

## TEST YOUR KNOWLEDGE

### Questions

1. X Limited was holding 100% of the equity share capital of Y Limited and Y Limited was treated as a subsidiary by X Limited. Now, Y Limited issues convertible preference shares to Z Limited. As per the issue document of convertible preference shares, Z Limited also gets the rights to participate in the relevant activities of Y Limited whereby Z Limited's consent is also necessary to pass any decision by the equity shareholder of Y Limited (i.e. X Limited). Determine how should X Limited account for its investment in Y Limited in its consolidated financial statements after the issue of convertible preference shares by Y Limited to Z Limited?
2. M Limited holds 90% interest in subsidiary N Limited. N Limited holds 25% interest in an associate O Limited. As at 31 March 20X1, the net assets of O Limited was ₹ 300 lakhs including profit of ₹ 40 lakhs for the year ended 31 March 20X1. Calculate how the investment in O Limited will be accounted in the consolidated financial statements of M Limited?
3. AB Limited holds 30% interest in an associate which it has acquired for a cost of ₹ 300 lakhs. On the date of acquisition of that stake, the fair value of net assets of the associate was ₹ 900 lakh. The value of goodwill on acquisition was ₹ 30 lakhs. After the acquisition, AB Limited accounted for the investment in the associate as per equity method of accounting and now the carrying value of such investment in the consolidated financial statements of AB Limited is ₹ 360 lakhs. The associate has now issued equity shares to some investors other than AB Limited for a consideration of ₹ 800 lakhs. This has effectively reduced the holding of AB Limited to 20%. Determine how AB Limited should account for such reduction in interest in the associate?
4. DEF Ltd. acquired 100% ordinary shares of ₹ 100 each of XYZ Ltd. on 1<sup>st</sup> October 20X1. On March 31, 20X2 the summarised Balance Sheets of the two companies were as given below:

	DEF Ltd.	XYZ Ltd.
<b>Assets</b>		
Property Plant Equipment		
Land & Buildings	15,00,000	18,00,000
Plant & Machinery	24,00,000	13,50,000
Investment in XYZ Ltd.	34,00,000	-
Inventory	12,00,000	3,64,000
Financial Assets		

Trade Receivable	5,98,000	4,00,000
Cash	<u>1,45,000</u>	<u>80,000</u>
<b>Total</b>	<b><u>92,43,000</u></b>	<b><u>39,94,000</u></b>
<b>Equity &amp; Liabilities</b>		
Equity Capital (Shares of ₹ 100 each fully paid)	50,00,000	20,00,000
Other Equity		
Other reserves	24,00,000	10,00,000
Retained Earnings	5,72,000	8,20,000
Financial Liabilities		
Bank Overdraft	8,00,000	-
Trade Payable	<u>4,71,000</u>	<u>1,74,000</u>
<b>Total</b>	<b><u>92,43,000</u></b>	<b><u>39,94,000</u></b>

The retained earnings of XYZ Ltd. showed a credit balance of ₹ 3,00,000 on 1<sup>st</sup> April 20X1 out of which a dividend of 10% was paid on 1<sup>st</sup> November; DEF Ltd. has recognised the dividend received to profit or loss account; Fair Value of P&M as on 1<sup>st</sup> October 20X1 was ₹ 20,00,000. The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of Fair value as per respective Ind AS with Book value as on 1<sup>st</sup> October 20X1 which are to be considered while consolidating the Balance Sheets.

Liabilities	Amount	Assets	Amount
Trade Payables	1,00,000	Land & Buildings	10,00,000
		Inventories	1,50,000

Notes:

- I. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.
- II. Also assume that the Other Reserves of both the companies as on 31<sup>st</sup> March 20X2 are the same as was on 1<sup>st</sup> April 20X1.
- III. All fair value adjustments have not yet started impacting consolidated post-acquisition profits.

Prepare consolidated Balance Sheet as on March 31, 20X2.

5. Ram Ltd. acquired 60% ordinary shares of ₹ 100 each of Krishan Ltd. on 1<sup>st</sup> October 20X1. On March 31, 20X2 the summarised Balance Sheets of the two companies were as given below:

	Ram Ltd.	Krishan Ltd.
<b>Assets</b>		
Property, Plant and Equipment		
Land & Buildings	3,00,000	3,60,000
Plant & Machinery	4,80,000	2,70,000
Investment in Krishan Ltd.	8,00,000	-
Inventory	2,40,000	72,800
Financial Assets		
Trade Receivables	1,19,600	80,000
Cash	<u>29,000</u>	<u>16,000</u>
<b>Total</b>	<b><u>19,68,600</u></b>	<b><u>7,98,800</u></b>
<b>Equity &amp; Liabilities</b>		
Equity Capital (Shares of ₹ 100 each fully paid)	10,00,000	4,00,000
Other Equity		
Other Reserves	6,00,000	2,00,000
Retained earnings	1,14,400	1,64,000
Financial Liabilities		
Bank Overdraft	1,60,000	-
Trade Payable	<u>94,200</u>	<u>34,800</u>
<b>Total</b>	<b><u>19,68,600</u></b>	<b><u>7,98,800</u></b>

The Retained earnings of Krishan Ltd. showed a credit balance of ₹ 60,000 on 1<sup>st</sup> April 20X1 out of which a dividend of 10% was paid on 1<sup>st</sup> November; Ram Ltd. has credited the dividend received to its Retained earnings; Fair Value of P&M as on 1<sup>st</sup> October 20X1 was ₹ 4,00,000; The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of Fair value as per respective Ind AS with book value as on 1<sup>st</sup> October 20X1 which are to be considered while consolidating the Balance Sheets.

Liabilities	Amount	Assets	Amount
Trade Payables	20,000	Land & Buildings	2,00,000
		Inventories	30,000

Notes:

- I. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.
- II. Also assume that the Other Reserves as on 31<sup>st</sup> March 20X2 are the same as was on 1<sup>st</sup> April 20X1.

Prepare consolidated Balance Sheet as on March 31, 20X2.

