Chapter: 6 CONSOLIDATED FINANCIAL STATEMENTS

CHAPTER OVERVIEW

NOTE: As per the syllabus, the chapter covers simple problems on consolidated financial statements with single subsidiary and excludes problems involving acquisition of interest in subsidiary at different dates; different reporting dates of holding and subsidiary; disposal of a subsidiary and foreign subsidiaries.

INDEX of topics

After studying this chapter, you should be able to understand:

- Meaning of Holding Company and Subsidiary Company
- Can a Holding Company acquire Shares in its subsidiary company after becoming a Holding Company?
- Can a Subsidiary Company acquire Shares in its Holding Company after becoming a Subsidiary Company?
- Need for Consolidation Financial Statements
- Duty to Prepare Consolidated Financial Statements
- Manner of Consolidation of Accounts
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- Important Terms
- Practical steps involved in the preparation of Consolidated Balance Sheet
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- **Step 6** Prepare the Consolidated Balance Sheet after eliminating the inter-company Owings
- Accounting Treatment of Sale of Shares by Holding Company
- Treatment of Capital Profit on Additional Shares Acquired by Holding Company after Becoming Holding Company

(1) CONCEPT OF GROUP, HOLDING COMPANY AND SUBSIDIARY COMPANY

MEANING OF HOLDING COMPANY AND SUSIDIARY COMPANY

As per Sec 2(87) of The Companies Act, 2013, a company becomes the subsidiary of another if

(a) That another company controls the composition of its Board of Directors; or

(b) That another company holds more than half of total share capital; or

NOTE: Total Share Capital=paid up Equity Share Capital+ Convertible Preference Share Capital

(c) That the first mentioned company is a subsidiary of any-company which is subsidiary of another company

Example 1 The share Capital of S Ltd. is Rs. 5,00,000 divided into 50,000 Equity Shares of Rs. 10 each. If H Ltd. Acquires 25,000 equity shares on 01.07.2014 and not on 1.4.2014 because H Ltd. Holds more than 50% of the share capital of S.Ltd. on 01.07.2014.

Example 2 The Share Capital of S Ltd. is 6,00,000 divided into 50,000 Equity Shares of Rs. 10 each and 1,000 convertible preference Shares of Rs. 100 each. if H Ltd. Acquires 29,000 equity shares and 100 hold more than 50% of the total share capital of S Ltd. (i.e. Rs. 5,00,000 + Rs. 1,00,000).

Example 3 If US Ltd. is a subsidiary of S Ltd. Which is subsidiary of H Ltd. Would also be the subsidiary of H Ltd. By virtue of clause (C) above. Here, H Ltd. Is the ultimate holding company in relation to US Ltd. and US Ltd. Is the ultimate subsidiary company in relation to H Ltd.

In an era of business growth, many organizations are growing into large corporations by the process of acquisition, mergers, gaining control by one company over the other company, restructuring etc. Acquisitions and mergers ultimately lead to either cost reduction or controlling the market or sharing the material supplies or product diversification or availing tax benefits or synergy.

Whatever the motto behind these ventures is, the ultimate result is the large scale corporation. Formation of holding company is the most popular device for achieving these objectives.

Groups of Companies

Many a times, a company expands by keeping intact its separate corporate identity. In this situation, a company (i.e. holding company) gains control over the other company (subsidiary company). This control is exercised by one company over the other by-

1. Purchasing specified number of shares i.e. ownership through voting power of that company or
2. Exercising control over the board of directors.

The companies connected in these ways are collectively called as a Group of Companies.

Holding Company and Subsidiary Company have also been defined in Section 2 of the Companies Act, 2013.

Holding Company

As per Section 2(46) of the Companies Act, 2013,

"Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.

It may be defined as one, which has one or more subsidiary companies and enjoys control over them. Legally a holding company and its subsidiaries are distinct and separate entities. However, in substance holding and subsidiary companies work as a group. Accordingly, users of holding company's accounts need financial information of subsidiaries also to understand the performance and financial position of the group (i.e. holding company and subsidiaries on a combined basis).

Subsidiary Company

Section 2(87) of the Companies Act, 2013 defines "subsidiary company" as a company in which the holding company -

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:

A company shall be deemed to be a subsidiary company of the holding company even if there is indirect control through the subsidiary company (ies).

The control over the composition of a subsidiary company's Board of Directors means exercise of power to appoint or remove all or a majority of the directors of the subsidiary company.

Total Share Capital

Total share capital, as mentioned in section 2(87) (ii) above, has been further clarified by the Rule 2(1)(r) of the Companies (Specification of Definitions Details) Rules, 2016. As per the Rule, total share capital includes

(a) paid up equity share capital; and
(b) convertible preference share capital.

Section 19 of the Companies Act, 2013 prohibits a subsidiary company from holding shares in the holding company. According to this section, no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

However, a subsidiary may continue to be a member of its holding company when

(a) the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or
(b) the subsidiary company holds such shares as a trustee; or
(c) the subsidiary company is a shareholder even before it became a subsidiary company of the holding company.

The subsidiary company shall have a right to vote at a meeting of the holding company only in respect of the shares held by it as a legal representative or as a trustee, as mentioned above in point (a) and (b).

Definitions as per Accounting Standard (AS) 21

Control:

(a) the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or
(b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

Subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Minority interest is 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.

Some practical examples of Holding and Subsidiary Company
Source Google

Example 1 – Alphabet Inc.

We are all very familiar with the computer software and search engine company Google. In the year 2015, Google underwent a corporate restructuring and was re-organized as a subsidiary of Alphabet, Inc., a newly formed parent company holding Google and many other related subsidiaries. Alphabet Inc. is a multinational conglomerate headquartered in California and has no business operations of its own. It owns a substantial amount of intellectual property through its subsidiaries and is entirely driven by the earnings, **cash flows** and assets of its subsidiaries. Over 85% of its total revenues in FY2018 were generated from its primary business – advertising.

- Alphabet, Inc. was formed with an underlying intention of narrowing the business scope of Google, for it to focus on its core business and creating a better scale of management by running Google's subsidiaries separately. The subsidiaries held under Google at the time of restructuring were thus transferred to Alphabet Inc.
- Google's founders, Larry Page, and Sergey Brin moved to the management of Alphabet as CEO and President respectively, making Sundar Pichai the new CEO of Google.
- Google's **ticker symbol** GOOG and GOOGL are retained by Alphabet Inc. and these stocks continue to trade in the same way with the same price history, on the NASDAQ Stock Exchange. Alphabet Inc. reported a firm-wide (consolidated) revenue of $136.8 billion and a net income of $30.7 billion, in FY2018.

- The subsidiaries owned by Alphabet, Inc. include Calico, CapitalG, Chronicle, DeepMind Technologies, GV (formerly Google Ventures), Google Fiber, Jigsaw, Makani, Sidewalk Labs, Verily, Waymo, Loon, etc.

Example 2 – Sony Corporation

Another famous holding company is Sony Corporation, a multinational conglomerate headquartered in Tokyo, Japan. A popular brand name today, well heard of when it comes to electronics, music, the PlayStation and other games, Sony was founded by Akio Morita and Masaru Ibuka in the year 1946. It is now a **public company** with common stock listed on the Tokyo Stock Exchange and New York Stock Exchange (NYSE) with the symbol SNE. In FY2019 (year ended March 2019), the company reported firm-wide revenue of 8665.7 billion JPY and net income of about 419 billion JPY.

- Sony Corporation operates a wide array of businesses such as entertainment, electronics, gaming, telecommunications, etc.
- The major subsidiaries under Sony Corporation are Sony Electronics Inc., Sony Global Manufacturing & Operations Corporation, Sony Interactive Entertainment Inc., Sony Mobile Communications (formerly Ericsson), Sony Music Entertainment (formerly CBS Group), Sony Network Communications Inc., Sony Pictures Entertainment (including Columbia Pictures as a division), etc.
- Just like Google, some of these subsidiaries themselves hold controlling interests in other companies.
- For example, Gaikai, an American gaming technology provider, is a subsidiary of Sony Interactive Entertainment Inc. In this example, therefore, the latter is also a holding company.

Example 3 – JPMorgan Chase & Co.

JPMorgan Chase & Co. is one of the largest players in the global **investment banking** and financial services industry. Incorporated in December 2000, through the merger of JPMorgan and Chase Manhattan Bank, it is a multinational public company headquartered in New York, United States.
Its common stock is listed on the NYSE with the symbol JPM. The current chairman and CEO of the company are Jamie Dimon.

- In FY2018, the company reported a firm-wide managed revenue of $111.5 billion and net income of $32.5 billion.
- JPMorgan Chase & Co. has over 40 subsidiaries worldwide in the fields of asset & wealth management, corporate & investment banking, **commercial banking**, consumer & community banking.
- The most significant of these subsidiaries are JPMorgan Chase Bank, JPMorgan Asset Management Holdings Inc., JPMorgan Securities LLC, and Chase Bank USA.

Example 4 – Johnson & Johnson

Incorporated in the year 1887, Johnson & Johnson is a multinational holding company headquartered in New Jersey, United States. It is a popular brand name in households all over the world, especially for first-aid and baby care products. The company is involved in research and development, manufacturing and sales of pharmaceuticals, medical devices, health and well-being products, and other related consumer products.

- It is a publicly listed company with its common stock listed on the New York Stock Exchange, with JNJ as the symbol.
- In FY2018, Johnson & Johnson reported firm-wide revenues of $81.5 billion and net income of about $15 billion.
- It has over 260 operating subsidiaries with a worldwide presence, as of December 2018. These subsidiaries own several patents related to their products and formulations.
- Some of its major subsidiaries are Cordis Corporation, Ethicon, Inc., Janssen Biotech, Inc., Johnson & Johnson Pharmaceutical Services, McNeil Consumer Health, Neutrogena, etc.

Problem 1

	A Ltd.	**B Ltd.**	**C Ltd.**	**D Ltd.**
Paid up capital	Rs. 5 Crores	Rs. 4 Crores	Rs.3 Crores	Rs. 2 Crores

Equity shares of Rs.10 each	40,00,000	30,00,000	20,00,000	10,00,000
10 % pref. share of Rs. 10 each	10,00,000	10,00,000	10,00,000	10,00,000

Required: State the relationship between the companies in the following cases:

Case (a) A Ltd. holds 10,00,000 equity shares in B Ltd. And can appoint or remove majority of directors of B Ltd. without the consent of any other person.

Case (b) A Ltd. holds 15,00,000 equity shares in B Ltd. Which hold 10,00,000 equity shares in c Ltd.

Case (C) A Ltd. holds 15,00,000 equity shares in B Ltd. Which hold 10,00,000 equity shares in c Ltd.

Case (d) A Ltd. holds 15,00,000 equity shares in B Ltd. Which hold 10,00,000 equity shares in c Ltd. which also holds 5,05,000 equity shares in D Ltd.

Case (e) A Ltd. holds 15,00,000 equity shares in B Ltd. Which hold 10,00,000 equity shares in c Ltd. and holds 1,00,000 equity shares in D Ltd. holds 1,05,000 equity shares in D Ltd.

Solution

Note: *Unless otherwise stated, the preference shares are assumed to be non-convertible.*

Case (a) As per Sec. 2(87), B Ltd. is subsidiary of A Ltd. since A Ltd. can appoint or removes majority of directors of B Ltd. .

Case (b) As per Sec. 2(87), B Ltd. is subsidiary of A Ltd. since A Ltd. holds more than half in nominal value of equity shares capital of C Ltd.

C Ltd. is not subsidiary of B Ltd. since B Ltd. does not hold more than half in nominal value of equity shares capital of C Ltd. .

Case (C) As per Sec. 2(87), B Ltd. is subsidiary of A Ltd. since A Ltd. holds more than half in nominal value of equity shares capital of C Ltd.

As per Sec. 2(87), C Ltd. is subsidiary of B Ltd. since B Ltd. holds more than half in nominal value of equity shares capital of C Ltd.

As per Sec. 2(87), C Ltd. is subsidiary of B Ltd. is also subsidiary of A Ltd.

Case (d) As per Sec. 2(87), B Ltd. is subsidiary of A Ltd since A Ltd. holds more half in nominal value of equity shares capital of B Ltd.

As per Sec. 2(87), C Ltd. is subsidiary of B Ltd. since B Ltd. holds more than half in nominal value of equity shares capital of C Ltd.

As per Sec. 2(87), C Ltd. is subsidiary of B Ltd. is also subsidiary of A Ltd.

As per Sec. 2(87), D Ltd. is subsidiary of C Ltd. is also subsidiary of B Ltd. and A Ltd.

Case (d) As per Sec. 2(87), B Ltd. is subsidiary of A Ltd since A Ltd. holds more half in nominal value of equity shares capital of B Ltd.

As per Sec. 2(87), C Ltd. is subsidiary of B Ltd. since B Ltd. holds more than half in nominal value of equity shares capital of C Ltd.

As per Sec. 2(87), D Ltd. is subsidiary of B Ltd. since B Ltd. along with its subsidiary C Ltd. holds more than half in nominal value of equity shares capital of D Ltd.

As per Sec. 2(87), C Ltd. and D Ltd. which are subsidiaries of B Ltd. are also subsidiaries of A Ltd.

CAN A HOLDING COMPANY ACQUIRE SHARES IN ITS SUBSIDIARY COMPANY AFTER BECOMING A HOLDING COMPANY?

There is no restriction under the Companies Act on the holding company to acquire further shares inb its subsidiary company after becoming a holding company. In other words, a holding company can acquire further shares in its subsidiary company.

CAN A SUBSIDIARY COMPANY ACQUIRE SHARES IN ITS HOLDING COMPANY AFTER BECOMING A SUBSIDIARY COMPANY?

According to section 19, a subsidiary company cannot acquire shares in its holding company after becoming a subsidiary company.

CAN A SUBSIDIARY COMPANY HOLD SHARES IN THE HOLDING COMPANY?

Section 19 prohibits a subsidiary company from shares in the holding company but a subsidiary may continue to be a member of its holding company if it was a member thereof at the commencement of the Act or before becoming a subsidiary of the holding company; but in such a case, the subsidiary shall not have any voting rights in respect of the shares held. A subsidiary may also hold shares in the holding company as the legal representative of a deceased member of the holding company or as trustee (unless the holding company or any subsidiary there-of is beneficially interested under the trust concerned) and enjoy all rights of members in these two cases.

(2) WHOLLY OWNED AND PARTLY OWNED SUBSIDIARIES

S. No.	Wholly owned subsidiary company	Partly owned subsidiary company
1.	A wholly owned subsidiary company is one in which all the shares are owned by the holding company.	In a partly owned subsidiary, all the shares of subsidiary company are not acquired by the holding company i.e. only the majority of shares (i.e., more than 50%) are owned by the holding company.
2.	100% voting rights are vested by the holding company.	Voting rights of more than 50% but less than 100% are vested by the holding company.
3.	There is no minority interest because all the shares with voting rights are held by the holding company.	There is a minority interest because less than 50% shares with voting rights are held by outsiders other than the holding company.

(3) PURPOSE OF PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements (CFS) are the financial statements of a 'group' presented as those of a single enterprise, where a 'group' refers to a parent and all its subsidiaries. Parent company needs to inform the users about the financial position and results of operations of not only of their enterprise itself but also of the group as a whole. For this purpose, consolidated financial statements are prepared and presented by a parent/holding enterprise to provide financial information about a parent and its subsidiary(ies) as a single economic entity.

CFS are intended to show the financial position of the group as a whole - by showing the economic resources controlled by them, by presenting the obligations of the group and the results the group achieves with its resources.

CFS normally include consolidated balance sheet, consolidated statement of profit and loss, and notes, other statements and explanatory material that form an integral part thereof. Consolidated cash flow statement is presented in case a parent presents its own cash flow statement. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.

Relevant provisions of the Companies Act 2013

Where a company has one or more subsidiaries or associate companies, it shall, in addition to the standalone financial statements, prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies in the same form and manner as that of its own and in accordance with applicable accounting standards, which shall also be laid before the annual general meeting (AGM) of the company along with the laying of its financial statement.

The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in Form AOC-1 as per Rule 5 of the Companies (Accounts) Rules, 2014.

For the purpose of section 129, 'subsidiary' includes 'associate company' and 'joint venture' which means that the company would be required to prepare consolidated financial statements including associate/ joint venture even if there is no subsidiary of a company.

The consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III of the Companies Act 2013 and the applicable accounting standards.

A company covered under sub-section (3) of section 129 which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions of consolidated financial statements provided in Schedule III of the Act.

Exemptions from preparation of CFS:

As per Companies (Accounts) Amendment Rules, 2016, preparation of consolidated financial statements by a company is not required if it meets the following conditions:

(i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
(ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and
(iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

AS21 also lays down the accounting principles and procedures for preparation and presentation of consolidated financial statements which have been covered in the later part of this chapter.

