AS 21 - Consolidated Financial Statements

I] Consolidation Procedure At Year End

1. Date of Acquisition - Given in Qn
2. Date of consolidation - Given in Qn
3. Share of Parent in Sub. co. (%) - $\left(\dfrac{\text{No. of shares of Sub co. held by Parent}}{\text{Total no. of shares issued by Sub co.}}\right)$
4. Share of Minority Interest (%) - 100 % ↔ Share of Parent co. (%)

5. Analysis of Reserves of Sub. co.

Particulars	Pre	Post: General Reserve	Post: P&L
Balance in P&L	xx		xx
Balance in General Reserve	xx	xx	
① Bonus Issue			
Already adjusted		xx	
Not yet adjusted			
② Dividend Paid from (already deducted)			
Pre Acquisition profits		xx	
Post Acquisition profits		xx	
(+/-) Time Adjustment	xx	(xx)	
Balance in Reserves	xx	xx	
① Bonus Issue (Already / not yet)			
Paid from Pre-Acqn reserves	(xx)*		
Paid from Post-Acqn reserves		(xx)	
② Dividend Paid from Pre / Post profit			
Pre Acquisition profits	(xx)		
Post Acquisition profits		(xx)	
③ ↑/↓ in fair value on DOA			
Asset ↑ / Liability ↓	xx		
Asset ↓ / Liability ↑	(xx)		

* In case of insufficiency, deduct the balance from Post Acqn reserves.

	Pre	Post: General Reserve	Post: P&L
→ only in case of depreciable asset			
Depreciation – due to FV change			
Additional depreciation (FV ↑)		(XX)	
Depreciation reversal (FV ↓)		XX	
④ Unrealised gain on unsold inventory (intra-group)			
gain P $\xrightarrow{\text{sold}}$ S (downstream)		–	→ deduct from Group Res
gain S $\xrightarrow{\text{sold}}$ P (upstream)		(XX)	
Total	XX	XX	XX
HI (%)	XX	XX	XX
MI (%)	XX	XX	XX

③* Effect on CBS → Inventory [CA +/- FV change – Addn dep + Dep reversal]

④* Effect on CBS → Deduct Unrealised profit from Inventory

Note: In case Asset approach is used calculated Net Assets T/O of Sub co. then AOR statement need not be prepared.

5. Net Assets Taken over of Subsidiary co. on DOA

a. Equity Approach

	Share Capital of Subsidiary Co.	XX
(+)	Pre Acquisition reserves of Sub co.	XX
		XX

b. Asset Approach

	Value of Asset +/- Revaluation	XX
(-)	Value of Liabilities	(XX)
		XX

6. Cost of Control

	PC paid to Sub. co. on DOA [Cost of Investment / no. of shares held x purchase price]	XX
(-)	Dividend relates to Pre Acqn period [Share of HI %]	(XX)
(-)	Net Assets of Sub co. on DOA [Share of HI %]	(XX)
(-)	Bonus Issue [Share of HI %]	(XX)
	Goodwill / (Capital Reserve)	XX/(XX)

7. Minority Interest

	MI on DOA [Net Assets of Sub co. on DOA × MI %]		xx
(+)	Post Acquisition Reserves	[share of MI %]	xx
(−)	Bonus Issue	[share of MI %]	(xx)
		MI on DOC	xx

* MI can never be negative

8. Consolidated Reserves / Group Reserves

		P/L	General Reserves
	Parent co.'s own reserve	xx	xx
(+)	Post Acquisition Reserves [share of H %]	xx	xx
(−)	Dividend paid from pre Acqn profits [wrongly credited]	(xx)	−
(+)	Dividend paid from post Acqn profits	xx	−
		xx	xx

Consolidated Balance Sheet

* Add line by line all items of Assets & Liabilities of Parent & Sub co @ full amount as appearing in Individual B/s **except:**

a. Investment amount of Parent co. in Sub. co.
b. Share Capital of Sub co.
c. Reserves of Sub co.

* Give effect of following items on Date of Consolidation:

a. Goodwill / (Capital reserve)
b. Minority Interest
c. Fair Value ↑/↓
d. Unrealised gain on Inventory

* Eliminate Intra group transactions [Mutual owings]
Eg: Debtor - creditor, Bill receivable - Bill Payable, etc.

