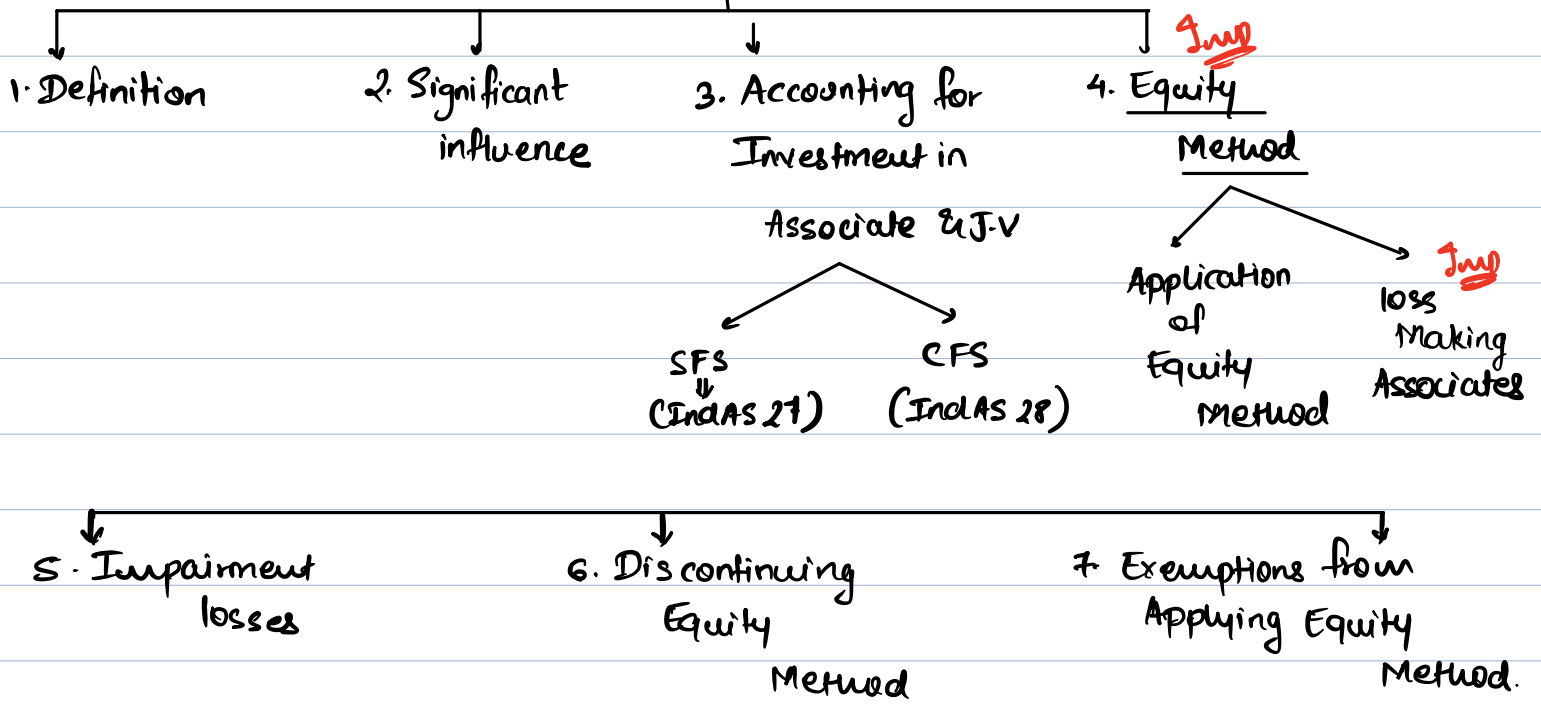


# IndAS 28 → Invest in Associates & J.V





Eg: On 01.04.11 AK Ltd acquired 25% stake in Mukku Ltd. for ₹100 lakhs.

On that date the Book Value of Mukku's INA was ₹200 lakhs & F.V of Mukku's INA was ₹250 lakhs.

The diff Btw BV & FV of Mukku's INA was due to a PPE whose remaining useful life is 5yrs on 01.04.11.

During the year 11-12, Mukku Ltd earned a profit of ₹50 lakhs, Also apart from above, Mukku Ltd had earned a profit of ₹30 lakhs in OCI for the year 11-12.

