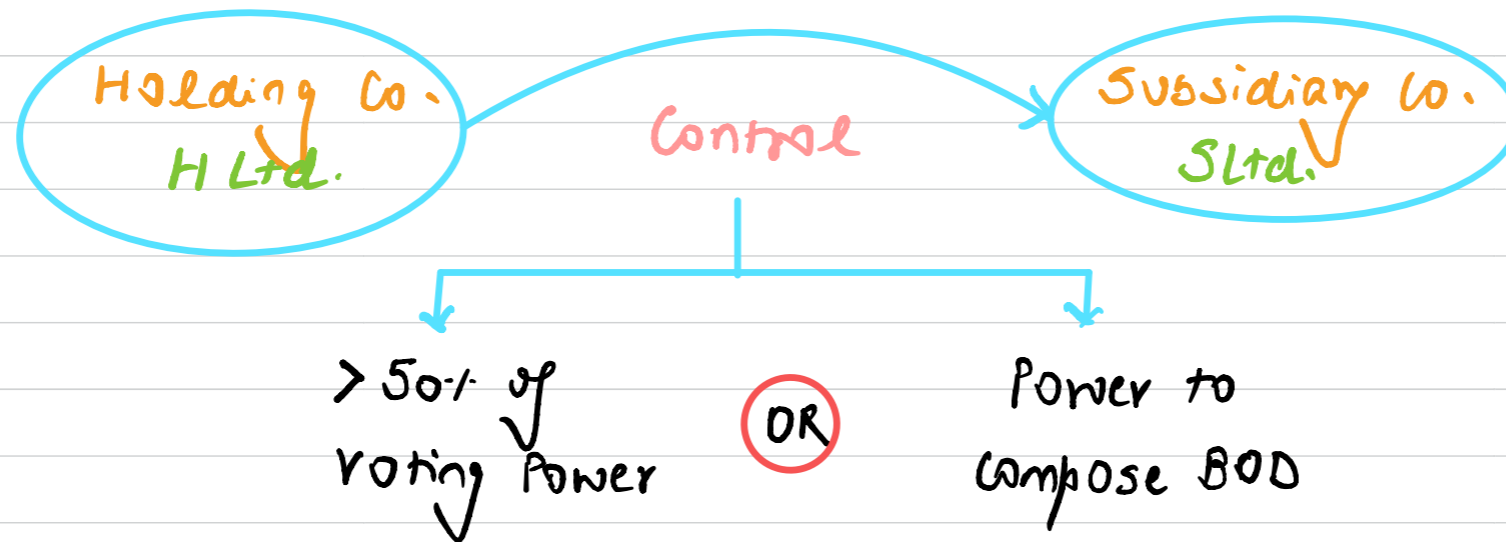


## AS 21: Consolidated Financial Statements



H Ltd.	+	S Ltd.	⇒	Consolidated
1) Balance sheet		Balance sheet		Cons. Balance sheet
2) P&L		P&L		Cons. P&L
3) Cash flow statement		Cash flow statement		Cons. Cash flow statement
4) Notes to A/cs		Notes to A/cs		Cons. Notes to A/cs

★ AS 21 does not mandate preparation of CFS, but mandates process of consolidation

★ If Parent/Holding Co. holds 100% Equity share capital, then subsidiary is called wholly owned subsidiary.

Example 1:

Balance sheet as on 31/3/23

	H Ltd.	S Ltd.
Equity share cap.	1300000	700000
Res. & surplus	200000	100000
Liabilities	500000	200000
	<u>2000000</u>	<u>1000000</u>
PPE	1000000	700000
Inv. in 100% share of S Ltd.	850000	-
Current Assets	150000	300000
	<u>2000000</u>	<u>1000000</u>

Prepare consolidated Balance sheet assuming  
shares acquired on 31/3/23.

