19 ACCOUNTING STANDARD 23 "ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS"

As Trump.

Quote:

Be miserable. Or motivate yourself. Whatever has to be done, it's always your choice.

INDEX

SECTION A – CONCEPT

1. NEED OF AS 23

- AS 23 describes the principles and procedures for recognizing Investments in Associates (in which the investor has significant influence, but not a subsidiary or joint venture of investor) in the Consolidated Financial Statements(CFS) of the investor.
- An investor which presents consolidated financial statements should account for investments in associates as per Equity Method in Consolidated Financial Statements accordance with this standard.
- For Standalone Financial Statements, AS 13 shall be applied for Investments.

2. IMPORTANT DEFINITIONS

1) A **subsidiary** is an enterprise that is controlled by another enterprise (known as the parent).
2) A **parent** is an enterprise that has one or more subsidiaries.
3) A **group** is a parent and all its subsidiaries.
4) **An associate** is an enterprise in which the investor has significant influence, and which is neither a subsidiary nor a joint venture of the investor.
5) **Significant influence** is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies.
6) The **equity method** is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of the operations of the investee.
7) **Equity** is the residual interest in the assets of an enterprise after deducting all its liabilities.
8) **Consolidated financial statements** are the financial statements of a group presented as those of a single enterprise.

Note 1: Presumption of significant influence:

- If an entity holds (directly or indirectly through a subsidiary) 20% or more of the voting rights of an investee then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
- Conversely, if the entity holds, (directly or indirectly through a subsidiary), less than 20% of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated.
- It should be noted that a substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

Note 2:

The $\boxed{\text{potential equity shares}}$ of the investee held by the investor should not be taken into account for determining the voting power of the investor

MCQ Point

Example 1

A Ltd. has 70% holding in C Ltd. and B Ltd. also has 28% holding in the same company. So, A Ltd., with the majority holding i.e., more than 50% is the parent company i.e., a holding company. Since B Ltd. holds more than 20% but not more than 50% in C Ltd., C Ltd. will be an associate of B Ltd.

Example 2

A Ltd. holds 90% shares in B Ltd. and 10% shares in C Ltd., and B Ltd. is holding 11%shares in C Ltd. In this case, A Ltd. is parent of B Ltd.

As far as the relationship between A Ltd. and C Ltd. is concerned, A Ltd. has a total of direct and indirect holdings of (10 + 11) 21% in C Ltd., Thus, C Ltd. is an associate of A Ltd. It may however be noted that for consolidated financial statement purposes, the holding will be 19.9% (10% + 90% of 11%).

C Ltd

Boyfriend A Ltd
70%

Best friend 28%
B Ltd

A Ltd

90%

10% Direct Investment

B Ltd
(Subsidiary)

C Ltd

11% indirect

10 + 11×90%
10 + 9.9
19.9%

A has 21% equity Interest in C
(Direct + Indirect) ⇒ C is Associate

3. EQUITY METHOD

In a Simple Language, Equity means Net Assets. Therefore, Equity Method means Measuring the value of Investments in Proportion to Fair Value of Net Assets of Investee (i.e. Associate Entity).

Value of Investment shall be increased or decreased by-	Rs.	2nd effect to-
Cost of Investments (Including Goodwill)	xxxx	
Add/Less: Post acquisition share in P&L of Associate Co. (EAESH)	xxx	CPL of investor
Less: Distributions received by way of dividend	xxx	CPL of Investor
Less: Additional depreciation on revaluation profit of PPE (if any)	xxx	CPL of Investor
Less: Un-realised profit on [redacted]/downstream transaction to the extent of Investor's share in gain/loss of Associate/JV	xxx	CPL of Investor
Value of Investments as per Equity Method	**XXXX**	

Note:

1. **Goodwill:**
   If cost of Investment is greater than investor's share of investees' net assets – it is not separately presented. It is included in the carrying amount of investment.

   Associate

2. **Capital reserves:**
   If the cost of investment is less than investor's share of investee's net assets – it is recognised directly in Reserves & Surplus in the period in which investment is made.

