

**AS 21: CONSOLIDATED FINANCIAL STATEMENTS**

*"What you do makes a difference, and you have to decide what kind of difference you want to make."*

<p>Holding Company</p>	<p>As per <i>Section 2(46) of the Companies Act, 2013</i>, "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.</p>
<p>Subsidiary Company</p>	<p><i>Section 2(87) of the Companies Act, 2013</i> defines "subsidiary company" as a company in which the holding company -</p> <ul style="list-style-type: none"> <li>(i) controls the <u>composition</u> of the Board of Directors; or</li> <li>(ii) exercises or controls <u>more than 50% of total voting power</u> either at its own or together with 1 or more of its subsidiary companies</li> </ul> <p>Section 19 prohibits a subsidiary company from holding shares in the holding company. According to this section, no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.</p> <p><i>However, a subsidiary may continue to be a member of its holding company when:</i></p> <ul style="list-style-type: none"> <li>a) the subsidiary company holds such shares as legal representative of a deceased member of the holding company; or</li> <li>b) the subsidiary company holds such shares as a trustee; or</li> <li>c) the subsidiary company is a shareholder even before it became a subsidiary company of the holding company.</li> </ul>
<p>Purpose of Preparing the Consolidated Financial Statements</p>	<p><i>Section 129 (3) of the Companies Act, 2013</i> mandated the companies having one or more subsidiaries, to prepare Consolidated Financial Statements. According to this section, where a company has one or more subsidiaries, it shall, in addition to separate financial statements will prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.</p> <p><i>Accounting Standard (AS) 21</i> also lays down the accounting principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by the parent (holding company) to provide financial information about the economic activities of the group as a single economic entity.</p> <p>AS 21 is mandatory if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21.</p>

<p>Non Applicability of AS 21</p>	<p>This Standard does not deal with:</p> <ul style="list-style-type: none"> <li>(a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 14),</li> <li>(b) accounting for investments in associates and</li> <li>(c) accounting for investments in joint ventures</li> </ul>
<p>Exclusion From Preparation Of Consolidated Financial Statements</p>	<p>As per AS 21, a subsidiary should be excluded from consolidation when:</p> <ul style="list-style-type: none"> <li>• control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or</li> <li>• it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.</li> </ul> <p>Investments in such subsidiaries should be accounted for in accordance with AS 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.</p>
<p>Consolidation of subsidiary which is a LLP or a Partnership Firm</p>	<p>Under AS 21, as per the definition of subsidiary, an enterprise controlled by the parent is required to be consolidated. The term 'enterprise' includes a company and any enterprise other than a company. Therefore, LLPs and partnership firms are required to be consolidated.</p> <p>Accordingly, in the given case, holding company is required to consolidate its subsidiary which is an LLP or a partnership firm.</p>
<p>Advantages of Consolidation</p>	<ul style="list-style-type: none"> <li>a) <u>Single source document</u>: From consolidated financial statements, the users of accounts can get an overall picture of the Group. Consolidated profit and loss account gives the overall profitability of the group.</li> <li>b) <u>Intrinsic value of share</u>: Intrinsic share value of the holding company can be calculated directly from the Consolidated Balance Sheet.</li> <li>c) <u>Acquisition of subsidiary</u>: The minority interest data of the consolidated financial statement indicates that the amount payable to the outside shareholders of the subsidiary company at book value which is used as the starting point of bargaining at the time of acquisition of a subsidiary by the holding company.</li> <li>d) <u>Evaluation of holding company in the market</u>: The overall financial health of the holding company can be judged using consolidated financial statements. Those who want to invest in the shares of the holding company or acquire it, need such consolidated statement for evaluation.</li> </ul>
<p>Components Of Consolidated Financial Statements</p>	<p><i>As per AS 21</i>, consolidated financial statements normally include</p> <ul style="list-style-type: none"> <li>a) Consolidated Balance Sheet</li> <li>b) Consolidated Statement of Profit and Loss Account</li> <li>c) Consolidated Cash Flow Statement (in case parent presents cash flow statement) and</li> <li>d) Notes and statements and explanatory schedules that form the integral part thereof.</li> </ul>

Consolidation Procedures	<p>The various steps involved in the consolidation process are as follows:</p> <ol style="list-style-type: none"> <li>1) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated. In case cost of acquisition exceeds or is less than the acquirer's interest, goodwill or capital reserve is calculated retrospectively.</li> <li>2) intragroup transactions, including sales, expenses and dividends, are eliminated, in full</li> <li>3) 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</li> <li>4) 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;</li> <li>5) minority interest in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and</li> <li>6) minority interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.</li> </ol>
Calculation Of Goodwill/ Capital Reserve (Cost Of Control)	<p><u>Goodwill</u> = Cost of Investment - Parent's share in the equity of the subsidiary on date of investment</p> <p><u>Capital Reserve</u> = Parent's share in the equity of the subsidiary on date of investment - Cost of investment</p>
Minority Interests	<p>Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the holding (parent) company. In short, It represents claims of the outside shareholders of a subsidiary.</p> <p>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 profit, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.</p>
Consolidated Profit & Loss Account	<p>All the revenue items are to be added on line by line basis and from the consolidated revenue items, inter-company transactions should be eliminated.</p> <p>If there remains any unrealized profit in the inventory of goods, of any of the Group Company, such unrealized profit should be eliminated from the value of inventory to arrive at the consolidated profit.</p>

