

AS 21 – CONSOLIDATED FINANCIAL STATEMENTS

Illustration 1

From the following data, determine in each case:

- (1) Minority interest at the date of acquisition and at the date of consolidation.
- (2) Goodwill or Capital Reserve.
- (3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹ 2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cos	Date of acquisition 1.1.20X1		Consolidation Date 31.12.20X1	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
				₹	₹	₹	₹
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	55,000

Solution

- (1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] ₹	[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

A = Share capital on 1.1.20X1

B = Profit & loss account balance on 1.1.20X1

C = Share capital on 31.12.20X1

D = Profit & loss account balance on 31.12.20X1

- (2) Calculation of Goodwill or Capital Reserve

	Shareholding	Cost	Total Equity	Parent's Portion of equity	Goodwill	Capital Reserve
	% [F]	[G]	[A] + [B] = [C]	[F] x [C] = H	₹ [G] – [H]	₹ [H] – [G]
Case 1	90 %	1,40,000	1,50,000	1,35,000	5,000	—
Case 2	85 %	1,04,000	1,30,000	1,10,500	— 6,500	
Case 3	80 %	56,000	70,000	56,000	Nil	Nil
Case 4	100 %	1,00,000	90,000	90,000	10,000	—

A Ltd. acquired 70% of 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 reserves and surplus 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- X6, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 20X6-X7 and 20X7-X8, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation. (10 Marks)

Solution

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. In such cases, AS 21 prescribes that the excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Where the minority interest has a binding obligation (say by way of a shareholders' agreement), then the share of losses will be attributed to the minority interest even if it exceeds the minority interest in the equity (i.e., debit balance in minority interest). Since information on the existence of a binding obligation is not given in the question, we solve as if such obligation does not exist, and hence the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr. (for the year ended balance)	Minority's Share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 20X1		3,24,000	-			
		-				
		(W.N.)				
20X1-X2	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance		2,49,000				
20X2-X3	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
20X3-X4	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			
20X4-X5	(1,20,000)	(36,000)	(84,000)		2,44,000	
Loss of minority borne by Holding Co.	36,000		(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
20X5-X6	50,000	15,000	35,000			2,44,000
	Profit share of minority	(15,000)	15,000	(15,000)	42,000	

	adjusted against losses of minority absorbed by Holding Co.					
Balance		Nil	50,000			
20X6-X7	1,00,000	30,000	70,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(30,000)	30,000	(30,000)	12,000	2,44,000
Balance		Nil	100,000			
20X7-X8	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	12,000			
Balance		33,000	1,17,000			

Working Note:**Calculation of Minority interest and Cost of control on 1.4.20X1**

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	<u>56,000</u>	<u>24,000</u>
		7,56,000	<u>3,24,000</u>
Less: Cost of investment		<u>(10,00,000)</u>	
Goodwill		<u>2,44,000</u>	

Illustration 5

Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of ₹ 17 per share. The balance of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

- The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 30 lakhs, ₹ 40 lakhs and ₹ 65 lakhs.
- The actual cost of the shares to the foreign company was ₹ 5,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%.
- The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.
- Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years.

The above agreement was approved by all concerned for being given effect to on 1.4.20X1. The total assets of VR Ltd. as on 31st March, 20X1 was ₹ 1,00,00,000. It was decided to write down Property, Plant and Equipment by ₹ 1,75,000. Current liabilities of VR Ltd. as on the same date were ₹ 20,00,000. The paid-up share capital of VR Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

Solution**1. Computation of Purchase Consideration**

(a) Yield of VR Ltd.: $\left[\frac{40}{100} \times \frac{30 + 40 + 65}{3} \right]$	₹ 18 lakhs
(b) Price per share of VR Ltd.:	
Capitalized Yield: $\left[\frac{18 \text{ lakhs}}{0.15} \right]$	120 lakhs
No. of shares	2 lakhs
Therefore, price per share	₹ 60
(c) Purchase Consideration for 54% shares in VR Ltd.	
2 lakh shares x 54% x ₹ 60 per shares	₹ 64.80 lakhs
(d) Discharge of Purchase Consideration:	
Tax at source (₹ 64.80 lakhs – ₹ 5.40 lakhs) $\times \frac{30}{100}$	₹ 17.82 lakhs
50% of purchase consideration (net of tax) in cash [₹ (64.80 – 17.82) x 50%]	₹ 23.49 lakhs
Balance – Unsecured Loan	₹ 23.49 lakhs

2. Goodwill / Capital Reserve to Variety Ltd.

	₹ in lakhs	
Total Assets	100.00	
Less: Reduction in Value of Property, Plant and Equipment	(1.75)	
	98.25	
Less: Current Liabilities	(20.00)	
Net Assets of VR Ltd. on Date of Acquisition		78.25
Purchase Consideration: 54% purchased from Foreign Co.	64.80	
Investment: 46% existing stake	15.64	(80.44)
Goodwill on Date of Acquisition		2.19

Illustration 6 (RTP May'24)

A Ltd. acquired 60% shares of B Ltd. @ ₹ 20 per share. Following is the extract of Balance Sheet of B Ltd.:

	₹
10,00,000 Equity Shares of ₹ 10 each	1,00,00,000
10% Debentures	10,00,000
Trade Payables	55,00,000
Property, Plant and Equipment	70,00,000
Investments	45,00,000
Current Assets	68,00,000
Loans and Advances	22,00,000

On the same day B Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹ 60,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements.

Solution

Since dividend is declared by B Ltd. on the date of acquisition itself, it would be out of the divisible profits of B Ltd. existing on the date of acquisition i.e., pre-acquisition profits from the perspective of A Ltd. Accordingly, as per AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

	₹	₹
Assets		
Property, Plant and Equipment	70,00,000	
Less: Value written off (₹ 70 lakhs x 10%)	(7,00,000)	
	63,00,000	
Investments at Market Value	60,00,000	

Current Assets	68,00,000	
Loans and Advances	22,00,000	2,13,00,000
Less: Liabilities		
Trade Payables	55,00,000	
10% Debentures	10,00,000	(65,00,000)
Net Assets of B Ltd.		1,48,00,000
Share of A Ltd. in Net Assets of B Ltd.: 60%		88,80,000
Less: Cost of Investment in B Ltd. (60% stake):		
10,00,000 Equity Shares x 60% x ₹ 20 per share	1,20,00,000	
Less: Pre-acquisition dividend: 6,00,000 shares x ₹ 2	(12,00,000)	(1,08,00,000)
Goodwill on Date of Acquisition		19,20,000

Illustration 7

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹ 4,80,000 on 31.7.20X1. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 20X1 showed an opening balance of ₹ 1,25,000 and profit for the year was ₹ 3,00,000. At the end of the year, it declared a dividend of 40%. Record the entry in the books of H Ltd., in respect of the dividend. Assume the profit is accruing evenly and calendar year as financial year.

