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Consolidated Financial Statements of Group Companies

BASIC CONCEPTS

- Section 2 (46) and Section 2 (87)* of Companies Act, 2013 give the following definitions of Holding and Subsidiary Company:

  "holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies;

  "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means 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: Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

  Explanation—For the purposes of this clause,—

  (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

  (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

  (c) the expression "company" includes any body corporate.

  'Total share capital', as defined in section 2(87) (ii) above, has been further clarified by the Rule 2(1)(r) of the Companies (Specification of Definitions Details) Rules, 2014. As per the Rule, total share capital includes

  (a) paid up equity share capital

  (b) convertible preference share capital.

* Erstwhile Section 4(1) of the Companies Act, 1956.

- In a wholly owned subsidiary, there is no minority interest because all the shares with voting rights are held by the holding company.
- Consolidated financial statements are prepared and presented by a parent/holding enterprise to provide financial information about a parent and its subsidiary(ies) as a single economic entity.
- Distinction must be made from the point of view of the holding company, between revenue and capital profit of the subsidiary. In the absence of information, profits of a year may be treated as accruing from day to day

Consolidation procedures

Rule 6 of the Companies (Accounts) Rules, 2014 states that the consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards.

AS 21 lays down the procedure for consolidation of financial statements of subsidiaries with the holding companies.

In preparing the consolidated financial statements, the following steps are taken:

- the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated.
- in case cost of acquisition exceeds or is less than the acquirer's interest, goodwill or capital reserve is calculated retrospectively.
- intragroup transactions, including sales, expenses and dividends, are eliminated, in full;
- unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full;
- unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered;
- minority interest in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
- minority interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.
- if the controlling interest was acquired during the course of a year, profit for that year must be apportioned into the pre-acquisition and post-acquisition portions, on the basis of time in the absence of information on the point.
- the financial statements of the parent and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses.
- dividend received from a subsidiary company, must be distinguished between the part received out of capital profits and that out of revenue profits - the former is credited to

Investment Account, it being a capital receipt, and the latter is adjusted as revenue income for being credited to the Profit & Loss Account.

- in respect of such goods not yet sold, the unrealised profits are to be eliminated in full. This may be done by creating a reserve in respect of total unrealised profit which has not yet been realised.
- also, unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Preparation of Consolidated Profit and Loss Account

- All the revenue items are to be added on line by line basis and from the consolidated revenue items inter-company transactions should be eliminated.
- If there remains any unrealised profit in the inventory of good, of any of the Group Company, such unrealised profit is to be eliminated from the value of inventory to arrive at the consolidated profit.

Preparation of Consolidated Cash Flow Statement

All the items of Cash flow from operating activities, investing activities and financing activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be eliminated.

Treatment of Investment in Associates in Consolidated Financial Statements

Section 129(3) of the Companies Act, 2013 states that those companies which do not have any subsidiary but have one or more associates or joint ventures or both, have also to prepare Consolidated Financial Statements.

An enterprise should account for investments in associates in the consolidated financial statements in accordance with the Accounting Standard (AS) 23.

Accounting for Associates (AS 23)

AS 23 suggests equity method of accounting for investments in associates.

Under equity method The following procedure should be followed:

- Investment is initially recorded at cost. Subsequently, the carrying amount is increased on the basis of share of profit or decreased on the basis of share of loss in the associate.
- Step (1): Find out value of investments on the basis of proportionate value of net assets of the investee;
- Step (2): Find out goodwill or capital reserve arising out of the purchase consideration.
  - If the purchase price is above the value of investments determined in step (1) then there is goodwill and
  - if the purchase price is less than the value of the investments determined in step (1) then there is capital reserve.

- Step (3): Goodwill or capital reserve as determined in step (2) should be included in the carrying amount of the investments with a separate disclosure. On the contrary, investments are recognised at purchase price as per AS 13 without disclosing goodwill/capital reserve.

  DISCLOSURE-Goodwill/capital reserve can be disclosed within bracket below the "Investments in Associates" in the following style and accumulated income which was not earlier recognized should be added to value of investments for first time consolidation with corresponding credit to consolidated reserve.

Equity method is not applicable

(1) when an investment is acquired for the purpose of disposal in the near future, i.e., as short term investments; and

(2) there is severe long term restriction on fund transfer by the associate to the investor. In these two cases AS 13 should be applied.

Treatment of Investment in Joint Ventures in Consolidated Financial Statements (AS 27)

AS 27 identifies three broad types of Joint Ventures- jointly controlled operations, jointly controlled assets and jointly controlled entities.

Jointly Controlled Operations

In respect of its interests in jointly controlled operations, a venturer should recognise in its separate financial statements and consequently in its consolidated financial statements:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of the income that it earns from the joint venture.

Jointly Controlled Assets

In respect of its interest in jointly controlled assets, a venturer should recognise, in its separate financial statements, and consequently in its consolidated financial statements:

(a) its share of the jointly controlled assets, classified according to the nature of the assets;

(b) any liabilities which it has incurred;

(c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(e) any expenses which it has incurred in respect of its interest in the joint venture.

Jointly Controlled Entities: A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other enterprises in conformity with the requirements of AS 27 applicable to that jointly controlled entity.

Separate Financial Statements of a Venturer

In a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment in accordance with Accounting Standard (AS) 13.

Consolidated Financial Statements of a Venturer

In its consolidated financial statements, a venturer should report its interest in a jointly controlled entity using proportionate consolidation except

(a) an interest in a jointly controlled entity which is acquired and held exclusively with a view to its subsequent disposal in the near future; and

(b) an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.

Problems involving one Subsidiary

Question 1

On 31st March, 2017, the abridged Balance Sheets of H Ltd. and S Ltd. stood as follows:

	H Ltd. (₹ in 000's)	*S Ltd. (₹ in 000's)*
Liabilities		
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
	7,129	4,604
Assets:		
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	–
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances	260	190
	7,129	4,604

Following Additional Information is available:

(a) *H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2016 at which date the following balances stood in the books of S Ltd.*

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

(b) *On 14th July, 2016 S Ltd. declared a dividend of 20% out of pre-acquisition profits and paid corporate dividend tax (including surcharge) at 17.304%. H Ltd. credited the dividend received to its Profit and Loss Account.*

(c) *On 1st November, 2016, S Ltd. issued 3 fully paid Equity Shares of ₹ 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.*

(d) *On 31st March, 2017, the Inventory of S Ltd. included goods purchased for ₹ 50 thousand from H Ltd., which had made a profit of 25% on Cost.*

(e) *Details of Trade payables and Trade receivables:*

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

Prepare a consolidated Balance Sheet as on 31st March, 2017.

Answer

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as on 31st March, 2017

Particulars	*Note No.*	*(₹ 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

				(₹ in 000's)	*(₹ in 000's)*
1.	Share Capital				
	Authorised share capital				
	5 lakhs equity shares of ₹ 10 each				5,000
	Issued, Subscribed and Paid up				
	4 lakhs equity shares of ₹ 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.	₹1,305		
	Add: Share in	S Ltd	₹376.80		
			₹1,681.80		
	Less: Dividend wrongly credited		₹ (180)		
			₹1,501.80		
	Less: Unrealised profit (50 X 1/5)		₹ (10)	1,491.80	3,063
3.	Trade payables				
		H Ltd.		611	
		S Ltd.		507	1,118
4.	Short –term provisions				
	Provision for Taxation	H Ltd.	₹ 220		
		S Ltd.	₹ 180	400	

	Other Provisions	H Ltd	₹ 65		
		S Ltd.	₹ 17	82	482
5.	Tangible Assets				
	Plant and Machinery				
		H Ltd.	₹ 2,541		
		S Ltd.	₹ 2,450	4,991	
	Furniture and fittings				
		H Ltd.	₹ 615		
		S Ltd.	₹ 298	913	5,904
6.	Inventories				
	Inventory	H Ltd.	₹ 983		
		S Ltd.	₹ 786	1,769	
	Less: Unrealised profit (₹ 50 x 1/5)			(10)	1,759
7.	Trade receivables				
		H Ltd.		820	
		S Ltd.		778	1,598
8.	Cash and cash equivalents				
	Cash and Bank Balances	H Ltd		410	
		S Ltd.		102	512
9.	Short term loans and advances				
	Sundry Advances	H Ltd.		260	
		S Ltd.		190	450

Working Notes:

Share holding pattern

Particulars	Number of Shares	% of holding
a. S Ltd.		
(i) Purchased on 01.04.2016	90,000	
(ii) Bonus Issue (90,000/5 x 3)	54,000	
Total	1,44,000	60%
b. Minority Interest	96,000	40%

1. S Ltd. General Reserve

		(₹ *in 000)*			(₹ *in 000)*
To	Bonus to equity shareholders	900	By	Balance b/d	1,500
			By	Profit and Loss A/c	

$\left(\frac{2,400 \times 3}{8}\right)$			
To Balance c/d	690	(Balancing figure)	90
	1,590		1,590

2. S Ltd.'s Profit and Loss Account

	(₹ in 000)		(₹ in 000)
To General Reserve	90	By Balance b/d	633
To Dividend paid on 14.7.2016 $\frac{1,500 \times 20}{100}$	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	810		
	1,261		1,261

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

3. Distribution of Revenue Profits

	₹ in '000
Revenue Profit as above	628.00
Share of H Ltd. (60%)	376.80
Share of Minority shareholders (628 – 376.80)	251.20

4. Computation of Capital Profits

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

5. Computation of Capital Reserve

		₹ 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)		523.20
		1,963.20
Less: Investments in S Ltd.	1,500	
Less: Dividends received out of pre- acquisition profits $\frac{₹\ 300 \times 60}{100}$	(180)	(1,320)
		643.20

6. Calculation of Minority Interest

	₹ 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
	1,560.00

7. Calculation of grossing up of dividend

	₹ in '000s
Dividend distributed by S Ltd. (1500 x 20)/100	300
Add: Increase for the purpose of grossing up of dividend [{15/(100-15)} x 300]	52.94
	352.94 or 353.00 (approx.)
Dividend distribution tax @ 17.304% (353 x 17.304%) = 61.08 or	61 (approx.)

Question 2

On 31st March, 2011, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The Balance Sheet of Q Ltd. on that date was as under:

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

On 31st March, 2017 the summarized Balance Sheets of two companies were as follows:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 10 each fully paid (before bonus issue)	45,00,000	15,00,000	Fixed Assets	79,20,000	23,10,000
			1,05,000 Equity shares in		
Securities Premium	9,00,000	–	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 31.3.2017 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date.

Calculate as on 31st March, 2017 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

(i) Before issue of bonus shares.

(ii) 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.

Answer

Consolidated Balance Sheet of P Ltd. and its subsidiary Q Ltd.
as on 31st March, 2017

Particulars	*Note No.*	*(₹)*
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)		7,65,000
Total		1,63,95,000

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)			61,65,000
Total			1,63,95,000

Notes to Accounts

		(₹ in 000's)	(₹ in 000's)
1.	Share Capital		
	Shares of ₹ 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 31.03.2011	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)	Cost of control/capital reserve	₹	₹
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	63,000	(11,13,000)
	Cost of control		87,000
(ii)	Minority Interest		₹
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		6,79,500
			11,56,500

(iii)	Consolidated profit and loss account – P Ltd.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd.(W.N.)		15,85,500
			31,60,500

(ii) Immediately after issue of bonus shares

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

Working Note:

Analysis of Profits of Q Ltd.

	Capital Profits (Before and after issue of bonus shares) ₹	*Revenue Profits*	
		Before Bonus Issue ₹	*After Bonus Issue* ₹
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2011	60,000		
	90,000		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			11,55,000

Profit for period of 1st April, 2012 to 31st March, 2017 (₹ 4,20,000 – ₹ 60,000)		3,60,000	3,60,000
		22,65,000	15,15,000
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.

Question 3

On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	*H Ltd.*	*S Ltd.*
	₹ in lakhs	*₹ in lakhs*
Share Capital:		
Authorised	*15,000*	*6,000*
Issued and Subscribed:		
Equity Shares of ₹ 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 Payables	*1,461*	*854*
Provision for Taxation	*855*	*394*
Dividend payable	*1,200*	*–*
	21,387	*9,208*
Assets	*H Ltd.*	*S Ltd.*
	₹ in lakhs	*₹ in lakhs*
Land and Buildings	*2,718*	*–*
Plant and Machinery	*4,905*	*4,900*
Furniture and Fittings	*1,845*	*586*
Investments in shares in S Ltd.	*3,000*	*–*
Stock	*3,949*	*1,956*
Trade Receivables	*2,600*	*1,363*
Cash and Bank Balances	*1,490*	*204*
Bills Receivable	*360*	*199*
Sundry Advances	*520*	*–*
	21,387	*9,208*

The following information is also provided to you:

(a) *H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances to General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.*

(b) *On 31st March, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.*

(c) *On 1st January, 2017 S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances to its general reserve as on 31st March, 2016.*

(d) *On 31st March, 2017 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 ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.*

(e) *On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for ₹ 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, 2017 bearing in mind the requirements of AS 21.

Answer

Consolidated Balance Sheet of H Ltd.
and its subsidiary S Ltd. as on 31st March, 2017

Particulars	*Note No.*	*(₹ in Lacs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,000
(b) Reserves and Surplus	2	7,159
(2) Minority Interest [W.N.6]		3,120
(3) Current Liabilities		
(a) Trade payables	3	2,315
(b) Short term provisions	4	1,249
(c) Other current liabilities	5	1,687
Total		27,530
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	6	14,954

(2)	**Current assets**		
	(a) Inventories	7	5,885
	(b) Trade receivables	8	3,963
	(c) Cash and cash equivalents	10	1,694
	(d) Short term loans and advances	11	520
	(e) Other current assets	9	514
	Total		27,530

Notes to Accounts

				(₹ in lacs)	(₹ in lacs)
1.	Share Capital				
	Authorised				15,000
	Issued and Subscribed:				
	Equity shares of ₹ 10 each, fully paid up				12,000
2.	Reserves and surplus				
	Capital Reserve (Note 5)			1,320	
	General Reserve (₹2,784 + 108)			2,892	
	Profit and Loss Account:				
	H Ltd.		₹ 2,715		
	Less: Dividend wrongly credited	₹ 360			
	Unrealised Profit	₹ 20	(₹ 380)		
			₹ 2,335		
	Add: Share in S Ltd.'s Revenue profits		₹ 612	2,947	7,159
3.	Trade payables				
	H Ltd.			1,461	
	S Ltd.			854	2,315
4.	Short term provisions				
	Provision for Taxation				
	H Ltd.			855	
	S Ltd.			394	1,249
5.	Other current liabilities				
	Bills Payable				
	H Ltd.			₹ 372	
	S Ltd.			₹ 160	

			₹ 532	
	Less: Mutual owing		₹ (45)	487
	Dividend payable			
	H Ltd.			1,200
				1,687
6.	Tangible assets			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	₹ 4,905		
	S Ltd.	₹ 4,900	9,805	
	Furniture and Fittings			
	H Ltd.	₹ 1,845		
	S Ltd.	₹ 586	2,431	14,954
7.	Inventories			
	Stock			
	H Ltd.		3,949	
	S Ltd.		1,956	
			5,905	
	Less: Unrealised profit		(20)	5,885
8.	Trade receivables			
	H Ltd.	₹ 2,600		
	S Ltd.	₹ 1,363		3,963
9.	Other current assets			
	Bills Receivable			
	H Ltd.	₹ 360		
	S Ltd.	₹ 199		
		₹ 559		
	Less: Mutual Owing	₹ (45)		514
10.	Cash and cash equivalents			
	Cash and Bank Balances			
	H Ltd.		1,490	
	S Ltd.		204	1,694

11.	Short term loans and advances Sundry Advances H Ltd.		520

Working Notes:

Share holding pattern of S Ltd.

Shares as on 31.03.2017 (Includes bonus shares issued on 01.01.2017)	480 lakh shares (4,800 lakhs/ ₹ 10)
H Ltd's holding as on 01.04.2016	180 lakhs
Add : Bonus received on 01.01.2017	108 lakhs (180 / 5 × 3)
Total H Ltd's holding as on 31.03.2017	288 lakhs i.e. 60 % [288 / 480 × 100]
Minority Shareholding	40%

1. S Ltd.'s General Reserve Account

		₹ *in lakhs*			₹ *in lakhs*
To	Bonus to Equity Shareholders	1,800	By	Balance b/d	3,000
To	Balance c/d	1,380	By	Profit and Loss A/c (Balancing figure)	180
		3,180			3,180

2. S Ltd.'s Profit and Loss Account

		₹ *in lakhs*			₹ *in lakhs*
To	General Reserve [WN 1]	180	By	Balance b/d	1,200
To	Dividend paid (20% on ₹3,000 lakhs)	600	By	Net Profit for the year* (Balancing figure)	1,200
To	Balance c/d	1,620			
		2,400			2,400

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	₹ *in lakhs*
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60% (General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	(720)
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking ₹ 1,080 lakhs as post acquisition Profit and Loss balance and ₹ 180 lakhs as post acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (₹ 3,000 – ₹ 1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (₹ 1,200 – ₹ 600)	600
	1,800

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs

Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	(2,640)
Capital reserve	1,320

6. Calculation of Minority Interest

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

7. Unrealised profit in respect of inventory

$$₹ \text{ } 100 \text{ lakhs} \times \frac{25}{125} = ₹ \text{ } 20 \text{ lakhs}$$

Question 4

The following are the summarised Balance Sheets of PD Co. Ltd. and SD Co. Ltd. as on 31.3.2017:

Liabilities	*PD Co. Ltd.* ₹	*SD Co. Ltd.* ₹
Share Capital:		
Authorised	*70,00,000*	*30,00,000*
Issued and Subscribed Capital		
Equity shares of ₹ 10 each fully paid	*50,00,000*	*20,00,000*
Capital Reserve	*5,00,000*	*3,10,000*
Revenue Reserve	*8,50,000*	*75,000*
Profit and Loss Account	*4,00,000*	*2,80,000*
Trade payables	*3,50,000*	*2,35,000*
	71,00,000	*29,00,000*
Assets	*PD Co. Ltd.* ₹	*SD Co. Ltd.* ₹
Land and Buildings	*20,00,000*	*15,20,000*
Plant and Machinery	*20,00,000*	*8,00,000*
Furniture	*5,00,000*	*1,60,000*
Investments	*16,10,000*	–
Inventory	*3,40,000*	*1,00,000*
Trade receivables	*4,10,000*	*2,40,000*
Bank	*2,40,000*	*80,000*
	71,00,000	*29,00,000*

PD Ltd. acquired 80% shares of SD Ltd. on 30.09.2016 at a cost of ₹ 18,10,000. On 1.10.2016 SD Ltd. declared and paid dividend on Equity Shares. PD Ltd. appropriately adjusted its share of dividend in Investment Account.

On 1.4.2016, the Capital Reserve and Profit and Loss Account stood in the books of SD Ltd. at ₹ 50,000 and ₹ 2,75,000 respectively.

Land and Buildings standing in the books of SD Ltd. at ₹ 16,00,000 on 1.4.2016, revalued at ₹ 20,00,000 on 1.10.2016. Furniture, which stood in the books at ₹ 2,00,000 on 1.4.2016 revalued at ₹ 1,50,000 on 1.10.2016. In both the cases the effects have not yet been given in the books.

SD Ltd. bought an item of machinery from PD Ltd. on hire-purchase basis. The following are the balances in respect of this machinery in the books on 31.03.2017 (assuming that the total of instalment due & not due comprises the value of machinery bought by SD Ltd. from PD Ltd):

	₹
Instalment due	*20,000*
Instalment not due	*8,000*

The above items stood included under appropriate heads in Balance Sheet. Hire-purchase inventory reserve ₹ 1,600.

Other details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	*S Ltd. (₹ in 000's)*
Trade payables		
Bills Payable	*1,00,000*	*10,000*
Sundry creditors	*2,50,000*	*2,25,000*
	3,50,000	*2,35,000*
Trade receivables		
Debtors	*3,60,000*	*2,00,000*
Bills Receivables	*50,000*	*40,000*
	4,10,000	*2,40,000*

Prepare a Consolidated Balance Sheet of PD Ltd. and its subsidiary SD Ltd. as at 31.03.2017, complying with the requirements of AS 21.

