

ACCOUNTING FOR INVESTMENT IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

AS
23

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.
 - 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. Identity which of the statements are incorrect.
 - i. In this case, A Ltd. is parent of B Ltd.
 - 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.
 - iii. C Ltd. is an associate of A Ltd.
 - a. Statement (ii) is incorrect.
 - b. Statement (iii) is incorrect.
 - c. Statement (ii) and (iii) both are incorrect.
 - d. All statements are incorrect.

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.

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:
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 results of operations of the associate should be computed without taking into consideration the proposed dividend.

- 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 results of operations of the associate should be computed after taking into consideration the proposed dividend.
 - 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.
 - a. Statement (i) and (iii).
 - b. Statement (ii) and (iv).
 - c. Statement (i) only.
 - d. Statement (iii) only.
6.of voting power in investee company by investor company is considered as significant influence.
- a. 15%
 - b. 20%
 - c. 10%
 - d. 5%
7. An investor should stop using equity method if.....
- a. It ceases to have a significant impact in associate company
 - b. When following equity method is not appropriate
 - c. Both (a) and (b)
 - d. None of the above
8. AS 23 doesn't apply to:-
- a. Subsidiary Companies
 - b. Joint venture
 - c. Associate companies
 - d. Both (a) and (b)
9. X Ltd acquired 10% shareholding of Y Ltd. on 1 January and further 15% on 1 July of the same year.
- Cost of investment for 10% = 2,00,000
Cost of investment for 15% = 2,90,000
Net asset on 1 January 17,00,000 and on 1 July 20,00,000
- Calculate the amount of goodwill/capital reserve.
- a. Goodwill 20,000
 - b. Goodwill 40,000
 - c. Capital reserve 20,000
 - d. Capital reserve 40,000

Answers:

1. (c)
2. (a)
3. (b)
4. (a)
5. (a)
6. (b)
7. (c)
8. (d)
9. (a)