# AS-21: Consolidated Financial Statement

Holding Co. H Ltd → Control → Subsidiary Co. S Ltd

Control:
- >50% of voting Power
- (OR)
- Power to Compose BOD.

Separate/Standalone H Ltd + Separate/Standalone S Ltd ⇒ Consolidated

| Separate/Standalone H Ltd | Separate/Standalone S Ltd | Consolidated |
|---|---|---|
| 1) Balance Sheet | Balance Sheet | Cons. B/S |
| 2) P/L | P/L | Cons. P/L |
| 3) Cash flow Statement | Cash flow Statement | Cons. CFS. |
| 4) Notes to A/cs | Notes to A/cs. | Cons. Notes to A/cs |

- Companies Act Sec. 129(3) :→ Requirement to Make Consolidated Financial Statement.
- AS-21 :→ How to Make ——— " ———
- If Parent / Holding Co. Holds 100% Equity Shares Capital, then subsidiary is called wholly owned Subsidiary.

## Example - 1 :-

**Balance Sheet as on 31/3/23**

| | H ltd | S ltd. |
|---|---|---|
| Equity Sh. Cap. | 13,00,000 | 7,00,000 |
| Res. & Surp. | 2,00,000 | 1,00,000 |
| Liabilities | 5,00,000 | 2,00,000 |
| | 20,00,000 | 10,00,000 |
| PPE | 10,00,000 | 7,00,000 |
| Inv. in 100% Share of S ltd. | 8,50,000 | — |
| Current Asset | 1,50,000 | 3,00,000 |
| | 20,00,000 | 10,00,000 |

Prepare Consolidated Balance Sheet assuming Shares acquired on 31/3/23.

Cost of Control : G/W or Cap. Res.

| | |
|---|---|
| Cost of Investment | 850000 |
| (-) 100% Net Asset of S ltd | (800000) |
| G/W | 50000 |

**Consolidated B/S**

| | |
|---|---|
| Eq. Sh. Cap | 13,00,000 |
| Res. & Surp. | 200000 |
| Liability (5L+2L) | 700000 |
| | 22,00,000 |
| PPE (10L + 7L) | 17,00,000 |
| G/W | 50000 |
| Current Asset (1.5L + 3L) | 450000 |
| | 22,00,000 |

Journal Entry:

PPE A/c Dr 700000
Current Asset Dr 300000
G/W (B.f) Dr 50000
To liability 200000
To Invest in Sh. (PC). 850000

Example 2 :

Balance sheet as on 31/3/23.

| | HLtd | SLtd. |
|---|---|---|
| Equity Sh. Cap. | 1300000 | 700000 |
| Res. & Surp | 200000 | 100000 |
| Liability | 500000 | 200000 |
| | 20,00,000 | 10,00,000 |
| PPE | 10,00,000 | 700000 |
| Inv. in 80% Sh. of SLtd | 8,50,000 | – |
| Current Asset | 150000 | 300000 |
| | 20,00,000 | 10,00,000 |

Prepare Consolidated Balance Sheet assuming Share acquired on 31/3/23

Consolidated B/S

| | |
|---|---|
| Eq. Sh. Cap | 13,00,000 |
| Res. & Surp. | 200000 |
| Minority Interest | 160000 |
| Liability (5L + 2L) | 700000 |
| | 2360000 |
| PPE (10L + 7L) | 1700000 |
| G/W | 210000 |
| Current Asset (1.5L + 3L) | 450000 |
| | 2360000 |

Cost of Control.

| | |
|---|---|
| Cost of Investment | 850000 |
| (-) 80% of Net Asset of SLtd (7L + 1L) X 80% | (640000) |
| G/W | 210000 |

20% of Net Assets

(7L + 3L − 2L) X 20%

or

(7L + 1L) X 20% = $\boxed{160000}$ → Net Asset Not owned by Holding Co.

