# Consolidated Statement of Cash Flows

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# 6

## Learning Outcome

After studying this chapter students should be able to:

- prepare a consolidated statement of cash flow for a group of entities.

## 6.1 Introduction

Section 6.2 outlines the requirements of IAS 7 *Cash Flow Statements (note IAS 1 revised the title of the statement to 'statement of cash flows')*. Section 6.3 works through detailed examples to explain the preparation of group cash flow statements including the following complexities:

- acquisition of a subsidiary during the year;
- disposal of a subsidiary during the year;
- exchange differences arising on the translation of a foreign operation.

## 6.2 IAS 7 – the general principles

A cash flow statement is an integral part of a complete set of financial statements. It presents information that is not available from the income statement and the statement of financial position.

One of the key features of the cash flow statement is that it gives an indication of the relationship between the profitability of an entity and the cash-generating ability of that entity. Profitability and cash-generating ability are both important but distinct aspects of corporate performance. Additionally, of course, the cash flow statement provides information on how an entity has used the cash it has generated.

While a cash flow statement is an extremely important and useful document taken on its own, it is of most relevance when considered in conjunction with the income statement and the statement of financial position. This is because some of the cash flows for a period will result from transactions that took place in earlier years and some cash flows may well result in further cash flows in a future period. It is usually necessary to refer to the profit and loss account and statement of financial position to evaluate the cash flows in this way.

Before we briefly describe the cash flows that are included under each heading, it is worth stating exactly how 'cash flow' is defined for the purposes of IAS 7. Cash flow is defined as inflows and outflows of cash and cash equivalents:

- Cash is regarded as cash on hand and demand deposits.
- 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.

### 6.2.1 IAS 7 – standard headings

The standard headings under which the cash flows should be reported are given below:

(a) cash flow from operating activities;
(b) cash flow from investing activities, returns on investments and servicing of finance;
(c) cash flow from financing activities;
(d) net change in cash and cash equivalents for the period.

## 6.3 Cash flow statements for groups

Cash flow statement preparation for groups will be considered under the following headings:

- general principles;
- treatment of subsidiaries with non-controlling interests;
- treatment of investments that are equity-accounted;
- treatment of investments acquired during the year;
- treatment of investments disposed of during the year;
- treatment of foreign subsidiaries.

### 6.3.1 General principles

The cash flows need to be analysed under the same major headings as for a single entity and cash is defined in the same way.

The statement should report only cash flows that are external to the group. This can effectively be achieved by working with the figures from the consolidated income statement and statement of financial position.

### 6.3.2 Treatment of subsidiaries with non-controlling interests

One hundred per cent of the cash flows of all subsidiaries that are line-by-line consolidated should be included in the consolidated cash flow statement.

Dividends paid to non-controlling interests are cash flows that are external to the group, and will therefore be shown as a cash outflow under the heading 'cash flow from operating activities'.

Therefore we need to calculate the dividend, as the following example (that will be used to illustrate a number of the points of principle in this unit) will show.

## Example 6.A

We are given the following information concerning the Investor group for the year to 31 December 20X3.

### Consolidated income statement

| | $'000 | $'000 |
|---|---|---|
| Profit from operations | | |
| Group entities | | 16,600 |
| Associate | | 980 |
| Profit before tax | | 17,580 |
| Income tax expense | | |
| Group entities | 7,900 | |
| Associate | 420 | |
| | | (8,320) |
| Profit for the period | | 9,260 |
| Attributable to: | | |
| Equity holders of the parent | | 7,710 |
| Non-controlling interest | | 1,550 |
| | | 9,260 |

### Summarised consolidated statement of changes in equity (in respect of equity holders of the parent)

| | $'000 |
|---|---|
| Balance at 1 January 20X3 | 21,845 |
| Profit for the period | 7,710 |
| Dividends paid | (2,100) |
| New shares issued | 2,000 |
| Balance at 31 December 20X3 | 29,455 |

### Consolidated statements of financial position

| | *31.12.X3* | | *31.12.X2* | |
|---|---|---|---|---|
| ASSETS | $'000 | $'000 | $'000 | $'000 |
| Non-current assets | | | | |
| Investment in associate | | 6,200 | | 5,700 |
| Goodwill on acquisition | | 680 | | 280 |
| Property, plant and equipment | | 21,200 | | 16,900 |
| | | 28,080 | | 22,880 |
| Current assets | | | | |
| Inventories | 16,600 | | 12,200 | |
| Receivables | 15,000 | | 9,300 | |
| Cash | 50 | | 1,445 | |
| | | 31,650 | | 22,945 |
| | | 59,730 | | 45,825 |
| EQUITY & LIABILITIES | | | | |
| Share capital | | 14,000 | | 13,000 |
| Share premium | | 2,645 | | 1,645 |
| Retained earnings | | 12,810 | | 7,200 |
| | | 29,455 | | 21,845 |
| Non-controlling interests | | 8,200 | | 6,600 |
| | | 37,655 | | 28,445 |
| Long-term loans | | 1,655 | | 5,280 |
| Current liabilities | | | | |
| Trade payables | 7,700 | | 5,800 | |
| Taxation | 9,100 | | 4,900 | |
| Bank overdraft | 3,620 | | 1,400 | |
| | | 20,420 | | 12,100 |
| | | 59,730 | | 45,825 |

*Notes*

1. On 1 July 20X3 the Investor group acquired 80% of the issued capital of Vulnerable, whose net assets at that date were as follows:

| | $'000 |
|---|---|
| Property, plant and equipment | 2,600 |
| Inventories | 900 |
| Receivables | 980 |
| Cash | 200 |
| Trade payables | (1,380) |
| Tax | (300) |
| | 3,000 |

   The purchase consideration was $2.8 million in cash.
2. Depreciation charged in the year amounted to $2,200,000. There were no disposals of property, plant and equipment during the year.

