

## Section-D

# Consolidated Financial Statements and Separate Financial Statements (In Compliance with Ind ASs)



# Consolidated Financial Statements and Separate Financial Statements

## 6

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# Consolidated Financial Statements and Separate Financial Statements

## **SLOB Mapped against the Module**

To develop detail understanding on preparation of consolidated and separate financial statements by companies having significant influence on, joint control or control of other entities in an Ind AS environment.

## **Module Learning Objectives**

- ⦿ To provide in-depth and updated knowledge about accounting of the group consisting of the Investor and its associate or its joint venture or its subsidiary.
- ⦿ To develop application skill of preparing consolidated financial statements and separate financial statements in compliance with relevant Ind ASs for the group

# Introduction to Consolidation

## 6.1

**A** group consists of a parent and its subsidiaries. A parent is an entity that controls one or more entities. A subsidiary is an entity that is controlled by another entity.

Purchase of equity shares is the most common way by which an investor company (parent) acquires control in the investee company (called subsidiary).

Accounting for consolidated financial statements (as per Ind AS 110) is made at the reporting date by combining assets and liabilities of parent and subsidiaries, measuring non-controlling interest [Ind AS 110] and recognizing goodwill [Ind AS 103].

Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements (i) the identifiable assets acquired, the liabilities assumed at Fair Value and (ii) any non-controlling interest in the acquiree at Fair Value or at Proportionate Value and (iii) the goodwill acquired in the business combination or a gain on bargain purchase. In the consolidated financial statements on the date of acquisition they would be incorporated accordingly.

However, for subsequent reporting of consolidated financial statements the post-acquisition changes in assets and liabilities and the post-acquisition profits shared by NCI and Other Equity should also be considered but no change should be made to Goodwill/Gain on Bargain Purchase.

Thus, it appears that a parent has to report consolidated financial statements based on Ind AS 103 and Ind AS 110 and investor company prepares consolidated financial statements for investment in Associate or in Joint Venture. However, for any arrangement of Joint Operation no consolidation of financial statements is required. The reporting of joint operation is dealt in Ind AS 111. The disclosure requirements for holding interest in other entity are dealt in Ind AS 112.

# Concept of Significant Influence, Joint Control and Control as per Ind AS

## 6.2

Consolidated financial statements are required to be prepared by an Ind AS complied company if it holds shares in the investee company

- Entailing 20% or more voting rights having significant influence over the investee company (called Associate as per Ind AS 28).
- Entailing joint control over the investee company (called a Joint Venture as per Ind AS 28)
- Entailing control over investee company (called subsidiary company as per Ind AS 110).

No consolidation is required otherwise (i.e., for holding shares in investee not falling under above three clauses) and the investor company prepares only individual/standalone financial statements.

Ind AS 27 requires that when consolidated financial statements are prepared the investor company shall also prepare individual/standalone financial statements, which are named as separate financial statements. In the separate financial statements of the investor company investment account is recognised for holding shares in the investee company (whether it is an associate, joint venture, subsidiary). It is measured at cost or as per Ind AS 109 (at fair value through profit or loss)

Consolidated financial statements are required to be prepared as per Ind AS 28 under Equity Method when investor company has significant influence or joint control over the investee company (associate or joint venture). Under Equity Method of consolidation, no assets or liabilities of the investee is recognised, rather investment account is recognised at cost plus share of investor in post-acquisition profits (both profit or loss and other comprehensive income, strictly spea) in the investee.

When investor company has control over the investee company (subsidiary) consolidated financial statements are required to be prepared as per Ind AS 110 by recognising assets, liabilities, non-controlling interest on the reporting date, but recognising goodwill or gains from bargain purchase at the acquisition date as per Ind AS 103. Share of post-acquisition profits in the subsidiary company is divided to Other Equity of parent for the share of parent and to Non-Controlling Interest for their share. No investment account is recognised for holding shares in the subsidiary.

**Here, the relevant Ind ASs are briefly presented.**

### **Ind AS 27: Separate Financial Statements**

- 1. Introduction:** A company shall prepare financial statements for every financial year as required by law. A parent company in a group of companies shall prepare consolidated financial statements as per Ind AS 110, and further it shall prepare separate financial statements as per Ind AS 27. A company having investments in associates or joint ventures prepares financial statements using equity method of accounting as per Ind AS 28; in addition, it shall also prepare separate financial statements as per Ind AS 27.

Thus a company presenting consolidation or applying equity method shall in addition present separate financial statements. A company exempted from consolidation or from applying equity method may prepare separate financial statements as its only financial statements.

2. **Objective:** The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
3. **Scope:** This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.
4. **Definition:** Separate financial statements are those presented by a parent (i.e an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or at a value based on Ind AS 109.
5. When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:
  - (a) at cost, or
  - (b) in accordance with Ind AS 109.
6. An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.
7. An entity shall apply all applicable Ind ASs when providing disclosures in its separate financial statements.
8. In case of exemption from consolidation or use of equity method, the entity shall disclose
  - (i) that the financial statements are separate financial statements
  - (ii) that the exemption is used and
  - (iii) a list with details of investments in subsidiaries, joint ventures and associates.

### Ind AS 28: Investments in Associates and Joint Ventures

1. **Objective:** The objective of this Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures..
2. **Scope:** This Standard shall be applied by all entities having investments in associates and joint ventures.
3. **Definitions:**
  - (i) An associate is an entity over which the investor has significant influence.
  - (ii) Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.
  - (iii) If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power (or currently exercisable potential voting rights) of the investee, it is presumed that the entity has significant influence.
  - (iv) A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
  - (v) A joint arrangement is an arrangement of which two or more parties have joint control.
  - (vi) Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
  - (vii) The equity method is a method of accounting whereby the investment is initially recognised at cost and

adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

4. **Application of equity method:** An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method.
5. An entity shall discontinue the use of the equity method from the date when its investee is no more an associate or a joint venture.
6. An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with Ind AS 27.

### Ind AS 110 Consolidated Financial Statements

The objective of this Indian Accounting Standard (Ind AS) is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet the objective Ind AS 110:

- (a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
- (b) defines the principle of control, and establishes control as the basis for consolidation;
- (c) sets out how to apply the principle of control to identify whether an investor control an investee and therefore must consolidate the investee;
- (d) sets out the accounting requirements for the preparation of consolidated financial statements; and
- (e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

However, a parent need not present consolidated financial statements if it meets all the following conditions:

- (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with Ind ASs.

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, an investor controls an investee if and only if the investor has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the investee's returns. Power arises from rights. Sometimes, power can be assessed straightforward from the voting rights through shareholdings. In other cases, the assessment will be more complex when power results from one or more contractual arrangements.

If another entity (including government, court, administrator, receiver, liquidator or regulator) has existing rights to direct the relevant activities, the investor does not have power over the investee even if it holds more than half of the voting rights in the investee.

### Case 1

An investor acquires 45 per cent of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. Has investor power over the investee?

#### **Solution:**

In this case, on the basis of the absolute size of its holding and the relative size and arrangements of the other shareholdings, it appears that the investor has a sufficiently dominant voting interest to conclude that the investor has power over the investee.

### Case 2

Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. Has A power over the investee?

#### **Solution:**

In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. Additional evidences are needed to be considered for concluding whether A has power over the investee. If it is not clear, that the investor has power, the investor does not control the investee.

### Case 3

Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. Has A power over the investee?

#### **Solution:**

In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. However, investor A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the investee.

### Case 4

Investor A holds 45 per cent of the voting rights of an investee. Two other investors each hold 26 per cent of the voting rights of the investee. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. Has A power over the investee?

#### **Solution:**

In this case, the size of investor A's voting interest and its size relative to the other shareholdings are sufficient

to conclude that investor A does not have power. Only two other investors would need to co-operate to be able to prevent investor A from directing the relevant activities of the investee.

A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

If a parent loses control of a subsidiary, the parent:

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

A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

An investment entity shall not consolidate its subsidiaries or apply Ind AS 103 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.

# Consolidation Procedure for Investment in Associates, Joint Ventures and Subsidiaries

## 6.3

**C**onsolidated financial statements are required to be prepared as per Ind AS 28 under Equity Method when investor company has significant influence or joint control over the investee company (associate or joint venture). Under Equity Method of consolidation, no assets or liabilities of the investee is recognised, rather investment account is recognised at cost plus share of investor in post-acquisition profits (both profit or loss and other comprehensive income) in the investee.

When investor company has control over the investee company (subsidiary) consolidated financial statements are required to be prepared on the reporting date as per Ind AS 110:

- ⦿ by combining the book value of assets and liabilities of parent with the fair value of assets and liabilities of the subsidiary plus post-acquisition changes in their book value,
- ⦿ by recognising non-controlling interest at acquisition date value plus post-acquisition share in total comprehensive income of the subsidiary,
- ⦿ by recognising goodwill or gains from bargain purchase at acquisition date as per Ind AS 103 and
- ⦿ by recognising parent's share in post-acquisition profits of the subsidiary company in the consolidated Other Equity.
- ⦿ No investment account is recognised for holding shares in the subsidiary.

# Measurement of Fair value of Net Assets, Non-controlling Interest, Goodwill/ Gain on Bargain Purchase, Consolidated Other Equity (including Measurement of Investments under Equity Method )

## 6.4

Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements at the acquisition date

- (i) the identifiable assets acquired, the liabilities assumed at Fair Value and
- (ii) any non-controlling interest in the acquiree at Fair Value or at Proportionate Value and
- (iii) the goodwill acquired in the business combination or a gain on bargain purchase.

However, for consolidation at subsequent reporting date, the post-acquisition changes in assets and liabilities of the subsidiary and corresponding change in Other equity and NCI for post-acquisition total comprehensive income of the subsidiary should also be considered but no change should be made to Goodwill/Gain on Bargain Purchase.

At the time of acquisition of shares in Subsidiary company (S) identified assets and liabilities of S are recorded in the consolidated accounts at fair value. Subsequently the non-current items (assets and liabilities) of S are carried in the consolidated balance sheet at acquisition date fair value plus subsequent change in book value. However, for current items the revaluation profit or loss on the acquisition date (difference between fair value and book value) is reverted through post acquisition retained earnings, and thus the book values of parent and subsidiaries are combined for consolidation. [# Suppose that unsold stocks of S on acquisition date had carrying amount ₹1,000 and Fair Value ₹1,200. After one year, on the reporting date, stock (assumed) being fully sold at ₹1,300, S's post acquisition profits amounting to ₹300 ₹(1,300 – 1,000) should be reduced by ₹200 for consolidation as this ₹200 has already been considered as revaluation profit at the time of acquisition.

In subsequent CBS (Consolidated Balance Sheet), Non-Controlling Interest (NCI) is measured at value at acquisition (as per Ind AS 103) + share of NCI in post-acquisition profits (total comprehensive income). Note that NCI as per Ind AS 103 can be measured at Fair Value or at proportionate value of net assets identified. The parent's share in post-acquisition profits in subsidiary is added to the consolidated other equity.

In subsequent CBS (Consolidated Balance Sheet) Goodwill/Gain on bargain purchase is recorded at acquisition date value as per Ind AS 103; i.e., Consideration + NCI + Fair value of previously held interest (if any) - Fair Value of net assets identified at acquisition.

For finding NCI and Goodwill, the fair value of net assets can alternatively be represented by the Equity plus revaluation profit/loss, (i.e, Share Capital plus Other Equity plus revaluation profits/losses arising from the difference between carrying amount and fair value of net assets).

Equity plus revaluation profit/loss = Net Assets identified at fair value. But for consolidation on subsequent date the share of NCI in post-acquisition profit or loss of the subsidiary must be added to NCI at acquisition date value. [Illustration 2 suggested]. When dividend is declared by the subsidiary company it appears as a deduction from Profit and Loss of subsidiary and as a current liability in subsidiary's balance sheet. In the books of the parent company the dividend receivable is shown as current asset and credited to Profit and Loss (if it is from post-

acquisition profit) or Investment a/c (if it is from pre-acquisition profits). If pre-acquisition dividend is wrongly credited to parent's Profit and Loss, both Investment a/c and parent's Profit and Loss are reduced by the share of parent in pre-acquisition dividend. But it is important to keep in mind that this treatment is done in the separate financial statements only.

When Ind AS 103 is followed, purchase consideration at the acquisition date is added with NCI and Fair value of previously held equity interest and from the total fair value of net assets identified is subtracted for finding the goodwill to be recognized. This goodwill recognized at acquisition date is not adjusted afterwards for any declaration of dividend by the subsidiary, even if it is from pre-acquisition profits. It is not required also. As dividends from pre-acquisition profits are already included in the acquisition date fair value of net assets, it is no more required to be deducted separately from Purchase consideration again. Thus, it is clear that for calculating goodwill in the consolidation of accounts pre-acquisition dividends need not be subtracted from Investment (Purchase consideration).

# Accounting and Reporting in Consolidated Financial Statements and in Separate Financial Statements at Acquisition Date- Introductory Examples

## 6.5

When a company purchases less than 20% shares of another company the transaction is recorded in the books of investor company as:

		Dr.	Cr.
Particulars		(₹)	(₹)
Investment A/c	Dr.	xxxx	
To, Bank / Equity A/c			xxxx

Investment A/c will appear in the Individual Balance Sheet of Investor company.

When a company purchases 20% or more shares of another company, having significant influence in the investee (called Associate), the transaction is recorded in the books of investor company as:

		Dr.	Cr.
Particulars		(₹)	(₹)
Investment A/c	Dr.	xxxx	
To, Bank / Equity A/c			xxxx

Investment a/c will appear in the Separate and also in the Consolidated Balance Sheet of investor company. In the subsequent years in Separate Balance Sheet Investment A/c will be carried at cost or as per Ind AS 109.

