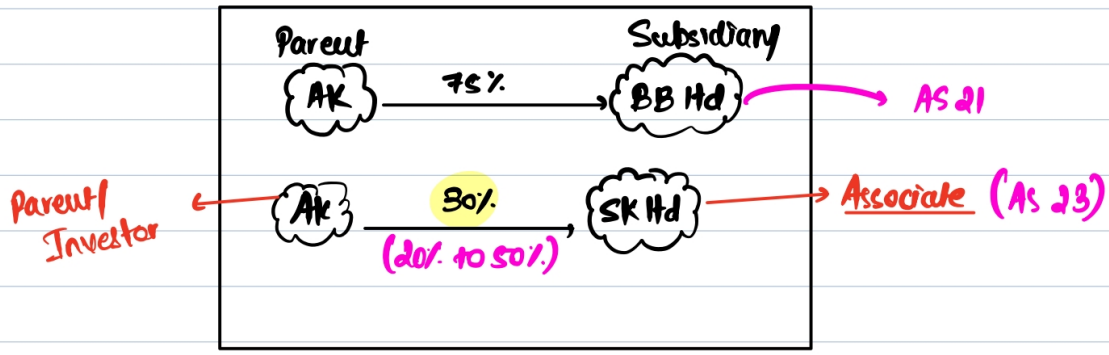
→ (4 6mks)

AS 23 → Accounting for Investments in Associates in CFS



i] Definitions

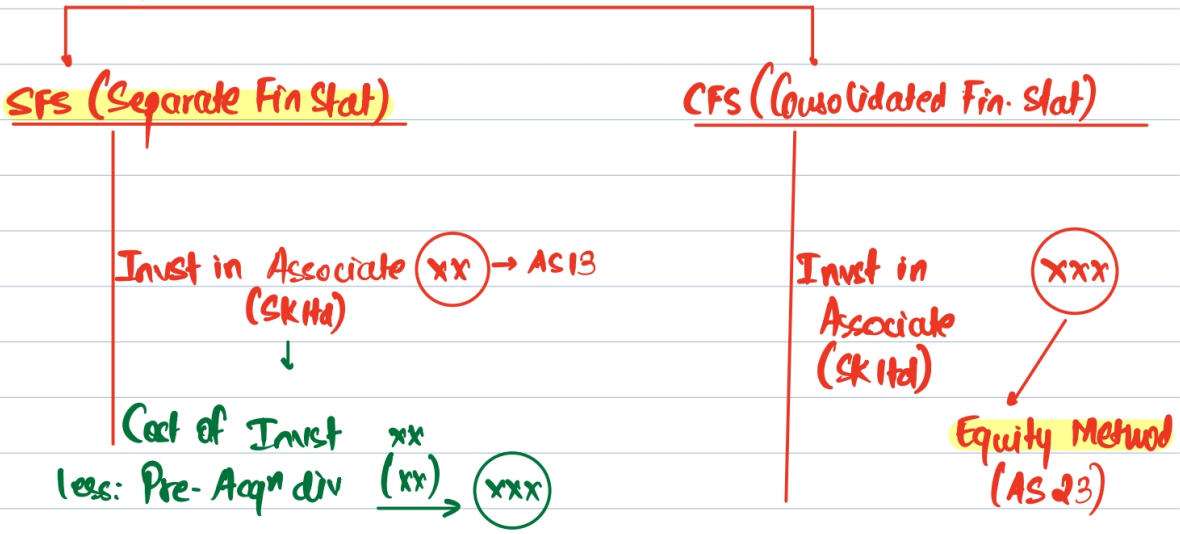
a) **Associate:** An associate is an entity in which investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

b) **Significant influence**

- It is the power to participate in the financial or operating decisions of the entity.
- It can be obtained by:
  - Voting power (20% to 50%)
  - Representation on BOD.

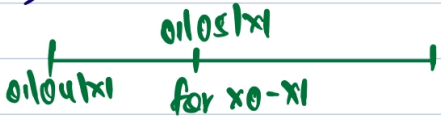
2] Accounting for Investments in Associates

eg: AK Ltd has 30% stake in SK Ltd.



3] Equity Method (It is a valuation method to calculate the value of Invst in Associate in CFS)

Eg: On 01.04.x1 AK Ltd acquired 25% stake in SK Ltd for ₹100 lakhs. On that date the value of Net Assets of SK Ltd was ₹250 lakhs.
On 01.05.x1 SK Ltd declared div @ 10%. (Fsc of SK Ltd was 100 lakhs).
This div relates to x0-x1
During the year SK Ltd earned a profit of ₹80 lakhs out of which it declared a div @ 15% of Fsc on year end for the year x1-x2.
Calculate the value of Invst in SK Ltd to be shown in the Books of AK Ltd (SFS & CFS Both)



Soln

I] Accounting in SFS

Cost of Invst (25%)	₹100 lakhs
Less: Pre-Acqn div	(2.5 lakhs)
(100 lakhs (Esc) x 10% (Div rate) x 25% (our stake)	
C.A of Invst in SFS	₹97.5 lakhs

II] Accounting in CFS (Equity Method)