Given the information concerning Investor, we can calculate the dividend that was paid to the non-controlling interest by reconciling the movement in the non-controlling interest per the statement of financial position to profits credited to the non-controlling interest per the income statement. This reconciliation is provided below:

| | $'000 |
|---|---|
| Non-controlling interest as at 1 January 20X3 | 6,600 |
| Non-controlling interest in profits for the year | 1,550 |
| Increase in non-controlling interest due to acquisition* | 600 |
| Dividend paid to non-controlling interest (balance) | (550) |
| Non-controlling interest as at 31 December 20X3 | 8,200 |

*The identifiable net assets of Vulnerable at the date of acquisition were $3 million. Because Vulnerable becomes an 80% subsidiary we then have a non-controlling interest of 20% of $ 3 million, which is $600,000.

## 6.3.3 Treatment of investments that are equity-accounted

The cash flows of such entities should not be included in the cash flow statement for the group. The only time the cash flows of the group are affected by investments that are equity-accounted is when the entity in which the investment is made makes a dividend payment.

Dividends received from such investments should be shown as a cash inflow. These dividends should be shown under the heading 'cash flow from investing activities'.

The dividend figure can be derived in a similar way to dividends paid to non-controlling interest, as the working below indicates.

| | $'000 |
|---|---|
| Investment in associates at 1 January 20X3 | 5,700 |
| Share of profit before taxation for the year | 980 |
| Share of tax charge for the year | (420) |
| Dividend received in the year (to balance) | (60) |
| Investment in associates at 31 December 19X3 | 6,200 |

## 6.3.4 Treatment of investments acquired during the year

If the investment is line-by-line consolidated, then the cash flows from the investment will be included in the consolidated cash flow statement *from the date of acquisition.* IAS 7

requires that the *cash* paid to acquire the investment, net of any cash or overdrafts that the investment brings to the group, be shown as an *outflow* of cash under the heading 'investing activities'.

When computing cash flows in a year when a new investment has been acquired, it is important to ensure that the net assets of the new investment at the date of acquisition are not double counted. We will show below the consolidated cash flow statement of the Investor group (see Section 6.3.1) to demonstrate this procedure.

**Investor – statement of cash flows for the year ended 31 December 20X3**

| | $'000 | $'000 |
|---|---|---|
| *Cash flow from operating activities* | | |
| Net profit from group entities before tax | 16,600 | |
| Depreciation | 2,200 | |
| Increase in inventory (W2) | (3,500) | |
| Increase in receivables (W2) | (4,720) | |
| Increase in payables (W2) | 520 | |
| Tax paid (W3) | (4,000) | |
| Dividends paid | | |
| Parent shareholders | (2,100) | |
| Non-controlling interest | (550) | |
| | | 4,450 |
| *Cash flow from investing activities* | | |
| Dividend received from associate | 60 | |
| Purchase of property, plant and equipment (W4) | (3,900) | |
| Purchase of subsidiary (net of cash acquired – W2) | (2,600) | |
| | | (6,440) |
| *Cash flow from financing activities* | | |
| Issue of shares | 2,000 | |
| Repayment of loans | (3,625) | |
| | | (1,625) |
| | | (3,615) |
| *Decrease in cash* | | |
| Cash in hand | | (1,395) |
| Bank overdraft | | (2,220) |
| | | (3,615) |

**Workings**

1. The goodwill account can be reconciled as follows:

| | $'000 |
|---|---|
| Opening balance | 280 |
| Increase due to acquisition | |
| $2.8 m − 80% × $3 m | 400 |
| Closing balance | 680 |

2. The cash outflow in respect of the purchase of Vulnerable in the accounting period is the amount paid ($2.8 million) minus the cash balance of Vulnerable at the date of acquisition ($0.2 million). This cash outflow effectively entitles the group to consolidate the net assets of Vulnerable and so, *to the extent that increases in the net assets of the group were due to the acquisition of Vulnerable*, they are taken into account in the cash outflow of $2.6 million. Therefore, in reconciling movements on working capital that

are added back in determining the cash flow from operating activities, the net assets at the date of acquisition should *not* be double counted. Therefore we have the following:

| *Item* | *Overall movement* | *Vulnerable at date of acquisition* | *As per cash flow statement* |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Inventories | 4,400 | 900 | 3,500 |
| Receivables | 5,700 | 980 | 4,720 |
| Payables | 1,900 | 1,380 | 520 |

3. Movements in the tax account can be reconciled as follows (remembering once again not to double count the tax liability assumed on acquisition of Vulnerable):

| | $'000 |
|---|---|
| Tax balance at 1 January 20X3 | 4,900 |
| Increase due to acquisition of Vulnerable | 300 |
| Income statement for the year | 7,900 |
| Cash paid (to balance) | (4,000) |
| Tax balance at 31 December 20X3 | 9,100 |

4. In a similar way, we can reconcile movements in property, plant and equipment:

| | $'000 |
|---|---|
| Balance as 1 January 20X3 | 16,900 |
| Additions in the year | |
| Due to acquisition of Vulnerable | 2,600 |
| Other (to balance) | 3,900 |
| Depreciation charge for the year | (2,200) |
| Balance as at 31 December 20X3 | 21,200 |

Acquisitions of investments that are equity accounted or treated as a trade investment present few problems as far as the preparation of the consolidated cash flow statement is concerned. Since none of the net assets are line-by-line consolidated the *only* amount that is included in the cash flow statement is to show the cash paid to purchase the investment as a cash outflow under the heading 'cash flow from investing activities'. Any dividends received after the date of acquisition will be shown as a cash inflow under the heading 'cash flow from financing activities'.

