

IND AS 110 - CONSOLIDATION & IND AS 27 SFS

Balance sheet (SFS)

Share Capital (Ind AS 109)	PPE → Ind AS 16
Other Equity	Intangible Assets → Ind AS 38
Long Term Loans (Ind AS 109)	Investment Property → Ind AS 40
Provisions (Ind AS 37)	Investment in shares → Ind AS 109
Payables (Ind AS 109)	(Not a Subs., Associates or JV)
	Inventories → Ind AS 2
	Investment in Subs., Associates or JV → Ind AS 27

Either at cost, or
Ind AS 109 (FVTPL, FVTOCI)

Note

No Investment in Subsidiaries, Associates, or Joint Ventures

Prepare only individual financial statements (IFS) applying applicable Ind AS.
Ind AS 27 (SFS) not applicable.

Investment in Subsidiaries, Associates or Joint Ventures

Prepare separate financial statements applying respective Ind AS to all items except investment in Subs., Associates or JV in which case Ind AS 27 shall apply.

10.04.2001 → Jagati Ltd acquired 70% interest of Priyanka Ltd. for ₹ 500 crores.

Date of Acquisition → 10.04.2001

↓
On this date Jagati Ltd should prepare cons. B/sheet applying Ind AS 103

i.e. All assets of Liab. of Priyanka pulled at fair value, NCI measured at Prop. Net Assets on fair value and any gain or loss recognised as Capital Reserve or Goodwill

Later on At Each Reporting period (i.e. 31.3.2002), Jagati Ltd should prepare entire Consolidated Financial Statements applying Ind AS 110.

Consolidated Financial statements includes ÷ i) Cons. B/sheet ii) Cons. P/L
iii) Cons. CFS iv) Statement of Changes in Equity v) Notes to accounts.

Investment in 60% shares (Control Exercised) — Subsidiary Company. (Ind AS 103/110)

Investment in 35% shares (Significant Influence) — Associates (Ind AS 28)

Investment in 50% shares (Joint Control) — Joint Venture (Ind AS 28)

Investment in 5% shares (Nothing) — Financial Assets (Ind AS 109)

Ex. 1 1.4.2001

Currency

Jagati Ltd acquires 60% interest of Priyanka Ltd for a consideration of ₹ 300.
It also acquired 50% interest (joint arrangement with Ankit) in ABC Ltd. for ₹ 120.
Fair value of Net Assets of ABC Ltd = 200.

It also acquired 30% interest in XYZ Ltd for ₹ 80. Fair value of Net Assets of XYZ Ltd = 240.

Individual Financial Statements

	Jagati Ltd	C.A. Priyanka Ltd	Fair Value Priyanka Ltd
PPE	800	300	350
I. Asset	200	60	50
Inventories	100	30	25
Receivables	20	10	10
Cash	530	50	50
	<u>1650</u>	<u>450</u>	
Share Capital	50	20	
Other Equity	1050	380	
Borrowings	300	40	35
Payables	250	10	8
	<u>1650</u>	<u>450</u>	

Solⁿ

Separate F/S

Measure Investment in Subsidiaries / JV / Associates Either

i) At Cost (No Effect of Fair Value changes both initially and subsequently)

OR

ii) FVTPL / FVTOCI (Ind AS 109) Fair value changes recognised in P/L on OCI both initially and subsequently.

IF Investment in Subsidiary, Associates & JV measured at cost

PPE	800	= 800
I. Asset	200	= 200
Inv in Subsidiary	300	= 300
Inv in Joint Venture	180	= 120
Inv in Associates	80	= 80
Inventories	100	= 100
Receivables	20	= 20
Cash	530 - 300 - 120 - 80	= 30
		<u>1650</u>
Share Capital	50	50
Other Equity	1050	1050
Borrowings	300	300
Payables	250	250
		<u>1650</u>

IF Investment in Subsidiaries, Associates and JV measured at FVTPL OR FVTOCI

Fair value of Inv in Subsidiary = 310

Fair value of Inv in Associates = 115

Fair value of Inv in JV = 72

PPE	800	= 800
I. Asset	200	= 200
Inv in Subsidiary	310	= 310
Inv in Joint Venture	115	= 115
Inv in Associates	72	= 72
Inventories	100	= 100

Receivables	20	= 20
Cash	530 - 300 - 120 - 80	= 30
		<u>1647</u>

Share Capital	50	50
Other Equity	1050 + 10 - 5 - 8	1047
Borrowings	300	300
Payables	250	250
		<u>1647</u>

Subsequently such investments continue to be measured at fair value with a corresponding effect in P/L or OCI.

Consolidated Financial Assets

For Investment in Subsidiary Priyanka Ltd \rightarrow Ind AS 103 Business combination
 For Investment in JV ABC and Associates XYZ \rightarrow Ind AS 28 Equity method.

When Consolidated FIs are Prepared

(i) Investment in Associates or Joint venture initially measured at cost and subsequently as per Equity method (applying Ind AS 28)

(ii) Investment in Subsidiaries initially at Acquisition date measured as per Ind AS 103.

Subsequently at each Reporting period end, FIs are prepared as per Ind AS 110.