Solution

The profits of S Ltd., have to be divided between capital and revenue profits from the point of view of the holding company:

	Capital Profit (Preacquisition)		Revenue Profit (Post acquisition)
	₹		₹
Balance on 1.1.20X1	1,25,000	—	
Profit for 20X1 (3,00,000 × 7/12)	<u>1,75,000</u>	(3,00,000 × 5/12)	<u>1,25,000</u>
Total	3,00,000		1,25,000
Proportionate share of H Ltd. (3/5)	1,80,000		75,000

Total dividend declared = ₹ 5,00,000 X 40 % = ₹ 2,00,000

H Ltd.'s share in the dividend = ₹ 2,00,000 X 3/5 = ₹ 1,20,000

There can be two situations as regards the treatment of dividend of ₹ 1,20,000:

(1) The profit for 20X1 has been utilised to pay the dividend.

The share of H Ltd in profit for the first seven months of S Ltd = ₹ 1,05,000

(i.e. ₹ 1,75,000 × 3/5)

Profit for the remaining five months = ₹ 75,000

(i.e. ₹ 1,25,000 × 3/5).

The dividend of ₹ 1,20,000 will be adjusted in this ratio of 1,05,000: 75,000 = ₹ 70,000 out of profits up to 31.7.20X1 and ₹ 50,000 out of profits after that date.

The dividend out of profits subsequent to 31.7.20X1 will be revenue income and that out of earlier profits will be capital receipt. Hence the entry will be:

₹ ₹

Bank Dr. 1,20,000

To Investment Account 70,000

To Profit and Loss Account 50,000

(2) Later profits have been utilised first and then pre- acquisition profits.

In such a case, the whole of ₹ 75,000 (share of H Ltd. in profits of S Ltd., after 31.7.20X1) would be received and treated as revenue income; the remaining dividend, ₹45,000 (₹1,20,000 less ₹ 75,000) would be capital receipt. The entry would be:

		₹	₹
Bank	Dr.	1,20,000	
To Investment Account			45,000
To Profit & Loss Account			75,000

Note: Point (2) discussed above can arise only if there is definite information about the profits utilized. In practice, such treatment is rare.

Illustration 8

A Ltd. and B Ltd. provide the following information:

	₹ '000s	
	A Ltd.	B Ltd.
Equity Shares	6,000	5,000
6% Preference Shares	NIL	1,000
General Reserve	1,200	800
Profit and Loss Account	1,020	1,790
Trade Payables	3,850	3,410
Dividend Payable	600	500
Goodwill	100	20
Property, Plant and Equipment	3,850	2,750
Investment	1,620	1,100
Inventory	1,900	4,150
Trade Receivables	4,600	4,080
Cash & Bank	600	400

A Ltd. purchased 3/4th interest in B Ltd. at the beginning of the year at the premium of 25%. Following other information is available:

- Profit & Loss Account of B Ltd. includes ₹ 1,000 thousands brought forward from the previous year.
- The General Reserve balance is brought forward from the previous year.
- The directors of both the companies have declared a dividend of 10% on equity share capital for the previous and current year.

From the above information calculate Pre- and Post-acquisition Profits, Minority Interest and Cost of Control.

Solution

Calculation of Pre- and Post-Acquisition Profits:

	Pre-Acquisition Profits (₹)	Post-Acquisition Profits (₹)
Profit & Loss Account	10,00,000	7,90,000
General Reserve	8,00,000	NIL
	18,00,000	7,90,000
Less: Share of Minority Interest: (1/4)	(4,50,000)	(1,97,500)
Attributable to Parent	13,50,000	5,92,500

				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				₹	₹	₹	₹
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000

Solution:**(5 Marks)**

Minority Interest = Equity attributable to minorities Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.20X1

B = Profit & loss account balance on 1.1.20X1

C = Share capital on 31.12.20X1

D = Profit & loss account balance on 31.12.20X1

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] ₹	[E] X [C + D] ₹
Case A [100-90]	10 %	22,500	23,500
Case B [100-75]	25 %	50,000	40,000
Case C [100-70]	30 %	18,000	18,000
Case D [100-95]	5%	4,750	5,750

Illustration 20 (MTP Oct'22, Sept'23) (Past Exam Nov'20)

A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1st July, 20X1. On 31st December, 20X1, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd.**as at 31st December, 20X1**

	Particulars	Note No.	A Ltd. (₹)	B Ltd. (₹)
I.	Equity and Liabilities			
	(1) Shareholder's Funds			
	(a) Share Capital	1	5,00,000	2,00,000
	(b) Reserves and Surplus	2	2,97,200	1,82,000
	(2) Current Liabilities			
	(a) Trade Payables		47,100	17,400
	(b) Short term borrowings	3	80,000	
	Total		9,24,300	3,99,400
II.	Assets			
	(1) Non-current assets			

(a) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

Notes to Accounts

	A Ltd. ₹	B Ltd. ₹
1. Share Capital 5,000 shares of ₹ 100 each, fully paid up 2,000 shares of ₹ 100 each, fully paid up Total	5,00,000 - 5,00,000	- 2,00,000 2,00,000
2. Reserves and Surplus General Reserves Profit & loss Total	2,40,000 57,200 2,97,200	1,00,000 82,000 1,82,000
3. Short term borrowings Bank overdraft	80,000	--
4. Property plant and equipment Land and building Plant & Machinery Total	1,50,000 2,40,000 3,90,000	1,80,000 1,35,000 3,15,000
5. Non-current Investments Investment in B Ltd (at cost)	3,40,000	--
6. Cash & Cash equivalents Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 20X1 out of which a dividend of 10% was paid on 1st August, 20X1; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 20X1 was considered as worth ₹ 1,80,000 on 1st July, 20X1; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31st December, 20X1.