Consolidated Profit & Loss

* Add line by line all items of Income & Expenses of Parent & Sub co @ full amount as appearing in Individual P&L

* "Pre Acqn div wrongly credited to P&L" give → Ignore. No impact

* All inter company transactions should be eliminated.

Eg: Parent co. sell goods / services to its sub. co. (& vice-versa), receive consultancy fees, commission, royalty etc.

Consolidated Cash Flow Statement

* Add line by line all items of Cash Flow St. of Parent & Sub co @ full amount as appearing in Individual CFS

* All inter company transactions done in cash should be eliminated.

II] Points to Remember

a. Treatment of Reserves & Surplus in Silent Cases

1) P/L : Assume NIL in opening. Full Balance belongs to Current Year (No time adjustment to apportion btw Pre & Post period)

2) General Reserve : Assume full balance belongs to Opening

b. Treatment of Revaluation in case of Depreciable Assets

Yr begin ——— DOA ——— Yr end (DOC)

Opg value of asset

$$= \left[\frac{\text{Cl. value of asset}}{100\% (-) \text{Dep}\%}\right]$$

① Revalued amt
(-) Carrying amt on DOA → [Opg value of asset (-) Dep. until DOA]
Increase / (Decrease)

② Reval amt × Dep % × Post period [n/12]
(-) Opg. amt × Dep % × Post period [n/12]
Addn dep / (Dep reversal)

c. Rules for Time Adjustment

Acquisition done on	Time adjustment	All profits belong to
1) Beginning of CY	No	Post Period
2) End of CY	No	Pre Period
3) During the year	Yes	Both pre & post period

d. Dividend Adjustments

1) Pre Acquisition dividend wrongly credited to P&L A/c

		Pre Acqn div	Post Acqn div
1)	Nature	Capital	Revenue
2)	Correct Treatment	Credited to Investment A/c [Investment (-) dividend]	Credit to P&L A/c [Profit (+) Dividend income]
3)	Correction of wrong treatment	Investment (-) Pre Acqn dividend	Parent's own P/L (-) Pre Acqn dividend

2) Earned profit of ₹x during the year & @ year end, declared & paid a dividend of ₹y.

- No impact on AOR statement before time adjustment
- Only deduct from Post Acqn P/L after time adjustment

3) Dividend % given in Qn but data of no. of shares of Sub co. purchased by Parent co. is missing

$$\text{Dividend (₹)} = \frac{\text{Purchase Consideration}}{\text{Purchase price on DOA}} \times \text{Face value per share} \times \text{Dividend (\%)}$$

4) Dividend declared from Both (Pre & Post) Acquisition profits

a) <u>General Case</u>

* Apportionate total profits earned during the year into Pre & Post profits on basis of period.
* Apportionate dividend in the ratio of Pre & Post profits

b) <u>Profits earned later on utilized first to distribute dividend & then from Pre-Acquisition profits (LIFO)</u>

* First : Distribute dividend upto balance of Post profits
* Then : Distribute balance dividend from Pre-Profits

III] Question Specific Points

a. Computation of Cost of Control & Minority Interest on different dates

Particulars	Cost of Control	Minority Interest
1) General Rule	Computed only on DOA	Can be computed on each Balance sheet date
2) Impact of profits/ losses	NIL	• Increase – Co. earns profit • Decrease – Co. incurs losses • NIL – Parent holds 100% stake

Negative Minority Interest

* If MI becomes negative, then such negative part is to be borne by Parent co.
* And subsequently when Sub co. reports profits, these are to be allocated to Parent co. to the extent of losses of MI borne by it earlier

b. Already held % stake & then obtained additional stake from foreign co

① Purchase Consideration

$$= \text{Capitalized Yield}\left[\frac{\text{Avg of total pre tax profits} \times (\%)}{\text{Yield }(\%)}\right] \times \text{Share of Parent co. }(\%)$$

Discharge of PC

* 50% Remitted immediately in Cash (net of tax)
  1. Tax at source = (PC – Actual cost of shares) x Tax %
  2. 50% Remittance = 50% x (PC – Tax at source)
* Balance 50% in form of Unsecured loan
  = Total PC (–) Tax at source (–) 50% Remittance

② Goodwill / Capital Reserve

	Total PC	[as calculated above]
(+)	Existing stake	[Total shares of Sub co. x % stake held previously x Purchase price on previous DOA]
(–)	Net Assets of Sub. co.	
	Goodwill / (Capital Reserve)	