# 7 CONSOLIDATED FINANCIAL STATEMENTS

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# SECTION A – CONCEPTS

## 1. BASICS

| | |
|---|---|
| **Two Types of Financial Statements** | • Standalone Financial Statements<br>• Consolidated Financial Statements |
| **Standalone Financial Statements** | Financial Statements of Individual Entity. |
| **Consolidated Financial Statements** | Financial Statements of Group Companies. (Holding Company + all Subsidiary Companies) |
| **Holding Company** | Holding Company means a company who has control over the business of subsidiary company |
| **Subsidiary Company** | Subsidiary company means a company whose business is controlled by holding company. |
| **What is Control over the Business?** | To Direct the Operating & Financial decisions (activities) of the Subsidiary Company |
| **How to obtain Control over the business?** | Control over business can be obtained in any of following ways:<br>**Case 1:** Having Power over the composition of board of directors of another company<br><br>**Case 2:** Acquiring (investing) more the 50% of the total share capital of another company |
| **Consolidated F/S Consist of** | • Consolidated Balance Sheet.<br>• Consolidated Statement of Profit & Loss.<br>• Consolidated Cash Flow Statement. (Not in Syllabus)<br>• Consolidated Note to Accounts. |
| **Direct Subsidiary and Indirect Subsidiary** | **Direct Subsidiary:**<br>H invested in 80% equity shares of S Ltd.<br><br>**Indirect Subsidiary:**<br>• H Invested in S1 @ 80% Equity<br>• S1 Invested in S2 @ 75% Equity<br>• Now S2 also become Subsidiary of H Indirectly<br>• H Holds 80% in S1<br>• S1 Holds 75% in S2 |
| **Wholly owned Subsidiary & Partially owned Subsidiary:** | • Wholly owned Subsidiary = Holding Company acquired 100% Equity Capital of Subsidiary<br>• Partially owned Subsidiary = Acquired less than 100% of total Equity Capital of Subsidiary |
| **Minority Interest:** | • Shares in the Share Capital of Subsidiary which is not held by holding directly or indirectly.<br>• Such shares are held by other parties who don't have control over the business of subsidiary but they share in Profits/losses and Net Assets of Subsidiary.<br><br>Example: If H Ltd. acquired 80% shares of S Ltd. then 20% shareholders of S Ltd will be known as Minority Interest. |

| | |
|---|---|
| **Net Assets of Subsidiary** | **Approach 1:**<br>All Assets less All Liabilities of Subsidiary.<br><br>**Approach 2:**<br>Equity Share Capital of Subsidiary<br>(+) Reserves and Surplus |
| **Date of Acquisition and its relevance** | The date on which Control is obtained by holding company in the business of subsidiary company is the Date of Acquisition (DOA).<br><br>On Date of Acquisition (DOA), we need following elements: -<br>**(1)** Investment Cost (Also known as Purchase Consideration)<br>**(2)** Fair Value (Market Value) of Net Assets of Subsidiary<br>**(3)** Goodwill/CR<br>**(4)** Minority Interest (MI) |
| **Goodwill or Capital Reserve** | Goodwill or Capital Reserve is calculated on the date of acquisition as under:<br><br>**Cost of Control (COC):**<br>Purchase Consideration (Investment Cost) XXX<br>(-) Proportionate Share of Holding in Net Assets of Subsidiary Co. XXX<br>Goodwill or Capital Reserve XXX<br><br>Goodwill – When Investment Cost is More than Proportionate Share of Net Assets in Subsidiary.<br><br>Capital Reserve – When Investment Cost is less than Proportionate Share of Net Assets in Subsidiary. |
| **How to Calculate Proportionate Share of Net Assets in Subsidiary** | Equity Share Capital of Subsidiary (As on DOA) XXX<br>(+) Balance of Reserves of Subsidiary (As on DOA) also called Pre-Acquisition Profit XXX<br>XXX |
| **How to Calculate Pre-acquisition Profit (i.e. Balance of R&S as on date of acquisition)** | Total Reserves and Surplus of Subsidiary company is dividend into two parts:<br>a) Pre-acquisition Profit<br>b) Post-acquisition Profit<br><br>Pre-Acquisition profit means balance of Reserves as on Date of Acquisition. Also called Capital Profit.<br><br>Post Acquisition profit means profits earned by subsidiary for the period after the date of acquisition till next balance sheet date. Also called Revenue Profit. |

| | |
|---|---|
| | This needs to be find out with the help of working note on Analysis of Profit. |

**EXAMPLE 1:**

**Standalone Balance Sheet as on 31/3/24**

| | H Ltd. | S Ltd. |
|---|---|---|
| Equity Share Capital (10/- each) | 10,00,00 | 7,00,000 |
| Liabilities | 15,00,000 | 8,00,000 |
| | **25,00,000** | **15,00,000** |
| NCA (PPE) | 14,00,000 | 9,00,000 |
| Cash & Bank Balance. | 11,00,000 | 6,00,000 |
| | **25,00,000** | **15,00,000** |

On 1st April 2024, H has acquired 100% shares of S Ltd from Market at a cost of 7,50,000

**SOLUTION:**

**Journal entry in the Books of H**

| | | |
|---|---|---|
| Investment A/c Dr. | 7,50,000 | |
| To Bank A/c | | 7,50,000 |

**Standalone Balance Sheet as on 1/4/24**

| | H | S |
|---|---|---|
| Equity Share Capital (10/-) | 10,00,000 | 7,00,000 |
| Liabilities | 15,00,000 | 8,00,000 |
| | **25,00,000** | **15,00,000** |
| NCA (PPE) | 14,00,000 | 9,00,000 |
| NCA (Investment 100%) | 7,50,000 | - |
| Cash & Bank | 3,50,000 | 6,00,000 |
| | **25,00,000** | **15,00,000** |

This Investment represents control & share of Holding (100%) on all Assets & Liabilities of Subsidiary. Hence, if we replace this Investment with Net Assets of Subsidiary then it is called Consolidation.

For simplicity, we can understand the same concept with the help of following Journal entry in the Books of Holding Company: -

| | | | |
|---|---|---|---|
| PPE A/c | Dr. | 9,00,000 | |
| Cash Bank | Dr. | 6,00,000 | |
| **Goodwill (b/f)** | Dr. | **50,000** | |
| To Liabilities | | | 8,00,000 |
| To Investment | | | 7,50,000 |

**Consolidated B/S of H & Group**

| | |
|---|---|
| Equity Share Capital | 10,00,000 |
| Liabilities | 23,00,000 |
| | **33,00,000** |
| | |
| PPE | 23,00,000 |
| Goodwill | 50,000 |

| | |
|---|---|
| Cash & Bank | |
| H 3,50,000 | |
| S 6,00,000 | 9,50,000 |
| | **33,00,000** |

**Note:** Goodwill represents that value of Investments made by Holding co. is more than the Share of Holding co. in Net Assets of Subsidiary co.

## EXAMPLE 2:

H Ltd. acquired 90% of the shares of S Ltd @ Rs. 7,50,000

Date of Acquisition = 1/4/24

| | | |
|---|---|---|
| Total Assets of Subsidiary (1/4/24) | PPE | 9,00,000 |
| | Cash | 6,00,000 |
| Total Liabilities of Subsidiary (1/4/24) | | 8,00,000 |

Pass Journal Entry for: -

(i) Standalone Financial Statements &

(ii) Consolidated Financial Statements

**SOLUTION:**

**(1) Standalone Financial Statement**

| | | | |
|---|---|---|---|
| *Investment | Dr. | 7,50,000 | |
| To Bank A/c | | | 7,50,000 |

*This Investment represents 100% control & 90% share of Holding on Net Assets of Subsidiary co.

**(2) Consolidated F/S**

We should consider control based (100%) Consolidation always:

| | | |
|---|---|---|
| PPE A/c | Dr. | 9,00,000 |
| Cash & Bank A/c | Dr. | 6,00,000 |
| ***Goodwill** | **Dr.** | 1,20,000 (b/f) |
| To Liabilities | | 8,00,000 |
| To Investment (90%) | | 7,50,000 |
| To Minority Inter (10%) | | 70,000 |

**How to Calculate Goodwill (also known as Cost of Control):**

| | |
|---|---|
| *Investment (90%) | 7,50,000 |
| (-) 90% Share In Net Asset 7,00,000 X 90% | 6,30,000 |
| | **1,20,000** |

**Note:** Minority Interest in simple terms, shall be treated as Liability. But to be shown separately in Consolidated Balance Sheet after Shareholders funds but before Non-Current Liabilities.