However, in consolidated accounts, Investment A/c shall be valued under Equity Method. If in subsequent years Investee Company's Net Assets change (assume, increase) by Profit or Loss and by other comprehensive income, following Journal Entry shall be passed in the consolidated accounts of the investor company:

		Dr.	Cr.
Particulars		(₹)	(₹)
Investment A/c	Dr.	xxxx	
(share of investor in change of net assets of investee)			xxxx
To, Profit and Loss A/c (share of Profit /Loss)			
To, OCI A/c (share of OCI)			

Thus, in consolidated Balance Sheet Investment A/c shall appear at cost plus share of investor company in change of Net Assets of the investee and Other Equity will increase by share of P/L and OCI of the investee.

This is the required accounting for investment in Associates as per Ind AS 28 and 27. The same accounting is done for investment in Joint Venture, where the investor has joint control.

But when by purchase of shares investor company acquires control of investee company (NOT Joint control), the investee becomes subsidiary and investor is parent. For such transaction, at the acquisition date accounting shall be made in the Consolidated Accounts of the parent and also in the separate accounts of parent.

In the Separate Accounts the following entry shall be made:

		<b>Dr.</b>	<b>Cr.</b>
<b>Particulars</b>		<b>(₹)</b>	<b>(₹)</b>
Investment A/c	Dr.	xxxx	
To, Bank / Equity A/c			xxxx

In the subsequent years in Separate Balance Sheet Investment A/c will be carried at cost or as per Ind AS 109.

However, in Consolidated Accounts following entry will be passed under acquisition method of Ind AS 103:

		<b>Dr.</b>	<b>Cr.</b>
<b>Particulars</b>		<b>(₹)</b>	<b>(₹)</b>
Assets A/c (of subsidiary identified at Fair Value)	Dr.	xxxx	
Goodwill A/c (Balancing figure)	Dr.		xxxx
To, Consideration A/c			
To, Liabilities A/c (of subsidiary identified at Fair Value)			
To, Previously held Interest A/c (at fair value)			
To, Non-Controlling Interest A/c (at fair value or at proportionate net asset value)			
To, Gain on bargain purchase A/c (balancing figure)			

Thus, at acquisition, the assets and liabilities of parent at carrying amount are combined with the fair value of assets and liabilities of subsidiary for preparation of Consolidated Balance Sheet. Goodwill is shown under non-current assets or Gain on bargain purchase is shown under (consolidated) Other Equity. Non-Controlling Interest is also shown below Other Equity.

If subsequently, parent purchases additional shares in subsidiary, NCI is reduced proportionately to its carrying amount and the following entry is passed:

		<b>Dr.</b>	<b>Cr.</b>
<b>Particulars</b>		<b>(₹)</b>	<b>(₹)</b>
NCI A/c (at proportionate carrying amount)	Dr.	xxxx	
To, Bank / Equity A/c			xxxx

Difference, if any, between proportionate carrying amount of NCI and consideration for additional stake is debited or credited to Other Equity.

If subsequently some shares of subsidiary is sold retaining control of parent:

		<b>Dr.</b>	<b>Cr.</b>
<b>Particulars</b>		<b>(₹)</b>	<b>(₹)</b>
Bank A/c	Dr.	xxxx	
To, NCI A/c (at proportionate carrying amount)			xxxx

Difference, if any, between proportionate carrying amount of NCI and sale value of shares is debited or credited to Other Equity.

Thus we see that preparation of Consolidated Balance Sheet under Ind AS 110 at the acquisition date is simply incorporating the entries of business combination with the Balance Sheet items of parent. However, for subsequent periods, post-acquisition changes (say, increase) in carrying amount of Net Assets of subsidiary (same as change in Other Equity, equity share capital is assumed to remain unchanged) have to be taken into consideration. In consolidated accounts change in net assets of subsidiary (say, increase) is given effect (to consolidated assets and liabilities) and Other Equity increases by parent's share and NCI increases by NCI share.

Thus, we see that post acquisition change in other equity of subsidiary is divided to parent and NCI in the ratio of their respective shares. Consolidated other equity is the sum total of parent's other equity and share of parent in subsidiary's post-acquisition change in other equity. Goodwill is measured at acquisition date under Ind AS 103. Even if subsidiary pays dividend subsequently (whether out of pre-acquisition or post acquisition profits) there will be no change in Goodwill. NCI in subsequent Consolidated Balance Sheet is the sum total of NCI at acquisition and NCI's share in post-acquisition change in other equity of subsidiary. However on the reporting date any dividend (whether out of pre-acquisition or post acquisition profits) payable by subsidiary shall, to the extent of NCI's share, be subtracted from NCI to be shown as a separate liability.

**Illustration 1**

Company P Ltd. (a listed company) acquires 20% shares (entitling 20% voting power and significant influence) in company Q Ltd. on 1.4.2020 at a cost of ₹ 46,000, paid by cash. During the financial year 2020-2021, Q made profits of ₹ 20,000 and other comprehensive income of ₹ 10,000.

- (a) Whether for the investment in shares of Q, P requires preparation of consolidated financial statements and separate financial statements?
- (b) Pass the journal entries in books of P at the time of acquisition.
- (c) Show the relevant accounting treatment at the end of the year in (i) consolidated and (ii) separate financial statements of P.

**Solution:**

- (a) P Ltd. requires preparation of consolidated financial statements because it has investment in Associate Q Ltd. Ind AS 28 requires that accounting for investment in associate and in joint venture should be made under equity method in the consolidated financial statement. Q is an Associate because P has significant influence in Q by virtue of its 20% voting power through holding of 20% shares in Q.

**Ind AS 28 also requires P the investor company to prepare separate financial statement as per Ind AS 27.**

Journal		Dr.	Cr.
Particulars		(₹)	(₹)
Investment A/c	Dr.	46,000	
To, Cash A/c			46,000

- (c) There will be two sets of accounting at the end the year, one for consolidated accounts and the other for separate financial statements.
  - (i) For consolidated accounts Ind AS 28 requires the recognition of investment by equity method.

At the year end in consolidated accounts of P Ltd., adjustments are made to the Investment and income accounts as per equity method:

**Working Note:**

Change in investee's net assets = ₹20,000 + ₹10,000 = ₹30,000;

Share of P = 20% of ₹30,000 = ₹6,000.

Investor's Profit or loss includes 20% of ₹20,000 = ₹4,000 and other comprehensive income includes 20% of ₹10,000 = ₹2,000.

- (ii) At the year end for the separate financial statements of P Investment is valued at cost at ₹ 46,000 or at a value as per Ind AS 109.

**Illustration 2 A**

X Ltd. acquired 20% shares of B Ltd. on 01.04.20X1. X Ltd. further acquired on 01.04.20X2 60% shares of B Ltd. at a consideration of ₹3,60,000 in cash and by issue of 10000 shares of ₹ 10 (market price ₹15). Debentures of B Ltd. were exchanged for 12% Debenture of X Ltd. A contingent consideration was also payable, fair value of which at the date of acquisition was estimated at ₹ 60,000. X Ltd. paid transaction cost ₹20,000. The fair value of shares previously held in B Ltd. amounts to ₹ 1,10,000. The fair values of assets and liabilities of B Ltd. are stated below:

	Fair Value ₹
PPE	3,00,000
Current Assets	4,20,000
Creditors	36,000

The abstracts of consolidated balance sheet of A and individual balance sheet of B on 31-03-20X2 are given below: [Amount in ₹]

Prepare summarised Separate and Consolidated balance sheet as at 1-04-20X2.

**Solution:**

**Working note 1:** Net Identified Assets at fair value

Particulars	Fair Value (₹)
PPE	3,00,000
Current Assets	4,20,000
Less Creditors	36,000
Less Debenture	10,000
Net Identified Assets at fair value	6,74,000

Working note 2: Consideration [Debentures exchanged are separately considered and Transaction cost is expensed through P&L of Acquirer.]

Particulars	(₹)
Cash Payment	3,60,000
Issue of shares	1,50,000

Particulars	(₹)
Contingent Consideration	60,000
Consideration	5,70,000

**Working note 3:** Fair value of previously held interest

Particulars	(₹)
Carried value	1,00,000
Fair Value for 20% interest (based on fair value of NCI)	1,10,000
Profit on Revaluation through P&L	10,000a

**Working note 4:** NCI

Non-Controlling Interest is recognized at Fair value of ₹ 1,10,000

**Working note 5:** Goodwill

Particulars	(₹)
Consideration	5,70,000
Fair value of previously held shares	1,10,000
NCI	1,10,000
Total	7,90,000
Net Identified Assets at fair value	6,74,000
Goodwill	1,16,000

**Working note 6:** Journal for consolidated accounting:

**Dr.**

**Cr.**

Particulars		(₹)	(₹)
Investment A/c	Dr.	10,000	
To, Profit and Loss A/c			10,000
PPE A/c	Dr.	3,00,000	
Current Assets A/c	Dr.	4,20,000	
Goodwill A/c	Dr.	1,16,000	
To, Consideration A/c			5,70,000
To, Creditors A/c			36,000
To, 12% Debentures A/c			10,000
To, NCI A/c			1,10,000
To, Investment A/c			1,10,000

Particulars		(₹)	(₹)
Consideration A/c	Dr.	5,70,000	
To, Equity Share Capital A/c			1,00,000
To, Security Premium A/c			50,000
To, Cash A/c			3,60,000
To, Liability for Contingent Consideration A/c			60,000
Transaction Cost A/c	Dr.	20,000	
To, Cash A/c			20,000
Profit and Loss A/C	Dr.	20,000	
To, Transaction Cost A/c			20,000

**Working note 7:** Journal for separate accounting:

Particulars		(₹)	(₹)
Investment A/c	Dr.	5,80,000	
To, Equity Share Capital A/c			1,00,000
To, Security Premium A/c			50,000
To, Cash A/c			3,60,000
To, Liability for Contingent Consideration A/c			60,000
To, 12% Debenture A/c			10,000
Transaction Cost A/c	Dr.	20,000	
To, Cash A/c			20,000
Profit and Loss A/C	Dr.	20,000 b	
To, Transaction Cost			20,000

Summarised Separate Balance Sheet of X Ltd. and Consolidated Balance Sheet of the Group as at 01.04.20X2

(Amount in ₹)

Particulars	Working for consolidation	Working for Separate	Separate	Consolidated
PPE	1,80,000+3,00,000	1,80,000	1,80,000	4,80,000
Investment		1,00,000+5,80,000	6,80,000	
Goodwill	Note 5			1,16,000
Current Assets	6,60,000+4,20,000- 3,60,000-20,000	6,60,000-30,000- 20,000	2,80,000	7,00,000
Total			11,40,000	12,96,000
Equity Share Capital	4,60,000+1,00,000		5,60,000	5,60,000

Particulars	Working for consolidation	Working for Separate	Separate	Consolidated
Other Equity	3,70,000 + 50,000 + 10,000a – 20,000b (transaction cost)	3,70,000+50,000- 20,000	4,00,000	4,10,000
NCI	Note 4			1,10,000
12% Debenture	60,000+10,000		70,000	70,000
Liability for contingent consideration			60,000	60,000
Trade Payables	50,000+36,000	50,000	50,000	86,000
Total			11,40,000	12,86,000

**Note 1:**

### In the above problem regarding the carried amount of the old investment of 20 % interest in B Ltd. the question was silent whether it is at cost or at equity method value. In the solution to avoid complication it is assumed that both cost and equity method value are same. On the contrary if we change Investment in B Ltd. on the Balance sheet of X Ltd on 31.03.20X2 as below, the solution will be different.

**Illustration 2 B**

In problem 2A Investment in B Ltd. carried at amount of ₹.100000 is valued under equity method with share of post-acquisition profits in Associate ₹. 15000. Show separate balance sheet on 31-03-20X2 and on 01-04-20X2.

**Solution:**

**Working note 1:** Fair value of previously held interest:

Particulars	(₹)
Carried value (Equity Method)	1,00,000
Fair Value for 20% interest (based on fair value of NCI)	1,10,000
Profit on Revaluation through P&L	10,000 <sup>a</sup>

Post-acquisition share of profit and loss in Associate ₹15,000<sup>c</sup>

Cost of Investment = ₹1,00,000 – ₹15,000 = ₹ 85,000

**Working note 2:**

For Separate financial statements Other Equity of X Ltd. is consolidated Other Equity less the post-acquisition profits of ₹ 15,000 c .

Separate balance sheet of X Ltd. as at 31.03.20X2 is as below.

Liabilities	(₹)	Assets	(₹)
Equity Share Capital	4,60,000	PPE	1,80,000

Liabilities	(₹)	Assets	(₹)
Other Equity ₹(3,70,000-15,000 c)	3,55,000	Investment in 20% shares in B Ltd. ₹(1,00,000-15,000 c)	85,000
12% Debenture	60,000	Current Assets	6,60,000
Creditors	50,000		
<b>Total</b>	<b>9,25,000</b>	<b>Total</b>	<b>9,25,000</b>

Summarised Separate Balance Sheet of X Ltd. and Consolidated Balance Sheet of the Group as at 01.04.20X2

(Amount in ₹)

Particulars	Working for consolidation	Working for Separate	Separate	Consolidated
PPE	1,80,000+3,00,000	1,80,000	1,80,000	4,80,000
Investment		85,000+5,80,000	6,65,000	
Goodwill	Note 5			1,16,000
Current Assets	6,60,000+4,20,000-3,60,000-20,000	6,60,000-30,000-20,000	2,80,000	7,00,000
<b>Total</b>			<b>11,25,000</b>	<b>12,96,000</b>
Equity Share Capital	4,60,000+1,00,000		5,60,000	5,60,000
Other Equity	3,55,000 + 50,000 + 10,000 <sup>a</sup> – 20,000 <sup>b</sup> (transaction cost)	3,55,000+50,000-20,000	385000	4,10,000
NCI	Note 4			1,10,000
12% Debenture	60,000+10,000		70,000	70,000
Liability for contingent consideration			60,000	60,000
Trade Payables	50,000+36,000	50,000	50,000	86,000
<b>Total</b>			<b>11,25,000</b>	<b>12,86,000</b>

### Illustration 2C

In problem 2A Investment in B Ltd. carried at amount of ₹1,00,000 is valued under equity method with share of post-acquisition profits in B Ltd. (Associate) ₹ 16,000 and share of post-acquisition OCI in B Ltd. (Associate) ₹ 8,000. Show separate balance sheet on 31.03.20X2 and on 01.04.20X2.