Mukku Ltd distributed dividend in 11-12 worth ₹10 lakhs. ~~Surp~~

On 01.07.11 AK Ltd had sold goods costing ₹10 lakhs to Mukku Ltd for ₹15 lakhs.

Show accounting of Invest in Associate in the Books of Parent (CFS) as per Equity Method (Ind AS 28)

Sol<sup>n</sup>:- <sup>OK</sup> SFS Parent → Ind AS 27 → Invest in Mukku Ltd A/c Dr. 100L  
TO Cl B A/c 100L.

Not asked

B/S 01.04.11

Invest in  
Mukku Ltd



CFS of Parent (AK Ltd) [CFS Not prepared through SFS]

Day ① 01-04-11 → Compute Grw / GBP

Only Disclosed

Recognised.

J.E.	
Invst in Assoc	xx
To GBP	xx

\* Computation of Grw/GBP

PC (25%) → 100 Lakhs

(-) INA (25%) @FY (62.5 lakhs) (250 lakhs x 25%)

Grw 37.5 lakhs → Only Disclose

In exams give JE only when asked

Equity method [Invst in Associate] → In CFS

Date	Particulars	(₹)	J.E (CFS)
01-04-11	Invst in Mukku Ltd (25%) [Grw → 37.5 is included in Invst]	100 lakhs	Invst 100 TO CIB 100
(-)	Addn/Excess Depn $\left( \frac{50L \times 1yr}{5yr} \right) \times 25\%$	(2.5 lakhs)	Cons PIL 2.5 TO Invst 2.5
(+)	Post Acqn Profit in Assoc. (50L x 25%)	12.5 lakhs	Invst A/c Dr TO Cons PIL
(+)	Post Acqn Profit in Assoc (OCI) (30L x 25%)	7.5 lakhs	Invst A/c Dr TO Cons OCI.
(-) <u>Imp</u>	Dividend from Associate (10L x 25%)	(2.5 lakhs)	Cons PIL. TO Invst
(-)	URP elimination (Up/Down) $\left( \frac{5L \times 25\%}{URP} \right)$	(1.25 lakhs)	Cons PIL TO Invst
31/03/12	Invst in Assoc (as per Eq. Method)	113.75 lakhs	

AK (Invst in Mukku 25%) → 100

Profit 250L x 25% = 62.5  
162.5

profit realised → Distribute Div (60 x 25%) (15) 147.5  
∴ols Bal reduces.

credit Sale  
Sale 80

Sale in 100  
50  
150

Key

(25) → 125

## Illus 10

### Computation of Gw

PC (25%)	125000
(-) INA of Green HD (100000) (4Lx 25%) (Assoc)	
Gw	25000 → Only Disclose.

---

### Computation of closing Bal on Invest (As per Equity Method)

Invest on Day 1 @ cost (including Gw 25000)	125000
(-) Excess Deprn $\left(1,00,000 \times \frac{1}{20}\right) \times 25\%$	(1250)
(+) Post Acq'n profit (PII) $(40000 \times 25\%)$	10000
(+) $\text{OCI} (10000 \times 25\%)$	2500
Closing Bal of Invest as per Equity Method.	<u>136250</u>

## Illus 18 (LOR)

### Computation of GLW

PL (35%)	4750000
(-) INA (35%)	<u>(3850000)</u> (1,10,00,000 × 35%)
GLW	900000

↳ only disclose

### Value of Invest as per Equity Method

Invest in X42 Ltd	4750000
(including 9L GLW)	
(-) Excess Depn $\left(20L \times \frac{1}{1040}\right) \times 35\%$	<u>(70000)</u>
(+) Post Acqn Profit (PL) (8L × 35%)	280000
(-) Div Dist <sup>n</sup> by X42 Ltd (12L × 35%)	<u>(420000)</u>
(+) Post Acqn Profit (OE) (2L × 35%)	<u>70000</u>
Closing Bal. of Invest in X42 Ltd	<u>46,10,000</u>

### Ques 3 (MTP/RTP)

not asked

<u>Comp. of Grw</u>	
PL (35%)	300000
(-) INA of Dig Ltd (35%)	<u>(27500)</u> (650000 × 35%)
Grw	72500

### Computation of Value of Invest in Dig Ltd as per Eq. Method

Invest in Dig Ltd @ cost (including Grw 72500)	300000
(-) Excess Deprn $\left(100000 \times \frac{1}{8}\right) \times 35\%$	(4375)
(+) Post Acq <sup>n</sup> profit (PL) $(100000 \times 35\%)$	35000
(-) Div from Assoc $(11000 \times 35\%)$	(3850)
<sup>Inv</sup> (-) Post Acq <sup>n</sup> loss (OCI) $(15000 \times 35\%)$	<u>(5250)</u> → loss -ve deduct

Value of Invest in Dig Ltd 321525

as per Eq. Method  
@ the end of the yr.