## 6.3.5 Treatment of investments disposed of during the year

As far as the consolidated cash flow statement is concerned, disposals are very much the mirror image of acquisitions.

If the investment was line-by-line consolidated prior to the disposal, and is no longer line-by-line consolidated after the disposal, then the proceeds of disposal of the investment (net of any cash and overdrafts of the investment at the date of disposal) will be shown as a cash inflow under the heading 'acquisitions and disposals'.

The principles regarding the reconciliation of the movements on net assets apply here as applied in the case of the acquisition of investments.

## Example 6.B

The consolidated income statement and extracts from the consolidated statement of changes in equity of the JCN group for the year ended 31 December 20X0, and the consolidated statements of financial position of the group at the beginning and end of 20X0, are given below:

**Consolidated income statement – year ended 31 December 20X0**

| | $'000 |
|---|---|
| Profit from operations | 20,000 |
| Finance cost | (1,400) |
| Profit on disposal (N1) | 700 |
| Profit before tax | 19,300 |
| Income tax expense | (6,500) |
| Profit for the period | 12,800 |
| Attributable to: | |
| Equity holders of the parent | 11,800 |
| Non-controlling interests | 1,000 |
| | 12,800 |

**Summarised consolidated statement of changes in equity – year ended 31 December 20X0 (in respect of equity holders of the parent)**

| | $'000 |
|---|---|
| Balance at 1 January 20X0 | 49,500 |
| Profit for the period | 11,800 |
| Dividends paid | (3,000) |
| Balance at 31 December 20X0 | 58,300 |

**Consolidated statements of financial position – as at 31 December:**

| | *20X0* | | *20W9* | |
|---|---|---|---|---|
| ASSETS | $'000 | $'000 | $'000 | $'000 |
| Property, plant and equipment (N2) | | 51,350 | | 50,000 |
| Current assets | | | | |
| Inventories | 25,000 | | 23,000 | |
| Trade receivables | 21,000 | | 19,000 | |
| Cash in hand | 6,000 | | 2,000 | |
| | | 52,000 | | 44,000 |
| | | 103,350 | | 94,000 |
| EQUITY & LIABILITIES | | | | |
| Share capital | | 20,000 | | 20,000 |
| Retained earnings | | 38,300 | | 29,500 |
| | | 58,300 | | 49,500 |
| Non-controlling interests | | 5,050 | | 5,750 |
| | | 63,350 | | 55,250 |
| Long-term loans | | 9,500 | | 12,500 |
| Current liabilities | | | | |
| Trade payables | 18,500 | | 16,250 | |
| Tax | 6,000 | | 5,000 | |
| Bank overdraft | 6,000 | | 5,000 | |
| | | 30,500 | | 26,250 |
| | | 103,350 | | 94,000 |

*Notes*

1. On 30 June 20X0 JCN disposed of its investment in Pear, a subsidiary in which it had a shareholding of 80%. The proceeds of the disposal were $5.5 million. Details of the disposal were as follows:

| | $'000 |
|---|---|
| Net assets at the date of disposal | |
| Property, plant and equipment | 4,000 |
| Inventories | 2,000 |
| Receivables | 2,500 |
| Trade payables | (1,500) |
| Tax | (300) |
| Bank overdraft | (200) |
| Long-term loan | (500) |
| | 6,000 |

   JCN had acquired its investment on 30 June 20V8 for $1.9 million when the net assets of Pear were $2 million. Goodwill was found to be impaired several years ago, and so was fully written off before the start of the current financial year.

2. Depreciation charged during the period in the consolidated income statement amounted to $10.1 million. There were no disposals of property, plant and equipment by the group other than those effectively made upon disposal of the investment in Pear.

The consolidated cash flow statement for the group for the year ended 31 December 20X0 would be as follows:

| | $'000 | $'000 |
|---|---|---|
| *Cash flow from operating activities* | | |
| Profit before tax | 19,300 | |
| Finance cost | 1,400 | |
| Profit on disposal | (700) | |
| Depreciation | 10,100 | |
| Increase in inventories (W1) | (4,000) | |
| Increase in receivables (W1) | (4,500) | |
| Increase in payables (W1) | 3,750 | |
| Interest paid | (1,400) | |
| Tax paid (W3) | (5,200) | |
| | | 18,750 |
| *Cash flow from investing activities* | | |
| Purchase of property, plant and equipment (W5) | (15,450) | |
| Sale of Pear (W4) | 5,700 | |
| | | (9,750) |
| *Cash flow from financing activities* | | |
| Repayment of long-term loan | (2,500) | |
| Dividends paid: | | |
| Non-controlling interest (W2) | (500) | |
| Parent shareholders | (3,000) | |
| *Increase in cash and cash equivalents* | | |
| Cash in hand | | 6,000 |
| Bank overdraft | | (3,000) |
| | | 3,000 |

