

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. A/c	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)			
Goodwill on Consolidation:		Rs.	Rs.
Cost of shares less dividend out of capital profits			1,32,000
Less: Face value of capital i.e. 80% of capital		80,000	
Add: Share of capital profits [60,000 - 10,000 (dividend portion out of pre - acquisition profits)] X 80%		40,000	(1,20,000)
Goodwill			12,000
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 (30%) (Rs.)	Holding Interest (70%) (Rs.)
Share of net assets of B Ltd. as on 1.1.2012	3,24,000	7,56,000
Cost of acquisition	—	10,00,000
	3,24,000	2,44,000 (goodwill)
Minority's share of losses of B Ltd. year ended 31.12.2012	75,000	
Minority interest as on 31.12.2012	2,49,000	
Minority's share of losses of B Ltd.: year ended 31.12.2013	1,20,000	
Minority interest as on 31.12.2013	1,29,000	
Minority's share of losses of B Ltd. year ended 31.12.2014	1,29,000*	
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	33,000	

*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.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		6,00,000
(b) Reserves and Surplus	1	3,44,600
(2) Minority Interest (W.N.5)		48,150
(3) Current Liabilities		
(a) Trade Payables	2	2,07,000
Total		11,99,750
II. Assets		
(1) Non-current assets		
(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
Total		11,99,750

Notes to Accounts

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

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

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	Rs.
Reserves	25,000
Profit and Loss Account	<u>15,000</u>
	<u>40,000</u>
H Ltd.'s = $4/5 \times 40,000$	32,000
Minority Interest = $1/5 \times 40,000$	8,000
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery Rs. (1,50,000 – 1,00,000)	50,000
Less: Loss on Furniture Rs. (20,000 – 15,000)	<u>5,000</u>
Net Profit on revaluation	<u>45,000</u>
H Ltd.'s share $4/5 \times 45,000$	36,000
Minority Interest $1/5 \times 45,000$	9,000
3. Post-acquisition reserves of S Ltd.	
Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs. 75,000 – 25,000)	<u>50,000</u>
H Ltd.'s share $4/5 \times 50,000$	40,000
Minority interest $1/5 \times 50,000$	<u>10,000</u>
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 25,000 – 15,000)	10,000
Add: Excess depreciation charged on furniture @ 15% on Rs. 5,000 i.e. (20,000 – 15,000)	<u>750</u>
	10,750
Less: 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 $4/5 \times 5,750$	4,600
Minority Interest $1/5 \times 5,750$	<u>1,150</u>
5. Minority Interest	
Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. 200 × Rs. 100	20,000
Add: 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>
6. Cost of Control or Goodwill	
Paid-up value of 800 shares held by H Ltd. i.e. 800 × Rs. 100	80,000
Add: 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
Less: 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.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	1,93,000
(2) Minority interest (W.N. 4)		1,23,500
(3) Current Liabilities		
Trade payables	3	1,70,000
Total		10,86,500
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	6,28,000
Intangible assets	5	50,000
(2) Current assets		
(a) Inventories	6	2,13,500
(b) Trade receivables	7	1,30,000
(c) Cash and cash equivalents	8	65,000
Total		10,86,500

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		
Less: Mutual indebtedness	(10,000)		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		
Add: Upward revaluation	50,000		
	2,30,000		
Less: Excess Depreciation on upward revaluation	(2,000)	2,28,000	6,28,000
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	
Less: Unrealised profit		(4,000)	2,13,500
7. Trade receivables			

	Evil Ltd.	50,000	
	Devil Ltd.	<u>90,000</u>	
		1,40,000	
	Less: Mutual indebtedness	<u>(10,000)</u>	1,30,000
8.	Cash and cash equivalents		
	Bank Balances		
	Evil Ltd.	45,000	
	Devil Ltd.	<u>20,000</u>	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 (Capital profits)	Post acquisition profits (2.10.2017 – 31.3.2018) 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		
Less: Opening Balance 60,000			
Less: Dividend for 2016-17 (out of pre-acquisition profits) (30,000)	<u>30,000</u>	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)			<u>(2,000)</u>
Total		<u>1,65,000</u>	<u>33,000</u>
Minority Interest (25%)		41,250	8,250
Share of Evil Ltd. (75%)		<u>1,23,750</u>	<u>24,750</u>

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

(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
Less: Depreciation already provided on Rs. 2,00,000 × 6/12 × 10%	<u>(10,000)</u>
Revenue Loss	<u>2,000</u>

