

AS 21 – CONSOLIDATED FINANCIAL STATEMENTS

Illustration 1

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	Cos	Date of acquisition 1.1.20X1		Consolidation Date 31.12.20X1	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
		₹	₹	₹	₹	₹	₹
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

Solution

- (1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] ₹	[E] X [C + D] ₹
Case 1 [100-90]	10 %	15,000	17,000
Case 2 [100-85]	15 %	19,500	18,000
Case 3 [100-80]	20 %	14,000	14,000
Case 4 [100-100]	NIL	Nil	Nil

A = Share capital on 1.1.20X1

B = Profit & loss account balance on 1.1.20X1

C = Share capital on 31.12.20X1

D = Profit & loss account balance on 31.12.20X1

- (2) Calculation of Goodwill or Capital Reserve

	Shareholding	Cost	Total Equity	Parent's Portion of equity	Goodwill	Capital Reserve
	% [F]	[G]	[A] + [B] = [C]	[F] x [C] = H	₹ [G] – [H]	₹ [H] – [G]
Case 1	90 %	1,40,000	1,50,000	1,35,000	5,000	—
Case 2	85 %	1,04,000	1,30,000	1,10,500	— 6,500	
Case 3	80 %	56,000	70,000	56,000	Nil	Nil
Case 4	100 %	1,00,000	90,000	90,000	10,000	—

(3) The balance in the Profit & Loss Account on the date of acquisition (1.1.20X1) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.

On 31.12.20X1 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Share holding [K]	P & L as on 1.1.20X1 [L]	P & L as on consolidate on date [M]	P & L post acquisition [N] = [M]-[L]	Amount to be added / (deducted) from holding's P & L [O] = [K] x [N]
1	90 %	50,000	70,000	20,000	18,000
2	85 %	30,000	20,000	(10,000)	(8,500)
3	80 %	20,000	20,000	NIL	NIL
4	100 %	40,000	55,000	15,000	15,000

Illustration 2

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 20X1 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st January, 20X1 was ₹ 1,00,000 and the balance in the Profit & Loss Account was ₹ 60,000.

During the year ended 31st December, 20X1, 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, 20X1 and 31st December, 20X1? Also please check whether there should be any goodwill/ capital reserve at the date of acquisition.

Solution

Total dividend paid is ₹ 15,000 (assumed to be out of post-acquisition profits), hence dividend received by XYZ will be credited to P & L.

XYZ Ltd.'s share of dividend = ₹ 15,000 X 80% = ₹ 12,000

In the books of XYZ Ltd.

	₹	₹
Bank A/c Dr.	12,000	
To Profit & Loss A/c	12,000	
(Dividend received from ABC Ltd credited to P&L A/c being out of post-acquisition profits – as explained above)		
Goodwill on consolidation (at the date of acquisition):	₹	₹
Cost of shares		1,40,000
Less: Face value of capital i.e. 80% of capital	80,000	
Add: Share of capital profits [60,000X 80 %]	<u>48,000</u>	<u>(1,28,000)</u>
Goodwill		<u>12,000</u>
Minority interest on:		
- 1st January, 20X1:		
20% of		
₹ 1,60,000 [1,00,000 + 60,000]	32,000	
- 31st December, 20X1:	33,000	
20% of ₹ 1,65,000 [1,00,000 + 60,000 + 20,000 – 15,000]		

Illustration 3 (MTP Apr'24)

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 20X1 at a cost of ₹ 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 20X1:

	₹ in lakhs
Property, plant and 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 and equipment Up by 20%

Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 20X1 (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. **(7 Marks)**

Solution

Revalued net assets of Zed Ltd. as on 31st March, 20X1

	₹ in lakhs	₹ in lakhs
Property, plant and equipment [120 X 120%]		144.0
Investments [55 X 90%]		49.5
Current Assets		70.0
Loans and Advances		15.0
Total Assets after revaluation		278.5
Less: 15% Debentures	90.0	
Current Liabilities	50.0	(140.0)
Equity / Net Worth		138.5
Exe Ltd.'s share of net assets (70% of 138.5)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd.		
(₹ 70 lakhs – ₹ 7 lakhs*)		63.00
Capital reserve		33.95

* Total Cost of 70 % Equity of Zed Ltd	₹ 70 lakhs
Purchase Price of each share	₹ 20
Number of shares purchased [70 lakhs / ₹ 20]	3.5 lakhs
Dividend @ 20 % i.e. ₹ 2 per share	₹ 7 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

Illustration 4 (MTP Mar'19, Oct 19) (RTP May'23) (Past Exam May'19, Nov'23)

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.20X1 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 20X5- X6, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 20X6-X7 and 20X7-X8, 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. **(10 Marks)**

Solution

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. In such cases, AS 21 prescribes that 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 profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Where the minority interest has a binding obligation (say by way of a shareholders' agreement), then the share of losses will be attributed to the minority interest even if it exceeds the minority interest in the equity (i.e., debit balance in minority interest). Since information on the existence of a binding obligation is not given in the question, we solve as if such obligation does not exist, and hence the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr. (for the year ended balance)	Minority's Share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 20X1		3,24,000	-			
		-				
		(W.N.)				
20X1-X2	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance		2,49,000				
20X2-X3	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
20X3-X4	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			
20X4-X5	(1,20,000)	(36,000)	(84,000)		2,44,000	
Loss of minority borne by Holding Co.	36,000		(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
20X5-X6	50,000	15,000	35,000			2,44,000
	Profit share of minority	(15,000)	15,000	(15,000)	42,000	

	adjusted against losses of minority absorbed by Holding Co.					
Balance		Nil	50,000			
20X6-X7	1,00,000	30,000	70,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(30,000)	30,000	(30,000)	12,000	2,44,000
Balance		Nil	100,000			
20X7-X8	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	12,000			
Balance		33,000	1,17,000			

Working Note:**Calculation of Minority interest and Cost of control on 1.4.20X1**

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	<u>56,000</u>	<u>24,000</u>
		7,56,000	<u>3,24,000</u>
Less: Cost of investment		<u>(10,00,000)</u>	
Goodwill		<u>2,44,000</u>	

Illustration 5

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.

Solution**1. Computation of Purchase Consideration**

(a) Yield of VR Ltd.: $\left[\frac{40}{100} \times \frac{30 + 40 + 65}{3} \right]$	₹ 18 lakhs
(b) Price per share of VR Ltd.:	
Capitalized Yield: $\left[\frac{18 \text{ lakhs}}{0.15} \right]$	120 lakhs
No. of shares	2 lakhs
Therefore, price per share	₹ 60
(c) Purchase Consideration for 54% shares in VR Ltd.	
2 lakh shares x 54% x ₹ 60 per shares	₹ 64.80 lakhs
(d) Discharge of Purchase Consideration:	
Tax at source (₹ 64.80 lakhs – ₹ 5.40 lakhs) $\times \frac{30}{100}$	₹ 17.82 lakhs
50% of purchase consideration (net of tax) in cash	₹ 23.49 lakhs
[₹ (64.80 – 17.82) x 50%]	
Balance – Unsecured Loan	₹ 23.49 lakhs

2. Goodwill / Capital Reserve to Variety Ltd.

	₹ in lakhs	
Total Assets	100.00	
Less: Reduction in Value of Property, Plant and Equipment	(1.75)	
	98.25	
Less: Current Liabilities	(20.00)	
Net Assets of VR Ltd. on Date of Acquisition		78.25
Purchase Consideration: 54% purchased from Foreign Co.	64.80	
Investment: 46% existing stake	15.64	(80.44)
Goodwill on Date of Acquisition		2.19

Illustration 6 (RTP May'24)

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 and Equipment	70,00,000
Investments	45,00,000
Current Assets	68,00,000
Loans and 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.

Solution

Since dividend is declared by B Ltd. on the date of acquisition itself, it would be out of the divisible profits of B Ltd. existing on the date of acquisition i.e., preacquisition profits from the perspective of A Ltd. Accordingly, as per AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

	₹	₹
Assets		
Property, Plant and Equipment	70,00,000	
Less: Value written off (₹ 70 lakhs x 10%)	(7,00,000)	
	63,00,000	
Investments at Market Value	60,00,000	

Current Assets	68,00,000	
Loans and Advances	22,00,000	2,13,00,000
Less: Liabilities		
Trade Payables	55,00,000	
10% Debentures	10,00,000	(65,00,000)
Net Assets of B Ltd.		1,48,00,000
Share of A Ltd. in Net Assets of B Ltd.: 60%		88,80,000
Less: Cost of Investment in B Ltd. (60% stake):		
10,00,000 Equity Shares x 60% x ₹ 20 per share	1,20,00,000	
Less: Pre-acquisition dividend: 6,00,000 shares x ₹ 2	(12,00,000)	(1,08,00,000)
Goodwill on Date of Acquisition		19,20,000

Illustration 7

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹ 4,80,000 on 31.7.20X1. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 20X1 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 the entry in the books of H Ltd., in respect of the dividend. Assume the profit is accruing evenly and calendar year as financial year.

Solution

The profits of S Ltd., have to be divided between capital and revenue profits from the point of view of the holding company:

	Capital Profit (Preacquisition)		Revenue Profit (Post acquisition)
	₹		₹
Balance on 1.1.20X1	1,25,000	—	
Profit for 20X1 (3,00,000 × 7/12)	<u>1,75,000</u>	(3,00,000 × 5/12)	<u>1,25,000</u>
Total	3,00,000		1,25,000
Proportionate share of H Ltd. (3/5)	1,80,000		75,000

Total dividend declared = ₹ 5,00,000 X 40 % = ₹ 2,00,000

H Ltd.'s share in the dividend = ₹ 2,00,000 X 3/5 = ₹ 1,20,000

There can be two situations as regards the treatment of dividend of ₹ 1,20,000:

(1) The profit for 20X1 has been utilised to pay the dividend.

The share of H Ltd in profit for the first seven months of S Ltd = ₹ 1,05,000

(i.e. ₹ 1,75,000 × 3/5)

Profit for the remaining five months = ₹ 75,000

(i.e. ₹ 1,25,000 × 3/5).

The dividend of ₹ 1,20,000 will be adjusted in this ratio of 1,05,000: 75,000 = ₹ 70,000 out of profits up to 31.7.20X1 and ₹ 50,000 out of profits after that date.

The dividend out of profits subsequent to 31.7.20X1 will be revenue income and that out of earlier profits will be capital receipt. Hence the entry will be:

₹ ₹

Bank Dr. 1,20,000

To Investment Account 70,000

To Profit and Loss Account 50,000

(2) Later profits have been utilised first and then pre- acquisition profits.

In such a case, the whole of ₹ 75,000 (share of H Ltd. in profits of S Ltd., after 31.7.20X1) would be received and treated as revenue income; the remaining dividend, ₹45,000 (₹1,20,000 less ₹ 75,000) would be capital receipt. The entry would be:

		₹	₹
Bank	Dr.	1,20,000	
To Investment Account			45,000
To Profit & Loss Account			75,000

Note: Point (2) discussed above can arise only if there is definite information about the profits utilized. In practice, such treatment is rare.

Illustration 8

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

	₹ '000s	
	A Ltd.	B Ltd.
Equity Shares	6,000	5,000
6% Preference Shares	NIL	1,000
General Reserve	1,200	800
Profit and Loss Account	1,020	1,790
Trade Payables	3,850	3,410
Dividend Payable	600	500
Goodwill	100	20
Property, Plant and Equipment	3,850	2,750
Investment	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.

Solution

Calculation of Pre- and Post-Acquisition Profits:

	Pre-Acquisition Profits (₹)	Post-Acquisition Profits (₹)
Profit & Loss Account	10,00,000	7,90,000
General Reserve	8,00,000	NIL
	18,00,000	7,90,000
Less: Share of Minority Interest: ($\frac{1}{4}$)	(4,50,000)	(1,97,500)
Attributable to Parent	13,50,000	5,92,500

	(Cost of Control)	(Post-acquisition Profits)
--	-------------------	----------------------------

Calculation of Minority Interest:

Particulars	₹
Paid-up Equity Share Capital (₹ 50,00,000 x ¼)	12,50,000
Paid-up Preference Share Capital	10,00,000
Share in Reserves:	
Profit & Loss Account: ₹ 17,90,000 x ¼	4,47,500
General Reserve: ₹ 8,00,000 x ¼	2,00,000
Minority Interest	28,97,500

Calculation of Goodwill/Capital Reserve

	₹	₹
Cost of Investment in Subsidiary:	46,87,500	
₹ 50,00,000 x 75% x 125% (cost + 25% premium)		
Less: Pre-acquisition dividend	(3,75,000)	43,12,500
Less: Net Worth of B Ltd. on Date of Acquisition (attributable to A Ltd.):		
Paid-up Capital	37,50,000	
Pre-acquisition Reserves	13,50,000	(51,00,000)
Capital Reserve		7,87,500

Illustration 9 (RTP Nov'21)

On 31st March, 20X1, 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 31st March, 20X3:

	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 31.3.20X3 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 31st March, 20X3 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

- Before issue of bonus shares;
- Immediately After issue of bonus shares.

