

# AS 21: CONSOLIDATED FINANCIAL STATEMENTS

## Solution 1

### Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2021

Particulars	Note No.	Amount
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	2,60,000
(2) Minority Interest	3	70,000
(3) Current Liabilities		
(a) Trade Payables	4	2,25,000
<b>Total</b>		<b>10,55,000</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
(i) Property, Plant & Equipment	5	8,00,000
(2) Current assets	6	2,55,000
<b>Total</b>		<b>10,55,000</b>

## Notes to Accounts

<b>1</b>	<b>Share Capital</b>		
	50,000 equity shares of ₹ 10 each		5,00,000
<b>2</b>	<b>Reserves and Surplus</b>		
	Profit and Loss Account	2,00,000	
	Add: Share of S Ltd.'s post-acquisition profits (Nil as acquisition was on last day of year)	Nil	2,00,000
	Capital Reserve		60,000
			2,60,000
<b>3.</b>	<b>Minority Interest</b>		
	Paid-up value of (2,50,000 x 20%)	50,000	
	Add: 20% share of pre-acquisition profits [(20% of 1,00,000)]	20,000	70,000
<b>4</b>	<b>Trade Payables</b>		
	H Ltd.	1,75,000	
	S Ltd.	50,000	2,25,000
<b>5</b>	<b>PPE</b>		
	H Ltd.	5,00,000	
	S Ltd.	3,00,000	8,00,000
<b>6</b>	<b>Current Assets</b>		
	H Ltd.	1,55,000	
	S Ltd.	1,00,000	2,55,000

## Working Notes:

% of holding = 2,000 shares/2,500 shares\* 100 = 80%

Minority Interest %= 20%

## Analysis of reserves and profits of S Ltd. as on 31.03.2021

	Pre-acquisition	Post-acquisition
Profit and loss account as on 31.3.2021 (All Pre as acquisition on 31.03.2021)	1,00,000	
	<b>1,00,000</b>	

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### Cost of Control or Goodwill

Cost of Investment		2,20,000
Less: Paid-up value of 80% shares	2,00,000	
80% share of pre-acquisition profits	80,000	(2,80,000)
<b>Capital Reserve</b>		<b>60,000</b>

### Solution 2

#### Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2022

	Note No	Amount (₹)
<b>I Equity and Liabilities</b>		
<b>1 Shareholders' Fund:</b>		
(a) Share Capital	1	3,00,000
(b) Reserve and Surplus	2	1,10,500
<b>2 Minority interest</b>	3	84,000
<b>3 Current Liabilities</b>		
Trade payables	4	<u>3,20,000</u>
<b>Total</b>		<b><u>8,14,500</u></b>
<b>II Assets</b>		
<b>1 Non-Current Assets:</b>		
Property, plant and equipment	5	4,60,000
Intangible Asset	6	66,500
<b>2 Current Assets</b>	7	<u>2,88,000</u>
<b>Total</b>		<b><u>8,14,500</u></b>

### Notes to Accounts

	Amount (₹)
1 Share capital 30,000 Equity Shares @ ₹10 each	3,00,000
2 Reserve and Surplus	
Profit and loss account (₹ 1,00,000 + 70% of 9/12 x 20,000 i.e. ₹ 10,500)	1,10,500
3 Minority Interest (W/N 2)	84,000
4 Trade payables	
H Ltd.	2,00,000
S Ltd.	<u>1,20,000</u>
	<b><u>3,20,000</u></b>
5 Property, plant and equipment	
H Ltd.	2,00,000
S Ltd.	<u>2,60,000</u>
	<b><u>4,60,000</u></b>
6 Intangible Asset:	
Goodwill (W/N 3)	66,500
7 Current Assets:	
H Ltd.	1,48,000
S Ltd.	<u>1,40,000</u>
	<b><u>2,88,000</u></b>

### Working Notes:

#### 1. Percentage of holding

	No. of Shares	Percentage
Holding Co. :	14,000	(70%)
Minority shareholders:	<u>6,000</u>	(30%)
Total Shares :	<u>20,000</u>	

**2. Calculation of Minority Interest**

Share capital (30% of ₹ 2,00,000)	60,000	
Share in Profit and loss account (₹ 80,000 X 30%)	24,000	84,000

**3. Calculation of Cost of Control (Goodwill)**

Cost of Investment	2,52,000
Less: Paid up value of shares (70% of ₹ 2,00,000)	(1,40,000)
Share in pre-acquisition profits 70% of [60,000+3/12 (80,000-60,000)]	(45,500)
	<b>66,500</b>

**Solution 3****Consolidated Balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 2021**

Particulars	Note No.	Amount
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	1,80,000
(2) Minority Interest	3	1,00,000
(3) Non Current Liabilities		
(a) Long Term Borrowings	4	3,00,000
(4) Current Liabilities		
(a) Trade Payables	5	2,00,000
<b>Total</b>		<b>13,80,000</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
(i) Property, Plant & Equipment	6	7,00,000
(2) Current assets		
(a) Inventories	7	3,60,000
(b) Trade Receivables	8	2,20,000
(c) Cash at Bank	9	1,00,000
<b>Total</b>		<b>13,80,000</b>

