IND AS 110
CONSOLIDATED FINANCIAL STATEMENT (CFS)
PART 1

I. **Objective**

The objective of Ind AS 110 'Consolidated Financial Statements' is to establish **principles** for presentation and preparation of CFS when an entity (the parent) controls one or more other entities (subsidiaries).

II. **Scope**

A parent who controls one or more entities is required to present CFS. However, a parent is **not** required to present CFS if it meets **all** of the following four conditions

(i) it is a **wholly/partially**-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, parent not presenting CFS;

(ii) its debt/equity instruments are **not** traded in a public market (a domestic/foreign stock exchange / an over-the-counter market, including local and regional markets)

(iii) it did **not file**, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market and

(iv) its ultimate/any intermediate parent produces financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at FVTPL as per this Ind AS (For investment entity).

b. This Ind AS **does not** apply to post employment benefit plans or other long-term employee benefit plans to which Ind AS 19, *Employee Benefits,* applies.

c. A parent that is an **investment entity** shall **not** present CFS if it is required to measure all of its subsidiaries at FVTPL.

III. Investing Entities

1. Meaning: An investment entity is an entity that:

a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

c. measures and evaluates the performance of substantially all of its investments on a fair value basis.

2. Consolidation: An investment entity shall **not** consolidate its subsidiaries or apply Ind AS 103 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at **FVTPL** as per Ind AS 109. However,

a. If an investment entity has a subsidiary that is **not** itself an investment entity &whose main purpose and activities are providing services that relate to the investment entity's investment activities, it **shall** consolidate that subsidiary in accordance with this IND AS and apply requirements of Ind AS 103 to acquisition of any such subsidiary.

b. A parent (non investing entity) of an investment entity shall **consolidate** all entities that it controls, including those controlled through an investment entity subsidiary, **unless** the parent itself is an investment entity.

3. Identification

a. **Exit strategy:** An entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does **not** plan to hold its investments **indefinitely**, it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments.

Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for purpose of this assessment.

b. **Fair Value:** An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a **fair value basis**, because using fair value results in more relevant information

c. **Other typical characteristic:** For assessing 'Investment entity', an entity also has to consider some typical characteristics as declared below (however absence of any characteristic does not necessarily disqualify an entity from being an investment entity):

i. Whether it has more than one investment: In some cases, holding one investment does not prevent it from meeting definition if the entity:

- is in start-up period;
- has not yet made investment to replace those dispose of;
- is established to pool investor fund to invest in single investment under certain circumstances;
- is in process of liquidation

ii. Whether it has more than one investor: In some cases having one investor does not prevent the entity from meeting definition if the entity:

- is within its initial offering period & entity is still identifying suitable investor;
- has not identified suitable investor to replace ownership interest that have been redeemed
- is in process of liquidation

iii. Whether its Investors are not related parties of the entity: Having unrelated investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income. However, an entity may still qualify as an investment entity even though its investors are related to the entity.

iv. Whether it has ownership interests in the form of equity or similar interest: An entity that has significant ownership interests in the form of debt that, may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets i.e. it has a characteristic of equity instrument.

4. **Change in investment entity status:** When an entity ceases to be an investment entity, it shall apply Ind AS 103 to any subsidiary that was previously measured at FVTPL. The **date of the change** of status shall be the **deemed acquisition date**. The fair value of subsidiary at deemed

acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from deemed acquisition. All subsidiaries shall be consolidated from date of change of status.

IV. Control

1. **Meaning:** An investor, regardless of nature of its involvement with an entity (investee), shall determine whether it is a parent by assessing whether it **controls** investee. Thus, an investor controls an investee if and only if investor has **all** the following: (**PAV**)

a. **Power** over the investee;

b. **Ability** to use its power over investee to affect the amount of investor's returns.

c. Exposure, or rights, to **variable** returns from its involvement with the investee.

Following factors may **assist** in determining whether an investor controls an investee:

i. the **purpose** and design of the investee;

ii. what are **relevant activities**, of investee & how decisions about them are made

iii. whether the rights of investor give it **current ability to direct** the relevant activities;

iv. whether investor is **exposed**, or has rights, to **variable returns** from its involvement with investee &

v. whether, investor has **ability to use** its power over investee to affect the amount of investor's return.

2. **Power**

a. An investor has power over an investee when the investor has **existing** rights that give it the **current** ability to direct the **relevant** activities, *i.e. the activities that significantly affect the investee's returns.* Power arises from rights. Sometimes assessing power is straightforward, such as if form of voting rights granted by equity instruments such as shares *i.e. If an entity controls over 50% of voting rights, entity controls the investee.* In other cases, it may be more complex and require more than one factor to be considered, for *e.g. when power results from one / more contractual arrangements.*

b. If two / more investors each have existing rights that give them unilateral ability to direct different relevant activities, then one that has **current ability** to direct activities that most significantly affect the returns of investee has power over investee.

c. An investor that holds only **protective** rights does not have power over an investee, and consequently does not control the investee.

3. **Relevant activities**

For many investees, a range of operating and financing activities significantly affect their returns. E.g. of **activities** that, depending on circumstances, can be relevant activities include, but are not limited to:

(a) Selling and Purchasing of goods or services;

(b) Managing financial assets during their life (including upon default);

(c) Selecting, Acquiring or Disposing of assets;

(d) Researching and Developing new products or processes; and

(e) Determining a funding structure or obtaining funding.

Examples of **decisions** about relevant activities include but are not limited to:

(a) Establishing operating and capital decisions of the investee, including budgets; and

(b) Appointing & remunerating an investee's KMP or service providers or terminating their services or their employment.

4. **Protective rights**

Protective rights are designed to protect the interests of their holder without giving that party power over investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee. Protective rights relate to fundamental changes to activities of an investee or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective.

5. **Power without a majority of the voting rights:**

Investor can have power even if it holds less than a majority of voting rights of investee, for e.g. through

i. a contractual arrangement between the investor and other vote holders;

ii. rights arising from other contractual arrangements;

iii. the investor's voting rights;

iv. potential voting rights; or

v. a combination of above

When assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances, including:

a. the **size** of the investor's holding of voting rights **relative** to the size and dispersion (distribution) of holdings of the other vote holders, noting that:

i the more voting rights an investor holds, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities *(e.g. more than 50% voting rights)*

ii. the more voting rights an investor holds **relative** to other vote holders, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities; *(e.g. 40% voting rights and others do not have any controlling interest)*

iii. the **more parties** that would need to act together to out vote the investor, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;

b. **Potential** voting rights held by the investor, other vote holders or other parties;

c. Rights arising from other contractual arrangements; and

d. Any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

6. **Returns**

a. An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the **potential to vary** as a result of the **investee's performance**.

b. Although only one investor can control an investee, more than one party can share in the returns of an investee. *For e.g., holders of NCI can share in profits or distributions of an investee.*

c. Exposure, or rights, to variable returns from an investee.

i. When assessing whether an investor has control of an investee, the investor determines whether it is exposed, or has rights, to variable returns from its involvement with the investee.

ii. Variable returns are returns that are not fixed and have the **potential** to vary as a result of the **performance** of an investee.

iii. Investor assesses whether returns from an investee are variable and how variable those returns are on the basis of the substance of the arrangement and regardless of the legal form of the returns. *For e.g., an investor can hold a bond with fixed interest payments. The fixed interest payments are variable returns for the purpose of the Standard because they are subject to default risk and they expose the investor to the credit risk of the issuer of the bond. The amount of variability, i.e. how variable those returns are, depends on the credit risk of the bond. Similarly, fixed performance fees for managing an investee's assets are variable returns because they expose the investor to the performance risk of the investee . Amount of variability depends on the investee's ability to generate sufficient income to pay fee.*

7. **Link between power and returns**

An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

8. **Potential voting rights:**

Potential voting rights are rights to **obtain voting rights** of an investee, such as those arising from convertible instruments or options if they are substantive. When considering potential voting rights, an investor shall consider the **purpose and design** of instrument, as well as the purpose & design of any other involvement the investor has with the investee. This includes an assessment of the various terms & conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. If the investor also has voting or other decision-making rights relating to investee's activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power.

