BISHNU KEDIA

CMA FINAL - DEC 2024

CORPORATE FINANCIAL REPORTING

IMPORTANT QUESTIONS

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Expected paper pattern based on model question papers and question papers since Dec 23 Exam and Revision Plan				
Q.No.	**Subpart**	**Marks**	**Chapters**	**Revision Coverage**
1	15 MCQs	30	All	Separate session on MCQs scheduled on 8th Nov
2 2 3	a b a	7 7 7	Ind-AS Ind-AS Ind-AS	Ind AS Marathon + Additional Questions Practice Session scheduled on 21st Nov
3 4 4 5 6 7	b a b NA NA a	7 7 7 14 14 7	Valuation Financial Instruments / NBFC Internal Reconstruction Business Combinations Consolidation VAS / EVA / MVA	**Marathon (Concepts + PYQs + MQPs)**
7 8 8	b a b	7 5 5	Recent Developments Government Accounting Government Accounting	Theory Booster Session scheduled on 25th Nov
8	c	4	Business Combinations / Consolidation	**Marathon (Concepts + PYQs + MQPs)**

Valuation of Goodwill and Shares

1. For calculating goodwill, we need:
   a. Future maintainable profits (FMP)
   b. Capital Employed (CE)

2. **Future maintainable profits (FMP):**

Particulars	**Year 1**	**Year 2**	**Year 3**
PBT	XX	XX	XX
Error rectification	XX	XX	XX
Extraordinary items	XX	XX	XX
Non-operating items (E.g. Interest on investments)	XX	XX	XX
Adjusted Profits	XX	XX	XX
Average Adjusted Profits (Total Profits/No. of Years)			XX
Add: Income expected in future			XX
Less: Expenses expected in future			(XX)
Less: Additional depreciation on revaluation of assets			(XX)
Adjusted average profit before tax			**XX**
Less: Tax (Future tax rate)			(XX)
Adjusted profit after tax			**XX**
Less: Preference Dividend			(XX)
Future maintainable profits (FMP)			**XX**

Note: Weighted average to be done only if required by the question.

3. **Capital Employed (From equity shareholder point of view):**
   a. Asset side approach:

Fair value of all assets (Includes all assets EXCEPT Non-trade investments and fictitious assets like accumulated losses, advertisement expenditure, preliminary expenses)	XX
Less: Fair value of all liabilities (Including Taxes payable, Dividend payable, Preference share capital)	(XX)
Capital Employed	**XX**

   b. Liability side approach:

Equity share capital	XX
Reserves	XX
Revaluation effect of assets and liabilities	XX
Less: Non-trade investments / Fictitious assets	(XX)
Capital Employed	**XX**

Average Capital Employed = (Opening Capital Employed + Closing Capital Employed) / 2

OR

Average Capital Employed = Closing Capital Employed – ½ of PAT

4. **Valuation of shares**
   a. **Intrinsic Value (IV)/ Asset backing approach**

Intrinsic Value (IV) = Net assets for equity shareholders / No. of equity shares

Net assets available for equity shareholders (NAAFESH)

Fair value of all assets (All assets including Non-trade investments and Goodwill EXCEPT fictitious items)	XX
Less: Fair value of all liabilities (Including Taxes payable, Dividend payable, Preference share capital)	(XX)
Add: Notional call from partly paid shares	XX
Net assets available for equity shareholders (NAAFESH)	**XX**

Alternatively

Capital Employed	XX
Add: Goodwill	XX
Add: Non-trade investments	XX
Add: Notional call from partly paid shares	XX
Net assets available for equity shareholders (NAAFESH)	**XX**

Note: For calculating value of partly paid shares, notional call is deducted.
In case of different class of equity shares (having different face value) valuation is done proportionately.

b. Yield basis valuation

Capitalised value of Equity = PAFESH / Cost of Equity i.e. Ke

Yield value per share = Capitalised value of Equity / No. of Equity shares

Note: PAFESH is FMP from equity shareholder from point of view i.e. preference dividend is also deducted.

Note: For calculating value of partly paid shares or of different class of equity shares (having different face value) valuation is done proportionately. No notional call is done in case of yield basis valuation.

c. Fair Value

Fair Value = (Intrinsic Value + Yield Value)/2

June 2024 Q 3b

P Ltd. provides the following information as on 31.03-2024:

Equity share capital: 80,000 shares of ₹ 10 each fully paid and 50,000 shares of ₹ 10 each, 4 paid.

9% Preference share capital ₹ 6,00,000.

General Reserve ₹ 1,80,000

12% Debentures ₹ 5,00,000

Assets include a non-trade investment, the market value of which is 2,40,000 (Book value being ₹ 2,80,000)

Before tax profits for last three years were ₹ 1,90,000, ₹ 2,50,000 and ₹ 2,80,000 respectively (including income from non-trade investment of ₹ 20,000 on an average).

Rate of income tax is 30%.

Fair return on capital employed in this type of business is estimated at 9% after tax.

You are required to calculate:

(i) The value of goodwill using 3 years' purchase of Super Profit method, and

(ii) The value of each fully paid-up equity shares under Asset Backing method.

Use closing trading capital employed for calculation of goodwill.

December 2023 Q 3b

The following figures have been extracted from the Balance Sheet of R Ltd. as on 31st March, 2023:

Particulars	₹
1,12,000 Equity Shares of ₹ 10 each	11,20,000
2,800, 13% Preference Shares of ₹ 100 each	2,80,000
Other Equity (Retained Earnings and Reserves)	7,00,000
12% Debentures (₹ 100)	2,80,000
Trade Payables	1,40,000
Total Equity and Liabilities	**25,20,000**
Property, Plant and Equipment	16,80,000
Goodwill	1,40,000
Non-Current Investments (Non Trading)	1,40,000
Current Assets	5,60,000
Total Assets	**25,20,000**

Additional Information:

(i) Profit before tax for the year 2022-23 amounted to ₹ 8,40,000 including ₹ 14,000 as interest on investment.

(ii) An additional amount of ₹ 70,000 p.a. shall be required to be spent for smooth running of the business.

(iii) Market value of property, plant and equipment are estimated at ₹ 26,60,000. In order to match the above figures, a further depreciation to the extent of ₹ 56,000 should be taken into consideration (additional depreciation is not tax deductible).

(iv) Income tax rate is 50%.

(v) Return on capital @ 20% before tax may be considered normal for this business at the present stage.

(vi) For the purpose of determining the rate of return, the profit for this year after the aforesaid adjustments may be taken as the expected average profit. Consider average trading capital employed for determining the normal profit.

Based on the above details, you are required to compute the value of goodwill based on the 4 years' purchase of super profit. Working should form part of your answer.

