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FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - IV

CONSOLIDATION FINANICAL STATEMENTS – PART 1

The theory note is prepared on the basis of the existing Accounting Standard (AS).
Students are requested to go through the notes and are required to bring the notes during the course of the lectures.

CFS are prepared as per the following Accounting Standards :

- Preparation of consolidated financial statement as per Accounting Standard – 21.
- Accounting for investment in Associate company as per Accounting Standard - 23.
- Accounting for investment in Jointly Controlled Enterprises as per Accounting Standard – 27.
- Accounting for investment in a Foreign Subsidiary as per Accounting Standard – 11 (Revised).

Consolidated Financial Statement (CFS). CFS means financial statement of a parent (i.e. **holding co.**) and its subsidiaries as a single economic entity. **CFS** includes the following :

a) Balance Sheet
b) Profit and Loss Account
c) Notes to accounts
d) Cash Flow Statement

Important Terms :

- **Control :** It means –
- Ownership, directly or indirectly through subsidiaries, of more than one half of the voting power of an enterprise. **Or**
- Control of the composition of the board of directors or other governing body.

- **Subsidiary :** It is an enterprise that is controlled by another enterprise (known as parent)

- **Parent :** It is an enterprise that has one or more subsidiaries.

- **Group :** A group is set of parent and all its subsidiaries.

- **Consolidated Financial Statement :** Consolidated Financial Statements are the financial statements of a group presented as those of a single enterprise.

- **Equity :** It is the residual interest in the assets of the enterprise after deducting all its liabilities.

- **Minority Interest :** It is that part of the **net results of operations** and of the **net assets** of a subsidiary attributable to interests which are **not** owned, by the parent.

Consolidation Procedure :

a) In preparing **CFS**, the financial statement of the parent and its subsidiaries should be combined / added on line by line basis by adding the like items of assets, liabilities, income and expenses.

b) The cost of investment of parent in each subsidiary should be cancelled / eliminated with parent's portion of equity on each subsidiary **on the date on which the investment was acquired in each subsidiary.**

c) If cost of investment in a subsidiary exceeds the parent's portion of above equity on the date of consolidation, the excess is debited in **Goodwill** and should be shown as an asset in the **CFS.**

d) If cost of investment in a subsidiary is less than the parent's portion of above equity on the date of consolidation, the difference is credited to **Capital Reserve** account and should be shown in the **CFS** under the head Reserve and Surplus.

e) Minority Interest should be calculated and shown in the **CFS**

f) Intra group balances and intra group transactions and resulted unrealized profits should be eliminated in full.

Exclusion of a Subsidiary from Consolidation : A subsidiary should be excluded from consolidation in any of the following circumstances :

a) The control is intended to be temporary.

b) Subsidiary operates under various long-term restrictions, which significantly impair ability to transfer funds to parent.

Remarks : Exclusion of a subsidiary from consolidation on the ground that its business activities are dissimilar from those of the other enterprises within the group is not justified.

Accounting for Investment in Parent's Separate Financial Statement : In a parent's separate financial statement, investment in subsidiaries should be accounted for in accordance with Accounting Standard – 13.

Types of Holding – subsidiary relations:

(a) Single Holding:

H ——|——→ S (One Single date)

H ——|——|——→ S (Multiple date)

(b) Multiple Subsidiary :

H → S_1

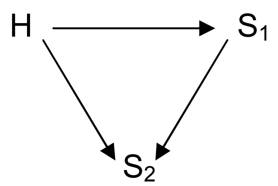
H → S_2

H → S_3

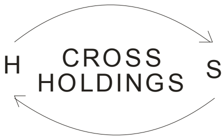
(c) Chain Holding:

H → S_1 → S_2 → S_3

(d) Triangle Holding:



(e) Cross Holding:



(f) Foreign Subsidiary (AS - 21 with AS – 11 revised).