NEED FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are needed to serve the following purposes:

(a) To ascertain the financial performance of the group as whole;

(b) To ascertain the financial position of the group as a whole;

(c) To ascertain the appropriate value of the share of a holding company;

(d) To ascertain whether an excessive or otherwise price has been paid for acquiring the shares of a subsidiary company.

DUTY TO PREPARE CONSOLIDATED FINANCIAL STATEMENTS [SEC 129(3)]

Where a company has one or more subsidiaries, it shall, in addition to financial statements provided u/s 129 (2) prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the AGM of the company along with the laying of its financial statement u/s 129(2)

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its sub or subsidiaries in prescribed.

(4) SCOPE OF AS 21

1. This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.
2. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.
3. In the preparation of consolidated financial statements, other Accounting Standards also apply in the same manner as they apply to the separate statements.
4. This Standard does not deal with:
   (a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 14, Accounting for Amalgamations);
   (b) accounting for investments in associates (governed by AS 13, Accounting for Investments); and
   (c) accounting for investments in joint ventures (governed by AS 13, Accounting for Investments).

Note: AS 21 is mandatory if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21.

(5) CONTROL

The consolidated financial statements are prepared on the basis of financial statements of parent and all enterprises that are controlled by the parent, other than those subsidiaries excluded for the reasons set out in paragraph 11 of AS 21.

Control exists when the parent owns, directly or indirectly through subsidiary(ies), more than one-half of the voting power of an enterprise. Control also exists when an enterprise controls the composition of the board of directors (in the case of a company) or of the corresponding governing body (in case of an enterprise not being a company) so as to obtain economic benefits from its activities.

An enterprise may control the composition of the governing bodies of entities such as gratuity trust, provident fund trust etc. Since the objective of control over such entities is not to obtain economic benefits from their activities, these are not considered for the purpose of preparation of consolidated financial statements.

For the purpose of this Standard, an enterprise is considered to control the composition of

(i) the board of directors of a company, if it has the power, without the consent or concurrence of any other person, to appoint or remove all or a majority of directors of that company. An enterprise is deemed to have the power to appoint a director, if any of the following conditions is satisfied:
   (a) a person cannot be appointed as director without the exercise in his favour by that enterprise of such a power as aforesaid; or
   (b) a person's appointment as director follows necessarily from his appointment to a position held by him in that enterprise; or
   (c) the director is nominated by that enterprise or a subsidiary thereof.

(ii) the governing body of an enterprise that is not a company, if it has the power, without the consent or the concurrence of any other person, to appoint or remove all or a majority of members of the governing body of that other enterprise. An enterprise is deemed to have the power to appoint a member, if any of the following conditions is satisfied:
   (a) a person cannot be appointed as member of the governing body without the exercise in his favour by that other enterprise of such a power as aforesaid; or
   (b) a person's appointment as member of the governing body follows necessarily from his appointment to a position held by him in that other enterprise; or
   (c) the member of the governing body is nominated by that other enterprise.

Note: It is possible that an enterprise is controlled by two enterprises – one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities. In such a rare situation, when an enterprise is controlled by two enterprises as per the definition of 'control', the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of AS 21 and, therefore, both the enterprises need to consolidate the financial statements of that enterprise.

(6) EXCLUSION FROM PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As per AS 21, a subsidiary should be excluded from consolidation when:

(a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

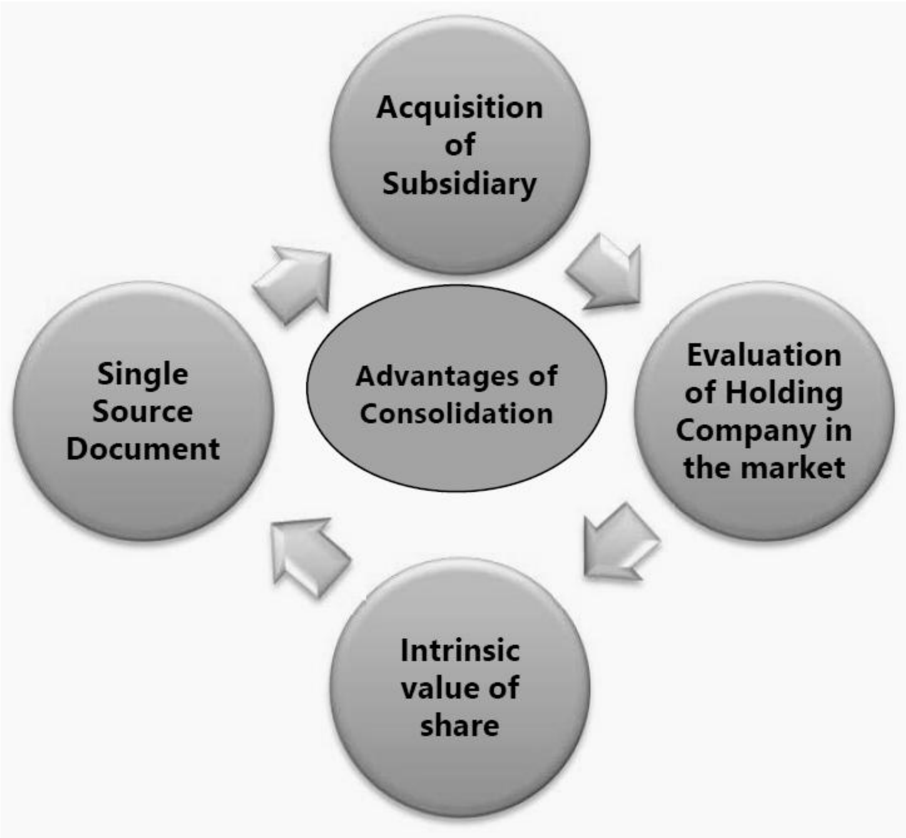
In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with AS 13 'Accounting for Investments'. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.

Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares are held as 'stock-in-trade' and are acquired and held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise is considered to be temporary.

The period of time, which is considered as "near future" as mentioned above, primarily depends on the facts and circumstances of each case. However, ordinarily, the meaning of the words 'near future' is considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case. The intention with regard to disposal of the relevant investment is considered at the time of acquisition of the investment. Accordingly if the relevant investment is acquired without an intention to its subsequent disposal in near future, and

subsequently, it is decided to dispose off the investments, such an investment is not excluded from consolidation, until the investment is actually disposed off.
Conversely, if the relevant investment is acquired with an intention to its subsequent disposal in near future, but, due to some valid reasons, it could not be disposed off within that period, the same will continue to be excluded from consolidation, provided there is no change in the intention.
Exclusion of a subsidiary from consolidation on the ground that its business activities are dissimilar from those of the other enterprises within the group is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by AS 17 'Segment Reporting', help to explain the significance of different business activities within the group.

(7) ADVANTAGES OF CONSOLIDATED FINANCIAL STATEMENTS



The main advantages of consolidation are given below:

(i) **Single source document:** From the consolidated financial statements, the users of accounts can get an overall picture of the Group (i.e. holding company and its subsidiaries). Consolidated profit and loss account gives the overall profitability of the group.

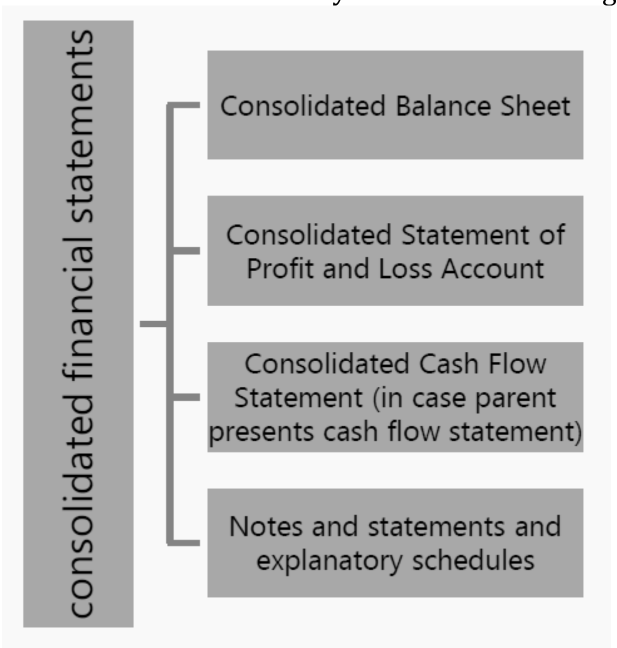
(ii) **Intrinsic value of share:** Intrinsic share value of the holding company can be calculated directly from the Consolidated Balance Sheet.

(iii) **Acquisition of subsidiary:** The minority interest data of the consolidated financial statement indicates that the amount payable to the outside shareholders of the subsidiary company at book value which is used as the starting point of bargaining at the time of acquisition of a subsidiary by the holding company.

(iv) **Evaluation of holding company in the market:** The overall financial health of the holding company can be judged using consolidated financial statements. Those who want to invest in the shares of the holding company or acquire it, need such consolidated statement for evaluation.

(8) COMPONENTS OF CONSOLIDATED FINANCIAL STATEMENTS

As per AS 21, consolidated financial statements normally include the following:



- The consolidated financial statements are presented to the extent possible in the same format as that adopted by the parent for its separate financial statements.

All the notes appearing in the separate financial statements of the parent enterprise and its subsidiaries need not be included in the notes to the consolidated financial statement. For preparing consolidated financial statements, the following principles may be observed in respect of notes and other explanatory material that form an integral part thereof:

(a) Notes which are necessary for presenting a true and fair view of the consolidated financial statements are included in the consolidated financial statements as an integral part thereof.

(b) Only the notes involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to the information contained in consolidated financial statements. In view of this, it is possible that certain notes which are disclosed in separate financial statements of a parent or a subsidiary would not be required to be disclosed in the consolidated financial statements when the test of materiality is applied in the context of consolidated financial statements.

(c) Additional statutory information disclosed in separate financial statements of the subsidiary and/or a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements.

In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following as per the requirements of Schedule III to the Companies Act, 2013 which contains the 'General Instructions for Preparation of Consolidated Financial Statements':

(i) Profit or loss attributable to "minority interest" and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.

(ii) "Minority interests" in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

Students are also advised to refer the Schedule III to the Companies Act, 2013.

(9) CONSOLIDATION PROCEDURES

Rule 6 of the Companies (Accounts) Rules, 2014 states that the manner of consolidation of financial statements of the company shall be in accordance with the provisions of Schedule III of the Act and the applicable accounting standards. AS 21, lays down the procedure for consolidation of financial statements of the companies within the group.

When preparing consolidated financial statements, the individual balances of the parent and its subsidiaries are combined or consolidated on a line-by-line basis, and then certain consolidation adjustments are made.

For example, the cash, trade receivables and prepayments of the parent and each subsidiary are added together to arrive at the cash, trade receivables and prepayments of the group, before consolidation adjustments are made.

The objective is that the consolidated financial statements should present the information contained in the consolidated financial statements of a parent and its subsidiaries as if they were the financial statements of a single economic entity.

The various steps involved in the consolidation process are as follows:

1. the cost to the parent of its investment (cost of acquisition) in each subsidiary and the parent's portion of equity of each subsidiary (acquirer's interest), at the date on which investment in each subsidiary is made, should be eliminated. In case, cost of acquisition exceeds or is less than the acquirer's interest, at the date on which investment in the subsidiary is made, goodwill or capital reserve should be recognized respectively in the CFS.
2. intragroup transactions, including sales, expenses and dividends, are eliminated, in full;
3. Adjustments in respect of unrealised profits/ losses should be made;
4. minority interest in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
5. minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the net assets consist of:
   (i) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and
   (ii) the minorities share of movements in equity since the date the parent- subsidiary relationship came in existence.

   Note: Where the carrying amount of the investment in the subsidiary is different from its cost, the carrying amount is considered for the purpose of above computations.
6. The results of operations of a subsidiary are included in the CFS as from the date on which parent-subsidiary relationship came in existence.
   The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship.
   The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary.
   In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.
7. An investment in an enterprise should be accounted for in accordance with AS 13, Accounting for Investments, from the date that the enterprise ceases to be a subsidiary and does not become an associate.
8. The carrying amount of the investment at the date that it ceases to be a subsidiary is regarded as cost thereafter.

IMPORTANT TERMS

Before taking the steps for the preparation of consolidated balance sheet. One must know the following terms;

Date of Acquisition	Date of acquisition refers to the date on which the relationship of holding company and subsidiary company comes into existence.
Pre-acquisition	Pre-acquisition period refers to the period beginning with the date of beginning of current accounting period and ending with the date immediately preceding the date of acquisition of majority shares by holding company.

Post-acquisition	Post-acquisition period refers to the period beginning with the date of acquisition of majority shares by the holding company and ending with the date on which the current accounting year ends.
Pre-acquisition Profits and Reserves	Pre-acquisition Profits and Reserves refer to the undistributed portion of the Profits earned and Reserves created up to the date immediately preceding the date of acquisition of majority shares by holding company.
Post-acquisition Profits and Reserves	Post-acquisition Profits and Reserves refer to the undistributed portion of the Profits earned and Reserves created on/after the date of acquisition of majority shares by holding company.
Shares of Holding company	Share of Holding Company is calculated as follows: $= \frac{\text{No. of shares held by holding co.}}{\text{Total No. of Shares of Subsidiary co.}} \times 100$
Minority	Minority refers to the outside shareholders (i.e. Shareholders other than holding company and its another subsidiary) holding shares in the subsidiary company and share of Minority is calculated as follows: $= \frac{\text{No. of shares held by Minority}}{\text{Total No. of Shares of Subsidiary co.}} \times 100$

Example The equity share capital of S Ltd. on 31.03.2015 is Rs5,00,000 divided into 50,000 equity shares of Rs.10 each. H Ltd. acquired 25,000 equity shares on 01.04.2014 and 5.000 equity shares on 01.07.2014. the accounting year of S Ltd. ends on 31st March each year. In this case:

(a) Date of Acquisition =1.7.2014 because H Ltd. . holds more than 50% of the nominal value of the equity share capital of S Ltd. on 01.07.2014

(b) Pre-acquisition Period = 3 months from 01.04.2014 to 30.06.2014.

(c) Post-acquisition Period =9 months from 01.04.2014 to 30.06.2015.

(d) Pre-acquisition Profits and Reserves refer to the undistributed portion of the profits earned and reserves created up to 30.06.2014.

(e) Post-acquisition Profits and Reserves refer to the undistributed portion of the profits earned and reserves created from 01.07.2014 to 31.03.2015.

(f) Share of Holding company is 60% i.e. $\frac{\text{30,000 Shares}}{\text{50,000 Shares}} \times 100$

(g) Share of Minority is 40% i.e. $\frac{\text{20,000 Shares}}{\text{50,000 Shares}} \times 100$

(10) CALCULATION OF GOODWILL/CAPITAL RESERVE (COST OF CONTROL)

As on the date of investment, the cost of investment and the equity in the subsidiary needs to be calculated.

Equity is defined as the 'residual interest in the assets of an enterprise after deducting all its liabilities.' In other words, it is equal to the net worth of the enterprise.
Once the above is calculated, goodwill or capital reserve is calculated as under:

Goodwill = Cost of Investment - Parent's share in the equity of the subsidiary on date of investment

Capital Reserve = Parent's share in the equity of the subsidiary on date of investment – Cost of investment

The parent's portion of equity in a subsidiary, at the date on which investment is made, is determined on the basis of information contained in the financial statements of the subsidiary as on the date of investment.
However, if the financial statements of a subsidiary as on the date of investment are not available and if it is impracticable to draw the financial statements of the subsidiary as on that date, financial statements of the subsidiary for the immediately preceding period are used as a basis for consolidation.
Adjustments are made to these financial statements for the effects of significant transactions or other events that occur between the date of such financial statements and the date of investment in the subsidiary.
It may be mentioned that positive or negative differential is separately recognised only in purchase method. This differential calculated as cost of control is shown in the consolidated balance sheet.

Example 1
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 Rs10 each; accumulated reserve balance was Rs1,00,000. H Ltd. paid Rs1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on1.1.20X1 and a revaluation loss of Rs20,000 was ascertained. The book value of shares of S Ltd. is calculated as shown below:

	Rs
70% of the Equity Share Capital Rs1,00,000	70,000
70% of Accumulated Reserve Rs1,00,000	70,000
70% of Revaluation Loss Rs20,000	(14,000)
	1,26,000

So, H Ltd. paid a positive differential of Rs34,000 i.e.Rs(1,60,000 – 1,26,000). This differential is called goodwill and is shown in the balance sheet under the head intangibles.

Example 2
A Ltd. acquired 70% interest in B Ltd. on 1.1.20X1. On that date, B Ltd. had paid-up capital of Rs1,00,000 consisting of 10,000 equity shares of Rs10 each and accumulated balance in reserve and surplus of Rs1,00,000. On that date, assets and liabilities of B Ltd. were also revalued and revaluation profit of Rs20,000 was calculated. A Ltd. paid Rs1,30,000 to purchase the said interest.
In this case, the book value of Shares of B Ltd. is calculated as shown below:

	Rs
70% of the Equity Share Capital Rs1,00,000	70,000
70% of Reserves and Surplus Rs1,00,000	70,000
70% of Revaluation Profit Rs20,000	14,000
	1,54,000

In this case, H Ltd. enjoyed negative differential of Rs24,000 i.e. (1,54,000 – 1,30,000) which is called and presented as capital reserve.