Consolidated B/sheet (at acq. date)

PPE	800 + 350	= 1150
I-Asset	200 + 50	= 250
Goodwill		
Inv in Joint Venture	120	= 120
Inv in Associates	80	= 80
Inventories	100 + 25	= 125
Receivables	20 + 10	= 30
Cash	530 + 50 - 300 - 120 - 80	= 80
		<u>1835</u>
Share Capital	50	50
Other Equity	1050 + 9.4	1059.4
NCI (40%)	132.6	132.6
Borrowings	300 + 35	335
Payables	250 + 8	258
		<u>1835</u>

	<u>SFS</u>	<u>CFS</u>
1) 16 Exercised Control (Inv in subsidiary)	Ind AS 27	Ind AS 103/110
2) 16 Exercised Significant Influence (Inv in Associates)	Ind AS 27	Ind AS 28
3) 16 Exercised Joint Control (Inv in Joint Venture)	Ind AS 27	Ind AS 28

E.g. 2 Equity method

On 1-4-2001 Jagati Ltd acquired 35% interest of Ashok Ltd on 1-1-2002 whose Fair Value of Net Assets is 550L

Suppose, At Reporting Period End:

Profit earned by Ashok	= 30L
Revaluation Profit of Ashok	= 10L
Translation Gain of Ashok	= 5L

<u>CFS</u>		<u>Cons. B/Sheet (Extracts)</u>	<u>(A/c)</u>
PL	10.5	Bank	(200)
OLE		Investment in Associates	200
R.R.	3.5	(+) Share of Profit $\{30 \times 35\%$	10.5
FLTR	1.75	(+) Share of R.R. $\{10 \times 35\%$	3.5
		(+) Translation Diff $\{5 \times 35\%$	1.75
			<u>215.75</u>

Illustration 8: Accounting entries related investment in associate / joint venture

On the first day of a financial year, A Ltd. invested in the equity share capital of B Ltd. at a cost of ₹ 1,00,000 to acquire 25% share in the voting power of B Ltd. A Ltd. has concluded that B Ltd. is an associate of A Ltd. At the end of the year, B Ltd. earned profit of ₹ 10,000 and other comprehensive income of ₹ 2,000. In that year, B Ltd. also declared dividend to the extent of ₹ 4,000. Pass necessary entries in the books of A Ltd. to account for the investment in associate.

	<u>B/Sheet</u>	<u>Journal</u>
PL	2500	Investment in B Ltd 100000
OLE	500	TO Bank 100000
		Investment in B Ltd 2500
		TO Share in Profit 2500
		Investment in B Ltd 500
		TO Share in OCE 500
		Dividend Receivable 1000
		TO Investment in B Ltd 1000

	<u>B/Sheet</u>
	Bank (100000)
	Inv in ASS 100000
	(+) Share of Profit 2500
	(+) Share of OCE 500
	<u>103000</u>
	(-) Dividend (1000)
	<u>102000</u>
	Dividend Receivable 1000

Measurement of Income and Expenses of a Subsidiary.

An Entity includes income and expenses of a Subsidiary in CFS from the date it gains control until it ceases to control the subsidiary.

Income or Expenses should be based on Asset/Liabilities recognised in CFS at acquisition date.

Eq:

In the Books of Subsidiary

B/sheet (At acq. date)

PPE - 500000	(Fair Value = 600000)
Inventories - 200000	(Fair Value = 240000)

In the Books of Parent (CFS)

B/sheet (Acq. date)

PPE	600000
Inventories	240000

At Reporting Period End - For PPE

Subsidiary IFS

$$\begin{aligned} \text{Depn on PPE} &= 20\% \text{ of } 500000 \\ &= 100000 \text{ (P/L)} \end{aligned}$$

$$\therefore \text{Carrying Amount} = 500000 - 100000 = 400000$$

Parent

$$\begin{aligned} \text{Depn on PPE} &= 20\% \text{ of } 600000 \\ &= 120000 \text{ (Cons P/L)} \end{aligned}$$

$$\therefore \text{Carrying Amount} = 480000$$

At Reporting Period End - For Inventories

Subsidiary

$$\text{C.A. of Inventories} = 350000 \begin{matrix} \swarrow 100000 \text{ (old)} \\ \searrow 250000 \text{ (new)} \end{matrix}$$

50% of Acquisition date Inventories sold

Parent

$$\begin{aligned} \text{C.A. of Inv} &= 120000 + 250000 \\ &= 370000 \end{aligned}$$

Allocating Share in Profit or loss to NCI

An Entity shall attribute Profit or loss and OCI to owners of parent and NCI even if this results in NCI having a deficit balance.

Illustration 19: Attribution of profit / loss to non-controlling interest

A Ltd. Acquired 70% equity shares of B Ltd. On 1.4.20X1 at cost of ₹ 10,00,000 when B Ltd. Had an equity share capital of ₹ 10,00,000 and other equity of ₹ 80,000. In the four consecutive years B Ltd. Fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000

respectively. Thereafter in 20X5-20X6, B Ltd. Experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e., 20X6-20X7 and 20X7-20X8, B Ltd. Recorded annual profits of ₹ 1,00,000, and ₹ 1,50,000 respectively.

Show the non-controlling interests and goodwill at the end of each year for the purpose of consolidation. Assume that the assets are at fair value.

