

**15. CONSOLIDATED FINANCIAL STATEMENTS****ASSIGNMENT SOLUTIONS****PROBLEM NO:1**

Total dividend paid = Rs. 30,000

Out of post-acquisition profit = Rs. 20,000

Out of pre-acquisition profit = Rs. 10,000

Hence, 2/3rd of dividend received by XYZ will be credited to P & L and 1/3rd will be credited to Investment.

XYZ Ltd.'s share of dividend = Rs. 30,000 X 80% = Rs. 24,000

**In the books of XYZ Ltd.**

|  | Rs.    | Rs.           | Rs.               |
|--|--------|---------------|-------------------|
| Bank   |        |               |                   |
| Dr. <span style="float: right;">A/c</span>   | 24,000 |               |                   |
| To Profit & Loss A/c   |        | 16,000        |                   |
| To Investments in ABC Ltd.   |        | 8,000         |                   |
| (Dividend received from ABC Ltd. 1/3 credited to investment A/c being out of capital profits – as explained above) |        |               |                   |
| <b>Goodwill on Consolidation:</b>  |        | Rs.           | Rs.               |
| Cost of shares less dividend out of capital profits  |        |               | 1,32,000          |
| <b>Less:</b> Face value of capital i.e. 80% of capital   |        | 80,000        |                   |
| <b>Add:</b> Share of capital profits [60,000 - 10,000 (dividend portion out of pre - acquisition profits)] X 80%   |        | <u>40,000</u> | <u>(1,20,000)</u> |
| Goodwill   |        |               | <u>12,000</u>     |
| Minority interest on:  |        |               |                   |
| 1st January, 2018: 20% of Rs. 1,60,000 [1,00,000 + 60,000]   |        |               | 32,000            |
| 31st December, 2018: 20% of Rs.1,50,000 [1,00,000 + 60,000 + 20,000 – 30,000]                                      |        |               | 30,000            |

**PROBLEM NO: 2**

|  | Minority Interest<br>(30%) (Rs.) | Holding Interest<br>(70%) (Rs.) |
|--|----------------------------------|---------------------------------|
| Share of net assets of B Ltd. as on 1.1.2012                 | 3,24,000                         | 7,56,000                        |
| Cost of acquisition  | <u>—</u>                         | <u>10,00,000</u>                |
|  | 3,24,000                         | 2,44,000<br>(goodwill)          |
| Minority's share of losses of B Ltd: year ended 31.12.2012   | <u>75,000</u>                    |                                 |
| Minority interest as on 31.12.2012                           | 2,49,000                         |                                 |
| Minority's share of losses of B Ltd.: year ended 31.12.2013  | <u>1,20,000</u>                  |                                 |
| Minority interest as on 31.12.2013                           | 1,29,000                         |                                 |
| Minority's share of losses of B Ltd. year ended 31.12.2014   | <u>1,29,000*</u>                 |                                 |
| Minority interest as on 31.12.2014                           | Nil                              |                                 |
| Minority's share of losses for 2015                          | Nil                              |                                 |
| Minority's share of profits of B Ltd. for 2016               | Nil                              |                                 |
| Minority's share of profit for 2017                          | Nil                              |                                 |
| Minority's share of profit for 2018(Rs. 45,000 – Rs. 12,000) | 33,000*                          |                                 |
| Minority interest as on 31.12.2018                           | <u>33,000</u>                    |                                 |

\*In the year 2014, the minority's share of losses actually comes to Rs. 1,50,000. But since minority interest as on 31.12.2013 was less than the share of loss, the excess of loss of Rs. 21,000 is to be added to A Ltd.'s share of losses. Similarly, for the year 2015, the entire loss of B Ltd. is to be adjusted against A Ltd.'s profits for the purpose of consolidation. Therefore, upto 2015, the minority's share of B Ltd.'s losses of Rs. 57,000 are to be borne by A Ltd. Thereafter, the entire profits of B Ltd. will be allocated to A Ltd. unless the minority's share of losses previously absorbed (Rs. 57,000) has been recovered. Such recovery is fully made in 2018 and therefore minority interest of Rs. 33,000 is shown after adjusting fully the share of losses of minority previously absorbed by A Ltd.

### PROBLEM NO: 3

#### Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2018

| Particulars                          | Note No. | (Rs.)            |
|--------------------------------------|----------|------------------|
| <b>I. Equity and Liabilities</b>     |          |                  |
| <b>(1) Shareholder's Funds</b>       |          |                  |
| (a) Share Capital                    |          | 6,00,000         |
| (b) Reserves and Surplus             | 1        | 3,44,600         |
| <b>(2) Minority Interest (W.N.5)</b> |          | 48,150           |
| <b>(3) Current Liabilities</b>       |          |                  |
| (a) Trade Payables                   | 2        | 2,07,000         |
| <b>Total</b>                         |          | <b>11,99,750</b> |
| <b>II. Assets</b>                    |          |                  |
| <b>(1) Non-current assets</b>        |          |                  |
| (a) Fixed assets                     |          |                  |
| (i) Tangible assets                  | 3        | 5,97,750         |
| (ii) Intangible assets               | 4        | 12,000           |
| (b) Other non-current assets         | 5        | 5,90,000         |
| <b>Total</b>                         |          | <b>11,99,750</b> |