Consolidated Cash Flow Statement	All the items of Cash flow from operating activities, investing activities and financing activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be -eliminated.
Uniform Accounting Policies	<p>AS 21 states that consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.</p> <p>If any company in the same group uses accounting policies other than those adopted in consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.</p> <p>If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, the fact should be disclosed together with the proportions of items to which different accounting policies have been applied.</p>
Alignment of Reporting Dates	<p>The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements.</p> <p>In any case, the difference between reporting dates should not be more than six months.</p>

## ASSIGNMENT QUESTIONS

### TOPIC 1 CONSOLIDATED BALANCE SHEET

**Question 1** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

Prepare Consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2021

	H Ltd.	S Ltd.
Property, Plant & Equipment	1,00,000	1,30,000
Investments (8,000 equity shares of S Ltd.)	1,26,000	-
Current Assets	74,000	70,000
Share Capital (Fully paid equity shares of 10 each)	1,50,000	1,00,000
Profit and Loss Account	50,000	40,000
Trade Payables	1,00,000	60,000

H Ltd. acquired the shares of S Ltd. on 01.07.2020 and Balance of Profit & Loss Account of S Ltd. on 01.04.2020 was 30,000

**Question 2** \_\_\_\_\_ Pg no. \_\_\_\_\_

From the following balance sheets of Exe Ltd. and Wye Ltd. as on 31<sup>st</sup> March, 2020, work out:

(i) Net amount due to minority interest and (ii) Cost of control

Balance Sheets of Exe Ltd. & Wye Ltd. as on 31st March, 2020

Equities & Liabilities	Exe Ltd. (₹)	Wye Ltd. (₹)
Shares of ₹100 each	15,00,000	5,00,000
General Reserve	1,50,000	1,00,000
Profit & Loss Account	2,00,000	75,000
Creditors	1,87,500	1,20,000
	20,37,500	7,95,000
Assets		
Sundry Assets	14,77,500	7,95,000
4,000 Shares of ₹100 each	5,60,000	
	20,37,500	7,95,000

The assets of Wye Ltd. included equipments worth ₹ 1,50,000 which was revalued at ₹ 1,25,000. The investments of Exe Ltd. were in shares of Wye Ltd. and the same were acquired on 31<sup>st</sup> March, 2020.

**Question 3** *(RTP May 2020) (Similar) / (ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2020, prepare a consolidated balance sheet as at that date, having regard to the following:

- a) Reserves and Profit and Loss Account of S Ltd. stood at ₹25,000 and ₹ 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2019.
- b) Machinery (Book-value ₹ 1,00,000) and Furniture (Book value ₹ 20,000) of S Ltd. were revalued at ₹ 1,50,000 and ₹ 15,000 respectively on 1st April, 2019 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of H Ltd. as on 31st March, 2020

	Note No.	H Ltd.	S Ltd.
Equity & Liabilities			

(1) Shareholders' Funds			
(a) Share Capital	1	6,00,000	1,00,000
(b) Reserves and Surplus	2	3,00,000	1,00,000
(2) Current Liabilities			
(a) Trade Payables		1,50,000	57,000
		10,50,000	2,57,000
<b>Assets</b>			
(1) Non-Current Assets			
(a) PPE & Intangible Assets			
i. Property, Plant & Equipment	3	4,50,000	1,07,000
(b) Non Current Investments	4	6,00,000	1,50,000
		10,50,000	2,57,000

## Notes to Accounts:

		H Ltd.	S Ltd.
1.	Share Capital		
	6,000 equity shares of 100 each, fully paid up	6,00,000	
	1,000 equity shares of 100 each, fully paid up		1,00,000
		6,00,000	1,00,000
2.	Reserves & Surplus		
	General Reserve	2,00,000	75,000
	Profit and Loss A/c	1,00,000	25,000
		3,00,000	1,00,000
3.	Property, Plant & Equipment		
	Machinery	3,00,000	90,000
	Furniture	1,50,000	17,000
		4,50,000	1,07,000
4.	Non Current Investments		
	Non Current Investments	4,40,000	1,50,000
	Shares in S Ltd.: 800 shares at ₹ 200 each	1,60,000	
		6,00,000	1,50,000

## Question 4

Pg no. \_\_\_\_\_

Balance sheets of H Ltd. and S Ltd. as at 31<sup>st</sup> March, 2021 are given below:

Equities & Liabilities	H Ltd. ₹	S Ltd. ₹
Shareholder's Funds		
Share Capital of ₹ 10 each, fully paid	5,00,000	2,00,000
General Reserve	1,00,000	50,000
Profit & Loss Account	60,000	35,000
Current Liabilities:		
Creditors	80,000	60,000
	7,40,000	3,45,000
<b>Assets</b>		
Property, Plant & Equipment	3,00,000	1,00,000
60% Shares in S Ltd., at cost	1,62,400	-
Current Assets	2,77,600	2,39,000
Preliminary Expenses	-	6,000
	7,40,000	3,45,000

H Ltd. acquired the shares on 1<sup>st</sup> April, 2020 and on that date general reserve and profit and loss account of S Ltd. showed balances of ₹ 40,000 and ₹8,000 respectively. No part of preliminary expenses was written off during the year ended 31<sup>st</sup> March, 2021.

Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> March, 2021.

