

Consolidated Financial Statements of Group Companies

BASIC CONCEPTS

Meaning of subsidiary: According to Section 4(1) of the Companies Act, 1956, a company shall be deemed to be a subsidiary of another if and only if, –

- (a) that other controls the composition of its Board of directors; or
- (b) that other :
 - (i) where the first-mentioned company is an existing company in respect of which the holders of preference shares issued before the commencement of this Act have the same voting rights in all respects as the holders of equity shares, exercises or controls more than half of the total voting power of such company;
 - (ii) where the first-mentioned company is any other company, holds more than half in nominal value of its equity share capital; or
- (c) the first-mentioned company is a subsidiary of any company which is that other's subsidiary.
 - **In a wholly owned subsidiary**, there is no minority interest because all the shares with voting rights are held by the holding company.
 - Consolidated financial statements are prepared and presented by a parent/holding enterprise to provide financial information about a parent and its subsidiary(ies) as a single economic entity.
 - **Distinction** must be made from the point of view of the holding company, **between revenue and capital profit of the subsidiary**. In the absence of information, profits of a year may be treated as accruing from day to day

Consolidation procedures

In preparing the consolidated financial statements, the following steps are taken:

- the **carrying amount of the parent's investment** in each subsidiary and the parent's portion of equity of each subsidiary **are eliminated**.
- In case cost of acquisition exceeds or is less than the acquirer's interest, **goodwill or capital reserve** is calculated retrospectively.
- **intragroup transactions**, including sales, expenses and dividends, are **eliminated, in full**;

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- **unrealised profits resulting from intragroup transactions** that are included in the carrying amount of assets, such as inventory and fixed assets, **are eliminated in full**;
- **unrealised losses resulting from intragroup transactions** that are deducted in arriving at the carrying amount of assets **are also eliminated unless cost cannot be recovered**;
- **minority interest** in the **net income of consolidated subsidiaries** for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
- **minority interests in the net assets of consolidated subsidiaries** are identified and presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.
- If the controlling interest was acquired during the course of a year, **profit for that year must be apportioned** into the pre-acquisition and post-acquisition portions, **on the basis of time** in the absence of information on the point.
- the financial statements of the parent and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses.
- **Dividend received from a subsidiary company**, must be **distinguished** between the part **received out of capital profits and that out of revenue profits** - the former is credited to Investment Account, it being a capital receipt, and the latter is adjusted as revenue income for being credited to the Profit & Loss Account.
- In respect of such goods not yet sold, the unrealised profits are to be eliminated in full. This may be done by creating a reserve in respect of total unrealised profit which has not yet been realised.
- Also, unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Preparation of Consolidated Profit and Loss Account

- **All the revenue items** are to be added **on line by line** basis and from the consolidated revenue items inter-company transactions should be eliminated.
- If there **remains any unrealised profit in the stock of good**, of any of the Group Company, **such unrealised profit is to be eliminated** from the value of stock to arrive at the consolidated profit.
- Also it is necessary to eliminate the share of holding company in the proposed dividend of the subsidiary.

Preparation of Consolidated Cash Flow Statement

All the items of Cash flow from **operating activities, investing activities and financing activities** are to be added **on line by line basis** and from the consolidated items, inter-company transactions should be eliminated.

Treatment of Investment in Associates in Consolidated Financial Statements

An enterprise that presents consolidated financial statements should account for investments in associates in the consolidated financial statements in accordance with the **Accounting Standard (AS) 23**.

Accounting for Associates (AS 23)

AS 23 suggests equity method of accounting for investments in associates.

Under equity method The following procedure should be followed:

- **Investment is initially recorded at cost.** Subsequently, the carrying amount is increased on the basis of share of profit or decreased on the basis of share of loss in the associate.
- Step (1): Find out value of investments on the basis of proportionate value of net assets of the investee;
- Step (2): Find out goodwill or capital reserve arising out of the purchase consideration.
 - If the purchase price is above the value of investments determined in step (1) then there is goodwill and
 - if the purchase price is less than the value of the investments determined in step (1) then there is capital reserve.
- Step (3): Goodwill or capital reserve as determined in step (2) should be included in the carrying amount of the investments with a separate disclosure. On the contrary, investments are recognised at purchase price as per AS 13 without disclosing goodwill/capital reserve.

DISCLOSURE-Goodwill/capital reserve can be disclosed within bracket below the "Investments in Associates" in the following style and accumulated income which was not earlier recognized should be added to value of investments for first time consolidation with corresponding credit to consolidated reserve.

Equity method is not applicable

- (1) when an investment is acquired for the purpose of disposal in the near future, i.e., as short term investments; and
- (2) there is severe long term restriction on fund transfer by the associate to the investor. In these two cases AS 13 should be applied.

Treatment of Investment in Joint Ventures in Consolidated Financial Statements (AS 27)

AS 27 identifies three broad types of Joint Ventures- jointly controlled operations, jointly controlled assets and jointly controlled entities.

Jointly Controlled Operations

In respect of its interests in jointly controlled operations, a venturer should recognise in its separate financial statements and consequently in its consolidated financial statements:

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- (a) the assets that it controls and the liabilities that it incurs; and
- (b) the expenses that it incurs and its share of the income that it earns from the joint venture.

Jointly Controlled Assets

In respect of its interest in jointly controlled assets, a venturer should recognise, in its separate financial statements, and consequently in its consolidated financial statements:

- (a) its share of the jointly controlled assets, classified according to the nature of the assets;
- (b) any liabilities which it has incurred;
- (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- (e) any expenses which it has incurred in respect of its interest in the joint venture.

Jointly Controlled Entities: A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other enterprises in conformity with the requirements of AS 27 applicable to that jointly controlled entity.

Separate Financial Statements of a Venturer

In a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment in accordance with Accounting Standard (AS) 13.

Consolidated Financial Statements of a Venturer

In its consolidated financial statements, a venturer should report its interest in a jointly controlled entity using proportionate consolidation except

- (a) an interest in a jointly controlled entity which is acquired and held exclusively with a view to its subsequent disposal in the near future; and
- (b) an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.

Problems involving one Subsidiary

Question 1

On 31st March, 2012, the abridged Balance Sheets of H Ltd. and S Ltd. stood as follows:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Liabilities		
Equity Share (Capital – Authorised)	5,000	3,000
Issued and subscribed in Equity Shares of ₹10 each full paid	4,000	2,400

General Reserve	928	690
Profit and Loss Account	1,305	810
Bills Payable	124	80
Sundry Creditors	487	427
Provision for Taxation	220	180
Other Provisions	<u>65</u>	<u>17</u>
	<u>7,129</u>	<u>4,604</u>
Assets:		
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Stock	983	786
Debtors	700	683
Bills Receivables	120	95
Cash and Bank Balances	410	102
Sundry Advances	<u>260</u>	<u>190</u>
	<u>7,129</u>	<u>4,604</u>

Following Additional Information is available:

- (a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2011 at which date the following balances stood in the books of S Ltd.

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

- (b) On 14th July, 2011 S Ltd. declared a dividend of 20% out of pre-acquisition profits and paid corporate dividend tax (including surcharge) at 11%. H Ltd. credited the dividend received to its Profit and Loss Account.
- (c) On 1st November, 2011 S Ltd. issued a 3 fully paid Equity Shares of ₹ 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.
- (d) On 31st March, 2012, the Stock of S Ltd. included goods purchased for ₹ 50 thousand from H Ltd., which had made a profit of 25% on Cost.

Prepare a consolidated Balance Sheet as on 31st March, 2012.

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Answer

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as on 31st March, 2012

Particulars	Note No.	(₹ in 000's)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,000
(b) Reserves and Surplus	2	3,063
(2) Minority Interest (W.N.6)		1,560
(3) Current Liabilities		
Trade payables	3	1,118
Short term provisions	4	482
Total		10,223
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	5	5,904
(2) Current assets		
(a) Inventories	6	1,759
(b) Trade receivables	7	1,598
(c) Cash and cash equivalents	8	512
(d) Short term loans and advances	9	450
Total		10,223

Notes to Accounts

		(₹ in 000's)	(₹ in 000's)
1.	Share Capital		
	Authorised share capital		
	5 lakhs equity shares of ₹ 10 each		<u>5,000</u>
	Issued, Subscribed and Paid up		
	4 lakhs equity shares of ₹ 10 each fully paid		4,000

2.	Reserves and surplus					
	Capital Reserve (Note 5)			660		
	General Reserve (₹928+ ₹54)			982		
	Profit and Loss Account:					
		H Ltd.	₹ 1,305			
	Add: Share in	S Ltd	₹ <u>306</u>			
			₹ 1,611			
	Less: Dividend wrongly credited		₹ <u>(180)</u>			
			₹ 1,431			
	Less: Unrealised profit		₹ <u>(10)</u>	<u>1,421</u>	3,063	
3.	Trade payables					
	Sundry Creditors	H Ltd.	₹ 487			
		S Ltd.	₹ <u>427</u>	914		
	Bills payable	H Ltd.	₹ 124			
		S Ltd.	₹ <u>80</u>	<u>204</u>	1,118	
4.	Short –term provisions					
	Provision for Taxation	H Ltd.	₹ 220			
		S Ltd.	₹ <u>180</u>	400		
	Other Provisions	H Ltd.	₹ 65			
		S Ltd.	₹ <u>17</u>	<u>82</u>	482	
5.	Tangible Assets					
	Plant and Machinery					
		H Ltd.	₹ 2,541			
		S Ltd.	₹ <u>2,450</u>	4,991		
	Furniture and fittings					
		H Ltd.	₹ 615			
		S Ltd.	₹ <u>298</u>	<u>913</u>	5,904	
6.	Inventories					
	Stock	H Ltd.	₹ 983			
		S Ltd.	₹ <u>786</u>	1,769		
	Less: Unrealised profit (₹ 50 x 1/5)			<u>(10)</u>	1,759	

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7.	Trade receivables				
	Debtors	H Ltd.	₹ 700		
		S Ltd.	₹ <u>683</u>	1,383	
	Bills Receivables	H Ltd.	₹120		
		S Ltd.	₹ <u>95</u>	<u>215</u>	1,598
8.	Cash and cash equivalents				
	Cash and Bank Balances	H Ltd.		410	
		S Ltd.		<u>102</u>	512
9.	Short term loans and advances				
	Sundry Advances	H Ltd.		260	
		S Ltd.		<u>190</u>	450

Working Notes:

1. S Ltd. General Reserve

(₹ in 000)		(₹ in 000)	
To Bonus to equity shareholders	900	By Balance b/d	1,500
By Profit and Loss A/c			
To Balance c/d	<u>690</u>	(Balancing figure)	<u>90</u>
	<u>1,590</u>		<u>1,590</u>

2. S Ltd. Profit and Loss Account

(₹ in 000)		(₹ in 000)	
To General Reserve	90	By Balance b/d	633
To Dividend paid on 14.7.2009	300	By Net Profit for the year (Balancing figure)	600*
₹ <u>1,500</u> - 20			
100			
To Corporate Dividend Tax (11% of ₹ 300)	<u>33</u>		
To Balance c/d	<u>810</u>		
	<u>1,233</u>		<u>1,233</u>

* Out of ₹ 6,00,000 profit for the year, ₹ 90,000 has been transferred to reserves by S Ltd.

3. Distribution of Revenue Profits

	₹ in '000
Revenue Profit as above	<u>600</u>
Share of H Ltd. (60%)	360
Share of Minority shareholders (₹ 600 – ₹ 360)	<u>240</u>

4. Computation of Capital Profits

	₹ in 000	₹ in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		<u>900</u>
		600
Profit and Loss Account balance on the date of acquisition	633	
Less: Dividends paid ₹ 300		
Corporate tax paid ₹ 33	(333)	<u>300</u>
		<u>900</u>
Share of H Ltd. (60%)		540
Share of Minority shareholders		<u>360</u>

5. Computation of Capital Reserve

	₹ in '000
60% of share capital of S Ltd.	1,440
Add: Share of H Ltd. in the capital profits as in working note (4)	<u>540</u>
	1,980
Less: Investments in S Ltd.	1,500
Less: Dividends received out of pre- acquisition profits $\frac{₹ 300 \times 60}{100}$	<u>(180)</u>
	<u>660</u>

6. Calculation of Minority Interest

	₹ in '000
40% of share capital of S Ltd.	960
Add: Share of Revenue Profits (Note 3)	240
Share of Capital Profits (Note 4)	<u>360</u>
	<u>1,560</u>

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Question 2

On 31st March, 2006, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The Balance Sheet of Q Ltd. on that date was as under:

Liabilities	₹	Assets	₹
1,50,000 equity shares of ₹ 10 each fully paid	15,00,000	Fixed Assets	10,50,000
Pre-incorporation profits	30,000	Current Assets	6,45,000
Profit and Loss Account	60,000		
Creditors	<u>1,05,000</u>		
	<u>16,95,000</u>		<u>16,95,000</u>

On 31st March, 2012 the summarized Balance Sheets of two companies were as follows:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 10 each fully paid (before bonus issue)	45,00,000	15,00,000	Fixed Assets	79,20,000	23,10,000
Securities Premium	9,00,000	–	1,05,000 equity shares in		
Pre-incorporation profits	–	30,000	Q Ltd. at cost	12,00,000	–
General Reserve	60,00,000	19,05,000	Current Assets	44,10,000	17,55,000
Profit and Loss Account	15,75,000	4,20,000			
Creditors	<u>5,55,000</u>	<u>2,10,000</u>			
	<u>1,35,30,000</u>	<u>40,65,000</u>		<u>1,35,30,000</u>	<u>40,65,000</u>

Directors of Q Ltd. made bonus issue on 31.3.2012 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date.

Calculate as on 31st March, 2012 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

- Before issue of bonus shares.
- Immediately after issue of bonus shares.

It may be assumed that bonus shares were issued out of post-acquisition profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the bonus issue.

Answer

(i) Before issue of bonus shares

(i)	Cost of control/capital reserve	₹	₹
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	<u>63,000</u>	<u>(11,13,000)</u>
	Cost of control		<u>87,000</u>
(ii)	Minority Interest		₹
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		<u>6,79,500</u>
			<u>11,56,500</u>
(iii)	Consolidated profit and loss account – P Ltd.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		<u>15,85,500</u>
			<u>31,60,500</u>

(ii) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	₹	₹
	Face value of investments (₹ 10,50,000 + ₹ 5,25,000)	15,75,000	
	Capital Profits (W.N.)	<u>63,000</u>	16,38,000
	Less: Investment in Q Ltd.		<u>(12,00,000)</u>
	Capital reserve		<u>4,38,000</u>
(ii)	Minority Interest		₹
	Share Capital (₹ 4,50,000 + ₹ 2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		<u>4,54,500</u>
			<u>11,56,500</u>
(iii)	Consolidated Profit and Loss Account – P td.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		<u>10,60,500</u>
			<u>26,35,500</u>

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Consolidated Balance Sheet of P Ltd. and its subsidiary Q Ltd. as on 31st March, 2012

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	45,00,000
(b) Reserves and Surplus	2	99,73,500
(2) Minority Interest(W.N)		11,56,500
(3) Current Liabilities		
Trade payables		7,65,000
Total		1,63,95,000
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangibles assets		1,02,30,000
(2) Current assets		61,65,000
Total		1,63,95,000

Notes to Accounts

		(₹ in 000's)	(₹ in 000's)
1.	Share Capital		
	Shares of ₹ 10 each		45,00,000
2.	Reserves and surplus		
	Securities Premium	9,00,000	
	Capital Reserve	4,38,000	
	General Reserve	60,00,000	
	Profit and Loss Account	<u>26,35,500</u>	99,73,500

Working Note:**Analysis of Profits of Q Ltd.**

	<i>Capital Profits (Before and after issue of bonus shares) ₹</i>	<i>Revenue Profits</i>	
		<i>Before Bonus Issue ₹</i>	<i>After Bonus Issue ₹</i>
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2006	<u>60,000</u>		
	<u>90,000</u>		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			<u>(7,50,000)</u>
			11,55,000
Profit for period of 1st April, 2007 to 31st March, 2012 (₹ 4,20,000 – ₹ 60,000)		<u>3,60,000</u>	<u>3,60,000</u>
		<u>22,65,000</u>	<u>15,15,000</u>
P Ltd.'s share (70%)	63,000	15,85,500	10,60,500
Minority's share (30%)	27,000	6,79,500	4,54,500

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

Question 3

On 31st March, 2012 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

<i>Liabilities</i>	<i>H Ltd. (₹ in lakhs)</i>	<i>S Ltd. (₹ in lakhs)</i>
<i>Share Capital:</i>		
<i>Authorised</i>	<u>15,000</u>	<u>6,000</u>
<i>Issued and Subscribed:</i>		
<i>Equity Shares of ₹ 10 each, fully paid up</i>	12,000	4,800
<i>General Reserve</i>	2,784	1,380
<i>Profit and Loss Account</i>	2,715	1,620
<i>Bills Payable</i>	372	160
<i>Sundry Creditors</i>	1,461	854
<i>Provision for Taxation</i>	855	394
<i>Proposed Dividend</i>	<u>1,200</u>	<u>-</u>
	<u>21,387</u>	<u>9,208</u>

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Assets	H Ltd. (₹ in lakhs)	S Ltd. (₹ in lakhs)
Land and Buildings	2,718	-
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	-
Stock	3,949	1,956
Debtors	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	-
	<u>21,387</u>	<u>9,208</u>

The following information is also provided to you:

- H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2011 when the balances to General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
- On 4th July, 2011 S Ltd. declared a dividend @ 20% for the year ended 31st March, 2011. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 2012 S Ltd. issued 3 fully paid-up shares for every 5 shares held as bonus shares out of balances to its general reserve as on 31st March, 2011.
- On 31st March, 2012 all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its creditors.
- On 31st March, 2012, S Ltd.'s stock included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012 bearing in mind the requirements of AS 21.