6. On 31 March 20X2, Blue Heavens Ltd. acquired 100% ordinary shares carrying voting rights of Orange County Ltd. for ₹ 6,000 lakh in cash and it controlled Orange County Ltd. from that date. The acquisition-date statements of financial position of Blue Heavens Ltd. and Orange County Ltd. and the fair values of the assets and liabilities recognised on Orange County Ltd. balance sheet were:

	Blue Heavens Ltd.	Orange County Ltd.	
	Carrying Amount (₹ in lakh)	Carrying Amount (₹ in lakh)	Fair Value (₹ in lakh)
<b>Assets</b>			
<b>Non-current assets</b>			
Building and other PPE	7,000	3,000	3,300
Investment in Orange County Ltd.	6,000		
<b>Current assets</b>			
Inventories	700	500	600
Trade receivables	300	250	250
Cash	1,500	700	700
<b>Total assets</b>	<b>15,500</b>	<b>4,450</b>	
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	5,000	2,000	
Retained earnings	10,200	2,300	
<b>Current liabilities</b>			
Trade payables	300	150	150
<b>Total liabilities and equity</b>	<b>15,500</b>	<b>4,450</b>	

Prepare the Consolidated Balance Sheet as on March 31, 20X2 of group of entities Blue Heavens Ltd. and Orange County Ltd.

7. The facts are the same as in Question 6 above. However, Blue Heavens Ltd. acquires only 75% of the ordinary shares, to which voting rights are attached of Orange County Ltd. Blue

Heavens Ltd. pays ₹ 4,500 lakhs for the shares. Prepare the Consolidated Balance Sheet as on March 31, 20X2 of group of entities Blue Heavens Ltd. and Orange County Ltd.

8. Facts are same as in Question 6 &7, Blue Heavens Ltd. acquires 75% of Orange County Ltd. Blue Heavens Ltd. pays ₹ 4,500 lakhs for the shares. At 31 March 20X3, i.e one year after Blue Heavens Ltd. acquired Orange County Ltd., the individual statements of financial position and statements of comprehensive income of Blue Heavens Ltd. and Orange County Ltd. are:

	Blue Heavens Ltd. Carrying Amount (₹ in lakh)	Orange County Ltd. Carrying Amount (₹ in lakh)
<b>Assets</b>		
<b>Non-current assets</b>		
PPE (Building and others)	6,500	2,750
Investment in Orange County Ltd.	<u>4,500</u>	
	<u>11,000</u>	<u>2,750</u>
<b>Current assets</b>		
Inventories	800	550
Financial Asset - Trade receivables	380	300
Cash	<u>4,170</u>	<u>1,420</u>
	<u>5,350</u>	<u>2,270</u>
<b>Total assets</b>	<b><u>16,350</u></b>	<b><u>5,020</u></b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	5,000	2,000
Retained earnings	<u>11,000</u>	<u>2,850</u>
	<u>16,000</u>	<u>4,850</u>
<b>Current liabilities</b>		
Financial Liabilities-Trade payables	<u>350</u>	<u>170</u>
	<u>350</u>	<u>170</u>
<b>Total liabilities and equity</b>	<b><u>16,350</u></b>	<b><u>5,020</u></b>

**Statements of Profit and Loss for the year ended 31 March 20X3:**

	Blue Heavens Ltd. Carrying Amount (₹ in lakh)	Orange County Ltd. Carrying Amount (₹ in lakh)
Revenue	3,000	1,900
Cost of sales	(1,800)	(1,000)

Administrative expenses	<u>(400)</u>	<u>(350)</u>
<b>Profit for the year</b>	<b><u>800</u></b>	<b><u>550</u></b>

**Note:** Blue Heavens Ltd. estimates that goodwill has impaired by 98. The fair value adjustment to buildings and other PPE is in respect of a building; all buildings have an estimated remaining useful life of 20 years from 31 March 20X2 and estimated residual values of zero. Blue Heavens Ltd. uses the straight-line method for depreciation of PPE. All the inventory held by Orange County Ltd. at 31 March 20X2 was sold during 20X3.

Prepare the Consolidated Balance Sheet as on March 31, 20X3 of group of entities Blue Heavens Ltd. and Orange County Ltd.

9. P Pvt. Ltd. has a number of wholly-owned subsidiaries including S Pvt. Ltd. at 31<sup>st</sup> March 20X2. P Pvt. Ltd.'s consolidated balance sheet and the group carrying amount of S Pvt. Ltd.'s assets and liabilities (ie the amount included in the consolidated balance sheet in respect of S Pvt. Ltd.'s assets and liabilities) at 31<sup>st</sup> March 20X2 are as follows:

Particulars	Consolidated (₹ in millions)	Group carrying amount of S Pvt. Ltd. asset and liabilities Ltd. (₹ in millions)
<b>Assets</b>		
Non-Current Assets		
Goodwill	380	180
Buildings	3,240	1,340
Current Assets		
Inventories	140	40
Trade Receivables	1,700	900
Cash	<u>3,100</u>	<u>1000</u>
<b>Total Assets</b>	<b><u>8,560</u></b>	<b><u>3,460</u></b>
<b>Equities &amp; Liabilities</b>		
Equity		
Share Capital	1600	
Other Equity		
Retained Earnings	4,260	
Current liabilities		
Trade Payables	<u>2,700</u>	<u>900</u>
<b>Total Equity &amp; Liabilities</b>	<b><u>8,560</u></b>	<b><u>900</u></b>

Prepare consolidated Balance Sheet after disposal as on 31<sup>st</sup> March, 20X2 when P Pvt. Ltd. group sold 100% shares of S Pvt. Ltd. to independent party for ₹ 3,000 millions.

10. Reliance Ltd. has a number of wholly-owned subsidiaries including Reliance Jio Infocomm Ltd. at 31<sup>st</sup> March 20X2.

Reliance Ltd.'s consolidated balance sheet and the group carrying amount of Reliance Jio Infocomm Ltd. assets and liabilities (ie the amount included in that consolidated balance sheet in respect of Reliance Jio Infocomm Ltd. assets and liabilities) at 31<sup>st</sup> March 20X2 are as follows:

Particulars	Consolidated (₹ In '000)	Group carrying amount of Reliance Jio Infocomm Ltd. asset and liabilities Ltd. (₹ In '000)
<b>Assets</b>		
Non-current Assets		
Goodwill	190	90
Buildings	1,620	670
Current Assets		
Inventories	70	20
Financial Assets		
Trade Receivables	850	450
Cash	<u>1,550</u>	<u>500</u>
<b>Total Assets</b>	<b><u>4,280</u></b>	<b><u>1,730</u></b>
<b>Equity &amp; Liabilities</b>		
Equity		
Share Capital	800	
Other Equity		
Retained Earnings	<u>2,130</u>	
	<u>2,930</u>	
<b>Current liabilities</b>		
Financial liabilities		
Trade Payables	<u>1,350</u>	<u>450</u>
<b>Total Equity &amp; Liabilities</b>	<b><u>4,280</u></b>	<b><u>450</u></b>

Prepare consolidated Balance Sheet after disposal as on 31<sup>st</sup> March, 20X2 when Reliance Ltd. group sold 90% shares of Reliance Jio Infocomm Ltd. to independent party for ₹ 1000 thousand.

