8. CONSOLIDATED FINANCIAL STATEMENTS

NO. OF PROBLEMS IN 40e OF CA INTER: CLASSROOM - 12, ASSIGNMENT - 09

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 12, ASSIGNMENT – 10

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 12, ASSIGNMENT - 10

MODEL WISE ANALYSIS OF PAST EXAM PAPERS

MODEL NO.	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (N)	N-18 (N)
Model - 1	-	-	-	-	-	-	-	-	-	-	-	-
Model - 2	-	-	-	-	-	-	-	-	-	-	-	-
Model - 3	-	-	-	-	-	-	-	-	-	-	-	-
Model - 4	-	-	-	-	-	-	-	-	-	-	-	-
Model - 5	-	-	-	-	-	-	-	-	-	-	20	-
Model - 6	-	-	-	-	-	-	-	16	-	-	-	-
Model - 7	-	-	-	-	-	-	-	-	-	-	-	-
Model - 8	-	-	-	-	-	-	-	-	-	-	-	-
Model - 9	-	-	-	-	-	-	-	-	-	-	-	10

Model - 1 : Share of holding and minority in case of Transfer of Profits to Reserves

Model - 2 : Treatment of Pre and Post Acquisition Profits

Model - 3 : Cost of Control

Model - 4 : Minority Interest

Model - 5 : Consolidated Balance Sheet - Revaluation of Fixed Assets

Model - 6 : Consolidated Balance Sheet - Bonus Issue

Model - 7 : Uniform Accounting Policies and Preparation Subsidiary Balance sheet

Model - 8 : Consolidated Balance Sheet - Investment in Debentures of Subsidiary

Model - 9 : Consolidated Profit and Loss Account

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CRD 1	-	-	-	-	-	-
CRD 2	ILL 4	-	-	-	-	CA INTER
CRD 3	ILL 1	-	-	-	-	CA INTER
CRD 4	ILL 2	-	-	-	-	CA INTER
CRD 5	ILL 3	-	-	M18	-	CA INTER
CRD 6	ILL 5	-	-	-	-	CA INTER
CRD 7	PQ 1	-	-	-	-	CA INTER
CRD 8	-	-	-	-	M18 (N) - 20M	CA INTER
CRD 9	PQ 4	-	-	-	-	CA INTER
CRD 10	ILL 10	-	-	-	-	CA INTER
CRD 11	ILL 11	-	-	-	-	CA INTER
CRD 12	ILL 8	-	-	M18	-	CA INTER
ASG 1	ILL 6	-	-	-	-	CA INTER
ASG 2	PQ 5	-	-	-	-	CA INTER

ASG 3	ILL 7	-	-	-	-	CA INTER
ASG 4	-	-	M14	-	-	CA FINAL
ASG 5	-	Q1	-	-	-	CA FINAL
ASG 6	-	-	N18 (N&O)	-	-	CA INTER
ASG 7	PQ 3	-	-	-	-	CA INTER
ASG 8	-	-	-	-	-	-
ASG 9	ILL 9	-	-	-	-	CA INTER
ASG 10	-	-	M18	-	N18 (N) - 10M	CA INTER

1. INTRODUCTION:

a) Consolidated accounts are one form of group accounts which **combines** the information contained in the **separate accounts** of a **holding company** and its **subsidiaries** as if they were the accounts of **a single entity**. Group accounts and consolidated accounts are terms often used synonymously.

b) In simple terms a set of consolidated accounts is prepared by adding together the assets and liabilities of the holding company and each subsidiary.

c) **Sec.129 (3)** of the Companies Act, 2013 mandated the Companies having one or more subsidiaries, to prepare consolidated financial statements.

2. DEFINITIONS:

a) **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.

Definitions as per accounting standard (AS) 21

b) **Subsidiary** :is an enterprise that is controlled by another enterprise (known as the parent)

c) **Control:**

i) The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise: or

ii) 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.

d) **Minority interest:** Is the 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.

3. CONSOLIDATED FINANCIAL STATEMENTS:

a) **Meaning:** The financial statements of a group presented as those of a single economic entity.

b) **Need:** The consolidated financial statements are needed to serve the following purposes

i) To ascertain the financial performance of the group as a whole

ii) To ascertain the financial position of the group as a whole

iii) To ascertain the appropriate value of the share of a holding company

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

c) **Statutory compliance:** A company which is required to prepare consolidated financial statements shall follow the requirements of **schedule III** which contains the **'General instructions for preparation of consolidated financial statements'** and also the accounting principles and procedures laid down in **AS 21** for preparation and presentation of consolidated financial statements.

d) **When Consolidation not required:**

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

i) 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

ii) It operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

4. CONSOLIDATION PROCEDURES FOR BALANCE SHEET

Steps for preparing consolidated balance sheet

Step- 1: Date of acquisition:

- Ascertain **date of acquisition** of parent in a subsidiary company.

Note: this date is relevant for the purpose of analysing the subsidiary profits as pre acquisition and post acquisition profits.

Step- 2: Shareholding pattern:

Determine shareholding pattern of the subsidiary company as on the date on which the Consolidated Balance Sheet (CBS) is to be prepared.

Note: This pattern is essential for apportionment of subsidiary profits.

Particulars	No. of shares	%
a) Parent	XXX	XXX
b) Minority Interest	XXX	XXX
c) Total (a+b)	XXX	XXX

Step- 3: Analysis of subsidiary reserves & surplus:

Analysis of subsidiary reserves & surplus (including losses) as pre-acquisition and post acquisition profits based on the date of acquisition (step 1)

a) The reserves to be analysed shall be reserves as appearing in the balance sheet of the subsidiary company as at the date of preparation of consolidated balance sheet subject to adjustments relating to proposed dividend[1]/bonus[2]/Unaccounted items.

b) In certain instances where assets are revalued[3], the surplus/ deficit should also be considered.

c) If the subsidiary has outstanding cumulative preference shares, on which dividend has not been provided for or dividend is in arrears, the same should be provided and residuary reserves analysed.

d) If the investments are made during the financial year, either,

i) Separate financial statements should be drawn up to the date of acquisition to determine the pre-acquisition profits. **Or**

ii) Profits apportioned where practicable on a reasonable basis, for example on the basis of time with assumption that profits have accrued evenly during the year. **Or**

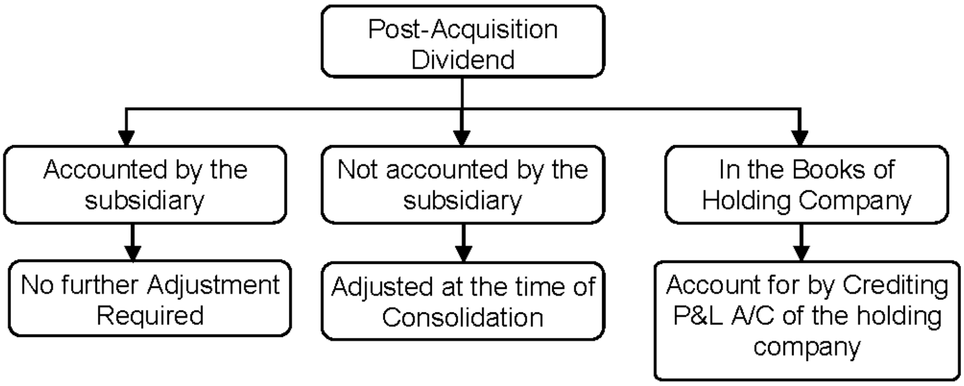
The last balance sheet date status may be considered for determining pre-acquisition profits.

The alternative (ii) is recommended for solving problems.

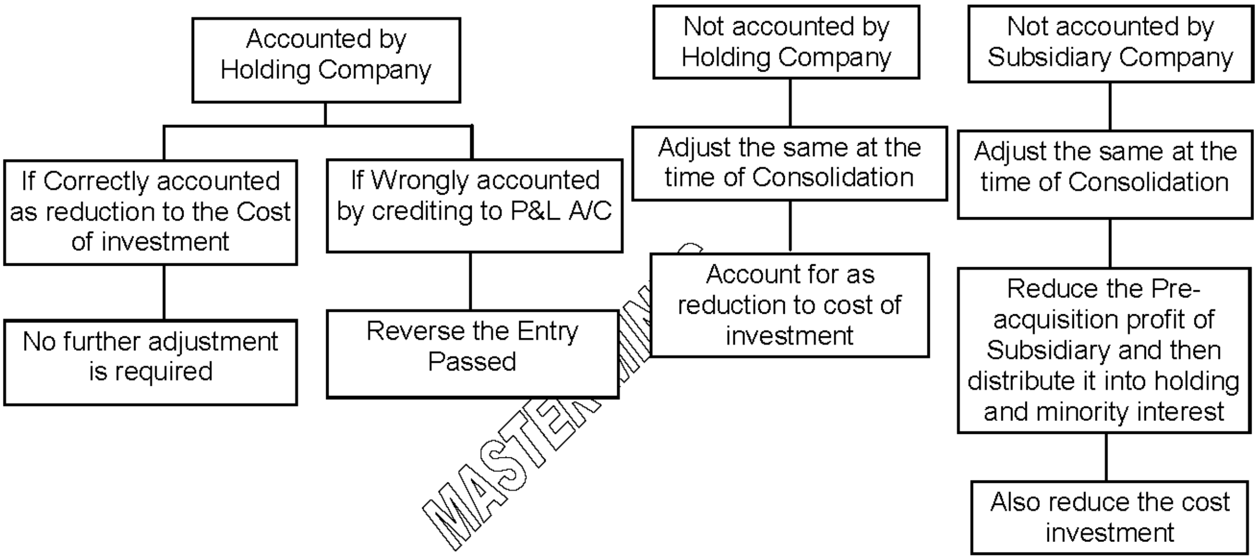
Notes:

1. Treatment of dividend:

<u>Treatment in case of Post-Acquisition Dividend:</u>



<u>Treatment in case of Pre-Acquisition Dividend:</u>



Example: If shares in X ltd, are purchased in January 2016 and in April 2016,XLtd, declares a dividend in respect of 2015,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.