Answer

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2012

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,000
(b) Reserves and Surplus	2	7,159

(2) Minority Interest [W. No. 6]		3,120
(3) Current Liabilities		
(a) Trade payables	3	2,802
(b) Short term provisions	4	1,249
(c) Other current liabilities	5	1,200
Total		27,530
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	6	14,954
(2) Current assets		
(a) Inventories	7	5,885
(b) Trade receivables	8	4,477
(c) Cash and cash equivalents	9	1,694
(d) Short term loans and advances	10	520
Total		27,530

Notes to Accounts

		(₹ in lacs)	(₹ in lacs)
1.	Share Capital		
	Authorised		<u>15,000</u>
	Issued and Subscribed:		
	Equity shares of ₹ 10 each, fully paid up		12,000
2.	Reserves and surplus		
	Capital Reserve (Note 5)	1,320	
	General Reserve (₹ 2,784 + 108)	2,892	
	Profit and Loss Account:		
	H Ltd.	₹ 2,715	
	Less: Dividend wrongly credited	₹ 360	
	Unrealised Profit	₹ 20 (₹ 380)	
		₹ 2,335	
	Add: Share in S Ltd.'s		
	Revenue profits	₹ 612	2,947
			7,159

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3.	Trade payables			
	Bills Payable			
	H Ltd.	₹ 372		
	S Ltd.	₹ <u>160</u>		
		₹ 532		
	Less: Mutual owing	₹ <u>(45)</u>	487	
	Sundry Creditors			
	H Ltd.	1,461		
	S Ltd.	<u>854</u>	<u>2,315</u>	2,802
4.	Short term provisions			
	Provision for Taxation			
	H Ltd.		855	
	S Ltd.		<u>394</u>	1,249
5.	Other current liabilities			
	Proposed Dividend			
	H Ltd.			1,200
6.	Tangible assets			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	₹ 4,905		
	S Ltd.	₹ <u>4,900</u>	9,805	
	Furniture and Fittings			
	H Ltd.	₹ 1,845		
	S Ltd.	₹ <u>586</u>	2,431	14,954
7.	Inventories			
	Stock			
	H Ltd.		3,949	
	S Ltd.		<u>1,956</u>	
			5,905	
	Less: Unrealised profit		<u>(20)</u>	5,885

8.	Trade receivables			
	Debtors			
	H Ltd.	₹ 2,600		
	S Ltd.	₹ <u>1,363</u>	3,963	
	Bills Receivable			
	H Ltd.	₹ 360		
	S Ltd.	₹ <u>199</u>		
		₹ 559		
	Less: Mutual Owing	₹ <u>(45)</u>	<u>514</u>	4,477
9.	Cash and cash equivalents			
	Cash and Bank Balances			
	H Ltd.		1,490	
	S Ltd.		<u>204</u>	1,694
10.	Short term loans and advances			
	Sundry Advances			
	H Ltd.			520

Working Notes:

1. S Ltd.'s General Reserve Account

	₹ in lakhs			₹ in lakhs	
To	Bonus to Equity Shareholders	1,800	By	Balance b/d	3,000
To	Balance c/d	1,380	By	Profit and Loss A/c	180
		_____		(Balancing figure)	_____
		<u>3,180</u>			<u>3,180</u>

2. S Ltd.'s Profit and Loss Account

	₹ in lakhs			₹ in lakhs	
To	General Reserve	180	By	Balance b/d	1,200
To	Dividend paid		By	Net Profit for the	
	(20% on ₹3,000 lakhs)	600		year*	1,200
To	Balance c/d	<u>1,620</u>		(Balancing figure)	_____
		<u>2,400</u>			<u>2,400</u>

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

5.18 Financial Reporting

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	<u> </u>
Share of Minority Shareholders (40%)	<u>480</u>

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares (₹ 3,000 – ₹ 1,800)	1,200
Profit and loss account on the date of acquisition less dividend paid (₹ 1,200 – ₹ 600)	600
	<u>1,800</u>

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs

Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹4,800)	2,880
Add: Share in capital profits	<u>1,080</u>
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	<u>(2,640)</u>
Capital reserve	<u>1,320</u>

6. Calculation of Minority Interest

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits	480
Share in capital profits	<u>720</u>
	<u>3,120</u>

7. Unrealised profit in respect of stock

$$₹ 100 \text{ lakhs} \times \frac{25}{125} = ₹ 20 \text{ lakhs}$$

Question 4

The following are the summarised Balance Sheets of PD Co. Ltd. and SD Co. Ltd. as on 31.3.2012:

Liabilities	PD Co. Ltd. ₹	SD Co. Ltd. ₹
Share Capital:		
Authorised	<u>70,00,000</u>	<u>30,00,000</u>
Issued and Subscribed Capital		
Equity shares of ₹10 each fully paid	50,00,000	20,00,000
Capital Reserve	5,00,000	3,10,000
Revenue Reserve	8,50,000	75,000
Profit and Loss Account	4,00,000	2,80,000
Sundry Creditors	2,50,000	2,25,000
Bills Payable	<u>1,00,000</u>	<u>10,000</u>
	<u>71,00,000</u>	<u>29,00,000</u>

Assets	PD Co. Ltd. ₹	SD Co. Ltd. ₹
Land and Buildings	20,00,000	15,20,000
Plant and Machinery	20,00,000	8,00,000
Furniture	5,00,000	1,60,000
Investments	16,10,000	-
Stock	3,40,000	1,00,000
Sundry Debtors	3,60,000	2,00,000
Bills Receivable	50,000	40,000
Bank	<u>2,40,000</u>	<u>80,000</u>
	<u>71,00,000</u>	<u>29,00,000</u>

PD Ltd. acquired 80% shares of SD Ltd. on 30.09.2009 at a cost of ₹18,10,000. On 1.10.2011 SD Ltd. declared and paid dividend on Equity Shares. PD Ltd. appropriately adjusted its share of dividend in Investment Account.

On 1.4.2011, the Capital Reserve and Profit and Loss Account stood in the books of SD Ltd. at ₹50,000 and ₹2,75,000 respectively.

Land and Buildings standing in the books of SD Ltd. at ₹16,00,000 on 1.4.2011, revalued at ₹20,00,000 on 1.10.2011. Furniture, which stood in the books at ₹2,00,000 on 1.4.2011 revalued at ₹1,50,000 on 1.10.2011. In both the cases the effects have not yet been given in the books.

5.20 Financial Reporting

SD Ltd. bought an item of machinery from PD Ltd. on hire-purchase basis. The following are the balances in respect of this machinery in the books on 31.03.2012:

	₹
Instalment due	20,000
Instalment not due	8,000
Hire-purchase stock reserve	1,600

The above items stood included under appropriate heads in Balance Sheet.

Prepare a Consolidated Balance Sheet of PD Ltd. and its subsidiary SD Ltd. as at 31.03.2012, complying with the requirements of AS 21.

Answer

Consolidated Balance Sheet of PD Co. Ltd. with its subsidiary SD Co. Ltd. as on 31st March, 2012

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	50,00,000
(b) Reserves and Surplus	2	25,90,400
(2) Minority interest (W.N. 5)		6,14,000
(3) Current Liabilities		
Trade payables	3	5,57,000
Total		87,61,400
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	73,79,400
(2) Current assets		
(a) Inventories	5	4,32,000
(b) Trade receivables	6	6,30,000
(c) Cash and cash equivalents	7	3,20,000
Total		87,61,400

Notes to Accounts

		₹	₹
1.	Share Capital		
	Authorised		<u>70,00,000</u>
	Issued and subscribed		
	Equity shares of ₹10 each, fully paid up		50,00,000
2.	Reserves and surplus		
	Capital reserve (W.N.8)	12,18,000	
	Revenue reserve (W.N. 9)	8,80,000	
	Profit and loss account (W.N. 10)	4,92,400	25,90,400
3.	Trade Payables		
	Sundry creditors		
	PD Ltd.	2,50,000	
	SD Ltd.	<u>2,25,000</u>	
		4,75,000	
	Less: Mutual hire purchase indebtedness <u>(28,000)</u>	4,47,000	
	Bills payable		
	PD Ltd.	1,00,000	
	SD Ltd.	<u>10,000</u>	
		<u>1,10,000</u>	5,57,000
4.	Tangible Assets		
	Land and buildings		
	PD Ltd.	20,00,000	
	SD Ltd. (W.N. 2)	<u>19,50,000</u>	39,50,000
	Plant and machinery		
	PD Ltd.	20,00,000	
	SD Ltd.	<u>8,00,000</u>	
		28,00,000	
	Less: Unrealised profit on hire purchase transaction <u>(5,600)</u>	27,94,400	
	Furniture		
	PD Ltd.	5,00,000	
	SD Ltd. (W.N. 2)	<u>1,35,000</u>	
		<u>6,35,000</u>	73,79,400

5.22 Financial Reporting

5.	Inventories				
	PD Ltd.		3,40,000		
	SD Ltd.		<u>1,00,000</u>		
			4,40,000		
	Less: Hire purchase installment not due		<u>8,000</u>		4,32,000
6.	Trade receivables				
	Sundry debtors				
	PD Ltd.	3,60,000			
	SD Ltd.	<u>2,00,000</u>			
		5,60,000			
	Less: Hire purchase Instalment due	<u>(20,000)</u>	5,40,000		
	Bills receivable				
	PD Ltd.	50,000			
	SD Ltd.	<u>40,000</u>	<u>90,000</u>		6,30,000
7.	Cash and cash equivalents				
	Bank Balances:				
	PD Ltd.		2,40,000		
	SD Ltd.		<u>80,000</u>		3,20,000

Working Notes:

1. Analysis of reserves and profits of SD Co. Ltd. as on 31.03.2012

		Pre-acquisition profit upto 30.09.2011		Post-acquisition profits (1.10.2011 – 31.3.2012)	
		(Capital profits)	Capital reserve	Revenue reserve	Profit and loss account
Capital reserve as on 31.3.2012	3,10,000				
Less: Balance as on 1.4.2011	<u>(50,000)</u>	50,000			
Created during the year	<u>2,60,000</u>	1,30,000	1,30,000		
Revenue reserve as on 31.3.2012	75,000				
Less: Balance as on 1.4.2011	<u>-</u>				
Created during the year	<u>75,000</u>	37,500		37,500	

Profit and loss account as on 31.3.2012	2,80,000				
Add: Dividend paid on 1.10.2011 (out of pre-acquisition profits)	2,50,000				
	<u>5,30,000</u>				
Less: balance as on 1.4.2011	<u>2,75,000</u>				
Earned during the year	<u>2,55,000</u>	1,27,500			1,27,500
Profit as on 1.4.2011	2,75,000				
Less: Dividend paid [(₹18,10,000 – ₹16,10,000) × 5/4]	2,50,000				
Balance of pre-acquisition profit as on 31.3.2012	<u>25,000</u>	25,000			
Revaluation reserves as on 1.10.2011:					
Profit on land and buildings (W.N. 2)		4,40,000			
Loss on furniture (W.N. 2)		(30,000)			
Difference in depreciation (for 6 months) due to revaluation:					
Short depreciation on land and building (W.N. 3)					(10,000)
Excess depreciation on furniture (W.N. 3)					<u>5,000</u>
Total		<u>7,80,000</u>	<u>1,30,000</u>	<u>37,500</u>	<u>1,22,500</u>
Minority Interest (20%)		1,56,000	26,000	7,500	24,500
Share of PD Co. Ltd. (80%)		<u>6,24,000</u>	<u>1,04,000</u>	<u>30,000</u>	<u>98,000</u>

2. Profit or loss on revaluation of assets in the books of SD Ltd. and their book values as on 31.3.2012

	₹
<i>Land and buildings</i>	
Book value as on 1.4.2011	16,00,000
Less: Depreciation at 5%* p.a. for 6 months	<u>(40,000)</u>
	15,60,000
Revalued on 1.10.2011	<u>20,00,000</u>
Profit on revaluation	<u>4,40,000</u>

5.24 Financial Reporting

$*(80,000 \div 100)/16,00,000 = 5\%$	
Value as per balance sheet on 31.3.2012	15,20,000
Add: Profit on revaluation	<u>4,40,000</u>
	19,60,000
Less: Short Depreciation (W.N. 3)	<u>(10,000)</u>
Value as on 31.3.2012	<u>19,50,000</u>
<i>Furniture</i>	
Book value as on 1.4.2011	2,00,000
Less: Depreciation @ 20%* p.a. for 6 months	<u>(20,000)</u>
	1,80,000
Revalued on 1.10.2011	<u>1,50,000</u>
Loss on revaluation	<u>30,000</u>
Value as per balance sheet on 31.3.2012	1,60,000
Less: Loss on revaluation	<u>(30,000)</u>
	1,30,000
Add: Excess depreciation written back (W.N. 3)	<u>5,000</u>
Value as on 31.3.2012	<u>1,35,000</u>
$*(40,000 \div 100)/2,00,000 = 20\%$	

3. Calculation of short/excess depreciation

	Building	Furniture
Revalued figure as on 1.10.2011	20,00,000	1,50,000
Rate of depreciation	5% p.a.	20% p.a.
Depreciation for 6 months on revalued figure (1.10.2011 to 31.3.2012)	50,000	15,000
Depreciation already provided	<u>40,000</u>	<u>20,000</u>
Difference [(short)/excess]	<u>(10,000)</u>	<u>5,000</u>

4. Calculation of cost of control

	₹
Share capital in SD Ltd.	16,00,000
Add: Capital profit	<u>6,24,000</u>
	22,24,000
Less: Cost of Investments	<u>(16,10,000)</u>
Capital Reserve	<u>6,14,000</u>

5. Calculation of minority interest

	₹	₹
Share capital		4,00,000
Capital (pre-acquisition) profits		1,56,000
Revenue (post-acquisition) profits:		
Capital Reserve	26,000	
Revenue reserve	7,500	
Profit and loss	<u>24,500</u>	<u>58,000</u>
		<u>6,14,000</u>

6. Stock reserve (plant and machinery)

Percentage of profit on hire purchase transaction

$$\frac{1,600 \times 100}{8,000} = 20\%$$

20% on ₹ 20,000 = ₹ 4,000

Total unrealised profit = ₹ 4,000 + ₹ 1,600

= ₹ 5,600

7. Elimination of mutual indebtedness

Elimination of mutual indebtedness in respect of sale of machinery on hire purchase basis will be made as under in the Consolidated Balance Sheet.

	Creditors ₹	Debtors ₹	Stock ₹	Plant and machinery ₹
Total (PD Ltd. and SD Ltd.)	4,75,000	5,60,000	4,40,000	28,00,000
Less: Instalment due	(20,000)	(20,000)	-	-
Less: Instalment not due	(8,000)	-	(8,000)	-
Less: Profit on plant purchased by SD Ltd. from PD Ltd. on hire purchase	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,600)</u>
	<u>4,47,000</u>	<u>5,40,000</u>	<u>4,32,000</u>	<u>27,94,400</u>

For consolidated balance sheet purpose, the unrealised profits will be eliminated by deducting ₹ 5,600 from Plant & Machinery and from profit and loss account.

5.26 Financial Reporting

8. Consolidated capital reserve as on 31.3.2012

	₹
Capital reserve of PD Ltd. as on 31.3.2012	5,00,000
Add: Share in post acquisition capital reserve of SD Ltd. (W.N. 1)	1,04,000
Add: Cost of control (W.N. 4)	<u>6,14,000</u>
	<u>12,18,000</u>

9. Consolidated revenue reserve as on 31.3.2012

	₹
Revenue reserve of PD Ltd. as on 31.3.2012	8,50,000
Add: Share in post acquisition revenue reserve of SD Ltd. (W.N. 1)	<u>30,000</u>
	<u>8,80,000</u>

10. Consolidated profit and loss account as on 31.3.2012

	₹
Profit and loss account balance of PD Ltd. as on 31.3.2012	4,00,000
Add: Share in post acquisition profit and loss account of SD Ltd. (W.N. 1)	98,000
Less: Unrealised profit on hire purchase	<u>(5,600)</u>
	<u>4,92,400</u>

Note: In the question, the balance of capital reserve and profit and loss account of SD Ltd., as on 1.4.2011 only has been given and not of revenue reserve. Hence, it has been assumed in the above solution that the revenue reserve is created during the year from current year's profits.

Problems involving one Subsidiary- Different Dates of Acquisition

Question 5

The summarized Balance Sheets of Football Ltd. and its subsidiary Hockey Ltd. as on 31st March, 2012 are as under:

Liabilities	Football Ltd. ₹	Hockey Ltd. ₹	Assets	Football Ltd. ₹	Hockey Ltd. ₹
Equity shares of ₹10	48,00,000	20,00,000	Goodwill	4,50,000	3,00,000
Each 10% Preference shares of ₹10 each	7,00,000	3,80,000	Plant and machinery	12,00,000	5,00,000
General reserve	5,50,000	4,20,000	Motor vehicles	9,50,000	7,50,000
Profit and loss account	10,00,000	6,00,000	Furniture and fittings	6,50,000	4,00,000

Bank overdraft	1,20,000	70,000	Investments	26,00,000	4,50,000
Sundry creditors	4,30,000	4,80,000	Stock	4,50,000	7,20,000
Bills payable	-	1,60,000	Cash at bank	2,25,000	2,10,000
			Debtors	9,30,000	7,80,000
			Bills receivable	<u>1,45,000</u>	<u> </u>
	<u>76,00,000</u>	<u>41,10,000</u>		<u>76,00,000</u>	<u>41,10,000</u>

Details of acquisition of shares by Football Ltd. are as under:

Nature of shares	No. of shares acquired	Date of acquisition	Cost of acquisition ₹
Preference shares	14,250	1.4.2009	3,10,000
Equity shares	80,000	1.4.2010	9,50,000
Equity shares	70,000	1.4.2011	8,00,000

Other information:

- (i) On 1.4.2011 profit and loss account and general reserve of Hockey Ltd. had credit balances of ₹ 3,00,000 and ₹ 2,00,000 respectively.
- (ii) Dividend @ 10% was paid by Hockey Ltd. for the year 2010-2011 out of its profit and loss account balance as on 1.4.2011. Football Ltd. credited its share of dividend to its profit and loss account.
- (iii) Hockey Ltd. allotted bonus shares out of general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been made.
- (iv) Bills receivable of Football Ltd. were drawn upon Hockey Ltd.
- (v) During the year 2011-2012 Football Ltd. purchased goods from Hockey Ltd. for ₹ 1,00,000 at a sale price of ₹ 1,20,000. 40% of these goods remained unsold at close of the year.
- (vi) On 1.4.2011 motor vehicles of Hockey Ltd. were overvalued by ₹ 1,00,000. Applicable depreciation rate is 20%.
- (vii) Dividends recommended for the year 2011-2012 in the holding and the subsidiary companies are 15% and 10% respectively.

Prepare consolidated Balance Sheet as on 31st March, 2012.

5.28 Financial Reporting

Answer

Consolidated Balance Sheet of Football Ltd. and its subsidiary Hockey Ltd. as on 31st March, 2012

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	55,00,000
(b) Reserves and Surplus	2	12,22,750
(2) Minority Interest (W.N.3)		9,86,750
(3) Current Liabilities		
(a) Short term borrowings	3	1,90,000
(b) Trade payables	4	9,25,000
(c) Other current liabilities	5	7,90,000
Total		96,14,500
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
i. Tangible assets	6	43,70,000
ii. Intangible assets	7	9,47,500
(b) Non-current investments	8	9,90,000
(2) Current assets		
(a) Inventories	9	11,62,000
(b) Trade receivables	10	17,10,000
(c) Cash and cash equivalents	11	4,35,000
Total		96,14,500

Notes to Accounts

		₹	₹
1.	Share Capital		
	<i>Authorised, Issued and paid up capital</i>		-
	4,80,000, Equity shares of ₹ 10 each	48,00,000	
	70,000, 10% preference shares of ₹ 10 each	<u>7,00,000</u>	55,00,000
2.	Reserves and surplus		
	General reserve (W.N. 5)	7,15,000	
	Profit and loss account (W.N. 4)	<u>5,07,750</u>	12,22,750

3.	Short term borrowings			
	Bank Overdraft			
	Football Ltd.		1,20,000	
	Hockey Ltd.		<u>70,000</u>	1,90,000
4.	Trade payables			
	Sundry Creditors			
	Football Ltd.	₹ 4,30,000		
	Hockey Ltd.	₹ <u>4,80,000</u>	9,10,000	
	Bills payable			
	Hockey Ltd.	₹ 1,60,000		
	Less: Mutual debt	₹ <u>(1,45,000)</u>	<u>15,000</u>	9,25,000
5.	Other current liabilities			
	Proposed Dividend			
	Equity		7,20,000	
	Preference		<u>70,000</u>	7,90,000
6.	Tangible assets			
	Plant and Machinery			
	Football Ltd.	₹ 12,00,000		
	Hockey Ltd.	₹ <u>5,00,000</u>	17,00,000	
	Motor Vehicles			
	Football Ltd.	₹ 9,50,000		
	Hockey Ltd. (₹ 7,50,000–1,00,000+ 20,000)	<u>6,70,000</u>	16,20,000	
	Furniture & Fittings			
	Football Ltd.	₹ 6,50,000		
	Hockey Ltd.	₹ <u>4,00,000</u>	<u>10,50,000</u>	43,70,000
7.	Intangible assets			
	Goodwill			
	Football Ltd.		4,50,000	
	Hockey Ltd.		<u>3,00,000</u>	
			7,50,000	
	Add: Goodwill on consolidation (W.N. 2)		<u>1,97,500</u>	9,47,500

5.30 Financial Reporting

8.	Non-current investments			
	Investments			
	Football Ltd. (₹ 26,00,000 – 20,60,000)		5,40,000	
	Hockey Ltd.		<u>4,50,000</u>	9,90,000
9.	Inventories			
	Stock			
	Football Ltd.		4,50,000	
	Hockey Ltd.		<u>7,20,000</u>	
			11,70,000	
	Less: Unrealised profit		<u>(8,000)</u>	11,62,000
10.	Trade receivables			
	Debtors			
	Football Ltd.	₹ 9,30,000		
	Hockey Ltd.	₹ <u>7,80,000</u>	17,10,000	
	Bills receivable			
	Football Ltd.	₹ 1,45,000		
	Less: Mutual Debt	₹ <u>(1,45,000)</u>	<u>Nil</u>	17,10,000
11.	Cash and cash equivalents			
	Cash at Bank			
	Football Ltd.		2,25,000	
	Hockey Ltd.		<u>2,10,000</u>	4,35,000

Working Notes:

(1) Analysis of Profits of Hockey Ltd.	₹	Capital Profits ₹	Revenue Reserve ₹	Revenue Profit ₹
(a) General Reserve as on 1.4.2011	2,00,000			
Less: Bonus issue (1/10 of ₹ 20,00,000)	<u>(2,00,000)</u>	-	-	
(b) Addition to General Reserve during 2011-2012 (₹ 4,20,000 - ₹ 2,00,000)			2,20,000	
(c) Profit and Loss Account balance as on 1.4.2011	3,00,000			

Less: Dividend paid for the year 2010-2011	<u>(2,00,000)</u>	1,00,000		
(d) Profit for the year 2011-2012 (₹ 6,00,000 – ₹ 1,00,000)				5,00,000
(e) Adjustment for over valuation of motor vehicles		(1,00,000)		
(f) Adjustment of revenue profit due to overcharged depreciation (20% on ₹ 1,00,000)				20,000
(g) Preference dividend for the year 2011-2012 @ 10%				<u>(38,000)</u>
		<u>-</u>	<u>2,20,000</u>	<u>4,82,000</u>
Football Ltd.'s share (3/4)			1,65,000	3,61,500
Minority Interest (1/4)			<u>55,000</u>	<u>1,20,500</u>
			<u>2,20,000</u>	<u>4,82,000</u>

(2) Cost of Control	₹	₹
Cost of investments in Hockey Ltd.		20,60,000
Less: Paid up value of equity shares (including bonus shares) [80,000 + 70,000 + (10% of 1,50,000)] ₹ 10	16,50,000	
Paid-up value of preference shares	1,42,500	
Pre-acquisition dividend*	<u>70,000</u>	<u>(18,62,500)</u>
Cost of control/Goodwill		<u>1,97,500</u>
(3) Minority Interest		
Equity share capital [₹ 5,00,000 + ₹ 50,000 (Bonus)]		5,50,000
Preference share capital (₹ 3,80,000 - ₹ 1,42,500)		2,37,500
Share of revenue reserve		55,000
Share of revenue profit		1,20,500
Proposed preference dividend		<u>23,750</u>
		<u>9,86,750</u>

* The dividend on 70,000 shares only (acquired on 1.4.2011) is a pre-acquisition dividend.

