CA INTERMEDIATE

MARATHON

Advanced Accounting

AS 23: Accounting for Investment in Associates in Consolidated Financial Statements

-By CA Nitin Goel

AS 23: Accounting for Investment in Associates in Consolidated Financial statements

Meaning of Associate: Enterprise in which investor has significant influence* & which is neither subsidiary or Joint venture of investor.

*__Significant Influence:__ Power to participate in financial and/or operating policy decisions of investee. It may be gained by statute, agreement or share ownership.

Assume 20% or more unless otherwise proved

Example

1)

$$A\ Ltd. \xrightarrow{70\%} B\ Ltd.$$

$$A\ Ltd. \xrightarrow{25\%} C\ Ltd.$$

B Ltd. is subsidiary of A Ltd. (AS 21 Applicable)

C Ltd. is Associate of A Ltd. (AS 23 Applicable)

2)

$$A\ Ltd. \xrightarrow{90\%} B\ Ltd. \xrightarrow{11\%} C\ Ltd.$$

$$A\ Ltd. \xrightarrow{10\%} C\ Ltd.$$

A Ltd. is holding co. of B Ltd.

A Ltd. has total of direct & indirect (10% + 11%) 21% in C Ltd., so C Ltd. is Associate of A Ltd.

For CFS, holding will be 19.9% (10% + 90% of 11%)

Accounting Treatment

Separate Financial statements

Apply AS 13

Investment recorded at cost	xxx
– Pre Acquisition Dividend	(xxx)
	xxx

Consolidated Financial statements

Use Equity Method of Accounting (AS 23)

Equity Method of Accounting:

1) Investment recorded at cost xxx
   − Pre Acquisition Dividend (xxx)
   xxx

2) Calculate Goodwill / Capital Reserve (Identify / Disclose)

3) Add/Less: Share in Post Acquisition Profits/(Losses)
   (Revaluation of Investments)

   Investment in Associate A/c - Dr
   To Consolidated P&L A/c
   (Post Profits Share)

4) Post Acquisition Dividend to be deducted

Presentation in CFS

Cost of Investment	xx	
− Pre Acq. Dividend	(xx)	xx → SFS value
(incl. Goodwill / Capital Res. of ---)		
+ Post Acquisition Profits Share		xx
− Post Acquisition Dividend		(xx)
Value in CFS		xx

Cases where Equity Method is not followed

a) Investment is acquired & held to dispose off in near future (Control is Temporary) OR
b) Investee operates under Long Term restrictions which significantly restricts transfer of funds to investor.

Cases where Investor is required to discontinue Equity Method

a) Ceases to have significant influence either wholly or partially OR
b) Now associate operates under Long Term restrictions which significantly restricts transfer of funds to investor

Other Important Points

1) Can value of Investment in Associate in CFS be negative? → NO

If Post Acq. share of loss ≥ Carrying Amount of Investment : Discontinue recording further loss & Investment reported at Nil value.

If Associate subsequently reports profits, investor resumes including its profits share only after its profits share equals net losses share that have not been recognised.

2) Step Acquisition : If shares acquired in steps i.e. in parts, then calculate Goodwill / Capital Reserve for each part.

3) Treatment of Proposed Dividend : Compute investor share of results without taking into consideration the Proposed Dividend.

(If dividend declared after year end, consider effect in next year & not in current year)

4) Potential Equity shares of Investee held by Investor (Convertible Debentures, Convertible Preference shares)

These should not be taken into account for determining voting power of the investor.

ACCOUNTING FOR INVESTMENT IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

AS 23

Question 1: ICAI Study Material

A Ltd. acquire 45% of B Ltd. shares on April 01, 2021, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 2021:

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

Net Assets

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 2022. 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, 2022.

Question 2: ICAI Study Material

A Ltd. acquired 40% share in B Ltd. on April 01, 2021 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 2021-2022, B Ltd. suffered a loss of ₹ 10,00,000; during 2022-2023 loss of ₹ 12,50,000 and during 2023-2024 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.