**Question 5** *(RTP May 2019) / (ICAI Study Material)* Pg no. \_\_\_\_\_

From the following data, determine in each case:

- 1) Minority interest at the date of acquisition and at the date of consolidation.
- 2) Goodwill or Capital Reserve.
- 3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition 01.01.2020		Consolidation Date 31.12.2020	
				Share Capital	Profit & Loss A/c	Share Capital	Profit & Loss A/c
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

**Question 6** *(Inter July 2021) (5 Marks)* Pg no. \_\_\_\_\_

Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs.

From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

- (i) On consolidation of Balance Sheet.
- (ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.
- (iii) If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs.

**Question 7** Pg no. \_\_\_\_\_

On 31<sup>st</sup> March, 2020 the balance sheet of H Ltd. and its subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
<b>EQUITIES &amp; LIABILITIES</b>		
<i>Shareholder's Funds:</i>		
Equity Share Capital	8,00,000	2,00,000
General Reserve	1,50,000	70,000
Profit & Loss Account	90,000	55,000
<i>Current Liabilities:</i>		
Creditors	1,20,000	80,000
	11,60,000	4,05,000
<b>ASSETS</b>		
Property, Plant & Equipment	5,50,000	1,00,000
75% Shares in S Ltd. (at cost)	2,80,000	-
Stock	1,05,000	1,77,000
Other Current Assets	2,25,000	1,28,000
	11,60,000	4,05,000

Draw consolidated balance sheet as at 31<sup>st</sup> March, 2020 after considering the following:

- (1) H Ltd. acquired the shares on 31<sup>st</sup> July, 2019.

- (2) S Ltd. earned a profit of ₹ 45,000 for the year ended 31<sup>st</sup> March, 2020.  
 (3) In January, 2020 S Ltd. sold to H Ltd. goods costing ₹ 15,000 for ₹ 20,000. On 31<sup>st</sup> March, 2020 half of these goods were lying as unsold in godown of H Ltd.  
 Give your working notes.

**Question 8** *(RTP Nov 2021) / (ICAI Study Material)* Pg no. \_\_\_\_\_

On 31<sup>st</sup> March, 2021, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The position of Q Ltd. on that date was as under:

	₹
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of ₹ 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31<sup>st</sup> March, 2023:

	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	-
Pre-incorporation profits	-	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	-
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.2023 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve. Calculate as on 31<sup>st</sup> March, 2013:-

- (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:  
 a. Before issue of bonus shares;  
 b. Immediately After issue of bonus shares.

**Question 9** *(ICAI Study Material)* Pg no. \_\_\_\_\_

A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1<sup>st</sup> July, 2021. On 31<sup>st</sup> December, 2021, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31<sup>st</sup> December, 2021

Particulars	Note No.	A Ltd. (₹)	B Ltd. (₹)
Equity and Liabilities			
(1) Shareholder's Funds			
a) Share Capital	1	5,00,000	2,00,000
b) Reserves and Surplus	2	2,97,200	1,82,000
(2) Current Liabilities			
a) Trade Payables		47,100	17,400
b) Short term borrowings	3	80,000	
Total		9,24,300	3,99,400
Assets			
(1) Non-current assets			



(a) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

## Notes to Accounts

		A Ltd. ₹	B Ltd. ₹
1.	Share Capital		
	5,000 shares of ₹ 100 each, fully paid up	5,00,000	-
	2,000 shares of ₹ 100 each, fully paid up	=	2,00,000
	Total	5,00,000	2,00,000
2.	Reserves and Surplus		
	General Reserves	2,40,000	1,00,000
	Profit & loss	57,200	82,000
	Total	2,97,200	1,82,000
3.	Short term borrowings		
	Bank overdraft	80,000	--
4.	Property plant and equipment		
	Land and building	1,50,000	1,80,000
	Plant & Machinery	2,40,000	1,35,000
	Total	3,90,000	3,15,000
5.	Non-current Investments		
	Investment in B Ltd (at cost)	3,40,000	--
6.	Cash & Cash equivalents		
	Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 2021 out of which a dividend of 10% was paid on 1st August, 2021; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 2021 was considered as worth ₹ 1,80,000 on 1st July, 2021; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31st December, 2021.

**Question 10** (ICAI Study Material)

Pg no. \_\_\_\_\_

On 31st March, 2021, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Particulars	Note No.	H Ltd. (₹ in Lacs)	S Ltd. (₹ in Lacs)
Equity and Liabilities			
(1) Shareholder's Funds			
a) Share Capital	1	12,000	4,800
b) Reserves and Surplus	2	5,499	3,000
(2) Current Liabilities			
a) Trade payables	3	1,833	1,014
b) Short term provisions	4	855	394
c) Other current liabilities (Dividend payable)		1,200	=
Total		21,387	9,208

Assets			
(1) Non-current assets			
a) Property, Plant and Equipment	5	9,468	5,486
b) Non-current Investments (Shares in S Ltd.)		3,000	
(2) Current assets			
a) Inventories		3,949	1,956
b) Trade receivables	6	2,960	1,562
c) Cash and cash equivalents		1,490	204
d) Short term loans and advances	7	520	
Total		21,387	9,208

## Notes to Accounts

		H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
1	Share Capital		
	Authorized share capital:		
	Equity shares of ₹ 10 each, fully paid up	15,000	6,000
	Issued and Subscribed:		
	Equity shares of ₹ 10 each, fully paid up	12,000	4,800
2	Reserves and surplus		
	General Reserve	2,784	1,380
	Profit and Loss Account:	2,715	1,620
	Total	5,499	3,000
3	Trade Payables		
	Creditors	1,461	854
	Bills Payable	372	160
		1,833	1,014
4	Short term provisions		
	Provision for Taxation	855	394
5	Property, plant and equipment		
	Land and Buildings	2,718	-
	Plant and Machinery	4,905	4,900
	Furniture and Fittings	1,845	586
	Total	9,468	5,486
6	Trade receivables		
	Debtors	2,600	1,363
	Bills Receivable	360	199
	Total	2,960	1,562
7	Short term loans and advances		
	Sundry Advances	520	--