5.32 Financial Reporting

(4) Profit and Loss Account – Football Ltd.		
Balance		10,00,000
Share in profit of Hockey Ltd.		3,61,500
Share in proposed preference dividend of Hockey Ltd.		<u>14,250</u>
		13,75,750
Less: Pre-acquisition dividend credited to profit and loss account	70,000	
Unrealised profit on stock (40% of ₹ 20,000)	8,000	
Proposed equity dividend	7,20,000	
Proposed preference dividend	<u>70,000</u>	<u>(8,68,000)</u>
		<u>5,07,750</u>
(5) General reserve – Football Ltd.		
Balance		5,50,000
Add: Share in Hockey Ltd.		<u>1,65,000</u>
		<u>7,15,000</u>

Note: No information has been given in the question regarding date of bonus issue by Hockey. It is also not mentioned whether the bonus shares are issued from pre-acquisition general reserve or post-acquisition general reserve. The above solution is given on the basis that Hockey Ltd. allotted bonus shares out of pre-acquisition general reserve.

Problems involving more than one subsidiary

Question 6

From the following summarized Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2012. Figures given are in ₹ Lakhs:

Balance Sheets as on 31.3.2012

	X	Y	Z		X	Y	Z
Shares capital (in shares of ₹10 each)	300	200	100	Fixed Assets less depreciation	130	150	100
Reserves	50	40	30	Cost of investment in Y Ltd.	180	-	-
Profit and loss balance	60	50	40	Cost of investment in Z Ltd.	40	-	-
Bills payables	10	-	5	Cost of investment in Z Ltd.	-	80	-
Creditors	30	10	10	Stock	50	20	20
Y Ltd. balance	-	-	15	Debtors	70	10	20

Z Ltd. balance	50	-	-	Bills receivables	-	10	20
				Z Ltd. balance	-	10	-
				X Ltd. balance	-	-	30
				Cash and bank balance	<u>30</u>	<u>20</u>	<u>10</u>
	<u>500</u>	<u>300</u>	<u>200</u>		<u>500</u>	<u>300</u>	<u>200</u>

X Ltd. holds 1,60,000 shares and 30,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 60,000 shares in Z Ltd. These investments were made on 1.7.2009 on which date the provision was as follows:

	Y Ltd.	Z Ltd.
Reserves	20	10
Profit and loss account	30	16

In December, 2011 Y Ltd. invoiced goods to X Ltd. for ₹ 40 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 5 lakhs.

Z Ltd. sold to Y Ltd. an equipment costing ₹ 24 lakhs at a profit of 25% on selling price on 1.1.2012. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.

Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 3 lakhs.

Debtors of X Ltd. include ₹ 5 lakhs being the amount due from Y Ltd.

X Ltd. proposes dividend at 10%.

Answer

Consolidated Balance Sheet of X Ltd.

and its subsidiaries Y Ltd. and Z Ltd.

as at 31st March, 2012

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		300.00
(b) Reserves and Surplus	1	151.90
(2) Minority Interest(W.N 4)		79.30
(3) Current Liabilities		
(a) Trade payables	2	58.00
(b) Other current liabilities	3	55.00
Total		644.20

5.34 Financial Reporting

II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	372.20
(2) Current assets		
(a) Inventories	5	89.00
(b) Trade receivables	6	123.00
(c) Cash and cash equivalents	7	60.00
Total		644.20

Notes to Accounts

		(₹ in lacs)	(₹ in lacs)
1.	Reserves and Surplus		
	Capital Reserve	13.40	
	Other Reserves	81.60	
	Profit and Loss Account	<u>56.90</u>	151.90
2.	Trade payables		
	Bills Payables		
	X Ltd.	₹ 10.00	
	Y Ltd.	₹ <u>5.00</u>	
		₹ 15.00	
	Less: Mutual indebtedness	₹ <u>(2.00)</u>	13.00
	Creditors		
	X Ltd.	₹ 30.00	
	Y Ltd.	₹ 10.00	
	Z Ltd.	₹ <u>10.00</u>	
		₹ 50.00	
	Less: Mutual indebtedness	₹ <u>(5.00)</u>	<u>45.00</u>
			58.00
3.	Other current liabilities		
	(a) Current Account Balances		
	X Ltd.	₹ 50.00	
	Z Ltd.	₹ <u>15.00</u>	
		₹ 65.00	
	Less: Mutual indebtedness (₹ 10+ 30)	(₹ <u>40.00</u>)	25.00
	(b) Proposed Dividend	<u>30.00</u>	55.00

4.	Tangible assets			
	Fixed Assets			
	X Ltd.		130.00	
	Y Ltd.		150.00	
	Z Ltd.		<u>100.00</u>	
			380.00	
	Less: Unrealised profit		<u>(7.80)</u>	372.20
5.	Inventories			
	Stock			
	X Ltd.		50.00	
	Y Ltd.		20.00	
	Z Ltd.		<u>20.00</u>	
			90.00	
	Less: Unrealised profit		<u>(1.00)</u>	89.00
6.	Trade receivables			
	Debtors			
	X Ltd.	₹ 70.00		
	Y Ltd.	₹ 10.00		
	Z Ltd.	₹ <u>20.00</u>		
		₹ 100.00		
	Less: Mutual indebtedness	₹ <u>(5.00)</u>	95.00	
	Bills Receivables			
	Y Ltd.	₹ 10.00		
	Z Ltd.	₹ <u>20.00</u>		
		₹ 30.00		
	Less: Mutual indebtedness	₹ <u>(2.00)</u>	<u>28.00</u>	123.00
7.	Cash and Cash Equivalents			
	X Ltd.	₹ 30.00		
	Y Ltd.	₹ 20.00		
	Z Ltd.	₹ <u>10.00</u>		60.00

Working Notes:

		(₹ in lakhs)		
		Capital Profit	Revenue Reserve	Revenue profit
(1)	Analysis of Profits of Z Ltd. Reserves on 1.7.2011	10.00		

5.36 Financial Reporting

	Profit and Loss A/c on 1.7.2011	16.00		
	Increase in Reserves		20.00	
	Increase in Profit			<u>24.00</u>
		26.00	20.00	24.00
	Less: Minority Interest (10%)	<u>(2.60)</u>	<u>(2.00)</u>	<u>(2.40)</u>
		<u>23.40</u>	<u>18.00</u>	<u>21.60</u>
	Share of X Ltd.	7.80	6.00	7.20
	Share of Y Ltd.	<u>15.60</u>	<u>12.00</u>	<u>14.40</u>
(2)	Analysis of Profits of Y Ltd.			
	Reserves on 1.7.2011	20.00		
	Profit and Loss A/c on 1.7.2011	30.00		
	Increase in Reserves		20.00	
	Increase in Profit			<u>20.00</u>
		50.00	20.00	20.00
	Share in Z Ltd.		<u>12.00</u>	<u>14.40</u>
		50.00	32.00	34.40
	Less: Minority Interest (20%)	<u>(10.00)</u>	<u>(6.40)</u>	<u>(6.88)</u>
	Share of X Ltd.	<u>40.00</u>	<u>25.60</u>	<u>27.52</u>
(3)	Cost of Control			
	Investments in Y Ltd.			180.00
	Investments in Z Ltd.			<u>120.00</u>
				300.00
	Less: Paid up value of investments			
	in Y Ltd.	(160.00)		
	in Z Ltd.	<u>(90.00)</u>	(250.00)	
	Capital Profit			
	in Y Ltd.	(40.00)		
	in Z Ltd.	<u>(23.40)</u>	<u>(63.40)</u>	<u>(313.40)</u>
	Capital Reserve			<u>13.40</u>
(4)	Minority Interest	Y Ltd.	Z Ltd.	
	Share Capital	40.00	10.00	
	Capital Profit	10.00	2.60	
	Revenue Reserves	6.40	2.00	
	Revenue Profits	<u>6.88</u>	<u>2.40</u>	
		63.28	17.00	
	Less: Unrealised profit on stock (20% of 1)	<u>(.20)</u>		

	Unrealised profit on equipment (10% of ₹7.8)	<u>63.08</u>	<u>(.78)</u> <u>16.22</u>
(5)	Unrealised Profit on equipment sale		
	Cost	24.00	
	Profit	<u>8.00</u>	
	Selling Price	<u>32.00</u>	
	Unrealised profit = $\frac{₹8}{₹8} - \frac{₹8}{₹8} \times \frac{10}{100} \times \frac{3}{12} \times \frac{₹1}{₹1} = 8.00 - 0.20 = 7.80$		
(6)	Profit and Loss Account – X Ltd.		
	Balance	60.00	
	Less: Proposed Dividend	<u>(30.00)</u>	
		30.00	
	Share in Y Ltd.	27.52	
	Share in Z Ltd.	<u>7.20</u>	
		64.72	
	Less: Unrealised profit on equipment (90% of 7.8)	<u>(7.02)</u>	
		57.70	
	Less: Unrealised profit on stock $\frac{₹5}{₹5} \times \frac{25}{125} \times 80\% \times \frac{₹}{₹}$	<u>(.80)</u>	
		<u>56.90</u>	
(7)	Reserves – X Ltd.		
	X Ltd.	50.00	
	Share in Y Ltd.	25.60	
	Share in Z Ltd.	<u>6.00</u>	
		<u>81.60</u>	

Question 7

Following are the summarized Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2011:

Liabilities	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
Share Capital (₹100 face value)	50,00,000	40,00,000	20,00,000	60,00,000
General Reserve	20,00,000	4,00,000	2,50,000	10,00,000
Profit & Loss Account	10,00,000	4,00,000	2,50,000	3,20,000
Sundry Creditors	3,00,000	1,00,000	50,000	80,000
	<u>83,00,000</u>	<u>49,00,000</u>	<u>25,50,000</u>	<u>74,00,000</u>

5.38 Financial Reporting

Assets				
<i>Investments:</i>				
30,000 shares in Delhi Ltd.	35,00,000	—	—	—
10,000 shares in Amritsar Ltd	11,00,000	—	—	—
5,000 shares in Amritsar Ltd.	—	5,00,000	—	—
Shares in Kanpur Ltd. @ ₹ 120	36,00,000	18,00,000	6,00,000	—
Fixed Assets	—	20,00,000	15,00,000	70,00,000
Current Assets	1,00,000	6,00,000	4,50,000	4,00,000
	83,00,000	49,00,000	25,50,000	74,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
General Reserve Account	10,00,000	2,00,000	1,00,000	6,00,000
Profit & Loss Account	6,00,000	2,00,000	50,000	60,000

Required:

Prepare the consolidated Balance Sheet of the group as at 31st December, 2011 (Calculations may be rounded off to the nearest rupee).

Answer

**Consolidated Balance Sheet of Mumbai Ltd. and
its subsidiaries Delhi Ltd., Amritsar Ltd. and Kanpur Ltd.
As at 31st December, 2011**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	50,00,000.00
(b) Reserves and Surplus	2	40,32,187.50
(2) Minority Interest(W.N v)		31,25,312.50
(3) Current Liabilities		
Trade payables		5,30,000.00
Total		1,26,87,500.00

II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets		105,00,000.00
ii. Intangible assets		6,37,500.00
(2) Current assets		15,50,000.00
Total		1,26,87,500.00

Notes to Accounts

		(₹)	(₹)
1.	Share Capital (Fully paid shares of ₹. 100 each)		50,00,000.00
2.	Reserves and surplus		
	General Reserve(W.N vi)	25,51,041.67	
	Profit and Loss Account(W.N vii)	<u>14,81,145.83</u>	40,32,187.50

Working Notes:

(i) Analysis of profits of Kanpur Ltd.

	<i>Capital Profit ₹</i>	<i>Revenue Reserve ₹</i>	<i>Revenue Profit ₹</i>
General Reserve on the date of purchase of shares	6,00,000.00		
Profit and Loss A/c on the date of purchase of shares	60,000.00		
Increase in General Reserve		4,00,000.00	
Increase in profit	-	-	<u>2,60,000.00</u>
	6,60,000.00	4,00,000.00	2,60,000.00
Less : Minority Interest (1/6)	<u>(1,10,000.00)</u>	<u>(66,666.67)</u>	<u>(43,333.33)</u>
	<u>5,50,000.00</u>	<u>3,33,333.33</u>	<u>2,16,666.67</u>
Share of Mumbai Ltd. (1/2)	3,30,000.00	2,00,000.00	1,30,000.00
Share of Delhi Ltd. (1/4)	1,65,000.00	1,00,000.00	65,000.00
Share of Amritsar Ltd. (1/12)	55,000.00	33,333.33	21,666.67

5.40 Financial Reporting

(ii) Analysis of profits of Amritsar Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	1,00,000.00		
Profit and Loss A/c on the date of purchase of shares	50,000.00		
Increase in General Reserve		1,50,000.00	
Increase in Profit and Loss A/c			2,00,000.00
Share in Kanpur Ltd.	-	<u>33,333.33</u>	<u>21,666.67</u>
	1,50,000.00	1,83,333.33	2,21,666.67
Less : Minority Interest (1/4)	<u>(37,500.00)</u>	<u>(45,833.33)</u>	<u>(55,416.67)</u>
	<u>1,12,500.00</u>	<u>1,37,500.00</u>	<u>1,66,250.00</u>
Share of Mumbai Ltd. (1/2)	75,000	91,666.67	1,10,833.33
Share of Delhi Ltd. (1/4)	37,500	45,833.33	55,416.67

(iii) Analysis of profits of Delhi Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	2,00,000.00		
Profit and Loss A/c on the date of purchase of shares	2,00,000.00		
Increase in General Reserve		2,00,000.00	
Increase in Profit and Loss A/c			2,00,000.00
Share in Kanpur Ltd.		1,00,000.00	65,000.00
Share in Amritsar Ltd.	-	<u>45,833.33</u>	<u>55,416.67</u>
	4,00,000.00	3,45,833.33	3,20,416.67
Less : Minority Interest (1/4)	<u>(1,00,000.00)</u>	<u>(86,458.33)</u>	<u>(80,104.17)</u>
Share of Mumbai Ltd. (3/4)	3,00,000.00	2,59,375.00	2,40,312.50

(iv) Cost of control

Investments in		₹
Delhi Ltd.	35,00,000	

Amritsar Ltd.	16,00,000	
Kanpur Ltd.	<u>60,00,000</u>	1,11,00,000
Paid up value of investments in		
Delhi Ltd.	30,00,000	
Amritsar Ltd.	15,00,000	
Kanpur Ltd.	<u>50,00,000</u>	(95,00,000)
Capital profits in		
Delhi Ltd.	3,00,000	
Amritsar Ltd.	1,12,500	
Kanpur Ltd.	<u>5,50,000</u>	<u>(9,62,500)</u>
Goodwill		<u>6,37,500</u>

(v) Minority interest

Share Capital :		
Delhi Ltd. (1/4)	10,00,000.00	
Amritsar Ltd. (1/4)	5,00,000.00	
Kanpur Ltd (1/6)	<u>10,00,000.00</u>	25,00,000.00
Share in profits & reserves (Pre and Post-Acquisitions)		
Delhi Ltd.	2,66,562.50	
Amritsar Ltd.	1,38,750.00	
Kanpur Ltd.	<u>2,20,000.00</u>	6,25,312.50
		<u>31,25,312.50</u>

(vi) General Reserve — Mumbai Ltd.

Balance as on 31.12.2011 (given)	20,00,000.00
Share in	
Delhi Ltd.	2,59,375.00
Amritsar Ltd.	91,666.67
Kanpur Ltd.	2,00,000.00
	<u>25,51,041.67</u>

(vii) Profit and Loss Account — Mumbai Ltd.

Balance as on 31.12.2011 (given)	10,00,000.00
Share in	

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Delhi Ltd.	2,40,312.50
Amritsar Ltd.	1,10,833.33
Kanpur Ltd.	<u>1,30,000.00</u>
	<u>14,81,145.83</u>

Question 8

A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their summarized Balance Sheets as on 31.12.2011 are given below:

	A Ltd. ₹	B Ltd. ₹	C Ltd. ₹		A Ltd. ₹	B Ltd. ₹	C Ltd. ₹
Share Capital	1,00,000	1,00,000	60,000	Fixed Assets	20,000	60,000	43,000
Reserves	48,000	10,000	9,000	Investments			
Profit & Loss Account	16,000	12,000	9,000	Shares in B Ltd.	95,000		
C Ltd. Balance	3,000			Shares in C Ltd.	13,000	53,000	
Sundry Creditors	7,000	5,000		Stock in Trade	12,000		
A Ltd. Balance		7,000		B Ltd. Balance	8,000		
				Sundry Debtors	26,000	21,000	32,000
				A Ltd. Balance			<u>3,000</u>
	<u>1,74,000</u>	<u>1,34,000</u>	<u>78,000</u>		<u>1,74,000</u>	<u>1,34,000</u>	<u>78,000</u>

The following particulars are given:

- The Share Capital of all companies is divided into shares of ₹10 each.
- A Ltd. held 8,000 shares of B Ltd. and 1,000 shares of C Ltd.
- B Ltd. held 4,000 shares of C Ltd.
- All these investments were made on 30.6.2011.
- On 31.12.2010, the position was as shown below:

	B Ltd. ₹	C Ltd. ₹
Reserve	8,000	7,500
Profit & Loss Account	4,000	3,000
Sundry Creditors	5,000	1,000
Fixed Assets	60,000	43,000
Stock in Trade	4,000	35,500
Sundry Debtors	48,000	33,000

- 10% dividend is proposed by each company.