**Solution:**

**Working note 1:** Fair value of previously held interest:

Particulars	(₹)
Carried value (Equity Method)	1,00,000

Particulars	(₹)
Fair Value for 20% interest (based on fair value of NCI)	1,10,000
Profit on Revaluation through P&L	10,000 <sup>a</sup>

Post-acquisition share of profit and loss in Associate ₹16,000<sup>d</sup>

Post-acquisition share of OCI in Associate ₹ 8,000<sup>d</sup>

Cost of Investment = ₹(1,00,000 – 16,000 – 8,000) = ₹ 76,000

Working note 2: For Separate financial statements Other Equity of X Ltd. is consolidated other equity less the post-acquisition profits of ₹ 24,000 <sup>d</sup> (₹16,000 + ₹8,000)

Separate balance sheet of X Ltd. as at 31.03.20X2 is as below.

Separate balance sheet of X Ltd. as at 01-04-20X2:

Particulars	Working for Separate (₹)	Separate (₹)
PPE	1,80,000	1,80,000
Investment	76,000 + 5,80,000	6,56,000
Goodwill		
Current Assets	6,60,000 - 30,000 - 20,000	2,80,000
Total		11,16,000
Equity Share Capital		5,60,000
Other Equity	3,46,000 + 50,000 - 20,000	3,76,000
NCI		
12% Debenture		70,000
Liability for contingent consideration		60,000
Trade Payables	50,000	50,000
Total		11,16,000

Consolidated accounting is changed as follows:

Additional entry in (i)

Dr.

Cr.

Particulars	(₹)	(₹)
OCI A/c	Dr.	8,000
To, Profit and Loss A/c (Transfer)		8,000

Corresponding changes in statement of Change in equity should be made but other equity total will not be affected.

There will be no other change in consolidated accounts. Thus, summarized consolidated balance sheet of the group remained unchanged in 2A, 2B and 2C.

**Illustration 2D**

In continuation of the original problem 2A above, on 01.04.20X3, X Ltd. sold 5% interest in B Ltd. at a price of ₹ 54,000 in cash (the NCI share of profit during 20X2-X3 was ₹10,000). On 01.04.20X4 X Ltd. purchased 25% interest in B Ltd. at a price of ₹ 1,50,000 in cash (the NCI share of profit during 20X3-X4 was ₹12,000). Show the journal entries in separate set of accounting and in consolidated set of accounting.

In Separate set:		Dr.	Cr.
Particulars		(₹)	(₹)
On 01.04.20X3			
Cash A/c	Dr.	54,000	
To, Investment A/c [(5/80) × ₹6,80,000] <sup>1</sup>			42,500
To, P&L A/c			11,500
On 01-04-20X4			
Investment A/c	Dr.	1,50,000	
To, Cash A/c			1,50,000

<sup>1</sup> On 01.04.20X2 Investments(80%) were valued at ₹ 6,80,000. For sale of 5% interest Investment is credited by (5/80) × ₹6,80,000.

In consolidated set:		Dr.	Cr.
Particulars		(₹)	(₹)
On 01.04.20X3			
Cash A/c	Dr.	54,000	
To, NCI A/c [(5/20)× ₹(1,10,000+10,000)] <sup>2</sup>			30,000
To, Other Equity A/c			24,000
On 01-04-20X4			
NCI A/c (₹1,50,000+₹12,000) <sup>3</sup>	Dr.	1,62,000	
To, Other Equity A/c			12,000
To, Cash A/c			1,50,000

<sup>2</sup> On 01.04.20X2 NCI value was ₹ 1,10,000. Share of NCI for profits during 20X2-20X3 was ₹ 10,000. On 01.04.20X3 NCI (20%) is valued at ₹1,10,000 + ₹10,000 = ₹ 1,20,000. For sale of 5% shares in B Ltd. NCI is increased (credited) by (5/20)× ₹1,20,000 = ₹ 30,000.

<sup>3</sup> On 01.04.20X3 NCI value was ₹ (1,20,000 + 30,000) = ₹1,50,000. Share of NCI for profits during 20X3-20X4 was ₹ 12,000. On 01.04.20X4 NCI (25%) is valued at ₹(1,50,000+12,000) = ₹1,62,000. For purchase of 25% interest in B Ltd. NCI is decreased (debited) by (25/25) × ₹1,62,000 = ₹ 1,62,000.

<sup>2</sup> On 01.04.20X2 NCI value was ₹ 1,10,000. Share of NCI for profits during 20X2-20X3 was ₹ 50,000×20% = ₹ 10,000. On 01-04-20X3 NCI (20%) is valued at ₹1,10,000+₹10,000 = ₹ 1,20,000. For sale of 5% shares in B Ltd. NCI is increased (credited) by (5/20)× ₹1,20,000 = ₹ 30,000.

<sup>3</sup> On 01.04.20X3 NCI value was ₹1,20,000 + ₹30,000 = ₹1,50,000. Share of NCI for profits during 20X3-20X4 was ₹48,000×25% = ₹ 12,000. On 01.04.20X4 NCI (25%) is valued at ₹1,50,000 + ₹12,000 = ₹ 1,62,000. For purchase of 25% interest in B Ltd. NCI is decreased (debited) by (25/25)×₹1,62,000 = ₹ 1,62,000.

# Consolidated Financial Statements and Separate Financial Statements at Subsequent Reporting Date- Introductory Examples

## 6.6

### Let us take an illustrative problem.

Company P Ltd. acquires 80% shares of company S Ltd. on 1.4.2020 by issue of equity shares of ₹ 10 each at a premium of ₹30. The financial data of the companies at 31.3.2020 are stated below. Non-Controlling Interest is valued at fair value. (₹ in Lakhs).

Particulars	On 31-3-17			On 31-3-18	
	P Ltd.	S Ltd.	FV of S Ltd.	P Ltd.	S Ltd.
PPE	720	480	700	800	560
Investment in S				640	
Current Assets (CA)	450	350	300	500	360
Equity	500	300		1240	360
Noncurrent Liability	350	300	310	320	320
Current Liability	320	230	200	380	240

Pass entries for business combination under acquisition method and show consolidated and separate balance sheet abstract on 31.03.2020 and on 31.03.2021.

### Solution:

(₹ in Lakhs)

**WN 1.** Purchase Consideration is ₹640 (Paid Up ₹10: premium ₹30; Equity Share Capital ₹160 and Security Premium ₹480)

### WN 2. Fair Value of Net Identified Assets

	FV of S Ltd. (₹)
PPE	700
Current Assets (CA)	300
Noncurrent Liability	(310)
Current Liability	(200)
Net Assets	490

**WN 3:** NCI at fair value =  $20\%/80\% \times ₹640 = ₹160$

**WN 4.** Goodwill = Consideration + NCI – Net Assets = ₹(640 + 160 – 490) = ₹310

<b>Journal for business combination</b>		<b>Dr.</b>	<b>Cr.</b>
<b>Particulars</b>		<b>(₹)</b>	<b>(₹)</b>
On 01.04.20X3			
PPE A/c	Dr.	700	
Current Assets A/c	Dr.	300	
Goodwill A/c (WN 4)	Dr.	310	
To, Non-Current Liabilities A/c			310
To, Current Liability A/c			200
To, Purchase Consideration A/c			640
To, NCI A/c (WN 3)			160
Purchase Consideration A/c	Dr.	640	
To, Equity Share Capital A/c			160
To, Security Premium A/c			480

**Consolidated Balance Sheet (abstract) of P Ltd. and S Ltd. at 01.04.2020**

<b>Particulars</b>	<b>(₹)</b>	<b>Consolidated (₹)</b>	<b>Separate (₹)</b>
PPE	720+700	1,420	720
Goodwill		310	
Investment			640
CA	450+300	750	450
<b>Total Assets</b>		<b>2,480</b>	<b>1,810</b>
Equity	500+640	1,140	1,140
NCI		160	-
Noncurrent Liability	350+310	660	350
Current Liability	320+200	520	320
Total of Equity and Liability		2,480	

**WN 5:** Other Equity of S

<b>Particulars</b>	<b>(₹)</b>
Balance on 31-03-18	360
Less: Balance on 31-03-17	300
Increase	60
Revaluation loss of Current assets	50

Particulars	(₹)
Revaluation profit of Current liabilities	30
Net Loss	20
Revaluation net loss reverted	20
Post acquisition change in Other Equity	80
P's share	64
NCI	16

WN 6: Consolidated equity = ₹1,240 + 64 = ₹1,304

WN 7: NCI on 31.03.2021 = ₹160 + ₹16 = ₹176

Consolidated Balance Sheet (abstract) of P and S at 31.3.2021

Particulars	(₹)	Consolidated (₹)	Separate (₹)
PPE	800 + 560 + 220 (Rev)	1,580	800
Goodwill		310	
Investment			640
CA	500 + 360	860	500
<b>Total Assets</b>		<b>2,750</b>	<b>1,940</b>
Equity		1,304	1,240
NCI		176	
Noncurrent Liability	320 + 320 + 10 (Rev)	650	320
Current Liability	380 + 240	620	380
<b>Total of Equity and Liability</b>		<b>2,750</b>	<b>1,940</b>

### Illustration 3

Company P Ltd. (a listed company) acquires 60% shares in company Q Ltd. on 01.04.17 at a cost of (₹ in Lakhs) 138, paid by issue of shares of ₹ 10 at par. The abstract of balance sheets of Q (along with fair values at the acquisition date) and P at the beginning and at the end of the year are as follows: (₹ in Lakhs)

Particulars	Q Ltd.			P Ltd.	
	1-4-2021 Book Value	1-4-2021 Fair Value	31-3-2022 Book Value	1-4-2021	31-3-2022
PPE	175	200	190	276	300
Investment in Q				138	138

Particulars	Q Ltd.			P Ltd.	
	1-4-2021 Book Value	1-4-2021 Fair Value	31-3-2022 Book Value	1-4-2021	31-3-2022
Other Non-current Financial Assets	80	60	70	100	120
Inventories	45	48	50	68	80
Total assets	<u>300</u>		<u>310</u>	<u>582</u>	<u>638</u>
Equity Share Capital	130		130	338	338
Other Equity	80		90	120	150
Borrowings	60	60	64	80	100
Trade Payables	30	28	26	44	50
Total of Equity and Liabilities	300		310	582	638

Prepare consolidated balance sheet of P Ltd on 31.3.2022 based on Ind AS 110. Solution:

Abstract of Consolidated balance sheet of P Ltd. and its subsidiary Q Ltd. as at 31.3.22 (₹ in Lakhs)

Particulars	Working	(₹)
Assets:		
PPE	300+215 <sup>x</sup>	515
Goodwill		10 <sup>#</sup>
Financial Assets	120+50 <sup>z</sup>	170
Inventories	80+50 <sup>y</sup>	130
<b>Total Assets</b>		<b>825</b>
Equity and Liabilities :		
Equity Share Capital		338
Other Equity		153 <sup>\$</sup>
NCI		94 <sup>&amp;</sup>
Liabilities:		
Borrowings	100+64	164
Trade Payables	50+26	76
<b>Total of Equity and Liabilities</b>		<b>825</b>

**Working Notes:**

1. Net Assets of Q Ltd. at Fair value

(₹ in Lakhs)

Items	on 1.4.21 at Book Value	On 1.4.21 at Fair Value	Profit for Reversal of change in current items	Change in book value post acquisition
PPE	175	200		190-175 = 15
Inventories	45	48	-3	50-45 = 5
Non-current Financial Assets	80	60		70-80 = -10
<b>Total assets</b>	<b>300</b>	<b>Total = 308</b>		
Equity Share Capital	130			
Other Equity	80			90-80 = 10 <sup>k</sup>
Borrowings	60	60		64-60 = 4
Trade Payables	30	28	-2	
<b>Total of Equity and Liabilities</b>	<b>300</b>	<b>Total = 88</b>		
<b>Net Assets at Fair value</b>		<b>220</b>		

2. NCI at acquisition:

Fair Value of Consideration transferred = ₹138;

NCI recognized at Fair Value:  $40\% \times ₹138 / 60\% = ₹92@$ ;

[Alternative solution: @NCI can be measured at proportionate share of identifiable net assets =  $40\% \times ₹220 = ₹88$ ; in that case NCI will be less by 4 and Goodwill also less by 4]

3. #: Goodwill = Consideration + NCI – Fair Value of Identifiable Net Assets = ₹138 + ₹92 – ₹220 = ₹10.