MI should be equal to Proportionate Share of Net Assets of Subsidiary.

## EXAMPLE 3:

**Standalone Balance Sheet as on 1/4/24**

| | | |
|---|---|---|
| Equity share (10/-) | 15,00,000 | 12,00,000 |
| Reserve & Surplus | 7,00,000 | 5,00,000 |

| | | |
|---|---|---|
| Liabilities | 8,00,000 | 6,00,000 |
| | **30,00,000** | **23,00,000** |
| PPE | 11,00,000 | 13,00,000 |
| Investment (80% in Subsidiary) | 13,00,000 | - |
| Current Asset | 6,00,000 | 10,00,000 |
| | **30,00,000** | **23,00,000** |

(1) Investments were acquired on 1/4/24

(2) Following Transaction took place in 24-25

| | **H** | **S** |
|---|---|---|
| Sales | 15,00,000 | 10,00,000 |
| Cost of Goods Sold | 9,00,000 | 6,00,000 |

All transactions are in Cash.

(3) Calculate Cost of Control & Prepare Consolidated Balance sheet as on 1/4/24 & as on 31/3/25.

**SOLUTION:**

**(1)** Date of Acquisition = 1/4/24

**Cost of Control**

| | | |
|---|---|---|
| Investment (80%) | | 13,00,000 |
| (-) 80% Net Asset<br>Equity Share Capital<br>Reserves & Surplus | <br>12,00,000 x 80%<br>5,00,000 x 80% | (13,60,000) |
| **CR as on 1/4/24** | | **60,000** |

**(2)** **Consolidated Balance sheet as on 1/4/24**

| | |
|---|---|
| Equity Share Cost | 15,00,000 |
| Reserves & Surplus | 7,00,0000 |
| Minority Interest (20%) | 3,40,000 |
| Liability | 14,00,000 |
| | **40,00,000** |
| PPE | 24,00,000 |
| Current Asset | 16,00,000 |
| | **40,00,000** |

**(3)** **Standalone Balance Sheet as on 31/3/25**

| | H | S |
|---|---|---|
| Equity Share Capital | 15,00,000 | 12,00,000 |
| Reserves & Surplus | 13,00,000 | 9,00,000 |
| Liabilities | 8,00,000 | 6,00,000 |
| | **36,00,000** | **27,00,000** |
| PPE | 11,00,000 | 13,00,000 |
| Investment | 13,00,000 | - |
| Current Asset | 12,00,000 | 14,00,000 |
| | **36,00,000** | **27,00,000** |

**(4) Consolidate Reserves & Surplus of Group**

| | |
|---|---|
| H's Balance of Reserves & Surplus | 13,00,000 |
| 80% share in Post Acquisition profit | 3,20,000 |
| | **16,20,000** |
| Capital Reserve (WN 1) | 60,000 |
| | **16,80,000** |

**(5) Minority Interest**

| | |
|---|---|
| Minority Interest as on 1/4/24<br>+ 20% of Post Acquisition Profit | 3,40,000<br>80,000 |
| | **4,20,000** |

**(6) Consolidated Balance Sheet as on 31/3/25**

| | |
|---|---|
| Equity Share Capital | 15,00,000 |
| Consolidated Reserves & Surplus | 16,80,000 |
| Minority Interest | 4,20,000 |
| Liabilities | 14,00,000 |
| | **50,00,000** |
| PPE | 24,00,000 |
| Current Asset | 26,00,000 |
| | **50,00,000** |

**EXAMPLE 4:**

**Standalone Balance Sheet of S Ltd. as on 31/3/23**

| | |
|---|---|
| Equity share capital | 15,00,000 |
| General Reserve | 7,00,000 |
| Profit & Loss A/c | 4,00,000 |
| Liability | 14,00,000 |
| | **40,00,000** |
| Non-Current Asset | 25,00,000 |
| Current Asset | 15,00,000 |
| | **40,00,000** |

On 31/3/23 H Ltd. acquired 90% equity Investment in S Ltd at cost of Rs. 24,00,000

**SOLUTION:**

**Date of Acquisition 31/3/23**

**(1)** Investment cost 24,00,000 (90%)

**(2)** Net Assets value of Subsidiary

| | |
|---|---|
| Equity Share Capital | 15,00,000 |
| *General Reserve as on DOA | 7,00,000 |
| *Profit & Loss balance as on DOA | 4,00,000 |
| | **26,00,000** |

*Pre-Acquisition Profit

### (3) Cost of Control (Calculation of Goodwill and CR):

| | |
|---|---|
| Investments (90%) | 24,00,000 |
| Less: 90% of Net Assets | |
| Equity Share Capital 1500000 x 90% | 13,50,000 |
| Pre-Acquisition Profit 11,00,000 x 90% | 9,90,000 |
| **Goodwill** | **60,000** |

### (4) Minority Interest

| | |
|---|---|
| Equity Share 15,00,000 X 10% | 1,50,000 |
| Pre-Acquisition 11,00,000 X 10% | 1,10,000 |
| | 2,60,000 |

### (5) Journal Entry consolidation

| | | | |
|---|---|---|---|
| Goodwill A/c | Dr. | 60,000 | |
| NCA A/c | Dr. | 25,00,000 | |
| Current Asset A/c | Dr. | 15,00,000 | |
| To Liabilities A/c | | | 14,00,000 |
| To Minority Interest A/c | | | 2,60,000 |
| To Investment A/c | | | 24,00,000 |

### Consolidated Balance Sheet (Extract) as on 31/3/23

| | |
|---|---|
| Equity of H | XXX |
| Pre-Acquisition Part of General Reserve and Profit & Loss of Subsidiary Already taken in COC Working | XXX |
| Minority Interest (WN - 4) | 2,60,000 |
| Liabilities | 14,00,000 |
| | |
| NCA H – XXX<br>S – 25,00,000 | 25,00,000 |
| Goodwill (WN - 3) | 60,000 |
| Current Asset<br>H XXX<br>S 15,00,000 | 15,00,000 |

**EXAMPLE 5:**

In Continuation of Example 4, refer the following Balance Sheet of Subsidiary as on 31/03/2024:

| | |
|---|---|
| Equity Share Capital | 15,00,000 |
| General Reserve | 12,00,000 |
| Profit & Loss | 6,00,000 |
| Liabilities | 16,50,000 |
| | **49,50,000** |
| NCA | 30,00,000 |
| Current Asset | 19,50,000 |
| | **49,50,000** |

Prepare Consolidated Balance Sheet as on 31/03/2024 (Extract)

**SOLUTION:**

**Consolidated Balance Sheet of H Ltd. (Extract)**

| | | |
|---|---|---|
| Equity Share Capital | | XXX |
| GR (Post Acquisition share of H) | | 4,50,000 |
| Profit & Loss (Post Acquisition Share of H) | | 1,80,000 |
| Minority Interest:<br>Opining<br>+ General Reserve<br>+ Profit & Loss | <br>2,60,000<br>50,000<br>20,000 | 3,30,000 |
| Liability:<br>H<br>S | <br>XXX<br>16,50,000 | 16,50,000 |
| Non-Current Assets:<br>H<br>S | <br>XXX<br>30,00,000 | 30,00,000 |
| Goodwill | | 60,000 |
| Current Assets:<br>H<br>S | <br>XXX<br>19,50,000 | 19,50,000 |

**EXAMPLE 6:**

**Standalone Balance Sheet as on 31/3/25**

| | H | S |
|---|---|---|
| Equity Share Capital | 15,00,000 | 12,00,000 |
| Reserves & Surplus | 13,00,000 | 9,00,000 |
| Liabilities | 8,00,000 | 6,00,000 |
| **Total** | **36,00,000** | **27,00,000** |
| PPE | 11,00,000 | 13,00,000 |
| Investment 80% | 13,00,000 | - |
| Current Asset | 12,00,000 | 14,00,000 |
| **Total** | **36,00,000** | **27,00,000** |

- Investment acquired on 31/3/24
- Balance of Reserves & Surplus of Subsidiary on 31/3/24 - 5,00,000

Prepare Consolidated Balance Sheet.