**Workings**

1. As with acquisitions, care must be taken not to double count working capital movements when an investment is disposed of during the year. When we have disposed of a subsidiary, we have already accounted for a working capital *reduction* (the working capital of the subsidiary which is removed from the group statement of financial position on disposal). Therefore we must take care to add this movement back so as to derive the movement from operating sources. Therefore the figures in the cash flow statement can be derived as follows:

| *Item* | *Net movement per the statement of financial position* | *Movement due to the disposal* | *Movement per the cash flow statement* |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Inventories | 2,000 | 2,000 | 4,000 |
| Receivables | 2,000 | 2,500 | 4,500 |
| Trade payables | (2,250) | (1,500) | (3,750) |

2. The movement in the non-controlling interest account is as follows:

| | $'000 | |
|---|---|---|
| Non-controlling interest as at 1 January 20X0 | 5,750 | |
| Reduction due to disposal (20% × $6 m) | (1,200) | |
| Non-controlling interest in the profits of the year | 1,000 | |
| So dividend paid to non-controlling interest | (500) | (to balance) |
| Non-controlling interest as at 31 December 20X0 | 5,050 | |

3. The movement in the tax account is:

| | $'000 |
|---|---|
| Tax liability as at 1 January 20X0 | 5,000 |
| Reduction due to disposal | (300) |
| Tax charge for the year | 6,500 |
| Cash paid (to balance) | (5,200) |
| Tax liability as at 31 December 20X0 | 6,000 |

4. The cash outflow shown in the cash flow statement that is caused by the disposal of Pear is the proceeds of sale ($5.5 million) *plus* the bank overdraft of Pear at the date of disposal. A *reduction* in a bank overdraft is a *reduction* in a *negative* component of cash and so *increases* the cash of the group.
5. The outflow of cash in respect of the purchase of property, plant and equipment can be computed by reconciling the statement of financial position movement in property, plant and equipment as shown below:

| | $'000 |
|---|---|
| Balance at 1 January 20X0 | 50,000 |
| Reduction due to disposal of Pear | (4,000) |
| Depreciation charge for the year | (10,100) |
| Additions for the year (to balance) | 15,450 |
| Balance at 31 December 20X0 | 51,350 |

6. While the overall loans balance has been reduced by $3 million, there was a reduction of $500,000 due to the disposal of Pear. Therefore there must have been a repayment of $2.5 million.

Disposals of investments that are *not* line-by-line consolidated do not cause any particular problems. The proceeds of sale are shown as a cash inflow under the heading 'cash flow from investing activities'. *No allowance* needs to be made when reconciling individual assets and liabilities, since the assets and liabilities of the investment that is being disposed of were not line-by-line consolidated prior to disposal.

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### 6.3.6 Treatment of foreign subsidiaries

Where the investment is in a foreign undertaking, exchange differences are quite likely to arise. Exchange differences (covered in more depth in Chapter 8) arising on the translation of a foreign operation are recognised within equity, and are reported in other comprehensive income in the period in which they occur.

Where consolidated net assets are increased or decreased by the effect of exchange differences then this needs to be allowed for in reconciling their movement in the cash flow statement. The workings for this look similar to those prepared for acquisition/disposal in the period.

## Example 6.C

The consolidated income statement and extracts from the statement of changes in equity of Etac for the year ended 31 December 20X0 and the consolidated statement of financial positions at that date and at the beginning of the year are given below:

Consolidated statement of comprehensive income – year ended 31 December 20X0

| | $'000 |
|---|---|
| Revenue | 30,000 |
| Cost of sales | (20,000) |
| Gross profit | 10,000 |
| Other operating expenses | (6,000) |
| Finance cost | (1,000) |
| Profit before tax | 3,000 |
| Income tax expense | (1,000) |
| Profit for the period | 2,000 |
| Other comprehensive income: | |
| Exchange difference (N1) | 310 |
| Total comprehensive income | 2,310 |
| Profit attributable to: | |
| Equity holders of parent | 1,700 |
| Non-controlling interest | 300 |
| | 2,000 |
| Total comprehensive income attributable to: | |
| Equity holders of parent | 1,950 |
| Non-controlling interest $300 + (310-250) | 360 |
| | 2,310 |

Extract from consolidated statement of changes in equity (parent only) – year ended 31 December 20X0

| | $'000 |
|---|---|
| Balance at 1 January 20X0 | 6,200 |
| TCI for the period | 1,950 |
| Dividends paid | (1,200) |
| Balance at 1 January 20X0 | 6,950 |

Statements of financial position – as at 31 December

| | 20X0 | | 20W9 | |
|---|---|---|---|---|
| ASSETS | $'000 | $'000 | $'000 | $'000 |
| Property, plant and equipment (N2) | | 15,450 | | 11,500 |
| Current assets | | | | |
| Inventories | 4,000 | | 3,500 | |
| Receivables | 5,000 | | 4,500 | |
| Cash in hand | 600 | | 500 | |
| | | 9,600 | | 8,500 |
| | | 25,050 | | 20,000 |
| EQUITY & LIABILITIES | | | | |
| Share capital | | 4,000 | | 4,000 |
| Retained earnings | | 2,950 | | 2,200 |
| | | 6,950 | | 6,200 |
| Non-controlling interests | | 3,300 | | 3,050 |
| | | 10,250 | | 9,250 |
| Long-term loan | | 6,000 | | 3,000 |
| Current liabilities | | | | |
| Trade payables | 4,200 | | 3,900 | |
| Tax | 1,000 | | 850 | |
| Bank overdraft | 3,600 | | 3,000 | |
| | | 8,800 | | 7,750 |
| | | 25,050 | | 20,000 |