<u>Years</u>	<u>Profit & loss</u>	<u>Cons PL</u>	<u>NCI</u>	<u>Goodwill</u>
			324000	244000
1 st year 2001-02	-250000	-175000	-75000	244000
			249000	
2 nd year 2002-03	-400000	-280000	-120000	244000
			129000	
3 rd year 2003-04	-500000	-350000	-150000	244000
			-21000	
4 th year 2004-05	-120000	-84000	-36000	244000
			-57000	
5 th year 2005-06	50000	35000	15000	244000
			-42000	
6 th year 2006-07	100000	70000	30000	244000
			-12000	
7 th year 2007-08	150000	105000	45000	244000
			33000	

Calc of Goodwill or Capital Reserve

$$\begin{aligned}
 &= \text{INA} - \text{NCI} - \text{PL} = 1080000 - 324000 - 1000000 \\
 &= 244000 \text{ (Goodwill)}
 \end{aligned}$$

Dividend Received From Subsidiary ✖✖

B/Sheet of Parent (SFS)				B/Sheet of Subsidiary (IFS)			
Sh. Capital	50000	PPE	40000	Sh. Capital	20000	PPE	50000
Other Equity	150000	Inv in		Other Equity	100000	Inventories	60000
Payables	20000	70% Subsidiary	105000 ✖	Payables	30000	Cash	40000
		Cash	75000				

$$120000 - 36000 + 21000 = 105000$$

INA 120000
 Goodwill 21000
 TO NCI 36000
 TO Cash (P.L.) 105000

SFS		IFS	
Sh. Cap	50000	PPE	40000 + 50000 = 90000
OE	150000	Inv	60000 = 60000
NCI	36000	Cash	75000 + 40000 = 115000
Pay	20000 + 30000 = 50000	GL	21000 = 21000

In SFS of Parent

Investment in Subs. measured at cost
No Remeasurement

For Dividend Receivable

Dividend Receivable 10500
 TO P/L 10500

In SFS (For Profit Earned)

Cash 50000
 TO Cons P/L (70%) 35000
 TO NCI (30%) 15000

In SFS (For Dividend)

Dividend Payable by Subs and Dividend Receivable by Parent gets Eliminated

NCI 4500
 TO Dividend Payable 4500

Profit Earned by Subsidiary - 50000

Books of Subs.

Cash 50000
 TO P/L 50000

Dividend Declared by Subs - 15000

Books of Subs.

Retained Earnings 15000
 TO Dividend Payable 15000

Cons P/L 10500
 TO Cons P/L 10500

NCI 4500
 TO Div. Payable 4500

Cons Balance Sheet (Year End)

Share Capital	50000	= 50000	Goodwill	= 21000
Other Equity	150000 + 35000	= 185000	PPE	40000 + 50000 = 90000
NCE	36000 + 15000 - 4500	= 46500	Inventories	+ 60000 = 60000
			Cash	75000 + 40000 + 50000 = 165000
Payables	20000 + 30000 + 4500	= 54500		
		<u>336000</u>		<u>336000</u>

Dividend (Subsidiary)

SFS
 Dividend Receivable 10500
 TO P/L 10500

CFS
 NCE 4500
 TO Div. Payable 4500

Dividend (Associate/ JV)

SFS
 Dividend Receivable
 TO P/L

CFS Equity method
 Dividend Receivable
 TO Investment

Illustration 10

INA 150000
 Goodwill 25000

TO NCE (FY)
 TO Cash

35000 $\left(\frac{140000}{80\%} \times 20\% \right)$
 140000

NCE at Acquisition Date = 35000

NCE at Year End = 35000 + (20000 × 20%) = 35000 + 4000 = 39000

Illustration 11

INVA	150000	
Goodwill	20000	
TO NCE (Prop)		30000
TO Cash		140000

NCE at Acquisition Date = 30000
 NCE at Year End = 30000 + 4000 = 34000

Elimination of Intra Group transactions & Balances

While preparing Group FIs (i.e. CFS), the effect of transaction between Group entities should be eliminated.

Intra group Balances (eg Receivables/Payables) and Intra group transaction and resulting intra Group Profit (sales/Purchase) should be eliminated in Full.

<u>Eg.</u>	<u>B/Sheet (Parent)</u>		<u>B/Sheet (Subs.)</u>
	Receivables = 200000		Payables 80000

Amount Payable by Subsidiary to Parent = 50000

∴ Net Receivables of Parent after Eliminating Receivables from Subs. = 150000
 Net Payables of Subs. after " Payables to Subs. = 30000

	<u>Cons B/Sheet</u>	
Payables	80000	Receivables 200000
(-) Intra Group Balances	(50000)	(-) Intra Group Balances (50000)
	<u>30000</u>	<u>150000</u>

Eq Intra Group profits

Parent sold goods costing £ 10000 for £ 12000 to subsidiary.

Journal

(i) COGS 10000 (ii) BANK 12000
 To Inventory 10000 To Revenue 12000

✓ Revenue 12000
 ✓ COGS (10000)
 P/L 2000

PL statement (Parent SFS)

COGS 10000	Revenue 12000
P/L 2000	

B/Sheet (Parent CFS)

P/L 2000	BANK 12000
<u>2000</u>	Inventories (10000) <u>2000</u>

Subsidiary B/Sheet

	BANK (12000)
	Inv 12000

Suppose, At Reporting Period End, Entire goods still lying in the books of subsidiary.