**SOLUTION:**

**Consolidated Balance Sheet of H Ltd. (Extract)**

| | |
|---|---|
| Equity Share Capital | 15,00,000 |
| Consolidated Reserves & Surplus | 16,80,000 |
| Minority Interest | 4,20,000 |
| Liability | 14,00,000 |
| | **50,00,000** |
| PPE | 24,00,000 |
| Current Asset | 26,00,000 |
| | **50,00,000** |

**COC: -**

| | |
|---|---|
| Investment | 13,00,000 |
| (-) Proportionate Net Assets<br>ESC 9,60,000<br>CP 4,00,000 | 13,60,000 |
| **CR** | **60,000** |

**Minority Interest: -**

| | |
|---|---|
| Equity Share Capital | 2,40,000 |
| Share of Capital Profit | 1,00,000 |
| As on Date of Acquisition | 3,40,000 |
| Shaer of Revenue Profit | 80,000 |
| **As on Balance Sheet** | **4,20,000** |

## 2. SPECIAL ADJUSTMENTS

| | |
|---|---|
| **Analysis of Profit and Time Adjustment** | ➢ For Cost of Control, we need Net Assets (ESC + R&S Balance) as on DOA<br>➢ On DOA, Equity Share Capital must be given, But Balance of Reserves & Surplus on DOA may be missing.<br>➢ The difference between balances of R&S as on Beginning of year and End of Year is the Profit for the Year and it will be shown under Post Acquisition Column of AOP.<br>➢ Time Adjustment for Post Acquisition Profit Column is required so that Reserves & Surplus Balance as on DOA must be determined.<br>➢ For making Time Adjustment we will always assume that profit of each month is same. Following points should also be taken care of while doing time adjustment of Revenue Profit:<br>✓ Take Normal profit always for Time Adjustment (Normal profit means Profit After Tax excluding the effect of Abnormal Gains/Losses)<br>✓ Normal Profit should be after Tax<br>✓ But Before Bonus Issue<br>✓ Before Dividend Paid<br>✓ Before Revaluation Gain/Loss<br>✓ Before Un-realised Gain/Loss |
| **Treatment of Abnormal Items** | **Step 1:**<br>Eliminate from Post Acquisition column of AOP<br>(Gain to be deducted and Loss to be added)<br>**Step 2:**<br>Apply Time Adjustment of Post Acquisition Column |

| | |
|---|---|
| | **Step 3:**<br>Restate the Effect of Abnormal Item in Pre-acquisition Column or Post Column depending on the date of occurrence abnormal item. (Gain to be added and Loss to be deducted) |
| **Bonus Issue of Equity Shares by Subsidiary** | **Case 1: Entry of Bonus issue is Passed by Subsidiary in its SFS**<br>➢ Add back in Post Acquisition Profit Column of AOP<br>➢ Deduct in Pre-Acquisition Profit Column of AOP<br><br>**Case 2: Entry of Bonus issue is Not Passed by Subsidiary in its SFS**<br>Directly deduct the Bonus issue amount from Pre-acquisition Profit column of AOP.<br><br>**Other Important Points for Bonus issue:**<br>**a)** Bonus Entry is:<br>Reserves and Surplus A/c Dr.<br>To Equity Share Capital A/c<br>**b)** Bonus issue is always given out of Earliest Profits i.e. Pre-acquisition Profits if they are sufficient.<br>**c)** % of Holding<br>$= \frac{\text{No. of Shares held by H including Bonus Issue}}{\text{Total Issued Shares by Subsidiary including Bonus}}$ |
| **Dividend Paid or Declared by Subsidiary (Treatment in AOP)** | **Case 1: Dividend is Paid during the year, assume this dividend belongs to PY (hence entry must have been passed)**<br><br>**Step 1:**<br>Add back in Post Acquisition column of AOP<br>**Step 2:**<br>Apply Time Adjustment of Post Acquisition Column<br>**Step 3:**<br>Deduct in Pre-acquisition Column or Post Column depending on the period of Dividend and DOA<br><br>**Case 2: Dividend is declared at the end of Current year, assume it belongs to Current Year Only (hence entry is not yet passed)**<br>Directly Deduct after Time Adjustment in Pre/Post Column depending upon the DOA.<br><br>Other Important Points for Dividend Paid by Subsidiary:<br>➢ There are two types of dividends, Interim dividend and Final dividend.<br>➢ Interim dividend always belongs to Current Year<br>➢ Treatment of Both types of dividend in AOP is same. |
| **Dividend Received by Holding Company from Subsidiary Co.** | If the dividend belongs to Pre-acquisition period, it is Pre-acquisition dividend.<br>If dividend belongs to Post acquisition period, it is Post acquisition dividend |

<table>
<tr><td></td><td>
1) Pre-acquisition Dividend Received by Holding<br>
➢ It must be deducted from the cost of investment of holding co.<br>
➢ If it is wrongly credited to Profit and Loss of Holding Co. then it should be deducted from Consolidated P&L working and deducted to Cost of Investment under Cost of Control working.<br>
➢ Always assume that, Pre-acquisition dividend received by parent is wrongly credited to its P&L A/c<br><br>
2) Post Acquisition Dividend received:<br>
It is already credited to Profit and Loss of Holding co. which is correctly done hence no further treatment required.
</td></tr>
<tr><td>Revaluation of Assets of Subsidiary</td><td>
➢ As per AS 21, Net Assets of subsidiary to be recognised at Fair Value in consolidated financial statement.<br>
➢ Revaluation of Assets of subsidiary shall be done on Date of Acquisition only.<br><br>
Apply following steps after Time Adjustment:<br>
Step 1: Calculate Revaluation Gain/loss on Assets as under<br>
Book Value of Asset on the date of Acquisition<br>
Less: Market Value of Assets on the date of Acquisition<br><br>
Step 2: Revaluation Gain/loss is treated as Pre-acquisition gain/loss<br>
Hence it should be added or deducted in Pre column<br><br>
Step 3: Calculate Depreciation effect on Asset due to Revaluation for post-acquisition period<br>
Depreciation that should be charged on MV of asset from DOA to BS date<br>
Less: Depreciation actually charged by Subsidiary in SFS from DOA to BS date<br><br>
Step 4: Treatment of Depreciation effect calculated as above<br>
If Additional Depreciation: Deduct in Post-acquisition column in AOP<br>
If Reversal of Depreciation: Add in Post acquisition column in AOP
</td></tr>
<tr><td>Unrealised Profit on Unsold Stock in Inter Co. Transaction</td><td>
Inter company transaction means transactions between holding and subsidiary for purchase/sale of Goods.<br><br>
Example: Suppose Holding co. has sold goods costing 10,000 to subsidiary at 15,000. Out of which, 50% goods are sold by subsidiary
</td></tr>
</table>

| | |
|---|---|
| | to its customers. Now subsidiary co. shows remaining 50% stock (i.e. 7,500) in its Balance Sheet.<br>Holding co. while preparing consolidated financial statements shall consolidate the stock of subsidiary at 7,500 and eliminate 2,500 profit earned by holding and included in the stock.<br><br>**In case of Downstream Transaction (Goods Sold by H to S):**<br>Consolidated Profit and Loss A/c Dr.<br>To Stock A/c<br><br>**In case of Upstream Transaction (Goods Sold by S to H):**<br>AOP (Post Acquisition Column) A/c Dr.<br>To Stock A/c<br><br>**Note:** in case of loss, above entries will be reversed. |
| **Negative Minority Interest** | ➢ Negative minority interest cannot be shown separately in Consolidated Balance Sheet.<br>➢ Negative minority interest shall be written off from consolidated Profit & Loss of Holding Company excess<br>➢ It means share of loss of M/I beyond zero balance of M/I shall be borne by holding company for the time being.<br>➢ When subsidiary earns profit in future the M/I share of profit to the extract of earlier loss shall be transferred to holding's P&L. |
| **Preference Share Capital of Subsidiary Co.** | ➢ That portion of Preference Share Capital of Subsidiary which is held by Holding company is transferred to Cost of Control Working along with Equity Share Capital<br>➢ Remaining portion not held by Holding is transferred to Minority Interest working |

**EXAMPLE 7: (Abnormal Items)**

Financial Year 23-24, Date of Acquisition 1/8/23

| Date | Particulars | Amount |
|---|---|---|
| 1/4/23 | Balance of Reserve & Surplus | 15,00,000 |
| 3/3/24 | Balance of Reserve & Surplus | 21,00,000 |

**During the year:** - Abnormal loss in the month of September (Dr. in Profit & Loss already) = 60,000 Abnormal gain in the month of May 2023 = 1,45,000. Prepare Analysis of Profit of Subsidiary.

