

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF GROUP ENTITIES
Illustrations

1. Illustration

Summarised Balance Sheets of PN Ltd. and SR Ltd. as on 31st March, 2018 were given as below: (Amount in Rs.)

Particulars	PN Ltd.	SR Ltd.
Assets		
Land & building	4,68,000	5,61,600
Plant & Machinery	7,48,800	4,21,200
Investment in SR Ltd.	12,48,000	-
Inventories	3,74,400	1,13,600
Trade Receivables	1,86,500	1,24,800
Cash & Cash equivalents	45,200	24,900
Total Assets	30,70,900	12,46,100
Equity & Liabilities		
Equity Share Capital (Shares of Rs. 100 each fully paid)	15,60,000	6,24,000
Other Reserves	9,36,000	3,12,000
Retained Earnings	1,78,400	2,55,800
Trade Payables	1,46,900	34,300
Short-term borrowings	2,49,600	20,000
Total Equity & Liabilities	30,70,900	12,46,100

- (i) PN Ltd. acquired 70% equity shares of Rs. 100 each of SR Ltd. on 1st October, 2017.
- (ii) The Retained Earnings of SR Ltd. showed a credit balance of Rs. 93,600 on 1st April, 2017 out of which a dividend of 12% was paid on 15th December, 2017.
- (iii) PN Ltd. has credited the dividend received to its Retained Earnings.
- (iv) Fair value of Plant & Machinery of SR Ltd. as on 1st October, 2017 was Rs. 6,24,000. The rate of depreciation on Plant & Machinery was 10% p.a.
- (v) Following are the increases on comparison of Fair Value as per respective Ind AS with book value as on 1st October, 2017 of SR Ltd. which are to be considered while consolidating the Balance Sheets:
 - (a) Land & Buildings Rs. 3,12,000
 - (b) Inventories Rs. 46,800
 - (c) Trade Payables Rs. 31,200.
- (vi) The inventory is still unsold on Balance Sheet date and the Trade Payables are not yet settled.
- (vii) Other Reserves as on 31st March, 2018 are the same as was on 1st April, 2017.
- (viii) The business activities of both the company are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of the group of entities PN Ltd. and SR Ltd. as per Ind AS.
 May 2019 - (15 Marks)

Solution**1. Pre & Post Acquisition Profits of SR Ltd**

Particulars	Amount	Note
Retained Earnings as on 1st Apr	93,600	
Less: Dividends paid	74,880	12% on 6,24,000



Balance	18,720	
Retained Earnings as on 31st Mar	2,55,800	
Profit earned during the period	2,37,080	Balancing figure
Pre-Acquisition (upto 30 Sep)	1,18,540	
Post-Acquisition (from 1st Oct)	1,18,540	

Alternatively, the profit earned during the year can be computed using ledger.

Particulars	Dr	Particulars	Cr
To Bank	74,880	By Balance b/d	93,600
To Balance c/d	2,55,800	By P&L	2,37,080
Total	3,30,680	Total	3,30,680

2. Calculated of Net Assets on Date of acquisition

Particulars	Amount
Equity Share Capital	6,24,000
Other Reserves	3,12,000
Retained Earnings (1st April)	93,600
Add: Pre-acquisition profits during the year	1,18,540
Total Net Assets (Carrying Amount)	11,48,140
Adjustment to fair values	
Land & Buildings	3,12,000
Inventory	46,800
Trade Payables	(31,200)
Plant & Machinery	1,79,400
Increase in Net Assets	5,07,000
Net Assets (FV) on DOA	16,55,140
NCI Share on DOA (30%)	4,96,542

WN - Calculation of increase in value of Plant & Machinery

Particulars	Amount	Note
Carrying amount as on 31-Mar-18 (Given)	4,21,200	Opening balance – 10% dep i.e 90% of opening balance
Carrying amount as on 1-Apr-17	4,68,000	4,21,200 / 90%
Less: Depreciation (6 months)	23,400	4,68,000 × 5%
Carrying amount on 1-Oct	4,44,600	
FV on 1-Oct	6,24,000	
Increase in FV	1,79,400	

3. Calculation of Goodwill

Particulars	Amount
Fair Value of Consideration	12,48,000
Value of NCI	4,96,542
Total	17,44,542
FV of Net Assets	16,55,140
Goodwill	89,402

WN – Additional depreciation on plant and machinery

The subsidiary would have charged Rs. 23,400 of depreciation for 6 months from 1st October till 31st March.

Particulars	Amount
Carrying amount as on 1-Oct	4,44,600



Increase in Value	1,79,400
FV on 1-Oct	6,24,000
Less: Depreciation @10% for 6m on revised value	31,200
Carrying amount in CBS	5,92,800
Net Increase in FV	1,71,600 (5,92,800 – 4,21,200)
Incremental Depreciation	7,800 (31,200 – 23,400)

4. Post acquisition profits of subsidiary

Particulars	Amount
As per 1	1,18,540
Less: Additional Depreciation	(7,800)
Post-acquisition Profits (for Consolidation)	1,10,740
Parent's Share (70%)	77,518
NCI (30%)	33,222

5. NCI Balance

Particulars	Amount
NCI share of Net Assets on 1st Oct	4,96,542
Add: Share in Post-acq Profits	33,222
Carrying Amount	5,29,764
Less: Dividends Paid	(22,464)
Carrying Amount in CBS	5,07,300

Consolidated Balance Sheet of PN Group

Particulars	N o t e	Amount (₹)
Assets		
Non-Current Assets		
Property, Plant & Equipment	1	26,83,200
Goodwill (3)		89,402
Current Assets		
Inventories	2	5,34,800
Financial Assets		
– Trade receivables	3	3,11,300
– Cash & Cash equivalents	4	70,100
Total Assets		36,88,802
Equity & Liabilities		
Equity		
Equity Share Capital	5	15,60,000
Other Equity	6	11,39,502
NCI		5,07,300
Current Liabilities		
Financial Liabilities		
– Trade Payables	7	2,12,400
– Short-term Borrowings	8	2,69,600
Total Equity & Liabilities		36,88,802

Note	Particulars	PN (₹)	SR (₹)	FV Adj (₹)	Total (₹)
1	Property, Plant & Equipment				
	Land & Buildings	4,68,000	5,61,600	3,12,000	13,41,600
	Plant & Machinery	7,48,800	4,21,200	1,71,600	13,41,600
	Total PPE				26,83,200



2	Inventory	3,74,400	1,13,600	46,800	5,34,800
3	Trade Receivables	1,86,500	1,24,800	–	3,11,300
4	Cash & Cash equivalents	45,200	24,900	–	70,100
5	Equity Share Capital				
	15,600 shares of ₹100 each				15,60,000
6	Other Equity				
	Other Reserves	9,36,000	–		9,36,000
	Retained Earnings	1,78,400	–	–	
	Less: Dividends Declared by sub	(52,416)	–	–	
	Subtotal	1,25,984	77,518	–	2,03,502
	Total Other Equity				11,39,502
7	Trade Payables	1,46,900	34,300	31,200	2,12,400
8	Short-term Borrowings	2,49,600	20,000	–	2,69,600

2. Illustration

Prepare the consolidated Balance Sheet as on 31st March, 20X2 of a group of companies comprising P Limited, S Limited and SS Limited. Their balance sheets on that date are given below:

	P Ltd.	S Ltd.	SS Ltd.
Assets			
Non-Current Assets			
Property, Plant and Equipment	320	360	300
Investment:			
32 lakh shares in S Ltd.	340		
24 lakh shares in SS Ltd.		280	
Current Assets			
Inventories	220	70	50
Financial Assets			
Trade Receivables	260	100	220
Bills Receivables	72	–	30
Cash in hand and at Bank	228	40	40
	1440	850	640
Equity and Liabilities			
Shareholder's Equity			
Share Capital (Rs. 10 per share)	600	400	320
Other Equity			
Reserves	180	100	80
Retained earnings	160	50	60
Current Liabilities			
Financial Liabilities			
Trade Payables	470	230	180
Bills Payable			
P Ltd.		70	
SS Ltd.	30	–	–
	1440	850	640

The following additional information is available:

- P Ltd. Holds 80% shares in S Ltd. and S Ltd. holds 75% shares in SS Ltd. Their holdings were acquired on 30th September, 20X1.
- The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.
- On 1st April, 20X1 the following balances stood in the books of S Ltd. And SS Ltd.