#### Notes to Accounts

|   |          |          | Rs.             |
|---|----------|----------|-----------------|
| <b>1. Reserves and Surplus</b>  |          |          |                 |
| Reserves  |          | 2,00,000 |                 |
| <b>Add:</b> 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3) |          | 40,000   | 2,40,000        |
| Profit and Loss Account   |          | 1,00,000 |                 |
| <b>Add:</b> 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)  |          | 4,600    | 1,04,600        |
|   |          |          | <u>3,44,600</u> |
| <b>2. Trade Payables</b>  |          |          |                 |
| H Ltd.  |          | 1,50,000 |                 |
| S Ltd.  |          | 57,000   | 2,07,000        |
| <b>3. Tangible Assets</b>   |          |          |                 |
| Machinery   |          |          |                 |
| H Ltd.  |          | 3,00,000 |                 |
| S Ltd.  | 1,00,000 |          |                 |
| <b>Add:</b> Appreciation  | 50,000   |          |                 |
|   | 1,50,000 |          |                 |
| <b>Less:</b> Depreciation   | (15,000) | 1,35,000 |                 |
| Furniture   |          |          |                 |
| H Ltd.  |          | 1,50,000 |                 |
| S Ltd.  | 20,000   |          |                 |
| <b>Less:</b> Decrease in value  | (5,000)  |          |                 |
|   | 15,000   |          |                 |
| <b>Less:</b> Depreciation   | (2,250)  | 12,750   | 5,97,750        |
| <b>4. Intangible assets</b>   |          |          |                 |
| Goodwill [WN 6]   |          |          | 12,000          |

|                                    |  |                 |          |
|------------------------------------|--|-----------------|----------|
| <b>5. Other non-current assets</b> |  |                 |          |
| H Ltd.                             |  | 4,40,000        |          |
| S Ltd.                             |  | <u>1,50,000</u> | 5,90,000 |

**Working Notes:**

|   |                   |
|---|-------------------|
| <b>1. Pre-acquisition profits and reserves of S Ltd.</b>  | <b>Rs.</b>        |
| Reserves  | 25,000            |
| Profit and Loss Account   | <u>15,000</u>     |
|   | <u>40,000</u>     |
| H Ltd.'s = $\frac{4}{5} \times 40,000$  | 32,000            |
| Minority Interest = $\frac{1}{5} \times 40,000$   | 8,000             |
| <b>2. Profit on revaluation of assets of S Ltd.</b>   |                   |
| Profit on Machinery Rs. (1,50,000 – 1,00,000)   | 50,000            |
| <b>Less:</b> Loss on Furniture Rs. (20,000 – 15,000)  | <u>5,000</u>      |
| Net Profit on revaluation   | <u>45,000</u>     |
| H Ltd.'s share $\frac{4}{5} \times 45,000$  | 36,000            |
| Minority Interest $\frac{1}{5} \times 45,000$   | 9,000             |
| <b>3. Post-acquisition reserves of S Ltd.</b>   |                   |
| Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs. 75,000 – 25,000)              | <u>50,000</u>     |
| H Ltd.'s share $\frac{4}{5} \times 50,000$  | 40,000            |
| Minority interest $\frac{1}{5} \times 50,000$   | <u>10,000</u>     |
| <b>4. Post -acquisition profits of S Ltd.</b>   |                   |
| Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 25,000 – 15,000) | 10,000            |
| <b>Add:</b> Excess depreciation charged on furniture @ 15% on Rs. 5,000 i.e. (20,000 – 15,000)              | <u>750</u>        |
|   | 10,750            |
| <b>Less:</b> Under depreciation on machinery @ 10% on Rs. 50,000 i.e. (1,50,000 – 1,00,000)                 | <u>(5,000)</u>    |
| Adjusted post-acquisition profits   | <u>5,750</u>      |
| H Ltd.'s share $\frac{4}{5} \times 5,750$   | 4,600             |
| Minority Interest $\frac{1}{5} \times 5,750$  | <u>1,150</u>      |
| <b>5. Minority Interest</b>   |                   |
| Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. 200 × Rs. 100                            | 20,000            |
| <b>Add:</b> 1/5th share of pre-acquisition profits and reserves   | 8,000             |
| 1/5th share of profit on revaluation  | 9,000             |
| 1/5th share of post-acquisition reserves  | 10,000            |
| 1/5th share of post-acquisition profit  | <u>1,150</u>      |
|   | <u>48,150</u>     |
| <b>6. Cost of Control or Goodwill</b>   |                   |
| Paid-up value of 800 shares held by H Ltd. i.e. 800 × Rs. 100   | 80,000            |
| <b>Add:</b> 4/5th share of pre-acquisition profits and reserves   | 32,000            |
| 4/5th share of profit on the revaluation  | <u>36,000</u>     |
| Intrinsic value of shares on the date of acquisition  | <u>1,48,000</u>   |
| Price paid by H Ltd. for 800 shares   | 1,60,000          |
| <b>Less:</b> Intrinsic value of the shares  | <u>(1,48,000)</u> |
| Cost of control or Goodwill   | 12,000            |

**PROBLEM NO: 4**

Consolidated Balance Sheet of Evil Ltd. with its subsidiary Devil Ltd. as on 31st March, 2018

|                                       | Notes No. | Rs.              |
|---------------------------------------|-----------|------------------|
| <b>I. Equity and Liabilities</b>      |           |                  |
| <b>(1) Shareholder's Funds</b>        |           |                  |
| (a) Share Capital                     | 1         | 6,00,000         |
| (b) Reserves and Surplus              | 2         | 1,93,000         |
| <b>(2) Minority interest (W.N. 4)</b> |           | 1,23,500         |
| <b>(3) Current Liabilities</b>        |           |                  |
| Trade payables                        | 3         | 1,70,000         |
| <b>Total</b>                          |           | <b>10,86,500</b> |
| <b>II. Assets</b>                     |           |                  |
| <b>(1) Non-current assets</b>         |           |                  |
| Fixed assets                          |           |                  |
| Tangible assets                       | 4         | 6,28,000         |
| Intangible assets                     | 5         | 50,000           |
| <b>(2) Current assets</b>             |           |                  |
| (a) Inventories                       | 6         | 2,13,500         |
| (b) Trade receivables                 | 7         | 1,30,000         |
| (c) Cash and cash equivalents         | 8         | 65,000           |
| <b>Total</b>                          |           | <b>10,86,500</b> |