*Notes*

1. The exchange differences on retranslation of the opening net assets and profits of the foreign subsidiary were as follows:

| | $'000 |
|---|---|
| On property, plant and equipment | 225 |
| On inventories | 75 |
| On receivables | 95 |
| On cash in hand | 10 |
| On trade payables | (65) |
| On taxation payable | (20) |
| On bank overdraft | (60) |
| On profits for the period | 50 |
| | 310 |

   The group share of these differences is included in consolidated equity. The exchange difference on profits all relate to operating items excluding depreciation.
2. The depreciation of property, plant and equipment for the year was $1,600,000. No disposals took place during the year.
3. Goodwill on acquisition was fully written off several years before the start of the current financial year.

**Consolidated statement of cash flows for the year to 31 December 20X0**

| | $'000 | $'000 |
|---|---|---|
| *Cash flow from operating activities* | | |
| Profit before tax | 3,000 | |
| Finance cost | 1,000 | |
| Depreciation | 1,600 | |
| Inventory increase | (500) | |
| Receivables increase | (500) | |
| Payables increase | 300 | |
| Exchange differences on working capital | 105 | |
| Exchange differences on profit | 50 | |
| Interest paid | (1,000) | |
| Tax paid (W2) | (870) | |
| Dividends paid* | | |
| Non-controlling interest (W1) | (110) | |
| Parent shareholders | (1,200) | |
| | | 1,875 |
| *Cash flow from investing activities (W3)* | | (5,325) |
| *Cash flow from financing activities* | | |
| Increase in long-term loan | | 3,000 |
| | | (450) |
| *Increase/decrease in cash* | | |
| Cash in hand | | 90 |
| Bank overdraft (600 − 60) | | (540) |
| | | (450) |

*Tutorial note: Dividends paid may be shown as either operating cash flows or cash flows from financing activities according to IAS 7

## Workings

1. *Reconciliation of non-controlling interest*

| | $'000 |
|---|---|
| Non-cnontrolling interest at 1 January 20X0 | 3,050 |
| Exchange differences | 60 |
| Profit for the year | 300 |
| Dividends (balancing figure) | (110) |
| Non-controlling interest at 31 December 20X0 | 3,300 |

2. *Reconciliation of tax*

| | $'000 |
|---|---|
| Tax liability at 1 January 20X0 | 850 |
| Exchange difference | 20 |
| Income statement | 1,000 |
| Cash paid (balancing figure) | (870) |
| Tax liability at 31 December 20X0 | 1,000 |

3. *Reconciliation of property, plant and equipment*

| | $'000 |
|---|---|
| Balance at 1 January 20X0 | 11,500 |
| Exchange difference | 225 |
| Depreciation | (1,600) |
| Additions (balancing figure) | 5,325 |
| Balance at 31 December 20X0 | 15,450 |

## 6.4 Summary

This chapter contains some detailed calculations and explanations relating to the preparation of a cash flow statement for a group of entities. Where questions in this area are set in the examination students will often find that they incorporate an addition and/or a disposal during the year. It is also quite possible that questions will be set that involve exchange differences arising on the translation of a foreign operation.

Students should note that the basic principles involved in preparing a group cash flow statement are the same as for the other consolidated financial statements: the statement should show 100 per cent of the cash flows arising from the assets and liabilities that the group controls, and intra-group cash flows should be eliminated.

# Revision Questions

# 6

Note that a few short questions are included as tests of understanding. Exam standard questions have the mark allocation noted.

## ? Question 1

STB is preparing its consolidated statement of cash flows for the year ended 31 October 20X7. Its consolidated opening balance at net book value for property, plant and equipment was $207,000. During the year the STB group disposed of plant for proceeds of $8,500 that had cost $62,000 several years ago and which was fully written down at 1 November 20X6. There were no other disposals. The depreciation charge for the year ended 31 October 20X7 was $32,000. The consolidated closing book value for property, plant and equipment was $228,000.

Calculate the cash outflow in respect of purchases of property, plant and equipment for inclusion in the consolidated cash flow statement of STB group for the year ended 31 October 20X7?

## ? Question 2

GPX's financial statements included an investment in associate at $6,600,000 in its consolidated statement of financial position at 30 September 20X5. At 30 September 20X6, the investment in associate had risen to $6,750,000. GPX's pre-tax share of profit in the associate was $420,000, with a related tax charge of $180,000. The net amount of $240,000 was included in the consolidated income statement for the year ended 30 September 20X6.

There were no impairments to the investment in associate, or acquisitions or disposals of shares during the financial year.

Calculate the amount of the cash flow related to this investment for inclusion in the consolidated cash flow statement for the year ended 30 September 20X6?

## Question 3

On 1 March 20X4, NS acquired 30% of the shares of TP. The investment is accounted for as an associate in NS's consolidated financial statements. Both NS and TP have an accounting year end of 31 October. NS has no other investments in associates.

Net profit for the year in TP's income statement for the year ended 31 October 20X4 was $230,000. It declared and paid a dividend of $100,000 on 1 July 20X4. No other dividends were paid in the year.

Calculate the amount that will have been included as an inflow in respect of earnings from the associate in the consolidated cash flow statement of NS for the year ended 31 October 20X4?

## Question 4

Extracts from the consolidated financial statements of the AH Group for the year ended 30 June 20X5 are given below.