**SOLUTION:**

**Analysis of Profit of Subsidiary: -**

| Particular | Pre Acquisition (1st Aug) | Post Acquisition (Aug to March) | Balance Sheet 31/03 |
|---|---|---|---|
| Balance of Reserve & Surplus | 15,00,000 (as on 01/04) | 6,00,000 (12 Months) | 21,00,000 |
| (+) Abnormal loss (September) | - | 60,000 | |
| (-) Abnormal gain (May) | - | (1,45,000) | |
| **Balance** | **15,00,000** | **5,15,000** | |

| | | | |
|---|---|---|---|
| (+/-) Time Adjustment for 4 months | 1,71,667 | (5,15,000/12 X 4) | |
| | **16,71,667** | **3,43,333** | |
| (+/-) Restatement of Abnormal Items | 1,45,000 | (60,000) | |
| | **18,16,667** | **2,83,333** | **21,00,000** |

## EXAMPLE 8: (Bonus adjustment – Entry already passed)

**Standalone Balance Sheet as on 31/3/24**

| | H | S |
|---|---|---|
| Equity share capital | 8,00,000 | 5,00,000 |
| Reserves & Surplus | 6,00,000 | 4,00,000 |
| Liabilities | 5,00,000 | 3,00,000 |
| | **19,00,000** | **12,00,000** |
| Investment 80% | 7,00,000 | - |
| Other Asset | 12,00,000 | 12,00,000 |
| | **19,00,000** | **12,00,000** |

- Date of Acquisition - 1/7/23
- On 1st March 2024 - Bonus issue of shares by subsidiary in the ratio of 1:4 (i.e., 1,00,000/-). Whose entry is already passed by subsidiary.
- Opening Reserves & Surplus as on 1/4/23 = 2,50,000

**SOLUTION:**

How much Net Profit earned by subsidiary company? Let's understand this with the help of below ledger account of R&S

**Reserves & Surplus (FY 23-24)**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| To Equity share Capital (Bonus Entry Passed) | 1,00,000 | By Opening Balance | 2,50,000 |
| To Closing Balance | 4,00,000 | **By Net Profit (B/f)** | **2,50,000** |

**Note:** As we can understand from above R&S account that NP during the year is 2,50,000 for which Time Adjustment is required by assuming that it is earned equally every month.

**Working Note 1: Analysis of Profit**

| | Capital Profit As on 01/07 | Revenue Profit 1/7-31/3 | B/S 31/3 |
|---|---|---|---|
| Reserves & Surplus | 2,50,000 | 1,50,000 | 4,00,000 |
| Bonus Adjustment | (-)1,00,000 | +1,00,000 | |
| **Revised Balances** | **1,50,000** | **2,50,000** | |
| (+/-) Time Adjustment for 3 Months | 62,500 | (2,50,000 X 3/12) | |
| **Revised Balances** | **2,12,500** | **1,87,500** | |
| H 80% | 1,70,000 | 1,50,000 | |
| Minority Interest 20% | 42,500 | 37,500 | |

**Cost of Control: -**

| | |
|---|---|
| Investment (80%) | 7,00,000 |
| (-) 80% of Net Asset | |
| Equity shares capital (with Bonus always) | 4,00,000 |
| CP | 1,70,000 |
| **Goodwill** | **1,30,000** |

**Minority Interest:**

| | |
|---|---|
| Proportionate share in Equity shares capital (with bonus always) | 1,00,000 |
| Capital Profit Share | 42,500 |
| **M/I as on DOA** | **1,42,500** |
| Revenue Profit Share of MI | 37,500 |
| **Total MI as on BS Date** | **1,80,000** |

**Consolidated Reserves & Surplus: -**

| | |
|---|---|
| H's Balance R&S | 6,00,000 |
| (+) H's share of Profit from Subsidiary | 1,50,000 |
| | **7,50,000** |

**Consolidated Balance Sheet**

| | |
|---|---|
| Equity share capital | 8,00,000 |
| Consolidated Reserves & Surplus | 7,50,000 |
| Minority Interest | 1,80,000 |
| Liabilities | 8,00,000 |
| | **25,30,000** |
| Goodwill | 1,30,000 |
| Other Asset | 24,00,000 |
| | **25,30,000** |

**EXAMPLE 9: (Bonus Issue but Entry not yet Passed)**

Solve Example 8 by assuming that bonus entry is not yet passed by Subsidiary & Equity share capital which is given in Balance Sheet i.e. 5,00,000 is without Bonus issue.

**SOLUTION:**

Amount of Bonus issue of Shares = 5,00,000 X1/4 = 1,25,000

**Reserves & Surplus**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| - | - | Opening Balance | 2,50,000 |
| Closing Balance | 4,00,000 | **Net Profit** | **1,50,000** |

**Working Note 1 -** **Analysis of Profit of Subsidiary**

| | CP<br>Up to 1/7 | RP<br>July to March | B/S Date<br>31/3 |
|---|---|---|---|
| Reserves & Surplus | 2,50,000 | 1,50,000 | 4,00,000 |
| (-) Bonus share | (1,25,000) | 1,50,000 | 4,00,000 |

| | | | |
|---|---|---|---|
| | **1,25,000** | **1,50,000** | **2,75,000** |
| (+/-) Time adjustment for 3 months | 37,500 | (1,50,000 X 3/12) | |
| | **1,62,500** | **1,12,500** | **2,75,000** |
| H's Share 80% | 1,30,000 | 90,000 | |
| Minority Interest Share 20% | 32,500 | 22,500 | |

**Cost of Control:**

| | |
|---|---|
| Investments | 7,00,000 |
| (-) Proportionate Net Asset:<br>Equity Share capital 6,25,000 x 80%<br>Share of Capital Profit | <br>(5,00,000)<br>(1,30,000) |
| **Goodwill** | **70,000** |

**Minority Interest: -**

| | |
|---|---|
| Equity Share Capital 6,25,000 x 20% | 1,25,000 |
| Share of Capital Profit | 32,500 |
| Share of Revenue Profit | 22,500 |
| | **1,80,000** |

**EXAMPLE 10:**

Date of Acquisition is 1/11/2024

Investment Cost is Rs. 5,00,000 (65%)

Equity Share Capital at beginning & ending of year is 3,00,000

Reserves & Surplus at beginning is 1,20,000 & at end is 3,40,000

During the year Bonus shares issued by Subsidiary in the ratio of 1:3 (Abnormal Loss of ₹ 18,000 on 1st July)

Calculate Goodwill & Minority Interest.

**SOLUTION:**

1) Since Equity Share Capital is 3,00,000 at beginning and ending of the year. Therefore, Bonus entry not yet passed.

**Working Note 1: - Analysis of Profit**

| | CP | RP | B/S Date |
|---|---|---|---|
| Reserves & Surplus | 1,20,000 | 2,20,000 | 3,40,000 |
| (-) Bonus Issue | (1,00,000) | - | |
| (+) Abnormal Loss | - | 18,000 | |
| | **20,000** | **2,38,000** | |
| (+/-) Time adjustment for 7 Months | 1,38,833 | (1,38,833) | |
| | 1,58,833 | 99,167 | |
| (-) Abnormal Loss | (18,000) | - | |
| | **1,40,833** | **99,167** | |
| H 65% | 91,541 | 64,459 | |
| MI 35% | 49,292 | 34,708 | |

**Working Note 2: Goodwill**

| | |
|---|---|
| Investment | 5,00,000 |
| (-) Equity Share Capital (65%) | (2,60,000) |
| (-) CP | (91,541) |
| **Goodwill** | **1,48,459** |

**Working Note 3: Minority Interest**

| | |
|---|---|
| Equity Share Capital (35%) | 1,40,000 |
| CP | 49,292 |
| RP | 34,708 |
| | **2,24,000** |

**EXAMPLE 11: (Dividend)**

| Particular | Amount |
|---|---|
| Equity Shae Capital of Subsidiary | 7,50,000 |
| Reserves & Surplus as on 1/4/23 | 6,00,000 |
| Reserves & Surplus as on 31/3/24 | 9,00,000 |

DOA = 1/9/23. Dividend declared & paid on 15/9/23 in an AGM.