Solution

Shareholding pattern

Particulars	Number of Shares	% of holding
a. P Ltd.		
(i) Purchased on 31.03.20X1	1,05,000	
(ii) Bonus Issue (1,05,000/2)	52,500	
Total	1,57,500	70%
b. Minority Interest	67,500	30%

Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 20X3:

(a) Before issue of bonus shares

(i)	Cost of control/capital reserve	₹	₹
	Investment in Q Ltd. 12,00,000		
	Less: Face value of investments (Share Capital)	10,50,000	
	Capital profits (W.N.)	<u>63,000</u>	<u>(11,13,000)</u>
	Cost of control (i.e., Goodwill)		<u>87,000</u>
(ii)	Minority Interest		
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		<u>6,79,500</u>
			<u>11,56,500</u>
(iii)	Consolidated profit and loss account –P Ltd.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		<u>15,85,500</u>
			<u>31,60,500</u>

(b) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	₹	₹
	Face value of investments (₹ 10,50,000 + ₹ 5,25,000)	15,75,000	
	Capital Profits (W.N.)	<u>63,000</u>	<u>16,38,000</u>
	Less: Investment in Q Ltd.		<u>(12,00,000)</u>
	Capital reserve		<u>4,38,000</u>
(ii)	Minority Interest		₹

	Share Capital (₹ 4,50,000 + ₹ 2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		<u>4,54,500</u>
			<u>11,56,500</u>
(iii)	Consolidated Profit and Loss Account – P Ltd.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		<u>10,60,500</u>
			<u>26,35,500</u>

Working Note:**Analysis of Profits of Q Ltd.**

	Capital Profits (Pre-acquisition)	Revenue Profits (Post-acquisition)	
	(Before and after issue of bonus shares) ₹	Before Bonus Issue ₹	After Bonus Issue ₹
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.20X1	<u>60,000</u>		
	<u>90,000</u>		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			<u>(7,50,000)</u>
			11,55,000
Profit for period of 1 st April, 20X1 to 31st March, 20X3 (₹ 4,20,000 – ₹ 60,000)		<u>3,60,000</u>	<u>3,60,000</u>
		<u>22,65,000</u>	<u>15,15,000</u>
P Ltd.'s share (70%)	63,000	15,85,500	10,60,500
Minority's share (30%)	27,000	6,79,500	4,54,500

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

Illustration 10

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31 March, 20X1 from the following information:

	H Ltd.	S Ltd.
	₹	₹
PPE	5,00,000	3,00,000
Investments		
(20,000 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 31st March, 20X1.

Solution

Percentage of holding:

	No. of Shares	Percentage
--	---------------	------------

Holding Co :	20,000	(80%)
Minority shareholders :	5,000	(20%)
TOTAL SHARES :	25,000	

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd.
as at 31st March, 20X1

		Note No	Amount (₹)
	I EQUITY AND LIABILITIES		
1	Shareholder's Fund		
	(a) Share Capital	1	5,00,000
	(b) Reserve and Surplus	2	2,60,000
2	Minority interest	3	
3	Current Liabilities	4	70,000
	(a) Trade payables		
			2,25,000
	Total		10,55,000
	II ASSETS		
1.	Non-Current Assets		
	PPE	5	8,00,000
2.	Current Assets	6	2,55,000
	Total		10,55,000

Notes to Accounts

	Amounts	(₹)
1	Share capital	
	50,000 Equity Shares @ ₹10 each	5,00,000
2	Reserve and Surplus	
	Capital Reserve (W.N.)	60,000
	Profit and loss account	2,00,000
		2,60,000
3	Minority Interest	
	Paid up value of shares 50,000	
	Add: Share in Profit and loss account 20,000 70,000	
4	Trade payables	
	H Ltd.	1,75,000
	S Ltd.	50,000
		2,25,000
5	PPE	
	H Ltd.	5,00,000
	S Ltd.	3,00,000
		8,00,000
6	Current Assets	
	H Ltd.	1,55,000
	S Ltd.	1,00,000

		2,55,000
--	--	----------

Working Note:

Determination of Goodwill/(Capital Reserve)		(₹)
Cost of investment		2,20,000
Less: Paid up value of shares (80% of 2,50,000)	2,00,000	
Share in pre-acquisition profits (80% of 1,00,000)	<u>80,000</u>	
		(2,80,000)
Capital Reserve		(60,000)

Illustration 11 (Past Exam Nov'22)

H Ltd. and S Ltd. provide the following information as at 31st March, 20X2:

	H Ltd.	S Ltd.
	₹	₹
PPE	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

Additional information:

H Ltd. acquired the shares of S Ltd. on 1-7-20X1 and Balance of profit and loss account of S Ltd. on 1-4-20X1 was 30,000.

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 20X2.

(15 Marks)

Solution**Percentage of holding:**

	No. of Shares	Percentage
Holding Co. :	8,000	(80%)
Minority shareholders :	<u>2,000</u>	(20%)
TOTAL SHARES :	<u>10,000</u>	

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd.

as at 31st March, 20X2

		Note No	Amount (₹)
	I EQUITY AND LIABILITIES		
1	Shareholder's Fund		
	(a) Share Capital	1	1,50,000
	(b) Reserve and Surplus	2	56,000
2	Minority interest	3	28,000
3	Current Liabilities		
	(a) Trade payables	4	1,60,000
	Total		3,94,000

	II ASSETS		
1	Non-Current Assets:		
	PPE	5	2,30,000
	Intangible Asset	6	20,000
2	Current Assets	7	1,44,000
	Total		3,94,000

Notes to Accounts

		Amount (₹)
1	Share capital	
	15,000 Equity Shares @ ₹10 each	1,50,000
2	Reserve and Surplus	
	Profit and loss account (₹ 50,000+ 80% of 9/12 x 10,000)	56,000
3	Minority Interest Share capital (20% of ₹ 1,00,000) 20,000	
	Share in Profit and loss account (₹ 40,000 X 20%) 8,000	28,000
4	Trade payables	
	H Ltd.	1,00,000
	S Ltd.	60,000
		1,60,000
5	PPE	
	H Ltd.	1,00,000
	S Ltd.	1,30,000
		2,30,000
6	Intangible Asset	
	Cost of Investment	1,26,000
	Less: Paid up value of shares (80% of ₹	1,00,000)
	Share in pre-acquisition profits	(80,000)
	80% of [30,000+3/12(40,000-30,000)]	(26,000)
	Goodwill	20,000
7	Current Assets	
	H Ltd.	74,000
	S Ltd.	70,000
		1,44,000

Illustration 12 (MTP Mar'24)

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, 20X1

Particulars	Note No.	Virat Ltd. (₹)	Anushka Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's 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			
Long Term Borrowings		2,00,000	1,00,000
(3) Current Liabilities			
(a) Trade Payables		1,00,000	1,00,000
Total		10,00,000	7,00,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant and 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
Total		10,00,000	7,00,000

Notes to Accounts

	Particulars	(₹)	Virat Ltd. (₹)	Anushka Ltd. (₹)
1.	Share capital 60,000 equity shares of ₹ 10 each fully paid up 40,000 equity shares of ₹ 10 each fully paid up Total		6,00,000 -- 6,00,000	-- 4,00,000 4,00,000
2.	Reserves and Surplus General Reserve Total		<u>1,00,000</u> <u>1,00,000</u>	<u>1,00,000</u> <u>1,00,000</u>
3.	Non-current investments Shares in Anushka Ltd		<u>3,20,000</u>	--

Solution**(14 Marks)**

Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 20X1

	Particulars	Note	Amount (₹)
I	EQUITY AND LIABILITIES:		
(1)	Shareholders' Funds:		
	(a) Share Capital	1	6,00,000
	(b) Reserve and Surplus	2	1,80,000
(2)	Minority Interest	3	1,00,000
(3)	Non-Current Liabilities:		
	Long Term Borrowings	4	3,00,000
(4)	Current Liabilities:		
	Trade Payables	5	2,00,000
	Total		13,80,000
II	ASSETS:		
(1)	Non-Current Assets		
	Property, Plant & Equipment	6	7,00,000

(2)	Current Assets:		
	(a) Inventories	7	3,60,000
	(b) Trade receivables	8	2,20,000
	(c) Cash and Cash Equivalents	9	1,00,000
	Total		13,80,000

Notes to Accounts

	Particulars	₹	₹
1.	Share capital 60,000 equity shares of ₹10 each fully paid up		6,00,000
2.	Reserves and Surplus General Reserve Add: General reserve of Anushka Ltd (80%) Total	1,00,000 80,000	1,80,000
3.	Minority interest 20% share in Anushka Ltd (WN 3)		1,00,000
4.	Long term borrowings Long term borrowings of Virat Add: Long term borrowings of Anushka Total	2,00,000 1,00,000	3,00,000
5.	Trade payables Trade payables of Virat Add: Trade payables of Anushka Total	1,00,000 1,00,000	2,00,000
6.	Property, Plant and Equipment (PPE) PPE of Virat Ltd Add: PPE of Anushka Ltd Total	4,00,000 3,00,000	7,00,000
7.	Inventories Inventories of Virat Ltd Add: Inventories of Anushka Ltd Total	1,60,000 2,00,000	3,60,000
8.	Trade receivables Trade receivables of Virat Ltd Add: Trade receivables of Anushka Ltd Total	80,000 1,40,000	2,20,000
9.	Cash and cash equivalents Cash and cash equivalents of Virat Ltd Add: Cash and cash equivalents of Anushka Ltd Total	40,000 60,000	1,00,000

Working Notes:**1. Basic Information**

Company Status	Dates	Holding Status
Holding Co. = Virat Ltd.	Acquisition: Anushka's Incorporation	Holding Company = 80%
Subsidiary = Anushka Ltd.	Consolidation: 31st March, 20X1	Minority Interest = 20%

2. Analysis of General Reserves of Anushka Ltd

Since Virat holds shares in Anushka since its incorporation, the entire Reserve balance of ₹1,00,000 will be Revenue.

3. Consolidation of Balances

Holding- 80%, Minority - 20%	Total	Minority Interest	Holding Company	
Equity Capital	4,00,000	80,000	3,20,000	-
General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		1,00,000	3,20,000	80,000
Cost of Investment			(3,20,000)	-
Goodwill/capital reserve			NIL	
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				1,80,000

Illustration 13 (RTP May'22, May'20)

From the following balance sheets of H Ltd. And its subsidiary S Ltd. drawn up at 31st March, 20X1, prepare a consolidated balance sheet as at that date, having regard to the following:

- 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, 20X0.
- 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, 20X0 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Balance Sheet of H Ltd. and S Ltd. as at 31st March, 20X1

Particulars	Note No.	H Ltd. (₹)	S Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's 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
Total		10,50,000	2,57,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	3	4,50,000	1,07,000
(b) Other non- current investments	4	6,00,000	1,50,000
Total		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
	Total		6,00,000	1,00,000
2.	Reserves and Surplus			
	General reserves		2,00,000	75,000
	Profit and loss account		1,00,000	25,000

	Total		3,00,000	1,00,000
3.	Property, Plant and Equipment			
	Machinery		3,00,000	90,000
	Furniture		1,50,000	17,000
	Total		4,50,000	1,07,000
4.	Other Non-current investments			
	Non-current Investments		4,40,000	1,50,000
	Shares in S Ltd.			
	(800 shares at ₹200 each)		1,60,000	--
	Total		6,00,000	1,50,000

Solution**Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.****as at 31st March, 20X1**

	Particulars	Note No.	(₹)
I.	Equity and Liabilities		
	(1) Shareholder's Funds		
	(a) Share Capital	1	6,00,000
	(b) Reserves and Surplus	2	3,44,600
	(2) Minority Interest	3	48,150
	(3) Current Liabilities		
	(a) Trade Payables		2,07,000
	Total		11,99,750
II.	Assets		
	(1) Non-current assets		
	(a) Property, Plant and Equipment	4	5,97,750
	(b) Intangible assets	5	12,000
	(c) Other non-current investments	6	5,90,000
	Total		11,99,750

Notes to Accounts

			₹
1.	Share capital		
	6,000 equity shares of ₹ 100 each, fully paid up		6,00,000
	Total		6,00,000
2.	Reserves and Surplus		
	Reserves	2,00,000	
	Add: 4/5th share of S Ltd.'s postacquisition reserves (W.N.3)	40,000	2,40,000
	Profit and Loss Account	1,00,000	
	Add: 4/5th share of S Ltd.'s post acquisition profits (W.N.4)	4,600	1,04,600
	Total		3,44,600
3.	Minority interest in S Ltd. (WN 5)		48,150
4.	Property, plant and equipment		
	Machinery		
	H. Ltd.		
	S Ltd.	1,00,000	
	Add: Appreciation	50,000	
		3,00,000	

		1,50,000 (15,000)	1,35,000	
	Less: Depreciation (1,50,000 X 10%)* Furniture H. Ltd. S Ltd.	20,000 (5,000)	1,50,000	
	Less: Decrease in value	15,000 (2,250)	12,750	5,97,750
5.	Intangible assets			
	Goodwill [WN 6]			12,000
6.	Other non-current investments			
	H Ltd.		4,40,000	
	S Ltd.		1,50,000	
	Total			5,90,000

* As an alternative manner of presentation, the solution contains only the 'additional depreciation'.