4. Balance Sheet data of Q Ltd.

(₹ in Lakhs)

Particulars	1	2	3	4
	1.4.2021 Fair Value	Reversal of change in Current items to Retained Earnings	Change in Bk Value carried to subsequent B/S	Adjusted B/S On 31.3.18 (1+2+3)
PPE	200	-	+15	215 <sup>x</sup>
Inventories	48	-3 <sup>p</sup>	5	50 <sup>y</sup>
Financial Assets	60		-10	50 <sup>z</sup>
Borrowings	60		4	64
Trade Payables	(28)	-2 <sup>q</sup>		(30)

1. Post-acquisition total comprehensive income of Q =  $10^k - 3^p - 2^q = 5$ ;
2. NCI at reporting date: &:  
 NCI at the time of acquisition (@) = ₹92;  
 Share of NCI in post-acquisition TCI =  $40\% \times 5 = ₹2$ ; Total NCI at the year end = ₹92 + ₹2 = ₹94
3. Other Equity of P at the end of the year = ₹150;  
 Share of post-acquisition Total comprehensive income of Q =  $60\% \times 5 = 3$ ;  
 Other equity consolidated = ₹150 + ₹3 = ₹153. \$

**Illustration 4**

Company P Ltd. (P) acquires 80% shares of company S Ltd. (S) on 1.10.2020 by issue of equity shares at total Fair Value of ₹440 Lakhs, total paid up value ₹100 Lakhs. Non-Controlling Interest (NCI) should be measured at proportionate Net Assets. The total comprehensive income of P and S in the year ending on 31.3.2021 amounted to ₹120 Lakhs and ₹140 Lakhs respectively. The extracts from balance sheets at book values and at fair values at the date of acquisition and at 31.03.2021 are stated below. (₹ in Lakhs)

Particulars	On 1.10.2020			On 31.3.2021	
	P	S	FV of S	P	S
PPE	680	440	700	720	500
Investment in Shares of Q				440	
Current Assets	420	360	320	500	400
Total Assets	1,100	800		1,660	900
Current Liability	300	200	200	340	220
Noncurrent Liability	300	300	300	320	310
Total Liabilities	600	500		660	530
Net assets at Fair Value			520		

Equity structure of the companies:

(₹ in Lakhs)

	P Ltd.		S Ltd.	
	On 01.04.2020	On 31.03.2021	On 01.04.2020	On 31.03.2021
Equity Share Capital	200	300 <sup>x</sup>	100	100
Other Equity	240	700 <sup>x</sup>	130	270

Prepare CBS on 01.10.2020 and on 31.03.2021.

**Solution:****Working Notes:**

(₹ in Lakhs)

1. Analysis of profits of S:	Pre-acquisition	Post-acquisition
Other Equity on 01.04.2020	130	
Revaluation Profit/Loss ₹(260-40) Lakhs	220	
Profits during the year ₹140 Lakhs		
50%× ₹140 Lakhs pre and 50% post	70	70
Revaluation loss on Current Asset reverted		40 <sup>z</sup>
Other Equity on 01.10.2017	<b>420</b>	<b>110</b>
Share of P 80%		88 <sup>@</sup>
Share of NCI 20%		22 <sup>@</sup>

2. Net Assets of S at Fair Value represented by Equity Share Capital + Pre-acquisition Profits (Other Equity at acquisition):

Equity Share Capital                      ₹ 100 Lakhs

Other Equity on 01.10.2020            ₹ 420 Lakhs

Net Assets                                      ₹ 520 Lakhs

3. NCI at acquisition =  $20\% \times 520 = 104^s$
4. Goodwill = Purchase Consideration + NCI – Net Assets = ₹ (440 + 104 – 520) = ₹ 24 Lakhs<sup>#</sup>

**Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd as on 01.10.2020**

Particulars	Workings	(₹ in Lakhs)
PPE	680 + 700	1,380
Goodwill		24 <sup>#</sup>
Current Assets	420 + 320	740
<b>Total Assets</b>		<b>2,144</b>
Equity Share Capital	(200 + 100)	300
Other Equity on 01.10.2020	(240 + 60 + 340)	640
NCI		104 <sup>s</sup>
Noncurrent Liability	300+300	600
Current Liability	300+200	500
<b>Total of Equity and Liabilities</b>		<b>2,144</b>

**Consolidated Balance Sheet of P Ltd. and its subsidiary S Ltd. as on 31.03.2021**

Particulars	Workings	(₹ in Lakhs)
PPE	720 + 500 + 260	1,480
Goodwill		24 <sup>#</sup>
Current Assets	500 + 400 - 40 + 40 <sup>z</sup>	900
<b>Total Assets</b>		<b>2,404</b>
Equity Share Capital		300 <sup>x</sup>
Other Equity	700 <sup>x</sup> + 88 <sup>@</sup>	788
NCI	104 <sup>s</sup> + 22 <sup>@</sup>	126
Noncurrent Liability	320 + 310	630
Current Liability	340 + 220	560
<b>Total of Equity and Liabilities</b>		<b>2,404</b>

**Illustration 5**

D Co. Ltd acquired 60% shares of G Co. Ltd. on 1st October 2020. The Retained Earnings balance of G on 01.04.2020 was ₹ 5,000. G declared dividend for 2020-2021 ₹ 6,000 (accounted in books of G but not accounted in books of D).

The abstracts from balance sheets of D and G as at 31.03.2021 are:

(Amount in ₹)

Particulars	D	G
PPE	60,000	30,000
Investments: Shares in G	24,000	
Current Assets	20,000	16,000
Total Assets	1,04,000	46,000
Equity Shares	50,000	25,000
Other Equity (Retained Earnings)	25,000	11,000
Current Liabilities	29,000	10,000
Total of Equity and Liabilities	1,04,000	46,000

Required: Separate and Consolidated Balance sheet as at 31.03.2021

**Solution:**

(Amount in ₹)

**WN 1:** Share of parent and NCI in subsidiary: Share of D = 60%

NCI = 40%

**WN 2:** Pre-acquisition profits of G:

Particulars	(₹)	Pre (₹)	Post (₹)
Retained Earnings on 01.04.2020			5,000
Retained Earnings on 31.03.2021	11,000		
Add: dividend declared	6,000		
Earnings before dividend	17,000		
Less: Opening balance	5,000		
Profits during the year	12,000	6,000	6,000
		11,000	6,000

Acquisition being made in the mid of the year profits during the year is divided equally between Pre and Post.  
 Share of NCI in post-acquisition profits = ₹6,000 × 40% = ₹2,400

**WN 3 :** FV of net assets identified as at 01.10.2020:

Particulars	(₹)
Equity Shares	25,000
Pre-acquisition Profits	11,000
Book Value of Net Assets as at 01.10.2020	26,000
<b>It is assumed that Fair value is same as Book value.</b>	
Thus fair value of Net Assets identified = ₹36,000	
WN 4: Goodwill:	
Purchase consideration (investment)	24,000
NCI (FV) at acquisition (40/60) × ₹24,000	<u>16,000</u>
Total	40,000
Less: Net Assets identified (WN 3)	<u>36,000</u>
Goodwill	4,000
WN 5: NCI at acquisition	16,000
Add: share of Post-acquisition profit 40% × ₹6,000	2,400 (WN 2)
Less: Dividends payable to NCI 40% × ₹6,000	2,400
	(to be shown as current liability)
NCI at reporting date	16,000
WN 6: Consolidated other equity:	
Other equity of D	25,000

Particulars	₹
Share of post-acquisition profit of G (60% × ₹6,000)	3,600

Consolidated Balance Sheet as at 31.03.2021

Assets	Separate	Consolidated	
Non-current Assets			
PPE	60,000	60,000 + 30,000	90,000
Investment (24000-1800)	22,200		
Goodwill (WN 4)			4,000
Current Assets (20000+3600)	23600	20,000 + 16,000	36,000
<b>Total</b>	<b>1,05,800</b>		<b>1,30,000</b>
Equity and Liabilities			
Equity			
Equity Share Capital	50,000		50,000
Consolidated Other Equity (WN 6)	26,800		28,600
NCI (WN 5)			16,000
Current Liabilities (WN 7)	29,000	29000 + 6400	35,400
<b>Total</b>	<b>1,05,800</b>		<b>1,30,000</b>

**Illustration 6**

Company P Ltd. (a listed company) invests in shares of company Q Ltd. on 01.04.2020 at a cost of ₹ 66,000, paid by cash. During the financial year 2020-2021, Q made profits of ₹ 20000 and other comprehensive income of ₹ 10,000. The following alternative scenarios are presented:

- I. Investment entails 25% voting power and significant influence over Q.
- II. P does have joint control of Q, a joint venture.
- III. Investment entails significant influence over Q, which is a Joint Venture and P does not have joint control of Q.
- IV. P does not have significant influence over Q.
- V. P does not have joint control of or significant influence over Q, which is a joint venture. For each of the cases I, II, III, IV and V:
  - (a) State whether for the investment in shares of Q, P requires preparation of consolidated financial statements and separate financial statements.
  - (b) Pass the journal entries in books of P at the time of purchase of shares.
  - (c) Show the relevant accounting treatment at the end of the year for

- (i) consolidated financial statements,
- (ii) separate financial statements and
- (iii) Individual financial statements of P.

**Solution:**

- (a) In cases I, II and III, P Ltd. requires preparation of consolidated financial statements for its investment in Q Ltd.

In case I, Q is an Associate because P has significant influence in Q by virtue of its 25% voting power. In case II, Q is a joint venture in which P has joint control.

In case III, Q is a joint venture in which P does not have joint control, but has significant influence. For each of the above cases, Ind AS 28 requires that accounting for investment in associate or in joint venture (having joint control or significant influence) should be made under equity method in the consolidated financial statement.

Ind AS 28 also requires P the investor company to prepare separate financial statement as per Ind AS 27. For cases IV and V, P requires preparation of Individual financial statements.

- (b) Journal Entry on 01.04.2020 for cases I, II and III for both Consolidated and separate financial statements:

Particulars		Dr. (₹)	Cr. (₹)
Investment A/c	Dr.	66,000	
	To, Cash A/c		66,000

Journal Entry for cases IV and V: As per Ind AS 109 for Individual financial statements. At initial measurement:

Particulars		Dr. (₹)	Cr. (₹)
Investment A/c	Dr.	66,000	
	To, Cash A/c		66,000

- (c) Journal Entry on 31-03-2018 for cases I, II and III:

There will be two sets of accounting at the end the year, one (i) for consolidated accounts and the other (ii) for separate financial statements.

- (i) For consolidated accounts Ind AS 28 requires the recognition of investment by equity method.

Particulars		Dr. (₹)	Cr. (₹)
Investment A/c		7,500	
	To Profit and Loss A/c		5,000
	To Other Comprehensive Income A/c		2,500

**Working Note:** Change in investee’s Net Assets = ₹20,000 + ₹10,000 = ₹30,000;

Share of P = 25% of ₹30,000 = ₹7500.

Investor’s Profit or loss includes 25% of ₹20,000 = ₹5,000 and other comprehensive income includes 25% of ₹10,000 = ₹2,500.

- (ii) At the yearend for the separate financial statements of P, Investment is valued at cost at ₹ 66,000 or at a value as per Ind AS 109.

Note: There will be no individual financial statement of P for cases I, II and III.

For cases IV and V: Investment shall be valued as per Ind AS 109 in Individual financial statements. There will be no consolidated and no separate financial statement

**Illustration 7**

The financial data of the companies P and S at 31.03.2020 and at 31.03.2021 are stated below. (₹ in Lakhs)

Particulars	On 31.03.2020		On 31-3-2021	
	S (Individual B/S) (₹)	Fair Value of S (₹)	P (Separate B/S) (₹)	S (Individual B/S) (₹)
PPE	480	700	750	500
Investment in S (60% shares acquired on 01.04.2020 by issue of Equity)			480	
CA	350	300	540	400
			1,770	900
Equity	300		1,070	360
Non-current Liability	300	310	360	330
Current Liability	230	200	340	210

Prepare Consolidated Balance Sheet.

**Solution:**

(₹ in Lakhs)

**WN 1:** Purchase consideration = 480

**WN 2:** Fair value of net identified assets at the date of acquisition:

	Fair Value of S (₹)	Revaluation profits (loss)	
		Non-Current (₹)	Current (₹)
PPE	700	220	
CA	300		(50)
Noncurrent Liability	310	(10)	
Current Liability	200		30
Net assets	490		(20)

**WN 3:** Post-acquisition TCI of S:

Particulars	(₹ in Lakhs)
Equity on 31.03.2021	360

Particulars	(₹ in Lakhs)
Less Equity on 31.03.2020	300
TCI Post-Acquisition (assumed no fresh issue of shares)	60
Add: Reversal of Revaluation loss on Current items#	20
Adjusted Post-acquisition TCI	80
Share of Parent (60% × ₹80)	48
Share of NCI (40% × ₹80)	32

# Revaluation profit (loss) on current items at acquisition date is reverted against post acquisition profits (loss) of subsidiary

WN 4: NCI at proportionate net assets at acquisition date = 40% × 490 = 196

Particulars	(₹ in Lakhs)
Add: Share of NCI in post-acquisition TCI	32
NCI at reporting date	228

WN 5: Goodwill = Consideration + NCI at acquisition – Net Assets = 480 + 196 – 490 = 186

WN 6: Consolidated Equity:

Particulars	(₹ in Lakhs)
Equity of P	1,070
Share of P in Post-acquisition TCI of S	48
Consolidated Equity	1,118

**Consolidated Balance Sheet of P and S on 31.03.2021**

(₹ in Lakhs)

	Book Value	Adjustment on non-current items (FV – BV)	Consolidated
PPE	750 + 500	+220	1,470
Goodwill		WN 5	186
CA	540 + 400	[revaluation loss 50]₹	940
Total Assets			<b>2,596</b>
Equity		WN 6	1,118
NCI		WN 4	228
Noncurrent Liability	360 + 330	+10	700
Current Liability	340 + 210	[revaluation gain 30]₹	550
Total of Equity and Liability			<b>2,596</b>

\$ Net revaluation loss on current items ₹(50-30) Lakhs = ₹20 Lakhs is not adjusted in consolidated value, rather it is reverted to Retained earnings and TCI of S is increased.