**SOLUTION:**

Dividend belong to 22-23

**Reserves & Surplus**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| Dividend | 75,000 | Opening A/c | 6,00,000 |
| Closing A/c | 9,00,000 | Net Profit | 3,75,000 |

**Analysis of Profit:**

| | CP | RP | B/s Date |
|---|---|---|---|
| Reserves & Surplus | 6,00,000 | 3,00,000 | 9,00,000 |
| + Dividend | - | 75,000 | |
| | **6,00,000** | **3,75,000** | |
| +/- Total Adjustment | 1,56,250 | (1,56,250) | |
| | | **(3,75,000)** | |
| (-) Dividend | (75,000) | - | |
| | **6,81,250** | **2,18,750** | |

**EXAMPLE 12: (Dividend Declared Subsidiary)**

- Financial Year 23-24.
- Date of Acquisition 1/4/23
- Dividend (15%) declared on 31/3/24 for Financial Year 23-24 but Dividend entry not yet passed.
- Equity shares of subsidiary = 10,00,000/-
- Reserve & Surplus of 1/4/23 = 4,50,000/-
- Reserve & Surplus of 31/3/24 = 9,90,000/-

**SOLUTION**

**Reserves & Surplus A/c**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| | | Opening A/c | 4,50,000 |
| Closing A/c | 9,90,000 | Net Profit | 5,40,000 |

**Analysis of Profit:**

| | CP | RP | B/S date |
|---|---|---|---|
| R&S | 4,50,000 | 5,40,000 | 9,90,000 |
| (-) Dividend | - | (1,50,000) | |
| | **4,50,000** | **3,90,000** | |

**EXAMPLE 13: (Dividend)**

Same as Example 12, Date of Acquisition is 1/10/23

**SOLUTION**

**Analysis of Profit: -**

| | CP | RP | B/S Date |
|---|---|---|---|
| Reserve & Surplus | 4,50,000 | 5,40,000 | 9,90,000 |
| (+/-) Time Adjustment | 2,70,000 | (2,70,000) | |
| | **7,20,000** | **2,70,000** | |
| (-) Dividend | (7,5000) | (75,000) | |

**EXAMPLE 14: (Dividend)**

Same as Example 12, Date of Acquisition is 31/3/24

**SOLUTION**

**Analysis of Profit: -**

| | CP | RP | B/S Date |
|---|---|---|---|
| Reserve & Surplus | 9,90,000 | - | 9,90,000 |
| (-) Dividend | (1,50,000) | | |
| | **8,40,000** | | |

**Note:** Since Entire 12 Months belongs to Pre Acquisition period i.e., before DOA. Hence, entire dividend belongs to CP

**EXAMPLE 15: (Interim Dividend and Abnormal Loss)**

| | |
|---|---|
| As on 1/4 | Reserves & Surplus is 6,00,000 |
| On 1/6 | Date of Acquisition (90%) |
| On 1/10 | Paid Interim Dividend (CY) is 75,000 |
| On 1/1 | Abnormal Loss 12,000 |
| On 31/3 | Reserves & Surplus is 9,50,000 |

Investment Cost = 10,00,000

ESC = 4,00,000

**Prepare AOP, COC, MI & Extract of Consolidated R&S.**

## SOLUTION:

### (a) Analysis of Profit

| Particular | CP | RP | B/s Date |
|---|---|---|---|
| Balance of Profit & Loss | 6,00,000 | 3,50,000 | 9,50,000 |
| + Abnormal Loss | - | 12,000 | |
| + Dividend | - | 75,000 | |
| | **6,00,000** | **4,37,000** | |
| +/- Time Adjustment for 2 months | 72,833 | (72,833) | |
| (-) Abnormal Loss | - | (12,000) | |
| (-) Interim Dividend (2M Pre & 4M Post) | (25,000) | (50,000) | |
| | **6,47,833** | **3,02,167** | |
| H's share 90% | 5,83,050 | 2,71,950 | |
| Minority Interest 10% | 64,783 | 30,217 | |

### (b) Cost of Control

| | |
|---|---|
| Investment | 10,00,000 |
| (-) Pre-Acquisition Dividend | (22,500) |
| **Net Investment** | **9,77,500** |
| (-) 90% ESC | (3,60,000) |
| (-) Share in Capital Profit | (5,83,050) |
| **Goodwill** | **34,450** |

### (c) Minority Interest

| | |
|---|---|
| Equity Share Capital | 40,000 |
| Share in Capital Profit | 64,783 |
| Share in Revenue Profit | 30,217 |
| | **1,35,000** |

### (d) Consolidated Reserves & Surplus

| | |
|---|---|
| H's Balance | xxx |
| + Share in Revenue Profit | 2,71,950 |
| (-) Pre Acquisition Dividend | (22,500) |

## EXAMPLE 16: (Fair Value of Net Assets)

**Balance Sheet of Subsidiary as on 31/3/24**

| | |
|---|---|
| Equity share capital (10/-) | 15,00,000 |
| Reserves & Surplus | 7,50,000 |
| Liabilities | 24,50,000 |
| | **47,00,000** |
| PPE | 30,00,000 |
| Current Asset | 17,00,000 |
| | **47,00,000** |

Date of Acquisition by H is 31/03/24 on this date Market Value of PPE of S was 38,00,000. Calculate Market Value of Net Asset on Date of Acquisition.

**SOLUTION:**

**Alternate 1**

| | |
|---|---|
| PPE | 38,00,000 |
| Current Asset | 17,00,000 |
| (-) Liabilities | 24,50,000 |
| **Market Value of Net Asset** | **30,50,000** |

**Alternate 2**

| | |
|---|---|
| Equity share capital | 15,00,000 |
| Reserves & Surplus | 7,50,000 |
| + Fair Value Gain | 8,00,000 |
| | **30,50,000** |

**Alternate 3**

**Analysis of Profit**

| | CP | RP | BS |
|---|---|---|---|
| Reserves & Surplus | 7,50,000 | - | 7,50,000 |
| (+) Fair Value Gain | 8,00,000 | | |
| | **15,50,000** | | |
| H (100%) | 15,50,000 | | |

**EXAMPLE 17: (Fair Value of Net Assets of Subsidiary)**

**First year 23-24, DOA is 1st Sep 2023**

| Date | Particular | Amount |
|---|---|---|
| 31/3/24 | Book Value of PPE of Subsidiary | 18,00,000 |
| | Depreciation Rate | 10% P.a. |
| 1/4/23 | Profit & Loss A/c of subsidiary | 11,00,000 |
| 31/3/24 | Profit & Loss A/c of subsidiary | 19,50,000 |
| 1/9/23 | MV of PPE | 22,30,000 |

On Date of Acquisition value of Inventory & creditors of subsidiary should be increased by 50,000 & 21,000 respectively. Abnormal Loss on 01/12/23 = 32,000

**Prepare Analysis of Profit (AOP)**

**SOLUTION:**

| | |
|---|---|
| Book Value as on 1/4 | 20,00,000 |
| (-) Depreciation for 5 Months | 83,333 |
| Book Value as on 1/9 | 19,16,667 |
| Market Value as on 1/9 | 22,30,000 |
| **FV Gain** | **3,13,333** |

**Additional Depreciation: -**

| | |
|---|---|
| Depreciation that should be charged on MV for Post Period (22,30,000 x 10% x 7/12) | 1,30,083 |
| Depreciation actually Charged by S on Book Value for Post Period (BV as on DOA – BV as on B/s) | 1,16,667 |

| | |
|---|---|
| | **13,416** |

1) **Inventory on DOA is increased by 50,000**

| | |
|---|---|
| Inventory A/c Dr.<br>To Pre-acquisition profit | 50,000<br>50,000 |

2) **Creditors increased by 21,000**

| | |
|---|---|
| Pre-acquisition Profit A/c Dr.<br>To Creditor A/c | 21,000<br>21,000 |

| | CP | RP | B/S Date |
|---|---|---|---|
| Profit & Loss | 11,00,0000 | 8,50,000 | 19,50,000 |
| + Abnormal Loss | - | 32,000 | |
| | 11,00,000 | 8,82,000 | |
| +/- Trading Adjustment for 5 Months | 3,67,500 | (3,67,500) | |
| (-) Abnormal Loss | - | (32,000) | |
| (+/-) FV Adjustment | 3,13,333 | (13,416) | |
| | 50,000 | - | |
| | (21,000) | - | |
| | **18,09,833** | **4,69,084** | |

## EXAMPLE 18: (Negative Minority Interest)

Minority Interest =30%

| Date | Particular | Amount |
|---|---|---|
| 1/4/24 | Equity share capital | 10,00,000 |
| 1/4/24 | Reserves & Surplus | 5,00,000 |
| 31/3/25 | Reserves & Surplus | 2,00,000 |
| 31/3/26 | Reserves & Surplus | (3,00,000) |