**Notes to Accounts**

<b>1</b>	<b>Share Capital</b>		
	60,000 equity shares of ₹ 10 each		6,00,000
<b>2</b>	<b>Reserves and Surplus</b>		
	General Reserve	1,00,000	
	Add: General Reserve of Anushka Ltd (Post)(80%)	<u>80,000</u>	1,80,000
<b>3</b>	<b>Minority Interest</b>		
	20% share in Anushka Ltd.		
	Paid-up value of (4,00,000 x 20%)	80,000	
	Add: 20% share of post-acquisition profits [(20% of 1,00,000)]	<u>20,000</u>	1,00,000
<b>4</b>	<b>Long Term Borrowings</b>		
	Virat Ltd.	2,00,000	
	Anushka Ltd.	<u>1,00,000</u>	3,00,000
<b>5</b>	<b>Trade Payables</b>		
	Virat Ltd.	1,00,000	
	Anushka Ltd.	<u>1,00,000</u>	2,00,000
<b>6</b>	<b>PPE</b>		
	Virat Ltd.	4,00,000	

	Anushka Ltd.	<u>3,00,000</u>	7,00,000
<b>7</b>	<b>Inventories</b>		
	Virat Ltd.	1,60,000	
	Anushka Ltd.	<u>2,00,000</u>	3,60,000
<b>8</b>	<b>Trade Receivables</b>		
	Virat Ltd.	80,000	
	Anushka Ltd.	<u>1,40,000</u>	2,20,000
<b>9</b>	<b>Cash &amp; Cash Equivalents</b>		
	Virat Ltd.	40,000	
	Anushka Ltd.	<u>60,000</u>	1,00,000

**Working Notes:**

% of holding = Virat Ltd: = 80%    Minority Interest %= 20%

**Analysis of General Reserve of Anushka Ltd.**

Since Virat Ltd. holds shares in Anushka Ltd. since its incorporation, the entire Reserve balance of 1,00,000 will be Revenue (Post acquisition)

**Cost of Control or Goodwill**

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	3,20,000	
80% share of pre-acquisition profits	<u>Nil</u>	(3,00,000)
<b>Cost of Control</b>		<b>Nil</b>

**Solution 4**

Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share Capital as on 01.01.2019

B = Profit & Loss Account Balance on 01.01.2019

C = Share Capital as on 31.12.2019

D = Profit & Loss Account Balance on 31.12.2019

Case	Subs. Com.	% Shares owned	Minority % shares owned {E}	Minority interest as at date of acquisition [E]x [A+B]	Minority interest as at date of consolidation [E]x [C+D]
Case A	X	90%	10%	22,500	23,500
Case B	Y	75%	25%	50,000	40,000
Case C	Z	70%	30%	18,000	18,000
Case D	M	95%	5%	4,750	5,750
Case E	N	100%	Nil	Nil	Nil

**Solution 5****Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020**

Particulars	Note No.	Amount
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	12,00,000
(b) Reserves and Surplus	2	8,16,200
(2) Minority Interest		99,300
(3) Current Liabilities		
(a) Trade Payables	3	4,10,000
<b>Total</b>		<b>25,25,500</b>

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<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
(i) Property, Plant & Equipment	4	13,10,500
(ii) Intangible assets	5	24,000
(2) Current assets		
(a) Inventories	6	3,25,000
(b) Trade Receivables	7	6,70,000
(c) Cash at Bank	8	1,96,000
<b>Total</b>		<b>25,25,500</b>

### Notes to Accounts

<b>1</b>	<b>Share Capital</b>			
	1,20,000 equity shares of ₹ 10 each			12,00,000
<b>2</b>	<b>Reserves and Surplus</b>			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves		<u>84,000</u>	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits		<u>17,200</u>	<u>2,97,200</u>
				<u>8,16,200</u>
<b>3</b>	<b>Trade Payables</b>			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		<u>(35,000)</u>	4,10,000
<b>4.</b>	<b>Property, Plant &amp; Equipment</b>			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	<u>1,00,000</u>		
		3,00,000		
	Less: Depreciation (20,000+10,000)	<u>(30,000)</u>	<u>2,70,000</u>	9,10,000
	Furniture			
	H Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	<u>(10,000)</u>		
		30,000		
	Less: Depreciation (6,000-1,500)	<u>(4,500)</u>	<u>25,500</u>	<u>4,00,500</u>
				<u>13,10,500</u>
<b>5.</b>	<b>Intangible Assets</b>			
	Goodwill			24,000
<b>6.</b>	<b>Inventories</b>			
	H Ltd.		2,68,000	
	S Ltd.		<u>62,000</u>	3,30,000
	Less: Inventory reserve			<u>(5,000)</u>
				<u>3,25,000</u>
<b>7.</b>	<b>Trade Receivables</b>			
	H Ltd.		4,70,000	
	S Ltd.		2,35,000	
	Less: Mutual transaction		<u>(35,000)</u>	6,70,000
<b>8.</b>	<b>Cash and Bank</b>			
	H Ltd.		1,64,000	
	S Ltd.		<u>32,000</u>	1,96,000

**Working Notes:****1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2019**

<b>Machinery</b>	
Revaluation as on 1.4.2019	3,00,000
Less: Book value as on 1.4.2019	(2,00,000)
Profit on revaluation	<u>1,00,000</u>
<b>Furniture</b>	
Revaluation as on 1.4.2019	30,000
Less: Book value as on 1.4.2019	(40,000)
Loss on revaluation	<u>(10,000)</u>

**2. Calculation of short/excess depreciation**

	<b>Machinery</b>	<b>Furniture</b>
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10%	15%
Difference [(short)/excess]	(10,000)	1,500