   Journal Entry as on acquisition date:

   Investment A/c Dr.
   To Capital Reserve A/c

Example 3: - Investor Associate

On 1/4/24, B Ltd. acquired 20% Equity interest in A Ltd. at a cost of 2,40,000/- Invest Cost
Fair Value of Net Assets of ~~B~~ Ltd. on 1/4/24 is 10,00,000/-
Apply Equity Method on DOA.
DOA

Solution:

Cost of Investment @ 20%	2,40,000
(-) Proportionate Value of Net Assets @ 20%	2,00,000
Goodwill	**40,000**

SFS of B Ltd. as on 1/4/24 (AS 13)

Investment @ 20%	2,40,000

CFS of B Ltd. as on 1/4/24 (AS 23)

Investment @ 20% (Including Goodwill 40,000)	2,40,000

As per AS 23, Goodwill is not required to be recognized separately, it is just a part of Investment Cost.

Example 4: -

Same as Example 3, But Fair Value of Net Assets on DOA is 15,00,000

Solution:

Cost of Investment @ 20%	2,40,000
(-) Proportionate Value of Net Assets @ 20%	3,00,000
Capital Reserve	**60,000**

Investment are under-valued, We have to record 60,000 to make it @ 3,00,000

Investment A/c Dr.	60,000	
To Capital Reserve A/c		60,000

CFS of B Ltd. as on 1/4/24 (AS 23) B/S

Liab.	Reserves & Surplus : CR	60,000
Asset	Investment @ 20%	3,00,000

Example 5: -
On 1/4/24, B Ltd acquired 20% Equity Interest in A Ltd. at a cost of 2,40,000/-
On 1/4/24, Equity share Capital of A Ltd. was 8,00,000/- and Reserves & Surplus was 3,00,000
On 31/3/25 Reserves & Surplus of A Ltd was 5,00,000
Apply AS 23 on DOA & Balance Sheet Date.

Solution:
Fair Value of Net Assets = 11,00,000
Hence Proportionate Investments should be = 2,20,000
Therefore, Goodwill = 20,000

Equity Method (AS 23)

Investment Cost as on DOA (Including Goodwill 20,000)	2,40,000
+ 20% Share in Post-Acquisition Profits of Associate (2,00,000 x 20%)	40,000
Investment 31/3	2,80,000

Post Acquisition Profit Earned by Associate = 2,00,000
Share of Investor in Post Acquisition Profit = 40,000
Investor Shall Increase its Value of Investment by 40,000

31/3 Journal Entry

Investment A/c	Dr.	40,000
To Consolidated P&L A/c		40,000

Consolidated Balance Sheet of Investor

Reserves & Surplus: Consolidated P&L will be increased by-	40,000
Investment @ 20% (Including Goodwill)	2,80,000

Example 6: - HW
On 1/4/24 B Ltd. acquired 20% Equity interest in A Ltd. at a cost of 2,40,000/-
On 1/4/24 Equity Share Capital of A Ltd was 8,00,000 and Reserves & Surplus of A Ltd. was 3,00,000
On 31/3/25 Reserves & Surplus of A Ltd. was 5,00,000
During 24-25, Dividend Paid by A Ltd. to its Share Holders 15%
Apply AS 23 on DOA & Balance Sheet Date.

Solution:

Analysis of Profit of A Ltd.