**Notes to Accounts**

|  |                 | Rs.             | Rs.             |
|--|-----------------|-----------------|-----------------|
| 1. Share Capital                                       |                 |                 |                 |
| Equity shares of Rs. 10 each, fully paid up            |                 |                 | 6,00,000        |
| 2. Reserves and surplus                                |                 |                 |                 |
| Capital reserve (W.N.3)                                |                 | 33,750          |                 |
| General reserve  |                 | 60,000          |                 |
| Profit and loss account (W.N. 6)                       |                 | 99,250          | 1,93,000        |
| 3. Trade Payables                                      |                 |                 |                 |
| Evil Ltd.  | 1,00,000        |                 |                 |
| Devil Ltd.   | 80,000          |                 |                 |
|  | 1,80,000        |                 |                 |
| <b>Less: Mutual indebtedness</b>                       | <b>(10,000)</b> |                 | 1,70,000        |
| 4. Tangible Assets                                     |                 |                 |                 |
| Land and buildings                                     |                 |                 |                 |
| Evil Ltd.  | 1,00,000        |                 |                 |
| Devil Ltd.   | 1,00,000        | 2,00,000        |                 |
| Plant and machinery                                    |                 |                 |                 |
| Evil Ltd.  | 2,00,000        |                 |                 |
| Devil Ltd.   | 1,80,000        |                 |                 |
| <b>Add: Upward revaluation</b>                         | <b>50,000</b>   |                 |                 |
|  | 2,30,000        |                 |                 |
| <b>Less: Excess Depreciation on upward revaluation</b> | <b>(2,000)</b>  | <b>2,28,000</b> | <b>6,28,000</b> |
| 5. Intangible Assets                                   |                 |                 |                 |
| Evil Ltd.  |                 | 10,000          |                 |
| Devil Ltd.   |                 | 40,000          | 50,000          |
| 6. Inventories   |                 |                 |                 |
| Evil Ltd.  |                 | 1,17,500        |                 |
| Devil Ltd.   |                 | 1,00,000        |                 |
|  |                 | 2,17,500        |                 |
| <b>Less: Unrealised profit</b>                         |                 | <b>(4,000)</b>  | <b>2,13,500</b> |
| 7. Trade receivables                                   |                 |                 |                 |

|    |                                  |                 |          |
|----|----------------------------------|-----------------|----------|
|    | Evil Ltd.                        | 50,000          |          |
|    | Devil Ltd.                       | 90,000          |          |
|    |                                  | 1,40,000        |          |
|    | <b>Less: Mutual indebtedness</b> | <b>(10,000)</b> | 1,30,000 |
| 8. | Cash and cash equivalents        |                 |          |
|    | Bank Balances                    |                 |          |
|    | Evil Ltd.                        | 45,000          |          |
|    | Devil Ltd.                       | 20,000          | 65,000   |

**Working Notes:****1. Analysis of Reserves and Profits of Devil Ltd. as on 31.03.2018**

|  |          | Pre-acquisition profit upto 1.10.2017<br>(Capital profits) | Post acquisition profits<br>(2.10.2017 – 31.3.2018)<br>Profit and loss account |
|--|----------|--|--|
| General reserve as on 31.3.2018  |          | 50,000   |  |
| Profit and loss account as on 31.3.2018  | 1,00,000 |  |  |
| <b>Less: Opening Balance</b><br>60,000   |          |  |  |
| <b>Less: Dividend for 2016-17 (out of pre-acquisition profits)</b><br>(30,000) | 30,000   | 30,000   |  |
| Profit earned during the year  | 70,000   | 35,000   | 35,000   |
| Upward revaluation of plant and machinery as on 1.10.2017 (W.N.2)              |          | 50,000   |  |
| Excess depreciation (for 6 months) due to upward revaluation (W.N.2)           |          |  | (2,000)  |
| <b>Total</b>   |          | <b>1,65,000</b>  | <b>33,000</b>  |
| Minority Interest (25%)  |          | 41,250   | 8,250  |
| Share of Evil Ltd. (75%)   |          | 1,23,750   | 24,750   |

**2. Revaluation of Plant & Machinery of Devil Ltd. and its book value as on 31.3.2018**

Depreciation during the year = Opening Balance less Closing Balance = 2,00,000 - 1,80,000 = Rs. 20,000

Depreciation rate =  $(20,000/2,00,000) \times 100 = 10\%$

**(a) Computation of Revaluation Gain / Loss**

|   | Rs.                 |
|---|---------------------|
| Revalued Amount on 01.10.2017 (date of acquisition)         | 2,40,000            |
| <b>Less: Book Value on 01.10.2017 (date of acquisition)</b> |                     |
| Value on 01.04.2017   | Rs. 2,00,000        |
| <b>Less: Depreciation for 6 months at 10%</b>               | <b>(Rs. 10,000)</b> |
| Revaluation Gain i.e. Capital Profit                        | 50,000              |

**(b) Computation of Depreciation on Revaluation Gain / Loss**

|   | Rs.             |
|---|-----------------|
| Depreciation on Revalued Plant for 6 months = Rs. 2,40,000 × 6/12 × 10% | 12,000          |
| <b>Less: Depreciation already provided on Rs. 2,00,000 × 6/12 × 10%</b> | <b>(10,000)</b> |
| Revenue Loss  | 2,000           |

**3. Calculation of cost of control**

|                             | Rs.             |
|-----------------------------|-----------------|
| Share capital in Devil Ltd. | 2,25,000        |
| <b>Add: Capital profit</b>  | <b>1,23,750</b> |
|                             | 3,48,750        |

|   |          |            |
|---|----------|------------|
| Less: Cost of Investments                           | 3,37,500 |            |
| Less: Pre-acquisition dividend received for 2016-17 | (22,500) | (3,15,000) |
| Capital Reserve                                     |          | 33,750     |

## 4. Calculation of minority interest [25%]

|  | Rs.      |
|--|----------|
| Share capital  | 75,000   |
| Capital (pre-acquisition) profits [W.N.1]                    | 41,250   |
| Revenue (post-acquisition) profits - Profit and loss [W.N.1] | 8,250    |
|  | 1,24,500 |
| Less: Unrealised profit [W.N. 5]                             | (1,000)  |
|  | 1,23,500 |

## 5. Stock reserve (plant and machinery)

$$\text{Unrealised profit} = \left[ \frac{16,000 \times 1/3}{4/3} \right] = \text{Rs. } 4,000$$

To be adjusted from minority interest and consolidated profit and loss account in the ratio of 25:75.

