1. Associate meaning

2. AS·23 : Applicability → Consolidated F.S. of Investor → Equity method.

3. Equity method : Initial Recognition : Cost (including G/W / Capital Reserve)

4. Treatment of Post acqui. Profits of Associate

5. Treatment of Dividend paid by associate

6. Post acquisition losses of associate company.
   (* if investors share of losses > cost of investment)

7. Elimination of unrealised profit on intercompany transactions.

Restrictions on applicability of AS-23

Investor —(≥20%)→ Company : Associate

↓

Significant Influence

- ≥20% VP
- Agreement
  - Technical info / know.
  - BOD
    - → appointm. by investor
    - → representatives of investor
- Statute

Investor → Consolidated F.S. → Investment in Associate Co. → AS-23 apply → Equity method

Investor Standalone B/s

Investment in Assoc. → as per AS-13

Investor Consolidated B/s

Investment in Assoc. → as per AS-23 → Equity Method

Equity Method of Accounting

Consolidated Financial Statements ⇒ Investment in Associates ⇒ Initial Recognition
↓
COST

Example :- A ltd. acquired 25% stake in B ltd. on 1.4.20 @ ₹ 500000. On the same day the details of networth of B ltd. were as follows :-

Share Capital = 1000000
Reserves & Surplus = 200000

Show the initial recognition in the books of A ltd.

Solution :-

Cost Incurred = 500000

Networth acquired
S.C. = 1000000 × 25% = 250000
Res = 200000 × 25% = 50000
= 300000

Goodwill = 200000 — separ ×

In the consolidated B/s of A ltd.

ASSETS

Investment in B ltd. :	Networth acquired	300000
	Goodwill	200000
		500000

Example 2 :- Suppose in the above example the 25% stake in B ltd. was acquired @ ₹ 200000.

Solution :-

Cost Incurred = 200000

Networth acquired
S.C. = 1000000 × 25% = 250000
Res = 200000 × 25% = 50000
= 300000

Capital Reserve = 100000

In the consolidated B/s of A ltd.

ASSETS

Investment in B ltd. :	Networth acquired	300,000
	Capital Reserve	(100,000)
		200,000

Treatment of Post acquisition profits of associate company

DOA
25%
acq.
↓
Initial Recog.
↓
$\boxed{\text{COST including G/W / CR}}$

↓
Post-acq profits
earned by Assoc. co.
↓
$\boxed{\text{25\% belongs to investor.}}$

add
↓
Year End Carrying Amt of Investment in Assoc.

Example 3 :- Suppose in example 1, B ltd. earned post acquisition profits of ₹ 700,000. Calculate the carrying amount of investment at the year end.

B/s of Investor Company

ASSETS

Investment in B ltd. :	Networth acquired	300,000
	Goodwill	200,000
add: post acquisition profits of B ltd. (700000 × 25%)		175,000
Carrying amount at year end		675,000

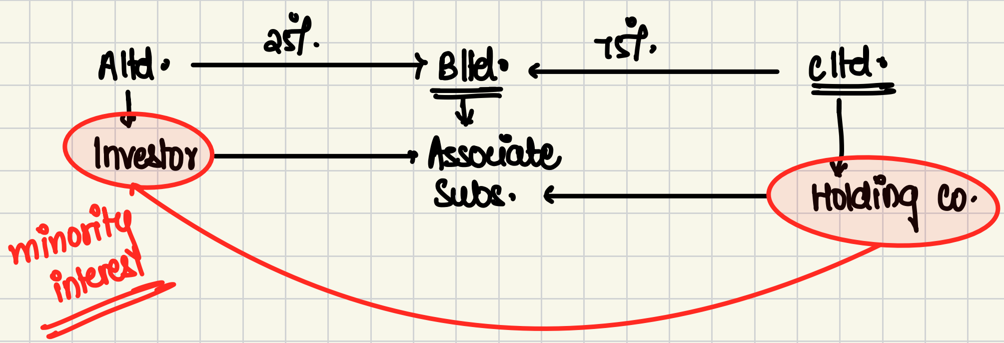
Treatment of Dividend paid by Associate company

Example 4:- continuing example 3, if associate company paid a dividend of ₹ 200000, show the carrying amount of investment in the books of A ltd.