2. Treatment of Bonus shares:

a) The profits and reserves out of which bonus shares have been issued must be reduced by the amount utilized for issuing the Bonus shares.

b) The paid up value of Bonus shares allotted to the holding company after the date of acquisition must be added to the paid up value of shares held by the Holding Company.

c) The paid up value of Bonus shares allotted to the Minority Shareholders after the date of acquisition must be added to the paid up value of shares held by the Minority.

d) Unless the question states 'No accounting effect has yet been given', it is presumed that Bonus issue has been duly recorded in books.

3. On revaluation of assets, the corresponding depreciation adjustment after date of revaluation should also be considered.

<u>Step- 4: Apportionment of profits:</u> Apportionment of profits analysed as above (Step 3) among the shareholders in the ratio ascertained in the Step 2

Particulars	**Pre-acquisition profit**	**Post acquisition profit**	
	Capital profit (CP)	**Revenue Reserves (RR)**	**Revenue Profits (RR)**
a) General reserve	xxx	xxx	-

b) Other reserves	xxx	xxx	-
c) Profit and loss	xxx	-	xxx
d) **Less:** Miscellaneous expenditure to the extent not written off / unmortised expenses:	(xxx)	-	(xxx)
e) **Total**	**xxx**	**xxx**	**xxx**
f) Parent	xxx	xxx	xxx
g) Minority Interest	xxx	xxx	xxx

Step - 5: Minority interest:

Compute Minority Interest (MI)

MI is the aggregate of minority share of:

a) Share capital		xxx
b) Capital profits	Step - 4	xxx
c) Revenue reserves	Step - 4	xxx
d) Revenue profits		xxx
e) Equity dividend (proposed)*		xxx
f) Preference share capital	Held by outsiders	xxx
g) Preference dividend	Step - 3c	xxx
h) **Less:** Stock reserve	Minority share (If upstream)	(xxx)
		xxx

* Consequent to amendment of AS 4 (30.03.2016) proposed dividend (equity) should not be considered. However if there is a dividend declared before balance sheet date (Commonly referred as interim) pending payment, the same should be accounted.

Step - 6: cost of control:

Determine cost of control

	Particulars	Rs.	Rs.
A	**Cost of investment**		
	i. Amount invested - Carrying amount as per Parent's Balance sheet	xxx	
	ii. Less: Dividend received from pre-acquisition profits of the subsidiary	(xxx)	
	iii. Adjusted cost of investment [(i) - (ii)]		xxx
B	Value of investment* - aggregate of parent share of:		
	i. Share capital	xxx	
	ii. Pre-acquisition profit (step 4)	xxx	xxx
C	Cost of control - Goodwill/Capital reserve (a-b)		xxx

*parent's share of net assets (assets - liabilities = capital + reserves) of the subsidiaries as at the date of investment.

Cost of control

A > B
Goodwill

A < B
Capital reserve

Step - 7: Inter-company transactions:

Inter-company transactions - Elimination / Adjustment:

A. Inter-company owing / debts:

1. Usual items are debtors/creditors, Loan given/Loan taken, Interest receivable/Interest payable, fees receivable/fees payable, dividend receivable/dividend payable.
2. Adjustment involves a mere reduction of the amount involved from the aggregate of both receivable and payable.

B. Assets comprising goods or machinery purchased from the other Company:

1. Ascertain unrealised profits.
2. Create reserve for the amount in step(1) involving:
   a) Reduction in value of stock/Asset
   b) Reduction in value of Reserves.

In transactions between companies involving fixed assets, eliminate the **unamortized portion** of the unrealised profit (applying downstream, and upstream concepts).

Particulars	Downstream	Upstream
Transaction Flow	From Parent to Subsidiary	From Subsidiary to Parent
Quantum of unrealised Profit to be eliminated from Asset	100%	100%
Adjustment against ➢ Parents' Reserves ➢ Minority Interest	• 100% • Nil	• Respective share in subsidiary • Step 2

Step-8: Reserves for Consolidated Balance Sheet:

Ascertainment of reserves for Consolidated Balance Sheet

Particulars	CR	RR	P& L A/c
a) Reserves as appearing in Parent's Balance sheet	xxx	xxx	xxx
b) **Less:** Dividend received from subsidiary out of pre-acquisition profits transferred to Investments (Step 6A(ii))		(xxx)	(xxx)
c) **Add:** Parents' share of Post-acquisition reserve and profits of subsidiary (Step 4)		xxx	xxx
d) **Less:** Reserve for unrealised profit created (Step 7B)			(xxx)
e) **Add:** Capital Reserve (Step 6C)	xxx		
f) The net result is the value of reserves to be shown in Consolidated Balance Sheet	**xxx**	**xxx**	**xxx**

Note: Maintain identity of reserves for consolidated balance sheet

*CR - Capital Reserve *RR - Revenue Reserve

Step-9: Consolidated Balance Sheet:

Preparation of Consolidated Balance Sheet

a) Liabilities:

1. Share capital	Only parent
2. Reserves	Step - 8
3. Minority interest	Step - 5
4. Other liabilities, loans, current liabilities and provisions	Total of both companies' individual liabilities **Less:** Intercompany transactions

b) Assets:

1. Fixed assets	Total of both companies adjusted for revaluation and unrealized profit. In the event of cost of control resulting in Goodwill, the same should form part of Fixed assets.
2. Investments	Total of outside investments of parent and subsidiary.
3. Current Assets, Loans and Advances	Aggregate of both companies' balances adjusted for Inter Company owing (Step 7) and in the case of stock for stock reserve.
4. Miscellaneous expenditure to the extent not written off / unmortised expenses	Only parent balances would appear since the balances relating to subsidiary are netted off in the process of analysis of profits (Step 4)

Note: The Consolidated Balance Sheet should be presented in the manner required by schedule III to the Companies Act, 2013 and disclosure shall also be made. The provisions of Accounting Standards to the extent relevant are to be followed.

5. **CONSOLIDATED PROFIT&LOSS ACCOUNT:** It is a profit and loss account showing the total income and total expenses and the resultant total net profit of holding company and subsidiary subject to:

   i) Elimination of inter company transactions of goods, services and interest on loans.

   ii) Transfer to minority interest and investment a/c for determin9ing cost of control.

   The Consolidated profit and loss A/c is prepared with 4 columns (assuming 1 Subsidiary). Each column for:

   a) Parent

   b) Subsidiary company transactions

   c) Adjustments-showing inter company transaction being eliminated

   Optional

   d) Consolidated income or expense after adjusting intercompany transactions.

PROBLEMS FOR CLASSROOM DISCUSSION

MODEL: 1 PROBLEM ON TREATMENT OF TRANSFER TO RESERVES

PROBLEM 1: (PRINTED SOLUTION AVAILABLE) From the following information calculate the share of Minority shareholders and Holding Company in the pre and post acquisition profits of Subsidiary Company:

Extracts of Balance sheets of H Ltd. and S Ltd. as at 31st March, 2018

	H Ltd.	S Ltd.
Equity share capital	10,00,000	5,00,000
General reserve	3,00,000	6,48,000
Profit and Loss A/c	3,00,000	2,52,000
Investments in S Ltd.	5,00,000	-

H Ltd Acquired 30,000 Equity Shares in S Ltd. on 01.07.2017. The credit balance of Profit and Loss Account of S Ltd. as on 01.04.2017 was Rs.2,00,000 and that of General reserve on that was Rs.6,00,000. *(B)*

(ANS.:

Particulars	*Cap. Profits*	*Rev. Profits*	*Rev. Reserve*
Share of Minority @ 40%	*3,30,000*	*15,600*	*14,400*
Share of Holding Co. @ 60%	*4,95,000*	*23,400*	*21,600*

Note:____

MODEL: 2 PROBLEMS ON TREATMENT OF DIVIDEND

PROBLEM 2: (PRINTED SOLUTION AVAILABLE) H Ltd. acquired 3,000 shares in S Ltd., at a cost of Rs.4,80,000 on 31.7.2018. The capital of S Ltd. consisted of 5,000 shares of Rs.100 each fully paid. The Profit & Loss Account of this company for 2018 showed an opening balance of Rs.1,25,000 and profit for the year was Rs.3,00,000. At the end of the year, it declared a dividend of 40%. Record the entry in the books of H Ltd., in respect of the dividend in the following situations: (Assume calendar ear as financial year) *(A)*

(NEW SM)

Note:____

MODEL: 3 PROBLEMS ON GOODWILL/CAPITAL RESERVE [COST OF CONTROL]

PROBLEM 3: (PRINTED SOLUTION AVAILABLE) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2018 at a cost of Rs.70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2018:

	Rs. in lakhs
Fixed Assets	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):

Fixed Assets Up by 20%

Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31stMarch, 2018. Exe Ltd. purchased the shares of Zed Ltd. @ Rs.20 per share. Calculate the amount of goodwill / capital reserve on acquisition of shares of Zed Ltd. ***(A) (NEW SM) (ANS.: CAPITAL RESERVE: 33.95 LAKHS)***

(SOLVE PROBLEM NO: 1 OF ASSIGNMENT PROBLEMS AS REWORK)

PROBLEM 4: (PRINTED SOLUTION AVAILABLE) Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of Rs.17 per share. The balances of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

a) The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were Rs.30 lakhs, Rs.40 lakhs and Rs.65 lakhs.