(15 Marks)

Solution

**Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd.
as at 31st December, 20X1**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus	2	3,08,800
(2) Minority Interest		83,600
(3) Current Liabilities		
(a) Trade Payables	3	64,500
(b) Short term borrowings	4	80,000

	Total		10,36,900
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment		5	7,41,000
(b) Intangible assets		6	17,200
(2) Current assets			
(a) Inventories		7	1,56,400
(b) Trade receivables		8	99,800
(c) Cash & Cash equivalents		9	22,500
	Total		10,36,900

Notes to Accounts

			₹
1.	Share Capital 5,000 shares of ₹ 100 each		5,00,000
2.	Reserves and Surplus Reserves Profit & loss (Refer to W.N 8) Total	2,40,000 68,800	3,08,800
3.	Trade Payables A Ltd. 47,100 Add: B Ltd 17,400 Total		64,500
4.	Short term borrowings Bank overdraft		80,000
5.	Property, plant and equipment Land and building- A Ltd 1,50,000 Add: Land and building- B Ltd 1,80,000 Plant & Machinery (Refer to W.N 7) Total	3,30,000 4,11,000	7,41,000
6.	Intangible assets Goodwill (refer to W.N 6)		17,200
7.	Inventories A Ltd. 1,20,000 B Ltd. 36,400 Total		1,56,400
8.	Trade Receivables A Ltd. 59,800 B Ltd. 40,000 Total		99,800
9.	Cash & Cash equivalents Cash of A Ltd 14,500 Add: cash of B Ltd. 8,000 Total		22,500

Share holding Pattern

Total Shares of B Ltd	2,000 shares
Shares held by A Ltd	1,600 shares i.e. 80 %
Minority Shareholding	400 shares i.e. 20 %

Working Notes:

1. The dividend @ 10% on 1,600 shares - ₹ 16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz.

Profit & Loss Account	Dr.	₹ 16,000
To Investment		₹ 16,000

2. The Plant & Machinery of B Ltd. would stand in the books at ₹ 1,42,500 on 1st July, 20X1, considering only six months' depreciation on ₹ 1,50,000 total depreciation being ₹ 15,000. The value put on the assets being ₹ 1,80,000, there is an appreciation to the extent of ₹ 37,500 (1,80,000 – 1,42,500).

3. Capital profits of B Ltd.

	₹	₹
Reserve on 1st January, 20X1 (Assumed there is no movement in reserves during the year and hence balance as on 1 st January 20X1 is same as of 31 st December 20X1)		1,00,000
Profit & Loss Account Balance on 1st January, 20X1	30,000	
Less: Dividend paid	<u>(20,000)</u>	10,000
Profit for 20X1:		
Total	₹ 82,000	
Less:	₹10,000	
	₹ 72,000	
Proportionate upto 1st July, 20X1 on time basis (₹ 72,000/2)		36,000
Appreciation in value of Plant & Machinery		<u>37,500</u>
		1,83,500
Less: 20% due to outsiders		<u>(36,700)</u>
Holding company's share		<u>1,46,800</u>

4. Revenue profits of B Ltd.:

Profit after 1st July, 20X1 [(82,000 – 10,000) x ½]		36,000
Less: Depreciation		
10% depreciation on ₹1,80,000 for 6 months	9,000	
Less: Depreciation already charged for 2 nd half year on 1,50,000	<u>(7,500)</u>	(1,500)
		34,500
Less: 1/5 due to outsiders		<u>(6,900)</u>
Share of A Ltd.		<u>27,600</u>

5. Minority interest:

Par value of 400 shares (2,00,000 X 20%)		40,000
Add: 1/5 Capital Profits [WN 3]		36,700
1/5 Revenue Profits [WN 4]		<u>6,900</u>
		<u>83,600</u>

6. Cost of Control:

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	<u>(16,000)</u>	3,24,000
Par value of shares	1,60,000	
Capital Profits –share of A Ltd. [WN 3]	1,46,800	<u>(3,06,800)</u>
Cost of Control or Goodwill		<u>17,200</u>

7. Value of plant & Machinery:

B Ltd.	1,35,000	2,40,000
Add: Appreciation on 1st July, 20X1 [1,80,000 – (1,50,000 – 7,500)]	<u>37,500</u>	
	1,72,500	
Add: Depreciation for 2 nd half charged on pre- revalued value	7,500	
Less: Depreciation on ₹1,80,000 for 6 months	<u>(9,000)</u>	<u>1,71,000</u>
		<u>4,11,000</u>

8. Profit & Loss Account (Consolidated):

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	<u>(16,000)</u>	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		<u>27,600</u>
		<u>68,800</u>

Illustration 21

On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

**Balance Sheet of H Ltd.
and its subsidiary S Ltd. as at 31st March, 20X1**

	Particulars	Note No.	H Ltd. (₹ in Lacs)	S Ltd. (₹ in Lacs)
I.	Equity and Liabilities			
	(1) Shareholder's Funds			
	(a) Share Capital	1	12,000	4,800
	(b) Reserves and Surplus	2	5,499	3,000
	(2) Current Liabilities			
	(a) Trade payables	3	1,833	1,014
	(b) Short term provisions	4	855	394
	(c) Other current liabilities (Dividend payable)		1,200	-
	Total		21,387	9,208
II.	Assets			
	(1) Non-current assets			
	Property, Plant and Equipment	5	9,468	5,486
	Non-current Investments (Shares in S Ltd.)		3,000	
	(2) Current assets			
	(a) Inventories		3,949	1,956
	(b) Trade receivables	6	2,960	1,562
	(c) Cash and cash equivalents		1,490	204
	(d) Short term loans and advances	7	520	
	Total		21,387	9,208

Notes to Accounts

		H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
--	--	-----------------------	-----------------------

1.	Share Capital		
	Authorized share capital	15,000	6,000
	Equity shares of ₹ 10 each, fully paid up		
	Issued and Subscribed:		
	Equity shares of ₹ 10 each, fully paid up	12,000	4,800
2.	Reserves and surplus		
	General Reserve	2,784	1,380
	Profit and Loss Account:	2,715	1,620
	Total	5,499	3,000
3.	Trade Payables		
	Creditors	1,461	854
	Bills Payable	372	160
	Total	1,833	1,014
4.	Short term provisions		
	Provision for Taxation	855	394
5.	Property, plant and equipment		
	Land and Buildings	2,718	-
	Plant and Machinery	4,905	4,900
	Furniture and Fittings	1,845	586
	Total	9,468	5,486
6.	Trade receivables		
	Debtors	2,600	1,363
	Bills Receivable	360	199
	Total	2,960	1,562
7.	Short term loans and advances		
	Sundry Advances	520	--

The following information is also provided to you:

- H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 20X0 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
- On 1st April, 20X0, S Ltd. declared a dividend @ 20% for the year ended 31st March, 20X0. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 20X1, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 20X0.
- On 31st March, 20X1, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
- On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1.