The following information is also provided to you:

- H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 2020 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
- On 1st April, 2020, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2020. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 2021, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2020.
- On 31st March, 2021, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

e. On 31st March, 2021, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

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

**Question 11** *(Inter Nov 2020) (15 Marks)*

Pg no. \_\_\_\_\_

H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:

	H Ltd.	S Ltd.
<b>Equity &amp; Liabilities</b>		
Equity Share Capital: Shares of ₹ 10 each	20,00,000	8,00,000
General Reserve (1 <sup>st</sup> April, 2019)	9,60,000	4,20,000
Profit and Loss Account	2,28,800	3,28,000
Preliminary Expenses (1 <sup>st</sup> April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
<b>Total</b>	<b>36,55,200</b>	<b>16,60,000</b>
<b>Assets:</b>		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
<b>Total</b>	<b>36,55,200</b>	<b>16,60,000</b>

Additional Information:

- The Profit & Loss Account of S Ltd. showed credit balance of ₹ 1,20,000 on 1<sup>st</sup> April, 2019. S Ltd. paid a dividend of 10% out of the same on 1<sup>st</sup> November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.
- The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1<sup>st</sup> April, 2019 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> March, 2020.

**Question 12** *(RTP Nov 2018)*

Pg no. \_\_\_\_\_

The Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2020 are as follows:

	X Ltd. (in Lakhs)	Y Ltd. (in Lakhs)
<b>Liabilities</b>		
<b>Share Capital:</b>		
Authorized	20,000	8,000
<b>Issued and Subscribed:</b>		
Equity Shares of ₹ 10 each, fully paid up	15,000	6,000
15% preference shares of ₹ 10 each, fully paid up	4,000	1,000
General Reserve	2,500	1,450
Profit and Loss Account	2,750	1,250
Trade Payables	1,646	1,027
<b>Total</b>	<b>25,896</b>	<b>10,727</b>

Assets		
Land and Buildings	3,550	1,510
Plant and Machinery	5,275	3,600
Furniture and Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in Y Ltd. purchased on 1st April, 2019	6,800	-
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balances	1,174	560
	25,896	10,727

The following information is also given to you

- 10% dividend on Equity shares was declared by Y Ltd. on 31st May, 2019 for the year ended 31st March, 2019. X Ltd. credited the dividend received to its Profit & Loss Account.
- Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2019 was ₹ 650 Lakhs.
- General Reserve of Y Ltd. stood at same ₹ 1,450 Lakhs as on 1st April, 2019.
- Y Ltd.'s Plant & machinery showed a balance of ₹ 4,000 Lakh on 1st April 2019. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by ₹ 1,000 Lakh.
- Included in Trade Payables of Y Ltd. are ₹ 50 Lakh for goods supplied by X Ltd.
- On 31st March, 2020, Y's Ltd. inventory included goods for ₹ 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2020 giving working notes. (Ignoring dividend on preference shares)

**Question 13** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹4,80,000 on 31.7.2020. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 2020 showed an opening balance of ₹1,25,000 and profit for the year was ₹ 3,00,000. At the end of the year, it declared a dividend of 40%. Record entry in the books of H Ltd., in respect of the dividend. Assume the profit is accruing evenly & calendar year as financial year.

**Question 14** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2020 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st January, 2020 was ₹ 1,00,000 and the balance in the Profit & Loss Account was ₹ 60,000. During the year ended 31st December, 2020, ABC Ltd. earned a profit of ₹ 20,000 and at year end, declared and paid a dividend of ₹ 15,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 2020 and 31st December, 2020?

Also compute Goodwill/Capital reserve at the date of acquisition.

**Question 15** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31<sup>st</sup> March, 2020 at cost of ₹ 70 lakhs. The following information is available from balance sheet of Zed Ltd. as on 31<sup>st</sup> March, 2020:

	₹ in Lakhs
Property, Plant & Equipment	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Property, Plant & Equipment Up by 20% Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2020 (Face value ₹ 10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

**Question 16** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

A Ltd. and B Ltd. provide the following information:

	₹ (in '000s)	
	A Ltd.	B Ltd.
Equity Shares	6,000	5,000
6% Preference Shares	Nil	1,000
General Reserve	1,200	800
Profit & Loss Account	1,020	1,790
Trade Payables	3,850	3,410
Dividend Payable	600	500
Goodwill	100	20
Property, Plant & Equipment	3,850	2,750
Investments	1,620	1,100
Inventory	1,900	4,150
Trade Receivables	4,600	4,080
Cash & Bank	600	400

A Ltd. purchased 3/4th interest in B Ltd. at the beginning of the year at the premium of 25%. Following other information is available:

- Profit & Loss Account of B Ltd. includes ₹ 1,000 thousands brought forward from the previous year.
- The General Reserve balance is brought forward from the previous year.
- The directors of both the companies have declared a dividend of 10% on equity share capital for the previous and current year. From the above information calculate Pre- and Post-acquisition Profits, Minority Interest and Cost of Control.