Solution

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars	₹
Equity Shares	10,00,000
Reserves & Surplus	2,00,000
Net Assets	12,00,000
40% share of Net Assets	4,80,000
Less: Cost of Investment	(10,00,000)
Goodwill	5,20,000

Consolidated Balance Sheet (Extract) as on April 01, 2021: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on April 1	4,80,000	
Add: Goodwill	5,20,000	10,00,000

Calculation of Carrying Amount of Investment as at 31 March 2022:

Investment in Associate as per AS 23	₹
Share of Net Assets on 1 April, 2021	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000
Less: Loss for the year (10,00,000 x 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

Consolidated Balance Sheet (Extract) as on March 31, 2022: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 2021	4,80,000	
Less: Share of Loss as above	(4,00,000)	
	80,000	
Add: Goodwill	5,20,000	6,00,000

Calculation of Carrying Amount of Investment as at 31 March 2023:

Investment in Associate as per AS 23	₹
Carrying Amount of Investment as on 31 March 2022	6,00,000
Less: Loss for the year (12,50,000 x 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 2023: ASSETS

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 2021	4,80,000	
Less: Share of Loss as above (₹4,00,000 +₹ 5,00,000)	(9,00,000)	
	(4,20,000)	
Add: Goodwill	5,20,000	1,00,000

Calculation of Carrying Amount of Investment as at 31 March 2024:

Investment in Associate as per AS 23	₹
Carrying Amount of Investment	1,00,000
Less: Loss for the year (5,00,000 x 40% = 2,00,000, restricted to Carrying amount of Investment in B Ltd.) – refer note below	(1,00,000)
Carrying Amount of Investment	-

Consolidated Balance Sheet (Extract) as on March 31, 2024: ASSETS

Investment in Associate as per AS 23	₹
Investment in B Ltd.	-

If, under the equity method, an investor's share of losses of an associate equal or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognizing its share of further losses and the investment is reported at nil value.
If associate subsequently reports profits, the investor resumes including its share of those profits only after its share of profits equals share of net losses that have not been recognised.

Question 3: ICAI Study Material

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-2021. By such an acquisition Bright can exercise significant influence over East India Ltd.
During the financial year ending on 31-03-2021 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-2021. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-2022 (assume profits to accrue evenly) and declared dividend of ₹ 60,000 on 12-06-2022. Calculate the carrying amount of investment in:

i. Separate financial statements of Bright Ltd. as on 31-03-2022.
ii. Consolidated financial statements of Bright Ltd.; as on 31-03-2022.
iii. What will be the carrying amount as on 30-06-2022 in consolidated financial statements?

Question 4: ICAI Study Material

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.2021 for ₹ 3 lakhs. TheBalance Sheet of B Ltd. as on 31.3.2021 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
Property, Plant & Equipment	5,00,000
Investments	2,00,000
Current Assets	3,00,000
	10,00,000

During the year ended 31.3.2022 the following are the additional informationavailable:

a. On 30.04.2021, A Ltd. received dividend from B Ltd., for the year ended 31.3.2021 at 40% from Reserves. The above balance sheet is before adjustment of dividend.
b. B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.2022.
c. B Ltd., declared a dividend @ 50% for the year ended 31.3.2022 on 30.4.2022.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS21 for its various subsidiaries. Calculate:

a. Goodwill if any on acquisition of B Ltd.'s shares.
b. How A Ltd., will reflect the value of investment in B Ltd., in Consolidated Financial Statements?
c. How the dividend received for 31.03.2022 on 30.04.2022 from B Ltd. will be shown in ConsolidatedFinancial Statements?

Question 5: RTP Sep 2024

Hill Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. Sun Ltd. acquired 15% shares in Hill Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of Hill Ltd. These debentures will be converted at par into equity shares of Hill Ltd. after 3 years. State whether, as per AS 23, Hill Ltd. is an Associate of Sun Ltd. or not with reasons?

Solution

As per AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

As regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

For the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. The current outstanding securities with voting rights in Hill Ltd. is only 15% and the remaining holding is on account of potential equity shares. As per question, Sun Ltd. presently holds indirectly 22.7% shares (with and without voting rights) in Hill Ltd. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of Sun Ltd. on Hill Ltd. Hence, Hill Ltd. is not an associate of Sun Ltd.