Solution

**Consolidated Balance Sheet of H Ltd.
and its subsidiary S Ltd. as at 31st March, 20X1**

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,000
(b) Reserves and Surplus	2	7,159
(2) Minority Interest [W.N.6]		3,120

(3) Current Liabilities		
(a) Trade payables	3	2,802
(b) Short term provisions	4	1,249
(c) Other current liabilities	5	1,200
Total		27,530
II. Assets		
(1) Non-current assets		
Property, Plant and Equipment	6	14,954
(2) Current assets		
(a) Inventories	7	5,885
(b) Trade receivables	8	4,477
(c) Short term loans and advances	9	520
(d) Cash and cash equivalents	10	1,694
Total		27,530

Notes to Accounts

		(₹ in lacs)	(₹ in lacs)
1. Share Capital			
Authorized share capital			15,000
Equity shares of ₹10 each, fully paid up Issued and Subscribed:			
Equity shares of ₹ 10 each, fully paid up			12,000
Total			12,000
2. Reserves and surplus			
Capital Reserve (Note 5)		1,320	
General Reserve (2,784 + 108)		2,892	
Profit and Loss Account:			
H Ltd.	2,715		
Less: Dividend wrongly credited	360		
Unrealized Profit	<u>20</u>	<u>(380)</u>	
	2,335		
Add: Share in S Ltd.'s Revenue profits	612	2,947	
Total			7,159
3. Trade payables			
Creditors			
H Ltd.	1,461		
S Ltd.	<u>854</u>	2,315	
Bills Payable			
H Ltd.	₹ 372		
S Ltd.	<u>₹ 160</u>		
	₹ 532		
Less: Mutual owing	₹ (45)	487	2,802
4. Short term provisions			
Provision for Taxation			
H Ltd.		855	
S Ltd.		394	
Total			1,249
5. Other current liabilities			

	Dividend payable			
	H Ltd.			1,200
6.	Property, plant and equipment			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	₹ 4,905		
	S Ltd.	₹ 4,900	9,805	
	Furniture and Fittings			
	H Ltd.	₹ 1,845		
	S Ltd.	₹ 586	2,431	
	Total			14,954
7.	Inventories			
	Stock			
	H Ltd.		3,949	
	S Ltd.		1,956	
			5,905	
	Less: Unrealized profit		(20)	5,885
8.	Trade receivables			
	Debtors			
	H Ltd.	₹ 2,600		
	S Ltd.	₹ 1,363	3,963	
	Bills Receivable			
	H Ltd.	₹ 360		
	S Ltd.	₹ 199		
		₹ 559		
	Less: Mutual Owing	₹ (45)	514	4,477
9.	Short term loans and advances			
	Sundry Advances			520
10.	Cash and cash equivalents			
	Cash and Bank Balances			1,694

Share holding pattern of S Ltd.

Shares as on 31st March, 20X1 (Includes bonus shares issued on 1st January, 20X1)	480 lakh shares (4,800 lakhs/ ₹ 10)
H Ltd.'s holding as on 1st April, 20X0	180 lakhs
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)
Total H Ltd.'s holding as on 31st March, 20X1	288 lakhs i.e. 60 % [288/480×100]
Minority Shareholding	40%

Working Notes:**1. S Ltd.'s General Reserve Account**

	₹ in lakhs	₹ in lakhs	
To Bonus to equity shareholders (WN-8)	1,800	By Balance b/d	3,000
To Balance c/d	1,380	By Profit and Loss A/c	180
	3,180	(Balancing figure)	
			3,180

2. S Ltd.'s Profit and Loss Account

	₹ in lakhs		₹ in lakhs
To General Reserve [WN 1]	180	By Balance b/d	1,200
To Dividend paid (20% on ₹3,000 lakhs)	600	By Net Profit for the year*	1,200
		(Balancing figure)	

To Balance c/d	1,620	
	2,400	2,400

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	-----
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking ₹ 1,020 lakhs as post acquisition Profit and Loss balance and ₹ 180 lakhs as post acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (₹ 3,000 – ₹ 1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (₹ 1,200 – ₹ 600)	600
	1,800

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs

Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	(2,640)
Capital reserve	1,320

6. Calculation of Minority Interest

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

7. Unrealized profit in respect of inventory

$$\text{₹ 100 lakhs} \times \frac{25}{125} = \text{₹ 20 lakhs}$$

8. Computation of bonus to equity shareholders

	₹ In lakhs
Shares as on 31 March 20X1 including bonus share issued on 1 January 20X1	4,800
Or we can say these are $1 + \frac{3}{5}$ or $\frac{8}{5}$	
i.e. Shares before bonus issue should have been $\frac{4,800}{8/5}$	= 3,000
Accordingly, bonus issue would be (4,800-3,000)	1,800

A Ltd.'s share in the net assets of B Ltd. 28,00,000

Question 5 (MTP Nov'21, Mar'23, Apr'23) (Past Exam Jan'21)

On 31st March, 2023 H Ltd. and its subsidiary S Ltd. give the following information:

	H Ltd.	S Ltd.
	Rs.	Rs.
Shareholders' Fund:		
Equity shares of Rs. 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans:		
12% Debentures	1,00,000	-
Current Liabilities:		
Creditors	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Property, Plant & Equipment:		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
Investments:		
Investments in S Ltd.	3,84,000	-
(19,200 shares at Rs. 20 each)		
Current Assets:		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000

The following information is also provided to you:

- H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at Rs. 60,000 and Rs. 36,000 respectively.
- Machinery (Book value Rs. 2,40,000) and Furniture (Book value Rs. 48,000) of S Ltd were revalued at Rs. 3,60,000 and Rs. 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).
- On 31st March, 2022, Bills payable of Rs. 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

(20 Marks)

Solution:

5.	Inventories	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	Other current assets		
	Prepaid expenses (After adjusting salespromotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:

Adjusted revenue reserves of MNT Ltd.:

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98]	7,000	
Add: Increase in value of inventory	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500

Question 7 (RTP May'21)

A Ltd. acquired 70% equity shares of B Ltd. @ Rs.20 per share (Face value - Rs.10) on 31st March, 2021 at a cost of Rs. 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021:

	Rs. in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

Solution:**Net assets of B Ltd. as on 31st March, 2021**

	Rs. in lakhs	Rs. in lakhs
Property, plant and equipment		360
Investments		90
Current Assets		140
Loans and Advances		30
Total Assets		620
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		340
Share of Minority Interest in net assets (30% of 340)		102
A Ltd.'s share in net assets (70% of 340)		238
A Ltd.'s cost of acquisition of shares of B Ltd. (Rs.140 lakhs)		(140)
Capital reserve		98

Question 8 (RTP Nov 18)

The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	Amounts as at 31st March,
-------------	---------------------------

	2017	
	X Ltd. (Rs. in lakhs)	Y Ltd. (Rs. in lakhs)
LIABILITIES		
Share Capital:		
Authorised	<u>20,000</u>	<u>8,000</u>
Issues and subscribed:		
Equity share of Rs. 10 each, fully paid up	15,000	6,000
15% preference shares of Rs. 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	<u>1,646</u>	<u>1,027</u>
	<u>25,896</u>	<u>10,727</u>
ASSETS		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in		
Y Ltd. purchased on 1st April, 2016	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	<u>1,174</u>	<u>560</u>
	<u>25,896</u>	<u>10,727</u>

The following information is also given to you

- 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.
- Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs. 650 Lakhs.
- General Reserve of Y Ltd. stood at same Rs. 1,450 Lakhs as on 1st April, 2016.
- Y Ltd.'s Plant & machinery showed a balance of Rs. 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs. 1,000 Lakh.
- Included in Trade Payables of Y Ltd. are Rs. 50 Lakh for goods supplied by X Ltd.
- On 31st March, 2017, Y's Ltd. inventory included goods for Rs. 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes. (Ignoring dividend on preference shares).

Solution:

Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017

	Particulars	Note No.	Rs. in lakhs
I	Equity and Liabilities		
1	Shareholders' Funds		
	(a) Share Capital	1	19,000
	(b) Reserves and Surplus	2	5,620
2.	Minority interest	3	3,400
3.	Current Liabilities		
	(a) Trade payables	4	<u>2,623</u>
	Total		<u>30,643</u>
II	Assets		
1	Non Current Assets		
	Property, Plant & Equipment		
	(i) Tangible Assets	5	17,435
2	Current Assets		
	(a) Inventories	6	6,632
	(b) Trade Receivables	7	4,842
	(c) Cash and Cash equivalents	8	<u>1,734</u>
			<u>30,643</u>

Notes to Accounts

			Rs. in lakhs
1	. Share Capital		
	Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs. 10 each fully paid up)		15,000
	400 lakh Preference Shares of Rs. 10 each fully paid up		<u>4,000</u>
2	. Reserves and Surplus		<u>19,000</u>
	Credit Balance of Profit & Loss Account	2,750	
	Less: Capital Receipt wrongly credited (Dividend @ 10% on Rs. 4500 Lakh Equity Shares)	<u>450</u>	
		2,300	
	Add: Share in Y Ltd. Revenue Profit (Working Note i)	<u>825</u>	
		<u>3,125</u>	
	Less: Unrealised Profit (Working Note iv)	30	3,095
	Capital Reserve (Working Note iii)	25	
	General Reserve	2,500	<u>2,525</u>
3	. Minority interest		<u>5,620</u>
	100 Lakh Preference Shares of Rs. 10 fully paid up	<u>1,000</u>	
	150 Lakh Equity Shares of Rs.10 each fully paid up	<u>1,500</u>	2,500
	Share in Revenue Profits (Working Note i)	<u>275</u>	
	Share in Capital Profit (working Note ii)	<u>625</u>	<u>900</u>
4	. Trade payables		<u>3,400</u>

	X Ltd.	<u>1,646</u>	
	Y Ltd.	<u>1,027</u>	
		<u>2,673</u>	
	Less: Mutual owing	<u>50</u>	2,623
5	. Tangible Assets		
	Land & Building		
	X Ltd.	<u>3,550</u>	
	Y Ltd	<u>1,510</u>	5,060
	Plant & Machinery		
	X Ltd.	<u>5,275</u>	
	Y Ltd (Working note v)	<u>4,500</u>	9,775
	Furniture & Fixtures		
	X Ltd.	<u>1,945</u>	
	Y Ltd	<u>655</u>	<u>2,600</u>
			<u>17,435</u>
6.	Inventories		
	X Ltd.	<u>4,142</u>	
	Y Ltd	<u>2,520</u>	
		<u>6,662</u>	
	Less: Unrealized Profit	<u>(30)</u>	6,632

Working Notes:**i. Calculation of Revenue Profits Y's Ltd Profit & Loss Account**

	Rs. in lakh		Rs. in lakh
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	<u>1,250</u>		
	<u>1,850</u>		<u>1,850</u>

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	<u>4,000</u>
Less Balance as 31st March 2017	<u>3,600</u>
	<u>400</u>
Hence rate of Depreciation = $400/4000 \times 100$	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	<u>100</u>
Revenue Profit	<u>1,100</u>
X Ltd's share- $1100 \times 450/600$	825
Y Ltd's share = $1100 \times 150/600$	275

ii. Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	<u>600</u>
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	<u>1,000</u>
Capital Profit	2,500
X Ltd's Share in Capital Profit = $2,500 \times 450/600$	1,875
Y Ltd's Share in Capital Profit = $2,500 \times 150/600$	625

iii. Calculation of Capital Reserve

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	<u>6,350</u>
Capital Reserve = 6,375-6,350	25

iv. Unrealized Profit

Rs. 150 Lakh x 25/125* = 30 lakh

v. Plant & Machinery of Y Ltd.