∴ Profit is Unrealised from Group point of view which should be eliminated

<u>PL statement (CFS)</u>		<u>B/Sheet (CFS)</u>	
COGS (10000)	Revenue (12000)	P/L (2000)	Inventories (2000)
G/P (2000)			

Consolidated Revenue 12000

To Cons COGS 10000

To Inventories 2000

DTA also recognised on Elimination of Unrealised Profits (tax @ 30%)

C.A. of Inventories (subs) = 12000, TB of Inventories = 12000

But C.A. of Inventories (CFS) = 10000, TB of Inventories = 12000

∴ CA of ASSET < TB of ASSET

∴ DTA = 2000 × 30% = 6000

DTA 6000
 To P/L 6000

Unrealised Profit = 20000

↓
P/L 20000
 to Inventory 20000

→ Revenue or 120000
 to CoGS 100000
 to Inventory 20000

↙ Statement of P/L (CFS)

Revenue	(120000)
CoGS	100000
Loss	<u>20000</u>

Illustration 14: Elimination of intra-group profit on sale of assets by a subsidiary to its parent

A parent owns 60% of a subsidiary. The subsidiary sells some inventory to the parent for ₹ 35,000 and makes a profit of ₹ 15,000 on the sale. The inventory is in the parent's balance sheet at the year end.

Examine the treatment of intra-group transaction and pass the necessary journal entry.

Subsidiary		P/L (subs)		BS sheet		Parent	
Costs	20000	Revenue	35000	PL	15000	Bank	35000
Profit	15000					Inventory	(20000)
						Inventory	35000
						To Bank	35000

CFS Consolidated Revenue Dr. 35000
 To cons. costs 20000
 To Inventory 15000

The reduction of Profit of ₹ 15000 is allocated betⁿ Parent and NCI in the ratio of 60:40.

Illustration 15: Elimination of intra-group profit on sale of assets by a parent to its subsidiary

In the above illustration, assume that it is the parent that makes the sale. The parent owns 60% of a subsidiary. The parent sells some inventory to the subsidiary for ₹ 35,000 and makes a profit of ₹ 15,000. On the sale the inventory is in the subsidiary's balance sheet at the year end. Examine the treatment of intra-group transaction and pass the necessary journal entry.

Parent		P/L		BS sheet		Subs	
Costs	20000	Revenue	35000	PL	15000	Bank	35000
Profit	15000					Inventory	(20000)
						Inventory	35000
						To Bank	35000

CFS Consolidated Revenue Dr. 35000
 To cons. costs 20000
 To Inventory 15000

The reduction of Profit of ₹ 15000 is allocated entirely to parent because it is the parent that makes the sale.

Illustration 16 - Inventories of subsidiary out of purchases from the parent

A Ltd, a parent company sold goods costing ₹ 200 lakh to its 80% subsidiary B Ltd. At ₹ 240 lakh. 50% of these goods are lying at its stock. B Ltd. Has measured this inventory at cost i.e., at ₹ 120 lakh. Show the necessary adjustment in the consolidated financial statements (CFS). Assume 30% tax rate.

20%
 $\frac{200}{100} - \frac{240}{120}$

Unrealised Profit = 50% of Profit = 20l

⇓

Cons. Revenue	120l	} The P/L of ₹ 20l is allocated entirely to parent
TO Cons. CoGS	100l	
TO Inventories	20l	

CA of Inventory = 100l , CB of Inventory = 120l

∴ DTA = 20l x 30% = 6l — DTA 6l TO P/L 6l

Parent sold goods/asset to subsidiary → Downstream transaction
 Subsidiary sold goods/asset to parent → upstream transaction.

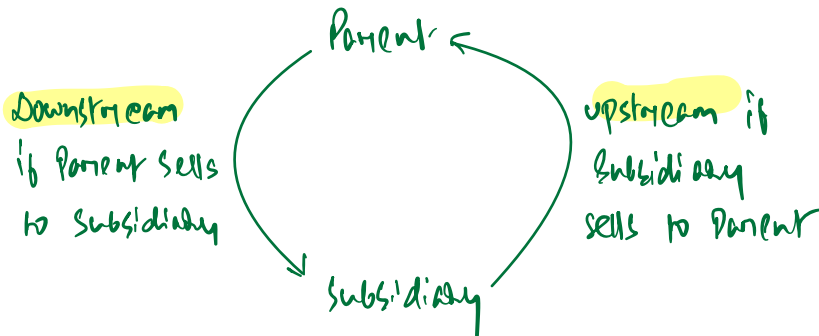


Illustration 18: Property, plant and equipment (PPE) sold by parent to subsidiary

A Ltd. (which is involved in the business of selling capital equipment) a parent company sold a capital equipment costing ₹ 100 lakh to its 80% subsidiary B Ltd. At ₹ 120 lakh. The capital equipment is recorded as PPE by B Ltd. The useful life of the PPE on the date of transfer was 10 years. Show the necessary adjustment in the consolidated financial statements (CFS).