(11) MINORITY INTERESTS

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the holding (parent) company.
In short, minority interest represents the claims of the outside shareholders of a subsidiary. Minority interests in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the shareholders of the holding company.
Minority interests should be presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interest in the income of the group should be separately presented.
The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to and is able to make good the losses. If the subsidiary subsequently reports profit, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

(12) PROFIT OR LOSS OF SUBSIDIARY COMPANY

For the purpose of consolidated balance sheet preparation, all reserves and profits (or losses) of subsidiary company should be classified into pre and post- acquisition reserves and profits (or losses).
Profits (or losses) earned (or incurred) by subsidiary company up to the date of acquisition of the shares by the holding company are pre acquisition or capital profits (or loss).
Similarly, all reserves of subsidiary company up to the date of acquisition are capital reserves from the view point of holding company. If the holding interest in subsidiary is acquired during the middle or some other period of the current year, pre-acquisition profit should be calculated accordingly.
The minority interest in the reserves and profits (or losses) of subsidiary company should be transferred to minority interest account which will also include share capital of subsidiary company held by outsiders / minority shareholders.

Minority Interest = Share Capital of subsidiary belonging to outsiders + Minority interest in reserves and profits of subsidiary company

The holding company's interest in the pre-acquisition reserves and profits (or losses) should be adjusted against cost of control to find out goodwill or capital reserve on consolidation. The reserves and profits (or loss) of subsidiary company, representing holding company's interest in post-acquisition or revenue reserves and profits (or losses), should be added to the reserves and profits (or losses) of holding company.

(13) REVALUATION OF ASSETS OF SUBSIDIARY COMPANY

Profit or loss on revaluation of fixed assets of subsidiary should also be treated as capital profit or loss. But if the fall in the value of the asset occurs after the date of acquisition, the loss should be treated as revenue loss. Adjustment for depreciation would be made in the profit and loss account of the subsidiary.
Depreciation on changed value of the assets shall be given effect to. Depreciation on revalued assets will be taken as capital or revenue depending on the period for which the depreciation belongs to. Hence the period for depreciation is important to be considered.

TREATMENT OF REVALUATION OF FIXED ASSTES OF SUBSIDIARY COMPANY
When the fixed assets of subsidiary company are revalued, the following steps should be taken in this regard.

Step 1: *Calculate the Profit or Loss on Revaluation of a Fixed Asset as under*

1) Profit on Revaluation = Revalued Figure as on the date of Revaluation
Less
Book Value as on date of Revaluation

2) Loss on Revaluation = Book Value as on the date of Revaluation
Less
Revalued Figure as on the date of Revaluation

Step 2: *Calculate Short Depreciation on Increase in Value of Fixed Asset or Excess Depreciation on Decrease in Value of Fixed Asset as under:*

1) Short Depreciation = Increase in Value of Fixed Asset $\times \frac{\text{Rate of Depreciation}}{100} \times \frac{\text{Period since Date of Revaluation}}{\text{12 months}}$

2) Excess Edpreciation = Decrease in Value of Fixed Asset $\times \frac{\text{Rate of Depreciation}}{100} \times \frac{\text{Period since Date of Revaluation}}{\text{12 months}}$

Step 3: *Do Accounting Treatment of Profit (Loss) on Revaluation and Short (Excess) Depreciation as follows)*

I. **In case of Profit on Revaluation** (i) Profit	(i) Pre-acquisition profits must be **increased** by that portion of profit on revaluation which is attributable to the pre-acquisition period
(ii) Short Depreciation	(ii) Post-acquisition profits must be **decreased** by that portion of short depreciation, which is attributable to the post-acquisition period.
II. **In case of Loss on Revaluation** (i) Loss	(i) Pre-acquisition profits must be **reduced** by that portion of loss or reevaluation which is attributable to the pre-acquisition period
(ii) Excess Depreciation	(ii) Post-acquisition profits must be **increased** by that portion of excess depreciation, which is attributable to the post-acquisition period.

TREATMENT OF REVALUATION OF FIXED ASSTES OF SUBSIDIARY COMPANY

When the fixed assets of subsidiary company are revalued, the following steps should be taken in this regard.

Step 1: *Calculate the Profit or Loss on Revaluation of a Fixed Asset as under*

3) Profit on Revaluation = Revalued Figure as on the date of Revaluation
Less
Book Value as on date of Revaluation

4) Loss on Revaluation = Book Value as on the date of Revaluation
Less
Revalued Figure as on the date of Revaluation

Step 2: *Calculate Short Depreciation on Increase in Value of Fixed Asset or Excess Depreciation on Decrease in Value of Fixed Asset as under:*

3) Short Depreciation = Increase in Value of Fixed Asset $\times \frac{\text{Rate of Depreciation}}{100} \times \frac{\text{Period since Date of Revaluation}}{\text{12 months}}$

4) Excess Edpreciation = Decrease in Value of Fixed Asset $\times \frac{\text{Rate of Depreciation}}{100} \times \frac{\text{Period since Date of Revaluation}}{12 \text{ months}}$

Step 3: *Do Accounting Treatment of Profit (Loss) on Revaluation and Short (Excess) Depreciation as follows)*

I. **In case of Profit on Revaluation** (i) Profit	(i) Pre-acquisition profits must be **increased** by that portion of profit on revaluation which is attributable to the pre-acquisition period
(ii) Short Depreciation	(ii) Post-acquisition profits must be **decreased** by that portion of short depreciation, which is attributable to the post-acquisition period.
II. **In case of Loss on Revaluation** (i) Loss	(i) Pre-acquisition profits must be **reduced** by that portion of loss or reevaluation which is attributable to the pre-acquisition period
(ii) Excess Depreciation	(ii) Post-acquisition profits must be **increased** by that portion of excess depreciation, which is attributable to the post-acquisition period.

TREATMENT OF OTHER NON-CURRENT ASSETS OF SUBSIDIARY CO.

fect on Pre-acquisition profits	These must be **reduced** by that portion of '**Other Non-Current Assets'(e.g. Preliminary Expenses),** which is attributable to pre-acquisition period
fect on Post-acquisition profits	These must be **reduced** by that portion of '**Other Non-Current Assets'(e.g. Preliminary Expenses),** which is attributable to post-acquisition period

Tutorial Notes

(a) In the absence of any specific information, it may be presumed that the balance in **'Other Non Current Assets'** at the end of current year has been brought forward from the previous year,

(b) In case any portion of **'Other Non Current Assets'** has been written off during the current year, it is advised to prepare, 'Other Non Current Assets Account' to ascertain the balance in 'Other Non Current Assets' in beginning of the current year.

TREATMENT OF LOSS WRITTEN OFF DURING THE CURRENT YEAR

Effect on Pre-acquisition profits	These must be **reduced** by that portion of loss, which is attributable to pre-acquisition period
Effect on Post-acquisition profits	These must be **reduced** by that portion of loss**,** which is attributable to post-acquisition period

TREATMENT OF SHARE OF HOLDING COMPANY AND SHARE OF MINORITY IN THE PRE-ACQUISITION AND POST-ACQUISITION PROFITS (OR LOSSES) AND RESERVES

Case	Treatment
Share of Holding Company in the Pre-acquisition profits (or losses) and Reserves	It is treated as of **capital nature** and hence **added to (or in case of losses deducted from)** the Paid up value of the Shares presently held by the holding company in the subsidiary company so as to calculate the Holding Company's Share in the Net Assets of the Subsidiary Company.

Share of Holding Company in the Post-acquisition profits	It is treated as of revenue nature and hence added to the Credit Balance of the Profit and Loss Account of the Holding company.
Share of Holding company in the Post-acquisition Reserves	It is treated as of **revenue nature** and hence **added to the Reserve Account** of the Holding company.
Share of Minority in the Pre-acquisition and Post-acquisition Profit (or Losses) and Reserves.	It is **added to (or in case of losses deducted from)** the Paid up Value of the Shares held by Minority in the subsidiary company so as to calculate Minority Interest

Example 3

H Ltd. acquired 16,000 equity shares of Rs10 each, in S Ltd. on October 1, 20X1 for Rs3,06,800. The profit and loss account of S Ltd. showed a balance of Rs10,000 on April 1,20X1. The plant and machinery of S Ltd. which stood in the books at Rs1,50,000 on April 1,20X1 was considered worth Rs1,80,000 on the date of acquisition.

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

	H Ltd.(Rs)	**S Ltd. (Rs)**
Shares capital (fully paid equity shares of Rs10 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 -

	Rs
Book value of Plant and Machinery as on 01-04-20X1	1,50,000
Depreciation Rate $\frac{(1,50,000-1,35,000)}{1,50,000}$ = 15,000/1,50,000 X100	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 Rs1,50,000 for 6 months) + (10% of Rs1,80,000 for 6 months) less Rs15,000 (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

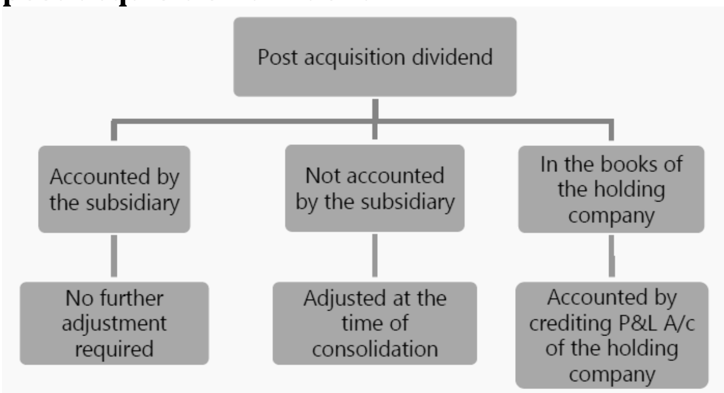
(14) DIVIDEND RECEIVED FROM SUBSIDIARY COMPANIES

As per AS 13, 'Accounting for Investments', Interest, dividends and rentals receivables in connection with an investment are generally regarded as income, being the return on the investment.

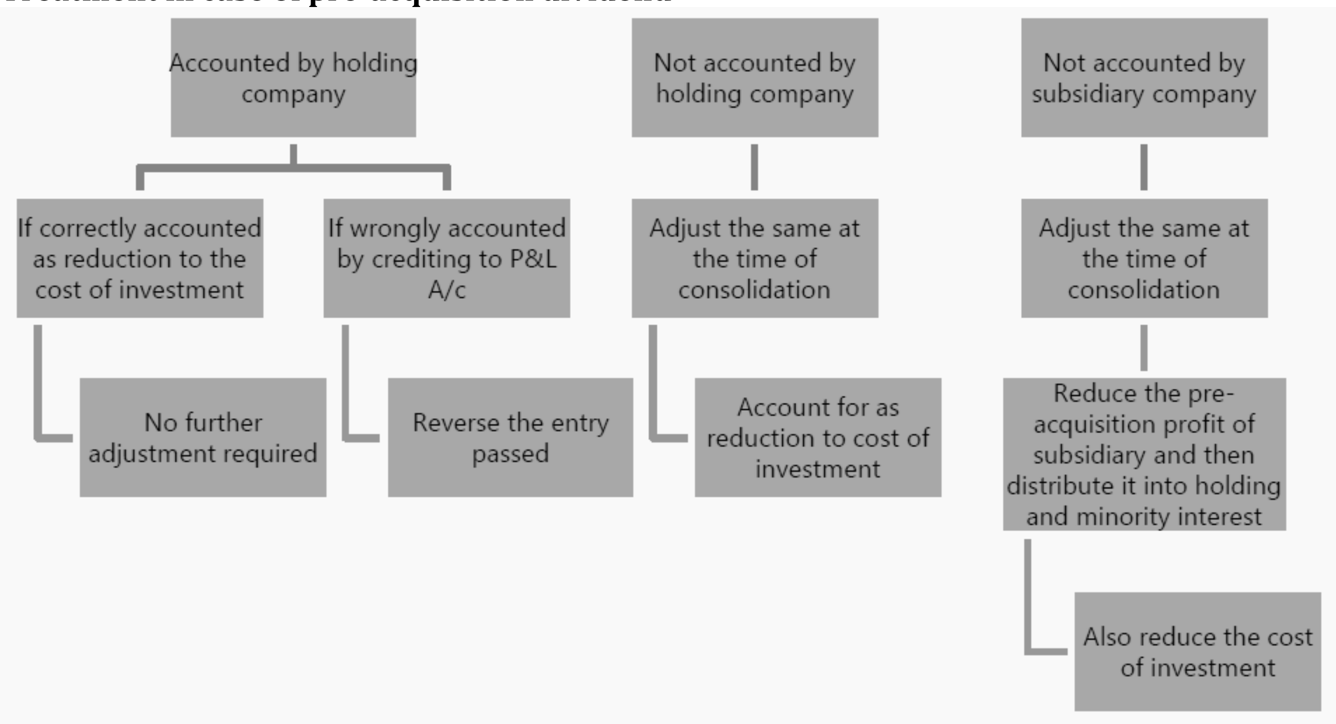
However, in some circumstances, such inflows represent a recovery of cost and do not form part of income. Example: When unpaid interest has accrued before the acquisition of an interest- bearing investment and is therefore included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post- acquisition periods; the pre-acquisition portion is deducted from cost.

When dividends on equity are declared from pre-acquisition profits, a similar treatment (i.e. as mentioned above) may apply. If it is difficult to make such an allocation except on an arbitrary basis, the cost of investment is normally reduced by dividends receivable only if they clearly represent a recovery of a part of the cost.
When holding company receives dividend from a subsidiary company, it must distinguish between the part received out of capital profits (i.e. pre-acquisition profits) and revenue profits (i.e. post-acquisition profits); capital profits are credited to Investment account (being capital receipts) and revenue profits are credited to the Profit & Loss Account.
If the controlling interest was acquired during the course of a year, profit for that year must be apportioned into the pre-acquisition and post-acquisition portions, on the basis of time in the absence of information on the point.
It must be understood that the term 'capital profit', in this context, apart from the generic meaning of the term, connotes profit earned by the subsidiary company till the date of acquisition. As a result, profits which may be of revenue nature for the subsidiary company may be capital profits so far as the holding company is concerned.

Treatment in case of post-acquisition dividend



Treatment in case of pre-acquisition dividend



Dividends received out of profits earned before purchase of investments normally also are credited to the Investment Account.

Example

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.
Note: In case of issue of bonus shares by the subsidiary company, the holding company, like other holders, record no entry; only the number of shares held is increased.

Meaning	Final Dividend refers to that portion of Proposed Dividend (which was recommended by the Board of Directors for the previous accounting period which has been declared by the Members at Annual General Meeting (AGM).
Presumption	The Final Dividend for the previous year paid during the current year shall always be deemed to have been paid out of the previous year's profits since no dividend (except the arrears of dividend on cumulative preference shares) for previous year can be paid out of current year's profits.
Effect on Pre-acquisition Profit	Pre-acquisition profits must be reduced by the amount of final dividend for the previous year paid during the current year.
Accounting Treatment	The dividend received by the holding company out of pre-acquisition must be treated as a **capital receipt** and thus must be credited to "**Investments in shares of subsidiary company account**" under the Cost Method of accounting for investments. The following Journal Entry is passed for correct recording in Holding Company's Book.
	Bank A/c Dr. [With Dividend received out of Pre- acquisition Profit To Investments in shares of subsidiary Co. A/c (Being the dividend out of pre-acquisition profits treated as Capital Receipt).

RECTIFICATION OF DIVIDEND OUT OF PRE-ACQUISITION PROFITS WRONGLY CREDITED BY HOLDING COMPANY TO ITS PROFIT AND LOSS ACCOUNT

When dividends received out of pre-acquisition profits are wrongly credited by holding company to the Profit and Loss Account, the following rectifying entry should be passed to rectify such wrong recording

RECTIFYING ENTRY IN THE BOOKS OF HOLDING COMPANY

Profit and Loss A/c Dr. [with Dividend out of Pre-acquisition Profits
To Investments shares of subsidiary company A/c

Example

1. Balance of Investment in Shares of S Ltd. .A/c in the books of H Ltd. as at 31.03.2015.
2. Equity Share Capital of S Ltd. (Rs. 10 each)
3. H Ltd. acquired 30,000 Equity Shares in S Ltd. on 01.07.2014 Profit an Loss Account of S Ltd. as on 1.04.2014 was Rs2,00,000
4. On 30.09.2014 S Ltd. . declared dividend @ 20% on equity shares for the year 2013-2014. D Ltd. credited the receipt of dividend to its Profit and Losses Account.

Required: Pass the rectifying entry to rectify the wrong recording of dividend in the books of H Ltd.