	Capital Profit	Post – Acquisition	Balance Sheet
Reserves & Surplus	3,00,000	2,00,000	5,00,000
+ Dividend	-	1,20,000	
	3,00,000	**3,20,000**	

- 3,20,000 is the Total Earning of A Ltd. for the year
- Post-Acquisition share in Profit (20%) = 64,000

Equity Method

Investment Cost as on DOA (Including Goodwill 20,000)	2,40,000
(+) 20% share in Post – Acquisition Profit @ 20%	64,000
(-) Dividend Received	(24,000)
Investment @ 20% as per Equity	**2,80,000**

1/4/24 - Investment Purchased

Investment A/c Dr. 2,40,000
To Bank A/c 2,40,000

31/3/25 - Consolidation

Investment A/c Dr. 64,000
To Consolidated P&L 64,000

During 24-25 - Dividend Received

Bank A/c Dr. 24,000
To Investment A/c 24,000
(This is not Income. This is Recovery)

Example 7: (Unrealised Profit) HW

B Ltd. (Investor) has 30% Investment in A Ltd. (Associate)
A Ltd. has sold goods costing Rs. 1,00,000 to B Ltd. @ Rs. 1,50,000.
All goods are Unsold at year end.
How to eliminate Unrealised Profit?

Solution:

Associate has sold goods to Investor so this is an Upstream Transaction

A Ltd. must have recognised profit on sale of Rs. 50,000 in its P&L.
Therefore, Investor's Share in above Profit is Rs. 15,000 (30% of Rs. 50,000) & through equity method this must have been a part of Investment A/c and P&L A/c of B Ltd.

Investment A/c Dr.	15,000	
To Consolidated P & L A/c		15,000

Now, Investor B Ltd. has unsold Inventory of Rs. 1,50,000 Which includes Rs. 15,000 Profit Shares of Investor (B Ltd.)
Therefore, 15,000 Profit shall be eliminated as under:

Consolidated P & L A/c Dr.	15,000	
To Inventory A/c		15,000

In case of A Ltd. is a Subsidiary:

Consolidated P & L A/c	Dr.	12,000	
Minority Interest A/c		3,000	
To Investment A/c			15,000

Example 8: HW

In Above Example assume B Ltd. (Investor) has Sold goods to A Ltd. (Associate)

Solution:

Downstream Transaction

1) Full 50,000 earned by Investor (B Ltd.) from sale of goods.

2) Unsold Inventory lying at Associate at 1,50,000/-

Since Inventory is a part of Net Assets of Associates, we can conclude that Net Assets of Associate Company includes Un-realised profit of 50,000/-

Equity Method means Proportionate Share of Net Assets of Associates. Therefore, when we will apply equity method, Investment must be shown in Proportion of Net Assets i.e., 30% of Net Assets Which means Investment Value must include 15,000 Un-realised Profit which is to be eliminated.