**Question 17** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2013 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2017-18, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2018-19 and 2019-20, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

**Question 18** *(RTP May 2018)*

Pg no. \_\_\_\_\_

From the following summarised Balance Sheets of A Ltd. and its subsidiary B Ltd., prepare Consolidated Balance Sheet:

Balance Sheet as on 31st March, 2020

Equity & Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity shares of ₹ 10 each fully paid	1,00,000	20,000	Sundry Assets	93,000	32,000
Profit on sale of shares	3,000	-	Shares in B Ltd	18,000	-

			1,200 shares at 15 each		
Profit and Loss A/c					
Brought forward	6,000	7,200			
For the year	2,000	4,800			
	1,11,000	32,000		1,11,000	32,000

A Ltd. bought in earlier year 1,600 equity shares in B Ltd. @ ₹ 15 when the Profit & Loss A/c balance in B Ltd. was ₹4,400. A Ltd. sold 400 shares @ ₹22.50, credited difference between the sale proceeds and cost to "Profit on sale of investment account" on 30th September, 2019 and crediting the balance to the investment account. Profit during the year accrued uniformly.

**Question 19 (ICAI Study Material)**

Pg no. \_\_\_\_\_

Consider the following summarized balance sheets of subsidiary B Ltd.:

Equity & Liabilities	2019 Amount in ₹	2020 Amount in ₹
Share Capital		
Issued and subscribed 5,000 Equity Shares of ₹100 each	5,00,000	5,00,000
Reserve and Surplus		
General Reserve	2,86,000	7,14,000
Current Liabilities and Provisions		
Trade Payables	4,90,000	4,94,000
Bank Overdraft	-	1,70,000
Provision for Taxation	3,10,000	4,30,000
	15,86,000	23,08,000
<b>Assets</b>		
Property, Plant & Equipment (Cost)	3,20,000	3,20,000
Less: Accumulated Depreciation	(48,000)	(96,000)
	2,72,000	2,24,000
Investment at Cost	-	4,00,000
Current Assets		
Inventory	5,97,000	7,42,000
Trade Receivable	5,94,000	8,91,000
Prepaid expenses	72,000	48,000
Cash at Bank	51,000	3,000
	15,86,000	23,08,000

Also consider the following information:

- B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as accounting year.
- A Ltd. values inventory on weighted average basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by ₹ 12,000 at the end of 2019 and ₹ 34,000 at the end of 2020.
- B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
- Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2019 and ₹ 30,000 in 2020, being part of initial advertising expenditure of ₹ 90,000 in 2019 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2019.

Restate the balance sheet of B Ltd. as on 31st December, 2020 after considering the above information, for the purpose of consolidation. Would restatement be necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

**Question 20** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of ₹ 17 per share. The balance of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

- The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 30 lakhs, ₹ 40 lakhs and ₹ 65 lakhs.
- The actual cost of the shares to the foreign company was ₹ 5,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.
- Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years.

The above agreement was approved by all concerned for being given effect to on 1.4.20X1. The total assets of VR Ltd. as on 31st March, 20X1 was ₹ 1,00,00,000. It was decided to write down Property, Plant and Equipment by ₹ 1,75,000. Current liabilities of VR Ltd. as on the same date were ₹ 20,00,000. The paid-up share capital of VR Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

**TOPIC 2 CONSOLIDATED PROFIT & LOSS ACCOUNT****Question 21** *(RTP May 2018) (Similar) / (ICAI Study Material)*

Pg no. \_\_\_\_\_

H Ltd and its subsidiary S Ltd provide the following information for the year ended 31st March, 2023:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Sales and other income	5,000	1,000
Increase in Inventory (closing less opening)	1,000	200
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2021-2022. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2021-2022.

Prepare a consolidated statement of profit and loss.

**Question 22**

Pg no. \_\_\_\_\_

The Trial Balances of H Ltd. and S Ltd. as on 31.12.2020 were as under:

	H Ltd.		S Ltd.	
	Dr.	Cr.	Dr.	Cr.
Equity Share Capital (Share of Rs. 100 each)		10,00,000		2,00,000
7% Preference Share Capital (Rs. 100 each)		-		2,00,000
Reserves		3,00,000		1,00,000
6% Debentures		2,00,000		2,00,000
Trade Receivables /Trade Payables	80,000	90,000	50,000	60,000
P&L A/c balance		20,000		15,000
Purchases/Sales	5,00,000	9,00,000	6,00,000	9,50,000
Wages & Salaries	1,00,000		1,50,000	
Debenture Interest	12,000		12,000	
General Expenses	80,000		60,000	
Preference-Dividend up to 30.6.2020		3,500	7,000	
Inventory (31.12.2020)	1,00,000		50,000	
Cash at Bank	13,500		6,000	
Investment in S Ltd.	5,28,000		-	
Property, Plant & Equipment	11,00,000		7,90,000	
	25,13,500	25,13,500	17,25,000	17,25,000

Investment in S Ltd. were acquired on 1.4.2020 and consisted of 80% of Equity Capital and 50% of Preference Capital. Depreciation on Property, Plant & Equipment is written off @ 10% p.a (computed on the basis of useful life. After acquiring control over S Ltd., H Ltd. supplied to it goods at cost plus 20%, the total invoice value of such goods being Rs. 60,000; 1/4 of such goods were still in Inventory at the end of the year. Prepare the Consolidated Profit and Loss Account for the year ended on 31.12.2020.