Ques 1 (LOR)

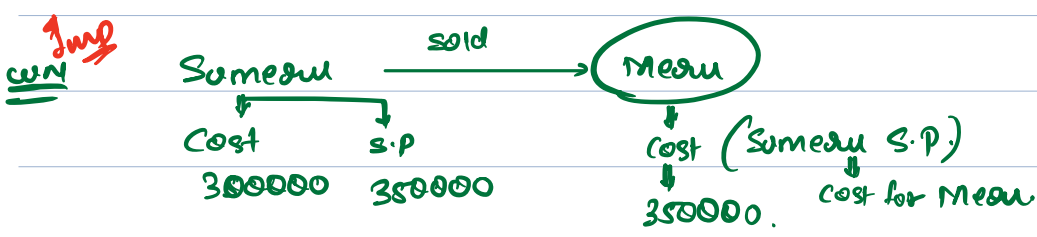
(A) Investment in Asse (Measu Ltd) = 3,00,00,000

Jump (-) URP elimination (14286 x 35%) = (5000) → ICAI 5833

(-) Post Acqn loss (1cr x 35%) (35,00,000)

wrong

Invst (as per Eq. Method) 2,64,95,000



Cost (+) Profit = Sales

300000 (+) 50000 = 350000

14286

= 1,00,000

cost to Meau is S.P of this transaction.

URP on unsold goods.

(x) 35% (stake)

5000

(B) Invst in Associate (Meau) 3,00,00,000

(-) URP → same as above (5000)

(+) Post Acqn profit (1.5 cr x 35%) 52,50,000

(-) Div from Asse (75L x 35%) (26,25,000)

Invst @ 4r end (Eq. Method) 3,26,20,000

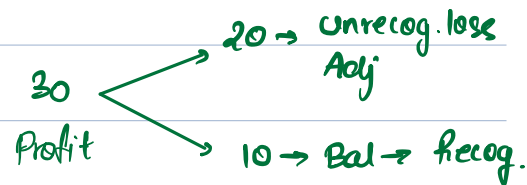


# \* Loss Making Associates [Illustr 15].

<u>Eg:</u> AK Ltd (Parent)	30% 100 → PC ↓ 01.04.21	Mukku (Assoc)	During the year ↓ Mukku loss (x1-x2) → (250 Lakhs) loss (x2-x3) → (150 Lakhs) Profit (x3-x4) → 100 Lakhs.
AK (parent) → Invest in Mukku Ltd	100L		
(-) Post Acq loss (250L x 30%)	(75L)		
(-) Post Acq loss (150 x 30%)	<del>(45L)</del> (25L)	25L	
This Invest cannot be -ve		<u>0</u>	

Unrecognised loss → 20 lakhs.

Invest	0
(+) Post Acq Profit (100 x 30%)	<del>30L</del> 10L
Value of Invest	<u>10L</u>



Eg 2 AK Ltd → Mukku Ltd. 30%

AK Ltd

Incl AS 28  
Invest in Eq. Shares of Mukku Ltd → 30%

Detail Discussion in illus 15

Invest in Eq. (of Mukku) 100L → loss (100)  
Invest in Pref (→) 30L → loss (20)  
Invest in Deb (→) 50L

Invest in Pref Shares of Mukku Ltd } Incls  
Invest in Debentures of Mukku Ltd } 100 (F.I.)

In C-7 Mukku losses ₹400L  
↳ 30%  
= (₹120 lakhs.)