Solution:

Step 1: Dividend received out of pre-acquisition profits by H Ltd.
= 30,000 x Rs 10 x 20% = Rs 60,000

Step 2: **RECTIFYING ENTRY:**

Particulars	**Capital Profits Rs.**	**Revenue Profits Rs.**
Profit and Loss A/c	Dr. 60,000	

To Investment in Shares of S Ltd. (Being the rectification of dividend out of pre-acquisition profits wrongly credited to Profit and Loss A/c)		60,000

Investment in shares of S Ltd. a/c

Date	Particulars	Rs.	Date	Particulars	Rs.
01.07.2014	To Bank A/c	5,00,000	30.03.2015	By Profit and Loss A/c (Dividend out of Pre-acquisition profits wrongly Cr. To P & L A/c)	60,000
				By Balance c/d	4,40,000
		5,00,000			5,00,000

(15) PREPARATION OF CONSOLIDATED BALANCE SHEET

While preparing the consolidated balance sheet, assets and liabilities of the subsidiary company are merged with those of the holding company. Share capital and reserves and surplus of subsidiary company are apportioned between holding company and minority shareholders. These items, along with investments of holding company in shares of subsidiary company are not separately shown in consolidated balance sheet. The net amounts resulting from various computations on these items, shown as (a) minority interest (b) cost of control (c) holding company's share in post-acquisition profits of the subsidiary company (added to appropriate concerned account of the holding company) are entered in consolidated balance sheet. The method of calculation of these items with detailed treatment of other relevant issues has been dealt with in various paras separately.

As per AS 21, if an enterprise makes two or more investments in another enterprise at different dates and eventually obtain control of the other enterprise the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence.

If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment for the purposes of AS 21, is generally determined on a step- by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

PRACTICAL STEPS INVOLVED IN THE PREPARATION OF CONSOLIDATED BALANCE SHEET

STEP 1 : Calculate the Pre-Acquisition Profits (or losses) and Post acquisition Profits (or losses) and Reserves of a subsidiary company and the share of holding company and the Minority (i.e. Outside Shareholders) therein.

STEP 2 : Calculate the Minority Interest.

STEP 3 : Calculate the Goodwill/Capital Reserve on consolidation.

STEP 4 : Calculate the Closing Balance of Consolidated Profit and Loss Account to be taken to the consolidated Balance Sheet.

STEP 5 : Calculate the Closing Balance of Consolidated General Reserve Account to be taken to the consolidated Balance Sheet.

STEP 6 : Prepare the Consolidated Balance Sheet after eliminating the Inter-company Owings and Unrealized Profit on Inter-Co. Transactions.

Tutorial Note: In the absence of information, the profits of a year may be treated as accruing from day to day

Items which appear on Aggregate basis subject to elimination of intragroup owings and unrealized profits.	**Items which appear on Individual Basis (i.e. belonging to holding company only)**

(a) Non-Current Liabilities (b) Current Liabilities (c) Tangible Fixed Assets (d) Intangible Fixed Assets (e) Non-Current Investments (f) Current Assets (g) Contingent Liabilities and Commitments	(a) Share Capital (b) Reserve and Surplus (c) Proposed Dividend (by Holding Co.) (d) Other Non-Current Assets

Notes :

(i) Contingent Liability for Consolidated Balance Sheet = Total Contingent Liability – Internal Contingent Liability (i.e. which exists only between Holding Co. and Subsidiary Co.)
(**for example**) = (B/R drawn & discounted by holding co. + B/R drawn & discounted by subsidiary co.) – (B/R Drawn & discounted by Holding Co. upon subsidiary co. + B/R drawn & discounted by Co. upon Holding Co.

(ii) If Holding Co. holds Debentures in Subsidiary Co. or Subsidiary Co. holds Debentures in Holding Co. then Face Value of Debentures (and not the book Value) is eliminated while calculating Consolidated Balances. Profit/Loss cancellation of Debentures held in Subsidiary is adjusted in the Consolidated P & L A/c of Holding Co. Profit/ Loss on cancellation of Debentures held in holding co. is adjusted while preparing Analysis of Profits of Subsidiary.

(16) ELIMINATION OF INTRA- GROUP TRANSACTIONS

In order to present financial statements for the group in a consolidated format, the effect of transactions between group enterprises should be eliminated. Para 16 of AS 21 states that 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.

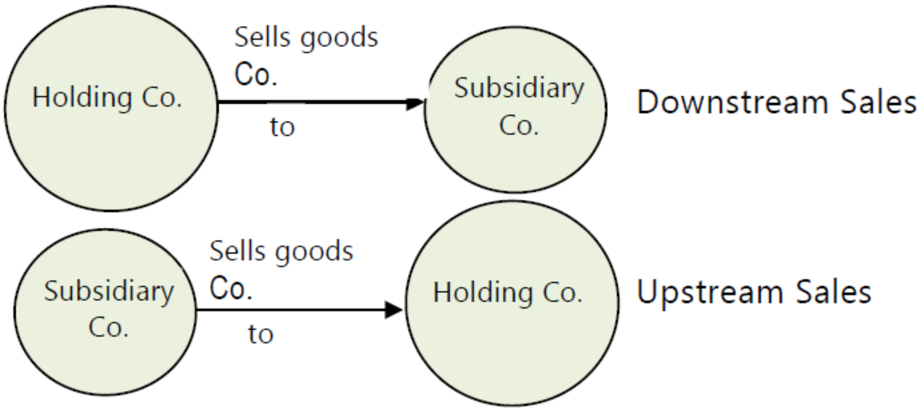
Liabilities due to one group enterprise by another will be set off against the corresponding asset in the other group enterprise's financial statements; sales made by one group enterprise to another should be excluded both from turnover and from cost of sales or the appropriate expense heading in the consolidated statement of profit and loss.

To the extent that the buying enterprise has further sold the goods in question to a third party, the eliminations to sales and cost of sales are all that is required, and no adjustments to consolidated profit or loss for the period, or to net assets, are needed. However, to the extent that the goods in question are still on hand at year end, they may be carried at an amount that is in excess of cost to the group and the amount of the intra-group profit must be eliminated, and assets are reduced to cost to the group.

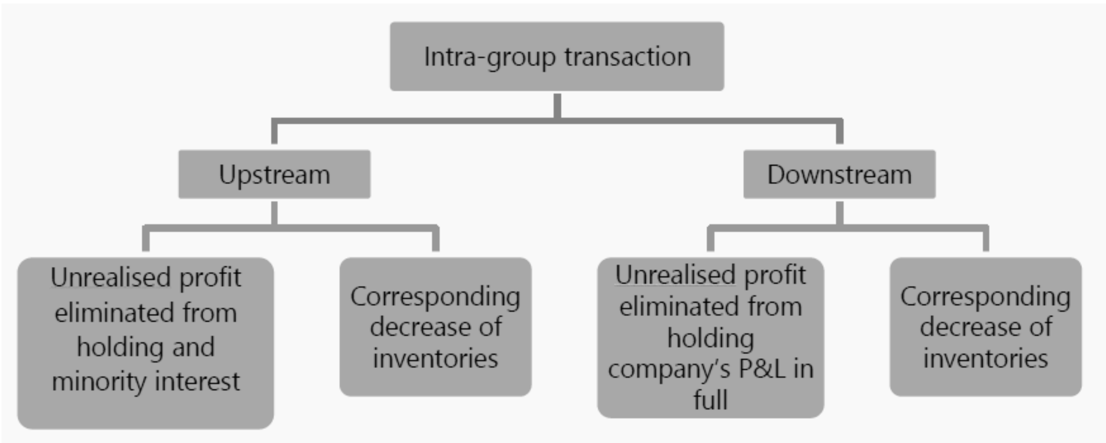
For transactions between group enterprises, unrealized profits resulting from intra- group transactions that are included in the carrying amount of assets, such as inventories and tangible fixed assets, are eliminated in full. The requirement to eliminate such profits in full applies to the transactions of all subsidiaries that are consolidated – even those in which the group's interest is less than 100%.

Unrealized profit in inventories: Where a group enterprise sells goods to another, the selling enterprise, as a separate legal enterprise, records profits made on those sales. If these goods are still held in inventory by the buying enterprise at the year end, the profit recorded by the selling enterprise, when viewed from the standpoint of the group as a whole, has not yet been earned, and will not be earned until the goods are eventually sold outside the group. On consolidation, the unrealized profit on closing inventories will be eliminated from the group's profit, and the closing inventories of the group will be recorded at cost to the group.

Here, the point to be noted is that one has 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.



Unrealized profit on transfer of non-current asset: Similar to the treatment described above for unrealized profits in inventories, unrealized inter-company profits arising from intra-group transfers of fixed assets are also eliminated from the consolidated financial statements.
Unrealized losses: Unrealized losses resulting from intra-group transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

Example:
If net realizable value (NRV) expected from sale of such goods is more than the actual cost of the goods, then unrealized loss should be reversed during consolidation process. However, if it is expected that NRV would not be sufficient to recover the loss incurred on transfer of goods from one entity to another, the unrealized loss should not be reversed.

(17) PREPARATION OF CONSOLIDATED STATEMENT OF PROFIT AND LOSS

All the items of profit and loss account are to be added on line by line basis and inter-company transactions should be eliminated from the consolidated figures.

For example, a holding company may sell goods or services to its subsidiary, receive consultancy fees, commission, royalty etc. These items are included in sales and other income of the holding company and in the expense items of the subsidiary. Alternatively, the subsidiary may also sell goods or services to the holding company. These inter-company transactions are to be eliminated in full.
If there remains any unrealized profit in the inventory, of any of the Group Company, such unrealized profit is to be eliminated from the value of inventory to arrive at the consolidated profit.

(18) PREPARATION OF CONSOLIDATED CASH FLOW STATEMENT

As per AS 21, Consolidated cash flow statement is presented in case a parent presents its own cash flow statement.
For the purpose of preparation of consolidated cash flow statement, all the items of cash flow from operating activities, investing activities and financing activities are to be added on line by line basis and from the consolidated items, inter- company transactions should be eliminated. Below given is an illustrative consolidated cash flow statement with hypothetical figures:

Consolidated Cash Flow Statement (Illustrative only)

			(Rs in million)
	A Company	**B Company**	**Total**
Cash Flows from Operating Activities			
Change in Reserve	8	2	10
Change in P & L A/c	-	1	1
Dividend Paid	22	-	22
Tax Provision	20	1	21
Depreciation	10	5	15
Interest	(10)	10	-
	50	19	69
Less: Tax payment	(20)	(1)	(21)
	30	18	48
Working capital adjustment	(13)	12	(1)
(A)	17	30	47
Cash Flows from Investment Activities			
Sale of fixed assets	30	-	30
Purchase of fixed assets	(30)	(20)	(50)
(B)	-	(20)	(20)
Cash Flows from Financing Activities			
(C)	(5)	(10)	(15)
Net cash flows (A+B+C)	**12**	**-**	**12**

(19) UNIFORM ACCOUNTING POLICIES

Para 20 of AS 21 states that consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
If any company in the same group uses accounting policies other than those adopted in consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.
If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, the fact should be disclosed together with the proportions of items to which different accounting policies have been applied.
For example, if the subsidiary company follows weighted average method for valuation of inventories and the holding company follows FIFO method, the financial statements of subsidiary company should be restated by adjusting the value of inventories to bring the same in line with the valuation procedure adopted by the holding company. After that consolidation should be done.

(20) TREATMENT OF SUBSIDIARY COMPANY HAVING PREFERENCE SHARE CAPITAL

While preparing CFS, outstanding cumulative preference shares issued by a subsidiary are considered in the same manner as any other liability, such as debentures etc. Accordingly, the cost associated with such cumulative preference shares needs to be adjusted for.
Therefore, while computing its share of profits or losses of the subsidiary, the parent should make adjustments in respect of preference dividends on outstanding cumulative preference shares issued by a subsidiary and held outside the group since, for the group, such preference shares represent external liabilities. It would be appropriate for the parent to compute its share of profits or losses after adjusting for subsidiary's cumulative preference dividends, whether or not profits are available or dividends have been declared.
However, in case of non-cumulative preference shares, no such adjustment is required unless the dividend is actually received.

(21) ALIGNMENT OF REPORTING DATES

The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements.
In any case, the difference between reporting dates should not be more than six months.
The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as that of the parent.
When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference in reporting dates is not more than six months.
The consistency principle requires that the length of the reporting periods and any difference in the reporting dates should be the same from period to period.

ACCOUNTING TREATMENT OF CAPITAL PROFITS ON ADDITIONAL SHARES ACQUIRED BY HOLDING COMPANY AFTYER BECOMING HOLDING COMPANY

NOT FOR EXAM AMENDMENT

The practical steps for treatment of capital profits on Additional Shares are given below:
Case I : When Pre-acquisition profits as on date of further acquisition are given.

Step 1 :	Calculate total undisturbed Pre –acquisition and Post acquisition Profit on the basis of date of first acquisition of majority shares by holding Co.

Step 2 :	Calculate the Shares of Minority in Total Pre-acquisition and Post-acquisition Profits.
Step 3 :	Calculate the Balance of Pre-acquisition and Post-acquisition Profits.
Step 4 :	Calculate Capital Profits attributable to additional shares acquired by holding company as follows: Difference between **Pre-acquisition profits** as on date of further acquisition and **Pre-acquisition Profits** as on date of original acquisition of Holding Co. X $\frac{\text{No. of Additional Shares (including Bonus Shares thereon) on further acquisition}}{\text{Total No. of Shares (including Bonus Shares) of Subsidiary Co. at the end}}$
Step 5 :	Add Capital Profits attributable to additional shares (as per Step4) to the Balance of Pre-acquisition Profits (as per Step 3) and subtract the same from the Balance of Post acquisition Profits (as per Step 3). **Reason for Adjustment** Such profits have already been treated as of revenue nature but are to be treated as of capital nature for additional shares. Hence and adjustment is required to transfer such profits from Revenue to Capital.
Step 6 :	Calculate the Share of holding company in Pre-acquisition Profits (i.e. Step 3 + Step 5) and in Post-acquisition Profits (i.e. Step 3 – Step 5)

Case II : When Pre- acquisition Profits as on date of Further acquisition are not given.

Step 1 :	Calculate total undisturbed Pre –acquisition and Post acquisition Profit on the basis of date of first acquisition of majority shares by holding Co.
Step 2 :	Calculate the Shares of Minority in Total Pre-acquisition and Post-acquisition Profits.
Step 3 :	Calculate the Balance of Pre-acquisition and Post-acquisition Profits.
Step 4 :	Calculate Capital Profits attributable to additional shares acquired by holding company as follows: Difference between **Pre-acquisition profits** as on date of further acquisition and **Post-acquisition Profits** as on date of original acquisition of Holding Co. X $\frac{\text{No. of Additional Shares (including Bonus Shares thereon) on further acquisition}}{\text{Total No. of Shares (including Bonus Shares) of Subsidiary Co. at the end}}$
Step 5 :	Add Capital Profits attributable to additional shares (as per Step4) to the Balance of Pre-acquisition Profits (as per Step 3) and subtract the same from the Balance of Post acquisition Profits (as per Step 3). **Reason for Adjustment** Such profits have already been treated as of revenue nature but are to be treated as of capital nature for additional shares. Hence and adjustment is required to transfer such profits from Revenue to Capital.
Step 6 :	Calculate the Share of holding company in Pre-acquisition Profits (i.e. Step 3 + Step 5) and in Post-acquisition Profits (i.e. Step 3 – Step 5)

A. Revenue Profits of S Ltd.	7,200
B. Less: Proposed Dividend (20% on Rs. 4,12,500)	82,500
C. Balance in Consolidated P and L A/c	**48,700**

Note: *it is assumed that whole of the dividend of Rs 82,500 proposed by H Ltd. will be appropriated from revenue, although part of that dividend is due to the ex-shareholders of S Ltd.*

ACCOUNTING TREATMENT OF CAPITAL PROFITS ON ADDITIONAL SHARES ACQUIRED BY HOLDING COMPANY AFTYER BECOMING HOLDING COMPANY

NOT FOR EXAM AMENDMENT

The practical steps for treatment of capital profits on Additional Shares are given below:

Case I : When Pre-acquisition profits as on date of further acquisition are given.

Step 1 : Calculate total undisturbed Pre –acquisition and Post acquisition Profit on the basis of date of first acquisition of majority shares by holding Co.

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Step 3 : Calculate the Balance of Pre-acquisition and Post-acquisition Profits.

Step 4 : Calculate Capital Profits attributable to additional shares acquired by holding company as follows:

Difference between **Pre-acquisition profits** as on date of further acquisition and **Pre-acquisition Profits** as on date of original acquisition of Holding Co.

$$\times \frac{\text{No. of Additional Shares (including Bonus Shares thereon) on further acquisition}}{\text{Total No. of Shares (including Bonus Shares) of Subsidiary Co. at the end}}$$

Step 5 : Add Capital Profits attributable to additional shares (as per Step4) to the Balance of Pre-acquisition Profits (as per Step 3) and subtract the same from the Balance of Post acquisition Profits (as per Step 3).