$H \longrightarrow S$

Sale of goods :

1. Inter group Transactions :

Downstream Transaction :

a) If H Ltd has sold goods or any other assets to S Ltd. then it would be termed as a Downstream Transaction

b) In this case, if the goods remain unsold with S Ltd. on the Date Of Consolidation, then it will include unrealized Inter-group profits, which are to be eliminated as follows -

(i) Reduce from the **Profit & Loss Account of H Ltd.**

(ii) Reduce from the **Stocks of S Ltd.**

Upstream Transaction :

a) If S Ltd has sold goods or any other assets to H Ltd, then it would be termed as an Upstream Transaction

b) If the goods remain unsold with H Ltd. on the Date of Consolidation, then it would include unrealized Inter-group profits which are to be eliminated as follows-

(i) Reduce from the **Post Profits of S. Ltd.** when analysing the Profit & Loss of S. Ltd.

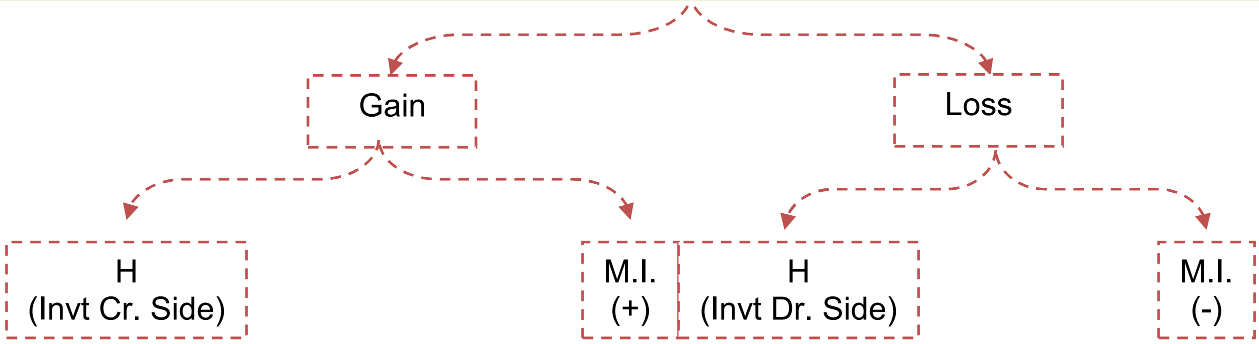
(ii) Reduce from the **Stock of H Ltd.** when preparing the consolidation schedules.

MUTUAL OWINGS

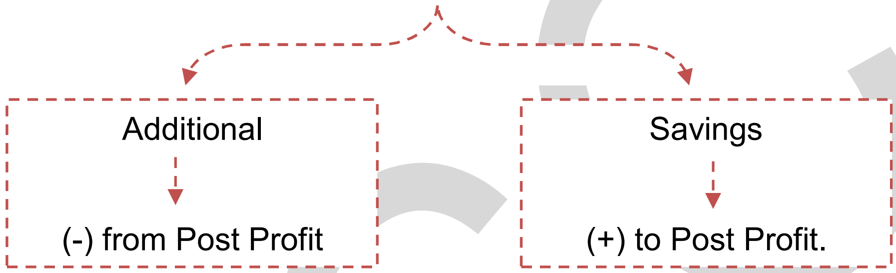
In view of Upstream & Downstream Transactions it is possible that there are amounts payable & receivable amongst H Ltd. & S Ltd. on the Date of consolidation. The amounts are to be reduced from Creditors & Debtors

Treatment of revaluation & depreciation when the same is not accounted in the books of subsidiary

Revaluation (Pre)



Depreciation (Post)



Remarks: Final Post P/L should be distributed between Holding co. & Minority Interest.

Preliminary Expenses :

Whenever, Preliminary expenses are existing on date of acquisition of shares by holding company then such preliminary expenses would be treated as pre loss. It is quite possible that such preliminary expenses are written off in future. However, since such expenses are treated as pre loss, we should always consider future profit without adjusting preliminary expenses written off.

Proposed Dividend

a. **Proposed Dividend of H. Ltd.**

Declared & Accounted	Declared but not Accounted
Proposed dividend appears in the Balance Sheet of H Ltd. & it should be shown as a short term provision under the head Current liabilities in the consolidated Balance Sheet.	The rate of Proposed Dividend would be appearing in the adjustments as per Accounting Standard 4 (New) it would be treated as non-adjusting event and ignored.

b. **Proposed Dividend of S. Ltd**

Declared & Accounted	Declared but not Accounted
The proposed dividends appear in the Balance Sheet. of S Ltd & hence it should be treated as a part of share holders' funds & accordingly it should be analyzed between pre & post and further divided between H Ltd & Minority Interest after which appropriate effects are to be given.	The following options are available a) Ignore the proposed dividend and analyses the current year's profits.