(vii) The whole of stock in trade of B Ltd. as on 30.6.2011 (₹ 4,000) was later sold to A Ltd. for ₹ 4,400 and remained unsold by A Ltd. as on 31.12.2011.

(viii) Cash-in-transit from B Ltd. to A Ltd. was ₹ 1,000 as at the close of business.

You are required to prepare the Consolidated Balance Sheet of the group as on 31.12.2011.

Answer

**Consolidated Balance Sheet of A Ltd.
and its subsidiaries B Ltd. and C Ltd.
as on 31st December, 2011**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		1,00,000
(b) Reserves and Surplus	1	60,305
(2) Minority Interest (W.N 5)		37,820
(3) Current Liabilities		
(a) Trade payables		12,000
(b) Other current liabilities	2	10,000
Total		2,20,125
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets		1,23,000
ii. Intangible assets	3	5,525
(2) Current assets		
(a) Inventories	4	11,600
(b) Trade receivables		79,000
(c) Cash and cash equivalents	5	1,000
Total		2,20,125

Notes to Accounts

		(₹)	(₹)
1.	Reserves and surplus		
	Reserves (W.N 6)	49,325	
	Profit & Loss Account (W.N 7)	<u>10,980</u>	60,305

5.44 Financial Reporting

2.	Other current liabilities		
	Proposed Dividend		10,000
3.	Intangible Assets		
	Goodwill (W.N 4)		5,525
4.	Inventories		
	Stock in Trade	12,000	
	Less: Provision for unrealised profit	<u>(400)</u>	11,600
5.	Cash and cash equivalents		
	Cash in Transit (₹ 8,000 - 7,000)		1,000

Working Notes:

(1) Position on 30.06.2011

	Reserves	Profit and Loss Account
B Ltd.	₹	₹
Balance on 31.12.2011	10,000	12,000
Less: Balance on 31.12.2010	<u>(8,000)</u>	<u>(4,000)</u>
Increase during the year	<u>2,000</u>	<u>8,000</u>
Estimated increase for half year	1,000	4,000
Balance on 30.06.2011	9,000 (8,000 + 1,000)	8,000 (4,000 + 4,000)
C Ltd.		
Balance on 31.12.2011	9,000	9,000
Balance on 31.12.2010	<u>7,500</u>	<u>3,000</u>
Increase during the year	<u>1,500</u>	<u>6,000</u>
Estimated increase for half year	750	3,000
Balance on 30.06.2011	8,250 (7,500 + 750)	6,000 (3,000 + 3,000)

(2) Analysis of Profits of C Ltd.

	Capital Profit	Revenue Reserve	Revenue profit
	₹	₹	₹
Reserves on 30.6.2011	8,250		
Profit and Loss A/c on 30.6.2011	6,000		
Increase in reserves		750	
Increase in profit			<u>3,000</u>
	<u>14,250</u>	<u>750</u>	<u>3,000</u>
Less: Minority interest (1/6)	<u>(2,375)</u>	<u>(125)</u>	<u>(500)</u>

	<u>11,875</u>	<u>625</u>	<u>2,500</u>
Share of A Ltd. (1/6)	2,375	125	500
Share of B Ltd. (4/6)	9,500	500	2,000

(3) Analysis of Profits of B Ltd.

	<i>Capital Profit</i>	<i>Revenue Reserve</i>	<i>Revenue profit</i>
	₹	₹	₹
Reserves on 30.6.2011	9,000		
Profit and Loss A/c on 30.6.2011	8,000		
Increase in reserves		1,000	
Increase in profit			4,000
Share in C Ltd.		<u>500</u>	<u>2,000</u>
	17,000	1,500	6,000
Less: Minority interest (2/10)	<u>(3,400)</u>	<u>(300)</u>	<u>(1,200)</u>
Share of A Ltd. (8/10)	<u>13,600</u>	<u>1,200</u>	<u>4,800</u>

(4) Cost of control

	₹	₹
Investments in		
B Ltd.	95,000	
C Ltd.	<u>66,000</u>	1,61,000
Less : Paid up value of investments in		
B Ltd.	80,000	
C Ltd.	<u>50,000</u>	(1,30,000)
Capital profits in		
B Ltd.	13,600	
C Ltd.	<u>11,875</u>	<u>(25,475)</u>
Goodwill		<u>5,525</u>

(5) Minority Interest

	₹	₹
Share Capital:		
B Ltd.	20,000	
C Ltd.	<u>10,000</u>	30,000

5.46 Financial Reporting

Share in profits and reserves (Pre and Post-Acquisitions)		
B Ltd.	4,900	
C Ltd.	<u>3,000</u>	<u>7,900</u>
		37,900
Less: Provision for unrealized profit (20% of ₹ 400)		<u>(80)</u>
		<u>37,820</u>

(6) Reserves – A Ltd.

	₹
Balance as on 31.12.2011 (given)	48,000
Share in	
B Ltd.	1,200
C Ltd.	<u>125</u>
	<u>49,325</u>

(7) Profit and Loss Account – A Ltd.

	₹
Balance as on 31.12.2011 (given)	16,000
Share in	
B Ltd.	4,800
C Ltd.	<u>500</u>
	21,300
Less: Proposed dividend (10% of ₹ 1,00,000)	(10,000)
Provision for unrealised profit on stock [80% of (₹ 4,400 – ₹ 4,000)]	<u>(320)</u>
	<u>10,980</u>

Note: The above solution has been done by direct method. Alternatively, students may follow indirect method. In indirect method, the share in pre-acquisition profits of B Ltd. in C Ltd. amounting ₹ 9,500 will be included as capital profit while analysing the profits of B Ltd. and will not be considered for the purpose of cost of control. Thus, in this case, the amounts of goodwill and minority interest will increase by ₹ 1,900 (2/10 of ₹ 9,500). Goodwill and minority interest will be shown at ₹ 7,425 and ₹ 39,720 respectively in the consolidated balance sheet. Therefore, the total of the assets and liabilities side of the consolidated balance sheet will be ₹ 2,22,025.

Question 9

On 31st March, 2011 Bee Ltd. became the holding company of Cee Ltd. and Dee Ltd. by acquiring 450 lakhs fully paid shares in Cee Ltd. for ₹ 6,750 lakhs and 240 lakhs fully paid

shares in Dee Ltd. for ₹ 2,160 lakhs. On that date, Cee Ltd. showed a balance of ₹ 2,550 lakhs in General Reserve and a credit balance of ₹ 900 lakhs in Profit and Loss Account. On the same date, Dee Ltd. showed a debit balance of ₹ 360 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ₹ 30 lakhs.

After one year, on 31st March, 2012 the summarized Balance Sheets of three companies stood as follows:

Liabilities	(All amounts in lakhs of Rupees)		
	Bee Ltd.	Cee Ltd.	Dee Ltd.
Fully paid equity shares of ₹ 10 each	27,000	7,500	3,000
General Reserve	33,000	3,150	-
Profit and Loss Account	9,000	1,200	750
15 lakh fully paid 9.5% Debentures of ₹ 100 each	-	-	1,500
Loan from Cee Ltd.	-	-	75
Bills Payable	-	-	150
Sundry Creditors	<u>14,100</u>	<u>2,700</u>	<u>930</u>
	<u>83,100</u>	<u>14,550</u>	<u>6,405</u>

Assets	(All amounts in lakhs of Rupees)		
	Bee Ltd.	Cee Ltd.	Dee Ltd.
Machinery	39,000	7,500	2,100
Furniture and Fixtures	6,000	1,500	600
Investments:			
450 lakhs shares in Cee Ltd.	6,750	-	-
240 lakhs shares in Dee Ltd.	2,160	-	-
3 lakhs debentures in Dee Ltd.	294	-	-
Stocks	16,500	3,000	1,500
Sundry Debtors	9,000	1,350	1,290
Cash and Bank balances	3,201	1,050	900
Loan to Dee Ltd.	-	90	-
Bills Receivable	195	60	-
Preliminary Expenses	<u>-</u>	<u>-</u>	<u>15</u>
	<u>83,100</u>	<u>14,550</u>	<u>6,405</u>

The following points relating to the above mentioned Balance Sheets are to be noted:

- (i) All the bills payable appearing in Dee Ltd.'s Balance Sheet were accepted in favour of Cee Ltd. out of which bills amounting to ₹ 75 lakhs were endorsed by Cee Ltd. in favour

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of Bee Ltd. and bills amounting to ₹ 45 lakhs had been discounted by Cee Ltd. with its bank.

- (ii) On 29th March, 2012 Dee Ltd. remitted ₹ 15 lakhs by means of a cheque to Cee Ltd. to return part of the loan; Cee Ltd. received the cheque only after 31st March, 2012.
- (iii) Stocks with Cee Ltd. includes goods purchased from Bee Ltd. for ₹ 200 lakhs. Bee Ltd. invoiced the goods at cost plus 25%.
- (iv) In August, 2011 Cee Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2011. Bee Ltd. credited the dividend received to its Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of Bee Ltd. and its subsidiaries Cee Ltd. and Dee Ltd. as at 31st March, 2012.

Answer

**Consolidated Balance Sheet of Bee Ltd. and
its subsidiaries Cee Ltd. and Dee Ltd.
as at 31st March, 2012**

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	27,000
(b) Reserves and Surplus	2	43,400
(2) Minority Interest (W.N. 2)		5,487
(3) Non-Current Liabilities		
Long-term borrowings	3	1,200
(4) Current Liabilities		
Trade payables	4	17,775
Total		94,862
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets	5	56,700
ii. Intangible assets	6	246
(2) Current assets		
(a) Inventories	7	20,960
(b) Trade receivables	8	11,790
(c) Cash and cash equivalents	9	5,166
Total		94,862

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	Issued and subscribed		
	Fully paid equity shares of ₹10 each		27,000
2.	Reserves and surplus		
	General Reserve (W.N. 4)	33,360	
	Profit and Loss A/c (W.N. 4)	<u>10,040</u>	43,400
3.	Long Term Borrowings		
	9.5% Debentures		1,200
4.	Trade payables		
	Acceptances	150	
	Less: Mutual owing	<u>(105)</u>	45
	Sundry creditors		<u>17,730</u>
			<u>17,775</u>
5.	Tangible assets		
	Machinery	48,600	
	Furniture and Fixtures	<u>8,100</u>	56,700
6.	Intangible assets		
	Goodwill (W.N. 3)		246
7.	Inventories		
	Stock	21,000	
	Less: Unrealised profit	<u>(40)</u>	20,960
8.	Trade receivables		
	Sundry debtors	11,640	
	Bills receivable 255		
	Less: Mutual owing (W.N.5) <u>(105)</u>	<u>150</u>	11,790
9.	Cash and cash equivalents		
	Cash and bank balances	5,151	
	Cash in transit	<u>15</u>	5,166

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Working Notes:

- (1) Calculation of pre and post acquisition profits of subsidiaries:

		₹ in lakhs	
		Post-acquisition	
	Pre-acquisition capital profit	General Reserve	Profit & Loss A/c
Cee Ltd.			
General Reserve (Cr.)	2,550	600	
Profit and Loss A/c (Cr.) 900			
(-) Dividend (750)	<u>150</u>	—	<u>1,050</u>
	<u>2,700</u>	<u>600</u>	<u>1,050</u>
Holding (60%)	1,620	360	630
Subsidiary (40%)	<u>1,080</u>	<u>240</u>	<u>420</u>

		₹ in lakhs	
		Post-acquisition	
	Pre-acquisition capital profit	Preliminary expenses	Profit / Loss A/c
Dee Ltd.			
Profit and Loss A/c (Cr.)	(360)		1,110
Preliminary expenses (Dr.)	<u>(30)</u>	<u>15</u>	—
(-) Dividend	<u>(390)</u>	<u>15</u>	<u>1,110</u>
Holding (80%)	(312)	12	888
Subsidiary (20%)	<u>(78)</u>	<u>3</u>	<u>222</u>

- (2) Minority Interest

				(₹ in lakhs)
Cee Ltd.				
Share capital			3,000	
Capital profit		1,080		
Revenue General Reserve		240		
Profit/Loss		<u>420</u>	<u>1,740</u>	4,740

Dee Ltd.				
Share capital			600	
Capital profit		(78)		
Revenue profit (Cr.)	222			
Add: Preliminary expenses written off	<u>3</u>	<u>225</u>	<u>147</u>	<u>747</u>
				<u>5,487</u>

(3) Cost of Control

			(₹ in lakhs)
Cee Ltd.			
Investment	6,750		
Less: Dividend received and wrongly credited to Profit and Loss	<u>(450)</u>	6,300	
Less: Paid-up share capital (60%)	4,500		
Capital profit	<u>1,620</u>	<u>(6,120)</u>	180
Dee Ltd.			
Investment in Shares	2,160		
in debentures	<u>294</u>	2,454	
Less: Paid-up share capital (80%)	2,400		
Nominal value of debentures	300		
Capital profit	<u>(312)</u>	<u>(2,388)</u>	<u>66</u>
Goodwill			<u>246</u>

(4) Consolidated General Reserve and Profit and Loss Account

	General Reserve	Profit and Loss A/c
Bee Ltd.	33,000	9,000
Less: Wrong dividend credited	<u>-</u>	<u>450</u>
	33,000	8,550
Cee Ltd.	360	630
Dee Ltd. (888 + 12)	<u>-</u>	<u>900</u>
	33,360	10,080
Less: Unrealised profit on stock	<u>-</u>	<u>40</u>
	<u>33,360</u>	<u>10,040</u>

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- (5) Mutual owing regarding bills = ₹ (150 – 45) lakhs = ₹ 105 lakhs.
- (6) Unrealised profit = $\frac{25}{125} \times 200$ lakhs = ₹ 40 lakhs
- (7) Amount of dividend wrongly credited to Profit and Loss A/c = 60% of ₹ 750 lakhs = ₹ 450 lakhs.

Question 10

The following are the summarized Balance Sheets of Arun Ltd., Brown Ltd. and Crown Ltd. as at 31.12.2011:

Liabilities:	Arun Ltd. ₹	Brown Ltd. ₹	Crown Ltd. ₹
Share Capital (Shares of ₹100 each)	6,00,000	4,00,000	2,40,000
Reserves	80,000	40,000	30,000
Profit and Loss Account	2,00,000	1,20,000	1,00,000
Sundry Creditors	80,000	1,00,000	60,000
Arun Ltd.	--	40,000	32,000
Total	9,60,000	7,00,000	4,62,000
Assets:	Arun Ltd. ₹	Brown Ltd. ₹	Crown Ltd. ₹
Goodwill	80,000	60,000	40,000
Fixed Assets	2,80,000	2,00,000	2,40,000
Shares in:			
Brown Ltd. (3,000 Shares)	3,60,000	--	--
Crown Ltd. (400 Shares)	60,000	--	--
Crown Ltd. (1,400 Shares)	--	2,08,000	--
Due from: Brown Ltd.	48,000	--	--
Crown Ltd.	32,000	--	--
Current Assets	1,00,000	2,32,000	1,82,000
Total	9,60,000	7,00,000	4,62,000

- (i) All shares were acquired on 1.7.2011.
- (ii) On 1.1.2011 the balances to the various accounts were as under:

Particulars	Arun Ltd. ₹	Brown Ltd. ₹	Crown Ltd. ₹
Reserves	40,000	40,000	20,000
Profit and Loss account	20,000	(Dr.) 20,000	12,000

- (iii) During 2011, Profits accrued evenly.

- (iv) In August, 2011, each company paid interim dividend of 10%. Arun Ltd. and Brown Ltd. have credited their profit and loss account with the dividends received.
- (v) During 2011, Crown Ltd. sold an equipment costing ₹ 40,000 to Brown Ltd. for ₹ 48,000 and Brown Ltd. in turn sold the same to Arun Ltd. for ₹ 52,000.

Prepare the consolidated Balance Sheet as at 31.12.2011 of Arun Ltd. and its subsidiaries.

Answer

**Consolidated Balance Sheet of Arun Ltd. and its subsidiaries
as on 31.12.2011**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	3,37,271
(2) Minority Interest (W. N. 4)		2,33,729
(3) Current Liabilities		
Trade payables		2,40,000
Total		14,11,000
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets		7,08,000
ii. Intangible assets	3	1,81,000
(2) Current assets		
(a) Cash and cash equivalents	4	8,000
(b) Other current assets		5,14,000
Total		14,11,000

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	Shares of ₹ 100 each		6,00,000
2.	Reserves and surplus		
	Reserves (W. N. 8)	83,021	
	Profit & Loss A/c (W. N. 8)	<u>2,54,250</u>	3,37,271

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3.	Intangible assets		
	Goodwill (W.N.5)		1,81,000
4.	Cash and cash equivalents		
	Cash in Transit (W.N.7)		8,000

Working Notes

1. Shareholding Pattern

<i>In Brown Ltd.:</i>	<i>Number of Shares</i>	<i>%age of Holding</i>
Arun Ltd.	3,000	75%
Minority Interest	1,000	25%
<i>In Crown Ltd.:</i>		
Arun Ltd.	400	16.667%
Brown Ltd.	1,400	58.333%
Minority Interest	600	25%

2. Analysis of apportionment of profit in Crown Ltd.

(a) Calculation of Unrealized Profit in Equipment

Crown Ltd sold equipment to Brown Ltd. at a profit of ₹ 8,000 and this would be apportioned to

	₹
Arun Ltd.	1,333
Brown Ltd.	4,667
Minority Interest	<u>2,000</u>
	<u>8,000</u>

Brown Ltd sold the equipment to Arun Ltd. at a profit of ₹ 4,000. This would be apportioned to:

	₹
Arun Ltd.	3,000
Minority Interest	<u>1,000</u>
	<u>4,000</u>

The above amounts are to be deducted from the respective share of profits.

(b) *Reserves*

	₹	
Closing balance	30,000	
Opening balance	<u>20,000</u>	Capital Profit
Current year Appropriation	<u>10,000</u>	
Apportionment of Profit from 1.1.2011 to 30.6.2011	<u>5,000</u>	Capital Profit
Apportionment of Profit from 1.7.2011 to 31.12.2011	<u>5,000</u>	Revenue Reserve

(c) *Profit and Loss Account*

Closing balance	1,00,000	
Opening balance	<u>12,000</u>	Capital Profit
Current year profits before interim dividend	<u>1,12,000</u>	
Apportionment of Profit from 1.1.2011 to 30.6.2011	56,000	
Less: Interim Dividend	<u>(24,000)</u>	
	32,000	Capital Profit
From 1.7.2011 to 31.12.2011	<u>56,000</u>	Revenue Profit

(d) *Apportionment of profits of Crown Ltd.*

	Pre-Acquisition	Post Acquisition	
	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
Reserves	25,000	5,000	--
Profit & Loss Account	<u>44,000</u>	--	<u>56,000</u>
	<u>69,000</u>	<u>5,000</u>	<u>56,000</u>
Arun Ltd [16.667%]	11,500	833	9,333
Brown Ltd. [58.333%]	40,250	2,917	32,667
Minority Interest [25%]	17,250	1,250	14,000

3. Analysis of Profit of Brown Ltd

(a) *Reserves*

	₹	
Closing balance	40,000	
Opening balance	<u>40,000</u>	(Capital Profit)
Current year Appropriation	<u>Nil</u>	

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(b) Profit and Loss Account

	₹
Closing balance	1,20,000
Opening balance (Dr.)	<u>20,000</u>
Current year Appropriation after interim dividend	1,40,000
Interim Dividend	<u>40,000</u>
Profit before Interim Dividend	1,80,000
Less: Dividend from Crown Ltd.	<u>(14,000)</u>
	<u>1,66,000</u>
Apportionment of Profit from 1.1.2011 to 30.6.2011	83,000
Less: Interim Dividend	<u>(40,000)</u>
Capital profit	<u>43,000</u>
Apportionment of Profit from 1.7.2011 to 31.12.2011 (Revenue profit)	<u>83,000</u>

(c) Apportionment of Profit of Brown Ltd.