**3. Analysis of reserves and profits of S Ltd. as on 31.03.2020**

	<b>Pre-acquisition</b>	<b>Post-acquisition</b>	
		Gen reserve	P&L
General reserve as on 31.3.2020	50,000	1,05,000	
Profit and loss account as on 31.3.2020	30,000		35,000
Upward Revaluation of machinery as on 1.4.2019	1,00,000		
Downward Revaluation of Furniture as on 1.4.2019	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Less: Unrealised Profit (55,000*10/110)			(5,000)
	<b>1,70,000</b>	<b>1,05,000</b>	<b>21,500</b>

**4. Minority Interest**

Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits [(20% of 1,70,000)]	34,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	4,300
	<b>99,300</b>

**5. Cost of Control or Goodwill**

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits	1,36,000	(2,96,000)
<b>Cost of control or Goodwill</b>		<b>24,000</b>

**Solution 6****Consolidated Balance Sheet of Beta Ltd. and its Subsidiary Gamma Ltd. as at 31st March, 2021**

<b>Particulars</b>	<b>Note No.</b>	<b>Amount</b>
<b><u>I. Equity and Liabilities</u></b>		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserves and Surplus	2	8,61,500
(2) Minority Interest		1,20,375

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(3) Current Liabilities		
(a) Trade Payables	3	5,17,500
<b>Total</b>		<b>29,99,375</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
(i) Property, Plant & Equipment	4	14,94,375
(ii) Intangible assets	5	30,000
(b) Other Non Current Assets	6	14,75,000
<b>Total</b>		<b>29,99,375</b>

### Notes to Accounts

<b>1</b>	<b>Share Capital</b>			
	15,000 equity shares of ₹ 10 each			15,00,000
<b>2</b>	<b>Reserves and Surplus</b>			
	Reserves		5,00,000	
	Add: 80% share of Gamma Ltd.'s post-acquisition reserves		<u>1,00,000</u>	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 80% share of Gamma Ltd.'s post-acquisition profits		<u>11,500</u>	<u>2,61,500</u>
				<u>8,61,500</u>
<b>3</b>	<b>Trade Payables</b>			
	Beta Ltd.		3,75,000	
	Gamma Ltd.		<u>1,42,500</u>	5,17,500
<b>4.</b>	<b>Property, Plant &amp; Equipment</b>			
	Machinery			
	Beta Ltd.		7,50,000	
	Gamma Ltd.	2,50,000		
	Add: Appreciation	<u>1,25,000</u>		
		3,75,000		
	Less: Depreciation (25,000+12,500)	<u>(37,500)</u>	<u>3,37,500</u>	10,87,500
	Furniture			
	Beta Ltd.		3,75,000	
	Gamma Ltd.	50,000		
	Less: Decrease in value	<u>(12,500)</u>		
		37,500		
	Less: Depreciation (7,500-1,875)	<u>(5,625)</u>	<u>31,875</u>	<u>4,06,875</u>
				<u>14,94,375</u>
<b>5.</b>	<b>Intangible Assets</b>			
	Goodwill			30,000
<b>6.</b>	<b>Other Non Current Assets</b>			
	Beta Ltd.		11,00,000	
	Gamma Ltd.		<u>3,75,000</u>	14,75,000

### Working Notes:

1. Profit or loss on revaluation of assets in the books of Gamma Ltd. and their book values as on 1.4.2020

<b>Machinery</b>	
Revaluation as on 1.4.2020	3,75,000
Less: Book value as on 1.4.2020	<u>(2,50,000)</u>

Profit on revaluation	1,25,000
<b>Furniture</b>	
Revaluation as on 1.4.2020	37,500
Less: Book value as on 1.4.2020	(50,000)
Loss on revaluation	(12,500)

## 2. Calculation of short/excess depreciation

	Machinery	Furniture
Upward/ (Downward) Revaluation	1,25,000	(12,500)
Rate of depreciation	10%	15%
Difference [(short)/excess]	(12,500)	1,875

## 3. Analysis of reserves and profits of S Ltd. as on 31.03.2020

	Pre-acquisition	Post-acquisition	
		Reserve	P&L
Reserve as on 31.3.2021	62,500	1,25,000	
Profit and loss account as on 31.3.2021	37,500		25,000
Upward Revaluation of machinery as on 1.4.2020	1,25,000		
Downward Revaluation of Furniture as on 1.4.2020	(12,500)		
Short depreciation on machinery			(12,500)
Excess depreciation on furniture			1,875
	<b>2,12,500</b>	<b>1,25,000</b>	<b>14,375</b>

## 4. Minority Interest

Paid-up value of (2,50,000 x 20%)	50,000
Add: 20% share of pre-acquisition profits [(20% of 2,12,500)]	42,500
20% share of post-acquisition reserves	25,000
20% share of post-acquisition profit	2,875
	<b>1,20,375</b>

## 5. Cost of Control or Goodwill

Cost of Investment		4,00,000
Less: Paid-up value of 80% shares	2,00,000	
80% share of pre-acquisition profits	1,70,000	(3,70,000)
<b>Cost of control or Goodwill</b>		<b>30,000</b>

## Solution 7

### Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020

Particulars	Note No.	Amount
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	13,40,000
(b) Reserves and Surplus	2	8,27,040
(2) Minority Interest		1,15,560
(3) Non Current Liabilities		
(a) Long Term Borrowings (12% Debentures)		1,00,000
(3) Current Liabilities		
(a) Trade Payables	3	3,84,800
(b) Short Term Borrowings (Bank Overdraft)		1,00,000
<b>Total</b>		<b>28,67,400</b>

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<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
(i) Property, Plant & Equipment	4	14,34,600
(ii) Intangible assets	5	28,800
(2) Current assets		
(a) Inventories		8,00,000
(b) Trade Receivables	6	5,08,000
(c) Cash at Bank		96,000
<b>Total</b>		<b>28,67,400</b>