Answer

Consolidated Balance Sheet of PD Co. Ltd. with its subsidiary SD Co. Ltd. as on 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	50,00,000
(b) Reserves and Surplus	2	25,90,400
(2) Minority interest (W.N. 5)		6,14,000
(3) Current Liabilities		
Trade payables	3	5,57,000
Total		87,61,400
II. Assets		
(1) Non-current assets		
Fixed assets		

Tangible assets	4	73,79,400
(2) **Current assets**		
(a) Inventories	5	4,32,000
(b) Trade receivables	6	6,30,000
(c) Cash and cash equivalents	7	3,20,000
Total		87,61,400

Notes to Accounts

			₹	₹
1.	Share Capital			
	Authorised			70,00,000
	Issued and subscribed			
	Equity shares of ₹10 each, fully paid up			50,00,000
2.	Reserves and surplus			
	Capital reserve (W.N.8)		12,18,000	
	Revenue reserve (W.N. 9)		8,80,000	
	Profit and loss account (W.N. 10)		4,92,400	25,90,400
3.	Trade Payables			
	PD Ltd.		3,50,000	
	SD Ltd.		2,35,000	
			5,85,000	
	Less: Mutual hire purchase indebtedness		(28,000)	5,57,000
4.	Tangible Assets			
	Land and buildings			
	PD Ltd.	20,00,000		
	SD Ltd. (W.N. 2)	19,50,000	39,50,000	
	Plant and machinery			
	PD Ltd.	20,00,000		
	SD Ltd.	8,00,000		
		28,00,000		
	Less: Unrealised profit on hire purchase transaction	(5,600)	27,94,400	
	Furniture			

	PD Ltd.	5,00,000		
	SD Ltd. (W.N. 2)	1,35,000	6,35,000	73,79,400
5.	Inventories			
	PD Ltd.		3,40,000	
	SD Ltd.		1,00,000	
			4,40,000	
	Less: Hire purchase installment not due		(8,000)	4,32,000
6.	Trade receivables			
	PD Ltd.		4,10,000	
	SD Ltd.		2,40,000	
			6,50,000	
	Less: Hire purchase Instalment due		(20,000)	6,30,000
7.	Cash and cash equivalents			
	Bank Balances:			
	PD Ltd.		2,40,000	
	SD Ltd.		80,000	3,20,000

Working Notes:

1. Analysis of reserves and profits of SD Co. Ltd. as on 31.03.2017

		Pre-acquisition profit upto 30.09.2016 (Capital profits)	*Post-acquisition profits (1.10.2016 – 31.3.2017)*		
			Capital reserve	*Revenue reserve*	*Profit and loss account*
Capital reserve as on 31.3.2017	3,10,000				
Less: Balance as on 1.4.2016	(50,000)	50,000			
Created during the year	2,60,000	1,30,000	1,30,000		
Revenue reserve as on 31.3.2017	75,000				
Less: Balance as on 1.4.2016	–				
Created during the year	75,000	37,500		37,500	
Profit and loss account as on 31.3.2017	2,80,000				
Add: Dividend paid on 1.10.2016 (out of pre-acquisition profits)	2,50,000				

WN 11					
	5,30,000				
Less: balance as on 1.4.2016	(2,75,000)				
Earned during the year	2,55,000	1,27,500			1,27,500
Profit as on 1.4.2016	2,75,000				
Less: Dividend paid WN 11]	(2,50,000)				
Balance of pre-acquisition profit as on 31.3.2017	25,000	25,000			
Revaluation as on 1.10.2016:					
Profit on land and buildings (W.N. 2)		4,40,000			
Loss on furniture (W.N.2)		(30,000)			
Difference in depreciation (for 6 months) due to revaluation:					
Short depreciation on land and building (W.N. 3)					(10,000)
Excess depreciation on furniture (W.N. 3)					5,000
Total		7,80,000	1,30,000	37,500	1,22,500
Minority Interest (20%)		1,56,000	26,000	7,500	24,500
Share of PD Co. Ltd. (80%)		6,24,000	1,04,000	30,000	98,000

2. Profit or loss on revaluation of assets in the books of SD Ltd. and their book values as on 31.3.2017

	₹
Land and buildings	
Book value as on 1.4.2016	16,00,000
Less: Depreciation at 5% [WN 12] p.a. for 6 months	(40,000)
	15,60,000
Revalued on 1.10.2016	20,00,000
Profit on revaluation	4,40,000
Value as per balance sheet on 31.3.2017	15,20,000
Add: Profit on revaluation	4,40,000
	19,60,000
Less: Short Depreciation (W.N. 3)	(10,000)
Value as on 31.3.2017	19,50,000
Furniture	
Book value as on 1.4.2016	2,00,000

Less: Depreciation @ 20% [WN 12] p.a. for 6 months	(20,000)
	1,80,000
Revalued on 1.10.2016	1,50,000
Loss on revaluation	30,000
Value as per balance sheet on 31.3.2017	1,60,000
Less: Loss on revaluation	(30,000)
	1,30,000
Add: Excess depreciation written back (W.N. 3)	5,000
Value as on 31.3.2017	1,35,000

3. Calculation of short/excess depreciation

	Building	*Furniture*
Revalued figure as on 1.10.2016	20,00,000	1,50,000
Rate of depreciation [WN 12]	5% p.a.	20% p.a.
Depreciation for 6 months on revalued figure (1.10.2016 to 31.3.2017)	50,000	15,000
Depreciation already provided	40,000	20,000
Difference [(short)/excess]	(10,000)	5,000

4. Calculation of cost of control

	₹
Share capital in SD Ltd.	16,00,000
Add: Capital profit	6,24,000
	22,24,000
Less: Cost of Investments	(16,10,000)
Capital Reserve	6,14,000

5. Calculation of minority interest [20%]

	₹	₹
Share capital		4,00,000
Capital (pre-acquisition) profits [WN 1]		1,56,000
Revenue (post-acquisition) profits: [WN 1]		
Capital Reserve (20% of 1,30,000)	26,000	
Revenue reserve	7,500	

Profit and loss	24,500	58,000
		6,14,000

6. **Inventory reserve (plant and machinery)**

Percentage of profit on hire purchase transaction

$$\frac{1{,}600 \times 100}{8{,}000} = 20\%$$

20% on ₹ 20,000 = ₹ 4,000

Total unrealised profit = ₹ 4,000 + ₹ 1,600 = ₹ 5,600

7. **Elimination of mutual indebtedness**

Elimination of mutual indebtedness in respect of sale of machinery on hire purchase basis will be made as under in the Consolidated Balance Sheet.

	Trade payables ₹	*Trade receivables* ₹	*Inventory* ₹	*Plant and machinery* ₹
Total (PD Ltd. and SD Ltd.)	4,75,000	5,60,000	4,40,000	28,00,000
Less: Instalment due	(20,000)	(20,000)	–	–
Less: Instalment not due	(8,000)	–	(8,000)	–
Less: Profit on plant purchased by SD Ltd. from PD Ltd. on hire purchase	–	–	–	(5,600)
	4,47,000	5,40,000	4,32,000	27,94,400

For consolidated balance sheet purpose, the unrealised profits will be eliminated by deducting ₹ 5,600 from Plant & Machinery and from profit and loss account.

8. **Consolidated capital reserve as on 31.3.2017**

	₹
Capital reserve of PD Ltd. as on 31.3.2017	5,00,000
Add: Share in post acquisition capital reserve of SD Ltd. (W.N. 1)	1,04,000
Add: Cost of control (W.N. 4)	6,14,000
	12,18,000

9. **Consolidated revenue reserve as on 31.3.2017**

	₹
Revenue reserve of PD Ltd. as on 31.3.2017	8,50,000

Add: Share in post acquisition revenue reserve of SD Ltd. (W.N. 1)	30,000
	8,80,000

10. Consolidated profit and loss account as on 31.3.2017

	₹
Profit and loss account balance of PD Ltd. as on 31.3.2017	4,00,000
Add: Share in post acquisition profit and loss account of SD Ltd. (W.N. 1)	98,000
Less: Unrealised profit on hire purchase	(5,600)
	4,92,400

11. Calculation of Dividend Paid

PD Ltd's Investment as on 30.09.2016 ₹ 18,10,000

PD Ltd's Investment as on 31.03.2017 ₹ 16,10,000

PD Ltd's share of dividend ₹ 2,00,000

(since it has credited the investment a/c on the receipt of dividend, the reduction in investment balance is due to dividend received)

Dividend declared and paid by SD Ltd will be ₹ 2,50,000 (₹ 2,00,000 / 80 %)

12 Calculation of Depreciation Rate

	Land & Building	Furniture
As on 01.04.2016 (a)	₹ 16,00,000	2,00,000
As on 31.03.2017 (b)	₹ 15,20,000	₹ 1,60,000
Depreciation (c)= (a)-(b)	₹ 80,000	₹ 40,000
Rate (c) / (a) X 100	5%	20%

Note: In the question, the balance of capital reserve and profit and loss account of SD Ltd., as on 1.4.2016 only has been given and not of revenue reserve. Hence, it has been assumed in the above solution that the revenue reserve is created during the year from current year's profits.

Question 5

War Limited purchased 48,000 shares in Peace Limited on 31st March 2015, at 50% premium over face value by issue of 8% Debentures at 20% premium. The Balance Sheets of War Limited and Peace Limited as on 31-03-2015, i.e., on the date of purchase were as under:

					(in ₹)
Liabilities	*War Ltd.*	*Peace Ltd.*	*Assets*	*War Ltd.*	*Peace Ltd.*
Share capital of ₹ 10 each	*10,50,000*	*6,00,000*	*Fixed Assets*	*6,50,000*	*2,00,000*

General Reserve	*1,20,000*	*40,000*	*Inventory in Trade*	*3,00,000*	*1,80,000*
Profit and Loss A/c	*80,000*	*-*	*Trade receivables*	*3,40,000*	*2,10,000*
Trade payables	*1,00,000*	*60,000*	*Cash in hand*	*60,000*	*30,000*
			Profit and Loss A/c	*-*	*80,000*
	13,50,000	*7,00,000*		*13,50,000*	*7,00,000*

(a) Particulars of War Limited:

(i) Profits made: 2015-2016 ₹ 1,60,000

2016-2017 ₹ 2,00,000

(ii) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.

(iii) Out of profit shown above, every year ₹ 20,000 had been transferred to General Reserve.

(iv) 10% Dividend had been paid in both the years.

(v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

(b) Particulars of Peace Limited:

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2015-2016 and 2016-2017 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01-04-2015.

Prepare Consolidated Balance Sheet of War Limited and its subsidiary as at 31st March, 2017 as per requirement of Schedule III.

Answer

Consolidated Balance Sheet of War Ltd. and its subsidiary Peace Ltd.
as at 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,50,000
(b) Reserves and Surplus	2	3,42,000
(2) Minority Interest [W.N.6(b)]		92,000
(3) Non-current Liabilities		
Long-term borrowings	3	6,00,000
Total		20,84,000

II. Assets		
(1) Non-current assets		
(a) Fixed assets	4	7,10,000
(b) Intangible assets	5	2,24,000
(2) Net current assets	6	11,50,000
Total		20,84,000

Notes to Accounts

			₹
1.	Share Capital		
	Issued and Subscribed:		
	1,05,000 shares of ₹ 10 each fully paid up		10,50,000
2.	Reserves & surplus		
	Securities premium	1,20,000	
	General Reserve	1,60,000	
	Profit and Loss Account [W.N.6(d)]	62,000	3,42,000
3.	Long Term Borrowings		
	6,000, 8% Debentures of ₹ 100 each		6,00,000
4.	Tangible Assets		
	War Ltd. [W.N.3]	5,50,000	
	Peace Ltd. [W.N.3]	1,60,000	7,10,000
5.	Intangible assets		
	Goodwill [W.N.6(c)]		2,24,000
6.	Net current assets		
	War Ltd. [W.N.5]	8,50,000	
	Peace Ltd. [W.N.5]	3,00,000	11,50,000

Working Notes:

Percentage of shareholding of War Ltd. in Peace Ltd.:

48,000 shares out of 60,000 shares i.e $\frac{48,000}{60,000} \times 100 = 80\%$

1. Investment in Peace Ltd.

	₹
Face value of shares (48,000 shares x ₹ 10)	4,80,000
Premium (50%) over face value	2,40,000
Cost of investment	7,20,000

Acquired by issue of debentures at 20% premium:

	₹
8% Debentures	6,00,000
(Nominal value = 7,20,000/120 × 100)	
Add: Securities premium @ 20%	1,20,000
	7,20,000
Writing down of investment to face value in 10 years	
2015-2016 : 1/10 × 2,40,000	(24,000)
2016-2017: 1/10 × 2,40,000	(24,000)
Investment as on 31.3.2017	6,72,000

2. Balance of Profit and Loss Account for the year ended on 31st March, 2017

	War Ltd.	*Peace Ltd.*
	₹	₹
Balance as on 31.3.2015	80,000	(80,000)
Profit/(Loss)		
For 2015-2016	1,60,000	(40,000)
For 2016-2017	2,00,000	(60,000)
Less: Transfer to General Reserve		
2015-2016	(20,000)	
2016-2017	(20,000)	
Dividend @ 10%		
2015-2016	(1,05,000)	
2016-2017	(1,05,000)	
Investment written off		
2015-2016	(24,000)	
2016-2017	(24,000)	

Provision for share of loss in subsidiary		
2015-2016: (40,000 × 80%)	(32,000)	
2016-2017: (60,000× 80%)	(48,000)	
	62,000	(1,80,000)

Note: In the absence of information, taxation has not been considered.

3. Fixed Assets as on 31st March, 2017

	War Ltd.	*Peace Ltd.*
	₹	₹
Fixed assets on 31.3.2015	6,50,000	2,00,000
Less: Depreciation for		
2015-2016	(60,000)	(20,000)
2016-2017	(40,000)	(20,000)
	5,50,000	1,60,000

4. General reserve of War Ltd.

	₹
Balance as on 31.03.2015	1,20,000
Add: Transfer from Profit and loss account	
in 2015-2016	20,000
in 2016-2017	20,000
	1,60,000

5. Separate Balance Sheets as at 31st March, 2017 to calculate net current assets

Particulars	*Note No.*	*War Ltd.*	*Peace Ltd.*
		(₹)	*(₹)*
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	10,50,000	6,00,000
(b) Reserves and Surplus	2	3,42,000	(1,40,000)
(2) Non-Current Liabilities			
Long-term borrowings	3	6,00,000	
Long term provision	4	80,000	
Total		20,72,000	4,60,000

II. Assets			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets* (W.N.3)		5,50,000	1,60,000
(b) Non-current investment		6,72,000	
(2) Net current assets (bal. fig.) (see note)		8,50,000	3,00,000
Total		20,72,000	4,60,000

Notes to Accounts

			War Ltd.	*Peace Ltd.*
			₹	₹
1.	Share Capital			
	Issued and Subscribed:			
	1,05,000 shares of ₹ 10 each fully paid up		10,50,000	
	60,000 shares of ₹ 10 each fully paid up			6,00,000
2.	Reserves & surplus			
	Securities premium	1,20,000		-
	General Reserve (W.N. 4)	1,60,000		40,000
	Profit and Loss Account	62,000	3,42,000	(1,80,000)
	Total		3,42,000	(1,40,000)
3.	Long Term Borrowings			
	8% Debentures		6,00,000	
4.	Long term Provision			
	Provision for loss in subsidiary		80,000	

Note: In the absence of information about the movement in individual current assets and current liabilities, balance sheets as on 31.3.2017 have been prepared on the basis of net current assets, which is the difference of total current assets and total current liabilities. However, Schedule III requires separate disclosure of current liabilities and current assets in the balance sheet.

* Fixed assets given in the question are assumed to be tangible fixed assets.

(6) Computations for Consolidation

(a) Analysis of General reserve and Profits (Losses) of Peace Ltd.

	Pre-acquisition Capital Profit or loss ₹	*Post acquisition Profit or loss* ₹
General Reserve on 31.3.2015	40,000	–
Profit and Loss Account on 31.3.2015	(80,000)	
Profit/(Loss) for the years 2015 – 2016		(40,000)
2016 - 2017		(60,000)
	(40,000)	(1,00,000)
Minority Interest (20%)	(8,000)	(20,000)
Share of War Ltd. (80%)	(32,000)	(80,000)

(b) Minority Interest

	₹
Share Capital	1,20,000
Add: Pre-acquisition capital loss	(8,000)
Post-acquisition loss	(20,000)
	92,000

(c) Cost of Control

		₹
Investment in Peace Ltd.		6,72,000
Less: Paid up value of investment	4,80,000	
Capital profit/(losses)	(32,000)	(4,48,000)
Goodwill		2,24,000

(d) Consolidated Profit and Loss Account

	₹
Balance of Profit and Loss Account of War Ltd.	62,000
Less: Share of loss in Peace Ltd.	(80,000)
	(18,000)
Add back: Provision for loss in subsidiary (mutual transaction) (32,000 + 48,000)	80,000
	62,000

(e)	Long term provision for loss in subsidiary as	₹
	Provision for loss in subsidiary as shown in War Ltd.	80,000
	Less: Intra company transaction	(80,000)
		Nil

Question 6

The summarized balance sheets of two companies, Major Ltd. and Minor Ltd. as at 31st March, 2017 are given below:

Particulars	*Major Ltd.*	*Minor Ltd.*
	₹	₹
Assets:		
Plant and Machinery	*4,14,000*	*1,00,800*
Furniture	*14,000*	*9,200*
18,000, Ordinary shares in Minor Ltd.	*2,40,000*	-
4,000, Ordinary shares in Major Ltd.	-	*48,000*
Inventory in Trade	*96,000*	*2,28,000*
Trade receivables	*1,40,000*	*1,70,000*
Cash at Bank	*34,000*	*26,000*
	9,38,000	*5,82,000*
Liabilities:		
Ordinary shares of ₹ 10 each	*3,60,000*	*2,00,000*
7.5% Preference shares of ₹ 10 each	*3,00,000*	*1,60,000*
Reserves	*52,000*	*60,000*
Trade payables	*1,06,000*	*1,22,000*
Profit and Loss account	*1,20,000*	*40,000*
	9,38,000	*5,82,000*

Major Ltd. acquired the shares of Minor Ltd. on 1st October, 2016. As on 31st March, 2016, the plant and machinery stood in the books at ₹ 1,12,000, the reserve at ₹ 60,000 and the profit and loss account at ₹ 16,000. The plant and machinery was revalued by Major Ltd. on the date of acquisition of shares of Minor Ltd. at ₹ 1,20,000 but no adjustments were made in the books of Minor Ltd.

On 31st March, 2016, the debit balance of profit and loss account was ₹ 45,500 in the books of Major Ltd.

Both the companies have provided depreciation on all their fixed assets at 10% p.a.

You are required to prepare a Consolidated Balance Sheet as on 31st March, 2017 as per Schedule III.

Answer

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

Consolidated Balance Sheet of Major Ltd., and its subsidiary Minor Ltd. as on 31st March, 2017

Particulars	*Notes No.*	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	6,20,000
(b) Reserves and Surplus	2	1,69,610
(2) Minority Interest	3	2,05,090
(3) Current Liabilities		
(a) Trade Payables (1,06,000 + 1,22,000)		2,28,000
(b) Other current liabilities (Preference dividend of Major Ltd.)		22,500
Total		12,45,200
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	5,51,200
(2) Current assets		
(a) Inventories ₹ (96,000+2,28,000)		3,24,000
(b) Trade receivables ₹ (1,40,000+1,70,000)		3,10,000
(c) Cash & Cash equivalents ₹ (34,000+26,000)		60,000
Total		12,45,200

Notes to Accounts

			₹
1.	Share Capital		
	36,000 Equity shares of ₹ 10 each of Major Ltd.	3,60,000	
	Less : Shares held by Minor Ltd.	(40,000)	
		3,20,000	

	30,000, 7.5% Preference shares of ₹ 10 each fully paid of Major Ltd.		3,00,000	6,20,000
2.	Reserves and Surplus			
(a)	Reserves	52,000		
	Less: Share of Minor Ltd.	(17,042)	34,958	
(b)	Profit & Loss account	1,20,000		
	Less: Preference dividend	(22,500)		
		97,500		
	Less: Share of Minor Ltd.	(12,659)		
		84,841		
	Add: Share of revenue profit of Minor Ltd.	16,433	1,01,274	
(c)	Capital Reserve of Major Ltd.	41,378		
	Less: Goodwill of Minor Ltd.	(8,000)	33,378	1,69,610
3.	Minority Interest			
	Preference shares of Minor Ltd.		1,60,000	
	Preference dividend paid by Minor Ltd.		12,000	
	Equity shares (10%)		20,000	
	Capital profit (W.N. iv)		11,264	
	Revenue profit (W.N. v)		1,826	2,05,090
4.	Tangible Assets			
	Plant & Machinery			
	Major Ltd.	4,14,000		
	Minor Ltd. (1,00,800+13,600-400)	1,14,000	5,28,000	
	Furniture (14,000+9,200)		23,200	5,51,200

Working Notes:

(i) (a) Analysis of profits of Minor Ltd. (Pre-allocation of inter-company's share)

		Capital Profit ₹	*Revenue Profit* ₹
Reserves		60,000	
Profit and Loss as on 1.4.2016		16,000	
Profit for the year (40,000 – 16,000)	24,000		

Less: Preference dividend* (as per para 27 of AS 21)	(12,000)		
	12,000	6,000	6,000
Profit on upward revaluation (W.N. vii)		13,600	
Additional depreciation on upward revaluation (W.N. viii)		______	(400)
		95,600	5,600

(b) Analysis of Profits of Major Ltd.

		Capital Profit ₹	*Revenue Profit* ₹
Reserves during the year		26,000	26,000
Profit and Loss as on 1.4.2016		(45,500)	
Profit for the year (1,20,000 + 45,500)	1,65,500		
Less: Preference dividend	(22,500)		
	1,43,000	71,500	71,500
		52,000	97,500

(ii) Capital profits of Major Ltd. & Minor Ltd. (post allocation of inter-company's share)

Suppose capital profits of Major Ltd. = a

and capital profits of Minor Ltd. = b

Total Capital profits of Major Ltd. $= 52{,}000 + \frac{9}{10} b$ (1)

Total Capital profits of Minor Ltd. $= 95{,}600 + \frac{1}{9} a$ (2)

Putting values of equation (2) in (1), we get

$$a = 52{,}000 + \frac{9}{10}\left[95{,}600 + \frac{1}{9}a\right]$$

$$a = 52{,}000 + \frac{9}{10} \times \frac{8{,}60{,}400 + a}{9}$$

$$a = 52{,}000 + 86{,}040 + \frac{a}{10}$$

$$a - \frac{a}{10} = 1{,}38{,}040$$

* It is assumed that adjustment of preference dividend has not been done earlier.