	Pre-Acquisition Capital Profit ₹	Post-Acquisition	
		Revenue Reserve ₹	Revenue Profit ₹
Reserves	40,000	--	--
Profit & Loss Account (Opening balance (-) 20,000+43,000)	23,000		83,000
Less: Unrealised Profit of Equipment from Crown Ltd.			(4,667)
Share of Post-Acquisition Profit of Crown Ltd.	<u>--</u>	<u>2,917</u>	<u>32,667</u>
	<u>63,000</u>	<u>2,917</u>	<u>1,11,000</u>
Arun Ltd. 75%	47,250	2,188	83,250
Minority Interest 25%	15,750	729	27,750

4. Minority Interest

	<i>Brown Ltd.</i> ₹	<i>Crown Ltd.</i> ₹
Share Capital	1,00,000	60,000
Capital Profit	15,750	17,250
Revenue: Reserves	729	1,250
Profit & Loss Account	27,750	14,000
Unrealised Profit on Equipment	<u>(1,000)</u>	<u>(2,000)</u>
	<u>1,43,229</u>	<u>90,500</u>
Total Minority Interest: ₹1,43,229+ ₹90,500 = ₹2,33,729		

5. Cost of Control

	<i>Arun Ltd. in Brown Ltd.</i> ₹	<i>Arun Ltd. in Crown Ltd.</i> ₹	<i>Brown Ltd in Crown Ltd.</i> ₹
Amount Invested	3,60,000	60,000	2,08,000
Less: Pre-acquisition dividend*	<u>(30,000)</u>	<u>(4,000)</u>	<u>(14,000)</u>
Adjusted Cost of Investment (A)	<u>3,30,000</u>	<u>56,000</u>	<u>1,94,000</u>
Share capital	3,00,000	40,000	1,40,000
Capital Profit	<u>47,250</u>	<u>11,500</u>	<u>40,250</u>
(B)	<u>3,47,250</u>	<u>51,500</u>	<u>1,80,250</u>
Capital Reserve/Goodwill (A)-(B)	(17,250)	4,500	13,750
Net Goodwill	₹1,000		
Goodwill on Consolidation ₹ (80,000+ 60,000+40,000+1,000) = ₹1,81,000			

6. Dividend declared

	<i>Brown Ltd.</i> ₹	<i>Crown Ltd.</i> ₹
Dividend declared	<u>40,000</u>	<u>24,000</u>
Share of: Arun Ltd.	30,000	4,000
Brown Ltd.		14,000
Minority	10,000	6,000

* The entire amount of interim dividend of 10% has been treated as pre-acquisition dividend.

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7. Inter-Company Transactions

(a) Owings

	<i>Dr.</i> <i>Arun Ltd.</i> ₹	<i>Cr.</i> <i>Brown Ltd.</i> ₹	<i>Cr.</i> <i>Crown Ltd.</i> ₹
Balance in books	80,000	40,000	32,000
Less: Inter- co. owings	<u>(72,000)</u>	<u>(40,000)</u>	<u>(32,000)</u>
Cash-in-transit	<u>8,000</u>	<u>NIL</u>	<u>NIL</u>

(b) Fixed Assets

	₹
Total Fixed Assets	7,20,000
Less: Unrealised Profit on sale of equipment	<u>(12,000)</u>
Amount to be taken to consolidated Balance Sheet	<u>7,08,000</u>

8. Reserves and Profit and Loss Account balances in the Consolidated Balance Sheet

	<i>Reserves</i> ₹	<i>Profit and Loss A/c</i> ₹
Balance in Books	80,000	2,00,000
Add: Shares of Post Acquisition Profits:		
From Brown Ltd.	2,188	83,250
From Crown Ltd	833	9,333
Less: Pre-Acquisition dividend:		
From Brown Ltd.		(30,000)
From Crown Ltd		(4,000)
Less: Unrealised Profit on Equipment:		
From Brown Ltd.		(3,000)
From Crown Ltd.		<u>(1,333)</u>
	<u>83,021</u>	<u>2,54,250</u>

Question 11

The following information has been extracted from the Books of 'X' Limited group (as at 31st December, 2011):

	<i>X Ltd.</i> ₹	<i>Y Ltd.</i> ₹	<i>Z Ltd.</i> ₹		<i>X Ltd.</i> ₹	<i>Y Ltd.</i> ₹	<i>Z Ltd.</i> ₹
Share capital				Fixed Assets less			

				depreciation	4,20,000	3,76,000	5,22,000
(Fully paid equity shares of ₹ 10 each)	8,00,000	6,00,000	4,00,000	Investment at cost	6,30,000	4,00,000	---
Profit and Loss Account	2,10,000	1,90,000	1,28,000	Current Assets	1,20,000	60,000	40,000
Dividend received:							
From Y Ltd. in 2010	60,000						
From Y Ltd. in 2011	60,000						
From Z Ltd. in 2011		36,000					
Current Liabilities	<u>40,000</u>	<u>10,000</u>	<u>34,000</u>				
	<u>11,70,000</u>	<u>8,36,000</u>	<u>5,62,000</u>		<u>11,70,000</u>	<u>8,36,000</u>	<u>5,62,000</u>

All the companies pay dividends of 12 percent of paid-up share capital in March following the end of the accounting year. The receiving companies account for the dividends in their books when they are received.

'X' Limited acquired 50,000 equity shares of Y Ltd. on 31st December, 2009.

'Y' Limited acquired 30,000 equity shares of Z Ltd. on 31st December, 2010.

The detailed information of Profit and Loss Accounts is as follows:

	X Ltd. ₹	Y Ltd. ₹	Z Ltd. ₹
Balance of Profit and Loss Account on 31 st December, 2009 after dividends of 12% in respect of calendar year 2009, but excluding dividends received	86,000	78,000	60,000
Net profit earned in 2010	<u>1,20,000</u>	<u>84,000</u>	<u>56,000</u>
	2,06,000	1,62,000	1,16,000
Less – Dividends of 12% (paid in 2011)	<u>96,000</u>	<u>72,000</u>	<u>48,000</u>
	1,10,000	90,000	68,000
Net profit earned in 2011 (Before taking into account proposed dividends of 12% in respect of calendar year 2011)	<u>1,00,000</u>	<u>1,00,000</u>	<u>60,000</u>
	<u>2,10,000</u>	<u>1,90,000</u>	<u>1,28,000</u>

Taking into account the transactions from 2009 to 2011 and ignoring taxation, you are required to prepare:

- (i) The Consolidated Balance Sheet of X Limited group as at 31st December, 2011.

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- (ii) Cost of control.
(iii) Minority shareholders interest.

Answer

- (i) **Consolidated Balance Sheet of X Ltd. and its subsidiaries Y Ltd. and Z Ltd.
as on 31st December, 2011**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	8,00,000
(b) Reserves and Surplus	2	3,04,833
(2) Minority Interest [Refer (iii)]		2,47,167
(3) Current Liabilities		
(a) Trade payables	3	84,000
(b) Other Current liabilities	4	1,20,000
Total		15,56,000
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets	5	13,18,000
ii. Intangible assets	6	18,000
(2) Current assets		2,20,000
Total		15,56,000

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	80,000 Equity shares of ₹10 each fully paid		8,00,000
2.	Reserves and surplus		
	Profit and Loss Account		
	Opening balance	₹	
	X Ltd	2,06,000	
	Y Ltd	1,62,000	
	Z Ltd	<u>1,16,000</u>	
		4,84,000	

Add: Dividend received in 2010 (for 2009)			
	X Ltd	60,000	
	Y Ltd	-----	
	Z Ltd	<u>-----</u>	<u>60,000</u>
			5,44,000
Less: Dividend paid for 2010			
	X Ltd	96,000	
	Y Ltd	72,000	
	Z Ltd	48,000	
	Less: Adjustments	<u>(96,000)</u>	<u>(1,20,000)</u>
			4,24,000
Add: Dividend received in 2011 (for 2010)			
	X Ltd	60,000	
	Y Ltd	36,000	
	Z Ltd	-----	
	Less: Adjustments	<u>(96,000)</u>	<u>-----</u>
			4,24,000
Add: Profit for the year			
	X Ltd	1,00,000	
	Y Ltd	1,00,000	
	Z Ltd	<u>60,000</u>	<u>2,60,000</u>
			6,84,000
Less: Minority Interest			
	X Ltd	-----	
	Y Ltd	39,167	
	Z Ltd	<u>32,000</u>	<u>(71,167)</u>
			6,12,833
Less: Capital reserve (cost of control)			
	X Ltd	65,000	
	Y Ltd	51,000	
	Z Ltd	<u>-----</u>	<u>(1,16,000)</u>
			4,96,833

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	Less: Dividend received out of capital profit			
	X Ltd	60,000*		
	Y Ltd	36,000*		
	Z Ltd	<u>-----</u>	<u>(96,000)</u>	
			4,00,833	
	Less: Proposed dividend			
	X Ltd	96,000		
	Y Ltd	-----		
	Z Ltd	<u>-----</u>	<u>(96,000)</u>	
	Closing balance of Profit (Bal fig)		3,04,833	
	Share of X Ltd. (Bal fig)	1,74,000		
	Share of Y Ltd (Bal fig)	85,833		
	Share of Z Ltd (Bal fig)	<u>45,000</u>		3,04,833
3.	Trade Payables			
	Sundry Creditors			84,000
4.	Other Current Liabilities			
	Proposed Dividend:			
	X Ltd.	96,000		
	Minority Interest [Refer (iv)]	<u>24,000</u>		1,20,000
5.	Tangible Assets			
	Fixed Assets less depreciation			13,18,000
6.	Intangible assets			
	Goodwill [Refer (ii)]			18,000

Notes:*

- (1) X Ltd. receives from Y Ltd., dividend amounting to ₹60,000 for the year 2009 in the year 2010 for shares acquired in 2009. It is a capital profit, therefore it has been transferred to cost of control to reduce the cost of investment.
- (2) Y Ltd. receives a dividend of ₹36,000 from Z Ltd. for the year 2010 in the year 2011. The shares were acquired by Y Ltd on 31st December, 2010. The entire amount is therefore, a capital profit and hence transferred to cost of control to reduce the cost of investment.

(ii) Cost of Control:

	₹	₹
Cost of Investment in Y Ltd. on 31 st December 2009	6,30,000	
Less: Dividend of the year 2009 received in 2010 out of Pre-acquisition profit	<u>(60,000)</u>	5,70,000
Cost of Investment in Z Ltd.	4,00,000	
Less: Dividend of the year 2010 received in 2011 out of Pre-acquisition Profit	<u>(36,000)</u>	<u>3,64,000</u>
		9,34,000
Less: Paid up value of shares in Y Ltd.	5,00,000	
Paid up value of shares in Z Ltd.	3,00,000	
Capital Profits in Y Ltd. (Refer W.N. 2)	65,000	
Capital Profits in Z Ltd. (Refer W.N. 2)	<u>51,000</u>	<u>(9,16,000)</u>
Goodwill		<u>18,000</u>

(iii) Minority shareholders' interest:

	Y Ltd. ₹	Z Ltd. ₹
Share Capital (Y Ltd. – 1/6 and Z Ltd. – 1/4)	1,00,000	1,00,000
Capital Profits (Refer W.N. 2)	13,000	17,000
Revenue Profits (Refer W.N. 2)	<u>26,167</u>	<u>15,000</u>
	<u>1,39,167</u>	<u>1,32,000</u>
Total (1,39,167 + 1,32,000)		2,71,167
Less: Minority shareholders' share of proposed dividend (shown separately in the Balance Sheet)		
$\frac{1}{6}$ of Rs. 72,000 + $\frac{1}{4}$ of Rs. 48,000		<u>(24,000)</u>
Balance		<u>2,47,167</u>

Working Notes:

1. Shareholding Pattern

	Number of shares	share of holding
In Y Ltd.		
X Ltd.	50,000	5/6
Minority Interest	10,000	1/6
In Z Ltd.		
Y Ltd.	30,000	3/4
Minority Interest	10,000	1/4

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2. Analysis of Profits

	Pre - acquisition Capital Profit	Post - acquisition Revenue Profit
Z Ltd.	₹	₹
Balance on 31 st December, 2010 after dividend for 2010 (₹ 1,16,000 – ₹ 48,000)	68,000	-
Profit for the year ending 31 st December, 2011 before proposed dividends for 2011	-	60,000
	<u>68,000</u>	<u>60,000</u>
Share of Y Ltd. (3/4)	51,000	45,000
Minority Interest (1/4)	<u>17,000</u>	<u>15,000</u>
Y Ltd.		
Balance on 31 st December, 2009	78,000	-
Profit for the year 2010 after payment of dividend for 2010 (₹ 84,000 – ₹ 72,000)	-	12,000
Profit for the year 2011 (before payment of dividend of the year 2011)	-	1,00,000
Revenue Profit from Z Ltd.	-	45,000
	<u>78,000</u>	<u>1,57,000</u>
Share of X Ltd. (5/6)	65,000	1,30,833
Share of Minority Shareholders' Interest (1/6)	<u>13,000</u>	<u>26,167</u>

Note: This problem has been solved by following 'direct approach'.

Question 12

The draft Balance Sheets of 3 Companies as at 31st March, 2012 are as below:

Liabilities	(In ₹ 000's)		
	Morning Ltd.	Evening Ltd.	Night Ltd.
Share Capital – shares of ₹ 100 each	40,000	20,000	10,000
Reserves	1,800	1,000	900
P/L A/c (1.4.11)	1,500	2,000	800
Profit for 2011-12	7,000	3,800	1,800
Loan from Morning Ltd.	-	5,000	-
Creditors	<u>2,500</u>	<u>1,000</u>	<u>1,400</u>
	<u>52,800</u>	<u>32,800</u>	<u>14,900</u>

Assets			
Investments:			
1,60,000 shares in Evening	18,000	-	-
75,000 shares in Night	8,000	-	-
Loan to Evening Ltd.	5,000	-	-
Sundry assets	<u>21,800</u>	<u>32,800</u>	<u>14,900</u>
	<u>52,800</u>	<u>32,800</u>	<u>14,900</u>

Following additional information is also available:

- (a) Dividend is proposed by each company at 10%.
- (b) Stock transferred by Night Ltd. to Evening Ltd. fully paid for was ₹8 lacs on which the former made a Profit of ₹3 lacs. On 31st March, 2012, this was in the inventory of the latter.
- (c) Loan referred to is against 8% interest. Neither Morning Ltd. nor Evening Ltd. has considered the interest.
- (d) Reserves as on 1.4.2011 of Evening Ltd. and Night Ltd. were ₹8,00,000 and ₹7,50,000 respectively.
- (e) Cash-in-transit from Evening Ltd. to Morning Ltd. was ₹1,00,000 as on 31.3.2012.
- (f) The shares of the subsidiaries were all acquired by Morning Ltd. on 1st April, 2011.

Prepare consolidated Balance Sheet as on 31st March, 2012. Workings should be part of the answer.

Answer

**Consolidated Balance Sheet of Morning Ltd. with its subsidiaries
Evening Ltd. and Night Ltd.
As on 31st March, 2012**

Particulars	Note No.	(₹ in thousand)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		40,000
(b) Reserves and Surplus	1	11,645
(2) Minority Interest	2	8,005
(3) Current Liabilities		
(i) Trade payables	3	4,900
(ii) Other current liabilities	4	4,650
Total		69,200

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II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	5	69,200
Total		69,200

Notes to Accounts

		(₹ in thousand)	(₹ in thousand)
1.	Reserves and surplus		
	Capital Reserve [Refer Note 5]	902.5	
	General Reserve ₹		
	Morning Ltd. 1,800		
	Evening Ltd. 160		
	Night Ltd. <u>112.5</u>	2,072.5	
	Profit & Loss A/c ₹		
	Balance on 1.04.11 1,500		
	Profit during 11-12 7,000		
	Add: Interest on Loan <u>400</u>		
	8,900		
	Less: Proposed dividend <u>(4,000)</u>		
	4,900		
	Add: P& L A/c of Evening Ltd. 2,720		
	Add: P& L A/c of Night Ltd. <u>1,050</u>	<u>8,670</u>	11,645
2.	Minority interest		
	Evening Ltd.	4,880	
	Night Ltd.	<u>3,125</u>	8,005
3.	Trade payables		
	Creditors		
	Morning Ltd.	2,500	
	Evening Ltd.	1,000	
	Night Ltd	<u>1,400</u>	4,900
4.	Other current liabilities		
	Proposed Dividend		

	Morning Ltd.		4,000	
	Evening Ltd. (Minority)		400	
	Night Ltd. (Minority)		<u>250</u>	4,650
5.	Tangible assets			
	Morning Ltd.		21,800	
	Evening Ltd.	32,800		
	Less: Unrealized profit Night Ltd.	<u>(300)</u>	32,500	
	Night Ltd.		<u>14,900</u>	69,200

Workings Notes:

- A. Morning Ltd.'s holding in Evening Ltd. is 1,60,000 shares out of 2,00,000 shares, i.e., 4/5th or 80%; Minority holding 1/5th or 20%.
- B. Morning Ltd.'s holding in Night Ltd. is 75,000 shares out of 1,00,000 shares, i.e., 3/4th or 75%; Minority holding 1/4th or 25%.

Analysis of Reserves and Profits of Subsidiary Companies

		Evening Ltd. (₹'000)	Night Ltd ₹('000)	Minority interest in Evening Ltd. (1/5) ₹('000)	Minority interest in Night Ltd. (1/4) ₹('000)
1.	Capital Reserve (pre-acquisition reserves and profits)				
	Reserves on 1.04.2011	800	750		
	Profit on 1.04.2011	<u>2,000</u>	<u>800</u>		
		2,800	1,550		
	Less: Minority interest	<u>(560)</u>	<u>(387.5)</u>	560	387.5
		<u>2,240</u>	<u>1,162.5</u>		
2.	General Reserve				
	Reserves as per Balance Sheet	1,000	900		
	Less: Capital Reserve	<u>(800)</u>	<u>(750)</u>		
		200	150		
	Less: Minority interest	<u>(40)</u>	<u>(37.5)</u>	40	37.5
		<u>160</u>	<u>112.5</u>		
3.	Profit and Loss Account				
	Profit for the year as per Balance Sheet	3,800	1,800		

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	Less: Interest on Loan (5,000 x 8%)	<u>(400)</u>			
		3,400			
	Less: Minority Interest	<u>(680)</u>	<u>(450)</u>	680	450
		2,720	1,350		
	Less: Unrealised profit on stock transfer	<u>—</u>	<u>(300)*</u>		
		<u>2,720</u>	<u>1,050</u>		
4.	Share Capital				
	As per Balance sheet	20,000	10,000		
	Less: Minority interest	<u>(4,000)</u>	<u>(2,500)</u>	<u>4,000</u>	<u>2,500</u>
	Transferred for computation of Goodwill/Capital Reserve	<u>16,000</u>	<u>7,500</u>	5,280	3,375
	Less: Proposed dividend shown separately			<u>(400)</u>	<u>(250)</u>
	Transferred to Consolidated Balance Sheet			<u>4,880</u>	<u>3,125</u>

5. Computation of Cost of Control i.e. Goodwill / Capital Reserve on consolidation

(₹ In thousand)

	Evening Ltd.	Night Ltd.
Cost of Investments	18,000	8,000
Less: Paid up value of shares [Refer Note 4]	<u>(16,000)</u>	<u>7,500</u>
	2,000	500
Less: Capital Reserve [Refer Note 1]	<u>(2,240)</u>	<u>(1,162.5)</u>
	<u>(-240)</u>	<u>(-662.5)</u>
Total Capital Reserve (₹240 + ₹662.5)	902.5	

Question 13

The summarized Balance Sheets of three companies Angle Ltd., Bolt Ltd., and Canopy Ltd., as at 31st December, 2011 are given below:

Liabilities	Angle Ltd. ₹	Bolt Ltd. ₹	Canopy Ltd. ₹
Share capital (Equity shares of ₹100 each)	15,00,000	10,00,000	6,00,000
Reserves	2,00,000	1,25,000	75,000

* As per para 17 of AS 21, 'Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full.

