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# What Our Students have to say....

**Pooja**

Whenever I listen to Suraj sir's lecture, feels like I've completed the concept! Made it veryyyy simple sir! Pranams!

**Sugam**

1Fin is working very hard and providing aeverything we need for CA. Thanks for the support

**Parthi purush**

Really I'm impressed on his teaching style and it's like a movie and interesti

**Kumar G**

Much needed classes for CA! Thank you ! IL team

**Nilesh**

Excellent explanation and you made easy to understand for anyone. Superb.. I was always confused.. now everything is clear. Amazing Sir!

**Jagadeesh Chandra**

One of best explanation about the concepts among any other avialable...Thanks Sir, thank you 1fin

**Purva Kirad**

Very nice explanation of all concpets! thank you

**KAVITHA**

Very clear explanation sir . I was not able to understand before but now u have given a clarity. Thank you so much sir...

**akhila**

Crystal clear Thank you sir for such an amazing classes

**Jayashree**

Really the classes were very useful for my preparation.... Thanks a lot InidgoLearn

**Daniel Philip**

Very nice lectures and great explanation sir thank you lots!

| #  | CONSOLIDATION  | TREATMENT   | EXPLANATION  |
|----|--|---|--|
| 1  | <b>Unrealised profit on inventory due to intercompany sale</b>           | <ul style="list-style-type: none"> <li>• Reduce consolidated inventory</li> <li>• If holding sold: Eliminate full profit from consolidated profits</li> <li>• If subsidiary sold: Eliminate from subsidiary post acquisition profits</li> </ul> | As per AS 21, unrealised profit from intra-group transactions must be eliminated; for downstream sales, it reduces holding' reserves |
| 2  | <b>Unrealised profit on sale of asset (PPE) within group</b>             | <ul style="list-style-type: none"> <li>• Reduce consolidated PPE and eliminate corresponding profit,</li> <li>• Reverse depreciation on differential amount i.e sale value - carrying amount.</li> </ul>  | Intragroup gains on non-current assets must be removed to present assets at group cost   |
| 3  | <b>Intercompany balances – receivables and payables</b>                  | Eliminate mutual owing in consolidation   | Mutual dues within group do not constitute real assets or liabilities to outsiders   |
| 4  | <b>Bills receivable discounted with bank</b>                             | The amount of bills which have been discounted with bank are not eliminated.  |  |
| 5  | <b>Cash in transit between holding and subsidiary</b>                    | Add to group cash balance and adjust corresponding payable/receivable   | Represents timing difference; adjust so cash is not understated or overstated  |
| 6  | <b>Pre-acquisition reserves and P&amp;L of subsidiary</b>                | Considered capital profits and reduce from cost of investment while computing goodwill / cost of control  | Pre-acquisition profits belong to the shareholders on date of acquisition  |
| 7  | <b>Post-acquisition profits and reserves of subsidiary</b>               | Holding company's share is added to group reserves; minority share added to minority interest   | Post-acquisition earnings are group income to be consolidated  |
| 8  | <b>Revaluation of subsidiary at acquisition date</b>                     | Adjust asset value in subsidiary books and include in capital profits. Provide additional depreciation.   | Such revaluation affects computation of goodwill and future depreciation   |
| 9  | <b>Provision for doubtful debts in subsidiary not followed by parent</b> | Adjust for accounting policy difference by reversing provision and adjusting consolidated profits   | Uniform accounting policy must be followed in consolidated accounts  |
| 10 | <b>Subsidiary bonus issue from pre-acquisition reserves</b>              | Reduce capital profits and increase share capital. Cost of investment does not change and goodwill calculation remains same   | No impact on cost of control, but shifts between reserves and equity   |
| 11 | <b>Bonus issue from post acquisition profits</b>                         | Reduce post acquisition profits and add to share capital. The computation of goodwill changes.  |  |

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| 12 | <b>Dividend received from subsidiary out of pre-acquisition profits</b>                         | Credit to <b>Investment</b> A/c in Holding books and reduced from pre acquisition profit. No change in <b>goodwill</b> computatoin.<br>If the same has been credited to P&L by holding company, <b>reduce</b> from <b>consolidated</b> P&L and <b>Reduce</b> form Cost of <b>Investment</b> .  | Pre-acquisition dividend is return of <b>capital</b> and reduces <b>investment</b> cost  |
| 13 | <b>Dividend paid out of post acquisition profits and credited to P&amp;L by holding company</b> | Option 1 - No adjustment required. Final balance is same.<br>Option 2 - <b>Reduce</b> Dividend (since its intra <b>group</b> ) from holding's <b>share</b> from Holding P&L<br>- <b>Add</b> back to Sub post earnings which will increase Post acquisition earnings. Parent's <b>share</b> will offset the reduction made above.<br>- <b>Reduce</b> minority's <b>share</b> from <b>minority</b> interest (Since its already paid) |  |
| 14 | <b>Revaluation of Plant &amp; Machinery in subsidiary at acquisition date</b>                   | Revalued amount considered for <b>capital</b> profit computation; <b>adjust depreciation</b> effect post-acquisition   | AS 21 requires assets to reflect <b>fair value</b> on acquisition; post-acquisition <b>depreciation</b> affects revenue <b>profits</b> |
| 15 | <b>Cash in transit of Rs.6,000 from subsidiary to holding company</b>                           | <b>Add</b> to <b>consolidated cash</b> and <b>eliminate</b> from intercompany receivables/payables   | <b>Adjust</b> to reflect true <b>group cash</b> position and <b>eliminate</b> duplication  |
| 16 | <b>Subsidiary incurred losses for several years after acquisition, wiping out equity</b>        | <b>Losses</b> beyond <b>minority</b> interest absorbed by holding company; <b>reduce consolidated reserves</b>   | <b>Minority</b> interest cannot be negative; holding absorbs excess <b>losses</b> unless recovery is assured                           |