$9a = 13,80,400$

$a = \frac{13,80,400}{9}$

$a = 1,53,378$

$b = 95,600 + \frac{1}{9}(1,53,378)$

$b = 1,12,642$

(iii) Revenue profits of Major Ltd. and Minor Ltd. (post allocation of inter-company's share)

Suppose revenue profits of Major Ltd. = x

and revenue profits of Minor Ltd.= y

Total Revenue profits of Major Ltd. = $97,500 + \frac{9}{10}y$ (3)

Total Revenue profits of Minor Ltd. = $5,600 + \frac{1}{9}x$ (4)

By solving the above equations (3) and (4) in line with the equations (1) and (2) of capital profit, we will get

x = 1,13,933 and y = 18,259

		Major Ltd. ₹	*Minor Ltd.* ₹
(iv)	Capital Profits		
	As per W.N.(ia) & (ib)	52,000	95,600
	Adjustment as per W.N.(ii) (1,53,378/9)	(17,042)	17,042
		34,958	1,12,642
	Minority Interest (10%)		(11,264)
	Share of Major Ltd.		1,01,378
(v)	Revenue Profits		
	As per W.N.(ia) & (ib)	97,500	5,600
	Adjustment as per W.N.(iii)	(12,659)	12,659
		84,841	18,259
	Minority interest of Minor Ltd.	-	(1,826)
	Share of Major Ltd. in Minor Ltd.	16,433	16,433
		1,01,274	

(vi)	Cost of Control		
	(a) Cost of investment of Major Ltd. in Minor Ltd.		2,40,000
	Less: Paid up value of shares (18,000 x ₹ 10)	1,80,000	
	Capital Profits	1,01,378	(2,81,378)
	Capital Reserve		41,378
	(b) Cost of investment of Minor Ltd. in Major Ltd.		48,000
	Less: Paid up value of shares held		(40,000)
	Goodwill		8,000
(vii)	Plant and Machinery as on 1.1.2016		1,12,000
	Less: Depreciation upto 30th September, 2016 (1,12,000 x 10% x 6/12)		(5,600)
	Value as on 1.10.2016		1,06,400
	Revaluation of Plant and Machinery on 1.10.2016		1,20,000
	Profit on upward revaluation		13,600
(viii)	Additional depreciation on upward Revaluation of Plant and Machinery		
	Depreciation for remaining 6 months (1,20,000 x 10% x 6/12)		6,000
	Less: Depreciation already charged (1,12,000 x 10% x 6/12)		(5,600)
			400

Problems Involving One Subsidiary – Different Dates of Acquisition

Question 7

The summarized Balance Sheets of Football Ltd. and its subsidiary Hockey Ltd. as on 31st March, 2017 are as under:

Liabilities	*Football Ltd. ₹*	*Hockey Ltd. ₹*	*Assets*	*Football Ltd. ₹*	*Hockey Ltd. ₹*
Equity shares of ₹ 10 each	*48,00,000*	*20,00,000*	*Goodwill*	*4,50,000*	*3,00,000*
10% Preference shares of ₹ 10 each	*7,00,000*	*3,80,000*	*Plant and machinery*	*12,00,000*	*5,00,000*
			Motor vehicles	*9,50,000*	*7,50,000*
General reserve	*5,50,000*	*4,20,000*	*Furniture and fittings*	*6,50,000*	*4,00,000*
Profit and loss account	*10,00,000*	*6,00,000*			

Bank overdraft	*1,20,000*	*70,000*	*Investments*	*26,00,000*	*4,50,000*
Trade payables	*4,30,000*	*6,40,000*	*Inventory*	*4,50,000*	*7,20,000*
			Cash at bank	*2,25,000*	*2,10,000*
			Trade receivables	*10,75,000*	*7,80,000*
	76,00,000	*41,10,000*		*76,00,000*	*41,10,000*

Details of acquisition of shares by Football Ltd. are as under:

Nature of shares	*No. of shares acquired*	*Date of acquisition*	*Cost of acquisition ₹*
Preference shares	*14,250*	*1.4.2014*	*3,10,000*
Equity shares	*80,000*	*1.4.2015*	*9,50,000*
Equity shares	*70,000*	*1.4.2016*	*8,00,000*

Other information:

(i) *On 1.4.2016 profit and loss account and general reserve of Hockey Ltd. had credit balances of ₹ 3,00,000 and ₹ 2,00,000 respectively.*

(ii) *Dividend @ 10% was paid by Hockey Ltd. for the year 2015-2016 out of its profit and loss account balance as on 1.4.2016. Football Ltd. credited its share of dividend to its profit and loss account.*

(iii) *Hockey Ltd. allotted bonus shares out of general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been made.*

(iv) *During the year 2016-2017 Football Ltd. purchased goods from Hockey Ltd. for ₹ 1,00,000 at a sale price of ₹ 1,20,000. 40% of these goods remained unsold at close of the year.*

(v) *On 1.4.2016 motor vehicles of Hockey Ltd. were overvalued by ₹ 1,00,000. Applicable depreciation rate is 20%.*

(vi) *Dividends recommended for the year 2016-2017 in the holding and the subsidiary companies are 15% and 10% respectively.*

(vii) *Details of Trade payables and Trade receivables:*

	Football Ltd.	*Hockey Ltd.*
Trade payables		
Bills Payable	–	*1,60,000*
Sundry creditors	*4,30,000*	*4,80,000*
	4,30,000	*6,40,000*

Trade receivables		
Debtors	*9,30,000*	*7,80,000*
Bills Receivables	*1,45,000*	*–*
	10,75,000	*7,80,000*

(vi) Bills receivable of Football Ltd. were drawn upon Hockey Ltd.

Prepare consolidated Balance Sheet as on 31st March, 2017.

Answer

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

Consolidated Balance Sheet of Football Ltd. and its subsidiary Hockey Ltd.
as on 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) Shareholder's Funds		
(a) Share Capital	1	55,00,000
(b) Reserves and Surplus	2	12,24,750
(2) **Minority Interest (W.N.3)**		9,11,000
(3) **Current Liabilities**		
(a) Short term borrowings	3	1,90,000
(b) Trade payables	4	9,25,000
(c) Other current liabilities	5	8,63,750
Total		96,14,500
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	6	43,70,000
ii. Intangible assets	7	9,47,500
(b) Non-current investments	8	9,90,000
(2) **Current assets**		
(a) Inventories	9	11,62,000
(b) Trade receivables	10	17,10,000
(c) Cash and cash equivalents	11	4,35,000
Total		96,14,500

Notes to Accounts

			₹	₹
1.	Share Capital			
	Authorised, Issued and paid up capital			–
	4,80,000, Equity shares of ₹ 10 each		48,00,000	
	70,000, 10% preference shares of ₹ 10 each		7,00,000	55,00,000
2.	Reserves and surplus			
	General reserve – Football Ltd.			
	Balance	5,50,000		
	Add: Share in Hockey Ltd. [W.N. 1]	1,65,000	7,15,000	
	Profit and loss account (W.N. 4)		5,09,750	12,24,750
3.	Short term borrowings			
	Bank Overdraft			
	Football Ltd.		1,20,000	
	Hockey Ltd.		70,000	1,90,000
4.	Trade payables			
	Football Ltd.		4,30,000	
	Hockey Ltd.		6,40,000	
	Less: Mutual debt		(1,45,000)	9,25,000
5.	Other current liabilities			
	Dividend payable			
	Football Ltd.			
	Equity		7,20,000	
	Preference		70,000	7,90,000
	Hockey Ltd.			
	Equity		50,000	
	Preference		23,750	73,750
				8,63,750
6.	Tangible assets			
	Plant and Machinery			
	Football Ltd.	₹ 12,00,000		
	Hockey Ltd.	₹ 5,00,000	17,00,000	

	Motor Vehicles				
	Football Ltd.	₹ 9,50,000			
	Hockey Ltd. (₹ 7,50,000–1,00,000+ 20,000)	6,70,000	16,20,000		
	Furniture & Fittings				
	Football Ltd.	₹ 6,50,000			
	Hockey Ltd.	₹ 4,00,000	10,50,000	43,70,000	
7.	Intangible assets				
	Goodwill				
	Football Ltd.		4,50,000		
	Hockey Ltd.		3,00,000		
			7,50,000		
	Add: Goodwill on consolidation (W.N. 2)		1,97,500	9,47,500	
8.	Non-current investments				
	Investments				
	Football Ltd. (₹ 26,00,000 – 20,60,000)		5,40,000		
	Hockey Ltd.		4,50,000	9,90,000	
9.	Inventories				
	Inventory				
	Football Ltd.		4,50,000		
	Hockey Ltd.		7,20,000		
			11,70,000		
	Less: Unrealised profit		(8,000)	11,62,000	
10.	Trade receivables				
	Football Ltd.		10,75,000		
	Hockey Ltd.		7,80,000		
	Less: Mutual Debt		(1,45,000)	17,10,000	
11.	Cash and cash equivalents				
	Cash at Bank				
	Football Ltd.		2,25,000		
	Hockey Ltd.		2,10,000	4,35,000	

Working Notes:

(1) Analysis of Profits of Hockey Ltd.	₹	*Capital Profits* ₹	*Revenue Reserve* ₹	*Revenue Profit* ₹
(a) General Reserve as on 1.4.2016	2,00,000			
Less: Bonus issue (1/10 of ₹ 20,00,000)	(2,00,000)	–	–	
(b) Addition to General Reserve during 2016-2017 (₹ 4,20,000 – ₹ 2,00,000)			2,20,000	
(c) Profit and Loss Account balance as on 1.4.2016	3,00,000			
Less: Dividend paid for the year 2015-2016	(2,00,000)	1,00,000		
(d) Profit for the year 2016-2017 (₹ 6,00,000 – ₹ 1,00,000)				5,00,000
(e) Adjustment for over valuation of motor vehicles		(1,00,000)		
(f) Adjustment of revenue profit due to overcharged depreciation (20% on ₹ 1,00,000)				20,000
(g) Preference dividend for the year 2016-2017 @ 10%				(38,000)
		–	2,20,000	4,82,000
Football Ltd.'s share (3/4)			1,65,000	3,61,500
Minority Interest (1/4)			55,000	1,20,500
			2,20,000	4,82,000

(2) Cost of Control	₹	₹
Cost of investments in Hockey Ltd.		20,60,000
Less: Paid up value of equity shares (including bonus shares) [80,000 + 70,000 + (10% of 1,50,000)] × ₹ 10	16,50,000	

	Paid-up value of preference shares	1,42,500	
	Pre-acquisition dividend*	70,000	(18,62,500)
	Cost of control/Goodwill		1,97,500
(3)	Minority Interest		
	Equity share capital [₹ 5,00,000 + ₹ 50,000 (Bonus)]		5,50,000
	Preference share capital (₹ 3,80,000 – ₹ 1,42,500)		2,37,500
	Share of revenue reserve [W.N. 1]		55,000
	Share of revenue profit [W.N. 1]		1,20,500
	Preference dividend		23,750
	Less: Unrealised gain 8,000 x 1/4		(2,000)
			9,84,750
	Less: Dividend payable		
	Equity	50,000	
	Preference	23,750	73,750
			9,11,000
(4)	Profit and Loss Account – Football Ltd.		
	Balance		10,00,000
	Share in profit of Hockey Ltd. [W.N. 1]		3,61,500
	Share in preference dividend of Hockey Ltd.		14,250
			13,75,750
	Less: Pre-acquisition dividend credited to profit and loss account*	70,000	
	Unrealised profit on inventory [(40% of ₹ 20,000)x ¾]	6,000	
	Equity dividend [48,00,000 x 15 %]	7,20,000	
	Preference dividend [7,00,000 x 10 %]	70,000	(8,66,000)
			5,09,750

Note: No information has been given in the question regarding date of bonus issue by Hockey. It is also not mentioned whether the bonus shares are issued from pre-acquisition general reserve or post-acquisition general reserve. The above solution is given on the basis that Hockey Ltd. allotted bonus shares out of pre-acquisition general reserve.

* The dividend on 70,000 shares only (acquired on 1.4.2016) is a pre-acquisition dividend.

Question 8

'HIM' Limited is a company carrying on the business of beauty products and is having a subsidiary 'SIM' Limited. Their Balance-sheets as on 31st March 2016 were as under:

	HIM Limited (₹)	SIM Limited (₹)
Equity and Liabilities		
Shareholders' Funds		
Share Capital	25,00,000	5,80,000
Reserves and Surplus		
General Reserve	2,00,000	1,20,000
Profit and Loss Account	3,12,500	2,05,000
Current Liabilities		
Trade Payables	4,55,000	2,35,500
Bills Payables	28,000	83,000
Total	34,95,500	12,23,500
Assets		
Non-current Assets		
Fixed Assets	21,70,000	6,25,000
Investments		
4060 Shares in SIM Limited	5,10,000	-
Current Assets		
Inventories	4,80,000	3,19,200
Trade Payable	1,80,000	1,64,000
Bills Receivable	68,000	1,00,000
Cash and Bank Balance	87,500	15,300
Total	34,95,500	12,23,500

HIM Limited has also given the following information:

(i) HIM Limited has acquired the shares in SIM Limited in two lots on two different dates. The relevant information at the time of acquisition of shares was as under:

No. of shares acquired	Balance in General Reserve	Balance in Profit and Loss Account
1st acquisition 3480	80,000	25,000
2nd acquisition 580	85,000	1,02,000

(ii) Bills Receivables of HIM Limited includes ₹15,000 being acceptance from SIM Limited.

(iii) Both the companies have declared dividend of 10% for the year ended on 31st March 2016, but it has not been provided in the books of accounts.

(iv) SIM Limited's inventory includes stock of ₹ 1,45,000 purchased from HIM Limited. HIM Limited sells goods at mark up of 25% on its cost.

Prepare the Consolidated Balance Sheet of HIM Limited along with 'Notes to accounts'.

Answer

Consolidated Balance Sheet of Him Ltd. and its subsidiary Sim Ltd.
as on 31st March, 2016

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	25,00,000
Reserves and Surplus	2	3,79,300
(2) Minority Interest (W.N.2)		2,54,100
(3) Current Liabilities		
Trade payables	3	7,86,500
Other Current liabilities	4	2,67,400
Total		41,87,300
II. Assets		
(1) Fixed Assets		
Tangible assets	5	27,95,000
Intangible assets	6	22,300
(2) Current assets		
Inventories	7	7,70,200
Trade Receivables	8	4,97,000
Cash and Cash equivalents	9	1,02,800
Total		41,87,300

Notes to Accounts

				₹
1.	Share Capital			
	Authorised, Issued, Subscribed and Paid up			
	25,000 Equity shares of ₹ 100 each			25,00,000
2.	Reserves and Surplus			
	General Reserve (W.N.4)		2,27,500	
	Profit & Loss Account (W.N.4)		1,51,800	3,79,300
3.	Trade payables			
	Trade Payables			
	Him Ltd.		4,55,000	
	Sim Ltd.		2,35,500	6,90,500
	Bills payable			
	Him Ltd.		28,000	
	Sim Ltd.	83,000		
	Less: Mutual owings	(15,000)	68,000	96,000
				7,86,500
4.	Other Current liabilities			
	Dividend payable			
	Him Ltd.		2,50,000	
	Minority Interest		17,400	2,67,400
5.	Tangible assets			
	Him Ltd.		21,70,000	
	Sim Ltd.		6,25,000	27,95,000
6.	Intangible assets			
	Goodwill (W.N.3)			22,300
7.	Inventories			
	Him Ltd.		4,80,000	
	Sim Ltd.		3,19,200	
			7,99,200	
	Less: Unrealised profit		(29,000)	7,70,200
8.	Trade Receivables			
	Trade Receivables			
	Him Ltd.		1,80,000	
	Sim Ltd.		1,64,000	3,44,000

	Bills Receivable			
	Him Ltd.	68,000		
	Less: Mutual owings	(15,000)	53,000	
	Sim Ltd.		1,00,000	1,53,000
				4,97,000
9.	Cash and Cash equivalents			
	Him Ltd.		87,500	
	Sim Ltd.		15,300	1,02,800

Working Notes:

1. Analysis of Profits

	Pre-acquisition Profits	*Post-acquisition*	
		General Reserve	*Profit & Loss Account*
	₹	₹	₹
General Reserve	80,000	40,000	
Profit & Loss Account	25,000	____	1,80,000
For Lot 1 (A)	1,05,000	40,000	1,80,000
Pre-acquisition for Lot 2			
General Reserve (85,000 – 80,000)		5,000	
Profit & Loss Account (1,02,000-25,000)			77,000
Post-acquisition for Lot 2		35,000	1,03,000
Him Ltd. (70%) of (A)	73,500	28,000	1,26,000
Adjustment of pre-acquisition General Reserve for Lot 2 (10%)	500	(500)	
Adjustment of pre-acquisition Profit & Loss Account for Lot 2 (10%)	7,700	____	(7,700)
Him Ltd.	81,700	27,500	1,18,300
Minority Interest (30%) of (A)	31,500	12,000	54,000

2. Minority Interest

	₹
Share Capital (30%)	1,74,000
Add: Share of pre-acquisition profit of Sim Ltd.	31,500

Share of post-acquisition General Reserve	12,000
Share of post-acquisition Profit & Loss Account	54,000
	2,71,500
Less: Share of Dividend payable	(17,400)
	2,54,100

3. Cost of Control/Goodwill

	₹
Cost of investments	5,10,000
Less: Share capital (70%)	(4,06,000)
Share of pre-acquisition profit	(81,700)
Goodwill	22,300

4. Consolidated General Reserve & Profit and Loss Account

	General Reserve	*Profit and Loss*
	₹	₹
Him Ltd.	2,00,000	3,12,500
Less: Dividend declared by Him Ltd.		(2,50,000)
Less: Unrealised profit		(29,000)
	2,00,000	33,500
Add: Share in post-acquisition item of Sim Ltd.	27,500	1,18,300
	2,27,500	1,51,800

Problems involving more than one subsidiary

Question 9

From the following summarized Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2017. Figures given are in ₹ Lakhs:

Balance Sheets as on 31.3.2017

	X	*Y*	*Z*		*X*	*Y*	*Z*
Shares capital (in shares of ₹ 100 each)	*300*	*200*	*100*	*Fixed Assets less depreciation*	*130*	*150*	*100*
Reserves	*50*	*40*	*30*	*Cost of investment in Y Ltd.*	*180*	*–*	*–*
Profit and loss balance	*60*	*50*	*40*	*Cost of investment in Z Ltd.*	*40*	*–*	*–*
Trade payables	*40*	*10*	*15*	*Cost of investment in Z Ltd.*	*–*	*80*	*–*
Y Ltd. balance	*–*	*–*	*15*	*Inventory*	*50*	*20*	*20*

Z Ltd. balance	*50*	–	–	*Trade receivables*	*70*	*20*	*40*
				Z Ltd. balance	–	*10*	–
				X Ltd. balance	–	–	*30*
				Cash and bank balance	*30*	*20*	*10*
	500	*300*	*200*		*500*	*300*	*200*

X Ltd. holds 1,60,000 shares and 30,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 60,000 shares in Z Ltd. These investments were made on 1.7.2016 on which date the provision was as follows:

	Y Ltd.	*Z Ltd.*
Reserves	*20*	*10*
Profit and loss account	*30*	*16*

In December, 2016 Y Ltd. invoiced goods to X Ltd. for ₹ 40 lakhs at cost plus 25%. The closing inventory of X Ltd. includes such goods valued at ₹ 5 lakhs.

Z Ltd. sold to Y Ltd. an equipment costing ₹ 24 lakhs at a profit of 25% on selling price on 1.1.2017. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.

X Ltd. proposes dividend at 10%.

Details of Trade payables and Trade receivables:

	X	*Y*	*Z*
Trade payables			
Bills Payable	*10*	-	*5*
Sundry creditors	*30*	*10*	*10*
	40	*10*	*15*
Trade receivables			
Debtors	*70*	*10*	*20*
Bills Receivables	-	*10*	*20*
	70	*20*	*40*

Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 3 lakhs.

Trade receivables of X Ltd. include ₹ 5 lakhs being the amount due from Y Ltd.

Answer

Consolidated Balance Sheet of X Ltd.
and its subsidiaries Y Ltd. and Z Ltd.
as at 31st March, 2017

Particulars	*Note No.*	*(₹ in Lacs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		300.00
(b) Reserves and Surplus	1	151.90
(2) Minority Interest (W.N 4)		79.30
(3) Current Liabilities		
(a) Trade payables	2	58.00
(b) Other current liabilities	3	55.00
Total		644.20
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	372.20
(2) Current assets		
(a) Inventories	5	89.00
(b) Trade receivables	6	123.00
(c) Cash and cash equivalents	7	60.00
Total		644.20

Notes to Accounts

			(₹ in lacs)	*(₹ in lacs)*
1.	Reserves and Surplus			
	Capital Reserve [W.N. 3]		13.40	
	Other Reserves [W.N. 7]		81.60	
	Profit and Loss Account [W.N. 6]		56.90	151.90
2.	Trade payables			
	X Ltd.	₹ 40.00		
	Y Ltd.	₹ 10.00		

	Z Ltd.	₹ 15.00	65.00	
	Less: Mutual indebtedness	₹ (5.00)		
	*Less :*Mutual indebtedness [5-3]	₹ (2.00)	(7.00)	58.00
3.	Other current liabilities			
	(a) Current Account Balances			
	X Ltd.	₹ 50.00		
	Z Ltd.	₹ 15.00		
		₹ 65.00		
	Less: Mutual indebtedness (₹ 10+ 30)	(₹ 40.00)	25.00	
	(b) Dividend payable		30.00	55.00
4.	Tangible assets			
	Fixed Assets			
	X Ltd.		130.00	
	Y Ltd.		150.00	
	Z Ltd.		100.00	
			380.00	
	Less: Unrealised profit [W.N. 5]		(7.80)	372.20
5.	Inventories			
	X Ltd.		50.00	
	Y Ltd.		20.00	
	Z Ltd.		20.00	
			90.00	
	Less: Unrealised profit [5 x 25 / 125]		(1.00)	89.00
6.	Trade receivables			
	X Ltd.	₹ 70.00		
	Y Ltd.	₹ 20.00		
	Z Ltd.	₹ 40.00	130.00	
	Less: Mutual indebtedness	₹ (5.00)		
	Less: Mutual indebtedness	₹ (2.00)	(7.00)	123.00
7.	Cash and Cash Equivalents			
	X Ltd.	₹ 30.00		
	Y Ltd.	₹ 20.00		
	Z Ltd.	₹ 10.00		60.00

Working Notes:

Shareholding Pattern

	Y Ltd.	Z Ltd.
Total Shares	2 lakh shares	1 lakh shares
X Ltd's holding	1.6 lakh shares [80 %]	.3 lakhs [30%]
Y Ltd's holding	NA	.6 lakhs [60%]
Minority Holding	.4 lakh shares (20 %)	.1 lakh shares (10%)

		(₹ in lakhs)		
		Capital Profit	*Revenue Reserve*	*Revenue profit*
(1)	Analysis of Profits of Z Ltd.			
	Reserves on 1.7.2016	10.00		
	Profit and Loss A/c on 1.7.2016	16.00		
	Increase in Reserves		20.00	
	Increase in Profit			24.00
		26.00	20.00	24.00
	Less: Minority Interest (10%)	(2.60)	(2.00)	(2.40)
		23.40	18.00	21.60
	Share of X Ltd. [30%]	7.80	6.00	7.20
	Share of Y Ltd. [60%]	15.60	12.00	14.40
(2)	Analysis of Profits of Y Ltd.			
	Reserves on 1.7.2016	20.00		
	Profit and Loss A/c on 1.7.2016	30.00		
	Increase in Reserves		20.00	
	Increase in Profit			20.00
		50.00	20.00	20.00
	Share in Z Ltd. [WN 1]		12.00	14.40
		50.00	32.00	34.40
	Less: Minority Interest (20%)	(10.00)	(6.40)	(6.88)
	Share of X Ltd.[80%]	40.00	25.60	27.52
(3)	Cost of Control			
	Investments in Y Ltd.			180.00
	Investments in Z Ltd.			120.00
				300.00

	Less: Paid up value of investments			
	in Y Ltd.	(160.00)		
	in Z Ltd.	(90.00)	(250.00)	
	Capital Profit			
	in Y Ltd. [WN 1]	(40.00)		
	in Z Ltd. [WN 2]	(23.40)	(63.40)	(313.40)
	Capital Reserve			13.40
(4)	Minority Interest	Y Ltd.	Z Ltd.	
	Share Capital	40.00	10.00	
	Capital Profit	10.00	2.60	
	Revenue Reserves	6.40	2.00	
	Revenue Profits	6.88	2.40	
		63.28	17.00	
	Less: Unrealised profit on inventory (20% of 1)	(.20)		
	Unrealised profit on equipment (10% of ₹7.8)		(0.78)	
		63.08	16.22	
(5)	Unrealised Profit on equipment sale			
	Cost	24.00		
	Profit [25 % on selling price]	8.00		
	Selling Price	32.00		
	Unrealised profit = $\left[8-\left(8\times\frac{10}{100}\times\frac{3}{12}\right)\right]$			
	= 8.00 – 0.20 = 7.80			
(6)	Profit and Loss Account – X Ltd.			
	Balance	60.00		
	Less: Dividend	(30.00)		
		30.00		
	Share in Y Ltd.	27.52		
	Share in Z Ltd.	7.20		
		64.72		
	Less: Unrealised profit on equipment (90% of 7.8)	(7.02)		
		57.70		

	Less: Unrealised profit on inventory $\left(5 \times \frac{25}{125} \times 80\%\right)$	(0.80)		
		56.90		
(7)	Reserves – X Ltd.			
	X Ltd.	50.00		
	Share in Y Ltd. [WN 2]	25.60		
	Share in Z Ltd. [WN 1]	6.00		
		81.60		

Question 10

Following are the summarized Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st March, 2017:

Liabilities	*Mumbai Ltd.*	*Delhi Ltd.*	*Amritsar Ltd.*	*Kanpur Ltd.*
Share Capital (₹ 100 face value)	*50,00,000*	*40,00,000*	*20,00,000*	*60,00,000*
General Reserve	*20,00,000*	*4,00,000*	*2,50,000*	*10,00,000*
Profit & Loss Account	*10,00,000*	*4,00,000*	*2,50,000*	*3,20,000*
Trade payables	*3,00,000*	*1,00,000*	*50,000*	*80,000*
	83,00,000	*49,00,000*	*25,50,000*	*74,00,000*
Assets				
Investments:				
30,000 shares in Delhi Ltd.	*35,00,000*	—	—	—
10,000 shares in Amritsar Ltd	*11,00,000*	—	—	—
5,000 shares in Amritsar Ltd.	—	*5,00,000*	—	—
Shares in Kanpur Ltd. @ ₹ 120	*36,00,000*	*18,00,000*	*6,00,000*	—
Fixed Assets	—	*20,00,000*	*15,00,000*	*70,00,000*
Current Assets	*1,00,000*	*6,00,000*	*4,50,000*	*4,00,000*
	83,00,000	*49,00,000*	*25,50,000*	*74,00,000*

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai Ltd.	*Delhi Ltd.*	*Amritsar Ltd.*	*Kanpur Ltd.*
General Reserve Account	*10,00,000*	*2,00,000*	*1,00,000*	*6,00,000*
Profit & Loss Account	*6,00,000*	*2,00,000*	*50,000*	*60,000*

Prepare the consolidated Balance Sheet of the group as at 31st March, 2017 (Calculations may be rounded off to the nearest rupee).