Example 2:

Balance sheet as on 31/3/23

	H Ltd.	S Ltd.
Equity share cap.	1300000	700000
Res. & surplus	200000	100000
Liabilities	500000	200000
	<u>2000000</u>	<u>1000000</u>
PPE	1000000	700000
Inv. in 80% shares of S Ltd.	850000	-
Current Assets	150000	300000
	<u>2000000</u>	<u>1000000</u>

Prepare consolidated Balance sheet assuming  
Shares acquired on 31/3/23.

Example 3:

Balance sheet as on 31/3/23

	H Ltd.	S Ltd.
Equity share cap.	1300000	700000
Res. & surplus	200000	100000
Liabilities	500000	200000
	<u>2000000</u>	<u>1000000</u>
PPE	1000000	700000
Inv. in 80% share of S Ltd.	850000	-
Current Assets	150000	300000
	<u>2000000</u>	<u>1000000</u>

Prepare consolidated Balance sheet assuming  
Shares acquired on 1/4/22 and  
Bal. of Res. & surplus of S Ltd. was 40000

## Working Notes:

### 1) Analysis of Profits of S Ltd.

	PRE (Capital)	POST (Revenue) Gen. Res.	P&L A/c
P&L A/c	✓		✓
General Reserve	✓	✓	
Adjustment	✓	✓	✓
± Time Adjustment	+	-	-
Adjustment	✓	✓	✓
Balance	✓	✓	✓
	H    MI	H    MI	H    MI

### 2) Cost of Control (Goodwill / Capital Reserve)

It is calculated based on Net Assets of Subsidiary on the date of obtaining control.

Cost of Investments      xx

(-) Share of Holding Co. in  
\* Net Assets of Subsidiary Co.

Share Capital (H's share)      (xx)  
Pre Profits (H's share)      (xx)

xx +ve Goodwill  
-ve Capital Reserve

\* Net Assets can also be obtained based on Assets & Liabilities Approach.

### 3) Minority Interest (Also called as Non Controlling Interest)

- \* Represents share of Net Assets not owned by Parent/Holding on date of consolidation.
- \* Shown in Cons. B/S after shareholder funds before Non current liabilities
- \* If Minority Interest is negative, it is transferred to Consolidated P&L.

#### Minority Interest \*

Share Capital	xx
Pre Profits	xx
Post Profits	xx
Post General Res.	xx
	<u>xx</u>

\* Can also be calculated based on Assets Less Liabilities Method.

### 4) Consolidated General Reserve / P&L

Holding General Res. / P&L A/c	xx
+ Post General Res. / P&L A/c (Share of Holding)	xx
	<u>xx</u>

## Adjustment 1: Revaluation Adjustment

For the purpose of correctly calculating Cost of Control, AS-21 requires that Assets of subsidiary should be revalued on date of acquisition.

### Step 1: Profit/Loss on Revaluation

$$\begin{array}{r} \text{Market value on Date of Acquisition} \\ (-) \text{ Book value on Date of Acquisition} \end{array} \quad \begin{array}{r} xx \\ (xx) \\ \hline xx \end{array} *$$

\* Adjustment in Pre Profits

### Step 2: Additional Depreciation / Saving in Depreciation

$$\begin{array}{r} \text{New Market value} \times \text{Rate} \times \text{Post Period} \\ (-) \text{ Depreciation already charged} \end{array} \quad \begin{array}{r} xx \\ (xx) \\ \hline xx \end{array} *$$

\* Adjustment in Post Profits  
(after Time Adjustment)

Step 3: Asset value in consolidated B/s would change.

Example:

1/4/22

3/3/23

Res. & surplus 20000

50000

S Ltd. B/S 3/3/23

PLM 135000

Furniture 42500

H Ltd. acquires 70% shares in S Ltd. on 1/4/22 & on this date PLM valued at 200000 & Furniture at 40000

Dep. Rate: PLM: 10% p.a. Furniture 15% p.a.

Adjustment 2 :

## Elimination of Common Owing (Contra Items)

Common Transactions means transactions entered into between HCo. & SCo.

It may be as follows:

- a) B/R and B/P
- b) Debtors and Creditors
- c) Loan Receivable / Loan Payable

Treatment: Cancel Mutual owing while preparing Consolidated B/S.