### Illustration 8

Company Sky Ltd. (a listed company) acquires 60% shares in company Cloud Ltd. on 01.04.2020 at a cost of ₹1,50,000, paid by issue of shares of ₹ 10 (Market Price ₹ 25). The abstract of balance sheets of Cloud (along with fair values at the acquisition date) and Sky at the end of the year 2019-2020 and 2020- 2021 are as follows:

Particulars	Cloud (₹Lakhs)		31.03.2021 Book Value	Sky (₹Lakhs)	
	31.03.2020 Book Value	31.03.2020 Fair Value		31.03.2020	31.03.2021
PPE	1,94,000	2,10,000	2,06,000	2,80,000	3,00,000
Investment in Q					1,50,000
Inventories	45,000	54,000	58,000	74,000	80,000
Financial Assets	88,000	50,000	98,000	1,00,000	1,20,000
<b>Total Assets</b>	<b>3,27,000</b>		<b>3,62,000</b>	<b>4,54,000</b>	<b>6,50,000</b>
Equity Share Capital	1,50,000		1,50,000	2,00,000	2,60,000
Other Equity	87,000		1,17,000	1,20,000	2,40,000
Borrowings	60,000	60,000	64,000	90,000	1,00,000
Trade Payables	30,000	25,000	31,000	44,000	50,000
<b>Total</b>	<b>3,27,000</b>		<b>3,62,000</b>	<b>4,54,000</b>	<b>6,50,000</b>

(a) Pass journal entries in consolidated accounts of P and show consolidated balance sheet on 1.04.2020 based on Ind AS 103 and Ind AS 110 and separate balance sheet of P on 1.04.2020 based on Ind AS 27.

(b) Prepare consolidated balance sheet of P on 31.03.2021 based on Ind AS 110.

### Solution:

Working Note 1: Assets and liabilities of Cloud recognized at Fair value.

(₹ Lakhs)

Particulars	01.04.2020 Fair Value
PPE	2,10,000
Inventories	54,000
Financial Assets	50,000
<b>Total</b>	<b>3,14,000</b>
Borrowings	60,000
Trade Payables	25,000
<b>Total</b>	<b>85,000</b>

Particulars	01.04.2020 Fair Value
Net Assets at fair value	2,29,000\$

(a) Journal entries in books of Sky:

Particulars	Dr. (₹)	Cr. (₹)
PPE A/c	Dr. 2,10,000	
Inventories A/c	Dr. 54,000	
Financial Assets A/c	Dr. 50,000	
Goodwill A/c (balancing Figure #)	Dr. 21000	
To, Consideration		1,50,000
To, NCI @ A/c		1,00,000
To, Borrowings A/c		60,000
To, Trade Payables A/c		25,000
Consideration A/c	Dr. 1,50,000	
To Equity Share Capital A/c [(10/25) × ₹1,50,000]		60,000
To Security Premium A/c (Other Equity) [(15/25) × ₹1,50,000]		90,000

**[Working Notes:**

@ NCI recognized at Fair Value:  $40\% \times ₹1,50,000/60\% = ₹1,00,000$ ;

# Goodwill = Consideration + NCI – Fair Value of Identifiable Net Assets = ₹1,50,000 + ₹1,00,000@ – ₹2,29,000\$ = ₹21,000.

Alternative solution: @ NCI can be measured at proportionate share of identifiable net assets =  $40\% \times ₹2,29,000 = ₹91,600$ .

Balance sheet (abstracts) of Sky and Cloud as at 01.04.2017 (based on Ind AS 103, Ind AS 110 and Ind AS 27)

(₹ Lakhs)

Particulars	Cloud (Fair Value)	Sky	Consolidated
		Separate	
PPE	2,10,000	2,80,000	4,90,000
Goodwill			21000
Investment in Cloud		1,50,000	
Inventories	54,000	74,000	1,28,000
Financial Assets	50,000	1,00,000	1,50,000
Total assets		6,04,000	7,89,000

Particulars	Cloud (Fair Value)	Sky	Consolidated
		Separate	
Equity Share Capital		2,60,000	2,60,000
Other Equity [1,20,000 + 90,000]		2,10,000	2,10,000
NCI			1,00,000
Borrowings	60,000	90,000	1,50,000
Trade Payables	25,000	44,000	69,000
Total of Equity and Liabilities		6,04,000	7,89,000

**(b) Working Note 1: Adjustment to Balance sheet data of Cloud**

(₹ Lakhs)

Particulars	1	2	3	4	5	6
	31.03.17 Book Value	01.04.17 Fair Value	Revalua- tion Profit (loss) of current items	Reversal of change in Current items to Retained Earnings	Change in Bk Value carried to subse- quent B/S	Adj. B/S on 31.03.18
PPE	1,94,000	2,10,000		-	12,000	2,22,000 <sup>x</sup>
Financial Assets	88,000	50,000			10,000	60,000 <sup>z</sup>
Inventories	45,000	54,000	+9,000	-9,000	13,000	58,000 <sup>y</sup>
Borrowings	60,000	60,000	-	-	4,000	64,000
Trade Payables	30,000	25,000	+5,000	-5,000	1,000	31,000
Total				-14,000		

**Working Note 2: #:** Goodwill is recognised in (a) above.

**Working Note 3:** NCI at the year-end NCI at the time of acquisition = ₹1,00,000

Post-acquisition total comprehensive income of Cloud = ₹1,17,000 – ₹87,000 – ₹14,000 = ₹16,000;

Share of NCI = 40% × 16,000 = 6,400;

Total NCI at the year-end = ₹1,00,000 + ₹6,400 = ₹1,06,400.

**Working Note 4: \$:** Other Equity Consolidated Other Equity of Sky Ltd. at the end of the year = ₹2,40,000;

Share of post-acquisition Total comprehensive income of Cloud Ltd. = 60% × ₹16,000 = ₹9,600;

Other Equity Consolidated = ₹2,40,000 + ₹9,600 = ₹2,49,600.

**Abstract of Separate of Sky and Consolidated balance sheet of the group as at 31.03.18** (₹ Lakhs)

Particulars	Adjusted value of Cloud	Sky (Separate balance sheet)	Consolidated Balance Sheet
PPE	2,22,000 <sup>x</sup>	3,00,000	5,22,000
Goodwill			21,000 <sup>#</sup>
Investment in Q		1,50,000	
Financial Assets	60,000 <sup>z</sup>	1,20,000	1,80,000
Inventories	58,000 <sup>y</sup>	80,000	1,38,000
Total Assets	<u>3,34,000</u>	<u>6,50,000</u>	<u>8,61,000</u>
Equity Share Capital		2,60,000	2,60,000
Other Equity		2,40,000	2,49,600 <sup>s</sup>
NCI			1,06,400 <sup>&amp;</sup>
Borrowings	64,000	1,00,000	1,64,000
Trade Payables	31,000	50,000	81,000
Total of Equity and Liabilities	<u>3,65,000</u>	<u>6,50,000</u>	<u>8,61,000</u>

**Illustration 9**

X Ltd. acquires 80% of equity of Y Ltd. on 31.03.20x5 at cost of ₹110 Lakhs, when the Equity Share Capital and Other Equity of Y Ltd. were ₹40 Lakhs and ₹80 Lakhs respectively. For the years ending on 31.03.20x6 and 31.03.20x7, Y Ltd accounted Total Comprehensive Income of (₹15 Lakhs) and ₹25 Lakhs. Recognise NCI at Proportionate Net Asset Measure. X Ltd's share in post-acquisition profits of Y Ltd. and Goodwill to be shown in CFS of X Ltd. at the end of the years. The revaluation profit/loss for the difference between Fair Value and carrying amount of Assets and Liabilities of Y Ltd. at acquisition date and the abstracts of separate balance sheet of X Ltd. and individual balance sheet of Y Ltd. as at 31.03.20x8 are as follows: (₹ Lakhs)

	Revaluation profit (+)/ loss (-) at acquisition	X at 31.03.20x8	Y at 31.03.20x8
Non-Current Assets	+ 25	480	240
Investment in shares of Y at cost		110	
Current Assets	- 15	310	160
Total Assets		900	400
Equity Share Capital		200	40
Other Equity		300	120
Non-Current Liabilities	- 10	300	140
Current Liabilities	+ 5	100	100
Total Equities and Liabilities	+ 5	900	400

Prepare the consolidated balance sheet at 31-03-20X8.

**Solution:**

**Workings:**

At the end of the years	31.03.20x5	31.03.20x6	31.03.20x7	31.03.20x8
<b>TCI</b>		(15)	25	120 - 90 = 30
Other Equity of Y Ltd.	80	85 - 15 = 65	65 + 25 = 90	120
Net Asset at Balance Sheet value = Equity Share Capital + Other Equity	40 + 80 = 120			
Revaluation Profit/loss at acquisition	5			
Net Assets at Fair Value at acquisition	125			
Revaluation profit/loss on current items reverted in next year (reversal)		+10		
Adjusted TCI (L)		-15 + 10 = -5	25	30
(Adjusted) Net Assets = Opening Net Assets + Adj. TCI (M)		125 - 5 = 120	120 + 5 = 145	145 + 30 = 175
Consideration (Investment at cost)	110			
a. NCI = Net Asset (M) × 20%	25	24	29	35
b. Goodwill = Consideration + NCI – Net Assets at acquisition	10			
X Ltd's share in post-acquisition profits = 80% × Adj TCI (L) (P)	-	(4)	20	24
Other Equity of X at 31-03-20X8				300
Add: Share of post-acquisition profits of Y		- 4 + 20 + 24		40
c. Consolidated other equity				340

	Workings	Consolidated
Non-Current Assets	480 + 240 + 25 (revaluation profit)	745
Goodwill	b	10
Current Assets	310 + 160	470
Total Assets	900	1,225
Equity Share Capital	200	200
Other Equity	c	340
NCI	a	35

	Workings	Consolidated
Non-Current Liabilities	300 + 140 + 10 (revaluation loss)	450
Current Liabilities	100 + 100	200
Total		1,225

**Illustration 10**

P acquires 60% shares in Q on 01.10. 2020 at ₹30,000. Q makes profits 20000 in the year 2020-21 and declared dividend 9000. NCI is valued at proportionate net assets. Abstracts of Separate Balance Sheet of P (Dividend from subsidiary not accounted) and Individual Balance Sheet of Q as at 31-03- 2021: (₹ Lakhs)

	P	Q
PPE	50,000	30,000
Investment in shares of Q at cost	30,000	
Current Assets	20,000	28,000
	1,00,000	58,000
Equity Share Capital (₹10)	60,000	25,000
Other Equity	25,000	15,000
Current Liabilities		
Trade Payables	15,000	9,000
Dividend Payable		9,000
	1,00,000	58,000

Show Consolidated Balance Sheet and Separate Balance Sheet of P.

**Solution:****Working Notes:**

1. Analysis of profits of Q:

$$\begin{aligned} \text{Opening P/L} &= \text{Other Equity at the end} + \text{Dividend} - \text{Profits for the year} \\ &= ₹(15,000 + 9,000 - 20,000) = ₹4,000 \end{aligned}$$

2. Net Assets identified on acquisition in the mid of the year, represented by Value of Equity of Q  
 $= ₹25,000 + \text{Pre acquisition profits (Opening P/L} + 50\% \text{ of yearly profit)}$   
 $= ₹(25,000 + 4,000 + 10,000) = ₹39,000 \text{ (A)}$

3. Goodwill = B + C - A = ₹(15,600 + 30,000 - 39,000) = ₹6,600

$$\text{Where: A} = ₹39,000$$

$$\text{B NCI} = 40\% \times ₹39,000 = ₹15,600$$

$$\text{C Consideration} = \text{Investment in shares of Q} = ₹30,000.$$

4. NCI at the reporting date  
 = NCI at acquisition + Share of NCI in post-acquisition profits of Q – Dividend payable to NCI  
 = ₹15,600 + 40% × ₹10,000 (50% of yearly profit) - 40% × 9000 (dividend payable to be shown separately)  
 = ₹15,600 + ₹4,000 – ₹3,600 = ₹16,000.
5. Consolidated Other Equity = P's Other Equity + Share from Post acquisition profits of Q  
 = ₹25,000 + 60% × ₹10,000 = ₹31,000
6. Separate Other Equity = ₹25,000 + ₹ 2,700 (post-acquisition profits) = ₹27,700 (₹ in Lakhs)

	In P's Book	
	Separate	Consolidated
Goodwill (3)		6,600
PPE = ₹(50,000 + 30,000)	50,000	80,000
Investment in shares of Q ₹(30,000 – 2,700 Pre-acquisition Dividend)	27,300	
Current Assets ₹(20,000 + 5,400 Dividend Receivable)	25,400	48,000#
	1,02,700	1,34,600
Equity Shares	60,000	60,000
Other Equity (5)	27,700	31,000
NCI (4)		16,000
Current Liabilities		
Trade Payables	15,000	24,000
Dividend Payable (to NCI)		3,600
	1,02,700	1,34,600

# (20000 + 28000 = 48000); In Consolidated balance sheet Inter-company dividend is set off and does not appear.

**Illustration 11**

On 01.04.2020 BB Ltd. acquired 90% share of CM Ltd. at ₹10,80,000, when the fair value of its Net Assets was 1000000. During 01.04.2020 to 31.03.21 CM Ltd made TCI ₹2,00,000. On that date BM sold 15% holding to outsiders at 220000. Pass journal entries for sale of partial holding retaining control.