Profit and Loss A/c	5,00,000	2,75,000	2,50,000
Sundry creditors	2,00,000	2,50,000	1,00,000
Bills payable	-	-	50,000
Angle Ltd.	-	1,00,000	80,000
	<u>24,00,000</u>	<u>17,50,000</u>	<u>11,55,000</u>
Goodwill	2,50,000	5,80,000	4,50,000
Plant and Machinery	4,00,000	2,50,000	3,25,000
Furniture and Fittings	2,00,000	1,50,000	1,40,000
Shares in-			
Bolt Ltd. (7,500 shares)	9,00,000	-	-
Canopy Ltd. (1,000 shares)	1,50,000		
Canopy Ltd. (3,500 shares)	-	5,20,000	-
Stock in trade	1,00,000	1,50,000	1,60,000
Sundry debtors	1,40,000	70,000	70,000
Bills receivable	50,000	20,000	-
Due from-			
Bolt Ltd.	1,20,000	-	-
Canopy Ltd.	80,000	-	-
Cash in hand	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total	<u>24,00,000</u>	<u>17,50,000</u>	<u>11,55,000</u>

(a) All shares were acquired on 1st July, 2010.

(b) On 1st January, 2010, the balances were:

	Angle Ltd.	Bolt Ltd.	Canopy Ltd.
	₹	₹	₹
Reserves	1,00,000	1,00,000	50,000
Profit and Loss account	50,000	(50,000)Dr.	30,000
Profit during 2010 were earned evenly over the year	3,00,000	2,50,000	1,00,000

(c) Each company declared a dividend of 10% in the year 2011 on its shares out of Profits for the year 2010; Angle Ltd. and Bolt Ltd. have credited their Profit and Loss account with the dividends received.

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- (d) The increase in reserves in case of Angle Ltd., Bolt Ltd., and Canopy Ltd., was effected in the year 2010.
- (e) All the bills payable appearing in Canopy Ltd.'s Balance Sheet were accepted in favour of Bolt Ltd., out of which bills amounting ₹ 30,000 were endorsed by Bolt Ltd., in favour of Angle Ltd.
- (f) Stock with Bolt Ltd. includes goods purchased from Angle Ltd., for ₹ 18,000. Angle Ltd., invoiced the goods at cost plus 20%.

Prepare consolidated Balance Sheet of the group as at 31st December, 2011. Working should be part of the answer. Ignore taxation including dividend distribution tax, disclose minority interest as per AS 21.

Answer

**Consolidated Balance Sheet of Angle Ltd. and its subsidiaries
Bolt Ltd and Canopy Ltd
as at 31st December, 2011**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserves and Surplus	2	9,83,562
(2) Minority Interest	3	6,24,271
(3) Current Liabilities		
Trade payables	4	5,50,000
Total		36,57,833
II. Assets		
(1) Non-current assets		
Fixed assets		
i. Tangible assets	5	14,65,000
ii. Intangible assets	6	14,35,833
(2) Current assets		
(a) Inventories	7	4,07,000
(b) Trade receivables	8	3,00,000
(c) Cash and cash equivalents	9	50,000
Total		36,57,833

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	Equity shares of ₹ 100 each		15,00,000
2.	Reserves & surplus		
	Reserves (2,00,000+14,844+2,083)	2,16,927	
	Profit and Loss Account (W.N.4)	<u>7,66,635</u>	9,83,562
3.	Minority Interest (W.N. 6)		
	Bolt Ltd.	3,93,021	
	Canopy Ltd.	<u>2,31,250</u>	6,24,271
4.	Trade payables		
	Sundry Creditors		
	Angle Ltd.	2,00,000	
	Bolt Ltd.	2,50,000	
	Canopy Ltd.	<u>1,00,000</u>	5,50,000
	Bills Payable	50,000	
	Less: Mutually held	<u>(50,000)</u>	Nil
5.	Tangible Assets		
	Plant & Machinery		
	Angle Ltd.	4,00,000	
	Bolt Ltd.	2,50,000	
	Canopy Ltd.	<u>3,25,000</u>	9,75,000
	Furniture & Fittings		
	Angle Ltd.	2,00,000	
	Bolt Ltd.	1,50,000	
	Canopy Ltd	<u>1,40,000</u>	4,90,000
6.	Intangible assets		
	Goodwill		
	Angle Ltd.	2,50,000	
	Bolt Ltd.	5,80,000	
	Canopy Ltd.	<u>4,50,000</u>	12,80,000
	Add: Cost of control(W.N.7)	<u>1,55,833</u>	14,35,833

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7.	Inventories			
	Stock-in-Trade			
	Angle Ltd.		1,00,000	
	Bolt Ltd.		1,50,000	
	Canopy Ltd.		<u>1,60,000</u>	
			4,10,000	
	Less: Provision for unrealised profit		<u>(3,000)</u>	4,07,000
8.	Trade receivables			
	Sundry Debtors			
	Angle Ltd.	1,40,000		
	Bolt Ltd.	70,000		
	Canopy Ltd.	<u>70,000</u>	2,80,000	
	Bills Receivable			
	Angle Ltd.	50,000		
	Bolt Ltd.	<u>20,000</u>	70,000	
	Less: Mutually held		<u>(50,000)</u>	3,00,000
9.	Cash and cash equivalents			
	Cash-in-hand			
	Angle Ltd.	10,000		
	Bolt Ltd.	10,000		
	Canopy Ltd.	10,000	30,000	
	Cash-in-Transit/ Dues from Bolt Ltd. (W.N. 8)		<u>20,000</u>	<u>50,000</u>

Working Notes:

1. Ascertainment of Profits for the year 2011

	Angle Ltd.	Bolt Ltd.	Canopy Ltd.
	₹	₹	₹
Balance as on 1 st January, 2010	50,000	(50,000)	30,000
Add: Profits earned during 2010	<u>3,00,000</u>	<u>2,50,000</u>	<u>1,00,000</u>
	3,50,000	2,00,000	1,30,000
Less: Dividend Declared	<u>(1,50,000)</u>	<u>(1,00,000)</u>	<u>(60,000)</u>
	2,00,000	1,00,000	70,000
Less: Transfer to Reserve	<u>(1,00,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>

	1,00,000	75,000	45,000
Profit for the year 2011 (Balancing Figure)	<u>4,00,000</u>	<u>2,00,000</u>	<u>2,05,000</u>
Balance as on 31 st December, 2011	5,00,000	2,75,000	2,50,000
Less: Pre-acquisition dividend wrongly credited	<u>42,500</u>	<u>17,500</u>	<u>-</u>
Correct balance as on 31 st December, 2011	<u>4,57,500</u>	<u>2,57,500</u>	<u>2,50,000</u>

2. Undistributed profits for the year 2010

	<i>Bolt Ltd.</i> ₹	<i>Canopy Ltd.</i> ₹
Profits for the year 2010	2,50,000	1,00,000
Less: Dividends declared	<u>(1,00,000)</u>	<u>(60,000)</u>
	1,50,000	40,000
Less: Transfer to Reserves	<u>(25,000)</u>	<u>(25,000)</u>
	<u>1,25,000</u>	<u>15,000</u>

3. Analysis of Profits

	Capital Profits ₹	Revenue Reserve ₹	Revenue Profits ₹
Canopy Ltd.			
Reserves as on 1 st January, 2010	50,000		
Transfer to Reserve in the year 2010 [(75,000-50,000)/2]	12,500	12,500	
Profit & Loss Account			
Balance as on 1 st January, 2010	30,000		
Profit for 2010 remaining undistributed [(1,00,000-25,000-60,000)/2]	7,500		7,500
Profit for the year 2011 (2,50,000-30,000-15,000)	<u> </u>	<u> </u>	<u>2,05,000</u>
(A)	1,00,000	12,500	2,12,500
Minority Interest [¼ th of (A)]	<u>25,000</u>	<u>3,125</u>	<u>53,125</u>
	75,000	9,375	1,59,375
Share of Angle Ltd. [⅙ th of (A)]	<u>16,667</u>	<u>2,083</u>	<u>35,417</u>
Share of Bolt Ltd.	<u>58,333</u>	<u>7,292</u>	<u>1,23,958</u>

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Bolt Ltd.			
Reserves as on 1 st January, 2010	1,00,000		
Transfer to Reserves 2010 [(1,25,000-1,00,000)/2]	12,500	12,500	
Profit & Loss Account - Balance (Dr.) as on 1 st January, 2010	(50,000)		
Undistributed Profits for 2010 [(2,50,000-25,000-1,00,000)/2]	62,500		62,500
Share in profits of Canopy Ltd.	58,333	7,292	1,23,958
Profit for the year, 2011 (2,00,000 – 17,500)			<u>1,82,500</u>
(B)	1,83,333	19,792	3,68,958
Less: Minority Interest [$\frac{1}{4}$ th of (B)]	<u>(45,833)</u>	<u>(4,948)</u>	<u>(92,240)</u>
Share of Angle Ltd.	<u>1,37,500</u>	<u>14,844</u>	<u>2,76,718</u>

4. Consolidated Profit and Loss Account of Angle Ltd.

	₹
Profit & Loss Account balance as on 31.12.2011	4,57,500
Add: Share in revenue profits of Canopy Ltd.	35,417
Share in revenue profits of Bolt Ltd.	<u>2,76,718</u>
	7,69,635
Less: Unrealised Profit in Closing Stock (20/120 × 18,000)	<u>(3,000)</u>
	<u>7,66,635</u>

5. Consolidated Reserves of Angle Ltd.

	₹
Reserves as on 31.12.2011	2,00,000
Add: Share in revenue reserves of Canopy Ltd.	2,083
Add: Share in revenue reserves of Bolt Ltd.	<u>14,844</u>
	<u>2,16,927</u>

6. Minority Interest

	Bolt Ltd.	Canopy Ltd.
	₹	₹
Share Capital	2,50,000	1,50,000
Share of Capital Profits	45,833	25,000
Share of Revenue Reserves	4,948	3,125
Share of Revenue Profits	<u>92,240</u>	<u>53,125</u>

Total	<u>3,93,021</u>	<u>2,31,250</u>
Grand total		<u>6,24,271</u>

7. Cost of Control/Goodwill

	₹	₹
Cost of investments (9,00,000+1,50,000+5,20,000)		15,70,000
Less: Dividend Attributable to Pre-Acquisition Profits for 6 months i.e. [(75,000+45,000)/2]		<u>60,000</u>
		15,10,000
Less: Face value of Shares		
Bolt Ltd.	7,50,000	
Canopy Ltd.	4,50,000	
Capital Profits		
Bolt Ltd.	1,37,500	
Canopy Ltd.	<u>16,667</u>	<u>(13,54,167)</u>
Goodwill		<u>1,55,833</u>

8 Cash in Transit /Dues from Bolt Ltd.

		₹	₹
(i)	Due to Angle Ltd.		
	From Bolt Ltd.	1,20,000	
	From Canopy Ltd.	<u>80,000</u>	2,00,000
(ii)	Due by Angle Ltd.		
	To Bolt Ltd.	1,00,000	
	To Canopy Ltd.	<u>80,000</u>	<u>1,80,000</u>
			<u>20,000</u>

Question 14

The following are the summarized Balance Sheets of Ram Ltd., Shyam Ltd. and Tom Ltd. as on 31.03.2012:

	₹ in'000		
Particulars	Ram Ltd.	Shyam Ltd.	Tom Ltd.
<i>Liabilities</i>			
Equity Share Capital (₹ 100 each)	8,000	4,000	1,600
General Reserve	1,600	280	-
Profit and Loss Account	1,360	960	-

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Current Liabilities	<u>1,280</u>	<u>3,000</u>	<u>1,120</u>
Total	<u>12,240</u>	<u>8,240</u>	<u>2,720</u>
Assets			
Investments :			
32,000, shares in Shyam Ltd.	4,800	-	-
4,000, shares in Tom Ltd.	200	-	-
12,000, shares in Tom Ltd.	-	720	-
Profit and Loss Account	-	-	640
Current Assets	<u>7,240</u>	<u>7,520</u>	<u>2,080</u>
Total	<u>12,240</u>	<u>8,240</u>	<u>2,720</u>

From the following information, prepare consolidated Balance Sheet of Ram Ltd. and its subsidiaries as on 31.03.2012:

- (i) Shyam Ltd. has advanced ₹8,00,000 to Tom Ltd.
- (ii) Current Liabilities of Ram Ltd. includes ₹4,00,000 due to Tom Ltd.
- (iii) Shyam Ltd. and Tom Ltd. have not paid any dividend.
- (iv) Ram Ltd. acquired its investments on 01.04.2011 from Shyam Ltd. and then amount standing to credit of General Reserve and Profit and Loss account were ₹2,80,000 and ₹5,20,000 respectively.
- (v) Ram Ltd. acquired investments in Tom Ltd. on 01.04.2011, when the debit balance in Profit and Loss account in books of Tom Ltd. was ₹4,80,000.
- (vi) Shyam Ltd. acquired its investments in Tom Ltd. on 01.04.2009 and then the debit balance in Profit and Loss account was ₹1,60,000.
- (vii) Shyam Ltd.'s stock includes stock worth ₹4,80,000 which was invoiced by Ram Ltd. at 20% above cost.

Answer

Consolidated Balance Sheet of Ram Ltd. and its subsidiaries Shyam Ltd and Tom Ltd. as on 31.3.2012

Particulars	Note No.	(₹ in '000s)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		8,000
(b) Reserves and Surplus	1	3,096

(2) Minority Interest (W.N.7)		952
(3) Current Liabilities	2	4,200
Total		16,248
II. Assets		
(1) Non-current assets		
Fixed assets		
Intangible assets	3	688
(2) Current assets	4	15,560
Total		16,248

Notes to Accounts

			₹ in '000s
1.	Reserves and Surplus		
	General Reserve	1,600	
	Profit & Loss (W.N.6)	1,496	3,096
2.	Current Liabilities		
	Ram Ltd.	1,280	
	Shyam Ltd.	3,000	
	Tom Ltd.	<u>1,120</u>	
		5,400	
	Less: Mutual Owings	<u>1,200</u>	4,200
3.	Intangible assets		
	Goodwill (W. N. 5)		688
4.	Current Assets		
	Ram Ltd.	7,240	
	Shyam Ltd.	7,520	
	Tom Ltd.	<u>2,080</u>	
		16,840	
	Less: Mutual Owings	<u>(1,200)</u>	
		15,640	
	Less: Unrealised Profit	<u>(80)</u>	15,560

Working Notes:**1. General Reserve and Profit and Loss Account of Shyam Ltd.****General Reserve Account of Shyam Ltd.**

			₹'000				₹'000
31.3.12	To	Balance c/d	<u>280</u>	1.4.11	By	Balance b/d	<u>280</u>

Draft Profit and Loss Account of Shyam Ltd.

			₹ '000				₹ '000
31.3.12	To	Balance c/d	960	1.4.11	By	Balance b/d	520
					By	Profit earned during the year (Bal. Fig.)	<u>440</u>
			<u>960</u>				<u>960</u>

2. Draft Profit and Loss Account of Tom Ltd.

			₹000				₹000
1.4.09	To	Balance b/d	<u>160</u>	31.3.10	By	Balance c/d	<u>160</u>
			<u>160</u>				<u>160</u>
1.4.10	To	Balance b/d	160	31.3.11	By	Balance c/d	480
	To	Loss incurred during the year (Bal. Fig.)	<u>320</u>				
			<u>480</u>				<u>480</u>
1.4.11	To	Balance b/d	480	31.3.12	By	Balance c/d	640
	To	Loss incurred during the year (Bal. Fig.)	<u>160</u>				
			<u>640</u>				<u>640</u>

3. Analysis of Profits of Tom Ltd.

		Capital Profits ₹'000	Revenue Profits ₹'000
(i)	From the viewpoint of Shyam Ltd.		
	Debit Balance in Profit and Loss Account as on 1.4.2009	(160)	
	Loss incurred between 1.4.2009 to 31.3.2012		
	[(320 + 160) – Refer W.N. 2]	<u>(160)</u>	<u>(480)</u>
			<u>(480)</u>

(ii)	Share of Shyam Ltd.-75% [carried forward to W. N. 4]	(120)	(360)
	From the view point of Ram Ltd.		
	Debit Balance of Profit and Loss Account as on 1.4.11	(480)	
	Loss during the year 2011-12	<u> </u>	(160)
		(480)	(160)
	Share of Ram Ltd. (25%)	(120)	(40)

4. Analysis of Profits of Shyam Ltd. (From the viewpoint of Ram Ltd.)

	Capital Profits ₹'000	Revenue Profits ₹'000
General Reserve as on 1.4.11	280	
Profit and Loss Account Balance as on 1.4.11	520	
Profit earned during 2011-12 (W.N.1)		440
Brought forward Shyam Ltd.'s share of loss in Tom Ltd. [W. N. 3(i)]	(120)	(360)
Share of Shyam Ltd. in revenue loss of Tom Ltd. for the period 1.4.09 to 31.3.11 [75% of (360- 40)] being treated as capital loss from view point of Ram Ltd.	(240)	240
	440	320
Less:Share of Minority Interest (20%)	(88)	(64)
Balance taken to Ram Ltd. (80%)	352	256

5. Cost of Control

		₹ '000
Investment by Ram Ltd. in Shyam Ltd.	4,800	
Tom Ltd.	200	
Investment by Shyam Ltd. in Tom Ltd.	720	5720
Less: Paid up value of shares of:		
Shyam Ltd.	3,200	
Tom Ltd. (400 + 1,200)	1,600	
	4,800	
Capital loss of Ram Ltd. in Tom Ltd. [W.N. 3(ii)]	(120)	
Capital Profit of Ram Ltd. in Shyam Ltd. (W.N. 4)	352	(5,032)
Goodwill		688

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6. Consolidated Profit and Loss A/c of Ram Ltd.

	₹ '000
Profit and Loss A/c Balance	1,360
Post acquisition share of loss from Tom Ltd.	(40)
Post acquisition share of profit from Shyam Ltd.	<u>256</u>
	1,576
Less: Unrealised Profit on Stock ($\frac{1}{6}$ th of 480)	<u>(80)</u>
	<u>1,496</u>

7. Minority Interest

	₹'000
Paid up value of shares in Shyam Ltd. (20% of 4,000)	800
Share of Capital Profit (W.N. 4)	88
Share of Revenue Profit (W.N. 4)	<u>64</u>
	<u>952</u>

Question 15

P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Summarised Balance Sheets of four companies as on 31.03.12 are:

	(₹ in lakhs)			
	P Ltd.	S	J	A
Investment in S	800	-	-	-
Investment in J	600	-	-	-
Investment in A	600	-	-	-
Fixed assets	1000	800	1400	1000
Current assets	<u>2200</u>	<u>3300</u>	<u>3250</u>	<u>3650</u>
Total	<u>5200</u>	<u>4100</u>	<u>4650</u>	<u>4650</u>
Liabilities:				
Share capital Re. 1				
Equity share	1000	400	800	800
Retained earnings	4000	3400	3600	3600
Creditors	<u>200</u>	<u>300</u>	<u>250</u>	<u>250</u>
Total	<u>5200</u>	<u>4100</u>	<u>4650</u>	<u>4650</u>

P Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹ 520 lakhs. P Ltd. acquired its shares in 'J' at the beginning of the year when 'J' retained earnings were ₹ 400 lakhs. P Ltd. acquired its shares in 'A' on 01.04.11 when 'A' retained earnings were ₹ 400 lakhs.

The balance of goodwill relating to S had been written off three years ago. The value of goodwill in 'J' remains unchanged.

Prepare the Consolidated Balance Sheet of P Ltd. as on 31.03.12 as per AS 21, 23, and 27.