Different Reporting Dates : (As per Accounting Standard 21).

If the difference in the reporting dates does not exceed 6 months.	If the difference in the reporting dates does exceeds 6 months
In this case for all material events and transactions which occur between the two reporting dates, the following adjustments would be made in S Ltd.	The detailed financial statements of S. Ltd. have to prepared and then the process of consolidation should commence.

i. Revise the Assets.
ii. Revise the Liabilities.
iii. Revise the Reserve & Surplus.

After the revision commence the consolidation

Preference shares of S Ltd. :

The controlling interest by H Ltd in S Ltd. is by the acquisition of equity shares. It is possible that S Ltd. also has preference shares. In this case, 2 possibilities would arise –

Possibility – 1 :

If H Ltd. is holding investment in Equity and Preference Shares. In this case, the Cost Of acquisition of Equity & Preference Shares should be merged. The Equity & Preference share capital should be divided between H Ltd. (Cost of control Account.) and Minority Interest(Claims).

Possibility – 2 :

If the investment by H Ltd. is only in Equity Shares.
In this case the Preference Share capital should be entirety transferred to Minority Interest's claims.
The analysis of the profits of S Ltd. would result into distribution amongst the Equity share holders of S Ltd. i.e. H Ltd & Minority Interest. However any distribution amongst Equity share holders shall be after taking into account Preference Dividend hence, if there is any arrears of preference dividend pertaining to **Cumulative Preference Shares** then the Profit & Loss of S Ltd. has to be revised and then analysed. The arrears of Preference Dividend should also be analysed, i.e. it has to be divided between pre and post on the basis of Date Of Acquisition and further divided between H Ltd. & Minority Interest in the ratio of Preference Shares held. However if H Ltd. is not holding investment in Preference Shares, then the entire arrears of preference dividend should be transferred to Minority Interest's claims.

Negative Minority Interest : Negative Minority Interest will not be shown in **CBS.** It should be adjusted against **majority** interest. If the subsidiary reports profit subsequently, all such profits should be allocated to **majority** interest until **minority** share of losses previously absorbed by the **majority** has been recovered.

Preparation of Consolidated Profit & Loss Account :

The consolidated Profit & Loss Account balance is required to complete the Consolidated Balance Sheet. The procedure adopted while preparing the Consolidated Balance Sheet. was a shorter manner of calculating the balance. The consolidated Profit & Loss account can also be calculated in an elaborate manner. The preparation would involve 2 stages:-

a) Statement of consolidated Profit & Loss (for calculating profit after tax.)
b) Statement of Appropriations and Adjustment. [for calculating Consolidated Profit & Loss balance]

Proforma of the Consolidated Profit & Loss Account :-

Sr. No.	Particulars	Note No.	cy	py
	INCOMES			
1	Revenue from operations	1	XX	
2	Other Income	2	XX	
3	Total Revenue [1 + 2]		XX	
4.	**EXPENSES**			
	Cost of material consumed	3	XX	
	Purchases of stock-in-trade	4	XX	
	Changes in inventories	5	XX	
	Employee benefit cost	6	XX	
	Finance cost	7	XX	
	Depreciation and amortization expenses	8	XX	
	Other expenses	9	XX	
5	Profit before Tax [3 -4]		XX	
6	Tax	10	XX	
7	Profit after Tax [5-6]		XX	

Statement of Appropriation & Adjustment

Opening Balance of Profit & Loss	XX
Add : Profit after Tax	XX
Less : Transfer to Reserves	(XX)
Less : Interim dividend	(XX)
Less : Proposed dividend	(XX)
Less : Preference dividend	(XX)
Less : H Ltd. share in S Ltd. pre-acquisition profits	(XX)
Less : Minority Interest's share in pre & post acquisition profits.	(XX)
Consolidated Profit & Loss Balance	**XX**

NOTES:

1. The Intra Group Transactions should be eliminated.
2. The Share of Minority Interest should be calculated in usual manner.