Reason for Adjustment Such profits have already been treated as of revenue nature but are to be treated as of capital nature for additional shares. Hence and adjustment is required to transfer such profits from Revenue to Capital.

Step 6 : Calculate the Share of holding company in Pre-acquisition Profits (i.e. Step 3 + Step 5) and in Post-acquisition Profits (i.e. Step 3 – Step 5)

Case II : When Pre- acquisition Profits as on date of Further acquisition are not given.

Step 1 : Calculate total undisturbed Pre –acquisition and Post acquisition Profit on the basis of date of first acquisition of majority shares by holding Co.

Step 2 : Calculate the Shares of Minority in Total Pre-acquisition and Post-acquisition Profits.

Step 3 : Calculate the Balance of Pre-acquisition and Post-acquisition Profits.

Step 4 : Calculate Capital Profits attributable to additional shares acquired by holding company as follows:

Difference between **Pre-acquisition profits** as on date of further acquisition and **Post-acquisition Profits** as on date of original acquisition of Holding Co.

$$\times \frac{\text{No. of Additional Shares (including Bonus Shares thereon) on further acquisition}}{\text{Total No. of Shares (including Bonus Shares) of Subsidiary Co. at the end}}$$

Step 5 : Add Capital Profits attributable to additional shares (as per Step4) to the Balance of Pre-acquisition Profits (as per Step 3) and subtract the same from the Balance of Post acquisition Profits (as per Step 3).

Reason for Adjustment Such profits have already been treated as of revenue nature but are to be treated as of capital nature for additional shares. Hence and adjustment is required to transfer such profits from Revenue to Capital.

Step 6 : Calculate the Share of holding company in Pre-acquisition Profits (i.e. Step 3 + Step 5) and in Post-acquisition Profits (i.e. Step 3 – Step 5)

COMPREHENSIVE QUESTIONS FOR REVISION

Special Problem [Revisional Problem] 1
[Treatment of Additional Shares acquisition by Holding Co.]

The following are the Balance Sheets of H Ltd. and S Ltd. as at 31st March 2015.

Liabilities	H Ltd.	S Ltd.	Liabilities	H Ltd.	S Ltd.
Equity Shares of Rs 10 each	10,00,000	7,00,000	Land and Building	6,00,000	2,70,000

General Reserve	2,00,000	4,48,000	Plant and Machinery	2,00,000	2,70,000
Profit and Loss A/c	3,10,000	1,52,000	Shares in S Ltd.	8,20,000	-
12% Debentures (Rs 100)	2,00,000	2,00,000	900, 12% Debentures in S Ltd.	80,000	-
Trade Creditors	3,00,000	5,35,000	Inventories	1,00,000	3,00,000
Bills Payable	1,40,000	1,40,000	Trade Debtors	2,00,000	10,10,000
			Cash at Bank	50,000	2,25,000
			Bills Receivable	1,00,000	1,00,000
	21,50,000	**21,75,000**		**21,50,000**	**21,75,000**

Note: *Contingent liability in respect of Bills discounted by H Ltd.*
Contingent liability in respect of Bills discounted by S Ltd. Rs.25, 000 of which Bills of Rs5,000 were accepted by H Ltd. .

Additional Information

(a) H Ltd. acquisition 40,000 Equity Shares in S Ltd. on 01.07.201. The credit balance of Profit and Loss account of S Ltd. as on 01.04.2014 was Rs 2,00,000 and that of General Reserves on that date was Rs.6,00,000. H Ltd. further acquired 7,000 Equity Shares @20 on 31. 10.2014

(b) On 30.09.2014 S Ltd. declared dividend @ 20% on equity shares for the year 2013-14. H Ltd. credited the receipt of dividend to its Profit and Loss Account.

(c) On 1.1.2015, S Ltd. issued 2 shares for every 5 shares held, as bonus shares. No entry has been made in the books of H Ltd. for the receipt of these bonus shares.

(d) H Ltd. purchased goods for Rs 3 lakhs from S Ltd. which made at a profit of 20% on cost. 80% of these goods were sold by H Ltd. at a profit 20% on cost till 31.03.2015.

(e) On 1.1.2015 H Ltd. sold to S Ltd. a Machine costing Rs.2,40,000 at a profit of 25% on selling price. Depreciation at 10% p.a. was provided by S Ltd. on this Machine.

(f) H Ltd. owed S Ltd. Rs.2,90,000 but S Ltd. is owed Rs.3,00,000 by H Ltd. .

(g) The land and Building of S Ltd. which stood at Rs. 3,00,000 on 1.4.2014 , was considered as worth of Rs6,92,500 on 01.7.2014 for which necessary adjustment are yet to be made.

(h) All the Bills Payables of S Ltd. were drawn upon by H Ltd.

(i) The management of H Ltd. and S Ltd. wish to recommend a dividend of 15% p.a. and 10% p.a., respectively on equity shares for the year 2014-15.

Required : Prepare the Consolidated Balance Shares of H Ltd. and its subsidiary as at 31st March2015.

Solution

CONSOLIDATED BALANCE SHEET OF H Ltd. AND ITS SUS S Ltd. AS AT 31ST MARCH 31.3.2015

Particulars	Note No.	Rs.
I. Equity and liabilities		
1. Shareholder's Funds		
(a) Share Capital	1	10,00,000
(b) Reserves and Surplus	2	10,31,800
2. Minority Interest	(v)	1,00,200
3. Non-Current Liabilities		
(a) Long-term Borrowings [12% Debentures]	3	3,10,000
4. Current Liabilities		
(a) Trade Payables [5,45,000 + 1,80,000]	3	7,25,000
(b) Short-Term Provision [Proposed Dividend]		1,50,000

Total……………		33,17,000
II. Assets		
1. Non-Current Assets		
(a) Fixed Assets		
Tangible Assets [12,40,000 + 3,92,000]	3	16,32,000
Intangible Assets		
(b) Non-Current Investments		
2. Current Assets		
(a) Inventories	3	3,90,000
(b) Trade Receivable [9,10,000 + 1,00,000]	3	12,10,000
(c) Cash and Cash Equivalents	3	2,85,000
Total		**33,17,000**

Notes to Accounts

Particulars	Rs.
1. Share Capital	
100000 Equity Shares of Rs10 each	10,00,000
2. Reserves and Surplus	
General Reserve	2,32,160
Profit & Loss Account	10,040
Capital Reserve on Consolidation	7,89,600
	10,31,800

3. CONSOLIDATED BALANCE

	Building	Machinery	Inventories	Trade Debtors	B/R	Cash & Bank	Trade Creditors	B/P	Debentures
H Ltd.	6,00,000	2,00,000	1,00,000	2,00,000	1,00,000	50.000	3,00,000	1,40,000	2,00,000
S Ltd.	2,70,000	2,70,000	3,00,000	10,10,000	1,00,000	2,25,000	5,35,000	1,40,000	2,00,000
Total	8,70,000	4,70,000	4,00,000	12,10,000	2,00,000	2,75,000	8,35,000	2,80,000	4,00,000
Less: unrealized profit	-	(78,000)	(10,000)	-	-	-	-	-	-
Less: Mutual Owings	-	-		(3,00,000)	(1,00,000)	-	(2,90,000)	(1,00,000)	(90,000)
Add: Appreciation	4,00,000	-	-	-	-	-	-	-	-
Less: Short Depreciation	(30,000)	-	-	-	-	-	-	-	-
Remittance in transit	-	-	-	-	-	10,000	-	-	-
Consolidated Balance	**12,40,000**	**3,92,000**	**3,90,000**	**9,10,000**	**1,00,000**	**4,00,000**	**5,45,000**	**1,80,000**	**3,10,000**

4. **Contingent Liability** *= Total Contingent Liability – Internal Contingent Liability*
= (Rs50,000 + +Rs25,000) - (Rs40,000 + Rs5,000)
= Rs.30,000

Working Notes:

Dr. (i) GENERAL RESERVE ACCOUNT OF S LTD. Cr.

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital (Issue of Bonus Shares)	2,00,000	By Balance b/d	6,00,000
To Balance c/d	4,48,000	By Profit and Loss A/c (b.f.)	48,000
	6,48,000		6,48,000

Dr. (ii) PROFIT AND LOSS ACCOUNT OF S LTD. Cr.

Particulars	Rs.	Particulars	Rs.
To Final Dividend for previous	1,00,000	By Balance b/d	2,00,000
To General Reserve	48,000	By Profit earned (b.f.)	1,00,000
To Balance c/d	1,52,000		
	3,00,000		3,00,000

(iii) CLACULATION OF CHANGE IN THE VALUE OF FIXED ASSET

Particulars	Rs.
A. Book Value as on opening date	3,00,000
B. Depreciation upto date of revaluation [Rs.3,00,000 x 10/100 x 3/12]	(7,500)
C. Book value as on the date of revaluation (*A* - *B*)	2,92,500
D. Revalued figure as on the date of revaluation	6,92,500
E. Increase in Value (D – C)	4,00,000
F. Short Provision of Depreciation since the date of revaluation [Rs4,00,000 x 10/100 x 9/12]	**30,000**

(iv) ANALYSIS OF PROFITS OF S Ltd.

Particulars	Capital Profits Rs.	Revenue Profits Rs.	Revenue Reserves Rs.
General Reserve	6,00,000		
Less: Bonus Shares	(2,00,000)		
Reserve created	12,000		36,000
Profit and Loss A/c	2,00,000		
Less: Final Dividend	1,00,000		
Profit earned	25,000	75,000	
Less: Transfer to General Reserve	(12,000)	(36,000)	
Add: Increase in Value of Fixed Asset	4,00,000		
Less: Short Provision of Depreciation		(36,000)	
Total	**9,25,000**	**9,000**	**36,000**
Share of Minority @ 6%	55,000	540	2,160
Balance	8,69,500	8,460	33,840
Adjustment for Additional Shares: $\left[(\text{Rs } 9000 - \text{Rs } 6000^{*} \times \frac{9800}{70000}\right]$	420	(420)	-
T/f of Revenue Reserves to Capital Profits $\left[(\text{Rs } 36{,}000 - \text{Rs } 24{,}000^{**} \times \frac{9800}{70000}\right]$	1,680	-	(1,680)
Share of Holding Company	8,71,600	8,040	32,160

* Pre-acquisition Profits on 1.10.2013 = [Rs 50,000 – Rs 24,000 – Rs 20,000] = Rs 6,000

** Pre-acquisition Reserve on 1.10.2014 = Rs 48,000/2 = Rs. 24,000

(v) MINORITY INTEREST

Particulars	Rs
A. Paid up value of Equity shares (including Bonus Shares)	42,000
B. Share in Capital profits of S Ltd.	55,500
C. Share in Revenue profits of S Ltd.	540
D. Share in Revenue Reserves of S Ltd.	2,160
Total	1,00,200

(Vi) GOODWILL/ CAPITAL RESERVE ON CONSOLIDATION

	Rs.
A. Corrected Net Cost of Investments	
a. Amount paid for Equity Investments	8,20,000
b. Less: Dividend out of Pre-acquisition profits	(80,000)
	7,40,000
B. Holding Co. Share in Net Assets of Subsidiary Co.	
(a) Paid –up value of Equity Shares (including Bonus Shares).	6,58,000
(b) Shares of Holding Co. in Capital Profits of Subsidiary Co.	8,71,600
	15,29,600
C. Capital Reserve (B-A)	7,89,600

(vii) CONSOLIDATED PROFIT AND LOSS ACCOUNT OF H Ltd.

Particulars	Rs.
A. Balance as given in the Balance Sheet of H Ltd.	3,10,000
B. Add:	
a. Holding Company's Share in Revenue Profits of S Ltd.	8,040
b. Profit on Debentures [90,000 - 80,000]	10,000
C. Less:	
a. Dividend out of pre-acquisition profits wrongly created to this account instead of Investment Account	(80,000)
b. Unrealized Profit on Inventories [20% of Rs3,00,000 x 20/120]	(10,000)
c. Unrealized profit on Machine [(Rs 2,40,000 x 1/3) – (Rs 80,000 x 10% x 3/12)]	(78,000)
d. Proposed equity Dividend	(1,50,000)
D. Closing Balance to be taken to the Consolidated Balance Sheet (A + B - C)	10,040

(viii) CONSOLIDATED REVENUE RESERVE ACCOUNT

Particulars	Rs.
A. Balance as given in the Balance Sheet of H Ltd.	2,00,000
B. Add: Holding Co.'s Share in Revenue Reserves of S Ltd.	32,160
C. Closing Balance to be taken to be the Consolidated Balance Sheet (A+ B)	2,32,160

Dr (ix) INVESTMENT IN SHARES OF S LTD ACCOUNT Cr.

01.07.2011	To Bank A/c	6,80,000	31.03.2012	By Profit and Loss A/c	80,000
1.10.11	To Bank A/c	1,40,000		By Balance c/d	7,40,000
		8,20,000			**8,20,000**

Special Problem [Revisional Problem] 2

The following are the Balance Sheets of H Ltd. and S Ltd. as at 31st March 2015.

Liabilities	H Ltd.	S Ltd.	Liabilities	H Ltd.	S Ltd.
Equity Shares of Rs 10 each	10,00,000	7,00,000	Land and Building	6,00,000	2,70,000
12% Pref. Shares of Rs 10 each	1,00,000	50,000	Plant and Machinery	2,00,000	2,70,000
General Reserve	2,00,000	4,48,000	Investments	7,12,100	1,62,000
Profit and Loss A/c	3,10,000	1,52,000	Inventories.	1,00,000	3,00,000
12% Debentures (Rs 100)	2,00,000	2,00,000	Trade Debtors	3,10,000	10,10,000
Interest due to Debentures	-	12,000	Cash at Bank.	2,70,000	75,000
Trade Creditors	3,00,000	5,35,000	Bills Receivable	1,00,000	1,00,000
Bills Payable	1,40,000	1,40,000	Accrued interest on Debentures in S Ltd.	5,400	-
Loan from S Ltd. (including interest)	47,500		18% Loan to H Ltd. (given on 1.6.2014)	-	50,000
	21,50,000	**22,37,000**		**22,97,500**	**22,97,500**

Note: *Contingent liability for Bills discounted by H Ltd. Rs 50,000.*
Contingent liability for Bills discounted by H Ltd. Rs.25, 000 of which Bills of Rs5,000 were accepted by H Ltd. .

Additional Information

(a) H Ltd. acquired 25,000 Equity Shares and 300 Preference Shares on 01.04.2013 at a cost of Rs 3,93,750 and Rs 22,500 respectively. The credit balance of Profit and Loss A/c of S Ltd. as on 01.04.2013 was Rs1,00,000 and that of General Reserve on that date was Rs3,00,000.

(b) H Ltd. acquired 15000 equity shares, 100 Pref. Shares and 900. 12% Debentures in S Ltd. on 1.7.2014 at cost of Rs 2,36,250, Rs 7,500 and Rs 80,000 respectively. The credit balance of Profit and Loss Account of S Ltd. as on 1.4.2014 wa R 2,00,000 and that of General Reserve on that date wa Rs 6,00,000.

(c) H Ltd. further acquired 7000 equity shares in S Ltd. for Rs 58,000 on 1.4.2014. H Ltd. sold 3,500 equity shares @ Rs25 on 31.3.2015 and proceeds were credited to investment in Equity Shares in S Ltd. Account.

(d) On 30.9.20014 S Ltd. declared dividend @ 20% on equity shares for the year 2013-14 H Ltd. credited the receipt of dividend to its Profit and Loss Account.

(e) On 1.1.2015 S Ltd. issued 2 shares for every 4 shares held, as bonus shares. No. entry has been made in the books of H Ltd. for the receipt of these bonus shares.

(f) H Ltd. purchased a goods for Rs3 lakhs from S Ltd. which made at a profit of 20% on cost till 31.3.2015.

(g) On 1.1.2015, H Ltd. sold to

(h) S Ltd. a Machine costing Rs 2,40,000 at a profit of 25% on selling price Depreciation at 10% p.a. was provided by S Ltd. on this Machine.

(i) H Ltd. owed S Ltd. Rs.2,90,000 but S Ltd. is owed Rs.3,00,000 by H Ltd. on account of goods.

(j) The land and Building of S Ltd. which stood at Rs.3,00,000 on 1.4.2014 , was considered as worth of Rs6,92,500 on 01.7.2014 for which necessary adjustment are yet to be made.

(k) All the Bills Payables of S Ltd. were drawn upon by H Ltd.

(l) H Ltd. remitted a cheque of Rs 10,000 on 31st March 2015 towards repayment of loan which was received by S Ltd. on 2nd April, 2015.

(m) The management of H Ltd. and S Ltd. wish to recommend a dividend of 15% p.a. and 10% p.a., respectively on equity shares for the year 2014-15.

Required : Prepare the Consolidated Balance Shares of H Ltd. and its subsidiary as at 31st March2015.