**AH Group: Consolidated income statement for the year ended 30 June 20X5**

| | *20X5* |
|---|---|
| | $'000 |
| Revenue | 85,000 |
| Cost of sales | (59,750) |
| Gross profit | 25,250 |
| Operating expenses | (5,560) |
| Finance cost | (1,400) |
| Profit before disposal of property | 18,200 |
| Disposal of property (N2) | 1,250 |
| Profit before tax | 19,450 |
| Income tax | (6,250) |
| Profit for the period | 13,200 |

| | $'000 |
|---|---|
| Attributable to: | |
| Non-controlling interests | 655 |
| Equity holders of parent | 12,545 |
| | 13,200 |

**AH Group: Extracts from statement of changes in equity for the year ended 30 June 20X5**

| | *Share capital* | *Share premium* | *Retained earnings* | *Total* |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Opening balance | 18,000 | 10,000 | 18,340 | 46,340 |
| Issue of share capital | 2,000 | 2,000 | 4,000 | |
| Profit for period | | | 12,545 | 12,545 |
| Dividends | | | (6,000) | (6,000) |
| Closing balance | 20,000 | 12,000 | 24,885 | 56,885 |

**AH Group: Statement of financial position, with comparatives, as at 30 June 20X5**

| | *20X5* | | *20X4* | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 50,600 | | 44,050 | |
| Intangible assets (N3) | 6,410 | | 4,160 | |
| | | 57,010 | | 48,210 |

| | | | | |
|---|---|---|---|---|
| **Current assets** | | | | |
| Inventories | 33,500 | | 28,750 | |
| Trade receivables | 27,130 | | 26,300 | |
| Cash | 1,870 | | 3,900 | |
| | | 62,500 | | 58,950 |
| | | 119,510 | | 107,160 |
| **Equity and liabilities** | | | | |
| Share capital | 20,000 | | 18,000 | |
| Share premium | 12,000 | | 10,000 | |
| Retained earnings | 24,885 | | 18,340 | |
| | | 56,885 | | 46,340 |
| **Non-controlling interests** | | 3,625 | | 1,920 |
| **Non-current liabilities** | | | | |
| Interest-bearing borrowings | | 18,200 | | 19,200 |
| **Current liabilities** | | | | |
| Trade payables | 33,340 | | 32,810 | |
| Interest payable | 1,360 | | 1,440 | |
| Tax | 6,100 | | 5,450 | |
| | | 40,800 | | 39,700 |
| | | 119,510 | | 107,160 |

*Notes*

1. Several years ago AH acquired 80% of the issued ordinary shares of its subsidiary, BI. On 1 January 20X5, AH acquired 75% of the issued ordinary shares of CJ in exchange for a fresh issue of 2 million of its own $1 ordinary shares (issued at a premium of $1 each) and $2 million in cash. The net assets of CJ at the date of acquisition were assessed as having the following fair values:

| | $'000 |
|---|---|
| Property, plant and equipment | 4,200 |
| Inventories | 1,650 |
| Receivables | 1,300 |
| Cash | 50 |
| Trade payables | (1,950) |
| Tax | (250) |
| | 5,000 |

2. During the year, AH disposed of a non-current asset of property for proceeds of $2,250,000. The carrying value of the asset at the date of disposal was $1,000,000. There were no other disposals of non-current assets. Depreciation of $7,950,000 was charged against consolidated profits for the year.
3. Intangible assets comprise goodwill on acquisition of BI and CJ (20X4: BI only). Goodwill has remained unimpaired since acquisition.

## Requirement

Prepare the consolidated cash flow statement of the AH Group for the financial year ended 30 June 20X5 in the form required by IAS 7 *Cash Flow Statements*, and using the indirect method. Notes to the cash flow statement are not required, but full workings should be shown. **(25 marks)**

## Question 5

Carver is an entity incorporated in 20R8 to produce models carved from wood. In 20U5 it acquired a 100% interest in Olio, a wood importing entity. In 20V9 it acquired a 40% interest in a competitor, Multi-Products. On 1 October 20W9 it acquired a 75% interest in Good Display. It is planning to make a number of additional acquisitions over the next 3 years. The draft consolidated accounts for the Carver group are as follows:

**Consolidated income statement for the year ended 30 September 20X0**

| | $'000 | $'000 |
|---|---|---|
| Profit from operations | | 1,485 |
| Share of profits of associates | | 495 |
| Income from trade investments | | 155 |
| Finance costs | | (150) |
| Profit before tax | | 1,985 |
| Income tax expense | | |
| Group tax on profits | 391 | |
| Deferred tax | 104 | |
| Share of tax of associates | 145 | |
| | | (640) |
| Profit for the period | | 1,345 |
| Attributable to: | | |
| Equity holders of parent | | 1,245 |
| Non-controlling interest | | 100 |
| | | 1,345 |

**Summarised consolidated statement of changes in equity for the year ended 30 September 20X0 (in respect of the equity holders of the parent)**

| | $'000 |
|---|---|
| Balance at 1 October 20W9 | 6,395 |
| Profit for the period | 1,245 |
| Dividends | (400) |
| Issue of share capital | 2,728 |
| Balance at 30 September 20X0 | 9,968 |