Rs. in Lakhs

	S Ltd	SS Ltd
Reserves	80	60
Retained Earnings	20	30



(iv) Rs. 10 lakhs included in the inventory figure of S Ltd, is inventory which has been purchased from SS Ltd at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of S Ltd and SS Ltd are the same as respective face values.

1	Determination of share of P				
		Controlling	NCI		
	S Ltd	80%	20%		
	SS Ltd	60%	40%		
		[80% x 75%]	25% NCI of SS		
			20% of 75%	NCI of S Ltd	
2	Date of Control	30-Sep-X1			
	Date of Consolidation	30-Mar-X2			
3	Determination of Post acq. Profits				
	S Ltd	Reserves	Ret. Earnings	Total	
	As on 31st March X2	100	50		
	As on 1st April X1	80	20		
	Profit earned in the year	20	30	50	
	Profits upto 30-Sep-X1 (1/2 of profits) [For goodwill calc]	10	15	25	
	Profits post acquisition	10	15	25	
	Share of Parent [80%]	8	12	20	
	Share of NCI [20%]	2	3	5	
	SS Ltd	Reserves	Ret. Earnings		
	As on 31st March X2	80	60		
	As on 1st April X1	60	30		
	Profit earned in the year	20	30	50	
	Profits upto 30-Sep [For goodwill]	10	15	25	
	Profits post acquisition	10	15	25	
	Less: Unrealised profit		(2)	(2)	
	Post acq. Profits for consolidation	10	13	23	
	Share of P [60%]	6	7.8	13.80	
	NCI [40%]	4	5.2	9.20	
3	FV of Identifiable Net Assets	S Ltd	SS Ltd		
	Share capital	400	320		
	Reserves (01-4-X1)	80	60		
	Retained earnings (01-04-x1)	20	30		
	Pre acquisition profits as per above	25	25		
	Net Assets (DOA)	525	435		
4	Goodwill / CR	S	SS		



	FV of Consideration	340	224.00	[80% of 280]	
	Value of NCI (FV)	80	128		
		[400 x 20%]	[320 x 40%]		
	Total	420	352		
	Net Assets	525	435		
	Capital Reserve	105	83	188	
5	Calculation of Unrealised Profits				
	25% profit on cost				
	Sale value	10			
	Profit [10 x 25/125]	2			
6	NCI Balance	S Ltd	SS Ltd		
	FV on DOA	80	128		
	Add: Post acquisition profit	5.00	9.20		
	Total	85.00	137.20		
	<u>Less: 20% of 280</u>	(56)			
	Closing Balance	29	137.20	166.20	
7	Calculation of Other equity balance				
		P	S	SS	
	Retained Earnings	160	12	7.80	179.80
	Reserves	180	8	6	194.00

	P Ltd	S Ltd	SS Ltd	Adjustments	Group
Non-Current Assets					
PPE	320	360	300		980
Investments	340	280	-		-
Current Assets					
Inventory	220	70	50	(2)	338
Trade Receivables	260	100	220		580
Bills Receivables	72	-	30	(100)	2
Cash in Hand/Bank	228	40	40	-	308
Total Assets					2,208
Equity & Liabilities					
Shareholder's Equity					
Share Capital	600	400	320		600
Other Equity					
Reserves	180	100	80		179.80
Retained Earnings	160	50	60		194
Capital Reserve					188.00
NCI					
Financial Liabilities					
Trade Payables	470	230	180		880.00
Bills Payable	30	70		(100)	0.00
Total Liabilities & Equity					2,208

3. Illustration [RTP]

Ishwar Ltd. holds investments in Vinayak Ltd. The draft balance sheets of two entities at 31st March, 20X4 were as follows:



Particulars	Ishwar Ltd. Rs. in '000s	Vinayak Ltd. Rs. in '000s
Assets		
Non-current Assets		
Property, Plant and Equipment	26,20,000	18,50,000
Investment	21,15,000	NIL
Total non-current assets	47,35,000	18,50,000
Current Assets		
Inventories	6,00,000	3,75,000
Trade Receivables	4,50,000	3,30,000
Cash and Cash Equivalents	75,000	60,000
Total current assets	11,25,000	7,65,000
TOTAL ASSETS	58,60,000	26,15,000
Equity and Liabilities		
Equity		
Share Capital (Rs. 1 shares)	7,00,000	5,00,000
Retained Earnings	28,65,000	10,50,000
Other Components of Equity	12,50,000	50,000
Total Equity	48,15,000	16,00,000
Non-current Liabilities		
Provisions	6,250	NIL
Long-term Borrowings	4,13,750	4,50,000
Deferred Tax	2,25,000	1,40,000
Total Non-current Liabilities	6,45,000	5,90,000
Current Liabilities		
Trade and Other Payables	3,00,000	2,50,000
Short-term Borrowings	1,00,000	1,75,000
Total Current Liabilities	4,00,000	4,25,000
TOTAL EQUITY AND LIABILITIES	58,60,000	26,15,000

Additional Information:

Ishwar Ltd.'s investment in Vinayak Ltd.

On 1st April, 20X1, Ishwar Ltd. acquired 400 million shares in Vinayak Ltd. by means of a share exchange of one share in Ishwar Ltd. for every two shares acquired in Vinayak Ltd. On 1st April, 20X1, the market value of one share of Ishwar Ltd. was Rs. 7.

Ishwar Ltd. appointed a professional firm for conducting due diligence for acquisition of Vinayak Ltd., the cost of which amounted to Rs. 15 million. Ishwar Ltd. included these acquisition costs in the carrying amount of the investment in Vinayak Ltd. in the draft balance sheet of Ishwar Ltd. There has been no change to the carrying amount of this investment in Ishwar Ltd.'s own balance sheet since 1st April, 20X1.

On 1st April, 20X1, the individual financial statements of Vinayak Ltd. showed the following balances:

- Retained earnings Rs. 750 million
- Other components of equity Rs. 25 million

The directors of Ishwar Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of Vinayak Ltd. at 1st April, 20X1. The following matters emerged:

- Property having a carrying amount of Rs. 800 million (land component Rs. 350 million, buildings component Rs. 450 million) had an estimated fair value of Rs. 1,000 million (land component Rs. 400 million, buildings component Rs. 600 million). The buildings component of the property had an estimated useful life of 30 years at 1st April, 20X1.



- Plant and equipment having a carrying amount of Rs. 600 million had an estimated fair value of Rs. 700 million. The estimated remaining useful life of this plant at 1st April, 20X1 was four years. None of this plant and equipment had been disposed of between 1st April, 20X1 and 31st March, 20X4.
- On 1st April, 20X1, the notes to the financial statements of Vinayak Ltd. disclosed contingent liability. On 1st April, 20X1, the fair value of this contingent liability was reliably measured at Rs. 30 million. The contingency was resolved in the year ended 31st March, 20X2 and no payments were required to be made by Vinayak Ltd. in respect of this contingent liability.
- The fair value adjustments have not been reflected in the individual financial statements of Vinayak Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

The directors of Ishwar Ltd. used the proportion of net assets method when measuring the non-controlling interest in Vinayak Ltd. in the consolidated balance sheet.

Impairment review of goodwill on acquisition of Vinayak Ltd.

No impairment of the goodwill on acquisition of Vinayak Ltd. was evident when the reviews were carried out on 31st March, 20X2 and 20X3. On 31st March, 20X4, the directors of Ishwar Ltd. carried out a further review and concluded that the recoverable amount of the net assets of Vinayak Ltd. at that date was Rs. 2,000 million. Vinayak Ltd. is regarded as a single cash generating unit for the purpose of measuring goodwill impairment.

Provision

On 1st April, 20X3, Ishwar Ltd. completed the construction of a non-current asset with an estimated useful life of 20 years. The costs of construction were recognised in property, plant and equipment and depreciated appropriately. Ishwar Ltd. has a legal obligation to restore the site on which the non-current asset is located on 31st March, 2X43. The estimated cost of this restoration work, at 31st March, 2X43 prices, is Rs. 125 million.