(It does not affect AOP, G/W/Cap. Res., Minority Interest or Cons. Res. & surplus)

Note: If contra cancellation amount is not same, it can be due to cash in Transit. It should be reported as cash Equivalent.

Adjustment 3:

**Unrealised Profit / Stock Reserve**  
(ie. Profits in Transaction b/w H & S)

If Parent / Holding & Subsidiary has Sale / Purchase transaction on which profit was earned but certain stock remains unsold, then such profit is unrealised & it should be eliminated in B/S, since it is not yet earned.

Sale by H to S  
(Downstream)

Sale by S to H  
(Upstream)

1) Cons. P&L	xx	
- unrealised Profit	<u>(xx)</u>	xx

1) Deduction in AOP from Post Profits after Time Adjustment  
(Means Reduction from Holding & Minority Interest)

2) Cons. B/S		
STOCK:	H	xx
	S	xx
- URP	<u>(xx)</u>	xx

2) Same

Unrealised Profit = Stock still held from Inter co. transaction x Profit rate (-1 on sales)

## Adjustment 4:

### Bonus Issue by Subsidiary

Entry: Reserves & surplus A/c - Dr  
To share capital A/c

Not yet Adjusted  
(Unrecorded)

1) Reduce AOP with Bonus Amount  
(From Pre Profits)\*

2) Share capital (Bonus Issue)  
(Effect in cost of control & Minority Interest)

Already Adjusted  
(Recorded)

1) Add Back Post General Reserve.  
(Before Time Adjustment)

2) →  
3) Share capital already Increased.

\* If Pre not sufficient / Ques. specifies then Post Profits

NOTE: If Bonus Issue already Adjusted / Recorded:

Be careful in calculation of Holding Ratio, take Numerator & Denominator after Bonus Issue.

Example:

Balance sheet as on 31/3/23

	H Ltd.	S Ltd.
Equity share cap.	500000	200000
Res. & surplus	350000	290000
Liabilities	150000	110000
	<u>1000000</u>	<u>600000</u>
PPE	400000	350000
Inv. 12000 shares of S Ltd.	400000	
Current Assets	200000	250000
	<u>1000000</u>	<u>600000</u>

Prepare consolidated Balance sheet assuming  
Shares acquired on 1/4/22 and  
Bal. of Res. & surplus of S Ltd. was 210000.  
S Ltd. issued bonus shares @ 1 share for every  
2 held & no entry passed till now.

## Adjustment 5:

### Dividend by subsidiary

#### ① Treatment in AOP

\* Add Back total dividend paid in Post Profits Before Time Adjustment

\* Deduct from Pre/Post Profits based on source of Dividend

Final Dividend: Last year (Mainly Pre)

Interim Dividend: During the year (Can be Pre, Post, Pre/Post)

#### ② Treatment of Dividend Received by Holding

If Post Acq. Dividend: To be credited to P&L A/c

If Pre Acq. Dividend: To be credited to Investment A/c

(Pre Acquisition means where source of Dividend is Profits earned in Pre Acq. Period)

NOTE: Sometimes Pre Acquisition Dividend is Credited to P&L A/c, then

Rectification:

If Wrong Entry Passed

✓  
Bank A/c - Dr  
    To Investment A/c

✗  
Bank A/c - Dr  
    To P&L A/c

Rectification Entry  
P&L A/c - Dr  
    To Investment A/c

(Share of H Ltd. in Total Dividend)

Effect: ① Cost of Control

② Consolidated P&L

## Preparation of Consolidated P&L

- 1) Preparation as per Schedule III
- 2) All items of Income & expenses should be consolidated on line by line basis.
- 3) Elimination of Common Transactions

E.g: Sale / Purchase within group or  
Income / Expense which is within group should be eliminated.

- 4) Unrealised Profit on stock should be adjusted along with change in Inventories
- 5) Dividend by subsidiary: Eliminate dividend paid by S Ltd. & received by H Ltd

Note: ICAI sometimes assume that dividend is not included in Sales & other income of H Ltd. & is therefore not deducted.