**Consolidated statement of financial position as at 30 September**

| | *20W9* | | *20X0* | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Non-current assets | | | | |
| Goodwill on consolidation | | | | 100 |
| Buildings – net book value | | 2,200 | | 2,075 |
| Machinery | | | | |
| Cost | 1,400 | | 3,000 | |
| Aggregate depreciation | (1,100) | | (1,200) | |
| | | 300 | | 1,800 |
| | | 2,500 | | 3,975 |
| Investments in associate | | 1,000 | | 1,100 |
| Other long-term investments | | 410 | | 410 |
| Current assets | | | | |
| Inventories | 1,000 | | 1,975 | |
| Trade receivables | 1,275 | | 1,850 | |
| Short-term investments | 1,500 | | 2,675 | |
| Cash at bank | 1,080 | | 1,890 | |
| Cash in hand | 10 | | 15 | |
| | | 4,865 | | 8,405 |

| | | | | |
|---|---|---|---|---|
| | | 8,775 | | 13,890 |
| Share capital (25¢ shares) | | 2,000 | | 3,940 |
| Share premium account | | 2,095 | | 2,883 |
| Retained earnings | | 2,300 | | 3,145 |
| | | 6,395 | | 9,968 |
| Non-controlling interests | | – | | 115 |
| Non-current liabilities | | | | |
| Obligations under finance leases | 170 | | 710 | |
| Loans | 500 | | 1,460 | |
| Deferred tax | 13 | | 30 | |
| | | 683 | | 2,200 |
| Current liabilities | | | | |
| Trade payables | 480 | | 800 | |
| Bank overdrafts | 770 | | 65 | |
| Obligations under finance leases | 200 | | 240 | |
| Corporation tax | 217 | | 462 | |
| Accrued interest and finance charges | 30 | | 40 | |
| | | 1,697 | | 1,607 |
| | | 8,775 | | 13,890 |

*Notes*

1. *Non-current assets*
   - There had been no acquisitions or disposals of buildings during the year.
   - Machinery costing $500,000 was sold for $500,000 resulting in a profit of $100,000. New machinery was acquired in 20X0 including additions of $850,000 acquired under finance leases.

2. *Investments*
   All current asset investments are readily convertible into cash and are not subject to significant market price risk.
3. *Information relating to the acquisition of Good Display*

| | $'000 |
|---|---|
| *Net assets at date of acquisition* | |
| Machinery | 165 |
| Inventories | 32 |
| Trade receivables | 28 |
| Cash | 112 |
| Trade payables | (68) |
| Tax | (17) |
| | 252 |
| Non-controlling interest | (63) |
| Group share | 189 |
| Goodwill on consolidation | 100 |
| Purchase consideration | 289 |
| *Satisfied by* | |
| 880,000 shares | 275 |
| Cash | 14 |
| | 289 |

Goodwill on consolidation of all acquisitions, except that of Good Display had been found to be impaired prior to the current financial year and had been fully written off.

4. *Loans*

   Loans were issued at a discount in 20X0 and the carrying amount of the loans at 30 September 20X0 included $40,000, representing the finance cost attributable to the discount and allocated in respect of the current reporting period.

## Requirement

Prepare a consolidated cash flow statement for the Carver group for the year ended 30 September 20X0. **(25 marks)**

# Solutions to Revision Questions

## Solution 1

| | $’000 |
|---|---|
| Opening balance | 207 |
| *Less*: depreciation | (32) |
| Add: purchases (balancing figure) | 53 |
| Closing balance | 228 |

## Solution 2

| | $’000 |
|---|---|
| Opening investment in associate | 6,600 |
| Add: share of profit of associate | 240 |
| Cash flow (dividend paid) (balancing figure) | (90) |
| Closing investment in associate | 6,750 |

## Solution 3

The amount that should appear in the cash flow statement is the cash inflow from the associate. This is the dividend received by the holding entity:

$\$100{,}000 \times 30\% = \$30{,}000$

## Solution 4

**AH Group: Consolidated statement of cash flows for the year ended 30 June 20X5**

| | $’000 | $’000 | Ref. to working |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | 19,450 | | |
| Adjustments for: | | | |
| Profit on disposal of property | (1,250) | | |
| Depreciation | 7,950 | | |
| Finance cost | 1,400 | | |
| Decrease in receivables | 470 | | 1 |
| (Increase) in inventories | (3,100) | | 1 |
| (Decrease) in trade payables | (1,420) | | 1 |
| Cash generated from operations | 23,500 | | |
| Interest paid | (1,480) | | 2 |
| Income taxes paid | (5,850) | | 2 |
| Net cash from operating activities | | 16,170 | |

| | | | |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary (net of cash) | (1,950) | | 3 |
| Purchase of property, plant and equipment | (11,300) | | 4 |
| Proceeds from sale of property | 2,250 | | |
| Net cash used in investing activities | | (11,000) | |
| **Cash flows from financing activities** | | | |
| Repayment of interest-bearing borrowings | (1,000) | | |
| Dividends paid by AH | (6,000) | | |
| Dividends paid to non-controlling interests | (200) | | 5 |
| Net cash used in financing activities | | (7,200) | |
| Net decrease in cash | | (2,030) | |
| Cash at beginning of period | | (3,900) | |
| Cash at end of period | | 1,870 | |

## Workings

1. *Working capital changes*

| | *Receivables* | *Inventories* | *Trade payables* |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Closing balance | (27,130) | (33,500) | (33,340) |
| *Less*: acquired with CJ | 1,300 | 1,650 | 1,950 |
| | (25,830) | (31,850) | (31,390) |
| Opening balance | 26,300 | 28,750 | 32,810 |
| Decrease/increase/decrease | 470 | (3,100) | 1,420 |