11. Airtel Telecommunications Ltd. owns 100% share capital of Airtel Infrastructures Pvt. Ltd. On 1 April 20X1 Airtel Telecommunications Ltd. acquired a building from Airtel Infrastructures Pvt. Ltd., for ₹ 11,00,000 that the group plans to use it as its new headquarters office.

Airtel Infrastructures Pvt. Ltd. had purchased the building from a third party on 1 April 20X0 for ₹ 10,25,000. At that time the building was assessed to have a useful life of 21 years and a residual value of ₹ 5,00,000. On 1 April 20X1 the carrying amount of the building was ₹ 10,00,000 in Airtel Infrastructures Pvt. Ltd.'s individual accounting records.

The estimated remaining useful life of the building measured from 1 April 20X1 is 20 years and the residual value of the building is now estimated at ₹ 3,50,000. The method of depreciation is straight-line.

Pass necessary accounting entries in individual and consolidation situations.

12. As at the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited. During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of ₹ 56 crore and consequently loses control of BC Limited. At the date of disposal, fair value of the 20% interest retained by AB Limited is ₹ 16 crore and the net assets of BC Limited are carry valued at ₹ 60 crore.

These net assets include the following:

- (a) Debt investments classified as fair value through other comprehensive income (FVOCI) of ₹ 12 crore and related FVOCI reserve of ₹ 6 crore.
- (b) Net defined benefit liability of ₹ 6 crore that has resulted in a reserve relating to net measurement losses of ₹ 3 crore.
- (c) Equity investments (considered not held for trading) of ₹ 10 crore for which irrevocable option of recognising the changes in fair value in OCI has been availed and related FVOCI reserve of ₹ 4 crore.
- (d) Net assets of a foreign operation of ₹ 20 crore and related foreign currency translation reserve of ₹ 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest.

What would be the accounting treatment on loss of control in the consolidated financial statements of AB Limited?

## Answers

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1. As per the issue document of convertible preference shares, unanimous consent of both X Limited and Z Limited are required to pass any decision about the relevant activities of Y Limited. Hence, Y Limited is jointly controlled by X Limited and Z Limited and thereby, Y Limited becomes a joint arrangement between X Limited and Z Limited.

Y Limited is structured through a separate vehicle. The legal form of Y Limited, terms of the contractual arrangement or other facts and circumstances do not give X Limited and Z Limited rights to the assets, and obligations for the liabilities, relating to Y Limited. Hence, Y Limited is a joint venture between X Limited and Z Limited.

When the convertible preference shares are issued to Z Limited, X Limited loses control over Y Limited. Hence X Limited should derecognise the assets and liabilities of Y Limited from its consolidated financial statements. 100% equity shares in Y Limited is still held by X Limited. Hence such investment would be accounted at fair value on the date of loss of control by X Limited. The difference between the fair value of 100% equity shares retained in Y Limited and the carrying value of assets and liabilities of Y Limited derecognised is recognised in profit or loss of X Limited. After the loss of control, the investment in Y Limited is accounted as per equity method of accounting by X Limited whereby the investment value in Y Limited will be adjusted for the change in the X Limited's share of the net assets Y Limited post the date of loss of control. Also, the difference between the fair value of investment in Y Limited and fair value of net identifiable assets of Y Limited shall be goodwill or capital reserve.

2. Since N Limited is a subsidiary of M Limited, the consolidated financial statements of M Limited will include 100% amounts of the consolidated financial statements of N Limited (including investment in O Limited accounted for using equity method). Accordingly, the investment in O Limited will be accounted as follows in the consolidated financial statements of M Limited:

	₹' lakh	
Investment in O Limited (300 x 25%)		75
Share in profit of O Limited		
Attributable to M Limited (40 x 25% x 90%)	9	
Attributable to Non-controlling interest of N Limited (50 x 25% x 10%)	1	10

3. Because of the issue of shares by associate to other investors, AB Limited has effectively sold 10% (30 – 20) of its interest in the associate. The gain / loss on reduction in interest in associate is calculated as follows:

	₹' lakhs
AB Limited's share in the consideration received by the associate for issue of shares (800 x 20%) <sup>(1)</sup>	160
Less: Carrying value of interest sold (360 x 1/3) <sup>(2)</sup>	<u>(120)</u>
<b>Gain on reduction in interest in associate<sup>(3)</sup></b>	<b><u>40</u></b>

**Notes:**

- (1) The share in the consideration received by associate on issue of shares (i.e. ₹ 160 lakhs) would be recorded as part of investment in associate.
- (2) The carrying amount of interest sold (i.e. ₹ 120 lakhs) will be derecognised, including proportionate goodwill of ₹ 10 lakhs (30 \* 1/3).
- (3) Gain of ₹ 40 lakhs will be recorded in the profit or loss.

**4. Consolidated Balance Sheet of DEF Ltd. and its subsidiary, XYZ Ltd. as on 31<sup>st</sup> March, 20X2**

Particulars	Note No.	₹
<b>I. Assets</b>		
(1) Non-current assets		
(i) Property Plant & Equipment	1	86,00,000
(2) Current Assets		
(i) Inventories	2	17,14,000
(ii) Financial Assets		
(a) Trade Receivables	3	9,98,000
(b) Cash & Cash equivalents	4	<u>2,25,000</u>
<b>Total Assets</b>		<b><u>1,15,37,000</u></b>
<b>II. Equity and Liabilities</b>		
(1) Equity		
(i) Equity Share Capital	5	50,00,000
(ii) Other Equity	6	49,92,000
(2) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	7	7,45,000
(b) Short term borrowings	8	<u>8,00,000</u>
<b>Total Equity &amp; Liabilities</b>		<b><u>1,15,37,000</u></b>

**Notes to Accounts**

			₹
1.	<b>Property Plant &amp; Equipment</b>		
	Land & Building	43,00,000	
	Plant & Machinery	43,00,000	86,00,000

2.	<b>Inventories</b>		
	DEF Ltd.	12,00,000	
	XYZ Ltd.	<u>5,14,000</u>	17,14,000
3.	<b>Trade Receivables</b>		
	DEF Ltd.	5,98,000	
	XYZ Ltd.	<u>4,00,000</u>	9,98,000
4.	<b>Cash &amp; Cash equivalents</b>		
	DEF Ltd.	1,45,000	
	XYZ Ltd.	<u>80,000</u>	2,25,000
7.	<b>Trade payable</b>		
	DEF Ltd.	4,71,000	
	XYZ Ltd.	<u>2,74,000</u>	7,45,000
8.	<b>Shorter-term borrowings</b>		
	Bank overdraft		8,00,000

#### Statement of Changes in Equity:

##### 5. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
50,00,000	0	50,00,000

##### 6. Other Equity

	Share application money pending allotment	Equity component of compound financial instrument	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Other Reserves	
Balance at the beginning				0	24,00,000	24,00,000
Total comprehensive income for the year			0	5,72,000		5,72,000
Dividends			0	(2,00,000)		(2,00,000)
Total comprehensive						

income attributable to parent			0	3,35,000		3,35,000
Gain on Bargain purchase			18,85,000			18,85,000
Balance at the end of reporting period			18,85,000	7,07,000	24,00,000	49,92,000

It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognized directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognized in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be ₹ 18,85,000.