↓

Minority Interest

## Example 3 :

**Balance sheet as on 31/3/23**

| | H Ltd | S Ltd |
|---|---|---|
| Equity sh. Cap. | 1300000 | 700000 |
| Res. & Surp. | 200000 | 100000 |
| Liabilities | 500000 | 200000 |
| | 2000000 | 1000000 |
| PPE | 1000000 | 700000 |
| Inv. in 80% Share of S Ltd | 850000 | – |
| Current Asset | 150000 | 300000 |
| | 2000000 | 1000000 |

**Consolidated B/s**

| | |
|---|---|
| Eq. Sh. Cap. | 1300000 |
| Reserve & surp. | 248000 |
| Minority Int. | 160000 |
| Liabilities [5L + 2L] | 700000 |
| | 2408000 |
| PPE [10L + 7L] | 1700000 |
| G/w | 258000 |
| Current Assets | 450000 |
| | 2408000 |

Prepare Consolidated Balance sheet assuming shares acquired on 1/4/22 and Bal of Res & Surp. of S ltd was 40000

1/4/22 — 31/3/23

Acq. 80% shares → R&S ⇒ 40000 → Pre-Acquisition Capital profits

31/3/23 R&S 100000

60000 ⇒ Post Acquisition profits

80% Hold. Co. — 20% Minority Int.

### Cost of Control

Cost of Investment = 850000

(–) 80% of Net Asset of S Ltd [700000 + 40000] × 80% (592000)

G/w 258000

### Conso. Res & Surp.

H Ltd : 200000

(+) Post profit: 48000 (60000 × 80%)

248000

Example: same as Eg: 3

Date of Acq. : 1/7/22

1/4/22 — 3M : Pre — 1/7 — 9M : Post — 31/3/22

Res & Surp ₹40000 — Acq. 80% — Res & Surp. ₹1,00,000

60000 × 3/12 = 15000

60000 × 9/12 = 45000 < 80% Holding co. / 20% Minority Int.

$\boxed{\text{Res \& Surp.}}$

55000

(40000 + 15000)

| Cost of Control | |
|---|---|
| Cost of Invest | 850000 |
| (−) 80% of Net Asset (700000 + 55000) × 80% (604000) | |
| G/w | 246000 |

| ~~Holding~~ Minority Int | |
|---|---|
| Sh. cap. (7L × 20%) | 140000 |
| Pre profit (55K × 20%) | 11000 |
| Post Profit (45K × 20%) | 9000 |
| | 160000 |

Consolidated ~~B/S~~ Res & Surp.

| | |
|---|---|
| H Ltd | 200000 |
| (+) Post profit (45000 × 80%) | 36000 |
| | 236000 |

Acq. 1/7/22 Examples of Acquisition on different dates

Analysis of profit (S Ltd)

| | Pre | Post during year |
| --- | --- | --- |
| Reserve & Surplus | 40000 | 60000 |
| Time Adjustment | 15000 | (15000) (60000×3/12) |
| | 55000 | 45000 |

Acq. 1/4/22;

AOP S Ltd.

| | Pre | Post |
| --- | --- | --- |
| Res & Surp. | 40000 | 60000 |

Acq. 31/3/23

AOP : S Ltd

| | Pre | Post |
| --- | --- | --- |
| Res. & Surp | 100000 | NIL |

Acq. 1/2/23

AOP S Ltd

| | Pre | Post |
| --- | --- | --- |
| Res & Surp | 40000 | 60000 |
| Time Adj. | 50000 | (50000) (60000×10/12) |
| | 90000 | 10000 |

Acq. 1/9/22

AOP S Ltd

| | Pre | Post |
| --- | --- | --- |
| Res & Surp | 40000 | 60000 |
| Time Adjust | 25000 | (25000) (60000×5/12) |
| | 65000 | 35000 |

## Working Notes:

Formate of Working Notes

1) Analysis of profit of S Ltd.

| | Pre | Post | |
|---|---|---|---|
| P&L A/c | (Capital) | Gen. Res. | P/L |
| P/L A/c | ✓ | | ✓ |
| Gen. Reserve | ✓ | ✓ | |
| Adjustment | ✓ | ✓ | ✓ |
| ± Time Adjust. | + | (−) | (−) |
| Adjustment Balance | ✓ | ✓ | ✓ |

| | Pre (Capital) | Post Gen. Res. | Post P/L |
|---|---|---|---|
| H | 80% | 80% | 80% |
| MI | 20% | 20% | 20% |

Pre – H 80% → COC

Post – H 80% (Gen. Res. and P/L) → Added in H Ltd.