The directors of Ishwar Ltd. have made a provision of Rs. 6.25 million ($1/20 \times \text{Rs. 125 million}$) in the draft balance sheet at 31st March, 20X4. An appropriate annual discount rate to use in any relevant calculations is 6% and at this rate the present value of Rs. 1 payable in 20 years is 31.2 paise.

Prepare the consolidated balance sheet of Ishwar Ltd. at 31st March, 20X4. Consider deferred tax implications.

Solution

1	Date of Acquisition	1-Apr-X1			
	Date of Consolidation	31-Mar-X4			
2	Controlling stake	80%			
	NCI	20%			
3	Net Assets/Reserves analysis				
		DOC	DOA	Post acq	
	Share Capital	5,00,000	5,00,000		
	Retained Earnings	10,50,000	7,50,000	3,00,000	
	Other components of equity	50,000	25,000	25,000	
	Fair value adjustment				
	Land	50,000	50,000	-	
	Building	1,50,000	1,50,000	-	



	Depreciation on Building				
	[150,000 x 3/30]	-15,000	0	(15,000)	
	Plant & equip	1,00,000	1,00,000	-	
	Depreciation on Plant	-75000	0	(75,000)	
	FV of Contingent Liability	0	-30000	30,000	
	Deferred Tax Liability (Specific to FV adjustments on DOA)	-42000	-54000	12,000	
		17,68,000	14,91,000	2,77,000	
	NCI [20%]		298200	55400	
	Ishwar's 80%			221600	
			Other component	20,000	
			Retained earnings	2,01,600	
WN	Deferred Tax				
	Increase in value of Net Assets	2,10,000	2,70,000		
	Deferred tax liability	42,000	54,000		
3	Calculation of Goodwill				
	FV Consideration	14,00,000			
	NCI. - Prop net assets	2,98,200			
		16,98,200			
	FV of Net Assets	14,91,000			
	Goodwill	2,07,200			
	Less: Impairment	21600			
	Carrying amt	1,85,600			
4	Impairment				
	Net Assets on Date of Consolidation	17,68,000	Carrying amount		
	Goodwill	2,59,000	207200/80*100	Goodwill is grossed up	
	Total carrying amount	20,27,000			
	Recoverable Amount	20,00,000			
	Impairment	27,000			
	Parent's Share	21,600	Imp of GW		



5	Rectification of decommissioning expenses			Actual Entry	
	Actual Prov. restoration required	39000	Dr. PPE	Dr. P&L	6250
			Cr. Liability	Cr. Liab	6250
	Interest on provision @ 6%	2340	Dr. P&L		
			Cr. Liability		
	Dep on Restoration	1950	Dr. P&L		
			Cr. PPE		
	Total expense to be recognised	4290			
	Actual recognised	6250			
	Balance to be credited	1960			
	The rectification entry				
	Dr. PPE	37050			
	Cr. Liability		35090		
	Cr. P&L		1960		
6	NCI Balance				
	Date of Acquisition	298200			
	Add: Post acquisition share	55400			
		353600			
7	Consolidated Reserves				
	Retained Earnings				
	Balance as per Ishwar's BS	2865000			
	Less: Acquisition cost	-15000			
	Add: Rectification of Decomm prov	1960			
	Less: Goodwill Impairment	-21600			
	Add: Share from vinayak	201600			
		3031960			
8	Consolidated Other component of equity				
	Balance as per Ishwar's BS	1250000			
	Add: Post acquisition share	20000			



		1270000			
	Consolidated Balance Sheet of Ishwar				
	Assets	Ishwar's	Vinayak's	Adjustments	Consolidated
	Non Current Assets				
	PPE	2620000	1850000	247050	4717050
	Investment	2115000		-1415000	700000
	Goodwill				185600
	Total Non Current				5602650
	Current Assets				
	Inventories	600000	375000		975000
	Trade Receivables	450000	330000		780000
	Cash & Cash equivalent	75000	60000		135000
	Total Current				1890000
	Total Assets				7492650
	Equity				
	Share Capital	700000			700000
	Retained Earnings				3031960
	Other components of Equity				1270000
	NCI				353600
				Total Equity	5355560
	Non-Current Liabilities				
	Provisions				41340
	Long term borrowings	413750	450000		863750
	Deferred Tax	225000	140000	42000	407000
	Total Non Current				1312090
	Current Liabilities				
	Trade & Other payables	300000	250000		550000
	Short Term Borrowings	100000	175000		275000
	Total current Liabilities				825000
	Total Equity & Liabilities				7492650
	]				
	WN - PPE				



	Land	50,000			
	Building	1,50,000			
	Depreciation on Building				
	[150,000 x 3/30]	-15,000			
	Plant & equip	1,00,000			
	Depreciation on Plant	-75000			
	Rectification of Decomm.	37050			
		2,47,050			

4. Illustration [May 2024, 14 Marks]

The Accountant Mr. Ramesh Kanna of 'H' Limited submitted to you the following Standalone Balance Sheet extracts as at 31st March 2024:

	H Ltd.		S Ltd.		A Ltd.	
Assets						
Non-current assets						
(a) Property, Plant and Equipment	5,50,000		4,80,000		2,50,000	
(b) Financial Assets						
Investments:				4,80,000		2,50,000
14,000 shares in S Ltd.	5,60,000					
4,000 shares in A Ltd.	1,00,000	12,10,000				
Current assets						
(a) Inventory	4,85,000		3,82,500		2,45,500	
(b) Financial Assets						
Cash and cash equivalents	89,000		98,000		1,77,000	
Trade receivables	3,95,000	9,69,000	3,05,000		1,78,500	6,01,000
				7,85,500		
Total Assets		21,79,000		12,65,500		8,51,000
Equity & Liabilities						
Shareholder's Equity						
(a) Equity Share Capital (Rs. 10 per share)	5,00,000		2,00,000		1,00,000	
(b) Other Equity						
Retained earnings	9,00,000	14,00,000	7,50,000	9,50,000	4,24,000	5,24,000
Non-current liabilities						



(a) Financial Liabilities					
Borrowing–Term Loans		4,00,000		1,50,000	1,00,000
Current liabilities					
(a) Financial Liabilities					
Trade payables		3,79,000		1,65,500	2,27,000
Total Equity and Liabilities		21,79,000		12,65,500	8,51,000

The following additional information is made available in respect of these companies:

- H Limited purchased the shares in S Limited on 31st October 2023 when retrained earnings of S Limited was Rs. 500,000 and the shares in A Limited were acquired on 30th June 2023 when its retained earnings stood at Rs. 1,75,000.
- Inventory of A Limited as on 31st March, 2024 include inventory valued at Rs. 60,000 which had been purchased from H Limited, on 1st January, 2024 at cost plus 20%.
- Trade payable of H Limited includes Rs. 25,000 payable to A Limited, the amount receivable being recorded in the receivables of A Limited.
- Goodwill in respect of the acquisition of S Limited has been fully impaired. The recoverable amount of the investment in A Limited exceeds its' carrying value at 31st March 2024. Non-controlling interest is valued at the proportionate share of the identifiable net assets.
- 10% dividends were declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 2023-24.
- On 31st March, 2024, S Limited made a bonus issue of one equity share for every two shares held by the shareholders of S Limited.
- Dividends were declared but were not accounted for by all these companies in the books before the year end. Similarly, the bonus issued by S Limited was not reflected in the balance sheet as on 31st March, 2024.