ASSETS

Investment in B ltd. : Networth acquired	300000
Goodwill	200000
add: post acquisition profits of B ltd. (700000 × 25%)	175000
less: dividend paid (200000 × 25%)	(50000)
Carrying amount of Investment	= 625000

* If proposed dividend is mentioned in question instead of dividend paid then the same will not be deducted while calculating carrying amount.



As per AS-21, the minority interest cannot go below zero.
If minority interest becomes zero, the minorities share in any further losses of subsidiary co. will be borne by holding company.

As per AS-23, the investors share in associate company cannot go below zero.

When is AS-23 (Equity Method) not applicable

→ Investment is temporary in nature i.e. it will be disposed in near future (<12m).

→ Associate company operates under severe long term restrictions that impairs its ability to transfer funds to Investor company.

* In the above cases, AS-13 will be followed for accounting of Investments.

When is AS-23 discontinued for Accounting of Investments in Associate

⇒ When Investor ceases to have significant influence on associate.

⇒ The associate company now operates under severe long term restrictions that impairs its ability to transfer funds to the Investor.

* In such a case, the carrying amount on the date of discontinuation will be considered as cost of investment for AS-13.

* Reasons for discontinuance should be disclosed in Consolidated B/s.

2.4 ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately.

From the definition, following broad conclusions can be drawn:

a. In CFS, investment is to be recorded at cost.

b. Any surplus or deficit in cost and net asset to be recorded as goodwill or capital reserve.

c. Distributions received from an investee reduce the carrying amount of the investment.

d. Any subsequent change in share in net asset is adjusted in cost of investment and goodwill/capital reserve.

e. Consolidated Profit & Loss shows the investor's share in the results of operations of the investee.

Illustration 1

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 20X1: DOA

Paid up Equity Share Capital	*₹ 10,00,000*
Securities Premium	*₹ 1,00,000*
Reserve & Surplus	*₹ 5,00,000*

NW × 45% = 720000
GW = 780000
1500000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Carrying Amt = 31·3·12
Sh. of NW : 720000
GW 780000
1500000

+ Post a.p. : 135000
- Div paid : (45000)
1590000

Solution

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars		₹	₹
Investment in B Ltd.	(A)		15,00,000
Equity Shares		10,00,000	
Security Premium		1,00,000	
Reserves & Surplus		5,00,000	
Net Assets		16,00,000	
45% of Net Asset	(B)		7,20,000
Goodwill (A-B)			7,80,000

Calculation of Carrying Amount of Investment in the year ended on 31st March, 20X2

4/5

Particulars	₹
Investment in Associate as per AS 23:	
Share of Net Assets on 1 April 20X1	7,20,000
Add: Goodwill	7,80,000
Cost of Investment	15,00,000
Add: Profit during the year (3,00,000 x 45%)	1,35,000
Less: Dividend paid (1,00,000 x 45%)	(45,000)
Carrying Amount of Investment	15,90,000

2.5 CIRCUMSTANCES UNDER WHICH EQUITY METHOD IS FOLLOWED

Equity method of accounting is to be followed by all the enterprises having significant influence on their associates except in the following cases:

a. Control is intended to be temporary because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. The term 'Near Future' is explained with AS 21.

<12m AS-13

Associate

b. Or it operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the investor.

In both the above cases, investment of investor in the share of the investee is treated as investment according to AS 13.

25%

18%

An investor should discontinue the use of the equity method from the date that:

a. It ceases to have significant influence in an associate but retains, either in whole or in part, its investment.

b. The use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

From the date of discontinuing the use of the equity method, investments in such associates should be accounted for in accordance with AS 13, Accounting for Investments. For this purpose, the carrying amount of the investment at that date should be regarded as cost thereafter. The reasons for not applying the equity method in accounting for investments in an associate should be disclosed in the consolidated financial statements.