50000 x 15%

Working Note: Calculation of percentage of holding of shares after conversion

Current holding is 15% i.e. 7,500 shares of ₹ 100 each	7,50,000
Potential equity shares i.e. 5,000 shares of ₹ 100 each	5,00,000
	12,50,000

Total share capital of Hill Ltd. after conversion of debentures into equity shares will be = ₹ 50,00,000 + ₹ 5,00,000 = ₹ 55,00,000

Percentage of holding = ₹ (12,50,000/55,00,000) x 100 = 22.7% approx.

Question 6: Inter Sep 2024 (14 Marks)

On 1st February, 2024, Best Ltd. acquired 80% Equity shares of Cool Ltd. for ₹ 14,80,000.
On 31st March, 2024, Best Ltd. also acquired 25% Equity shares of Good Ltd. for ₹ 3,80,000.
The following are the balances extracted from the books of Best Ltd., Cool Ltd., and Good Ltd. as on 31st March, 2024 :

Holding Subs. Associate

Particulars	Best Ltd. Amount in ₹	Cool Ltd. Amount in ₹	Good Ltd. Amount in ₹
Equity Shares of ₹ 100 each fully paid	30,00,000	20,00,000	10,00,000
Securities Premium	-	2,20,000	-
9% Debentures	6,30,000	-	2,40,000
General Reserve	2,69,000	84,000	1,20,000
Profit and Loss Account (Credit Balance)	3,26,000	2,70,000	50,000
Investments	17,50,000	6,10,000	-
Property, Plant, and Equipment	18,90,000	18,14,000	12,10,000
Current Assets	9,65,000	5,60,000	2,25,000
Trade Payable (Including Bills Payable)	3,80,000	4,10,000	25,000
Sales and other income	56,00,000	38,00,000	27,00,000
Raw material consumed	36,50,000	31,20,000	22,30,000
Wages and Salaries	5,07,000	4,01,000	2,69,000
Production expenses	1,35,000	1,06,000	98,000

Additional information:

- Profit and Loss account of Cool Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2023.
- The General Reserve balance is brought forward from the previous year.
- On 31st March, 2024, all the bills payable in Cool Ltd.'s balance sheet were acceptances in favour of Best Ltd. However, on the date, Best Ltd. held only ₹ 3,00,000 of these acceptances in hand, the rest having been endorsed in favour of its creditor.
- Best Ltd. purchased goods costing ₹ 5,00,000 from Cool Ltd. on 1st June, 2023 at a price of ₹ 6,50,000. The entire goods remain unsold with Best Ltd. at the end of the financial year.
- Best Ltd. is preparing Consolidated Financial Statements for the year ending 31.03.2024.

You are required to calculate:

(1) Trade Payable (Consolidated)
(2) Current Assets (Consolidated)
(3) Minority Interest
(4) Goodwill/Capital Reserve on the acquisition of Cool Ltd.'s shares
(5) Goodwill/Capital Reserve on the acquisition of Good Ltd.'s shares
(6) Profit and Loss Account (Consolidated)
(7) General Reserve (Consolidated)
(8) Revenue from Operations (Consolidated)
(9) Cost of material purchased/consumed (Consolidated)

Solution

1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	(3,00,000)
Total	**4,90,000**

2. Current assets (Consolidated)

Best limited		9,65,000
Add: Cool Ltd		5,60,000
Less: Elimination of inter company owing	(3,00,000)	
Less: Unrealized stock profit	(1,50,000)	(4,50,000)
Total		**10,75,000**

3. Minority interest Cool Ltd

Share Capital (20,00,000 x 20%)		4,00,000
Add: Securities premium (2,20,000 x 20%)		44,000
Add: General Reserve (84,000 x 20%)		16,800
Add: Profit and loss balance	2,70,000	
Less: Adjustment of unrealised profit stock	(1,50,000)	
Balance	1,20,000	
20% of above balance		24,000
Total		**4,84,800**