2). Cost of Control (Goodwill/Capi'l Reserve).

It is Calculated based on Net Asset of Subsidiary on the date of obtaining Control.

| | |
|---|---|
| Cost of Investment | xx |
| (−) % Shares of Holding Co. in *Net Asset of Subsidiary Co. | |
| • Share Capital (H's Share) | (xx) |
| • Pre profits (H's share) | (xx) |
| | xx → +ve Goodwill, −ve Capital Reserve |

* Net Asset can also be obtained based on Asset & Liabilities Approach.

Net Asset: Asset − o/s Liability

or

Sh. Cap + Pre profits.

3) Minority Interest: (Also known as Non-Controlling Interest)

* Represents shares of Net Assets Not owned by Parent / Holding on date of ~~Acquisition~~ Consolidation.

* Shown in Consolidated B/s after Shareholder fund before Non Current liabilities.

* If Minority Interest is Negative, it is transferred to Consolidated P/L

Minority Interest *

| | |
|---|---|
| Share Capital | xx |
| Pre profits | xx |
| Post profits | xx |
| Post General Res | xx |
| | xx |

*Can Also be Calculated based on Asset less liabilities Method.

4) Consolidated General Reserve / P/L

| | |
|---|---|
| Holding General Res. / P/L A/c | xx |
| (+) Post General Res / P/L A/c (Share of Holding) | xx |
| | xx |

**Adjustment 1:** Revaluation Adjustment:

For the purpose of Correctly Calculating cost of Control, AS-21 requires that Assets of Subsidiary Should be revalued on date of Acquisition.

**Step 1:** Profit / Loss on Revaluation

| | | |
|---|---|---|
| | Market Value on Date of Acquisition | XX |
| (-) | Book Value on Date of Acquisition | (XX) |
| | | XX* |

* Adjustment in pre profits.

**Step 2:** Additional Depreciation / saving in Depreciation.

| | | |
|---|---|---|
| | New Market Value × Rate × Post period | XX |
| (-) | Depreciation already Charged | (XX) |
| | | XX* |

* Adjustment in post profits (after time Adjustment)

**Step 3:** Asset value in Consolidated B/S would change

> Adjustments:
> Revaluation :-> Pre profits
> Depreciation :-> post profits.

| | |
|---|---|
| Revaluation Amt ↑ | Pre profits ↑ and Vice Versa |
| Depreciation Amt ↑ | Post profits ↓ and Vice Versa |

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Adjustment 2: Elimination of Common Owing (contra items).

Common Transactions means transactions entered into between H. Co & S Co. It may be as follows:

a) B/R and B/P
b) Debtors and Creditors
c) loan Receivable / loan Payable

Treatment: Cancel Mutual Owing while preparing Consolidated B/S.
(It does not affect AOP, G/w/Cap. Res, Minority Interest or Consolidated Res & Surplus).

Note:
If Contra Cancellation amount is not same, it can be due to Cash in Transit.
It should be reported as Cash equivalent.

Case 1

H Ltd

| | |
|---|---|
| Creditor 50000 (incl. 20000 to S Ltd) | |

S Ltd

| | |
|---|---|
| | Debtors 80000 (incl. 20000 from H Ltd) |

Consolidated B/S

| | | | |
|---|---|---|---|
| Creditors (50000 - 20000) | 30000 | Debtors (80000 - 20000) | 60000 |

## Case 2:

**H Ltd**

| | |
|---|---|
| B/P 55000 (Incld. 20000 to S Ltd) | |

**S Ltd**

| | |
|---|---|
| | B/R 40000 (incl. 12000 of H Ltd) |

**Consolidated B/S**

| | |
|---|---|
| B/P 43000 (55000 - 12000) | B/R 28000 (40000 - 12000) |

## Case 3:

**H Ltd**

| | |
|---|---|
| Creditors 50000 (incl. 17000 to S Ltd) | |

**S Ltd**

| | |
|---|---|
| | Debtors 80000 (incl. 20000 from H Ltd) |

H Ltd paid 3000 to S Ltd on 31/3 But Not received by S Ltd.