AS-13 : Initial Recog → COST
(current / LT)

2.6 APPLICATION OF THE EQUITY METHOD

- Many of the rules followed under equity method for an associate is similar to consolidated financial statement rules as in case of subsidiary i.e. AS 21.
- Investment in an associate should be recorded as per the equity method from the date when such relation comes in effect.
- Investment in the associate is recorded at cost and any difference in the cost and investor's share in equity on the date of acquisition is shown as goodwill or capital reserve.

Case 1:

A Ltd. holds 22% share of B Ltd. on 1st April of the year and following are the relevant information as available on the date are Cost of Investment ₹ 33,000 and Total Equity on the date of acquisition ₹ 2,00,000.

A Ltd.'s share in equity (2,00,000 x 22%)	₹ 44,000
Less: Cost of Investment	₹ (33,000)
Capital Reserve	₹ 11,000

Extract of Balance Sheet: ASSETS

Investment in Associate as per AS 23	**₹**	**₹**
Share of Net Assets as on 1 April	44,000	
Less: Capital reserve	(11,000)	33,000

Case 2:

A Ltd. holds 22% share of B Ltd. on 1st April of the year and following are the relevant information as available on the date are Cost of Investment ₹ 55,000 and Total Equity on the date of acquisition ₹ 2,00,000.

Cost of Investment	₹ 55,000
Less: A Ltd.'s share in equity (2,00,000 x 22%)	₹ 44,000
Goodwill	₹ 11,000

Extract of Balance Sheet: ASSETS

Investment in Associate as per AS 23	**₹**	**₹**
Share of Net Assets as on 1 April	44,000	
Add: Goodwill	11,000	55,000

- **Step Acquisition in case of an associate:**

An enterprise having share of profits of more than 50% in other company, they are said to be in Parent-Subsidiary relationship. However, if the share in profits is more than 20% but upto 50% then this relationship is termed as of associate. This stake of 20% can be acquired either in one go or in more than one transaction. This stake can be increased further say from 25% to 30%. Adjustment should be made with each transaction.

Cost

20% × 8% × → AS-23 ×

10 15 AS-23

C = 100,000 C = 200000

NWA = 80000 NWA = 120000

GW 20000 80000

1: AS-23 apply = S.I. acquired
2: for every acq. calc. Gw/CR

$\boxed{= 100000}$

Case 1 Conversion from a passive investor to an associate <u>in the same year</u>:

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

Calculations for April 01:

	₹
Cost of investment (8,50,000 x 10%)	1,00,000
Less: 10% share in net asset	(85,000)
Goodwill	15,000

Calculations for October 01:

	₹
15% share in net asset (10,00,000 x 15%)	1,50,000
Less: Cost of investment	(1,45,000)
Capital Reserve	5,000
Total goodwill (15,000 – 5,000)	10,000

Case 2 - Conversion from a passive investor to an associate <u>in the same year</u>:

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follow:

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

***Calculations for April 01*:**

	₹
Cost of investment	1,00,000

Illustration 2

1000000 + 200000 = 1200000 x 40% = 480000
520000 G/W

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X1-20X2 B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

40% (400000)

1250000 x 40% = 500000
500000 x 40% = 200000

Solution

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars	₹
Equity Shares	10,00,000
Reserves & Surplus	2,00,000
Net Assets	12,00,000
40% share of Net Assets	4,80,000
Less: Cost of Investment	(10,00,000)
Goodwill	5,20,000

Consolidated Balance Sheet (Extract) as on April 01, 20X1: ASSETS

DOA Investment in Associate as per AS 23	₹	₹
Share of Net Assets on April 1	4,80,000	
Add: Goodwill	5,20,000	10,00,000 ← COST

11.12 **Calculation of Carrying Amount of Investment as at 31 March 20X2:** → − 400000 = 600000

Investment in Associate as per AS 23	₹
Share of Net Assets on 1 April, 20X1	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000

Illustration 2:-

Initial Recognition on DOA = 1.4.11

Investment in B ltd.

Share of Net Assets / Net worth (1200000 × 40%)	= 480000	
Goodwill	= 520000	
Cost of Investment		1000000

Share of Losses for 11-12

1000000 × 40% = 400000

Carrying Amount as on 31.3.12 = 1000000 - 400000 = 600000

Consolidated Balance Sheet as on 31.3.12

Investment in B ltd.