9. **Indirect Control:** There could be situations where it may appear that the investor has no relationship with the investee. Persons controlling investee may have no / distant relationship with the investor. But in fact these persons may be acting as an agent of the investor. The following are

examples of such other parties that, by the nature of their relationship, might act as de facto agents for the investor:

a. the investor’s related parties.

b. a party that received its interest in investee as a contribution or loan from investor.

c. a party that has agreed not to sell, transfer or encumber its interests in the investee without the investor’s prior approval.

d. a party that cannot finance its operations without subordinated financial support from investor.

e. an investee for which the majority of the members of its governing body or for which it’s KMP are the same as those of the investor.

f. a party that has a close business relationship with the investor, such as the relationship between a professional service provider and one of its significant clients.

Separate Financial Statement (SFS):

1. Meaning: Separate financial statements are those presented by a parent or an investor with joint control of, or significant influence over, an investee, in which investments are accounted for at cost or in accordance with Ind AS109, Financial Instruments.

2. It is necessary to distinguish between a consolidated financial statements (CFS), a separate financial statements (SFS) and an Individual financial statement (IFS).

a. An individual financial statement is prepared by an entity that does not have a subsidiary, an associate or a joint venture’s interest in a joint venture.

b. Separate financial statements are statements of an investor where investments in the subsidiary, JV & associate are accounted for at cost or in accordance with Ind AS 109, Financial Instruments.

c. Consolidated financial statements are financial statements of a group in which assets, liabilities, equity, income and cash flows of parent and its subsidiaries are presented as those of a single entity.

Note: Financial statements in which equity method is applied for investments in joint ventures and associates, technically referred to as economic entity financial statements, are also termed as CFS.

3. **Preparation**

a. SFS shall be prepared in accordance with all applicable Ind AS, except that it shall account for investments in subsidiaries, joint ventures and associates either:

i. At cost: Account for in accordance with Ind AS 105, 'Non-current Assets Held for Sale and Discontinued Operations' (if investment is classified as held for sale then cost will be accounted for as per Ind AS; or

ii. In accordance with Ind AS 109 'Financial Instruments'.

b. Entity shall apply same accounting for each category of investments i.e. all subsidiary at one particular method, all investment in associate at one particular method.

3. **Exceptions:**

a. Investments in associates & JV could also be held by a venture capital organization, mutual fund, unit trust, investment linked insurance funds or similar entities. As per Ind AS 28, Investments in Associates and JV, these entities may elect to measure investments in associates and joint ventures at **FVTPL** in accordance with Ind AS 109 in its CFS. In these circumstances, the entity shall also measure those investments in associates or JV at FVTPL as per Ind AS 109 in its **SFS also**.

b. An investment entity is not required to consolidate its subsidiaries or apply Ind AS 103, Business Combinations, when it obtains control of another entity. Instead it measures investment in subsidiaries at FVTPL in accordance with Ind AS 109 in its CFS. It is required to account for its investment in that 'unconsolidated' subsidiary in its SFS also at FVTPL in accordance with Ind AS 109. It should be noted that an investment entity is required to consolidate a subsidiary or apply Ind AS103 when that subsidiary provides services that relates to the investment activities of the investment entity. In such a situation, the aforesaid requirement does not apply.

4. Measurement where change of status in case of Investment entities:

a. When an entity ceases to be an investment entity it shall measure its investment in subsidiary either

(i) at cost (**Fair Value at date of status change** shall be considered as deemed cost) or

(ii) continue to account for as per Ind AS 109

b. When an entity becomes an investment entity:

(i) it shall account for investment in subsidiary at **FVTPL** as per Ind AS 109;

(ii) difference between the carrying value & fair value is recognized in **profit or loss**;

(iii) any previous fair value adjustments in OCI shall be treated as if investment entity had disposed off those subsidiaries at the date of change in status.

5. Recognition of dividend - Dividend shall be recognized when its right to receive is established.

V. Practical Questions

Q1. Entity PS Ltd. issues loan notes to investors in Rupees, but it purchases financial assets in Pound Sterling and USD. It hedges cash flow differences through currency and interest rate swaps. What would be its relevant activities?

Q2. B Ltd. and C Ltd. had incorporated BC Ltd. to construct & operate a toll bridge. Construction of toll bridge will take 3 years. B Ltd. is responsible for construction. The toll bridge will be operated by C Ltd. Can it be concluded during the construction phase that when B Ltd. has all the authority to take decision that B Ltd. controls BC Ltd.?

Q3. In continuation to the facts given in Illustration 2, further if it is given that the toll bridge will be constructed under supervision of NHAI by B Ltd. NHAI will reimburse the cost of construction. B Ltd. is entitled to a margin on the construction but from the cash flows of the toll collection before any payment to C Ltd. The toll revenue will be fixed by C Ltd. who is entitled to management fee. From the toll revenue amount the toll expenses will be paid, then margin will be paid to B Ltd. and then management fee will be paid to C Ltd. The balance will be shared equally by B Ltd. and C Ltd.

Q4. An investor holds a majority of the voting rights in the investee. Does the investor have current ability to direct the relevant activities given the fact that it takes 30 days to hold shareholder's meeting to take decisions regarding relevant activities?

Q5. An investor is party to a forward contract to acquire the majority of shares in the investee. The forward contract's settlement date is in 25 days. Is the investor's forward contract a substantive right even before settlement of contract?

Q6. If in the illustration given above, the investor's forward contract shall be settled in 6 months instead of 25 days, would existing shareholders have the current ability to direct the relevant activities?

Q7. AB Limited owns 50% voting shares in XY Limited. The board of directors of XY Limited consists of six members of which three directors are nominated by AB Limited and three other investors nominate one director each pursuant to a Shareholders' Agreement among them. All decisions concerning 'relevant activities' of XY Limited are taken at its board meeting by a simple majority. As per the articles of association, one of the directors nominated by AB Limited chairs the board meetings and has a casting vote in the event that the directors cannot reach a majority decision. Whether AB Limited has control over XY Limited?

Q8. A Limited has 48% of the voting rights of B Limited. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1% of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. Does A Limited have sufficiently dominant voting interest to meet power criterion?