## Order of Allocation of loss

- ① Eq
- ② Pref
- ③ Debenture

# Illus 15 (LOR)

## Parent Books

Day 1 Invest in Eq. Shares → 10,00,000 → Ind AS 28  
 ———— Pref Shares → 5,00,000 } → Ind AS 109 (F.I.)  
 ———— Long term loan → 3,00,000 }

Yr End	Opn	Adj (as per Ind AS 109)	Bal (after Ind AS 109)	Ind AS 28 (Share of P/L)	Cls Bal
Invest in Eq. Shares	10L	-	10L	(10L)	0
Pref	5L	(50K)	4.5L	(4.5L)	0
Long Term loan	3L	(50K)	2.5L	(1.5L)	1L
				<u>(16L)</u>	

Yr 2	Opn	Adj as per Ind AS 109	Bal (after Ind AS 109)	Ind AS 28 Share of P/L	Cls Bal
Eq	0	-	-	-	0
Pref	0	(50K)	(50K)	50000* (loss revenue)	0
Long term loan	1L	-	1,00,000	(1,00,000)	0
			Total loss	<u>(50000)</u>	

Unrecognised loss (Yr 2) → ~~26~~ ~~K~~ 150000 → 50000 P-Y. loss, 1,00,000 C-Y loss unallocated.

\* Invest in Pref shares cannot be -ve. So to the extent of 50000 loss borne by Pref in Yr 1, It will be reversed in Year 2.

<u>yr 3</u>	Opn	Adj (109)	Bal (after 109)	Share of P/L (Ind AS 28)	cls.
Eq	-	-	-		0
Pref	-	1L	1L	(1L)	0
L.T.L	-	50K	50K	(50K)	0
				Total 109s (150000)	

C.Y. loss is zero, But P.Y. unallocated losses were ₹150000 which has been adjusted in yr 3.

<u>yr 4</u>	Opn	Adj (109)	Bal (after 109)	Share of P/L (Ind AS 28)	cls Bal.
Eq	0	-	-	200000 (B/F)	200000
Pref	0	50K	50K	50000 (WNI)	550000
L.T.L	0	-	-	300,000 (WNI)	300000
				10,00,000	

### WNI Loss Borne By.

	yr 1	yr 2	yr 3	Total loss Borne
① L.T.L	(1.5L)	(1L)	(50K)	(3L)
② Pref	(4.5L)	50K	(1L)	(5L)

<u>yr 5</u>	Opn	Adj (109)	Bal (after 109)	Share of P/L (Ind AS 28)	cls. Bal.
Eq	2L	-	2L	10L	12L
Pre	5.5L	30K	5.8L	Full Eq as we settled Pref to L.T.L Bal in P.Y (4r4).	5.8L
L.T.L	3L	-	3L		3L

<u>Loss Borne</u>	<u>Future Profit</u>
④ Eq	④ LTL
② Pref	② Pref
③ LTL	③ Eq.

} → utna he profit to the extent of loss Borne Previously.

\* Upstream & Downstream transactions between the entity & its associate / JV

**Equity Method**

Reduce value of Invest (to the extent of own share) on unrealised Profit (URP)  
 (Subject to Inventory o/s on yrend)

**Illus 13 (LDR)**

Scenario A      N  $\xrightarrow{\text{sold to}}$  M      (upstream)  
 (Associate)      (Parent)

Profit Earned  
 1L

Associate Earned Profit of 1,00,000  
 ↓  
 Parent's share 40% (40000)

Invest in Nltd (Assoc)	xx
(+) Post Acq <sup>n</sup> share in Assoc	40000
	xx

J:E Invest in Nltd      40000  
 ↓  
 M (CFS) TO Cons P/L      40000  
 ↓  
 Parent

URP elimination

10L Inventory = 1L Profit

o/s Inventory 4L

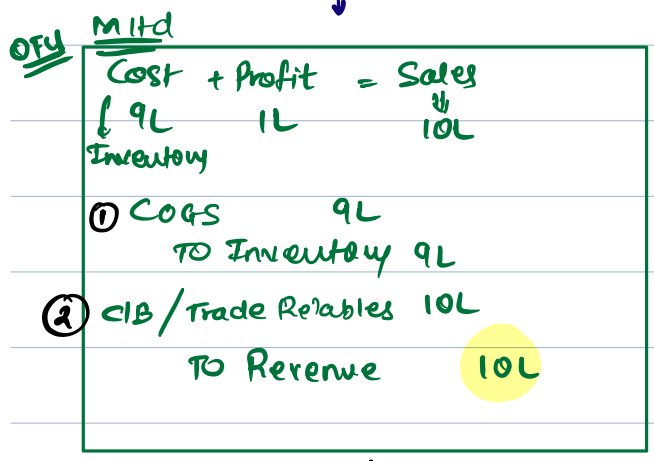
= ? 40000

Invest in Nltd	xx
(-) URP (40k x 40%)	16000
	0

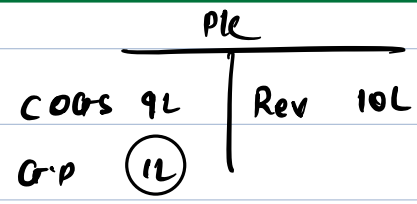
J:E  
 Cons P/L      16000  
 TO Investment in Nltd      16000

