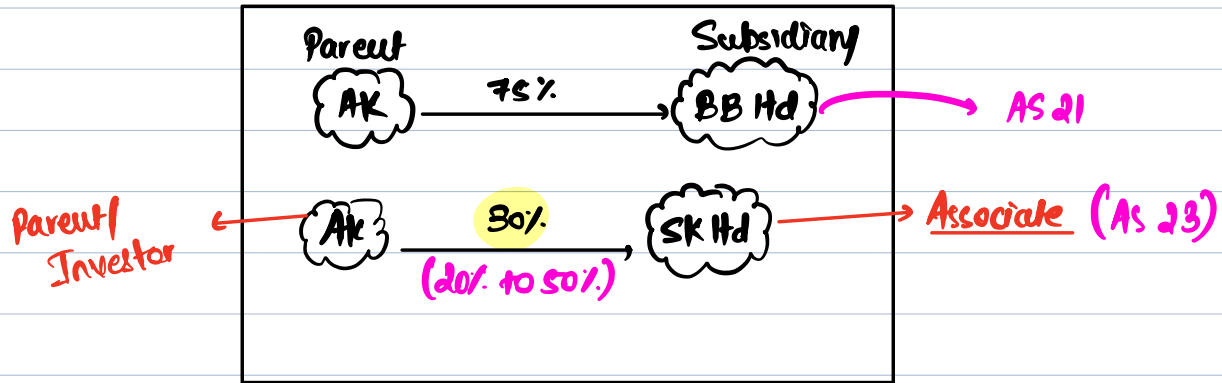


→ (4 marks)

AS 23 → Accounting for Investments in Associates in CFS



i] Definitions

a) Associate: An associate is an entity in which investor has **significant influence** and which is neither a subsidiary nor a joint venture of the investor.

b) Significant influence

- It is the **power to participate in the financial or operating decisions** of the entity.
- It can be obtained by:
 - Voting power (20% to 50%)
 - Representation on BOD.

2] Accounting for Investments in Associates

eg: AK Ltd has 30% stake in SK Ltd.

SFS (Separate Fin Stat)

Invest in Associate (SK Ltd) xx \rightarrow AS 13

Cost of Invest xx
less: Pre-Acqⁿ div $(\text{xx}) \rightarrow \text{xxx}$

CFS (Consolidated Fin. Stat)

Invest in Associate (SK Ltd) xxx

Equity Method (AS 23)

3] Equity Method (It is a valuation method to calculate the value of Invest in Associate in CFS)

eg: On 01.04.11 AK Ltd acquired 25% stake in SK Ltd for ₹100 lakhs.

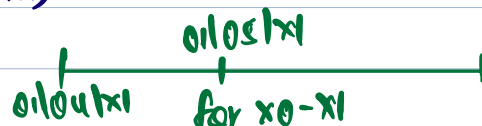
On that date the value of Net Assets of SK Ltd was ₹250 lakhs.

On 01.05.11 SK Ltd declared div @ 10%. (FSC of SK Ltd was 100 lakhs).

This div relates to 10-11

During the year SK Ltd earned a profit of ₹80 lakhs out of which it declared a div @ 15% of FSC on year end for the year 11-12.

Calculate the value of Invest in SK Ltd to be shown in the Books of AK Ltd (SFS & CFS Both)



Solⁿ

I] Accounting in SFS

Cost of Invest (25%) ₹100 lakhs
Less: Pre-Acqⁿ div (2.5 lakhs)
 $(100 \text{ lakhs} \times 10\%) \times 25\%$
Esc Div our
rate stake

C.A of Invest in SFS ₹97.5 lakhs

II] Accounting in CFS (Equity Method)

- Ⓐ Calⁿ of Glw / C.R (Co)
- Ⓑ Value of Invest (as per equity method)
- Ⓒ Presentation of Invest in BIs

Ⓐ Calⁿ of Glw / Cap Res (Same as AS 21)