### Notes to Accounts

<b>1</b>	<b>Share Capital</b>			
	1,34,000 equity shares of ₹ 10 each			13,40,000
<b>2</b>	<b>Reserves and Surplus</b>			
	Reserves		4,80,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves		<u>96,000</u>	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 80% share of S Ltd.'s post-acquisition profits		<u>11,040</u>	<u>2,51,040</u>
				<u>8,27,040</u>
<b>3</b>	<b>Trade Payables</b>			
	H Ltd.	2,00,000		
	S Ltd.	<u>1,22,000</u>	3,22,000	
	Bill Payables			
	H Ltd.	60,000		
	S Ltd.	14,800		
	Less: Mutual transaction	<u>(12,000)</u>	<u>62,800</u>	3,84,800
<b>4.</b>	<b>Property, Plant &amp; Equipment</b>			
	Machinery			
	H Ltd.		7,20,000	
	S Ltd.	2,40,000		
	Add: Appreciation	<u>1,20,000</u>		
		3,60,000		
	Less: Depreciation (24,000+12,000)	<u>(36,000)</u>	<u>3,24,000</u>	10,44,000
	Furniture			
	H Ltd.		3,60,000	
	S Ltd.	48,000		
	Less: Decrease in value	<u>(12,000)</u>		
		36,000		
	Less: Depreciation (7,200-1,800)	<u>(5,400)</u>	<u>30,600</u>	<u>3,90,600</u>
				<u>14,34,600</u>
<b>5.</b>	<b>Intangible Assets</b>			
	Goodwill			28,800
<b>6.</b>	<b>Trade Receivables</b>			
	H Ltd.	3,00,000		
	S Ltd.	<u>3,90,000</u>	3,90,000	
	Bills Receivables			
	H Ltd.	1,00,000		
	S Ltd.	30,000		
	Less: Mutual transaction	<u>(12,000)</u>	<u>1,18,000</u>	5,08,000

**Working Notes:****1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2019**

<b>Machinery</b>	
Revaluation as on 1.4.2019	3,60,000
Less: Book value as on 1.4.2019	(2,40,000)
Profit on revaluation	<u>1,20,000</u>
<b>Furniture</b>	
Revaluation as on 1.4.2019	36,000
Less: Book value as on 1.4.2019	(48,000)
Loss on revaluation	<u>(12,000)</u>

**2. Calculation of short/excess depreciation**

	<b>Machinery</b>	<b>Furniture</b>
Upward/ (Downward) Revaluation	1,20,000	(12,000)
Rate of depreciation	10%	15%
Difference [(short)/excess]	(12,000)	1,800

**3. Analysis of reserves and profits of S Ltd. as on 31.03.2020**

	<b>Pre-acquisition</b>	<b>Post-acquisition</b>	
		Gen reserve	P&L
General reserve as on 31.3.2020	60,000	1,20,000	
Profit and loss account as on 31.3.2020	36,000		24,000
Upward Revaluation of machinery as on 1.4.2019	1,20,000		
Downward Revaluation of Furniture as on 1.4.2019	(12,000)		
Short depreciation on machinery			(12,000)
Excess depreciation on furniture			1,800
	<b>2,04,000</b>	<b>1,20,000</b>	<b>13,800</b>

**4. Minority Interest**

Paid-up value of (2,40,000 x 20%)	48,000
Add: 20% share of pre-acquisition profits [(20% of 2,04,000)]	40,800
20% share of post-acquisition reserves	24,000
20% share of post-acquisition profit	2,760
	<b>1,15,560</b>

**5. Cost of Control or Goodwill**

Cost of Investment		3,84,000
Less: Paid-up value of 80% shares (2,40,000*80%)	1,92,000	
80% share of pre-acquisition profits (2,04,000*80%)	1,63,200	(3,55,200)
<b>Cost of control or Goodwill</b>		<b>28,800</b>

**Solution 8**

**Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd.  
as at 31st March, 2021**

<b>Particulars</b>	<b>Note No.</b>	<b>(₹)</b>
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	6,50,000
(b) Reserves and Surplus	2	2,55,000
(2) Minority Interest	3	1,05,000
(3) Current Liabilities		
(a) Trade Payables	4	1,90,000
<b>Total</b>		<b><u>12,00,000</u></b>

<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	9,31,000
(2) Current assets		
(i) Inventory	6	1,70,000
(ii) Cash & cash equivalent	7	99,000
<b>Total</b>		<b><u>12,00,000</u></b>

### Notes to Accounts

			₹
<b>1. Share capital</b>			
6,500 equity shares of ₹ 100 each, fully paid up			6,50,000
<b>Total</b>			<b>6,50,000</b>
<b>2. Reserves and Surplus</b>			
General Reserves			60,000
Profit and Loss Account	1,50,000		
Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	<u>37,500</u>		1,87,500
Capital reserve (W.N. 5)			7,500
<b>Total</b>			<b>2,55,000</b>
<b>3. Minority interest in Black Ltd. (WN 4)</b>			1,05,000
<b>4. Trade payables</b>			
White Ltd.	1,15,000		
Black Ltd.	<u>75,000</u>		1,90,000
<b>5. Property, plant and equipment</b>			
White Ltd.	5,80,000		
Black Ltd.	<u>3,51,000</u>		9,31,000
<b>6 Inventory</b>			
White Ltd.	50,000		
Black Ltd.	<u>1,20,000</u>		1,70,000
<b>7 Cash &amp; cash equivalent</b>			
White Ltd.	39,000		
Black Ltd.	54,000		
Cash in transit	<u>6,000</u>		99,000