Group consolidated Cash flow :

It is a Cash Flow prepared for H Ltd. and its subsidiaries, as per **Accounting Standard : 3 (Revised).**

The cash flow is to be prepared in the usual manner and the only exception are as follows-

a) The unrealized inter-group profit should be reduced from the Net profit Before Tax and the relevant asset.

b) Mutual Owings should be eliminated.
The consolidated cash flow has to be prepared from the individual cash flow statements of H Ltd. & S Ltd.

Foreign Operations [as per Accounting Standard -11 (Revised)]:

The foreign operations of the reporting enterprises can be classified into 2 parts –

a. **Integral foreign operations.**
b. **Non Integral foreign operations.**

(a) Integral Foreign Operations :

In this case, the foreign operations are an integral part of the operations of the reporting enterprises. For e.g., dependent foreign branches or foreign operations which are sending materials to the reporting enterprises, etc. In this case, the foreign operations are dependent on the reporting enterprises. The process of translation of foreign currency items into reporting currency is as per Accounting Standard - 11 (revised) and it is similar to foreign branches. The gain/loss arising on conversion is treated either as a foreign exchange gain/loss and transfer to the Profit & Loss Account.

(b) Non-Integral Foreign Operations :

Accounting Standard -11 (Revised) has not defined the term non- integral. However, the following are examples of non-integral operations:-

1. The foreign operations functions independently without any interference from the reporting enterprise.
2. The foreign operations can raise its finances independently.
3. There are no significant transaction between the reporting enterprise and the foreign operations.
4. Sales are in terms of foreign currency.
5. Expenses are incurred in terms of foreign currency.
6. There is an active local sales market for the products of the foreign operations.
7. The cash flow statements of the foreign operations & the reporting enterprises are not inter-linked.

Process of Translation :

The objective of this process is to ascertain the worth of the investment of the reporting enterprise in the subsidiary on the Date of Consolidation. The process is as follows –

1. All assets & liabilities would be converted at the closing rate

2. All incomes & expenses would be converted at the average rate. If incomes & expenses are not available and there are Reserves.

Reserves on Date of Consolidation

Pre	Post
Rate on Date Of Acquisition	Average rate during the post period (or) [(rate on Date Of Acquisition + rate on Date Of Consolidation) ÷ 2]

3. Share capital would be converted at the rate prevailing on the Date of Acquisition.

4. Difference on conversion would be transferred to Foreign Currency Translation Reserve. [FCTR].

Process of consolidation :

The procedure for foreign subsidiary is same as that of a domestic subsidiary. The only difference is that the Goodwill or Capital Reserve arising on conversion should be **translated at the closing rate.** Hence, the Cost of Control Account should **also** be prepared in terms of foreign currency.

CONSOLIDATION AS PER AS 21, 23, 27

Q.1. Given below are the balance sheets of holding company H Ltd. and its subsidiary S Ltd. as on 31st March, 2012.

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	₹	₹		₹	₹
Share Capital (Equity Shares of ` 100 Each)	1,00,000	60,000	Fixed Assets Investment (450 shares in S Ltd.)	2,00,000 65,000	1,00,000 ----
Profit & Loss A/c	80,000	40,000	Sundry Debtors and cash	35,000	50,000
General Reserve	60,000	20,000			
Proposed Dividend	20,000	6,000			
Creditors	40,000	24,000			
	3,00,000	**1,50,000**		**3,00,000**	**1,50,000**

Other information:

1. H Ltd. acquired shares in S Ltd. on July 1, 2011.
2. S Ltd. had the following balances on April 1, 2011.
   Profit & Loss A/c. ₹ 8,000
   General Reserve ₹ 12,000
3. S Ltd. had paid dividend of ₹ 6,000 on 31st May, 2011, out of Profit and Loss A/c balance as on April 1, 2011.

You are required to prepare consolidated Balance Sheet of H. Ltd. and its subsidiary S Ltd. as on 31st March, 2012.