Working Notes:

1.	Pre-acquisition profits and reserves of S Ltd. ₹	
	Reserves	25,000
	Profit and Loss Account	15,000
		40,000
	H Ltd.'s = $\frac{4}{5}$ (or 80%) × 40,000	32,000
	Minority Interest = $\frac{1}{5}$ (or 20%) × 40,000	8,000
2.	Profit on revaluation of assets of S Ltd.	
	Profit on Machinery ₹ (1,50,000 – 1,00,000)	50,000
	Less: Loss on Furniture ₹ (20,000 – 15,000)	5,000
	Net Profit on revaluation	45,000
	H Ltd.'s share $\frac{4}{5} \times 45,000$	36,000
	Minority Interest $\frac{1}{5} \times 45,000$	9,000
3.	Post-acquisition reserves of S Ltd.	
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 75,000 – 25,000)	50,000
	H Ltd.'s share $\frac{4}{5} \times 50,000$	40,000
	Minority interest $\frac{1}{5} \times 50,000$	10,000
4.	Post -acquisition profits of S Ltd.	
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 25,000 – 15,000)	10,000
	Add: Excess depreciation charged on furniture @ 15% On ₹ 5,000 i.e. (20,000 – 15,000)	750
		10,750
	Less: Under depreciation on machinery @ 10% on ₹ 50,000 i.e. (1,50,000 – 1,00,000)	(5,000)
	Adjusted post-acquisition profits	5,750
	H Ltd.'s share $\frac{4}{5} \times 5,750$	4,600
	Minority Interest $\frac{1}{5} \times 5,750$	1,150
5.	Minority Interest	
	Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. $200 \times ₹ 100$ (or $1,00,000 \times 20\%$)	20,000
	Add: 1/5th share of pre-acquisition profits and reserves	8,000
	1/5th share of profit on revaluation	9,000
	1/5th share of post-acquisition reserves	10,000
	1/5th share of post-acquisition profit	1,150
		48,150

6. Cost of Control or Goodwill	
Price paid by H Ltd. for 800 shares (A)	1,60,000
Intrinsic value of the shares-	
Paid-up value of 800 shares held by H Ltd. i.e. $800 \times ₹ 100$ (or $1,00,000 \times 80\%$)	80,000
Add: 4/5th share of pre-acquisition profits and reserves	32,000
4/5th share of profit on the revaluation	36,000
Intrinsic value of shares on the date of acquisition (B)	1,48,000
Cost of control or Goodwill (A – B)	12,000

Illustration 14 (MTP Oct'20, Mar'22, Oct'23)

- a) 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 20X1.
- b) 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 20X1.

Suggest the accounting treatment for the above mentioned transactions in the consolidated financial statements of A Ltd. giving reference of the relevant guidance/standard. **(5 Marks)**

Solution

As per para 16 and 17 of AS 21, intragroup balances and intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealized profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealized losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

One also needs to see whether the intragroup transaction is “upstream” or “down-stream”. Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. While in the downstream transaction, holding company is the seller and subsidiary company is the buyer.

In the case of upstream transaction, since the goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold inventory.

But in the case of downstream transaction, the whole profit is earned by the holding company, therefore, whole unrealized profit should be adjusted from unsold inventory and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

Using above mentioned guidance, following adjustments would be required:

- a. This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 20X1, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 20X1.

- b. This would be the case of upstream transaction. In the consolidated profit and loss account for the year ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 50 lacs (i.e. ₹ 200 lacs – ₹ 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 20X1, by reducing the value of closing inventories by ₹ 50 lacs as of 31 March 20X1. In the consolidated balance sheet as of 31 March 20X1, A Ltd.'s share of profit from B Ltd will be reduced by ₹ 37.50 lacs (being 75% of ₹ 50 lacs) and the minority's share of the profits of B Ltd would be reduced by ₹ 12.50 lacs (being 25% of ₹ 50 lacs).

Illustration 15

H Ltd and its subsidiary S Ltd provide the following information for the year ended 31st March, 20X3:

H Ltd. S Ltd.

	(₹ in lacs)	(₹ 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 20X1-20X2.

H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 20X1-20X2.

Prepare a consolidated statement of profit and loss..

Solution

Consolidated statement of profit and loss of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 20X3

	Particulars	Note No.	₹ in Lacs
I.	Revenue from operations	1	5,865
II.	Total Income		5,865
III.	Expenses		
	Cost of material purchased/consumed	2	1,180
	Changes of inventories of finished goods	3	(1,196)
	Employee benefit expense	4	950
	Finance cost	5	150
	Depreciation and amortization expense	6	150
	Other expenses	7	535
	Total expenses		1,769
IV.	Profit before tax (II-III)		4,096

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from operations		
	Sales and other income		
	H Ltd.	5,000	
	S Ltd.	1,000	
		6,000	
	Less: Inter-company sales	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	(10)	5,865
2.	Cost of material purchased/consumed		
	H Ltd.	800	
	S Ltd.	200	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	(120)	880
	Direct expenses (Production)		
	H Ltd.	200	
	S Ltd.	100	300
			1,180
3.	Changes of inventories of finished goods		
	H Ltd.	1,000	
	S Ltd.	200	
		(4)	1,196
	Less: Unrealized profits ₹ 24 lacs × $\frac{20}{120}$		
4.	Employee benefits and expenses		
	Wages and salaries:		
	H Ltd.	800	
	S Ltd.	150	950
5.	Finance cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	50	150
6.	Depreciation		
	H Ltd.	100	
	S Ltd.	50	150
7.	Other expenses		
	Administrative expenses		
	H Ltd.	200	
	S Ltd.	100	
	Less: Consultancy fees received by H Ltd. from S Ltd.	(5)	295
	Selling and distribution Expenses:		
	H Ltd.	200	
	S Ltd.	50	
	Less: Commission received by S Ltd. from H Ltd.	(10)	240
			535

Illustration 16

Subsidiary B Ltd. provides the following balance sheet:

Particulars	Note No.	20X0 (₹)	20X1 (₹)
I. Equity and Liabilities			

(1) Shareholder's Funds			
(a) Share Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,86,000	7,14,000
(2) Current Liabilities			
(a) Short term borrowings	3	--	1,70,000
(b) Trade Payables		4,90,000	4,94,000
(c) Short-term provisions		4 3,10,000	4,30,000
Total		15,86,000	23,08,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	5	2,72,000	2,24,000
(b) Non-current Investment			4,00,000
(2) Current assets			
(a) Inventories		5,97,000	7,42,000
(b) Trade Receivables		5,94,000	8,91,000
(c) Cash & Cash Equivalents		51,000	3,000
(d) Other current assets		6 72,000	48,000
Total		15,86,000	23,08,000

		20X0 (₹)	20X1 (₹)
1.	Share capital 5,000 equity shares of ₹10 each, fully paid up	5,00,000	5,00,000
2.	Reserves and Surplus General Reserves	2,86,000	7,14,000
3.	Short term borrowings Bank overdraft	--	1,70,000
4.	Short term provisions Provision for taxation	3,10,000	4,30,000
5.	Property, plant and equipment Cost Less: Depreciation Total	3,20,000 (48,000) 2,72,000	3,20,000 (96,000) 2,24,000
6.	Other current Assets Prepaid expenses	72,000	48,000

Also consider the following information:

- B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the 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 20X0 and ₹ 34,000 at the end of 20X1.
- 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 20X0 and ₹ 30,000 in 20X1, being part of initial advertising expenditure of ₹ 90,000 in 20X0 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 20X0.

Restate the balance sheet of B Ltd. as at 31st December, 20X1 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.

Solution

As per para 20 and 21 of AS 21, Consolidated financial statements:

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

If a member of the group uses accounting policies other than those adopted in the 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.

Accordingly in the given case, restatement would be required to make the accounting policies of A Ltd and B Ltd uniform.

Adjusted reserves of B Ltd.:

	₹	₹
Reserves as given		7,14,000
Add: Provision for doubtful debts		
{[8,91,000 / 99 X 100]-8,91,000}		9,000
		7,23,000
Less: Reduction in value of Inventory	34,000	
Advertising expenditure to be written off	30,000	(64,000)
Adjusted reserves		6,59,000

Note: No adjustment would be required in respect of opening inventory of B Ltd as that will not have any impact on P&L.

Restated Balance Sheet of B Ltd. as at 31st December, 20X1

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	6,59,000
(2) Current Liabilities		
(a) Short term borrowings	3	1,70,000
(b) Trade Payables		4,94,000
(c) Short-term provision	4	4,30,000
Total		22,53,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	2,24,000
(b) Non-current Investment		4,00,000
(2) Current assets		

(a) Inventories	6	7,08,000
(b) Trade Receivables	7	9,00,000
(c) Cash & Cash Equivalents		3,000
(d) Other current assets	8	18,000
Total		22,53,000

Notes to Accounts

	20X1 (₹)
1. Share capital 5,000 equity shares of Rs 10 each, fully paid up	5,00,000
2. Reserves and Surplus General Reserves (refer to WN)	6,59,000
3. Short term borrowings Bank overdraft	1,70,000
4. Short term provisions Provision for taxation	4,30,000
5. Property, plant and equipment Cost Less: Depreciation Total	3,20,000 (96,000) 2,24,000
6. Inventory Actual inventory Less: Change in method of valuation Total	7,42,000 (34,000) 7,08,000
7. Trade receivables Actual trade receivables Add: Adjustment for provision Total	8,91,000 9,000 9,00,000
8. Other current Assets Prepaid expenses	48,000

Illustration 17 (MTP Oct 20)

Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 20X1 for ₹ 2,10,000. The issued capital of Power Ltd., on 1st January, 20X1 was ₹ 1,50,000 and the balance in the Profit & Loss Account was ₹ 90,000. During the year ended 31st December, 20X1, 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, 20X1 and 31st December, 20X1? Also compute goodwill/ capital reserve at the date of acquisition.

Solution**(6 Marks)**

Total dividend paid is ₹ 22,500 (out of post-acquisition profits), hence dividend received by Hemant will be credited to P & L account. Hemant Ltd.'s share of dividend = ₹ 22,500 X 80% = ₹ 18,000

Goodwill on consolidation (at the date of acquisition):	₹	₹
Cost of shares		2,10,000
Less: Face value of capital i.e. 80% of capital	1,20,000	
Add: Share of capital profits [90,000 X 80 %]	72,000	(1,92,000)
Goodwill		18,000
Minority interest on:		
- 1st January, 20X1:		
20% of ₹ 2,40,000 [1,50,000 + 90,000]		48,000

- 31st December, 20X1:

20% of ₹ 2,47,500 [1,50,000 + 90,000 + 30,000 – 22,500]

49,500

Illustration 18

King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 20X1 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 20X1:

	₹ in lakhs
Property, plant and 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.

Solution

Revalued net assets of Queen Ltd. as on 31st March, 20X1

	₹ in lakhs	₹ in lakhs
PPE [240 X 120%]		288
Investments [110 X 90%]		99
Current Assets		140
Loans and Advances		30
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		277
King Ltd.'s share of net assets (70% of 277)		193.9
King Ltd.'s cost of acquisition of shares of Queen Ltd.		
(₹140 lakhs)		(140)
Capital reserve		53.9

Illustration 19 (MTP Sep'22, Past Exam Nov'19) (RTP Nov'20)

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

Case	Subsidiary Company	% of Share owned	Cost	Date of Acquisition	Consolidation date
				01-01-20X1	31-12-20X1

				Share Capital	Profit and Loss A/c	Share Capital	Profit and 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

Solution:**(5 Marks)**

Minority Interest = Equity attributable to minorities Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.20X1

B = Profit & loss account balance on 1.1.20X1

C = Share capital on 31.12.20X1

D = Profit & loss account balance on 31.12.20X1

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] ₹	[E] X [C + D] ₹
Case A [100-90]	10 %	22,500	23,500
Case B [100-75]	25 %	50,000	40,000
Case C [100-70]	30 %	18,000	18,000
Case D [100-95]	5%	4,750	5,750

Illustration 20 (MTP Oct'22, Sept'23) (Past Exam Nov'20)

A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1st July, 20X1. On 31st December, 20X1, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd.**as at 31st December, 20X1**

	Particulars	Note No.	A Ltd. (₹)	B Ltd. (₹)
I.	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
II.	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 2,000 shares of ₹ 100 each, fully paid up Total	5,00,000 - 5,00,000	- 2,00,000 2,00,000
2.	Reserves and Surplus General Reserves Profit & loss Total	2,40,000 57,200 2,97,200	1,00,000 82,000 1,82,000
3.	Short term borrowings Bank overdraft	80,000	--
4.	Property plant and equipment Land and building Plant & Machinery Total	1,50,000 2,40,000 3,90,000	1,80,000 1,35,000 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, 20X1 out of which a dividend of 10% was paid on 1st August, 20X1; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 20X1 was considered as worth ₹ 1,80,000 on 1st July, 20X1; 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, 20X1.

