AS 23 – A/c For Investments in Associates

1) Associate Co. means a Company in which Investor Co. has acquired atleast 20% OF equity Shares (Voting Rights)

2) By Acquiring 20% or more equity Investments, Investor gets Significant Influence Over the Business of Associate Co.

3) Significant Influence means "Investor gets Power to Participate in decision making" of Associate Co.

4)

Holding	Subsidiary	AS
Control	→ Business	AS 21

Holding Co. has to prepare Consolidated F/S.

5)

Investor	Associate	AS
Signf. Inf.	→ Business	AS 23

Investor Co. has to Revalue its "Investment in Ass." as per Equity method in its CFS

6) Investment in Associate (Books of Investor)

in Standalone F/S

This Investment is presented at Cost as per AS 13

in Consolidated F/S

This Investment is presented at Equity method as per AS 23

7) Equity Method

Equity means Net Assets

Example :- On 1/4/26, A Ltd. acquired 25% equity stake of B Ltd. at Cost of 5,20,000. On this Date the Net Assets (Fair Value) of B Ltd. was 22,00,000

Books of A Ltd.

SFS

Investment A/c Dr. 520000
  To Bank a/c 520000

CFS

Equity method means revalue the Investment in proportion of Market Value of

B/S

Investm. in Ass. (AS 13)	520000 at Cost

Net Assets of Associate

↓

MV of N. Asset = 2200000 × 25% = 550000

Investment is Increased by 30000 ↓

Investment Dr. 30000
To CR a/c 30000

Cons. B/S

R&S	
CR	30000
Asset	
Investment in Ass.	550000

Suppose in above Case, Net Assets are 20,00,000 as per Equity method, proportion share of Investor (A Ltd) is 5,00,000. However Cost is 5,20,000 Hence 20,000 is treated as Goodwill (i.e we paid extra premium to acquire 25% stake)

Now, in CFS A Ltd will show Investments as Under :-

B/S

Investments (including 20000 Goodwill)	520000

As per AS 23, Goodwill is not to be recorded Separately. It is shown as part of Investment.

8) Application of Equity method

Equity method is first applied on DOA, as Under :-

Cost of Investment ——— xxx

(−) proportionate Net Assets (Fair value) ——— xxx

CR / Goodwill

if there is CR ⇒ Investment Dr.
To CR a/c

if there is Goodwill ⇒ No Separate entry, Goodwill is treated as part of Cost of Investments.

Equity Method Shall be applied Subsequently On Every B/s date as Under :-

Investments (including CR/Goodwill) ——— xxx 600000+30000

(+) Share of Investor in post Acq. Profit of Associate ——— xx 120000

(−) Dividend Received from Associate ——— xxx

750000

*Note :- Post Acquisition profit should be always Profit after Tax & before any Dividend.

Example 5: -

On 1/4/24, B Ltd acquired 20% Equity Interest in A Ltd. at a cost of 2,40,000/-

On 1/4/24, Equity share Capital of A Ltd. was 8,00,000/- and Reserves & Surplus was 3,00,000

On 31/3/25 Reserves & Surplus of A Ltd was 5,00,000

Apply AS 23 on DOA & Balance Sheet Date.

Sol) :-

Equity method

1) On DOA i.e. 1/4/24

Cost of Investments = 240000 (20%)

(-) Proportionate share in Net Assets = 220000

EC 800000

R&S 300000

11,00,000 × 20%

20,000 Goodwill

Goodwill of 20,000 is included in Investment Cost.

2) On B/s i.e 31/3/25

Investment (including G/W) = 240000

(+) Share in post Acq Profit = 40,000

200000 × 20%

Investm. 280000

31/3/25 In CFS

Investment Dr. 40000
To Cons. P&L 40,000

Example 6: -

On 1/4/24 B Ltd. acquired 20% Equity interest in A Ltd. at a cost of 2,40,000/-

On 1/4/24 Equity Share Capital of A Ltd was 8,00,000 and Reserves & Surplus of A Ltd. was 3,00,000

On 31/3/25 Reserves & Surplus of A Ltd. was 5,00,000

During 24-25, Dividend Paid by A Ltd. to its Share Holders 15%

Apply AS 23 on DOA & Balance Sheet Date.