Q9. An investor A Limited holds 45% of the voting rights of an investee. Eleven other shareholders, each holding 5% of the voting rights of the investee. None of the shareholders has contractual arrangements to consult any of the others or make collective decisions. Can we conclude that investor A Limited has power over the investee?

Q10. A Limited holds 48% of the voting rights of B Limited. X Limited and Y Limited each hold 26% of the voting rights of B Limited. There are no other arrangements that affect decision-making. Who has power to take decisions in the present case?

Q11. Investor A holds 40% of the voting rights of an investee and six other investors each hold 10% of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. Is the absolute size of the investor's holding and the relative size of the other shareholdings alone is conclusive in determining whether the investor has rights sufficient to give it power?

Q12. An investor holds 35% of the voting rights of an investee. Three other shareholders each hold 5% of the voting rights of the investee. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1% of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about relevant activities of the investee require the approval of a majority of votes cast at relevant shareholders' meetings — 75% of voting rights of investee have been cast at recent relevant shareholders' meetings. Does, investor have ability to direct the relevant activities of investee unilaterally?

Q13. Entity P Ltd. develops pharmaceutical products. It has acquired 47% of entity S Ltd. with an option to purchase remaining 53%. Entity S is a specialist entity that develops latest technology and does research in pharmaceuticals. Entity P has acquired stake in S Ltd. to complement its own technological research. The remaining 53% is held by key management of P Ltd. who are key to running a major project that will market a medicine with features completely new to the industry. However, if P Ltd. exercises the option the management personnel are likely to leave. They have unique technological knowledge in relation to the specific medicine. Option strike price is 5 times the value of entity's share price. Is the option substantive?

Q14. AB Ltd holds 40% in BC Ltd. CD Ltd holds 60% in BC Ltd. BC Ltd. is controlled through voting rights. AB Ltd. has call option exercisable in next 3 years for further 40% of investee. The option is deeply out of money and is expected to be the same over the life of the option. Further, investor

would not gain any non-financial benefits from the exercise of option. Investor CD has been exercising its votes and is actively directing the relevant activities of the investee. Is right of AB Ltd substantive?

Q15. A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to the investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a10% pro rata investment in the fund and receives a market-based fee for its services equal to 1% of the net asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10% investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund. Does the fund manager have control over the fund?

Q16. The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract. Considering the facts given, does the fund manager control the fund?

Q17. The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. Investors can remove fund manager by a simple majority vote, but only for breach of contract. Does the fund manager in this case control fund?

Q18. The fund manager has a 20% pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20% investment. The fund has a board of directors, all of whose members are

independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager's contract, the services performed by the fund manager could be performed by other managers in the industry. Does the fund manager control the fund?

Q19. An investee Noor Ltd. is floated to invest in a portfolio of equity oriented mutual funds, funded by fixed rate debentures and equity instruments. The equity instruments will receive any residual returns of the investee. The transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 15% of the value of the assets purchased by Noor Ltd. A decision maker (the asset manager) of Noor Ltd. manages the portfolio by making investment decisions strictly as per investee's prospectus. For services rendered by manager, receives a fixed fee (i.e. 0.5 percent of assets under management) and performance-related fee (i.e. 2 % of profits) if profits exceed 10% over &above of previous financial year. The asset manager holds 40% of the equity in the investee. The remaining 60 per cent of the equity, and all the debentures are held by a large number of widely dispersed unrelated third party investors. The asset manager can be removed, without cause, by a simple majority decision of the other investors.

Q20. A fund has been set up by its manager; initially the manager is the only shareholder. As at its first period end, the fund has not been successful in receiving funds from other prospective shareholders; but it is actively soliciting new investors. The fund invests in global equities and equity-related derivatives; and it provides its one shareholder with investment management services (as mandated in its prospectus). Its prospectus states that it expects to buy and sell investments regularly, and it expects holding periods of more than one year to be rare.

The fund generates returns from capital appreciations and investment income in the form of dividends. The fund fair values all investments and these valuations are the basis for subscriptions

and redemptions into and out of the fund. Subscriptions and redemptions can occur daily. Is the fund an investment entity?

Q21. A fund is set up by a corporate entity that runs a power plant. The corporate entity (which owns all of the units in the fund) needs to keep funds available in case of a technical failure of the power plant. The entity does not have the expertise to manage the fund, so it appoints a third party asset manager. The entity can remove the fund manager on four months' notice.

The fund invests in traded equity and debt instruments (as set out in the investment management agreement and fund founding documents) and its maximum exposure to one investment is not more than 11% of monies invested. The objective of the fund is to generate returns either from dividends and interest or from selling the instruments. The fund does not invest in the power industry and the corporate entity has no other relationship with the fund; for example, it does not have options to buy any of the investments made by the fund. The fund reports fair value information internally and to its corporate parent; and its performance is evaluated against a benchmark stock exchange index.

The fund issues units that are redeemable at any time. The redeemable shares pay the net asset value of the fund when liquidated, and they are accounted for by the fund as equity under IndAS32.The units do not carry voting rights. Is the fund an investment entity? How does the corporate entity account for its interest in the fund?

A21. The fund is an investment entity. It meets the definition of an investment entity to the extent that:

- It provides investment management services to its investor.
- Its business purpose is to invest in debt and equity instruments for capital appreciation and investment income.
- It measures and evaluates the performance of its investments on a fair value basis. The fund displays two of the four typical characteristics
- The fund holds multiple investments.
- The fund only has one investor but in these circumstances that is not inconsistent with its over all business purpose and with the definition of an investment entity.

- The fund does not have unrelated investors, because there is only one investor; but, again, in these circumstances this is not inconsistent with the definition of an investment entity.
- Units issued by the fund entitle the holder to a proportionate share of the net asset value of the fund.

Two of the characteristics are not satisfied because the fund has a single investor. When examining all the facts and circumstances, however, the fund concludes that it is an investment entity and that the failure to meet two of the typical characteristics is not inconsistent with the definition. The corporate entity is not an investment entity. It consolidates the fund (including any controlled investments made by the fund).

Q22. An entity, X Ltd., is formed by Z Ltd. to invest in start-up technology companies for capital appreciation. Z Ltd. holds a 75% interest in X Ltd. and controls it; the other 25% ownership interest is held by 10 unrelated investors. Z Ltd. holds options to acquire investments held by X Ltd., at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Z Ltd.. Whether X Ltd. meet the definition of an investment entity?

Q23. Investor A and two other investors each hold one third of the voting rights of an investee. The investee's business activity is closely related to investor A. In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, investor A would hold 60% of the voting rights of the investee. Investor A would benefit from realizing synergies if the debt instruments were converted into ordinary shares. Does investor A have power over investee?

Q24. A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to the investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10% pro rata investment in the fund and receives a market-based fee for its services equal to 1% of the net

asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10% investment. The fund is not required to establish, and has not established, an independent board of directors. Investors do not hold any substantive rights that would affect decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund. Does fund manager have control over fund?