Calculate Minority Interest on as Date of Acquisition at every Balance Sheet Date

**SOLUTION:**

**(1) As on 1/4/24 Date of Acquisition**

| | |
|---|---|
| Equity Share Capital | 10,00,000 |
| Reserves & Surplus | 5,00,000 |
| Minority Interest (15,00,000 x 30%) | 4,50,000 |

**(2) Minority Interest as on 31/3/25**

| | |
|---|---|
| Equity Share Capital | 10,00,000 |
| Reserves & Surplus | 2,00,000 |
| **12,00,000 x 3** | **3,60,000** |

**OR**

| | |
|---|---|
| Minority Interest as on DOA | 4,50,000 |
| (-) Share in RP | (90,000) |
| | **3,60,000** |

**(3) Minority Interest on as 31/3/26**

| | |
|---|---|
| Equity Share Capital | 10,00,000 |
| Reserves & Surplus | (3,00,000) |
| Net Asset | 7,00,000 x 30% |
| **Minority Interest** | **2,10,000** |

**OR**

| | |
|---|---|
| Minority Interest as on 31/3/25 | 3,60,000 |
| (-) Share of Loss for first year 25-26 (5,00,000 x 30%) | (1,50,000) |
| **Minority Interest** | **2,10,000** |

**EXAMPLE 19:**

In continuation of above example, Balance Reserves & Surplus as on 31/3/27 = (12,00,000)

**SOLUTION**

| | |
|---|---|
| Minority Interest (as on 31/3/27) | |
| Equity share capital | 10,00,000 |
| Reserves & Surplus | (12,00,000) |
| Net Asset | (2,00,000) |
| Minority Interest @ 30% | *(60,000) |

**OR**

| | |
|---|---|
| Minority Interest as on 31/3/26 | 2,10,000 |
| (-) Share of Loss for first year 26-27 (9,00,000 x 30%) | (2,70,000) |
| **Minority Interest** | ***(60,000)** |

*Borne By Holding

Therefore, Minority Interest = NIL

**EXAMPLE 20: (Pref. Share Capital of Subsidiary)**

**Financial Year 23-24**

| Date | Particular | Amount |
|---|---|---|
| 1/4/23 | 9% Preference share capital | 6,00,000/- |
| 1/4/23 | Equity share capital | 9,00,000/- |
| 1/4/23 | Profit & Loss Balance | 4,50,000 |
| 31/3/24 | Profit & Loss Balance | 7,50,000 |

On 1st June, Investment in 80% Equity of S of 9,50,000 and Investment in 40% Preference Share of 2,50,000.

**SOLUTION:**

**EXAMPLE 21: (Master Problem containing multiple adjustments)**

Standalone Balance Sheet as on 31/3/24

| Particular | H | S |
|---|---|---|
| Equity Share Capital | 15,00,000 | 12,00,000 |
| General Reserve | 5,00,000 | 2,80,000 |
| Profit & Loss A/c | 3,00,000 | 4,20,000 |
| Loans | 9,00,000 | 7,50,000 |
| Trades Payable | 5,50,000 | 2,50,000 |
| | **37,50,000** | **29,00,000** |
| Land & Building | 8,00,000 | 10,00,000 |
| Machines | 7,00,000 | 9,00,000 |
| Investment @75% | 14,00,000 | - |
| Current Asset | 8,50,000 | 10,00,000 |
| | **37,50,000** | **29,00,000** |

1) DOA = 1/July/23
2) MV of Land & Building – 12,00,000, Plant & Machinery – 7,00,000 as on DOA
3) Rate of Depreciation = Land and Building 20%, Plant & Machinery 10%
4) Abnormal Gain on 1$^{st}$ June = 21,000; Abnormal loss on 2$^{nd}$ July = 18,000
5) On 1/Jan/24 Bonus, issue by Subsidiary 1:5
6) Opening Balance of General Reserve 1,80,000 and Profit & Loss 3,00,000
7) Bonus entry already Passed
8) Debtors of 15,000 of H are receivable from S

**SOLUTION**

**Working Note 1: Calculation of FV Gain/Loss due to Revaluation**

| | | Land & Building | Plant & Machinery |
|---|---|---|---|
| (a) | Book Value as on 31/3 | 10,00,000 | 9,00,000 |
| (b) | Depreciation Rate | 20% | 10% |
| (c) | Book Value as on 1/4 (a/100%-b) | 12,50,000 | 10,00,000 |
| (d) | Book Value as on 1/7 (after 3M dep) | 11,87,500 | 9,75,000 |
| (e) | Market Value as on 1/7 | 12,00,000 | 7,00,000 |
| **(f)** | **Gain/Loss (e-d)** | **12,500** | **(2,75,000)** |

### Working Note 2: Depreciation effect

| | | Land & Building | Plant & Machinery |
|---|---|---|---|
| (a) | Depreciation from July to March already Charged by S | 1,87,500 | 75,000 |
| (b) | Depreciation from July to March that should be charged by H on Market Value | 1,80,000 | 52,500 |
| **Saving** | | **7,500** | **22,500** |

### Working Note 3: Analysis of Profit of Subsidiary

| Particular | CP (up to 1/7) | Revenue Profit | | Balance Sheet 31/3/24 |
|---|---|---|---|---|
| | | GR (9M) | P&L (9M) | |
| Balances<br>General Reserve<br>Profit & Loss | <br>1,80,000<br>3,00,000 | <br>1,00,000<br>- | <br>-<br>1,20,000 | <br>2,80,000<br>4,20,000 |
| (+/-) Bonus | (2,00,000) | 2,00,000 | - | |
| (+/-) Eliminated Abnormal Items | | | (21,000)<br>18,000 | |
| | **2,80,000** | **3,00,000** | **1,17,000** | |
| (+/-) Time Adjustment (3 Months) | 75,000<br>29,250 | (3,00,000 x 3/12) | (1,17,000 x 3/12) | |
| **Balances** | **3,84,250** | **2,25,000** | **87,750** | |
| (+/-) Abnormal Item | 21,000 | - | (18,000) | |
| (+/-) Fair Value<br>Land & Building (Gain)<br>Plant & Machinery (Loss) | <br>12,500<br>(2,75,000) | | | |
| (+) Saving in Depreciation<br>Land & Building<br>Plant & Machinery | <br>-<br>- | <br>-<br>- | <br>7,500<br>22,500 | |
| **Final Balances** | **1,42,750** | **2,25,000** | **99,750** | |
| H 75% | 1,07,063 | 1,68,750 | 74,813 | |
| MI 25% | 35,687 | 56,250 | 24,937 | |

### Working Note 4: Cost of Control

| | |
|---|---|
| Investment | 14,00,000 |
| (-) Proportion of Net Asset | |
| ESC @75% | 9,00,000 |
| Share in Capital Profit | 1,07,063 |
| **Goodwill** | **3,92,937** |

### Working Note 5: Minority Interest

| | |
|---|---|
| Equity Share Capital @25% | 3,00,000 |
| Share in Capital Profit | 35,687 |
| Share in Revenue Profit | 81,187 |
| | **4,16,874** |

### Working Note 6: Consolidated Reserves & Surplus

| Particular | Amount |
|---|---|
| (a) General Reserve | |
| Balance with H | 5,00,000 |
| + Share in RP | 1,68,750 |
| | **6,68,750** |
| (b) Profit & Loss | |
| Balance with H | 3,00,000 |
| + Share in RP | 74,813 |
| | **3,74,813** |
| **Gross Total (a+b)** | **10,43,563** |

### Consolidated Balance Sheet as on 31/3/2024

| Particular | | Amount |
|---|---|---|
| Equity Share Capital | | 15,00,000 |
| Consolidated Reserves & Surplus (W.N – 6) | | 10,43,563 |
| Minority Interest (W.N – 5) | | 4,16,874 |
| Loans | | 16,50,000 |
| H | 9,00,000 | |
| S | 7,50,000 | |
| Trade Payables | | 7,85,000 |
| H | 5,50,000 | |
| S | 2,50,000 | |
| (-) Common Debts | (15,000) | |
| | | **53,95,437** |
| Land & Building | | 18,20,000 |
| H | 8,00,000 | |
| S | 10,00,000 | |
| + FV Gain | 12,500 | |
| + Saving Depreciation | 7,500 | |
| Profit & Machinery | | 13,47,500 |
| H | 7,00,000 | |
| S | 9,00,000 | |
| (-) FV Loss | (2,75,000) | |
| (+) Dep | 22,500 | |
| Goodwill (WN – 4) | | 3,92,937 |
| Current Asset | | 18,35,000 |
| H | 8,50,000 | |
| S | 10,00,000 | |
| (-) Common Debts | (15,000) | |
| | | **53,95,437** |