Dec 23 MQP-1 Q 3b

The Capital Structure of M/s XYZ Ltd. on 31st March, 2022 was as follows:

Particulars	₹
Equity Capital 18,000 Shares of ₹100 each	18,00,000
12% Preference Capital 5,000 Shares of ₹100 each	5,00,000
12% Secured Debentures	5,00,000
Reserves	5,00,000
Profit earned before interest and taxes during the year	7,20,000
Tax Rate	40%

Generally, the return on equity shares of this type of Industry is 15%. Subject to:

(i) The profit after tax covers fixed interest and Fixed Dividends at least 4 times.

(ii) The Debt Equity ratio is at least 2:1

(iii) Yield on shares is calculated at 60% of distributed profits and 10% of undistributed profits.

The Company has been paying regularly an Equity dividend of 15%. The risk premium for Dividends is generally assumed at 1%. Find out the value of Equity shares of the Company.

Dec 24 MQP-1 Q 3b

Following is the Balance Sheet of Z Ltd. as on 31st March, 2021: (₹ in Lakh)

Liabilities	₹	Assets	₹
1,00,000 Equity Shares of ₹10 each	10,00,000	Preliminary expenses	5,00,000
10,000 12% Preference Shares of ₹100 each	10,00,000	Goodwill	15,00,000
General Reserve	6,00,000	Buildings & Plant	10,00,000
Profit and Loss Account	4,00,000	Investment in 10% Stock	4,80,000
15% Debentures	10,00,000	Stock	6,00,000
Creditors	8,00,000	Stock-in – trade	4,00,000
		Debtors	2,20,000
		Cash	1,00,000
	48,00,000		48,00,000

Additional information is given below:

Nominal value of investment is ₹5,00,000 and its market value is ₹5,20,000.

Following assets are revalued: (₹)

Building	₹32,00,000
Plant	₹18,00,000
Stock-in-trade	₹4,50,000
Debtors	₹3,60,000

a. Average profit before tax of the company is ₹12,00,000 and 12.50% of the profit is transferred to general reserve, rate of taxation being 50%.
b. Normal dividend expected on equity shares is 8% while fair return on closing capital employed is10%.
c. Goodwill may be valued at three year's purchase of super profits.
d. Ascertain the value of each equity share under fair value method.

June 24 MQP-1 Q 3b

Forthcoming Year 1	**₹ in Lakhs**
Data provided:	
EBIT	700
Depreciation	120
CAPEX	180
Interest	60
Increase in Non-Cash Working Capital	100
Debt Capital	3,000
Tax Rate (t)	25%
WACC	10%
No. of Equity Shares	50,00,000

Compute:

a. NOPAT
b. CF
c. FCFF
d. Value of Business based on :
   i. CF
   ii. FCFF
e. Value of business when growth rate is 5% based on:
   i. CF
   ii. FCFF
f. Value per share based on FCFF when growth rate is 5%

Financial Instruments

June 2024 Q 4a

BEAS Ltd. borrows a sum of ₹ 20 crore from SINDHU Ltd. on 01.04.2023 repayable as' a single bullet payment at the end of 5 years. The interest thereon @ 5% p.a. is payable at yearly rests. Since the market rate of interest is 8%. BEAS Ltd. paid an origination fee of ₹ 2.3954 crore to SINDHU Ltd. to compensate SINDHU Ltd. for the lower rate of interest. Apart from the above, there are no other transactions between the two parties.

You are required to calculate the amount at which BEAS Ltd. would recognize the loan and SINDHU Ltd. would recognize the annual interest income thereon.

The following Present Values of ₹ 1 at 5% and at 8% are supplied to you.

Interest Rate	Year-1	Year-2	Year-3	Year-4	Year-5
5%	0.9524	0.9070	0.8638	0.8227	0.7835
8%	0.9259	0.8573	0.7938	0.7350	0.6806

December 2023 Q 4a

Moon Ltd. issued 1,00,000, 8% Debentures of face value ₹100 each on par value basis on 1st January, 2023. These debentures are redeemable at 12% premium at the end of 2026 or exchangeable for ordinary shares of Moon Ltd. on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%.

You are required to calculate the value of the debt portion and equity portion of the above compound financial instrument and show the journal entry at the inception of the financial instrument.

The present value of Re. 1 at the end of years 1 to 4 at 8% and 12% discount rate are supplied below:

	8%	12%
End of year 1	0.926	0.893
End of year 2	0.857	0.797
End of year 3	0.794	0.712
End of year 4	0.735	0.636

June 2023 Q 5b

At the beginning of year 1, BLACK PEPPER TULSI LTD. issued 40,000 convertible debentures with face value ₹100 per debenture, at par. The debentures have six-year term. The interest at annual rate of 9% is paid half-yearly. The bondholders have an option to convert half of the face value of debentures into 2 Equity Shares at the end of year 3. The bondholders not exercising the conversion option will be repaid at par to the extent of 50 per debenture at the end of year 3. The non-convertible portion will be repaid at 10% premium at the end of year 6. At the time of issue, the prevailing market interest rate for similar debt without conversion option was 10.25%.

Required: Compute Value of Embedded Derivative. Pass the Journal Entry at initial recognition.

[Given PV of Annuity of 1 at 5% for 6 years 5.076, for 12 years 8.863, PV of 1 at 5% at for 12^{th} year end 0.557]

NBFC

Dec 24 MQP-1 Q 4a

Samvedan Ltd. is a non-banking finance company. It accepts public deposit and also deals in the hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31.3.22 regarding few machines that were sold on hire-purchase basis. The hire purchase price was set as ₹100 lakhs as against cash price of ₹80 lakhs. The amount was payable as ₹20 lakhs down payment and balance in 5 equal installments. The Hire-vendor collected first installment as on 31.3.23, but could not collect the second installment which was due on 31.3.24. The company had to finalise accounts for the year ending 31.3.24 by 15.5.24 as it was the date on which the Board of Directors were to sign the accounts. The second installment was not collected. Presume IRR to be 10.42%.