4. Goodwill/Capital Reserve on Acquisition of Cool Ltd.:

Purchase Consideration		14,80,000
Less: Share Capital (20,00,000 x 80%)		16,00,000
Less: Securities premium (2,20,000 x 80%)		1,76,000
Less: General Reserve (84,000 x 80%)		67,200
Less: Profit and loss balance opening (30,000 x 80%)		24,000
Less: Pre acquisition profits (2,70,000-30,000) x 10/12 x 80%	1,60,000	
Less: Unrealised profit stock (1,50,000 x 80%)	(1,20,000)	40,000
Capital Reserves		**4,27,200**

5. Goodwill/Capital Reserve on Acquisition of Good Ltd.

Purchase Consideration	3,80,000
Less: Share Capital (10,00,000 x 25%)	2,50,000
Less: General Reserve (1,20,000 x 25%)	30,000
Less: Profit and loss balance (50,000 x 25%)	12,500
Goodwill	**87,500**

6. Profit and Loss Account (Consolidated)

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd	
{(2,70,000-30,000) x 2/12}80%	32,000
Total	**3,58,000**

7. General Reserve (Consolidated)

Best limited	2,69,000

8. Revenue (Consolidated) as per para no 15 and 22 of AS 21

Revenue of Best Ltd	56,00,000
Add: Revenue of Cool Ltd. (38,00,000 × 2/ 12)	6,33,333
	62,33,333

9. Cost of materials purchased/consumed (Consolidated) as per para no 15 and 22 of AS 21

Raw material of Best Ltd	36,50,000
Add: Raw material of Cool Ltd (31,20,000x 2/12)	5,20,000
	41,70,000

Para no 15 of AS 21

If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence.

Para no 22 of AS 21

The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship.

Question 7: RTP Jan 2025

A Ltd. invested ₹ 1,00,000 to acquire 10% stake (Investment I) in B Ltd. and later invested ₹ 3,00,000 to acquire additional 20% (Investment II). The net asset value of the B Ltd. at the respective investment dates was ₹ 7,50,000 and ₹ 12,50,000 respectively.
Determine whether B Ltd. is an associate of A Ltd. Also, calculate goodwill arising on the acquisition of the associate.

Solution

As per AS 23 an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. In this case, A Ltd. has invested 30 % in B Ltd. so B Ltd. is to be considered as an associate of A Ltd.
The goodwill arising on the acquisition of the associate will be computed as follows:

		₹
Investment I		1,00,000
Share of net assets	(10% of ₹ 7,50,000)	(75,000)
Goodwill (A)		25,000
Investment II		3,00,000
Share of net assets	(20% of ₹ 12,50,000)	(2,50,000)
Goodwill (B)		50,000
Total goodwill (A + B)		**75,000**

X Ltd.

	When X Ltd. prepares	
	Standalone Financial statements	Consolidated Financial statements
Inv in 70% shares of A Ltd. (subsidiary)	AS 13	AS 21 (Full consolidation)
Inv in 30% shares of B Ltd. (Associate)	AS 13	AS 23 (Equity Method)
Inv in 5% shares of C Ltd. (Normal)	AS 13	AS 13
Inv in Joint venture (X Ltd. + Y Ltd. = Z Ltd.)	AS 13	AS 27 (Proportionate consolidation Method)

> 50%	→	Subsidiary
≥ 20% & upto 50%	→	Associate
< 20%	→	Normal Investment

Example : X Ltd. acquired 30% shares of B Ltd. on 31/3/25 at cost of ₹ 600000

Net Assets of B Ltd. on that date 1700000. (Equity share cap.: 1000000 + Pre Acq. Profits 700000)

B Ltd. earned profit of 200000 in FY 25-26 & distributed dividend of 80000 during year for the year 25-26.

Investor X Ltd.

1/4/24 —— 31/3/25 —— 31/3/26

31/3/25: Acq. 30%. Cost = 6 L

Profit = 200000 → Inv. in Ass. To Cons. P&L (2L × 30%)

Dividend = 80000

Computation of Goodwill / capital Res.

