

## 4. CONSOLIDATED FINANCIAL STATEMENTS

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

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 10

NO. OF PROBLEMS IN 42.5(2e) OF CA INTER: CLASSROOM - 9, ASSIGNMENT - 7

### 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)	M-19 (N)
Model - 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 3	-	-	-	-	-	-	-	-	-	-	-	-	10
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 SM	RTP	MTP	Previous Exams	Remarks
CRD 1	ILL-5	ILL-4	-	-	-	CA INTER
CRD 2	ILL-3	ILL-1	-	-	-	CA INTER
CRD 3	ILL-4	ILL-3	-	-	-	CA INTER
CRD 4	ILL-1	ILL-5	-	-	-	CA INTER
CRD 5	PQ-1	PQ-1	-	-	-	CA INTER
CRD 6	-	-	-	-	M18 (N) - 20M	CA INTER
CRD 7	PQ-2	PQ-4	-	-	-	CA INTER
CRD 8	ILL-9	ILL-10	-	-	-	CA INTER
CRD 9	ILL-8	ILL-8	-	-	-	CA INTER
ASG 1	ILL-2	ILL-6	-	-	-	CA INTER
ASG 2	PQ-3	PQ-5	-	-	-	CA INTER
ASG 3	ILL-6	ILL-7	-	-	-	CA INTER
ASG 4	-	-	M14	-	-	CA FINAL
ASG 5	-	-	-	-	-	CA FINAL
ASG 6	-	-	N18 (N&O)	-	-	CA INTER
ASG 7	-	-	M-18	-	N-18	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

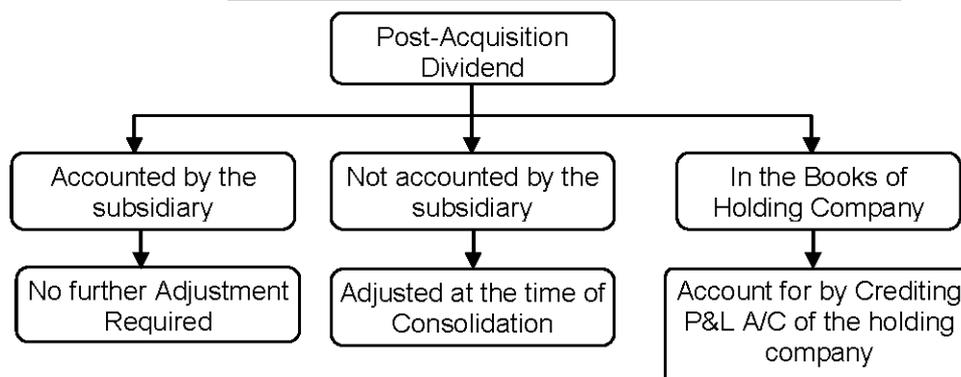
**Step- 3: Analysis of subsidiary reserves & surplus:**

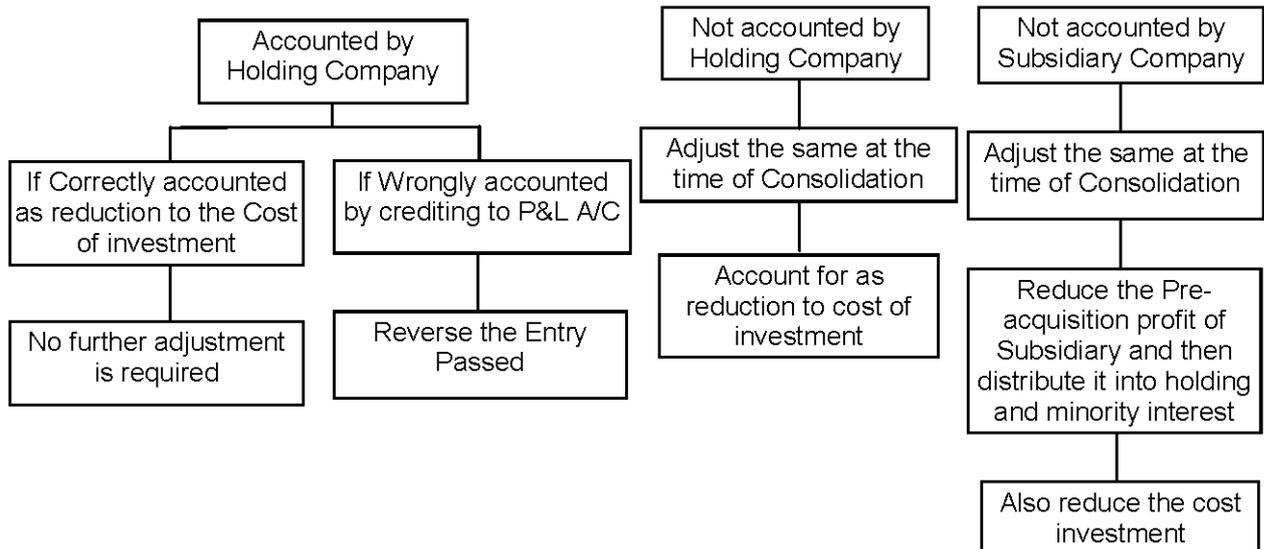
Analysis of subsidiary reserves & surplus (including losses) as pre-acquisition and post acquisition profits based on the date of acquisition (step 1)