Consolidated P&L A/c Dr. 15,000

To Investment A/c 15,000

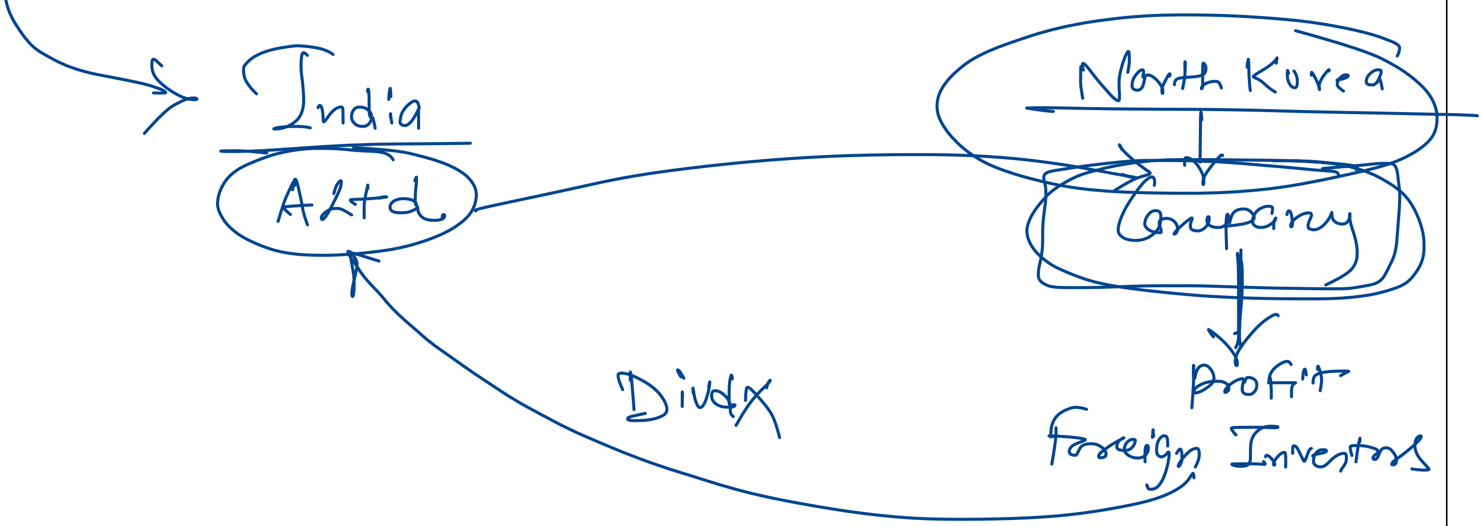
4. EXEMPTIONS FROM APPLYING THE EQUITY METHOD

Equity method of accounting is to be followed by all the enterprises having significant influence on their associates **except in the following cases:**

a. Significant Influence (Control over Investment) is intended to be **temporary** because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.

b. Or Associate Entity operates under **severe long-term restrictions,** which significantly impairits ability to transfer funds to the investor.

In both the above cases, investment of investor in the share of the investee is treated as investment according to AS 13.



5. STEP ACQUISITION IN CASE OF AN ASSOCIATE:

- *An enterprise having a share of profits of more than 50% in other company, they are said to be in Parent-Subsidiary relationship. However, if the sharein profits is more than 20% but upto 50% then this relationship is termed as associate relationship.*
- *This stake of 20% can be acquired either in one go or in more than one transaction.*
- *This share of stake can be increased further say from 25% to 30%. Adjustment should be made with each transaction.*

Case 1: Conversion from a passive investor to an associate in the sameyear:

Ex-1

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% onOctober 01 during the same year. Other information is as follow:

Cost of Investment for 10% ₹1,00,000 and for 15% ₹1,45,000

Net asset on April 01 ₹8,50,000 and on October 01 ₹10,00,000.

Calculations for April 01:

Cost of investment	**₹1,00,000**
10% share in net asset	₹85,000
Goodwill	₹ 15,000

Cons. B/S

Invest 25% (including G/w 10000) 245000

Calculations for October 01:

15% share in net asset	**₹ 1,50,000**
Cost of investment	₹ 1,45,000
Capital Reserve	₹ 5,000
Total goodwill (15,000 – 5,000)	₹ 10,000

~~*Case 2: Conversion from a passive investor to an associate in the sameyear:*~~

Ex-2

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on 1st October of the same year. Other information is as follow:

Cost of Investment for 10% ₹1,00,000 and for 15% ₹1,55,000

Net asset on 1st April ₹8,50,000 and on 1st October ₹10,00,000.

Calculations for April 01:

Cost of investment	**₹1,00,000**
10% share in net asset	₹85,000
Goodwill	₹15,000

Cons. B/S

Invest 25% (including G/w 20000) 255000

Calculations for October 01:

Cost of investment	**₹1,55,000**
15% share in net asset	₹1,50,000
Goodwill	₹5,000
Total goodwill (15,000 + 5,000)	₹20,000

Case 3: Further acquisition in an associate in the same year:

A Ltd. acquired 25% stake of B Ltd. on 1st April and further 5% on 1st October of the the same year. Other information is as follow:

Cost of Investment for 25% ₹ 1,50,000 and for 5% ₹ 20,000

Net asset on 1st April ₹5,00,000.

Profit for the year ₹90,000 earned in the ratio 2:1 respectively.