Required:

i. What should be the principal outstanding on 1.4.23? Should the company recognise finance charge for the year 2023-24 as income?

ii. What should be the net book value of assets as on 31.3.24 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?

ii. What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

Solution:

i. Since, the hire-purchaser paid the first installment due of 31.3.23, the notional principal outstanding as on 01.04.2023 was ₹50.25 lakhs. [WN: I]

In the year ended 31.3.24, the installment due of ₹16 lakhs has not been received. However, it was due on 31.3.24 i.e. on the Balance Sheet date, and therefore, it will be classified as Standard Asset. Samvedan Ltd. will recognise ₹5.24 lakhs as interest income included in that due installment.

ii. The net book value of the assets as on 31.3.2023

Particulars	₹ Lakhs
Overdue installment	16
Installments not due (₹16 lakhs x 3)	48
	64

Less: Finance charge not matured and not credited to P/L A/c [4.11 + 2.88 + 1.52]	(8.51)
	55.49
Less: Provision as per NBFC prudential norms	7.49
∴ Net Book Value of assets for Samvedan Ltd.	48.00

iii. Amount of Provision

Particulars	**₹ Lakhs**
Overdue installment	16
Installments not due (₹16 lakhs x 3)	48
	64
Less: Finance charge not matured and not credited to P/L A/c [4.11 + 2.88 + 1.52]	(8.51)
	55.49
Less: Depreciated value (Cash Price Less Depreciation for 2 years on SLM @ 20%)	48
Provision as per NBFC prudential norms	7.49

Since, the installment of ₹16 lakhs not paid, was due on 31.03.2023 only, the asset is classified as standard asset. therefore, no additional provision has been made for it.

Workings:

It is necessary to segregate the installments into principal outstanding and interest components by using IRR @10.42%

Time	**Opening outstanding amount (a)**	**Cash flow (b)**	**Interest @ 10.42% (c) = (a) × 10.42%**	**Principal repayment (d) = (b) – (c)**	**Closing outstanding (e) = (a) – (d)**
31.3.22	80	20	—	20	60
31.3.23	60	16	6.25	9.75	50.25
31.3.24	50.25	16	5.24	10.76	39.49
31.3.25	39.49	16	4.11	11.89	27.6

31.3.26	27.6	16	2.88	13.12	14.48
31.3.27	14.48	16	1.52	14.48	0

Dec 23 MQP-1 Q 4a

While closing its books of accounts on 31.03.22 NBFC has its advances as follows:

Particulars	**₹ Lakhs**
Standard Assets	10,000
Sub Standard Assets	1,000
Secured Positions of Doubtful Debts:	
- Up to one year	160
- one year to three years	70
- more than three years	20
Unsecured Portions of Doubtful debts	90
Loss Assets	30

Calculate the provision to be made against advances as per prudential norms.

Solution:

Particulars	**Loan (₹ Lakhs)**	**Provision (%)**	**Provision (₹ Lakhs)**
Standard Assets	10.000	0.40	40
Sub-Standard Assets	1,000	10%	100
Secured Portions of Doubtful Debts:			
- Up to one year	160	20%	32
- 1 year to 2 years	70	30%	21
- more than three years	20	50%	10
Unsecured Portions of Doubtful Assets	90	100%	90
Loss Assets	30	100%	30
Total			**323**

Value Added Statements

The following is a general format of Value Added Statement.

Value Added Statement

For the year ended on ………

Particulars	**(₹)**	**(₹)**
Creation of Value Added		
a. Sales (including sales tax and excise duty but net of rebate, commission, returns, discounts and goods for self-consumption)	XX	
b. Income from services (e.g., royalty, dividend and interest, rent received etc.)	XX	
c. Cost of bought-in materials (consumption of raw materials, consumables, packing materials, stationery, fuel and oil, electricity, repairs etc.)	(XX)	
d. Cost of bought-in services (e.g., audit fees, insurance, rent paid, travelling expenses, advertisement, postage and telegram, subscriptions, other expenses)	(XX)	
e. Interest on Working capital (Overdraft / Cash credit)	(XX)	
Gross Value Added [(a)+(b) –(c) – (d)]		**XX**
Distribution of Value Added		
(a) To Employees (e.g., wages and salaries, director's fees, contribution to P.F, ESI etc.)	XX	
(b) To Government (e.g., duties and taxes net of deferred tax)	XX	
(c) To Providers of Capital (e.g., Interest and Dividend)	XX	
(d) Retained Earnings (e.g., depreciation and retained profit including transfers to reserves, deferred tax)	XX	
Disposal of Value Added [(a)+(b) +(c) + (d)]		XX

December 2023 Q 7a

From the following information provided by Sun Ltd., prepare a Value Added Statement for the financial year 2022-23.

Particulars	₹ in Lakhs
Sales	2,400
Plant and machinery (net)	1,100
Depreciation on Plant and Machinery	275
Dividends on ordinary shares	150
Sundry Debtors	195
Sundry Creditors	130
Opening stock (raw material, WIP, finished goods)	160
Closing stock (raw material, WIP, finished goods)	200
Raw material purchased	775
Cash at bank	100
Printing and Stationery	25
Auditor's remuneration	30
Retained earnings at the beginning of the year	990
Retained profits for the year	205
Rent, Rates and Taxes	170
Other expenses	90
Ordinary share capital issued	1,800
Interest on borrowing	40
Income tax for the year	280
Wages and salaries	330
Employees State Insurance	40
PF Contribution	30

December 2016 [10 Marks]

Aro Ltd. furnishes the following profit and loss Account:

Particulars	Notes	₹ (000)
INCOME:		
Turnover	1	29,872
Other income		1,042
Sub-total		30,914
EXPENDITURE:		
Operating expenses	2	26,741
Interest on 8% debentures		987

Interest on cash credit	3	151
Excise duty		1,952
Sub-total		29,831
Profit before depreciation		1,083
Less: Depreciation		(342)
Profit before tax		741
Less: Provision for tax		(376)
Profit after tax		365
Less: Transfer to fixed assets replacement reserve		(65)
Profit available for distribution		300
Less: dividend paid		(125)
Retained profit		175

Notes

1. Turnover is based on invoice value and net of sales tax.
2. Salaries, wages and other employee benefits amounting to 14,761 (000) are included in operating expenses.
3. Cash credit represents a temporary sources of finance. It has not been considered as a part of capital.
4. Transfer of ₹54 (000) to the credit of deferred tax account is included in provision for tax.

Prepare value added statement for the year ended 31st march 2014 and reconcile total value added with profit before taxation.

June 24 MQP-1 Q 7a

The following are the balances in the account statements of X Ltd. for the year ended 31st March, 2024: **(₹ '000)**

Particulars	**(₹)**
Turnover	4,600
Plant and machinery net	2,160
Loss on sale of machinery	150
Depreciation on plant and machinery	400
Dividends to ordinary shareholders	292
Debtors	390
Creditors	254

Total stock of all materials, WIP and finished goods:	
Opening stock	320
Closing stock	400
Raw materials purchased	1,250
Cash at bank	196
Printing and stationery	44
Auditor's remuneration	56
Retained profits (opening balance)	1,998
Retained profits for the year	576
Rent, rates and taxes	330
Other expenses	170
Ordinary share capital issued	3,000
Interest on/borrowings	80
Income-tax for the year	552
Wages and salaries	654
Employees state insurance	70
P.F. contribution	56

Prepare a Value Added Statement for the company for the year 2023-24

Economic Value Added (EVA) and Market Value Added (MVA)

EVA = NOPAT – (Invested Capital **X** Cost of Capital i.e. Kc)

MVA = Market Value – Invested Capital

Note: Invested capital means capital employed which includes capital, reserves and long term debt.