Share of Net Assets	480000	
less: Share of Losses	(400000)	
	80000	
add: Goodwill	520000	
Carrying amount as on 31.3.12		600000

Share of Losses for 12-13

1250000 × 40% = 500000

Carrying Amount as on 31.3.13 = 600000 - 500000 = 100000

Consolidated Balance Sheet as on 31.3.13

Investment in B ltd.

Share of Net Assets	80000	
less: Share of Losses	(80000)	
	0	
add: Goodwill	520000	
less: Share of Losses	(420000)	
	100000	
Carrying amount as on 31.3.13		100000

Share of Losses for 13-14

500000 × 40% = 200000

Carrying Amount as on 31·3·14 = 100000 − 100000 = 0

Consolidated Balance Sheet as on 31·3·14

Investment in B ltd.	
Share of Net Assets	0
less: Share of Losses	0
	0
add: Goodwill	100000
less: Share of Losses	(100000)
	0
Carrying amount as on 31·3·14	0

NOTE :- Since the carrying amount of investment in associate cannot reduce below zero, in the year 13-14 only ₹ 100000 of losses has been written off.

Less: Loss for the year (10,00,000 x 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X2: ASSETS

Investment in Associate as per AS 23	**₹**	**₹**
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above	(4,00,000)	
Sh. of Net Assets Net worth	80,000	
Add: Goodwill	5,20,000	6,00,000

-500000
100000

Calculation of Carrying Amount of Investment as at 31 March 20X3:

Investment in Associate as per AS 23	**₹**
Carrying Amount of Investment as on 31 March 20X2	6,00,000
Less: Loss for the year (12,50,000 x 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

Consolidated Balance Sheet (Extract) as on March 31, 20X3: ASSETS

500000
- 80000
420000

Investment in Associate as per AS 23	**₹**	**₹**
Share of Net Assets on 1 April, 20X1 80000 - 80000	~~4,80,000~~ 0	
Less: Share of Loss as above (₹ 4,00,000 + ₹ 5,00,000)	(4,20,000)	
Add: Goodwill 520000 - 420000		1,00,000

Calculation of Carrying Amount of Investment as at 31 March 20X4: - 100000
0

Investment in Associate as per AS 23	**₹**
Carrying Amount of Investment	1,00,000
Less: Loss for the year (5,00,000 x 40% = 2,00,000, restricted to Carrying amount of Investment in B Ltd.) -refer note below	
Carrying Amount of Investment	

Consolidated Balance Sheet (Extract) as on March 31, 20X4: ASSETS

Investment in Associate as per AS 23	₹
Investment in B Ltd. : Share of NA 0 Goodwill 100000 - 100000	- 0

- If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed. If the associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses that have not been recognised.

- As far as possible the reporting date of the financial statements should be same for consolidated financial statement. If practically it is not possible to draw up the financial statements of one or more enterprise to such date and, accordingly, those financial statements are drawn up to reporting dates different from the reporting date of the investor, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the consolidated financial statements. In any case, the difference between reporting dates of the concern and consolidated financial statement should not be more than six months.

- Accounting policies followed in the preparation of the financial statements of the investor, investee and consolidated financial statement should be uniform for like transactions and other events in similar circumstances.

  If accounting policies followed by different enterprises in the group are not uniform, then adjustments should be made in the items of the individual financial statements to bring it in line with the accounting policy of the consolidated statement.

- The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

2.10 RELEVANT EXPLANATIONS TO AS 23

2.10.1 Treatment of Proposed Dividend in Associates in Consolidated Financial Statements

In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

25%
40%

2.10.2 Consideration of Potential Equity Shares for Determining whether an Investee is an Associate

The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.

Reference: The students are advised to refer the full text of AS 23 "Accounting for Investments in Associates in Consolidated Financial Statements" (issued 2001).

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *Identity which of the statements are correct.*

   An enterprise can influence the significant economic decision making by many ways like:

   (i) Representation on the board of directors or governing body of the investee.