b) The actual cost of the shares to the foreign company was Rs.5,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%.The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.

c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years. The above agreement was approved by all concerned for being given effect to on 1.4.2018. The total assets of VR Ltd. as on 31.3.2018 was Rs.1,00,00,000. It was decided to write down fixed assets by Rs.1,75,000. Current liabilities of VR Ltd. as on the same date were Rs.20,00,000. The paid-up share capital of VR Ltd. Was Rs.20,00,000 divided into 2,00,000 equity shares of Rs.10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

(A) (NEW SM) (ANS.: GOODWILL - 2.19 LAKHS)

Note:

MODEL: 4 PROBLEMS ON MINORITY INTEREST

PROBLEM 5: (PRINTED SOLUTION AVAILABLE) A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2011 at cost of Rs.10,00,000 when B Ltd. had an equity share capital of Rs.10,00,000 and reserves and surplus of Rs.80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of Rs.2,50,000, Rs.4,00,000, Rs.5,00,000 and Rs.1,20,000 respectively. Thereafter in 2015 - 16, B Ltd. experienced turnaround and registered an annual profit of Rs.50,000. In the next two years i.e. 2016-17 and 2017-18, B Ltd. recorded annual profits of Rs.1,00,000 and Rs.1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

(A) (NEW SM, MTP M18 (N)) (ANS.: MINORITY INTEREST ON 01.04.10: RS.3,24,000; COST OF CONTROL: RS.2,44,000)

(SOLVE PROBLEM NO: 2 OF ASSIGNMENT PROBLEMS AS REWORK)

PROBLEM 6: (PRINTED SOLUTION AVAILABLE) 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 Rs.2,00,000 in each case:

	Subsidiary Company	% Shares Owned	Cost	Date of acquisition 1.1.2018		Consolidation Date 31.12.2018	
				Share Capital (Rs.)	P&L A/c (Rs.)	Share Capital (Rs.)	P&L A/c (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

(A) (NEW SM, MTP M18 (N), RTP M19 (N))

MODEL 5: PROBLEMS ON CONSOLIDATED BALANCE SHEET - REVALUATION OF ASSETS

PROBLEM 7: (PRINTED SOLUTION AVAILABLE) A Ltd. acquired 1,600 ordinary shares of Rs.100 each of B Ltd. on 1st July, 2018. On 31st December, 2018 the summarized balance sheets of the two companies were as given below:

Liabilities	A Ltd. (Rs.)	B Ltd. (Rs.)	Assets	A Ltd. (Rs.)	B Ltd. (Rs.)
Capital (Shares of Rs. 100 each fully paid)	5,00,000	2,00,000	Land& Buildings	1,50,000	1,80,000
Reserves	2,40,000	1,00,000	Plant &Machinery	2,40,000	1,35,000
Profit & Loss A/c	57,200	82,000	Investment in B Ltd. at cost	3,40,000	-
Bank Overdraft	80,000	-	Inventory	1,20,000	36,400
Trade Payable	47,100	17400	Trade Receivables	59,800	40,000
			Cash	14,500	8,000
	9,24,300	**3,99,400**		**9,24,300**	**3,99,400**

The Profit & Loss Account of B Ltd. showed a credit balance of Rs.30,000 on 1st January, 2018 out of which a dividend of 10% was paid on 1st August, 2018; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at Rs. 1,50,000 on 1st January, 2018 was considered as worth Rs. 1,80,000 on 1st July, 2018; 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 on 31st December, 2018.

(A) (NEW SM) (ANS.: MINORITY INTEREST - RS.83,600; GOODWILL - RS.17,200 ; CONSOLIDATED RESERVES AND SURPLUS - RS.3,08,800) (SOLVE PROBLEM NO: OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

____

PROBLEM 8: (PRINTED SOLUTION AVAILABLE) The following summarized Balance Sheet of H Ltd. And its subsidiary S Ltd. Were prepared as on 31st March, 2018:

	H Ltd.(Rs.)	S Ltd.(Rs.)
Equity and Liabilities		
Shareholders 'Funds		
Equity Share Capital (fully paid up share of Rs.10 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
	22,37,000	**5,43,000**
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 @ Rs.20 each)	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
Total	**22,37,000**	**5,43,000**

H Ltd. acquired the 80% shares of S Ltd. On 1st April, 2017.On the Date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs.50,000 and Rs.30,000 respectively.

Machinery (book value Rs.2,00,000) and Furniture(book value Rs.40,000) of S Ltd. were revalued at Rs.3,00,000 and Rs.30,000 respectively on 1st April,2017 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 Rs.35,000 due to S Ltd. for goods supplied since the acquisition of the shares. The goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing Rs.55,000 purchased from S Ltd.

You are required to prepare the consolidated Balance Sheet of as at 31st March, 2018. *(A) (M18 - 20M)*

(ANS.: MINORITY INTEREST - RS.99,300; GOODWILL - RS.30,800; CONSOLIDATED RESERVES AND SURPLUS - RS.8,23,000)

Note:____

MODEL: 6 CONSOLIDATED BALANCE SHEET - BONUS ISSUE

PROBLEM 9: (PRINTED SOLUTION AVAILABLE) On 31st March, 2018 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd.	S Ltd.
	Rs. in lakhs	**Rs. in lakhs**
Share Capital:		
Authorized	15,000	6,000
Issued and Subscribed:		
Equity Shares of Rs. 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payable	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	-
	21,387	**9,208**
Assets	**H Ltd.**	**S Ltd.**
	Rs.in lakhs	**Rs. in lakhs**
Land and Buildings	2,718	_
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	_
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204

Bills Receivable	360	199
Sundry Advances	520	_
	21,387	**9,208**

The following information is also provided to you:

a) H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2017 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 3,000 lakh and Rs. 1,200 lakh respectively.

b) On 31st March, 2017, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2017. H Ltd. credited the dividend received by it to its Profit and Loss Account.

c) On 1st January, 2018, 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, 2017.

d) On 31st March, 2018, 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 Rs. 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

e) On 31st March, 2018, S Ltd.'s inventory included goods which it had purchased for Rs. 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2018.

(A) (NEW SM) (ANS.: MINORITY INTEREST - RS.3,120 LAKHS; CAPITAL RESERVE - RS.1,320 LAKHS ; CONSOLIDATED RESERVES AND SURPLUS - RS.7,159 LAKHS) (SOLVE PROBLEM NO: 5 AND 6 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

MODEL: 7 UNIFORM ACCOUNTING POLICIES - PREPARATION OF SUBSIDIARY BALANCE SHEET

PROBLEM 10: (PRINTED SOLUTION AVAILABLE) Consider the following summarized balance sheets of subsidiary B Ltd.:

	2017(Rs.)	2018 (Rs.)		2017 (Rs.)	2018 (Rs.)
Share-Capital:			**Fixed Assets:**		
Issued & subscribed: 5,000 equity shares of Rs.100 each	5,00,000	5,00,000	Cost **Less:** Accumulated depreciation	3,20,000 (48,000)	3,20,000 (96,000)
Reserves & Surplus: Revenue reserves	2,86,000	7,14,000		**2,72,000**	**2,24,000**
Current Liabilities & Provisions:			Investments at cost	-	4,00,000
Trade Payables	4,90,000	4,94,000	**Current Assets:**		
Bank overdraft	-	1,70,000	Inventory	5,97,000	7,42,000
Provision for taxation	3,10,000	4,30,000	Trade Receivables	5,94,000	8,91,000
			Prepaid Expenses	72,000	48,000
			Cash at Bank	51,000	3,000
	15,86,000	**23,08,000**		**15,86,000**	**23,08,000**

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 Rs.12,000 at the end of 2017 and Rs. 34,000 at the end of 2018.

c) Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.

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

e) Prepaid expenses in B Ltd. include advertising expenditure carried forward of Rs. 60,000 in 2017 and Rs.30,000 in 2018, being part of initial advertising expenditure of Rs. 90,000 in 2017 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2017.

Restate the balance sheet of B Ltd. as on 31st December, 2018 after considering the above information, for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform. *(A) (NEW SM)*

(ANS.: ADJUSTED REVENUE RESERVE - RS.6,91,000; BALANCE SHEET TOTAL - RS.22,85,000)

Note:____

MODEL: 8 CONSOLIDATED BALANCE SHEET - INVESTMENT IN DEBENTURES

PROBLEM 11: (PRINTED SOLUTION AVAILABLE) Consider the following summarized balance sheets: **Rs.**

	A Ltd. (As on 31-03-18)	B Ltd. (As on 31-12-2017)		A Ltd (As on 31-03-18)	B Ltd. (As on 31-12-2017)
Share Capital (Shares of Rs. 10 each)	10,00,000	5,00,000	Fixed Assets	6,50,000	4,05,000
Reserves and Surplus	4,50,000	2,05,000	**Investment:**		
Secured Loan: 13% Debentures (Rs. 100 each)	-	3,00,000	40,000 Shares in B Ltd.	8,00,000	-
Current Liabilities:			1,000 Debentures in B Ltd.	1,50,000	-
Trade payables	3,80,000	80,000	**Current Assets:**		
Other liabilities	2,00,000	40,000	Inventory	2,00,000	3,50,000
			Trade Receivables	1,50,000	2,65,000
			Cash and Bank	80,000	1,05,000
	20,30,000	**11,25,000**		**20,30,000**	**11,25,000**

On 5th January 2018, certain inventories of B Ltd. costing Rs. 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim. On 20th January, 2018, A Ltd. sold goods to B Ltd. costing Rs. 1,50,000 at an invoice price of cost plus 20%.

