

# CHAPTER 10

## AS 23: ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CFC

### *Practical Questions*

#### ***Problem.1***

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 20X1:

Paid up Equity Share Capital	₹ 10,00,000
Securities Premium	₹ 1,00,000
Reserve & Surplus	₹ 5,00,000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2. **[SM.1]**

#### ***Problem.2***

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X1-20X2, B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000.

Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events. **[SM.2]**

#### ***Problem.3***

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd.

During the financial year ending on 31-03-20X1, East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1.

East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.

**Calculate the carrying amount of investment in:**

- 1) Separate financial statements of Bright Ltd. as on 31-03-20X2;
- 2) Consolidated financial statements of Bright Ltd. as on 31-03-20X2;
- 3) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

**[T.8]**

**Problem.4**

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	<u>5,00,000</u>
	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
Current Assets	<u>3,00,000</u>
	10,00,000

During the year ended 31.3.20X2 the following are the additional information available:

- (i) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
- (ii) B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2.
- (iii) B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 21 for its various subsidiaries. **Calculate:**

- 1) Goodwill if any on acquisition of B Ltd.'s shares.
- 2) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?
- 3) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

**[T.9]**

**C9: Multiple Choice Questions**

1. What is the primary purpose of AS 23?
  - (a) To regulate foreign exchange transactions
  - (b) To provide guidance on investment accounting
  - (c) To standardize employee benefit accounting
  - (d) To control the accounting of government grants
2. AS 23 requires investments to be categorized as:
  - (a) Current and Non-current
  - (b) Marketable and Non-marketable
  - (c) Fixed and Variable
  - (d) Domestic and Foreign
3. AS 23's disclosure requirements for investments include:
  - (a) The reasons for investments
  - (b) The fair value of each class of investment
  - (c) The accounting policies for investments
  - (d) The future plans for the investments

4. If a company purchased shares worth ₹ 50,000 and paid brokerage fees of ₹ 2,000, under AS 23, the total cost of investment recorded would be:
- (a) ₹ 50,000 (b) ₹ 52,000  
(c) ₹ 48,000 (d) ₹ 2,000
5. Analyzing the impact of a significant market downturn on long-term investments, as per AS 23, would require a company to:
- (a) Immediately write down the investment to market value  
(b) Assess the investment for impairment  
(c) Revert to cost basis for valuation  
(d) Disclose the temporary decline in fair value
6. When examining a company's investment portfolio, a significant deviation in the portfolio's market value compared to its carrying amount as per AS 23 indicates a need to:
- (a) Revalue all investments  
(b) Assess for impairment  
(c) Change accounting policies  
(d) Reassess classification of investments
7. Evaluate the decision to reclassify a long-term investment as current under AS 23 when the company needs short-term liquidity. This action is most likely to:
- (a) Improve liquidity ratios  
(b) Decrease profit margins  
(c) Affect long-term investment strategy  
(d) Have no impact on financial statements
8. Devise a strategy under AS 23 for a company to manage a portfolio of investments during a period of market volatility. This strategy should primarily focus on:
- (a) Maximizing short-term gains  
(b) Maintaining long-term growth  
(c) Minimizing tax liabilities  
(d) Diversifying investment types
9. What does AS 23 classify as a long-term investment?
- (a) Investments held for less than 12 months  
(b) Investments intended to be held for an indefinite period  
(c) Investments in marketable securities  
(d) Investments in liquid funds
10. Under AS 23, which of the following would be classified as a current investment?
- (a) Shares intended to be held for long-term capital appreciation  
(b) Bonds maturing in three years  
(c) Treasury bills maturing within 12 months  
(d) Investments in associates

11. As per AS 23, investments are reclassified from current to long-term based on:
- (a) Market fluctuations
  - (b) Management's intent
  - (c) Liquidity requirements
  - (d) Changes in interest rates
12. If a company reclassifies an investment from current to long-term, under AS 23, this action indicates:
- (a) A change in the market value of the investment
  - (b) A shift in the company's investment strategy
  - (c) A change in the liquidity position of the company
  - (d) An impairment of the investment
13. Under AS 23, how does the classification of an investment as 'current' or 'long-term' impact its reporting in the balance sheet?
- (a) It affects the valuation of the investment
  - (b) It changes the liquidity ratio of the company
  - (c) It determines its placement under assets
  - (d) It impacts the investment's tax treatment
14. According to AS 23, the disclosure of investment properties in financial statements should include:
- (a) The fair value of each investment
  - (b) The method used for determining fair value
  - (c) The accounting policy for recognition and measurement
  - (d) The expected return on investment
15. A company purchased an investment for ₹ 1,00,000. After one year, its market value is ₹ 1,20,000. If the company decides to sell the investment for ₹ 1,15,000, the ledger entry under AS 23 will show:
- (a) A loss of ₹ 5,000
  - (b) A gain ₹ 15,000
  - (c) A gain ₹ 20,000
  - (d) No gain or loss
16. Analyzing the impact of changing interest rates on a bond portfolio as per AS 23 requires understanding how the bond values are affected by:
- (a) Market demand
  - (b) Credit rating changes
  - (c) Interest rate fluctuations
  - (d) Company's financial performance
17. Evaluate the decision to continue holding a long-term investment under AS 23 in a declining market, considering the investment's:
- (a) Historical cost
  - (b) Potential for recovery
  - (c) Impact on the company's liquidity
  - (d) Effect on the company's diversification strategy

18. Create a strategy under AS 23 for managing a portfolio of mixed investments (equities and bonds) in a volatile market, focusing on:
- (a) Maximizing short-term liquidity
  - (b) Balancing risk and return
  - (c) Focusing on tax optimization
  - (d) Prioritizing market trends
19. Which of the following statements is true regarding the revaluation of investments under AS 23?
- (a) Investments are regularly revalued at fair value.
  - (b) Revaluation is mandatory for current investments.
  - (c) Long-term investments cannot be revalued.
  - (d) Revaluation is not a common practice under AS 23.
20. Under AS 23, which type of investment does not require impairment testing?
- (a) Equity instruments
  - (b) Debt securities
  - (c) Current investments
  - (d) Long-term investments
21. When analyzing an investment in a subsidiary under AS 23, which factor is not typically considered in the equity method of accounting?
- (a) The subsidiary's net income
  - (b) The parent company's percentage of ownership
  - (c) Market value fluctuations of the subsidiary's shares
  - (d) Goodwill arising from the acquisition
22. In the context of AS 23, understanding the difference between 'cost' and 'carrying amount' is crucial. Which of the following best describes this difference?
- (a) Cost is the original purchase price, while carrying amount includes accumulated depreciation.
  - (b) Carrying amount is the market value, while cost is the historical price.
  - (c) Cost includes additional acquisition charges, whereas carrying amount is the fair value at each reporting date.
  - (d) There is no significant difference between the two terms.
23. A company holds an investment in bonds with a face value of ₹ 1,00,000, purchased at a 10% discount. If the company redeems these bonds at face value after one year, the ledger entry will show:
- (a) A gain ₹ 10,000
  - (b) A gain ₹ 1,10,000
  - (c) No gain or loss
  - (d) A loss ₹ 10,000
24. In the context of AS 23, analyzing a company's decision to switch from equity investments to debt investments during market volatility involves understanding the impact on:
- (a) Dividend income
  - (b) Interest income
  - (c) Tax implications
  - (d) Market value fluctuations of the portfolio



