-controlling interest (W)	1,250
Total equity	15,500
Liabilities	
Non-current liabilities (4,000 + 2,000)	6,000
Current liabilities (6,000 + 5,000)	11,000
	17,000
Total equity and liabilities	32,500

Workings (not provided in the CBT)

Group structure

Church Plc
↓ 75%
Steeple Ltd

Non-controlling interest at acquisition	£000
Share capital – attributable to NCI (4,000 × 25%)	1,000
Retained earnings – attributable to NCI *(acquired on incorporation*	0
	1,000

Non-controlling interest at year end	£000
Share capital – attributable to NCI (4,000 × 25%)	1,000
Retained earnings – attributable to NCI (1,000 × 25%)	250
	1,250

Workings (on-screen proforma provided in the CBT)

Goodwill	£000
Consideration	5,000
Non-controlling interest at acquisition	1,000
Net assets acquired (share capital only)	(4,000)
	2,000

Retained earnings	£000
Parent	1,500
Subsidiary – attributable to Church Plc (1,000 × 75%)	750
	2,250

Activity 7: Intra-group balances

Calculate the amount for trade receivables included in the consolidated statement of financial position.

£	33,500

Trade receivables:

	£
X Ltd	20,000
Y Ltd	15,000
Less inter-company balance	(1,500)
	33,500

Note: Don't make the mistake of taking 80% of Y's receivables!

Activity 8: Door Plc

Draft the consolidated statement of financial position for Door Plc and its subsidiary undertaking as at 31 December 20X1.

Door Plc
Consolidated statement of financial position

	£000
ASSETS	
Non-current assets	
Property, plant and equipment (200,000 + 40,000)	240,000
Goodwill (W)	1,800
	241,800
Current assets	
Inventories (W)	35,000
Trade receivables (W)	84,000
Cash and cash equivalents (4,000 + 15,000 + 4,000)	23,000
	142,000
Total assets	383,800
EQUITY AND LIABILITIES	
Share capital	100,000
Retained earnings (W)	150,000
Non-controlling interest (W)	18,800
Total equity	268,800
Non-current liabilities	
Bank loan	20,000
Current liabilities	
Trade payables (81,000 + 50,000 – 36,000)	95,000
Total liabilities	115,000
Total equity and liabilities	383,800

Workings (not provided in the CBT)

Group structure

Door Plc

60%

Window Ltd

Non-controlling interest at acquisition	£000
Share capital – attributable to NCI (10,000 × 40%)	4,000
Retained earnings – attributable to NCI 32,000 × 40%)	12,800
	16,800

Non-controlling interest at year end	£000
Share capital – attributable to NCI (10,000 × 40%)	4,000
Retained earnings – attributable to NCI ((42,000 – 5,000) × 40%)	14,800
	18,800

Adjustment for cash in transit

Adjustment for cash in transit	Debit £000	Credit £000
Cash	4,000	
Trade receivables		4,000

Intra-group cancellation

Eliminate intra-group payables and receivables	Debit £000	Credit £000
Trade payables (Window Ltd)	36,000	
Trade receivables (Door Plc)		36,000

Trade receivables	£000
Door Plc	75,000
Window Ltd	49,000
Cash in transit from Door Plc to Window Ltd	(4,000)
Intra-group receivables	(36,000)
	84,000

Workings (on-screen proforma provided in the CBT)

Goodwill	£000
Consideration	27,000
Non-controlling interests at acquisition	16,800
Net assets acquired: £10m + £32m)	(42,000)
	1,800

Inventories	£000
Consolidated inventories (prior to any company adjustment)	40,000
Inter-company adjustment	(5,000)
	35,000

Retained earnings	£000
Parent	147,000
Subsidiary – attributable to Door Plc ((42,000 – 32,000 – 5,000) × 60%)	3,000
	150,000

Activity 9: Morse Plc

Draft the consolidated statement of financial position for Morse Plc and its subsidiary undertaking as at 31 December 20X0.

