

SUGGESTED ANSWERS OF TEST 5

Instructions for Checking:

1. If BS is prepared without Notes to accounts, then Deduct 3 Marks for Notes to Accounts.
2. There may be a different presentation of Working Notes, don't deduct the marks for different presentation if answer is matching

SOLUTION 1:

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2010		3,24,000 (W.N.)	-			
2010-11	(2,50,000)	(75,000)	1,75,000			2,44,000
Balance		2,49,000				(W.N.)
2011-12	(4,00,000)	(1,20,000)	2,80,000			2,44,000
Balance		1,29,00				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co	21,0000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			
2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
Balance		Nil	50,000			
2015-16	1,00,000	30,000	70,000			
	Profit share of minority	(30,000)	30,000	(30,000)	12,000	2,44,000

	adjusted against losses of minority absorbed by Holding Co.					
Balance		Nil	1,00,000			
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	(12,000)			
		33,000	1,17,000			

Calculation of Minority interest and Cost of control on 1.4.2010

Working Note:		Share of Holding Co.	Minority interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

SOLUTION 2:

Consolidated Balance Sheet of Sun Ltd. and its subsidiary, Star Ltd. as at 31st March, 2022

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,00,000
(b) Reserves and Surplus	2	6,13,600
(2) Minority Interest		1,66,200
(3) Current Liabilities		
(a) Trade Payables	3	1,29,000
(b) Short term borrowings	4	1,60,000
Total		20,68,800
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	14,82,000
(b) Intangible assets	6	34,400
(2) Current assets		
(a) Inventories	7	3,07,800
(b) Trade receivables	8	1,99,600
(c) Cash & Cash equivalents	9	45,000
Total		20,68,800

Notes to Accounts:

1 Share Capital		
10,000 shares of Rs. 100 each		

2	Reserves and Surplus		
	Reserves	4,80,000	
	Profit & loss (Refer to W.N 7)	1,33,600	
	Total		6,13,600
3	Trade Payables		
	Sun Ltd.	94,200	
	Add: Star Ltd.	34,800	1,29,000
	Total		
4	Short term borrowings		
	Bank overdraft		1,60,000
5	Property, plant and equipment		
	Land and building- Sun Ltd.	3,00,000	
	Add: Land and building- Star Ltd.	3,60,000	6,60,000
	Plant & Machinery (Refer to W.N 6)		8,22,000
	Total		14,82,000
6	Intangible assets		
	Goodwill (refer to W.N 5)		34,400
7	Inventories		
	Sun Ltd.	2,40,000	
	Star Ltd..	72,800	
	(-) Elimination of unrealized profit	(5,000)	3,07,800
8	Trade Receivables		
	Sun Ltd.	1,19,600	
	Star Ltd.	80,000	
	Total		1,99,600
9	Cash & Cash equivalents		
	Cash of Sun Ltd	29,000	
	Add: cash of Star Ltd..	16,000	
	Total	-	45,000

Share holding Pattern

Total Shares of Star Ltd.

4,000 shares

Shares held by Sun Ltd

3,200 shares i.e., 80 %

Minority Shareholding

800 shares i.e., 20 %

Working Notes:

- The dividend @ 10% on 3,200 shares - Rs.32,000 received by Sun Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. Sun Ltd., must pass a rectification entry, viz.

Profit & Loss Account

Dr. Rs. 32,000

To Investment

Rs. 32,000

2. Revaluation Adjustments and Depreciation Effect:

Date	Particulars	Amount
31/03/2022	Book Value of Plant & Machinery	2,70,000
	Depreciation Rate	10%
01/04/2021	Book Value of Plant & Machinery 2,70,000/90%	3,00,000
01/10/2021	Book Value of Plant & Machinery (after 6 months dep)	2,85,000
01/10/2021	Market Value of Plant & Machinery Given	3,60,000

	Revaluation Gain (to be added in Pre-acquisition profit of AOP)	75,000
Depreciation Effect	Dep charged by Star Ltd. on BV for Post Period (2,85,000 – 2,70,000)	15,000
	(-) Dep. that should be charged by Sun Ltd. on MV for Post Period (3,60,000 x 5%)	18,000
	Additional Dep. to be charged in Post Acquisition profit of AOP	3,000

3. ANALYSIS OF PROFIT OF STAR LTD.

Particulars	Pre-Acquisition Profit as on DOA (1 st Oct)	Post Acquisition Profit after 1 st Oct (DOA)	Profits as on BS Date
Balances of GR	2,00,000	-	2,00,000
Balances of P&L	60,000	1,04,000	1,64,000
(+) Dividend of Last Year	-	40,000	
(-) Bonus Issue	(1,00,000)		
Balance of Profits	1,60,000	1,44,000	
(+/-) Time Adjustments for 6 Months (Assuming profits are equal every month)	72,000	(72,000)	
Profits after Time Adjustment	2,32,000	72,000	4,04,000
(-) Dividend of Last Year	(40,000)		
(+/-) Revaluation Adjustments	75,000	(3,000)	
(-) Elimination of Unrealised Profit on Upstream Transaction	-	(5,000)	
Final Profit Balances	2,67,000	64,000	4,36,000
Share of Sun Ltd. 80%	2,13,600	51,200	
Share of M/I 20%	53,400	12,800	

4. Minority interest:

Share in Equity Capital After Bonus (5,00,000 X 20%)	1,00,000
Add: Share of Pre-Acquisition Profit [WN 3]	53,400
Share of Post Acquisition Profits [WN 3]	12,800
	1,66,200

5. Cost of Control:

Investment Cost (80%)	6,80,000	
Less: Dividend out of pre-acquisition profits	(32,000)	6,48,000
(-) Share of Sun Ltd. in Fair Value of Net Assets of Star Ltd.:		
Equity Share Capital	4,00,000	
Pre Acquisition Profit	2,13,600	(6,13,600)
Goodwill		34,400

6. Value of Plant & Machinery:

Sun Ltd.		4,80,000
Star Ltd.	2,70,000	
Add: Appreciation on 1st Oct, 2021 [3,60,000 – (3,00,000 – 15,000)]	75,000	
	3,45,000	
Less: Additional Depreciation	(3,000)	3,42,000
		8,22,000

7. Profit & Loss Account (Consolidated):

Sun Ltd.as given	1,14,400	
Less: Dividend wrongly credited to P&L	(32,000)	82,400
Share of Sun Ltd.in Post Acquisition profits of Star Ltd. (WN 4)		51,200
		1,33,600