Q.2. Following are the balance sheets of H. Ltd. and its subsidiary S Ltd. as on 31st March, 2012.

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	₹	₹		₹	₹
Equity Share Capital (Shares of ₹ 10 each)	10,000	6,000	Fixed Assets Investment	80,000 8,000	25,000 ----
Profit & Loss A/c.	80,000	5,000	(420 shares in S Ltd.)		
Bills Payable	10,000	4,000	Current Assets	42,000	10,000
Creditors	30,000	20,000			
	1,30,000	**35,000**		**1,30,000**	**35,000**

Other Information:

1) S. Ltd. had balance of ₹ 3,000 in its Profit and Loss Account as on April 1, 2011.
2) H. Ltd. acquired 360 shares on July 1, 2011 - and 60 shares on September 30, 2011.

Prepare a consolidated balance sheet of H. Ltd. and its subsidiary S. Ltd. as on 31st March, 2012.

Q.3. A Ltd. acquired 1,600 ordinary shares of ₹ 100 each of B Ltd. on 30th September, 2011. On 31st March, 2012 the Balance Sheets of the two companies were as given below :

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	₹	₹		₹	₹
Share Capital			Land & Buildings	1,50,000	1,80,000
(of ₹ 100 each fully	5,00,000	2,00,000	Plant & Machinery	2,40,000	1,35,000
paid)			Investment in B Ltd.		
Reserves	2,40,000	1,00,000	Stock	3,40,000	----
Profit & Loss A/c	57,200	82,000	Sundry Debtors	1,20,000	36,400
Bank Overdraft	80,000	----	Bills Receivable	44,000	40,000
Bills Payable	----	8,400		15,800	----
Creditors	47,100	9,000		14,500	8,000
	9,24,300	**3,99,400**		**9,24,300**	**3,99,400**

The Profit & Loss Account of B Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2011 out of which a dividend of 10% was paid on 31st October, 2011 ; A Ltd. has credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st April, 2011 was considered as worth ₹ 1,80,000 on 30th September, 2011 ; this figure is to be considered while consolidating the Balance Sheets.

Prepare consolidated Balance Sheet as on 31st March, 2012.

Q.4. On 1st January, 2011, Investments Ltd. a new company, raised its first Capital of ₹ 3,00,000 from the issue of 30,000 shares of ₹ 10 each at par, and on that date acquired the following shareholdings :

A Ltd. – 3,000 shares of ₹ 10 each fully paid for ₹ 35,000

B Ltd. – 10,000 shares of ₹ 10 each fully paid for ₹ 72,000

C Ltd. – 8,000 shares of ₹ 10 each fully paid for ₹ 92,000.

Apart from these transactions and those detailed below, investments Ltd. neither paid not received other monies during 2011.

The following are the summarised Balance Sheets of the Subsidiary Companies on 31st December, 2011 :

	A Ltd.	B Ltd.	C Ltd.
	₹	₹	₹
Goodwill	4,000	----	15,000
Freehold Property	18,000	41,000	50,000
Plant	16,000	30,000	12,000
Stock	11,000	32,000	21,000
Debtors	4,000	8,000	17,000
Cash at Bank	1,000	2,000	11,500
Profit and Loss Account	----	18,000	----
	54,000	**1,31,000**	**1,26,500**
Share Capital	40,000	1,20,000	1,00,000
Reserves (as on 1.1.2011)	3,000	----	7,500
Profit and Loss Account	6,000	----	15,000
Creditors	5,000	11,000	4,000
	54,000	**1,31,000**	**1,26,500**

Other relevant information :

(1) The freehold property of C Ltd. is to be revalued at ₹ 65,000 as on 1.1.2011.

(2) Additional depreciation for the year 2011 of ₹ 3,000 on the plant of B Ltd. is to be provided.

(3) The stock of A Ltd. as on 31st December, 2011 has been undervalued by ₹ 2,000 and is to be adjusted.

(4) As on 31st December, 2011 Investments Ltd. owed A Ltd. ₹ 3,500 and is owed ₹ 6,000 by B Ltd. C Ltd. is owed ₹ 1,000 by A Ltd. and ₹ 2,000 by B Ltd.