Q25. A decision maker Aditya Birla Money Ltd. (ABML) sponsors a debt oriented mutual fund, which issues its units instruments to unrelated third party investors. The transaction was marketed as an investment in a portfolio of highly AAA rated long-term & medium-term assets with minimal credit risk exposure of assets in portfolio. Various transferors sell above long term & medium-term asset portfolios to fund. Each transferor services the portfolio of assets that it sells to the fund & manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralization of the assets transferred to the fund. Sponsor (ABML) establishes the terms of the fund and manages the operations of the fund for a market-based fee. Sponsor (ABML) approves the sellers permitted to sell to the fund, approves the assets to be purchased by the fund and makes decisions about the funding of the fund. Sponsor is entitled to any residual return of fund & also provides liquidity facilities to fund. Credit enhancement provided by sponsor absorbs losses of up to 5% of all of fund's assets, after losses are absorbed by transferors. Liquidity facilities are not advanced against defaulted assets. Investors do not hold substantive rights that could affect decision-making authority of sponsor.

Theory Answers

A1. Its relevant activities are as under:

- Selling and purchasing of assets
- Managing financial assets during their life
- Determining a funding structure and obtaining funding for its activities

- Hedging the currency and interest rate risks arising from its activities. These activities are likely to most significantly affect entity PS's returns

A2. It may appear from the question that B Ltd. has the current ability to direct relevant activities, but this may not be correct. When two or more investors have the current ability to direct relevant activities and those activities occur at different times, the investors shall determine which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision making rights. The investors shall reconsider this assessment over time if relevant facts or circumstances change.

A3. In this case C Ltd. has power since C Ltd. is able to direct the activities that most significantly affect the returns. Cost of construction of bridge that is the responsibility of B Ltd. is reimbursed by NHAI therefore it does not significantly affect the returns. Whereas the significant return to the investor is through toll collection activities being the responsibility of C Ltd.

A4. The investor's voting rights are substantive because the investor is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the investor can exercise its voting rights does not stop the investor from having the current ability to direct the relevant activities from the moment the investor acquires the shareholding.

A5. The investor becomes majority shareholder in the investee after the settlement of forward contract in 25 days. As per the facts given in the 'Facts' above, the existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract would have been settled. Thus, the investor has rights that are essentially equivalent to the majority shareholder in Illustration 4 above (i.e. the investor holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). Therefore, the investor's forward contract is a substantive

right that gives the investor the current ability to direct the relevant activities even before the forward contract is settled.

A6. Since the date of settlement of forward contact is in 6 months, the existing shareholders can hold a meeting within 30 days and direct relevant activities at which point the forward contract would not be settled. Therefore, the existing shareholders have substantive rights currently.

A7. Paragraph 11 of Ind AS 110 states that, "power arises from rights. Sometimes assessing power is straight forward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements".

Further, paragraph B40 of Appendix B to Ind AS 110 inter alia states that other decision- making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities. For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability to direct the manufacturing processes of an investee or to direct other operating or financing activitiesofaninvesteethatsignificantlyaffecttheinvestee'sreturns.

In the instant case, AB Limited has (though its nominee director who chairs board meetings) a casting vote at the board meetings which along with its 50% (three out of six) of the normal voting rights gives it power to take decisions concerning relevant activities, even if the nominee directors of other investors do not concur with it on any matter. Thus, AB Limited has the current ability to direct the relevant activities of XY Limited through control over board decisions and hence it controls XY Limited.

A8. In the above case, based on the absolute size of A Limited's holding (48%) and the relative size of the other shareholdings, A Limited may conclude that it has a sufficiently dominant voting interest to meet the power criterion.

A9. In this case, the absolute size of the investor's holding and the relative size of the other share holdings alone are not conclusive in determining whether the investor has rights sufficient to give it power over the investee. Additional facts and circumstances that may provide evidence that the investor has, or does not have, power shall be considered.

A10. In this case, the size of A Limited, voting interest and its size relative to the shareholdings of X Limited and Y Limited are sufficient to conclude that A Limited does not have power. Only two other investors would need to co-operate to be able to prevent investor A from directing the relevant activities of the investee.

A11. No, the absolute size of investor's holding and the relative size of other's shareholdings are not conclusive in determining whether investor has power. Investor A's contractual right to appoint, remove and set the remuneration of management is also to be considered to conclude that it has power over the investee. The fact that investor A might not have exercised this right or the likelihood of investor A exercising its right to select, appoint or remove management shall not be considered when assessing whether investor A has power.

A12. The active participation of other shareholders at recent shareholders' meetings indicates that the investor would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the investor has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the investor.

A13. The option may not be substantive if entity P would derive no economic benefit from exercising it. High strike price and likely loss of key management indicate that the option may not be substantive.

A14. The option of AB Ltd. is not substantive. This is because although AB Ltd. has current ability to exercise his right to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee) but option is deeply out of money and is likely to remain so during option period and there are no other benefits gained from the exercise.

A15. Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund — the investors do not hold substantive rights that could affect the fund manager's decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

Consideration of the fund manager's exposure to variability of returns from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

A16. The fund manager's 2 per cent investment increases its exposure to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager has extensive decision-making authority and is exposed to variability of returns from its interest and remuneration, the fund manager's exposure indicates that the fund manager is an agent. Thus, in these circumstances we conclude fund manager does not control the fund.

A17. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of

the fund manager's investment (i.e. substantial pro rata investment) together with its remuneration could create exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager's economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal. Therefore, we conclude that the fund manager controls the fund.

A18. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's 20% investment together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager — the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so. In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of returns of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, we conclude that it does not control fund.

A19. The asset manager is paid fixed and performance-related fees that depends on variability of portfolio performance backed by equity oriented mutual funds i.e. the remuneration and interest of other investors aligns to increase the value of the fund. The asset manager has exposure to variability of returns from the relevant activities of the fund because it holds 40 per cent of the equity and from its remuneration.

Although operating within the guidelines set out in the investee's prospectus, the asset manager has the current ability to make investment decisions that significantly affect the investee's returns — the removal rights held by widely unrelated dispersed investors receive little weighting because those rights are held by a large number of widely unrelated dispersed investors.

In given illustration, the asset manager has greater exposure to variability of returns of the fund from its 40 per cent equity interest, which is subordinate to the debt instruments. Holding 40 per cent of the equity creates exposure to losses and rights to returns of the investee, which are of such significance that it indicates that the asset manager is a principal and not mere an agent. Therefore, it is concluded that the asset manager controls the investee Noor Ltd.

A20. The fund is an investment entity. It meets the definition of an investment entity:

- It has been set up to provide investment management services to its investors. For this period, it has only one manager-shareholder and so it is providing investment management services to itself, but this is not its longer-term manager intention.
- It is carrying on investment activities with objective of capital appreciation & investment income.
- It measures its underlying investments on a fair value basis and fair value is the basis for subscriptions and redemptions into and out of the fund.

The fund displays the following characteristics:

- It holds multiple investments.
- It does not have multiple investors; but, this is expected to be temporary and the fund manager is actively soliciting new investors.
- It does not have unrelated investors, because it has only a single investor.
- It issues ownership interests in form of redeemable units that entitle holders to a share of net assets.

Although the fund has a single investor, this is expected to be temporary. Failing to meet this typical characteristic does not mean that the fund is not an investment entity. In the context of the definition and the fund's overall business purpose, it is an investment entity. The fund is required to make appropriate disclosures in its financial statements on why it qualifies as an investment entity even when it has only one investor.