### Working Notes:

<b>1. Post-acquisition profits of Black Ltd.</b>	₹
Profits earned during the year = ₹ 90,000 + ₹10,000	<u>1,00,000</u>
Pre-acquisition profits (1.4.20 to 30.9.20)	50,000
Post-acquisition profits (1.10.20 to 31.3.21)	<u>50,000</u>
White Ltd.'s share 75% of 50,000	37,500
Minority Interest 25% of 50,000	12,500
<b>2. Pre-acquisition profits and reserves of Black Ltd.</b>	
Reserves as on 1.4.2020	30,000
Profit and Loss Account	<u>40,000</u>
[10,000 (loss as on 1.4.20) + 50,000 (6 month Adjusted pre-acquisition profits)]	
	<u>70,000</u>
White Ltd.'s = (75%) × 70,000	52,500
Minority Interest = (25%) × 70,000	17,500
<b>3. Post-acquisition reserves of Black Ltd.</b>	
Post-acquisition reserves	
(Total reserves less pre-acquisition reserves = ₹ 30,000 – 30,000)	Nil

<b>4. Minority Interest</b>	
Paid-up value of $(3,000 - 2,250) = 750$ shares	
held by outsiders i.e. $750 \times ₹ 100$	75,000
Add: 25% share of pre-acquisition reserves & Profit	17,500
25% share of post-acquisition profit	12,500
	<b>1,05,000</b>
<b>5. Capital Reserve</b>	
Price paid by White Ltd. for 2,250 shares (A)	2,70,000
Intrinsic value of the shares-	
Paid-up value of 2,250 shares held by White Ltd. i.e. $2,250 \times ₹ 100 = 2,25,000$	
Add 75% share of pre-acquisition reserves & profit $(70,000 \times 75\%) = 52,500$ (B)	2,77,500
Capital reserve (A – B)	<b>7,500</b>

**Solution 9****Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022**

Particulars	Note No.	(₹ in 000's)
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	4,000
(b) Reserves and Surplus	2	3,063
<b>(2) Minority Interest (W.N.6)</b>		1,560
<b>(3) Current Liabilities</b>		
(a) Trade payables	3	1,118
(b) Short term provisions	4	482
<b>Total</b>		<b>10,223</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) PPE	5	5,904
<b>(2) Current assets</b>		
(a) Inventories	6	1,759
(b) Trade receivables	7	1,598
(c) Cash and cash equivalents	8	512
(d) Short term loans and advances	9	450
<b>Total</b>		<b>10,223</b>

**Notes to Accounts**

		(₹ in 000's)	(₹ in 000's)
<b>1. Share Capital</b>			
Authorised share capital			
5 lakhs equity shares of ₹ 10 each			<u>5,000</u>
Issued, Subscribed and Paid up			
4 lakhs equity shares of ₹ 10 each fully paid			4,000
<b>2. Reserves and surplus</b>			
Capital Reserve (Note 5)	679.8		
General Reserve	928		
Profit and Loss Account:			
H Ltd. ₹ 1,305.00			
Add: Share in S Ltd ₹ 340.20			
<b>₹ 1,645.20</b>			
Less: Dividend wrongly credited ₹ (180)			
<b>₹ 1,465.20</b>			
Less: Unrealised profit $(50 \times 1/5) ₹ (10)$	1,455.20		3,063

<b>3.</b>	<b>Trade payables</b>		
	H Ltd.	611	
	S Ltd.	<u>507</u>	1,118
<b>4.</b>	<b>Short –term provisions</b>		
	Provision for Taxation H Ltd. ₹ 220		
	S Ltd. ₹ <u>180</u>	400	
	Other Provisions H Ltd ₹ 65		
	S Ltd. ₹ <u>17</u>	<u>82</u>	482
<b>5.</b>	<b>PPE</b>		
	Plant and Machinery		
	H Ltd. ₹ 2,541		
	S Ltd. ₹ <u>2,450</u>	4,991	
	Furniture and fittings		
	H Ltd. ₹ 615		
	S Ltd. ₹ <u>298</u>	<u>913</u>	5,904
<b>6.</b>	<b>Inventories</b>		
	Inventory H Ltd. ₹ 983		
	S Ltd. ₹ 786	1,769	
	<b>Less: Unrealised profit (₹ 50 x 1/5)</b>	<u>(10)</u>	1,759
<b>7.</b>	<b>Trade receivables</b>		
	H Ltd.	820	
	S Ltd.	<u>778</u>	1,598
<b>8.</b>	<b>Cash and cash equivalents</b>		
	Cash and Bank Balances H Ltd	410	
	S Ltd.	<u>102</u>	512
<b>9.</b>	<b>Short term loans and advances</b>		
	Sundry Advances H Ltd.	260	
	S Ltd.	<u>190</u>	450

### Working Notes: Share holding pattern

Particulars	Number of Shares	% of holding
a. S Ltd.		
(i) Purchased on 01.04.2021	90,000	
(ii) Bonus Issue (90,000/5 x 3)	<u>54,000</u>	
Total	<u>1,44,000</u>	60% (1,44,000 / 2,40,000 * 100)
b. Minority Interest	96,000	40%

\*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

#### 1. S Ltd. General Reserve

	(₹ in 000)		(₹ in 000)
To Bonus to equity shareholders [(2400*3)/8]	900	By Balance b/d	1,500
To Balance c/d	690	By Profit & Loss A/c (Bal. fig.)	90
	<u>1,590</u>		<u>1,590</u>

#### 2. S Ltd.'s Profit and Loss Account

	(₹ in 000)		(₹ in 000)
General Reserve	90	Balance b/d	633
Dividend paid on 14.7.2021 [(1500*20)/100]	300	Net Profit for the year (Balancing figure)	567*
Balance c/d	810		
	<u>1,200</u>		<u>1,200</u>

\* Out of ₹ 5,67,000 profit for the year, ₹ 90,000 has been transferred to reserves by S Ltd.

