QUESTION 1.

Articat Co is the parent company of a group whose financial year end is 30 June 20X5. The draft consolidated statement of profit or loss contains a number of errors and omissions. These relate to the entities Thuddle Co and Findler Co, two investees in which Articat sold shares during the current year.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Thuddle Co – provides information about the disposal of shares in Thuddle Co as well as a sale of inventory from Thuddle Co to Articat Co.
2. Findler Co – provides information about the disposal of shares in Findler Co and a transfer of property by Articat Co to Findler Co in the year.
3. Draft consolidated SOPL – this includes the draft consolidated statement of profit or loss (SOPL) for the Articat group.

EXHIBIT 1. Thuddle Co

On 1 October 20X4, Articat Co sold 50,000 of its equity shares in Thuddle Co for proceeds of $465,000. Articat Co debited cash and credited investments with the proceeds.

Articat Co had acquired 400,000 of the 500,000 $1 equity shares of Thuddle Co several years ago. Goodwill on acquisition was correctly calculated as $68,000 and has not been impaired. The fair value of the net assets of Thuddle Co (excluding goodwill) on 1 October 20X4 were $4·8 million.

On 30 June 20X5, Thuddle Co sold inventory at a mark-up of 25% to Articat Co for $30,000. Articat Co still had all of these goods in closing inventory. The sale and the purchase were both recorded correctly in the individual financial statements, but no adjustments have yet been made to the consolidated financial statements for this transaction.

Articat Co valued the non-controlling interest of Thuddle Co at acquisition as its proportionate share of the fair value of the identifiable net assets.

Articat Co has included 100% of the revenue and expenses of Thuddle Co for the year ended 30 June 20X5 in the draft statement of profit or loss.

EXHIBIT 2. Findler Co

On 1 July 20X2, Articat Co had acquired 900,000 of the one million $1 ordinary shares of Findler Co. The carrying amount of the identifiable net assets on acquisition was equal to their fair value of $7,950,000. Articat Co valued the non-controlling interest at acquisition at fair value. This was deemed to be $870,000.

On 31 March 20X5, Articat Co sold 500,000 of its equity shares in Findler Co for cash of $10 per share. This was the fair value of one Findler Co share on 31 March 20X5. Articat Co has included the entire proceeds within investment income in the consolidated statement of profit or loss. The fair value of the net assets of Findler Co on 31 March 20X5 were $9,048,000. The draft statement of consolidated profit or loss only includes nine months of Findler Co's profit for the year. The profit for the year was $504,000 and it accrued evenly. Plant owned by Findler Co on 31 March 20X5 had a fair value of $20,000 above the carrying amount and a remaining useful life of two years. It can be assumed that Articat Co has significant influence following the disposal.

Goodwill of Findler Co of $1,020,000 had been impaired by 25% in the year ended 30 June 20X4. Since the sales proceeds were above the original cost, it was decided to reverse the impairment in the current year which has been credited to administrative expenses in the draft consolidated statement of profit or loss for the Articat group.

On 30 June 20X5, Articat Co sold a property to Findler Co for $1·5 million. The proceeds were considered to be equal to the fair value of the property on 30 June 20X5. Articat Co has included the proceeds in group revenue. The carrying amount of the property was $1·6 million. The property, which has not been derecognised by Articat Co, was used for administrative purposes.

EXHIBIT 3. Draft consolidated SOPL

A3 Draft consolidated statement of profit or loss for the Articat Group for the year ended 30 June 20X5:

The information below is replicated in the pre-formatted spreadsheet response option

Draft consolidated statement of profit or loss for the Articat Group for the year ended 30 June

	Articat Group Draft $
Revenue	30,023,000
Cost of sales	- 15,704,000
Gross profit	**14,319,000**
Distribution costs	- 4,752,000
Administrative expenses	- 6,116,000
Profit from operations	**3,451,000**
Investment income	5,977,000
Finance costs	- 617,000
Profit before taxation	**8,811,000**
Income tax expense	- 1,021,000
Profit for the year	**7,790,000**

REQUIREMENTS (30 MARKS)

(a)(i) Using exhibit 1, explain and calculate the accounting treatment in the consolidated financial statements of the disposal of shares in Thuddle Co.

(5 marks)

(a)(ii) Using exhibit 2, explain, without calculations, the accounting treatment in the consolidated financial statements of the Articat Group for each of the following issues:

- **The reversal of the impairment of goodwill of Findler Co;**
- **The disposal of shares in Findler Co; and**
- **The sale of the property by Articat Co to Findler Co.**

(11 marks)

(b) Using the pre-populated spreadsheet response option and exhibits 1 and 2, revise the draft consolidated statement of profit or loss for the Articat Group for the year ended 30 June 20X5. (Ignore any tax implications arising from the adjustments. Calculation of the profit attributable to the non-controlling interest is not required).

(14 marks)