## 6. Consolidated profit and loss account as on 31.3.2018

|  | Rs.      |
|--|----------|
| Profit and loss account balance of Evil Ltd. as on 31.3.2018                 | 1,00,000 |
| Less: Pre-acquisition dividend wrongly credited                              | (22,500) |
| Add: Share in post-acquisition profit and loss account of Devil Ltd. (W.N.1) | 24,750   |
| Less: Unrealised profit [W.N. 5]   | (3,000)  |
|  | 99,250   |

**Note:** Unrealized profits on closing stock have been eliminated to the extent of holding company's share in Profit and Loss Account and balance adjusted in Minority Interest as it relates to upstream transaction.

**PROBLEM NO: 5**

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as on 31st March, 2018

| Particulars                          | Note No. | (Rs. in 000's) |
|--------------------------------------|----------|----------------|
| <b>I. Equity and Liabilities</b>     |          |                |
| <b>(1) Shareholder's Funds</b>       |          |                |
| (a) Share Capital                    | 1        | 4,000          |
| (b) Reserves and Surplus             | 2        | 3,063          |
| <b>(2) Minority Interest (W.N.6)</b> |          | 1,560          |
| <b>(3) Current Liabilities</b>       |          |                |
| Trade payables                       | 3        | 1,118          |
| Short term provisions                | 4        | 482            |
| <b>Total</b>                         |          | <b>10,223</b>  |
| <b>II. Assets</b>                    |          |                |
| <b>(1) Non-current assets</b>        |          |                |
| Fixed assets                         |          |                |
| Tangible assets                      | 5        | 5,904          |
| <b>(2) Current assets</b>            |          |                |
| (a) Inventories                      | 6        | 1,759          |
| (b) Trade receivables                | 7        | 1,598          |
| (c) Cash and cash equivalents        | 8        | 512            |
| (d) Short term loans and advances    | 9        | 450            |
| <b>Total</b>                         |          | <b>10,223</b>  |

## Notes to Accounts

|    |   | (Rs. in 000's)        | (Rs. in 000's)  |
|----|---|-----------------------|-----------------|
| 1. | Share Capital                                   |                       |                 |
|    | Authorised share capital                        |                       |                 |
|    | 5 lakhs equity shares of Rs. 10 each            |                       | <u>5,000</u>    |
|    | Issued, Subscribed and Paid up                  |                       |                 |
|    | 4 lakhs equity shares of Rs. 10 each fully paid |                       | 4,000           |
| 2. | Reserves and surplus                            |                       |                 |
|    | Capital Reserve (Note 5)                        | 643.20                |                 |
|    | General Reserve                                 | 928                   |                 |
|    | Profit and Loss Account:                        |                       |                 |
|    | H Ltd.  | Rs. 1,305             |                 |
|    | <b>Add: Share in</b> S Ltd.                     | <u>Rs. 376.80</u>     |                 |
|    |   | Rs. 1,681.80          |                 |
|    | <b>Less: Dividend wrongly credited</b>          | <u>Rs. (180)</u>      |                 |
|    |   | Rs. 1,501.80          |                 |
|    | <b>Less: Unrealised profit (50 X 1/5)</b>       | <u>Rs. (10)</u>       | <u>1,491.80</u> |
|    |   |                       | 3,063           |
| 3. | Trade payables                                  |                       |                 |
|    | H Ltd.  | 611                   |                 |
|    | S Ltd.  | <u>507</u>            | 1,118           |
| 4. | Short –term provisions                          |                       |                 |
|    | Provision for Taxation                          | H Ltd. Rs. 220        |                 |
|    |   | S Ltd. <u>Rs. 180</u> | 400             |
|    | Other Provisions                                | H Ltd. Rs. 65         |                 |
|    |   | S Ltd. <u>Rs. 17</u>  | <u>82</u>       |
|    |   |                       | 482             |
| 5. | Tangible Assets                                 |                       |                 |
|    | Plant and Machinery                             |                       |                 |
|    | H Ltd.  | Rs. 2,541             |                 |
|    | S Ltd.  | <u>Rs. 2,450</u>      | 4,991           |
|    | Furniture and fittings                          |                       |                 |
|    | H Ltd.  | Rs. 615               |                 |
|    | S Ltd.  | <u>Rs. 298</u>        | <u>913</u>      |
|    |   |                       | 5,904           |
| 6. | Inventories                                     |                       |                 |
|    | Inventory                                       | H Ltd. Rs. 983        |                 |
|    |   | S Ltd. <u>Rs. 786</u> | 1,769           |
|    | <b>Less: Unrealised profit (Rs. 50 x 1/5)</b>   |                       | <u>(10)</u>     |
|    |   |                       | 1,759           |
| 7. | Trade receivables                               |                       |                 |
|    | H Ltd.  | 820                   |                 |
|    | S Ltd.  | <u>778</u>            | 1,598           |
| 8. | Cash and cash equivalents                       |                       |                 |
|    | Cash and Bank Balances                          | H Ltd. 410            |                 |
|    |   | S Ltd. <u>102</u>     | 512             |
| 9. | Short term loans and advances                   |                       |                 |
|    | Sundry Advances                                 | H Ltd. 260            |                 |
|    |   | S Ltd. <u>190</u>     | 450             |