Answer

Consolidated Balance Sheet of P Ltd. as on 31.3.12

Particulars	Note No.	(₹ in lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		1,000
(b) Reserves and Surplus	1	8,800
(2) Minority Interest (W.N.3)		760
(3) Current Liabilities		
Trade Receivables (200+ 300 + 40% of 250)		600
Total		11,160
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets		2,360
[1,000 + 800 + 560 (1400 x 40%)]		
Intangible assets (W.N.1)		120
(b) Non-current investment	2	1,880
(2) Current assets [2,200+3,300+1,300(3,250x 40%)]		6,800
Total		11,160

Notes to Accounts

		₹ in lacs
1.	Reserves and Surplus	
	Retained Earnings(W.N.2)	8,800
2.	Non-current investment	
	Investment in Associates (W.N.4)	1,880

Working Notes:**1. Computation of Goodwill****S (subsidiary)**

		₹ in lacs
Cost of investment		800
Less: Paid up value of shares acquired	320	
Share in pre-acquisition profits of S Ltd. (520 × 80%)	<u>416</u>	<u>(736)</u>
Goodwill		<u>64</u>

J (Jointly Controlled Entity)

		₹ in lacs
Cost of Investment		600
Less: Paid up value of shares acquired (40% of 800)	320	
Share in pre-acquisition profits (40% of 400)	<u>160</u>	<u>(480)</u>
Goodwill		<u>120</u>

Note: Jointly controlled entity 'J' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate A (AS 23)

		₹ in lacs
Cost of investment		600
Less: Paid up value of shares acquired (800 × 40%)	₹ 320	
Share in pre-acquisition profits (400 × 40%)	₹ <u>160</u>	<u>(480)</u>
Goodwill		<u>120</u>

Goodwill shown in the Consolidated Balance Sheet

	₹ in lacs
Goodwill of 'J'	120
Goodwill of 'S'	64
Less: Goodwill written off of 'S'	<u>(64)</u>
Goodwill	<u>120</u>

2. Consolidated Retained Earnings

	₹ in lacs
P Ltd.	4,000
Share in post acquisition profits of S - 80% (3,400 – 520)	2,304

Share in post acquisition profits of J - 40% (3,600 – 400)	1,280
Share in post acquisition profits of A - 40% (3,600 – 400)	1,280
Less: Goodwill written off	<u>(64)</u>
	<u>8,800</u>

3. Minority Interest 'S'

	₹ in lacs
Share Capital (20% of 400)	80
Share in Retained Earnings (20% of 3,400)	<u>680</u>
	<u>760</u>

4. Investment in Associates

	₹ in lacs
Cost of Investments (including goodwill ₹ 120 lakhs)	600
Share of post acquisition profits	<u>1,280</u>
Carrying amount of Investment (including goodwill ₹ 120 lakhs)	<u>1,880</u>

Question 16

The draft Balance Sheet of three companies, W, H, and O as at 31.3.2012 is as under:

	₹ in thousands		
Assets	<i>W</i>	<i>H</i>	<i>O</i>
Fixed assets	697	648	349
Investments			
1,60,000 shares in H	562	---	---
80,000 shares in O	184	---	---
Cash at bank	101	95	80
Trade receivables	386	321	251
Inventory	<u>495</u>	<u>389</u>	<u>287</u>
<i>Total</i>	<u>2,425</u>	<u>1,453</u>	<u>967</u>
Liabilities			
Share capital (Nominal value ₹ 1 per share)	600	200	200
Reserves	1,050	850	478
Trade payables	375	253	189
Debentures	<u>400</u>	<u>150</u>	<u>100</u>
<i>Total</i>	<u>2,425</u>	<u>1,453</u>	<u>967</u>

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You are given the following information:

- W purchased the shares in H on 13.10.2007 when the balance in reserves was ₹ 500 thousands.
- The shares in O were purchased on 11.5.2007 when the balance in reserves was ₹ 242 thousands.
- The following dividend have been declared but not accounted for before the accounting year end.

W	-	₹ 65 thousands
H	-	₹ 30 thousands
O	-	₹ 15 thousands

- Included in inventory figure of O is inventory valued at ₹ 20 thousands which had been purchased from W at cost plus 25%.
- Goodwill in respect of the acquisition of H has been fully written off.
- On 31.3.2012 H made bonus issue of one share for every share held. This had not been accounted in the balance sheet as on 31.3.2012.
- Included in trade payables of W is ₹ 18 thousands to O, which is included in trade receivables of O.

Prepare Consolidated Balance Sheet of W as at 31.3.2012.

Answer

Consolidated Balance Sheet of W and its subsidiary H as at 31st March, 2012

Particulars	Note No.	(₹ in thousands)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		600.00
(b) Reserves and Surplus (W.N.4)		1,355.80
(2) Minority Interest (W.N.3)		204.00
(3) Non-Current Liabilities		
Long-term borrowings	1	550.00
(4) Current Liabilities		
(a) Trade Payables (₹ 375+₹ 253)		628.00
(b) Other current liabilities	2	71.00
Total		3,408.80

II. Assets		
(1) Non-current assets		
(a) Fixed assets (₹ 697+ ₹ 648)		1,345.00
(b) Non-current investment	3	270.80
(2) Current assets		
(a) Inventories (₹ 495 + ₹ 389)		884.00
(b) Trade receivables (₹ 386 + ₹ 321)		707.00
(c) Cash and cash equivalents	4	196.00
(d) Other current asset	5	6.00
Total		3,408.80

Notes to Accounts

		₹ in thousands
1.	Long Term Borrowings Debentures (₹400 + ₹ 150)	550.00
2.	Other current liabilities Proposed Dividend (W.N.6)	71.00
3.	Non-current investment Investment in Associate (W.N.5) (including goodwill ₹7.20 thousand) <i>Add:</i> Accumulated reserves	184.00 <u>86.80</u>
4.	Cash and cash equivalents Cash at Bank (₹101+ ₹95)	196.00
5.	Other current asset Dividend receivable from O	6.00

Working Notes:

1. Analysis of profits of H

	₹ in thousands	
	<i>Pre acquisition profits</i>	<i>Post acquisition profits</i>
Reserves on the date of acquisition	500	350
Less: Bonus issue *	<u>(200)</u>	<u>-</u>

* It is assumed that bonus issue had been made out of pre-acquisition reserves.

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	300	350
Less: Dividend declared on 31.3.2012	<u>-</u>	<u>(30)</u>
	<u>300</u>	<u>320</u>
Minority interest (20%)	60	64
W's share (80%)	240	256

2. Cost of control/Goodwill

	₹ in thousands	
Amount paid for investment		562
Less: Paid up value of shares including bonus (80% of 400)	320	
Share in pre-acquisition profits of H	<u>240</u>	<u>(560)</u>
Goodwill		<u>2</u>

3. Minority Interest

	₹ in thousands
Paid up value of share including bonus issue (400 × 20%)	80
Share in pre acquisition profits of H	60
Share in post acquisition profits of H	<u>64</u>
	<u>204</u>

4. Consolidated Reserves

	₹ in thousands
Balance as per W's Balance Sheet	1,050.00
Add: Share in post acquisition profits of H	256.00
Dividend from H	24.00
Share of profit from Associate O	86.80
Add: Dividend from O	<u>6.00</u>
	<u>92.80</u>
	1,422.80
Less: Dividend payable	65.00
Goodwill written off	<u>2.00</u>
	<u>(67.00)</u>
	<u>1,355.80</u>

5. Investment in Associate O as on 31.03.2012 (As per AS 23)

	₹ in thousands	
Amount paid for investment		184.00
Less: Paid up value of shares	80.00	
Share in pre acquisition reserves (40% of ₹ 242)	<u>96.8</u>	<u>(176.80)</u>

Goodwill (Identified at the time of purchase)		<u>7.20</u>
Initial cost		184.00
Add: Increase in equity reserves [40% of ₹ (478 –15 –242)]	88.40	
Less: Unrealised profit $\frac{25}{125} \div 40\%$	<u>(1.60)</u>	<u>86.80</u>
Investment in Associate O as on 31.03.12		<u>270.80</u>
Share of profit from Associate O ₹ (270.80 – 184 + 6)		<u>92.80</u>

6. Proposed Dividend

	₹ in thousands
W	65
Minority Interest (₹ 30 – ₹ 24)	<u>6</u>
	<u>71</u>

Financial Reporting of Interest in Jointly Controlled Entities**Question 17**

The summarized Balance Sheets of three companies Sun Ltd., Moon Ltd. and Light Ltd. as at 31st March, 2012 are given below:

Liabilities	Sun Ltd. ₹	Moon Ltd. ₹	Light Ltd. ₹	Assets	Sun Ltd. ₹	Moon Ltd. ₹	Light Ltd. ₹
Share Capital (Shares of ₹ 10 each)	1,50,000	1,00,000	60,000	Fixed Assets	70,000	1,20,000	1,03,000
Reserves	50,000	40,000	30,000	Investments (at cost)			
Profit and Loss A/c	60,000	50,000	40,000	Shares in:			
Sundry creditors	30,000	35,000	25,000	Moon Ltd.	90,000	-	-
				Light Ltd.	40,000	-	-
				Light Ltd.	-	50,000	-
Sun Ltd.	-	10,000	8,000	Stock-in-trade	40,000	30,000	20,000
				Debtors	20,000	25,000	30,000
				Due from--			
				Moon Ltd.	12,000		
				Light Ltd.	8,000		
				Cash in hand	10,000	10,000	10,000
	2,90,000	2,35,000	1,63,000		2,90,000	2,35,000	1,63,000

(a) Sun Ltd. held 8,000 shares of Moon Ltd. and 1,800 shares of Light Ltd.

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- (b) Moon Ltd. held 3,600 shares of Light Ltd.
 (c) All investments were made on 1st July, 2011.
 (d) The following balances were there on 1st July, 2011:

	Moon Ltd. ₹	Light Ltd. ₹
Reserves	25,000	15,000
Profits and Loss A/c	20,000	25,000

- (e) Moon Ltd. invoiced goods to Sun Ltd. for ₹4,000 at a cost plus 25% in December, 2011. The closing stock of Sun Ltd. includes such goods valued at ₹5,000.
 (f) Light Ltd. sold to Moon Ltd. an equipment costing ₹24,000 at a profit of 25% on selling price on 1st January, 2011. Depreciation at 10% per annum was provided by Moon Ltd. on the equipment.
 (g) Sun Ltd. proposes dividend at 10%.

Prepare the Consolidated Balance Sheet of the group as at 31st March, 2012. Working should form part of the answer.

Answer

Consolidated Balance Sheet of Sun Ltd. and its subsidiaries Moon Ltd. and Light Ltd. as at 31st March, 2012

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,50,000
(b) Reserves and Surplus	2	1,72,580
(2) Minority Interest		53,620
(3) Current Liabilities		
(a) Trade Payables	3	90,000
(b) Other current liabilities	4	15,000
Total		4,81,200
II. Assets		
(1) Non-current assets		
Fixed assets	5	2,85,200

(2) Current assets		
(a) Inventories	6	89,000
(b) Trade receivables	7	75,000
(c) Cash and cash equivalents	8	32,000
Total		4,81,200

Notes to Accounts

			₹
1.	Reserves and Surplus		
	Capital Reserve (W.N.3)	26,000	
	Other Reserves (W.N.7)	73,700	
	Profit and Loss Account (W. No 6)	<u>72,880</u>	1,72,580
2.	Minority interest		
	Moon Ltd. (W. N. 4)	41,400	
	Light Ltd. (W.N.4)	<u>12,220</u>	53,620
3.	Trade Payables		
	Sun Ltd.	30,000	
	Moon Ltd.	35,000	
	Light Ltd.	<u>25,000</u>	90,000
4.	Other current liabilities		
	Proposed Dividend		15,000
5.	Fixed Assets		
	Sun Ltd.	70,000	
	Moon Ltd. ₹ 1,20,000		
	Less: Unrealised Profit (W.N.5) ₹ <u>(7,800)</u>	1,12,200	
	Light Ltd.	<u>1,03,000</u>	2,85,200
6.	Inventories		
	Sun Ltd. ₹ 40,000		
	Less: Unrealised Profit ₹ <u>(1,000)</u>	39,000	
	Moon Ltd.	30,000	
	Light Ltd.	<u>20,000</u>	89,000
7.	Trade Receivables		
	Sun Ltd.	20,000	
	Moon Ltd.	25,000	
	Light Ltd.	<u>30,000</u>	75,000

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8.	Cash and cash equivalents		
	Cash in hand		
	Sun Ltd.	₹ 10,000	
	Moon Ltd.	₹ 10,000	
	Light Ltd.	₹ <u>10,000</u>	30,000
	Cash in transit (W.N.8)	<u>2,000</u>	32,000

Working Notes:

1. Analysis of Profits of Light Ltd.

	Pre-acquisition	Post acquisition	
	Capital Profit ₹	Revenue Reserves ₹	Revenue Profits ₹
Reserves on 1.7.2011	15,000	-	-
Profit and Loss A/c on 1.7.2011	25,000	-	-
Increase in Reserves	-	15,000	-
Increase in Profit	-	-	15,000
	40,000	15,000	15,000
Less: Minority Interest (10%)	(4,000)	(1,500)	(1,500)
	36,000	13,500	13,500
Share of Sun Ltd.	12,000	4,500	4,500
Share of Moon Ltd.	24,000	9,000	9,000

2. Analysis of Profits of Moon Ltd.*

	Pre-acquisition	Post acquisition	
	Capital Profit ₹	Revenue Reserves ₹	Revenue Profits ₹
Reserves on 1.7.2011	25,000	-	-
Profit and Loss A/c on 1.7.2011	20,000	-	-
Increase in Reserves	-	15,000	-
Increase in Profit	-	-	30,000
	45,000	15,000	30,000
Share in Light Ltd. (post acquisition)	-	9,000	9,000
	45,000	24,000	39,000
Less: Minority Interest (20%)	(9,000)	(4,800)	(7,800)
Share of Sun Ltd.	36,000	19,200	31,200

* Treatment of capital profit of sub-subsidiary company i.e. Light Ltd. has been done by applying direct approach.

3. Cost of Control

		₹
Investment in Moon Ltd.		90,000
Investment in Light Ltd.		
	₹	
by Moon Ltd.	50,000	
by Sun Ltd.	<u>40,000</u>	90,000
		1,80,000
Less: Paid up value of shares		
in Moon Ltd.	80,000	
in Light Ltd.	<u>54,000</u>	1,34,000
Capital Profit of Sun Ltd.		
in Moon Ltd.	36,000	
in Light Ltd.	<u>12,000</u>	48,000
Capital profit of Moon Ltd. in Light Ltd.	24,000	(2,06,000)
Capital Reserve		26,000

4. Minority Interest

	Moon Ltd.	Light Ltd.
	₹	₹
Share Capital	20,000	6,000
Capital Profit	9,000	4,000
Revenue Reserves	4,800	1,500
Revenue Profits	7,800	1,500
	41,600	13,000
Less: Unrealised Profit on Stock 20% of (₹ 5,000 x 25/125)	(200)	
Unrealised Profit on Equipment (10% of ₹ 7,800)		(780)
	41,400	12,220

5. Unrealised Profit on Equipment Sale

	₹
Selling price of the equipment $\frac{24,000 \times 100}{75} = 32,000$	32,000
Less: Cost price of the equipment	(24,000)
Profit on sale	8,000
Unrealised profit = $[8,000 - (8,000 \times \frac{10}{100} \times \frac{3}{12})] = ₹ 7,800$	

6. Profit and Loss Account – Sun Ltd.

	₹
Balance as per separate Balance Sheet	60,000
Less: Proposed dividend	(15,000)
	45,000
Add: Share in Moon Ltd.	31,200
Share in Light Ltd.	4,500
	80,700
Less: Unrealised profit on Equipment (90% of 7,800)	(7,020)
	73,680
Less: Unrealised profit on Stock ($5,000 \times \frac{25}{125} \times 80\%$)	(800)
	72,880

7. Other Reserves – Sun Ltd.

	₹
Balance as per separate Balance Sheet	50,000
Share in Moon Ltd.	19,200
Share in Light Ltd.	<u>4,500</u>
	<u>73,700</u>

8. Cash in Transit

	₹
Due to Sun Ltd. from Moon Ltd.	12,000
Less: Due by Moon Ltd.	(10,000)
	2,000

Question 18

Air Ltd., a listed company, entered into an expansion programme on 1st April, 2011. On that date the company purchased from Bag Ltd. its investments in two Private Limited Companies. The purchase was of

(a) *the entire share capital of Cold Ltd.*

and

(b) *50% of the share capital of Dry Ltd.*

Both the investments were previously owned by Bag Ltd. After acquisition by Air Limited, Dry Ltd. was to be run by Air Ltd. and Bag Ltd. as a jointly controlled entity.

Air Ltd. makes its financial statements upto 31st March each year. The terms of acquisition were:

Cold Ltd.

The total consideration was based on price earnings ratio (P/E) of 12 applied to the reported profit of ₹20 lakhs of Cold Ltd. for the year 31st March, 2011. The consideration was settled by Air Ltd. issuing 8% debentures for ₹140 lakhs (at par) and the balance by a new issue of ₹1 equity shares, based on its market value of ₹2.50 each.

Dry Ltd.

The market value of Dry Ltd. on 1st April, 2011 was mutually agreed as ₹375 lakhs. Air Ltd. satisfied its share of 50% of this amount by issuing 75 lakhs ₹1 equity shares (market value ₹2.50 Each) to Bag Ltd.

Air Ltd. has not recorded in its books the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 31st March, 2012 are:

₹ in thousands			
	Air Ltd.	Cold Ltd.	Dry Ltd.
Assets			
Tangible Assets	34,260	27,000	21,060
Inventories	9,640	7,200	18,640
Debtors	11,200	5,060	4,620
Cash	-	3,410	40
	<u>55,100</u>	<u>42,670</u>	<u>44,360</u>
Liabilities			
Equity capital:			
₹ 1 Each	10,000	20,000	25,000
Retained earnings	20,800	15,000	4,500
Trade and other payables	17,120	5,270	14,100
Overdraft	1,540	-	-
Provision for taxes	<u>5,640</u>	<u>2,400</u>	<u>760</u>
	<u>55,100</u>	<u>42,670</u>	<u>44,360</u>

The following information is relevant.

- The book values of the net assets of Cold Ltd. and Dry Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.
- The current profits of Cold Ltd. and Dry Ltd. for the year ended 31st March, 2012 were ₹80 lakhs and ₹20 lakhs respectively. No dividends were paid by any of the companies during the year.

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- (c) Dry Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS-27 "Interests in joint venture".
- (d) Goodwill in respect of the acquisition of Dry Ltd. has been impaired by ₹ 10 lakhs at 31st March, 2012. Gain on acquisition, if any, will be separately accounted.
- Prepare the consolidated Balance Sheet of Air Ltd. and its subsidiaries as at 31st March, 2012.

Answer

**Consolidated Balance Sheet of Air Ltd.
with its Subsidiary Cold Ltd. and Jointly controlled Dry Ltd.
as on 31st March, 2012**

Particulars	Note No.	(₹ in thousands)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	21,500
(b) Reserves and Surplus	2	49,050
(2) Non-Current Liabilities		
Long-term borrowings	3	15,540
(3) Current Liabilities		
(a) Trade Payables ₹ (17,120 + 5,270 + 7,050)		29,440
(b) Short-term provisions	4	8,420
Total		1,23,950
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangibles assets ₹ (34,260+27,000+10,530)		71,790
(b) Intangible assets (W.N.6)		4,000
(2) Current assets		
(a) Inventories ₹ (9,640 + 7,200 + 9,320)		26,160
(b) Trade receivables ₹ (11,200+5,060+2,310)		18,570
(c) Cash and cash equivalents	5	3,430
Total		1,23,950

Notes to Accounts

			₹ in thousands
1.	Share Capital Equity Capital ₹ (10,000 + 4,000 + 7,500) (Out of the above 11,500 thousand shares have been issued for consideration other than cash)		21,500
2.	Reserves and Surplus Retained Earnings (W.N.4) Capital Reserve (W.N.5) Securities Premium	28,800 3,000 <u>17,250</u>	49,050
3.	Long Term Borrowings 8% Debentures Overdraft	14,000 <u>1,540</u>	15,540
4.	Short-term provisions Provision for taxes ₹ (5,640 + 2,400 + 380)		8,420
5.	Cash and cash equivalents Cash ₹ (3,410 + 20)		3,430

Working Notes:

1. Purchase consideration paid to Cold Ltd.

Earnings per share for the year 31st March, 2011

$$= \frac{20,00,000}{2,00,00,000} = ₹ 0.10 \text{ per share}$$

Market price per share = ₹ 0.10 x 12 (i.e. P/E ratio) = ₹ 1.20 per share

Purchase consideration = ₹ 1.20 x 2,00,00,000 shares = ₹ 2,40,00,000

Purchase consideration to be paid as under:

8% Debentures	₹ 1,40,00,000
Equity Shares (40,00,000 shares of ₹ 2.50 each)	₹ <u>1,00,00,000</u>
	₹ <u>2,40,00,000</u>

Purchase consideration paid to Cold Ltd. will be ₹ 24,000 thousands.