A22. Ind AS 110 states that a parent has to determine whether an entity is an investment entity. An investment entity is an entity that:

(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) measures and evaluates the performance of substantially all of its investments on a fair value basis."

Further, paragraph B85I inter-alia states that an entity is not investing solely for capital appreciation, investment income or both, if the entity or another member of the group containing the entity obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee. This would include the entity or another group member having disproportionate, or exclusive, rights to acquire assets, technology, products or services of any investee; for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful.

Additionally, paragraph B85F of Ind AS 110 inter-alia states that an entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Since equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments".

The absence of an exit strategy for investments in subsidiaries also suggests that the investments are made not only for investment returns (capital appreciation, investment income or both) but also other benefits (such as those arising from synergies).

In the instant case, although X's business purpose is investing for capital appreciation and it provides investment management services to its investors, X is not an investment entity since:

— Z Limited, the parent of X Limited, has an option to acquire investments in investees held by X Limited, if assets developed by the investees would benefit the operations of Z Limited. This provides other benefits in addition to capital appreciation and investment income; and

— the investment plans of X Limited do not include exit strategies for its investments, which are equity instruments. The options held by Z Limited are not controlled by X Limited and do not constitute an exit strategy.

Since X Limited is not an investment entity, it will be required to consolidate its subsidiaries.

A23. Investor A has power over the investee because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.

A24. Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund — the investors do not hold substantive rights that could affect the fund manager's decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

Consideration of the fund manager's exposure to variability of returns from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

A25. Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of returns from the activities of the fund because of its rights to any residual returns of the fund and the provision of credit enhancement and liquidity facilities (i.e. the fund is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets). Even though each of the transferors has decision- making rights that affect the value of the assets of the fund, the sponsor has extensive decision-making authority that gives it the current ability to direct the activities that most significantly affect the fund's returns (i.e. the sponsor established the terms of the fund, has the right to make decisions about the assets

(approving the assets purchased and the transferors of those assets) and the funding of the fund (for which new investment must be found on a regular basis)). The right to residual returns of the fund and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of returns from the activities of the fund that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the fund. The sponsor’s obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

IND AS 110
CONSOLIDATION OF FINANCIAL STATEMENT
PART 2

I. Consolidation Process

1. Consolidation of an investee shall begin from the **date** the investor obtains **control** of the investee and cease when the investor loses control of the investee.
2. Consolidated financial statements:
   a. **Combine** like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
   b. **Offset** (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (Ind AS 103 'Business Combination' explains how to account for any related goodwill).
   c. **Eliminate** in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).
3. Intragroup losses may indicate an impairment that requires recognition in the CFS.
4. Ind AS 12, Income Taxes, applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.
5. **Calculation of Goodwill / Capital Reserve:**

Net Asset Acquired		XX
Purchase Consideration	XX	
Add: Minority Interest / Non controlling Interest	XX	(XX)
Goodwill / Capital Reserve		XX

6. **Minority interest is measured at either:**
   a. Fair value; or
   b. The present ownership instruments' proportionate share in the recognized amounts of the subsidiary's identifiable net assets.
7. **Step Acquisition**

   As per IND AS 103 in a business combination achieved in stages,
   a. Parent re-measures its previously held investment in subsidiary at its acquisition-date fair value and recognises gain or loss, if any, in profit or loss or OCI, as appropriate.
   b. If in prior years, the investor (parent) may have recognized changes in the value of its investment in OCI then, the amount recognised in OCI shall be recognized on the same basis as if parent had disposed directly of the previously held investment.
8. **Accounting requirements:** A parent shall prepare CFS using **uniform** accounting policies for like transactions and other events in similar circumstances. Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee. A line by line consolidation is required by the standard.
9. **Uniform accounting policies:** If a member of the group uses accounting policies other than those adopted in the CFS for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the CFS to ensure conformity with the group's accounting policies.
10. **Non-controlling interests / Minority Interest:** A parent shall present NCI in consolidated balance sheet within **equity**, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in parent losing control of subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). An entity shall attribute the P&L and each component of OCI and total comprehensive income to owners of parent and to NCI.
11. **Changes in the proportion held by non-controlling interests:** A parent shall present NCI in the consolidated balance sheet within equity, separately from the equity of the owners of the parent. The entity shall recognize directly in equity any difference between the amount by which the NCI are adjusted and the fair value of consideration paid or received, and attribute it to owners of parent.

12. **Profit and loss**

a. An entity includes the income and expenses of a subsidiary in the CFS from the date it gains control until the date when the entity ceases to control the subsidiary.

b. An entity shall attribute profit or loss & each component of OCI to owners of parent and to NCI.

c. The entity shall also attribute total comprehensive income to the owners of the parent and to the NCI even if this results in the NCI having a deficit balance.

d. When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and NCI in preparing CFS is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives.

13. **Reporting date**

a. The financial statements of the parent and its subsidiaries used in the preparation of the CFS shall have the same reporting date.

b. When the end of the reporting period of the parent is different from that of a subsidiary, the **subsidiary** prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

c. If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the **most recent** financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of CFS.

d. In any case, the difference between the date of the subsidiary's financial statements and that of the CFS shall be **no more than three months**, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

14. **Derecognition:** If a parent losses control over the subsidiary, the parent shall:

(a) Derecognise the assets and liabilities of the former subsidiary;

(b) Recognise any investment retained in the subsidiary at its fair value when control is lost and subsequently account for it in accordance with relevant Ind AS. That fair value shall be regarded as

the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

(c) Recognise gain and loss associated with the loss of control.

Calculation of Goodwill / Capital Reserve

Q1. Ram Ltd. acquires Shyam Ltd. by purchasing 60% of its equity for ₹ 15 lakh in cash. The fair value of non-controlling interest is determined as ₹ 10 lakh. The net aggregate value of identifiable assets and liabilities, as measured in accordance with Ind AS 103 is determined as ₹5 lakh. How much goodwill is recognized based on two measurement bases of non-controlling interest (NCI)?

Q2. Seeta Ltd. acquires Geeta Ltd. by purchasing 70% of its equity for ₹ 15 lakh in cash. The fair value of NCI is determined as ₹ 6.9 lakh. Management have elected to adopt full goodwill method and to measure NCI at fair value. The net aggregate value of identifiable assets & liabilities is determined as ₹ 22 lakh. (Tax consequences being ignored).

Q3. Continuing the facts as stated in the above illustration, except that Seeta Ltd. chooses to measure NCI using a proportionate share method for this business combination.

Q4. X Ltd. acquired Y Ltd. on payment of ₹ 25 crore cash and transferring a retail business, the fair value of which is ₹ 15 crore. Assets acquired and liabilities assumed in the acquisition are ₹ 36 crore. Find out the Goodwill.

Q5. Raja Ltd. purchased 60% shares of Ram Ltd. paying ₹ 525 lakh. Number of issued capital of Ram Ltd. is 1 lakh. Fair value of identifiable assets of Ram Ltd. is ₹ 640 lakh and that of liabilities is ₹ 50 lakh. As on the date of acquisition, market price per share of Ram Ltd. is ₹ 775. Find out the value of goodwill.