Cost of Investments	= 600000
- Share in Net Assets of B Ltd. (1700000 × 30%)	= (510000)
Goodwill	90000

X Ltd : 31/3/25

SFS : Investment in B Ltd. 600000

CFS : Investment in B Ltd : (incl. G/W of 90000) 600000

X Ltd : 31/3/26

SFS : Investment in B Ltd. 600000

CFS : Investment in B Ltd. (incl. G/W of 90000)	600000
+ Post Acq. Profits share (200000 × 30%)	60000
- Post Acq. Dividend (80000 × 30%)	(24000)
Value in CFS	636000

→ Equity Method of A/cing

Sol. 1

1/4/21 — Profit = 300000 — 31/3/22

Acq: 45%

Cost = 15L

Dividend = 100000

Computation of Goodwill / Capital Reserve

Cost of Investment	=	1500000
- 45% of Net Assets of B Ltd. (10L + 1L + 5L) X 45%		(720000)
Goodwill		780000

ICAI Presentation

Investment in B Ltd.

Share of Net Assets	720000	
+ Goodwill	780000	1500000
+ Post Acq. Profits share		135000
- Post Acq. Dividend		(45000)
		1590000

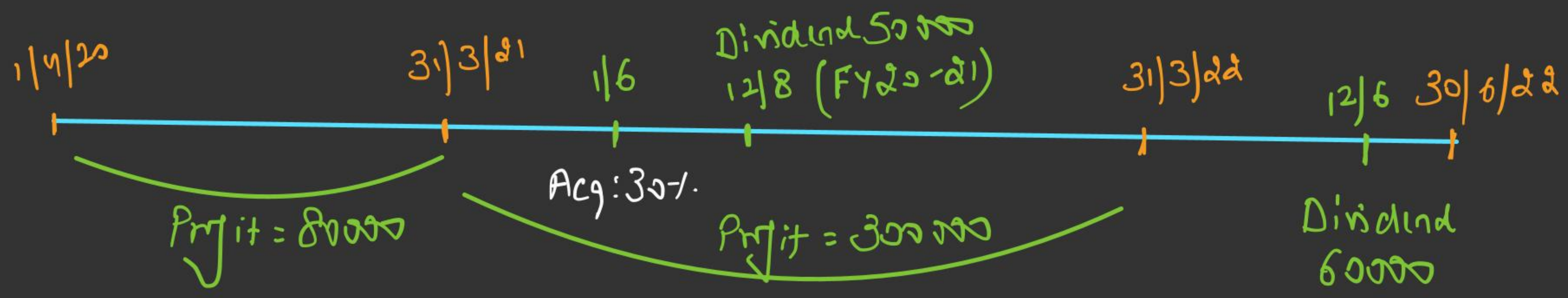
Financial statements of A Ltd. (Year ended 31/3/22)

SFS : Investment in B Ltd. : 1500000

CFS :

Investment in B Ltd. (incl. G/W of 780000)	1500000
+ Post Acq. Profits share (300000 X 45%)	135000
- Post Acq. Dividend (100000 X 45%)	(45000)
	1590000

Sol. 3



(i) Carrying Amt of Investment in separate Financial statements on 31/3/22

Cost of Investment	200000
- Pre Acq. Dividend (50000 x 30%)	(15000)
	185000

(ii) Carrying Amount in CFS on 31/3/22

Cost of Investment (after deducting Pre Acq. Div.)	185000
(incl. G/W / Cap. Res. ___ x *)	
+ Post Acq. Profits share ((300000 x 10/12) x 30%)	75000
- Post Acq. Dividend	(Nil)
	260000

* G/W / Capital Reserve since Net Assets not available.

→ Since dividend declared after year end.

(iii) Carrying Amount in CFS on 30/6/22

Carrying Amount on 31/3/22	260000	
+ Post Acq. Profits share	–	(Share in profits 1/4/22 to 30/6/22) Not given
– Post Acq. Dividend share (60000 x 30%)	(18000)	
	242000	

Sol-4

31/3/21 — 30/4 Dividend @ 40% (FY 20-21) — 31/3/22 → Dividend 50% — 30/4

Acq: 25%
Cost = 300000

Profit = 700000 ✓

Dividend as % is on share capital

Dividend on 30/4/21: 500000 (Sh. Cap.) × 40% = 200000

Dividend on 30/4/22: 500000 × 50% = 250000

(i) Computation of Goodwill

Cost of Investment	300000
− Pre Acq. Dividend (200000 × 25%)	(50000)
	250000
− 25% of Net Assets of B Ltd. (Sh. cap. + Pre Profits) (5L + 5L − 2L) × 25%	(200000)
	50000 G/W