CA in the books of Subsidiary = 120l
 (-) One year Depⁿ = (12l)
 C.A. at 1st yr End = 108l

CA in CFS at 01/01/20 = 100l
 (-) One year Depⁿ = (10l)
 C.A. in CFS at 1st yr End = 90l

∴ Unrealised Profit to be Eliminated = 18l (instead of 20l)

Cons. Revenue 120l
 TO Cons. COGS 100l
 TO PPE 18l
 TO ~~Cons P/L Depⁿ~~ 2l

CA of PPE in Subsidiary IFS = 108l
 " " " " CFS (Original cost - Depⁿ) = 90l
 Reduction in PPE = 18l

Change in the Proportion held by Controlling & Non Controlling Interest

Ex:

Fair Value of INA = 8000000
 Acquired 70% interest for £ 7000000
 NCI measured at Fair Value.

INA	8000000	
Goodwill	2000000	(Full Goodwill)
TO NCI (30%)	3000000	← $\frac{7000000}{70\%} \times 30\%$
TO Cash	7000000	

Reporting period end, Profit earned by Subsidiary £ 50000

INA of Subsidiary increased by £ 50000.

Cons P/L increased by £ 35000

NEE increased by £ 15000

INA 50000

To Cons P/L 35000

To NEE 15000

∴ C.A. of INA = 850000

C.A. of NEE = 315000 (30% stake)

C.A. of Goodwill = 200000

↓

→ NEE se nikalo proportionate

i) Now Parent Co. purchased another 15% shares for £ 170000

NEE $\left(\frac{315000}{30\%} \times 15\% \right)$ 157500

Other Equity 12500

To Bank

170000

— control not lost

ii) If Parent Co. sold 15% for £ 170000 → INA & Goodwill se nikalo Prop.

Bank 170000

To NEE 157500 $\left((850000 + 200000) \times 15\% \right)$

To Other Equity 12500

iii) If Parent sold 30% interest for £ 350000 . (i.e. control lost)

↓

		B/sheet	
NEE Demrecognised	(315000)	INA Demrecognised	(850000)
		Goodwill Demrecognised	(200000)
Profit on Sale	683000	Cash received (30% sold)	350000
		Inv in Associates (Fair Value) 40% int	453300
	<u>-2467000</u>	ISA4 fair value is 453300	<u>-2467000</u>

Consideration Received for 30% Sold	30%	=	3500000
+ Fair Value of Remaining 40% interest	40%	=	4533000
			<u>8033000</u>
+ NCE Derecognised	30%	=	3150000
(-) I/A & Goodwill Derecognised (85L + 20L)		=	(10500000)
			<u>683000</u>
Profit on sale of subsidiary			

Note - If control is lost, Parent & Subs. relationship Ends.

In such situation,

- i) Derecognise all assets including Goodwill, liabilities & NCE.
- ii) Recognise Remaining Investments held at Fair Value. & Cash received
- iii) Any gain or loss recognised in P/L.

Illustration 25: Reduction in interest in subsidiary

Amla Ltd. Purchased a 100% subsidiary for ₹ 10,00,000 at the end of 20X1 when the fair value of the subsidiary Lal Ltd.'s net asset was ₹ 8,00,000.

The parent sold 40% of its investment in the subsidiary in March 20X4 to outside investors for ₹ 9,00,000. The parent still maintains a 60% controlling interest in the subsidiary. The carrying value of the subsidiary's net assets is ₹ 18,00,000 (including net assets of ₹ 16,00,000 & goodwill of ₹ 2,00,000).

Calculate gain / loss on sale of interest in subsidiary as on 31st March 20X4.

SFS

Sale Proceeds	900000
(-) Cost of Investment in SFS (1000000 x 40%)	(400000)
Gain on Sale in Parent's SFS	<u>500000</u>

SFS
Bank 900000
To Inv in Subs 400000
To Gain (P/L) 500000

B/Sheet

P/L

500000

Investment in Subs	(400000)
Bank	400000

CFS

No loss of control

$$\begin{aligned} \therefore \text{Proportion allocated to NCL} &= 40\% \text{ of WA \& Goodwill} \\ &= 40\% \text{ of } 180000 \\ &= \underline{72000} \end{aligned}$$

Journal

Bank	900000		
To NCL		72000	(180000 × 40%)
To other equity		180000	

	<u>CFS B/sheet</u>			
NCL	720000	Bank	900000	
(40% of WA & Goodwill)				
Other Equity (B. fig)	180000			

Illustration 31: Calculation of gain on outright sale of subsidiary

A parent purchased 80% interest in a subsidiary for ₹ 1,60,000 on 1 April 20X1 when the fair value of the subsidiary's net assets was ₹ 1,75,000. Goodwill of ₹ 20,000 arose on consolidation under the partial goodwill method. An impairment of goodwill of ₹ 8,000 was charged in the consolidated financial statements for year ended 31 March 20X3. No other impairment charges have been recorded. The parent sold its investment in the subsidiary on 31 March 20X4 for ₹ 2,00,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was ₹ 2,25,000 (not including goodwill of ₹ 12,000).

When the subsidiary met the criteria to be classified as held for sale under Ind AS 105, no write off was required because the expected fair value less cost to sell (of 100% of the subsidiary) was greater than the carrying value.