You are required to take note of the above available information and draw the consolidated Balance Sheet of H Limited as at 31st March 2024. Notes to accounts are not required

Solution

	Assumed Dividend declared but not paid		
	S Ltd	A Ltd (Associate)	
1 Date of Acquisition	31-Oct-23	30-Jun-23	
2 Controlling Stake	70%	Investment in A	40%
NCI	30%		
3 Analysis of Reserves of S Ltd	DOC	DOA	Post Acquisition
Equity Share Capital	2,00,000	2,00,000	0
Retained Earnings	7,50,000	500000	2,50,000
RE - capitalised	-1,00,000		
Bonus Shares	1,00,000		
Total	9,50,000	7,00,000	2,50,000
		Parent's Share	1,75,000
		NCI	75,000
		Dividend to NCI	-6000
4 Goodwill Computation			
FV of Purchase Consideration	5,60,000		
NCI on DOA	210000	[30% of 700000]	
Total	7,70,000		



	Less: Identifiable NA	-7,00,000		
	Goodwill	70,000		
	Less: Impairment	-70000	[Written off against RE]	
	Carrying Amount	-		
5	Investment in Associate			
	Cost of Invesmtent	1,00,000		
	Share in Net Assets			
	[40% of 275000]	1,10,000.00		
	Capital Reserve	10,000.00		
	Carrying amount of investment in A		represents net assets	
	Cost of Investment in A	100000		
	Add: Capital Reserve	10,000		
	Add: share in post acq profits			
	[40% of (424000-175000)]	99600		
	Less: Dividend Receivable	-6000		Dr. Dividend Receivable / Cash
		2,03,600		Cr. Investment in A
	Less: Unrealised profit on inventory			
	[60000/120*20*40%]	-4000		
	Carrying Amount as on 31st March	1,99,600		
6	Carrying amount of NCI			
	NCI on DOA	2,10,000		
	Add: Share in Post Acq profits	75,000		
	Less: Dividend payable	(6,000)		
	Carrying Amount	2,79,000		
7	Consolidated Retained earnings			
	Parent's Retained Earnings	900000		
	Add: Post acquisition RE of S	1,75,000		
	Less: Goodwill Impaired	-70000		
	Add: Share in Profits [A Ltd]	99600		
	Less: Unrealised Profit (inventory)	-4000		
	Less: Dividend declared	-50000		Dr. RE
	Total	1050600		Cr. Div Payable
	Consolidated Balance Sheet of H Ltd			
		H	S	Consolidated
	Property Plant and Equipment	5,50,000	4,80,000	10,30,000
	Financial Assets			
	Investment in A Ltd [WN 6]			1,99,600
	Current Assets			
	Inventory	4,85,000	3,82,500	8,67,500



Financial Assets			
Cash & CE	89,000	98,000	1,87,000
Trade Receivables	3,95,000	3,05,000	7,00,000
Dividend Receivable			6,000
			29,90,100
Equity & Liabilities			
Shareholder's Equity			
Equity Share Capital			5,00,000
Other Equity [RE + CR]			10,60,600
(11,00,600-50,000 + 10,000)			
NCI			2,79,000
Financial liabilities			
Borrowing - Term loan	4,00,000	1,50,000	5,50,000
Trade Payables	3,79,000	1,65,500	5,44,500
Dividend Payable	50,000	6,000	56,000
			29,90,100

5. Illustration Sep 25 (14 Marks)

R Limited is a subsidiary of Z Limited. Their respective balance sheet as at 31st March, 2025 is as under:

Particulars	Note No.	Z Ltd.	R Ltd.
I. Assets			
Non-current assets			
(i) Property, Plant & Equipment	4	450	248
(ii) Intangible Assets	5	75	45
(iii) Investments	—	375	68
Current assets			
(i) Inventories	—	75	75
(ii) Financial Assets			
a. Trade Receivables	6	110	120
b. Cash & Cash Equivalents	—	85	135
Total Assets		1,170	691
II. Equity and Liabilities			
Equity			
(i) Share Capital	1	720	360
(ii) Other Equity	2	315	225
Liabilities			
Current Liabilities			
(i) Financial Liabilities			
a. Bank Overdraft	—	45	30
b. Trade Payables	3	90	76
Total Equity and Liabilities		1,170	691

Notes to Balance Sheet

Note No.		Z Ltd. (Rs. in Lakhs)	R Ltd. (Rs. in Lakhs)
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1.	Share capital:		
	(i) Equity shares of Rs. 10 each	600	300
	(ii) 10% Preference shares of Rs. 10 each	120	60
		720	360
2.	Other equity:		
	(i) General reserve	120	75
	(ii) Retained earnings	195	150
		315	225
3.	Trade payables:		
	(i) Sundry creditors	90	69
	(ii) Bills payable	Nil	7
		90	76
4.	Property, plant and equipment:		
	(i) Machinery	210	135
	(ii) Furniture and fixture	240	113
		450	248
5.	Intangible asset:		
	Goodwill	75	45
6.	Trade receivables:		
	(i) Sundry debtors	106	120
	(ii) Bills receivable	4	Nil
		110	120

Additional Information

a. Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1 April 2024 and 13,50,000 equity shares on 1 January 2025 at a cost of ₹1,44,00,000 and ₹1,55,25,000 respectively.

b. R Ltd.'s preference share capital includes ₹22,50,000 held by Z Ltd., acquired on 1 April 2024 at a cost of ₹54,00,000.

c. Retained earnings of R Ltd. on 1 April 2024 = ₹45,00,000; General Reserve = ₹30,00,000.

d. R Ltd. paid 12% equity dividend for FY 2023–24 out of its opening retained earnings. Z Ltd. credited the dividend received in August 2024 to its retained earnings.

e. Machinery of R Ltd. was overvalued by ₹15,00,000 on 1 October 2024; depreciation @10% WDV.

f. Bills receivable of Z Ltd. include bills drawn on R Ltd., of which ₹3,00,000 were discounted with bank.

Solution

Note : The treatment given by ICAI for preference shares are inconsistent in suggested answer published due to following reasons

1. If preference share is treated as equity, elimination should happen in similar lines with equity of subsidiary and hence there should not be any loss on cancellation but rather preference share should be considered as a part of computation of Capital reserve.

2. In India, Preference shares cannot be issued as irredeemable and hence, it is in the nature of financial liability.

As per ICAI treatment, the preference share held by minority interest is added to minority interest and accordingly the solution will change as indicated.



Particulars	No. of Shares	FV	Amount (₹ in lakhs)	% Stake for Reference
Fair value of Net Assets	WN 3		418.875	
FV of Existing Stake	12	14	168.000	40.00%
FV of Consideration	–	13.5	155.250	45.00%
NCI @ FV	4.5	14	63.000	15.00%
Total Consideration			386.250	
Capital Reserve			32.625	

WN 2 – Profits earned during the year**Retained Earnings (₹ in lakhs)**

Particulars	Amount	Particulars	Amount
To Dividends	36.00	By Balance b/d	45.00
To General Reserve	45.00	By P&L	186.00
To Balance c/d	150.00		
Total	231.00	Total	231.00

General Reserve (₹ in lakhs)

Particulars	Amount	Particulars	Amount
To Balance c/d	75.00	By Balance b/d	30.00
		By P&L	45.00
Total	75.00	Total	75.00

Alternatively,

Particulars	31-Mar-25	01-Apr-24	Dividend	For the Year	Pre (9)	Post (3)
General Reserve	75	30	–	45	33.750	11.250
Retained Earnings	150	45	36	141	105.750	35.250

Profit for the year = Closing – Opening + Dividend

WN 3 Calculation of General Reserve and Retained Earnings Balance on 1st Jan

Particulars	GR	RE
Bal on 1st April	30.000	45.000
Profit for 9 Months	33.750	105.750
Less: Dividends	–	(36.000)
As on 1st Jan	63.750	114.750

WN 4 – Identifiable Net Assets on DOA

Particulars	Equity
Equity	300
General Reserve	63.750
Retained Earnings	114.750
FV Adjustment	(14.625)
Goodwill Written off*	(45)
As on 1st Jan	418.875

* ICAI has taken different assumptions in different attempts on Goodwill. In Hammer Ltd illustration, Goodwill has been considered as separate asset and question is solved accordingly. Even in this attempt, suggested answer considers both assumptions.