Total URP  
 (x) Parent shares 40%  
 16000

Scenario B M sold → N (Downstream)



} 40% URP  
o/s.



60% sold to outside party

Group 40% → COGS & Revenue (o/s) → Eliminate.

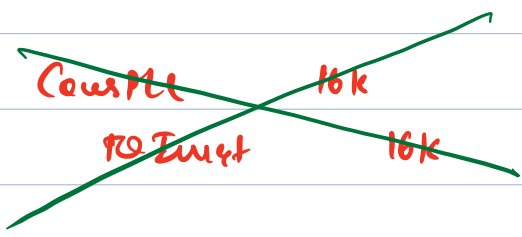
o/s  
↓  
our share in Associate 40%

Revenue Acc Dr ~~4L~~ 1.6L

o/s Inventory ↓  
own share ↓  
(10L x 40% x 40%)

TO COGS ~~3.6L~~ 1.44L  
TO Investment (16k)

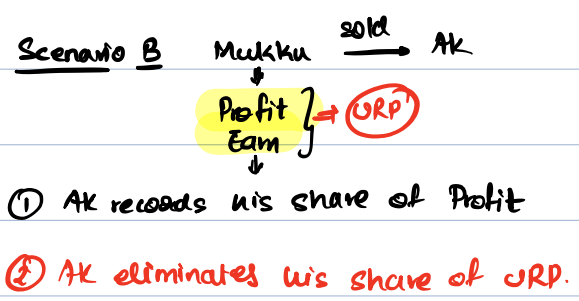
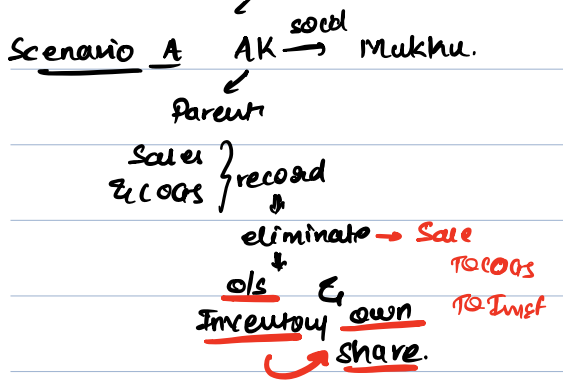
(9L x 40% x 40%)