WA	175000	
Goodwill	20000 (Parent Goodwill)	
To NCL (Prop.)	35000	
To Cash	160000	

$$\begin{aligned} \text{Goodwill} &= 20000 \\ (-) \text{ Imp.} &= (8000) \\ \text{Goodwill} &= \underline{12000} \end{aligned}$$

On the date of Sale

C.A. of IMA = 225000
 Goodwill = 12000
 NCE = 45000 (225000 x 20%)

		<u>B/Sheet</u>	
Net Derecognised	(45000)	IMA Derecognised	(225000)
		Goodwill Derecognised	(12000)
P/L	8000	Cash Received	200000

CFS

Cash Received (Sale Proceeds)	200000
(-) IMA Including Goodwill & NCE Derecognised (225000 + 12000 - 45000)	192000
	<u>8000</u>
Profit on Sale of Inv (P/L)	

SFS

Sale Proceeds	200000
(-) Cost of Inv in SFS	(160000)
	<u>40000</u>
Profit	

Illustration 32: Partial disposal when subsidiary becomes an associate

AT Ltd. Purchased a 100% subsidiary for ₹ 50,00,000 on 31st March 20X1 when the fair value of the net assets of BT Ltd. Was ₹ 40,00,000. Therefore, goodwill is ₹ 10,00,000. AT Ltd. Sold 60% of its investment in BT Ltd. On 31st March 20X3 for ₹ 67,50,000, leaving the AT Ltd. With 40% and significant influence. At the date of disposal, the carrying value of net assets of BT Ltd. Excluding goodwill is ₹ 80,00,000. Assume the fair value of the investment in associate BT Ltd. Retained is proportionate to the fair value of the 60% sold, that is ₹ 45,00,000.

Calculate gain or loss on sale of proportion of BT Ltd. In AT Ltd.'s separate and consolidated financial statements as on 31st March 20X3.

CFS

At the time of Disposal

C.A. of IMA (Excl. Goodwill) = 8000000
 C.A. of Goodwill = 1000000
 NCE = NIL

		<u>B/sheet</u>	
NCE Derecognised	X	INR Derecognised	(8000000)
		Goodwill Derecognised	(1000000)
P/L	2250000	Cash Received (60% sold)	6750000
		Investment in Associates (40%)	4500000

DFS

Sale Proceeds	6750000
(-) Fair value of Inv in Associates	4500000
	<u>11250000</u>
(-) INR & Goodwill & NCE Derecognised (800 + 100)	(9000000)
Gain on Sale (P/L)	<u>2250000</u>

SFS

Sale Proceeds (60%)	6750000
(-) Cost of Inv in SFS (60% of 5000000)	(3000000)
Profit on Sale (P/L)	<u>3750000</u>

Illustration 33

DFS

		<u>B/sheet</u>	
NCE Derecognised	X	INR Derecognised	(8000000)
		Goodwill Derecognised	(1000000)
P/L	500000	Cash Received (60% sold)	8550000
		Investment in Associates (40%)	950000

SFS

Sale Proceeds (60%)	8550000
(-) Cost of Inv in SFS (60% of 5000000)	4500000
Profit on Sale (P/L)	<u>4050000</u>

Illustration 30: Subsidiary issues shares to a third party and parent loses control **

In March 20X1 a group had a 60% interest in subsidiary with share capital of 50,000 ordinary shares. The carrying amount of goodwill is ₹ 20,000 at March 20X1 calculated using the partial goodwill method. On 31 March 20X1, an option held by the minority shareholders exercised the option to subscribe for a further 25,000 ordinary shares in the subsidiary at ₹ 12 per share, raising ₹ 3,00,000. The net assets of the subsidiary in the consolidated balance sheet prior to the option's exercise were ₹ 4,50,000, excluding goodwill.

Calculate gain or loss on loss of interest in subsidiary due to option exercised by minority shareholder.

Illustration 30

A (Parent) holds 60% = 30000 shares = 30000 shares \Rightarrow 40% sh.
B (N.E.I) holds 40% = $\frac{20000 \text{ shares}}{50000 \text{ shares}} + 25000 \text{ shares} = \frac{45000 \text{ shares}}{75000 \text{ shares}} \Rightarrow$ 60% sh.

Before Exercise of option

I.N.A. = 450000
Goodwill = 20000
NCE (40%) = 180000 $\{ 450000 \times 40\% \}$

After Exercise of option, Control is lost

INA derecognised, Goodwill Derecognised & NCE Derecognised

		<u>B/S sheet</u>	
NCE Derecognised	(180000)	INA Derecognition	(450000)
		Goodwill Derecognition	(20000)
Gain (P/L)	70000	Investment in Associates	360000
		$\{ 30000 \text{ shares} \times 12/\text{sh} \}$	

In SFS there will be no adjustment as no portion of shares are sold.

Journal Entries

NCE 180000
Investment in Associates 360000
 To INA 450000
 To Goodwill 20000
 To Gain (P/L) 70000

Illustration 24: Acquisition of additional stake in a subsidiary

A Ltd. Acquired 70% shares of B Ltd. On 1.4.20X0 when the fair value of net assets of B Ltd. Was ₹ 200 lakh. During 20X0-20X1, B Ltd. Made profit of ₹ 100 lakh. Individual and consolidated balance sheets as on 31.3.20X1 are as follows:

	₹ lakh		
	A	B	Group
Assets			
Goodwill			10
PPE	627	200	827
Financial Assets:			
- Investments <i>in Co. A's</i> <i>+32</i>	150 182	-	-
- Cash <i>-32</i>	200 168	30	230 198
- Other Current Assets	23	70	93
Total	1,000	300	1,160
Equity & Liability			
Share Capital	200	100	200
Other Equity	800	200	870 868
Non-Controlling Interest <i>(30%)</i>			90 60
Total	1,000	300	1,160

A Ltd. Acquired another 10% stake in B Ltd. On 1.4.20X1 at ₹ 32 lakh. The proportionate carrying amount of the non-controlling interest is ₹ 30 lakh. Show the individual and consolidated balance sheet of the group immediately after the change in non-controlling interest.