Kc is weighted average of Kd, Kp and Ke

CA Final Dec 21 SFM

Following is the information of M/s. DY Ltd. for the year ending 31/03/2021:

Particulars	₹ in Lakhs
Sales	₹ 1000
Operating Expenses Including Interest	₹ 620
8% Debentures	₹ 250
Equity Share Capital (Face value of ₹ 10 each)	₹ 250
Reserves and Surplus	₹ 250
Market Value of DY Ltd	₹ 900
Corporate Tax Rate	30%
Risk free Rate of Return	7%
Market Rate of Return	12%
Equity Beta	1.4

You are required to

i. Calculate Weighted Average Cost of Capital of DY Ltd.
ii. Calculate Economic Value Added
iii. Calculate Market Value Added

Solution:

(i) Weighted Average Cost of Capital of DY Ltd.

Cost of Equity as per CAPM
ke = Rf + β x Market Risk Premium
= 7% + 1.4 x [12% - 7%]

= 7% + 7% = 14%

Cost of Debt
kd = 8% (1 – 0.30) = 5.60%

WACC (ko) = (14.00 X500/750) + (5.60X 250/750)
= 9.33% + 1.87% = 11.20%

(ii) Economic Value Added (EVA) of DY Ltd.

Particulars	₹ in Lakhs
Sales	₹ 1,000
Operating Expenses (excluding interest)	₹ 600
EBIT	₹ 400
Less: Tax @ 30%	₹ 120
Net Operating Profit after Tax (NOPAT)	**₹ 280**

Calculation of Capital Employed

Particulars	₹ in Lakhs
Equity Share Capital	250
Reserves & Surplus	250
8% Debentures	250
Total Capital Employed	**750**

EVA = NOPAT – (WACC X Total Capital) EVA
= ₹ 280 Lakh – (0.1120 X ₹ 750 lakhs)

EVA = 196.00 lakhs

(iii) Determination of Market Value Added (MVA)

Particulars	₹ Lakh
Market value of DY Ltd.	900
Capital employed [₹ 250 Lakh + ₹ 250 Lakh + ₹ 250 Lakh]	750
Market Value Added	150

June 2024 Q 7a

Saurav Ltd. provides you with the following data based on which you are required to calculate the Economic Value Added (EVA):

Equity share capital (42 crore equity shares of ₹ 10 each)	₹ 420 crore
15% preference share capital (1.40 crore shares of ₹ 100 each)	₹ 140 crore
15% debentures (11.20 crore debentures of ₹ 100 each)	₹ 1,120 crore

Income tax rate	30%
Beta	1.5
Market rate of return	15.5%
Equity Market risk premium	9%
Financial leverage	1.5 times
Land and building (held as investment)	₹140 crore

June 2023 Q 7a

KADI PATTA TULSI Ltd. provides you the following data to calculate theEconomic Value Added: **(June 23, Syllabus 2022, 8 Marks)**

Particulars	₹ (in Crores)
Equity Share Capital (₹10 each)	?
15% Preference Share Capital (₹ 100 each)	?
Reserves & Surplus	50
12% Debentures	800
Debt-Equity Ratio (Long-term Debt/Shareholders' Funds) = 2:1	
Capital Gearing Ratio (Funds bearing Fixed Payments to Equity Shareholders' Funds)=3:1	
Financial Leverage = 1.32 times	
Tax Rate: 25%	
Market Rate of Return:15.59r	
Equity Market Risk Premium:9%	

Beta for the last 5 years as follows:

Year	1	2	3	4	5
Beta	1.6	1.7	1.8	1.3	1.1

Dec 23 MQP-1 Q 7a

LG. and Co. provides you with the following as at 31st March, 2022 (₹ in lakhs)

Liabilities	**₹**	**Assets**	**₹**
Share Capital	1,000	Fixed Asset (Net)	3,000
Reserves and surplus	2,000	Investments	150
Long term debt	200	Current assets	100
Sundry creditors	50		
Total	3,250	Total	3,250

Additional information provided is as follows:

i. Profit before interest and tax is ₹ 1,000 Lakhs
ii. Interest: ₹ 20 Lakhs
iii. Tax: 35.875%
iv. Risk Free Rate – 10%
v. Market Rate – 15%
vi. Beta ($\boldsymbol{\beta}$) Factor – 1.4

Compute economic value added

Additional Question on MVA

Trump Ltd has ₹ 80 crore Equity share capital, ₹ 70 crore in Reserves, ₹ 60 crore Preference share capital, ₹ 40 crore Debentures.

No. of Equity shares = 50 Lakh

PE Ratio = 15

EPS = ₹ 40 / Share

Calculate MVA

Internal Reconstruction

June 2024 Q 4b

The summarized Balance Sheet of MEGHNA Ltd. as on 31st March, 2024 was as follows:

Particulars	Note No.	Amount (₹)
A. Assets		
1. **Non-Current Assets**		
a) Property, Plant & Equipment		
- (i) Tangible Assets	5	5,50,000
- (ii) Intangible Assets	6	1,50,000
2. Current Assets		
(a) Inventories		1,50,000
(b) Financial Assets		
- (i) Trade Receivables		1,25,000
- (ii) Loans & Advances		25,000
Total Assets		10,00,000
B. Equity and Liabilities		
1. **Equity**		
(a) Share Capital	1	7,50,000
(b) Other Equity	2	(10,00,000)
2. **Non-Current Liabilities**		
(a) Long-Term Borrowings	3	5,00,000
3. **Current Liabilities**		
(a) Short-Term Borrowings	4	5,00,000

Particulars	Note No.	Amount (₹)
(a) Trade Payables		2,50,000
Total Equity and Liabilities		10,00,000

Notes to Accounts:

Note No.		Amount (₹)
1	**Share Capital**	
	- Authorized, Issued & Fully Paid	
	- 5,000 equity shares of ₹100 each	5,00,000
	- 2,500 8% preference shares of ₹100 each	2,50,000
	Total Share Capital	**7,50,000**
2	**Other Equity (Retained Earnings i.e. P/L)**	(10,00,000)
3	**Long-Term Borrowings**	
	- 8% Debentures	5,00,000
4	**Short-Term Borrowings**	
	- Loan from Directors	3,00,000
	- Bank Overdraft	2,00,000
		5,00,000
5	**Tangible Assets**	
	- Freehold Property	4,00,000
	- Plant	1,50,000
		5,50,000

Note No.		Amount (₹)
6	**Intangible Assets**	
	- Goodwill	1,00,000
	- Trademark	50,000
		1,50,000

Scheme of Internal Reconstruction:

i. The preference shares are to be written down to ₹25 each and the equity shares to ₹20 each. Each class of shares will be converted into shares of ₹100 each after reduction.

ii. The debenture holders will take over freehold property (book value ₹2,00,000) at a valuation of ₹2,50,000 in part repayment of their holdings. Remaining freehold property will be revalued at ₹6,00,000.

iii. Loan from directors will be waived off in full.

iv. Stock of ₹50,000 will be written off, and ₹12,500 will be provided for bad debts.

v. Profit and Loss account balance, Trademark, Goodwill, and Loans & Advances will be written off.