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	<u>100</u>	<u>900</u>
		<u>4,500</u>

* Rs. 150 lakh considered as cost to Y Ltd.

Question 9 (RTP Nov'22)

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

- a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021 at which date the following balances stood in the books of S Ltd.:

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

- b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.

	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Question 11 (Past Exam May'23)

H Ltd acquired 15000 shares in S Ltd. for 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd. ₹	S Ltd. ₹
Equity and Liabilities:		
Equity Share Capital	9,00,000	2,50,000
(Fully paid shares of ₹ 10 each)		
General Reserve	1,60,000	40,000
Surplus i.e., Balance in Statement of Profit and Loss	80,000	25,000
Bills payable	40,000	20,000
Trade Creditors	50,000	30,000
Total	12,30,000	3,65,000
Assets		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investment in Equity Shares of S Ltd.	1,55,000	-
Stock-in Trade	1,00,000	50,000
Trade Debtors	60,000	35,000
Bills Receivable	25,000	20,000
Cash at Bank	90,000	40,000
Total	12,30,000	3,65,000

The following additional information is provided to you:

- (i) General reserve appearing in the Balance Sheet of S Ltd. remained unchanged since 31st March, 2022.
- (ii) Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ₹ 20,000.
- (iii) H Ltd. sold goods to S Ltd. costing ₹ 8,000 for ₹ 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.

- (iv) Creditors of S Ltd. include ₹ 4000 due to H Ltd. on account of these goods.
- (v) Out of Bills payable issued by S Ltd. ₹ 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ₹ 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.

(15 Marks)

Solution:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	9,00,000
(b) Reserves and Surplus	2	2,73,500
(2) Minority Interest	3	1,26,000
(3) Current Liabilities		
(a) Trade Payables	4	1,29,000
Total		14,28,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	10,20,000
(2) Current assets		
(i) Inventory	6	1,49,500
(ii) Trade Receivables	7	1,29,000
(iii) Cash & cash equivalent	8	1,30,000
Total		14,28,500

Notes to Accounts

			₹
1.	Share capital		
	Authorised, issued, subscribed and paid up capital 90,000 equity shares of ₹ 10 each, fully paid up		9,00,000
2.	Reserves and Surplus		
	General Reserves	1,60,000	
	Profit and Loss Account (W.N.5)	88,500	
	Capital Reserve (W.N. 4)	25,000	2,73,500
3.	Minority interest in S Ltd. (WN 3)		1,26,000
4.	Trade payables		
	Bills Payable		
	H Ltd. 40,000		
	S Ltd. 20,000		
	60,000		
	Less: Mutual payables (7,000)	53,000	
	Trade Creditors		
	H Ltd. 50,000		

	S Ltd.	30,000		
		80,000		
	Less: Mutual owing	(4,000)	76,000	1,29,000
5.	Property, plant and equipment			
	Machinery H Ltd.	7,00,000		
	S Ltd.	1,50,000	8,50,000	
	Furniture H Ltd.	1,00,000		
	S Ltd. 70,000		1,70,000	10,20,000
6.	Inventory			
	H Ltd.		1,00,000	
	S Ltd.		50,000	
	Less: Unrealized profit (2,000x 25%)		500	1,49,500
7.	Trade receivables			
	Bills receivable			
	H Ltd.	25,000		
	S Ltd.	20,000		
		45,000		
	Less: Mutual payables	(7,000)	38,000	
	Debtors			
	H Ltd. 60,000			
	S Ltd. 35,000			
		95,000		
	Less: Mutual owing (4,000)		91,000	1,29,000
8.	Cash & cash equivalent Cash at Bank H Ltd.		90,000	
	S Ltd.		40,000	1,30,000

Working Notes:**1. Percentage of holding**

	No. of Shares	Percentage
Holding Co. :	15,000	(60%)
Minority shareholders :	10,000	(40%)
Total Shares :	25,000	

2. Analysis of Profits

	Pre-acquisition profits and reserves of S Ltd.(₹)	Postacquisition profits of S Ltd. (₹)
General Reserve	40,000	---
Opening balance of Profit and Loss	5,000	---
Current Year's profit (in 1:3)	5,000	15,000
	50,000	15,000
H Ltd.'s share (60%)	30,000	9,000
Minority Interest (40%)	20,000	6,000

3. Minority Interest

Paid up value of 10,000 shares @ ₹ 10 each	₹ 1,00,000
Add: Share in pre-acquisition profits and reserve (40%)	₹ 20,000
Add: Share in post-acquisition profits (40%)	₹ 6,000
	1,26,000

4. Capital Reserve for H Ltd.

(A) Cost of acquiring 15,000 shares of S Ltd.	₹ 1,55,000
(B) Paid up value of 15,000 shares of S Ltd. @ ₹ 10 each	₹ 1,50,000

Add: Share in pre-acquisition profit and reserves of S Ltd.	₹ 30,000
	₹1,80,000
Capital Reserve (B-A)	₹ 25,000
5. Consolidated Balance of Profits of H Ltd.	
Balance as per Statement of Profit and Loss	₹ 80,000
Add: Share in post-acquisition profits of S Ltd.	₹ 9,000
Less: Unrealised Profit in unsold stock of S Ltd.	₹(500)
	₹88,500

Question 12 (Past Exam July'21)

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under:

	X Limited (Rs. In 000)		Y Limited (Rs. In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of Rs. 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900
Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160		120	
Preference share dividend up to 30.09.2020		7	14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	
Property, Plant & Equipment	2,200		1,580	
Total	5,027	5,027	3,450	3,450

Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being Rs. 1,20,000, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Property, Plant & Equipment.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

(10 Marks)

Solution:

Consolidated Profit and Loss Account of X Ltd. and Y Ltd. for the year ended 31st March, 2021