50% of those goods were resold by B Ltd. to A Ltd. within 31st March, 2018 (these were then sold by A Ltd. to a third party before 31st March, 2018). As on 31st March, 2018, B Ltd. owes Rs. 60,000 to A Ltd. In respect of those goods. Pre-acquisition profits of B Ltd. were Rs. 75,000. Prepare consolidated balance sheet as on 31st March, 2018 after making necessary adjustments in the balance sheet of B Ltd. *(A) (NEW SM)*

(ANS.: MINORITY INTEREST: RS.1,46,000; GOODWILL: RS.3,40,000; CONSOLIDATED RESERVES AND SURPLUS: RS.5,09,000)

Note:____

MODEL: 9 CONSOLIDATED PROFIT AND LOSS ACCOUNT

PROBLEM 12: (PRINTED SOLUTION AVAILABLE) Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2018: **(Rs. in Lakhs)**

	H Ltd.	S Ltd
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
	6,000	**1,200**
Expenses:		

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
	2,400	**700**
Profit before tax	3,600	500
Provision for tax	(1,200)	(200)
Profit after tax	2,400	300
Dividend paid	(1,200)	(150)
Balance of Profit	1,200	150

Other Information:

H Ltd. sold goods to S Ltd. of Rs.120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing Rs.24 lacs. Administrative expenses of S Ltd. include Rs.5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include Rs.10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of Rs.1,000 lacs in S Ltd. prior to 2016-2017. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2016-2017.

Prepare a consolidated profit and loss account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2018.

(A) (NEW SM, MTP M18) (ANS.: PROFIT TO BE TRANSFERRED TO CONSOLIDATED BALANCE SHEET: RS.1,466 LAKHS)

(SOLVE PROBLEM NO: 10 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

____

ASSIGNMENT PROBLEMS

PROBLEM 1: XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2018 for Rs. 1,40,000. The issued capital of ABC Ltd., on 1st January, 2018 was Rs. 1,00,000 and the balance in the Profit & Loss Account was Rs. 60,000.

During the year ended 31st December, 2018, ABC Ltd. earned a profit of Rs. 20,000 and at year end, declared and paid a dividend of Rs. 30,000.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, 2018 and 31st December, 2018?

Also please check whether there should be any goodwill/capital reserve at the date of acquisition.

(A) (NEW SM)

(ANS.: MINORITY INTEREST ON 01.01.18 - RS.32,000; MINORITY INTEREST ON 31.12.18 - RS.30,000 GOODWILL - RS.12,000)

PROBLEM 2: A Ltd. acquired 70% of equity shares of B Ltd. as on 1st January, 2012 at a cost of Rs.10,00,000 when B Ltd. had an equity share capital of Rs. 10,00,000 and reserves and surplus of Rs.80,000. Both the companies follow calendar year as the accounting year. In the four consecutive years, B Ltd. fared badly and suffered losses of Rs. 2,50,000, 4,00,000, Rs. 5,00,000 and Rs. 1,20,000 respectively. Thereafter in 2016, B Ltd. experienced turnaround and registered an annual profit of Rs. 50,000. In the next two years i.e. 2017 and 2018, B Ltd. recorded annual profits of Rs. 1,00,000 and Rs. 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation. *(A) (NEW SM)*

(ANS.: MINORITY INTEREST ON - 31.12.12 - RS.2,49,000; 31-12-13 - RS.1,29,000; 31-12-14 - NIL; 31-12-18 - RS.33,000)

PROBLEM 3: From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2018, 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 Rs.25,000 and Rs.15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2017.

ii) Machinery (Book-value Rs.1,00,000) and Furniture (Book value Rs.20,000) of S Ltd. were revalued at Rs.1,50,000 and Rs.15,000 respectively on 1st April, 2017 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of H Ltd. as on 31st March, 2018

Liabilities	H Ltd. (Rs.)	S. Ltd. (Rs.)	Assets	H Ltd. (Rs.)	S. Ltd. (Rs)
Equity and Liabilities:			**Non-current assets:**		
Shareholders' funds			**Fixed assets**		
Share Capital			Machinery	3,00,000	90,000
Shares of Rs.100 each	6,00,000	1,00,000	Furniture	1,50,000	17,000
Reserves	2,00,000	75,000	Other non-current assets	4,40,000	1,50,000
Profit and Loss Account	1,00,000	25,000	Non-current Investments		
Trade Payables	1,50,000	57,000	Shares in S Ltd.: 800 shares at Rs.200 each	1,60,000	
	10,50,000	**2,57,000**		**10,50,000**	**2,57,000**

(B) (NEW SM) (ANS.: MINORITY INTEREST: RS.48,150; GOODWILL: RS.12,000; CONSOLIDATED RESERVES & SURPLUS: RS.3,44,600)

PROBLEM 4: Evil Ltd. purchased control of Devil Ltd. on 01.10.2017. Following are the summarized Balance Sheets of Evil Ltd. and Devil Ltd. as at 31st March, 2018:

Liabilities	Evil Ltd	Devil Ltd.	Assets	Evil Ltd	Devil ltd.
Equity capital (Rs.10)	6,00,000	3,00,000	Goodwill	10,000	40,000
General reserves	60,000	50,000	Land & Buildings	1,00,000	1,00,000
Profit & Loss Account	1,00,000	1,00,000	Plant & Machinery	2,00,000	1,80,000
Trade payables	1,00,000	80,000	**Investment:** In 22,500 shares of Devil Ltd.	3,37,500	-
			Inventory	1,17,500	1,00,000
			Trade receivables	50,000	90,000
			Cash at bank	45,000	20,000
	8,60,000	**5,30,000**		**8,60,000**	**5,30,000**

On 01.04.2017, Devil Ltd. had Rs. 50,000 in General Reserve and Rs.60,000 in Profit and Loss A/c. On 30th September 2017, 10% dividend was declared by Devil Ltd. in respect of financial year 2016-17 from its profit and loss account. Evil Ltd. credited its share of dividend, on receipt, to the Profit and Loss Account.

Trade receivables of Devil Ltd. include Rs.10,000 due from Evil Ltd. Machinery of Devil Ltd. standing in books at Rs.2,00,000 as on 1.4.2017, was revalued at Rs.2,40,000. Inventory of Evil Ltd. includes goods valued at Rs.16,000 purchased from Devil Ltd., on which the latter made a profit of 1/3rd on cost price. Prepare the Consolidated Balance Sheet of Evil Ltd. and its subsidiary Devil Ltd. as on 31.03.2018. *(B) (CA FINAL RTP M14)*

(ANS.: MINORITY INTEREST: RS.1,23,500; CAPITAL RESERVE: RS.33,750; CONSOLIDATED RESERVES & SURPLUS: RS.1,93,000)

PROBLEM 5: On 31st March, 2018 the abridged Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. Rs. in 000's	S Ltd. Rs. 000's
Share Capital:		
Authorized	5,000	3,000
Issued and Subscribed:		
Equity Shares of Rs. 10 each, fully paid up	4,000	2,400
General Reserve	928	690

Profit and Loss Account	1,305	810
Trade Payable	611	507
Provision for Taxation	220	180
Other provisions	65	17
	7,129	**4,604**
Assets	**H Ltd.**	**S Ltd.**
	Rs.in 000's	**Rs. in 000's**
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investments in shares in S Ltd.	1,500	_
Stock	983	786
Trade Receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances	260	190
	7,129	**4,604**

The following information is also provided to you:

a) H Ltd. purchased 90 Thousand Equity shares in S Ltd. on 1st April, 2017 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 1,500 thousand and Rs. 633 Thousand respectively.

b) On 14th July, 2017, S Ltd. declared a dividend @ 20% out of pre-acquisition profits and paid corporate dividend tax @15% which becomes 17.304% after including surcharge. H Ltd. credited the dividend received by it to its Profit and Loss Account.

c) On 1st Nov, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of pre-acquisition general reserve.

d) On 31st March, 2018, the inventory of S Ltd. included goods purchased for Rs.50 Thousand from H Ltd., which had made a profit of 25% on cost.

e) Details of Trade payables and trade receivables:

Particulars	**H Ltd. (Rs. in 000's)**	**S Ltd. (Rs. in 000's)**
Trade payables		
Bills payable	124	80
Sundry creditors	487	427
	611	507
Trade receivables		
Debtors	700	683
Bills receivables	120	95
	820	778

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2018.

(B) (CA FINAL PM) (ANS.: MINORITY INTEREST (000'S) - RS.1,560 ; CAPITAL RESERVE (000'S) - RS.643.20 ; CONSOLIDATED RESERVES AND SURPLUS (000'S) - RS.3,063)

PROBLEM 6: The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	**Amount (Rs. in Lakhs)**	
	X Ltd. (Rs.)	**Y Ltd. (Rs.)**
LIABILITIES:		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of Rs. 10 each, fully paid up	15,000	6,000
15% preference shares of Rs. 10 each, fully paid up	4,000	1,000

General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
	25,896	10,727
ASSETS:		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.:		
450 Lakh Equity share in Y Ltd. purchased on 1st April, 2016	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	25,896	10,727

The following information is also given to you

a) 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.

b) Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs. 650 Lakhs.

c) General Reserve of Y Ltd. stood at same Rs. 1,450 Lakhs as on 1st April, 2016.

d) Y Ltd.'s Plant & machinery showed a balance of Rs. 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs. 1,000 Lakh.

e) Included in Trade Payables of Y Ltd. are Rs. 50 Lakh for goods supplied by X Ltd.

f) On 31st March, 2017, Y's ltd. inventory included goods for Rs. 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes. *(B) (RTP N18 (N))*

(ANS.: BALANCE SHEET TOTAL: RS. 30,643 LAKHS; MINORITY INTEREST: 3,400 LAKHS; RESERVES AND SURPLUS: 5,620 LAKHS)

PROBLEM 7: On 31st March, 2012, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs.12,00,000.