Cost of Invest (25%) 100 lakhs
Less: Pre-Acqⁿ div (2.5 lakhs)
97.5 lakhs

Less: Net Assets of Associate (25%) $(250 \text{ lakhs} \times 25\%)$ → (Assets @ FV (-) Liab @ FV)
(62.5 lakhs) ^{OR} ESC on DOA (+) Pre Acqⁿ Reserves
Goodwill 35 lakhs

CFS BIs (Day 1)	
Invest in Associate	-
Cost of Invest (Share of NA)	62.5
(+) Glw	35
	97.5

② Calculation of Value of Invest on 31/3/22 (As per equity method)

Cost of Invest

Share of NA 62.5

(+) Crw / Cap Res 35 → 97.5 lakhs

(+) Post Acqⁿ share of Profit 20 lakhs
(80 lakhs x 25%)

less: Post Acqⁿ Div

(100 lakhs x 15%) x 25%

↓ Fsc ↓ Div Rate ↓ our stake

(37.5 lakhs) → It is like a recovery of invested Amt

less: Unrealised Profit
(URP x 25%)

(xx)

} Extra Part

less: Excess Depn due to revaluatⁿ of
Associated Assets
(Excess Depn Amt x 25%)

(xx)

Value of Invest on 31/3/22
(As per equity method)

113.75

© Presentation in CFS

CFS of AK Ltd (Extract) 31-3-22

NON Current Invest

Invest in Associate

113.75

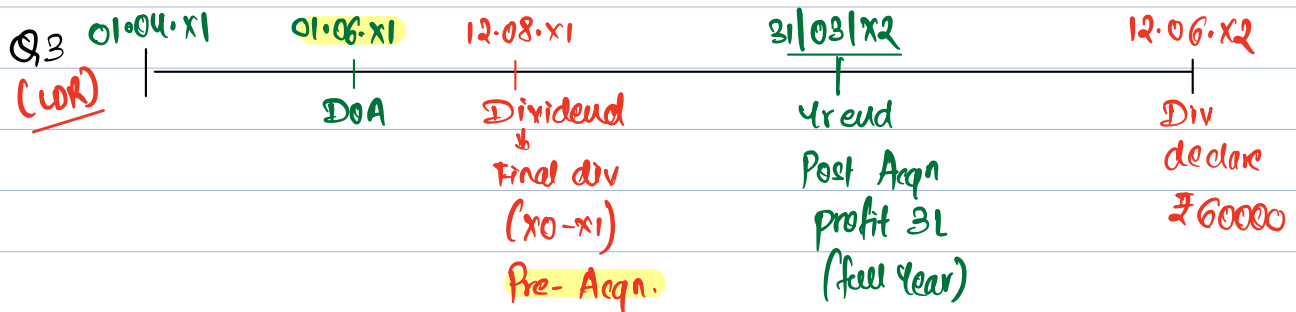
Share in NA 62.5

(+) Crw 35

(+) Post Acqⁿ profit 20

(-) Post Div (3.75)

Q1 → Refer Q.B.



I] Calculation of value of Invest in CFS (31/03/22) (As per AS 13)

Cost of Invest (01-06-21) (30%) 200000

less: Pre Acqⁿ div (50K x 30%) (15000)

Value of Invest in CFS 185000

II] Calcⁿ of value of Invest in CFS

a) Calcⁿ of G/W / C-R → cannot be computed as Data of ^{Net} Assets of associate is not available

b) Calcⁿ of C-A of Invest in CFS on 31.03.22 (As per AS 23 equity method)

Cost of Invest (incl G/W / C-R)	185000
(+) Post Acq ⁿ profit (3L x 30%) x 10m/12m	90000 75000
(-) Post Acqⁿ div (Next Year)	
Value of Invest in CFS on 31/03/22	<u>260000</u>

III] Value of Inv on 30.06.22

C-A of Inv on 01.04.22	260000
(-) Post Acq ⁿ div (60000 x 30%)	<u>(18000)</u>
C-A of Invest on 30.06.22	<u>242000</u>