Answer

Consolidated Balance Sheet of Mumbai Ltd. and
its subsidiaries Delhi Ltd., Amritsar Ltd. and Kanpur Ltd.
As at 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	50,00,000.00
(b) Reserves and Surplus	2	40,32,187.50
(2) Minority Interest (W.N.5)		31,25,312.50
(3) Current Liabilities		
Trade payables		5,30,000.00
Total		1,26,87,500.00
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets		105,00,000.00
ii. Intangible assets [WN 4]		6,37,500.00
(2) Current assets		15,50,000.00
Total		1,26,87,500.00

Notes to Accounts

		(₹)	*(₹)*
1.	Share Capital		
	(Fully paid shares of ₹100 each)		50,00,000.00
2.	Reserves and surplus		
	General Reserve (W.N.6)	25,51,041.67	
	Profit and Loss Account (W.N.7)	14,81,145.83	40,32,187.50

Working Notes:

Shareholding Pattern

	Delhi	*Amritsar*	*Kanpur*
Total Shares	40,000	20,000	60,000
Held by Mumbai	30,000 [75%]	10,000 [50%]	30,000 [50%]

Held by Delhi	NA	5,000 [25%]	15,000 [25%]
Held by Amritsar	NA	NA	5,000 [8.33%]
Minority Interest	25 %	25 %	16.67%

1 Analysis of profits of Kanpur Ltd.

	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue Profit* ₹
General Reserve on the date of purchase of shares	6,00,000.00		
Profit and Loss A/c on the date of purchase of shares	60,000.00		
Increase in General Reserve		4,00,000.00	
Increase in profit	-	-	2,60,000.00
	6,60,000.00	4,00,000.00	2,60,000.00
Less: Minority Interest (1/6)	(1,10,000.00)	(66,666.67)	(43,333.33)
	5,50,000.00	3,33,333.33	2,16,666.67
Share of Mumbai Ltd. (1/2)	3,30,000.00	2,00,000.00	1,30,000.00
Share of Delhi Ltd. (1/4)	1,65,000.00	1,00,000.00	65,000.00
Share of Amritsar Ltd. (1/12)	55,000.00	33,333.33	21,666.67

2 Analysis of profits of Amritsar Ltd.

	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue Profit* ₹
General Reserve on the date of purchase of shares	1,00,000.00		
Profit and Loss A/c on the date of purchase of shares	50,000.00		
Increase in General Reserve		1,50,000.00	
Increase in Profit and Loss A/c			2,00,000.00
Share in Kanpur Ltd. [WN 1]	-	33,333.33	21,666.67
	1,50,000.00	1,83,333.33	2,21,666.67
Less: Minority Interest (1/4)	(37,500.00)	(45,833.33)	(55,416.67)
	1,12,500.00	1,37,500.00	1,66,250.00
Share of Mumbai Ltd. (1/2)	75,000	91,666.67	1,10,833.33
Share of Delhi Ltd. (1/4)	37,500	45,833.33	55,416.67

3. Analysis of profits of Delhi Ltd.

	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue Profit* ₹
General Reserve on the date of purchase of shares	2,00,000.00		
Profit and Loss A/c on the date of purchase of shares	2,00,000.00		
Increase in General Reserve		2,00,000.00	
Increase in Profit and Loss A/c			2,00,000.00
Share in Kanpur Ltd. [WN 1]		1,00,000.00	65,000.00
Share in Amritsar Ltd. [WN 2]	-	45,833.33	55,416.67
	4,00,000.00	3,45,833.33	3,20,416.67
Less: Minority Interest (1/4)	(1,00,000.00)	(86,458.33)	(80,104.17)
Share of Mumbai Ltd. (3/4)	3,00,000.00	2,59,375.00	2,40,312.50

4. Cost of control

Investments in		₹
Delhi Ltd.	35,00,000	
Amritsar Ltd. [11 + 5]	16,00,000	
Kanpur Ltd.	60,00,000	
		1,11,00,000
Paid up value of investments in		
Delhi Ltd.	30,00,000	
Amritsar Ltd.	15,00,000	
Kanpur Ltd. [36+18+6]/120x1,00,000	50,00,000	(95,00,000)
Capital profits in		
Delhi Ltd. [W.N.3]	3,00,000	
Amritsar Ltd. [W.N.2]	1,12,500	
Kanpur Ltd. [W.N.1]	5,50,000	(9,62,500)
Goodwill		6,37,500

5. Minority interest

Share Capital:		
Delhi Ltd. (1/4)	10,00,000.00	
Amritsar Ltd. (1/4)	5,00,000.00	
Kanpur Ltd (1/6)	10,00,000.00	25,00,000.00
Share in profits & reserves		
(Pre and Post-Acquisitions)		
Delhi Ltd. [W.N.3]	2,66,562.50	
Amritsar Ltd. [W.N.2]	1,38,750.00	
Kanpur Ltd.	2,20,000.00	6,25,312.50
		31,25,312.50

6. General Reserve — Mumbai Ltd.

Balance as on 31.3.2017 (given)	20,00,000.00
Share in	
Delhi Ltd. [W.N.3]	2,59,375.00
Amritsar Ltd. [W.N.2]	91,666.67
Kanpur Ltd. [W.N.1]	2,00,000.00
	25,51,041.67

7. Profit and Loss Account — Mumbai Ltd.

Balance as on 31.3.2017 (given)	10,00,000.00
Share in	
Delhi Ltd. [W.N.3]	2,40,312.50
Amritsar Ltd. [W.N.2]	1,10,833.33
Kanpur Ltd. [W.N.1]	1,30,000.00
	14,81,145.83

Question 11

A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their summarized Balance Sheets as on 31.3.2017 are given below:

	A Ltd. ₹	*B Ltd.* ₹	*C Ltd.* ₹		*A Ltd.* ₹	*B Ltd.* ₹	*C Ltd.* ₹
Share Capital	*1,00,000*	*1,00,000*	*60,000*	*Fixed Assets*	*20,000*	*60,000*	*43,000*
Reserves	*48,000*	*10,000*	*9,000*	*Investments*			
Profit & Loss Account				*Shares in B Ltd.*	*95,000*		

	16,000	12,000	9,000	Shares in C Ltd.	13,000	53,000	
Trade payables	7,000	5,000		Inventory in Trade	12,000		
A Ltd. Balance		7,000		B Ltd. Balance	8,000		
C Ltd. Balance	3,000			Trade receivables	26,000	21,000	32,000
				A Ltd. Balance			3,000
	1,74,000	1,34,000	78,000		1,74,000	1,34,000	78,000

The following particulars are given:

(i) The Share Capital of all companies is divided into shares of ₹ 10 each.

(ii) A Ltd. held 8,000 shares of B Ltd. and 1,000 shares of C Ltd.

(iii) B Ltd. held 4,000 shares of C Ltd.

(iv) All these investments were made on 30.9.2016.

(v) On 31.3.2016, the position was as shown below:

	B Ltd. ₹	C Ltd. ₹
Reserve	8,000	7,500
Profit & Loss Account	4,000	3,000
Trade payables	5,000	1,000
Fixed Assets	60,000	43,000
Inventory in Trade	4,000	35,500
Trade receivables	48,000	33,000

(vi) 10% dividend is declared by each company.

(vii) The whole of inventory in trade of B Ltd. as on 30.9.2016 (₹ 4,000) was later sold to A Ltd. for ₹ 4,400 and remained unsold by A Ltd. as on 31.3.2017.

(viii) Cash-in-transit from B Ltd. to A Ltd. was ₹ 1,000 as at the close of business.

You are required to prepare the Consolidated Balance Sheet of the group as on 31.3.2017.

Answer

Consolidated Balance Sheet of A Ltd.
and its subsidiaries B Ltd. and C Ltd.
as on 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		1,00,000
(b) Reserves and Surplus	1	60,305
(2) Minority Interest (W.N 5)		34,820
(3) Current Liabilities		
(a) Trade payables		12,000
(b) Short term provisions	2	13,000
Total		2,20,125
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets		1,23,000
ii. Intangible assets	3	5,525
(2) Current assets		
(a) Inventories	4	11,600
(b) Trade receivables		79,000
(c) Cash and cash equivalents	5	1,000
Total		2,20,125

Notes to Accounts

		(₹)	*(₹)*
1.	Reserves and surplus		
	Reserves - Balance as on 31.3.2017 (given)	48,000	
	Share in		
	B Ltd. [WN 3]	1,200	
	C Ltd. [WN 2]	125	49,325
	Profit & Loss Account		
	Balance as on 31.3.2017 (given)	16,000	

	Share in		
	B Ltd. [WN 3]	4,800	
	C Ltd. [WN 2]	500	
		21,300	
	Less: Dividend (10% of ₹ 1,00,000)	(10,000)	
	Provision for unrealised profit on inventory [80% of (₹ 4,400 – ₹ 4,000)]	(320)	10,980
			60,305
2.	Other current liability		
	Dividend payable		
	A Ltd.	10,000	
	B Ltd.	2,000	
	C Ltd.	1,000	13,000
3.	Intangible Assets		
	Goodwill (W.N 4)		5,525
4.	Inventories		
	Inventory in Trade	12,000	
	Less: Provision for unrealised profit	(400)	11,600
5.	Cash and cash equivalents		
	Cash in Transit (₹8,000 – 7,000)		1,000

Working Notes:

Shareholding Pattern

	B Ltd.	C Ltd.
Total Shares	10,000	6,000
Held by A Ltd.	8,000 [80%]	1,000 [1/6th]
Held by B Ltd.	NA	4,000 [4/6th]
Minority Holding	20 %	1/6th

(1) Position on 30.09.2016 i.e. date of investment

	Reserves	*Profit and Loss Account*
B Ltd.	₹	₹
Balance on 31.3.2017	10,000	12,000
Less: Balance on 31.3.2016	(8,000)	(4,000)
Increase during the year	2,000	8,000
Estimated increase for half year	1,000	4,000

Balance on 30.9.2016	9,000 (8,000 + 1,000)	8,000 (4,000 + 4,000)
C Ltd.		
Balance on 31.3.2017	9,000	9,000
Balance on 31.3.2016	7,500	3,000
Increase during the year	1,500	6,000
Estimated increase for half year	750	3,000
Balance on 30.9.2016	8,250 (7,500 + 750)	6,000 (3,000 + 3,000)

(2) Analysis of Profits of C Ltd.

	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue profit* ₹
Reserves on 30.9.2016 [WN 1]	8,250		
Profit and Loss A/c on 30.9.2016	6,000		
Increase in reserves		750	
Increase in profit			3,000
	14,250	750	3,000
Less: Minority interest (1/6)	(2,375)	(125)	(500)
	11,875	625	2,500
Share of A Ltd. (1/6)	2,375	125	500
Share of B Ltd. (4/6)	9,500	500	2,000

(3) Analysis of Profits of B Ltd.

	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue profit* ₹
Reserves on 30.9.2016	9,000		
Profit and Loss A/c on 30.9.2016	8,000		
Increase in reserves		1,000	
Increase in profit			4,000
Share in C Ltd. [WN 1]		500	2,000
	17,000	1,500	6,000
Less: Minority interest (2/10)	(3,400)	(300)	(1,200)
Share of A Ltd. (8/10)	13,600	1,200	4,800

(4) Cost of control

	₹	₹
Investments in		
B Ltd.	95,000	
C Ltd. [13,000 + 53,000]	66,000	1,61,000
Less : Paid up value of investments in		
B Ltd.	80,000	
C Ltd.	50,000	(1,30,000)
Capital profits in		
B Ltd. [WN 3]	13,600	
C Ltd. [WN 2]	11,875	(25,475)
Goodwill		5,525

(5) Minority Interest

	₹	₹
Share Capital:		
B Ltd. [20 %]	20,000	
C Ltd. [1/6th]	10,000	30,000
Share in profits and reserves (Pre and Post-Acquisitions)		
B Ltd. [WN 3]	4,900	
C Ltd. [WN 2]	3,000	7,900
		37,900
Less: Provision for unrealized profit (20% of ₹ 400)		(80)
		37,820
Less: Dividend payable B	2,000	
C	1,000	3,000
		34,820

Note: The above solution has been done by direct method. Alternatively, students may follow indirect method. In indirect method, the share in pre-acquisition profits of B Ltd. in C Ltd. amounting ₹ 9,500 will be included as capital profit while analysing the profits of B Ltd. and will not be considered for the purpose of cost of control. Thus, in this case, the amounts of goodwill and minority interest will increase by ₹ 1,900 (2/10 of ₹ 9,500). Goodwill and minority interest will be shown at ₹ 7,425 and ₹ 39,720 respectively in the consolidated balance sheet. Therefore, the total of the assets and liabilities side of the consolidated balance sheet will be ₹ 2,22,025.

Question 12

The following are the summarized Balance Sheets of Arun Ltd., Brown Ltd. and Crown Ltd. as at 31.3.2017:

Liabilities:	Arun Ltd. ₹	Brown Ltd. ₹	Crown Ltd. ₹
Share Capital (Shares of ₹ 100 each)	6,00,000	4,00,000	2,40,000
Reserves	80,000	40,000	30,000
Profit and Loss Account	2,00,000	1,20,000	1,00,000
Trade payables	80,000	1,00,000	60,000
Arun Ltd.	--	40,000	32,000
Total	9,60,000	7,00,000	4,62,000
Assets:	**Arun Ltd. ₹**	**Brown Ltd. ₹**	**Crown Ltd. ₹**
Goodwill	80,000	60,000	40,000
Fixed Assets	2,80,000	2,00,000	2,40,000
Shares in:			
Brown Ltd. (3,000 Shares)	3,60,000	--	--
Crown Ltd. (400 Shares)	60,000	--	--
Crown Ltd. (1,400 Shares)	--	2,08,000	--
Due from: Brown Ltd.	48,000	--	--
Crown Ltd.	32,000	--	--
Current Assets	1,00,000	2,32,000	1,82,000
Total	9,60,000	7,00,000	4,62,000

(i) All shares were acquired on 1.10.2016.

(ii) On 1.4.2016 the balances to the various accounts were as under:

Particulars	Arun Ltd. ₹	Brown Ltd. ₹	Crown Ltd. ₹
Reserves	40,000	40,000	20,000
Profit and Loss account	20,000	(Dr.) 20,000	12,000

(iii) During 2016-2017, Profits accrued evenly.

(iv) In November, 2016, each company paid interim dividend of 10%. Arun Ltd. and Brown Ltd. have credited their profit and loss account with the dividends received.

(v) During 2016-2017, Crown Ltd. sold an equipment costing ₹ 40,000 to Brown Ltd. for ₹ 48,000 and Brown Ltd. in turn sold the same to Arun Ltd. for ₹ 52,000.

Prepare the consolidated Balance Sheet as at 31.3.2017 of Arun Ltd. and its subsidiaries.

Answer

Consolidated Balance Sheet of Arun Ltd. and its subsidiaries
as on 31.3.2017

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	3,37,271
(2) **Minority Interest (W.N.4)**		2,33,729
(3) **Current Liabilities**		
Trade payables		2,40,000
Total		14,11,000
II. **Assets**		
(1) **Non-current assets**		
Fixed assets		
i. Tangible assets		7,08,000
ii. Intangible assets	3	1,81,000
(2) **Current assets**		
(a) Cash and cash equivalents	4	8,000
(b) Other current assets		5,14,000
Total		14,11,000

Notes to Accounts

		(₹)	*(₹)*
1.	Share Capital		
	Shares of ₹ 100 each		6,00,000
2.	Reserves and surplus		
	Reserves (W. N. 8)	83,021	
	Profit & Loss A/c (W. N. 8)	2,54,250	3,37,271
3.	Intangible assets		
	Goodwill (W.N.5)		1,81,000
4.	Cash and cash equivalents		
	Cash in Transit (W.N.7)		8,000

Working Notes

1. Shareholding Pattern

In Brown Ltd.:	*Number of Shares*	*% age of Holding*
Arun Ltd.	3,000	75%
Minority Interest	1,000	25%
In Crown Ltd.:		
Arun Ltd.	400	16.667%
Brown Ltd.	1,400	58.333%
Minority Interest	600	25%

2. Analysis of apportionment of profit in Crown Ltd.

(a) Calculation of Unrealized Profit in Equipment

Crown Ltd sold equipment to Brown Ltd. at a profit of ₹ 8,000 and this would be apportioned to

	₹
Arun Ltd.	1,333
Brown Ltd.	4,667
Minority Interest	2,000
	8,000

Brown Ltd sold the equipment to Arun Ltd. at a profit of ₹ 4,000. This would be apportioned to:

	₹
Arun Ltd.	3,000
Minority Interest	1,000
	4,000

The above amounts are to be deducted from the respective share of profits.

(b) *Reserves*

	₹	
Closing balance	30,000	
Opening balance	20,000	Capital Profit
Current year Appropriation	10,000	
Apportionment of Profit from 1.4.2016 to 30.9.2016	5,000	Capital Profit
Apportionment of Profit from 1.10.2016 to 31.3.2017	5,000	Revenue Reserve

(c) *Profit and Loss Account*

Closing balance	1,00,000	
Add: Interim Dividend	24,000	
Less: Opening balance	12,000	Capital Profit
Current year profits before interim dividend	1,12,000	
Apportionment of Profit from 1.4.2016 to 30.9.2016	56,000	
Less: Interim Dividend [2,40,000 x 10 %]	(24,000)	
	32,000	Capital Profit
From 1.10.2016 to 31.3.2017	56,000	Revenue Profit

(d) *Apportionment of profits of Crown Ltd.*

	Pre-acquisition	Post-acquisition	
	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue Profit* ₹
Reserves	25,000	5,000	--
Profit & Loss Account	44,000	--	56,000
	69,000	5,000	56,000
Arun Ltd [16.667%]	11,500	833	9,333
Brown Ltd. [58.333%]	40,250	2,917	32,667
Minority Interest [25%]	17,250	1,250	14,000

3. Analysis of Profit of Brown Ltd

(a) Reserves

	₹	
Closing balance	40,000	
Opening balance	40,000	(Capital Profit)
Current year Appropriation	Nil	

(b) *Profit and Loss Account*

	₹
Closing balance	1,20,000
Opening balance (Dr.)	20,000
Current year Appropriation after interim dividend	1,40,000
Interim Dividend	40,000
Profit before Interim Dividend	1,80,000
Less: Dividend received from Crown Ltd.	(14,000)

	1,66,000
Apportionment of Profit from 1.4.2016 to 30.9.2016	83,000
Less: Interim Dividend	(40,000)
Capital profit	43,000
Apportionment of Profit from 1.10.2016 to 31.3.2017 (Revenue profit)	83,000

(c) *Apportionment of Profit of Brown Ltd.*

	Pre-Acquisition	Post-Acquisition	
	Capital Profit ₹	*Revenue Reserve* ₹	*Revenue Profit* ₹
Reserves	40,000	--	--
Profit & Loss Account (Opening balance (-) 20,000+43,000)	23,000		83,000
Less: Unrealised Profit of Equipment from Crown Ltd.			(4,667)
Share of Post-Acquisition Profit of Crown Ltd.	--	2,917	32,667
	63,000	2,917	1,11,000
Arun Ltd. 75%	47,250	2,188	83,250
Minority Interest 25%	15,750	729	27,750

4. Minority Interest

	Brown Ltd. ₹	*Crown Ltd.* ₹
Share Capital	1,00,000	60,000
Capital Profit	15,750	17,250
Revenue: Reserves	729	1,250
Profit & Loss Account	27,750	14,000
Unrealised Profit on Equipment	(1,000)	(2,000)
	1,43,229	90,500
Total Minority Interest: ₹ 1,43,229+ ₹ 90,500 = ₹ 2,33,729		

5. Cost of Control

	Arun Ltd. in Brown Ltd. ₹	*Arun Ltd. in Crown Ltd.* ₹	*Brown Ltd in Crown Ltd.* ₹
Amount Invested	3,60,000	60,000	2,08,000
Less: Pre-acquisition dividend*	(30,000)	(4,000)	(14,000)
Adjusted Cost of Investment (A)	3,30,000	56,000	1,94,000
Share capital	3,00,000	40,000	1,40,000
Capital Profit	47,250	11,500	40,250
(B)	3,47,250	51,500	1,80,250
Capital Reserve/Goodwill (A)-(B)	(17,250)	4,500	13,750
Net Goodwill	₹1,000		
Goodwill on Consolidation ₹ (80,000+ 60,000+40,000+1,000) = ₹1,81,000			

6. Dividend declared

	Brown Ltd. ₹	*Crown Ltd.* ₹
Dividend declared	40,000	24,000
Share of: Arun Ltd.	30,000	4,000
Brown Ltd.		14,000
Minority	10,000	6,000

7. Inter-Company Transactions

(a) Owings

	Dr. *Arun Ltd.* ₹	*Cr.* *Brown Ltd.* ₹	*Cr.* *Crown Ltd.* ₹
Balance in books	80,000	40,000	32,000
Less: Inter- co. owings	(72,000)	(40,000)	(32,000)
Cash-in-transit	8,000	NIL	NIL

(b) Fixed Assets

	₹
Total Fixed Assets	7,20,000

* The entire amount of interim dividend of 10% has been treated as pre-acquisition dividend.