### Working Notes:

#### 1. Adjustments of Fair Value

The Plant & Machinery of XYZ Ltd. would stand in the books at ₹ 14,25,000 on 1<sup>st</sup> October, 20X1, considering only six months' depreciation on ₹ 15,00,000 total depreciation being ₹ 1,50,000. The value put on the assets being ₹ 20,00,000 there is an appreciation to the extent of ₹ 5,75,000.

#### 2. Acquisition date profits of XYZ Ltd.

₹

Reserves on 1.4. 20X1	10,00,000
Profit & Loss Account Balance on 1.4. 20X1 Profit for 20X2: Total ₹ 8,20,000 less ₹ 1,00,000 (3,00,000 – 2,00,000) i.e. ₹ 7,20,000; for 6 months i.e. up to 1.10.20X1	3,00,000
Total Appreciation including machinery appreciation (10,00,000 + 1,50,000 + 5,75,000 – 1,00,000)	3,60,000
Share of DEF Ltd.	<u>16,25,000</u>
	<u>32,85,000</u>

#### 3. Post-acquisition profits of XYZ Ltd.

₹

Profit after 1.10. 20X1 [8,20,000-1,00,000]x 6/12	3,60,000
Less: 10% depreciation on ₹ 20,00,000 for 6 months less depreciation already charged for 2 <sup>nd</sup> half of 20X1-20X2 on ₹ 15,00,000 (1,00,000-75,000)	<u>(25,000)</u>
Share of DEF Ltd.	<u>3,35,000</u>

## 4. Consolidated total comprehensive income

₹

<i>DEF Ltd.</i>		
Retained earnings on 31.3.20X2		5,72,000
Less: Retained earnings as on 1.4.20X1		<u>(0)</u>
Profits for the year 20X1-20X2		5,72,000
Less: Elimination of intra-group dividend		<u>(2,00,000)</u>
Adjusted profit for the year		3,72,000
<i>XYZ Ltd.</i>		
Adjusted profit attributable to DEF Ltd. (W.N.3)		<u>3,35,000</u>
Consolidated profit or loss for the year		<u>7,07,000</u>

## 5. No Non-controlling Interest as 100% shares of XYZ Ltd. are held by DEF Ltd.

## 6. Gain on Bargain Purchase

₹

Amount paid for 20,000 shares		34,00,000
Par value of shares	20,00,000	
DEF Ltd.'s share in acquisition date profits of XYZ Ltd.	<u>32,85,000</u>	<u>(52,85,000)</u>
Gain on Bargain Purchase		<u>18,85,000</u>

## 7. Value of Plant &amp; Machinery

₹

DEF Ltd.		24,00,000
XYZ Ltd.	13,50,000	
Add: Appreciation on 1.10. 20X1	<u>5,75,000</u>	
	19,25,000	
Add: Depreciation for 2nd half charged on pre-revalued value	75,000	
Less: Depreciation on ₹ 20,00,000 for 6 months	<u>(1,00,000)</u>	<u>19,00,000</u>
		<u>43,00,000</u>

## 8. Consolidated retained earnings

₹

	DEF Ltd.	XYZ Ltd.	Total
As given	5,72,000	8,20,000	13,92,000
<i>Consolidation Adjustments:</i>			
(i) Elimination of pre-acquisition element [3,00,000 + 3,60,000]	0	(6,60,000)	(6,60,000)
(ii) Elimination of intra-group dividend	(2,00,000)	2,00,000	0
(iii) Impact of fair value adjustments	<u>0</u>	<u>(25,000)</u>	<u>(25,000)</u>
Adjusted retained earnings consolidated	<u>3,72,000</u>	<u>3,35,000</u>	<u>7,07,000</u>

**Assumptions:**

1. Investment in XYZ Ltd is carried at cost in the separate financial statements of DEF Ltd.
  2. Appreciation of ₹10 lakhs in land & buildings is entirely attributable to land element only.
  3. Depreciation on plant and machinery is on WDV method.
  4. Acquisition-date fair value adjustment to inventories of XYZ Ltd. existing at the balance sheet date does not result in need for any write-down.
5. **Consolidated Balance Sheet of Ram Ltd. and its subsidiary, Krishan Ltd.**  
as on 31<sup>st</sup> March, 20X2

Particulars	Note No.	₹
<b>I. Assets</b>		
(1) Non-current assets		
(i) Property, Plant & Equipment	1	17,20,000
(ii) Goodwill	2	1,65,800
(2) Current Assets		
(i) Inventories	3	3,42,800
(ii) Financial Assets		
(a) Trade Receivables	4	1,99,600
(b) Cash & Cash equivalents	5	<u>45,000</u>
<b>Total Assets</b>		<b><u>24,73,200</u></b>
<b>II. Equity and Liabilities</b>		
(1) Equity		
(i) Equity Share Capital	6	10,00,000
(ii) Other Equity	7	7,30,600
(2) Non-controlling Interest (WN 5)		4,33,600
(3) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	8	1,49,000
(b) Short term borrowings	9	<u>1,60,000</u>
<b>Total Equity &amp; Liabilities</b>		<b><u>24,73,200</u></b>

**Notes to accounts**

1.	Property Plant & Equipment	8,60,000	₹
	Land & Building		

	Plant & Machinery	<u>8,60,000</u>	17,20,000
2.	Goodwill		1,65,800
3.	<b>Inventories</b>		
	Ram Ltd.	2,40,000	
	Krishan Ltd.	<u>1,02,800</u>	3,42,800
4.	<b>Trade Receivables</b>		
	Ram Ltd.	1,19,600	
	Krishan Ltd.	<u>80,000</u>	1,99,600
5.	<b>Cash &amp; Cash equivalents</b>		
	Ram Ltd.	29,000	
	Krishan Ltd.	<u>16,000</u>	45,000
8.	<b>Trade Payables</b>		
	Ram Ltd.	94,200	
	Krishan Ltd.	<u>54,800</u>	1,49,000
9.	<b>Short-term borrowings</b>		
	Bank overdraft		1,60,000