- 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<sup>1</sup>/bonus<sup>2</sup>/Unaccounted items.
- In certain instances where assets are revalued, the surplus/ deficit should also be considered.
- 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.
- If the investments are made during the financial year, either,
  - Separate financial statements should be drawn up to the date of acquisition to determine the pre-acquisition profits. **Or**
  - 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:****Treatment in case of Post-Acquisition Dividend:**

**Treatment in case of Pre-Acquisition Dividend:**

**Example:** If shares in X Ltd, are purchased in January 2016 and in April 2016, X Ltd, 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:**

- The profits and reserves out of which bonus shares have been issued must be reduced by the amount utilized for issuing the Bonus shares.
- 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.
- 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.
- Unless the question states 'No accounting effect has yet been given', it is presumed that Bonus issue has been duly recorded in books.

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

**Step - 4: Apportionment of profits:** 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

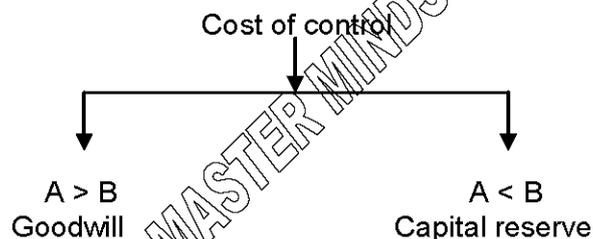
\* Consequent to amendment of AS 4 (30.03.2016) proposed dividend (equity) should not be considered. However if there is a dividend declared before balance sheet date (Commonly referred as interim) pending payment, the same should be accounted.

### Step - 6: cost of control:

#### Determine cost of control

	Particulars	Rs.	Rs.
<b>A</b>	<b>Cost of investment</b>		
	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>B</b>	<b>Value of investment* - aggregate of parent share of:</b>		
	i. Share capital	xxx	
	ii. Pre-acquisition profit (step 4)	xxx	xxx
<b>C</b>	<b>Cost of control - Goodwill/Capital reserve (a-b)</b>		xxx

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



### 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	<ul style="list-style-type: none"> <li>• 100%</li> <li>• Nil</li> </ul>	<ul style="list-style-type: none"> <li>• Respective share in subsidiary</li> <li>• Step 2</li> </ul>
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**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:

- Elimination of inter company transactions of goods, services and interest on loans.
- Transfer to minority interest and investment a/c for determining cost of control.



(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)

Note: \_\_\_\_\_

**PROBLEM 4: (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		Consolidation Date	
				1.1.2018		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 4: PROBLEMS ON CONSOLIDATED BALANCE SHEET - REVALUATION OF ASSETS**

**PROBLEM 5: (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	17,400	Trade Receivables	59,800	40,000
			Cash	14,500	8,000
	<b>9,24,300</b>	<b>3,99,400</b>		<b>9,24,300</b>	<b>3,99,400</b>

The Profit & Loss Account of B Ltd. showed a credit balance of Rs.30,000 on 1<sup>st</sup> 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: 3 OF ASSIGNMENT PROBLEMS AS REWORK)

**PROBLEM 6:** 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.)
<b>Equity and Liabilities</b>		
<b>Shareholders 'Funds</b>		
Equity Share Capital (fully paid up share of Rs.10 each)	12,00,000	2,00,000