(A) Caln of Gdw / C.R (Oc)
(B) Value of Invst (as per equity method)
(C) Presentation of Invst in Bls

(A) Caln of Gdw / Cap Reserve (Same as As 21)

Cost of Invst (25%)	100 lakhs
Less: Pre-Acqn div (25%)	(2.5 lakhs)
	97.5 lakhs
Less: Net Assets of Associate (25%) (250 lakhs x 25%) → (Assets @ FV (-) Liab @ FV OR Esc on DOA (+) Pre Acqn Reserves)	(62.5 lakhs)
Goodwill	35 lakhs

CFS Bls (Diagl)

Invst in Associate		
Cost of Invst (Share of NA)	62.5	
(+) Gdw	35	97.5

(B) Calculation of Value of Invst on Yr end 31.3.X2 (As per equity method)

Cost of Invst

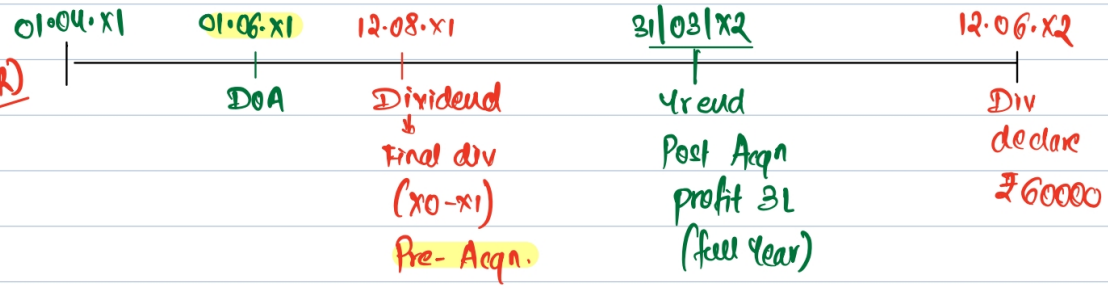
Share of NA	62.5	
(+) GW / (-) Cap Rese	35	97.5 lakhs
(+) Post Acq^n share of Profit (80 lakhs x 25%)		20 lakhs
Less: Post Acq^n Div (100 lakhs x 15%) x 25% (Fsc, Div Rate, our stake)		(3.75 lakhs) → It is like a recovery of invested Amt
Less: Unrealised Profit (URP x 25%)	(xx)	Extra Part
Less: Excess Depr^n due to revaluat^n of Associates Assets (Excess Depr^n Amt x 25%)	(xx)	Extra Part
Value of Invst on 31/3/X2 (As per equity method)		113.75

© Presentation in CFS

CFS of AK Ltd (Extract) 31.3.X2		
Non Current Invst		
Invst in Associate		113.75
Share in NA	62.5	
(+) Gdw	35	
(+) Post Acqn profit	20	
(-) Post Div	(3.75)	

Q1 → Refer Q.B.

Q3 (LDR)



I] Calculation of value of Invst in SFS (31/03/X2) (As per AS 13)

Cost of Invst (01.06.X1) (30%)	200000
less: Pre Acqn div (50K x 30%)	(15000)
Value of Invst in SFS	185000

II] Calⁿ of Value of Invst in CFS

a) Calⁿ of GW /C-R ⟶ cannot be computed as Data of Net Assets of associates is not available

b) Calⁿ of C-A of Invst in CFS on 31-03-x2 (As per AS 23 equity method)

Cost of Invst (incl GW /C-R)	185000
(+) Post Acqⁿ profit (31 x 30%) x 10m/12m	~~90000~~ 75000
~~(-) Post Acq div~~ (Next Year)	
Value of Invst in CFS on 31/03/x2	260000

III] Value of Inv on 30-06-x2

C-A of Inv on 01-04-x2	260000
(-) Post Acqⁿ div (60000 x 30%)	(18000)
C-A of Invst on 30-06-x2	242000

Q4 (LOR)

i] Calculation of GW / Cap Reserve

Cost of Invst (25%)	3,00,000	Esc ↓ Div Rate ↓ our stake ↓ (SL × 40%) × 25%
less: Pre Acqn div	(50000)	
	250000	
less: NA (25%)		
Esc (SL × 25%)	(125000)	
Pre Acqn Reserve (SL − 2L) × 25% #	(75000)	
GW	50,000	

Due to Pre-Acqn div, the RVs of DOA will reduce

ii] Value of Invst in CFS as on 31.03.x2

Cost of Invst		
Share in NA	200000	
(+) GW	50000	250000
(+) Post Acqn profit (7L × 25%)		175000
~~(−) Post Acqn div~~ (declared after year end)		
Value of Invst on 31.03.x2		425000

CFS (Extract) on 31.3.x2	
Invst in Associate	425000
Share in NA 2L	
(+) Glw 50k	
(+) Post Acqn profit 1.75L →	

III] Div declared after Yr end i.e. on 30.04.x2 (proposed div) will Not be recognised during the year ended 31.03.x2.