### EXAMPLE 22 (Master Problem)

| | |
|---|---|
| As on 1/4 | Equity Share Capital = 7,00,000<br>Reserves & Surplus = 5,20,000 |
| On 1/9 (DOA) | 80% Investment of 10 lakhs |

| | |
|---|---|
| | PPE (MV) = 11,00,000 |
| On 1/1 | Abnormal Gain = 18,000 |
| On 31/3 | Reserves & Surplus = 9,00,000 |

**On 31/3**

(a) Bonus Declared at 1:4 ratio, but entry is not passed

(b) Dividend Declared 15%, but entry is not passed

(c) Book Value of PPE is 8,50,000, Depreciation = 12%

**SOLUTION:**

***Revenue Profit is already Before Dividend. Since, Dividend entry not yet passed**

**Working Note 1: Revaluation of PPE and depreciation thereon**

| | | |
|---|---|---|
| (a) | Book Value as on 31/3 | 8,50,000 |
| (b) | Book value as on 1/4 (8,50,000/88%) | 9,65,910 |
| (c) | Book value as on 1/9 (after 5M Dep) | 9,17,615 |
| (d) | Market value as on 1/9 | 11,00,000 |
| (e) | FV Gain (d-c) | 1,82,385 |
| (f) | Depreciation for Post Acquisition Period actually Charged by S (c-a) | 67,615 |
| (g) | Depreciation that should be Charged on Market Value | 77,000 |
| **(h)** | **Additional Depreciation (g-f)** | **9,385** |

**Working Note 2: AOP of Subsidiary**

| Particular | CP (up to 1/9) | GR (Sep to Nov) | Balance Sheet 31/3 |
|---|---|---|---|
| Balance of Reserves & Surplus | 5,20,000 | 3,80,000 | 9,00,000 |
| (-) Abnormal Gain | - | (18,000) | |
| (-) Bonus issue (7,00,000 x 1/4) | (1,75,000) | - | |
| | **3,45,000** | **3,62,000** | |
| (+/-) Time Adjustment for 5 months | 1,50,833 | (1,50,833) | |
| **Balances** | **4,95,833** | **2,11,167** | |
| (+) Abnormal Gain | - | 18,000 | |
| (-) Dividend (5M Pre : 7M Post) | (43,750) | (61,250) | |
| +/- Revaluation effect (WN.1) | 1,82,385 | (9,385) | |
| **Final Balances** | **6,34,468** | **1,58,532** | |
| H's 80%- | 5,07,574 | 1,26,826 | |
| MI 20% | 1,26,894 | 31,706 | |

**Working Note 3: Cost of Control**

| | |
|---|---|
| Investment Cost (Before Pre-Dividend Deduction) | 10,00,000 |
| (-) Pre-Acquisition Dividend Receivable | (35,000) |
| **Net Investment Cost** | **9,65,000** |
| (-) Proportionate Net Asset<br>80% Equity Share Holder (with Bonus)<br>80% share in Capital Profit (WN.2) | <br>(7,00,000)<br>(5,07,574) |
| **Capital Reserve** | **2,42,574** |

**Working Note 4: Minority Interest**

| | |
|---|---|
| 20% of Equity Share Capital | 1,75,000 |
| 20% of Share in Capital Profit (WN.2) | 1,26,894 |
| 20% of Share in Revenue Profit (WN.3) | 31,706 |
| | **3,33,600** |

**Note:** Dividend payable to Minority Interest shall be shown Separately in the Balance Sheet as Current Liability.

**Working Note 5: Consolidated Reserves & Surplus of Holding**

| | |
|---|---|
| Balance of H | xxx |
| (+) Share in Revenue Profit | 1,26,826 |
| (+) Dividend Income (7M) | 49,000 |

**EXAMPLE 23: (Contingent Liabilities for Bills Discounted)**

**H**

| | | | |
|---|---|---|---|
| Bills Payable | 65,000 | Bills receivable | 50,000 |

Contingent Liabilities: Bills Discounted – Rs. 15,000

| | | | |
|---|---|---|---|
| Bills Payable | 30,000 | Bills receivable | 40,000 |

Contingent Liabilities: Bills discounted – Rs. 8,000

Bills Payable of H Includes 20,000 payable to S, Out of this 5,000/- of bills already discounted by S

**Consolidated B/s (Extract)**

| | | |
|---|---|---|
| Bills Receivable | | 75,000 |
| H | 50,000 | |
| S | 40,000 | |
| (-) Contra | (15,000) | |
| Bills Payable | | 80,000 |
| H | 65,000 | |
| S | 30,000 | |
| (-) Contra | (15,000) | |
| Contingent Liabilities | | 18,000 |
| H | 15,000 | |
| S | 8,000 | |
| (-) | 5,000 | |

## 3. OTHER MISC. ADJUSTMENTS

| | |
|---|---|
| Balances of Reserves and Surplus – Missing | ➢ For Balance of Profit &Loss A/c: Assume Zero Balance as on 1st Day of the year.<br>➢ For Balance of Other Reserves: Assume the Same amount as at the end of the year. |
| Dividend on Preference Shares of Subsidiary | ➢ Add back in AOP, if entry is already passed (ignore if entry not passed)<br>➢ Apply Time Adjustment<br>➢ Deduct in AOP from Pre and/or Post according to the date of Investment.<br>➢ If this dividend is receivable by Parent, then share of parent will be transfer to COC (Pre) or Conso. P&L (Post)<br>➢ MI's Share in dividend will be shown as Other Current Liability separately in BS if dividend is still payable. If dividend is already paid then ignore. |
| Rectification of Errors | If the question specifies any error relating to Profit and Loss a/c of subsidiary, then such errors should be rectified before time adjustment.<br><br>Example: Repairing Expense wrongly capitalized, should be expensed off immediately |
| Contra Items | Whenever the Payables and Receivables are within group (i.e. H and S), then such payable/receivable should be eliminated.<br>Payable A/c Dr.<br>To Receivable A/c<br>**Note:**<br>➢ If payable is less than receivable, then difference is called cheque in transit.<br>➢ If payable is more than receivable, then some Error will be given in the question. Such error will be rectified and then contra adjustment will be made. |
| Contingent Liabilities | ➢ The Portion which is discounted and shown as Contingent liability will not to be shown in Consolidated BS<br>➢ Contra Adjustment will be made only for that portion which is not yet discounted and shown under Bills receivable and Bills payable |

### EXAMPLE 24 (Master Problem)

| | |
|---|---|
| As on 1/4/23 | Reserves & Surplus is 5,20,000 |
| On 1/6 | Abnormal Gain is 9,000 |
| On 1/8 (DOA) | Market Value of Fixed Asset – 25,00,000;<br>Depreciation rate = 12% |
| On 1/10 | Upstream Transaction at 25% on Cost;<br>Unsold Goods = 1,25,000 |
| On 1/3 | Bonus @ 1:4 |
| 31/3/24 | Reserves & Surplus is 9,30,000; Dividend declared is 12% |

**Standalone Balance Sheet as on 31/3/24**

| Particular | H Ltd. | S Ltd. |
|---|---|---|
| Equity Share Capital | 12,00,000 | 10,00,000 |

| | | |
|---|---|---|
| Reserves & Surplus | 10,00,000 | 9,30,000 |
| Liabilities | 19,00,000 | 11,70,000 |
| | **41,00,000** | **31,00,000** |
| Fixed Asset | 12,00,000 | 18,00,000 |
| Investment @75% | 15,00,000 | - |
| Current Asset | 14,00,000 | 13,00,000 |
| | **41,00,000** | **31,00,000** |

**Note: Bonus entry is already Passed**

**SOLUTION:**

**Working Note 1: Revaluation & its Depreciation**

| | | |
|---|---|---|
| **4.** | Book Value as on 31/3/23 | 18,00,000 |
| **5.** | Book value as on 1/4/23 18,00,000/88% | 20,45,454 |
| **6.** | Book value as on 1/8/23 | 19,63,636 |
| **7.** | Market value as on 1/8/23 | 25,00,000 |
| **8.** | FV Gain (d-c) | 5,36,364 |
| **9.** | Depreciation for Post Acquisition Period actually Charged by S (c-a) | 1,63,636 |
| **10.** | Depreciation that should be Charged on Market Value | 2,00,000 |
| **11.** | Additional Depreciation (g-f) | 36,364 |