<b>Reserves and Surplus</b>		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
<b>Current Liabilities</b>		
Trade Payables	3,22,000	1,23,000
	<b>22,37,000</b>	<b>5,43,000</b>
<b>Assets</b>		
<b>Non-Current Assets</b>		
<b>Fixed Assets</b>		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
<b>Non-Current Investments</b>		
Shares in S Ltd. (16,000 shares @ Rs.20 each)	3,20,000	-
<b>Current Assets</b>		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
<b>Total</b>	<b>22,37,000</b>	<b>5,43,000</b>

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.24,000; CONSOLIDATED RESERVES AND SURPLUS - RS.8,19,200)

(SOLVE PROBLEM NO: 4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

## **MODEL 5: CONSOLIDATED BALANCE SHEET - BONUS ISSUE**

**PROBLEM 7:** 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
<b>Share Capital:</b>		
Authorized	15,000	6,000
<b>Issued and Subscribed:</b>		
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	-
	<b>21,387</b>	<b>9,208</b>

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	—
	<b>21,387</b>	<b>9,208</b>

The following information is also provided to you:

- 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.
- On 31<sup>st</sup> 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.
- 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.
- 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.
- 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 6 UNIFORM ACCOUNTING POLICIES - PREPARATION OF SUBSIDIARY BALANCE SHEET

**PROBLEM 8:** Consider the following summarized balance sheets of subsidiary B Ltd.:

	2017(Rs.)	2018 (Rs.)		2017 (Rs.)	2018 (Rs.)
<b>Share-Capital:</b>			<b>Fixed Assets:</b>		
Issued & subscribed: 5,000 equity shares of Rs.100 each	5,00,000	5,00,000	Cost	3,20,000	3,20,000
<b>Reserves &amp; Surplus:</b>			Less: Accumulated depreciation	<u>(48,000)</u>	<u>(96,000)</u>
Revenue reserves	2,86,000	7,14,000		<b>2,72,000</b>	<b>2,24,000</b>
<b>Current Liabilities &amp; Provisions:</b>			Investments at cost	-	4,00,000
Trade Payables	4,90,000	4,94,000	<b>Current Assets:</b>		
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
	<b>15,86,000</b>	<b>23,08,000</b>		<b>15,86,000</b>	<b>23,08,000</b>

Also consider the following information:

- B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.
- A Ltd. values inventory on weighted Average basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by Rs.12,000 at the end of 2017 and Rs. 34,000 at the end of 2018.
- Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.
- B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
- Prepaid expenses in B Ltd. include advertising expenditure carried forward of 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 31<sup>st</sup> 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 SIM)

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

### **MODEL 7: CONSOLIDATED BALANCE SHEET - INVESTMENT IN DEBENTURES**

### **MODEL 8: CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**PROBLEM 9: (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
<b>Incomes:</b>		
Sales and other income	5,000	1,000
Increase in Inventory	<u>1,000</u>	<u>200</u>
	<b><u>6,000</u></b>	<b><u>1,200</u></b>
<b>Expenses:</b>		
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	<u>100</u>	<u>50</u>
	<b><u>2,400</u></b>	<b><u>700</u></b>
Profit before tax	3,600	500
Provision for tax	<u>(1,200)</u>	<u>(200)</u>
Profit after tax	2,400	300
Dividend paid	<u>(1,200)</u>	<u>(150)</u>
Balance of Profit	<b><u>1,200</u></b>	<b><u>150</u></b>

**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: 7 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: \_\_\_\_\_

## PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1,3,4,5,9

### PROBLEM NO: 1

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)	<u>1,75,000</u>	(3,00,000 × 5/12)	<u>1,25,000</u>
Total	3,00,000		1,25,000
Proportionate share of H Ltd. (3/5)	<u>1,80,000</u>		<u>75,000</u>

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

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

**(1) The profit for 2016 has been utilised to pay the dividend.**

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

(i.e. Rs. 1,75,000 × 3/5)

Profit for the remaining five months = Rs. 75,000

(i.e. Rs. 1,25,000 × 3/5).

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

= Rs. 70,000 out of profits up to 1.7.2016 and Rs. 50,000 out of profits after that date.