Prepare necessary journal entries for all the above mentioned transactions.

Dec 23 Q 3b

The following is the Balance Sheet of SARASWATI Ltd. as at 31st March, 2023:

Particulars	Note No.	Amount (₹)
Assets		
Non-Current Assets		
Property, Plant & Equipment		1,25,00,000
Non-Current Investments	5	10,00,000
Current Assets		1,00,00,000
Total Assets		**2,35,00,000**
Equity and Liabilities		

Particulars	Note No.	Amount (₹)
Equity		
(a) Share Capital	1	1,50,00,000
(b) Other Equity	2	(6,00,000)
Non-Current Liabilities		
Long-Term Borrowings	3	40,00,000
Current Liabilities		
Trade Payables		50,00,000
Short term provisions	4	1,00,000
Total Equity and Liabilities		**2,35,00,000**

Notes to Accounts:

Note No.		Amount (₹)
1	**Share Capital**	
	- Authorized, Issued & Fully Paid	
	- 1,00,000 equity shares of ₹100 each	1,00,00,000
	- 50,000 12% preference shares of ₹100 each	50,00,000
	Total Share Capital	**1,50,00,000**
2	**Other Equity (Retained Earnings i.e. P/L)**	(6,00,000)
3	**Long-Term Borrowings**	
	40,000 10% Debentures of ₹100 each	40,00,000
4	**Short-Term Provisions**	
	Provision for taxation	1,00,000

Note No.		Amount (₹)
5	**Non Current Investments**	
	Investments	10,00,000

The following scheme of reconstruction is duly approved and sanctioned by the appropriate authority:

i. All the existing equity shares are reduced to ₹ 40 each.
ii. All preference shares are reduced to ₹ 60 each.
iii. The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
iv. One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.
v. Property, plant and equipment are to be written down by 30%.
vi. Current assets are to be revalued at ₹ 45,00,000.
vii. The taxation liability of the company is settled at ₹ 1,50,000.
viii. Investments are to be written down to their market value which is ₹ 9,50,000.
ix. It is decided to write off the debit balance of Profit and Loss Account in full.

Pass journal entries to give the effect of the scheme of reconstruction.

June 23 Q 2b

HALDI TULSI Ltd. provides you the following information as at March 31, 2023:

Particulars	(₹ in lakhs)
Equity Shares of ₹10 each	500
6% Cum- Pref. Shares of ₹100 each	100
Profit and Loss Account (Dr)	15
10% First Debentures	60
10% Second Debentures	100
Debentures Interest outstanding	16
Trade Creditors	165
Plant & Machinery	719.6

Note: Dividend on Preference Shares is in arrears for three years.

The following scheme of internal reconstruction was approved and implemented:

(a) All the equity shares be converted into the same number of equity shares of ₹5 each, ₹2.50 paid up.

(b) The preference shares are converted from 6% to 15% but revalued in a manner in which the total return on them remains unaffected. Four equity shares of ₹5 each, ₹2.50 paid up to be issued for each ₹100 of arrears of preference dividend.

(c) Mr. A holds 10% first debentures for ₹40 lacs and 10% second debentures for ₹60 lacs. He is also a creditor for ₹ 10 lakhs. Mr. 'A' is to cancel ₹ 60 lakhs of his total debt and to pay ₹ 10 lakhs to the company and to receive new 12% Debentures for the balance amount. Mr. B holds the remaining 10% first debentures and 10% second debentures and is also a creditor for ₹ 5 lakhs. Mr. 'B' is to cancel ₹ 30 lakh of his total debt and to accept new 12% Debentures for the balance amount.

(d) Trade Creditors (other than A and B) are given the option of either to accept equity shares of ₹5, ₹2.50 paid up each, for the amount due to them or to accept 80% of the amount due in cash. 40% Creditors accepted equity shares whereas the balance accepted cash in full settlement.

(e) Any surplus after writing off the various losses should be utilized in writing down the value of plant & machinery.

Required: Prepare the Reconstruction Account.

<u>Dec 24 MQP-1 Q 4b</u>

The following is the Balance Sheet as at 31st March, 2024 of Hopefull Ltd.

Liabilities	(₹)	Assets	(₹)
Share Capital:		Fixed Assets (including goodwill of ₹1,00,000)	11,80,000
8,500 Equity Shares of ₹100 each fully paid up	8,50,000	Investments	40,000
4,000 Cumulative Preference Shares of ₹ 100 each fully paid up	4,00,000	Stock in Trade	2,75,000
Securities Premium	20,000	Trade Debtors	1,50,000
General Reserve	60,000	Bank Balances	65,000
Trade Creditors	3,80,000		
	17,10,000		**17,10,000**

Contingent liability: Preference Dividends in arrears ₹ 60,000.

The Board of Directors of the company decided upon the following scheme of reconstructions, which was duly approved by all concerned and put into effect from 1st April, 2024.

i. The Preference Shares are to be converted into 12% unsecured debentures of ₹100 each with regard to 70% of the dues (inducing arrears of dividends) and for the balance Equity Shares of ₹50 paid up would be issued. The authorized Capital of the company permitted the issue of additional shares.

ii. Equity Shares would be reduced to share of ₹50 each paid up.
iii. Since goodwill has no value, the same is to be written of the fully.
iv. The market value of investments are to be reflected at ₹60,000.
v. Obsolete items in Stock of ₹75,000 are to be written off. Bad Debts to the extent of 5% of the total debtors would be provided for. Fixed assets to be written down by ₹1,80,000.

The company carried on trading, for six months upto 30th September 2024, and made a net profit of ₹1,00,000 after writing off depreciation at 25% p.a. on the revised value of fixed assets. The half yearly working resulted in an increase of Sundry Debtors by ₹80,000, stock by ₹70,000 and Cash by ₹50,000.

You are required to show the Journal. Also prepare Balance Sheet as on 30th September, 2024.

Business Combinations and Consolidation

Dec 23 Q 5

Following are the extract from the Balance Sheets of two companies, BETA Ltd. and DELTA Ltd. as at 31st March, 2023.