## Working Notes:‘

## Share holding pattern

| Particulars                     | Number of Shares | % of holding |
|---------------------------------|------------------|--------------|
| a. S Ltd.                       |                  |              |
| (i) Purchased on 01.04.2017     | 90,000           |              |
| (ii) Bonus Issue (90,000/5 x 3) | <u>54,000</u>    |              |
| Total                           | <u>1,44,000</u>  | 60%          |
| b. Minority Interest            | 96,000           | 40%          |

## 1. S Ltd. General Reserve

|  | (Rs. in 000) |  | (Rs. in 000) |
|--|--------------|--|--------------|
| To Bonus to equity shareholders<br>$\left(\frac{2,400 \times 3}{8}\right)$ | 900          | By Balance b/d                               | 1,500        |
| To Balance c/d   | <u>690</u>   | By Profit and Loss A/c<br>(Balancing figure) | <u>90</u>    |
|  | <u>1,590</u> |  | <u>1,590</u> |

## 2. S Ltd.'s Profit and Loss Account

|   | (Rs. in 000) |  | (Rs. in 000) |
|---|--------------|--|--------------|
| To General Reserve  | 90           | By Balance b/d                                   | 633          |
| To Dividend paid on 14.7.2017<br>$\left(\frac{1,500 \times 20}{100}\right)$ | 300          | By Net Profit for the year<br>(Balancing figure) | 628*         |
| To Corporate Dividend Tax<br>(17.304% of 353) (Refer W.N. 7)                | 61           |  |              |
| To Balance c/d  | <u>810</u>   |  |              |
|   | <u>1,261</u> |  | <u>1,261</u> |

\* Out of Rs. 6,28,000 profit for the year, Rs. 90,000 has been transferred to reserves by S Ltd.

## 3. Distribution of Revenue Profits

|   | Rs. in '000   |
|---|---------------|
| Revenue Profit as above                       | <u>628.00</u> |
| Share of H Ltd. (60%)                         | 376.80        |
| Share of Minority shareholders (628 – 376.80) | <u>251.20</u> |

## 4. Computation of Capital Profits

|  | Rs. in 000 | Rs. in 000    |
|--|------------|---------------|
| General Reserve on the date of acquisition                 |            | 1,500         |
| <b>Less:</b> Bonus issue of shares                         |            | <u>(900)</u>  |
|  |            | 600           |
| Profit and Loss Account balance on the date of acquisition | 633        |               |
| <b>Less:</b> Dividends paid                                | Rs. 300    |               |
| Corporate tax paid   | Rs. 61     | <u>(361)</u>  |
|  |            | <u>272</u>    |
|  |            | 872           |
| Share of H Ltd. (60%)                                      |            | 523.20        |
| Share of Minority shareholders                             |            | <u>348.80</u> |

## 5. Computation of Capital Reserve

|   | Rs. in '000   |
|---|---------------|
| 60% of share capital of S Ltd.  | 1,440         |
| <b>Add:</b> Share of H Ltd. in the capital profits as in working note (4)                       | <u>523.20</u> |
|   | 1,963.20      |
| <b>Less:</b> Investments in S Ltd.  | 1,500         |
| <b>Less:</b> Dividends received out of pre- acquisition profits $\frac{Rs. 300 \times 60}{100}$ | <u>(180)</u>  |
|   | <u>643.20</u> |

## 6. Calculation of Minority Interest

|   | Rs. in '000     |
|---|-----------------|
| 40% of share capital of S Ltd.                | 960.00          |
| <b>Add:</b> Share of Revenue Profits (Note 3) | 251.20          |
| Share of Capital Profits (Note 4)             | 348.80          |
|   | <u>1,560.00</u> |

## 7. Calculation of grossing up of dividend

|  | Rs. in '000s                         |
|--|--------------------------------------|
| Dividend distributed by S Ltd. (1500 x 20)/100   | 300                                  |
| <b>Add:</b> Increase for the purpose of grossing up of dividend $\left[\left\{\frac{15}{100-15}\right\} \times 300\right]$ | <u>52.94</u>                         |
|  | <u>352.94 or 353.00</u><br>(approx.) |
| Dividend distribution tax @ 17.304% (353 x 17.304%) = 61.08 or   | 61 (approx.)                         |

**PROBLEM NO: 6**

## Consolidated Balance Sheet of P Ltd. and its subsidiary Q Ltd. as on 31st March, 2018

| Particulars                                     | Note No. | (Rs.)                     |
|---|----------|---------------------------|
| <b>I. Equity and Liabilities</b>                |          |                           |
| <b>(1) Shareholder's Funds</b>                  |          |                           |
| (a) Share Capital                               | 1        | 45,00,000                 |
| (b) Reserves and Surplus                        | 2        | 99,73,500                 |
| <b>(2) Minority Interest (W.N)</b>              |          | 11,56,500                 |
| <b>(3) Current Liabilities</b>                  |          |                           |
| Trade payables (5,55,000+2,10,000)              |          | <u>7,65,000</u>           |
| <b>Total</b>                                    |          | <b><u>1,63,95,000</u></b> |
| <b>II. Assets</b>                               |          |                           |
| <b>(1) Non-current assets</b>                   |          |                           |
| Fixed assets                                    |          |                           |
| Tangibles assets (79,20,000 + 23,10,000)        |          | 1,02,30,000               |
| <b>(2) Current assets (44,10,000+17,55,000)</b> |          | <u>61,65,000</u>          |
| <b>Total</b>                                    |          | <b><u>1,63,95,000</u></b> |