Less: Unrealised Profit on sale of equipment	(12,000)
Amount to be taken to consolidated Balance Sheet	7,08,000

8. Reserves and Profit and Loss Account balances in the Consolidated Balance Sheet

	Reserves ₹	*Profit and Loss A/c* ₹
Balance in Books	80,000	2,00,000
Add: Shares of Post-acquisition Profits:		
From Brown Ltd.	2,188	83,250
From Crown Ltd	833	9,333
Less: Pre-Acquisition dividend:		
From Brown Ltd.		(30,000)
From Crown Ltd		(4,000)
Less: Unrealised Profit on Equipment:		
From Brown Ltd.		(3,000)
From Crown Ltd.		(1,333)
	83,021	2,54,250

Question 13

The following information has been extracted from the Books of 'X' Limited group (as at 31st March, 2017):

	X Ltd. ₹	*Y Ltd.* ₹	*Z Ltd.* ₹		*X Ltd.* ₹	*Y Ltd.* ₹	*Z Ltd.* ₹
Share capital				*Fixed Assets less depreciation*	*4,20,000*	*3,76,000*	*5,22,000*
(Fully paid equity shares of ₹ 10 each)	*8,00,000*	*6,00,000*	*4,00,000*	*Investment at cost*	*6,30,000*	*4,00,000*	*--*
				Current Assets	*1,20,000*	*60,000*	*40,000*
Profit and Loss Account	*2,10,000*	*1,90,000*	*1,28,000*				
Dividend received:							
From Y Ltd. in 2015-2016	*60,000*						
From Y Ltd. in 2016-2017	*60,000*						
From Z Ltd. in		*36,000*					

2016-2017							
Current Liabilities	*40,000*	*10,000*	*34,000*				
	11,70,000	*8,36,000*	*5,62,000*		*11,70,000*	*8,36,000*	*5,62,000*

All the companies pay dividends of 12 percent of paid-up share capital in June following the end of the financial year. The receiving companies account for the dividends in their books when they are received.

'X' Limited acquired 50,000 equity shares of Y Ltd. on 31st March, 2015.

'Y' Limited acquired 30,000 equity shares of Z Ltd. on 31st March, 2016.

The detailed information of Profit and Loss Accounts is as follows:

	X Ltd. ₹	*Y Ltd.* ₹	*Z Ltd.* ₹
Balance of Profit and Loss Account on 31st March, 2015 after dividends of 12% in respect of financial year 2014-2015, but excluding dividends received	*86,000*	*78,000*	*60,000*
Net profit earned in 2015-2016	*1,20,000*	*84,000*	*56,000*
	2,06,000	*1,62,000*	*1,16,000*
Less – Dividends of 12% (paid in 2016-2017)	*96,000*	*72,000*	*48,000*
	1,10,000	*90,000*	*68,000*
Net profit earned in 2016-2017 (Before taking into account dividends of 12% in respect of financial year 2016-2017)	*1,00,000*	*1,00,000*	*60,000*
	2,10,000	*1,90,000*	*1,28,000*

Taking into account the transactions from 2014-2015 to 2016-2017 and ignoring taxation, you are required to prepare:

(i) The Consolidated Balance Sheet of X Limited group as at 31st March, 2017.

(ii) Cost of control.

(iii) Minority shareholders interest.

Answer

(i) Consolidated Balance Sheet of X Ltd. and its subsidiaries Y Ltd. and Z Ltd. as on 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	8,00,000

	(b) Reserves and Surplus	2	3,04,833
	(2) **Minority Interest** [Refer (iii)]		2,47,167
	(3) **Current Liabilities**		
	(a) Trade payables	3	84,000
	(b) Other current liabilities	4	1,20,000
	Total		15,56,000
II.	**Assets**		
	(1) **Non-current assets**		
	Fixed assets		
	i. Tangible assets	5	13,18,000
	ii. Intangible assets	6	18,000
	(2) **Current assets**		2,20,000
	Total		15,56,000

Notes to Accounts

				(₹)	(₹)
1.	Share Capital				
	80,000 Equity shares of ₹10 each fully paid				8,00,000
2.	Reserves and surplus				
	Profit and Loss Account				
	Opening balance		₹		
		X Ltd	2,06,000		
		Y Ltd	1,62,000		
		Z Ltd	1,16,000	4,84,000	
	Add: Dividend received in 2015-2016 (for 2014-2015)				
		X Ltd	60,000		
		Y Ltd	-----		
		Z Ltd	-----	60,000	
				5,44,000	
	Less: Dividend paid for 2015-2016				
		X Ltd	96,000		
		Y Ltd	72,000		
		Z Ltd	48,000		
	Less: Adjustments		(96,000)	(1,20,000)	
				4,24,000	
	Add: Dividend received in 2016-2017 (for 2015-2016)				
		X Ltd	60,000		

	Y Ltd	36,000		
	Z Ltd	-----		
	Less: Adjustments	(96,000)	-	
			4,24,000	
	Add: Profit for the year			
	X Ltd	1,00,000		
	Y Ltd	1,00,000		
	Z Ltd	60,000	2,60,000	
			6,84,000	
	Less: Minority Interest			
	X Ltd	-----		
	Y Ltd	39,167		
	Z Ltd	32,000	(71,167)	
			6,12,833	
	Less: Capital reserve (cost of control)			
	X Ltd	65,000		
	Y Ltd	51,000		
	Z Ltd	----	(1,16,000)	
			4,96,833	
	Less: Dividend received out of capital profit			
	X Ltd	60,000*		
	Y Ltd	36,000*		
	Z Ltd	-----	(96,000)	
			4,00,833	
	Less: Dividend			
	X Ltd	96,000		
	Y Ltd	-----		
	Z Ltd	-----	(96,000)	
	Closing balance of Profit (Bal fig)		3,04,833	
	Share of X Ltd. (Bal fig)	1,74,000		
	Share of Y Ltd (Bal fig)	85,833		
	Share of Z Ltd (Bal fig)	45,000		3,04,833
3.	Trade Payables			84,000
4.	Other current liabilities			
	Dividend payable of X Ltd.		96,000	

	Y Ltd.	12,000	
	Z Ltd.	12,000	1,20,000
5.	Tangible Assets		
	Fixed Assets less depreciation		13,18,000
6.	Intangible assets		
	Goodwill [Refer (ii)]		18,000

Notes:*

(1) X Ltd. receives from Y Ltd., dividend amounting to ₹60,000 for the year 2014-2015 in the year 2015-2016 for shares acquired in 2014-2015. It is a capital profit, therefore it has been transferred to cost of control to reduce the cost of investment.

(2) Y Ltd. receives a dividend of ₹ 36,000 from Z Ltd. for the year 2015-2016 in the year 2016-2017. The shares were acquired by Y Ltd on 31st March, 2016. The entire amount is therefore, a capital profit and hence transferred to cost of control to reduce the cost of investment.

(ii) Cost of Control:

	₹	₹
Cost of Investment in Y Ltd. on 31st March, 2015	6,30,000	
Less: Dividend of the year 2014-2015 received in 2015-2016 out of Pre-acquisition profit	(60,000)	5,70,000
Cost of Investment in Z Ltd.	4,00,000	
Less: Dividend of the year 2015-2016 received in 2016-2017 out of Pre-acquisition Profit	(36,000)	3,64,000
		9,34,000
Less: Paid up value of shares in Y Ltd.	5,00,000	
Paid up value of shares in Z Ltd.	3,00,000	
Capital Profits in Y Ltd. (Refer W.N. 2)	65,000	
Capital Profits in Z Ltd. (Refer W.N. 2)	51,000	(9,16,000)
Goodwill		18,000

(iii) Minority shareholders' interest:

	Y Ltd. ₹	*Z Ltd.* ₹
Share Capital (Y Ltd. – 1/6 and Z Ltd. – 1/4)	1,00,000	1,00,000
Capital Profits (Refer W.N. 2)	13,000	17,000

Revenue Profits (Refer W.N. 2)	26,167	15,000
	1,39,167	1,32,000
Total (1,39,167 + 1,32,000)		2,71,167
Less: Dividend payable		
Y Ltd.	12,000	
Z Ltd.	12,000	24,000
		2,47,167

Working Notes:

1. Shareholding Pattern

	Number of shares	*Share of holding*
In Y Ltd.		
X Ltd.	50,000	5/6
Minority Interest	10,000	1/6
In Z Ltd.		
Y Ltd.	30,000	3/4
Minority Interest	10,000	1/4

2. Analysis of Profits

	Pre - acquisition Capital Profit	*Post - acquisition Revenue Profit*
Z Ltd.	₹	₹
Balance on 31st March, 2016 after dividend for 2015-2016 (₹1,16,000 – ₹48,000)	68,000	-
Profit for the year ending 31st March, 2017 before dividends for 2016-2017	-	60,000
	68,000	60,000
Share of Y Ltd. (3/4)	51,000	45,000
Minority Interest (1/4)	17,000	15,000
Y Ltd.		
Balance on 31st March, 2015	78,000	-
Profit for the year 2015-2016 after payment of dividend for 2015-2016 (₹84,000 – ₹72,000)	-	12,000

Profit for the year 2016-2017 (before payment of dividend of the year 2016-2017)	-	1,00,000
Revenue Profit from Z Ltd.	-	45,000
	78,000	1,57,000
Share of X Ltd. (5/6)	65,000	1,30,833
Share of Minority Shareholders' Interest (1/6)	13,000	26,167

Note: This problem has been solved by following 'direct approach'.

Question 14

The draft Balance Sheets of 3 Companies as at 31st March, 2017 are as below:

	(In ₹ 000's)		
Liabilities	*Morning Ltd.*	*Evening Ltd.*	*Night Ltd.*
Share Capital – shares of ₹ 100 each	*40,000*	*20,000*	*10,000*
Reserves	*1,800*	*1,000*	*900*
P/L A/c (1.4.2016)	*1,500*	*2,000*	*800*
Profit for 2016-15	*7,000*	*3,800*	*1,800*
Loan from Morning Ltd.	–	*5,000*	–
Trade payables	*2,500*	*1,000*	*1,400*
	52,800	*32,800*	*14,900*
Assets			
Investments:			
1,60,000 shares in Evening	*18,000*	–	–
75,000 shares in Night	*8,000*	–	–
Loan to Evening Ltd.	*5,000*	–	–
Tangible assets	*21,800*	*32,800*	*14,900*
	52,800	*32,800*	*14,900*

Following additional information is also available:

(a) *Dividend is declared by each company at 10%.*

(b) *Inventory transferred by Night Ltd. to Evening Ltd. fully paid for was ₹ 8 lacs on which the former made a Profit of ₹ 3 lacs. On 31st March, 2017, this was in the inventory of the latter.*

(c) *Loan referred to is against 8% interest. Neither Morning Ltd. nor Evening Ltd. has considered the interest.*

(d) *Reserves as on 1.4.2016 of Evening Ltd. and Night Ltd. were ₹ 8,00,000 and ₹ 7,50,000 respectively.*

(e) *Cash-in-transit from Evening Ltd. to Morning Ltd. was ₹ 1,00,000 as on 31.3.2017.*

(f) *The shares of the subsidiaries were all acquired by Morning Ltd. on 1st April, 2016.*

Prepare Consolidated Balance Sheet as on 31st March, 2017. Workings should be part of the answer.

Answer

Consolidated Balance Sheet of Morning Ltd.
with its subsidiaries Evening Ltd. and Night Ltd.
As on 31st March, 2017

Particulars	*Note No.*	*(₹ in thousand)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		40,000
(b) Reserves and Surplus	1	11,720
(2) Minority Interest	2	7,930
(3) Current Liabilities		
(a) Trade payables	3	4,900
(b) Other current liabilities	4	4,650
Total		69,200
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	5	69,200
Total		69,200

Notes to Accounts

			(₹ in thousand)	*(₹ in thousand)*
1.	Reserves and surplus			
	Capital Reserve [Refer Note 5]		902.5	
	General Reserve	₹		
	Morning Ltd.	1,800		
	Evening Ltd.	160		
	Night Ltd.	112.5	2,072.5	

	Profit & Loss A/c	₹		
	Balance on 1.04.2016	1,500		
	Profit during 2016-2017	7,000		
	Add: Interest on Loan	400		
		8,900		
	Less: Dividend	(4,000)		
		4,900		
	Add: P & L A/c of Evening Ltd.	2,720		
	Add: P & L A/c of Night Ltd.	1,125	8,745	11,720
2.	Minority interest			
	Evening Ltd.		4,880	
	Night Ltd.		3,050	7,930
3.	Trade payables			
	Morning Ltd.		2,500	
	Evening Ltd.		1,000	
	Night Ltd		1,400	4,900
4.	Other current liabilities			
	Dividend payable			
	Morning Ltd.		4,000	
	Evening Ltd. (Minority)		400	
	Night Ltd. (Minority)		250	4,650
5.	Tangible assets			
	Morning Ltd.		21,800	
	Evening Ltd.	32,800		
	Less: Unrealized profit Night Ltd.	(300)	32,500	
	Night Ltd.		14,900	69,200

Workings Notes:

A. Morning Ltd.'s holding in Evening Ltd. is 1,60,000 shares out of 2,00,000 shares, i.e., 4/5th or 80%; Minority holding 1/5th or 20%.

B. Morning Ltd.'s holding in Night Ltd. is 75,000 shares out of 1,00,000 shares, i.e., 3/4th or 75%; Minority holding 1/4th or 25%.

Analysis of Reserves and Profits of Subsidiary Companies

		Evening Ltd. (₹'000)	*Night Ltd ₹ ('000)*	*Minority interest in Evening Ltd. (1/5) ₹ ('000)*	*Minority interest in Night Ltd. (1/4) ₹ ('000)*
1.	Capital Reserve (pre-acquisition reserves and profits)				
	Reserves on 1.04.2016	800	750		
	Profit on 1.04.2016	2,000	800		
		2,800	1,550		
	Less: Minority interest	(560)	(387.5)	560	387.5
		2,240	1,162.5		
2.	General Reserve				
	Reserves as per Balance Sheet	1,000	900		
	Less: Capital Reserve	(800)	(750)		
		200	150		
	Less: Minority interest	(40)	(37.5)	40	37.5
		160	112.5		
3.	Profit and Loss Account				
	Profit for the year as per Balance Sheet	3,800	1,800		
	Less: Interest on Loan (5,000 x 8%)	(400)			
		3,400			
	Less: Minority Interest	(680)	(450)	680	450
		2,720	1,350		
	Less: Unrealised profit on inventory transfer	____	(225*)		(75)
		2,720	1,125		
4.	Share Capital				
	As per Balance sheet	20,000	10,000		
	Less: Minority interest	(4,000)	(2,500)	4,000	2,500

* As per para 17 of AS 21, 'Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full.

	Transferred for computation of Goodwill/Capital Reserve	16,000	7,500	5,280	3,300
	Less: Dividend shown separately			(400)	(250)
	Transferred to Consolidated Balance Sheet			4,880	3,050

5. Computation of Cost of Control i.e. Goodwill / Capital Reserve on consolidation

(₹ In thousand)

	Evening Ltd.	*Night Ltd.*
Cost of Investments	18,000	8,000
Less: Paid up value of shares [Refer Note 4]	(16,000)	7,500
	2,000	500
Less: Capital Reserve [Refer Note 1]	(2,240)	(1,162.5)
	(-240)	(-662.5)
Total Capital Reserve (₹ 240 + ₹ 662.5)	902.5	

Question 15

The summarized Balance Sheets of three companies Angle Ltd., Bolt Ltd., and Canopy Ltd., as at 31st March, 2017 are given below:

Liabilities	*Angle Ltd.* ₹	*Bolt Ltd.* ₹	*Canopy Ltd.* ₹
Share capital			
(Equity shares of ₹ 100 each)	*15,00,000*	*10,00,000*	*6,00,000*
Reserves	*2,00,000*	*1,25,000*	*75,000*
Profit and Loss A/c	*5,00,000*	*2,75,000*	*2,50,000*
Trade payables	*2,00,000*	*2,50,000*	*1,50,000*
Angle Ltd.	-	*1,00,000*	*80,000*
	24,00,000	*17,50,000*	*11,55,000*
Goodwill	*2,50,000*	*5,80,000*	*4,50,000*
Plant and Machinery	*4,00,000*	*2,50,000*	*3,25,000*
Furniture and Fittings	*2,00,000*	*1,50,000*	*1,40,000*
Shares in-			
Bolt Ltd. (7,500 shares)	*9,00,000*	-	-
Canopy Ltd. (1,000 shares)	*1,50,000*		
Canopy Ltd. (3,500 shares)	-	*5,20,000*	-
Inventory in trade	*1,00,000*	*1,50,000*	*1,60,000*
Trade receivables	*1,90,000*	*90,000*	*70,000*

Due from-			
Bolt Ltd.	*1,20,000*	*-*	*-*
Canopy Ltd.	*80,000*	*-*	*-*
Cash in hand	*10,000*	*10,000*	*10,000*
Total	*24,00,000*	*17,50,000*	*11,55,000*

(a) All shares were acquired on 1st October, 2015.

(b) On 1st April, 2015, the balances were:

	Angle Ltd.	*Bolt Ltd.*	*Canopy Ltd.*
	₹	*₹*	*₹*
Reserves	*1,00,000*	*1,00,000*	*50,000*
Profit and Loss account	*50,000*	*(50,000)Dr.*	*30,000*
Profit during 2015-2016 were earned evenly over the year	*3,00,000*	*2,50,000*	*1,00,000*

(c) Each company declared a dividend of 10% in the year 2016-2017 on its shares out of Profits for the year 2015-2016; Angle Ltd. and Bolt Ltd. have credited their Profit and Loss account with the dividends received.

(d) The increase in reserves in case of Angle Ltd., Bolt Ltd., and Canopy Ltd., was effected in the year 2015-2016.

(e) Details of Trade payables and Trade receivables:

	Angle Ltd.	*Bolt Ltd.*	*Canopy Ltd.*
Trade payables			
Bills Payable	*-*	*-*	*50,000*
Sundry creditors	*2,00,000*	*2,50,000*	*1,00,000*
	2,00,000	*2,50,000*	*1,50,000*
Trade receivables			
Debtors	*1,40,000*	*70,000*	*70,000*
Bills Receivables	*50,000*	*20,000*	*-*
	1,90,000	*90,000*	*70,000*

(f) All the bills payable appearing in Canopy Ltd.'s Balance Sheet were accepted in favour of Bolt Ltd., out of which bills amounting ₹ 30,000 were endorsed by Bolt Ltd., in favour of Angle Ltd.

(g) Inventory with Bolt Ltd. includes goods purchased from Angle Ltd., for ₹ 18,000. Angle Ltd., invoiced the goods at cost plus 20%.

Prepare consolidated Balance Sheet of the group as at 31st March, 2017. Working should be part of the answer. Ignore taxation including dividend distribution tax, disclose minority interest as per AS 21.