Particulars	BETA Ltd.	DELTA Ltd.
I. Assets		
(1) Non-Current Assets		
(i) Property, Plant & Equipment	10,00,000	5,00,000
(ii) Financial Assets		
20,000 Shares in BETA Ltd.	-	2,00,000
(2) Current Assets		
(i) Inventories	2,00,000	1,00,000
(ii) Trade Receivables	3,00,000	1,00,000
Total Assets	**15,00,000**	**9,00,000**
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital (Rs. 10)	10,00,000	6,00,000
(ii) Other Equity (Reserve)	2,00,000	1,10,000
(2) Current Liabilities		
(i) Trade Payables	3,00,000	1,90,000
Total Equity & Liabilities	**15,00,000**	**9,00,000**

BETA Ltd. was to absorb DELTA Ltd. on the basis of intrinsic value of the shares, the purchase consideration was to be discharged in the form of fully paid shares. A sum of Rs. 40,000 is owed by BETA Ltd. to DELTA Ltd. Also included in the stocks of BETA Ltd. Rs. 60,000 goods supplied by DELTA Ltd. at cost plus 20%. Absorption was completed on 31.03.2023

You are required to prepare the Consolidated Balance Sheet of BETA Ltd. after acquisition of DELTA Ltd.

(Workings relating to fair value of shares of the companies, purchase consideration and number of shares to be issued by BETA Ltd. and amount of goodwill or gain on bargain purchase should form part of your answer)

Solution:

Company actually paying the PC	**Acquirer**	**BETA Ltd**
Company to whom PC is paid	**Acquiree**	**DELTA Ltd**
Transaction	**Absorbing entire company**	
Date of Acquisition	31st March 2023	
Date of Consolidation	31st March 2023	

Calculation of Fair Value of shares of BETA Ltd.

Property, Plant & Equipment	10,00,000
Inventories	2,00,000
Trade Receivables	3,00,000
Less: Trade Payables	-3,00,000
Net Assets of BETA Ltd.	**12,00,000**
No. of shares (10,00,000/10)	1,00,000
Intrinsic Value of shares of BETA Ltd.	**12**

Calculation of Fair Value of shares of DELTA Ltd.

Property, Plant & Equipment	5,00,000
Investment in Beta Ltd. (20,000*12)	2,40,000
Inventories	1,00,000
Trade Receivables	1,00,000
Less: Trade Payables	-1,90,000
Net Assets of DELTA Ltd.	**7,50,000**
No. of shares (6,00,000/10)	60,000
Intrinsic Value of shares of DELTA Ltd.	**12.5**

Calculation of Purchase Consideration

Net Assets of DELTA Ltd.	7,50,000
Less: Value of 20000 shares of Beta Ltd ₹ @ 12	(2,40,000)
Net Assets of Delta Ltd. acquired	5,10,000
Shares to be issued ₹ @ 12/share	**42,500**
Consideration (42500*12)	**5,10,000**

Calculation of Goodwill or Capital Reserve

Purchase Consideration		5,10,000
Less: Net Assets taken over of acquiree company		
Net Assets of DELTA Ltd.	5,10,000	
(-) Unrealised gain included in inventory of DELTA Ltd.	(10,000)	(5,00,000)
Goodwill/ (Capital Reserve)		**10,000**

Consolidated Balance Sheet

Particulars	BETA Ltd.	DELTA Ltd.	Adjustment	Amount
I. Assets				
(1) Non-Current Assets				
(i) Property, Plant & Equipment	10,00,000	5,00,000		15,00,000
(ii) Goodwill			10,000	10,000
(iii) Financial Assets				
20,000 Shares in BETA Ltd.	-	2,00,000	(2,00,000)	-
(2) Current Assets				
(i) Inventories	2,00,000	1,00,000	(10,000)	2,90,000
(ii) Trade Receivables	3,00,000	1,00,000	(40,000)	3,60,000
Total Assets	**15,00,000**	**9,00,000**		**21,60,000**
II. Equity and Liabilities				
(1) Equity				
(i) Equity Share Capital [(10,00,000+42,500)*10]	10,00,000	6,00,000	(1,75,000)	14,25,000
(ii) Other Equity (Reserve)	2,00,000	1,10,000	(1,10,000)	2,00,000
(iii) Securities Premium (42,500*2)			85,000	85,000
(2) Current Liabilities				
(i) Trade Payables	3,00,000	1,90,000	(40,000)	4,50,000
Total Equity & Liabilities	**15,00,000**	**9,00,000**		**21,60,000**

Dec 23 Q 6

The balance sheets of H Ltd. and S Ltd. as on 31.03.2023 were as follows:

Consolidated Balance Sheet Rs. Lakhs

Particulars	**H Ltd.**	**S Ltd.**
I. Assets		
(1) Non-Current Assets		
(i) Property, Plant & Equipment	7,400	3,000
(ii) Financial Assets		
Investment in S Ltd.	2,900	-
(2) Current Assets		
(i) Inventories	1,300	1,000
(ii) Trade Receivables	2,000	1,000
(iii) Dividend Receivable	160	-
Total Assets	**13,760**	**5,000**
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	5,000	2,000
(ii) Other Equity (Retained Earnings)	8,160	2,500
(2) Non-Current Liabilities	-	-
(3) Current Liabilities		
(i) Trade Payables	600	300
(ii) Dividend Payable	-	200
Total Equity & Liabilities	**13,760**	**5,000**

(a) On 01.04.2022, S Ltd. had 200 lakh shares of 10 each and Rs. 1,500 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 01.04.2022 at a consideration of Rs. 2,900 lakh payable in cash.

(b) The fair values of identifiable assets and liabilities were not different from the book values on the date of acquisition.

(c) NCI was to be measured at proportionate fair value of net identifiable assets.

(d) Dividend payable represents the dividend declared by S Ltd. out of pre-acquisition profit. H Ltd. credited its share of dividend from Ltd. to its profits.

(e) H Ltd. sold goods to S Ltd. worth Rs. 100 lakh at a profit of 20% on sales. 50% of the goods are still in stock of S Ltd.

Prepare the Consolidated Balance Sheet of the Group as on 31.03.2023. Workings should form part of your answer

Solution:

Share of Parent Co. (%) in subsidiary on consolidation date	80%
Share of NCI (%) in subsidiary on consolidation date	20%

Date of Acquisition - 1st April 2022
Date of Consolidation - 31st March 2023

Statement of Net Assets of S Ltd.