Calculations for April 01:

Cost of investment	**₹1,50,000**
25% share in net asset Goodwill	₹1,25,000 ₹25,000

Calculations for October 01:

Profits for the first half (90,000/3) x 2	**₹60,000**
Additional share of A Ltd.	5%
Pre-acquisition profits i.e. capital reserve (60,000 x 5%)	₹3,000
5% share in net asset	₹25,000
Cost of investment	₹20,000
Capital Reserve	₹5,000
Cost of Investment on April 01	₹1,50,000
Less: Goodwill	₹25,000
Carrying Amount on April 01	₹1,25,000
Add: Additional Share in Net Asset on October 01	₹25,000
Add: Capital share of Profits for first half	₹3,000
Add: Revenue shares of Profits for first half (60,000 x 25%)	₹15,000
Add: Revenue shares of Profits for second half (30,000 x 30%)	₹9,000
Total Carrying Amount on March 31	**₹1,77,000**

6. MISCELLENEOUS POINTS UNDER AS 23

1. Loss Making Associate Entity: (Refer Q2)

If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed. Ifthe associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the shareof net losses that have not been recognised.

2. Different Reporting Periods:

- As far as possible the reporting date of the financial statements should be same for consolidated financial statement. If practically it is not possible to draw up the financial statements of one or more enterprise to such date and, accordingly, those financial statements are drawn up to reporting dates different from the reporting date of the investor, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the consolidated financial statements.
- In any case, the difference between reporting dates of the concern and consolidated financial statement should not be more than six months.

3. Uniform Accounting Policies:

- Accounting policies followed in the preparation of the financial statementsof the investor, investee and consolidated financial statement should be uniform for like transactions and other events in similar circumstances.
- If accounting policies followed by different enterprises in the group are not uniform, then adjustments should be made in the items of the individualfinancial statements to bring it in line with the accounting policy of the consolidated statement.

4. Decline in the Value of Investment:

The carrying amount of investment in an associate should be reduced torecognise a decline, other than temporary, in the value of the investment,such reduction being determined and made for each investmentindividually.

5. Proposed Dividend in Associate Entity:

In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

SECTION B - QUESTIONS

(all are Imp. for Exam)

(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class)

Q.AS23.SM.01

Try.

DoA

Invst Cost

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 20X1:

Paid up Equity Share Capital ₹ 10,00,000

Securities Premium ₹ 1,00,000

Reserve & Surplus ₹ 5,00,000

Post Acq Period

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Solution

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars		₹	₹
Investment in B Ltd.	(A)		15,00,000
Equity Shares		10,00,000	
Security Premium		1,00,000	
Reserves & Surplus		5,00,000	
Net Assets		16,00,000	
45% of Net Asset	(B)		7,20,000
Goodwill (A-B)			7,80,000

Calculation of Carrying Amount of Investment in the year ended on 31/03/X2

Particulars	₹
Investment in Associate as per AS 23:	
Share of Net Assets on 1 April 20X1	7,20,000
Add: Goodwill	7,80,000
Cost of Investment	15,00,000
Add: Profit during the year (3,00,000 x 45%)	1,35,000
Less: Dividend paid (1,00,000 x 45%)	(45,000)
Carrying Amount of Investment	15,90,000

Q.AS23.SM.02 (Loss Making Associate Entity)

Cost

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X1-20X2, B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

Solution

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars	₹
Equity Shares	10,00,000
Reserves & Surplus	2,00,000
Net Assets	12,00,000
40% share of Net Assets	4,80,000
Less: Cost of Investment	(10,00,000)
Goodwill	5,20,000

Consolidated Balance Sheet (Extract) as on April 01, 20X1: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on April 1	4,80,000	
Add: Goodwill	5,20,000	10,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X2:

Investment in Associate as per AS 23	₹
Share of Net Assets on 1 April, 20X1	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000
Less: Loss for the year (10,00,000 x 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X2: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above	(4,00,000)	
	80,000	
Add: Goodwill	5,20,000	6,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X3:

Investment in Associate as per AS 23	₹
Carrying Amount of Investment as on 31 March 20X2	6,00,000
Less: Loss for the year (12,50,000 x 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X3: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above (₹ 4,00,000 + ₹ 5,00,000)	(4,20,000)	
Add: Goodwill		1,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X4:

Investment in Associate as per AS 23	₹
Carrying Amount of Investment	1,00,000
Less: Loss for the year (5,00,000 x 40% = 2,00,000, restricted to Carrying amount of Investment in B Ltd.) -refer note below	
Carrying Amount of Investment	

Consolidated Balance Sheet (Extract) as on March 31, 20X4: ASSETS

Investment in Associate as per AS 23	₹
Investment in B Ltd.	-

Q.AS23.SM.03 Exam

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.