URP (40 x 40%)  
↓  
our stake

Summary

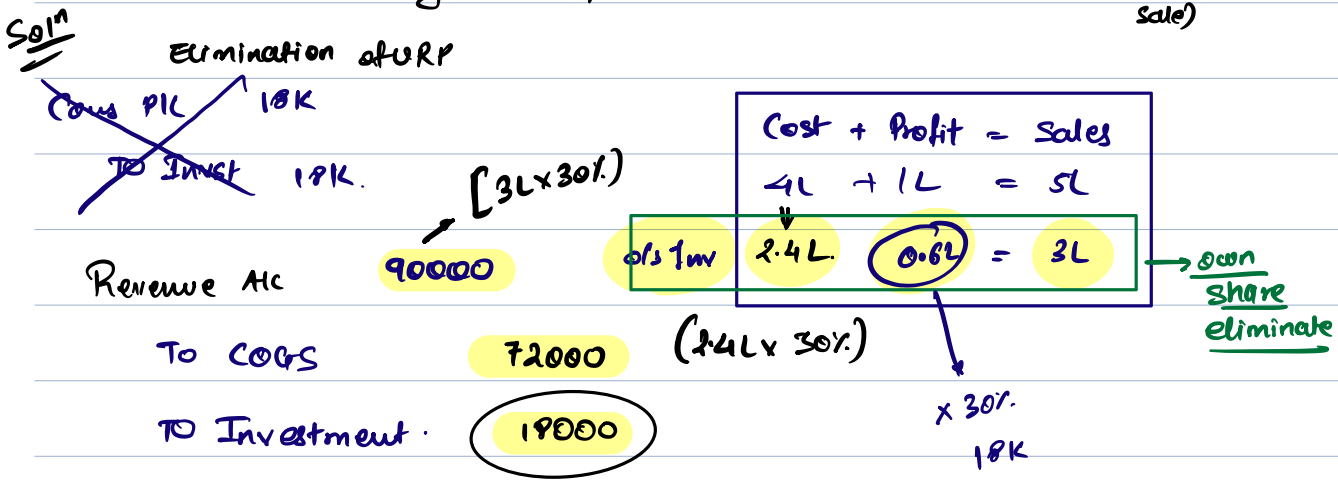
AK → 30% → Mukku



Eg: AK holds 20% stake in Mukku Ltd

Scenario A AK sold goods cost 4L @ ₹ 5L

outstanding inventory out of above was worth ₹ 3L (of sale)



Scenario B

Mukku sold → AK  
↓  
1L Profit  
x 30% share (Parent)  
30k

cost + Profit = Sales  
4L + 1L = 5L

Earned by Mukku (Associate)

Invest 30k  
TO Cost PIC 30k

2.4L + 60k = 3L (consolidated)

URP eliminate (Parent) (own share)

~~URP eliminate~~

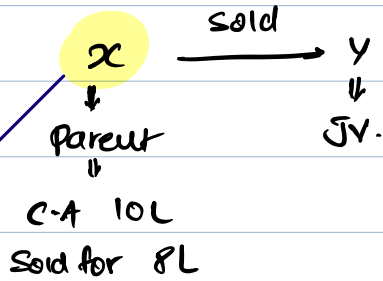
Cost PIC 18000  
TO Invest 18000

(60k x 30%)



# Illustration 14

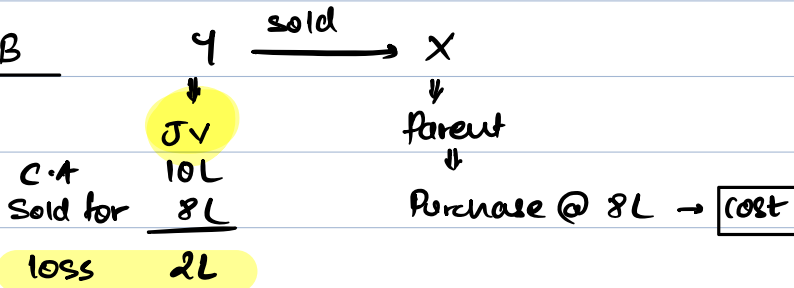
## Scenario A



### J-E (in the Books of X)

Bank A/c Dr 8L  
 P/L (loss) A/c Dr 2L  
 TO Asset (@C.A) 10L

## Scenario B



Imp (x) Parent's stake  
 in JV's loss 50%  
1L

Investment in JV xx  
 (-) Post Acq'n loss in JV (1L)  
 (2L x 50%).