The Balance Sheet of Q Ltd. on that date was as under:

Liabilities	Rs.	Assets	Rs.
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000	Fixed Assets	10,50,000
Pre-incorporation profits	30,000	Current Assets	6,45,000
Profit and Loss Account	60,000		
Trade payables	1,05,000		
	16,95,000		**16,95,000**

On 31st March, 2018 the summarized Balance Sheets of two companies were as follows:

Liabilities	P Ltd. (Rs.)	Q Ltd. (Rs.)	Assets	P Ltd. (Rs.)	Q Ltd. (Rs.)
Equity shares of Rs.10 each fully paid (before bonus issue)	45,00,000	15,00,000	Fixed Assets	79,20,000	23,10,000
Securities Premium	9,00,000	-	1,05,000 equity shares in Q Ltd. at cost	12,00,000	-
Pre-incorporation profits	-	30,000	Current Assets	44,10,000	17,55,000
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			
	1,35,30,000	**40,65,000**		**1,35,30,000**	**40,65,000**

Directors of Q Ltd. made bonus issue on 31st March, 2018 in the ratio of one equity share of Rs. 10 each fully paid for every two equity shares held on that date. Calculate as on 31st March, 2018 (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.

It may be assumed that bonus shares were issued out of post-acquisition profits by using General Reserve. Prepare a Consolidated Balance Sheet after the bonus issue. ***(A) (NEW SM)***

(ANS.: A. BEFORE BONUS ISSUE - I). GOODWILL - RS.87,000 II). MINORITY INTEREST - RS.11,56,500 III). CONSOLIDATED P&L - RS.31,60,500; B. AFTER BONUS ISSUE - I). CAPITAL RESERVE - RS.4,38,000 II). MINORITY INTEREST - RS.11,56,500 III). CONSOLIDATED P&L - RS.26,35,500)

PROBLEM 8: On 01st April, 2017 Alpha Ltd. paid Rs. 1,10,000 for 90% of the issued capital to Beta Limited. The assets and liabilities of the two companies as on 31st March, 2018 were as follows:

Assets	Alpha Ltd (Rs.)	Beta Ltd (Rs.)
Goodwill	20,000	6,000
Fixed assets	94,000	96,000
Current assets	30,000	18,000
Investment - at cost	1,56,000	-
Total	**3,00,000**	**1,20,000**
Liabilities	**Alpha Ltd (Rs.)**	**Beta Ltd (Rs.)**
Issued share capital (Rs.1 each fully paid)	1,80,000	60,000
General reserve	45,000	20,000
Profit and Loss account	36,000	20,500
Current Liabilities	39,000	9,500
6% debentures held by Alpha Ltd.	-	10,000
Total	**3,00,000**	**1,20,000**

a) On 1st April, 2017 the opening credit balance of Alpha Ltd.'s Profit and Loss account was Rs. 26,000. Out of this balance, a 10% dividend was paid subsequently.

b) The profit and Loss Account of Beta Ltd showed the following:

Particulars	Rs	Rs
Balance B/f on 1st April, 2017	22,000	
Net profit for the year ended 31st March, 2018	12,000	34,000
Less: Dividend paid		
Final for the year ended 31st March, 2017	9,000	
Interim for the half-year ended September	4,500	(13,500)
Balance c/f on 31st March, 2018		20,500

c) Included in stock in trade of Beta Ltd at Balance sheet date were goods purchased from Alpha Ltd. for Rs.6,000 on which there was a profit of 50% on cost of Alpha Ltd.

d) All dividends received by Alpha Ltd. have been correctly recorded in the books of account.

Prepare Consolidated balance sheet as on 31st March, 2018 and show your workings. ***(B)***

(ANS.: MINORITY INTEREST - RS.10,050 ; GOODWILL - RS.18,200 ; CONSOLIDATED RESERVES AND SURPLUS - RS.85,750)

PROBLEM 9: The Trial Balances of H Ltd. and S Ltd. as on 31.12.2018 were as under:

	H Ltd.		S Ltd.	
	Dr (Rs.)	Cr (Rs.)	Dr (Rs.)	Cr (Rs.)
Equity Share Capital (Share of Rs.100 each)		10,00,000		2,00,000
7% Preference Share Capital (Share of Rs.100 each)		-		2,00,000
Reserves		3,00,000		1,00,000

6% Debentures		2,00,000		2,00,000
Trade Payables / Trade Receivables	80,000	90,000	50,000	60,000
P&L A/c balance		20,000		15,000
Purchases/Sales	5,00,000	9,00,000	6,00,000	9,50,000
Wages & Salaries	1,00,000	-	1,50,000	
Debenture Interest	12,000		12,000	
General Expenses	80,000		60,000	
Preference-Dividend up to 30.6.2018		3,500	7,000	
Inventory (31.12.2018)	1,00,000		50,000	
Cash at Bank	13,500		6,000	
Investment in S Ltd.	5,28,000		-	
Fixed Assets	11,00,000		7,90,000	
	25,13,500	**25,13,500**	**17,25,000**	**17,25,000**

Investment in S Ltd. were acquired on 1.4.2018 and consisted of 80% of Equity Capital and 50% of Preference Capital. Depreciation on fixed assets is written off @ 10% p.a (computed on the basis of useful life. After acquiring control over S Ltd., H Ltd. supplied to it goods at cost plus 20%, the total invoice value of such goods being Rs.60,000; 1/4 of such goods were still in Inventory at the end of the year. Prepare the Consolidated Profit and Loss Account for the year ended on 31.12.2018.

(A) (NEW SM) (ANS.: PROFIT TO BE TRANSFERRED TO CONSOLIDATED BALANCE SHEET - RS.1,21,750)

PROBLEM 10: Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Ltd. for the year ended 31st March, 2018: **(Rs. in Lakhs)**

	Hello Ltd.	Sun Ltd.
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	2,000	400
	12,000	**2,400**
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	**1,400**
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	2,400	300

Other Information:

Hello Ltd. sold goods to S Ltd. of Rs.240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing Rs.48 lacs. Administrative expenses of Sun Ltd. include Rs.10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include Rs.20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of Rs.2,000 lacs in Sun Ltd. prior to 2016-2017. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2016-2017.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2018. ***(A) (RTP M18, SIMILAR: N18 (N) - 10M)***

(ANS.: PROFIT TO BE TRANSFERRED TO CONSOLIDATED BALANCE SHEET - RS.2, 932 LAKHS)

THEORY

1. a. A Ltd holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing Rs.180 lacs to B Ltd at a price of Rs. 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2019.

b. A Ltd holds 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories costing Rs. 150 lacs from B Ltd at a price of Rs. 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e. 31 March 2019.

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

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 31st March 2019, entire transaction of sale and purchase of Rs. 130 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of Rs. 20 lacs (i.e. Rs. 200 lacs – Rs. 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31st March 2019, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31st March 2019.

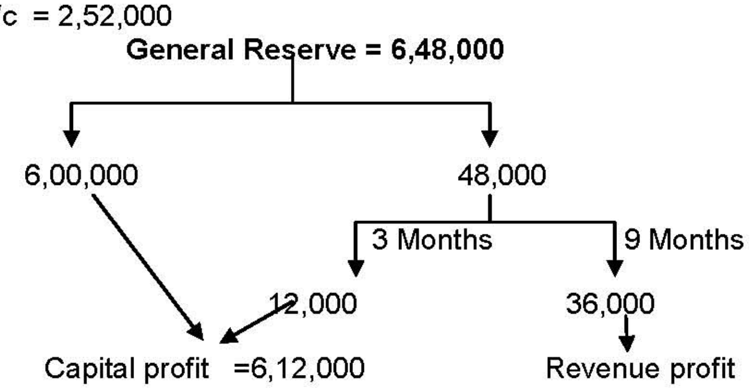
b) This would be the case of upstream transaction. In the consolidated profit and loss account for the year ended 31st March 2019, entire transaction of sale and purchase of Rs. 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of Rs. 50 lacs (i.e. Rs. 200 lacs – Rs. 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31st March 2019, by reducing the value of closing inventories by Rs. 50 lacs as of 31st March 2019. In the consolidated balance sheet as of 31st March 2019, A Ltd's share of profit from B Ltd will be reduced by Rs. 37.50 lacs (being 75% of Rs. 50 lacs) and the minority's share of the profits of B Ltd would be reduced by Rs. 12.50 lacs (being 25% of Rs. 50 lacs).