Morse Plc
Consolidated statement of financial position as at 31 December 20X0

	£000
ASSETS	
Non-current assets	
Goodwill (W)	6,068
Property, plant and equipment (63,781 + 27,184 + 2,500)	93,465
	99,533
Current assets	
Inventories (W)	27,967
Trade and other receivables (29,474 + 14,023 – 13,000)	30,497
Cash and cash equivalents (2,872 + 88)	2,960

	£000
	61,424
Total assets	160,957
EQUITY AND LIABILITIES	
Share capital	45,000
Share premium	13,000
Retained earnings (W)	31,642
Non-controlling interest (W)	14,105
Total equity	103,747
Non-current liabilities	
Long-term loans (25,000 + 8,000)	33,000
Current liabilities	
Trade and other payables (16,231 + 15,042 – 13,000)	18,273
Tax liability (5,763 + 174)	5,937
	24,210
Total liabilities	57,210
Total equity and liabilities	160,957

Workings (not provided in the CBT)

Group structure

Morse Plc

↓ 60%

Lewis Ltd

Non-controlling interest at acquisition	**£000**
Share capital – attributable to NCI (40% of 10,000)	4,000
Share premium – attributable to NCI (40% of 5,000)	2,000
Retained earnings – attributable to NCI (40% of 11,263)	4,505
Revaluation reserve – attributable to NCI (40% of 2,500)	1,000
	11,505

Non-controlling interest at year end	£000
Share capital – attributable to NCI (40% of 10,000)	4,000
Share premium – attributable to NCI (40% of 5,000)	2,000
Retained earnings – attributable to NCI (40% of 17,763)	7,105
Revaluation reserve – attributable to NCI (40% of 2,500)	1,000
	14,105

Eliminate intra-group receivable and payable	Debit £000	Credit £000
Trade payable to Morse Plc	13,000	
Trade receivable from Lewis Ltd		13,000

Workings (on-screen proforma provided in the CBT)

Goodwill	£000
Consideration	24,000
Non-controlling interest at acquisition	11,505
Net assets acquired (10,000 + 5,000 + 11,263 + 2,500)	(28,763)
Impairment	(674)
	6,068

Inventories	£000
Consolidated inventories (prior to any company adjustment)	32,967
Inter-company adjustment (1/4 × (50,000 – 30,000))	(5,000)
	27,967

Retained earnings	£000
Parent (33,416 – 5,000)	28,416
Subsidiary – attributable to Parent (17,763 – 11,263) × 60%	3,900
Impairment	(674)
	31,642

Test your learning

6 The following statements of financial position relate to Salt plc and its subsidiary, Pepper Ltd, at 31 March 20X7:

	Salt plc	*Pepper Ltd*
	£000	£000
Assets		
Non-current assets:		
Property, plant and equipment	8,000	6,000
Investment in Pepper Ltd	4,000	–
	12,000	6,000
Current assets:		
Inventories	2,400	1,440
Trade and other receivables	2,640	2,400
Cash and cash equivalents	480	360
	5,520	4,200
Total assets	17,520	10,200
Equity and liabilities		
Equity:		
Share capital (£1 ordinary shares)	5,000	1,000
Retained earnings	7,960	6,200
Total equity	12,960	7,200
Non-current liabilities	1,200	1,080
Current liabilities:		
Trade payables	2,500	1,700
Tax payable	860	220
	3,360	1,920
Total liabilities	4,560	3,000
Total equity and liabilities	17,520	10,200

Additional data:

(1) Salt plc purchased 800,000 ordinary shares in Pepper Ltd on 1 April 20X5 when the retained earnings reserve of Pepper Ltd was £2,500,000.

(2) At 31 March 20X7, the trade payables of Salt plc included £960,000 which was owed to Pepper Ltd.

Required

Prepare the consolidated statement of financial position of Salt plc and its subsidiary as at 31 March 20X7.

Consolidated statement of financial position as at 31 March 20X7

	£000
Assets	
Non-current assets:	
Intangible assets: Goodwill	
Property, plant and equipment	

	£000
Current assets:	
Inventories	
Trade and other receivables	
Cash and cash equivalents	
Total assets	
Equity and liabilities	
Equity attributable to owners of the parent:	
Share capital	
Retained earnings	
Non-controlling interest	
Total equity	
Non-current liabilities	
Current liabilities:	
Trade payables	
Tax payable	
Total liabilities	
Total equity and liabilities	

Workings

(Complete the left-hand column by writing in the correct narrative from the list provided.)