### J-E (In the Books of X → Parent)

① Asset A/c Dr 800000 } @ cost  
 TO Bank 800000 }

② Cost P/L (Share of loss) Dr 1,00,000  
 TO Invest A/c 1,00,000

## \* Discontinuance of Equity Method

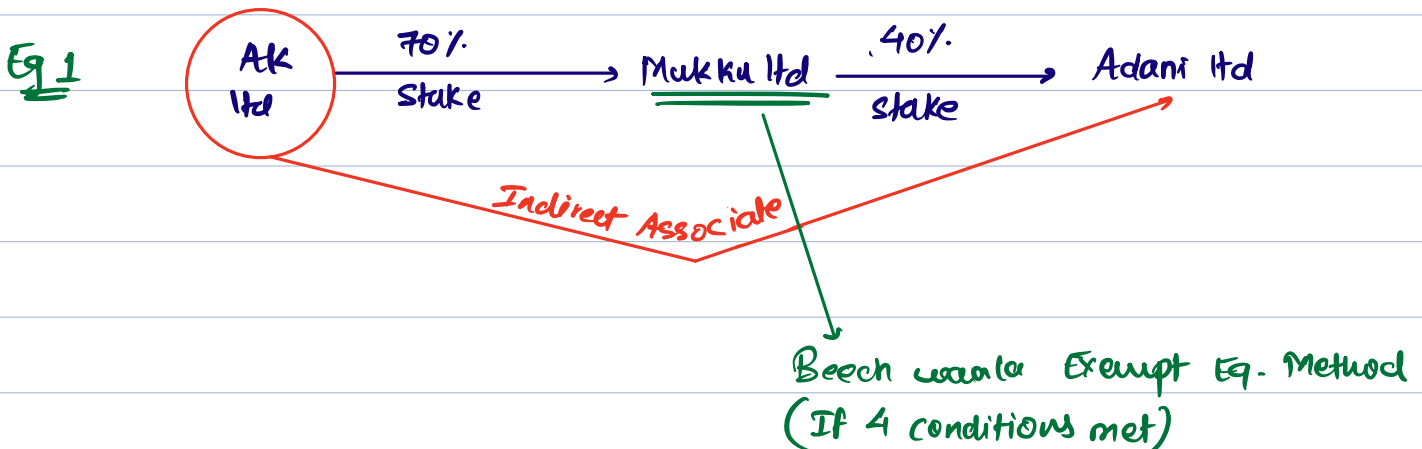
AK Ltd  $\xrightarrow[Stake]{20\%}$  Mukku Ltd

① AK sells his stake in Mukku Ltd (20 stake after such sale falls Below 20%)  $\rightarrow$  Discontinue Eq. Method.

② AK acquires additional stake in Mukku Ltd (20 after such additional stake, it increases to more than 50% stake)

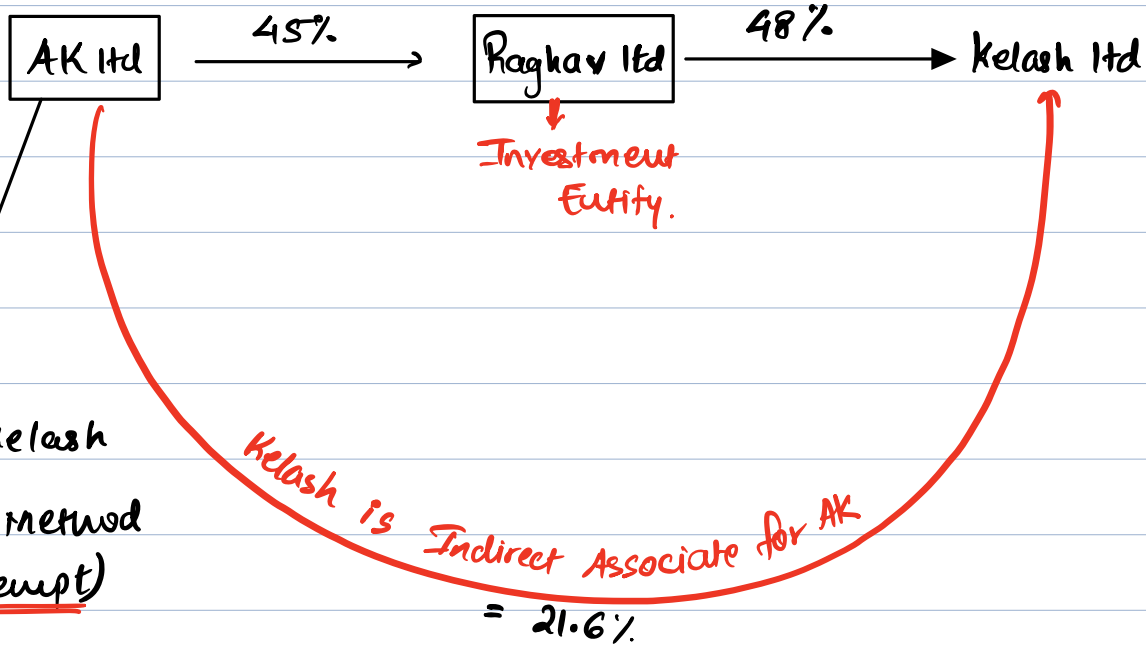
Disc Eq. Method  $\rightarrow$  Start Ind AS 103 & 110 (Control)

## \* Exemption from Equity method



Eq 2: Invest Entity  $\xrightarrow{25\%}$  A Ltd.  
 $\downarrow$   
Exempt from Eq. Method.