   (ii) Participation in policy-making processes.

   (iii) Interchange of managerial personnel.

   (iv) Provision of essential technical information.

   (a) Statement (i) and (ii) are correct.

Answer to the Multiple Choice Questions

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

(b) *Statement (i), (ii) and (iii) are correct.*

(c) *Statement (i), (ii), (iii) and (iv) are correct.*

(d) *Statement (ii) and (iii) are correct.*

2. *A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. is holding 11% shares in C Ltd.*

$$\begin{tikzcd} A \arrow[r, "90\%"] \arrow[dr, "10\%"'] & B \arrow[d, "11\%"] \\ & C \end{tikzcd}$$

Identity which of the statements are incorrect.

(i) *In this case, A Ltd. is parent of B Ltd.* correct

(ii) *As far as the relationship between A Ltd. and C Ltd. is concerned; A Ltd. has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 % in C Ltd.* incorrect

(iii) *C Ltd. is an associate of A Ltd.* correct

(a) *Statement (ii) is incorrect.*

(b) *Statement (iii) is incorrect.*

(c) *Statement (ii) and (iii) both are incorrect.*

(d) *All statements are incorrect.* X

3. *A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:*

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

What is the amount of goodwill or capital reserve arising on significant influence?

(a) Goodwill = ₹ 10,000.

(b) Goodwill = ₹ 20,000.

(c) Capital Reserve = ₹ 10,000.

(d) Capital Reserve = ₹ 20,000.

10% (1-4)		15% (1-10)	
C =	100000	C =	155000
NWA =	85000	NWA =	150000
GW	15000	GW	5000

4. *A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:*

10% (1-4)		15% (1-10)	
C =	100000	C =	145000
NW =	85000	NW =	150000

GW = 15000 CR = (5000)

Net GW = 10000

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

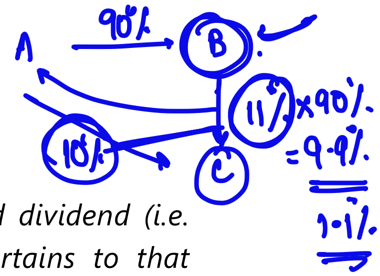
What is the amount of goodwill or capital reserve arising on significant influence?

(a) Goodwill = ₹ 10,000.

(b) Goodwill = ₹ 20,000.

(c) Capital Reserve = ₹ 10,000.

(d) Capital Reserve = ₹ 20,000.



5. *Identity which of the statements are correct.*

(i) *In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.* correct

(ii) *In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.* incorrect

(iii) *The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.*

(iv) *The potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.* incorrect

(a) *Statement (i) and (iii).*

(b) *Statement (ii) and (iv).*

(c) *Statement (i) only.*

(d) *Statement (iii) only.*

Theoretical Questions

6. *Describe the cases when AS 23 does not allow the use of equity method of accounting?*

7. *When is an investor required to discontinue the use of the equity method of accounting?*

1-4-21 300000×10/12=250000 31-3-22

31-3-21 P= 80000 D= 50000 1-6-21 12-8-21 ×30% 75000

Scenario based Questions

D → cost of inv (-)

8. *Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.*

=50000×30% = 15000

C = 200000
-D = 15000
185000

Calculate the carrying amount of investment in:

AS-13 : LTI → SM : Cost || Pre-acq div : Cost less

(i) *Separate financial statements of Bright Ltd. as on 31-03-20X2;* Cost = 185000

AS-23: Equity

(ii) *Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;*

(iii) *What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?*

COST

9. *A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:*

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
Property, Plant and Equipment	5,00,000
Investments	2,00,000
Current Assets	3,00,000
	10,00,000

250000
GW=50000

31.3.21 DOA 30.4.21 DIV P = 7L 31.3.22 30.4.22 DIV

During the year ended 31.3.20X2 the following are the additional information available:

(i) On 30.4.20X1 A Ltd. received a dividend from B Ltd. for the year ended 31.3.20X1 at 40% from the Reserves. The above balance sheet is before the adjustment of dividend.

(ii) B Ltd. made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2.