(5) The balances on Profit and Loss Accounts as on 31st December, 2010 were : A Ltd. ₹ 2,000 (credit) ; B Ltd. ₹ 12,000 (debit); and C Ltd. ₹ 4,000 (credit).

The credit balances of A Ltd. and C Ltd. were wholly distributed as dividends in March, 2011.

(6) During 2011, A Ltd. and C Ltd. declared and paid interim dividends of 8% and 10% respectively.

You are required to prepare the Consolidated Balance Sheet of investments Ltd. and its subsidiary companies as on 31st December, 2011, ignore taxation.

Q.5. On 31st March, 2004 Bee Ltd. became the holding company of Cee Ltd. and Dee Ltd. by acquiring 450 lakhs fully paid shares in Cee Ltd. for ₹ 6,750 lakhs and 240 lakhs fully paid shares in Dee Ltd. for ₹ 2,160 lakhs. On that date, Cee Ltd. showed a balance of ₹ 2,550 lakhs in General Reserve and a credit balance of ₹ 900 lakhs in Profit and Loss Account. On the same date, Dee Ltd. showed a debit balance of ₹ 360 lakhs in Profit and Loss Account while its Preliminary Expenses Account showed a balance of ₹ 30 lakhs.

After one year, on 31st March, 2005 the Balance Sheet of three companies stood as follows :

(All amounts in lakhs in Rupees)

Liabilities	Bee Ltd.	Cee Ltd.	Dee Ltd.
Fully paid equity shares of ₹ 10 each	27,000	7,500	3,000
General Reserve	33,000	3,150	----
Profit & Loss Account	9,000	1,200	750
15 lakh fully paid 9.5% Debentures of	----	----	1,500
Loan from Cee Ltd.	----	----	75
Bills Payable	----	----	150
Sundry Creditors	14,100	2,700	930
	83,100	**14,550**	**6,405**

(All amounts in lakhs of Rupees)

Assets	Bee Ltd.	Cee Ltd.	Dee Ltd.
Machinery	39,000	7,500	2,100
Furniture and Fixtures	6,000	1,500	600
Investments :			----
450 lakhs shares in Cee Ltd.	6,750	----	----
3 lakhs debentures in Dee Ltd.	2,160	----	----
240 lakhs shares in Dee Ltd.	294	----	1,500
Stock	16,500	3,000	1,290
Sundry Debtors	9,000	1,350	900
Cash & Bank balances	3,201	1,050	----
Loan to Dee Ltd	----	90	----
Bills Receivable	195	60	15
Preliminary Expenses	----	----	
	83,100	**14,550**	**6,405**

The following points relating to the above mentioned Balance Sheets are to be noted :

(i) All the bills payable appearing in Dee Ltd.'s Balance Sheet were accepted in favour Cee Ltd. out of which bills amounting to ₹ 75 lakhs were endorsed by Cee Ltd. in favour of Bee Ltd. and bills amounting 45 lakhs had been discounted by Cee Ltd. with its bank.

(ii) On 29th March, 2005 Dee Ltd. remitted ₹ 15 lakhs by means of a cheque to Cee Ltd. to return part of the loan; Cee Ltd. received the cheque only after 31st March, 2005.

(iii) Stocks with Cee Ltd. includes goods purchased from Bee Ltd. for ₹ 200 lakhs. Bee Ltd. invoiced the goods at cost plus 25%.

(iv) In August, 2004 Cee Ltd. declared and distributed dividend @ 10% for the year ended 31st March,2004. Bee Ltd. credited the dividend received to its Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of Bee Ltd. and its subsidiaries Cee Ltd. and Dee Ltd. as at 31st March, 2005.

Q.6. P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Balance Sheet of four companies as on 31.03.2012 are :

	P Ltd.	S	J	A
			(₹ in lakhs)	
Investment in S	800	----	----	----
Investment in J	600	----	----	----
Investment in A	600	----	----	----
Fixed assets	1,000	800	1,400	1,000
Current assets	2,200	3,300	3,250	3,650
Total	**5,200**	**4,100**	**4,650**	**4,650**
Liabilities :				
Share capital Re. 1				
Equity share	1,000	400	800	800
Retained earnings	4,000	3,400	3,600	3,600
Creditors	200	300	250	250
Total	**5,200**	**4,100**	**4,650**	**4,650**

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 01.04.08 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 31.03.2012 as per AS 21, 23, and 27.