(15 Marks)

Solution

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd.
as at 31st December, 20X1

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	3,08,800
(2) Minority Interest		83,600
(3) Current Liabilities		
(a) Trade Payables	3	64,500
(b) Short term borrowings	4	80,000

	Total	10,36,900
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	7,41,000
(b) Intangible assets	6	17,200
(2) Current assets		
(a) Inventories	7	1,56,400
(b) Trade receivables	8	99,800
(c) Cash & Cash equivalents	9	22,500
	Total	10,36,900

Notes to Accounts

			₹
1.	Share Capital 5,000 shares of ₹ 100 each		5,00,000
2.	Reserves and Surplus		
	Reserves	2,40,000	
	Profit & loss (Refer to W.N 8)	68,800	
	Total		3,08,800
3.	Trade Payables		
	A Ltd. 47,100		
	Add: B Ltd 17,400		
	Total		64,500
4.	Short term borrowings		
	Bank overdraft		80,000
5.	Property, plant and equipment		
	Land and building- A Ltd 1,50,000		
	Add: Land and building- B Ltd 1,80,000		
	Plant & Machinery (Refer to W.N 7)	3,30,000	
	Total	4,11,000	7,41,000
6.	Intangible assets		
	Goodwill (refer to W.N 6)		17,200
7.	Inventories		
	A Ltd. 1,20,000		
	B Ltd. 36,400		
	Total		1,56,400
8.	Trade Receivables		
	A Ltd. 59,800		
	B Ltd. 40,000		
	Total		99,800
9.	Cash & Cash equivalents		
	Cash of A Ltd 14,500		
	Add: cash of B Ltd. 8,000		
	Total		22,500

Share holding Pattern

Total Shares of B Ltd	2,000 shares
Shares held by A Ltd	1,600 shares i.e. 80 %
Minority Shareholding	400 shares i.e. 20 %

Working Notes:

1. The dividend @ 10% on 1,600 shares - ₹ 16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz.

Profit & Loss Account	Dr.	₹ 16,000
To Investment		₹ 16,000

2. The Plant & Machinery of B Ltd. would stand in the books at ₹ 1,42,500 on 1st July, 20X1, considering only six months' depreciation on ₹ 1,50,000 total depreciation being ₹ 15,000. The value put on the assets being ₹ 1,80,000, there is an appreciation to the extent of ₹ 37,500 (1,80,000 – 1,42,500).

3. Capital profits of B Ltd.

	₹	₹
Reserve on 1st January, 20X1 (Assumed there is no movement in reserves during the year and hence balance as on 1 st January 20X1 is same as of 31 st December 20X1)		1,00,000
Profit & Loss Account Balance on 1st January, 20X1	30,000	
Less: Dividend paid	(20,000)	10,000
Profit for 20X1:		
Total	₹ 82,000	
Less:	₹ 10,000	
	₹ 72,000	
Proportionate upto 1st July, 20X1 on time basis (₹ 72,000/2)		36,000
Appreciation in value of Plant & Machinery		37,500
		1,83,500
Less: 20% due to outsiders		(36,700)
Holding company's share		1,46,800

4. Revenue profits of B Ltd.:

Profit after 1st July, 20X1 [(82,000 – 10,000) x ½]		36,000
Less: Depreciation		
10% depreciation on ₹1,80,000 for 6 months	9,000	
Less: Depreciation already charged for 2 nd half year on 1,50,000	(7,500)	(1,500)
		34,500
Less: 1/5 due to outsiders		(6,900)
Share of A Ltd.		27,600

5. Minority interest:

Par value of 400 shares (2,00,000 X 20%)	40,000
Add: 1/5 Capital Profits [WN 3]	36,700
1/5 Revenue Profits [WN 4]	6,900
	83,600

6. Cost of Control:

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	(16,000)	3,24,000
Par value of shares	1,60,000	
Capital Profits –share of A Ltd. [WN 3]	1,46,800	(3,06,800)
Cost of Control or Goodwill		17,200

7. Value of plant & Machinery:

B Ltd.	1,35,000	2,40,000
Add: Appreciation on 1st July, 20X1 [1,80,000 – (1,50,000 – 7,500)]	<u>37,500</u>	
	1,72,500	
Add: Depreciation for 2 nd half charged on pre- revalued value	7,500	
Less: Depreciation on ₹1,80,000 for 6 months	<u>(9,000)</u>	<u>1,71,000</u>
		<u>4,11,000</u>

8. Profit & Loss Account (Consolidated):

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	<u>(16,000)</u>	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		<u>27,600</u>
		<u>68,800</u>

Illustration 21

On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

**Balance Sheet of H Ltd.
and its subsidiary S Ltd. as at 31st March, 20X1**

	Particulars	Note No.	H Ltd. (₹ in Lacs)	S Ltd. (₹ in Lacs)
I.	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		1,200	-
	(Dividend payable)			
	Total		21,387	9,208
II.	Assets			
	(1) Non-current assets			
	Property, Plant and Equipment	5	9,468	5,486
	Non-current Investments		3,000	
	(Shares in S Ltd.)			
	(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	15,000	6,000
	Equity shares of ₹ 10 each, fully paid up		
	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, 20X0 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, 20X0, S Ltd. declared a dividend @ 20% for the year ended 31st March, 20X0. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 20X1, 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, 20X0.
- On 31st March, 20X1, 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.
- On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1.

Solution

**Consolidated Balance Sheet of H Ltd.
and its subsidiary S Ltd. as at 31st March, 20X1**

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,000
(b) Reserves and Surplus	2	7,159
(2) Minority Interest [W.N.6]		3,120

(3) Current Liabilities		
(a) Trade payables	3	2,802
(b) Short term provisions	4	1,249
(c) Other current liabilities	5	1,200
Total		27,530
II. Assets		
(1) Non-current assets		
Property, Plant and Equipment	6	14,954
(2) Current assets		
(a) Inventories	7	5,885
(b) Trade receivables	8	4,477
(c) Short term loans and advances	9	520
(d) Cash and cash equivalents	10	1,694
Total		27,530

Notes to Accounts

		(₹ in lacs)	(₹ in lacs)
1. Share Capital			
Authorized share capital			15,000
Equity shares of ₹10 each, fully paid up Issued and Subscribed:			
Equity shares of ₹ 10 each, fully paid up			12,000
Total			12,000
2. Reserves and surplus			
Capital Reserve (Note 5)		1,320	
General Reserve (2,784 + 108)		2,892	
Profit and Loss Account:			
H Ltd.	2,715		
Less: Dividend wrongly credited	360		
Unrealized Profit	<u>20</u>	<u>(380)</u>	
	2,335		
Add: Share in S Ltd.'s Revenue profits	612	2,947	
Total			7,159
3. Trade payables			
Creditors			
H Ltd.	1,461		
S Ltd.	<u>854</u>	2,315	
Bills Payable			
H Ltd.	₹ 372		
S Ltd.	<u>₹ 160</u>		
	₹ 532		
Less: Mutual owing	₹ (45)	487	2,802
4. Short term provisions			
Provision for Taxation			
H Ltd.		855	
S Ltd.		394	
Total			1,249
5. Other current liabilities			

	Dividend payable		
	H Ltd.		1,200
6.	Property, plant and equipment		
	Land and Buildings		
	H Ltd.	2,718	
	Plant and Machinery		
	H Ltd.	₹ 4,905	
	S Ltd.	₹ 4,900	9,805
	Furniture and Fittings		
	H Ltd.	₹ 1,845	
	S Ltd.	₹ 586	2,431
	Total		14,954
7.	Inventories		
	Stock		
	H Ltd.	3,949	
	S Ltd.	1,956	
		5,905	
	Less: Unrealized profit	(20)	5,885
8.	Trade receivables		
	Debtors		
	H Ltd.	₹ 2,600	
	S Ltd.	₹ 1,363	3,963
	Bills Receivable		
	H Ltd.	₹ 360	
	S Ltd.	₹ 199	
		₹ 559	
	Less: Mutual Owing	₹ (45)	514
			4,477
9.	Short term loans and advances		
	Sundry Advances		520
10.	Cash and cash equivalents		
	Cash and Bank Balances		1,694

Share holding pattern of S Ltd.

Shares as on 31st March, 20X1 (Includes bonus shares issued on 1st January, 20X1)	480 lakh shares (4,800 lakhs/ ₹ 10)
H Ltd.'s holding as on 1st April, 20X0	180 lakhs
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)
Total H Ltd.'s holding as on 31st March, 20X1	288 lakhs i.e. 60 % [288/480×100]
Minority Shareholding	40%

Working Notes:**1. S Ltd.'s General Reserve Account**

	₹ in lakhs	₹ in lakhs	
To Bonus to equity shareholders (WN-8)	1,800	By Balance b/d	3,000
To Balance c/d	1,380	By Profit and Loss A/c	180
	3,180	(Balancing figure)	
			3,180

2. S Ltd.'s Profit and Loss Account

	₹ in lakhs	₹ in lakhs	
To General Reserve		By Balance b/d	1,200
[WN 1]	180	By Net Profit for the year*	1,200
To Dividend paid			
(20% on ₹3,000 lakhs)	600	(Balancing figure)	

To Balance c/d	1,620		
	2,400		2,400

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	-----
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking ₹ 1,020 lakhs as post acquisition Profit and Loss balance and ₹ 180 lakhs as post acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (₹ 3,000 – ₹ 1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (₹ 1,200 – ₹ 600)	600
	1,800

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs

Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	(2,640)
Capital reserve	1,320

6. Calculation of Minority Interest

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

7. Unrealized profit in respect of inventory

$$₹ 100 \text{ lakhs} \times \frac{25}{125} = ₹ 20 \text{ lakhs}$$

8. Computation of bonus to equity shareholders

	₹ In lakhs
Shares as on 31 March 20X1 including bonus share issued on 1 January 20X1	4,800
Or we can say these are $1 + \frac{3}{5}$ or $\frac{8}{5}$	
i.e. Shares before bonus issue should have been $\frac{4,800}{8/5}$	= 3,000
Accordingly, bonus issue would be (4,800-3,000)	1,800

MTP / RTP / Past Exam**Question 1 (MTP Apr'19, Mar'18)**

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for Rs. 2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was Rs. 2,00,000 and the balance in the Profit & Loss Account was Rs. 1,20,000. During the year ended 31st December, 2016, ABC Ltd. earned a profit of Rs. 40,000 and at year end, declared and paid a dividend of Rs. 60,000. 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, 2016 and 31st December, 2016? **(5 Marks)**

Solution:

Total dividend paid = Rs. 60,000

Out of post-acquisition profit = Rs. 40,000

Out of pre-acquisition profit = Rs. 20,000

Hence, 2/3rd of dividend received by XYZ will be credited to P & L and 1/3rd will be credited to Investment.

XYZ Ltd.'s share of dividend = Rs. 60,000 X 80% = Rs. 48,000

In the books of XYZ Ltd.

	Rs.	Rs.
Bank A/c Dr.	48,000	
To Profit & Loss A/c		32,000
To Investments in ABC Ltd.		16,000
(Dividend received from ABC Ltd. 1/3 credited to investment A/c being out of capital profits – as explained above)		
Goodwill on Consolidation:		Rs.
Cost of shares less dividend out of capital profits		2,64,000
Less: Face value of capital i.e. 80% of capital	1,60,000	
Add: Share of capital profits [1,20,000-20,000 (dividend portion out of pre-acquisition profits)] X 80 %	80,000	2,40,000
Goodwill		24,000
Minority interest on: 1st January, 2016: 20% of Rs. 3,20,000 [2,00,000 + 1,20,000]		64,000
31st December, 2016: 20% of Rs. 3,00,000 [2,00,000 + 1,20,000 + 40,000 – 60,000]		60,000

Question 2 (MTP Mar'18, Aug'18, Oct'18) (RTP May'18)

Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (Rs. In lacs)	Sun Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	10,000	2,000

Increase in Inventory	2,000	400
	12,000	2,400
Expenses :		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	1,400
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	2,400	300

Other Information:

Hello Ltd. sold goods to Sun Ltd. of Rs. 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing Rs. 48 lacs. Administrative expenses of Sun Ltd. include Rs. 10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include Rs. 20 lacs paid to Sun Ltd. as commission. Hello Ltd. holds 80% of equity share capital of Rs. 2,000 lacs in Sun Ltd. prior to 2015- 2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017.

(12 Marks)**Solution:****Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended on 31st March, 2017**

	Particulars	Note No.	Rs. in Lacs
I.	Revenue from operations	1	11,730
II.	Total revenue		11,730
III.	Expenses		
	Cost of Material purchased/Consumed	3	2,360
	Changes of Inventories of finished goods	2	(2,392)
	Employee benefit expense	4	1,900
	Finance cost	6	300
	Depreciation and amortization expense	7	300
	Other expenses	5	1,070
	Total expenses		3,538
IV.	Profit before Tax(II-III)		8,192
V.	Tax Expenses	8	2,800
VI.	Profit After Tax		5,392

	Profit transferred to Consolidated Balance Sheet		
	Profit After Tax		5,392
	Dividend paid		
	Hello Ltd.	2,400	
	Sun Ltd.	300	
	2,700		
	Less: Share of Hello Ltd. in dividend of Sun Ltd.		
	80% of Rs. 300 lacs	(240)	(2,460)
	Profit to be transferred to consolidated balance sheet		<u>2,932</u>

Notes to Accounts

		Rs. in Lacs	Rs. in Lacs
1.	Revenue from Operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	<u>2,000</u>	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	<u>(20)</u>	11,730
2.	Increase in Inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	<u>400</u>	
		2,400	
	Less: Unrealized profits Rs. 48 lacs × 20/120	<u>(8)</u>	<u>2,392</u>
			<u>14,122</u>
3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>400</u>	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	<u>(240)</u>	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	<u>200</u>	<u>600</u>
			<u>2,360</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>300</u>	<u>1,900</u>
5.	Other Expenses		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	<u>200</u>	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	<u>(10)</u>	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	

	Sun Ltd.	<u>100</u>	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	<u>(20)</u>	480
			<u>1,070</u>
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	Depreciation and Amortization		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	<u>100</u>	<u>300</u>
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	<u>400</u>	<u>2,800</u>

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

Question 3 (MTP Apr'21, Mar 22) (RTP Nov'19) (Past Exam May'18)

H Ltd. and its subsidiary S Ltd. Give the following information as on 31st March, 2021:

	H Ltd. (Rs.)	S Ltd. (Rs.)
Share Capital		
Equity Share Capital (fully paid up shares of Rs. 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs. 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

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2020. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.

Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April, 2020 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include Rs. 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 Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. With its subsidiary as at 31st March, 2021. (15 Marks)

Solution:

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

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(1,20,000 equity shares of ₹ 10 each)		
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s postacquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
2.	Trade Payables			8,16,200
	H Ltd.		3,22,000	

	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
4.	Intangible assets			13,10,500
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
6.	Trade Receivables			3,25,000
	H Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
7.	Cash and Bank			6,70,000
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:**1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2020**

	Rs.
Machinery	
Revaluation as on 1.4.2020	3,00,000
Less: Book value as on 1.4.2020	<u>(2,00,000)</u>
Profit on revaluation	<u>1,00,000</u>
Furniture	
Revaluation as on 1.4.2020	30,000
Less: Book value as on 1.4.2020	<u>(40,000)</u>
Loss on revaluation	<u>(10,000)</u>

2. Calculation of short/excess depreciation

	Machinery	Furniture
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of S Ltd. as on 31.03.2021

	Preacquisition profit upto 1.4.2020	Post-acquisition profits (1.4.2020 – 31.3.2021)
--	--	--

	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2021	50,000	1,05,000	
Profit and loss account as on 31.3.2021	30,000		35,000
Upward Revaluation of machinery as on 1.4.2020	1,00,000		
Downward Revaluation of Furniture as on 1.4.2020	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			<u>1,500</u>
Total	<u>1,70,000</u>	<u>1,05,000</u>	<u>26,500</u>

4. Minority Interest

	Rs.
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves	
[(20% of (50,000 + 30,000))]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	<u>5,300</u>
	1,00,300
Less: Unrealised Profit on Inventory	
(55,000 x 10/110) x 20%	<u>(1,000)</u>
	<u>99,300</u>

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (Rs. 64,000 + Rs.72,000)	<u>1,36,000</u>	<u>(2,96,000)</u>
Cost of control or Goodwill		<u>24,000</u>

Question 4 (MTP Oct'21, Oct'23)

A Ltd. had acquired 80% shares of B Ltd. for Rs. 15 lakhs at the beginning of year. During the year, A Ltd. sold the investment for Rs. 30 lakhs and net assets of B Ltd. on the date of disposal was Rs. 35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd. **(4 Marks)**

Solution:**Calculation of Profit/Loss on disposal of investment in subsidiary**

Particulars	Rs.
Proceeds from the sale of Investment	30,00,000
Less: A Ltd.'s share in net assets of B Ltd.	(28,00,000)
	2,00,000

Working Note:**A Ltd.'s share in net assets of B Ltd.**

	Rs.
Net Assets of B Ltd. on the date of disposal	35,00,000
Less: Minority Interest (20% of Rs. 35 lakhs)	(7,00,000)

A Ltd.'s share in the net assets of B Ltd. 28,00,000

Question 5 (MTP Nov'21, Mar'23, Apr'23) (Past Exam Jan'21)

On 31st March, 2023 H Ltd. and its subsidiary S Ltd. give the following information:

	H Ltd.	S Ltd.
	Rs.	Rs.
Shareholders' Fund:		
Equity shares of Rs. 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans:		
12% Debentures	1,00,000	-
Current Liabilities:		
Creditors	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Property, Plant & Equipment:		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
Investments:		
Investments in S Ltd.	3,84,000	-
(19,200 shares at Rs. 20 each)		
Current Assets:		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000

The following information is also provided to you:

- H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at Rs. 60,000 and Rs. 36,000 respectively.
- Machinery (Book value Rs. 2,40,000) and Furniture (Book value Rs. 48,000) of S Ltd were revalued at Rs. 3,60,000 and Rs. 36,000 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%).
- On 31st March, 2022, Bills payable of Rs. 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

(20 Marks)

Solution:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

		Particulars	Note No.	(Rs.)
I.		Equity and Liabilities		
	1	Shareholder's Funds		
		(a) Share Capital	1	13,40,000
		(b) Reserves and Surplus	2	8,27,040
	2	(Minority Interest		1,15,560
	3	Non- Current Liabilities		
		(a) 12% Debentures		1,00,000
	4	Current Liabilities		
		(a) Trade Payables	3	3,84,800
		(b) Short term Borrowings (Bank)		1,00,000
		Total		28,67,400
II.		Assets		
	1	Non-current assets		
		(a)		
		(i) Property, Plant and Equipment	4	14,34,600
		(ii) Intangible assets	5	28,800
	2	Current assets		
		(a) Inventory (6,00,000+2,00,000)		8,00,000
		(b) Trade Receivables	6	5,08,000
		(c) Cash and Cash equivalents		96,000
		Total		28,67,400

Notes to Accounts

			Rs.
1. Share Capital	Equity share capital 1,34,000 shares of Rs. 10 each fully paid up		13,40,000
2. Reserves and Surplus	Reserves	4,80,000	
	Add: 4/5th share of S Ltd.'s postacquisition reserves (W.N.3)	<u>96,000</u>	5,76,000
	Profit and Loss Account	2,40,000	
	Add: 4/5th share of S Ltd.'s postacquisition profits (W.N.4)	<u>11,040</u>	2,51,040
3. Trade Payables			8,27,040
	Creditors		
	H Ltd.	2,00,000	
	S Ltd.	<u>1,22,000</u>	3,22,000
	Bills Payables		
	H Ltd.	60,000	
	S Ltd.	14,800	74,800
			3,96,800

Less: Mutual Owings		(12,000)	3,84,800
4. Property Plant and Equipment			
Machinery			
H. Ltd.		7,20,000	
S Ltd.	2,40,000		
Add: Appreciation	<u>1,20,000</u>		
	3,60,000		
Less: Depreciation (3,60,000 X 10%)	(36,000)	3,24,000	
Furniture			
H. Ltd.		3,60,000	
S Ltd.	48,000		
Less: Decrease in value	(12,000)		
	36,000		
Less: Depreciation (36,000 X 15%)	<u>5,400</u>	<u>30,600</u>	14,34,600
5. Intangible assets			
Goodwill [WN 6]			28,800
6. Trade receivables			
H Ltd.	3,00,000		
S Ltd.	90,000	3,90,000	
Bills Receivables			
H Ltd.	1,00,000		
S Ltd.	<u>30,000</u>	1,30,000	
		5,20,000	
Less: Mutual Owings		(12,000)	5,08,000

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	Rs.
Reserves	60,000
Profit and Loss Account	<u>36,000</u>
	<u>96,000</u>
H Ltd.'s = 4/5 (or 80%) × 96,000	76,800
Minority Interest = 1/5 (or 20%) × 96,000	19,200
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery Rs. (3,60,000 – 2,40,000)	1,20,000
Less: Loss on Furniture Rs. (48,000 – 36,000)	<u>(12,000)</u>
Net Profit on revaluation	<u>1,08,000</u>
H Ltd.'s share 4/5 × 1,08,000	86,400
Minority Interest 1/5 × 1,08,000	21,600
3. Post-acquisition reserves of S Ltd.	
Total reserves	1,80,000
Less: Pre- acquisition reserves	<u>(60,000)</u>
Post-acquisition reserves	<u>1,20,000</u>
H Ltd.'s share 4/5 × 1,20,000	96,000
Minority interest 1/5 × 1,20,000	24,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less preacquisition profits = Rs. 60,000 – 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15% on Rs. 12,000 i.e. (48,000 – 36,000)	<u>1,800</u>
Less: Under depreciation on machinery @ 10% on Rs. 1,20,000 i.e. (3,60,000 – 2,40,000)	<u>(12,000)</u>

Adjusted post-acquisition profits	<u>13,800</u>
H Ltd.'s share $\frac{4}{5} \times 13,800$	11,040
Minority Interest $\frac{1}{5} \times 13,800$	2,760
5. Minority Interest	
Paid-up value of $(24,000 - 19,200) = 4,800$ shares held by outsiders i.e. $2,40,000 \times 20\%$	48,000
Add: $\frac{1}{5}$ th share of pre-acquisition profits and reserves	19,200
$\frac{1}{5}$ th share of profit on revaluation	21,600
$\frac{1}{5}$ th share of post-acquisition reserves	24,000
$\frac{1}{5}$ th share of post-acquisition profit	<u>2,760</u>
6. Cost of Control or Goodwill	<u>1,15,560</u>
Price paid by H Ltd. for 19,200 shares (A) Less: Intrinsic value of the shares	3,84,000
Paid-up value of shares held by H Ltd. i.e. $2,40,000 \times 80\%$	1,92,000
Add: $\frac{4}{5}$ th share of pre-acquisition profits and reserves	76,800
$\frac{4}{5}$ th share of profit on the revaluation	<u>86,400</u>
Intrinsic value of shares on the date of acquisition (B)	<u>3,55,200</u>
Cost of control or Goodwill B) (A –	28,800

Question 6 (MTP Apr'19, Sep'22, Oct'23) (Past Exam Nov'19)

Consider the following information of subsidiary MNT Ltd.

	2020-21	2021-22
	Amount in ₹	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
Non-current assets		
Property, Plant and 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

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 2020-21 and increased by ₹ 12,000 at the end of 2021-22. (Inventory of 2020-21 has been sold out during the year 2021-22)
- 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 2020-21 and ₹ 12,500 in 2021-22 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2020-21, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2020-21. Restate the balance sheet of MNT Ltd. as on 31st March, 2022 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.

Solution:**Restated Balance Sheet of MNT Ltd. as at 31st March, 2022**

Particulars	Note	No. (₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		23,14,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 + 12,000)	5	7,02,000
(b) Trade Receivables $\frac{3,43,000}{98} \times 100$		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		23,14,500

Notes to Accounts

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	2,07,000	7,18,500
2.	Short term borrowings		
	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	(2,82,500)	6,37,500

5.	Inventories	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	Other current assets		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:

Adjusted revenue reserves of MNT Ltd.:

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98]	7,000	
Add: Increase in value of inventory	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500

Question 7 (RTP May'21)

A Ltd. acquired 70% equity shares of B Ltd. @ Rs.20 per share (Face value - Rs.10) on 31st March, 2021 at a cost of Rs. 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:

	Rs. in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

Solution:**Net assets of B Ltd. as on 31st March, 2021**

	Rs. in lakhs	Rs. in lakhs
Property, plant and equipment		360
Investments		90
Current Assets		140
Loans and Advances		30
Total Assets		620
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		340
Share of Minority Interest in net assets (30% of 340)		102
A Ltd.'s share in net assets (70% of 340)		238
A Ltd.'s cost of acquisition of shares of B Ltd. (Rs.140 lakhs)		(140)
Capital reserve		98

Question 8 (RTP Nov 18)

The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	Amounts as at 31st March,
-------------	---------------------------

	2017	
	X Ltd. (Rs. in lakhs)	Y Ltd. (Rs. in lakhs)
LIABILITIES		
Share Capital:		
Authorised	<u>20,000</u>	<u>8,000</u>
Issues and subscribed:		
Equity share of Rs. 10 each, fully paid up	15,000	6,000
15% preference shares of Rs. 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	<u>1,646</u>	<u>1,027</u>
	<u>25,896</u>	<u>10,727</u>
ASSETS		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in		
Y Ltd. purchased on 1st April, 2016	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	<u>1,174</u>	<u>560</u>
	<u>25,896</u>	<u>10,727</u>

The following information is also given to you

- 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.
- Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs. 650 Lakhs.
- General Reserve of Y Ltd. stood at same Rs. 1,450 Lakhs as on 1st April, 2016.
- Y Ltd.'s Plant & machinery showed a balance of Rs. 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs. 1,000 Lakh.
- Included in Trade Payables of Y Ltd. are Rs. 50 Lakh for goods supplied by X Ltd.
- On 31st March, 2017, Y's Ltd. inventory included goods for Rs. 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, 2017 giving working notes. (Ignoring dividend on preference shares).