WN 5 – Post Acquisition Profits

Particulars	GR	RE
Post Acquisition Profits (3/12)	11.250	35.250
Depreciation of FV Adjustment for 3 months	–	0.375
Total	11.250	35.625



Parent	9.563	30.281
NCI	1.688	5.344

WN 5 – Computation of Depreciation on Revaluation of Plant & Machinery

Particulars	Amount (₹ lakhs)
Overvaluation as on 1/10	(15.000)
Depreciation @ 10% [for 3 months]	(0.375)
Balance as on 1-Jan	(14.625)
Depreciation for 3 months	(0.375)
Balance as on 31st March	(14.250)

Consolidated Balance Sheet of Z Ltd. as at 31st March 2025

Particulars	Note No.	Amount (₹)	ICAI Solution
Assets			
Non-current assets			
(i) Property, plant and equipment	1	6,83,75,000	6,83,75,000
(ii) Intangible assets	1	75,00,000	75,00,000
(iii) Financial assets			
a. Investments	1	89,75,000	89,75,000
Current assets			
(i) Inventories	1	1,50,00,000	1,50,00,000
(ii) Financial assets			
a. Trade receivables	1	2,26,00,000	2,26,00,000
b. Cash and cash equivalents	1	2,20,00,000	2,20,00,000
Total		14,44,50,000	14,44,50,000
Equity and Liabilities			
Equity			
(i) Share capital	2	6,00,00,000	7,20,00,000
(ii) Other equity	3	3,79,96,875	3,79,96,875
(iii) Non-controlling interest	4	70,03,125	1,07,53,125
Non Current Liabilities			
Financial Liability (PSC)	1	1,57,50,000	
Current Liabilities			
(i) Financial liabilities			
a. Bank overdraft	1	75,00,000	75,00,000
b. Trade payables	1	1,62,00,000	1,62,00,000
Total		14,44,50,000	14,44,50,000

Notes to Accounts**Note 1: Assets and Liabilities**

Particulars	Z Ltd. (₹)	R Ltd. (₹)	Adjustments	Total (₹)
Property, Plant & Equipment	4,50,00,000	2,48,00,000	-15,00,000 + 75,000	6,83,75,000
Intangible Assets	75,00,000	45,00,000	-45,00,000	75,00,000
Investments	3,75,00,000	68,00,000	-1,44,00,000 - 1,55,25,000 - 54,00,000	89,75,000
Inventories	75,00,000	75,00,000	-	1,50,00,000
Trade Receivables	1,10,00,000	1,20,00,000	-4,00,000	2,26,00,000
Cash & Cash Equivalents	85,00,000	1,35,00,000	-	2,20,00,000
Preference Share Capital	1,20,00,000	60,00,000	-22,50,000	157,50,000
Bank Overdraft	45,00,000	30,00,000	-	75,00,000
Trade Payables	90,00,000	76,00,000	-4,00,000	1,62,00,000



Note 2: Share Capital

Particulars	If PS is liability (₹)	ICAI (₹)
60 lakh Equity Shares of ₹10 each, fully paid	6,00,00,000	6,00,00,000
10%, 12 lakh Preference Shares of ₹10 each, fully paid		1,20,00,000
Total Share Capital	6,00,00,000	7,20,00,000

Note 3: Consolidated Other Equity

Particulars	GR (₹)	RE (₹)	CR (₹)
Z Ltd	12,000,000	19,500,000	–
Add: Post Acquisition	956,250	3,028,125	–
Gain on FV of Investment	–	2,400,000	–
Loss on cancellation of PS	–	–3,150,000	–
Total	12,956,250	21,778,125	3,262,500
Grand Total Other Equity			37,996,875

Note – 4

Particulars	Amount	ICAI
On DOA	63.00000	63.00000
Post Acquisition Share	7.03125	7.03125
Share in PSC		37.50
	70.03125	107.53125

6. Illustration

On **1st April 2024**, **A Limited** acquired **80%** of the equity share capital of **S Limited**. On the said date, the **share capital and other equity** (represented entirely by retained earnings) of **S Limited** were **₹10.00 lakhs** and **₹2.50 lakhs** respectively.

To the selling shareholders, **A Limited**:

- paid initial cash consideration of **₹20.00 lakhs**
- issued fresh **4,00,000** equity shares of nominal value **₹1** per share at current market price of **₹2** per share
- agreed to pay a further **₹6.00 lakhs** after 3 years i.e., on **31st March 2027**

A Limited's cost of capital is **10% per annum**. The appropriate discount factor for **₹1 @ 10% per annum** receivable at the end of:

- 1st year – **0.91**
- 2nd year – **0.83**
- 3rd year – **0.75**

Both **A Limited** and **S Limited** prepare their financial statements as per the **Companies (Indian Accounting Standards) Rules, 2015**.

Balance Sheet as at 31st March 2025

(All amounts in ₹ lakhs)

Particulars	A Limited	S Limited
ASSETS		
Non-current assets		
Property, plant and equipment	60.00	30.00
Financial assets		



Investment (in S Limited at cost)	20.00	–
Current assets		
Inventories	7.00	12.00
Financial assets		
Trade receivables	4.50	10.00
Cash and cash equivalents	2.00	4.00
Total Assets	93.50	56.00
EQUITY AND LIABILITIES		
EQUITY		
Equity share capital (₹1 per share)	40.00	10.00
Other equity		
Retained earnings	15.00	6.00
LIABILITIES		
Non-current liabilities		
Financial liabilities – Borrowings	25.00	25.00
Current liabilities		
Financial liabilities – Trade payables	13.50	15.00
Total Equity and Liabilities	93.50	56.00

Additional Information

- Since its incorporation, S Limited has been selling some of its products under the brand name 'BLISS'.
At the acquisition date, A Limited valued this brand at ₹8.00 lakhs with remaining life of 10 years with NIL residual value. A Limited amortizes its intangible assets using straight line method. The brand is not recognized in S Limited's Balance Sheet.
- As at 31st March 2025, goodwill recognised on consolidation is to be impaired by 25%.
- A Limited Group measures non-controlling interest at fair value.
- Equity shares of S Limited were quoted at ₹4 per share on the acquisition date.
- Immediately after acquisition i.e. 1 April 2024, A Limited sold capital equipment costing ₹4.00 lakhs to S Limited for ₹5.00 lakhs.
This equipment is recorded as PPE by S Limited. The useful life on the date of transfer was 10 years with NIL residual value. The equipment is depreciated using SLM.
- A Limited is yet to record issuance of shares and deferred consideration in its books.

Required

Prepare the Consolidated Balance Sheet of A Limited as at 31st March 2025.
Workings should form part of your answer. (14 Marks)

Solution

Particulars	Note No.	₹ in lakhs
I. Assets		
(1) Non-Current Assets		
(i) Property Plant & Equipment	1	89.10
(ii) Goodwill (W.N.3)		15.00
(ii) Intangible Asset - Brand	1	7.20
(2) Current Assets		
(i) Inventories	1	19.00
(ii) Financial Assets		
(a) Trade Receivables	1	14.50
(b) Cash & Cash Equivalents	1	6.00



Total Assets		150.80
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	2	44.00
(ii) Other Equity	3	15.79
(2) Non-Controlling Interest (W.N.5)		7.56
(3) Non-Current Liabilities		
(i) Financial Liabilities		
(a) Borrowings	1	50.00
(b) Other – Contingent Consideration	1	4.95
(4) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	1	28.50
Total Equity & Liabilities		150.80

Notes to Accounts

1. Assets and Liabilities

₹ in lakhs

Particulars	A Ltd.	S Ltd.	Adjustments	Total
Property, Plant and Equipment	60.00	30.00	-1.00 +0.10	89.10
Intangible Assets (Brand)	–	–	+8.00 -0.80	7.20
Investments	20.00	–	-20.00	–
Inventories	7.00	12.00	–	19.00
Trade Receivables	4.50	10.00	–	14.50
Cash and Cash Equivalents	2.00	4.00	–	6.00
Borrowings	25.00	25.00	–	50.00
Deferred consideration (W.N.7)	4.95	–	–	4.95
Trade Payables	13.50	15.00	–	28.50

2. Equity Share Capital

44 lakhs equity shares of ₹ 1 each, fully paid – (Out of which 4 lakh equity shares of ₹ 1 each, fully paid issued for consideration other than cash)	44.00
	44.00

3. Consolidated Other Equity

	₹ in lakhs
Retained Earnings (W.N.6)	11.79
Securities Premium (4,00,000 shares x ₹ 1)	4.00
	15.79