2L ↓ Pre Acq. Dividend

(ii) Carrying value in CFS

Cost of Investment (after deducting Pre Acq. Div.) (including Goodwill of 50000)	250000 (300000 - 50000)
+ Post Acq. Profits share (700000 x 25%)	175000
- Post Acq. Dividend	(-)
	4,25,000

(iii) Dividend received on 30/4/22 for year ended 31/3/22 will not be considered in CFS since declared after 31/3/22.
(Dividend is recognised when it is declared)

Sol.2

1/4/21 — Loss = 10 Lakhs — 31/3/22 — Loss = 12.50 Lakhs — 31/3/23 — Loss = 5 Lakhs — 31/3/24

Acq: 40%.

Consolidated Financial statements of A Ltd. (Extract)

	1/4/21	31/3/22	31/3/23	31/3/24
Investment in B Ltd. (incl. G/w of 520000)	10,00,000	6,00,000	100000	Nil

Carrying Amount on 1/4/21 = 10,00,000

- Post Acq. Loss share (10 L X 40%) (400000)

31/3/22 600000

- Post Acq. Loss share (12.50 L X 40%) (500000)

31/3/23 100000

- Post Acq. Loss share (5 L X 40%) (100000) → value cannot be -ve, therefore restricted upto carrying Amt.

200000 restricted upto 100000

31/3/24 NIL

Computation of G/w / Cap. Res.

Cost of Investment = 10,00,000

- 40% of Net Assets of B Ltd. (480000)

(1000000 + 200000) X 40%

G/w 520000

SEVA

If in year 24-25 there is profit of 600000

Carrying Amt. on 31/3/24 = Nil

\+ Post Acq. Profits share

600000 X 40% = 240000

\- Previous loss not adjusted (100000) 140000

31/3/25 140000

If -ve

(100000)

\+ 240000

140000

Step Acquisition

Example 1: X Ltd. acquired 10% stake of B Ltd. on 1/4 & further 15% on 1/10.
Cost of Investment for 10% is ₹1,00,000 & for 15% is ₹1,55,000.
Net Assets of B Ltd. on 1/4 is ₹8,50,000 & on 1/10 is ₹10,00,000.
Calculate Goodwill / Capital Reserve.

	1/4 : 10%		1/10 : 15%	
Cost of Investment	1,00,000		1,55,000	
– Share in Net Assets of B Ltd.	(85000)	(850000 X 10%)	(150000)	(1000000 X 15%)
G/w	15000	G/w	5000	

G/W = 15000 + 5000 = 20,000

Example 2: Same as above except cost of Investment for 15% stake is ₹1,45,000.
Calculate Goodwill / Capital Reserve.

	1/4 : 10%		1/10 : 15%	
Cost of Investment	1,00,000		145000	
– Share in Net Assets of B Ltd.	(85000)	(850000 X 10%)	(150000)	(1000000 X 15%)
G/w	15000	Cap. Res.	5000	

G/w = 15000 – 5000 = 10,000

Example 3: X Ltd. acquired 25% stake in B Ltd. on 1/4 & further 5% on 1/10 of same year.
Cost of Investment for 25% is 150000 & for 5% is 20000.
Net Assets on 1/4 is ₹ 5,00,000. Profit for the year 90000 earned in ratio 2:1 respectively.

Calculate Goodwill / capital Reserve & carrying value of Investments in CFS on 31/3.