## Notes to Accounts

|    |                                | (Rs. In 000's) | (Rs. in 000's) |
|----|--------------------------------|----------------|----------------|
| 1. | Share Capital                  |                |                |
|    | 4,50,000 Shares of Rs. 10 each |                | 45,00,000      |
| 2. | Reserves and surplus           |                |                |
|    | Securities Premium             | 9,00,000       |                |
|    | Capital Reserve                | 4,38,000       |                |
|    | General Reserve                | 60,00,000      |                |
|    | Profit and Loss Account        | 26,35,500      | 99,73,500      |

## Shareholding pattern

| Particulars                   | Number of Shares | % of holding |
|-------------------------------|------------------|--------------|
| a. P Ltd.                     |                  |              |
| (i) Purchased on 31.03.2012   | 1,05,000         |              |
| (ii) Bonus Issue (1,05,000/2) | 52,500           |              |
| Total                         | 1,57,500         | 70%          |
| b. Minority Interest          | 67,500           | 30%          |

## (i) Before issue of bonus shares

|      |  | Rs.           | Rs.                |
|------|--|---------------|--------------------|
| (i)  | Cost of control/capital reserve        |               |                    |
|      | Investment in Q Ltd.                   |               | 12,00,000          |
|      | <b>Less:</b> Face value of investments | 10,50,000     |                    |
|      | Capital profits (W.N.)                 | <u>63,000</u> | <u>(11,13,000)</u> |
|      | Cost of control                        |               | <u>87,000</u>      |
| (ii) | Minority Interest                      |               | Rs.                |
|      | Share Capital                          |               | 4,50,000           |

|       |  |  |                  |
|-------|--|--|------------------|
|       | Capital profits (W.N.)                               |  | 27,000           |
|       | Revenue profits (W.N.)                               |  | <u>6,79,500</u>  |
|       |  |  | <u>11,56,500</u> |
| (iii) | Consolidated profit and loss account – P Ltd.        |  | Rs.              |
|       | Balance  |  | 15,75,000        |
|       | <b>Add:</b> Share in revenue profits of Q Ltd.(W.N.) |  | <u>15,85,500</u> |
|       |  |  | <u>31,60,500</u> |

**(ii) Immediately after issue of bonus shares**

|       |  |               |                    |
|-------|--|---------------|--------------------|
| (i)   | Cost of control/capital reserve                          | <b>Rs.</b>    | <b>Rs.</b>         |
|       | Face value of investments (Rs. 10,50,000 + Rs. 5,25,000) | 15,75,000     |                    |
|       | Capital Profits (W.N.)                                   | <u>63,000</u> | 16,38,000          |
|       | <b>Less:</b> Investment in Q Ltd.                        |               | <u>(12,00,000)</u> |
|       | Capital reserve  |               | <u>4,38,000</u>    |
| (ii)  | Minority Interest  |               | Rs.                |
|       | Share Capital (Rs. 4,50,000 + Rs. 2,25,000)              |               | 6,75,000           |
|       | Capital Profits (W.N.)                                   |               | 27,000             |
|       | Revenue Profits (W.N.)                                   |               | <u>4,54,500</u>    |
|       |  |               | <u>11,56,500</u>   |
| (iii) | Consolidated Profit and Loss Account – P Ltd.            |               | Rs.                |
|       | Balance  |               | 15,75,000          |
|       | <b>Add:</b> Share in revenue profits of Q Ltd. (W.N.)    |               | <u>10,60,500</u>   |
|       |  |               | <u>26,35,500</u>   |

**Working Note:****Analysis of Profits of Q Ltd.**

|  | Capital Profits (Before and after issue of bonus shares) (Rs.) | Before Bonus Issue (Rs.) | Revenue Profits After Bonus Issue (Rs.) |
|--|--|--------------------------|---|
| Pre-incorporation profits  | 30,000   |                          |   |
| Profit and loss account on 31st March, 2012  | <u>60,000</u>  |                          |   |
|  | <u>90,000</u>  |                          |   |
| General reserve*   |  | 19,05,000                | 19,05,000                               |
| <b>Less:</b> Bonus shares  |  |                          | <u>(7,50,000)</u>                       |
|  |  |                          | 11,55,000                               |
| Profit for period of 1st April, 2013 to 31st March, 2018 (Rs. 4,20,000 – Rs. 60,000) |  | <u>3,60,000</u>          | <u>3,60,000</u>                         |
|  |  | <u>22,65,000</u>         | <u>15,15,000</u>                        |
| P Ltd.'s share (70%)   | 63,000   | 15,85,500                | 10,60,500                               |
| Minority's share (30%)   | 27,000   | 6,79,500                 | 4,54,500                                |

\*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

**PROBLEM NO:7**

Consolidated Profit and Loss Account of Alpha Ltd. and its subsidiary Beta Ltd. as on 31<sup>st</sup> March 2018

| Particulars                      | Note No. | Amount (Rs.) |
|----------------------------------|----------|--------------|
| <b>I. EQUITY AND LIABILITIES</b> |          |              |
| <b>1. Shareholder's funds</b>    |          |              |
| a. Share capital                 | 1        | 1,80,000     |
| b. Reserves and surplus          | 2        | 85,750       |
| c. Minority interest (WN # 5)    |          | 10,050       |



## WN # 4: Apportionment of profit

| Particulars                | Pre-Acquisition<br>Capital Profits (CP) | Post Acquisition |              |
|----------------------------|---|------------------|--------------|
|                            |   | RR               | RP           |
| a. General reserve         | 20,000                                  | -                | -            |
| b. Profit and loss A/c     | 13,000                                  | -                | 7,500        |
| <b>c. Total</b>            | <b>33,000</b>                           | -                | <b>7,500</b> |
| d. Alpha Ltd. (90%)        | 29,700                                  | -                | 6,750        |
| e. Minority interest (10%) | 3,300                                   | -                | 750          |