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April 2024

Payment made by A Ltd. to S Ltd.	₹ in lakhs
Cash	20.00
Equity shares (4,00,000 shares x ₹ 2.00)	8.00
Present value of deferred consideration (₹ 6,00,000 x 0.75)	4.50
Total consideration	32.50

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2024

	₹ in lakhs
--	------------



Share capital of S Ltd.	10.00
Retained Earnings of S Ltd.	2.50
Fair value increase due to identifiable asset - Brand	8.00
Net worth on acquisition date	20.50

3. Calculation of Goodwill at the acquisition date (1st April 2024) and 31st March 2025

	₹ in lakhs
Purchase consideration (W.N.1)	32.50
Non-controlling interest at fair value (10,00,000 x 20% x 4)	8.00
	40.50
Less: Net worth (W.N.2)	(20.50)
Goodwill as on 1st April 2024	20.00
Less: Impairment @ 25%	(5.00)
Goodwill as on 31st March 2025	15.00

4. Calculation of Property, Plant and Equipment as on 31st March 2025

		₹ in lakhs
A Ltd.		60.00
S Ltd.	30.00	
Less: Elimination of gain on mutual transaction (5.00 – 4.00)	(1.00)	
Add: Excess depreciation on gain on mutual transaction [(5.00 – 4.00)/10 years]	29.00	
	0.10	29.10
		89.10

5. Calculation of post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2025

₹ in lakhs

	NCI (20%)	A Ltd. (80%)
Acquisition date balance (10,00,000 shares x 20% x ₹ 4)	8.00	
Closing balance of Retained Earnings	6.00	
Less: Pre-acquisition balance	(2.50)	
Post-acquisition Retained Earnings before adjustments	3.50	
Less: Amortisation of Brand (8/10 years)	(0.80)	
Add: Excess depreciation on PPE (1.00 x 1/10) (W.N.4)	0.10	
Post-acq. Retained Earnings after adjustments	2.80	
	0.56	2.24
Less: Impairment on Goodwill (20 x 25%) in 20:80	(1.00)	(4.00)
	7.56	(1.76)

6. Consolidated Retained Earnings as on 31st March 2025

	₹ in lakhs
A Ltd.	15.00
Less: A Ltd.'s share of post-acquisition loss in S Ltd. (W.N.5)	(1.76)



Less: Finance cost on deferred consideration (W.N.7)	(0.45)
Less: Gain on sale of capital equipment (5.00 – 4.00)	(1.00)
Retained Earnings as on 31st March 2025	11.79

7. Calculation of value of deferred consideration as on 31st March 2025

	₹ in lakhs
Value of deferred consideration as on 1st April 2024 (W.N.1)	4.50
Add: Finance cost for the year 2024-2025 (4.50 x 10%)	0.45
Deferred consideration as on 31st March 2025	4.95

7. Illustration

In March 20X1 a group had a 60% interest in subsidiary with share capital of 50,000 ordinary shares. The carrying amount of goodwill is Rs. 20,000 at March 20X1 calculated using the partial goodwill method. On 31 March 20X1, an option held by the minority shareholders exercised the option to subscribe for a further 25,000 ordinary shares in the subsidiary at Rs. 12 per share, raising Rs. 3,00,000. The net assets of the subsidiary in the consolidated balance sheet prior to the option's exercise were Rs. 4,50,000, excluding goodwill.

Calculate gain or loss on loss of interest in subsidiary due to option exercised by minority shareholder.

Solution

	Before	%	After	%
Shares held by Group	30,000	60%	30,000	40%
Shares held by NCI	20,000	40%	45,000	60%
	50,000		75,000	
Net Assets in CFS	4,50,000	Asset		
Goodwill	20,000	Asset		
NCI Balance [40% of NA]	1,80,000	Eq & Liab		
Balance Net Assets (attributable to owners of parents)	2,90,000			
Fair value of 40% stake retained	3,60,000			
Gain on loss of control	70,000			
[4,70,000 – 1,80,000 – 3,60,000]				
Investment in XXX Dr	3,60,000			
NCI Dr	1,80,000			
To Net Assets		4,50,000		
To G/w		20,000		
To Consolidated P&L		70,000		

8. Illustration

A parent purchased 80% interest in a subsidiary for Rs. 1,60,000 on 1 April 20X1 when the fair value of the subsidiary's net assets was Rs. 1,75,000. Goodwill of Rs. 20,000 arose on consolidation under the partial goodwill method. An impairment of goodwill of Rs. 8,000



was charged in the consolidated financial statements for year ended 31 March 20X3. No other impairment charges have been recorded. The parent sold its investment in the subsidiary on 31 March 20X4 for Rs. 2,00,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was Rs. 2,25,000 (not including goodwill of Rs. 12,000). When the subsidiary met the criteria to be classified as held for sale under Ind AS 105, no write off was required because the expected fair value less cost to sell (of 100% of the subsidiary) was greater than the carrying value.

The parent carried the investment in the subsidiary in its separate financial statements at cost, as permitted by Ind AS 27.

Calculate gain or loss on disposal of subsidiary in parent's separate and consolidated financial statements as on 31st March 20X4.

Solution

Standalone FS		
Sale Proceeds	2,00,000	
Less: Carrying Amount	1,60,000	
Gain on Sale/Disposal	40,000	
Bank A/c Dr.	2,00,000	
To Investment in Sub		1,60,000
To Profit & Loss		40,000
In CFS		
Net Assets	2,25,000	
Goodwill	12,000	
NCI	45,000	
	1,92,000	
Consideration	2,00,000	
Gain	8,000	
Bank A/c Dr	2,00,000	
NCI Dr	45,000	
To Net Assets		2,25,000
To Goodwill		12,000
To Cons. P&L		8,000

9. Illustration

AT Ltd. Purchased a 100% subsidiary for Rs. 50,00,000 on 31st March 20X1 when the fair value of the net assets of BT Ltd. Was Rs. 40,00,000. Therefore, goodwill is Rs. 10,00,000. AT Ltd. Sold 60% of its investment in BT Ltd. On 31st March 20X3 for Rs. 67,50,000, leaving the AT Ltd. With 40% and significant influence. At the date of disposal, the carrying value of net assets of BT Ltd. Excluding goodwill is Rs. 80,00,000. Assume the fair value of the investment in associate BT Ltd. Retained is proportionate to the fair value of the 60% sold, that is Rs. 45,00,000. Calculate gain or loss on sale of proportion of BT Ltd. In AT Ltd.'s separate and consolidated financial statements as on 31st March 20X3.

Scenario II

AT Ltd. Disposes of a 90% interest for Rs. 85,50,000 leaving the AT Ltd. With a 10% investment. The fair value of the remaining interest is Rs. 9,50,000 (assumed for simplicity to be pro rata to the fair value of the 90% sold)

Calculate gain or loss on sale of proportion of BT Ltd. In AT Ltd.'s separate and consolidated financial statements as on 31st March 20X3.



Solution

	Scenario I	Scenario II
Separate Financial Statements		
Total Consideration	67,50,000	85,50,000
Carrying amt of Stake [60% / 90% of 50,00,000]	30,00,000	45,00,000
Gain on disposal (Consideration – CA)	37,50,000	40,50,000
Consolidated Financial Statements		
Total Consideration	67,50,000	
Consolidated Financial Statements		
Total Consideration received	67,50,000	85,50,000
Remaining stake	45,00,000	9,50,000
Total	1,12,50,000	95,00,000
Net Assets derecognised	80,00,000	80,00,000
Goodwill derecognised	10,00,000	10,00,000
Total Assets derecognised	90,00,000	90,00,000
Gain (Total consideration + FV – Net Assets derecognised]	22,50,000	5,00,000

10. Illustration

MN Ltd. was holding 80% stake in UV Ltd. Now, MN Ltd. has disposed of the entire stake in UV Ltd. in two different transactions as follows:

Transaction 1: Sale of 25% stake for a cash consideration of Rs. 2,50,000

Transaction 2: Sale of 55% stake for a cash consideration of Rs. 5,50,000

Both the transactions have happened within a period of one month. In accordance with the guidance given in Ind AS 110, both the transactions have to be accounted as a single transaction. The net assets of UV Ltd. and non-controlling interest on the date of both the transactions was Rs. 9,00,000 and Rs. 1,80,000 respectively (assuming there were no earnings between the period of two transactions).