Q4 (WDR)

i] Calculation of GLW / Cap Reserve

Cost of Invest (25%)	3,00,000	Esc Div Rate our Stake (SL × 40%) × 25%
less: Pre Acq ⁿ div	<u>(50,000)</u>	
	250,000	
less: NA (25%)		
Esc (SL × 25%)	<u>(12,500)</u>	
Pre Acq ⁿ Rese (SL - 2L) × 25%	<u>(7,500)</u>	
#		
GLW	<u>50,000</u>	

Due to Pre-Acqⁿ div, the Res of DOA will reduce

ii] Value of Invest in CFS as on 31.03.22

Cost of Invest

Share in NA 2,00,000

(1) GLW 50,000, 250,000

(+) Post Acqⁿ profit (7L × 25%) 17,500

~~(-) Post Acqⁿ div~~ (declared after year end)

Value of Invest on 31.03.22 4,25,000

CFS (Extract) on 31.3.x2	
<u>Invst in Associate</u>	425000
Share in NA	2L
(+) Glw	50k
(+) Post Acq ⁿ profit	1.75L

III] Div declared after yearend i.e. on 30.04.x2 (proposed div) will not be recognised during the year ended 31.03.x2.

Extra examples

Eg ① A Hd acquired 10% stake in B Hd on 01/04/x1 & further 15% stake on 01/10/x1. Cost of Invst for 10% stake is ₹100000 & for 15% stake is ₹155000.

Net Assets on 01/04/x1 is ₹850000 & on 01/10/x1 is ₹10,00,000.

Calculate Glw / Cap Reserve

Sol ⁿ : Calculat ⁿ for 1 st April		Calculat ⁿ for 1 st Oct	
Cost of Invst (10%)	100000	Cost of Invst (15%)	155000
less: Net Assets on 01/04/x1 (10%)	(85000)	less: Net Assets on 01/10/x1 (15%)	(150000)
(8.5L × 10%)	Glw 15000	(10L × 15%)	Glw 5000

Total Glw = 15k + 5k = 20,000

Cfs 31.3.22	
Cost of Invest	255000
Share in NA (85k + 15c) 2.35c	
(1) Glw	20k

Eg2 Everything is same as eg 1 except that cost of Invest for 1st. is £ 145000.

Sol ⁿ : Calculat ⁿ for 1 st April		Calculat ⁿ for 1 st Oct	
Cost of Invest (10%)	100000	Cost of Invest (15%)	145000
less: Net Assets on 01/04/21 (10%) (85000)		less: Net Assets on 01/10/21 (150000)	
(8.5c × 10%)	Glw 15000	(15%) (10c × 15%)	Cap Res (5000)
Total Glw = 15k - 5k = 10k			

Cfs 31.3.22	
Cost of Invest	245000
Share in NA (85k + 15c) 2.35c	
(1) Glw	10k

Ex

Ex 3 A Hd acquired 25% stake in Bhd on 1st April 'x1 and further 5% on 01/10/x1.

Cost of Invest for 25% is ₹150000 & 5% is ₹20000.

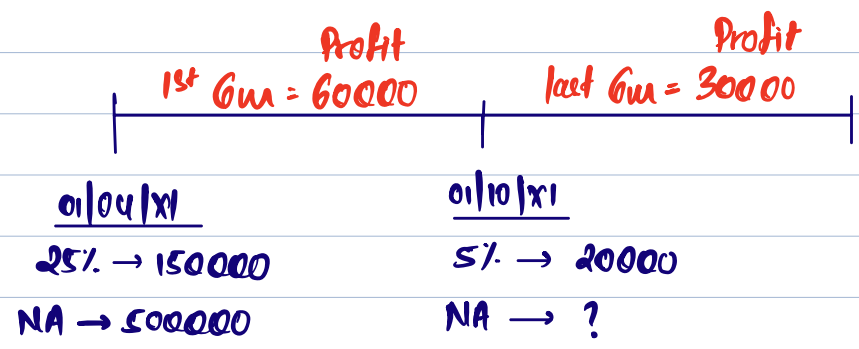
Net Assets on 01/04/x1 is ₹500000.