3. **Distribution of Revenue Profits**

	₹ in '000
Revenue Profit as above	567.00
Share of H Ltd. (60%)	340.20
Share of Minority shareholders (567– 340.20)	226.80

4. **Computation of Capital Profits**

	₹ in 000	₹ in 000
General Reserve on the date of acquisition		1,500
<b>Less:</b> Bonus issue of shares		(900)
		<u>600</u>
Profit and Loss Account balance on the date of acquisition	633	
<b>Less:</b> Dividends paid	(300)	333
		<u>933</u>
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		<u>373.20</u>

5. **Computation of Capital Reserve**

		₹ in '000
60% of share capital of S Ltd.		1,440
<b>Add:</b> Share of H Ltd. in the capital profits as in working note (4)		559.80
		<u>1,999.80</u>
<b>Less:</b> Investments in S Ltd.	1,500	
<b>Less:</b> Dividends received out of pre- acquisition profits $[(₹300 \times 60)/100]$	(180)	(1,320)
		<u>679.80</u>

6. **Calculation of Minority Interest**

	₹ in '000
40% of share capital of S Ltd.	960.00
<b>Add:</b> Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	<u>1,560.00</u>

**Solution 10**

Total dividend paid is ₹ 22,500 (out of post-acquisition profits), hence dividend received by Hemant will be credited to P & L account. Hemant Ltd.'s share of dividend = ₹ 22,500 X 80% = ₹ 18,000

	Amount	Amount
Goodwill on consolidation (at the date of acquisition):		
Cost of shares		2,10,000
Less: Face value of capital i.e. 80% of capital	1,20,000	
Add: Share of capital profits $[90,000 \times 80\%]$	<u>72,000</u>	<u>(1,92,000)</u>
Goodwill		18,000
<b>Minority interest on:</b>		
<b>- 1st January, 2020:</b>		
20% of ₹ 2,40,000 $[1,50,000 + 90,000]$		48,000
<b>- 31st December, 2020:</b>		
20% of ₹ 2,47,500 $[1,50,000 + 90,000 + 30,000 - 22,500]$		49,500

**Solution 11**

Revalued net assets of Queen Ltd. as on 31st March, 2020

	In Lakhs
Property, Plant & Equipment (240*20%)	288
Investments (110*90%)	99
Current Assets	140
Loans & Advances	30
15% Debentures	(180)
Current Liabilities	(100)
Equity/Net Worth	277
King Ltd.'s share of net assets (70% of 277)	193.9
King Ltd.'s cost of acquisition of shares of Queen Ltd	(140)
Capital Reserve	53.90

**Solution 12**

Since dividend is declared by B Ltd. on the date of acquisition itself, it would be out of the divisible profits of B Ltd. existing on the date of acquisition i.e., pre-acquisition profits from the perspective of A Ltd. Accordingly, as per AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

Property, Plant & Equipment	70,00,000	
Less: Value Written off (70 Lakhs * 10%)	<u>(7,00,000)</u>	
	63,00,000	
Investments	60,00,000	
Current Assets	68,00,000	
Loans & Advances	<u>22,00,000</u>	2,13,00,000
Less: 10% Debentures	10,00,000	
Trade Payables	<u>55,00,000</u>	<u>(65,00,000)</u>
Net Assets of B Ltd.		1,48,00,000
Share of A Ltd. in Net Assets of B Ltd.: 60%		88,80,000
Less: Cost of Investment in B Ltd. (60% stake):		
10,00,000 Equity Shares x 60% x ` 20 per share	1,20,00,000	
Less: Pre-acquisition dividend: 6,00,000 shares x ` 2	<u>(12,00,000)</u>	<u>(1,08,00,000)</u>
<b>Goodwill on Date of Acquisition</b>		<b>19,20,000</b>

**Solution 13**

Revalued net assets of B Ltd. as on 31st March, 2020

	In Lakhs
Property, Plant & Equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	(180)
Current Liabilities	(100)
Equity/Net Worth	340
Share of Minority Interest in Net Assets (340*30%)	102
A Ltd.'s share of net assets (70% of 340)	238
A Ltd.'s cost of acquisition of shares of B Ltd	(140)
Capital Reserve	98

**Solution 14**

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until minority's share of losses previously absorbed by the majority has been recovered.

Year	Profit / (Loss)	Minority Interest (30%)	Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				Amount	Balance	
On 1.1.2013		1,62,000				
2013	(1,25,000)	(37,500)	(87,500)			1,22,000
Balance		1,24,500				
2014	(2,00,000)	(60,000)	(1,40,000)			1,22,000
Balance		64,500				
2015	(2,50,000)	(75,000)	(1,75,000)			1,22,000
		(10,500)				
	Loss of minority borne by Holding Co	10,500	(10,500)	10,500	10,500	
Balance		Nil	(1,85,500)			
2016	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of minority borne by Holding Co	18,000	(18,000)	18,000	28,500	
Balance		Nil	(60,000)			
2017	25,000	7,500	17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding	(7,500)	7,500	(7,500)	21,000	
Balance		Nil	25,000			
2018	50,000	15,000	35,000			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding	(15,000)	15,000	(15,000)	6,000	
Balance		Nil	50,000			
2019	75,000	22,500	52,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding	(6,000)	6,000	(6,000)	Nil	
Balance		16,500	58,500			