Solution:

CONSOLIDATED BALANCE SHEET OF H Ltd. AND ITS SUS S Ltd. AS AT 31ST MARCH 31.3.2015

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholder's Funds		
(a) Share Capital	1	11,00,000
(b) Reserves and Surplus		11,71,935
2. Minority Interest	(v)	1,95,065
3. Non-Current Liabilities		
(a) Long-term Borrowings [Debentures]	3	3,10,000
4. Current Liabilities		
(a) Trade Payables [5,45,000 + 1,80,000]	3	7,25,000
(b) Short-Term Provision [Proposed Dividend] [1,50,000 + 12,000]		1,62,000
(c) Other Current Liabilities [Interest due on Debentures]	3	6,600
Total		**36,70,600**
II. Assets		
1. Non-Current Assets		

(a) Fixed Assets		
Tangible Assets [12,40,000 + 3,92,000]	3	16,32,000
(b) Non-Current Investments	3	1,63,600
2. Current Assets		
(a) Inventories	3	3,90,000
(b) Trade Receivable [10,20,000 + 1,00,000]	3	11,20,000
(c) Cash and Cash Equivalents [Cheque in transit]	3	3,65,000
Total		**36,70,600**

Notes to Accounts

Particulars	Rs.
5. Share Capital	
100000 Equity Shares of Rs10 each	10,00,000
1000, 12% Pref.Shares of Rs100 each	1,00,000
6. Reserves and Surplus	
General Reserve	2,30,960
Profit & Loss Account	1,06,675
Capital Reserve on Consolidation	8,344,300
	1171,935

3. CONSOLIDATED BALANCE

	Investment	Building	Machinery	Inventories	Trade Debtors	B/R	Cash & Bank	Accrued Interest	18% Loan to H Ltd.
H Ltd.	7,12,100	6,00,000	2,00,000	1,00,000	3,10,000	1,00,000	2,70,000	5,400	0
S Ltd.	1,62,000	2,70,000	2,70,000	3,00,000	10,10,000	1,00,000	75,000	0	50,000
Total	8,74,100	8,70,000	4,70,000	4,00,000	13,20,000	2,00,000	3,45,000	5,400	50,000
Less: unrealized profit	-	-	(78,000)	(10,000)	-	-	-	-	-
Less: Mutual Owings	7,10,500	-	-	-	(3,00,000)	(1,00,000)	-	(5,400)	(47,500)
Add: Appreciation	-	4,00,000	-	-	-	-	-	-	-
Less: Short Depreciation **Add: accrued Interest**	- -	(30,000) -	- -	- -	- -	- -	- -	- -	- 7,500
Remittance in transit	- -	- -	- -	- -	- -	- -	10,000 10,000	- -	- -
Consolidated Balance	**1,63,600**	**12,40,000**	**3,92,000**	**3,90,000**	**10,20,000**	**1,00,000**	**3,65,000**	**0**	**0**

4.Contingent Liability *for Bills discounted = Total Contingent Liability – Total Internal Contingent Liability*
= (Rs50,000 + +Rs25,000) - (Rs40,000 + Rs5,000)
= Rs.30,000

Working Notes:

Dr. (i) GENERAL RESERVE ACCOUNT OF S LTD. Cr.

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital (Bonus)	2,00,000	By Balance b/d	6,00,000

To Balance c/d	4,48,000	By Profit and Loss A/c (b.f.)	48,000
	6,48,000		6,48,000

Dr. (ii) PROFIT AND LOSS ACCOUNT OF S LTD. Cr.

Particulars	Rs.	Particulars	Rs.
To Final Dividend for previous	1,00,000	By Balance b/d	2,00,000
To General Reserve	48,000	By Profit earned (b.f.)	1,00,000
To Proposed Preference Dividend	6,000		
To Balance c/d	1,46,000		
	3,00,000		3,00,000

(iii) CLACULATION OF CHANGE IN THE VALUE OF FIXED ASSET

Particulars	Rs.
A. Book Value as on opening date	3,00,000
B. Depreciation upto date of revaluation [Rs.3,00,000 x 10/100 x 3/12]	(7,500)
C. Book value as on the date of revaluation (*A* - *B*)	2,92,500
D. Revalued figure as on the date of revaluation	6,92,500
E. Increase in Value (D – C)	4,00,000
F. Short Depreciation since the date of revaluation [Rs 4,00,000 x 10/100 x 9/12]	**30,000**

(iv) ANALYSIS OF PROFITS OF S Ltd.

Particulars	Capital Profits Rs.	Revenue Profits Rs.	Revenue Reserves Rs.
Balance of General Reserve	6,00,000		
Less: Bonus Shares	(2,00,000)		
Reserve created	12,000		36,000
Profit and Loss A/c	2,00,000		
Less: Final Dividend	(1,00,000)		
Profit earned	25,000	75,000	
Less: Transfer to General Reserve	(12,000)	(36,000)	
Less: Proposed Pref. Dividend	(1500)	(4,500)	
Add: Increase in Value of Fixed Asset	4,00,000		
Less: Short Provision of Depreciation		(36,000)	
Add: Incomes not yet credited	750	6,750	
Total	9,24,250	11,250	36,000
Share of Minority @ 11%	1,01,667.50	1,237.50	3,960
Balance	8,00,585.50	10,012.50	32,040
Adjustment for Additional Shares: T/f of Revenue Profits to Capital Profits $\left[\text{(Rs } 11{,}250 - \text{Rs } 7{,}500^{*} \times \frac{6{,}300}{70000} \right]$	338	(338)	-

T/f of Revenue Reserves to Capital Profits $\left[(Rs\ 36,000 - Rs\ 24,000^{**} \times \frac{6,300}{70000} \right]$	1,080	-	(1,080)
Share of Holding Company	8,24,000	9,675	3,960

**Post-acquisition Profits on 1.10.2014 = [50,000 – 24,000 – 3,000 – 3,000 – 20,000 + 4,500] = Rs 7,500*
***Post-acquisition Reserve on 1.10.2014 =Rs 48,000/2 = Rs 24,000*

(v) MINORITY INTEREST

Particulars	Rs
Paid up value of Equity shares (including Bonus Shares)	77,000
Paid up value of Preference shares	10,000
Share in Capital profits of S Ltd.	1,01,667.50
Share in Revenue profits of S Ltd.	1,237.50
Share in Revenue Reserves of S Ltd.	3,960
Share in Proposed Preference Dividend of S Ltd. [6,000 x 100/500]	1,200
Total	1,95,065

(Vi) GOODWILL/ CAPITAL RESERVE ON CONSOLIDATION	Rs.
A. Net Cost of Investments	
(a) Corrected Ne Cost of Equity Investments [as per working Note (ix)]	6,23,000
(b) Cost of Investments in Pref. Shares	30,000
(c) Less: Current year's Pref. Dividend received by Holding Company out of Pre-acquisition profit	(300)
	6,52,700
B. Holding Co. Share in Net Assets of Subsidiary Co.	6,23,000
(a) Paid –up value of Equity Shares (including Bonus Shares).	40,000
(b) Paid-up value of Pref. shares	8,24,000
	14,87,000
(c) Shares of Holding Co. in Capital Profits of Subsidiary Co.	
C. Capital Reserve (B-A)	8,34,300

(vii) CONSOLIDATED PROFIT AND LOSS ACCOUNT

Particulars	Rs.
A. Balance as given in the Balance Sheet of H Company	3,10,000
B. Add:	
a. Holding Company's Share in Revenue Profits of S Ltd.	9,675
b. Holding Company's Share in Proposed Pref. Dividend of S Ltd.	4,500
c. Profit on sale of shares	52,500
d. Profit on Debentures held in S Ltd. [90,000- 80,000]	10,000
C. Less:	
a. Equity Dividend out of pre-acquisition profits wrongly created to this account instead of Investment Account	(30,000)
b. Unrealized Profit on Inventories [20% of Rs3,00,000 x 20/120]	(10,000)
c. Unrealized profit on Machine [(Rs2,40,000 x 1/3) – (Rs80,000 x 10% x 3/12)]	(78,000)
d. Proposed Equity Dividend [Rs10,00,000 x 15%]	(1,50,000)

e. Proposed Pref. Dividend [Rs10,00,000 x 12%]	(12,000)
D. Closing Balance to be taken to the Consolidated Balance Sheet (A + B - C)	1,06,675

(viii) CONSOLIDATED REVENUE RESERVE ACCOUNT

Particulars	Rs.
A. Balance as given in the Balance Sheet of H Ltd.	2,00,000
B. Add: Holding Co.'s Share in Revenue Reserves of S Ltd.	30,960
C. Closing Balance to be taken to be the Consolidated Balance Sheet (A+ B)	2,30,960

(ix) INVESTMENT IN EQUITY SHARES OF S LTD. ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2013	To Bank A/c	3,93,750	31.03.2015	To Profit and Loss A/c	30,000
01.07.2014	To Bank A/c	2,36,250		To Bank A/c	87,500
01.10.2014	To Bank A/c	58,000		To Balance c/d	6,23,000
31.03.2015	To Profit and Loss A/c	52,500			
		7,40,500			7,40,500

2. CONSOLIDATED BALANCE

	Tangible Fixed Assets	Current Assets	Creditors	Provision for Tax
H Ltd.	4,64,000	1,76,000	54,000	66,000
S Ltd.	94,000	92,000	14,000	12,000
Consolidated Balance	**5,58,000**	**2,68,000**	**68,000**	**78,000**

(i) ANALYSIS OF PROFITS OF S Ltd.

Particulars	Capital Profits Rs.	Revenue Profits Rs.
Opening Balance	24,000	-
Profits earned (in the ration of 9:6)	21,600	14,400
Less: Tax (in the ratio of 9:6)	(7,7200)	(4,800)
Less: Interim Dividend	(8,000)	-
Total	30,400	9,600
Share of Holding Co. @ 75%	22,800	7,200
Share of H Ltd. @ 25%	7,600	2,400

(ii) MINORITY INTEREST

Share Capital [1/4 of Rs 1,20,000]	30,000
Capital profits	7,600
Revenue profits.	2,400
Total	40,000

(iii) Number of shares to be issued:

75% of Shares of S Ltd.	9,00
No. of shares of H Ltd. [9,000 x 5/4]	11,250
Value of 9,000 Shares @ Rs.25	2,25,000
Face value of 11,250 Shares @ Rs 10	1,12,500
Securities Premium [2,25,000 – 1,12,500]	1,12,500

(iv) Cost of Control:

A.	Net Cost of Investments	1,12,500
	Share Capital	1,12,500
	Security Premium	2,25,000
B.	Share in Net Assets:	
	Paid up value of Shares acquired	90,000
	Pre-acquisition profits	22,800
		1,12,800
C.	Googwill on Consolidation [A - B]	1,12,800

(v) Consolidated Profit & Loss A/c - H Ltd.

A.	Balance as per P & L A/c	1,24,000
B.	Revenue Profits of S Ltd.	7,200
C.	Less: Proposed Dividend (20% on Rs. 4,12,500)	(82,500)
D.	Balance in Consolidated P & L A/c	48,700

Note: I*t is assumed that whole of the dividend of Rs 82,500 proposed by H Ltd. will be appropriated from revenue, although part of that dividend is due to the ex—shareholders of S Ltd.*

SUMMARY

- "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies; "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—
  - controls the composition of the Board of Directors; or

   - exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies: Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.
- 'Total share capital', as defined in section 2(87) (ii) above, has been further clarified by the Rule 2(1)(r) of the Companies (Specification of Definitions Details) Rules, 2014. As per the Rule, total share capital includes
   - paid up equity share capital
   - convertible preference share capital.
- Consolidated financial statements are prepared and presented by a parent/holding enterprise to provide financial information about a parent and its subsidiary (ies) as a single economic entity.
- Distinction must be made from the point of view of the holding company, between revenue and capital profit of the subsidiary. In the absence of information, profits of a year may be treated as accruing from day to day.

Preparation of Consolidated Statement of Profit and Loss

- All the revenue items are to be added on line by line basis and from the consolidated revenue items, inter-company transactions should be eliminated.
- If there remains any unrealized profit in the inventory of goods, of any of the Group Company, such unrealized profit should be eliminated from the value of inventory to arrive at the consolidated profit.

Preparation of Consolidated Cash Flow Statement

All the items of Cash flow from operating activities, investing activities and financing activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be eliminated.

The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements.

In any case, the difference between reporting dates should not be more than six months.

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.

(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.

(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.

(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.

(5) Taxation provision 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.

(6) Issue of bonus shares by the subsidiary company out of capital profits will
(a) Decrease cost of control.
(b) Increase cost of control.
(c) Have no effect on cost of control.

(7) Dividend paid by subsidiary to its parent, out of capital profits, should be credited by the parent company in its
(a) Profit and loss account.
(b) Dividend account.
(c) Shares invested in subsidiary account.

(8) Goodwill is equal to
(a) Cost of Investment less Parent's share in the equity of the subsidiary on date of investment.
(b) Cost of investment less Parent's share in the debentures of subsidiary on date of investment.
(c) Parent's share in the equity of subsidiary on date of investment less Cost of investment.

(9) If the subsidiary company follows weighted average method for valuation of inventories and the holding company follows FIFO method, then while consolidating,
(a) Financial statements of subsidiary company should be restated by adjusting the value of inventories to bring the same in line with the valuation procedure adopted by the holding company.
(b) Financial statements of holding company should be restated by adjusting the value of inventories to bring the same in line with the valuation procedure adopted by the subsidiary company.
(c) Financial statements of both companies may continue as per the basis followed by them.

(10) If there remains any unrealized profit in the inventory, of any of the Group Company,
(a) Unrealized profit is added to value of inventory to compute consolidated profit.
(b) Unrealized profit is reduced from value of inventory to compute consolidated profit.
(c) No adjustment needs to be done.

(11) Sahil Ltd acquired 45% of Rahil Ltd shares of Rs5,00,000 on 1.06.2019. By such an acquisition, Sahil Ltd can exercise significant influence over Rahil Ltd. During the financial year ending on 31.03.2019, Rahil Ltd earned profits Rs100,000 and declared a dividend of Rs75,000 on 13.09.2019. What is the carrying amount of investment in separate financial statements of Sahil Ltd as on 31.03.2020?
(a) Rs4,66,250.
(b) Rs7,81,250.
(c) Rs4,28,000.

ANSWERS/ HINTS

MCQs

1.	(c);	2.	(c);	3.	(c);	4.	(a);	5.	(a);	6.	(c);
7.	(c)	8.	(a) ;	9.	(a);	10.	(b).				

Practical Questions

Problem 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 Rs2,00,000 in each case:

	Subsidiary	% shares	Cost	Date of acquisition	Consolidation Date

Case	Company	owned		1.1.20X1		31.12.20X1	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
			Rs	Rs	Rs	Rs	Rs
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 [E]	Minority interest as at the date of acquisition [E] x [A + B] Rs	Minority interest as at the date of consolidation [E] X [C + D] Rs
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 % [F]	Cost [G]	Total Equity [A] + [B] = [H]	Parent's Portion of equity [F] x [H]	Goodwill Rs[G] – [H]	Capital Reserve Rs[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 consolidation 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

Problem 2

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 20X1 for Rs1,40,000. The issued capital of ABC Ltd., on 1st January, 20X1 was Rs1,00,000 and the balance in the Profit & Loss Account was Rs60,000. During the year ended 31st December, 20X1, ABC Ltd. earned a profit of Rs20,000 and at year end, declared and paid a dividend of Rs15,000.

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 isRs15,000 (out of post-acquisition profits), hence dividend received by XYZ will be credited to P & L.
XYZ Ltd.'s share of dividend = Rs15,000 X 80% = Rs12,000

In the books of XYZ Ltd.

		Rs	Rs
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):		Rs	Rs
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 %]		48,000	(1,28,000)
Goodwill			12,000
Minority interest on:			
- 1st January, 20X1:			32,000
20% of Rs1,60,000 [1,00,000 + 60,000]			
- 31st December, 20X1:			33,000
20% of Rs1,65,000 [1,00,000 + 60,000 + 20,000 – 15,000]			

Problem 3

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 20X1 at a cost of Rs70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 20X1:

	Rs 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 - Rs10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ Rs20 per share.
Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

Solution

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

	Rs in lakhs	Rs 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. (Rs70 lakhs – Rs7 lakhs*)		63.00
Capital reserve		33.95

* Total Cost of 70 % Equity of Zed Ltd	Rs70 lakhs
Purchase Price of each share	Rs20
Number of shares purchased [70 lakhs /Rs20]	3.5 lakhs
Dividend @ 20 % i.e. Rs2 per share	Rs7 lakhs

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

Problem 4

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.20X1 at cost of Rs10,00,000 when B Ltd. had an equity share capital of Rs10,00,000 and reserves and surplus of Rs80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of Rs2,50,000, Rs4,00,000, Rs5,00,000 and Rs1,20,000 respectively. Thereafter in 20X5- X6, B Ltd. experienced turnaround and registered an annual profit of Rs50,000. In the next two years i.e. 20X6-X7 and 20X7-X8, B Ltd. recorded annual profits of Rs1,00,000 and Rs1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

Solution

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports 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. Accordingly, the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost of Control
				Rs	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 adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
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%**
	(Rs)	**(Rs)**	**(Rs)**
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

Problem 5

H Ltd. acquired 3,000 shares in S Ltd., at a cost of Rs4,80,000 on 31.7.20X1. The capital of S Ltd. consisted of 5,000 shares of Rs100 each fully paid. The Profit & Loss Account of this company for 20X1 showed an opening balance of Rs1,25,000 and profit for the year was Rs3,00,000. 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 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 Rs		Revenue Profit Rs
Balance on 1.1.20X1	1,25,000	—	
Profit for 20X1 (3,00,000 × 7/12)	1,75,000	(3,00,000 × 5/12)	1,25,000
Total	3,00,000		1,25,000
Proportionate share of H Ltd. (3/5)	1,80,000		75,000

Total dividend declared = Rs5,00,000 x 40 % = Rs2,00,000

H Ltd.'s share in the dividend = Rs2,00,000 x 3/5 = Rs1,20,000

There can be two situations as regards the treatment of dividend of Rs1,20,000:

(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 = Rs1,05,000 (i.e. Rs1,75,000 × 3/5)

Profit for the remaining five months = Rs75,000 (i.e. Rs1,25,000 × 3/5).