Calculate the carrying amount of investment in:

(i) Separate financial statements of Bright Ltd. as on 31-03-20X2;

(ii) Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;

(iii) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

SOLUTION

(i) Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.20X2

	₹
Amount paid for investment in Associate (on 1.06.20X1)	2,00,000
Less: Pre-acquisition dividend (₹ 50,000 x 30%)	(15,000)
Carrying amount as on 31.3.20X2 as per AS 13	1,85,000

(ii) Carrying amount of investment in Consolidated Financial Statements of Bright Ltd. as on 31.3.20X2 as per AS 23

	₹
Carrying amount as per separate financial statements	1,85,000
Add: Proportionate share of 10-month profit of investee as per equity method (30% of ₹ 3,00,000 x 10/12)	75,000
Carrying amount as on 31.3.20X2	2,60,000

(iii) *Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per AS 23*

	₹
Carrying amount as on 31.3.20X2	2,60,000
Less: Dividend received (₹ 60,000 x 30%)	(18,000)
Carrying amount as on 30.6.20X2	2,42,000

Q.AS23.SM.04 HW

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
II. Current Assets	3,00,000
	10,00,000

During the year ended 31.3.20X2 the following are the additional information available:

1) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
2) B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2. Post Acq Profit
3) B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 21 for its various subsidiaries. Calculate:

(i) Goodwill if any on acquisition of B Ltd.'s shares.

(ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?

(iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

SOLUTION

In terms of AS 23, B Ltd. will be considered as an associate company of A Ltd. as shares acquired represent to more than 20%.

(i) Calculation of Goodwill (₹ in lakhs)

Amount paid towards acquisition of stake in B Ltd.	3.00
Less: Pre-acquisition dividend (₹5,00,000 x 40% x 25%)	0.50
Cost of Investment in B Ltd.	2.50
Less: Share in the value of Equity of B Ltd. as at the date of investment [25% of ₹10 lakhs (₹5 lakhs + ₹5 lakhs)]	(2.50)
Goodwill	**NIL**

(ii) A Ltd.

Consolidated Profit and Loss Account for the year ended 31st March, 20X2

(An extract)

		₹ in lakhs
Other income:		
Share of profits in B Ltd.		1.75
Pre-acquisition Dividend received from B Ltd.	0.50	
Transfer to investment A/c	(0.50)	Nil

Consolidated Balance Sheet as on 31.3.20X2 (An extract)

		₹ in lakhs
Non-current investments		
Investment in B Ltd.		
Cost of Investment in B Ltd.	2.50	
Share of profit for year 20X1 – 20X2	1.75	
	4.25	
Add: Goodwill	NIL	4.25

Working Notes:

1. Pre-acquisition dividend received from B Ltd. amounting to ₹0.50 lakhs will be reduced from investment value in the books of A Ltd.
2. B Ltd. made a profit of ₹7 lakhs for the year ended 31st March, 20X2. A Ltd.'s share in the profits of ₹7 lakhs is ₹1.75 lakhs.
3. Investment in B Ltd. will be increased by ₹1.75 lakhs and consolidated profit and loss account of A Ltd. will be credited with ₹1.75 lakhs in the consolidated financial statement of A Ltd.