#### Statement of Changes in Equity:

##### 6. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
10,00,000	0	10,00,000

##### 7. Other Equity

	Share application money	Equity component	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Other Reserves	
Balance at the beginning of the reporting period				0	6,00,000	6,00,000
Total comprehensive income for the year			0	1,14,400		1,14,400
Dividends			0	(24,000)		(24,000)
Total						

comprehensive income attributable to parent			0	40,200		40,200
Gain on Bargain purchase				0		0
Balance at the end of reporting period				1,30,600	6,00,000	7,30,600

**Working Notes:**
**1. Adjustments of Fair Value**

The Plant & Machinery of Krishan Ltd. would stand in the books at ₹ 2,85,000 on 1<sup>st</sup> October, 20X1, considering only six months' depreciation on ₹3,00,000 total depreciation being ₹ 30,000. The value put on the assets being ₹ 4,00,000 there is an appreciation to the extent of ₹ 1,15,000.

**2. Acquisition date profits of Krishan Ltd.**

Reserves on 1.4. 20X1	2,00,000
Profit & Loss Account Balance on 1.4. 20X1	60,000
Profit for 20X1-20X2: Total (₹ 1,64,000 less ₹ 20,000) x 6/12 i.e. ₹ 72,000; upto 1.10. 20X1	72,000
Total Appreciation	<u>3,25,000</u>
	<u>6,57,000</u>
Holding Co. Share (60%)	3,94,200

**3. Post-acquisition profits of Krishan Ltd.**

Profit after 1.10. 20X1 [1,64,000-20,000]x 6/12	72,000
Less: 10% depreciation on ₹ 4,00,000 for 6 months less depreciation already charged for 2 <sup>nd</sup> half of 20X1-20X2 on ₹ 3,00,000 (20,000-15,000)	<u>(5,000)</u>
Total	<u>67,000</u>
Share of holding Co. (60%)	40,200

**4. Non-controlling Interest**

Par value of 1600 shares	160,000
Add: 2/5 Acquisition date profits (6,57,000 – 40,000)	2,46,800
Add: 2/5 Post-acquisition profits [WN 4]	<u>26,800</u>
	<u>4,33,600</u>

## 5. Goodwill:

Amount paid for 2,400 shares		8,00,000
Par value of shares	2,40,000	
Acquisition date profits share of Ram Ltd.	<u>3,94,200</u>	<u>(6,34,200)</u>
Goodwill		<u>1,65,800</u>

## 6. Value of Plant &amp; Machinery:

Ram Ltd.		4,80,000
Krishan Ltd.	2,70,000	
Add: appreciation on 1.10. 20X1	<u>1,15,000</u>	
	3,85,000	
Add: Depreciation for 2nd half charged on pre-revalued value	15,000	
Less: Depreciation on ₹ 4,00,000 for 6 months	<u>(20,000)</u>	<u>3,80,000</u>
		<u>8,60,000</u>

## 7. Profit &amp; Loss account consolidated

Ram Ltd. (as given)	1,14,400	
Less: Dividend	<u>(24,000)</u>	90,400
Share of Ram Ltd. in post-acquisition profits		<u>40,200</u>
		<u>1,30,600</u>

6. Blue Heavens Ltd. consolidated balance sheet at 31 March 20X2 will be calculated as follows:

(in lakhs)

	Blue Heavens Ltd.	Orange County Ltd.	Consolidation adjustments	Consolidated Blue Heavens Ltd.
	Carrying amount	Carrying amount		
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill			1,300 (WN 1)	1,300
Buildings and other PPE	7,000	3,000	300	10,300
<b>Financial Assets</b>				
Investment in Orange County Ltd.	6,000		(6,000)	
<b>Current assets</b>				
Inventories	700	500	100	1,300
<b>Financial Assets</b>				
Trade receivables	300	250		550

Cash	1,500	700		2,200
<b>Total assets</b>	<b>15,500</b>	<b>4,450</b>		<b>15,650</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	5,000	2,000	(2,000)	5,000
Other Equity	10,200	2,300	(2,300)	10,200
Trade payable	300	150		450
<b>Total liabilities and equity</b>	<b>15,500</b>	<b>4,450</b>		<b>15,650</b>

Consolidation involves:

- Adding the balance sheet of the parent and its subsidiary together line by line.
- Eliminating the carrying amount of the parent's investment in the subsidiary (because it is replaced by the goodwill and the fair value of the assets, liabilities and contingent liabilities acquired) and the pre-acquisition equity of the subsidiary (because that equity was not earned or contributed by the group but is part of what was purchased) and recognising the fair value adjustments together with the goodwill asset that arose on acquisition of the subsidiary.

1. Working for goodwill:	(₹ in lakhs)
Consideration paid	6,000
Less: Acquisition date fair value of Orange County Ltd. net assets	<u>(4,700)</u>
Goodwill	<u>1,300</u>

2. Working for the acquisition date fair value of Orange County Ltd. net assets:  
 Acquisition date fair value of acquiree (Orange County Ltd.) assets

Buildings and other PPE	3,300
Inventories	600
Trade receivables	250
Cash	700
Less: fair value of trade payables	<u>(150)</u>
Fair value of net assets acquired	<u>4,700</u>

#### 7. Non-controlling interest

= 25 % × Orange County Ltd. identifiable net assets at fair value of ₹ 4,700

= ₹ 1,175.

