

10. 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

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.
- b) **Subsidiary Company:** Section 2(87) of the Companies Act, 2013 defines "subsidiary company" as a company in which the holding company -
 - i) **Controls** the composition of the Board of Directors; or
 - ii) **Exercises or controls** more than one-half of the **total share capital** either at its own or together with one or more of its subsidiary companies:

Note: Total share capital = Paid up equity share capital + Convertible preference share capital.

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
- a) **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.
- b) **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

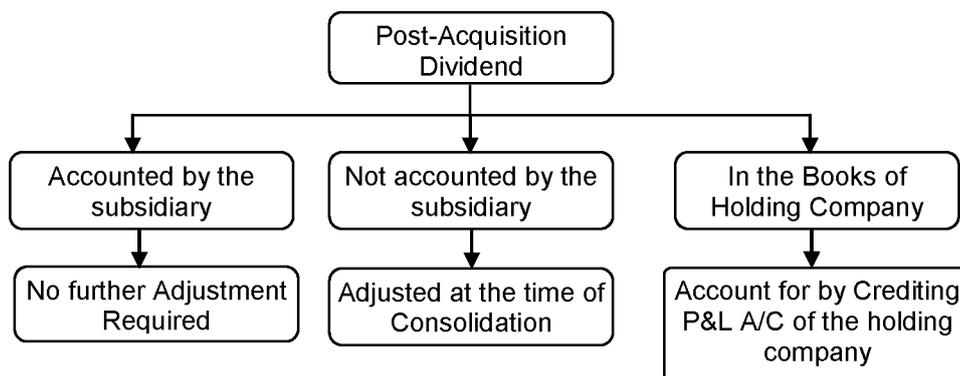
Step- 3: Analysis of subsidiary reserves & surplus:

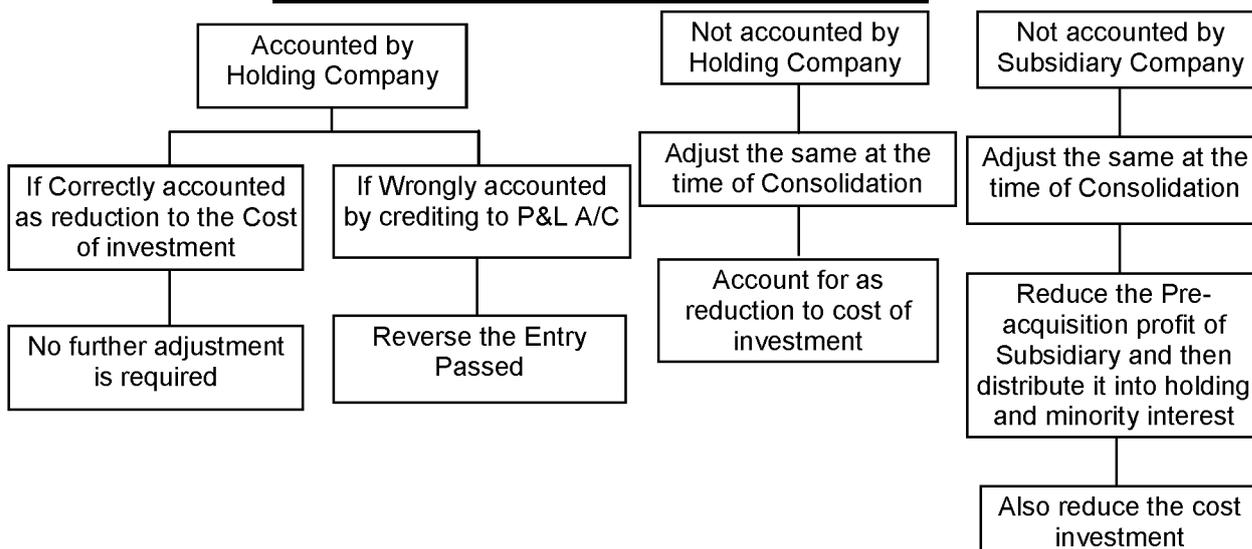
Analysis of subsidiary reserves & surplus (including losses) as pre-acquisition and post acquisition profits based on the date of acquisition (step 1)

- 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 dividend¹/bonus/Unaccounted items.
- In certain instances where assets are revalued³, 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:**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

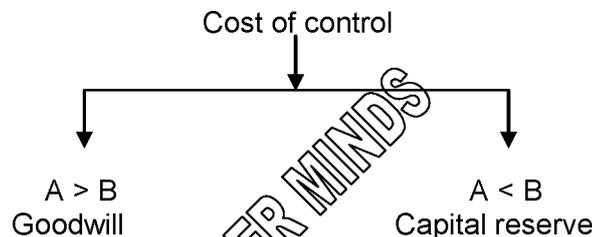
* Consequent to amendment of AS 4 (30.03.2016) proposed dividend (equity) should not be considered. However if there is a dividend declared before balance sheet date (Commonly referred as interim) pending payment, the same should be accounted.

Step - 6: cost of control:

Determine cost of control

	Particulars	Rs.	Rs.
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.