4. Dividend declared on 30th April, 20X2 will not be recognized in the consolidated financial statement of A Ltd.

Q.AS23.OM.05: (CA FINAL) HW

B Ltd acquired a 30% interest in D Ltd and achieved significant influence. The cost of the investment was Rs. 2,50,000. The associate has net assets of Rs. 5,00,000 at the date of acquisition. The fair value of those net assets is Rs. 6,00,000 as a fair value of property, plant & equipment is Rs. 1,00,000 higher than its book value. This property, plant & equipment has a remaining useful life of 10 years.
After acquisition, D Ltd recognize profit after tax of Rs. 1,00,000 and paid a dividend out of these profits of 9,000. Post

Solution

B Ltd's interest in D Ltd at the end the year is calculated as follows: **Rs.**

Balance on requisition under the equity method (including goodwill of Rs. 70,000) (Rs 2,50,000 – (30% x Rs 6,00,000))	2,50,000
B Ltd's share of D Ltd's after tax profit (30% x Rs. 1,00,000)	30,000
Elimination of dividend received by B Ltd from D Ltd (30% x Rs. 9,000)	(2700)
B Ltd's share of Additional Depreciation (30% x Rs. 10,000)	(3000)
B Ltd's interest in D Ltd at the end of the year under the equity method (including goodwill)	**2,74,300**

D Ltd has net assets at the end of the year of Rs. 5,91,000 (that is, net assets at the start of the year of Rs. 5,00,000, plus profit during the year of Rs. 1,00,000, less dividend of Rs. 9,000.

B Ltd's interest in D Ltd at the end of the year is made up of:

B Ltd's share of D Ltd.'s net assets (30% x Rs. 5,91,000)	1,77,300
Goodwill	70,000
B Ltd's share of D Ltd's fair value adjustments (the initial fair value difference of Rs. 1,00,000 has been reduced by Rs. 10,000 due to depreciation in the year) (30% x Rs. 90,000)	27,000
B Ltd's interest in D Ltd	**2,74,300**

SECTION C – MCQ's

Self

(MCQ's from ICAI Material)

1. Identity which of the statements are correct.
   An enterprise can influence the significant economic decision making bymany ways like:
   (i) Representation on the board of directors or governing body of theinvestee.
   (ii) Participation in policy-making processes.
   (iii) Interchange of managerial personnel.
   (iv) Provision of essential technical information.
      (a) Statement (i) and (ii) are correct.
      (b) Statement (i), (ii) and (iii) are correct.
      (c) Statement (i), (ii), (iii) and (iv) are correct.
      (d) Statement (ii) and (iii) are correct.

2. A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. isholding 11% shares in C Ltd.
   Identity which of the statements are incorrect.
   (i) In this case, A Ltd. is parent of B Ltd.
   (ii) As far as the relationship between A Ltd. and C Ltd. is concerned; A Ltd. has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 %in C Ltd.
   (iii) C Ltd. is an associate of A Ltd.
      (a) Statement (ii) is incorrect.
      (b) Statement (iii) is incorrect.
      (c) Statement (ii) and (iii) both are incorrect.
      (d) All statements are incorrect.

3. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:
   Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000
   Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.
   What is the amount of goodwill or capital reserve arising on significantinfluence?
   (a) Goodwill = ₹ 10,000.
   (b) Goodwill = ₹ 20,000.
   (c) Capital Reserve = ₹ 10,000.
   (d) Capital Reserve = ₹ 20,000.

4. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:
   Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000
   Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.
   What is the amount of goodwill or capital reserve arising on significantinfluence?

(a) Goodwill = ₹ 10,000.
(b) Goodwill = ₹ 20,000.
(c) Capital Reserve = ₹ 10,000.
(d) Capital Reserve = ₹ 20,000.

6. **Identity which of the statements are correct.**

(i) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

(ii) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.

(iii) The potential equity shares of the investee held by the investor shouldnot be taken into account for determining the voting power of the investor.

(iv) The potential equity shares of the investee held by the investor shouldbe taken into account for determining the voting power of the investor.

(a) Statement (i) and (iii).
(b) Statement (ii) and (iv).
(c) Statement (i) only.
(d) Statement (iii) only.

ANSWERS	1	2	3	4	5
	c	a	b	a	a

Student Notes: -