How MN Ltd. should account the transaction?

Solution

MN Ltd. will account for the transaction as follows:

Recognise:

Fair value of consideration (2,50,000 + 5,50,000) 8,00,000

Derecognise:

Net assets of UV Ltd.	(9,00,000)	
Non-controlling interest	1,80,000	(7,20,000)
Gain to be recorded in profit or loss		80,000

If MN Ltd. loses control over UV Ltd. on the date of transaction 1, then the above gain is recorded on the date of transaction 1 and MN Ltd. will stop consolidating UV Ltd. from that date. The consideration of Rs. 5,50,000 receivable in transaction 2 will be shown as consideration receivable.



If MN Ltd. loses control over UV Ltd. on the date of transaction 2, then the above gain is recorded on the date of transaction 2 and MN Ltd. will stop consolidating UV Ltd. from that date. The consideration of Rs. 2,50,000 received in transaction 1 will be shown as advance consideration received.

11. Illustration

As at the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited. During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of Rs. 56 crore and consequently loses control of BC Limited. At the date of disposal, fair value of the 20% interest retained by AB Limited is Rs. 16 crore and the net assets of BC Limited are carry valued at Rs. 60 crore.

These net assets include the following:

- Debt investments classified as fair value through other comprehensive income (FVOCI) of Rs. 12 crore and related FVOCI reserve of Rs. 6 crore.
- Net defined benefit liability of Rs. 6 crore that has resulted in a reserve relating to net measurement losses of Rs. 3 crore.
- Equity investments (considered not held for trading) of Rs. 10 crore for which irrevocable option of recognising the changes in fair value in OCI has been availed and related FVOCI reserve of Rs. 4 crore.
- Net assets of a foreign operation of Rs. 20 crore and related foreign currency translation reserve of Rs. 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest.

What would be the accounting treatment on loss of control in the consolidated financial statements of AB Limited?

Solution

As per Ind AS 110 on Loss of Control the following accounting treatment is carried out.

- Derecognise** assets and liabilities of former subsidiary.
- Recognise** any investment retained at **fair value**.
- Recognise gain/loss** attributable to disposal
- Reclassify/transfer** amounts from **OCI** (FVOCI, defined benefit, equity instruments, FCTR) appropriately.
- Derecognise NCI** balance.

If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

In view of the basis in its consolidated financial statements, AB Limited shall:

- re-classify the FVOCI reserve in respect of the debt investments of Rs. 5.4 crore (90% of Rs. 6 crore) attributable to the owners of the parent to the statement of profit or loss**

OCI Dr. 5.4
 To P&L 5.4

- transfer the reserve relating to the net measurement losses on the defined benefit liability of Rs. 2.7 crore (90% of Rs. 3 crore) attributable to the owners of the parent within equity to retained earnings.**

Retained Earnings Dr. 2.7
 To OCI 2.7



(c) reclassify the cumulative gain on fair valuation of equity investment of Rs. 3.6 crore (90% of Rs. 4 crore) attributable to the owners of the parent from OCI to retained earnings under equity as per Ind AS 109, Financial Instruments

OCI Dr. 3.6
To Retained Earnings 3.6

(d) reclassify the foreign currency translation reserve of Rs. 7.2 crore (90% × Rs. 8 crore) attributable to the owners of the parent to statement of profit or loss as per Ind AS 21 which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation.

Dr. OCI 7.2
To P&L 7.2

The balance 10% attributable to NCI will be derecognised along with NCI balance.

Bank A/c Dr 56
Investment A/c Dr. 16
NCI Dr. 6
To Net Assets 60
To Cons. P&L 18
(Being disposal of subsidiary.)

12. Illustration

Statement of Profit and Loss For the year ended on 31st March, 20X2			
	Notes	P Ltd.	Q Ltd.
i. Statement of Profit and Loss for the year ended on 31st March 20X2			
Sales	1	2,00,000	80,000
Other Income	2	3,000	
Total Revenue		2,03,000	80,000
Expenses			
Raw Material Consumed	3	1,10,000	48,000
Change in inventories finished stock	4	(5,000)	(3,000)
Employee benefit expenses		30,000	10,000
Finance Costs	5	2,700	1,000
Depreciation		7,000	4,000
Other Expenses	6	10,350	6,040
Total Expenses		1,55,050	66,040
Profit Before Tax		47,950	13,960
Tax Expense:			
Current Tax	11	15,000	4,000
Deferred Tax		2,000	1,000
		17,000	5,000
Profit after Tax		30,950	8,960
ii. Statement of Other Comprehensive Income			



Fair Value gain on investment in subsidiary	8	1,000	0
Fair Value gain on other non-current investments*	8	500	250
		1,500	250

Notes	P Ltd.	Q Ltd.
Note 1 – Sales		
Sales to Q Ltd.	20,000	
Other Sales	1,80,000	80,000
	2,00,000	80,000
Note 2 – Other Income		
Interest from Q Ltd.	1,000	
Royalty from Q Ltd.	2,000	
	3,000	
Note 3 – Raw Material Consumed		
Opening Stock	10,000	5,000
Purchases from P Ltd.		20,000
Other Purchases	1,20,000	30,000
Closing Stock	20,000	7,000
	1,10,000	48,000
Note 4 – Change in inventories of finished stock		
Opening Stock	10,000	5,000
Closing Stock	15,000	8,000
	(5,000)	(3,000)
Note 5 – Finance Costs		
Interest	2,700	
Interest to P Ltd.		1,000
	2,700	1,000
Note 6 – Other Expenses		
Long term provisions	100	30
Short Term provisions	50	10
Royalty to P Ltd.		2,000
Others	10,000	4,000
Acquisition Expenses	200	
	10,350	6,040



You are required to prepare consolidated profit and loss statement.

Solution

Consolidated Profit and Loss

Particulars	P (₹)	Q (₹)	Adjustments (₹)	Total (₹)
Revenue				
Sales	2,00,000	80,000	(20,000)	2,60,000
Other Income	3,000	–	(3,000)	–
Total Revenue	2,03,000	80,000	(23,000)	2,60,000
Expenses				
Raw Material Consumed	1,10,000	48,000	(20,000)	1,38,000
Changes in Inventory of FG	(5,000)	(3,000)	–	(8,000)
Employee Benefit Expenses	30,000	10,000	–	40,000
Finance Cost	2,700	1,000	(1,000)	2,700
Depreciation	7,000	4,000	–	11,000
Other Expenses	10,350	6,040	(2,000)	14,390
Total Expenses	1,55,050	66,040	(23,000)	1,98,090
Profit Before Tax	47,950	13,960	–	61,910
Tax Expense				
– Current Tax	15,000	4,000	–	19,000
– Deferred Tax	2,000	1,000	–	3,000
Total Tax	17,000	5,000	–	22,000
Profit After Tax	30,950	8,960	–	39,910
Attributable to Parent (70%)				37,222
Attributable to NCI (30%)				2,688

Consolidated statement of OCI

Particulars	P (₹)	Q (₹)	Adjustments (₹)	Total (₹)
FV Gain on Investment in Subsidiary	1,000	–	(1,000)	–
FV Gain on Other Investments	500	250	–	750
Attributable to Parent				675
Attributable to NCI				75

13. Illustration

P and Q form a joint arrangement PQ using a separate vehicle. P and Q each own 50% of the capital of PQ. However, the contractual terms of the joint arrangement states that P has the rights to all of Machinery and the obligation to pay Bank Loan in PQ. P and Q have rights to all other assets in PQ and obligations for all other liabilities in PQ in proportion to their share of capital (i.e. 50% each).

PQ's balance sheet is as follows:

Liabilities	Rs.	Assets	Rs.
Capital	1,50,000	Machinery	2,50,000
Bank Loan	75,000	Cash	50,000
Other Loan	75,000		
	3,00,000		3,00,000

How should P record in its financial statements its rights and obligations in PQ?

Solution

Under Ind AS 111, P should record the following in its financial statements, to account for its rights in the assets of PQ and its obligations for the liabilities of PQ.