Answer

Consolidated Balance Sheet of Angle Ltd. and its subsidiaries
Bolt Ltd and Canopy Ltd
as at 31st March, 2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserves and Surplus	2	9,83,562
(2) Minority Interest	3	6,24,271
(3) Current Liabilities		
Trade payables	4	5,50,000
Total		36,57,833
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets	5	14,65,000
ii. Intangible assets	6	14,35,833
(2) Current assets		
(a) Inventories	7	4,07,000
(b) Trade receivables	8	3,00,000
(c) Cash and cash equivalents	9	50,000
Total		36,57,833

Notes to Accounts

		(₹)	*(₹)*
1.	Share Capital		
	Equity shares of ₹ 100 each		15,00,000
2.	Reserves & surplus		
	Reserves (2,00,000+14,844+2,083)	2,16,927	
	Profit and Loss Account (W.N.4)	7,66,635	9,83,562

3.	Minority Interest (W.N. 6)			
	Bolt Ltd.		3,93,021	
	Canopy Ltd.		2,31,250	6,24,271
4.	Trade payables			
	Angle Ltd.	2,00,000		
	Bolt Ltd.	2,50,000		
	Canopy Ltd.	1,50,000	6,00,000	
	Less: Mutually held		(50,000)	5,50,000
5.	Tangible Assets			
	Plant & Machinery			
	Angle Ltd.	4,00,000		
	Bolt Ltd.	2,50,000		
	Canopy Ltd.	3,25,000	9,75,000	
	Furniture & Fittings			
	Angle Ltd.	2,00,000		
	Bolt Ltd.	1,50,000		
	Canopy Ltd	1,40,000	4,90,000	14,65,000
6.	Intangible assets			
	Goodwill			
	Angle Ltd.	2,50,000		
	Bolt Ltd.	5,80,000		
	Canopy Ltd.	4,50,000	12,80,000	
	Add: Cost of control (W.N.7)		1,55,833	14,35,833
7.	Inventories			
	Inventory-in-trade			
	Angle Ltd.		1,00,000	
	Bolt Ltd.		1,50,000	
	Canopy Ltd.		1,60,000	
			4,10,000	
	Less: Provision for unrealised profit		(3,000)	4,07,000
8.	Trade receivables			
	Angle Ltd.	1,90,000		
	Bolt Ltd.	90,000		
	Canopy Ltd.	70,000	3,50,000	
	Less: Mutually held		(50,000)	3,00,000
9.	Cash and cash equivalents			
	Cash-in-hand			
	Angle Ltd.	10,000		

	Bolt Ltd.	10,000		
	Canopy Ltd.	10,000	30,000	
	Cash-in-Transit/ Dues from Bolt Ltd. (W.N.8)		20,000	50,000

Working Notes:

Shareholding Pattern

	Bolt Ltd.	*Canopy Ltd.*
Total Shares	10,000	6,000
Held By Angle Ltd.	7,500 (75%)	1,000 (2/12th)
Held by Bolt Ltd.	NA	3,500 (7/12th)
Minority Interest	2,500 (25%)	1,500 (3/12th)

1. Ascertainment of Profits for the year 2016-2017

	Angle Ltd. ₹	*Bolt Ltd.* ₹	*Canopy Ltd.* ₹
Balance as on 1st April, 2015	50,000	(50,000)	30,000
Add: Profits earned during 2015-2016	3,00,000	2,50,000	1,00,000
	3,50,000	2,00,000	1,30,000
Less: Dividend Declared	(1,50,000)	(1,00,000)	(60,000)
	2,00,000	1,00,000	70,000
Less: Transfer to Reserve	(1,00,000)	(25,000)	(25,000)
	1,00,000	75,000	45,000
Profit for the year 2016-2017 (Balancing Figure)	4,00,000	2,00,000	2,05,000
Balance as on 31st March, 2017	5,00,000	2,75,000	2,50,000
Less: Pre-acquisition dividend wrongly credited	42,500	17,500	-
Correct balance as on 31st March, 2017	4,57,500	2,57,500	2,50,000

2. Undistributed profits for the year 2015-2016

	Bolt Ltd. ₹	*Canopy Ltd.* ₹
Profits for the year 2015-2016	2,50,000	1,00,000
Less: Dividends declared	(1,00,000)	(60,000)
	1,50,000	40,000
Less: Transfer to Reserves	(25,000)	(25,000)
	1,25,000	15,000

3. Analysis of Profits

	Capital Profits ₹	Revenue Reserve ₹	Revenue Profits ₹
Canopy Ltd.			
Reserves as on 1st April, 2015	50,000		
Transfer to Reserve in the year 2015-2016 [(75,000-50,000)/2]	12,500	12,500	
Profit & Loss Account			
Balance as on 1st April, 2015	30,000		
Profit for 2015-2016 remaining undistributed [(1,00,000-25,000-60,000)/2]	7,500		7,500
Profit for the year 2016-2017 (2,50,000-30,000-15,000)			2,05,000
(A)	1,00,000	12,500	2,12,500
Minority Interest [¼ th of (A)]	25,000	3,125	53,125
	75,000	9,375	1,59,375
Share of Angle Ltd. [1/6 th of (A)]	16,667	2,083	35,417
Share of Bolt Ltd.	58,333	7,292	1,23,958
Bolt Ltd.			
Reserves as on 1st April, 2015	1,00,000		
Transfer to Reserves 2015-2016 [(1,25,000-1,00,000)/2]	12,500	12,500	
Profit & Loss Account - Balance (Dr.) as on 1st April, 2015	(50,000)		
Undistributed Profits for 2015-2016 [(2,50,000-25,000-1,00,000)/2]	62,500		62,500
Share in profits of Canopy Ltd.	58,333	7,292	1,23,958
Profit for the year, 2016-2017 (2,00,000 – 17,500)			1,82,500
(B)	1,83,333	19,792	3,68,958
Less: Minority Interest [¼ th of (B)]	(45,833)	(4,948)	(92,240)
Share of Angle Ltd.	1,37,500	14,844	2,76,718

4. Consolidated Profit and Loss Account of Angle Ltd.

	₹
Profit & Loss Account balance as on 31.3.2017	4,57,500
Add: Share in revenue profits of Canopy Ltd. [WN 3]	35,417
Share in revenue profits of Bolt Ltd. [WN 3]	2,76,718
	7,69,635
Less: Unrealised Profit in Closing Inventory (20/120 × 18,000)	(3,000)
	7,66,635

5. Consolidated Reserves of Angle Ltd.

	₹
Reserves as on 31.3.2017	2,00,000
Add: Share in revenue reserves of Canopy Ltd.	2,083
Add: Share in revenue reserves of Bolt Ltd.	14,844
	2,16,927

6. Minority Interest

	Bolt Ltd.	*Canopy Ltd.*
	₹	₹
Share Capital	2,50,000	1,50,000
Share of Capital Profits	45,833	25,000
Share of Revenue Reserves	4,948	3,125
Share of Revenue Profits	92,240	53,125
Total	3,93,021	2,31,250
Grand total		6,24,271

7. Cost of Control/Goodwill

	₹	₹
Cost of investments (9,00,000+1,50,000+5,20,000)		15,70,000
Less: Dividend Attributable to Pre-Acquisition Profits for 6 months i.e. [(75,000+45,000)/2]		(60,000)
		15,10,000
Less: Face value of Shares		
Bolt Ltd.	7,50,000	
Canopy Ltd.	4,50,000	
Capital Profits		
Bolt Ltd.	1,37,500	

Canopy Ltd.	16,667	(13,54,167)
Goodwill		1,55,833

8 Cash in Transit /Dues from Bolt Ltd.

		₹	₹
(i)	Due to Angle Ltd.		
	From Bolt Ltd.	1,20,000	
	From Canopy Ltd.	80,000	2,00,000
(ii)	Due by Angle Ltd.		
	To Bolt Ltd.	1,00,000	
	To Canopy Ltd.	80,000	1,80,000
			20,000

Question 16

The following are the summarized Balance Sheets of Ram Ltd., Shyam Ltd. and Tom Ltd. as on 31.03.2017:

	₹ in'000		
Particulars	*Ram Ltd.*	*Shyam Ltd.*	*Tom Ltd.*
Liabilities			
Equity Share Capital (₹ 100 each)	*8,000*	*4,000*	*1,600*
General Reserve	*1,600*	*280*	-
Profit and Loss Account	*1,360*	*960*	-
Current Liabilities	*1,280*	*3,000*	*1,120*
Total	*12,240*	*8,240*	*2,720*
Assets			
Investments:			
32,000, shares in Shyam Ltd.	*4,800*	-	-
4,000, shares in Tom Ltd.	*200*	-	-
12,000, shares in Tom Ltd.	-	*720*	-
Profit and Loss Account	-	-	*640*
Current Assets	*7,240*	*7,520*	*2,080*
Total	*12,240*	*8,240*	*2,720*

From the following information, prepare consolidated Balance Sheet of Ram Ltd. and its subsidiaries as on 31.03.2017:

(i) Shyam Ltd. has advanced ₹ 8,00,000 to Tom Ltd.

(ii) Current Liabilities of Ram Ltd. includes ₹ 4,00,000 due to Tom Ltd.

(iii) Shyam Ltd. and Tom Ltd. have not paid any dividend.

(iv) Ram Ltd. acquired its investments on 01.04.2016 from Shyam Ltd. and then amount standing to credit of General Reserve and Profit and Loss account were ₹ 2,80,000 and ₹ 5,20,000 respectively.

(v) Ram Ltd. acquired investments in Tom Ltd. on 01.04.2016, when the debit balance in Profit and Loss account in books of Tom Ltd. was ₹ 4,80,000.

(vi) Shyam Ltd. acquired its investments in Tom Ltd. on 01.04.2014 and then the debit balance in Profit and Loss account was ₹ 1,60,000.

(vii) Shyam Ltd.'s inventory includes inventory worth ₹ 4,80,000 which was invoiced by Ram Ltd. at 20% above cost.

Answer

Consolidated Balance Sheet of Ram Ltd. and its subsidiaries Shyam Ltd and Tom Ltd.

as on 31.3.2017

Particulars	*Note No.*	*(₹ in '000s)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		8,000
(b) Reserves and Surplus	1	3,096
(2) Minority Interest (W.N.7)		952
(3) Current Liabilities	2	4,200
Total		16,248
II. Assets		
(1) Non-current assets		
Fixed assets		
Intangible assets	3	688
(2) Current assets	4	15,560
Total		16,248

Notes to Accounts

			₹ in '000s
1.	Reserves and Surplus		
	General Reserve	1,600	

	Profit & Loss (W.N.6)	1,496	3,096
2.	Current Liabilities		
	Ram Ltd.	1,280	
	Shyam Ltd.	3,000	
	Tom Ltd.	1,120	
		5,400	
	Less: Mutual Owings	(1,200)	4,200
3.	Intangible assets		
	Goodwill (W. N. 5)		688
4.	Current Assets		
	Ram Ltd.	7,240	
	Shyam Ltd.	7,520	
	Tom Ltd.	2,080	
		16,840	
	Less: Mutual Owings	(1,200)	
		15,640	
	Less: Unrealised Profit	(80)	15,560

Working Notes:

Shareholding Pattern

	Shyam Ltd.	Tom Ltd.
Total Shares	40,000 shares	16,000 shares
Held by Ram Ltd.	32,000 shares (80%)	4,000 shares (25%)
Held by Shyam Ltd.	NA	12,000 shares (75%)
Minority Interest	8,000 shares (20%)	NIL

1. General Reserve and Profit and Loss Account of Shyam Ltd.

General Reserve Account of Shyam Ltd.

		₹'000			*₹'000*
31.3.15	To Balance c/d	280	1.4.14	By Balance b/d	280

Draft Profit and Loss Account of Shyam Ltd.

		₹ '000			*₹ '000*
31.3.15	To Balance c/d	960	1.4.14	By Balance b/d	520
				By Profit earned during the year (Bal. Fig.)	440
		960			960

2. Draft Profit and Loss Account of Tom Ltd.

		₹ '000			₹ '000
1.4.12	To Balance b/d	160	31.3.13	By Balance c/d	160
		160			160
1.4.13	To Balance b/d	160	31.3.14	By Balance c/d	480
	To Loss incurred during the year (Bal. Fig.)	320			
		480			480
1.4.14	To Balance b/d	480	31.3.15	By Balance c/d	640
	To Loss incurred during the year (Bal. Fig.)	160			
		640			640

3. Analysis of Profits of Tom Ltd.

		Capital Profits ₹ '000	Revenue Profits ₹ '000
(i)	**From the viewpoint of Shyam Ltd.**		
	Debit Balance in Profit and Loss Account as on 1.4.2014	(160)	
	Loss incurred between 1.4.2014 to 31.3.2017 [(320 + 160)– Refer W.N. 2]		(480)
		(160)	(480)
	Share of Shyam Ltd.-75% [carried forward to W. N. 4]	(120)	(360)
(ii)	**From the view point of Ram Ltd.**		
	Debit Balance of Profit and Loss Account as on 1.4.14	(480)	
	Loss during the year 2016-2017 [WN 2]		(160)
		(480)	(160)
	Share of Ram Ltd. (25%)	(120)	(40)

4. Analysis of Profits of Shyam Ltd. (From the viewpoint of Ram Ltd.)

	Capital Profits ₹ '000	Revenue Profits ₹ '000
General Reserve as on 1.4.2016	280	
Profit and Loss Account Balance as on 1.4.2016	520	

Profit earned during 2016-2017 (W.N.1)		440
Brought forward Shyam Ltd.'s share of loss in Tom Ltd. [W. N. 3(i)]	(120)	(360)
Share of Shyam Ltd. in revenue loss of Tom Ltd. for the period 1.4.12 to 31.3.14 [75% of (360- 40)] being treated as capital loss from view point of Ram Ltd.	(240)	240
	440	320
Less: Share of Minority Interest (20%)	(88)	(64)
Balance taken to Ram Ltd. (80%)	352	256

5. Cost of Control

		₹ '000
Investment by Ram Ltd. in		.
Shyam Ltd.	4,800	
Tom Ltd.	200	
Investment by Shyam Ltd. in		
Tom Ltd.	720	5,720
Less: Paid up value of shares of:		
Shyam Ltd.	3,200	
Tom Ltd. (400 + 1,200)	1,600	
	4,800	
Capital loss of Ram Ltd. in Tom Ltd. [W.N. 3(ii)]	(120)	
Capital Profit of Ram Ltd. in Shyam Ltd. (W.N. 4)	352	(5,032)
Goodwill		688

6. Consolidated Profit and Loss A/c of Ram Ltd.

		₹ '000
Profit and Loss A/c Balance		1,360
Post-acquisition share of loss from Tom Ltd.		(40)
Post-acquisition share of profit from Shyam Ltd.		256
		1,576
Less: Unrealised Profit on Inventory ($\frac{1}{6}$ th of 480)		(80)
		1,496

7. Minority Interest

	₹'000
Paid up value of shares in Shyam Ltd. (20% of 4,000)	800
Share of Capital Profit (W.N.4)	88
Share of Revenue Profit (W.N.4)	64
	952

Question 17

The summarized Balance Sheets of three companies Sun Ltd., Moon Ltd. and Light Ltd. as at 31st March, 2017 are given below:

Liabilities	Sun Ltd. ₹	Moon Ltd. ₹	Light Ltd. ₹	Assets	Sun Ltd. ₹	Moon Ltd. ₹	Light Ltd. ₹
Share Capital				Fixed Assets	70,000	1,20,000	1,03,000
(Shares of ₹10 each)	1,50,000	1,00,000	60,000	Investments (at cost)			
Reserves	50,000	40,000	30,000	Shares in:			
Profit and	60,000	50,000	40,000	Moon Ltd.	90,000	-	-
Loss A/c							
	30,000	35,000	25,000	Light Ltd.	40,000	-	-
Trade payables							
				Light Ltd.	-	50,000	-
Sun Ltd.	-	10,000	8,000	Inventory-in-trade	40,000	30,000	20,000
				Trade receivables	20,000	25,000	30,000
				Due from--			
				Moon Ltd.	12,000		
				Light Ltd.	8,000		
				Cash in hand	10,000	10,000	10,000
	2,90,000	2,35,000	1,63,000		2,90,000	2,35,000	1,63,000

(a) Sun Ltd. held 8,000 shares of Moon Ltd. and 1,800 shares of Light Ltd.

(b) Moon Ltd. held 3,600 shares of Light Ltd.

(c) All investments were made on 1st July, 2016.

(d) The following balances were there on 1st July, 2016:

	Moon Ltd. ₹	*Light Ltd.* ₹
Reserves	*25,000*	*15,000*
Profits and Loss A/c	*20,000*	*25,000*

(e) *Moon Ltd. invoiced goods to Sun Ltd. for ₹ 4,000 at a cost plus 25% in December, 2016. The closing inventory of Sun Ltd. includes such goods valued at ₹ 5,000.*

(f) *Light Ltd. sold to Moon Ltd. an equipment costing ₹ 24,000 at a profit of 25% on selling price on 1st January, 2017. Depreciation at 10% per annum was provided by Moon Ltd. on the equipment.*

(g) *Sun Ltd. declared dividend at 10%.*

Prepare the Consolidated Balance Sheet of the group as at 31st March, 2017. Working should form part of the answer.

Answer

Consolidated Balance Sheet of Sun Ltd. and its subsidiaries Moon Ltd. and Light Ltd.

as at 31st March, 2017

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,50,000
(b) Reserves and Surplus	2	1,73,516
(2) Minority Interest		52,684
(3) Current Liabilities		
(a) Trade Payables	3	90,000
(b) Other current liabilities	4	15,000
Total		4,81,200
II. Assets		
(1) Non-current assets		
Fixed assets	5	2,85,200
(2) Current assets		
(a) Inventories	6	89,000
(b) Trade receivables	7	75,000
(c) Cash and cash equivalents	8	32,000
Total		4,81,200

Notes to Accounts

				₹
1.	Reserves and Surplus			
	Capital Reserve (W.N.3)		26,000	
	Other Reserves (W.N.7)		73,700	
	Profit and Loss Account (W. N. 6)		73,816	1,73,516
2.	Minority interest			
	Moon Ltd. (W. N. 4)		40,464	
	Light Ltd. (W.N.4)		12,220	52,684
3.	Trade Payables			
	Sun Ltd.		30,000	
	Moon Ltd.		35,000	
	Light Ltd.		25,000	90,000
4.	Other current liabilities			
	Dividend			15,000
5.	Fixed Assets			
	Sun Ltd.		70,000	
	Moon Ltd.	₹ 1,20,000		
	Less: Unrealised Profit (W.N.5)	₹ (7,800)	1,12,200	
	Light Ltd.		1,03,000	2,85,200
6.	Inventories			
	Sun Ltd.	₹ 40,000		
	Less: Unrealised Profit	₹ (1,000)	39,000	
	Moon Ltd.		30,000	
	Light Ltd.		20,000	89,000
7.	Trade Receivables			
	Sun Ltd.		20,000	
	Moon Ltd.		25,000	
	Light Ltd.		30,000	75,000
8.	Cash and cash equivalents			
	Cash in hand			
	Sun Ltd. ₹ 10,000			

	Moon Ltd. ₹ 10,000		
	Light Ltd. ₹ 10,000	30,000	
	Cash in transit (W.N.8)	2,000	32,000

Working Notes:

1. Analysis of Profits of Light Ltd.

	Pre-acquisition	*Post-acquisition*	
	Capital Profit ₹	*Revenue Reserves* ₹	*Revenue Profits* ₹
Reserves on 1.7.2016	15,000	-	-
Profit and Loss A/c on 1.7.2016	25,000	-	-
Increase in Reserves	-	15,000	-
Increase in Profit	-	-	15,000
	40,000	15,000	15,000
Less: Minority Interest (10%)	(4,000)	(1,500)	(1,500)
	36,000	13,500	13,500
Share of Sun Ltd.	12,000	4,500	4,500
Share of Moon Ltd.	24,000	9,000	9,000

2. Analysis of Profits of Moon Ltd.*

	Pre-acquisition	*Post-acquisition*	
	Capital Profit ₹	*Revenue Reserves* ₹	*Revenue Profits* ₹
Reserves on 1.7.2016	25,000	-	-
Profit and Loss A/c on 1.7.2016	20,000	-	-
Increase in Reserves	-	15,000	-
Increase in Profit	-	-	30,000
	45,000	15,000	30,000
Add: Share in Light Ltd. (post acquisition)	-	9,000	9,000

* Treatment of capital profit of sub-subsidiary company i.e. Light Ltd. has been done by applying direct approach.

Less: Unrealised profit on equipment (60% of 7,800)			(4,680)
	45,000	24,000	34,320
Less: Minority Interest (20%)	(9,000)	(4,800)	(6,864)
Share of Sun Ltd.	36,000	19,200	27,456

3. Cost of Control

				₹
Investment in Moon Ltd.				90,000
Investment in Light Ltd.				
		₹		
	by Moon Ltd.	50,000		
	by Sun Ltd.	40,000		90,000
				1,80,000
Less: Paid up value of shares				
	in Moon Ltd.	80,000		
	in Light Ltd.	54,000	1,34,000	
Capital Profit of Sun Ltd.				
	in Moon Ltd.	36,000		
	in Light Ltd.	12,000	48,000	
Capital profit of Moon Ltd. in Light Ltd.			24,000	(2,06,000)
Capital Reserve				26,000

4. Minority Interest

	Moon Ltd.	*Light Ltd.*
	₹	₹
Share Capital	20,000	6,000
Capital Profit	9,000	4,000
Revenue Reserves	4,800	1,500
Revenue Profits	6,864	1,500
	40,664	13,000
Less: Unrealised Profit on Inventory 20% of (₹ 5,000 x 25/125)	(200)	
Unrealised Profit on Equipment (10% of ₹ 7,800)		(780)
	40,464	12,220

5. Unrealised Profit on Equipment Sale

	₹
Selling price of the equipment $\left(24{,}000\text{x}\frac{100}{75}\right)$	32,000
Less: Cost price of the equipment	(24,000)
Profit on sale	8,000
Unrealised profit = [8,000-(8,000 x $\frac{10}{100}$ x $\frac{3}{12}$)] = ₹ 7,800	

6. Profit and Loss Account – Sun Ltd.

	₹
Balance as per separate Balance Sheet	60,000
Less: Dividend	(15,000)
	45,000
Add: Share in Moon Ltd.	27,456
Share in Light Ltd.	4,500
	76,956
Less: Unrealised profit on Equipment (30% of 7,800)	(2,340)
	74,616
Less: Unrealised profit on Inventory (5,000x $\frac{25}{125}$ x80%)	(800)
	73,816

7. Other Reserves – Sun Ltd.

	₹
Balance as per separate Balance Sheet	50,000
Share in Moon Ltd.	19,200
Share in Light Ltd.	4,500
	73,700

8. Cash in Transit

	₹
Due to Sun Ltd. from Moon Ltd.	12,000
Less: Due by Moon Ltd.	(10,000)
	2,000

Question 18

Kim and Kin floated a new company KimKin Ltd. on 1st April 2016 with a capital of ₹ 5 lakhs represented by 50,000 ordinary shares of ₹ 10 each, subscribed equally by both groups.

Kimkin Ltd. made the following acquisitions on the same date:

(1) 3,000 shares of ₹ 10 each in Klean Ltd. at ₹ 35,000

(2) 10,000 shares of ₹ 10 each in Klinic Ltd. for ₹ 72,000

(3) 8,000 equity shares of ₹ 10 each in Klear Ltd. for ₹ 92,000 and 200 8% Cumulative Preference shares @ ₹ 140 per share.

The following are the summarized Balance sheets of the three companies as on 31.03.2017

Liabilities

	Klean Ltd. (₹)	Klinic Ltd. (₹)	Klear Ltd. (₹)
Equity Share Capital	40,000	1,20,000	1,00,000
8% Cumulative Preference shares			25,000
Capital (₹ 100 shares)			
Reserves (31.03.2016)	3,000		7,500
Profit & Loss Account	6,000		15,000
Trade payables	2,900	8,000	7,500
Total	51,900	1,28,000	1,55,000

Assets

	(₹)	(₹)	(₹)
Goodwill (purchased)	4,000		15,000
Freehold Land	8,000	52,000	50,000
Plant & machinery	16,000	19,000	37,000
Inventories	8,900	25,000	26,000
Trade receivables	4,000	12,000	15,500
Bank	11,000	2,000	11,500
Profit & Loss A/c	………	18,000	………
Total	51,900	1,28,000	1,55,000

You are supplied with the following information and requested to compile the Consolidated Balance Sheet as on 31st March 2017 of the entire Group.