2. *Interest and income taxes*

| | *Interest* | *Income taxes* |
|---|---|---|
| | $'000 | $'000 |
| Liability brought forward | 1,440 | 5,450 |
| Liability acquired with CJ | – | 250 |
| Charge to income statement | 1,400 | 6,250 |
| Liability carried forward | (1,360) | (6,100) |
| Balance: amount paid | 1,480 | 5,850 |

3. *Acquisition of subsidiary*

| | $'000 |
|---|---|
| Cash element of consideration | 2,000 |
| *Less*: cash acquired with CJ | (50) |
| | 1,950 |

4. *Purchase of property, plant and equipment*

| | $'000 |
|---|---|
| Balance brought forward | 44,050 |
| Acquired with CJ | 4,200 |
| Disposal at net book value | (1,000) |
| Depreciation for year | (7,950) |
| *Less*: balance carried forward | (50,600) |
| Balance: purchased | (11,300) |

5. *Dividend paid non-controlling interests*

| | $'000 |
|---|---|
| Balance brought forward | 1,920 |
| Profit attributable to non-controllign intersts | 655 |
| Acquired with CJ ($5,000 × 25%) | 1,250 |
| *Less*: balance carried forward | (3,625) |
| Balance: dividend paid | 200 |

## Solution 5

**Carver: statement of cash flows for the year ended 30 September 20X0**

| | $'000 |
|---|---|
| Cash flow from operating activities (W1) | 122 |
| Cash flow from investing activities (W5) | (82) |
| Cash flow from financing activities (W9) | 2,655 |
| Increase in cash (W13) | 2,695 |

### Workings

1. *Reconciliation of operating profit to net cash flow from operating activities*

| | $'000 |
|---|---|
| Profit before tax from group entities (1,985 − 495) | 1,490 |
| Income from trade investments | (155) |
| Finance costs | 150 |
| Depreciation of buildings (reduction in NBV) | 125 |
| Depreciation of machinery (see below) | 200 |
| Profit on sale of machinery | (100) |
| Increase in inventory (975 − 32) | (943) |
| Increase in receivables (575 − 28) | (547) |
| Increase in trade payables (320 − 68) | 252 |
| Interest paid (W2) | (100) |
| Tax paid (W4) | (250) |
| Net cash outflow from operating activities | 122 |

*Note*

| Depreciation of machinery | |
|---|---|
| Increase in provision | 100 |
| Provision on sold machinery no longer needed | 100 |
| | 200 |

2. *Interest paid*

| | $'000 |
|---|---|
| Charge in income statement | 150 |
| *Less:* charge due to amortisation of discount | (40) |
| Increase in liability | (10) |
| So cash flow | 100 |

3. *Dividends paid to non-controlling interest*

| | $'000 |
|---|---|
| Share of profit | 100 |
| Increase due to acquisition | 63 |
| Movement in statement of financial position | (115) |
| Dividend paid | 48 |

4. *Taxation paid*

| | $'000 |
|---|---|
| Charge in income statement (current plus deferred) | 495 |
| Increase due to acquisition | 17 |
| Movement in statement of financial position | |
| Current tax | (245) |
| Deferred tax | (17) |
| Cash paid | 250 |

5. *Cash flow from investing activities*

| | $'000 |
|---|---|
| Dividends received from associates (W6) | 250 |
| Dividends received from other long-term investments | 155 |
| Sale of non-current assets | 500 |
| Purchase of non-current assets (W7) | (1,085) |
| Acquisition of Good Display (W8) | 98 |
| | (82) |

6. *Dividends received from associates*

| | £'000 |
|---|---|
| Share of profit after tax | 350 |
| Movement in investment | (100) |
| Dividend received | 250 |

7. *Purchase of non-current assets (machinery)*

| | $'000 |
|---|---|
| Increase in cost per statement of financial position | 1,600 |
| Acquired under finance leases | (850) |
| Disposed of in year | 500 |
| Increase due to acquisition | (165) |
| Cash flow | 1,085 |

8. *Purchase of Good Display*

| | $'000 |
|---|---|
| Cash paid to purchase subsidiary undertaking | (14) |
| Cash balances acquired with subsidiary | 112 |
| | 98 |

9. *Cash flow from financing activities*

| | $'000 |
|---|---|
| Issue of loans (W10) | 920 |
| Capital repayments under finance leases (W11) | (270) |
| | 650 |
| Dividends paid | |
| Non-controlling interest (W3) | (48) |
| Parent shareholders | (400) |
| Issue of ordinary shares (W12) | 2,453 |
| | 2,655 |

10. *Issue of loans*

| | $'000 |
|---|---|
| Increase per balance sheet | 960 |
| Less increase due to amortisation of discount | (40) |
| Cash flow | 920 |

11. *Repayment of loans under leasing obligations*

| | $'000 |
|---|---|
| New obligations | 850 |
| Less increase in liability | |
| within 1 year | (40) |
| after more than 1 year | (540) |
| Cash outflow | 270 |

12. *Issue of shares*

| | $'000 |
|---|---|
| Increase per statement of financial position | |
| Share capital | 1,940 |
| Share premium | 788 |
| Increase due to non-cash consideration | (275) |
| Cash flow | 2,453 |

13. *Movement in cash in the period*

| | $'000 |
|---|---|
| Increase in cash in hand | 5 |
| Decrease in bank overdrafts | 705 |
| Increase in bank balances | 810 |
| Increase in short-term investments | 1,175 |
| Increase in cash | 2,695 |