Profit = 90000

1/4 — $2/3$ = 60000 — 1/10 — $1/3$ = 30000 — 31/3

Acq: 25% (1/4) Acq. 5% (1/10)

Goodwill / Capital Reserve

	1/4 : 25%		1/10 : 5%	
Cost of Investment	1,50,000		20,000	
− Share in Net Assets of B Ltd.	(125000)	(500000 × 25%)	(28000)	(500000 + 60000) × 5%
	G/W 25000		Capital Res. 8000	

G/W (Net) = 25000 − 8000
= 17000

Carrying value of Investments on 31/3

Cost of Investments (150000 + 20000) (incl. Gsw of 17000)	1,70,000
+ Post Acq. Profits share	24,000
(90000 × 25%) + (30000 × 5%)	
$\boxed{\text{Or}}$	
(60000 × 25%) + (30000 × 30%)	
	194000

Sol. 6

(1) Trade Payable (consolidated)

Best Ltd.	380000	
+ Cool Ltd.	410000	
- Inter owing (Common Bills)	(300000)	490,000

(2) Current Assets (Consolidated)

Best Ltd.	965000	
+ Cool Ltd.	5,60,000	
- Interowing (Common Bills)	(300000)	
- Unrealised Profit	(150000)	10,75,000

(3) Minority Interest (20%)

Equity share cap. (20L X 20%)	400000
+ Pre Acq. Profits (384000 X 20%)	76800
+ Post Acq. Profits (40000 X 20%)	8000
	484800

(4) Goodwill/ Capital Res. on Acq. of Cool Ltd. Shares

Cost of Investments	14,80,000
- 80% of Net Assets of Cool Ltd. (20,00,000 + 384000) X 80%	(1907200)
Capital Reserve	427200

(5) Goodwill / Capital Res. on Acq. of Good Ltd. share

DOA : 31/3/24

All Pre No Post

Cost of Investment	380000
- 25% of Net Assets	(292500)
(1000000 + 120000 + 50000) × 25%	
Goodwill	87500

(6) P&L (Consolidated)

Best Ltd. (own)	326000
+ Post Acq. Profits share (Cool Ltd.)	32000
(40000 × 80%)	
	358000

(7) General Res. (Consolidated)

Best Ltd. (own)	269000

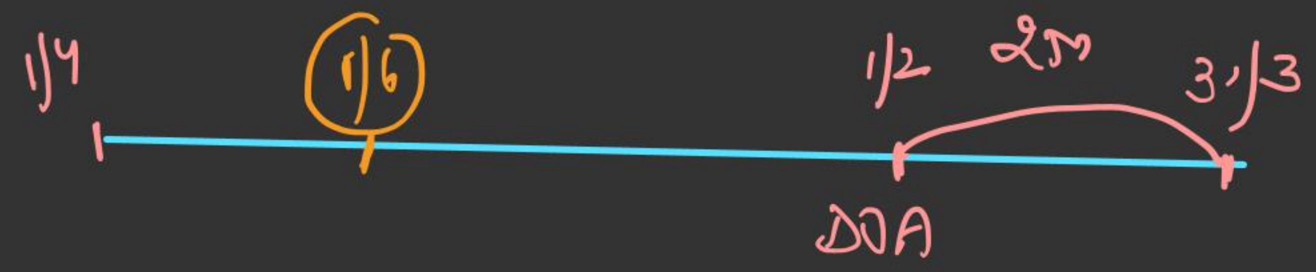
(8) Revenue from operations (consolidated)

Sales & other Income

Best Ltd.	56,00,000
+ Cool Ltd. $(38,00,000 \times 2/12)$	633333
	62,33,333

(9) Cost of Material Purchased / cons (cons.)

Best Ltd.	36,50,000
Cool Ltd. $(3120000 \times 2/12)$	520000
	41,70,000



Since DOA is 1/2/24 & Inter sale/Purchase transaction is on 1/6/23 which is before DOA, so the same will not be eliminated.

(No elimination of Inter sale/purchase transactions)

Working Note: Holding co. = Best Ltd   Subsidiary: Cool Ltd.   Date of Acq: $\boxed{1/2/24}$

% of holding = 80%   Minority Int: 20%

ADP of Cool Ltd.

1/4 — 10 M — 1/2 (DOA) — 2M — 31/3

30000   240000

	Pre Acq.	Post Acq.	
Sec. Premium	2,20,000		
General Reserve	84000		
P&L A/c	1/4 30000	240000 → 12M	
± Time Adjustment	2,00,000	(200000)	(240000 × 10/12)
− Unrealised Profit (Upstream Transaction)	(150000)		
	3,84,000	40,000	