**Working Note:** Calculation of Minority interest and Cost of control on 1.1.2013

		Share of Holding Co.	Minority Interest
	100%	70%	30%
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	28,000	12,000
Less: Cost of investment		(5,00,000)	
Goodwill		1,22,000	



## Solution 15

## Restated Balance Sheet of MNT Ltd. as at 31st March, 2020

Particulars	Note No.	Amount
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
<b>(2) Current Liabilities</b>		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		<b>23,14,500</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) Property, Plant & Equipment & Intangible Assets		
i) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
<b>(2) Current assets</b>		
(a) Inventories (6,90,000 + 12,000)	5	7,02,000
(b) Trade Receivables (343000/98X100)		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		<b>23,14,500</b>

## Notes to Accounts

	Particulars		Amount
<b>1</b>	<b>Reserves and Surplus</b>		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	2,07,000	7,18,500
<b>2</b>	<b>Short term borrowings</b>		
	Bank overdraft		1,70,000
<b>3</b>	<b>Short-term provision</b>		
	Provision for taxation		4,30,000
<b>4</b>	<b>Property, Plant and Equipment</b>		
	Cost	9,20,000	
	Less: Depreciation to date	(2,82,500)	6,37,500
<b>5</b>	<b>Inventories</b>	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
<b>6</b>	<b>Other current assets</b>		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 - 12,500)		52,500

## Working Note:

## Adjusted revenue reserves of MNT Ltd.:

Particulars	Amount	Amount
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98]	7,000	
Add: Increase in value of inventory	<u>12,000</u>	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		<u>(12,500)</u>
Adjusted revenue reserve		<b>5,11,500</b>

**Solution 16**

Consolidated Profit & Loss Account of A Ltd. & its subsidiary B Ltd. the year ended on 31st March, 20

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	8,797
<b>Total Income</b>		<b>8,797</b>
II. Expenses		
Cost of Material purchased/Consumed	3	1,770
Changes of Inventories of finished goods	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	7	225
Other expenses	5	802
Total expenses		2,653
<b>Profit before Tax (II-III)</b>		<b>6,144</b>
III. Tax Expenses	8	2,100
<b>Profit After Tax</b>		<b>4,044</b>

**Notes to Accounts**

		₹ in Lacs	₹ in Lacs
1.	Revenue from Operations		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	1,500	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	(15)	8,797
2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	300	
		1,800	
	Less: Unrealised profits ₹ 180×1/6 x 25/125	(6)	1,794
3.	Cost of Material purchased/consumed		
	A Ltd.	1,200	
	B Ltd.	300	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	(180)	1,320
	Direct Expenses		
	A Ltd.	300	
	B Ltd.	150	450
			1,770
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	225	1,425
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	150	
		450	
	Less: Consultancy fees received by A Ltd. from BLtd.	(8)	442
	Selling and Distribution Expenses:		

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	A Ltd.	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	75	225
7.	Depreciation and Amortisation		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	75	225
8.	Provision for tax		
	A Ltd.	1800	
	B Ltd.	300	2100

**Note:**

It is assumed that dividend adjustment has not been done in sales & other income of A Ltd i.e. dividend received from B Ltd is not included in other income of A Ltd. Alternative answer is possible considering otherwise.

**Solution 17**
**Consolidated statement of profit and loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended on 31st March, 2021**

Particulars	Note No.	₹
Revenue from operations	1	5,00,32,500
Other Income	2	23,10,000
Total Income (I)		<b>5,23,42,500</b>
Expenses:		
Cost of material purchased/consumed	3	2,14,55,000
Changes (Increase) in inventories of finished goods	4	(49,87,500)
Employee benefit expense	5	1,57,50,000
Finance cost	6	2,27,500
Depreciation and amortization expense	7	4,55,000
Other expenses	8	84,32,500
Total expenses (II)		<b>4,13,32,500</b>
Profit before tax (II-III)		<b>1,10,10,000</b>

**Notes to Accounts:**

		₹	₹
<b>1. Revenue from operations</b>			
Sales and other operating revenues*			
Moon Ltd.		3,32,50,000	
Star Ltd.		<u>1,90,75,000</u>	
		523,25,000	
<b>Less: Inter-company sales</b>		(17,50,000)	
Consultancy fees received by Star Ltd. from Moon Ltd.		(2,80,000)	
Royalty received by Moon Ltd. from Star Ltd.		(50,000)	
Brokerage received by Moon Ltd. from Star Ltd.		<u>(2,12,500)</u>	5,00,32,500
<b>2. Other Income</b>			
Dividend income:			