Machinery 2,50,000
 Cash 25,000
 Capital 75,000
 Bank Loan 75,000



Other Loan 37,500

14. Illustration

AB Ltd. and BC Ltd. have established a joint arrangement through a separate vehicle PQR. The legal form of the separate vehicle does not confer separation between the parties and the separate vehicle itself. Thus, both the parties have rights to the assets and obligations for the liabilities of PQR. As neither the contractual terms nor the other facts and circumstances indicate otherwise, it is concluded that the arrangement is a joint operation and not a joint venture.

Both the parties own 50% each of the equity interest in PQR. However, the contractual terms of the joint arrangement state that AB Ltd. has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owed by PQR to a lender XYZ. AB Ltd. and BC Ltd. have rights to all other assets of PQR and obligations for all other liabilities of PQR in proportion of their equity interests (i.e. 50% each)

PQR's balance sheet is as follows:

Liabilities	Rs.	Assets	Rs.
Debt owed to XYZ	240	Cash	40
Employee benefit plan obligation	100	Building 1	240
Equity	140	Building 2	200
	480		480
How should AB Ltd. record in its financial statements its rights and obligations in PQR?			

Solution

AB Ltd. should record the following in its financial statements, to account for its rights in the assets of PQR and its obligations for the liabilities of PQR.

Rs.	
Assets	
Cash	20
Building 1	240
Building 2	100
Liabilities	
Debt (third party)	240
Employee benefit plan obligation	50

Since AB Ltd. has the rights to all of Building No. 1, it records the amount in its entirety. AB Ltd. has obligation for the debt owed by PQR to XYZ in its entirety

15. Illustration

X Ltd. has invested in a joint venture Y Ltd. by holding 50% of its equity share capital. During the year, X Ltd. sold an asset to Y Ltd. at its market value of Rs 8,00,000. The asset's carrying value in X Ltd.'s books was Rs. 10,00,000. Determine how should X Ltd. account for the sale transaction in its books.

Assume the same facts as above scenario except that the asset is sold by Y Ltd. to X Ltd. instead of X Ltd. selling to Y Ltd. Determine how should X Ltd. account for the above transaction in its books.

Solution**Scenario A**

X Ltd. should record full loss of Rs. 2,00,000 (10,00,000 – 8,00,000) in its books as that would represent the impairment loss because the market value has actually declined. This loss



would have been recorded even if X Ltd. would have first impaired the asset and then sold to Y Ltd. at zero profit / loss. Following entry should be passed in the books of X Ltd.

Bank A/c	Dr.	8,00,000
Loss on sale of asset	Dr.	2,00,000
To Asset		10,00,000

Scenario B

X Ltd. should record loss to the extent of its share in Y Ltd. Hence, X Ltd.'s share in loss i.e. Rs. 1,00,000 $[(10,00,000 - 8,00,000) \times 50\%]$ should be recorded by X Ltd. in its books. The loss should be recorded since the market value of the asset has actually declined and this would represent impairment. This loss would have been recorded even if Y Ltd. would have first recorded an impairment loss of Rs. 2,00,000 and then sold to X Ltd. at zero profit / loss. Following entry should be passed in the books of X Ltd.

Asset	Dr.	8,00,000
Share in loss of Y Ltd.	Dr.	1,00,000
To Bank		8,00,000
To Investment in Y Ltd.		1,00,000

16. Illustration

An entity has following three type interests in an associate:

- Equity shares: 25% of the equity shares to which equity method of accounting is applied
- Preference shares: Non-cumulative preference shares that form part of net investment in the associate. Such preference shares are measured at fair value as per Ind AS 109.
- Long-term loan: The loan carrying interest of 10% p.a. The interest income is received at the end of each year. The long-term loan is accounted as per amortised cost as per Ind AS 109. This loan also forms part of net investment in the associate.

At the start of year 1, the carrying value of each of the above interests is as follows:

- Equity shares – Rs. 10,00,000
- Preference shares – Rs. 5,00,000
- Long-term loan – Rs. 3,00,000

Following table summarises the changes in the fair value of preference shares as per Ind AS 109, impairment loss on long-term loan as per Ind AS 109 and entity's share in profit / loss of associate for year 1-5

End of Year	Increase / (Decrease) in fair value of preference shares as per Ind AS 109	Impairment loss / (reversal) on long-term loan as per Ind AS 109	Entity's share in profit / (loss) of associate
1	(50,000)	(50,000)	(16,00,000)
2	(50,000)	-	(2,00,000)
3	1,00,000	50,000	-
4	50,000	-	10,00,000
5	30,000	-	10,00,000

Throughout year 1 to 5, there has been no objective evidence of impairment in the net investment in the associate. The entity does not have any legal or constructive obligation to share the losses of the associate beyond its interest in the associate.

Based on above, determine the closing balance of each of the above interests at the end of each year.

Solution



	Investment in shares	Preference Sh	Loan	
	Equity Method	FV IndAS 109	ACM Ind AS 109	Total
Year 1				
Opening Balance	10,00,000	5,00,000	3,00,000	18,00,000
Adjustments as per Ind AS 109	0	-50,000	-50,000	-1,00,000
Carrying Amount post 109	10,00,000	4,50,000	2,50,000	
Share of Losses allocated	-10,00,000	-4,50,000	-1,50,000	-16,00,000
Entity's share of losses				-16,00,000
Closing Balance	0	0	1,00,000	0
Year 2				
Opening Balance	0	0	1,00,000	
Adjustment for Ind AS 109	NA	-50000	0	-50,000
Carrying Amount post 109	0	-50,000	1,00,000	
Share of Profit/(Losses)		50000	-100000	-50000
		0	0	
Entity's share of loss				-200000
Closing Balance	0	0	0	-1,50,000
Year 3				
Opening Balance	0	0	0	-1,50,000
Adjustments for Ind AS 109	0	100000	50000	1,50,000
Carrying Amount	0	1,00,000	50,000	
Less: Share of Loss (Unabsorbed)	0	-100000	-50000	-150000
Closing Balance	0	0	0	0
Year 4				
Opening Balance	0	0	0	0
Adjustment Ind AS 109		50,000.00	0	
Carrying Amount post 109	0.00	50,000.00	0.00	
Share of Profit	200000	500000	300000	1000000
Closing Balance	2,00,000	5,50,000	3,00,000	1050000
Year 5				
Opening Balance	2,00,000	5,50,000	3,00,000	
Adjustment Ind AS 109		30000	0	
Carrying Amount post 109	2,00,000	5,80,000	3,00,000	
Share of Profit	10,00,000			
Closing Balance	12,00,000	5,80,000	3,00,000	20,80,000



17. Illustration

AB Limited holds 30% interest in an associate which it has acquired for a cost of Rs. 300 lakhs. On the date of acquisition of that stake, the fair value of net assets of the associate was Rs. 900 lakh. The value of goodwill on acquisition was Rs. 30 lakhs.

After the acquisition, AB Limited accounted for the investment in the associate as per equity method of accounting and now the carrying value of such investment in the consolidated financial statements of AB Limited is Rs. 360 lakhs. The associate has now issued equity shares to some investors other than AB Limited for a consideration of Rs. 800 lakhs. This has effectively reduced the holding of AB Limited to 20%. Determine how AB Limited should account for such reduction in interest in the associate?

Solution

Because of the issue of shares by associate to other investors, AB Limited has effectively sold 10% ($30 - 20$) of its interest in the associate. The gain / loss on reduction in interest in associate is calculated as follows:

	Rs.lakhs
AB Limited's share in the consideration received by the associate for issue of shares ($800 \times 20\%$) (1)	160
Less: Carrying value of interest sold ($360 \times 1/3$)(2)	(120)
Gain on reduction in interest in associate(3)	40

Notes:

- (1) The share in the consideration received by associate on issue of shares (i.e. Rs. 160 lakhs) would be recorded as part of investment in associate.
- (2) The carrying amount of interest sold (i.e. Rs. 120 lakhs) will be derecognised, including proportionate goodwill of Rs. 10 lakhs ($30 \times 1/3$).
- (3) Gain of Rs. 40 lakhs will be recorded in the profit or loss.