(iii) B Ltd. declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements for 20X1-X2 in accordance with AS 21 for its various subsidiaries. Calculate:

(i) Goodwill if any on investment in shares of B Ltd.'s .

(ii) How the dividend received for 31.3.20X2 on 30.4.20X2 from B Ltd. will be shown in the Consolidated Financial Statements? 31.3.22 → 22-23

(iii) How A Ltd. will reflect the value of investment in B Ltd. in its Consolidated Financial Statements? → B/s: Carrying Amount 31.3.22

ANSWERS/SOLUTION

Answer to the Multiple Choice Questions

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

Answer to the Theoretical Questions

6. Equity method of accounting is to be followed by all the enterprises having significant influence on their associates except in the following cases:

a. Control is intended to be temporary because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.

The term 'Near Future' is explained with AS 21.

Or;

Add: Proportionate share of 10-month profit of investee as per equity method (30% of ₹ 3,00,000 x 10/12)	75,000
Carrying amount as on 31.3.20X2	2,60,000

(iii) Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per AS 23

1·4 – 30·6 = Profit (+)	₹
Carrying amount as on 31.3.20X2	2,60,000
Less: Dividend received (₹ 60,000 x 30%)	(18,000)
Carrying amount as on 30.6.20X2	2,42,000

9. In terms of AS 23, B Ltd. will be considered as an associate company of A Ltd. as shares acquired represent to more than 20%.

Pre acq div 50000

(i) Calculation of Goodwill (*₹ in lakhs*)

Cost Inc = 300000
-Pre-acq div = 50000
250000

NWA = 250000
50000

B Ltd- SC = 500000
RES = 500000
-200000
300000

800000 x 25% = 200000

Amount paid towards acquisition of stake in B Ltd.	3.00
Less: Pre-acquisition dividend (₹ 5,00,000 x 40% x 25%)	0.50
Cost of Investment in B Ltd.	2.50
Less: Share in the value of Equity of B Ltd.	
as at the date of investment	
[25% of ₹ 8 lakhs (₹ 5 lakhs + ₹ 5 lakhs – ₹ 2 lakhs)]	(2.00)
Goodwill	0.50

(ii) A Ltd. → Dividend received for 31-3-22 on 30-4-22 will not be shown in CFS of 31-3-22

21-22

Consolidated Profit and Loss Account for the year ended 31st March, 20X2 (An extract)

Income
Revenue from Oper.

		₹ in lakhs
Other income:		
Share of profits in B Ltd. (7x 25%)		1.75
Pre-acquisition Dividend received from		

→ Dividend → 31-3-22 : Declared on 30-4-22
↓
22-23 → FS → P&L : 01

Cash / Bank Dr. 50000
To Invest 50000

31.3.21 → Pre-acq. div.

B Ltd.	0.50	
Transfer to investment A/c	(0.50)	Nil

(iii) A Ltd.

Consolidated Balance Sheet as on 31.3.20X2 (An extract)

		₹ in lakhs
Non-current investments		
Investment in B Ltd.	2.50	
(including goodwill)		
Share of profit for year 20X1 – 20X2	1.75	4.25

Cost = 3
- Pre-A.D = 0.5
2.5

7×25%.

Working Notes:

1. Pre-acquisition dividend received from B Ltd. amounting to ₹ 0.50 lakhs will be reduced from investment value in the books of A Ltd.

2. B Ltd. made a profit of ₹ 7 lakhs for the year ended 31st March, 20X2. A Ltd.'s share in the profits of ₹ 7 lakhs is ₹ 1.75 lakhs. Investment in B Ltd. will be increased by ₹ 1.75 lakhs and consolidated profit and loss account of A Ltd. will be credited with ₹ 1.75 lakhs in the consolidated financial statement of A Ltd.

3. Dividend declared on 30.4.20X2 will not be recognized in the consolidated financial statement of A Ltd.

Investment in B Ltd.

Share in Net Assets	250000	
- Pre-acq div	(50000)	
+ Goodwill	50000	
		250000
+ Share in post-acq profits (700000 x 25%)		175000
		425000