1. The freehold land of Klear Ltd. carries a fair value of ₹ 65,000 as on 1-04-2016.

2. The plant & machinery of Klinic Ltd. to be depreciated by ₹ 3,000.

3. *Inventories of Klean Ltd. are undervalued by ₹ 2,000.*
4. *On Balance Sheet date, Kimkin Ltd. owed Klean Ltd. ₹ 10,500 and is owed ₹ 8,200 by Klinic Ltd. Klear Ltd. is owed ₹ 1,300 by Klean Ltd. and ₹ 2,000 by Klinic Ltd.*
5. *The balances in Profit and Loss account on date of acquisition were : Klean Ltd. ₹ 2,000 (Cr); Klinic Ltd. ₹ 12,000 (Dr.) and Klear Ltd. ₹ 4,000 (Cr.)*

   The credit balances of Klean Ltd. & Klear. Ltd. were wholly distributed as dividends in June 2016.
6. *During 2016-2017 Klean Ltd. & Klear Ltd. declared and paid interim dividends of 8% and 10% respectively.*
7. *Klear Ltd. has discharged dividend obligations towards its preference shareholders up-to March 2015.*

Answer

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

Consolidated Balance Sheet of Kimkin Ltd. & its subsidiaries as on 31-03-2017

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	37,250
(2) Minority Interest		61,750
(3) Current Liabilities		
(a) Trade Payables		19,600
(b) Short term provision (preference dividend)		1,600
Total		6,20,200
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangibles assets	3	1,94,000
(b) Intangible assets	4	19,000
(2) Current assets		
(a) Inventories (W.N 5)		61,900

(b) Trade receivables		28,200
(c) Cash and cash equivalents	5	3,17,100
Total		6,20,200

Notes to Accounts

			₹
1.	Share Capital		
	Authorised, Issued, Subscribed & Paid up 50,000 Ordinary shares of ₹ 10 each		5,00,000
2.	Reserves and Surplus		
	Capital Reserve	17,950	
	Profit & Loss Account (W.N. 6)	19,300	37,250
3.	Tangible Assets		
	Freehold lands (W.N. 5)	1,25,000	
	Plant & Machinery (W.N 5)	69,000	1,94,000
4.	Intangible assets		
	Goodwill (4,000+15,000)		19,000
5.	Cash and cash equivalents		
	Bank Balances (W.N. 5)	3,14,900	
	Cash in transit (W.N 7)	2,200	3,17,100

Working Notes:

1.	Analysis of profits	₹	₹
	Klean Ltd.	Capital	Revenue
	Reserves as on 1st April, 2016	3,000	
	Profit and Loss account as on 1st April, 2016 net of dividend	0	
	Current year profits after interim dividend of ₹ 3,200		6,000
	Appreciation in inventory value		2,000
		3,000	8,000
	Less: Minority interest (1/4)	(750)	(2,000)
	Share of Kimkin Ltd. (3/4)	2,250	6,000
	Klinic Ltd.	Capital	Revenue
	Loss on date of acquisition	(12,000)	

	Current year loss after additional depreciation of ₹ 3,000 = (18,000 + 3,000 - 12,000)	______	(9,000)
		(12,000)	(9,000)
	Less: Minority interest (1/6)	(2,000)	(1,500)
	Share of Kimkin Ltd. (5/6)	(10,000)	(7,500)
	Klear Ltd.	Capital	Revenue
		₹	₹
	Reserves as on 1st April, 2016	7,500	
	Profit & Loss as on 1st April, 2016 net of dividend	0	
	Current year profits after interim dividend of ₹ 10,000		15,000
	Appreciation in freehold property value as on 01.04.2016	15,000	
	Arrears of Preference Dividend of Minority's Preference Shares (as per para 27 of AS 21)	(2,000)	(2,000)
		20,500	13,000
	Less: Minority Interest (1/5)	(4,100)	(2,600)
	Share of Kimkin Ltd. (4/5)	16,400	10,400
2.	Cost of control/capital reserve		₹
	Cost of Investment in Klean Ltd.	35,000	
	Less: Pre-acquisition Dividend = ¾ x 2,000	(1,500)	33,500
	Cost of Investment in Klinic Ltd.		72,000
	Cost of Equity Investment in Klear Ltd.	92,000	
	Less: Pre-acquisition Dividend = 4/5 x 4,000	(3,200)	88,800
	Cost of Investment in Cum-Preference shares in Klear Ltd.	28,000	
	Less: Pre-acquisition preference dividend = 4/5 x 2,000	(1,600)	26,400
			2,20,700
	Less: Paid up Value of Equity Shares in Klean Ltd.	30,000	
	Paid up Value of Equity Shares in Klinic Ltd.	1,00,000	
	Paid up Value of Equity Shares in Klear Ltd.	80,000	
	Paid up Value of Preference Shares in Klear Ltd	20,000	(2,30,000)
			(9,300)
	Less: Capital Profits in Klean Ltd	2,250	
	Capital Profits in Klinic Ltd.	(10,000)	
	Capital Profits in Klear Ltd	16,400	(8,650)
	Capital Reserve		17,950

3. Minority Interest

	Klean Ltd (₹)	*Klinic Ltd. (₹)*	*Klear Ltd. (₹)*
Equity Share Capital	10,000	20,000	20,000
Preference Share Capital			5,000
Arrears of Preference Dividend			800
Capital Profits	750	(2,000)	4,100
Revenue Profits	2,000	(1,500)	2,600
	12,750	16,500	32,500

4. Bank Account of Kimkin Ltd.

	₹		₹
To Share Capital	5,00,000	By investments in Klean Ltd.	35,000
To Investment in Klean Ltd. (Pre-acquisition Dividend)	1,500	By Investments in Klinic Ltd.	72,000
To Investment in Klear Ltd. (Pre-acquisition Dividend)	3,200	By Investments in Klear Ltd. (92,000 + 28,000)	1,20,000
To Dividend Received		By Klinic Ltd (Owings)	8,200
Klean Ltd.	2,400	By Balance c/d	2,90,400
Klear Ltd.	8,000		
To Klean Ltd. (Owings)	10,500		
	5,25,600		5,25,600

5. Statement showing consolidated balances

	Land	*Plant*	*Inventory*	*Trade receivables*	*Bank*	*Trade payables*
	₹	₹	₹	₹	₹	₹
Kimkin Ltd.				8,200	2,90,400	10,500
Klean Ltd.	8,000	16,000	10,900	4,000	11,000	2,900
Klinic Ltd.	52,000	16,000	25,000	12,000	2,000	8,000
Klear Ltd.	65,000	37,000	26,000	15,500	11,500	7,500
	1,25,000	69,000	61,900	39,700	3,14,900	28,900
Less: Mutual Owings				(11,500)*		(9,300)*
Consolidated Balances	1,25,000	69,000	61,900	28,200	3,14,900	19,600

* According to the additional information given in the question, balance of trade receivables A/c of Klean Ltd. should be ₹ 10,500 or more. However, Balance Sheet of Klean Ltd. showed trade receivables of ₹ 4,000 only which is very low in comparison to ₹ 10,500. Therefore, it is presumed that the entry of ₹ 10,500 has been omitted in the books of Klean Ltd. Hence, no elimination of mutual owing in respect of ₹ 10,500 has been made while preparing the consolidated balance sheet.

6. Consolidated Revenue Profits

	₹
Klean Ltd.	6,000
Klinic Ltd.	(7,500)
Klear Ltd.	10,400
	8,900
Add : Interim Dividend received (2,400 + 8,000)	10,400
Consolidated Profit and Loss A/c	19,300

7. Cash-in-Transit

Amount due from Klinic Ltd. (₹ 8,200 ₹ 2,000)	₹ 10,200
Less: Balance of Trade payables of Klinic Ltd.	
as on 31.3.2017 (as per separate balance sheet)	(₹ 8,000)
Cash in transit	₹ 2,200

Note: As per the Companies Act 2013, Preference shareholders have preferential right for the receipt of dividend before equity dividend. However as per the information given in the question, preference dividend is in arrears for last 2 years and equity dividend (interim) is paid during the year 2016-2017. In this regard, it may be noted the workings have been done solely on the basis of the information as given in the question.

Change in Relationship from Subsidiary to Associates

Question 19

Eagle Ltd. had acquired 51% in Sparrow Ltd. for ₹ 75.80 lakhs on April 1st, 2015. On the date of the acquisition Sparrow's Assets stood at ₹ 196 lakhs and liabilities at ₹ 16 lakhs. The Net asset position of Sparrow Ltd. as on 31st March, 2016 & 30th September 2016 were ₹ 280 lakhs & ₹ 395 lakhs respectively, the increase resulting from profits earned during the period.

On 1st October, 2016, 25.5% holdings were sold for ₹ 125 lakhs. You are required to explain the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship. The profit arising on part sale of investment, carrying value of the portion unsold & goodwill/capital reserve that arises on change in nature of the investment may also be worked out by you.

Answer

Sparrow Ltd. became a subsidiary of Eagle Ltd. on 1st April 2015 when 51% thereof was acquired. The holding–subsidiary relationship continued till 30th September 2016 and from 1st October, 2016 the relationship between the two companies will change to Associate. As per para 24 of AS 21, "Consolidated Financial Statements", the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter. Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate. Goodwill or capital reserve arising on account of the change in the nature of the investment will be computed as on the date of such change. Accordingly, when a part of the investment takes the form of an investment in an associate, the results of operations of the subsidiary will be included in the consolidated statement of Profit and Loss for the period from the beginning of the period until it ceased to be a subsidiary.

Ascertainment of Gain or Loss
on the Disposal of the Part of the Investment in Sparrow Ltd.

		₹
Proceeds received on sale of 25.5% holdings in Sparrow Ltd.		1,25,00,000
Net Assets of sparrow Ltd. on the date of disposal	3,95,00,000	
Less: Minority's interest in Sparrow Ltd. on the date of disposal	(1,93,55,000)	
Share of Eagle Ltd. in Net Assets	2,01,45,000	
Less: Capital reserve on acquisition (Refer W.N.)	(16,00,000)	
Total value of investment in consolidated financial statements of Eagle Ltd.	1,85,45,000	
Less: Carrying Value of investment disposed off		
(1,85,45,000 x 25.5/51)		92,72,500
Profit on sale of 25.5% of investment		32,27,500

Carrying Value of the Investment retained in the Consolidated Financial Statements		₹
Total value of investment in consolidated financial statements of Eagle Ltd.	1,85,45,000	
Less: Carrying value of investment disposed off	(92,72,500)	
Carrying Value of the investment retained in consolidated financial statements including capital reserve		92,72,500
This amount of ₹ 92,72,500 would be used to apply the equity method of accounting as specified in AS 23		
Goodwill / Capital Reserve arising on the Carrying Value of Unsold Portion of the Investment		₹
Carrying value of 25.5% holdings in Sparrow Ltd. as on 1st October, 2016		92,72,500
Less: Share in value of equity of Sparrow Ltd., as at date of investment		

when subsidiary relationship is transformed to an associate (3,95,00,000 x 25.5%)	(1,00,72,500)
Capital reserve arising on such investment under Equity method as per AS 23	(8,00,000)

Working Note:

Calculation of Goodwill / Capital Reserve on the Date of Acquisition of Shares in Sparrow Ltd.

	₹
Net Assets on Acquisition date (₹ 1,96,00,000 – ₹ 16,00,000)	1,80,00,000
51% thereof	91,80,000
Less: Cost of investment	(75,80,000)
Capital reserve on acquisition	16,00,000

Question 20

The Balance Sheets of A Ltd. and its subsidiaries B Ltd. and C Ltd. as on 31-3-2016 were as follows:

			₹ in lakhs
	A Ltd.	*B Ltd.*	*C Ltd.*
Investments:			
1,00,000 shares in B Ltd.	*100*	*----*	*----*
80,000 shares in C Ltd.	*200*	*----*	*----*
Other Current Assets	*700*	*600*	*500*
	1,000	*600*	*500*
Share Capital:			
Shares of ₹ 100 each	*400*	*100*	*100*
Reserves and Surplus	*400*	*300*	*200*
Current Liabilities	*200*	*200*	*200*
	1,000	*600*	*500*

A Ltd. acquired shares in B Ltd. in April 2013 when B Ltd. was formed with share capital of ₹ 100 lakhs.

A Ltd. acquired shares in C Ltd. in April 2013 when C Ltd. had share capital of ₹ 100 lakhs and reserves and surplus of ₹100 lakhs.

The group amortises goodwill on consolidation on a SLM basis over a period of 5 years. A full year's amortization is provided if the goodwill exists for more than 6 months.

On 1st April, 2016, A Ltd. sold 40,000 shares of C Ltd. for cash consideration of ₹ 150 lakhs. The Balance Sheets of the companies for the year 2016-2017 were as follows:

(1) Balance Sheet as on 31-3-2017 *₹ in lakhs*

	A Ltd.	B Ltd.	C Ltd.
Investments at cost:			
1,00,000 shares in B Ltd.	*100*		
40,000 shares in C Ltd.	*100*		
Other Current Assets	*1,000*	*800*	*700*
	1,200	*800*	*700*
Share Capital	*400*	*100*	*100*
Reserves and Surplus	*550*	*420*	*280*
Current Liabilities	*250*	*280*	*320*
	1200	*800*	*700*

(2) Profit and Loss A/c for the year ended 31-3-2017 *₹ in lakhs*

	A Ltd.	B Ltd.	C Ltd.
Profit before tax	*150*	*180*	*120*
Extraordinary items	*50*	*-*	*-*
	200	*180*	*120*
Tax	*50*	*60*	*40*
Profit after tax	*150*	*120*	*80*
Reserves & Surplus Beginning	*400*	*300*	*200*
Reserves & Surplus-End	*550*	*420*	*280*

Prepare for A Ltd., group Balance Sheets as on 31-3-2016 and as on 31-3-2017.

Answer

Consolidated Balance Sheet as on 31.3.2016

	₹ in lakhs
Assets:	
Other Current Assets (700+600+500)	1,800
Goodwill (after amortisation) (W.N. 1(c))	16
	1,816
Capital and Liabilities:	
Share capital	400
Minority Interest (W.N. 1(b))	60
Reserves and surplus (W.N. 1(d))	756
Current Liabilities (200+200+200)	600
	1,816

Consolidated Balance Sheet as on 31.3.2017

Particulars	*Note No.*	*(₹ in thousands)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		400
(b) Reserves and Surplus	2	1,026
(4) Current Liabilities (250+280)		530
Total		1,956
II. Assets		
(1) Non-current assets		
Non-current investment	1	156
(2) Current assets		
Other current asset		1,800
Total		1,956

Notes to Accounts

		₹ in thousands	
1.	Non-current investment		
	Carrying amount of Investment in Associate – C Ltd. [W.N.2(a)]	128	
	(Identified goodwill included in the above ₹ 8 lakhs) [W.N.2(b)]		
	Add: Increase in reserves and surplus during the year (280-200) x 40%	32	
	Less: Goodwill written off in the fourth year ₹ 8 lakhs x ½	(4)	156
2.	Consolidated Reserves and Surplus		
	Balance of reserves and surplus of A Ltd. as on 31.3.2017	550	
	Add: Post-acquisition reserves and surplus of B Ltd. (subsidiary)	420	
	Profit accumulated over the years on investment of A Ltd. (128-100)	28	
	Post-acquisition reserves and surplus of C Ltd. (280-200) x 40%	32	
	Less: Goodwill amortised for the period	(4)	1,026

Working Notes:

1. For Consolidated Balance Sheet as on 31.3.2016

   (a) Analysis of Profits

	B Ltd.		C Ltd.	
	Pre-acquisition	*Post Acquisition*	*Pre-acquisition*	*Post Acquisition*
		₹ in lakhs	*₹ in lakhs*	*₹ in lakhs*
Reserves and Surplus		300	100	100
A Ltd.		300	80	80
Minority Interest		-	20	20

(b) Minority Interest

	C Ltd.
	₹ in lakhs
Share Capital (20%)	20
Reserves and Surplus	
Pre-acquisition (W.N. 1(a))	20
Post-acquisition (W.N. 1(a))	20
	60

(c) Cost of Control

	B Ltd.	*C Ltd.*
	₹ in lakhs	*₹ in lakhs*
Investment by A Ltd.	100	200
Less: Share capital (80%)	(100)	(80)
Capital profit (pre-acquisition) (W.N. 1(a))	-	80
Goodwill	-	40
Less: Amortization for 3 years [(40/5) x3]		(24)
Carrying value of goodwill after 3 years		16

(d) Consolidated Reserves and Surplus

	₹ in lakhs
Balance of A Ltd. as on 31.3.2016	400
Post-acquisition reserves and surplus of B Ltd. (W.N. 1(a))	300
Post-acquisition reserves and surplus of C Ltd. (W.N. 1(a))	80
	780
Less: Amortisation of goodwill	(24)
	756

2. For Consolidated Balance Sheet as on 31.3.2017

C Ltd. became a subsidiary of A Ltd. on 1st April 2013 when 80% thereof was acquired. The holding –subsidiary relationship continued till 31st March, 2016 and from 1st April, 2016 the relationship between the two companies changed to Associate. As per para 24 of AS 21, "Consolidated Financial Statements", the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter.

Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate. Goodwill or capital reserve arising on account of the change in the nature of the investment will be computed as on the date of such change.

(a) Ascertainment of carrying value of investment in C Ltd. disposed off and retained

	₹ in lakhs
Net Assets of C Ltd. on the date of disposal	300
(Total assets of ₹ 500 lakhs - total liabilities of ₹ 200 lakhs)*	
Less: Minority's interest in C Ltd. on the date of disposal (20%)	(60)
Share of A Ltd. in Net Assets	240
Add: Carrying value of Goodwill (Refer W.N.1(c))	16
Total value of investment in consolidated financial statements of A Ltd.	256
Less: Carrying Value of investment disposed off (₹ 256 lakhs x 40,000/80,000)	(128)
Carrying Value of investment retained	128

(b) Goodwill arising on the Carrying Value of Unsold Portion of the Investment

	₹ in lakhs
Carrying value of retained 40% holdings in C Ltd. as on 1st April, 2016	128
Less: Share in value of equity of C Ltd., as at date of investment when its subsidiary relationship is transformed to an associate (300 x 40%)	(120)
Goodwill arising on such investment under Equity method as per AS 23	(8)

Note: As sale of part investment took place on 1st April, 2016; therefore, it is not accounted again in the consolidated balance sheet assuming that the profit of A Ltd. includes the profit on sale of such investments.

* Calculation of net assets has been made on the basis of Balance Sheet as on 31.3.2016.

Consolidation of Subsidiary and Associate Companies

Question 21

The draft Balance Sheet of three companies, W, H, and O as at 31.3.2017 is as under:

			₹ in thousands
Assets	W	H	O
Fixed assets	697	648	349
Investments			
1,60,000 shares in H	562	---	---
80,000 shares in O	184	---	---
Cash at bank	101	95	80
Trade receivables	386	321	251
Inventory	495	389	287
Total	2,425	1,453	967
Liabilities			
Share capital (Nominal value ₹ 1 per share)	600	200	200
Reserves	1,050	850	478
Trade payables	375	253	189
Debentures	400	150	100
Total	2,425	1,453	967

You are given the following information:

(a) *W purchased the shares in H on 13.10.2015 when the balance in reserves was ₹ 500 thousands.*

(b) *The shares in O were purchased on 11.5.2015 when the balance in reserves was ₹ 242 thousands.*

(c) *The following dividend have been declared but not accounted for before the accounting year end.*

W	-	₹ 65 thousands
H	-	₹ 30 thousands
O	-	₹ 15 thousands

(d) *Included in inventory figure of O is inventory valued at ₹ 20 thousands which had been purchased from W at cost plus 25%.*

(e) *Goodwill in respect of the acquisition of H has been fully written off.*

(f) *On 31.3.2017 H made bonus issue of one share for every share held. This had not been accounted in the balance sheet as on 31.3.2017.*

(g) *Included in trade payables of W is ₹ 18 thousands to O, which is included in trade receivables of O.*

Prepare Consolidated Balance Sheet of W as at 31.3.2017.

Answer

Consolidated Balance Sheet of W and its subsidiary H

as at 31st March, 2017

Particulars	*Note No.*	*(₹ in thousands)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		600.00
(b) Reserves and Surplus (W.N.4)		1,355.80
(2) Minority Interest (W.N.3)		204.00
(3) Non-Current Liabilities		
Long-term borrowings	1	550.00
(4) Current Liabilities		
(a) Trade Payables (₹ 375+₹ 253)		628.00
(b) Other Current Liabilities	2	71.00
Total		3,408.80
II. Assets		
(1) Non-current assets		
(a) Fixed assets (₹ 697+ ₹ 648)		1,345.00
(b) Non-current investment	3	270.80
(2) Current assets		
(a) Inventories (₹ 495 + ₹ 389)		884.00
(b) Trade receivables (₹ 386 + ₹ 321)		707.00
(c) Cash and cash equivalents	4	196.00
(d) Other current asset	5	6.00
Total		3,408.80

Notes to Accounts

		₹ in thousands	
1.	Long Term Borrowings		
	Debentures (₹400 + ₹ 150)		550.00

2.	Other current liabilities		
	Dividend (W.N.6)		71.00
3.	Non-current investment		
	Investment in Associate (W.N.5)	184.00	
	(including goodwill ₹7.20 thousand)		
	Add: Accumulated reserves	86.80	270.80
4.	Cash and cash equivalents		
	Cash at Bank (₹101+ ₹95)		196.00
5.	Other current asset		
	Dividend receivable from O		6.00

Working Notes:

Shareholding Pattern

Total Shares of H Ltd. 2,00,000 Held by W Ltd. 1,60,000 i.e. 80%

Minority Interest 40,000 [20%]

1. Analysis of profits of H

		₹ in thousands
	Pre acquisition profits	*Post acquisition profits*
Reserves on the date of acquisition	500	350
Less: Bonus issue*	(200)	-
	300	350
Less: Dividend declared on 31.3.2017	-	(30)
	300	320
Minority interest (20%)	60	64
W's share (80%)	240	256

2. Cost of control/Goodwill

		₹ in thousands
Amount paid for investment		562
Less: Paid up value of shares including bonus (80% of 400)	320	
Share in pre-acquisition profits of H [WN 1]	240	(560)
Goodwill		2

* It is assumed that bonus issue had been made out of pre-acquisition reserves.