The dividend out of profits subsequent to 1.7.2016 will be revenue income and that out of earlier profits will be capital receipt. Hence the entry will be:

	Rs.	Rs.
Bank <span style="float: right;">Dr.</span>	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 Rs. 75,000 (share of H Ltd. in profits of S Ltd., after 1.7.2016) 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 <span style="float: right;">Dr.</span>	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 NO: 3**

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 2010		3,24,000 (W.N.)				
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance		2,49,000				
2011-12	(4,00,000)	(1,20,000)	(2,80,000)			
Balance		1,29,000				
2012-13	(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)			
2013-14	(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)			
2014-15	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			
2015-16	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			
2016-17	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 1.4.2010

		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	<u>56,000</u>	<u>24,000</u>
		7,56,000	3,24,000
Less: Cost of investment		<u>(10,00,000)</u>	
Goodwill		2,44,000	

**PROBLEM NO: 4**

(1) Minority Interest = Equity attributable to minorities

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

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] Rs.	[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 1.1.2016

B = Profit & loss account balance on 1.1.2016

C = Share capital on 31.12.2016

D = Profit & loss account balance on 31.12.2016

(2) Calculation of Goodwill or Capital Reserve

	Shareholding	Cost	Total Equity	Parent's Portion of equity	Goodwill	Capital Reserve
	% [F]	[G]	[A] + [B] = [H]	[F] x [H]	Rs. [G] – [H]	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 (1.1.2016) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.

On 31.12.2016 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 1.1.2016 [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 NO: 5**

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd.  
as on 31st December, 2016

Particulars	Note No.	(Rs.)
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	3,08,800
<b>(2) Minority Interest (W.N 5)</b>		83,600
<b>(3) Current Liabilities</b>		
(a) Trade Payables	3	64,500
(b) Short term borrowings	4	80,000
<b>Total</b>		<b>10,36,900</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
Property, Plant and Equipment		
(i) Tangible assets	5	7,41,000
(ii) Intangible assets	6	17,200
<b>(2) Current assets</b>		
(a) Inventories	7	1,56,400
(b) Trade receivables	8	99,800
(c) Cash & Cash equivalents (Cash)	9	22,500
<b>Total</b>		<b>10,36,900</b>

**Notes to Accounts**

		Rs.
<b>1. Share Capital</b>		
5,000 shares of Rs. 100 each		5,00,000
<b>2. Reserves and Surplus</b>		
Reserves	2,40,000	
Profit & loss (W.N.8)	68,800	3,08,800
<b>3. Trade Payables</b>		
A Ltd.	47,100	
B Ltd.	17,400	64,500
<b>4. Short term borrowings</b>		
Bank overdraft		80,000
<b>5. Tangible Assets</b>		
Land and building (1,50,000 + 1,80,000)	3,30,000	
Plant & Machinery (W.N 7)	4,11,000	7,41,000
<b>6. Intangible assets</b>		
Goodwill (W.N 6)		17,200
<b>7. Inventories</b>		
A Ltd.	1,20,000	
B Ltd.	36,400	1,56,400
<b>8. Trade Receivables</b>		

A Ltd.	59,800		
B Ltd.	40,000		
			99,800
<b>9 Cash &amp; Cash equivalents</b>			
Cash			
A Ltd.		14,500	
B Ltd.		8,000	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 - Rs.16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz.

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

2. The Plant & Machinery of B Ltd. would stand in the books at Rs. 1,42,500 on 1st July, 2016, considering only six months' depreciation on Rs. 1,50,000 total depreciation being Rs. 15,000. The value put on the assets being Rs. 1,80,000, there is an appreciation to the extent of Rs. 37,500 (1,80,000 – 1,42,500).

**3. Capital profits of B Ltd.**

	Rs.	Rs.
Reserve on 1st January, 2016 (Assumed there is no movement in reserves during the year and hence balance as on 1st January 2016 is same as of 31st December 2016)		1,00,000
Profit & Loss Account Balance on 1st January, 2016	30,000	
Less: Dividend paid	(20,000)	10,000
Profit for 2016: Total Rs. 82,000 Less: Rs. 10,000 Rs. 72,000		
Proportionate upto 1st July, 2016 on time basis ( Rs. 72,000/2)		36,000
Appreciation in value of Plant & Machinery		<u>37,500</u>
		1,83,500
Less: 20% due to outsiders		<u>(36,700)</u>
<b>Holding company's share</b>		<b>1,46,800</b>

**4. Revenue profits of B Ltd.:**

Profit after 1st July, 2016 [(82,000 – 10,000) x ½]		36,000
Less: Depreciation 10% depreciation on Rs.1,80,000 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)
<b>Share of A Ltd.</b>		<b>27,600</b>