Particulars	Note No.	Rs.
I. Revenue from operations	1	35,80,000
II. Total revenue		35,80,000
III. Expenses		
Cost of Material purchased/Consumed	2	20,80,000
Changes of Inventories of finished goods		-
Employee benefit expense	3	5,00,000
Finance cost	4	48,000
Depreciation and amortization expense	5	4,57,000
Other expenses	6	2,80,000
Total expenses		33,65,000
IV. Profit before Tax (II-III)		2,15,000
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		2,15,000
Preference dividend	7,000	
Preference dividend payable	<u>7,000</u>	(14,000)
		2,01,000
Share in pre-acquisition loss (WN 3)		1,800
Share of Minority interest in losses (WN 1)		1,800
Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
Inventory reserve (WN 2)		(6,000)
Profit to be transferred to consolidated balance sheet		1,95,100

Notes to Accounts

		Rs	. Rs.
1	Revenue from Operations		
	X Ltd.	18,00,000	
	Y Ltd.	19,00,000	
	Total	37,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	35,80,000
2	Cost of Materials Purchased/Consumed		
	X Ltd.	10,00,000	
	Y Ltd.	<u>12,00,000</u>	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	20,80,000
3	Employee benefit and expenses		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	<u>3,00,000</u>	5,00,000

4	Finance cost		
	Interest		
	H Ltd.	24,000	
	S Ltd.	<u>24,000</u>	48,000
5	Depreciation		
	H Ltd.	2,20,000	
	S Ltd.	<u>2,37,000</u>	4,57,000
6	Other expenses		
	H Ltd.	1,60,000	
	S Ltd.	<u>1,20,000</u>	2,80,000

Working Note**1) Profit of Subsidiary**

Rs.

Revenue from Operations		19,00,000
Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods -		
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
Profit Before Tax		19,000
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	<u>14,000</u>	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss Rs. 9,000)		(1,800)

2) **Inventory reserve** = $\left[\frac{120,000}{4} \times \frac{25}{125} \right] = \text{Rs. } 6,000$

3) **Pre-acquisition loss** = 80% of 3 month's profit up to 30th June, 2020 i.e. 80 % of $\frac{1}{4}$ of loss Rs. 9,000.
Hence, pre-acquisition loss = Rs. 1,800

4) Investment account includes Preference dividend for 3 months prior to acquisition i.e. Rs. 4,00,000 X 50% X 7% X $\frac{1}{4}$ = Rs. 3,500

Question 13 (MTP May'20) (Past Exam, Nov'18)

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below :

Rs. In Lakhs

Incomes	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150

Note: it is assumed that dividend adjustment has not be done in sales & other income of A Ltd i.e. dividend received from B Ltd is not included in other income of A Ltd. Alternative Answer is possible considering is otherwise.

Question 14 (Past Exam May'22)

White Ltd. acquired 2,250 shares of Black Ltd. on 1st October, 2020. The summarized balance sheets of both the companies as on 31st March, 2021 are given below:

	White Ltd. (₹)	Black Ltd. (₹)
(I) Equity and Liabilities		
(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus General Reserve	60,000	30,000
Profit and loss account	1,50,000	90,000
(2) Current Liabilities	1,15,000	75,000
Trade payables Due to White Ltd.	-	30,000
Total	9,75,000	5,25,000
(II) Assets:		
Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	
Current assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
Total	9,75,000	5,25,000

Other information:

- (i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30th March, 2021.
- (ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March, 2021. Profits during the year 2020-2021 were earned evenly
- (iii) The balances of Reserve and Profit and Loss account as on 1st April, 2020 were as follows:

	Reserves	Profit and Loss A/c
	₹	₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31st March, 2021 as per the requirement of Schedule III of the Companies Act, 2013. (PAST EXAM 15 Marks May '22)

Solution:

Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd.

as at 31st March, 2021

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,50,000
(b) Reserves and Surplus	2	2,55,000
(2) Minority Interest	3	1,05,000
(3) Current Liabilities		
(a) Trade Payables	4	1,90,000
Total		12,00,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	9,31,000
(2) Current assets		
(i) Inventory	6	1,70,000
(ii) Cash & cash equivalent	7	99,000
Total		12,00,000

Notes to Accounts

			₹
1.	Share capital		
	6,500 equity shares of ₹ 100 each, fully paid up		6,50,000
	Total		6,50,000
2.	Reserves and Surplus		
	General Reserves		60,000
	Profit and Loss Account	1,50,000	
	Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	37,500	1,87,500
	Capital reserve (W.N. 5)		7,500
	Total		2,55,000
3.	Minority interest in Black Ltd. (WN 4)		1,05,000
4.	Trade payables		
	White Ltd.	1,15,000	
	Black Ltd.	75,000	1,90,000
5.	Property, plant and equipment		
	White Ltd.	5,80,000	
	Black Ltd.	3,51,000	9,31,000
6.	Inventory		
	White Ltd.	50,000	
	Black Ltd.	1,20,000	1,70,000

7	Cash & cash equivalent		
	White Ltd.	39,000	
	Black Ltd.	54,000	
	Cash in transit	6,000	99,000

Working Notes:

1. Post-acquisition profits of Black Ltd.		₹
profits earned during the year = ₹ 90,000 + ₹10,000		1,00,000
Pre-acquisition profits (1.4.20 to 30.9.20)		50,000
Post-acquisition profits (1.10.20 to 31.3.21)		50,000
White Ltd.'s share 75% of 50,000		37,500
Minority Interest 25% of 50,000		12,500
2. Pre-acquisition profits and reserves of Black Ltd.		
Reserves as on 1.4.2020		30,000
Profit and Loss Account		
[10,000 (loss as on 1.4.20) + 50,000 (6 month Adjusted pre-acquisition profits)]		40,000
		70,000
White Ltd.'s = (75%) × 70,000		52,500
Minority Interest = (25%) × 70,000		17,500
3. Post-acquisition reserves of Black Ltd.		
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 30,000 – 30,000)		nil
4. Minority Interest		
Paid-up value of (3,000 – 2,250) = 750 shares		
held by outsiders i.e. 750 × ₹ 100		75,000
Add: 25% share of pre-acquisition reserves & Profit		17,500
25% share of post-acquisition profit		12,500
5. Capital Reserve		1,05,000
Price paid by White Ltd. for 2,250 shares (A)		2,70,000
Intrinsic value of the shares-		
Paid-up value of 2,250 shares held by White Ltd. i.e. 2,250 × ₹100	2,25,000	
Add 75% share of pre-acquisition reserves & profit (70,000 × 75%)	52,500 (B)	2,77,500
Capital reserve (A – B)		7,500