Step - 7: Inter-company transactions:

Inter-company transactions - Elimination / Adjustment:

A. Inter-company owing / debts:

- Usual items are debtors/creditors, Loan given/Loan taken, Interest receivable/Interest payable, fees receivable/fees payable, dividend receivable/dividend payable.
- 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:

- Ascertain unrealised profits.
- Create reserve for the amount in step(1) involving:
 - Reduction in value of stock/Asset
 - 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	• 100%	• Respective share in subsidiary
➤ Minority Interest	• Nil	• 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 determining 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
 - d) Consolidated income or expense after adjusting intercompany transactions.
- } Optional

PROBLEM 4: 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:

- 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.
- 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.
- 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.4,20,000 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)

Note: _____

PROBLEM 6: From the following data, determine in each case:

- Minority interest at the date of acquisition and at the date of consolidation.
- Goodwill or Capital Reserve.
- 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 5: PROBLEMS ON CONSOLIDATED BALANCE SHEET - REVALUATION OF ASSETS

PROBLEM 7: 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
	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: 3 & 4 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 8: 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: 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:

- 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 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.
- 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.

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

- 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 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:** 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?

(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.	S Ltd.
	Rs. in 000's	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:

- 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 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.
- 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.
- 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.
- 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
	<u>611</u>	<u>507</u>
Trade receivables		
Debtors	700	683
Bills receivables	120	95
	<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.)
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
	<u>25,896</u>	<u>10,727</u>
ASSETS:		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.:		
450 Lakh Equity share in Y Ltd. purchased on 1 st April, 2016	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	<u>25,896</u>	<u>10,727</u>

The following information is also given to you

- 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.
- Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs. 650 Lakhs.
- General Reserve of Y Ltd. stood at same Rs. 1,450 Lakhs as on 1st April, 2016.
- Y Ltd.'s Plant & machinery showed a balance of Rs. 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs. 1,000 Lakh.
- Included in Trade Payables of Y Ltd. are Rs. 50 Lakh for goods supplied by X Ltd.
- On 31st March, 2017, Y's Ltd. inventory included goods for Rs. 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes. (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	55,000		
	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:

- Before issue of bonus shares.
- 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 1 st April, 2017	22,000	
Net profit for the year ended 31 st March, 2018	12,000	34,000
Less: Dividend paid		
Final for the year ended 31 st March, 2017	9,000	
Interim for the half-year ended September	4,500	(13,500)
Balance c/f on 31 st 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	<u>2,000</u>	<u>400</u>
	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	<u>200</u>	<u>100</u>
	4,800	1,400
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	<u>2,400</u>	<u>300</u>

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)

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1, 2, 3, 5, 10, 12.

PROBLEM NO: 1

Step 1: Basic Data:

Relevant date of Acquisition: 01.07.2017

Pre-acquisition period: 3 Months (i.e., from 01.04.2017 to 30.06.2017)

Post-acquisition period: 9 Months (i.e., from 01.07.2017 to 31.03.2018)

Share of Holding company: 60% (i.e., 30,000/50,000)

Share of minority: 40% (i.e., 20,000/50,000).

Step 2:

Dr.			General Reserve of S Ltd.			Cr.		
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)			
31.03.2018	To Balance c/d	6,48,000	01.04.2017	By Balance b/d	6,00,000			
			31.03.2018	By Profit & Loss A/c (Balancing Figure)	48,000			
		6,48,000			6,48,000			

Dr.			Profit & Loss Account of S Ltd.			Cr.		
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)			
31.03.2018	To General Reserve	48,000	01.04.2017	By Balance b/d	2,00,000			
31.03.2018	To Balance c/d	2,52,000	31.03.2018	By Profit earned (b/f)	1,00,000			
		3,00,000			3,00,000			

Step 3: Analysis of Profits of S Ltd.

Particulars	Capital Profits (Rs.)	Revenue Profits (Rs.)	Revenue Reserves (Rs.)
A. Opening General Reserve	6,00,000	-	-
B. Reserve Created: (in the ratio of 3 months : 9 months)	12,000	-	36,000
C. Opening Balance of Profit & Loss A/c	2,00,000	-	-
D. Profits earned (in the ratio of 3 months : 9 months)	25,000	75,000	
E. Less: Transfer to General Reserve	(12,000)	(36,000)	
F. Total	8,25,000	39,000	36,000
G. Share of Minority @ 40%	3,30,000	15,600	14,400
H. Share of Holding Company @ 60%	4,95,000	23,400	21,600

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)
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:

- 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:

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

- 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:

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

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 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)	(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)			
2015-16	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	(1,20,000)			
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.	Minority Interest
		70% (Rs.)	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: 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)
5. Other current assets	
Prepaid expenses (After adjusting advertising expenditure to be written off each year)	18,000

PROBLEM NO: 12Consolidated 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 expense	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.	<u>1,000</u>	
		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.	<u>(10)</u>	5,865
2.	Increase in Inventory		
	H Ltd.	1,000	
	S Ltd.	<u>200</u>	
		1,200	
	Less: Unrealised profits Rs. 24 lacs × $\frac{20}{120}$	<u>(4)</u>	<u>1,196</u>
			<u>7,061</u>
3.	Cost of Material purchased/consumed		
	H Ltd.	800	
	S Ltd.	<u>200</u>	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	<u>(120)</u>	880
	Direct Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	<u>300</u>
			<u>1,180</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	H Ltd.	800	
	S Ltd.	<u>150</u>	<u>950</u>
5.	Other Expenses		
	Administrative Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	
		300	
	Less: Consultancy fees received by H Ltd. from S Ltd.	<u>(5)</u>	295
	Selling and Distribution Expenses:		
	H Ltd.	200	
	S Ltd.	<u>50</u>	
		250	
	Less: Commission received from S Ltd. from H Ltd.	<u>(10)</u>	<u>240</u>
			<u>535</u>
6.	Finance Cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
7.	Depreciation and Amortisation		
	Depreciation:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
8.	Provision for tax		
	H Ltd.	1,200	
	S. Ltd.	<u>200</u>	<u>1,400</u>

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

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