The dividend of Rs1,20,000 will be adjusted in this ratio of 1,05,000: 75,000

= Rs70,000 out of profits up to 31.7.20X1 and Rs50,000 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:

	Rs	Rs
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 Rs75,000 (share of H Ltd. in profits of S Ltd., after 31.7.20X1) would be received and treated as revenue income; the remaining dividend, Rs45,000 (Rs1,20,000 less Rs75,000) would be capital receipt. The entry would be:

	Rs	Rs
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.

Problem 6

On 31st March, 20X1, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs12,00,000. The position of Q Ltd. on that date was as under:

	Rs
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of Rs10 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.
	Rs	Rs
Equity shares of Rs10 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 Rs10 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:

(a) Before issue of bonus shares;

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

(b) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	Rs	Rs
	Face value of investments (Rs10,50,000 + Rs5,25,000)	15,75,000	
	Capital Profits (W.N.)	63,000	16,38,000

	Less: Investment in Q Ltd.		(12,00,000)
	Capital reserve		4,38,000
(ii)	Minority Interest		Rs
	Share Capital (Rs4,50,000 + Rs2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		4,54,500
			11,56,500
(iii)	Consolidated Profit and Loss Account – P Ltd.		Rs
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		10,60,500
			26,35,500

Working Note:

Analysis of Profits of Q Ltd.

	Capital Profits (Before and after issue of bonus shares) Rs	Revenue Profits	
		Before Bonus Issue Rs	After Bonus Issue Rs
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.20X1	60,000		
	90,000		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			11,55,000
Profit for period of 1st April, 20X1 to 31st March, 20X3 (Rs4,20,000 – Rs60,000)		3,60,000	3,60,000
		22,65,000	15,15,000
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.

Problem 7

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

	H Ltd.	S Ltd.
	Rs	Rs
PPE	5,00,000	3,00,000
Investments		
(2,000 equity shares of S Ltd.)	2,20,000	
Current Assets	1,55,000	1,00,000
Share capital (Fully paid equity shares of Rs10 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: Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March,20X1

			Note No	Amount (Rs)
	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	70,000
3		**Current Liabilities**		
		(a) Trade payables	4	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 (Rs)
1	**Share capital**		
	50,000 Equity Shares @ Rs10 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:

Percentage of holding:

	No. of Shares	Percentage
Holding Co :	2,000	(80%)
Minority shareholders :	500	(20%)
TOTAL SHARES :	2,500	

Determination of Goodwill/(Capital Reserve)		**(Rs)**
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)	80,000	(2,80,000)
Capital Reserve		(60,000)

Problem 8

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

	H Ltd.	**S Ltd.**
	Rs	**Rs**
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 Rs10 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.

Solution

Percentage of holding:

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

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd.
as at 31st March, 20X2

		Note No	Amount (Rs)
	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 (Rs)
1	**Share capital**		1,50,000
	15,000 Equity Shares @ Rs10 each		
2	**Reserve and Surplus**		
	Profit and loss account (Rs50,000+ 80% of 9/12 x 10,000)		56,000
3	**Minority Interest**		
	Share capital (20% of Rs1,00,000)	20,000	
	Share in Profit and loss account (Rs40,000 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 Rs1,00,000)		(80,000)
	Share in pre-acquisition profits		
	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

Problem 9

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. (Rs)	Anushka Ltd. (Rs)
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	(Rs)	Virat Ltd. (Rs)	Anushka Ltd. (Rs)
1.	**Share capital**			
	60,000 equity shares of Rs10 each fully paid up		6,00,000	--
	40,000 equity shares of Rs10 each fully paid up		--	4,00,000
	Total		6,00,000	4,00,000
2.	**Reserves and Surplus**			
	General Reserve		1,00,000	1,00,000
	Total		1,00,000	1,00,000
3.	**Non-current investments**			
	Shares in Anushka Ltd		3,20,000	--

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

	Particulars	Note	Amount (Rs)
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:**		

	Inventories	7	3,60,000
	Trade receivables	8	2,20,000
	Cash and Cash Equivalents	9	1,00,000
	Total		13,80,000

Notes to Accounts

	Particulars	Rs	Rs
1.	**Share capital**		
	60,000 equity shares of Rs10 each fully paid up		6,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		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	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		3,00,000
5.	**Trade payables**		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	1,00,000	
	Total		2,00,000
6.	**Property, Plant and Equipment (PPE)**		
	PPE of Virat Ltd	4,00,000	
	Add: PPE of Anushka Ltd	3,00,000	
	Total		7,00,000
7.	**Inventories**		
	Inventories of Virat Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	2,00,000	
	Total		3,60,000
8.	**Trade receivables**		
	Trade receivables of Virat Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	1,40,000	
	Total		2,20,000
9	**Cash and cash equivalents**		
	Cash and cash equivalents of Virat Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	60,000	
	Total		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 Rs1,00,000 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

Problem 10

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:

(i) Reserves and Profit and Loss Account of S Ltd. stood at Rs25,000 and Rs15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 20X0.

(ii) Machinery (Book-value Rs1,00,000) and Furniture (Book value Rs20,000) of S Ltd. were revalued at Rs1,50,000 and Rs15,000 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. (Rs)	S Ltd. (Rs)
(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			
Property, Plant and Equipment	3	4,50,000	1,07,000
Other non- current investments	4	6,00,000	1,50,000
Total		10,50,000	2,57,000

Notes to Accounts

		Rs	H Ltd. (Rs)	S Ltd. (Rs)
1.	**Share capital**			
	6,000 equity shares of Rs100 each, fully paid up		6,00,000	--
	1,000 equity shares of Rs100 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 Rs200 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.	(Rs)
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

		Rs		
1.	**Share capital**			
	6,000 equity shares of Rs100 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 post- acquisition 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.		3,00,000	
	S Ltd.	1,00,000		
	Add: Appreciation	50,000		
		1,50,000		
	Less: Depreciation (1,50,000 X 10%)	(15,000)	1,35,000	
	Furniture			
	H. Ltd.		1,50,000	
	S Ltd.	20,000		
	Less: Decrease in value	(5,000)		
		15,000		
	Less: Depreciation (15,000 X 15%)	(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

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	Rs
Reserves	25,000
Profit and Loss Account	15,000
	40,000

H Ltd.'s = 4/5 (or 80%) × 40,000	32,000
Minority Interest= 1/5 (or 20%) × 40,000	8,000
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery Rs(1,50,000 – 1,00,000)	50,000
Less: Loss on Furniture Rs(20,000 – 15,000)	5,000
Net Profit on revaluation	45,000
H Ltd.'s share 4/5 × 45,000	36,000
Minority Interest 1/5 × 45,000	9,000
3. Post-acquisition reserves of S Ltd.	
Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs75,000 – 25,000)	50,000
H Ltd.'s share 4/5 × 50,000	40,000
Minority interest 1/5 × 50,000	10,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs25,000 – 15,000)	10,000
Add: Excess depreciation charged on furniture @ 15% on Rs5,000 i.e. (20,000 – 15,000)	750
	10,750
Less: Under depreciation on machinery @ 10% on Rs50,000 i.e. (1,50,000 – 1,00,000)	
Adjusted post-acquisition profits	(5,000)
H Ltd.'s share 4/5 × 5,750	5,750
Minority Interest 1/5 × 5,750	4,600
(5) Minority Interest	1,150
Paid-up value of (1,000 – 800) = 200 shares	
held by outsiders i.e. 200 × Rs100 (or 1,00,000 X 20%)	
Add: 1/5th share of pre-acquisition profits and reserves	20,000
1/5th share of profit on revaluation	8,000
1/5th share of post-acquisition reserves	9,000
1/5th share of post-acquisition profit	10,000
	1,150
(6) Cost of Control or Goodwill	48,150
Price paid by H Ltd. for 800 shares(A)	
Intrinsic value of the shares-	1,60,000
Paid-up value of 800 shares held by H Ltd. i.e. 800 × Rs100 (or 1,00,000 X 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

Problem 11

(a) A Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd. sells inventories costing Rs180 lacs to B Ltd at a price of Rs200 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 Rs150 lacs from B Ltd at a price of Rs200 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.

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 Rs200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).
Further, the unrealized profits of Rs20 lacs (i.e. Rs200 lacs – Rs180 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 Rs200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).
Further, the unrealized profits of Rs50 lacs (i.e. Rs200 lacs – Rs150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 20X1, by reducing the value of closing inventories by Rs50 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 Rs37.50 lacs (being 75% of Rs50 lacs) and the minority's share of the profits of B Ltd would be reduced by Rs12.50 lacs (being 25% of Rs50 lacs).

Problem 12

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

	H Ltd. (Rs in lacs)	S Ltd. (Rs 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 Rs120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing Rs24 lacs. Administrative expenses of S Ltd. include Rs5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include Rs10 lacs paid to S Ltd. as commission.
H Ltd. holds 80% of equity share capital of Rs1,000 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.	Rs 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

		Rs in Lacs	Rs 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	
	Less: Unrealized profits Rs24 lacs × $\frac{20}{120}$	(4)	1,196
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

Problem 13

Subsidiary B Ltd. provides the following balance sheet::

Particulars	Note No.	20X0 (Rs)	20X1 (Rs)
(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 (Rs)	20X1 (Rs)
1.	**Share capital**		
	5,000 equity shares of Rs10 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	3,20,000	3,20,000
	Less: Depreciation Total	(48,000)	(96,000)
		2,72,000	2,24,000
6.	**Other current Assets**		
	Prepaid expenses	72,000	48,000

Also consider the following information:

(a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.

(b) 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 Rs12,000 at the end of 20X0 and Rs34,000 at the end of 20X1.

(c) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(d) Prepaid expenses in B Ltd. include advertising expenditure carried forward of Rs60,000 in 20X0 andRs30,000 in 20X1, being part of initial advertising expenditure of Rs90,000 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.:

	Rs	Rs
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.	(Rs)
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 (Rs)
1.	**Share capital** 5,000 equity shares of Rs10 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

Problem 14

Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 20X1 for Rs2,10,000. The issued capital of Power Ltd., on 1st January, 20X1 was Rs1,50,000 and the balance in the Profit & Loss Account was Rs90,000. During the year ended 31st December, 20X1, Power Ltd. earned a profit of Rs30,000 and at year end, declared and paid a dividend of Rs22,500. 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

Total dividend paid is Rs22,500 (out of post-acquisition profits), hence dividend received by Hemant will be credited to P & L account. Hemant Ltd.'s share of dividend = Rs22,500 x 80% = Rs18,000

Goodwill on consolidation (at the date of acquisition):	Rs	Rs
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 Rs2,40,000 [1,50,000 + 90,000]		48,000
- 31st December, 20X1: 20% of Rs2,47,500 [1,50,000 + 90,000 + 30,000 – 22,500]		49,500

Problem 15

King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 20X1 at a cost of Rs140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 20X1:

	Rs 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. @ Rs20 per share (Face value - Rs10).
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

	Rs in lakhs	Rs 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. (Rs140 lakhs)		(140)
Capital reserve		53.9

Problem 16

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 01-01-20X1 Share Capital Rs	Date of Acquisition 01-01-20X1 Profit and Loss A/c Rs	Consolidation date 31-12-20X1 Share Capital Rs	Consolidation date 31-12-20X1 Profit and Loss A/c Rs
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

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 [E]	Minority interest as at the date of acquisition [E] x [A + B] Rs	Minority interest as at the date of consolidation [E] X [C + D] Rs
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

Problem 17

A Ltd acquired 1,600 ordinary shares of Rs100 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. (Rs)	B Ltd. (Rs)
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			
(d) 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. Rs	B Ltd. Rs
1.	**Share Capital**		
	5,000 shares of Rs100 each, fully paid up	5,00,000	-
	2,000 shares of Rs100 each, fully paid up	-	2,00,000
	Total	5,00,000	2,00,000
2.	**Reserves and Surplus**		
	General Reserves	2,40,000	1,00,000
	Profit & loss	57,200	82,000
	Total	2,97,200	1,82,000
3.	**Short term borrowings**		
	Bank overdraft	80,000	--
4.	**Property plant and equipment**		
	Land and building	1,50,000	1,80,000
	Plant & Machinery	2,40,000	1,35,000
	Total	3,90,000	3,15,000
5.	**Non-current Investments**		
	Investment in B Ltd (at cost)	3,40,000	--
6.	**Cash & Cash equivalents**		
	Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of Rs30,000 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 Rs1,50,000 on 1st January, 20X1 was considered as worth Rs1,80,000 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.

Solution:

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

Particulars	Note No.	(Rs)

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

				Rs
1.	**Share Capital**			
	5,000 shares of Rs100 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	3,30,000	
	Plant & Machinery (Refer to W.N 7)		4,11,000	
	Total			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 - Rs16,000 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. Rs16,000
   To Investment Rs16,000
2. The Plant & Machinery of B Ltd. would stand in the books at Rs1,42,500 on 1st July, 20X1, considering only six months' depreciation on Rs1,50,000 total depreciation being Rs15,000. The value put on the assets being Rs1,80,000, there is an appreciation to the extent of Rs37,500 (1,80,000 – 1,42,500).
3. **Capital profits of B Ltd.**

	Rs	Rs
Reserve on 1st January, 20X1 (Assumed there is no movement in reserves during the year and hence balance as on 1st January 20X1 is same as of 31st 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 Rs82,000		
Less: Rs10,000		
Rs72,000		
Proportionate upto 1st July, 20X1 on time basis (Rs72,000/2)		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 Rs1,80,000 for 6 months		9,000	
Less: Depreciation already charged for 2nd 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: 1/5Capital 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:**

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 20X1 [1,80,000 – (1,50,000 – 7,500)]	37,500	
	1,72,500	
Add: Deprecation for 2nd half charged on pre- revalued value	7,500	
Less: Depreciation on Rs1,80,000 for 6 months	(9,000)	1,71,000
		4,11,000

8. **Profit & Loss Account (Consolidated):**

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	(16,000)	41,200

Share of A Ltd. in revenue profits of B Ltd. (WN 4)		27,600
		68,800

Problem 18 On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Particulars	Note No.	H Ltd. (Rs in Lacs)	S Ltd. (Rs 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			
Trade payables		1,461	854
Short term provisions	3	855	394
(c) Other current liabilities	4	1,572	160
Total		21,387	9,208
II. Assets			
(1) Non-current assets			
Property, Plant and Equipment	5	9,468	5,486
Non-current Investments (Shares in S Ltd.)		3,000	
(2) Current assets			
(a) Inventories		3,949	1,956
(b) Trade receivables		2,600	1,363
(c) Cash and cash equivalents		1,490	204
(d) Short term loans and advances	6	520	
(e) Other current assets	7	360	199
Total		21,387	9,208

Notes to Accounts

		H Ltd. (Rs in lacs)	S Ltd. (Rs in lacs)
1.	**Share Capital**		
	Authorized share capital	15,000	6,000
	Equity shares of Rs10 each, fully paid up		
	Issued and Subscribed:		
	Equity shares of Rs10 each, fully paid up	12,000	4,800
	Total	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.	**Short term provisions**		
	Provision for Taxation	855	394
4.	**Other current liabilities**		
	Bills Payable	372	160
	Dividend payable	1,200	--
		1,572	160
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.	**Short term loans and advances**		
	Sundry Advances	520	--
7.	**Other current assets**		
	Bills Receivable	360	199

The following information is also provided to you:

(a) 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 Rs3,000 lakh and Rs1,200 lakh respectively.