2. Consideration paid to Dry Ltd.

(₹ in thousands)

Total market value (as given)	37,500
50% Shares acquired by Air Ltd. (75,00,000 shares @ ₹ 2.50 each)	18,750

3. Analysis of retained earnings of Cold Ltd. as on 31st March, 2012*(₹ in thousands)*

Retained earnings given in balance sheet on 31.3.12	15,000
Less: Current profits for the year ended 31.3.12 (Post acquisition)	<u>(8,000)</u>
Pre acquisition retained earnings	<u>7,000</u>
Air Ltd. has 100% share in pre and post acquisition profits of Cold Ltd.	

4. Retained Earnings in the Consolidated Balance Sheet

	<i>₹ in thousands</i>
Balance in Air Ltd. balance sheet	20,800
Add: Share in post acquisition profits of Cold Ltd.	8,000
Add: Share in post acquisition profits of Dry Ltd. (joint venture)	<u>1,000</u>
	29,800
Less: Goodwill (written off)	<u>(1,000)</u>
	<u>28,800</u>

5. Capital Reserve

	<i>₹ in thousands</i>
Amount Paid	24,000
Less: Paid up value of shares	20,000
Pre-acquisition profit	<u>7,000</u>
Capital Reserve	<u>(27,000)</u>
	<u>3,000</u>

6. Goodwill

	<i>₹ in thousands</i>
Amount paid for shares of Dry Ltd (₹ 37,500 x 50%)	18,750
Less: Paid up value of shares (₹ 25,000 x 50%)	(12,500)
Pre-acquisition profit (₹ 2,500 x 50%)	<u>(1,250)</u>
Goodwill	5,000
Less: Impairment (Written off)	<u>(1,000)</u>
	<u>4,000</u>

Exercises

Question 1

Following are the draft Balance Sheets of two companies A Ltd. and B Ltd. as at 31.03.2012:

Liabilities	A Ltd.	B Ltd.	Assets	₹ in lakhs)	
				A Ltd.	B Ltd.
Share Capital (₹ 100 each)	6.00	3.00	Fixed Assets	5.00	1.50
Profits:			Investment:		
Capital Profit	0.80	0.85	2,400 Shares in B Ltd.	3.00	-
Reserve Profit	3.20	0.29	1,200 Shares in A Ltd.	-	2.00
Creditors	1.50	0.81	Current Assets:		
			Debtors	2.00	0.80
			Stock	0.40	0.30
			Cash and Bank	<u>1.10</u>	<u>0.35</u>
	<u>11.50</u>	<u>4.95</u>		<u>11.50</u>	<u>4.95</u>

The following adjustments were not yet made:

1. Stock worth ₹ 5,000 in B Ltd. was found to be obsolete with no value.
2. A Ltd. acquires an asset costing ₹ 50,000 on 31.3.2012. No effect has been given for both the purchase and payment.
3. During the year A Ltd. sold an asset for ₹ 60,000 (original cost ₹ 40,000). The profit was included in the revenue profit.
4. Debtors of A Ltd. included a sum of ₹ 50,000 owed by B Ltd.

You are required to prepare the consolidated Balance Sheet of both the companies as on 31.3.2012 after giving effect to the above adjustments.

[Answer: CBS Total ₹1,130 (in'000s); Minority Interest ₹105 (in'000s); Cost of control ₹40 (in'000s)]

Question 2

War Ltd. purchased on 31st March, 2010, 48,000 shares in Peace Ltd. at 50% premium over face value by issue of 8% debentures at 20% premium. The balance sheets of War and Peace Ltd. as on 31.3.2010, the date of purchase were as under:

Liabilities	War Ltd. ₹	Peace Ltd. ₹	Assets	War Ltd. ₹	Peace Ltd. ₹
Share Capital (₹ 10)	10,50,000	6,00,000	Fixed assets	6,50,000	2,00,000
General reserve	1,20,000	40,000	Stock in trade	3,00,000	1,80,000
Profit and loss account	80,000	-	Sundry debtors	3,20,000	2,00,000
Sundry Creditors	1,00,000	60,000	Cash in hand	60,000	30,000

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			Preliminary expenses	20,000	10,000
			Profit and loss account	-	80,000
	<u>13,50,000</u>	<u>7,00,000</u>		<u>13,50,000</u>	<u>7,00,000</u>

Particulars of War Ltd:

- (i) Profit made: ₹
- 2010-2011 1,60,000
- 2011-2012 2,00,000
- (ii) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.
- (iii) Out of profit shown above every year ₹ 20,000 had been transferred to general reserve.
- (iv) 10% dividend had been paid in both the years.
- (v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

Particulars of Peace Ltd.:

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2010-2011 and 2011-2012 after charging depreciation of 10% p.a. of the book value as on 1.4.2010.

Prepare consolidated balance sheet as at 31.3.2012 of War Ltd., and its subsidiary.

[Answer: CBS Total ₹ 20,82,000; Minority Interest ₹90,000; Cost of control ₹2,32,000]

Question 3

The Balance Sheets of Sun Ltd. and Moon Ltd. as on 31.3.2012 are given below:

	Sun Ltd. (₹)	Moon Ltd. (₹)	Assets	Sun Ltd. (₹)	Moon Ltd. (₹)
Share Capital (₹ 10)	1,20,000	1,00,000	Fixed Assets	44,000	84,000
General Reserve	20,000	36,000	Investment in Moon Ltd.		
Profit and Loss Account	12,000	20,000	8,000 Shares @ ₹ 11	88,000	
Bills Payable	2,000	5,000			
Sundry Creditors	4,000	7,000	Sundry Debtors	6,000	15,000
Contingent Liability of Sun Ltd.: Bills Discounted not yet matured ₹2,500			Bills Receivable	4,000	16,000
			Stock in Trade	10,000	40,000
			Cash at Bank	<u>6,000</u>	<u>13,000</u>
	<u>1,58,000</u>	<u>1,68,000</u>		<u>1,58,000</u>	<u>1,68,000</u>

Shares were purchased on 1.4.2009. When the shares were purchased General Reserve and Profit and Loss Account of Moon Ltd. stood at ₹ 30,000 and ₹ 16,000 respectively. Dividend have been paid @ 10% every year after acquisition of shares, first dividend being paid out of pre-acquisition

profits. No dividend has been proposed for 2011-2012 as yet and no provision need be made in consolidated Balance Sheet. Sun Ltd. has credited all dividends received to Profit and Loss Account.

On 31.3.2012, Bonus shares has been declared by Moon Ltd. @ 1 fully paid share for 5 held, but no effect has been given to that in the above accounts. The Bonus was declared out of profits earned prior to 1.4.2009 from General Reserve.

When the shares were purchased, agreed valuations of Fixed Assets of Moon Ltd. was ₹ 1,08,000 although no effect has been given thereto in accounts.

Depreciation has been charged @ 10% p.a. on the book value as on 1.4.2009, (on straight line method), there being no addition or sale since then.

Out of Current Profits, ₹ 2,000 has been transferred to general reserve every year. Bills receivable of Sun Ltd. include ₹ 2,000 bills accepted by Moon Ltd. and bills discounted by Sun Ltd., but not yet matured include ₹ 1,500 accepted by Moon Ltd. Sundry creditors of Sun Ltd. include ₹ 2,000 due to Moon Ltd. whereas Sundry Debtors of Moon Ltd. include ₹ 4,000 due from Sun Ltd. It is found that Sun Ltd. has remitted a cheque of ₹ 2,000, which has not yet been received by Moon Ltd.

Prepare consolidated Balance Sheet as at 31.3.2012 of Sun Ltd. and its Subsidiary.

[Answer: CBS Total ₹2,25,600; Minority Interest ₹ 29,520; Cost of control (₹19,200)]

Question 4

The Balance Sheets of Bat Ltd. and Ball Ltd. as on 31.3.2012 are as follows:

	Bat Ltd. ₹	Ball Ltd. ₹		Bat Ltd. ₹	Ball Ltd. ₹
Share Capital (Shares of ₹ 10 each)	1,60,000	2,00,000	Investments		
Profit and Loss account	50,000	60,000	Shares in Ball Ltd.	1,96,000	-
Creditors	-	16,000	Debtors	-	1,20,000
			Stock	-	80,000
			Cash at Bank	-	70,000
			Cash in hand	14,000	6,000
	<u>2,10,000</u>	<u>2,76,000</u>		<u>2,10,000</u>	<u>2,76,000</u>

Particulars of Bat Ltd.:

- (1) This company was formed on 1.4.2011.
- (2) It acquired the shares of Ball Ltd. as under:

Date of Acquisition	No. of Shares	Cost ₹
1.4.2011	8,000	1,10,000
31.7.2011	6,000	86,000

- (3) The shares purchased on 31.7.2011 are ex-dividend and ex-bonus from existing holders.

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- (4) On 31.7.2011 dividend at 10% was received from Ball Ltd. and was credited to Profit and Loss Account.
- (5) On 31.7.2011 it received bonus shares from Ball Ltd. in the ratio of one share on every four shares held.
- (6) Bat Ltd. incurred an expenditure of ₹ 500 per month on behalf of Ball Ltd. and this was debited to the Profit and Loss Account of Bat Ltd., but nothing has been done in the books of Ball Ltd.
- (7) The balance in the Profit and Loss Account as on 31.3.2012 included ₹ 36,000 being the net profit made during the year.
- (8) Dividend proposed for 2011-2012 at 10% was not provided for as yet.

Particulars of Ball Ltd.:

- (1) The balance in the Profit and Loss Account as on 31.3.2012 is after the issue of bonus shares made on 31.7.2011.
- (2) The net profit made during the year is ₹ 24,000 including ₹ 6,000 received from insurance company in settlement of the claim towards loss of stock by fire on 30.06.2011 (Cost ₹ 10,800 included in opening stock).
- (3) Dividend proposed for 2011-2012 at 10% was not provided for in the accounts.

Prepare the Consolidated Balance Sheet of Bat Ltd. as on 31.3.2012.

[Answer: CBS Total ₹2,90,000; Minority Interest ₹ 50,800; Cost of control (₹30,400)]

Question 5

The summarised Balance Sheets of A Ltd. and B Limited are as follows:

Balance Sheets as at 31st December, 2011

	A Ltd.	B Ltd.
Sources of Funds:	₹	₹
Share Capital in equity shares of ₹ 10 each	2,00,000	50,000
Reserves	20,000	5,000
Profit and Loss Account as on 1st January, 2011	30,000	10,000
Profit for the year	8,000	8,000
Add: Dividends from B Ltd.	4,000	-
Less: Dividends paid	-	(5,000)
Creditors	<u>30,000</u>	<u>20,000</u>
Total	<u>2,92,000</u>	<u>88,000</u>

Application of Funds:		
Fixed Assets	2,00,000	80,000
Current Assets	32,000	8,000
Shares in B Ltd. at cost – 3,000 shares	<u>60,000</u>	<u>—</u>
Total	<u>2,92,000</u>	<u>88,000</u>

A Limited had acquired 4,000 shares in B Ltd. at ₹ 20 each on 1st January, 2011 and sold 1,000 of them at the same price on 1st October, 2011. The sale is cum dividend. An interim dividend of 10% was paid by B Limited on 1st July, 2011.

Draft the consolidated Balance Sheet as at 31st December, 2011.

[Answer: CBS Total ₹3,41,000; Minority Interest ₹ 27,200; Cost of control ₹21,000]

Question 6

The Balance Sheet of Golden and Silver Limited as on 31.3.2012 are given below:

Liabilities	Golden Ltd. (₹)	Silver Ltd. (₹)	Assets	Golden Ltd. (₹)	Silver Ltd. (₹)
Equity share capital	2,40,000	2,40,000	Fixed assets	88,000	1,68,000
General reserve	40,000	32,000	Investment	1,80,000	10,000
Profit and Loss account	24,000	39,000	Sundry debtors	12,000	30,000
Bills payable	4,000	10,000	Bills receivable	8,000	32,000
Sundry creditors	8,000	15,000	Stock in trade	20,000	80,000
			Cash at bank	<u>8,000</u>	<u>16,000</u>
	<u>3,16,000</u>	<u>3,36,000</u>		<u>3,16,000</u>	<u>3,36,000</u>

Note: Contingent liability of Golden Ltd.: Bills discounted not yet matured at ₹ 5,000.

Additional information:

- On 1.10.2009, Golden Ltd. acquired 16,000 shares of ₹10 each at the rate of ₹11 per share.
- Balances to General reserve and Profit and Loss account of Silver Ltd. stood on 1.4.2009 at ₹60,000 and ₹32,000 respectively.
- Dividends have been paid @ 10% for each of the years 2009-10 and 2010-11. Dividend for the year 2009-10 was paid out of the pre-acquisition profits. No dividend has been proposed for the year 2011-12 as yet and no provision need to be made in consolidated Balance Sheet. Golden Ltd. has credited all dividends received to profit and Loss account.
- On 1.3.2012, bonus shares were issued by Silver Ltd. at the rate of one fully paid share for every five held and effect has been given to that in the above accounts. The bonus was declared from general reserves from out of profits earned prior to 1.4.2009.

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- (v) On 1.10.2009, Fixed assets was revalued at ₹2,16,000, but no adjustment had been made in the books.
- (vi) Depreciation had been charged @ 10% p.a. on the book value as on 1.4.2009 (on straight line method), there being no addition or sale since then.
- (vii) Out of Current profits ₹4,000 have been transferred to General reserve every year.
- (viii) Bills receivable of Golden Ltd. include ₹4,000 bills accepted by Silver Ltd. Bills discounted by Golden Ltd., but not yet matured include ₹3,000 accepted by Silver Ltd.
- (ix) Sundry creditors of Golden Ltd. include ₹4,000 due to Silver Ltd. Sundry debtors of Silver Ltd. include ₹8,000 due from Golden Ltd.
- (x) It is found that Golden Ltd. has remitted a cheque of ₹4,000, which has not yet been received by Silver Ltd.

Prepare consolidated Balance Sheet as at 31.3.2012 of Golden Ltd. and its Subsidiary.

[Answer: CBS Total ₹459,000; Minority Interest ₹60,400; Capital Reserve ₹53,200]

Question 7

Astha Ltd. acquired 80% of both classes of shares in Birat Ltd. on 1.4.2011. The draft Balance Sheets of two companies on 31st March, 2012 were as follows:

(₹ in 000's)

Liabilities	Astha Ltd.	Birat Ltd.	Assets	Astha Ltd.	Birat Ltd.
Share Capital:					
Equity shares of ₹10 each, full paid up	3,000	600	Plant & machinery	2,060	600
14% Preference shares of ₹100 each, fully paid up	-	400	Furniture & fixtures	600	540
General reserve	1,900	40	Investments in equity shares of Birat Ltd.	1,920	-
Profit and loss account	1,600	720	in preference shares of Birat Ltd.	320	-
Creditors	300	320	Stock	680	404
			Debtors	560	316
			Cash at bank	660	220
	<u>6,800</u>	<u>2,080</u>		<u>6,800</u>	<u>2,080</u>

Note: Contingent liability – Astha Ltd.: Claim for damages lodged by a contractor against the company pending in a law-suit – ₹1,55,000.

Additional Information:

- (i) General reserve balance of Birat Ltd. was the same as on 1.4.2011.
- (ii) The balance in Profit and Loss A/c of Birat Ltd. on 1.4.2011 was ₹3,20,000, out of which dividend of 16% p.a. on the Equity capital of ₹6,00,000 was paid for the year 2010-11.
- (iii) The dividend in respect of preference shares of Birat Ltd. for the year 2011-12 was still payable as on 31.3.2012.
- (iv) Astha Ltd. credited its Profit and Loss A/c for the dividend received by it from Birat Ltd. for the year 2010-11.
- (v) Sundry creditors of Astha Ltd. included an amount of ₹1,20,000 for purchases from Birat Ltd., on which the later company made a loss of ₹10,000.
- (vi) Half of the above goods were still with the closing stock of Astha Ltd. as at 31.3.2012.
- (vii) At the time of acquisition by Astha Ltd., while determining the price to be paid for the shares in Birat Ltd. it was considered that the value of plant and machinery was to be increased by 25% and that of furniture and fixtures reduced to 80%. There was no transaction of purchase or sale of these assets during the year. The directors wish to give effect to these revaluations in the consolidated balance sheet.
- (viii) The directors of Astha Ltd. are of opinion that disclosure of its contingent liability will seriously prejudice the company's position in dispute with the contractor.

Prepare consolidated balance sheet as at 31st March, 2012, assuming the rate of depreciation charged as 25% p.a. and 10% p.a. on plant and machinery and furniture and fixtures respectively. Workings should be part of the answer.

[Answer: CBS Total ₹7,655; Minority Interest ₹ 360.4; Cost of control ₹1,088]

Question 8

The Balance Sheets of Aqua Ltd. and Baqa Ltd. as on the dates of last closing of accounts are as under:

	Aqua Ltd. as on 31.03.2012 ₹	Baqa Ltd. as on 31.12.2011 ₹
Liabilities		
Share capital (equity shares of ₹10 each)	11,00,000	5,00,000
Accumulated Profits & Reserves	4,50,000	2,05,000
15% ₹100 non-convertible debentures	-	3,00,000
Accounts Payable	4,80,000	2,80,000
Other liabilities	1,00,000	40,000
Tax Provision	1,50,000	2,50,000
Total	22,80,000	15,75,000

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Assets		
Fixed Assets at Cost	8,45,000	5,26,500
Less: Depreciation	(1,95,000)	(1,21,500)
	6,50,000	4,05,000
Investments:		
40,000 shares in Baqa Ltd.	8,00,000	-
1,000 debentures in Baqa Ltd.	1,50,000	-
Current Assets:		
Inventories	2,00,000	3,50,000
Accounts Receivable	2,50,000	4,65,000
Cash & Bank	2,30,000	3,55,000
Total	22,80,000	15,75,000

The following information is also available:

- On 8th February, 2012 there was a fire at the factory of Baqa Ltd., resulting in inventory worth ₹20,000 being destroyed. Baqa received 75 per cent of the loss as insurance.
- The same fire resulted in destruction of a machine having a written down value of ₹1,00,000. The Insurance company admitted the Company's claim to the extent of 80 per cent. The machine was insured at its fair value of ₹1,50,000.
- On 13th March, 2012, Aqua sold goods costing ₹1,50,000 to Baqa at a mark-up of 20 per cent. Half of these goods were resold to Aqua who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2012. As on 31st March, 2012, Baqa's accounts payable show ₹60,000 due to Aqua on the two transactions.
- Aqua acquired the holdings in Baqa on 1st January, 2010 when the reserves and accumulated profits of Baqa Ltd. stood at ₹ 75,000.
- Both Companies have not provided for tax on current year profits. The current year taxable profits are ₹33,000 and ₹66,000 for Aqua Ltd. and Baqa Ltd. respectively. The tax rate is 33%.
- The incremental profits earned by Baqa Ltd. for the period January, 2012 to March 2012 over that earned in the corresponding period in 2011 was ₹56,000. Except for the profits that resulted from the transactions with Aqua in the aforesaid period, the entire profits have been realised in cash before 31st March, 2012.

You are requested to consolidate the accounts of the two companies and prepare a Consolidated Balance Sheet of Aqua Limited and its subsidiary as at 31st March, 2012.

[Answer: CBS Total ₹ 33,51,000; Minority Interest ₹ 1,50,844; Cost of control ₹3,90,000]