The following notes are my self made notes..

The idea of this note was generated because some of my friends feel consolidation as a big problem..

So as I got the logic behind the consolidation procedure decided to share the concept for solving the problems..

This note is a bit explanatory and lengthy but you just need to read this only once

The following starts from the very very simple example that you will get the idea behind the Consolidation very easy…

Just read…

Remember this note is only for explanation of steps…

Once you cleared this follow the steps done in ICAI material..

Best of luck and happy readings….

Jiju Oommen

Assumption: Face Value of Share of H ltd and S ltd = Rs. 10. in all examples...

Consolidation Steps:

Let us start from basic details

Consider **EXAMPLE 001**

H Ltd is the holding company   Shares were purchased at Face Value.

S Ltd is the subsidiary company

Consider the Balance sheet

H Ltd			S Ltd	
Equity Share Capital		500000	Equity Share Capital	300000
		500000		300000
Fixed Assets		250000	Fixed Assets	200000
Investments in S Ltd	*Face Value*	200000		
Current Assets		50000	Current Assets	100000
		500000		300000

Investments in S Ltd. In made on par value.

Consolidated Balance Sheet will be as follows

Equity Share Capital	*H ltd*	500000	(Only the share capital of H Ltd)
Equity Share Capital	*S Ltd*	300000	(Only the share capital of S Ltd)
		800000	
Fixed Assets		450000	(Line addition of Fixed Assets, 250000+200000)
Investments in S Ltd	*Face Value*	200000	
Current Assets		150000	(Line addition of Current Assets, 50000+150000)
		800000	

There are adjustements to be made:

Cancellation of Investments: The Investment value shall be deducted by FV of shares owned.

Investments in S Ltd shall be cancelled against Equity Share Capital

	H Ltd	
Equity Share Capital	*H ltd*	500000
Equity Share Capital	*S Ltd*	300000
		800000
Fixed Assets		450000
Investments in S Ltd	*Face Value*	200000
Current Assets		150000
		800000

The above balance sheet will become as follows:

			Adj	Resultant
Equity Share Capital	*H ltd*	500000		500000
Equity Share Capital	*S Ltd*	300000	200000	100000
		800000	200000	600000
Fixed Assets		450000		450000
Investments in S Ltd	*Face Value*	200000	200000	0
Current Assets		150000		150000
		800000	200000	600000

This amount will be called as minority share as the remaining shares doesn't belong to S Ltd.

The Final balance sheet will be as follows:

Equity Share Capital	*H ltd*	500000
Minority interest		100000
		600000
Fixed Assets		450000
Current Assets		150000
		600000

This is the actual thing happening during consolidation..

I hope you understood…

Now let us move to next level..

SEE EXAMPLE 002

Consider the Balance sheet — Balance sheet date 31.03.2012

		H Ltd	S Ltd
Equity Share Capital		500000	300000
General Reserve		100000	50000
Profit and Loss a/c		75000	60000
		675000	410000
Fixed Assets		400000	300000
Investments in S Ltd	*Face Value*	200000	
Current Assets		75000	110000
		675000	410000

The shares of S ltd was purchased at face value on 01.04.2011

Balances of General Reserve as on 01.04.2011 was Rs. 30,000 and that of Profit and Loss account was Rs. 40,000.

Now… there are two items in this example which is in extra that of **EXAMPLE 001**

What are they?

General Reserve and Profit and Loss a/c

Now we must segregate the balances of those accounts into Pre-acquisition and post acquisition

The Balance before holding period is pre acquisition; in this case before 01.04.2011

Therefore that portion shall be treated as pre and balance will be treated as post.

Balance as on 01.04.2011	30000	This is Preacquisition profit
Balance in General Reserve	20000	This is post acquisition profit.
	(50000-30000)	
Similarly For P & L a/c	40000	Preacquisition
	20000	Post acquisition

How the above above treated in Consolidated Balance Sheet?

Analysis of Profits	Total		Capital Profit	Revenue Reserve	Revenue Profit
General Reserve		50000	30000	20000	
P&L		60000	40000		20000
Total			70000	20000	20000
Share of H Ltd.	2/3		46667	13333	13333
Share of Minority	1/3		23333	6667	6667

Why we did the above calculation??

Because the balance sheet be prepared by breaking General Reserve and Profit and Loss

		H Ltd	S Ltd	
Equity Share Capital		500000	300000	
General Reserve		100000		
Capital Profit of H Ltd			**46667**	This is the split up of those amounts of General Reserve and Profit and loss account
Capital Profit of Minority			**23333**	
Revenue reserve of H Ltd			**13333**	
Revenue reserve of minority			**6667**	
Revenue profit of H Ltd			**13333**	
Revenue profit of minority			**6667**	
Profit and Loss a/c		75000		
		675000	410000	
Fixed Assets		400000	300000	
Investments in S Ltd	*Face Value*	200000		
Current Assets		75000	110000	
		675000	410000	

Now let us consolidate

Equity Share Capital	H Ltd	500000	
Equity Share Capital	S Ltd	300000	*200000 against investments and*
General Reserve		100000	*balance 100000 against minority*
Capital Profit of H Ltd		46667	*Will be shown as Capital Reserve*
Capital Profit of Minority		23333	*Against Minority*
Revenue reserve of H Ltd		13333	*Will be added to General Reserve*
Revenue reserve of minority		6667	*Against Minority*
Revenue profit of H Ltd		13333	*Will be added to Profit and Loss a/c*
Revenue profit of minority		6667	*Against Minority*
Profit and Loss a/c		75000	
		1085000	
Fixed Assets		700000	
Investments in S Ltd	*Face Value*	200000	
Current Assets		185000	
		1085000	

After adjustments the above balance sheet will look as follows:

Equity Share Capital	H Ltd	500000
Minority Interest	S Ltd	136667
General Reserve		113333
Capital Reserve		46667
Profit and Loss a/c		88333
		885000
Fixed Assets		700000
Current Assets		185000
		885000

So far we have seen examples where H Ltd purchased shares at face value.