**Working Note 2: Calculation of Unrealised Profit on Unsold Goods with H**

Unsold goods with H (i.e., Sale by S) = 1,25,000

Subsidiary Margin (25% on Cost) = 1/5 on Sales

Profit = 1,25,000/5 = 25,000

**Working Note 3: Analysis of Profit of S:**

| | CP | RP | Balance Sheet |
|---|---|---|---|
| Balance of Reserves & Surplus | 5,20,000 | 4,10,000 | 9,30,000 |
| (-) Abnormal Gain | - | (9,000) | |
| (+/-) Bonus | (2,00,000) | 2,00,000 | |
| **Balance** | **3,20,000** | **6,01,000** | |
| (+/-) Time adjustment for 4M | 2,00,333 | (6,01,000 x 4/12) | |
| | **5,20,333** | **4,00,667** | |
| (+) Abnormal Gain | 9,000 | - | |
| (-) Dividend (4M Pre & 8M Post) | (40,000) | (80,000) | |
| (+/-) Revaluation effect | 5,36,364 | (36,364) | |
| (-) Unrealised Profit (WN.2) | - | (25,000) | |
| | **10,25,697** | **2,59,303** | |
| H 75% | 7,69,273 | 1,94,477 | |
| MI 25% | 2,56,424 | 64,826 | |

* Dividend shall be calculated on ESC including Bonus is already declared before CY Dividend. 10,00,000 x 12% = 1,20,000

*Dividend entry not yet passed

### Working Note 4: Cost of Control

| | |
|---|---|
| Investment | 15,00,000 |
| (-) Pre-Acquisition Dividend | 30,000 |
| (-) 75% ESC | (7,50,000) |
| (-) Capital Profit Share | (7,69,273) |
| **Capital Reserve** | **49,273** |

### Working Note 5: Minority Interest

| | |
|---|---|
| Equity Share Capital | 2,50,000 |
| Share in Capital Profit | 2,56,424 |
| Share in Revenue Profit | 64,826 |
| | **5,71,250** |

### Working Note 6: Consolidated Reserves & Surplus

| | | |
|---|---|---|
| (a) Consolidated Free Reserves | | 12,54,477 |
| Balance with H | 10,00,000 | |
| (+) Revenue Profit Share of H | 1,94,477 | |
| (+) Post Acquisition Share of Dividend | 60,000 | |
| (+) (b) Capital Reserve | | 49,273 |
| **Consolidated Reserves & Surplus** | | **13,03,750** |

### Consolidated Balance Sheet

| | | |
|---|---|---|
| Equity Share Capital | | 12,00,000 |
| Consolidated Reserves & Surplus | | 13,03,750 |
| Minority Interest | | 5,71,250 |
| Liability | | 31,00,000 |
| H | 19,00,000 | |
| S | 11,70,000 | |
| + Dividend Payable to MI | 30,000 | |
| | | **61,75,000** |
| Fixed Asset | | 35,00,000 |
| H | 12,00,000 | |
| S | 18,00,000 | |
| + FV | 5,36,364 | |
| (-) Depreciation | (36,364) | |
| Current Assets | | 26,75,000 |
| H | 14,00,000 | |
| S | 13,00,000 | |
| (-) Unrealised Profit | (25,000) | |
| | | **61,75,000** |

# 4. CONSOLIDATED PROFIT AND LOSS STATMENT

1) All Incomes and expenses of Holding and Subsidiary are merged in Consolidated Profit and loss statements.
2) In the year of acquisition, Incomes and Expenses of Subsidiary co. shall be considered from the date of acquisition (i.e. for Post acquisition period). Hence, proportionate amount of Income and Expenses of subsidiary shall be taken.
3) Final Net Profit of Group is allocated between Share of Minority Interest and Share of Owners of Parent.
4) Share of Minority Interest in the Net Profit of the group can be calculated with the Help of AOP. It is share in Post Acquisition Profit of Subsidiary co.

**EXAMPLE 25: (Consolidated Profit and Loss A/c)**

**Statement of profit & Loss year ending 31/3/24**

| Particular | H Ltd. | S Ltd. |
|---|---|---|
| Revenue form Operation | 50,00,000 | 30,00,000 |
| Other income | 4,50,000 | 2,00,000 |
| | **54,50,000** | **32,00,000** |
| Cost of Material consumed | 18,00,000 | 9,00,000 |
| Changes in Inventories | (3,00,000) | (1,80,000) |
| Employee Benefit Expenses | 6,00,000 | 5,00,000 |
| Finance cost | 5,50,000 | 3,80,000 |
| Other expenses | 11,00,000 | 8,00,000 |
| | **37,50,000** | **24,00,000** |
| Profits before Taxes | 17,00,000 | 8,00,000 |
| (-) Tax expenses | (5,00,000) | (2,00,000) |
| Profit After Taxes | 12,00,000 | 6,00,000 |
| Less: Dividend paid | (2,50,000) | (1,00,000) |
| Retained Earnings | 9,50,000 | 5,00,000 |

(1) Date of Acquisition is 1/7/23
(2) Acquired 75% of equity
(3) During the year: -
  (a) Goods Sold by H to S for Rs.4,00,000
  (b) Interest paid by S to H Rs. 50,000
(4) Opening inventory on 1/7 of S is 5,00,000 & Closing Inventory as on 31/3 of S is 6,20,000

**SOLUTION:**

**Consolidated statement of Profit & Loss of group for the year ended 31/3/24**

| Particular | H | S | Contra | Total |
|---|---|---|---|---|
| Revenue from Operation | 5,00,000 | 22,50,000 | (4,00,000) | 68,50,000 |
| Other Income | 4,50,000 | 1,50,000 | (50,000) | 5,50,000 |
| **Total (A)** | **54,50,000** | **24,00,000** | **(4,50,000)** | **74,00,000** |
| Cost of material consume | 18,00,000 | 6,75,000 | (4,00,000) | 20,75,000 |
| Changes in Inventory | (3,00,000) | (1,20,000) | - | (4,20,000) |

| | | | | |
|---|---|---|---|---|
| Employment Benefit Expenses | 6,00,000 | 3,75,000 | - | 9,75,000 |
| Finance cost | 5,50,000 | 28,5000 | (50,000) | 78,5000 |
| Other Expenses | 11,00,000 | 6,00,000 | - | 17,00,000 |
| **Total (B)** | **37,50,000** | **18,15,000** | **(4,50,000)** | **51,15,000** |
| Profit Before tax (A.B) | 17,00,000 | 5,85,000 | | 22,85,000 |
| (-) Tax expenses | 5,00,000 | 1,50,000 | - | (6,50,000) |
| Profit after Tax | 12,00,000 | 4,35,000 | - | 16,35,000 |
| (-) Dividend declared | (2,50,000) | (1,00,000) | 75,000 | (2,75,000) |
| Retained earnings | 9,50,000 | 3,35,000 | 75,000 | 13,60,000 |
| Retained earnings attributable to owners of Parent (B/F) | | | | 12,76,250 |
| R/E attributable to M/I (3,35,000 X 25%) | | | | 83,750 |

## SECTION B - MCQ's

1. While preparing cash flow statement, conversion of debt to equity
    (a) Should be shown as a financing activity.
    (b) Should be shown as an investing activity.
    (c) Should not be shown as it is a non-cash transaction
    (d) Should not be shown as operating activity.

2. Which of the following would be considered a 'cash-flow item from an "investing" activity'?
    (a) Cash outflow to the government for payment of taxes.
    (b) Cash outflow to purchase bonds issued by another company.
    (c) Cash outflow to shareholders as dividends
    (d) Cash outflow to make payment to trade payables.

3. All of the following would be included in a company's operating activities except:
    (a) Income tax payments
    (b) Collections from customers or Cash payments to suppliers
    (c) Dividend payments
    (d) Office and selling expenses.

4. Hari Uttam, a stock broking firm, received ₹1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
    (a) Operating Activities.
    (b) Investing Activities.
    (c) Financing Activities.
    (d) Non-cash transaction

5. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. Should be classified as
    (a) Operating activity.
    (b) Financing activity.
    (c) Investing activity.
    (d) Non-cash transaction

| ANSWERS | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| | c | b | c | a | c |

**Student Notes:-**