| # | <b>Amalgamation</b>  | <b>Treatment</b>   | <b>Explanation</b>   |
|---|--|--|--|
| 1 | <b>Land and Building of Light Limited is revalued at Rs.62 lakhs</b>                         | <b>Record</b> at <b>revalued</b> amount in <b>transferee</b> books; Consider <b>revalued</b> amount to <b>compute net assets</b> taken over. | As per AS-14 (purchase method), <b>assets</b> are recorded at fair/revalued amounts to <b>compute goodwill</b> or <b>capital reserve</b> . |
| 2 | <b>Other assets of Bright Limited are obsolete and sold for Rs.50,000 before acquisition</b> | <b>Not</b> taken over by <b>transferee</b> ; loss on sale recorded in <b>Realisation</b> A/c of transferor                                   | <b>Assets not</b> forming part of amalgamation must be disposed off; any profit/loss adjusted in transferor's books                        |

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| 3  | <b>Shares to be issued to adjust rights of shareholders of both companies in accordance with intrinsic value</b>    | Compute intrinsic value of both companies. The total shares to be issued will be split based on intrinsic value. | Ensures fair share allocation by comparing net worth per share of both companies                         |
| 4  | <b>10% debenture holders of Well Ltd. were allotted 9% debentures of equivalent interest amount</b>                 | Value of New debentures = Old FV x Old Rate / New Rate   | Issue new debentures ensuring same interest income   |
| 5  | <b>Inter-company owings: Trade receivables of Diligent Ltd. include Rs.1,00,000 due from Intelligent Ltd.</b>       | Cancel mutual dues: Trade Payables A/c Dr. To Trade Receivables A/c<br>This is done after amalgamation           | Eliminated to avoid duplication when both companies are merged   |
| 6  | <b>Inventory of Well Ltd. is taken over at 10% more than their book value</b>                                       | Record inventory at revalued amount in transferee books  | Fair value adjustments are made to inventory as per agreed terms under purchase method                   |
| 7  | <b>Bank agreed to waive loan of Rs.2,70,000 of Well Ltd.</b>  | Do not record waived loan as liability in transferee books   | Only actual liabilities assumed; waived loan reduces net assets and is a gain to transferee              |
| 8  | <b>Amalgamation expenses of Rs.55,000 to be borne by transferee company</b>   | Goodwill A/c Dr. To Bank A/c (purchase method);<br>or Reserve A/c Dr. To Bank A/c (merger)                       | Treatment differs based on type of amalgamation; treated as acquisition cost or adjusted through reserve |
| 9  | <b>Preference shareholders to be paid at 10% discount by issue of 9% Preference Shares</b>                          | Existing PSC x 90% / Agreed rate = No of new Preference Shares   | Preference shares settled below par; difference affects capital reserve/goodwill                         |
| 10 | <b>12% preference shares to be issued to provide income equivalent to 8% return on net assets</b>                   | PC = Net assets x 8% / 12%; then issue preference shares accordingly   | Debentures or preference shares are issued to provide fixed income based on net asset value              |
| 11 | <b>Debenture holders of Q Ltd. are to be paid at 8% premium by issuing 12% debentures in P Ltd. at 10% discount</b> | No of debentures = Total value of debentures x 108%/90   | Premium is expense to transferee; discount impacts the number of debentures issued                       |