PRINTED SOLUTIONS FOR CLASSROOM PROBLEMS

PROBLEM NO: 1

date of Acquisition = 01.07.2017
date of consolidation = 31.03.2018

01.04.2017 General Reserve = 6,00,000
31.03.2018 General Reserve = 6,48,000
01.04.2017 Profit and loss a/c = 2,00,000
31.03.2018 Profit and loss a/c = 2,52,000



Profit & loss a/c = 2,52,000

2,00,000

Current year profit = 1,00,000
Less: Transfer to Reserve = (48,000)

52,000

3 Months → 13,000
9 Months → 39,000 → Revenue Profit

Capital profit =2,13,000

PROBLEM NO: 2

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

Particulars	Capital Profit (Rs.)		Revenue Profit (Rs.)
Balance on 1.1.2018	1,25,000	-	
Profit for 2018 (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 = Rs. 5,00,000 X 40 % = Rs. 2,00,000

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

The treatment of the dividend of Rs.1,20,000 received by H Ltd., will depend on the character of profits which have been utilised by S Ltd., to pay the dividend. There are four possibilities:

1. Earlier profits, included in the profit brought forward from the previous year have been used up first. In that case, the dividend of Rs.1,20,000 would be paid wholly out of capital or pre-acquisition profits. The entry in that case will be:

		Rs.	Rs.
Bank Account	Dr.	1,20,000	
To Investment Account			1,20,000

2. The profit for 2018 alone has been utilised to pay the dividend, and no part of the profit brought forward has been utilised for the purpose. The share of H Ltd., in profit for the first seven months of S Ltd., is Rs. 1,05,000 i.e. Rs. 1,75,000 × 3/5 and that the profit for the remaining five months is Rs. 75,000 i.e. Rs. 1,25,000 × 3/5. The dividend of Rs. 1,20,000 will be adjusted in this ratio:

Rs. 70,000 out of profits up to 1.7.2018 and Rs. 50,000 out of profits after that date. The dividend out of profits subsequent to 1.7.2018 will be revenue income and that out of earlier profits will be capital receipt. Hence the entry will be:

		Rs.	Rs.
Bank A/c	Dr.	1,20,000	
To Investment Account			70,000
To Profit and Loss Account			50,000

3. Later profits have been utilised first and then pre- acquisition profits. In such a case, the whole of Rs. 75,000 (share of H Ltd. in profits of S Ltd., after 1.7.2018) would be received and treated as revenue income; the remaining dividend, Rs. 45,000 (Rs.1,20,000 less Rs. 75,000) would be capital receipt. The entry would be:

		Rs.	Rs.
Bank A/c	Dr.	1,20,000	
To Investment Account			45,000
To Profit & Loss Account			75,000

4. The two profits, pre-and post-acquisition, have been used up proportionally. The ratio would be Rs.1,80,000:75,000; 1,20,000 × $\frac{75,000}{2,55,000}$ = 35,294 would be revenue receipt and the remaining amount i.e. 84,706 would be capital. The entry would be:

	Rs.	Rs.
Bank A/c Dr.	1,20,000	
To Investment Account		84,706
To Profit & Loss Account		35,294

Notes:

1. Points (3) and (4) above can arise only if there is definite information about the profits utilised; in practise such treatment is rare.
2. The treatment outlined above infact is not peculiar to holding companies. Dividends received out of profits earned before purchase of investments normally also are credited to the Investment Account. For instance, if shares in X Ltd., are purchased in January 2018 and in April 2018, X Ltd., declares a dividend in respect of 2017, 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.
3. The holding company, like other holders, record no entry on issue of bonus shares by the subsidiary company; only the number of shares held is increased.

PROBLEM NO: 3

Revalued net assets of Zed Ltd. as on 31st March, 2018:

	Rs. in lakhs	Rs. in lakhs
Fixed Assets [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. (Rs.70 lakhs - Rs.7 lakhs*)		63.00
Capital reserve		33.95

* Total Cost of 70 % Equity of Zed Ltd Rs. 70 lakhs

Purchase Price of each share Rs. 20

Number of shares purchased [70 lakhs /Rs. 20] 3.5 lakh shares

Dividend @ 20 % i.e. Rs. 2 per share Rs. 7 lakhs

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

PROBLEM NO: 4

Calculation of price per share paid to foreign company

Average pre-tax profits $= \frac{30L + 40L + 65L}{3}$

= 45L

Yield = 40% of 45L= 18L

Capitalised yield = $\frac{18L}{15\%}$ =120L

Total no.of shares of VR Ltd = 2,00,000

Price per share = $\frac{120L}{2L}$ = Rs.60

Calculation of purchase consideration :

No of shares purchased from foreign company = 2,00,000 × 54%=1,08,000

Price per share = Rs.60

Total purchase consideration = 1,08,000 × 60 = 64,80,000

Discharge of Purchase consideration:

Cost to the foreign company = 5,40,000

Sale value of shares to foreign company = 64,80,000

Profits to foreign company =64,80,000 – 5,40,000 = 59,40,000

Tax = 59,40,000 × 30% = 17,82,000

Total amount to be paid to (net of TDS) foreign company = 64,80,000- 17,82,000 = 46,98,000

50% paid immediately i.e. 23,49,000

Balance 50% i.e. Rs. 23,49,000 considered as unsecured loan payable after 2 years

Calculation of cost of control:

Cost of Investments:

(a) Shares already held [2,00,00 × 46%] × 17		15,64,000
(b) Shares purchased from foreign company [2,00,000 × 54%] × 60		64,80,000
		80,44,000
Less: Shares of net assets:		
Total Assets	100 L	
(-) Fixed Assets	(1.75L)	
(-) Current liabilities	(20L)	(78,25,000)
Good will		**2,19,000**

PROBLEM NO: 5

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,

Year	Profit/(Loss)	Minority Interest (30%)	Addition to 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 2011		3,24,000 (W.N.)	-			
2011-12	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)

Balance		2,49,000				
2012-13	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
2013-14	(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)			
2014-15	(1,20,000) Loss of minority borne by Holding Co.	(36,000) 36,000	(84,000) (36,000)	36,000	57,000	2,44,000
Balance		Nil	(1,20,000)			
2015-16	50,000	15,000	35,000			2,44,000
Balance	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000) Nil	15,000 50,000	(15,000)	42,000	
2016-17	1,00,000	-	1,00,000	(30,000)	12,000	2,44,000
Balance		Nil				
2017-18	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 1.4.2011

	100% (Rs.)	Share of Holding Co. 70% (Rs.)	Minority Interest 30% (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 NO.6

1. Calculation of minority interest:

Particulars	Case-1	Case-2	Case-3	Case-4
Minority share (%)	10%	15%	20%	0%
	[100%-90%]	[100%-85%]	[100%-80%]	
<u>On the date of Acquisition:</u>				
Share capital	1,00,000	1,00,000	50,000	50,000
Profit and loss a/c	50,000	30,000	20,000	40,000
Total Net Assets	**1,50,000**	**1,30,000**	**70,000**	**90,000**
Minority interest	15,000	19,500	14,000	Nil
<u>On the date of consolidation:</u>				
Share capital	1,00,000	1,00,000	50,000	50,000
Pre-Acquisition profits	50,000	30,000	20,000	40,000
Post-Acquisition profits	20,000	(10,000)	-	15,000
Total Net Assets	1,70,000	1,20,000	70,000	1,05,000
Minority interest	17,000	18,000	14,000	Nil

2.Calculation of Goodwill/Capital Reserve:

Particulars	Case-1	Case-2	Case-3	Case-4
Holding Co. share (%)	90%	85%	80%	100%
Investment	1,40,000	1,04,000	56,000	1,00,000
Less: Shares of net Assets				
Share capital	1,00,000	1,00,000	50,000	50,000
Pre-Acquisition profits	50,000	30,000	20,000	40,000
Total net Assets	**1,50,000**	**1,30,000**	**70,000**	**90,000**
Share of Net Assets	1,35,000	1,10,500	56,000	90,000
Good will	5,000	-	-	10,000
Capital reserve	-	6,500	-	-

3. calculation of consolidated Profit and loss balance:

Particulars	Case-1	Case-2	Case-3	Case-4
Holding Co. profit & Loss Balance	2,00,000	2,00,000	2,00,000	2,00,000
Subsidiarys post acquisition profits	20,000	(10,000)	-	15,000
Holding Co.share in post Acquisition profit	18,000	(8,500)	-	15,000
Consolidated profit & loss Balance	**2,18,000**	**1,91,500**	**2,00,000**	**2,15,000**

PROBLEM NO.7

1. Cut off-data or Basic data:

Date of Acquisition = 01/07/2018

Date of Consolidation = 31/12/2018

% of Holding $= \frac{1600}{2000} \times 100 = 80\%$

% Of Minority interest = 20%

2. Classification of profits:

(a) **General Reserve = 1,00,000**

Opening balance =1,00,000 $\downarrow$ Capital profit

Current year transfer from P & L =Nil

(b) **P&L = 82,000**

Opening balance = 30,000

Less: Dividend paid =(20,000)

10,000

Current year profit = 72,000

36,000 $\Rightarrow$ 6M

36,000 $\Rightarrow$ 6M $\Downarrow$ Revenue profit

Capital Profit = 46,000

3. Pre- Acquisition Dividend:

Dividend paid by subsidiary = 2,00,000 $\times$ 10%

= 20,000

Pre-Acquisition Dividend = 20,000 $\times$ 80%

= 16,000

Wrongly credited to P& L

Rectification entry:

P & L A/c Dr 16,000

To Investment A/c 16,000

4. Effect of Revaluation:

Book value of Plant & machinery on 01.07.2018 = 1,50,00-[1,50,000 $\times$ 10% $\times$ 6/12]

= 1,52,000-7500

=1,42,500

Revalued Amount = 1,80,000

Profit on Revaluation = 1,80,000-1,42,500

=37,500

The above profit is of capital nature

Depreciation already provided for balance 6 Months =1,50,000 $\times$ 10% $\times$ 6/12

=7,500

Actual Depreciation required = 1,80,000 $\times$ 10% $\times$ 6/12=9,000

Further depreciation to be provided =9,000-7,500=1,500

The Above loss is of Revenue Nature

5.Minority Interest:

Particulars	Total	Holding Co.shares(80%)	Minority Interest (20%)
Equity share capital	2,00,000	1,60,000	40,000
Capital Profits:			
a) General Reserve	1,00,000	80,000	20,000
b) P& L	46,000	36,800	9,200
c) Profit on revaluation	37,500	30,000	7,500
	1,83,500	**1,46,800**	**36,700**
Revenue Profit:			
a) P & L	36,000	28,800	7,200
b) Further Depreciation to be provided	(1,500)	(1,200)	(300)
	34,500	**27,600**	**6,900**