## WN # 5: Minority interest

| Particulars                | Amount (Rs.)  |
|----------------------------|---------------|
| a. Share capital           | 6,000         |
| b. Capital Profit (WN # 4) | 3,300         |
| c. Revenue Profit (WN # 4) | 750           |
| <b>d. Total</b>            | <b>10,050</b> |

## WN # 6: Cost of control

| Particulars  | Amount (Rs.)   | Amount (Rs.)         |
|--|----------------|----------------------|
| a. Cost of investment  |                |                      |
| i. Amount invested   | 1,10,000       |                      |
| ii. <b>Less:</b> Pre acquisition dividend (Rs. 9,000 x 90%)                                  | <u>(8,100)</u> | <u>1,01,900*</u>     |
| b. Alpha Ltd's share of net assets of Beta Ltd. as on the date of acquisition represented by |                |                      |
| i. Share capital   | 54,000         |                      |
| ii. Capital Profits (WN # 4)   | <u>29,700</u>  | <u>83,700</u>        |
| <b>c. Goodwill/ (Capital reserve) (a-b)</b>  |                | <b><u>18,200</u></b> |

\* The pre-acquisition dividend is reduced from initial investment just to arrive at the correct cost. The question says that Alpha Ltd. has dealt with the dividends correctly. So, there is no need to transfer pre-acquisition dividend from profit and loss A/c.

## WN # 7: Inter Company Transactions

## a. Stock

| Particulars  | Amount (Rs.)         |
|--|----------------------|
| Stock - Downstream                                   |                      |
| a. Aggregate stock                                   | 48,000               |
| b. <b>Less:</b> Unrealised profit (6,000 x 50 / 150) | <u>(2,000)</u>       |
| <b>c. Net for CBS</b>                                | <b><u>46,000</u></b> |

## b. Investment in Debentures

| Particulars   | 6% Debentures (Rs.) | Investments (Rs.) |
|---|---------------------|-------------------|
| a. Balance as per book  | 10,000              | 1,56,000          |
| b. <b>Less:</b> Cost of investment in Capital of Beta Ltd. (1,10,000 - 8,100) | 10,000              | 1,01,900          |
| c. <b>Less:</b> Debentures held by Alpha Ltd. in Beta Ltd.                    | Nil                 | 10,000            |
| <b>d. Net for CBS</b>   |                     | <b>44,100</b>     |

## WN # 8: Reserves for CBS

| Particulars             | General Reserve (Rs.) | Profit and Loss A/c (Rs.) |
|-------------------------|-----------------------|---------------------------|
| a. Balance as per books | 45,000                | 36,000                    |

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| b. Share of profit from Beta Ltd. | Nil           | 6,750         |
| c. <b>Less:</b> Unrealised profit | -             | (2,000)       |
| d. <b>Reserve for CBS</b>         | <b>45,000</b> | <b>40,750</b> |

**PROBLEM NO: 8**

**Note:** It is assumed that Preference shares given in the question are non-convertible in nature.

**Consolidated Profit and Loss Account of H Ltd. and S Ltd. for the year ended 31.12.2018**

| Particulars   | Note No.     | Rs.              |
|---|--------------|------------------|
| I. Revenue from operations  | 1            | 17,90,000        |
| II. Total revenue   |              | <u>17,90,000</u> |
| III. Expenses   |              |                  |
| Cost of Material purchased/consumed                                       | 2            | 10,40,000        |
| Changes of Inventories of finished goods                                  |              |                  |
| Employee benefit expense (1,00,000 + 1,50,000)                            |              | 2,50,000         |
| Finance cost (12,000 + 12,000)  |              | 24,000           |
| Depreciation and amortization expense [1,10,000 + 79,000]                 |              | 1,89,000         |
| Other expenses [80,000 + 60,000]  |              | <u>1,40,000</u>  |
| Total expenses  |              | <u>16,43,000</u> |
| IV. Profit before Tax (II-III)  |              | 1,47,000         |
| Profit transferred to Consolidated Balance Sheet                          |              |                  |
| Profit After Tax  |              | 1,47,000         |
| Preference dividend   | 3,500        |                  |
| Preference dividend payable   | <u>3,500</u> | <u>(7,000)</u>   |
|   |              | 1,40,000         |
| <b>Less:</b> Minority interest (WN 3)                                     |              | (7,000)          |
| Capital reserve*  |              | (7,000)          |
| Investment Account - dividend for 3 months (prior to acquisition)         |              | (1,750)          |
| Inventory reserve $\left[ \frac{60,000}{4} \times \frac{20}{120} \right]$ |              | <u>(2,500)</u>   |
| Profit to be transferred to consolidated balance sheet                    |              | 1,21,750         |

**Notes to Accounts:**

|  |  | Rs.             | Rs.       |
|--|--|-----------------|-----------|
| 1. Revenue from Operations                   |  |                 |           |
| H Ltd.                                       |  | 9,00,000        |           |
| S Ltd.                                       |  | <u>9,50,000</u> |           |
| <b>Total</b>                                 |  | 18,50,000       |           |
| <b>Less:</b> Intra-group sales (H sold to S) |  | <u>(60,000)</u> | 17,90,000 |
| 2. Cost of Materials Purchased/Consumed      |  |                 |           |
| H Ltd.                                       |  | 5,00,000        |           |
| S Ltd.                                       |  | <u>6,00,000</u> |           |
| <b>Total</b>                                 |  | 11,00,000       |           |
| <b>Less:</b> Intra-group sales (H sold to S) |  | <u>(60,000)</u> | 10,40,000 |