**Solution:**

**Workings:**

Net Assets on 31.03.2021 = ₹10,00,000 + ₹2,00,000 (TCI) = ₹12,00,000

Carrying amount of 15% holding sold ie. NCI recognized (assumed at proportionate net asset)

= 15% × ₹12,00,000 = ₹1,80,000

Sale Price = ₹2,20,000

Gain credited to Other Equity = ₹2,20,000 – ₹1,80,000 = ₹40,000

<b>Journal:</b>		<b>Dr.</b>	<b>₹Cr.</b>
Particulars		(₹)	(₹)
Bank A/c	Dr.	2,20,000	
To, NCI A/c			1,80,000
To, Other Equity A/c			40,000

**Alternative:**

NCI assumed to be recognized at fair value:

Carrying amount of 15% holding sold ie. NCI recognized (at fair value) =  $15\% \times ₹10,80,000 + 15\%$  of ₹2,00,000 (TCI) = ₹1,92,000

Sale price = ₹2,20,000

Gain credited to Other Equity = ₹2,20,000 – ₹1,92,000 = ₹28,000

<b>Journal:</b>		<b>Dr.</b>	<b>Cr.</b>
Particulars		(₹)	(₹)
Bank A/c	Dr.	2,20,000	
To, NCI A/c			1,92,000
To, Other Equity A/c			28,000

# Consolidated and Separate Financial Statements of Group Entities-Advanced Level Discussion and Examples (Including Inter-Company Investments, Chain Holding, Cross Holding and Other Relevant Matters)

## 6.7

### Illustration 12

Prepare Consolidated Balance Sheet (CBS) of a group of P Ltd., Q Ltd. and R Ltd. for which the abstracts of Balance sheets on 31.03.2021 are given below. (₹ in Lakhs)

Particulars	P	Q	R
PPE	400	500	320
Investment in Q (80%)	480		
Investment in R (75%)		300	
Current Assets:			
Inventory	250	80	60
Trade Receivables	280	120	200
Bills Receivables	70		50
Cash and Bank	180	50	60
Total Assets	1660	1050	690
Equity and Liabilities			
Equity Share Cap (₹ 10)	600	500	300
Other Equity	460	160	120
Current Liabilities			
Trade Payables	500	250	200
Dividend Payable		50	
Bills Payables	100	90	70
Total	1660	1050	690

Control was acquired on 01.10.2020 when fair value of PPE was in excess of carrying amount by Q: 50 and R: 30. On 01.04.2020 the balances of Other Equity were Q : 100 and R : 50 NCI is measured at fair value.

Inventory of Q included 16 purchased from R at cost plus 33.33%.

Bills Receivables of R includes 30 from P and Bills Receivables of R includes 40 from Q.

**Solution:**

Consolidated Balance sheet of the group as at 31-03-2021 (₹ in Lakhs)

Assets	Workings (₹)	(₹)
Non-Current:		
PPE	400 + 500 + 320 + 50 + 30	1,300
Current Assets:		
Inventory	250 + 80 + 60 - 4	386
Trade Receivables	280 + 120 + 200	600
Bills Receivables	70 + 50 - 30 - 40	50
Cash and Bank	180 + 50 + 60	290
<b>Total Assets</b>		<b>2,626</b>
<b>Equity and Liabilities</b>		
Equity Share Cap		600
Other Equity	Note 2	641
NCI of Q	Note 3	61
NCI of R	Note 2	174
<b>Current Liabilities</b>		
Trade Payables	500+250+200	950
Dividend Payable		10
Bills Payables	100+90+70-30-40	190
<b>Total</b>		<b>2,626</b>

**Workings:**

I. Share of parent and NCI Share of P in Q = 80% Share of Q in R = 75%

Share of Group in R = 80% × 75% = 60% NCI in R = 40%

II. Analysis of Profits

(₹ in Lakhs)

Particulars	P	Q	R
Other Equity at the yearend + dividend payable	460	210	120
Other Equity at the beginning		100	50
Profits during the year		110	70
Pre-acquisition upto 30.09.2020		55	35
Post-acquisition Profits		55	35

Particulars	P	Q	R
Share from Q = $80\% \times ₹55$	44		
Share from R = $60\% \times ₹35$	21		
	525		
Less Unrealised Profits in inter-company Inventory = $16 \times 1/4$	4		
Other Equity	521		

## III. Net Assets on acquisition

Particulars	Q (₹)	R (₹)
Share Cap	500	300
Other Equity on 01.04.2020	100	50
Revaluation	50	30
Add Profits	55	35
Net Assets	705	415

## IV. NCI on 01-10-2020

Consideration $\times$ (NCI Share/Parent Share)	Q (₹)	R (₹)
NCI - Q = $480 \times 20\%/80\%$	120	
NCI - R = $300 \times 40\%/75\%$		160

**Note 1:** Goodwill/ Bargain Purchase

Particulars		Q (₹)	R (₹)	Consolidated (₹)
Net Assets	a	705	415	
Consideration	b	480	240 <sup>s</sup>	
NCI on acquisition at fair value	c	120	160	
Gains on bargain Purchase	a- (b + c)	105	15	
Net amount to Other Equity				120

<sup>s</sup>  $80\% \times ₹300$

**Note 2:** Consolidated Other Equity = Other Equity (II) + Net Gains on Bargain Purchase  
 = (₹521+ ₹120) Lakhs = ₹641 lakhs

**Note 3:** NCI on 31.03.2021

Particulars	Q (₹)	R (₹)
NCI on acquisition	120	160

Particulars	Q (₹)	R (₹)
Post acquisition profit = Q: $55 \times 20\%$ ; R: $₹35 \times 40\%$	11	14
Less: NCI share in investment in R = $20\% \times ₹300$	-60	
Less; Dividend payable	-10	
NCI on Reporting date	61	174

### Consolidated Balance Sheet: Treatment of Dividend

For the companies where Ind AS is applied, preparation of consolidated financial statements is based on Ind AS 103 and Ind AS 110.

When dividend is declared by the subsidiary company it appears as a deduction from Profit and Loss of subsidiary and as a current liability in subsidiary's balance sheet. In the books of the parent company the dividend receivable is shown as current asset and credited to Profit and Loss (if it is from post-acquisition profit) or Investment a/c (if it is from pre-acquisition profits). If pre-acquisition dividend is wrongly credited to parent's Profit and Loss, both Investment a/c and parent's Profit and Loss are reduced by the share of parent in pre-acquisition dividend. But it is important to keep in mind that this treatment is done in the separate financial statements only.

When Ind AS 103 is followed, purchase consideration at the acquisition date is added with NCI and Fair value of previously held equity interest and from the total fair value of net assets identified is subtracted for finding the goodwill to be recognized. This goodwill recognized at acquisition date is not adjusted afterwards for any declaration of dividend by the subsidiary, even if it is from pre-acquisition profits. It is not required also. As dividends from pre-acquisition profits were already included in the acquisition date fair value of net assets, it is no more required to be deducted separately from Purchase consideration again. Thus, it is clear that for calculating goodwill in the consolidation of accounts pre-acquisition dividends need not be subtracted from Investment (Purchase consideration). One illustrative example is given below.

#### Illustration 13

D Co. Ltd acquired 60% shares of G Co. Ltd. on 1<sup>st</sup> October 2020. The Retained Earnings balance of G on 1-4-2020 was ₹ 5,000. G declared dividend for 2020-21 ₹ 6000 (accounted in books of G but not accounted in books of D).

The abstracts from balance sheets of D and G as at 31-03-2021 are:

(Amount in ₹)

Particulars	D (₹)	G (₹)
PPE	60,000	30,000
Investments: shares in G	24,000	
Current Assets	20,000	16,000
Total Assets	1,04,000	46,000
Equity Shares	50,000	25,000
Other Equity (Retained Earnings)	25,000	11,000

Particulars	D (₹)		G (₹)	
Current Liabilities		29,000		10,000
Total Equity and Liabilities		1,04,000		46,000

Required: Consolidated Balance sheet as at 31-03-2021

**Solution:**

(Amount in ₹)

**WN 1:** Share of parent and NCI in subsidiary:

Share of D = 60%

NCI = 40%

Required: Consolidated Balance sheet as at 31.03.2021

**WN 2:** Pre-acquisition profits of G:

Particulars	(₹)	Pre (₹)	Post (₹)
Retained Earnings on 01.04.2020		5,000	
Retained Earnings on 31.03.2021	11,000		
Add: dividend declared	6,000		
Earnings before dividend	17,000		
Less: Opening balance	5,000		
Profits during the year	12,000	6,000	6,000
		11,000	6,000

Acquisition being made in the mid of the year profits during the year is divided equally between Pre and Post.

Share of NCI in post-acquisition profits = ₹ 6,000 × 40% = ₹2,400

**WN 3:** FV of net assets identified as at 01.10.2020:

Particulars	(₹)
Equity Shares	25,000
Pre-acquisition profits	11,000
Book Value of Net Assets as at 01.10.2020	36,000

It is assumed that Fair value is same as Book value.

Thus Fair Value of Net Assets identified = ₹36,000

**WN 4: Goodwill:**

Particulars	(₹)
Purchase consideration (investment)	24,000
NCI (FV) at acquisition $(40/60) \times ₹24,000$	16,000
Total	40,000
Less: Net Assets identified (WN 3)	36,000
Goodwill	4,000

**WN 5:**

Particulars	(₹)
NCI at acquisition	16,000
Add: share of Post-acquisition profit $40\% \times ₹6,000$	2,400
	(W.N. 2)
Less: Dividends payable to NCI $40\% \times ₹6,000$ (to be shown as current liability)	2,400
NCI at reporting date	16,000

**WN 6: Consolidated other equity:**

Particulars	(₹)
Other equity of D	25,000
Share of post-acquisition profit of G $(60\% \times ₹6,000)$	3,600
	28,600

**WN 7: Current liabilities of G:**

Particulars	(₹)
Balance as per B/S	10,000
Less: Dividend payable (included in CL)	6,000
Other current liabilities	4,000
Dividend payable to NCI $40\% \times ₹6,000$	2,400
	6,400

## Consolidated Balance Sheet as at 31-03-2021

Particulars	(₹)	(₹)
Assets		
Non-current assets		
PPE	60,000 + 30,000	90,000
Goodwill (WN 4)		4,000
Current assets	20,000 + 16,000	36,000
Total		1,30,000
Equity and Liabilities		
Equity Share Capital		50,000
Consolidated Other Equity (WN 6)		28,600
NCI (WN 5)		16,000
Current Liabilities (WN 7)	29,000 + 6,400	35,400
<b>Total</b>		<b>1,30,000</b>

# Accounting and Reporting of Joint Operation

## 6.8

### Ind AS 111: Joint Arrangements

1. Meaning of Joint Arrangement: A joint arrangement is an arrangement of which two or more parties have joint control.

[An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. Note, at least two of all the parties must have joint control.]

2. Scope: This Ind AS shall be applied by all entities that are a party to a joint arrangement.  
[whether or not it has joint control]
3. Objectives:
  - a. The objective of Ind AS 111 is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (ie joint arrangements).
  - b. To meet the objective this Ind AS defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.
4. Characteristics of Joint Arrangement: A joint arrangement has the following characteristics:
  - (a) The parties are bound by a contractual arrangement.
  - (b) The contractual arrangement gives two or more of those parties joint control of the arrangement.
5. Meaning of Joint Control: Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.[At least two of all the parties must have shared control as joint operators or joint venturers.]
6. Type of Joint Arrangement: An entity shall determine the type of joint arrangement in which it is involved. A joint arrangement is either a joint operation or a joint venture.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

### Illustration 14

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent

ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement and the joint arrangement is classified as Joint Venture.

However, if parties modify the features of the corporation through their contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion, such contractual modifications to the features of a corporation can cause the joint arrangement to be a Joint Operation.

7. Financial statements of parties to a joint arrangement classified as Joint operations:
  - A. A joint operator shall recognise in relation to its interest in a joint operation:
    - (a) its assets, including its share of any assets held jointly;
    - (b) its liabilities, including its share of any liabilities incurred jointly;
    - (c) its revenue from the sale of its share of the output arising from the joint operation;
    - (d) its share of the revenue from the sale of the output by the joint operation; and
    - (e) its expenses, including its share of any expenses incurred jointly.
  - B. A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation.
8. Financial statements of parties to a joint arrangement classified as Joint venture:
  - a. A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28, Investments in Associates and Joint Ventures, unless the entity is exempted from applying the equity method as specified in that standard.
  - b. A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, Financial Instruments, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with Ind AS 28.
9. Separate financial statements:
  - A. In its separate financial statements, a joint operator or joint venturer shall account for its interest in:
    - (a) a joint operation in accordance with paragraph 7;
    - (b) a joint venture in accordance with paragraph 10 of Ind AS 27, Separate Financial Statements.
  - B. In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:
    - (a) a joint operation in accordance with paragraph 23;
    - (b) a joint venture in accordance with Ind AS 109, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of Ind AS 27.

## **Ind AS 112: Disclosure of Interests in Other Entities**

### **1. Objective:**

- A. The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:
  - (a) the nature of, and risks associated with, its interests in other entities; and
  - (b) the effects of those interests on its financial position, financial performance and cash flows.
- B. To meet the objective in para A, an entity shall disclose:
  - (a) the significant judgements and assumptions it has made in determining:
    - (i) the nature of its interest in another entity or arrangement;
    - (ii) the type of joint arrangement in which it has an interest
    - (iii) that it meets the definition of an investment entity, if applicable; and
  - (b) information about its interests in:
    - (i) subsidiaries;
    - (ii) arrangements and associates; and
    - (iii) structured entities that are not controlled by the entity (unconsolidated structured entities).
- C. If the disclosures required by this Ind AS, together with disclosures required by other Ind ASs, do not meet the objective in para A, an entity shall disclose whatever additional information is necessary to meet that objective.

### **2. Scope:**

- A. This Ind AS shall be applied by an entity that has an interest in any of the following:
  - (a) subsidiaries
  - (b) joint arrangements (ie joint operations or joint ventures)
  - (c) associates
  - (d) unconsolidated structured entities.
- B. This Ind AS does not apply to:
  - (a) post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.
  - (b) an entity's separate financial statements to which Ind AS 27, Separate Financial Statements, applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements of this standard when preparing those separate financial statements.