Solution:

Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017

	Particulars	Note No.	Rs. in lakhs
I	Equity and Liabilities		
1	Shareholders' Funds		
	(a) Share Capital	1	19,000
	(b) Reserves and Surplus	2	5,620
2.	Minority interest	3	3,400
3.	Current Liabilities		
	(a) Trade payables	4	<u>2,623</u>
	Total		<u>30,643</u>
II	Assets		
1	Non Current Assets		
	Property, Plant & Equipment		
	(i) Tangible Assets	5	17,435
2	Current Assets		
	(a) Inventories	6	6,632
	(b) Trade Receivables	7	4,842
	(c) Cash and Cash equivalents	8	<u>1,734</u>
			<u>30,643</u>

Notes to Accounts

			Rs. in lakhs
1	. Share Capital		
	Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs. 10 each fully paid up)		15,000
	400 lakh Preference Shares of Rs. 10 each fully paid up		<u>4,000</u>
2	. Reserves and Surplus		<u>19,000</u>
	Credit Balance of Profit & Loss Account	2,750	
	Less: Capital Receipt wrongly credited (Dividend @ 10% on Rs. 4500 Lakh Equity Shares)	<u>450</u>	
		2,300	
	Add: Share in Y Ltd. Revenue Profit (Working Note i)	<u>825</u>	
		<u>3,125</u>	
	Less: Unrealised Profit (Working Note iv)	30	3,095
	Capital Reserve (Working Note iii)	25	
	General Reserve	2,500	<u>2,525</u>
3	. Minority interest		<u>5,620</u>
	100 Lakh Preference Shares of Rs. 10 fully paid up	<u>1,000</u>	
	150 Lakh Equity Shares of Rs.10 each fully paid up	<u>1,500</u>	2,500
	Share in Revenue Profits (Working Note i)	<u>275</u>	
	Share in Capital Profit (working Note ii)	<u>625</u>	<u>900</u>
4	. Trade payables		<u>3,400</u>

	X Ltd.	<u>1,646</u>	
	Y Ltd.	<u>1,027</u>	
		<u>2,673</u>	
	Less: Mutual owing	<u>50</u>	2,623
5	. Tangible Assets		
	Land & Building		
	X Ltd.	<u>3,550</u>	
	Y Ltd	<u>1,510</u>	5,060
	Plant & Machinery		
	X Ltd.	<u>5,275</u>	
	Y Ltd (Working note v)	<u>4,500</u>	9,775
	Furniture & Fixtures		
	X Ltd.	<u>1,945</u>	
	Y Ltd	<u>655</u>	<u>2,600</u>
			<u>17,435</u>
6.	Inventories		
	X Ltd.	<u>4,142</u>	
	Y Ltd	<u>2,520</u>	
		<u>6,662</u>	
	Less: Unrealized Profit	<u>(30)</u>	6,632

Working Notes:**i. Calculation of Revenue Profits Y's Ltd Profit & Loss Account**

	Rs. in lakh		Rs. in lakh
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	<u>1,250</u>		
	<u>1,850</u>		<u>1,850</u>

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	<u>4,000</u>
Less Balance as 31st March 2017	<u>3,600</u>
	<u>400</u>
Hence rate of Depreciation = $400/4000 \times 100$	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	<u>100</u>
Revenue Profit	<u>1,100</u>
X Ltd's share- $1100 \times 450/600$	825
Y Ltd's share = $1100 \times 150/600$	275

ii. Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	<u>600</u>
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	<u>1,000</u>
Capital Profit	2,500
X Ltd's Share in Capital Profit = $2,500 \times 450/600$	1,875
Y Ltd's Share in Capital Profit = $2,500 \times 150/600$	625

iii. Calculation of Capital Reserve

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	<u>6,350</u>
Capital Reserve = 6,375-6,350	25

iv. Unrealized Profit

Rs. 150 Lakh x 25/125* = 30 lakh	
----------------------------------	--

v. Plant & Machinery of Y Ltd.

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	<u>100</u>	<u>900</u>
		<u>4,500</u>

* Rs. 150 lakh considered as cost to Y Ltd.

Question 9 (RTP Nov'22)

On 31st 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:

- a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021 at which date the following balances stood in the books of S Ltd.:

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

- b) 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.

- c) 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.
- d) 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.
- (e) 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 on 31st March, 2022.

Solution:

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022

Particulars	Note No.	(₹ in 000's)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,000
(a) Reserves and Surplus	2	3,063
(2) Minority Interest (W.N.6)		1,560
(3) Current Liabilities		
Trade payables	3	1,118
Short term provisions	4	482
Total		10,223
II. Assets		
(1) Non-current assets		
PPE	5	5,904
(2) Current assets		
(a) Inventories	6	1,759
(b) Trade receivables	7	1,598
(c) Cash and cash equivalents	8	512
(d) Short term loans and advances	9	450
Total		10,223

Notes to Accounts

	(₹ in 000's)	(₹ in 000's)
--	--------------	--------------

1.	Share Capital		
	Authorised share capital		
	5 lakhs equity shares of ₹ 10 each		5,000
	Issued, Subscribed and Paid up		
	4 lakhs equity shares of ₹ 10 each fully paid		4,000
2.	Reserves and surplus		
	Capital Reserve (Note 5)	679.8	
	General Reserve	928	
	Profit and Loss Account:		
	H Ltd. ₹ 1,305		
	Add: Share in S Ltd ₹ 340.20		
	₹ 1,645.20		
	Less: Dividend wrongly credited ₹ (180)		
	₹ 1,465.20		
	Less: Unrealised profit (50 X 1/5) ₹ (10)	1,455.20	3,063
3.	Trade payables		
	H Ltd.	611	
	S Ltd.	507	1,118
4.	Short –term provisions		
	Provision for Taxation H Ltd. ₹ 220		
	S Ltd. ₹ 180	400	
	Other Provisions H Ltd ₹ 65		
	S Ltd. ₹ 17	82	482
5.	PPE		
	Plant and Machinery		
	H Ltd. ₹ 2,541		
	S Ltd. ₹ 2,450	4,991	
	Furniture and fittings		
	H Ltd. ₹ 615		
	S Ltd. ₹ 298	913	5,904
6.	Inventories		
	Inventory		
	H Ltd. ₹ 983		
	S Ltd. ₹ 786		
		1,769	
	Less: Unrealised profit (₹ 50 x 1/5)	(10)	1,759
	7. Trade receivables		
	H Ltd.	820	
	S Ltd.	778	1,598
	8. Cash and cash equivalents		
	Cash and Bank Balances H Ltd	410	
	S Ltd.	102	512
	9. Short term loans and advances		
	Sundry Advances H Ltd.	260	
	S Ltd.	190	450

Working Notes:**Share holding pattern**

Particulars	Number of Shares	% of holding
a. S Ltd.		
(i) Purchased on 01.04.2021	90,000	

(ii) Bonus Issue (90,000/5 x 3)	54,000	
Total	1,44,000	60% (1,44,000 / 2,40,000 * 100)
b. Minority Interest	96,000	40%

*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

1. S Ltd. General Reserve

	(₹ in 000)		(₹ in 000)
To Bonus to equity shareholders $\frac{2,400 \times 3}{8}$	900	By Balance b/d	1,500
		By Profit and Loss A/c	
To Balance c/d.	690	(Balancing figure)	90
	1,590		1,590

2. S Ltd.'s Profit and Loss Account

	(₹ in 000)		(₹ in 000)
To General Reserve	90	By Balance b/d	633
To Dividend paid on 14.7.2021 $\frac{1,500 \times 20}{100}$	300	By Net Profit for the year (Balancing figure)	567*
To Balance c/d	810		
	1,200		1,200

* Out of ₹ 5,67,000 profit for the year, ₹ 90,000 has been transferred to reserves by S Ltd.

3. Distribution of Revenue Profits

	₹ in '000
Revenue Profit as above	567.00
Share of H Ltd. (60%)	340.20
Share of Minority shareholders (567 – 340.20)	226.80

4. Computation of Capital Profits

	₹ in 000	₹ in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		(900)
Profit and Loss Account balance on the date of acquisition	633	600
Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

5. Computation of Capital Reserve

		₹ in '000
60% of share capital of S Ltd.		1,440
Add: Share of H Ltd. in the capital profits as in working note (4)		559.80
Less: Investments in S Ltd.	1,500	1,999.80
Less: Dividends received out of pre- acquisition profits $\frac{₹30 \times 60}{100}$	(180)	(1,320)
		679.80

6. Calculation of Minority Interest

	₹ in '000
40% of share capital of S Ltd.	960.00

Add: Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	1,560.00

Question 10

G Ltd.. and its subsidiary K Ltd. give the following information for the year ended 31st March, 2023:

Particulars	G Ltd.	K Ltd
Sales and other Income	3000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative expenses	75	50
Selling and Distribution expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

- (i) G sold goods of ₹ 200 crores to K Ltd. at cost plus 25%. (1/5th of such goods were still in inventory of K Ltd. at the end of the year)
- (ii) G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is ₹ 800 crores on 01.04.2022 (date of acquisition of shares)
- (iii) Administrative expenses of K Ltd. include ₹ 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include ₹ 20 crores paid to K Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd. with its subsidiary K. Ltd. for the year ended 31st March, 2023.

Solution:**Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023**

Particulars	Note No.	₹ in Crores
I. Revenue from operations	1	3,525
II. Total Income		3,525
III. Expenses		
Cost of material purchased/consumed	2	650
Changes of inventories of finished goods	3	(842)
Employee benefit expense	4	675
Finance cost	5	105
Depreciation and amortization expense	6	105
Other expenses	7	225

Total expenses		918
IV. Profit before tax (II-III)		2,607

Notes to Accounts

		₹ in Crores	₹ in Crores
1.	Revenue from operations Sales and other income G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,525
2.	Cost of material purchased/consumed G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(200)	500
	Direct expenses (Production) G Ltd.	100	
	K Ltd.	50	150
			650
3.	Changes of inventories of finished goods G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/125	(8)	842
4.	Employee benefits and expenses Wages and salaries: G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost Interest: G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses Administrative expenses G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses: G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Note: The information (i) given in the question states that G Ltd. sold goods of ₹ 200 crores to K Ltd. at cost plus 25%. In the above solution it has been considered that the amount of ₹ 200 crores is sale value. Alternatively, ₹ 200 crores may be assumed as the cost of the goods sold. In that case, the solution will differ and will be as follows:

Alternative solution:

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹ in Crores
I. Revenue from operations	1	3,475
II. Total Income		3,475
III. Expenses		
Cost of material purchased/consumed	2	600
Changes of inventories of finished goods	3	(840)
Employee benefit expense	4	675
Finance cost	5	105
Depreciation and amortization expense	6	105
Other expenses	7	225
Total expenses		870
IV. Profit before tax (II-III)		2,605

Notes to Accounts

		₹ in Crores	₹ in Crores
1.	Revenue from operations Sales and other income G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(250)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,475
2.	Cost of material purchased/consumed G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(250)	450
	Direct expenses (Production) G Ltd.	100	
	K Ltd.	50	150
			600
3.	Changes of inventories of finished goods G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/100	(10)	840
4.	Employee benefits and expenses Wages and salaries: G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost Interest: G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation G Ltd.	75	

	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Question 11 (Past Exam May'23)

H Ltd acquired 15000 shares in S Ltd. for 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd. ₹	S Ltd. ₹
Equity and Liabilities:		
Equity Share Capital	9,00,000	2,50,000
(Fully paid shares of ₹ 10 each)		
General Reserve	1,60,000	40,000
Surplus i.e., Balance in Statement of Profit and Loss	80,000	25,000
Bills payable	40,000	20,000
Trade Creditors	50,000	30,000
Total	12,30,000	3,65,000
Assets		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investment in Equity Shares of S Ltd.	1,55,000	-
Stock-in Trade	1,00,000	50,000
Trade Debtors	60,000	35,000
Bills Receivable	25,000	20,000
Cash at Bank	90,000	40,000
Total	12,30,000	3,65,000

The following additional information is provided to you:

- (i) General reserve appearing in the Balance Sheet of S Ltd. remained unchanged since 31st March, 2022.
- (ii) Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ₹ 20,000.
- (iii) H Ltd. sold goods to S Ltd. costing ₹ 8,000 for ₹ 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.

(iv) Creditors of S Ltd. include ₹ 4000 due to H Ltd. on account of these goods.

(v) Out of Bills payable issued by S Ltd. ₹ 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ₹ 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.