**Working Note:****Profit of Subsidiary**

|  |          |          |
|--|----------|----------|
| Revenue from Operations                  |          | 9,50,000 |
| <b>Less:</b> Expenses                    |          |          |
| Cost of Material purchased/Consumed      | 6,00,000 |          |
| Changes of Inventories of finished goods |          |          |
| Employee benefit expense                 | 1,50,000 |          |
| Finance cost                             | 12,000   |          |
| Depreciation and amortization expense    | 79,000   |          |

|                                   |        |            |
|-----------------------------------|--------|------------|
| Other expenses                    | 60,000 |            |
| Total expenses                    |        | (9,01,000) |
| Profit Before Tax                 |        | 49,000     |
| Preference Dividend               |        | 7,000      |
| Preference Dividend Payable       |        | 7,000      |
| Profit available for shareholders |        | 35,000     |
| Minority Share (20%)              |        | 7,000      |

\*Capital Reserve is made up of 3 month's profit upto 1.4.2018 i.e.  $\frac{1}{4} \times 35,000 \times 80/100$ .

### PROBLEM NO: 9

#### Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd.

For the year ended on 31st March, 2018

| Particulars  | Note No. | Rs. in Lacs |
|--|----------|-------------|
| I. Revenue from operations                               | 1        | 11,730      |
| II. Total revenue  |          | 11,730      |
| III. Expenses  |          |             |
| Cost of Material purchased/Consumed                      | 3        | 2,360       |
| Changes of Inventories of finished goods                 | 2        | (2,392)     |
| Employee benefit expense                                 | 4        | 1,900       |
| Finance cost   | 6        | 300         |
| Depreciation and amortization expense                    | 7        | 300         |
| Other expenses   | 5        | 1,070       |
| Total expenses   |          | 3,538       |
| IV. Profit before Tax(II-III)                            |          | 8,192       |
| V. Tax Expenses  | 8        | 2,800       |
| VI. Profit After Tax                                     |          | 5,392       |
| Profit transferred to Consolidated Balance Sheet         |          |             |
| Profit After Tax   |          | 5,392       |
| Dividend paid  |          |             |
| Hello Ltd.   | 2,400    |             |
| Sun Ltd.   | 300      |             |
|  | 2,700    |             |
| <b>Less: Share of Hello Ltd. in dividend of Sun Ltd.</b> |          |             |
| 80% of Rs. 300 lacs                                      | (240)    | (2,460)     |
| Profit to be transferred to consolidated balance sheet   |          | 2,932       |

#### Notes to Accounts

|    |  | Rs. in Lacs | Rs. in Lacs |
|----|--|-------------|-------------|
| 1. | Revenue from Operations  |             |             |
|    | Sales and other income   |             |             |
|    | Hello Ltd.   | 10,000      |             |
|    | Sun Ltd.   | 2,000       |             |
|    |  | 12,000      |             |
|    | <b>Less: Inter-company Sales</b>                                       | (240)       |             |
|    | Consultancy fees received by Hello Ltd. from Sun Ltd.                  | (10)        |             |
|    | Commission received by Sun Ltd. from Hello Ltd.                        | (20)        | 11,730      |
| 2. | Increase in Inventory  |             |             |
|    | Hello Ltd.   | 2,000       |             |
|    | Sun Ltd.   | 400         |             |
|    |  | 2,400       |             |
|    | <b>Less: Unrealized profits Rs. 48 lacs <math>\times</math> 20/120</b> | (8)         | 2,392       |
|    |  |             | 14,122      |

|    |  |              |              |
|----|--|--------------|--------------|
| 3. | Cost of Material purchased/consumed                                |              |              |
|    | Hello Ltd.   | 1,600        |              |
|    | Sun Ltd.   | <u>400</u>   |              |
|    |  | 2,000        |              |
|    | <b>Less:</b> Purchases by Sun Ltd. from Hello Ltd.                 | <u>(240)</u> | 1,760        |
|    | Direct Expenses  |              |              |
|    | Hello Ltd.   | 400          |              |
|    | Sun Ltd.   | <u>200</u>   | <u>600</u>   |
|    |  |              | <u>2,360</u> |
| 4. | Employee benefits and expenses                                     |              |              |
|    | Wages and Salaries:  |              |              |
|    | Hello Ltd.   | 1,600        |              |
|    | Sun Ltd.   | <u>300</u>   | <u>1,900</u> |
| 5. | Other Expenses   |              |              |
|    | Administrative Expenses  |              |              |
|    | Hello Ltd.   | 400          |              |
|    | Sun Ltd.   | <u>200</u>   |              |
|    |  | 600          |              |
|    | <b>Less:</b> Consultancy fees received by Hello Ltd. from Sun Ltd. | <u>(10)</u>  | 590          |
|    | Selling and Distribution Expenses:                                 |              |              |
|    | Hello Ltd.   | 400          |              |
|    | Sun Ltd.   | <u>100</u>   |              |
|    |  | 500          |              |
|    | <b>Less:</b> Commission received from Sun Ltd. from Hello Ltd.     | <u>(20)</u>  | <u>480</u>   |
|    |  |              | <u>1,070</u> |
| 6. | Finance Cost   |              |              |
|    | Interest:  |              |              |
|    | Hello Ltd.   | 200          |              |
|    | Sun Ltd.   | <u>100</u>   | <u>300</u>   |
| 7. | Depreciation and Amortization                                      |              |              |
|    | Depreciation:  |              |              |
|    | Hello Ltd.   | 200          |              |
|    | Sun Ltd.   | <u>100</u>   | <u>300</u>   |
| 8. | Provision for tax  |              |              |
|    | Hello Ltd.   | 2,400        |              |
|    | Sun Ltd.   | <u>400</u>   | <u>2,800</u> |

**Note:** Since the amount of dividend received by Hello Ltd. for the year 2016-2017 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated a opening retained earnings (which is also not given).

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**THE END**