- (c) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
- (d) an interest in another entity that is accounted for in accordance with Ind AS 109, Financial Instruments. However, an entity shall apply this Ind AS:
  - (i) when that interest is an interest in an associate or a joint venture that, in accordance with Ind AS 28, Investments in Associates and Joint Ventures, is measured at fair value through profit or loss; or
  - (ii) when that interest is an interest in an unconsolidated structured entity.

### 3 to 9: Disclosure

- 3. About significant judgements and assumptions:** An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:
- (a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of Ind AS 110, Consolidated Financial Statements;
  - (b) that it has joint control of an arrangement or significant influence over another entity; and
  - (c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

**4. Example of significant judgements and assumptions:**

An entity shall disclose, for example, significant judgements and assumptions made in determining that:

- (a) it does not control another entity even though it holds more than half of the voting rights of the other entity.
- (b) it controls another entity even though it holds less than half of the voting rights of the other entity.
- (c) it is an agent or a principal.
- (d) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.
- (e) it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

**5. About investment entity status:**

When a parent determines that it is an investment entity in accordance with paragraph 27 of Ind AS 110, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of Ind AS 110), it shall disclose its reasons for concluding that it is nevertheless an investment entity.

**6. About change of status:**

When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:

- (a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;
- (b) the total gain or loss, if any, calculated in accordance with paragraph B101 of Ind AS 110; and
- (c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

**7. About interests in subsidiaries:**

**A. An entity shall disclose information that enables users of its consolidated financial statements**

**(a) to understand:**

- (i) the composition of the group; and
- (ii) the interest that non-controlling interests have in the group's activities and cash flows; and

**(b) to evaluate:**

- (i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
- (ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
- (iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
- (iv) the consequences of losing control of a subsidiary during the reporting period.

**B. About difference of dates:**

When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements, an entity shall disclose:

- (a) the date of the end of the reporting period of the financial statements of that subsidiary; and
- (b) the reason for using a different date or period.

**C. About non-controlling interests:**

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

- (i) the name of the subsidiary.
- (ii) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
- (iii) the proportion of ownership interests held by non-controlling interests.
- (iv) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
- (v) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
- (vi) accumulated non-controlling interests of the subsidiary at the end of the reporting period.
- (vii) summarised financial information about the subsidiary.

**D. About nature and extent of significant restrictions:**

An entity shall disclose:

- (a) significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:
  - (i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
  - (ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

- (b) the nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).
- (c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

**8. About Interests in joint arrangements and associates:**

An entity shall disclose information that enables users of its financial statements to evaluate:

- (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
- (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

**9. About interests in unconsolidated structured entities:**

An entity shall disclose information that enables users of its financial statements:

- (a) to understand the nature and extent of its interests in unconsolidated structured entities; and
- (b) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

**Solved Case Study(s)**

**Case 1**

On 01.04.2021 the summarised balance sheets of Satellite Ltd. and Planet Ltd. are provided as: (₹'000)

	Satellite Ltd.		Planet Ltd.
	B/S (₹)	Fair Value (₹)	B/S (₹)
Equity Share Capital (₹ 10)	8,000		12000
Other Equity	6,000		4000
Borrowings	2,000	2,050	3000
Trade Payables	2,500	2,400	2000
Property, Plant and Equipment	9,000	10000	12000
Investment Property	5,000	7000	1000
Investments	1,000		3500
Current Assets	3,500	3200	4500
Contingent Liabilities	800	750	

Market price of equity shares of Planet Ltd. and Satellite Ltd. are ₹ 16 and ₹ 15 respectively on the day. On the basis of the above data, you are required to make the necessary accounting for the following cases.

Planet Ltd. takes over Satellite Ltd. and purchase consideration is settled by issue of

## Corporate Financial Reporting

1050000 equity shares. Pass journal entries in the books of both the companies and re-draft the balance sheet of Planet Ltd. after the business combination.

### Solution:

**WN 1.** Net Assets of Satellite Ltd. at fair value:

(₹'000)

	(₹)	(₹)
Property, Plant and Equipment	10,000	
Investment Property	7,000	
Investments	1,000	
Current Assets	3,200	
<b>Total Assets</b>		<b>21,200</b>
Borrowings	2,050	
Trade Payables	2,400	
Liabilities (Recognised)	750	
<b>Total Liabilities</b>		<b>5,200</b>
<b>Net assets</b>		<b>16,000</b>

### In the books of Planet Ltd.

#### Journal

(₹'000)

Date	Particulars	Dr.	Cr.
01.04.2021	Property, Plant and Equipment	Dr. 10,000	
	Investment Property	Dr. 4,000	
	Investments	Dr. 4,000	
	Current Assets	Dr. 3,200	
	Goodwill	Dr. 800	
	To Borrowings		2,050
	To Trade Payables		2,400
	To Liabilities (Contingent liabilities recognised)		750
	To Equity Share Capital (₹10)		10,500
	To Security Premium (₹ 6)		6,300

Summarised Balance sheet as at 01.04.2021 (after take over)

(₹'000)

	Workings (₹)	Amount (₹)
Property, Plant and Equipment	12,000 + 10,000	22,000
Goodwill		800

	Workings (₹)	Amount (₹)
Investment Property	4,000 + 4,000	8,000
Investments	3,500 + 1,000	4,500
Current Assets	4,500 + 3,200	7,700
Total Assets		43,000
Equity Share Capital	12,000 + 10,500	22,500
Other Equity	4,000 + 6,300	10,300
Borrowings	3,000 + 2,050	5,050
Trade Payables	2,000 + 2,400	4,400
Liabilities (contingent recognised)		750
Total of equity and liabilities		43,000

**In the books of Satellite Ltd.**
**Journal**

(₹'000)

Date	Particulars	Dr. (₹)	Cr. (₹)
	Realisation A/c Dr.	18,500	
	To, Property, Plant and Equipment A/c		9,000
	To, Investment Property A/c		5,000
	To, Investments A/c		1,000
	To, Current Assets A/c		3,500
	Equity Shares in Planet Ltd. Dr.	16,800	
	Borrowings Dr.	2,000	
	Trade Payables Dr.	2,500	
	To Realisation A/c		21,300
	Realisation A/c Dr.	2,800	
	To Equity Shareholders A/c		2,800
	Equity Share Capital A/c Dr.	8,000	
	Other Equity Dr.	6,000	
	To Equity Shareholders A/c		14,000
	Equity Shareholders A/c Dr.	16,800	
	To Equity Shares in Planet Ltd.		16,800

**Case 2**

Planet Ltd. and Satellite Ltd. are amalgamated into Solar Ltd. control of which retained with the same parties as before. Solar Ltd. issues 1050000 shares and 1250000 shares to take over the businesses of Satellite Ltd. and Planet Ltd. respectively. Pass journal entries and draft balance sheet in the books of the Solar Ltd.

**Solution:**

It is a business combination under common control and pooling of interest method of accounting is followed in the books of the transferee.

**In the books of Solar Ltd.**

**Journal**

(₹ '000)

Date	Particulars	Dr.	Cr.
	Property, Plant and Equipment	Dr. 21,000	
	Investment Property	Dr. 6,000	
	Investments	Dr. 4,500	
	Current Assets	Dr. 8,000	
	Goodwill (10,500 + 12,500 – 8,000 -12,000)	Dr. 3,000	
	To Borrowings		5,000
	To Trade Payables		4,500
	To Other Equity (6,000 + 4,000)		10,000
	To Equity Share Capital		23,000

Summarised Balance sheet as at 01.04.2021 (after amalgamation)

(₹ '000)

		Amount (₹)
Property, Plant and Equipment	12,000 + 9,000	21,000
Goodwill		3,000
Investment Property	1,000 + 5,000	6,000
Investments	3,500 + 1,000	4,500
Current Assets	4,500 + 3,500	8,000
Total Assets		42,500
Equity Share Capital	12,500 + 10,500	23,000
Other Equity	4,000 + 6,000	10,000
Borrowings	3,000 + 2,000	5,000
Trade Payables	2,000 + 2,500	4,500
Total of equity and liabilities		42,500
Note: Contingent Liabilities	800	

**Case 3**

Planet Ltd. and Satellite Ltd. are amalgamated into Solar Ltd. control of which remained with the management of Planet Ltd. Solar Ltd. issues 1050000 shares and 1250000 shares to take over the businesses of Satellite Ltd. and Planet Ltd. respectively.

**Solution:**

It is a case of Reverse Acquisition. Legal acquiree is the accounting acquirer. Planet Ltd. being accounting acquirer, its assets and liabilities will be recognised at carrying amount.

**In the books of Solar Ltd.**
**Journal**

(₹ '000)

Date	Particulars	Dr.	Cr.
	Property, Plant and Equipment	Dr. 22000	
	Investment Property	Dr. 8000	
	Investments	Dr. 4500	
	Current Assets	Dr. 7700	
	Goodwill	Dr. 800	
	To Borrowings		5050
	To Trade Payables		4400
	To Liabilities (Contingent liabilities recognised)		750
	To Equity Share Capital (12000 + 10500)		22500
	To Other Equity [4000 + 6300]		10300

**Effective consideration:** Issue of 1050000 shares of ₹ 16 to Satellite Ltd. = 16800000; Equity Share Capital (₹ '000)10500 and Security Premium (₹ '000)6300.

Net Assets of Satellite Ltd. = (₹ '000) 16000

(a) Goodwill (₹ '000) = 16800 – 16000 = 800

(b) Equity Share Capital of Solar Ltd. = Equity Share Capital of Planet Ltd. (₹ '000) 12000 + Equity Shares issued to Satellite Ltd. (₹ '000) 10500 = (₹ '000) 22500. [although number of shares should be 1250000 + 1050000 = 2300000 of ₹ 10]

(c) Other Equity of Solar Ltd. = Other Equity of Planet Ltd. ₹ 4000 + Security Premium in Purchase Consideration ₹ 6300.

**Summarised Balance sheet of Solar Ltd. as at 01-04-2021 (after reverse acquisition)**

(₹ '000)

	Carrying amount of Planet Ltd. + Fair value of Satellite Ltd.	Amount (₹)
Property, Plant and Equipment	12000 + 10000	22000
Goodwill (a)		800
Investment Property	1000 + 7000	8000
Investments	3500 + 1000	4500
Current Assets	4500 + 3200	7700
<b>Total Assets</b>		<b>43000</b>

	Carrying amount of Planet Ltd. + Fair value of Satellite Ltd.	Amount (₹)
Equity Share Capital [23000 shares] (b)	12000 + 10500	22500
Other Equity (c)	4000 + 6300	10300
Borrowings	3000 + 2050	5050
Trade Payables	2000 + 2400	4400
Liabilities (Contingent liabilities recognised)		750
Total of equity and liabilities		43000

**Case 4**

Planet Ltd. acquires 25% stake in Satellite Ltd. having significant influence and purchase consideration is settled by issue of 160000 equity shares. During 2021-22 Satellite Ltd. earns profit (₹ '000) 2000 and Other Comprehensive Income (₹ '000) 1200. Pass journal entries in the books of Planet Ltd. at acquisition and on 31-03-2022.

**Solution:**

It is a case of investment in Associate. Equity method is followed as per Ind AS 28.

**Journal:****Journal in Consolidated and Separate Set at acquisition**

(₹ '000)

Date	Particulars	Dr. (₹)	Cr. (₹)
01-04-2021	Investments in Associate To Equity Share Capital (₹ 10) To Security Premium (₹ 6)	Dr. 2560	1600 960

**Journal in Consolidated Set at subsequent reporting date**

(₹'000)

31-03-2022	Investments in Associate To Statement of Profit and Loss To Other Comprehensive Income	Dr. 800	500 300
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**Journal in Separate Set at subsequent reporting date: No entry****Case 5**

Planet Ltd. acquires 75% stake in Satellite Ltd. on 01-04-2021 and purchase consideration is settled by issue of 800000 equity shares. Non-Controlling Interest is measured at proportionate net Asset value. Pass journal entries in the books of Planet Ltd. at acquisition and re-draft balance sheets at acquisition.

**Solution:**

It is a case of business combination as per Ind AS 103. There will be two sets of accounting in the books of the Acquirer.

## Consolidated Financial Statements and Separate Financial Statements

Consolidated set in the books of Planet Ltd.	(₹ in '000)
Purchase Consideration = 800000 shares of ₹ 16 =	12800
<b>WN 1.</b> Net Assets of Satellite Ltd. at fair value =	16000
<b>WN 2.</b> Non-Controlling Interest (NCI) = 25% of Net Assets = 25% × 16000 =	4000
<b>WN 3.</b> Goodwill = Purchase Consideration + NCI – Net Assets = 12800 + 4000 – 16000 =	800

### Journal

(₹ '000)

Date	Particulars		Dr. (₹)	Cr. (₹)	
01-04-2021	Property, Plant and Equipment	Dr.	10000		
	Investment Property	Dr.	7000		
	Investments	Dr.	1000		
	Current Assets	Dr.	3200		
	Goodwill [WN 3]	Dr.	800		
	To Borrowings				2050
	To Trade Payables				2400
	To Liabilities (Contingent liabilities recognised)				750
	To Non-Controlling Interest (WN 2)				4000
	To Equity Share Capital (₹ 10)				8000
To Security Premium (₹ 6)				4800	

### Summarised Consolidated Balance sheet as at 01-04-2021 (after acquisition)

(₹ '000)

	Workings	Amount (₹)
Property, Plant and Equipment	12000 + 10000	22000
Goodwill		800
Investment Property	1000 + 7000	8000
Investments	3500 + 1000	4500
Current Assets	4500 + 3200	7700
<b>Total Assets</b>		<b>43000</b>
Equity Share Capital	12000 + 8000	20000
Other Equity	4000 + 4800	8800
Non-Controlling Interest		4000
Borrowings	3000 + 2050	5050
Trade Payables	2000 + 2400	4400
Liabilities (contingent recognised)		750
<b>Total of equity and liabilities</b>		<b>43000</b>

## Separate set in the books of Planet Ltd.

Journal		(₹ '000)	
Date	Particulars	Dr. (₹)	Cr. (₹)
01-04-2021	Investments in Subsidiary <span style="float: right;">Dr.</span>	12800	
	To Equity Share Capital (₹ 10)		8000
	To Security Premium (₹ 6)		4800

## On 01-04-2021 the summarised separate balance sheets of Planet Ltd. (post acquisition) (₹ '000)

	Planet Ltd. (₹)
Property, Plant and Equipment	12000
Investment Property	1000
Investment in Subsidiary	12800
Investments	3500
Current Assets	4500
Total Assets	33800
Equity Share Capital (Rs. 10)	20000
Other Equity	8800
Borrowings	3000
Trade Payables	2000
Total of Equity and Liabilities	33800

## Case 6

Planet Ltd. acquires 45% stake in Satellite Ltd. and purchase consideration is settled by issue of 540000 equity shares. The investment in the balance sheet of Planet Ltd. shows the cost of previously held 30% interest in Satellite Ltd. Non-Controlling Interest is measured at fair value. Pass journal entries in the books of Planet Ltd. at acquisition and re-draft balance sheets at acquisition in consolidated set only.