Profit for the year is ₹90000 earned in the ratio of 2:1 respectively during the year.

first 6m last 6m

i) Cal. G/W / C.R

ii) Cal. value of Invest on year end. (31.03.x2)



Solⁿ: Calⁿ of G/W / C.R

i) On 1 st April 'x1	
Cost of Invest (25%)	150000
Less: Net Assets (25%) (5L x 25%)	(125000)
G/W	25000

ii) On 1 st Oct 'x1	
Cost of Invest (5%)	20000
Less: Net Assets (5%)	(28000)
(5L + 60K) x 5%	
NA	Profit for 1 st 6m

Cap Res (8000)

NET G/W = 25000 - 8000
= 17000

iii] Value of Invest on 31/03/22

Cost of Invest (25% + 5%)

Share in NA	153000	
(+) Glw	17000	170000

(+) Post Acqⁿ profit
(90000 × 25% (+) 30000 × 5%)

24000

(or) 60000 × 25%
(+)
30000 × 5%

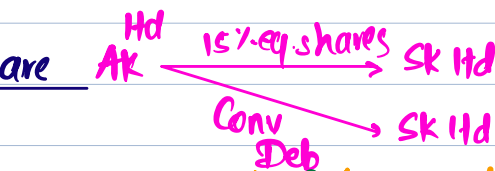
Value of Invest on 31/03/22 194000

4] Other Important Points

(A) Proposed div (Div declared after year end)

Such div shall NOT be taken into consideration while computing value of Investment.

(B) Potential equity share



Isko aaj consider mat karna
Because aaj voting power nahi milega.
They will become equity after few years which will increase our stake by 10%.

Potential eq share (eg Conv Deb, Conv Pref Sh) held by the investor should not be taken into consideration for determining voting power

© Value of Invest in cfs cannot be negative. It means adjustment of Post Acquisition is made only upto the value of Invest.

Q5 (LDR)

i) Calculation of Glw / Cap Reserve

Cost of Invest (40%)	10,00,000
less: Net Assets (40%)	
Esc (10L x 40%)	(400000)
Pre-profits (2L x 40%)	(80000)
	<u>520000</u>
Glw	

Year x1-x2

Cost of Invest

Share in NA	480000	
(+) Glw	<u>520000</u>	10,00,000
less: Post Acq ⁿ loss (10L x 40%)		<u>(400000)</u>
CA of Invest on 31.03.x2		<u>600000</u>

Cons B/S (Extract) as on 31.03.x2

Invest in Bhd (incl Glw)	600000
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Year X2-X3

CA of Invest on 01.04.X2 600000
Less: Post Acqⁿ loss (12.5L x 40%) (500000)
CA of Invest on 31.3.X3 100000

<u>Cons B/S (Extract) as on 31.03.X3</u>	
Invest in Bhd (incl Glw)	100000

Year X3-X4

CA of Invest on 01.04.X3 100000
Less: Post Acqⁿ loss
(5L x 40%) = 2L → But restricted (100000)
to IL as Invest
cannot be -ve.

NIL

<u>Cons B/S (Extract) as on 31.03.X4</u>	
Invest in Bhd (incl Glw)	NIL

→ starting se eq method follow nahi karenge.

Ⓣ] Cases where equity method is NOT to be followed

i) Where investment is intended to be **temporary**

ⓄR

ii) There are severe **long term restrictions** which significantly restricts the transfer of funds to investor.

→ starting mein we were followed eq. method, now will stop it

ⓔ] Cases where investor is required to **discontinue** equity method.

i) It ceases to have significant influence due to sale of Invest either wholly or partially.

ⓄR

ii) Before there were no restrictions but now there are severe **long term restrictions** which significantly restricts the transfer of funds to investor.