	<u>A</u>	<u>B</u>	<u>Group</u>
Assets			
Goodwill			10
PPE	627	200	827
Financial Asset			
Investment	182 <i>+32</i>		
Cash	168 <i>-32</i>	30	198
Other Current Asset	23	70	93
Total	<u>1000</u>	<u>300</u>	<u>1128</u>
Equity and Liabilities			
Share Capital	200	100	200
Other Equity	800	200	868
N.C.I.			60
Total	<u>1000</u>	<u>300</u>	<u>1128</u>

Journal Entries

NCI	30	
Other Equity	2	
To Bank		32

Illustration 20: Non-controlling interest and goodwill

From the following data, determine in each case:

- Non-controlling interest at the date of acquisition (using proportionate share method) and at the date of consolidation
- Goodwill or gain on bargain purchase.
- Amount of holding company's share of profit in the consolidated Balance Sheet assuming holding company's own retained earnings to be ₹ 2,00,000 in each case

Case	Subsidiary Company	% of shares owned	Cost	Date of Acquisition 1.04.20X1		Consolidation date 31.03.20X2	
				Share Capital [A]	Retained earnings [B]	Share Capital [C]	Retained earnings [D]
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	56,000

The company has adopted an accounting policy to measure non-controlling interest at NCI's proportionate share of the acquiree's identifiable net assets. It may be assumed that the fair value of acquiree's net identifiable assets is equal to their book values.

Solution

Non-controlling Interest = the equity in a subsidiary not attributable, directly or indirectly, to a parent. Equity is the residual interest in the assets of an entity after deducting all its liabilities i.e. in this given case Share Capital + Balance in Statement of Profit & Loss (Assuming it to be the net aggregate value of identifiable assets in accordance with Ind AS)

	% shares owned by NCI [E]	Non-controlling interest as at the date of acquisition [E] X [A + B]	Non-controlling interest as at the date of consolidation [E] X [C + D]
Case 1 [100-90]	10%	15,000	17,000
Case 2 [100-85]	15%	19,500	18,000
Case 3 [100-80]	20%	14,000	14,000
Case 4 [100-100]	Nil	Nil	Nil

Calculation of Goodwill or Gain on bargain purchase

	Consideration [G]	Non- controlling interest [H]	Net Identifiable assets [A] + [B] = [I]	Goodwill [G] + [H] - [I]	Gain on bargain Purchase [I] - [G] - [H]
Case 1	1,40,000	15,000	1,50,000	5,000	-
Case 2	1,04,000	19,500	1,30,000	-	6,500
Case 3	56,000	14,000	70,000	Nil	Nil
Case 4	1,00,000	0	90,000	10,000	-

On 31.03.20X2 in each case the following amount shall be added or deducted from the balance of holding Co.'s Retained earnings.

	% Share Holding [K]	Retained earnings as on 31.03.20X1 [L]	Retained earnings as on consolidation Date [M]	Retained earnings post- acquisition [N] = [M] - [L]	Amount to be added/(deducted) from holding's Retained earnings [O] = [K] X [N]
1	90%	50,000	70,000	20,000	18,000
2	85%	30,000	20,000	(10,000)	(8,500)
3	80%	20,000	20,000	Nil	Nil
4	100%	40,000	56,000	16,000	16,000

$$\begin{array}{r}
 \text{net} = 150000 \\
 \text{net} \quad (15000) \\
 \hline
 135000 \\
 14000 \\
 \hline
 5000
 \end{array}$$

Uniform Accounting policies

An Entity shall prepare CFS using Uniform Accounting policies both like transaction and other events in similar circumstances.

If a member of a group uses different Accounting policies other than those adopted in CFS, appropriate adjustment are made to that Group member's F/S in preparing CFS.

Ex.

Parent Company A applies Ind AS both preparation of F/S.
Subsidiary B applies US GAAP.

∴ While preparing CFS, Subsidiary B F/S should be appropriately adjusted to convert US GAAP F/S to Ind AS F/S.

Note

i) change in Depreciation method (say SLM to WDV) is a change in Accounting Estimates and not a change in Accounting policies.

ii) Change in Cost Formula from FIFO to Weighted Average is a change in Accounting Policy. All members of Group shall use same Cost Formula for all inventories having similar nature or use. For inventories having different nature or use, different Cost Formula may be justified.

Reporting Period of Parent and Subsidiary.

Suppose, Parent's F.Y. Ends on 31.3.2001 (1.4.2000 - 31.3.2001)
 Subsidiary F.Y. " " 31.12.2000 (1.1.2000 - 31.12.2000)

For consolidation purpose, the Subsidiary prepares additional Financial Info. as of the same date as the FIs of the parent (i.e. 31.3.2001) unless Impracticable.