Total Minority interest = 83,600

6. Cost of capital:

Cost of Investments:

Investment		3,40,000
Less: Pre-Acquisition dividend		(16,000)
		3,24,000
Less: shares of Net Assets:		
Equity share capital	1,60,000	
Capital Profit	1,46,800	3,06,800
Good will		**17,200**

7. Consolidation of Reserves & Surplus:

Pariculars	P& L	General Reserve
Holding co. balance	57,200	2,40,000
Less:Pre-Acquisition dividend wrongly credited to P&L	(16,000)	-

	41,200	**2,40,000**
Add:Share in Revenue profits	27,600	
	68,800	**2,40,000**

Consolidated balance sheet of A Ltd & B Ltd

Pariculars	Notes.No	Amount
Equity and liabilities		
1) Share holders Funds		
a.Share capital	**1**	5,00,000
b. Reserves & Surplus	**2**	3,08,800
2) Minority Interest		83,600
3) Current Liabilities:		
a.Bank OD		80,000
b.Trade payable [47,100+17,400]		64,500
TOTAL		**10,36,900**
Assets:		
1)Non-current assets:		
Fixed Assets:		
a.Tangible assets	**3**	7,41,000
b.Intangible assets-Good will		17,200
2) Current assets:		
a.Inventory [1,20,000+36,400]		1,56,400
b.Trade receivables [59,800+40,000]		99,800
c.Cash & Cash Equivalents [14,500+8,000]		22,500
TOTAL		**10,36,900**

Notes to Accounts:

1. Share capital:

5,000 shares of Rs.100 each		**5,00,000**
2. Reserves and Surplus		
General Reserve		2,40,000
P&L		68,800
		3,08,800
3. Tangible Assets		
Land & Buildings [1,50,000+1,80,000]		3,30,000
Plant & Machinery		
A Ltd	2,40,000	
B Ltd given amount	1,35,000	
Add: Profit on revaluation	37,500	
Less:Further depreciation to be provided	(1,500)	4,11,000
		7,41,000

PROBLEM NO: 8

1. Cut off Data (or) Basic Data

Date of Acquisition : 01/04/2017

Date of Consolidation : 31/03/2018

% of Holding Interest = $\frac{16000}{20000} \times 100 = 80\%$

% of Minority Interest = 20%

2. Classification of profits:

a) **General Reserve = 1,55,000**

Opening balance =50,000
⇓
Capital profit

Current year transfered from P & L =1,05,000
⇓
Revenue Profit

P & L= 65,000

Opening balance =30,000
⇓
Capital profit

Current year Profit = 1,40,000
Less: Transfer to General Reserve = (1,05,000)
35,000
⇓
Revenue Profit

3. Effect of Revaluation:

Particulars	Machinery	Furniture
(a) Profits/(loss) on Revaluation		
Book value on 01.04.2017	2,00,000	40,000
Revalued amount	3,00,000	30,000
Profit on Revaluation	**1,00,000**	**(10,000)**
The above profit/loss is of capital nature		
(b) Further depreciation to be provided		
Depreciation already provided	20,000	6,000
	[2,00,000-1,80,000]	[40,000-34,000]
Actual Depreciation Required	30,000	4,500
	[3,00,000 × 10%]	[30,000 × 15%]
Further Depreciation to be Provided	**10,000**	**(1,5000)**
The above profit/loss is of Revenue Nature		

4. Elimination of unrealised profit:

Type of Transaction = Upstream (Subsidiary co.Selling goods to Holding co.)

Unrealized profit $= 55{,}000 \times \frac{10}{110} = 5{,}000$

Reduce consolidated P& L to the Extent of 4,000 & Minority interest to the extent of 1,000

Reduce Holding Co. Stock value to the extent of Rs. 5,000

5. Caluculation of Minority interest:

Particulars	Total	Holding co.shares (80%)	Minority shares(20%)
Equity share capital	2,00,000	1,60,000	40,000
Capital Profit:			
General reserve	50,000	40,000	10,000
P& L	30,000	24,000	6,000
Profit on Revaluation[1,00,000-10,000]	90,000	72,000	18,000
	1,70,000	**1,36,000**	**34,000**
Revenue profits:			
General reserve	1,05,000	84,000	21,000

P & L	35,000	28,000	7,000
Further depreciation to be provided[10,000-1,500]	(8,500)	(6,800)	(1,700)
	1,31,500	**1,05,200**	**26,300**

Total Minority Interest = 1,00,300
Less: Unrealized Profit = (4,000)
Minority Interest 99,300

6. **Cost of Control:**

Investments		3,20,000
Less: shares of net assets		
Equity share capital	1,60,000	
Capital profit	1,36,000	2,96,000
Good will		**24,000**

7. **consolidation of Reserves & Surplus:**

Particulars	P&L	Geneneral Reserve
Holding co. Balance	2,80,000	4,35,000
Less: Unrealised Profits	(4,000)	
Add: Share in Revenue profits	21,200(28,000-6,800)	84,000
	2,97,200	**5,19,000**

8. **Elimination of Mutual Owings**

Particulars	Trade Receivables	Trade Payables
Holding Co Balance	4,70,000	3,22,000
Subsidary Co. Balance	2,35,000	1,23,000
	7,05,000	**4,45,000**
Less: Mutual Owings	(35,000)	(35,000)
	6,70,000	**4,00,000**

Consolidated Balance Sheet of H Ltd and S Ltd

Particulras	Notes.No	Amount
Equity and liabilities		
1. Shareholders Funds		
a. Share Capital	**1**	12,00,000
b. Reserves and Surplus	**2**	8,16,200
2. Minority Interest		99,300
3.Current Liabilities		
Trade Payables(W.No 8)		4,10,000
Total		**25,25,500**
Assets		
1.Non-Current Assets		
Fixed Assets		
a.Tangible Assets	**3**	13,10,500
b.Intangible Assets (Good Will)		24,000
2. Current Asssets		
a.Inventories		3,25,000
b.Trade Receivables (W.No 8)		6,70,000
c.Cash & Bank(1,64,000+32,000)		1,96,000
Total		**25,25,500**

Notes to Accounts:

1.Share Capital:

Issued, Subscribed and Paid up 12,00,000

(1,20,000 shares of Rs. 10 each)

2.Reserves & Surplus:

General Reserve		5,19,000
P&L		2,97,200
		8,16,200

3. Tangible Assets:

a. Machinery

H Ltd		6,40,000	
S Ltd	1,80,000		
Add: Profit on Revaluation	1,00,000		
Less: Further Depreceation **To be provided**	(10,000)	2,70,000	9,10,000

b. Furniture

H Ltd		3,75,000	
S ltd	34,000		
Less: Loss on Revaluatiom	(10,000)		
Add: Excess Depreceation Provided	(1500)	25,500	4,00,500
			13,10,500

4. Inventory:

H Ltd	2,68,000	
S Ltd	62,000	
	3,30,000	
Less: Unrealised Profit	(5,000)	**3,25,000**

PROBLEM NO: 9

1.Cut Off Data or Basic Data

Date of Acquisition 01/04/17

Date of Consolidation 31/03/18

% of Holding Interest

Total No. of shares Subsidary on Consolidation Dtae = 480Lakhs (After Bonus)

No. of Shares before Bonus = 480 Lakhs x 5/8 = 300 Lakhs

% of Holding Interest = $\frac{180\text{Lakhs}}{300\text{lakhs}} \times 100$ or $\frac{180x8/5}{480} \times 100$

= 60%

% of Minority Interest = 40%

2) Classification of Profits:

General Reserve = 1,380 Lakhs

Opening balance =3,000
Less: Bonus Issue [4800*3/8] (1,800)
1200 Lakhs
⇓
Capital profit

Current year transfered from P & L =180 Lakhs
⇓
Revenue Profit

P & L= 1,620 Lakhs

Opening balance =1200	Current year Profit =1,200 Lakhs
Less: Dividend = (600)	Less: Transfer to =(180 Lakhs)
(3,000 Lkahs x 20%) **600**	General Reserve **1,020 Lakhs**
⇓	⇓
Capital profit	Revenue Profit

3. **Pre- Acquisition Dividend**

Total Dividend Paid by Subsidiary = 3,000 Lakhs x 20% = 600 Lakhs

Pre-Acquisition Dividend received = 600 Lkahs x 60% = 360 Lkahs

Wrongly Credited to P&L A/c:

Rectification Entry: P&L A/c Dr. 360 Lakhs

To Investments A/c 360 Lkahs

4. **Elimination of Unrealised Profits**

Type of Transaction: Down stream

Unrealised Profit = 100 Lkahs x 25/125 = 20 Lkahs

Reduce Subsidiary Stock Value to the extent of 20 Lkahs and also reduce consolidated P&L to the extent of 20 Lkahs

5. **Minority Interest:**

Pariculars	Total	Holding Co: Share(60%)	Minority Interest(40%)
Equity Share Capital	4800 Lakhs	2880 Lkahs	1920 Lakhs
Capital Profits:			
General Rreserve	1200 lakhs	720 Lakhs	480 Lakhs
P&L	600 Lakhs	360 Lakhs	240 Lakhs
	1800 Lakhs	**1080 Lakhs**	**720 Lakhs**
Revenue Profits:			
General Reserve	180 Lakhs	108 Lakhs	72 Lakhs
P&L	1020 Lakhs	612 Lakhs	408 lakhs
	1200 lakhs	**720 Lkahs**	**480 Lakhs**
Total Minority Interest			**3120** Lakhs

6. **Cost of Control:**

Cost of Investmnets			
Investments	3000L		
Less: Pre-Acquisition dividend	(360L)		2,640L
Less: Shares of Net Assets			
Equity capital	2880 L		
Capital Profit		1080 L	(3,960L)
Capital Reserve			**1,320 L**