Now we will move to case where it purchased at amount other than Face Value..

SEE EXAMPLE 003

Consider the Balance sheet Balance sheet date 31.03.2012

		H Ltd	S Ltd
Equity Share Capital		500000	300000
General Reserve		100000	50000
Profit and Loss a/c		75000	60000
		675000	410000
Fixed Assets		300000	300000
Investments in S Ltd	*@ Rs. 15*	300000	
Current Assets		75000	110000
		675000	410000

This is the same balance Sheet that of Example 002 where the only change is that Investments were made at 300000 but no of shares acquired are still same ie. 2/3

(20000 shares at Rs 15 per share)

In order to accomodate the change I have made change at Fixed Asset figure also…

Therefore the analysis of profits in S Ltd will be same as that of Example 002

So…

Equity Share Capital	H Ltd	500000	
Equity Share Capital	S Ltd	300000	
General Reserve		100000	
Capital Profit of H Ltd		46667	
Capital Profit of Minority		23333	
Revenue reserve of H Ltd		13333	
Revenue reserve of minority		6667	
Revenue profit of H Ltd		13333	
Revenue profit of minority		6667	
Profit and Loss a/c		75000	
		1085000	
Fixed Assets		600000	
Investments in S Ltd	*@ Rs 15*	300000	(Only FV 200000 can be cancelled)
Current Assets		185000	
		1085000	

Now when we cancel the investements in S Ltd.. There will be a difference of Rs. 100000

Investments in S Ltd.	300000
FV of Owned Shares	200000
Difference	100000

Now the consolidated balance Sheet will become..

Equity Share Capital	H Ltd	500000
Minority Interest	S Ltd	136667
General Reserve		113333
Capital Reserve		46667
Profit and Loss a/c		88333
		885000
Fixed Assets		600000
Differnce in investments		100000
Current Assets		185000
		885000

Since this is in asset side… This will be termed as Goodwill

Equity Share Capital	H Ltd	500000
Minority Interest	S Ltd	136667
General Reserve		113333
Capital Reserve		46667
Profit and Loss a/c		88333
		885000
Fixed Assets		600000
Goodwill		100000
Current Assets		185000
		885000

Capital Reserve will be adjusted against Goodwill

If Capital Reserve > Goodwill, the difference will be shown as Capital Reserve in B/S.

And if vice versa, the difference will be shown as Goodwill in B/S.

After adjustement of Capital Reserve and Goodwill. The B/s is as follows

Equity Share Capital	H Ltd	500000
Minority Interest	S Ltd	136667
General Reserve		113333
Profit and Loss a/c		88333
		838333
Goodwill		53333
Fixed Assets		600000
Current Assets		185000
		838333

THESE ARE THE LOGIC BEHIND THE CONSOLIDATION PROCESS…

NOW LET US SEE HOW THE PROBLEMS ARE TO BE DONE…..

STEP 1 ANALYSIS OF PROFITS OF SUBSIDIARIES

STEP 2 CALCUTION OF MINORITY INTEREST

STEP 3 CALCULATION OF COST OF CONTROL

STEP 4 COMPUTATION OF RESERVES AND PROFIT AND LOSS A/C FOR CBS.

STEP 5 CONSOLIDATED BALANCE SHEET

ALL the above steps are shortcutted while doing problems…

STEP 1 ANALYSIS OF PROFITS OF SUBSIDIARIES

Analysis of Profits	Total	Capital Profit	Revenue Reserve	Revenue Profit
General Reserve				
P&L				
Total				
Share of H Ltd.				
Share of Minority				

STEP 2 CALCUTION OF MINORITY INTEREST

	Share Capital belonging to Minority	
	Share of Capital Profit to Minority	
	Share of Revenue reserve to Minority	
	Share of Revenue Profit to Minority	
	Total Minority Interest	

STEP 3	CALCULATION OF COST OF CONTROL	
	Cost of Investments	
	Less: Pre acquisition dividend	
	Less: Face Value of shares owned	
	Less: Share of Capital profit	
	Goodwill/ (Capital Reserve)	

STEP 4 COMPUTATION OF RESERVES AND PROFIT AND LOSS A/C FOR CBS.

	Reserves		Profit & Loss
Balance in H ltd.			
Share to H ltd from S ltd			
Total to be carried to B/s			

STEP 5 CONSOLIDATED BALANCE SHEET

1. Line by line addition of assets and liabilities..
2. Minority interest
3. Cost of control (Goodwill on assets side or Capital Reserve on liabilities side)
4. Consolidtaed Reserves and P & L

In questions additional information will be given..

The accounts/ledger balances should be adjusted accordingly..

The special adjustements are not discussedabove…

I hope you enjoyed this…

Best of luck