

**AS
23**

Accounting for Investments in Associates in Consolidated Financial Statements

Question 1

Long Limited acquired 60% stake in Short Limited for a consideration of Rs. 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was Rs. 100 lakhs, Revenue Reserve was Rs. 40 lakhs and balance in Profit & Loss Account was Rs. 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

- On consolidation of Balance Sheet.
- If Long Limited showed the investment in subsidiary at a carrying amount of Rs. 104 lakhs.
- If the consideration paid for acquiring the 60% stake was Rs. 92 lakhs. (PYP 5 Marks, July 21)

Answer 1

	Rs.
60% of the Equity Share Capital Rs. 100 Lakhs	60
60% of Accumulated Reserve Rs. 70 Lakhs (40+30) Lakhs	42
Book value of shares of Short Ltd.	102

- Goodwill / Capital Reserve computation on consolidation of balance sheet
Long Ltd. paid a positive differential of Rs. 10 Lakhs (112 – 102). This differential Rs. 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles
- If Long Ltd. showed the investment in Short Ltd. at carrying amount of Rs. 104 Lakhs, then the goodwill will be Rs. 2 Lakhs.
- If the consideration paid is Rs. 92 lakhs, then there would have been capital reserve amounting Rs. 10 Lakhs (102– 92).