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| 12 | <b>Equity shares issued in proportion of profitability of last 2 years</b>                       | Equity shares distributed in agreed profit-sharing ratio  | Used when equity shares are <b>not issued</b> based on <b>net assets</b> but relative earning power |
| 13 | <b>Goodwill shown in the books of transferor company taken over</b>                              | Include <b>goodwill</b> only under pooling of interest method; otherwise <b>exclude</b> . For purchase method, <b>compute</b> afresh. | AS-14 requires exclusion of fictitious <b>assets</b> unless it's a merger                           |
| 14 | <b>Contingent liability of Rs.2,00,000 in A Ltd. to be treated as actual liability</b>           | Recognize it as <b>liability</b> in <b>transferee</b> books and <b>reduce net assets</b>  | If contingent <b>liability</b> is crystallized, it must be recorded like any other <b>liability</b> |
| 15 | <b>Bonus shares issued by transferor company before amalgamation</b>                             | <b>Adjust</b> reserves and <b>share capital</b> accordingly before calculating PC   | Impacts <b>share capital</b> and reserves of transferor, affecting <b>net</b> worth and PC          |
| 16 | <b>Preference shareholders to be allotted shares at Rs.115 (Rs.85 paid up and Rs.30 premium)</b> | Recognize only paid-up value as <b>capital</b> ; balance to securities <b>premium</b>   | <b>Share capital</b> is recorded at paid-up value; <b>premium</b> separately credited               |
| 17 | <b>Dividend declared by B Ltd. before amalgamation to be paid after amalgamation by Z Ltd.</b>   | <b>Record</b> dividend payable in <b>transferee</b> books; <b>reduce net assets</b>   | Obligation carried forward post-amalgamation if agreed in scheme                                    |

| # | <b>Internal Reconstruction</b>                       | <b>Treatment</b>   | <b>Explanation</b>  |
|---|--|--|---|
| 1 | <b>Reduction in Face/Paid-up Value of Shares</b>     | Dr. <b>Share Capital</b> (old FV)<br>Cr. <b>Share Capital</b> (New FV)<br>Cr. <b>Capital Reduction</b>                       | Shareholders <b>forgo</b> part of their <b>capital</b> to reflect true <b>asset</b> value; difference <b>credited</b> to <b>Capital Reduction</b> A/c |
| 2 | <b>Subdivision or Surrender of Shares</b>            | Dr. <b>Share Capital</b> A/c<br>Cr. <b>Share Surrender</b> A/c   | Shares surrendered and reissued to settle liabilities   |
| 3 | <b>Arrears of Preference Dividend Waived/Settled</b> | Dr. <b>Capital Reduction</b> A/c<br>Cr. <b>Equity Share Capital</b> A/c (if issued)<br>Cr. <b>Cash</b> (if <b>cash</b> paid) | Unpaid dividends either written off or converted into <b>equity</b> or <b>paid</b> in <b>cash</b> .   |
|   |  | No entry if dividends are not <b>paid</b> .  |   |

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| 4  | <b>Asset &amp; Liabilities revaluation</b>                              | Dr. <b>Capital Reduction</b> (Losses)<br>Cr. <b>Capital Reduction</b> (Gains)<br>Corresponding entry in <b>asset / liability</b> account |   |
| 5  | <b>Writing Off Accumulated Losses</b>                                   | Dr. <b>Capital Reduction</b> A/c<br>Cr. <b>Profit &amp; Loss</b>   | Cleans the balance sheet by removing accumulated losses                                     |
| 6  | <b>Writing off Goodwill / Intangible Assets</b>                         | Do not write off unless the question specifically asks it. Only fictitious assets to be written off                                      |   |
| 7  | <b>Loan Conversion into Share Capital</b>                               | Dr. Loan<br>Cr. ESC / PSC<br>Cr. <b>Capital</b> Reductions (If gain)   | <b>Loan liability</b> converted into <b>share capital</b> to reduce leverage                |
| 8  | <b>Capital Commitment Cancelled with Penalty</b>                        | Dr. <b>Capital</b> Reduction<br>Cr. <b>Cash</b>  | Penalty <b>paid</b> in <b>cash</b> ; adjusted against <b>Capital Reduction</b>              |
| 9  | <b>Settlement with Creditors (Share + Waiver)</b>                       | Dr. Creditors<br>Cr. ESC<br>Cr. <b>Capital Reduction</b>   | Creditor claims settled partly through <b>equity</b> and <b>waiver</b>                      |
| 10 | <b>Transfer of Surplus in Capital Reduction A/c</b>                     | Dr. <b>Capital</b> Reduction<br>Cr. <b>Capital Reserve</b>   | Any remaining surplus transferred to <b>Capital Reserve</b>                                 |
| 11 | <b>Waiver of Director's Loan (Partial Waiver and Equity Settlement)</b> | Dr. Director's Loan<br>Cr. <b>Equity Share</b> capital<br>Cr. <b>Capital Reduction</b>   | <b>Loan</b> is partly waived and partly settled by issuing <b>equity</b> shares             |
| 12 | <b>Sale of investments</b>  | Dr. Bank A/c<br>Cr. Investment<br>Cr. <b>Capital Reduction</b> (Gain)<br>Dr. <b>Capital Reduction</b> (Loss)                             | Gain on <b>investment</b> sold above book value transferred to <b>Capital Reduction A/c</b> |
| 13 | <b>Contingent Liabilities Paid</b>                                      | Dr. <b>Capital</b> Reduction<br>Cr. <b>Cash</b>  | Actual <b>liability paid</b> for contingent obligations                                     |
| 14 | <b>Provision for Taxation Converted and Paid</b>                        | Dr. <b>Provision</b> for taxation<br>Cr. Cash<br>Cr. <b>Capital Reduction</b>  | <b>Provision</b> adjusted and <b>liability</b> settled through payment                      |