3. Calculation of cost of control

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

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)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,000
(b) Reserves and Surplus	2	3,063
(2) Minority Interest (W.N.6)		1,560
(3) Current Liabilities		
Trade payables	3	1,118
Short term provisions	4	482
Total		10,223
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	5	5,904
(2) Current assets		
(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
Total		10,223

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		<u>4,000</u>
2.	Reserves and surplus		
	Capital Reserve (Note 5)	643.20	
	General Reserve	928	
	Profit and Loss Account:		
	H Ltd. Rs. 1,305		
	Add: Share in S Ltd. <u>Rs. 376.80</u>		
	Rs. 1,681.80		
	Less: Dividend wrongly credited <u>Rs.(180)</u>		
	Rs. 1,501.80		
	Less: Unrealised profit (50 X 1/5) <u>Rs. (10)</u>	<u>1,491.80</u>	3,063
3.	Trade payables		
	H Ltd. 611		
	S Ltd. <u>507</u>		<u>1,118</u>
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>	<u>482</u>
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>	<u>5,904</u>
6.	Inventories		
	Inventory H Ltd. Rs. 983		
	S Ltd. <u>Rs. 786</u>	1,769	
	Less: Unrealised profit (Rs. 50 x 1/5)	<u>(10)</u>	<u>1,759</u>
7.	Trade receivables		
	H Ltd. 820		
	S Ltd. <u>778</u>		<u>1,598</u>
8.	Cash and cash equivalents		
	Cash and Bank Balances H Ltd. 410		
	S Ltd. <u>102</u>		<u>512</u>
9.	Short term loans and advances		
	Sundry Advances H Ltd. 260		
	S Ltd. <u>190</u>		<u>450</u>

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 $\left(\frac{2,400 \times 3}{8}\right)$	900	By Balance b/d	1,500
To Balance c/d	<u>690</u>	By Profit and Loss A/c (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 $\left(\frac{1,500 \times 20}{100}\right)$	300	By Net Profit for the year (Balancing figure)	628*
To Corporate Dividend Tax (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
Less: Bonus issue of shares		<u>(900)</u>
		600
Profit and Loss Account balance on the date of acquisition	633	
Less: Dividends paid Rs. 300		
Corporate tax paid Rs. 61	<u>(361)</u>	<u>272</u>
		<u>872</u>
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
Add: Share of H Ltd. in the capital profits as in working note (4)	<u>523.20</u>
	1,963.20
Less: Investments in S Ltd.	1,500
Less: Dividends received out of pre- acquisition profits $\frac{\text{Rs. } 300 \times 60}{100}$	<u>(180)</u>
	<u>643.20</u>

6. Calculation of Minority Interest

	Rs. in '000
40% of share capital of S Ltd.	960.00
Add: 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
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15}\right] \times 300$	<u>52.94</u>
	<u>352.94 or 353.00</u> (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.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	45,00,000
(b) Reserves and Surplus	2	99,73,500
(2) Minority Interest (W.N)		11,56,500
(3) Current Liabilities		
Trade payables (5,55,000+2,10,000)		<u>7,65,000</u>
Total		<u>1,63,95,000</u>
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangibles assets (79,20,000 + 23,10,000)		1,02,30,000
(2) Current assets (44,10,000+17,55,000)		<u>61,65,000</u>
Total		<u>1,63,95,000</u>

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

(i)		Rs.	Rs.
	Cost of control/capital reserve		
	Investment in Q Ltd.		12,00,000
	Less: 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.)		6,79,500
			<u>11,56,500</u>
(iii)	Consolidated profit and loss account – P Ltd.		Rs.
	Balance		15,75,000
	Add: 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	Rs.	Rs.
	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
	Less: 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
	Add: 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
Less: 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 31st March 2018

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

2. <u>Current liabilities</u> (39,000 + 9,500)		48,500
Total		<u>3,24,300</u>
II. ASSETS		
1. <u>Non-current assets</u>		
a. Fixed assets		
i. Tangible assets	3	1,90,000
ii. Intangible assets [Goodwill] (20,000 + 6,000 + 18,200) (WN # 6)		44,200
		44,100
b. Non-current investments [Others] (WN # 7)		46,000
2. <u>Current assets</u> (WN # 7)		<u>3,24,300</u>
Total		

Notes to Accounts

1. Share capital

Particulars	Amount (Rs.)
a. Authorised	
b. Issued, subscribed and fully paid up 1,80,000 shares of Re. 1 each	1,80,000