Blue Heavens Ltd.'s consolidated balance sheet at 31 March 20X2 will be calculated as follows: (in lakhs)

	Blue Heavens Ltd.	Orange County Ltd.	Consolidation adjustments	Consolidated Blue Heavens Ltd.
	Carrying amount	Carrying amount		
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill			975 (WN 1)	975
Buildings and other PPE	7,000	3,000	300	10,300
<b>Financial Assets</b>				
Investment in Orange County Ltd.	4,500		(4,500)	
<b>Current assets</b>				
Inventories	700	500	100	1,300
<b>Financial Assets</b>				
Trade receivables	300	250		550
Cash	<u>3,000</u>	<u>700</u>		<u>3,700</u>
<b>Total assets</b>	<b><u>15,500</u></b>	<b><u>4,450</u></b>		<b><u>16,825</u></b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital Other	5,000	2,000	(2,000)	5,000
Equity	10,200	2,300	(2,300)	10,200
			1,175	1,175
<b>Non-controlling interest</b>				
<b>Current liabilities</b>				
<b>Financial Liabilities</b>				
Trade payables	<u>300</u>	<u>150</u>		<u>450</u>
<b>Total liabilities and equity</b>	<b><u>15,500</u></b>	<b><u>4,450</u></b>		<b><u>16,825</u></b>

**Note:** In this question, Blue Heavens Ltd.'s (and consequently the group's) cash balance is ₹ 1,500 lakh higher than in Question above because, here Blue Heavens Ltd. paid ₹ 1,500 less to acquire Orange County Ltd. (i.e. ₹ 6,000 less ₹ 4,500).

1. **Working for goodwill:** (₹ in lakhs)
- |   |              |
|---|--------------|
| Consideration paid  | 4,500        |
| Non- controlling interest   | 1,175        |
| Less: Acquisition date fair value of Orange County Ltd. net assets<br>(cal. as above) | <u>4,700</u> |
| Goodwill  | <u>975</u>   |
- (Goodwill recognized in the consolidated balance sheet relates solely to the acquirer's proportion of the subsidiary; it does not include the non-controlling interest's share).

**8. Alternative I for calculation of Non-controlling Interest:**

The Non-controlling Interest proportion of Orange County Ltd. is 25%.

At 31 March 20X3, the NCI in the consolidated balance sheet would be calculated as:

₹ (lakh)

NCI at date of acquisition (31 March 20X2) (see solution to Question 7)	1,175
NCI's share of profit for the year ended 31 March 20X3, being 25%	
Of ₹ 435 lakh (being ₹ 550 profit of Orange County Ltd. as per	
Orange County Ltd. financial statements less ₹ 100 group inventory	
Fair value adjustment less ₹ 15 group depreciation on building	
fair value adjustment)*	<u>109</u>
NCI as at 31 March 20X3	<u>1,284</u>

\*In calculating the NCI's share of profit for the year ended 31 March 20X3, no deduction is made for goodwill amortization because, as explained above, the goodwill arising on consolidation relates solely to the acquirer's proportion of the subsidiary and does not include the non-controlling interest's share.

**Alternative II for calculation of Non-controlling Interest:**

As an alternative to the above three-step approach, at 31 March 20X3 the NCI in the consolidated balance sheet is calculated as 25% (the NCI's proportion) of ₹ 5,135, which is ₹ 1,284. ₹ 5,135 is Orange County Ltd. net assets at 31 March 20X3 as shown in Orange County Ltd. balance sheet (₹ 4,850, being ₹ 5,020 assets less ₹ 170 liabilities) plus the fair value adjustment to those assets as made in preparing the group balance sheet (₹ 285, being the fair value adjustment in respect of Orange County Ltd. building, ₹ 300, less one year's depreciation of that adjustment, ₹ 15).

Blue Heavens Ltd. consolidated statement of comprehensive income for the year ended 31 March 20X3 will be computed as follows:

	Blue Heavens Ltd.	Orange County Ltd.	Consolidate adjustments	Consolidated
Revenue	3,000	1,900		4,900
Cost of sales	<u>(1,800)</u>	<u>(1,000)</u>	(100) (WN 1)	<u>(2,900)</u>
Profit for the year	1,200	900		2,000
Administrative expenses	<u>(400)</u>	<u>(350)</u>	(113) (WN 2)	<u>(863)</u>
Total comprehensive income for the year	800	550		1,137

Total comprehensive income attributable to:

Owners of the parent (75%)	1,028
Non-controlling interest (25%)	<u>109</u>
	<u>1,137</u>

### Consolidation involves:

- Adding the statement of comprehensive income of the parent and its subsidiary together line by line
- Recognising the fair value adjustments and/ or amortisation thereof together with amortisation of the goodwill asset that arose on acquisition of the subsidiary.

Blue Heavens Ltd. consolidated balance sheet at 31 March 20X3 will be computed as follows: (₹ in lakh)

	Blue Heavens Ltd.	Orange County Ltd.	Consolidation adjustments	Consolidated Blue Heavens Ltd.
	Carrying amount	Carrying amount		
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill			975-98 (WN 3)	877
Buildings and other PPE	6,500	2,750	285 (WN 4)	9,535
<b>Financial Assets</b>				
Investment in Entity B	4,500		(4,500)	
<b>Current assets</b>				
Inventories	800	550		1,350
<b>Financial Assets</b>				
Trade receivables	380	300		680
Cash	<u>4,170</u>	<u>1420</u>		<u>5,590</u>
<b>Total assets</b>	<b><u>16,350</u></b>	<b><u>5,020</u></b>		<b><u>18,032</u></b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	5,000	2,000	(2,000)	5,000
Other Equity	11,000	2,850	(2,622) (WN 5)	11,228
<b>Non-controlling interest</b>			1,284	1,284
<b>Current liabilities</b>				
<b>Financial Liabilities</b>				
Trade payables	<u>350</u>	<u>170</u>		<u>520</u>
<b>Total liabilities and equity</b>	<b><u>16,350</u></b>	<b><u>5,020</u></b>		<b><u>18,032</u></b>

Consolidation involves:

- Adding the balance sheet of the parent and its subsidiary together line by line.
- Eliminating the carrying amount of the parent's investment in the subsidiary (because it is replaced by the goodwill and the fair value of the assets, liabilities and contingent liabilities acquired) and the pre-acquisition equity of the subsidiary (because that equity was not earned or contributed by the group but is part of what was purchased), and recognising the fair value adjustments together with the goodwill asset that arose on acquisition of the subsidiary as adjusted to reflect the first year post-acquisition
- Recognising the non-controlling interest in the net assets of Entity B.

### Working Notes:

(1) Cost of sales adjustment:

₹ 100 = fair value adjustment in respect of inventories at 31 March 20X2.

(2) Administrative expenses adjustment:

₹ 113 = Impairment of goodwill ₹ 98 (WN 3) + additional depreciation on building ₹ 15 (WN 4).

For simplicity it is assumed that all the goodwill impairment and the additional depreciation on buildings (on account of fair value adjustment) is adjusted against administrative expenses.

(3) Working for goodwill:

Goodwill at the acquisition date, ₹ 975, less accumulated impairment, ₹ 98 = ₹ 877.