## 5. Minority interest:

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

## 6. Cost of Control:

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

## 7. Value of plant &amp; Machinery:

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 2016 [1,80,000 – (1,50,000 – 7,500)]	<u>37,500</u>	
	1,72,500	
Add: Depreciation for 2nd half charged on pre-revalued value	7,500	
Less: Depreciation on Rs.1,80,000 for 6 months	<u>(9,000)</u>	1,71,000
		4,11,000

## 8. Profit &amp; Loss Account (Consolidated):

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

**PROBLEM NO: 9**

**Consolidated Profit & Loss Account of H Ltd. and its subsidiary S Ltd.  
for the year ended on 31st March, 2017**

Particulars	Note No.	Rs. in Lacs
I. Revenue from operations	1	5,865
<b>II. Total revenue</b>		<b>5,865</b>
III. Expenses		
Cost of material purchased/consumed	3	1,180
Changes of inventories of finished goods	2	(1,196)
Employee benefit expense	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	535
<b>Total expenses</b>		<b>1,769</b>
<b>IV. Profit before tax (II-III)</b>		<b>4,096</b>
V. Tax Expenses	8	1,400
<b>VI. Profit After Tax</b>		<b>2,696</b>

## 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 × 20120	(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 (Production)		
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 amortization		
H Ltd.	100	
S Ltd.	50	
8. Provision for tax		
H Ltd.	1,200	
S. Ltd	200	1400

## 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?

(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.)
<b>Equity and Liabilities:</b>			<b>Non-current assets:</b>		
<b>Shareholders' funds</b>			<b>Fixed assets</b>		
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	
	<b>10,50,000</b>	<b>2,57,000</b>		<b>10,50,000</b>	<b>2,57,000</b>

(B) (NEW SM) (ANS.: MINORITY INTEREST: RS.48,150; GOODWILL: RS.12,000; CONSOLIDATED RESERVES &amp; 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
	<b>8,60,000</b>	<b>5,30,000</b>		<b>8,60,000</b>	<b>5,30,000</b>

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.	S Ltd.
	Rs. in 000's	Rs. 000's
<b>Share Capital:</b>		
Authorized	5,000	3,000
<b>Issued and Subscribed:</b>		
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
	<b>7,129</b>	<b>4,604</b>
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
	<b>7,129</b>	<b>4,604</b>

The following information is also provided to you:

- 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.
- On 14<sup>th</sup> 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.
- On 1<sup>st</sup> Nov, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of pre-acquisition general reserve.
- On 31<sup>st</sup> 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)
<b>Trade payables</b>		
Bills payable	124	80
Sundry creditors	<u>487</u>	<u>427</u>
	<u>611</u>	<u>507</u>
<b>Trade receivables</b>		
Debtors	700	683
Bills receivables	<u>120</u>	<u>95</u>
	<u>820</u>	<u>778</u>

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.)
<b>LIABILITIES:</b>		
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
<b>ASSETS:</b>		
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 1 <sup>st</sup> 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

- 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.
- Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs. 650 Lakhs.
- General Reserve of Y Ltd. stood at same Rs. 1,450 Lakhs as on 1st April, 2016.
- Y Ltd.'s Plant & machinery showed a balance of Rs. 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs. 1,000 Lakh.

- 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:** 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.
<b>Incomes:</b>		
Sales and other income	10,000	2,000
Increase in Inventory	<u>2,000</u>	<u>400</u>
	<b><u>12,000</u></b>	<b><u>2,400</u></b>
<b>Expenses:</b>		
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	<u>200</u>	<u>100</u>
	<b><u>4,800</u></b>	<b><u>1,400</u></b>
Profit before tax	7,200	1,000
Provision for tax	<u>2,400</u>	<u>400</u>
Profit after tax	4,800	600
Dividend paid	<u>2,400</u>	<u>300</u>
Balance of Profit	<b><u>2,400</u></b>	<b><u>300</u></b>

**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. (NEW SM)

**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 31<sup>st</sup> 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 31<sup>st</sup> March 2019, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31<sup>st</sup> March 2019.
- b. This would be the case of upstream transaction. In the consolidated profit and loss account for the year ended 31<sup>st</sup> 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 31<sup>st</sup> March 2019, by reducing the value of closing inventories by Rs. 50 lacs as of 31<sup>st</sup> March 2019. In the consolidated balance sheet as of 31<sup>st</sup> 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).

**THE END**

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