(15 Marks)

Solution:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	9,00,000
(b) Reserves and Surplus	2	2,73,500
(2) Minority Interest	3	1,26,000
(3) Current Liabilities		
(a) Trade Payables	4	1,29,000
Total		14,28,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	10,20,000
(2) Current assets		
(i) Inventory	6	1,49,500
(ii) Trade Receivables	7	1,29,000
(iii) Cash & cash equivalent	8	1,30,000
Total		14,28,500

Notes to Accounts

			₹
1.	Share capital		
	Authorised, issued, subscribed and paid up capital 90,000 equity shares of ₹ 10 each, fully paid up		9,00,000
2.	Reserves and Surplus		
	General Reserves	1,60,000	
	Profit and Loss Account (W.N.5)	88,500	
	Capital Reserve (W.N. 4)	25,000	2,73,500
3.	Minority interest in S Ltd. (WN 3)		1,26,000
4.	Trade payables		
	Bills Payable		
	H Ltd. 40,000		
	S Ltd. 20,000		
	60,000		
	Less: Mutual payables (7,000)	53,000	
	Trade Creditors		
	H Ltd. 50,000		

	S Ltd.	30,000		
		80,000		
	Less: Mutual owing	(4,000)	76,000	1,29,000
5.	Property, plant and equipment			
	Machinery H Ltd.	7,00,000		
	S Ltd.	1,50,000	8,50,000	
	Furniture H Ltd.	1,00,000		
	S Ltd. 70,000		1,70,000	10,20,000
6.	Inventory			
	H Ltd.		1,00,000	
	S Ltd.		50,000	
	Less: Unrealized profit (2,000x 25%)		500	1,49,500
7.	Trade receivables			
	Bills receivable			
	H Ltd.	25,000		
	S Ltd.	20,000		
		45,000		
	Less: Mutual payables	(7,000)	38,000	
	Debtors			
	H Ltd. 60,000			
	S Ltd. 35,000			
		95,000		
	Less: Mutual owing (4,000)		91,000	1,29,000
8.	Cash & cash equivalent Cash at Bank H Ltd.		90,000	
	S Ltd.		40,000	1,30,000

Working Notes:**1. Percentage of holding**

	No. of Shares	Percentage
Holding Co. :	15,000	(60%)
Minority shareholders :	10,000	(40%)
Total Shares :	25,000	

2. Analysis of Profits

	Pre-acquisition profits and reserves of S Ltd.(₹)	Postacquisition profits of S Ltd. (₹)
General Reserve	40,000	---
Opening balance of Profit and Loss	5,000	---
Current Year's profit (in 1:3)	5,000	15,000
	50,000	15,000
H Ltd.'s share (60%)	30,000	9,000
Minority Interest (40%)	20,000	6,000

3. Minority Interest

Paid up value of 10,000 shares @ ₹ 10 each	₹ 1,00,000
Add: Share in pre-acquisition profits and reserve (40%)	₹ 20,000
Add: Share in post-acquisition profits (40%)	₹ 6,000
	1,26,000

4. Capital Reserve for H Ltd.

(A) Cost of acquiring 15,000 shares of S Ltd.	₹ 1,55,000
(B) Paid up value of 15,000 shares of S Ltd. @ ₹ 10 each	₹ 1,50,000

Add: Share in pre-acquisition profit and reserves of S Ltd.	₹ 30,000
	₹1,80,000
Capital Reserve (B-A)	₹ 25,000

5. Consolidated Balance of Profits of H Ltd.

Balance as per Statement of Profit and Loss	₹ 80,000
Add: Share in post-acquisition profits of S Ltd.	₹ 9,000
Less: Unrealised Profit in unsold stock of S Ltd.	₹(500)
	₹88,500

Question 12 (Past Exam July'21)

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

	X Limited (Rs. In 000)		Y Limited (Rs. In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of Rs. 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 up to 30.09.2020		7	14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	
Property, Plant & Equipment	2,200		1,580	
Total	5,027	5,027	3,450	3,450

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 Rs. 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 Property, Plant & Equipment.

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

(10 Marks)

Solution:

Consolidated Profit and Loss Account of X Ltd. and Y Ltd. for the year ended 31st March, 2021

Particulars	Note No.	Rs.
I. Revenue from operations	1	35,80,000
II. Total revenue		35,80,000
III. Expenses		
Cost of Material purchased/Consumed	2	20,80,000
Changes of Inventories of finished goods		-
Employee benefit expense	3	5,00,000
Finance cost	4	48,000
Depreciation and amortization expense	5	4,57,000
Other expenses	6	2,80,000
Total expenses		33,65,000
IV. Profit before Tax (II-III)		2,15,000
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		2,15,000
Preference dividend	7,000	
Preference dividend payable	<u>7,000</u>	(14,000)
		2,01,000
Share in pre-acquisition loss (WN 3)		1,800
Share of Minority interest in losses (WN 1)		1,800
Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
Inventory reserve (WN 2)		(6,000)
Profit to be transferred to consolidated balance sheet		1,95,100

Notes to Accounts

		Rs	. Rs.
1	Revenue from Operations		
	X Ltd.	18,00,000	
	Y Ltd.	19,00,000	
	Total	37,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	
			35,80,000
2	Cost of Materials Purchased/Consumed		
	X Ltd.	10,00,000	
	Y Ltd.	<u>12,00,000</u>	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	20,80,000
3	Employee benefit and expenses		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	<u>3,00,000</u>	5,00,000

4	Finance cost		
	Interest		
	H Ltd.	24,000	
	S Ltd.	<u>24,000</u>	48,000
5	Depreciation		
	H Ltd.	2,20,000	
	S Ltd.	<u>2,37,000</u>	4,57,000
6	Other expenses		
	H Ltd.	1,60,000	
	S Ltd.	<u>1,20,000</u>	2,80,000

Working Note**1) Profit of Subsidiary**

Rs.

Revenue from Operations		19,00,000
Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods -		
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
Profit Before Tax		19,000
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	<u>14,000</u>	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss Rs. 9,000)		(1,800)

2) **Inventory reserve** = $\left[\frac{120,000}{4} \times \frac{25}{125} \right] = \text{Rs. } 6,000$

3) **Pre-acquisition loss** = 80% of 3 month's profit up to 30th June, 2020 i.e. 80 % of $\frac{1}{4}$ of loss Rs. 9,000.
Hence, pre-acquisition loss = Rs. 1,800

4) Investment account includes Preference dividend for 3 months prior to acquisition i.e. Rs. 4,00,000 X 50% X 7% X $\frac{1}{4}$ = Rs. 3,500

Question 13 (MTP May'20) (Past Exam, Nov'18)

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below :

Rs. In Lakhs

Incomes	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
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:

- (i) A Ltd sold goods of Rs. 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)
- (ii) Administrative expenses of B Ltd include Rs. 8 Lakhs paid to A Ltd as consultancy fees.
- (iii) Selling and distribution expenses of A Ltd include Rs. 15 Lakhs paid to B Ltd as commission.
- (iv) A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016-17 is Rs. 1,500 Lakhs

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2018.

(10 Marks)

Solution:

**Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd.
for the year ended on 31st March, 2018**

Particulars	Note No.	Rs.in Lacs
I. Revenue from operations	1	8,797
II. Total revenue		8,797
III. Expenses		
Cost of Material purchased/Consumed	3	1,770
Changes of Inventories of finished goods expense	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization e	7	225
Other expenses	5	802
Total expenses		2,653
IV. Profit before Tax(II-III)		6,144
V. Tax Expenses	8	2,100
VI. Profit After Tax		4,044

Notes to Accounts

		Rs. in Lacs	Rs. in Lacs
1.	Revenue from Operations		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	<u>1,500</u>	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	<u>(15)</u>	8,797
2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	<u>300</u>	
		1,800	
	Less: Unrealised profits Rs. $180 \times \frac{1}{6} \times \frac{25}{125}$	<u>(6)</u>	<u>1,794</u>
3.	Cost of Material purchased/consumed		
	A Ltd.	1,200	
	B Ltd.	<u>300</u>	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	<u>(180)</u>	1,320
	Direct Expenses		
	A Ltd.	300	
	BLtd.	<u>150</u>	<u>450</u>
			<u>1,770</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	<u>225</u>	<u>1,425</u>
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	<u>150</u>	
		450	
	Less: Consultancy fees received by A Ltd. from BLtd.	<u>(8)</u>	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	<u>75</u>	
		375	
	Less: Commission received from B Ltd. from A Ltd.	<u>(15)</u>	360
			802
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	<u>75</u>	<u>225</u>
7.	Depreciation and Amortisation		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	<u>75</u>	<u>225</u>
8.	Provision for tax		
	A Ltd.	1800	
	B Ltd.	<u>300</u>	<u>2100</u>

Note: it is assumed that dividend adjustment has not be done in sales & other income of A Ltd i.e. dividend received from B Ltd is not included in other income of A Ltd. Alternative Answer is possible considering is otherwise.

Question 14 (Past Exam May'22)

White Ltd. acquired 2,250 shares of Black Ltd. on 1st October, 2020. The summarized balance sheets of both the companies as on 31st 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	1,15,000	75,000
Trade payables Due to White Ltd.	-	30,000
Total	9,75,000	5,25,000
(II) Assets:		
Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	
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 30th March, 2021.
- (ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March, 2021. Profits during the year 2020-2021 were earned evenly
- (iii) The balances of Reserve and Profit and Loss account as on 1st 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 31st March, 2021 as per the requirement of Schedule III of the Companies Act, 2013. **(PAST EXAM 15 Marks May '22)**

Solution:

Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd.**as at 31st March, 2021**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,50,000
(b) Reserves and Surplus	2	2,55,000
(2) Minority Interest	3	1,05,000
(3) Current Liabilities		
(a) Trade Payables	4	1,90,000
Total		12,00,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	9,31,000
(2) Current assets		
(i) Inventory	6	1,70,000
(ii) Cash & cash equivalent	7	99,000
Total		12,00,000

Notes to Accounts

			₹
1.	Share capital		
	6,500 equity shares of ₹ 100 each, fully paid up		6,50,000
	Total		6,50,000
2.	Reserves and Surplus		
	General Reserves		60,000
	Profit and Loss Account	1,50,000	
	Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	37,500	1,87,500
	Capital reserve (W.N. 5)		7,500
	Total		2,55,000
3.	Minority interest in Black Ltd. (WN 4)		1,05,000
4.	Trade payables		
	White Ltd.	1,15,000	
	Black Ltd.	75,000	1,90,000
5.	Property, plant and equipment		
	White Ltd.	5,80,000	
	Black Ltd.	3,51,000	9,31,000
6.	Inventory		
	White Ltd.	50,000	
	Black Ltd.	1,20,000	1,70,000

7	Cash & cash equivalent		
	White Ltd.	39,000	
	Black Ltd.	54,000	
	Cash in transit	6,000	99,000

Working Notes:

1. Post-acquisition profits of Black Ltd.		₹
profits earned during the year = ₹ 90,000 + ₹10,000		1,00,000
Pre-acquisition profits (1.4.20 to 30.9.20)		50,000
Post-acquisition profits (1.10.20 to 31.3.21)		50,000
White Ltd.'s share 75% of 50,000		37,500
Minority Interest 25% of 50,000		12,500
2. Pre-acquisition profits and reserves of Black Ltd.		
Reserves as on 1.4.2020		30,000
Profit and Loss Account		
[10,000 (loss as on 1.4.20) + 50,000 (6 month Adjusted pre-acquisition profits)]		40,000
		70,000
White Ltd.'s = (75%) × 70,000		52,500
Minority Interest = (25%) × 70,000		17,500
3. Post-acquisition reserves of Black Ltd.		
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 30,000 – 30,000)		nil
4. Minority Interest		
Paid-up value of (3,000 – 2,250) = 750 shares		
held by outsiders i.e. 750 × ₹ 100		75,000
Add: 25% share of pre-acquisition reserves & Profit		17,500
25% share of post-acquisition profit		12,500
5. Capital Reserve		1,05,000
Price paid by White Ltd. for 2,250 shares (A)		2,70,000
Intrinsic value of the shares-		
Paid-up value of 2,250 shares held by White Ltd. i.e. 2,250 × ₹100	2,25,000	
Add 75% share of pre-acquisition reserves & profit (70,000 × 75%)	52,500 (B)	2,77,500
Capital reserve (A – B)		7,500

Question 15 (RTP Nov'23) (Past Exam Dec'21)

Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 2023:

Particulars	Chand Ltd (₹)	Sitara Ltd. (₹)
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000

Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information

- On 1st September 2020 Chand Ltd., acquired 5,000 equity shares of ₹ 100 each fully paid up in Sitara Ltd.
- Sitara Ltd. paid a dividend of 10% for the year ended 31st March 2022. The dividend was correctly accounted for by Chand Ltd.
- Chand Ltd. sold goods of ₹ 1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of ₹ 70,000 received from Chand Ltd.
- Selling and Distribution expenses of Sitara Ltd. include ₹ 21,250 paid to Chand Ltd. as brokerage fees.
- General and Administrative expenses of Chand Ltd. include ₹ 28,000 paid to Sitara Ltd. as consultancy fees.
- Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid ₹ 5,000 to Chand Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 2023 as per Schedule III to the Companies Act, 2013

(15 Marks)

Solution:

Consolidated statement of profit and loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹
Revenue from operations	1	50,03,250
Other Income	2	1,81,000
Total revenue (I)		51,84,250
Expenses:		
Cost of material purchased/consumed	3	21,45,500
Changes (Increase) in inventories of finished goods	4	(4,98,750)
Employee benefit expense	5	15,75,000
Finance cost	6	22,750
Depreciation and amortization expense	7	45,500
Other expenses	8	8,43,250
Total expenses (II)		41,33,250
Profit before tax (II-III)		10,51,000

Notes to Accounts:

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Chand Ltd.		33,25,000	
	Sitara Ltd.		19,07,500	
			52,32,500	
	Less: Inter-company sales		(1,75,000)	
	Consultancy fees received by Sitara Ltd. from Chand Ltd.		(28,000)	
	Royalty received by Chand Ltd. from Sitara Ltd.		(5,000)	
	Brokage received by Chand Ltd. from Sitara Ltd.		(21,250)	50,03,250
2.	Other Income			
	Dividend income:			
	Chand Ltd.	1,68,000		
	Sitara Ltd.	43,750	2,11,750	
	Loss on sale of investments Sitara Ltd.		(26,250)	
	Other Non-operating Income			
	Chand Ltd.	35,000		
	Sitara Ltd.	10,500		
	Less: Dividend realized from Sitara Ltd. (5,00,000 x 10%)	(50,000)	4,500	1,81,000
3.	Cost of material purchased/consumed			
	Chand Ltd.	13,93,000		
	Sitara Ltd.	4,72,500		
	Less: Purchases by Sitara Ltd. From Chand Ltd.	18,65,500		
			(1,75,000)	16,90,500
	Direct expenses (Production)			
	Chand Ltd.	3,15,000		
	Sitara Ltd.	1,40,000	4,55,000	21,45,500
4.	Changes (Increase) in inventories of			
	finished goods			
	Chand Ltd.	4,37,500		
	Sitara Ltd.	75,250		
			5,12,750	
	Less: Unrealized profits ₹ 7,00,00 × 20/100		(14,000)	4,98,750
5.	Employee benefits and expenses			
	Wages and salaries:			
	Chand Ltd.	13,30,000		
	Sitara Ltd.		2,45,000	15,75,000
6	Finance cost			
	Interest:			
	Chand Ltd.		17,500	
	Sitara Ltd.		5,250	22,750
7.	Depreciation			
	Chand Ltd.		31,500	
	Sitara Ltd.		14,000	45,500
8.	Other expenses			
	General & Administrative expenses:			
	Chand Ltd.	2,80,000		
	Sitara Ltd.	1,22,500		
			4,02,500	
	Less: Consultancy fees received by Sitara Ltd. from Chand	(28,000)	3,74,500	

	Ltd.			
	Royalty: Sitara Ltd.			
	Less: Received by Chand Ltd. Selling and distribution Expenses:	5,000 (5,000)	Nil	
	Chand Ltd.	3,32,500		
	Sitara Ltd.	1,57,500		
			4,90,000	
	Less: Brokerage received by Chand Ltd. from Sitara Ltd.	(21,250)	4,68,750	8,43,250

MCQs

1. Minority interest should be presented in the consolidated balance sheet
 - (a) As a part of liabilities.
 - (b) As a part of equity of the parent's shareholders.
 - (c) Separately from liabilities and the equity of the parent's shareholders.
 - (d) As a part of assets.