(b) 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.
(c) 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.
(d) 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 Rs45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
(e) On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for Rs100 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.	(Rs 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	2,315
(b) Short term provisions	4	1,249
(c) Other current liabilities	5	1,687
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	3,963
(c) Short term loans and advances	9	1,694
(d) Cash and cash equivalents	10	520
(e) Other current assets	11	514
Total		27,530

Notes to Accounts

			(Rs in lacs)	(Rs in lacs)
1.	**Share Capital**			
	Authorized share capital			15,000
	Equity shares of Rs10 each, fully paid up			
	Issued and Subscribed:			
	Equity shares of Rs10 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		2,947	
	Unrealized Profit 20	(380)		
		2,335		
	Add: Share in S Ltd.'s Revenue profits	612		
	Total			7,159
3.	**Trade payables**			
	H Ltd.		1,461	

	S Ltd.		854	2,315
4.	**Short term provisions**			
	Provision for Taxation H Ltd.		855	
	S Ltd.		394	
	Total			1,249
5.	**Other current liabilities**			
	Bills Payable			
	H Ltd.		Rs372	
	S Ltd.		Rs160	
			Rs532	
	Less: Mutual owing		(Rs45)	487
	Dividend payable			
	H Ltd.			1,200
	Total			1,687
6.	**Property, plant and equipment**			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	Rs4,905		
	S Ltd.	Rs4,900	9,805	
	Furniture and Fittings			
	H Ltd.	Rs1,845		
	S Ltd.	Rs586	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**			
	H Ltd.	Rs2,600		
	S Ltd.	Rs1,363		3,963
9.	**Short term loans and advances**			
	Sundry Advances			520
	Total			520
10.	**Cash and cash equivalents**			
	Cash and Bank Balances			1,694
	Total			1,694
11.	**Other current assets**			
	Bills Receivable			
	H Ltd.	Rs360		
	S Ltd.	Rs199		
		Rs559		
	Less: Mutual Owing	(Rs45)		
	Total			514

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/Rs10)
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**

	Rs in lakhs		Rs 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 (Balancing figure)	180
	3,180		3,180

(2) S Ltd.'s Profit and Loss Account

	Rs in lakhs		Rs in lakhs
To General Reserve [WN 1]	180	By Balance b/d	1,200
To Dividend paid (20% on Rs3,000 lakhs)	600	By Net Profit for the year* (Balancing figure)	1,200
To Balance c/d	1,620		
	2,400		2,400

*Out of Rs1,200 lakhs profit for the year, Rs180 lakhs has been transferred to reserves.

(3) Distribution of Revenue profits

	Rs in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60% (General Reserve Rs108 + Profit and Loss Account Rs612)	(720)
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking Rs1,080 lakhs as post acquisition Profit and Loss balance and Rs180 lakhs as post acquisition General Reserve balance. The final answer will be same.

(4) Calculation of Capital Profits

	Rs in lakhs
General Reserve on the date of acquisition less bonus shares (Rs3,000 – Rs1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (Rs1,200 – Rs600)	600
	1,800

H Ltd.'s share = 60% of Rs1,800 lakhs = Rs1,080 lakhs
Minority interest = Rs1,800 – Rs1,080 = Rs720 lakhs

(5) Calculation of capital reserve

	Rs in lakhs
Paid up value of shares held (60% of Rs4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (Rs3,000 – Rs360)	(2,640)
Capital reserve	1,320

(6) Calculation of Minority Interest

	Rs in lakhs
40% of share capital (40% of Rs4,800)	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

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

(8) Computation of bonus to equity shareholders

	Rs 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

PAST YEAR EXAMS QUESTIONS

MAY/JULY 2021

Q: Long Limited acquired 60% stake in Short Limited for a consideration of Rs112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was Rs100 lakhs, Revenue Reserve was Rs40 lakhs and balance in Profit & Loss Account was Rs30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

(i) On consolidation of Balance Sheet.

(ii) If Long Limited showed the investment in subsidiary at a carrying amount of Rs104 lakhs.

(iii) If the consideration paid for acquiring the 60% stake was Rs92 lakhs. (5 Marks)

Solution :

	Rs
60% of the Equity Share Capital Rs100 Lakhs	60
60% of Accumulated Reserve Rs70 Lakhs (40+30) Lakhs	42
Book value of shares of Short Ltd.	102

(i) Goodwill / Capital Reserve computation on consolidation of balance sheet
Long Ltd. paid a positive differential of Rs10 Lakhs (112 - 102). This differential Rs10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles.

(ii) If Long Ltd. showed the investment in Short Ltd. at carrying amount of Rs104 Lakhs, then the goodwill will be Rs2 Lakhs.

(iii) If the consideration paid is Rs92 lakhs, then there would have been capital reserve amounting Rs10 Lakhs (102- 92).

MAY/JULY 2021

Q: 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 Rs100 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		-	
Fixed Assets	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 Rs1,20,000, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

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

Solution : Consolidated Statement of Profit & 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	7,000		(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)	(1,20,000)	35,80,000
2	Cost of Materials Purchased/Consumed		
	X Ltd.	10,00,000	
	Y Ltd.	12,00,000	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	(1,20,000)	20,80,000

3	Employee benefit and expenses		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	3,00,000	5,00,000
4	Finance cost		
	Interest		
	H Ltd.	24,000	
	S Ltd.	24,000	48,000
5	Depreciation		
	H Ltd.	2,20,000	
	S Ltd.	2,37,000	4,57,000
6	Other expenses		
	H Ltd.	1,60,000	
	S Ltd.	1,20,000	2,80,000

Working Notes:

(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	14,000	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss Rs9,000)		(1,800)

(2) Inventory reserve = $\frac{1,20,000}{4} \times \frac{25}{125}$ = Rs6,000

(3) Pre-acquisition loss = 80% of 3 month's profit up to 30th June,2020 i.e. 80 % of ¼ of loss Rs9,000. Hence, pre-acquisition loss = Rs1,800

(4) Investment account includes Preference dividend for 3 months prior to acquisition i.e. Rs4,00,000 x 50% x 7% x 1/4 = Rs3,500

JAN 2021

Q: On 31st March, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
	`	`
Shareholders' Fund		
Issued and subscribed		
Equity shares of `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		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Total	25,20,000	6,16,800

Assets		
Non-Current Assets		
(a) Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd.	3,84,000	-
(19,200 shares at `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
Total	25,20,000	6,16,800

The following information is also provided to you:

(a) 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 `60,000 and `36,000 respectively.

(b) Machinery (Book value `2,40,000) and Furniture (Book value `48,000) of S Ltd were revalued at `3,60,000 and `36,000 respectively on 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%).

(c) On 31st March, 2020, Bills payable of `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, 2020.

Solution : Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020

Particulars	Note No.	(`)
(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 overdraft)		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

				`
1.	Share Capital			
	Equity share capital			13,40,000
	1,34,000 shares of `10 each fully paid up			
2.	Reserves and Surplus			
	Reserves		4,80,000	
	Add: 4/5th share of S Ltd.'s post- acquisition reserves (W.N.3)		96,000	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 4/5th share of S Ltd.'s post- acquisition profits (W.N.4)		11,040	2,51,040

				8,27,040
3.	Trade Payables			
	H Ltd.	2,00,000		
	S Ltd.	1,22,000	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	1,20,000		
		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%)	5,400	30,600	14,34,600
5.	Intangible assets			
	Goodwill [WN 6]			28,800
6.	Trade receivables H Ltd.			
	S Ltd.	3,00,000		
	Bills Receivables	90,000	3,90,000	
	H Ltd.	1,00,000		
	S Ltd.	30,000	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.	
Reserves	60,000
Profit and Loss Account	36,000
	96,000
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 `(3,60,000 – 2,40,000)	1,20,000
Less: Loss on Furniture `(48,000 –36,000)	(12,000)
Net Profit on revaluation	1,08,000
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	(60,000)
Post-acquisition reserves	1,20,000
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 pre-acquisition profits = `60,000 – 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15% on `12,000 i.e. (48,000 – 36,000)	1,800
	25,800

Less: Under depreciation on machinery @ 10% on `1,20,000 i.e. (3,60,000 – 2,40,000)	(12,000)
Adjusted post-acquisition profits	13,800
H Ltd.'s share 4/5 × 13,800	11,040
Minority Interest 1/5 × 13,800	2,760
(5) Minority Interest	
Paid-up value of (24,000 – 19,200) = 4,800 shares	48,000
held by outsiders i.e. 2,40,000 x 20%	19,200
Add: 1/5th share of pre-acquisition profits and reserves	21,600
1/5th share of profit on revaluation	24,000
1/5th share of post-acquisition reserves	2,760
1/5th share of post-acquisition profit	1,15,560
(6) Cost of Control or Goodwill	
Price paid by H Ltd. for 19,200 shares (A)	3,84,000
Less: Intrinsic value of the shares	
Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%	(1,92,000)
Add: 4/5th share of pre-acquisition profits and reserves	76,800
4/5th share of profit on the revaluation	86,400
Intrinsic value of shares on the date of acquisition (B)	3,55,200
Cost of control or Goodwill (A) – (B)	28,800

Nov 2020

Q: H Limited acquired 64000 Equity Shares of Rs10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:

Particulars	H Ltd. (Rs)	S Ltd. (Rs)
Equities and Liabilities:		
Equity Share Capital: Shares of Rs10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
Total	36,55,200	16,60,000
Assets:		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
Total	36,55,200	16,60,000

Additional Information:

(1) The Profit & Loss Account of S Ltd. showed credit balance of Rs1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.

(2) The Plant & Machinery of S Ltd. which stood at Rs6,00,000 on 1st April, 2019 was considered worth Rs5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.

Solution : Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd. as at 31st March, 2020

Particulars	Note No.	(Rs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,98,400
(b) Short term borrowings		3,00,000
Total		42,02,000
II. Assets		
(1) Non-current assets		
(i) Property, Plant and Equipment	4	29,34,000
(ii) Intangible assets (W.N.5)		1,60,000
(2) Current assets		
(a) Inventories	5	6,24,000
(b) Trade receivables	6	3,95,200
(c) Cash & Cash equivalents (Cash)	7	88,800
Total		42,02,000

Notes to Accounts

			Rs	Rs
1.	**Share Capital**			
	2,00,000 equity shares of Rs10 each			20,00,000
2.	**Reserves and Surplus**			
	Reserves		9,60,000	
	Profit & loss			
	H Ltd.	2,28,800		
	S Ltd. (As per W.N. 3)	1,18,400	3,47,200	13,07,200
3.	Trade Payables			
	H Ltd.		1,66,400	
	S Ltd. (80,000+52,000)		1,32,000	2,98,400
4.	Property, Plant and Equipment			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	7,60,000	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	4,94,000	14,54,000	29,34,000
5.	Inventories			
	H Ltd.		4,56,000	
	S Ltd.		1,68,000	6,24,000
6.	Trade Receivables			
	H Ltd.	1,76,000		
	S Ltd.	1,60,000	3,36,000	
	Bills receivable: H Ltd.		59,200	3,95,200
7.	Cash & Cash equivalents			
	Cash			
	H Ltd.		56,800	
	S Ltd.		32,000	88,800

Working Notes:

(1) Share holding pattern

Total Shares of S Ltd 80,000 shares

Shares held by H Ltd 64,000 shares i.e. 80 %;

Minority Shareholding 16,000 shares i.e. 20 %

(2) Capital profits of S Ltd.

	Rs	Rs

Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2019 is same as of 31st March 2020)		4,20,000
Profit & Loss Account Balance on 1st April, 2019	1,20,000	
Less: Dividend paid	(80,000)	40,000
Profit for year:		
Total Rs3,28,000		
Less: Rs40,000 (opening balance)		
Rs2,88,000		
Proportionate up to 1st October, 2019 on time basis (Rs2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		(50,000)
		5,54,000
Less: Preliminary expenses written off		(20,000)
Total Capital Profit		5,34,000
Holding company's share (5,34,000 x 80%)		4,27,200
Minority Interest (5,34,000 x 20%)		1,06,800

Note: Preliminary expenses as on 1st April, 2019 amounting Rs20,000 have been written off.

(3) Revenue profits of S Ltd.

Profit after 1st October, 2019 (3,28,000 - 40,000)/2		1,44,000
Less 10% depreciation on Rs5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2nd half year on 6,00,000	30,000	
		4,000
		1,48,000
Holding company's share (1,48,000 x 80%)		1,18,400
Minority Interest (1,48,000 x 20%)		29,600

(4) Minority interest

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	29,600
	2,96,400

(5) Cost of Control

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 x 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	4,27,200	(10,67,200)
Cost of Control or Goodwill		1,60,000

(6) Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1st October, 2019

	Rs
Value of plant and machinery as on 1st April,2019	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1st October, 2019	5,70,000
Less: Plant and machinery valued by H Ltd. on 1st October,2019	(5,20,000)
Revaluation Loss	50,000

(7) Value of plant & Machinery of S Ltd. On 31st March,2020

Value of machinery on 1st October, 2019	5,20,000
Less: depreciation for next six month	(26,000)
	4,94,000

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Q: Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2017-18	2018-19

	Amount in Rs	Amount in Rs
Share Capital		
Issued and subscribed 7500 Equity Shares of Rs100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

(1) MNT Ltd. is a subsidiary of LTC Ltd.

(2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by Rs5,000 at the end of 2017-2018 and increased by Rs12,000 at the end of 2018-2019. (Inventory of 2017-18 has been sold out during the year 2018-19)

(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 Rs25 ,000 in 2017-18 and Rs12,500 in 2018-19 being part of initial Sales Promotion expenditure of Rs37,500 in 2017-18, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2017-18.

Restate the balance sheet of MNT Ltd. as on 31st March, 2019 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 December, 2019

Particulars	Note No.	(Rs)
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 3,43,000 x 100		3,50,000

98		
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		23,14,500

Notes to Accounts

			Rs
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
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.:

	Rs	Rs
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

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Q: From the following data, 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	
				01-01-2018		31-12-2018	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				Rs	Rs	Rs	Rs
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

Solution: 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 1.1.2018

B = Profit & loss account balance on 1.1.2018

C = Share capital on 31.12.2018

D = Profit & loss account balance on 31.12.2018

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date

	[E]	[E] x [A + B] Rs	of consolidation [E] X [C + D] Rs
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
Case E [100-100]	NIL	NIL	NIL

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Q: The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2017:

	H Ltd. (Rs)	S Ltd. (Rs)
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of Rs10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Total	22,37,000	5,43,000

	H Ltd. (Rs)	S Ltd. (Rs)
Assets		
Non-Current Assets		
Fixed Assets		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs20 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
Total	22,37,000	5,43,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2016. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs50,000 and Rs30,000 respectively.

Machinery (book value Rs2,00,000) and Furniture (book value Rs40,000) of S Ltd. were revalued at Rs3,00,000 and Rs30,000 respectively on 1st April,2016 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives : Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include Rs35,000 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 Rs55,000 purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet as at 31st March, 2017.

Solution :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2017

Particulars	Note No.	(Rs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(1,20,000 equity shares of Rs10 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		
(a) Fixed assets		
(i) Tangible assets	3	13,10,500
(ii) Intangible assets	4	24,000
(b) 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

		Rs		
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 post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	**Trade Payables**			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	**Tangible Assets**			
	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
				13,10,500
4.	**Intangible assets**			
	Goodwill [WN 5]			24,000
5.	**Inventories**			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	**Trade Receivables**			
	H. Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	**Cash and Bank**			
	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 1.4.2016

	Rs
Machinery	
Revaluation as on 1.4.2016	3,00,000
Less: Book value as on 1.4.2016	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2016	30,000
Less: Book value as on 1.4.2016	(40,000)
Loss on revaluation	(10,000)

(2) Calculation of short/excess depreciation

	Machinery	Furniture
Upward/ (Downward) Revaluation (W.N. 4)	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 31.03.2017

	Pre-acquisition profit upto 1.4.2016	Post-acquisition profits (1.4.2016 – 31.3.2017)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2017	50,000	1,05,000	
Profit and loss account as on 31.3.2017	30,000		35,000
Upward Revaluation of machinery as on 1.4.2016	1,00,000		
Downward Revaluation of Furniture as on 1.4.2016	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	1,70,000	1,05,000	26,500

(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	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110)* x 20%	(1,000)
	99,300

* considered that Rs55,000 is cost to H Ltd. Alternative solution considering it as cost to S Ltd. is also possible

(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 (Rs64,000 + Rs72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

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Q: 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 Rs180 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 Rs8 Lakhs paid to A Ltd as consultancy fees.

(iii) Selling and distribution expenses of A Ltd include Rs15 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 Rs1,500 Lakhs

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

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	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	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.	1,500	
		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.	(15)	8,797
2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	300	
		1,800	
	Less: Unrealised profits Rs180×1/6 x 25/125	(6)	1,794
3.	Cost of Material purchased/consumed		
	A Ltd.	1,200	
	BLtd.	300	
		1,500	

	Less: Purchases by B Ltd. from A Ltd.	(180)	1,320
	Direct Expenses		
	A Ltd.	300	
	BLtd.	150	450
			1,770
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	225	1,425
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	150	
		450	
	Less: Consultancy fees received by A Ltd. from BLtd.	(8)	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	75	225
7.	Depreciation and Amortisation		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	75	225
8.	Provision for tax		
	A Ltd.	1800	
	B Ltd.	300	2100

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.