Q.7. Air Ltd., a listed company, entered into an expansion programme on 1st April, 2011. On that date the company purchaser 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, 2011. 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, 2011 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, 2012 are:

In thousands

	Air Ltd.	Cold Ltd.	Dry Ltd.
Assets	34,260	27,000	21,060
Tangible Assets	9,640	7,200	18,640
Inventories	11,200	5,060	4,620
Debtors	----	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, 2012 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, 2012. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Air Ltd. and its subsidiaries as at 31st March, 2012.

CONSOLIDATION AS PER IND AS 110

Q.1. Ram Ltd. acquires Shyam Ltd. by purchasing 60% of its equity for ₹ 15 lakh in cash. The fair value of non-controlling interest is determined as ₹ 10 lakh. The net aggregate value of identifiable assets and liabilities, as measured in accordance with Ind AS 103 is determined as ₹ 5 lakh.
How much goodwill is recognized based on two measurement bases of non-controlling interest (NCI)?

Q.2. Seeta Ltd. acquires Geeta Ltd. by purchasing 70% of its equity for ₹ 15 lakh in cash. The fair value of NCI is determined as ₹ 6.9 lakh. Management have elected to adopt full goodwill method and to measure NCI at fair value. The net aggregate value of the identifiable assets and liabilities, as measured in accordance with the standard is determined as ₹ 22 lakh. (Tax consequences being ignored).

Q.3. Continuing the facts as stated in the above illustration, except that Seeta Ltd. chooses to measure NCI using a proportionate share method for this business combination. (Tax consequences have been ignored).

Q.4. Raja Ltd. purchased 60% shares of Ram Ltd. paying ₹ 525 lakh. Number of issued capital of Ram Ltd. is 1 lakh. Fair value of identifiable assets of Ram Ltd. is ₹ 640 lakh and that of liabilities is ₹ 50 lakh. As on the date of acquisition, market price per share of Ram Ltd. is ₹ 775. Find out the value of goodwill.

Q.5. Entity D has a 40% interest in entity E. The carrying value of the equity interest, which has been accounted for as an associate in accordance with Ind AS 28 is ₹ 40 lakh. Entity D purchases the remaining 60% interest in entity E for ₹ 600 lakh in cash. The fair value of the 40% previously held equity interest is determined to be ₹ 400 lakh, the net aggregate value of the identifiable assets and liabilities measured in accordance with Ind AS 103 is determined to be identifiable ₹ 880 lakh. The tax consequences have been ignored. How does entity D account for the business combination?

Q.6. A Ltd. acquired 70% of equity shares of B Ltd. on 1.04.2011 at cost of ₹ 10, 00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and other equity of ₹ 80,000. In the four consecutive years B Ltd. fared badly and suffered losses of ₹ 2, 50,000, ₹ 4, 00,000,
₹ 5, 00,000 and ₹ 1,20,000 respectively. Thereafter in 2015-2016, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2016-2017 and 2017-2018, B Ltd. recorded annual profits of ₹ 1, 00,000 and ₹ 1, 50,000 respectively. Show the non- controlling interests and cost of control at the end of each year for the purpose of consolidation.
Assume that the assets are at fair value.

Q.7. From the following data, determine in each case:

(1) Non-controlling interest at the date of acquisition and at the date of consolidation using proportionate share method.

(2) Goodwill or Gain on bargain purchase.

(3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own retained earnings to be ₹ 2, 00,000 in each case .

Case	Subsidiary company	% of shares owned	Cost	Date of Acquisition 1.04.2011		Consolidation date 31.03.2012	
				Share Capital [A]	Retained earnings [B]	Share Capital [A]	Retained earnings [B]
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	30,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	56,000

The company has adopted an accounting policy to measure Non-controlling interest at NCI's proportionate share of the acquirer's identifiable net assets.