It is a case of business combination as per Ind AS 103.

Consolidated set in the books of Planet Ltd. (₹ in '000)

WN 1. Purchase Consideration = 450000 shares of ₹ 16 = 7200

WN 2. Fair Value of previously held Interest = (30%/45%) × 7200 = 4800

WN 3. Net Assets of Satellite Ltd. at fair value = 16000

WN 4. Non-Controlling Interest (NCI) = (25%/45%) × 7200 = 4000

WN 5. Gain on Bargain Purchase = Net Assets - Purchase Consideration - NCI – fair value of previously held interest = 16000 – [7200 + 3200 + 4800] = 800



**Case 7**

Satellite Ltd. acquires 75% stake in Planet Ltd. by issue of shares in the ratio based on the market prices. In consequence, Planet Ltd. becomes the accounting acquirer. Non-Controlling Interest is measured at fair value. Pass journal entries in the books of Planet Ltd. at acquisition and re-draft balance sheets at acquisition.

**Solution:**

Exchange Ratio 16 shares of Satellite for every 15 shares of Planet. Number of shares to be issued by Satellite =  $16 \times 1200000/15 = 1280000$

Existing shares of Satellite = 800000;

In the group owners of Planet holds controlling interest

It is a case of Reverse Acquisition, where Planet, the legal acquiree is the Accounting Acquirer.

(a) Effective purchase consideration = number of shares of Accounting Acquiree  $\times$  mkt price =  $800000 \times 15 = (\text{₹}^{\prime}000) 12000$

In the consolidated accounts of the group Satellite’s assets and liabilities will be recognised at fair value and Planet’s assets and liabilities will be recognised at carrying amount.

(b) Consolidated Equity = Carrying amount of Equity of Planet + Purchase consideration (issue by Satellite) =  $16000 + 12000 = (\text{₹}^{\prime}000) 28000$

(c) Non-controlling interest = 25% of Planet =  $25\% \times 1200000 \times 16 = (\text{₹}^{\prime}000) 4800$

(d) Goodwill = Purchase consideration + NCI – Net Assets =  $12000 + 4800 - 16000 = 800$

Date	Particulars		Dr. (₹)	Cr. (₹)
01-04-2021	Property, Plant and Equipment	Dr.	10000	
	Investment Property	Dr.	7000	
	Investments	Dr.	1000	
	Current Assets	Dr.	3200	
	Goodwill [WN d]	Dr.	800	
	To Borrowings			2050
	To Trade Payables			2400
	To Liabilities (Contingent liabilities recognised)			750
	To Non-Controlling Interest (WN c)			4800
	To Equity Share Capital (1280000 shares)			12000

**Summarised Consolidated Balance sheet as at 01-04-2021 (after acquisition)**

(₹ '000)

	Workings	Amount (₹)
Property, Plant and Equipment	$12000 + 10000$	22000
Goodwill		800
Investment Property	$1000 + 7000$	8000

	Workings	Amount (₹)
Investments	3500 + 1000	4500
Current Assets	4500 + 3200	7700
Total Assets		43000
Equity Share Capital (1200000 + 1280000 shares)	12000 + 12000	24000
Other Equity	4000	4000
Non-Controlling Interest	WN 4	4800
Borrowings	3000 + 2050	5050
Trade Payables	2000 + 2400	4400
Liabilities (contingent recognised)		750
Total of equity and liabilities		43000

## Exercise

## A. Theoretical Questions:

## ⊙ Multiple Choice Questions

1. Consolidated financial statements are required to be prepared by an Ind AS complied company if it holds shares in the investee company
  - a. entailing 20% or more voting rights having significant influence over the investee company (called Associate as per Ind AS 28)
  - b. entailing joint control over the investee company (called a Joint Venture as per Ind AS 28)
  - c. entailing control over investee company (called subsidiary company as per Ind AS 110)
  - d. All of the above
2. \_\_\_\_\_ requires that when consolidated financial statements are prepared the investor company shall also prepare individual/standalone financial statements, which are named as separate financial statements.
  - a. Ind AS 27
  - b. Ind AS 28
  - c. Ind AS 110
  - d. Ind AS 112
3. An investment entity is an entity that
  - a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
  - b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
  - c. measures and evaluates the performance of substantially all of its investments on a fair value basis
  - d. All of the above
4. Ind AS 103 states that the acquirer obtaining control over acquiree, recognises and measures in its consolidated financial statements at the acquisition date

- a. the identifiable assets acquired, the liabilities assumed at Fair Value
  - b. any non-controlling interest in the acquiree at Fair Value or at Proportionate Value
  - c. the goodwill acquired in the business combination or a gain on bargain purchase
  - d. All of the above
5. As per Ind AS 112: Disclosure of Interests in Other Entities, an entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining
- a. that it has control of another entity, i.e. an investee as described in paragraphs 5 and 6 of Ind AS 110, Consolidated Financial Statements
  - b. that it has joint control of an arrangement or significant influence over another entity
  - c. the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle
  - d. All of the above

**Answer:**

1.	2.	3.	4.	5.
d.	a.	d.	d.	d.

⊙ **Fill in the Blanks**

1. \_\_\_\_\_ is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
2. A \_\_\_\_\_ is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
3. \_\_\_\_\_ is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.
4. The \_\_\_\_\_ is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investors share of the investees net assets.
5. An \_\_\_\_\_ is an entity over which the investor has significant influence.

**Answer:**

1.	<b>Joint control</b>	2.	<b>joint operation</b>
3.	<b>Significant influence</b>	4.	<b>equity method</b>
5.	<b>associate</b>		

### ⊙ Short Essay Type Questions

1. Explain the different types of Joint Arrangement.
2. Describe the objectives of Ind AS 112: Disclosure of Interests in Other Entities.
3. Enumerate the Consolidation procedure for investment in Associates, Joint Ventures and Subsidiaries.
4. State the conditions when a parent company need not present consolidated financial statements.
5. Under Consolidated Balance Sheet, define the treatment of Dividend.
6. Write a short note on:
  - a. Ind AS 111: Joint Arrangements
  - b. Ind AS 112: Disclosure of Interests in Other Entities
7. Under Ind AS 112: Disclosure of Interests in Other Entities, state few examples of significant judgements and assumptions made.
8. State the details to be disclosed by the entity for each of its subsidiaries that have non-controlling interests that are material to the reporting entity.

### ⊙ Essay Type Questions

1. When is an investor is assessed as a parent?
2. What is the objective of the Indian Accounting Standard 110 and what are the requirements of the Standard to meet the objectives?
3. When a parent does not need to prepare consolidated financial statements?
4. What is an investment entity? What accounting procedure is required acquiring control of another entity as per Indian Accounting Standards if the parent is an investment entity?

5. What accounting is required when a parent loses control of a subsidiary?
6. What is the procedure of accounting for consolidation in case of investment in Associate, Joint Venture and subsidiary?

**B. Numerical Questions:**

⊙ **Comprehensive Numerical Problems**

1. P Ltd. acquires 80% shares of S Ltd. by issue of 48000 shares of ₹ 10 (Mkt price ₹ 25) on 01.04.2021.

(A) Relevant data of P Ltd. and S Ltd. are as follows: (₹)

As at 01-04.2021 before acquisition	S Ltd.		P Ltd.
	Book Value BV	Fair Value FV	Book Value BV
PPE	7,00,000	10,00,000	12,00,000
Current Assets	3,00,000	2,80,000	6,00,000
Total	10,00,000	12,80,000	18,00,000
Equity Share Capital	3,00,000		6,00,000
Other Equity	2,40,000		4,00,000
Non-Current Liabilities	2,00,000	2,00,000	5,00,000
Current Liabilities	2,60,000	2,50,000	3,00,000
Total	10,00,000		18,00,000

Prepare Separate and Consolidated balance sheet of P Ltd. and its subsidiary S Ltd. as at 01-04-2021.

- (a) Consider NCI at fair value.;
- (b) Consider NCI at proportionate net asset value.

(B) Additional data after one year:

As at 31-03-2022	S Ltd.	P Ltd. Stand alone
	Book Value	Book Value
PPE	7,50,000	13,00,000
Investment		12,00,000
Current Assets	3,60,000	6,60,000
Total	11,10,000	31,60,000

As at 31-03-2022	S Ltd.	P Ltd. Stand alone
	Book Value	Book Value
Equity Share Capital	3,00,000	10,80,000
Other Equity	2,70,000	11,70,000
Non-Current Liabilities	2,40,000	5,60,000
Current Liabilities	3,00,000	3,50,000
Total	11,10,000	31,60,000

Prepare Separate and Consolidated balance sheet of P Ltd. and its subsidiary S Ltd. as at 31.03.2022. Consider NCI at proportionate net asset value.

2. Pass journal entries and state about the requirements with reference to the Indian Accounting Standards for the following:

X Ltd. acquires 20000 equity shares in Y Ltd on 01.01.2020 by issue of 10000 equity shares of ₹ 10 each (market value ₹ 24). Net Assets of Y are ₹ 2,30,000.

- (a) By the investment in shares of Y, X acquires less than 20% of Y's voting power.
- (b) By the investment in shares of Y, X acquires more than 20% of Y's voting power.
- (c) By the investment in shares of Y, X acquires joint control of Y.
- (d) By the investment in shares of Y, X acquires 80% of Y's voting power, ie control of Y.

3. Company P Ltd. acquires 80% shares of company S Ltd. on 1.04.2019 by issue of equity shares of ₹ 10 each at a premium of ₹15. The financial data of the companies at 31.03.2019 are stated below. Non-Controlling Interest is valued at fair value. (₹ in Lakhs).

Particulars	On 31.03.19			On 31.03.2020	
	P	S	FV of S	P	S
PPE	900	600	700	1000	700
Investment in S				750	
CA	600	400	360	500	450
Equity	800	500		1650	600
Noncurrent Liability	350	300	310	320	320
Current Liability	350	200	200	380	230

S Ltd. paid dividend 100 for the year ended on 31.03.2019 in the financial year 2019-2020.

S Ltd. purchased goods from P Ltd. on credit 60, the debt remaining outstanding and the goods remaining entirely unsold as at 31.03.2020. P Ltd. sold goods at 33.33% profits on cost.

Pass entries for business combination under acquisition method and show consolidated and separate balance sheet abstract on 31.03.19 and on 31.03.20.

4. P Ltd. acquires 75% of equity of A Ltd. on 31.03.2019 at cost of ₹120 Lakhs, when the Equity Share Capital and Other Equity of Atlanta Ltd. were ₹40 Lakhs and ₹60 Lakhs respectively. For the years ending on 31.03.2020 and 31.03.2021, A Ltd. accounted Total Comprehensive Income of ₹(20) Lakhs and ₹ 30 Lakhs. Find NCI (Proportionate Net Asset Method), P Ltd's share in post-acquisition profits of A Ltd. and Goodwill to be shown in CFS of P Ltd. at the end of the years. The revaluation profit/loss for the difference between fair value and carrying amount of assets and liabilities of A Ltd. at acquisition date and the abstracts of Separate Balance Sheet of P Ltd. and individual balance sheet of A Ltd. as at 31.03.2022 are as follows:

(₹ in Lakhs)

Particulars	Revaluation profit (+) / loss (-)	Pacific at 31.03.2022	Atlanta at 31.03.2022
Non-Current Assets	40	500	260
Investment in shares of Atlanta		120	
Current Assets	(10)	300	150
Total Assets		920	410
Equity Share Capital		200	40
Other Equity		320	110
Non-Current Liabilities	(16)	300	160
Current Liabilities	6	100	100
Total	5	900	410

Prepare the consolidated balance sheet in books of X Ltd.

5. When does a parent not require to present consolidated financial statements?
6. G Ltd. acquired 60% shares of S Ltd. on 1st October 2021. The Retained Earnings balance of S Ltd. on 1.04.2021 was ₹ 30,000 and fair value of PPE of S Ltd. on 01.10.2021 was ₹ 15,000 higher than the book value. S Ltd. declared dividend for 2021-2022 ₹ 20,000 in November, 2021 (accounted in books of S Ltd. but not accounted in books of G Ltd).

The abstracts from balance sheets of G Ltd and Star Ltd. as at 31.03.2022 are:

(₹)

	G Ltd.		S Ltd.	
PPE		60,000		40,000
Investments: shares in Star Ltd.		24,000		
Current Assets		20,000		27,000
Total Assets		1,04,000		67,000
Equity Shares		50,000		25,000
Other Equity (Retained Earnings)		25,000		32,000
Current Liabilities		29,000		10,000
Total Equity and Liabilities		1,04,000		67,000

Required: In books of G Ltd consolidated and separate Balance Sheet as at 31.03.2022.