	Moon Ltd.	16,80,000		
	Star Ltd.	<u>4,37,500</u>	21,17,500	
	Loss on sale of investments Star Ltd.		(2,62,500)	
	Other Non-operating Income			
	Moon Ltd.	3,50,000		
	Star Ltd.	<u>1,05,000</u>	<u>4,55,000</u>	23,10,000
<b>3.</b>	<b>Cost of material purchased/consumed</b>			
	Moon Ltd.	1,39,30,000		
	Star Ltd.	<u>47,25,000</u>		
	<b>Less:</b> Purchases by Star Ltd. From Moon Ltd.	1,86,55,000		
		<u>(17,50,000)</u>	1,69,05,000	
	Direct expenses (Production)			
	Moon Ltd.	31,50,000		
	Star Ltd.	<u>14,00,000</u>	<u>45,50,000</u>	2,14,55,000
<b>4.</b>	<b>Changes (Increase) in inventories of finished goods</b>			
	Moon Ltd.		43,75,000	
	Star Ltd.		<u>7,52,500</u>	
			51,27,500	
	<b>Less:</b> Unrealized profits $7,00,000 \times 20/100$		<u>(1,40,000)</u>	49,87,500
<b>5.</b>	<b>Employee benefits and expenses</b>			
	Wages and salaries:			
	Moon Ltd.		1,33,00,000	
	Star Ltd.		<u>24,50,000</u>	1,57,50,000
<b>6</b>	<b>Finance cost</b>			
	Interest:			
	Moon Ltd.		1,75,000	
	Star Ltd.		<u>52,500</u>	2,27,500
<b>7.</b>	<b>Depreciation</b>			
	Moon Ltd.		3,15,000	
	Star Ltd.		<u>1,40,000</u>	4,55,000
<b>8.</b>	<b>Other expenses</b>			
	General & Administrative expenses:			
	Moon Ltd.	28,00,000		
	Star Ltd.	<u>12,25,000</u>		
		40,25,000		
	<b>Less:</b> Consultancy fees received by Star Ltd. from Moon Ltd.	<u>(280,000)</u>	37,45,000	
	Royalty:			
	Star Ltd.	50,000		
	<b>Less:</b> Received by Moon Ltd. Selling and distribution Expenses:	<u>(50,000)</u>	Nil	
	Moon Ltd.	33,25,000		
	Star Ltd.	<u>15,75,000</u>		
		49,00,000		
	<b>Less:</b> Brokerage received by Moon Ltd. from Star Ltd.	<u>(2,12,500)</u>	<u>46,87,500</u>	84,32,500

\*Consultancy fees, Royalty & brokerage received are considered as operating revenues in above answer

## Solution 18

**Consolidated Profit and Loss Account of X Ltd. and Y Ltd.**  
for the year ended 31st March, 2021

Particulars	Note No.	₹
Revenue from operations	1	35,80,000
<b>Total Income</b>		<b>35,80,000</b>
Expenses		
Cost of Material purchased/Consumed	2	20,80,000
Changes of Inventories of finished goods		-
Employee benefit expense	3	5,00,000
Finance cost	4	48,000
Depreciation and amortization expense	5	4,57,000
Other expenses	6	2,80,000
<b>Total expenses</b>		<b>33,65,000</b>
<b>Profit before Tax</b>		<b>2,15,000</b>
Profit transferred to Consolidated Balance Sheet		
<b>Profit After Tax</b>		<b>2,15,000</b>
Preference dividend	7,000	
Preference dividend payable	<u>7,000</u>	(14,000)
		<b>2,01,000</b>
Share in pre-acquisition loss (WN 3)		1,800
Share of Minority interest in losses (WN 1)		1,800
Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
Inventory reserve (WN 2)		(6,000)
<b>Profit to be transferred to consolidated balance sheet</b>		<b>1,95,100</b>

**Notes to Accounts**

		₹	₹
1	Revenue from Operations		
	X Ltd.	18,00,000	
	Y Ltd.	<u>19,00,000</u>	
	Total	37,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	35,80,000
2	Cost of Materials Purchased/Consumed		
	X Ltd.	10,00,000	
	Y Ltd.	<u>12,00,000</u>	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	20,80,000
3	Employee benefit and expenses		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	<u>3,00,000</u>	5,00,000
4	Finance cost		
	Interest		
	H Ltd.	24,000	
	S Ltd.	<u>24,000</u>	48,000
5	Depreciation		
	H Ltd.	2,20,000	
	S Ltd.	<u>2,37,000</u>	4,57,000
6	Other expenses		
	H Ltd.	1,60,000	
	S Ltd.	<u>1,20,000</u>	2,80,000

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**Working Note****1. Profit of Subsidiary**

Revenue from Operations		19,00,000
Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods	-	
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
<b>Profit Before Tax</b>		<b>19,000</b>
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	14,000	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss ₹ 9,000)		(1,800)

2. **Inventory reserve** =  $120000/4 \times 25/125 = ₹ 6,000$

3. **Pre-acquisition loss** = 80% of 3 month's profit up to 30th June, 2020 i.e. 80 % of  $\frac{1}{4}$  of loss ₹ 9,000. Hence, pre-acquisition loss = ₹ 1,800

4. Investment account includes Preference dividend for 3 months prior to acquisition i.e.  $₹ 4,00,000 \times 50\% \times 7\% \times \frac{1}{4} = ₹ 3,500$

**Solution 19**

As per AS 21 Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full.

Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

One also needs to see whether the intragroup transaction is "upstream" or "downstream". Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. While in the downstream transaction, holding company is the seller and subsidiary company is the buyer. In the case of upstream transaction, since the goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold inventory. But in the case of downstream transaction, the whole profit is earned by the holding company, therefore, whole unrealized profit should be adjusted from unsold inventory and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

- a. This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 2019, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 2019, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 2019.

- b. This would be the case of upstream transaction. In the consolidated profit and loss account for the year ended 31 March 2019, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 50 lacs (i.e. ₹ 200 lacs – ₹ 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 2019, by reducing the value of closing inventories by ₹ 50 lacs as of 31 March 2019. In the consolidated balance sheet as of 31 March 2019, A Ltd's share of profit from B Ltd will be reduced by ₹ 37.50 lacs (being 75% of ₹ 50 lacs) and the minority's share of the profits of B Ltd would be reduced by ₹ 12.50 lacs (being 25% of ₹ 50 lacs)