Dividend received from subsidiary companies

Q7. XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st April, 20X1 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st April, 20X1 was ₹ 1,00,000 and the balance in the Statement of Profit and Loss was ₹ 60,000. For the year ending on 31st March, 20X2 ABC Ltd. has earned a profit of ₹ 20,000 and later on, it declared and paid a dividend of ₹ 30,000. Assume, the fair value of non-controlling interest is same as the fair value on a per-share basis of the purchased interest. All net assets are identifiable net assets, there are no non-identifiable assets. The fair value of identifiable net assets is ₹ 1,50,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd. whenever it is received after approval in the ensuing annual general meeting.

What is the amount of non-controlling interest as on 1st April, 20X1 (using Fair Value Method) and 31st March, 20X2. Also pass a journal entry on the acquisition date.

Q8. From the facts given in the above illustration, calculate the amount of non-controlling interest as on 1st April, 20X1 (Using NCI's proportionate share method) and 31st March, 20X2. Also pass a journal entry on the acquisition date.

Q9. The facts are same as in the above illustration except that the fair value of net identifiable assets is ₹ 1,60,000. Calculate NCI and Pass Journal Entry on the acquisition date. Note: Use fair value method for 31st March 20X1.

Q10. The facts are same as in the above illustration except that the fair value of net identifiable assets is ₹ 1,60,000. Calculate NCI and Pass Journal Entry on the acquisition date. Use NCI's proportionate share method for 31st March 20X1.

Elimination of unrealised profit from Intra Group Transactions

Q11. A parent owns 60% of a subsidiary. The subsidiary sells some inventory to the parent for ₹ 35,000 and makes a profit of ₹ 15,000 on the sale. The inventory is in the parent's balance sheet at the year end. Examine the treatment of intra-group transaction and pass the necessary journal entry.

Q12. In the above illustration, assume that it is the parent that makes the sale. The parent owns 60% of a subsidiary. The parent sells some inventory to the subsidiary for ₹ 35,000 and makes a profit of ₹ 15,000. On the sale the inventory is in the subsidiary's balance sheet at the year end. Examine the treatment of intra-group transaction and pass the necessary journal entry.

Q13. A Ltd, a parent company sold goods costing ₹ 200 lakh to its 80% subsidiary B Ltd. at ₹ 240 lakh. 50% of these goods are lying at its stock. B Ltd. has measured this inventory at cost i.e. at ₹ 240 lakh. Show necessary adjustment in the CFS. Assume 30% tax rate.

Q14. Ram Ltd., a parent company purchased goods costing ₹ 100 lakh from its 80% subsidiary Shyam Ltd. at ₹ 120 lakh. 50% of these goods are lying at the godown. Ram Ltd. has measured this inventory at cost i.e. at ₹ 60 lakh. Show the necessary adjustment in the consolidated financial statements (CFS). Assume 30% tax rate.

Step Acquisition & Changes in the proportion held by non-controlling interests

Q15. Entity D has a 40% interest in entity E. The carrying value of the equity interest, which has been accounted for as an associate in accordance with Ind AS 28 is ₹ 40 lakh. Entity D purchases the remaining 60% interest in entity E for ₹ 600 lakh in cash. The fair value of the 40% previously held equity interest is determined to be ₹ 400 lakh, the net aggregate value of the identifiable assets and liabilities measured in accordance with Ind AS 103 is determined to be identifiable ₹ 880 lakh. The tax consequences have been ignored. How does entity D account for business combination?

Q16. A Ltd. acquired 70% of shares of B Ltd. On 1.4.20X0 when fair value of net assets of B Ltd. was ₹ 200 lakh. During 20X0-20X1, B Ltd. made profit of ₹ 100 lakh. Individual & consolidated balance sheets as on 31.3.20X1 are as follows: (₹in lakhs)

Particulars	**A**	**B**	**Group**
Assets			
Goodwill			10
PPE	627	200	827
Financial Assets:			
Investments	150		
Cash	200	30	230
Other Current Assets	23	70	93
	1,000	**300**	**1,160**
Equity and Liabilities			
Share Capital	200	100	200
Other Equity	800	200	870
Non-controlling interest			90
	1,000	**300**	**1,160**

A Ltd. acquired another 10% stake in B ltd on 1.4.20X1 at ₹ 32 lakh. The proportionate carrying amount of the non-controlling interest is ₹ 30 lakh. Show the individual and consolidated balance sheet of the group immediately after the change in non-controlling interest.

Q17. A parent company (entity A) has an 80% owned subsidiary (entity B). Entity B makes an acquisition for cash of a third company (entity C), which it then wholly owns. Goodwill of ₹ 1,00,000 arises on the acquisition of entity C. How should that goodwill be reflected in CSF of entity A? Should it be reflected as:

a. 100% of the goodwill with 20% then being allocated to the non- controlling interest; or

b. 80% of the goodwill that arises?

Q18. Entity P sells a 20% interest in a wholly- owned subsidiary to outside investors for ₹ 100 lakh in cash. The carrying value of the subsidiary's net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition. Pass journal entries to record the transaction.

Q19. Entity A acquired 60% of entity B two years ago for ₹ 6,000. At the time entity B's fair value was ₹ 10,000. It had net assets with a fair value of ₹ 6,000 (which for the purposes of this example was the same as book value). Goodwill of ₹ 2,400 was recorded (being ₹ 6,000 – (60% x ₹ 6,000). On 1 October 20X0, entity A acquires a further 20% interest in entity B, taking its holding to 80%. At that time the fair value of entity B is ₹ 20,000 and entity A pays ₹ 4,000 for the 20% interest. At the time of the purchase the fair value of entity B's net assets is ₹ 12,000 and the carrying amount of the non- controlling interest is ₹ 4,000. Pass journal entries.

Q20. A Ltd. acquired 10% additional shares of its 70% subsidiary. Following relevant information is available in respect of change in NCI on the basis of Balance sheet finalized as on 1.4.20X0:

	₹ in thousand
Separate financial statements	**As on 31.3.20X0**
Investment in subsidiary (70% interest) – at cost	14,000
Purchase price for additional 10% interest	2,600
Consolidated financial statements	
Non-controlling interest (30%)	6,600
Consolidated profit & loss account balance	2,000
Goodwill	600

The reporting date of the subsidiary and the parent is 31st March, 20X0. Prepare note showing adjustment for change of non-controlling interest. Should goodwill be adjusted for the change?

Q21. Amla Ltd. purchase a 100% subsidiary for ₹ 10,00,000 at the end of 20X1 when the fair value of the subsidiary's Lal Ltd. net asset was ₹ 8,00,000. The parent sold 40% of its investment in the subsidiary in March 20X4 to outside investors for ₹ 9,00,000. The parent still maintains a 60%

controlling interest in the subsidiary. The carrying value of the subsidiary's net assets is ₹ 18,00,000 (including net assets of ₹ 16,00,000 & goodwill of ₹ 2,00,000). Calculate gain or loss on sale of interest in subsidiary as on 31st March 20X4.