Eg 3:

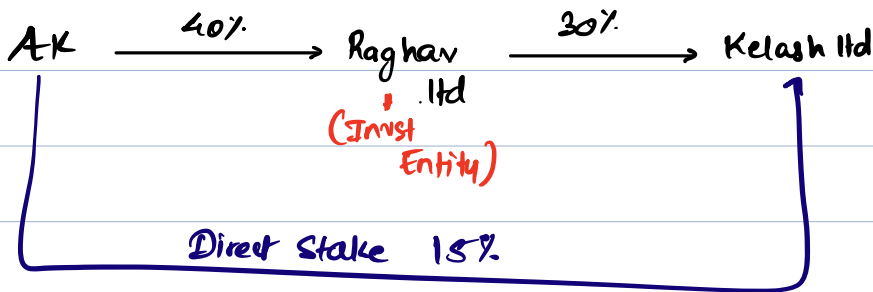


AK  $\rightarrow$  Kelash  
 ✓  
 Equity method  
 (Exempt)

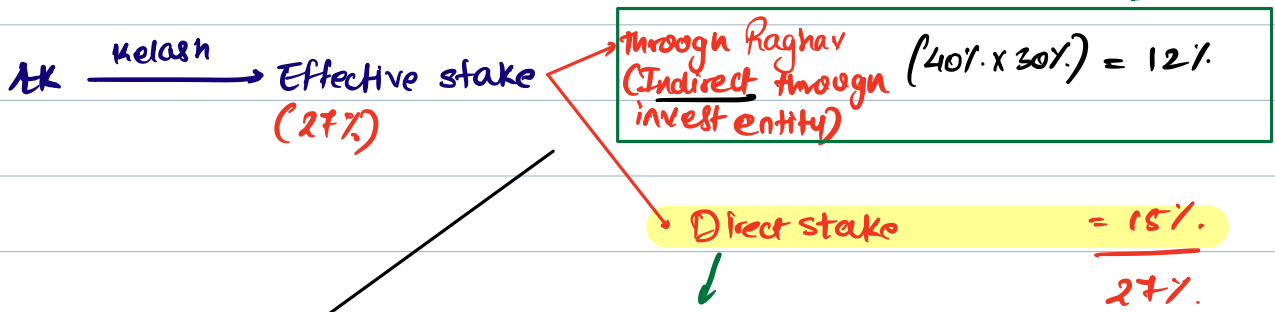
why? Because  
 the stake is held  
 indirectly through an  
 Invest Entity.

AK  $\rightarrow$  Invest @ FVTPL

Eg 4



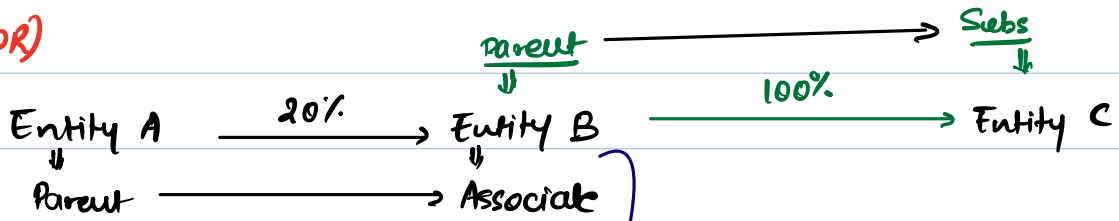
may apply  
Exemption



No exemption  
 (i.e. AK will have to apply  
 equity method for 15% with Kelash).

Also Refer Q2

Illus 12 (LDR)



Entity A (Books)

Invest in Asse (Entity B) 200 (Given in BIS)

(+) Post Acq<sup>n</sup> Share (O.E.) (100x20%) 20  
 Invest in B Hld 220

B sold 20% stake in C (Disposal without loss of control)  
 ↓  
 own stake ↓  
 NCF stake ↑

J-E. (Entity B)  
 ↓  
 ClB A/c DR 300 (Given).

TO NCF A/c 200 (Given)  
 TO Com O.E. A/c 100 (BIF).

In Sol<sup>n</sup> J-E  
 Not asked ∴ present this is theory

J-E.  
 Invest in B A/c DR 20  
 TO ~~A/c~~ Com O.E. 20

Associate ka PL wala profit, we record in PL (Parent)

u u O.E. u  
 u u O.E. u u O.E.

