(W5) **Retained earnings**

	$000	*Marks*
Lahore	99,500	*0.5*
Plus correction pension (W11)	2,000	*1*
Disallowed provision added back (W9)	2,000	*1*
Barcelona (60% × 15,650) (W2)	9,390	*1*
Less impairment loss (60% × 10,000)	(6,000)	
Kunming (45% × 350) (W2)	158	*1*
Less impairment loss (45% × 8,000)	(3,600)	*0.5*
	103,448	*5*

(W6) **Retained earnings of Kunming at 1 February 2011**

	$000
Retained earnings at 1 Feb 2011 (balance)	17,000
Post acquisition profit (4/12 × 3,000)	1,000
Retained earnings at 31 May 2011	18,000

(W7) **Unrealised profit in inventory**

Kunming is the seller and is a subsidiary so the adjustment is made against Kunming's post acquisition profits in w2 at year end to ensure that the adjustment will impact the NCI.

	$000
$3,900 × 20/120 =	650

An alternative presentation that achieves the same overall result would be instead to exclude this amount from the net assets working of Kunming and split the purp between the retained earnings and the NCI on a 45% & 55% basis and include those amounts in (W5) and (W4) respectively.

(W8) **Intercompany balances**

		$000
Dr	Trade payables (11,000 + 8,000)	19,000
Cr	Trade receivables (11,000 + 9,000)	20,000
Cr	Bank (balance)	1,000

(W9) **Disallowed provision**

There is no indication that there is either a legal or constructive obligation for Lahore to undertake the rationalisation of the group. Whilst this may be a business or commercial priority, there is no legal or constructive obligation at the reporting date to incur these costs. Consequently, IAS 37 forbids such a provision. Trade payables and retained earnings are therefore adjusted by $2 million.

(W10) **Redeemable shares**

The shares held by the directors are redeemable shares. As such they do not meet the criteria of being classified as equity. Redeemable shares should be classifies as debt. Equity share capital and Non-current liabilities are therefore adjusted by $20 million.