Particulars	**Date of Acquisition**	**Post Acquisition**	**31st March 2023**
Equity Share Capital	2,000	-	2,000
Retained Earnings	1,500	1,000	2,500
	3,500	**1,000**	
Dividend	-	200	
Total	**3,500**	**1,200**	
Parent's Share (H Ltd.) - 80%	2,800	960	
NCI's Share - 20%	700	240	

Calculation of Unrealised Gain on Inventory (Downstream)

Inventory lying in stock of S Ltd.	(100*80%*50%)	40
Unrealised gain	**(40*25%)**	**10**

Calculation of NCI

NCI on Acquisition Date (S Ltd.)	700
Add: Share of NCI in Post Acquisition Reserves of S Ltd	240
Less: Dividend (200*20%)	(40)
NCI on Consolidation Date	**900**

Calculation of Goodwill or Capital Reserve

Purchase Consideration	2,900
Add: NCI on Acquisition Date	700
Less: Net Assets taken over of acquiree company (Acquisition date profits)	(3,500)
Goodwill/ (Capital Reserve)	**100**

Calculation of Consolidated Equity

Retained Earnings	8,160
Add: Post Acquisition share in profits	960
Less: Dividend (200*80%)	(160)
Less: Unrealised Gain on sale of inventory	(10)
Consolidated Equity	**8,950**

Consolidated Balance Sheet

Particulars	H Ltd.	S Ltd.	Adjustment	Amount (Rs. In Lakhs)
I. Assets				
(1) Non-Current Assets				
(i) Property, Plant & Equipment	7,400	3,000		10,400
(ii) Goodwill				100
(iii) Financial Assets				
Investment in S Ltd.	2,900	-		-
(2) Current Assets				
(i) Inventories	1,300	1,000	-10	2,290
(ii) Trade Receivables	2,000	1,000		3,000
(iii) Dividend Receivable	160	-	-160	-
Total Assets	**13,760**	**5,000**		**15,790**
II. Equity and Liabilities				
(1) Equity				
(i) Equity Share Capital	5,000	2,000		5,000
(ii) Other Equity (Retained Earnings)	8,160	2,500		8,950
(2) Non-Controlling Interest				900
(3) Non-Current Liabilities	-	-		-
(4) Current Liabilities				
(i) Trade Payables	600	300		900
(ii) Dividend Payable	-	200	-160	40
Total Equity & Liabilities	**13,760**	**5,000**	**-160**	**15,790**

Dec 23 Q 8c

K Ltd. holds 30% stake in L Ltd. This investment in L Ltd. is accounted for as an investment in an associate as per Ind AS 28 and the carrying amount of such investment is Rs. 140 lakhs. K Ltd. purchases the remaining 70% stake in L Ltd. for a cash consideration of Rs. 980 lakhs. The fair value of the previously held 30% interest in L Ltd. is measured at Rs. 420 lakhs on the date of acquisition of 70% additional stake. The value of L Ltd.'s identifiable net assets as per Ind AS 103 on that date is Rs. 1,120 lakhs. How should K Ltd. account for the acquisition of additional stake?

Solution:

Journal Entry
In the books of K Ltd.

Particulars	**Amount in Rs. Lakhs (Dr.)**	**Amount in Rs. Lakhs (Cr.)**
Net Identifiable Assets A/c Dr	1120	
Goodwill A/c – **refer working** Dr	280	
To Bank A/c – **given**		980
To Investment in Associate A/c – **carrying amt**		140
To Gain on Fair Value of Previously held stake (P/L)		280

Computation of Goodwill

Particulars	**Rs. In lakhs**
Fair Value of Consideration	980
Fair Value of Previously held interest	420
Value of Identifiable Net Assets	1,120
Goodwill	**280**

June 24 Q 5

On 1st April, 2023, M Ltd. acquired 30% of the ordinary shares of N Ltd. For ₹ 8,000 crore. M Ltd. accounts for its investment in N Ltd. using equity method of accounting as prescribed under Ind AS 28.

On 31st March, 2024, M Ltd. accounts for its share of net assets changes in N Ltd. as per equity method of accounting as under:

Particulars	**₹in crore**
Share of profit	700
Share of exchange difference in other comprehensive income (OCI)	100
Share of revaluation reserve of PPE in other comprehensive income (OCI)	50

The carrying amount of the investment of M Ltd. in associate, N Ltd. is, therefore, 8,850 crore (₹8,000 crore + ₹700 crore + ₹100 crore + ₹50 crore).

On 1st April, 2024, M Ltd. acquired further 70% of the ordinary shares of N Ltd. for cash amounting to ₹25,000 crore.

The following additional pieces of information are relevant as on 1^{st} April, 2024:

Particulars	**₹in crore**
Fair value of 30% interest of M Ltd. in N Ltd. as on 1st April, 2024	9,000
Fair value of net identifiable assets of N Ltd. as on 1st April, 2024	30,000

Based on the above pieces of information, you are required to:

(a) Determine the date of acquisition for M Ltd. Justify your answer.
(b) Determine the gain on previously held interest in N Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.
(c) Compute the amount of goodwill arising on the acquisition of N Ltd.
(d) Pass the necessary journal entry on the acquisition date.

Solution:

(a) Determination of the date of acquisition for M Ltd.
The date of which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. In the given case, **the acquisition date is 1st April, 2024 i.e., the date on which M Ltd. acquires 100% holdings of N Ltd.**

(b) Computation of the gain on previously held interest and the accounting treatment to be adopted on the acquisition date

An entity shall discontinue the use of equity method from the date when its investment ceases to be an associate or joint venture. If the investment in an associate becomes an investment in a subsidiary, the entity shall account for its investment as per Ind AS 103 and Ind AS 110. Ind AS 103 provides that in a business combination achieved in stages, the acquirer is required to remeasure its previously held equity interest at its acquisition date fair value and recognize any gain or loss in profit or loss, or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Gain on previously held interest in N Ltd.

Fair value of 30% interest of M Ltd. in N Ltd. as on 1st April, 2024	9,000
(-) Carrying amount of the investment in associate N Ltd.	(8,850)
Gain on Previously held interest	**150**

(c) Calculation of Goodwill or Capital Reserve

Particulars	**₹ in crores**
Purchase Consideration	25,000
Add: Fair value of previously held 30% interest	9,000
Less: Net Assets taken over of acquiree company	(30,000)
Goodwill/ (Capital Reserve)	**4,000**

(d) Journal Entry – On Acquisition date

Particulars		**Amount in ₹ Lakhs (Dr.)**	**Amount in ₹ Lakhs (Cr.)**
Net Identifiable Assets A/c	Dr	30,000	
Goodwill A/c – **refer (c)**	Dr	4,000	
Foreign Currency Translation Reserve	Dr	100	
PPE Revaluation Reserve	Dr	50	
To Cash A/c – **given**			25,000
To Investment in Associate A/c – **N Ltd.**			8,850
To Retained Earnings A/c			50
To Gain on Previously held interest **(P/L)**			250