2. Minority of the subsidiary is entitled to
 - (a) Capital profits of the subsidiary company.
 - (b) Revenue profits of the subsidiary company.
 - (c) Both capital and revenue profits of the subsidiary company.
 - (d) Neither capital nor revenue profits of the subsidiary.

3. In consolidation of accounts of holding and subsidiary company _____ is eliminated in full.
 - (a) Current liabilities of subsidiary company.
 - (b) Reserves and surplus of both holding and subsidiary company.
 - (c) Mutual indebtedness.
 - (d) Nothing.

4. In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as
 - (a) Minority interest.
 - (b) Capital reserve.
 - (c) Current liability.
 - (d) Current assets.

5. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of
 - (a) Current liability.
 - (b) Revenue profit.
 - (c) Capital profit.
 - (d) Current assets.

ANSWERS/SOLUTION**MCQ**

1. (c) 2. (c) 3. (c) 4. (a) 5. (a)

SOLVED EXAMPLE**Example 1**

The following information is given as at 31 March 20X1

	P Ltd.	S Ltd.
Non-current Assets:		
PPE	2,000	500
Investment in Subsidiary	1,000	
Net Current Assets	<u>2,000</u>	<u>500</u>
	<u>5,000</u>	<u>1,000</u>
Issued Capital	500	1,000
Reserves and Surplus	<u>4,500</u>	
	5,000	1,000

P Ltd. acquired 100% of shares of S Ltd. on 31 March 20X1 for ₹ 1,000.

Since P Ltd. has acquired S Ltd., we will have to determine goodwill / capital reserve. Let us understand why goodwill / capital reserve arises in case of consolidation, and what would be the interpretation of the same.

In the given case, P Ltd. acquired all the shares of S Ltd. by paying ₹ 1,000. This payment (i.e., purchase consideration) would be made by P Ltd. to the shareholder(s) of S Ltd. (hence the transfer of this amount would not appear in the books of S Ltd.).

By paying ₹ 1,000, P Ltd. has acquired 'control' over S Ltd. This acquisition is quite different from the concept of amalgamation done in accordance with AS 14, though the concept of goodwill / capital reserve is similar. Under AS 14, the target company would generally liquidate, and all assets and liabilities would be transferred from the Selling Company to the Purchasing Company. In case of consolidation, P Ltd. is acquiring 'control' i.e., by way of acquiring equity shares in S Ltd.. Thus, S Ltd. continues to exist, and the assets and liabilities of S Ltd. are not transferred to P Ltd., but instead continue to remain with S Ltd. only. However, since in substance, acquisition has taken place (albeit through transfer of control), the purchase consideration of ₹ 1,000 will be compared with the net worth of S Ltd., which is ₹ 1,000. Since amount paid (i.e., purchase consideration) equals the net worth, no goodwill / capital reserve is recognized. In case the amount paid (i.e., purchase consideration) would be higher / lower than the net worth of S Ltd., such difference would be recognized in Goodwill / Capital Reserve respectively.

The calculation of goodwill is presented below:

Tangible Assets	500
Net Current Assets	500
	1,000
Less: Liabilities	NIL
Net Worth of S Ltd.	1,000
Investment in S Ltd. (purchase consideration)	1,000
Goodwill / (Capital Reserve)	NIL

Example 2

Modifying example 1, the following information is given as at 31 March 20X1

	P Ltd.	S Ltd.
Non-current Assets:		
PPE	2,000	500
Investment in Subsidiary	1,000	

Net Current Assets	<u>2,000</u>	<u>500</u>
	<u>5,000</u>	<u>1,000</u>
Issued Capital	500	700#
Reserves and Surplus	<u>4,500</u>	<u>300#</u>
	<u>5,000</u>	<u>1,000</u>

As compared to Example 1 – There is a difference in the break-up of net worth of S Ltd. (Example 1 – Issued capital was 1,000 and Reserves and Surplus was Nil; The Net worth is 1,000).

P Ltd. acquired 100% of shares of S Ltd. on 31 March 20X1 for ₹ 1,000.

Like Example 1 above P Ltd. has acquired 'control' over S Ltd. by paying ₹ 1,000. Accordingly, the purchase consideration of ₹ 1,000 will be compared with the net worth of S Ltd. which is ₹ 1,000. Since amount paid (i.e., purchase consideration) equals the net worth, no goodwill / capital reserve is recognized. In case the amount paid (i.e., purchase consideration) would be higher / lower than the net worth of S Ltd., such difference would be recognized in Goodwill / Capital Reserve respectively.

The calculation of goodwill is presented below:

Tangible Assets	500
Net Current Assets	500
	1,000
Less: Liabilities	NIL
Net Worth of S Ltd.	1,000
Investment in S Ltd. (purchase consideration)	1,000
Goodwill / (Capital Reserve)	NIL

Example 3

Modifying example 2, the following information is given as at 31 March 20X1

	P Ltd.	S Ltd.
Non-current Assets:		
PPE	2,000	500
Investment in Subsidiary	1,200	
Net Current Assets	2,000	500
	5,200	1,000
Issued Capital	700	700
Reserves and Surplus	4,500	300
	5,200	1,000

P Ltd. acquired 100% of shares of S Ltd. on 31 March 20X1 for ₹ 1,200.

Like Examples 1 and 2 above P Ltd. has acquired 'control' over S Ltd. by paying ₹ 1,200. Accordingly, the purchase consideration of ₹ 1,200 will be compared with the net worth of S Ltd. which is ₹ 1,000. Since amount paid (i.e., purchase consideration) exceeds the net worth, such excess of is recognized as goodwill. In case the amount paid (i.e., purchase consideration) would be lower than the net worth of S Ltd., such difference would be credited to Capital Reserve.

The calculation of goodwill is presented below:

Tangible Assets	500
Net Current Assets	500
	1,000

Less: Liabilities	NIL
Net Worth of S Ltd.	1,000
Investment in S Ltd. (purchase consideration)	1,200
Goodwill / (Capital Reserve)	200

Example 4

Modifying Example 2, the following information is given as at 31 March 20X1:

	P Ltd.	S Ltd.
Non-current Assets:		
Tangible Assets	2,000	500
Investment in Subsidiary	1,000	
Net Current Assets	<u>2,000</u>	<u>500</u>
	<u>5,000</u>	<u>1,000</u>
Issued Capital	500	700
Reserves and Surplus	<u>4,500</u>	<u>300</u>
	<u>5,000</u>	<u>1,000</u>

P Ltd. acquired 80% of shares of S Ltd. on 31 March 20X1 for ₹ 1,000.

In the given case, P Ltd. acquired 80% of the shares of S Ltd. by paying ₹ 1,000. This payment (i.e., purchase consideration) would be made by P Ltd. to the shareholder(s) of S Ltd.

By paying ₹ 1,000, P Ltd. has acquired 'control' over S Ltd. We cannot say that P Ltd. has acquired only '80% control', since its shareholding in S Ltd. will enable it to take all the decisions regarding S Ltd.'s operations and usage of assets and repayment of liabilities. However, the fact remains that 20% stake does NOT belong to S Ltd. It belongs to outsiders, who are called 'Minority Interest' in accordance with AS 21. Accordingly, in this case, the purchase consideration of ₹ 1,000 will be compared with 80% of the net worth of S Ltd. Any excess or deficit would be recorded as goodwill / capital reserve respectively. 20% of the net worth on the date of acquisition would be recorded separately as Minority Interest.

AS 21 defines Minority Interest as that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent. As per Schedule III to the Companies Act, 2013, "Minority Interests" in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

In the given case, the calculation of goodwill is presented below:

Tangible Assets: 80% being share of parent	400
Net Current Assets: 80% being share of parent	400
	800
Less: Liabilities	NIL
Net Worth of S Ltd.: attributable to the parent's shareholding	800
Investment in S Ltd. (purchase consideration)	1,000

Goodwill / (Capital Reserve) 200

Example 5

H Ltd. acquires 70% of the equity shares of S Ltd. on 1.1.20X1. On that date, paid up capital of S Ltd. was 10,000 equity shares of ₹ 10 each; accumulated reserve balance was ₹ 1,00,000. H Ltd. paid ₹ 1,60,000 to acquire 70% interest in the S Ltd.

Assets of S Ltd. were revalued on 1.1.20X1 and a revaluation loss of ₹ 20,000 was ascertained. The book value of shares of S Ltd. is calculated as shown below:

	₹
70% of the Equity Share Capital ₹ 1,00,000	70,000
70% of Accumulated Reserve ₹ 1,00,000	70,000
70% of Revaluation Loss ₹ 20,000	(14,000)
	1,26,000

So, H Ltd. paid a positive differential of ₹ 34,000 i.e. ₹ (1,60,000 – 1,26,000). This differential is called goodwill and is shown in the balance sheet under the head intangibles.

Example 6

A Ltd. acquired 70% interest in B Ltd. on 1.1.20X1. On that date, B Ltd. had paid-up capital of ₹ 1,00,000 consisting of 10,000 equity shares of ₹ 10 each and accumulated balance in reserve and surplus of ₹ 1,00,000. On that date, assets and liabilities of B Ltd. were also revalued and revaluation profit of ₹ 20,000 was calculated. A Ltd. paid ₹ 1,30,000 to purchase the said interest.

In this case, the book value of Shares of B Ltd. is calculated as shown below:

	₹
70% of the Equity Share Capital ₹ 1,00,000	70,000
70% of Reserves and Surplus ₹ 1,00,000	70,000
70% of Revaluation Profit ₹ 20,000	14,000
	1,54,000

In this case, a negative differential of ₹ 24,000 arises i.e. (1,54,000 – 1,30,000) which is called and presented as capital reserve.

Example 7

H Ltd. acquired 16,000 equity shares of ₹ 10 each, in S Ltd. on October 1, 20X1 for ₹ 3,06,800. The profit and loss account of S Ltd. showed a balance of ₹ 10,000 on April 1, 20X1. The plant and machinery of S Ltd. which stood in the books at ₹ 1,50,000 on April 1, 20X1 was considered worth ₹ 1,80,000 on the date of acquisition.

The information of the two companies as at 31-3-20X2 was as follows:

	H Ltd.(₹)	S Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	5,00,000	2,00,000
General reserve	2,40,000	1,00,000
Profit and loss account	57,200	82,000
Current Liabilities	1,69,800	33,000
Land and building	1,80,000	1,90,000
Plant and machinery	2,40,000	1,35,000
Investments	3,06,800	
Current assets	2,40,200	90,000

In this case,

Percentage of holding:

	No. of Shares	Percentage
Holding Co. :	16,000	(80%)

Minority shareholders :	4,000	(20%)
TOTAL SHARES :	20,000	

Impact of Revaluation of Plant and Machinery will be as -

	₹
Book value of Plant and Machinery as on 01-04-20X1	1,50,000
Depreciation Rate $(1,50,000 - 1,35,000) / 1,50,000 = 15,000 / 1,50,000 \times 100$	10%
Book value of Plant and Machinery as on 01-10-20X1 after six months depreciation @10% (1,50,000-7,500)	1,42,500
Revalued at	1,80,000
Revaluation profit (1,80,000-1,42,500)	37,500
Share of H Limited in Revaluation Profit (80%)	30,000
Share of Minority in Revaluation profit (20%)	7,500
Additional Depreciation on appreciated value to be charged from post-acquisition profits	
(10% of ₹ 1,50,000 for 6 months) + (10% of ₹ 1,80,000 for 6 months) less ₹ 15,000 (as already charged)	1500
Share of H Limited in additional depreciation that will reduce its share (80%) in post-acquisition profit by	1,200
Share of Minority Interest in additional depreciation	300

Example 8

If shares in X Ltd., are purchased in January 20X2 and in April 20X2, X Ltd., declares a dividend in respect of 20X1, the dividend received by the holder of the shares correctly should not be treated as income but as capital receipt and credited to Investment Account.