Q22. Entity A sells a 30% interest in its wholly-owned subsidiary to outside investors in an arm's length transaction for ₹ 500 crore in cash and retains a 70% controlling interest in the subsidiary. At the time of the sale, the carrying value of the subsidiary's net assets in the consolidated financial statements of Entity A is ₹1,300 crore, additionally, there is a goodwill of ₹ 200 crore that arose on the subsidiary's acquisition. Entity A initially accounted for NCI representing present ownership interests in the subsidiary at fair value and it recognises subsequent changes in NCI in the subsidiary at NCI's proportionate share in aggregate of net identifiable assets and associated goodwill. How should Entity A account for the transaction?

Reporting date

Q23. How should assets and liabilities be classified into current or non-current in consolidated financial statements when parent and subsidiary have different reporting dates?

A23. Ind AS 110 require subsidiaries with reporting period end different from parent, to provide additional information or details of significant transactions or events if it is impracticable to provide additional information to enable the parent entity to consolidate such financial information at group's reporting period end. The appropriate classification of the assets and liabilities as current or non-current in the consolidated financial statements has to be determined by reference to the reporting period end of the group. Accordingly, when a subsidiary's financial statements are for a different reporting period end, it is necessary to review the subsidiary's balance sheet to ensure that items are correctly classified as current or non-current as at the end of the group's reporting period.

For example, a subsidiary with the financial year end of 31st December, 20X1 has a payable outstanding that is due for payment on 1st January, 20X3, and has accordingly classified it as non-current in its balance sheet. The financial year end of the parent's consolidated financial statements

is 31st March 31, 20X3. Due to the time lag, the subsidiary's payable falls due within 12 months from the end of the parent's reporting period.

Accordingly, in this case, the payable should be classified as a current liability in the consolidated financial statements of the parent because the amount is repayable within nine months of the end of the parent's reporting period.

Derecognition

Q24. In March 20X1 a group had a 60% interest in subsidiary with share capital of 50,000 ordinary shares. The carrying amount of goodwill is ₹ 20,000 at March 20X1 calculated using the partial goodwill method. On 31 March 20X1, an option held by the minority shareholders exercised the option to subscribe for a further 25,000 ordinary shares in the subsidiary at ₹ 12 per share, raising ₹ 3,00,000. The net assets of the subsidiary in the consolidated balance sheet prior to the option's exercise were ₹ 4,50,000, excluding goodwill. Calculate gain or loss on loss of interest in subsidiary due to option exercised by minority shareholder.

Q25. A parent purchased an 80% interest in a subsidiary for ₹ 1,60,000 on 1 April 20X1 when the fair value of the subsidiary's net assets was ₹ 1,75,000. Goodwill of ₹ 20,000 arose on consolidation under the partial goodwill method. An impairment of goodwill of ₹ 8,000 was charged in the consolidated financial statements to 31 March 20X3. No other impairment charges have been recorded. The parent sold its investment in the subsidiary on 31 March 20X4 for ₹ 2,00,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was ₹ 2,25,000 (not including goodwill of ₹ 12,000). When the subsidiary met the criteria to be classified as held for sale under Ind AS 105, no write down was required because the expected fair value less cost to sell (of 100% of the subsidiary) was greater than the carrying value. The parent carried the investment in the subsidiary at cost, as permitted by Ind AS 27.

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

Q26. AT Ltd. purchased a 100% subsidiary for ₹ 50,00,000 on 31st March 20X1 when the fair value of the BT Ltd. whose net assets was ₹ 40,00,000. Therefore, goodwill is ₹10,00,000. The AT Ltd. sold 60% of its investment in BT Ltd. on 31st March 20X3 for ₹ 67,50,000, leaving the AT Ltd. with 40% and significant influence. At the date of disposal, the carrying value of net assets of BT Ltd., excluding goodwill is ₹ 80,00,000. Assume the fair value of the investment in associate BT Ltd. retained is proportionate to the fair value of the 60% sold, that is ₹ 45,00,000.

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

Q27. The facts of this illustration are same as above, except that the group AT Ltd. disposes of a 90% interest for ₹ 85,50,000, leaving AT Ltd. with a 10% investment. The fair value of remaining interest is ₹ 9,50,000 (assumed for simplicity to be pro rata to the fair value of 90% sold). Calculate gain or loss on sale of proportion of BT Ltd. in AT Ltd.'s separate and consolidated financial statements as on 31st March 20X1.

Miscellaneous

Q28. H Limited has a subsidiary, S Limited and an associate, A Limited. The three companies are engaged in different lines of business. These companies are using the following cost formulas for their valuation in accordance with Ind AS 2, Inventories:

Name of the Company	Cost formula used
H Limited	FIFO
S Limited, A Limited	Weighted average cost

Whether H Limited is required to value inventories of S Limited and A Limited also using FIFO formula in preparing its consolidated financial statements?

A28. Ind AS 110 states that a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Ind AS 110 states that if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances,

appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

It may be noted that the above mentioned paragraphs requires an entity to apply uniform accounting policies "for like transactions and events in similar circumstances". If any member of the group follows a different accounting policy for like transactions and events in similar circumstances, appropriate adjustments are to be made in preparing consolidated financial statements.

Ind AS 8 defines accounting policies as "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements." Ind AS 2 requires inventories to be measured at the lower of cost and net realisable value. Ind AS 2 states that the cost of inventories shall be assigned by using FIFO or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

Elaborating on the requirements of Ind AS 2 illustrates that inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

Ind AS 2 requires disclosure of "the accounting policies adopted in measuring inventories, including the cost formula used". Thus, as per Ind AS 2, the cost formula applied in valuing inventories is also an accounting policy.

As mentioned earlier, as per Ind AS 2, different cost formulas may be justified for inventories of a different nature or use. Thus, if inventories of S Limited and A Limited differ in nature or use from inventories of H Limited, then use of cost formula (weighted average cost) different from that applied in respect of inventories of H Limited (FIFO) in consolidated financial statements may be justified. In other words, in such a case, no adjustment needs to be made to align the cost formula applied by S Limited and A Limited to cost formula applied by H Limited.

Q29. PQR Ltd. is the subsidiary company of MNC Ltd. In the individual financial statements prepared in accordance with Ind AS, PQR Ltd. has adopted Straight-line method (SLM) of depreciation and MNC Ltd. has adopted Written-down value method (WDV) for depreciating its property, plant and equipment. As per Ind AS 110, Consolidated Financial Statements, a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. How will these property, plant and equipment be depreciated in the consolidated financial statements of MNC Ltd. prepared as per Ind AS?

A29. As per Ind AS 16, 'Property, Plant and Equipment', a change in the method of depreciation shall be accounted for as a change in an accounting estimate as per Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'. Therefore, the selection of the method of depreciation is an accounting estimate and not an accounting policy.

The entity should select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method should be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits in separate FS as well as consolidated financial statements.

Therefore, there can be different methods of estimating depreciation for property, plant and equipment, if their expected pattern of consumption is different. The method once selected in the individual financial statements of the subsidiary should not be changed while preparing the consolidated financial statements.

Accordingly, in the given case, the PPE of PQR Ltd. (subsidiary company) may be depreciated using straight line method and property, plant and equipment of parent company (MNC Ltd.) may be depreciated using written down value method, if such method closely reflects the expected pattern of consumption of future economic benefits embodied in the respective assets.