Q.8. Given below are Balance Sheet of P Ltd and Q Ltd as on 31.3.2011: **(₹ in lakhs)**

Balance Sheets	**P Ltd.**	**Q Ltd.**
Assets		
Non-current Assets		
Property Plant Equipment	1,07,000	44,000
Financial Assets:		
Non-Current Investments	5,000	1,000
Loans	10,000	
Current Assets		
Inventories	20,000	10,000
Financial Assets:		
Trade Receivables	8,000	10,000
Cash and Cash Equivalents	38,000	1,000
Total Assets	1,88,000	66,000
Equity and Liabilities		
Shareholders Fund		
Share Capital	20,000	10,000
Other equity	1,20,000	40,000
Non-current Liabilities		
Financial liabilities:	30,000	10,000
Deferred tax liabilities	5,000	1,000
Long term provisions	5,000	1,000
Current Liabilities		
Financial liabilities:		
Trade Payables	6,000	2,000
Short term Provisions	2,000	2,000
Total Equity & Liabilities	1,88,000	66,000
Notes to Financial Statements	**P ltd**	**Q ltd**
Reserve & Surplus		
General Reserve	1,00,000	30,000
Retained earnings	20,000	10,000
	1,20,000	40,000
Inventories		
Raw Material	10,000	5,000
Finished Goods	10,000	5,000
	20,000	10,000

On 1.4.2011, P Ltd acquired 70% of equity shares (700 lakhs out of 1000 lakhs shares) of Q Ltd. at ₹ 36,000 lakhs. The company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Accordingly, the company computed full goodwill on the date of acquisition. Shares of both the companies are of face value ₹ 10 each. Market price per share of Q Ltd. as on 1.4.2011 is ₹ 55. Entire long term borrowings of Q Ltd. is from P Ltd. The fair value of net identifiable assets is at ₹ 50,000 lakhs.

Q.9. A Ltd., a parent company sold goods costing ₹ 200 lakh to its 80% subsidiary B Ltd. at ₹ 240 lakh 50% of these goods are lying at its stock. B Ltd. has measured this inventory at cost i.e. at ₹ 120 lakh Show necessary adjustment in the consolidated financial statement (CFS). Assume 30% tax rate.

Q.10. Ram Ltd., a parent company purchased goods costing ₹ 100 lakh from its 80% subsidiary Shyam Ltd. at ₹ 120 lakh. 50% of these goods are lying at the go down. Ram Ltd. has measured this inventory at cost i.e. at ₹ 60 lakh. Show the necessary adjustment in the consolidated financial statements (CFS). Assume 30% tax rate.

Q.11. Prepare the consolidate Balance Sheet as on March 31, 2011 of group of companies A Ltd., B Ltd. and C Ltd. Their summarized balance sheets on that date are given below:

Equity & Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**C Ltd. ₹**
Share Capital (share of ₹100 each)	1,25,000	1,00,000	60,000
Reserves	18,000	10,000	7,200
Retained Earnings	16,000	4,000	5,000
Trade payable	7,000	3,000	-
Bills payable			
A Ltd.	-	7,000	-
C Ltd.	3,300	-	-
Total	**1,69,300**	**1,24,000**	**72,200**
Assets			
Property Plant Equipment	28,000	55,000	37,400
Investment in shares			
B Ltd.	85,000	-	-
C Ltd.	-	53,000	-
Inventory			
B Ltd.	22,000	6,000	-
Bills Receivables			
B Ltd.	8,000	-	-
A Ltd.			3,300
Trade Receivables	26,300	10,000	31,500
Total	**1,69,300**	**1,24,000**	**72,200**

Other information:

(i) A Ltd. holds 750 shares in B Ltd. and B Ltd. holds 400 shares in C Ltd. These holdings were acquired on 30th September, 2010

(ii) On 1st April, 2010 the following balances stood in the books of B Ltd. and C Ltd.

	B Ltd. ₹	**C Ltd. ₹**
Reserves	8,000	6,000
Retained Earnings	1,000	1,000

(iii) C Ltd. sold goods costing ₹ 2,500 to B Ltd. for ₹ 3,100. These goods still remain unsold.

The company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market price per share of B & C limited is same as face value.