## PRACTICE QUESTIONS

### TOPIC 1 CONSOLIDATED BALANCE SHEET

#### Question 1 *(ICAI Study Material)*

Pg no. \_\_\_\_\_

Prepare Consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2021 from the following information

	H Ltd.	S Ltd.
Property, Plant & Equipment	5,00,000	3,00,000
Investments (2,000 equity shares of S Ltd.)	2,20,000	-
Current Assets	1,55,000	1,00,000
Share Capital (Fully paid equity shares of 10 each)	5,00,000	2,50,000
Profit and Loss Account	2,00,000	1,00,000
Trade Payables	1,75,000	50,000

H Ltd. acquired the shares of S Ltd. on 31.03.2021

*(Ans: Capital Reserve 60,000; Minority Interest 70,000; Balance Sheet Total 10,55,000)*

#### Question 2 *(Inter Nov 2022) (15 Marks)*

Pg no. \_\_\_\_\_

H Ltd. and S Ltd. provide the following information as at 31st March, 2022:

	H Ltd. ₹	S Ltd. ₹
Property, Plant and Equipment	2,00,000	2,60,000
Investments (14,000 Equity Shares of S Ltd.)	2,52,000	-
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of ₹ 10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

Additional information:

H Ltd. acquired the shares of S Ltd. on 1<sup>st</sup> July, 2021 and Balance of profit and loss account of S Ltd. on 1<sup>st</sup> April, 2021 was ₹ 60,000. Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31<sup>st</sup> March, 2022.

*(Ans: Goodwill 66,500; Minority Interest 84,000; Balance Sheet Total 8,14,500)*

#### Question 3 *(ICAI Study Material)*

Pg no. \_\_\_\_\_

From the Balance Sheets and information given below, prepare Consolidated Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March. Virat Ltd. holds 80% of Equity Shares in Anushka Ltd. since its (Anushka Ltd.'s) incorporation.

Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March, 2021

	Note No.	Virat Ltd.	Anushka Ltd.
Equity & Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	6,00,000	4,00,000
(b) Reserves and Surplus	2	1,00,000	1,00,000
(2) Non Current Liabilities			
(a) Long Term Borrowings		2,00,000	1,00,000
(3) Current Liabilities			
(a) Trade Payables		1,00,000	1,00,000
		10,00,000	7,00,000

Assets			
(1) Non-Current Assets			
(a) PPE & Intangible Assets			
i. Property, Plant & Equipment		4,00,000	3,00,000
(b) Non Current Investments	3	3,20,000	-
(2) Current Assets			
(a) Inventories		1,60,000	2,00,000
(b) Trade Receivables		80,000	1,40,000
(c) Cash & Cash Equivalents		40,000	60,000
		10,00,000	7,00,000

## Notes to Accounts:

		Virat Ltd.	Anushka Ltd.
1.	Share Capital		
	60,000 equity shares of 10 each, fully paid up	6,00,000	
	40,000 equity shares of 10 each, fully paid up		4,00,000
		6,00,000	4,00,000
2.	Reserves & Surplus		
	General Reserve	1,00,000	1,00,000
		1,00,000	1,00,000
3.	Non Current Investments		
	Shares in Anushka Ltd	3,20,000	-
		3,20,000	-

(Ans: Cost of Control Nil; Minority Interest 1,00,000; Balance Sheet Total 13,80,000)

**Question 4** (Inter Nov 2019) (5 Marks) / RTP Nov 2020 / ICAI Study Material Pg no. \_\_\_\_\_

From the following data, determine Minority interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition 01.01.2019		Consolidation Date 31.12.2019	
				Share Capital	Profit & Loss A/c	Share Capital	Profit & Loss A/c
Case A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case D	M	95%	75,000	60,000	35,000	60,000	55,000
Case E	N	100%	1,00,000	40,000	40,000	40,000	65,000

(Ans: Acq: 22,500; 50,000; 18,000; 4,750; Nil Cons: 23,500; 40,000; 18,000; 5,750; Nil)

**Question 5** (Inter May 2018) (20 Marks) / RTP Nov 2019 Pg no. \_\_\_\_\_

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2020:

	H Ltd.	S Ltd.
Equity & Liabilities		
Shareholders' Funds		
Equity Shares of ₹ 10 each, fully paid up	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000

Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
	22,37,000	5,43,000
Assets		
Non-Current Assets		
Property, Plant & Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
	22,37,000	5,43,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2019. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively. Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April, 2019 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives : Machinery 10% and Furniture 15%). Trade Payables of H Ltd. includes ₹ 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 purchased from S Ltd. You are required to prepare Consolidated Balance Sheet as at 31st March, 2020.

*(Ans: Goodwill 24,000; Minority Interest 99,300; Balance Sheet Total 25,25,500)*

**Question 6** *(RTP May 2022)*

Pg no. \_\_\_\_\_

From the following information of Beta Ltd. and its subsidiary Gamma Ltd. drawn up at 31st March, 2021, prepare a consolidated balance sheet as at that date

	Beta Ltd.	Gamma Ltd.
Share Capital		
Shares of ₹ 100 each	15,00,000	2,50,000
Reserves and Surplus		
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Current Liabilities		
Trade Payables	3,75,000	1,42,500
Non-Current Assets		
Property, Plant & Equipment		
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other Non Current Assets	11,00,000	3,75,000
Non-Current Investments		
Shares in Gamma Ltd. - 2,000 shares @ ₹200 each	4,00,000	-

Other information:

Reserves and Profit and Loss Account of Gamma Ltd. stood at ₹62,500 and ₹37,500 respectively on the date of acquisition of its 80% shares by Beta Ltd. on 1st April, 2020. Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Gamma Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2020 for the purpose of fixing

the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

*Ans: Goodwill 30,000; Minority Interest 1,20,375; Balance Sheet Total 29,99,375)*

**Question 7** *(Inter Jan 2021) (20 Marks)*

Pg no. \_\_\_\_\_

On 31<sup>st</sup> March, 2020 summarised Balance Sheets of H Ltd. & subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
<b>Equity &amp; Liabilities</b>		
Shareholders' Funds		
Equity Shares of ₹ 10 each, fully paid up	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit and Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
<b>Current Liabilities</b>		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
	25,20,000	6,16,800
<b>Assets</b>		
<b>Non-Current Assets</b>		
Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
<b>Non-Current Investments</b>		
Shares in S Ltd. - 19,200 shares @ ₹ 20 each	3,84,000	-
<b>Current Assets</b>		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bills Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
	25,20,000	6,16,800

The following information is also provided to you:

- H Ltd. purchased 19,200 shares of S Ltd. on 1<sup>st</sup> April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.
- Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1<sup>st</sup> April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).
- On 31<sup>st</sup> March, 2020, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

Prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31<sup>st</sup> March, 2020.

*(Ans: Goodwill 28,800; Minority Interest 1,15,560; Balance Sheet Total 28,67,400)*

**Question 8** *(Inter May 2022) (15 Marks)*

Pg no. \_\_\_\_\_

White Ltd. acquired 2,250 shares of Black Ltd. on 1<sup>st</sup> October, 2020. The summarized balance sheets of both the companies as on 31<sup>st</sup> March, 2021 are given below:

	White Ltd. (₹)	Black Ltd. (₹)
(I) Equity and Liabilities		

(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus		
General Reserve	60,000	30,000
Profit and loss account	1,50,000	90,000
(2) Current Liabilities		
Trade payables	1,15,000	75,000
Due to White Ltd.	-	30,000
	9,75,000	5,25,000
(II) Assets:		
(1) Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	
(2) Current assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
Total	9,75,000	5,25,000

Other information:

- (i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30<sup>th</sup> March, 2021.  
(ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31<sup>st</sup> March, 2021.  
(iii) Profits during the year 2020-2021 were earned evenly.  
(iv) The balances of Reserve and Profit and Loss account as on 1<sup>st</sup> April, 2020 were as follows:

	Reserves ₹	Profit and Loss A/c ₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31<sup>st</sup> March, 2021 as per the requirement of Schedule III of the Companies Act, 2013.

(Ans: Capital Reserve 7,500; Minority Interest 1,05,000; Balance Sheet Total 12,00,000)

**Question 9** (RTP Nov 2022)

Pg no. \_\_\_\_\_

On 31<sup>st</sup> March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Inventory	983	786
Trade receivables	820	778

Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

- H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021. On that date the following balances stood in the books of S Ltd.:  
General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.
- On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.
- On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of ₹ 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.
- On 31st March, 2021, the Inventory of S Ltd. included goods purchased for ₹ 50 thousand from H Ltd., which had made a profit of 25% on cost.
- Details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Trade payables		
-Bills Payable	124	80
-Sundry creditors	487	427
	611	507
Trade receivables		
-Debtors	700	683
-Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as at 31st March, 2022.

(Ans: Capital Reserve 679.80; Minority Interest 1,560; Balance Sheet Total 10,223)

**Question 10** (ICAI Study Material)

Pg no. \_\_\_\_\_

Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 2020 for ₹ 2,10,000. The issued capital of Power Ltd., on 1st January, 2020 was ₹ 1,50,000 and the balance in the Profit & Loss Account was ₹ 90,000. During the year ended 31st December, 2020, Power Ltd. earned a profit of ₹ 30,000 and at year end, declared and paid a dividend of ₹ 22,500.

What is the amount of minority interest as on 1st January, 2020 and 31st December, 2020? Also compute goodwill/ capital reserve at the date of acquisition.

(Ans: Goodwill 18,000; Minority Interest 01.01.20: 48,000 & 31.12.20: 49,500)

**Question 11** (ICAI Study Material)

Pg no. \_\_\_\_\_

King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 2020 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 2020:

	₹ in Lakhs
Property, Plant & Equipment	240
Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures): Property, plant and equipment- up by 20% and Investments- down by 10%. King Ltd. purchased the shares of Queen Ltd. @ ₹20 per share (Face value - ₹10).

Calculate the amount of goodwill/capital reserve on acquisition of shares of Queen Ltd.

(Ans: Capital Reserve 53.90 Lakhs)

**Question 12** *(ICAI Study Material)* Pg no. \_\_\_\_\_

A Ltd. acquired 60% shares of B Ltd. @ ₹ 20 per share. Following is the extract of Balance Sheet of B Ltd.:

	₹
10,00,000 Equity Shares of ₹ 10 each	1,00,00,000
10% Debentures	10,00,000
Trade Payables	55,00,000
Property, Plant & Equipment	70,00,000
Investments	45,00,000
Current Assets	68,00,000
Loans & Advances	22,00,000

On the same day B Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹ 60,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements

*(Ans: Goodwill 19,20,000)*

**Question 13** *(RTP May 2021)* Pg no. \_\_\_\_\_

A Ltd. acquired 70% equity shares of B Ltd. @ ₹20 per share (Face value - ₹10) on 31st March, 2021 at a cost of ₹140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date.

Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021

	₹ in Lakhs
Property, Plant & Equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

*(Ans: Capital Reserve 98 Lakhs)*

**Question 14** *(Inter May 2019) (10 Marks) / (RTP May 2023)* Pg no. \_\_\_\_\_

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2013 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000. Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively. Thereafter in 2017, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2018 and 2019, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

*(Ans: Goodwill 1,22,000; Minority Interest 1,62,000; 1,24,500; 64,500; Nil, Nil, Nil, Nil, 16,500)*

**Question 15** *(Inter Nov 2019) (10 Marks)* Pg no. \_\_\_\_\_

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2018-19 Amount in ₹	2019-20 Amount in ₹
Share Capital		

Issued and subscribed 7500 Equity Shares of ₹100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
<b>Assets</b>		
Property, Plant & Equipment (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

- 1) MNT Ltd. is a subsidiary of LTC Ltd.
- 2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2018-2019 and increased by ₹ 12,000 at the end of 2019-2020. (Inventory of 2018-19 has been sold out during the year 2019-20)
- 3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
- 4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2018-19 and ₹ 12,500 in 2019-20 being part of initial Sales Promotion expenditure of ₹37,500 in 2018-19, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2018-19.

Restate the balance sheet of MNT Ltd. as on 31st March, 2020 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

*(Ans: Adjusted Revenue Reserve 5,11,500; Balance Sheet Total 23,14,500)*

## TOPIC 2 CONSOLIDATED PROFIT & LOSS ACCOUNT

### Question 16 (Inter Nov 2018) (10 Marks)

Pg no. \_\_\_\_\_

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2020 are given below:

Incomes	₹ in Lakhs	
	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
<b>Expenses</b>		
Raw material consumed	1,200	300



Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450
Dividend paid	1,800	225
Balance of Profit	1,800	225

The following information is also given:

- A Ltd sold goods of ₹ 180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)
- Administrative expenses of B Ltd include ₹ 8 Lakhs paid to A Ltd as consultancy fees.
- Selling and distribution expenses of A Ltd include ₹15 Lakhs paid to B Ltd as commission.
- A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2018-19 is ₹1,500 Lakhs

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2020.

(Ans: Profit after tax 4,044 Lakhs)

**Question 17** (Inter Dec 2021) (15 Marks)

Pg no. \_\_\_\_\_

Moon Ltd. and its Subsidiary Star Ltd. provided the following information for the year ended 31st March, 2021.

Particulars	Moon Ltd. (₹)	Star Ltd. (₹)
Equity Share Capital	2,00,00,000	60,00,000
Finished Goods Inventory as on 01.04.2020	42,00,000	30,10,000
Finished Goods Inventory as on 31.03.2021	85,75,000	37,62,500
Dividend Income	16,80,000	4,37,500
Other Non-Operating Income	3,50,000	1,05,000
Raw Material Consumed	1,39,30,000	47,25,000
Selling & Distribution Expenses	33,25,000	15,75,000
Production Expenses	31,50,000	14,00,000
Loss on sale of Investments	2,62,500	Nil
Sales & other Operating Income	3,32,50,000	1,90,75,000
Wages & Salaries	1,33,00,000	24,50,000
General & Administrative Expenses	28,00,000	12,25,000
Royalty Paid	Nil	50,000
Depreciation	3,15,000	1,40,000
Interest Expense	1,75,000	52,500

Other Information:

- On 1st September, 2018 Moon Ltd. acquired 50,000 equity shares of ₹ 100 each fully paid up in the Star Ltd.
- Star Ltd paid Dividend of 10% for the year ended 31st March, 2020. The Dividend was correctly accounted for by Moon Ltd.
- Moon Ltd sold goods of ₹ 17,50,000 to Star Ltd. at the profit of 20% on selling price. Inventory of Star Ltd includes goods of ₹ 7,00,000 received from the Moon Ltd.

- Selling & Distribution expense of Star Ltd. include ₹ 2,12,500 paid to the Moon Ltd. as Brokerage Fees.
- General & Administrative Expense of Moon Ltd. includes ₹ 2,80,000 paid to Star Ltd. as consultancy fees.
- Star Ltd. used some resources of Moon Ltd. and Star Ltd. paid ₹ 50,000 to Moon Ltd as royalty.

Prepare Consolidated Statement of P&L of Moon Ltd. and its Subsidiary Star Ltd. for the year ended 31.03.2021 as per Schedule III to the Companies Act, 2013.

*(Ans: Profit before tax 1,10,10,000)*

**Question 18** *(Inter July 2021) (15 Marks)*

Pg no. \_\_\_\_\_

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under:

	X Limited (₹ In 000)		Y Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900
Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160		120	
Preference share dividend upto 30.09.2020		7	14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	
Fixed Assets	2,200		1,580	
<b>Total</b>	<b>5,027</b>	<b>5,027</b>	<b>3,450</b>	<b>3,450</b>

Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being ₹ 1,20,000, one fourth of such goods were still lying in inventory at the end of the year.

Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

*(Ans: Profit tfd to Consolidated Balance Sheet 1,95,100)*

**Question 19** *(RTP Nov 2020) (Part b) / (ICAI Study Material)*

Pg no. \_\_\_\_\_

Suggest the accounting treatment for the below mentioned transactions in the consolidated financial statements of A Ltd giving reference of the relevant guidance/standard.

- A Ltd holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2019.
- A Ltd holds 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories costing ₹ 150 lacs from B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e. 31 March 2019.