Extra examples

Eg① A Ltd acquired 10% stake in B Ltd on 01/04/x1 & further 15% stake on 01/10/x1. Cost of Invst for 10% stake is ₹100000 & for 15% stake is ₹155000.
Net Assets on 01/04/x1 is ₹850000 & on 01/10/x1 is ₹10,00,000.

Calculate Glw / Cap Reserve.

Soln:

Calculatn for 1st April		Calculatn for 1st Oct	
Cost of Invst (10%)	100000	Cost of Invst (15%)	155000
less: Net Assets on 01/04/x1 (10%) (8.5L × 10%)	(85000)	less: Net Assets on 01/10/x1 (15%) (10L × 15%)	(150000)
Glw	15000	Glw	5000

Total Glw = 15k + 5k = 20,000

CFS 31·3·X2	
Cost of Invst	255000
Share in NA (85K + 15L) 2·35L	
(-) Gdw 20K →	

Eg2 Everything is same as eg ① except that cost of Invst for 1St. is ₹ 145000.

Soln: Calculation for 1st April

Cost of Invst (10%)		100000
less: Net Assets on 01/04/X1 (10%) (8·5L × 10%)	(85000)	
Gdw	15000	

Calculation for 1st Oct

Cost of Invst (15%)		145000
less: Net Assets on 01/10/X1 (15%) (10L × 15%)	(150000)	
Cap Rese	(5000)	

Total Gdw = 15K - 5K = 10K

CFS 31·3·X2	
Cost of Invst	245000
Share in NA (85K + 15L) 2·35L	
(-) Gdw 10K →	

LDR

Eg 3 A Ltd acquired 25% stake in B Ltd on 1st April x1 and further 5% on 01/10/x1.

Cost of Invst for 25% is ₹150000 & 5% is ₹20000.

Net Asset on 01/04/x1 is ₹500000.

Profit for the year is ₹90000 earned in the ratio of 2:1 respectively during the year.

(2 → first 6m, 1 → last 6m)

i) Cal. Glw / C.R

ii) Cal. value of Invst on year end. (31.03.x2)

01/04/x1	01/10/x1
25% → 150000	5% → 20000
NA → 500000	NA → ?

Soln: Cal^{n} of Glw / C.R

i) On 1st April x1		ii) On 1st Oct 'x1	
Cost of Invst (25%)	150000	Cost of Invst (5%)	20000
less: Net Assets (25%) (5L x 25%)	(125000)	less: Net Assets (5%) (5L + 60K) x 5% (NA; Profit for 1st 6m)	(28000)
Glw	25000	Cap Rsve	(8000)

Net Glw = 25000 - 8000

= 17000

III] Value of Invst on 31·03·X2

	Cost of Invst (25% + 5%)	
Share in NA	153000	
(+) Gdw	17000 →	170000
(+) Post Acqn profit (90000 x 25% (+) 30000 x 5%)	24000	(or) 60000 x 25% (+) 30000 x 30%
Value of Invst on 31/03/X2	194000	

4] Other Important Points

(A) Proposed div (Div declared after Year end)

Such div shall NOT be taken into consideration while computing value of Investment.

(B) Potential equity share

Hld A/c —15% eq. shares→ Sk Hld

Conv Deb → Sk Hld

Isko aaj consider mat karna

They will become equity after few years which will increase our stake by 10%.

Because aaj voting power nahi milega.

Potential eq share (eg Conv Deb, Conv Pref Sh) held by the investor should not be taken into consideration for determining voting power

© Value of Invst in CFS cannot be negative. It means adjustment of Post Acquisition is made only upto the value of Invst.

Q5 (CDR)

i) Calculation of Glw / Cap Reserve

Cost of Invst (40%)		10,00,000
less: Net Assets (40%)		
Esc (10L × 40%)		(400000)
Pre-profits (2L × 40%)		(80000)
	Glw	520000

Year X1-X2

Cost of Invst

Share in NA	480000	
(+) Glw	520000	10,00,000
less: Post Acqn loss (10L × 40%)		(400000)
CA of Invst on 31.03.X2		600000

Cons BIS (Extract) as on 31.03.X2	
Invst in BHd (incl Glw)	600000

Year X2-X3

C.A of Invst on 01.04.X2	600000
Less: Post Acqn loss (12.5L x 40%)	(500000)
CA of Invst on 31.3.X3	100000

Cons BIS (Extract) as on 31.03.X3	
Invst in BHd (incl Gw)	100000

Year X3-X4

CA of Invst on 01.04.X3	100000
Less: Post Acqn loss (5L x 40%) = 2L → But restricted to 1L as Invst cannot be -ve.	(100000)
	NIL

Cons BIS (Extract) as on 31.03.X4	
Invst in BHd (incl Gw)	NIL

↱ starting se eq method follow nahi karenge.

(D) Cases where equity method is NOT to be followed

i) Where investment is intended to be temporary

(OR)

ii) There are severe long term restrictions which significantly restricts the transfer of funds to investor.

↱ starting mein we were following eq. method, now will stop it

(E) Cases where investor is required to discontinue equity method.

i) It ceases to have significant influence due to sale of Invst either wholly or partially.

(OR)

ii) Before there were no restrictions but now There are severe long term restrictions which significantly restricts the transfer of funds to investor.