7) **Consolidation of reserves and surplus:**

Particulars	P&L	General reserve
Holding co. balance	2,715	2,784
Less: Unrealised profit	(20 l)	-

Less: Pre-Acquisition Dividend Wrongly credited to P& L	(360L)	-
	2,335L	**2,784L**
Add:shares in Revenue Profits	612L	108L
	2,947L	**2,892L**

8.Elimination of Mutual owings:

Particulars	Bills Receivable	Bills Payable
Holding Co. Balance	360L	372L
Subsidiary balance	199L	160L
	559L	**532L**
Less: Mutual owing	(45L)	(45L)
	514L	**487L**

Consolidated Balance sheet of H Ltd & S Ltd

Particulars	Notes. No	Amount(Rs. Lakhs)
Equity and liabilities		
1. ShareHolders Funds:		
a. Share Capital	**1**	12,000
b. Reserves & Surplus	**2**	7,159
2. Minority Interest		3,120
3. Current Liabilities		
a.Bills Payable		487
b.Trade Payable		2,315
c.Provision for Taxation		1,249
D . Dividend payable		1,200
Total		**27,530**
Assets:		
1.Non-Current Assets:		
Fixed Assets:		
a. Tangible Assets	**3**	14,954
2.Current Assets		
a.Inventory	**4**	5,885
b. Trade receivables		3,963
c. Cash & bank Balances(1,490+204)		1,694
d. Bills Receivable		514
e. Loans and Advances		520
Total		**27,530**

Notes to Accounts:

1.Share Capital:

Authorized

1500L Shares of Rs.10 each 15,000L

Issued, Subscribed & Called Up

1200L shares of Rs.10 each **12,000L**

2.Reserves & Surplus

General Reserves	2,892L
P& L A/c	2,947L
Capital Reserve	1,320L
	7,159L

3.Tangible Assets

Land & Building	2,718L
Plant & machinery[4,905L+4,900L]	9,805L
Furniture & Fixtures[1,845L+586L]	2,438L
	14,959L

4.Inventory

H Ltd	3,949	
S Ltd	1,956	
(-)unrealised progit	(20)	**5,885L**

PROBLEM NO: 10

Adjusted revenue reserves of B Ltd.:

	Rs.	Rs.
Revenue reserves as given		7,14,000
Add: Depreciation over charged (Rs.16,000 × 2)	32,000	-
Provision for doubtful debts [8,91,000 / 99 X 1]	9,000	41,000
		7,55,000
Less: Reduction in value of Inventory	34,000	
Advertising expenditure to be written off	30,000	(64,000)
Adjusted revenue reserve		6,91,000

Note: Since B Ltd. follows FIFO basis, it is assumed that opening inventory has been sold out during the year 2017. Therefore, reduction in inventory would have been taken care of by sale value. Hence no adjustment has been made for the same.

Restated Balance Sheet of B Ltd. as at 31st December, 2018

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		5,00,000
(b) Reserves and Surplus	1	6,91,000
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		4,94,000
(c) Short-term provision	3	4,30,000
Total		**22,85,000**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	2,56,000
(b) Non-current Investment		4,00,000
(2) Current assets		
(a) Inventories		7,08,000
(b) Trade Receivables		9,00,000
(c) Cash & Cash Equivalents		3,000
(d) Other current assets	5	18,000
Total		**22,85,000**

Notes to Accounts

			Rs.
1.	**Reserves and Surplus**		
	Revenue Reserve (refer computation of adjusted revenue reserves of B Ltd)		6,91,000

2.	**Short term borrowings**		
	Bank overdraft		1,70,000
3.	**Short-term provision**		
	Provision for taxation		4,30,000
4.	**Tangible Assets**		
	Cost	3,20,000	
	Less: Depreciation to date	(64,000)	2,56,000
5.	**Other current assets**		
	Prepaid expenses (After adjusting advertising expenditure to be written off each year)		18,000

PROBLEM NO: 11

I).Adjustments to the balance sheet on 31-12-17

1) Inventory:

Balance on 31.12.17	3,50,000
Less:Stock Destroyed	(20,000)
Add: unsold Inventory of goods purchased from XLtd	90,000
Balance on 31.03.18	**4,20,000**

2. Cash:

Balance on 31.12.17	1,05,000
Add: Insurance Claim Received	15,000
Balance on 31.03.18	**1,20,000**

3. Trade payables:

Balance on 31.12.17	80,000
Add:owings to Altd	60,000
Balance on 31.03.18	**1,40,000**

4. Reserves & Surplus:

Balance on 31.12.17	2,05,000
Less: Abnormal loss	(5,000)
Add: Profit on goods sold to A Ltd	30,000
Balance on 31.03.18	**2,30,000**

II) Cut off Data (or) Basic Data:

Date of Acquisition : -

Date of consolidation : 31/03/18

% of holding Co.= 80% [$\frac{40,000}{50,000} \times 100$]

% of Minority interest = 20%

III) Elimination of Unrealised profit:

Type of transaction = Down Stream

Unrealised Profit = $90,000 \times \frac{20}{120} = 15,000$

Reduce Subsidiary Stock value to the extent of Rs.15,000

Reduce Consolidation P&L to the extent of Rs.15,000

IV) **Profit/Loss on Debentures Acquired:**

Amount paid for Debentures	1,50,000
Less: Nominal Value of Debenture in subsidiary	(1,00,000)
Loss on Debenture Acquired	50,000

V) Minority Interest :

Particulars	Total	Holding Co.	Minority Interest
Equity Share Capital	5,00,000	4,00,000	1,00,000
Capital Profit	75,000	60,000	15,000
Revenue profit	1,55,000	1,24,000	3,000
Total Minority Interest			**1,46,000**

VI.Cost of Control:

Investments	8,00,000
Less: Share of Net Assets:	
Equity share capital	4,00,000
Capital Profit	60,000
Good Will	**3,40,000**

VII) Consolidation of Reserves & Surplus:

Particulars	**Reserves & Surplus**
Holding Co. balance	4,50,000
Less: Unrealised Profits	(15,000)
Less: Loss on Debentures Acquired	(50,000)
	3,85,000
Add: Share in Revenue Profits of Subsidiary	1,24,000
	5,09,000

VIII) Elimination of Mutual Owings:

Particulars	Trade Receivables	Trade Payables
Holding Co. Balance	1,50,000	3,80,000
Subsidiary Balance	2,65,000	1,40,000
	4,15,000	**5,20,000**
Less:Mutual owings	(60,000)	(60,000)
	3,55,000	**4,60,000**

Consolidated balance sheet of A Ltd & B Ltd.

Particulars	Notes. No	Amount
Equity and liabilities		
1.Share Holder Funds:		
a. Equity Share Capital	1	10,00,000
b. Reserves & Surplus		5,09,000
2. Minority Interest		1,46,000
3. Non Current Liabilities:		
Debentures	2	2,00,000
4.Current Liabilities:		
a. Trade payables		4,60,000

b. Other Liabilities [2,00,000+40,000]		2,40,000
Total		**25,55,000**
Assets:		
1.Non-current Assets:		
a. Fixed Assets [6,50,000+4,05,000]		10,55,000
b. Good will		3,40,000
2. Current Assets		
a. Inventory		6,05,000
b.Trade Receivables		3,55,000
c.Cash and Bank[80,000+1,20,000]		2,00,000
Total		**25,55,000**

Notes to Accounts:

1.Share Capital

1 L Shares of Rs.10 Each **10,00,000**

2.Non-Current Liabilitie:

Given Balance	3,00,000	
Less: Debentures Held By Holding Co.	(1,00,000)	**2,00,000**

3.Inventories:

A Ltd	2,00,000	
B Ltd	4,20,000	
Less:Unrealised profit	(15,000)	**6,05,000**

PROBLEM NO: 12

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

Particulars	Note No.	Rs. in Lacs
I. Revenue from operations	1	5,865
II. Total revenue		5,865
III. Expenses		
Cost of Material purchased/Consumed	3	1,180
Changes of Inventories of finished goods	2	(1,196)
Employee benefit expenses	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	535
Total expenses		1,769
IV. Profit before Tax(II-III)		4,096
V. Tax Expenses	8	1,400
VI. Profit After Tax		2,696
Profit transferred to Consolidated Balance Sheet:		
Profit After Tax		2,696
Dividend paid		
H Ltd.	1,200	
S Ltd.	150	
Less: Share of H Ltd. in dividend of S Ltd. 80% of Rs. 150 lacs	(120)	(1,230)
Profit to be transferred to consolidated balance sheet		1,466

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.	Increase in Inventory		
	H Ltd.	1,000	
	S Ltd.	200	
		1,200	
	Less: Unrealised profits Rs. 24 lacs × $\frac{20}{120}$	(4)	1,196
			7,061
3.	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		
	H Ltd.	200	
	S Ltd.	100	300
			1,180
4.	Employee benefits and expenses		
	Wages and Salaries:		
	H Ltd.	800	
	S Ltd.	150	950
5.	Other Expenses		
	Administrative Expenses		
	H Ltd.	200	
	S Ltd.	100	
		300	
	Less: Consultancy fees received by H Ltd. from S Ltd.	(5)	295
	Selling and Distribution Expenses:		
	H Ltd.	200	
	S Ltd.	50	
		250	
	Less: Commission received from S Ltd. from H Ltd.	(10)	240
			535
6.	Finance Cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	50	150
7.	Depreciation and Amortisation		
	Depreciation:		
	H Ltd.	100	
	S Ltd.	50	150
8.	Provision for tax		
	H Ltd.	1,200	
	S. Ltd.	200	1,400

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

THE END