**Consolidated B/S**

| | |
|---|---|
| Creditors 33000 [50000 - 17000] | Debtors 60000 (80000 - 20000) |
| | Cash in Transit 3000 |

Adjustment 3 | Unrealised Profit / stock Reserve :.
(i.e. profits in Transaction B/W H & S)

If parent / Holding & subsidiary has sale / Purchase transaction on which profit was earned but Certain stock remains unsold, then such profit is unrealised & it should be ~~claimed~~ eleminated in B/s, since it is not yet earned.

**Sale by H to S (Down stream)**

1) Cons. P/L   xx
(-) Unrealised profit   (xx)   xx

2) Cons. B/s

Stock   H   xx
        S   xx
(-) URP   (xx)   xx

**Sale by S to H. (upstream).**

1) Deduction in AOP from Post Profits after Time Adjustment
(Means Reduction from Holding & Minority Interest)

→ 2) Same.

**Adjustment 4** : Bonus Issue by subsidiary

Entry : Reserve and Surplus A/c — Dr
To Share Capital A/c

| Not Yet Adjusted (Unrecorded) | Already Adjusted (Recorded). |
|---|---|
| 1) Reduce AOP with Bonus Amount (From pre profits) | 1) Add Back Post Gen Res. (Before Time Adjustment) |
| 2) Share Capital (Bonus Issue) (Effect in Cost of Control & Minority Interest) | 2) |
| | 3) Share Capital already increased. |

* If Pre Not sufficient / Question specifies then Post profit.

**Note** : If Bonus issue already Adjusted / Recorded : Be Careful in Calculation of Holding Ratio, take Numerator & ~~Demonin~~ Denominator after Bonus issue.

**Example** ⇒ [redacted]

Balance Sheet

| | H Ltd | S Ltd |
|---|---|---|
| Equity Share Capital | 500000 | 200000 |
| Res & Surp | 350000 | 290000 |
| Liabilities | 150000 | 110000 |
| | 1000000 | 600000 |
| PPE | 400000 | 350000 |
| Invest In S Ltd 20000 Sh. | 400000 | — |
| Current Assets | 200000 | 250000 |
| | 1000000 | 600000 |

Prepare Consolidated B/s Assuming shares acquired on 1/4/22 and Bal of Res. Surp of S Ltd has 210000.

S Ltd issued bonus shares @ 1 shares for every 2 held & No entry Passed till Now.

~~Adjustment 4~~ : ~~Bonus issue by subsidiary~~:

Adjustment 5 : Dividend by Subsidiary :

① Treatment in AOP

* Add Back total dividend paid in Post Profits Before Time Adjustment
* Deduct from Pre/Post Profits Based on source of Dividend.

Final Dividend : last year (Mainly Pre)
Interim Dividend : During the year (can be Pre, Post, Pre/Post)

② Treatment of Dividend Received by Holding
If Post Acq. Dividend : Credit to P/L.
If Pre. Acq. Dividend : Credit to Investment A/C
(Pre Acq. Means where source of Dividend is profits earned in pre Acq. period).

Note : Sometimes Pre Acquisition Dividend is Credited to P/L then,
Rectification → If wrong entry passed.

| ✓ | ✗ | Rectification entry |
|---|---|---|
| Bank A/C Dr<br>To Investment A/C<br>(Share of H Ltd in Total Dividend) | Bank A/C Dr<br>To P/L A/C | P/L Dr<br>To Investment |

Effect in → ① Cost of Control
② Consolidated P/L.

## Preparation of Consolidated P/L.

1) Preparation as per Schedule III.

2) All items of Income & Expenses should be Consolidated on line by line basis.

3) Elimination of Common Transations.

   Eg: Sale / Purchase within group or Income / Expenses which is within group should be limited.

4) Unrealised Profit on stock should be adjusted along with Change in Inventories.

5) Dividend by subsidiary: Eliminate dividend paid by S Ltd. & Received by H Ltd.

Note: ICAI Sometimes assume that dividend is Not included in Sales & other Income of H Ltd. & is therefore Not deducted.