If Impracticable, the Parent shall consolidate Financial Info of Subsidiary using most recent Financial statement of Subsidiary adjusted for the effects of significant transaction or events that occur between date of those FIs and date of those FIs and date of CFS (i.e. Betⁿ 1.1.2001 to 31.3.2001)

In any case, the difference shall be no more than 3 months.

Business combination Achieved (i.e. control obtained) Without transfer of Consideration

1. The Acquiree repurchases sufficient number of its own shares from an existing investor to control

1.4.2001 Balance sheet (Sagati Ltd)

X Ltd	4500 Sh.	45%	- No control
Y Ltd	4400 Sh.	44%	- No control
Z Ltd	1100 Sh.	11%	- No control
	<u>10000 Sh.</u>		

1.4.2004 (After 3 years)

Sagati Ltd repurchased 1100 shares of Z Ltd and cancelled it.

Now, Total Sh. of Sagati Ltd.

X Ltd	- 4500 Sh. (50.56%)	→ C.A. (say) - 80000
Y Ltd	- 4400 Sh. (49.44%)	
	<u>8900 Sh.</u>	

Since X Ltd automatically obtained control on 1.4.2004, X Ltd should apply Ind AS 103 to prepare cfs at acquisition date. (i.e. 1.4.2004)

At Acquisition date, we need to determine Fair Value of shares already held by X Ltd which we will be taken as Deemed Purchase Consideration.

Suppose Fair Value per share of Yapani Ltd on 1.4.2004 = ₹ 25

$$\therefore \text{Deemed P.C.} = 4500 \times 25 = \underline{112500}$$

Again, the Fair Value of I.N.A. = 180000

	NCI	110000	B/S	
			IWA	180000
			Inv in Ass	(112500)
			Goodwill	<u>42500</u>

1.4.2004

C.A. of Investment in Associates = 80000, Fair Value of Inv in Associates = 112500

1) Inv in Associates 32500
To P/L 32500

RVA of Inv in Ass = 112500

2) I.N.A. 180000
Goodwill (B/S) 42500
To NCI at F.V. (4400 x 25) 110000
To Inv. in Associates (P.C.) 112500

2. Minority veto rights lapses that previously kept the acquirer from controlling an acquiree in which acquirer held majority voting rights (same accounting as above)

3. The acquirer and acquiree agree to continue their businesses by contract alone.

Illustration 12: Business Combination Achieved by Contract Alone (Ind AS 103 Business combination)

Sita Ltd and Beta Ltd decides to combine together for forming a Dual Listed Corporation (DLC). As per their shareholder's agreement, both the parties will retain original listing and Board of DLC will be comprised of 10 members out of which 6 members will be of Sita Ltd and remaining 4 board members will be of Beta Ltd.

The fair value of Sita Ltd is ₹ 100 crores and fair value of Beta Ltd is ₹ 80 crores. The fair value of net identifiable assets of Beta Limited is ₹ 70 crores. Assume non-controlling Interest (NCI) to be measured at fair value. You are required to determine the goodwill to be recognised on acquisition.

~~IF NCI measured at Prop. Net Assets~~

~~INA 70
To NCI 70~~

IF NCI measured at Fair Value

INA 70 m
Goodwill 10 m
To NCI (FV) 80 m

E.g.	B/Sheet of A				B/Sheet of B				Fair Value
Sh. Cap.	5000	PPE	10000	Sh. Cap.	2000	PPE	5000	6000	
O/E	15000	Inventories	11000	O/E	8000	Inventories	4000	4500	
Payables	2000	Cash	1000	Payables	1000	Cash	2000		

A Ltd acquired B Ltd by contract alone

Journal Entry

Prop.
I.N.A. 11500
Goodwill x
To NCI (100%) 11500
To P.C. x

Fair Value
INA 11500
Goodwill (A. big) 1500
To NCI (Fair Value) 13000
Assumed

Cons B/Sheet (Net Prop)

Share Capital	5000	5000	PPE	10000 + 6000	16000
Other Equity	15000	15000	Inventories	11000 + 4500	15500
NCI (Prop.)	11500	11500	Cash	1000 + 2000	3000
Payables	2000 + 1000	3000			

Cons B/Sheet (Net Fair Value)

Share Capital	5000	5000	Goodwill		1500
Other Equity	15000	15000	PPE	10000 + 6000	16000
NCI (Fair Value)		13000	Inventories	11000 + 4500	15500
Payables	2000 + 1000	3000	Cash	1000 + 2000	3000

Accounting of Potential Voting Rights held in a Subsidiary

E.g. A Ltd holds 60% shares of B Ltd. A Ltd holds 20% Potential Voting Rights.

Shares outstanding of B Ltd is 100000 shares.

Profit during the year of B Ltd = £ 500000

↳ 80% Currently Exercisable
& Substantive.

∴ To Assess Control, we will consider (60% + 20%) 80% shares of B Ltd.

CASE 1

The terms of the contract do not provide that Investor will get return on Potential Shares even bon priam period (i.e. before actual exercise of right).

Then, Profit allocated to A Ltd = $500000 \times 60\%$
 $= \underline{\underline{300000}}$

CASE 2

The terms of the contract provide that Investor will get return on Potential Shares even bon priam period (i.e. before actual exercise of Potential Voting rights).

Then, Profit allocated to A Ltd = $500000 \times 80\%$
 $= \underline{\underline{400000}}$