(4) Working for building consolidation adjustment:

The fair value adjustment at 31 March 20X2 in respect of Orange County Ltd. building was ₹ 300, that is, the carrying amount at 31 March 20X2 was ₹ 300 lower than was recognized in the group's consolidated balance sheet. The building is being depreciated over 20 years from 31 March 20X2. Thus, at 31 March 20X3 the adjustment required on consolidation to the balance sheet will be ₹ 285, being ₹ 300 × 19/20 years' estimated useful life remaining. The additional depreciation recognized in the consolidated statement of comprehensive income is ₹ 15 (being ₹ 300 × 1/20).

(5) Reserves adjustment:

₹ 2,300 adjustment at the acquisition date (Illustration 7)

plus ₹ 98 (WN 3) impairment of goodwill

plus ₹ 15 (WN 4) additional depreciation on building

plus ₹ 100 (WN 1) fair value adjustment in respect of inventories

plus ₹ 109 NCI's share of Orange County Ltd. profit for the year (as included in the consolidated statement of comprehensive income)

= ₹ 2,622.

**9. When 100% shares sold to independent party Consolidated Balance Sheet of P Pvt. Ltd. and its remaining subsidiaries as on 31st March, 20X2**

Particulars	Note No.	(₹ in millions)
<b>I. Assets</b>		
(1) Non-current assets		
(i) Property Plant & Equipment	1	1,900
(ii) Goodwill	2	200
(2) Current Assets		
(i) Inventories	3	100
(ii) Financial Assets		
(a) Trade Receivables	4	800
(b) Cash & Cash equivalents	5	<u>5,100</u>
<b>Total Assets</b>		<b><u>8,100</u></b>
<b>II. Equity and Liabilities</b>		
(1) Equity		
(i) Equity Share Capital	6	1,600
(ii) Other Equity	7	4,700
(2) Non-controlling Interest		
(3) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	8	<u>1,800</u>
<b>Total Equity &amp; Liabilities</b>		<b><u>8,100</u></b>

**Notes to accounts:**

		(₹ in millions)
1.	<b>Property Plant &amp; Equipment</b>	
	Land & Building	3,240
	Less: S Pvt. Ltd.	<u>(1,340)</u>
		1,900
2.	<b>Goodwill</b>	380
	Less: S Pvt. Ltd.	<u>(180)</u>
		200
3.	<b>Inventories</b>	
	Group	140
	Less: S Pvt. Ltd.	<u>(40)</u>
		100

4.	<b>Trade Receivables</b>		
	Group	1,700	
	Less: S Pvt. Ltd.	<u>(900)</u>	800
5.	<b>Cash &amp; Cash equivalents</b>		
	Group (WN 2)	5,100	5,100
6.	<b>Trade Payables</b>		
	Group	2,700	
	Less: S Pvt. Ltd.	<u>900</u>	1,800

**Statement of changes in Equity:**
**6. Equity share Capital**

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1600	0	1600

**7. Other Equity**

	Share application money	Equity component	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Securities Premium	
Balance at the beginning				4,260		4,260
Total comprehensive income for the year			0			
Dividends			0			
Total comprehensive income attributable to parent			0			
Gain on disposal of S Pvt. Ltd.				440		440
Balance at the end of reporting period			0	4,700		4,700

**Working Notes:**

- When sold, the carrying amount of all assets and liabilities attributable to S Pvt. Ltd. were eliminated from the consolidated balance sheet.

## 2. Cash on hand (in millions):

Cash before disposal of S Pvt. Ltd.	3,100
Less: S Pvt. Ltd. Cash	(1,000)
Add: Cash realized from disposal	<u>3,000</u>
Cash on Hand	<u>5,100</u>

## 3. Gain/ Loss on disposal of entity (in millions):

Proceeds from disposal	3,000
Less: Net assets of S Pvt. Ltd.	(2,560)
Gain on disposal	<u>440</u>

## 4. Retained Earnings (in millions):

Retained Earnings before disposal	4,260
Add: Gain on disposal	<u>440</u>
Retained earnings after disposal	<u>4,700</u>

10. When 90% shares sold to independent party Consolidated Balance Sheet of Reliance Ltd. and its remaining subsidiaries as on 31<sup>st</sup> March, 20X2

Particulars	Note No.	(₹ In '000)
<b>I. Assets</b>		
(1) Non-current assets		
(i) Property Plant & Equipment	1	950
(ii) Goodwill	2	100
(iii) Financial Assets		
(a) Investments	3	128
(2) Current Assets		
(i) Inventories	4	50
(ii) Financial Assets		
(b) Trade Receivables	5	400
(c) Cash & Cash equivalents	6	<u>2,050</u>
<b>Total Assets</b>		<b><u>3,678</u></b>
<b>II. Equity and Liabilities</b>		
(1) Equity		
(i) Equity Share Capital	7	800
(ii) Other Equity	8	1,978
(2) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	9	<u>900</u>
<b>Total Equity &amp; Liabilities</b>		<b><u>3,678</u></b>

**Notes to accounts:**

			(₹ In '000)
1.	<b>Property Plant &amp; Equipment</b>		
	Land & Building	1620	
	Less: Reliance Jio Infocomm Ltd.	<u>(670)</u>	950
2.	Goodwill	190	
	Less: Reliance Jio Infocomm Ltd.	<u>(90)</u>	100
3.	<b>Investments</b>		
	Investment in Reliance Jio Infocomm Ltd. (WN 2)	<u>128</u>	128
4.	<b>Inventories</b>		
	Group	70	
	Less: Reliance Jio Infocomm Ltd.	<u>(20)</u>	50
5.	<b>Trade Receivables</b>	850	
	Group	<u>(450)</u>	400
	Less: Reliance Jio Infocomm Ltd.		
6.	<b>Cash &amp; Cash equivalents</b>	2,050	2,050
	Group (WN 3)		
9.	<b>Trade Payables</b>	1,350	
	Group	<u>450</u>	900
	Less: Reliance Jio Infocomm Ltd.		

**Statement of changes in Equity:**
**7. Equity share Capital**

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
800	0	800

**8. Other Equity**

	Share application money	Equity component	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Securities Premium	
Balance at the beginning				2,130		2,130
Total comprehensive income for the year			0			
Dividends			0			

Total comprehensive			0		
Income attributable to parent					
Loss on disposal of Reliance Jio Infocomm Ltd.				(152)	(152)
Balance at the end of reporting period			0	1,978	1,978

**Working Notes:**

- When 90% being sold, the carrying amount of all assets and liabilities attributable to Reliance Jio Infocomm Ltd. were eliminated from the consolidated balance sheet and further financial asset is recognized for remaining 10%.