Goodwill	£000
▼	
▼	
▼	

Picklist for line items:

Consideration
Non-controlling interest at acquisition

Net assets acquired

Retained earnings	£000
▼	
▼	

Picklist for line items:

Pepper Ltd attributable to Salt plc
Salt plc

Non-controlling interest at acquisition	£000
▼	
▼	

Non-controlling interest at year end	£000
▼	
▼	

Picklist for line items:

Current assets attributable to NCI
Non-current assets attributable to NCI
Consideration
Retained earnings attributable to NCI
Share capital attributable to NCI

Supplement amendments

Amendments are highlighted.

CHAPTER 5 The statement of cash flows

6 (a) **Reconciliation of profit before tax to net cash from operating activities for the year ended 30 June 20X5**

	£000
Profit before tax	270
Depreciation	305
Finance costs	62
Increase in inventories (1,009 – 960)	(49)
Increase in receivables (826 – 668)	(158)
Increase in trade payables (641 – 563)	78
Cash generated from operations	508
Interest paid	(62)
Tax paid	(53)
Net cash from operating activities	393

(b) **Statement of cash flows for the year ended 30 June 20X5**

	£000	£000
Net cash from operating activities		393
Investing activities:		
Purchase of property, plant and equipment (W)	(559)	
Net cash used in investing activities		(559)
Financing activities:		
Increase in long-term loan (610 – 460)	150	
Dividends paid	(59)	
Net cash from financing activities		91
Net increase (decrease) in cash and cash equivalents for the year		(75)
Cash and cash equivalents at the beginning of the year		100
Cash and cash equivalents at the end of the year		25

Working

Property, plant and equipment	£000
Property, plant and equipment at the beginning of the year	1,776
Depreciation	(305)
Property, plant and equipment at the end of the year	(2,030)
	(559)

Alternative working

Property, plant and equipment

	£000		£000
Balance b/f	1,776	Depreciation	305
Additions (bal fig)	**559**	Balance c/f	2,030
	2,335		2,335

CHAPTER 9 Group accounts: the consolidated statement of financial position

3 (a) Goodwill

£1,000,000	
£1,400,000	
£2,000,000	
£2,350,000	✓

	£000
Consideration	9,000
NCI on acquisition 5% × (5,000 + 2,000)	350
Net assets acquired (5,000 + 2,000)	(7,000)
	2,350

6 **Consolidated statement of financial position as at 31 March 20X7**

	£000
Assets	
Non-current assets:	
Intangible assets: Goodwill (W2)	1,200
Property, plant and equipment (8,000 + 6,000)	14,000
	15,200
Current assets:	
Inventories (2,400 + 1,440)	3,840
Trade and other receivables (2,640 + 2,400 – 960)	4,080
Cash and cash equivalents (480 + 360)	840
	8,760
Total assets	23,960

	£000
Equity and liabilities	
Equity attributable to owners of the parent:	
Share capital	5,000
Retained earnings (W3)	10,920
	15,920
Non-controlling interest (W4)	1,440
Total equity	17,360
Non-current liabilities (1,200 + 1,080)	2,280
Current liabilities:	
Trade payables (2,500 + 1,700 – 960)	3,240
Tax payable (860 + 220)	1,080
	4,320
Total liabilities	6,600
Total equity and liabilities	23,960

Workings

(1) Group structure

Salt plc owns 80% (800,000/1,000,000) of the equity share capital of Pepper Ltd.

(2)

Goodwill	£000
Consideration	4,000
Non-controlling interest at acquisition	700
Net assets acquired: £1m + £2.5m	(3,500)
	1,200

(3)

Retained earnings	£000
Salt plc	7,960
Pepper Ltd attributable to Salt plc (80% × 6,200 – 2,500)	2,960
	10,920

(4)

Non-controlling interest at acquisition	£000
Share capital attributable to NCI (20% × 1,000)	200
Retained earnings attributable to NCI (20% × 2,500)	500
	700

(5)

Non-controlling interest at year end	£000
Share capital attributable to NCI (20% × 1,000)	200
Retained earnings attributable to NCI (20% × 6,200)	1,240
	1,440