2. Reserves and Surplus

Particulars	Amount (Rs.)
a. General reserve (WN # 8)	45,000
b. Surplus (WN # 8)	<u>40,750</u>
Total	<u>85,750</u>

Assumptions: "Fixed assets" given in the balance sheet in the question are assumed to be tangible

Working Notes:

WN # 1: Date of acquisition: 01.04.2017

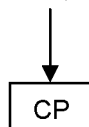
WN # 2: Shareholding pattern

Particulars	Number of shares	% of holding
i. Alpha Ltd.	54,000	90
ii. Minority interest	6,000	10

WN # 3: Analysis of profit

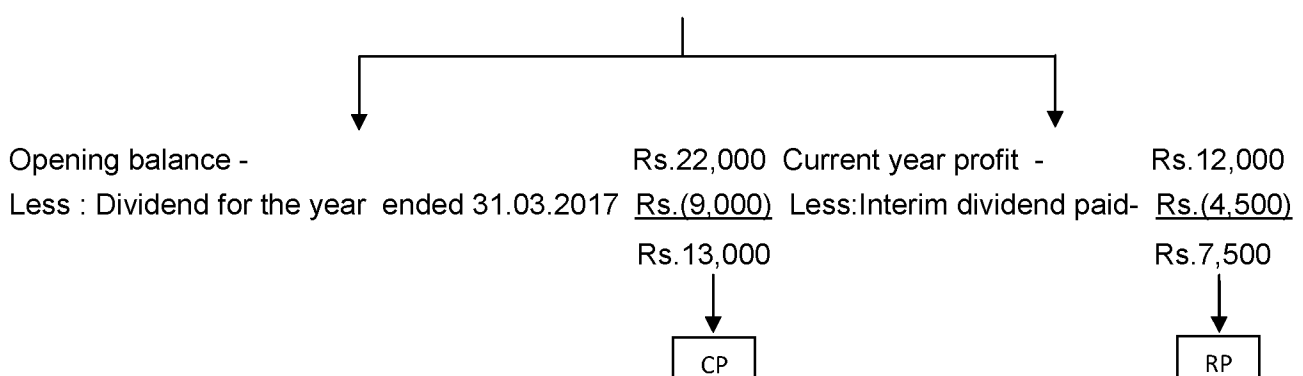
a. General Reserve

Closing balance – Rs.20,000



b. Profit and loss account

Closing balance – Rs.20,500



WN # 4: Apportionment of profit

Particulars	Pre-Acquisition Capital Profits (CP)	Post Acquisition	
		RR	RP
a. General reserve	20,000	-	-
b. Profit and loss A/c	<u>13,000</u>	-	<u>7,500</u>
c. Total	<u>33,000</u>	-	<u>7,500</u>
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)	<u>750</u>
d. Total	<u>10,050</u>

WN # 6: Cost of control

Particulars	Amount (Rs.)	Amount (Rs.)
a. Cost of investment		
i. Amount invested	1,10,000	
ii. Less: 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>
c. Goodwill/ (Capital reserve) (a-b)		<u>18,200</u>

* 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. Less: Unrealised profit (6,000 x 50 / 150)	<u>(2,000)</u>
c. Net for CBS	<u>46,000</u>

b. Investment in Debentures

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

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. Less: Unrealised profit	—	(2,000)
d. Reserve for CBS	45,000	40,750

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		17,90,000
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]		1,40,000
Total expenses		16,43,000
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	3,500	(7,000)
		1,40,000
Less: Minority interest (WN 3)		(7,000)
Capital reserve*		(7,000)
Investment Account - dividend for 3 months (prior to acquisition)		(1,750)
Inventory reserve $\left[\frac{60,000}{4} \times \frac{20}{120} \right]$		(2,500)
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.	9,50,000	
	Total	18,50,000	
	Less: Intra-group sales (H sold to S)	(60,000)	17,90,000
2.	Cost of Materials Purchased/Consumed		
	H Ltd.	5,00,000	
	S Ltd.	6,00,000	
	Total	11,00,000	
	Less: Intra-group sales (H sold to S)	(60,000)	10,40,000

Working Note:**Profit of Subsidiary**

Revenue from Operations		9,50,000
Less: 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	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
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	
	Less: Inter-company Sales	(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	
	Less: Unrealized profits Rs. 48 lacs $\times$ 20/120	(8)	2,392
			14,122

3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>400</u>	
		2,000	
	Less: 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	
	Less: 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	
	Less: 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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To **MASTER MINDS**, Guntur

THE END