- Carrying value of remaining investment (in '000):

Net Assets of Reliance Ltd.	1,280
Less: 90% disposal	<u>(1152)</u>
Financial Asset	<u>128</u>

- Cash on hand (in '000):

Cash before disposal of Reliance Jio Infocomm Ltd.	1,550
Less: Reliance Jio Infocomm Ltd. Cash	(500)
Add: Cash realized from disposal	<u>1,000</u>
Cash on Hand	<u>2,050</u>

- Gain/ Loss on disposal of entity (in '000):

Proceeds from disposal	1,000
Less: Proportionate (90%) Net assets of Reliance Jio Infocomm Ltd. (90% of 1,280)	<u>(1,152)</u>
Loss on disposal	<u>(152)</u>

- Retained Earnings (in '000):

Retained Earnings before disposal	2,130
Less: Loss on disposal	<u>(152)</u>
Retained earnings after disposal	<u>1,978</u>

**11. Journal Entries in Airtel Infrastructures Pvt. Ltd.**

1. Assets (Building) A/c	Dr.	10,25,000	
To Cash			10,25,000

2.	Depreciation (P/L) A/c	Dr.	25,000	
	To Asset (Building)			25,000
3.	Cash A/c	Dr.	11,00,000	
	To Asset (Building)			10,00,000
	To Gain on sale of asset (P/L)			1,00,000

**Journal Entries in Airtel Telecommunications Ltd.**

1.	Asset (Building) A/c	Dr.	11,00,000	
	To Cash			11,00,000
2.	Depreciation (P/L) A/c	Dr.	37,500	
	To Assets (Building)			37,500

**Journal entry for consolidation:**

1.	Gain on sale of asset (P/L)	Dr.	1,00,000	
	To Asset (Building) A/c			1,00,000
2.	Asset (Building) A/c	Dr.	5,000 (WN 1)	
	To Consolidated P&L			5,000

**Working Note:**

To be depreciated on original value	(10,00,000-3,50,000)/20	32,500
Depreciation charged	(11,00,000-3,50,000)/20	<u>37,500</u>
<b>Reversal of depreciation</b>		<u><b>5,000</b></u>

Particulars	Consolidated financial statements	Individual Financial statements	
		Airtel Telecommunications Ltd.	Airtel Infrastructures Pvt. Ltd.
31 <sup>st</sup> March 20X1	10,00,000	0	10,00,000
1 <sup>st</sup> April 20X1 purchase sale	0	11,00,000	(10,00,000)
Depreciation	<u>(32,500)</u>	<u>(37,500)</u>	0
31 <sup>st</sup> March 20X2	<u>9,67,500</u>	<u>10,62,500</u>	0

12. Paragraph 25 of Ind AS 110 states that if a parent loses control of a subsidiary, the parent:
- (a) derecognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.

- (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind ASs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.”

Paragraph B98(c) of Ind AS 110 states that on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognized in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99.

As per paragraph B99, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognized in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, AB Limited shall:

- (a) re-classify the FVOCI reserve in respect of the debt investments of ₹ 5.4 crore (90% of ₹ 6 crore) attributable to the owners of the parent to the statement of profit or loss in accordance with paragraph B5.7.1A of Ind AS 109, Financial Instruments which requires that the cumulative gains or losses previously recognised in OCI shall be recycled to profit and loss upon derecognition of the related financial asset. This is reflected in the gain on disposal. Remaining 10% (i.e., ₹ 0.6 crore) relating to non-controlling interest (NCI) is included as part of the carrying amount of the non-controlling interest that is derecognised in calculating the gain or loss on loss of control of the subsidiary;
- (b) transfer the reserve relating to the net measurement losses on the defined benefit liability of ₹ 2.7 crore (90% of ₹ 3 crore) attributable to the owners of the parent within equity to retained earnings. It is not reclassified to profit or loss. The remaining 10% (i.e., ₹ 0.3 crore) attributable to the NCI is included as part of the carrying amount of NCI that is derecognised in calculating the gain or loss on loss of control over the subsidiary. No amount is reclassified to profit or loss, nor is it transferred within equity, in respect of the 10% attributable to the non-controlling interest.

- (c) reclassify the cumulative gain on fair valuation of equity investment of ₹ 3.6 crore (90% of ₹ 4 crore) attributable to the owners of the parent from OCI to retained earnings under equity as per paragraph B5.7.1 of Ind AS 109, Financial Instruments, which provides that in case an entity has made an irrevocable election to recognise the changes in the fair value of an investment in an equity instrument not held for trading in OCI, it may subsequently transfer the cumulative amount of gains or loss within equity. Remaining 10% (i.e., ₹ 0.4 crore) related to the NCI are derecognised along with the balance of NCI and not reclassified to profit and loss.
- (d) reclassify the foreign currency translation reserve of ₹ 7.2 crore (90% × ₹ 8 crore) attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21, The Effects of Changes in Foreign Exchange Rates, which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation. This is reflected in the gain on disposal. Remaining 10% (i.e., ₹ 0.8 crore) relating to the NCI is included as part of the carrying amount of the NCI that is derecognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be derecognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

The impact of loss of control over BC Limited on the consolidated financial statements of AB Limited is summarized below:

(₹ in crore)

Particular	Amount (Dr)	Amount (Cr)	PL Impact	RE Impact
<b>Gain/Loss on Disposal on Investments</b>				
Bank Dr.	56			
Non-controlling interest (Derecognised) Dr.	6			
Investment at FV (20% Retained) Dr.	16			
To Gain on Disposal (PL) - <b>balancing figure</b>		18	18	
To De-recognition of total net assets of subsidiary		60		
<b>Reclassification of FVTOCI reserve on debt instruments to profit or loss</b>				
FVTOCI reserve on debt instruments Dr. (6 cr. x 90%)	5.4			
To Profit and loss		5.4	5.4	

<b>Reclassification of net measurement loss reserve to profit or loss</b>				
Retained Earnings	Dr.	2.7		-2.7
To Net measurement loss reserve (FVTOCI)			2.7	
[(3 cr. x 90%)]				
<b>Reclassification of FVTOCI reserve on equity instruments to retained earnings</b>				
FVTOCI reserve on equity instruments	Dr.	3.6		
(4 cr.x 90%)				
To Retained earnings			3.6	3.6
<b>Foreign currency translation reserve reclassified to profit or loss</b>				
Foreign currency translation reserve (FVOCI)	Dr.	7.2		
[8 cr. x 90%]				
To Profit and loss			7.2	7.2
Total			30.6	0.9