Question 15 (RTP Nov'23) (Past Exam Dec'21)

Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 2023:

Particulars	Chand Ltd (₹)	Sitara Ltd. (₹)
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000

Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information

- On 1st September 2020 Chand Ltd., acquired 5,000 equity shares of ₹ 100 each fully paid up in Sitara Ltd.
- Sitara Ltd. paid a dividend of 10% for the year ended 31st March 2022. The dividend was correctly accounted for by Chand Ltd.
- Chand Ltd. sold goods of ₹ 1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of ₹ 70,000 received from Chand Ltd.
- Selling and Distribution expenses of Sitara Ltd. include ₹ 21,250 paid to Chand Ltd. as brokerage fees.
- General and Administrative expenses of Chand Ltd. include ₹ 28,000 paid to Sitara Ltd. as consultancy fees.
- Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid ₹ 5,000 to Chand Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 2023 as per Schedule III to the Companies Act, 2013 (15 Marks)

Solution:

Consolidated statement of profit and loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹
Revenue from operations	1	50,03,250
Other Income	2	1,81,000
Total revenue (I)		51,84,250
Expenses:		
Cost of material purchased/consumed	3	21,45,500
Changes (Increase) in inventories of finished goods	4	(4,98,750)
Employee benefit expense	5	15,75,000
Finance cost	6	22,750
Depreciation and amortization expense	7	45,500
Other expenses	8	8,43,250
Total expenses (II)		41,33,250
Profit before tax (II-III)		10,51,000

Notes to Accounts:

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Chand Ltd.		33,25,000	
	Sitara Ltd.		19,07,500	
			52,32,500	
	Less: Inter-company sales		(1,75,000)	
	Consultancy fees received by Sitara Ltd. from Chand Ltd.		(28,000)	
	Royalty received by Chand Ltd. from Sitara Ltd.		(5,000)	
	Brokage received by Chand Ltd. from Sitara Ltd.		(21,250)	50,03,250
2.	Other Income			
	Dividend income:			
	Chand Ltd.	1,68,000		
	Sitara Ltd.	43,750	2,11,750	
	Loss on sale of investments Sitara Ltd.		(26,250)	
	Other Non-operating Income			
	Chand Ltd.	35,000		
	Sitara Ltd.	10,500		
	Less: Dividend realized from Sitara Ltd. (5,00,000 x 10%)	(50,000)	4,500	1,81,000
3.	Cost of material purchased/consumed			
	Chand Ltd.	13,93,000		
	Sitara Ltd.	4,72,500		
	Less: Purchases by Sitara Ltd. From Chand Ltd.	18,65,500		
			(1,75,000)	16,90,500
	Direct expenses (Production)			
	Chand Ltd.	3,15,000		
	Sitara Ltd.	1,40,000	4,55,000	21,45,500
4.	Changes (Increase) in inventories of finished goods			
	Chand Ltd.	4,37,500		
	Sitara Ltd.	75,250		
			5,12,750	
	Less: Unrealized profits ₹ 7,00,00 × 20/100		(14,000)	4,98,750
5.	Employee benefits and expenses			
	Wages and salaries:			
	Chand Ltd.	13,30,000		
	Sitara Ltd.		2,45,000	15,75,000
6	Finance cost			
	Interest:			
	Chand Ltd.		17,500	
	Sitara Ltd.		5,250	22,750
7.	Depreciation			
	Chand Ltd.		31,500	
	Sitara Ltd.		14,000	45,500
8.	Other expenses			
	General & Administrative expenses:			
	Chand Ltd.	2,80,000		
	Sitara Ltd.	1,22,500		
			4,02,500	
	Less: Consultancy fees received by Sitara Ltd. from Chand	(28,000)	3,74,500	

	Ltd.			
	Royalty: Sitara Ltd.			
	Less: Received by Chand Ltd. Selling and distribution Expenses:	5,000 (5,000)	Nil	
	Chand Ltd.	3,32,500		
	Sitara Ltd.	1,57,500		
			4,90,000	
	Less: Brokerage received by Chand Ltd. from Sitara Ltd.	(21,250)	4,68,750	8,43,250

MCQs

1. Minority interest should be presented in the consolidated balance sheet
 - (a) As a part of liabilities.
 - (b) As a part of equity of the parent's shareholders.
 - (c) Separately from liabilities and the equity of the parent's shareholders.
 - (d) As a part of assets.

2. Minority of the subsidiary is entitled to
 - (a) Capital profits of the subsidiary company.
 - (b) Revenue profits of the subsidiary company.
 - (c) Both capital and revenue profits of the subsidiary company.
 - (d) Neither capital nor revenue profits of the subsidiary.

3. In consolidation of accounts of holding and subsidiary company _____ is eliminated in full.
 - (a) Current liabilities of subsidiary company.
 - (b) Reserves and surplus of both holding and subsidiary company.
 - (c) Mutual indebtedness.
 - (d) Nothing.

4. In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as
 - (a) Minority interest.
 - (b) Capital reserve.
 - (c) Current liability.
 - (d) Current assets.

5. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of
 - (a) Current liability.
 - (b) Revenue profit.
 - (c) Capital profit.
 - (d) Current assets.

ANSWERS/SOLUTION**MCQ**

1. (c) 2. (c) 3. (c) 4. (a) 5. (a)

Question 5

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 :

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 & 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 :

- The 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 & Loss Account (Consolidated)
- (7) General Reserve (Consolidated)
- (8) Revenue from Operations (Consolidated)
- (9) Cost of material purchased/consumed (Consolidated) **(14 Marks)**

Answer

1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	<u>(3,00,000)</u>
Total	<u>4,90,000</u>

2. Current assets (Consolidated)

Best limited	9,65,000
Add: Cool Ltd	5,60,000
Less: Elimination of inter company owing	(3,00,000)
Total	<u>12,25,000</u>

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 (20% of 2,70,000)	54,000
Total	<u>5,14,800</u>

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
Capital Reserves	<u>5,47,200</u>

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%)	<u>12,500</u>
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%	<u>32,000</u>
Total	<u>3,58,000</u>

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 x 2/ 12)	<u>6,33,333</u>
	<u>62,33,333</u>

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)	<u>5,20,000</u>
	41,70,000