3. Minority Interest

	₹ in thousands
Paid up value of share including bonus issue (400 × 20%)	80
Share in pre acquisition profits of H [WN 1]	60
Share in post acquisition profits of H [WN 1]	64
	204

4. Consolidated Reserves

		₹ in thousands
Balance as per W's Balance Sheet		1,050.00
Add: Share in post-acquisition profits of H [WN 1]		256.00
Dividend from H		24.00
Share of profit from Associate O	86.80	
Add: Dividend from O	6.00	92.80
		1,422.80
Less: Dividend payable	65.00	
Goodwill written off	2.00	(67.00)
		1,355.80

5. Investment in Associate O as on 31.03.2017 (As per AS 23)

		₹ in thousands
Amount paid for investment		184.00
Less: Paid up value of shares	80.00	
Share in pre acquisition reserves (40% of ₹ 242)	96.8	(176.80)
Goodwill (Identified at the time of purchase)		7.20
Initial cost		184.00
Add: Increase in equity reserves [40% of ₹ (478 –15 –242)]	88.40	
Less: Unrealised profit $\left(20 \times \frac{25}{125}\right) \times 40\%$	(1.60)	86.80
Investment in Associate O as on 31.03.2017		270.80
Share of profit from Associate O ₹ (270.80 – 184 + 6)		92.80

6. Dividend

	₹ in thousands
W	65
Minority Interest (₹ 30 – ₹ 24)	6
	71

Financial Reporting of Interest in Jointly Controlled Entities

Question 22

Air Ltd., a listed company, entered into an expansion programme on 1st April, 2016. On that date the company purchased from Bag Ltd. its investments in two Private Limited Companies. The purchase was of

(a) the entire share capital of Cold Ltd.

and

(b) 50% of the share capital of Dry Ltd.

Both the investments were previously owned by Bag Ltd. After acquisition by Air Limited, Dry Ltd. was to be run by Air Ltd. and Bag Ltd. as a jointly controlled entity.

Air Ltd. makes its financial statements upto 31st March each year. The terms of acquisition were:

Cold Ltd.

The total consideration was based on price earnings ratio (P/E) of 12 applied to the reported profit of ₹ 20 lakhs of Cold Ltd. for the year 31st March, 2016. The consideration was settled by Air Ltd. issuing 8% debentures for ₹ 140 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹ 2.50 each.

Dry Ltd.

The market value of Dry Ltd. on 1st April, 2016 was mutually agreed as ₹ 375 lakhs. Air Ltd. satisfied its share of 50% of this amount by issuing 75 lakhs ₹ 1 equity shares (market value ₹ 2.50 Each) to Bag Ltd.

Air Ltd. has not recorded in its books the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 31st March, 2017 are:

			₹ in thousands
	Air Ltd.	Cold Ltd.	Dry Ltd.
Assets			
Tangible Assets	34,260	27,000	21,060
Inventories	9,640	7,200	18,640
Trade receivables	11,200	5,060	4,620
Cash	-	3,410	40
	55,100	42,670	44,360
Liabilities			
Equity capital:			
₹ 1 Each	10,000	20,000	25,000

Retained earnings	*20,800*	*15,000*	*4,500*
Trade and other payables	*17,120*	*5,270*	*14,100*
Overdraft	*1,540*	*-*	*-*
Provision for taxes	*5,640*	*2,400*	*760*
	55,100	*42,670*	*44,360*

The following information is relevant.

(a) The book values of the net assets of Cold Ltd. and Dry Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

(b) The current profits of Cold Ltd. and Dry Ltd. for the year ended 31st March, 2017 were ₹ 80 lakhs and ₹ 20 lakhs respectively. No dividends were paid by any of the companies during the year.

(c) Dry Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS 27 "Interests in joint venture".

(d) Goodwill in respect of the acquisition of Dry Ltd. has been impaired by ₹ 10 lakhs at 31st March, 2017. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Air Ltd. and its subsidiaries as at 31st March, 2017.

Answer

Consolidated Balance Sheet of Air Ltd.
with its Subsidiary Cold Ltd. and Jointly controlled Dry Ltd.
as on 31st March, 2017

Particulars	*Note No.*	*(₹ in thousands)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	21,500
(b) Reserves and Surplus	2	49,050
(2) Non-Current Liabilities		
Long-term borrowings	3	15,540
(3) Current Liabilities		
(a) Trade Payables ₹ (17,120 + 5,270 + 7,050)		29,440
(b) Short-term provisions	4	8,420
Total		1,23,950
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangibles assets ₹ (34,260+27,000+10,530)		71,790

	(b) Intangible assets (W.N.6)		4,000
(2)	Current assets		
	(a) Inventories ₹ (9,640 + 7,200 + 9,320)		26,160
	(b) Trade receivables ₹ (11,200+5,060+2,310)		18,570
	(c) Cash and cash equivalents	5	3,430
	Total		1,23,950

Notes to Accounts

			₹ in thousands
1.	Share Capital		
	Equity Capital ₹ (10,000 + 4,000 + 7,500)		
	(Out of the above 11,500 thousand shares have been issued for consideration other than cash)		21,500
2.	Reserves and Surplus		
	Retained Earnings (W.N.4)	28,800	
	Capital Reserve (W.N.5)	3,000	
	Securities Premium	17,250	49,050
3.	Long Term Borrowings		
	8% Debentures	14,000	
	Overdraft	1,540	15,540
4.	Short-term provisions		
	Provision for taxes ₹ (5,640 + 2,400 + 380)		8,420
5.	Cash and cash equivalents		
	Cash ₹ (3,410 + 20)		3,430

Working Notes:

1. Purchase consideration paid to Cold Ltd.

Earnings per share for the year 31st March, 2016

$$= \frac{20,00,000}{2,00,00,000} = ₹\ 0.10 \text{ per share}$$

Market price per share = ₹ 0.10 x 12 (i.e. P/E ratio) = ₹ 1.20 per share

Purchase consideration = ₹ 1.20 x 2,00,00,000 shares= ₹ 2,40,00,000

Purchase consideration to be paid as under:

8% Debentures	₹ 1,40,00,000
Equity Shares (40,00,000 shares of ₹ 2.50 each)	₹ 1,00,00,000
	₹ 2,40,00,000

Purchase consideration paid to Cold Ltd. will be ₹ 24,000 thousands.

2. **Consideration paid to Dry Ltd.** *(₹ in thousands)*

Total market value (as given)	37,500
50% Shares acquired by Air Ltd.(75,00,000 shares @ ₹ 2.50 each)	18,750

3. **Analysis of retained earnings of Cold Ltd. as on 31st March, 2017**

	(₹ in thousands)
Retained earnings given in balance sheet on 31.3.2017	15,000
Less: Current profits for the year ended 31.3.2017 (Post acquisition)	(8,000)
Pre acquisition retained earnings	7,000

Air Ltd. has 100% share in pre and post acquisition profits of Cold Ltd.

4. **Retained Earnings in the Consolidated Balance Sheet**

	₹ in thousands
Balance in Air Ltd. balance sheet	20,800
Add: Share in post acquisition profits of Cold Ltd.	8,000
Add: Share in post acquisition profits of Dry Ltd. (joint venture)	1,000
	29,800
Less: Goodwill (written off)	(1,000)
	28,800

5. **Capital Reserve**

		₹ in thousands
Amount Paid		24,000
Less: Paid up value of shares	20,000	
Pre-acquisition profit	7,000	(27,000)
Capital Reserve		3,000

6. **Goodwill**

	₹ in thousands
Amount paid for shares of Dry Ltd (₹ 37,500 x 50%)	18,750

Less: Paid up value of shares (₹ 25,000x 50%)	(12,500)
Pre-acquisition profit (₹ 2,500 x 50%)	(1,250)
Goodwill	5,000
Less: Impairment (Written off)	(1,000)
	4,000

Consolidation of Financial Statements of Subsidiary, Associate and Joint Venture

Question 23

P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Summarised Balance Sheets of four companies as on 31.03.15 are:

				(₹ in lakhs)
	P Ltd.	*S*	*J*	*A*
Investment in S	*800*	-	-	-
Investment in J	*600*	-	-	-
Investment in A	*600*	-	-	-
Fixed assets	*1000*	*800*	*1400*	*1000*
Current assets	*2200*	*3300*	*3250*	*3650*
Total	*5200*	*4100*	*4650*	*4650*
Liabilities:				
Share capital ₹ 1				
Equity share	*1000*	*400*	*800*	*800*
Retained earnings	*4000*	*3400*	*3600*	*3600*
Trade payables	*200*	*300*	*250*	*250*
Total	*5200*	*4100*	*4650*	*4650*

P Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹ 520 lakhs. P Ltd. acquired its shares in 'J' at the beginning of the year when 'J' retained earnings were

₹ 400 lakhs. P Ltd. acquired its shares in 'A' on 01.04.14 when 'A' retained earnings were ₹ 400 lakhs.

The balance of goodwill relating to S had been written off three years ago. The value of goodwill in 'J' remains unchanged.

Prepare the Consolidated Balance Sheet of P Ltd. as on 31.03.15 as per AS 21, 23, and 27.

Answer

Consolidated Balance Sheet of P Ltd. as on 31.3.15

Particulars	*Note No.*	*(₹ in lacs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		1,000
(b) Reserves and Surplus	1	8,800
(2) Minority Interest (W.N.3)		760
(3) Current Liabilities		
Trade Payables (200+ 300 + 40% of 250)		600
Total		11,160
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets [1,000 + 800 + 560 (1400 x 40%)]		2,360
Intangible assets (W.N.1)		120
(b) Non-current investment	2	1,880
(2) Current assets [2,200 + 3,300 + 1,300 (3,250 x 40%)]		6,800
Total		11,160

Notes to Accounts

			₹ in lacs
1.	Reserves and Surplus		
	Retained Earnings(W.N.2)		8,800
2.	Non-current investment		
	Investment in Associates (W.N.4)		1,880

Working Notes:

1. Computation of Goodwill

S (subsidiary)

		₹ in lacs
Cost of investment		800
Less: Paid up value of shares acquired	320	

Share in pre- acquisition profits of S Ltd. (520 × 80%)	416	(736)
Goodwill		64

J (Jointly Controlled Entity)

		₹ *in lacs*
Cost of Investment		600
Less: Paid up value of shares acquired (40% of 800)	320	
Share in pre-acquisition profits (40% of 400)	160	(480)
Goodwill		120

Note: Jointly controlled entity 'J' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate A (AS 23)

		₹ *in lacs*
Cost of investment		600
Less: Paid up value of shares acquired (800 x 40%)	₹ 320	
Share in pre-acquisition profits (400 x 40%)	₹ 160	(480)
Goodwill		120

Goodwill shown in the Consolidated Balance Sheet

	₹ *in lacs*
Goodwill of 'J'	120
Goodwill of 'S'	64
Less: Goodwill written off of 'S'	(64)
Goodwill	120

2. Consolidated Retained Earnings

	₹ *in lacs*
P Ltd.	4,000
Share in post acquisition profits of S - 80% (3,400 – 520)	2,304
Share in post acquisition profits of J - 40% (3,600 – 400)	1,280
Share in post acquisition profits of A - 40% (3,600 – 400)	1,280
Less: Goodwill written off	(64)
	8,800

3. Minority Interest 'S'

	₹ in lacs
Share Capital (20% of 400)	80
Share in Retained Earnings (20% of 3,400)	680
	760

4. Investment in Associates

	₹ in lacs
Cost of Investments (including goodwill ₹ 120 lakhs)	600
Share of post acquisition profits	1,280
Carrying amount of Investment (including goodwill ₹ 120 lakhs)	1,880

Exercise

Question 1

Following are the draft Balance Sheets of two companies A Ltd. and B Ltd. as at 31.03.2017:

				(₹ in lakhs)	
Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Share Capital			*Fixed Assets*	*5.00*	*1.50*
(₹ 100 each)	*6.00*	*3.00*	*Investment:*		
Profits:			*2,400 Shares in B Ltd.*	*3.00*	–
Capital Profit	*0.80*	*0.85*	*1,200 Shares in A Ltd.*	–	*2.00*
Reserve Profit	*3.20*	*0.29*	*Current Assets:*		
Trade payables	*1.50*	*0.81*	*Trade receivables*	*2.00*	*0.80*
			Inventory	*0.40*	*0.30*
			Cash and Bank	*1.10*	*0.35*
	11.50	*4.95*		*11.50*	*4.95*

The following adjustments were not yet made:

1. *Inventory worth ₹ 5,000 in B Ltd. was found to be obsolete with no value.*
2. *A Ltd. acquires an asset costing ₹ 50,000 on 31.3.2017. No effect has been given for both the purchase and payment.*
3. *During the year A Ltd. sold an asset for ₹ 60,000 (original cost ₹ 40,000). The profit was included in the revenue profit.*
4. *Trade receivables of A Ltd. included a sum of ₹ 50,000 owed by B Ltd.*

You are required to prepare the consolidated Balance Sheet of both the companies as on 31.3.2017 after giving effect to the above adjustments.

[Answer: CBS Total ₹1,130 (in’000s); Minority Interest ₹ 105 (in’000s); Cost of control ₹ 40 (in’000s)]

Question 2

The Balance Sheets of Bat Ltd. and Ball Ltd. as on 31.3.2017 are as follows:

	Bat Ltd. ₹	Ball Ltd. ₹		Bat Ltd. ₹	Ball Ltd. ₹
Share Capital			Investments		
(Shares of ₹ 10 each)	1,60,000	2,00,000	Shares in Ball Ltd.	1,96,000	–
Profit and Loss account	50,000	60,000	Trade receivables	–	1,20,000
Trade payables	–	16,000	Inventory	–	80,000
			Cash at Bank	–	70,000
			Cash in hand	14,000	6,000
	2,10,000	2,76,000		2,10,000	2,76,000

Particulars of Bat Ltd.:

(1) *This company was formed on 1.4.2016.*

(2) *It acquired the shares of Ball Ltd. as under:*

Date of Acquisition	No. of Shares	Cost ₹
1.4.2016	8,000	1,10,000
31.7.2016	6,000	86,000

(3) *The shares purchased on 31.7.2016 are ex-dividend and ex-bonus from existing holders.*

(4) *On 31.7.2016 dividend at 10% was received from Ball Ltd. and was credited to Profit and Loss Account.*

(5) *On 31.7.2016 it received bonus shares from Ball Ltd. in the ratio of one share on every four shares held.*

(6) *Bat Ltd. incurred an expenditure of ₹ 500 per month on behalf of Ball Ltd. and this was debited to the Profit and Loss Account of Bat Ltd., but nothing has been done in the books of Ball Ltd.*

(7) *The balance in the Profit and Loss Account as on 31.3.2017 included ₹ 36,000 being the net profit made during the year.*

(8) *Dividend declared for 2016-2017 at 10% was not provided for as yet.*

Particulars of Ball Ltd.:

(1) *The balance in the Profit and Loss Account as on 31.3.2017 is after the issue of bonus shares made on 31.7.2016.*

(2) *The net profit made during the year is ₹ 24,000 including ₹ 6,000 received from insurance company in settlement of the claim towards loss of inventory by fire on 30.06.2016 (Cost ₹ 10,800 included in opening inventory).*

(3) *Dividend declared for 2016-2017 at 10% was not provided for in the accounts.*

Prepare the Consolidated Balance Sheet of Bat Ltd. as on 31.3.2017.

[Answer: CBS Total ₹ 2,90,000; Minority Interest ₹ 50,800; Cost of control (₹ 3,040)]

Question 3

The summarised Balance Sheets of A Ltd. and B Limited are as follows:

Balance Sheets as at 31st December, 2016

	A Ltd.	B Ltd.
Sources of Funds:	₹	₹
Share Capital in equity shares of ₹ 10 each	2,00,000	50,000
Reserves	20,000	5,000
Profit and Loss Account as on 1st January, 2016	30,000	10,000
Profit for the year	8,000	8,000
Add: Dividends from B Ltd.	4,000	–
Less: Dividends paid	–	(5,000)
Trade payables	30,000	20,000
Total	2,92,000	88,000
Application of Funds:		
Fixed Assets	2,00,000	80,000
Current Assets	32,000	8,000
Shares in B Ltd. at cost – 3,000 shares	60,000	–
Total	2,92,000	88,000

A Limited had acquired 4,000 shares in B Ltd. at ₹ 20 each on 1st January, 2016 and sold 1,000 of them at the same price on 1st October, 2016. The sale is cum dividend. An interim dividend of 10% was paid by B Limited on 1st July, 2016.

Draft the consolidated Balance Sheet as at 31st December, 2016.

[Answer: CBS Total ₹ 3,41,000; Minority Interest ₹ 27,200; Cost of control ₹ 21,000]

Question 4

Astha Ltd. acquired 80% of both classes of shares in Birat Ltd. on 1.4.2016. The draft Balance Sheets of two companies on 31st March, 2017 were as follows:

(₹ in 000's)

Liabilities	Astha Ltd.	Birat Ltd.	Assets	Astha Ltd.	Birat Ltd.
Share Capital:					
Equity shares of ₹ 10 each, full paid up	3,000	600	Plant & machinery	2,060	600
14% Preference shares of ₹ 100 each, fully paid up	-	400	Furniture & fixtures	600	540

General reserve	*1,900*	*40*	*Investments*		
			in equity shares of Birat Ltd.	*1,920*	*-*
Profit and loss account	*1,600*	*720*	*in preference shares of Birat Ltd.*	*320*	*-*
Trade payables	*300*	*320*	*Inventory*	*680*	*404*
			Trade receivabless	*560*	*316*
			Cash at bank	*660*	*220*
	6,800	*2,080*		*6,800*	*2,080*

Note: *Contingent liability – Astha Ltd.: Claim for damages lodged by a contractor against the company pending in a law-suit – ₹ 1,55,000.*

Additional Information:

(i) General reserve balance of Birat Ltd. was the same as on 1.4.2016.

(ii) The balance in Profit and Loss A/c of Birat Ltd. on 1.4.2016 was ₹3,20,000, out of which dividend of 16% p.a. on the Equity capital of ₹6,00,000 was paid for the year 2015-2016.

(iii) The dividend in respect of preference shares of Birat Ltd. for the year 2016-2017 was still payable as on 31.3.2017.

(iv) Astha Ltd. credited its Profit and Loss A/c for the dividend received by it from Birat Ltd. for the year 2015-2016.

(v) Trade payables of Astha Ltd. included an amount of ₹1,20,000 for purchases from Birat Ltd., on which the later company made a loss of ₹10,000.

(vi) Half of the above goods were still with the closing inventory of Astha Ltd. as at 31.3.2017.

(vii) At the time of acquisition by Astha Ltd., while determining the price to be paid for the shares in Birat Ltd. it was considered that the value of plant and machinery was to be increased by 25% and that of furniture and fixtures reduced to 80%. There was no transaction of purchase or sale of these assets during the year. The directors wish to give effect to these revaluations in the consolidated balance sheet.

(viii) The directors of Astha Ltd. are of opinion that disclosure of its contingent liability will seriously prejudice the company's position in dispute with the contractor.

Prepare consolidated balance sheet as at 31st March, 2017, assuming the rate of depreciation charged as 25% p.a. and 10% p.a. on plant and machinery and furniture and fixtures respectively. Also assume that the preference shares given in the question are non-convertible in the nature. Workings should be part of the answer.

[Answer: CBS Total ₹ 7,655; Minority Interest ₹ 360.4; Cost of control ₹ 1,088]

Question 5

The Balance Sheets of Aqua Ltd. and Baqa Ltd. as on the dates of last closing of accounts are as under:

	Aqua Ltd. as on 31.03.2017 ₹	Baqa Ltd. as on 31.12.2016 ₹
Liabilities		
Share capital (equity shares of ₹10 each)	11,00,000	5,00,000
Accumulated Profits & Reserves	4,50,000	2,05,000
15% ₹100 non-convertible debentures	-	3,00,000
Accounts Payable	4,80,000	2,80,000
Other liabilities	1,00,000	40,000
Tax Provision	1,50,000	2,50,000
Total	22,80,000	15,75,000
Assets		
Fixed Assets at Cost	8,45,000	5,26,500
Less: Depreciation	(1,95,000)	(1,21,500)
	6,50,000	4,05,000
Investments:		
40,000 shares in Baqa Ltd.	8,00,000	–
1,000 debentures in Baqa Ltd.	1,50,000	–
Current Assets:		
Inventories	2,00,000	3,50,000
Accounts Receivable	2,50,000	4,65,000
Cash & Bank	2,30,000	3,55,000
Total	22,80,000	15,75,000

The following information is also available:

1. *On 8th February, 2017 there was a fire at the factory of Baqa Ltd., resulting in inventory worth ₹ 20,000 being destroyed. Baqa received 75 per cent of the loss as insurance.*
2. *The same fire resulted in destruction of a machine having a written down value of ₹ 1,00,000. The Insurance company admitted the Company's claim to the extent of 80 per cent. The machine was insured at its fair value of ₹ 1,50,000.*
3. *On 13th March, 2017, Aqua sold goods costing ₹ 1,50,000 to Baqa at a mark-up of 20 per cent. Half of these goods were resold to Aqua who in turn was able to liquidate the entire inventory of such goods before closure of accounts on 31st March, 2017. As on 31st March, 2017, Baqa's accounts payable show ₹ 60,000 due to Aqua on the two transactions.*
4. *Aqua acquired the holdings in Baqa on 1st January, 2015 when the reserves and accumulated profits of Baqa Ltd. stood at ₹ 75,000.*
5. *Both Companies have not provided for tax on current year profits. The current year taxable profits are ₹ 33,000 and ₹ 66,000 for Aqua Ltd. and Baqa Ltd. respectively. The tax rate is 33%.*

6. *The incremental profits earned by Baqa Ltd. for the period January, 2017 to March 2017 over that earned in the corresponding period in 2016 was ₹ 56,000. Except for the profits that resulted from the transactions with Aqua in the aforesaid period, the entire profits have been realised in cash before 31st March, 2017.*

You are requested to consolidate the accounts of the two companies and prepare a Consolidated Balance Sheet of Aqua Limited and its subsidiary as at 31st March, 2017.

[Answer: CBS Total ₹ 33,51,000; Minority Interest ₹ 1,50,844; Cost of control ₹ 3,90,000]