June 24 Q 6

The balance sheets of H Ltd. and S Ltd. as on 31.03.2024 were as follows:

₹ in lakhs

Particulars	H Ltd.	S Ltd.
I. Assets		
(1) Non-Current Assets		
(i) Property, Plant & Equipment	14,800	6,000
(ii) Financial Assets		
Investment in S Ltd.	5,800	-
(2) Current Assets		
(i) Inventories	2,600	2,000
(ii) Trade Receivables	4,000	2,000
(iii) Dividend Receivable	320	-
Total Assets	**27,520**	**10,000**
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital (Rs.10)	10,000	4,000
(ii) Other Equity (Retained Earnings)	16,320	5,000
(2) Non-Current Liabilities	-	-
(3) Current Liabilities		
(i) Trade Payables (due to H Rs. 120 lakhs)	1,200	600
(ii) Dividend Payable	-	400
Total Equity & Liabilities	**27,520**	**10,000**

(a) On 01.04.2023, S Ltd. had 400 lakh shares of ₹ 10 each and ₹ 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 01.04.2023 at a consideration of ₹ 5,800 lakh payable in cash.

(b) The aggregate identifiable net assets of S Ltd. as on 01.04.2020 included PPE and inventory standing in the books of S Ltd. at ₹ 2,500 lakh and ₹ 500 lakh having fair value of ₹ 2,800 lakh and ₹ 200 lakh respectively. The rate of depreciation on PPE is 10% p.a.

(c) NCI was to be measured at fair value based on the purchase consideration.

(d) Goodwill was impaired by ₹100 lakh.

(e) H Ltd. sold goods worth ₹200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still laying unsold.

(f) S Ltd. issued a cheque of ₹40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.

(g) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group on 31.03.2024.

Solution:

Share of Parent Co. (%) in subsidiary co. on consolidation date	80%
Share of NCI (%) in subsidiary co. on consolidation date	20%
Date of Acquisition	1st April 2023
Date of Consolidation	31st March 2024

Statement of Net Assets of S Ltd.

Particulars	**Date of Acquisition**	**Post Acquisition**	**31st March 2024**
Equity Share Capital	4,000	-	4,000
Retained Earnings	3,000	2,000	5,000
	7,000	**2,000**	
Dividend	-	400	
Add/ Less: Changes in Fair Value			
+ PPE	300		
(-) Stock	(300)		
(-) Depreciation (300*10%)		(30)	
+ Consequential effect on sale of stock		300	
Total	**7,000**	**2,670**	
Parent's Share (H Ltd.) - 80%		2,136	
Minority's Share - 20%		534	

Calculation of Unrealised Gain on Inventory (Downstream)

Inventory lying in stock of S Ltd.	(200*80%*50%)	80
Unrealised gain	**(80*25%)**	**20**

Calculation of NCI

NCI on Acquisition Date (S Ltd.) (5800/80%*20%)	1,450
Add: Share of NCI in Post Acquisition Reserves of S Ltd	534
Less: Dividend (400*20%)	(80)
Less: Impairment of Goodwill	(20)
NCI on Consolidation Date	**1,884**

Calculation of Goodwill or Capital Reserve

Purchase Consideration	5,800
Add: NCI on Acquisition Date	1,450
Less: Net Assets taken over of acquiree company	(7,000)
Less: Impairment	(100)
Goodwill/ (Capital Reserve)	**150**

Calculation of Consolidated Equity

Retained Earnings	16,320
Add: Post Acquisition share in profits	2,136
Less: Dividend (400*80%)	(320)
Less: Unrealised Gain on sale of inventory	(20)
Less: Impairment of Goodwill (100*80%)	(80)
Consolidated Equity	**18,036**

Consolidated Balance Sheet

Particulars	H Ltd.	S Ltd.	Adjustment	Amount (Rs. In Lakhs)
I. Assets				
(1) Non-Current Assets				
(i) Property, Plant & Equipment	14,800	6,000	300-30=270	21,070
(ii) Goodwill				150
(iii) Financial Assets				
Investment in S Ltd.	5,800	-		-
(2) Current Assets				
(i) Inventories	2,600	2,000	(20)	4,580
(ii) Trade Receivables	4,000	2,000	(160)	5,840
(iii) Dividend Receivable	320	-		-
(iv) Cash & Cash Equivalents	-	-	40	40
Total Assets	**27,520**	**10,000**		**31,680**
II. Equity and Liabilities				
(1) Equity				
(i) Equity Share Capital	10,000	4,000		10,000
(ii) Other Equity (Retained Earnings)	16,320	5,000		18,036
(2) Non-Controlling Interest				1,884
(3) Non-Current Liabilities	-	-		-
(4) Current Liabilities				
(i) Trade Payables	1,200	600	-120	1,680
(ii) Dividend Payable	-	400	-320	80
Total Equity & Liabilities	**27,520**	**10,000**		**31,680**

June 24 Q 8c

On 01.04.2022, H Ltd. acquired 75% shares of S. Ltd. in cash at a premium of ₹500 lakh over market price per share of ₹26 each. i.e., at a fair value of ₹20,000 lakh. On that date, S Ltd. had an issued and subscribed capital of 1,000 lakh shares of ₹10 each fully paid and a balance of ₹10,000 lakh in its retained earnings under Other Equity. The aggregate identifiable net assets of S Ltd. as on 01.04.2022 included an item of PPE whose fair value was lower than the book value by ₹1,200 lakh. For other items, book value and fair value were same. NCI was valued at fair value calculated at the market price per share.

Determine the NCI and Goodwill on the date of acquisition. If the goodwill is impaired by ₹1,540 lakh on 31.03.2023, how will the impairment loss be shared by H Ltd. and NCI?

Solution:

On the date of Acquisition - 01-04-2022

Calculation of Goodwill	**Details**	**Rs Lakhs**
Purchase Consideration	given	20,000
Add: NCI on acquisition date	Note 1	6,500
Less: Identifiable Net Assets on acquisition date	Note 2	18,800
Goodwill on the date of acquisition		**7,700**

Note 1

Calculation of NCI	**Details**	
No. of shares held by NCI (No. Lakhs)	1000*25%	250
Market price per share (Rs.)	Given	26
Non-Controlling Interest		**6,500**

Note 2

Calculation of INA	**Details**	**Rs Lakhs**
Equity share capital	Given	10,000
Retained Earnings	Given	10,000
Less: Decrease in FV of PPE	Given	-1,200
Identifiable Net Assets on acquisition date		**18,800**

On 31-03-2023

Calculation of share of Goodwill impairment loss	**Details**	**Rs Lakhs**
H Ltd’s share = 1540 X 76.62%		1,180
NCI’s Share = 1540 X 23.38%		360