Solution

R&S a/c

Divd. 120000	Opng. 300000
	NP 320000 → post Acq Profit
Closg. 500000	

Equity method :-

1) On DOA :- Investment = 240000
(-) Prop. N.Assets = 220000
ESC 800000
Rss 300000
20000 Goodwill

2) On 31/3/25 :- Investments on DOA (Including Goodwill) = 240000
(+) post Acq profit = 64000
320000 x 20%

(-) Dividend Received = (24000)
120000 × 20%

Investment = 280000

OFU :- 31/3/25 :- Net Asset ESC 800000
RES 500000

1300000
× 20%

260000
(+) 20000 Goodwill

280000

9) Value of Net Assets for Equity method :-

☞ Always Consider Market Value of Net Assets of Associate.

☞ Calculation of MV of Net Assets :-

ESC — XXX
(+) RES as on DOA — XXX
(+/-) Revaluation Gain/(Loss) - XXX

Net Assets (MV)

All Assets at MV
(-) All Liab. at MV

Net Asset (MV)

☞ Additional Dep. in Case OF Revaluation Gain & Saving in Dep. in case OF Revaluation Loss (For Post Acq. Period)

↓

Share OF Investor

↓

To be added (saving) or deducted (Additional Dep) in the Investment Value for applying Equity method as on B/s date.

10) Multiple Investments in Same Associate Co. on different dates :-

Case 1

Ist Investment OF 10% (1/4/25)

IInd Investment OF 15% (1/11/25)

⇓

Apply Equity method Retrospectively.

From the date OF 1st Investment

(Refer Ex. 7 & 8) AS Trump

Case 2

1st Investment OF 20% on 1/4/25

2nd Investment OF 10% on 1/11/25

⇓

Here, also we shall apply Retrospective working with additional adjustments OF Post Acq Profit

(Refer Ex. 9 OF AS Trump)

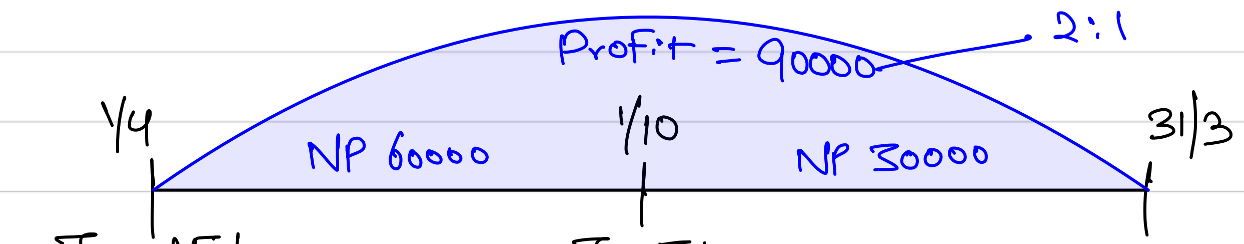
Case 2: Further acquisition in an associate in the same year:

Example 9: A Ltd. acquired 25% stake of B Ltd. on 1st April and further 5% on 1st October of the same year. Other information is as follow:

Cost of Investment for 25% ₹ 1,50,000 and for 5% ₹ 20,000

Net asset on 1st April ₹ 5,00,000.

Profit for the year ₹ 90,000 earned in the ratio 2:1 respectively.



I = 25%
Cost = 150000

I = 5%
Cost = 20000

Net Asset = 500000

Net Asset = 560000

Equity method on 1/4

Cost of Investments (25%)	=	150000
(–) 25% of Net Asset 500000 × 25%	=	125000
Goodwill		25,000

Goodwill of 25000 is already included in Investment Cost.

Equity Method on 1/10

Cost of Investment (5%)	=	20,000
(–) 5% of Net Assets 560000 × 5%	=	(28,000)
CR		8,000

Invst a/c Dr. 8000
To CR 8000

As on 1/10, Value OF Investment (in CFS) = 1,78,000
(150000 + 20000 + 8000)

Equity method on 31/3 :-

Investments (including Gdw & CR) = 178000

(+) Share in post Acq. Profit =

90000 x 25%	22500
30000 x 5%	1500
Investments (including Goodwill of 25000) =	202000

Equity Method

On DOA:- Investment Cost ——— xxx
(-) Prop. Net Assets ——— xxx
(Market Value)

Goodwill / CR

Investments shall be increased by CR amt.

On DOA = Investments Dr.
To CR a/c

On B/s date

Investment (including CR/Goodwill)	xxx
(+/-) post Acq. Share in Profit/Loss	xxx
(-) Dividend Received (Share k Share Pre & post)	xxx
(+/-) Saving in Dep (or) Additional Dep due to Revaluation (x) Share %	xxx
(-) Share in Unrealised Profit on downstream transaction	xxx
Investment in CFS	