IND AS 110
CONSOLIDATED FINANCIAL STATEMENTS
PART 3

Introductory

Q1. H Ltd acquires all the shares of S Ltd on 31/3/2018 on which date balance sheet of both company were as under. Prepare consolidated balance sheet on 31/3/2018.

Liability	H	S	Assets	H	S
Equity Shares of 10 each	5,00,000	2,00,000	Assets	4,80,000	2,60,000
Reserves	1,00,000	60,000	100% Shares in S	2,00,000	
Creditors	80,000				
	6,80,000	**2,60,000**		**6,80,000**	**2,60,000**

Q2. Balance Sheet of two companies on 31/3/2018 are as under.

Liability	H	S	Assets	H	S
Equity Shares of 10 each	5,00,000	2,00,000	Assets	5,70,000	2,60,000
Reserves	1,00,000	60,000	60% Shares	1,10,000	
Creditors	80,000	–	in S Ltd		
	6,80,000	**2,60,000**		**6,80,000**	**2,60,000**

Shares in S Ltd were purchased on 31/3/2018. Prepare consolidated balance sheet as on 31/3/2018.

Q3. Prepare consolidated balance sheet on 31/3/2018 from following balance sheets.

Liability	H	S	Assets	H	S
Equity Shares of 10 each	5,00,000	2,00,000	Assets	4,36,000	3,04,000
General Reserve	1,00,000	50,000	75% Shares in		
Creditors	80,000	60,000	S Ltd on 31/3/2018	2,44,000	–
			Preliminary Expenses	–	6,000
	6,80,000	**3,10,000**		**6,80,000**	**3,10,000**

Q4. Balance Sheet as on 31/3/2018 are as follows.

Liability	**H**	**S**	**Assets**	**H**	**S**
Equity Shares of 10 each	5,00,000	2,00,000	Fixed Assets	3,00,000	1,00,000
General Reserve	1,00,000	50,000	Current Assets	2,77,600	2,45,000
P/L	60,000	35,000	60% Shares in S	1,62,400	–
Creditors	80,000	60,000			
	7,40,000	3,45,000		7,40,000	3,45,000

H Ltd acquired shares on 01/04/2017. On that date balance in General Reserve & P/L of S Ltd were ₹ 40000 & ₹ 8000 respectively. Prepare Consolidated Balance sheet on 31/3/2018.

Q5. Balance Sheet as on 31/3/2018 are as follows.

Liability	**H**	**S**	**Assets**	**H**	**S**
Equity Shares of 10 each	6,00,000	2,00,000	Fixed Assets	3,70,000	1,45,000
General Reserve	1,50,000	70,000	70% Shares in S	2,60,000	–
P/L	70,000	50,000	Stock	1,75,000	1,89,000
Creditors	90,000	60,000	Debtors	55,000	30,000
			Bank	50,000	10,000
			Preliminary Expenses	–	6,000
	9,10,000	**3,80,000**		**9,10,000**	**380000**

H Ltd acquired shares of S Ltd. On 30th June 2017. On 1/4/2017, S Ltd GR & P/L showed a balance of ₹ 60,000 & ₹ 20,000 respectively. No part of preliminary Expenses were written off during year. Prepare consolidated balance sheet on 31/3/2018.

Inter Company Debt

Q6. The Balance sheet of H Ltd and S Ltd on 31/3/2018 were as under. Shares were acquired by H Ltd on 1/10/2017. Bills Receivable held by S Ltd are all accepted by H Ltd. Included in Sundry Debtors of S Ltd is a sum of ₹ 6000 owing by H Ltd in respect of goods supplied. Prepare consolidated balance sheet on 31/03/2018.

Liability	H	S	Assets	H	S
Equity Shares of 10 each	2,00,000	50,000	Land & Building	60,000	10,000
General Reserve	30,000	10,000	Plant & Machinery	2,00,000	10,000
P/L - Op. bal	40,000	20,000	3000 Shares in S ltd.	65,000	
Net profit	50,000	25,000	Inventories	40,000	85,000
Bank overdraft	20,000	–	Debtors	10,000	10,000
Creditors	30,000	30,000	Bills Receivable		10,000
Bills Payable	15,000	–	Cash and Bank	10,000	10,000
	3,85,000	1,35,000		3,85,000	1,35,000

Revaluation of Fixed Assets

Q7. Balance Sheet on 31/3/2018.

Liability	H	S	Assets	H	S
Equity Shares of 10 each	10,00,000	2,00,000	Fixed Assets	11,62,000	1,80,000
General Reserve	3,10,000	69,000	60% Shares in S	1,42,000	
P/L	1,50,000	40,000	Current Assets	3,86,000	1,24,000
Creditors	2,30,000	–	Preliminary Expenses	–	5,000
	16,90,000	3,09,000		16,90,000	3,09,000

H Ltd acquired shares on 31/12/2017. On 1/4/2017, S Ltd Profit and loss account showed a Debit of ₹ 8000. On 1/4/2017 the Book value of Fixed assets was ₹ 2,00,000 and the Fair Market Value on the date of control was ₹ 90,000. Prepare consolidated balance sheet on 31/3/2018.

Stock Adjustment

Q8. H Ltd acquired as investment 15,000 shares in S for ₹ 1,55,000 in 1/7/2017. The balance sheet of two companies on 31/3/2018 are as follows.

Particulars	H	S
Equity Shares of ₹ 10 each	9,00,000	2,50,000
General Reserve	1,60,000	40,000

P/L	80,000	25,000
Trade Payables	50,000	30,000
Bills Payables	40,000	20,000
	12,30,000	**3,65,000**
Plant & Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Non Current Investments	1,55,000	
Inventories	1,00,000	50,000
Trade Receivables	60,000	35,000
Bills Receivables	35,000	20,000
Cash and Bank balance	80,000	40,000
	12,30,000	**3,65,000**

The following additional information

1. General Reserve appearing in balance sheet of S Ltd has remain unchanged since 1/4/2017.
2. Profit earned by S Ltd for year ended 31/3/2018 amounted to ₹ 20000.
3. On 1/2/2018, H Ltd sold to S Ltd goods costing ₹ 8000 for ₹ 10000 25% of those goods remained unsold with S Ltd on 31/3/2018. Creditors of S Ltd include ₹ 4000 due to H Ltd on account of these goods.
4. Out of S Ltd acceptance ₹ 15000 are those which have been accepted in favour of H Ltd. Out of these H Ltd had endorsed by 31/3/2018, ₹ 8000 worth of bills in favour of its creditors.

Prepare Consolidated Balance sheet on 31/3/2018.

Bonus

Q9. A Ltd acquired 3200 shares of ₹ 100 each in B Ltd. on 31/12/2018. The balance sheet of two companies as on 31/12/2018 were as follows.

Particulars	**A**	**B**
Equity Shares of ₹ 100 each	10,00,000	4,00,000
Capital Reserve	4,80,400	2,40,000

P/L	1,14,000	72,000
Bank OD	1,60,000	–
Creditors	94,200	18,000
Bills Payables (including ₹ 8000 paid to A)	–	16,800
	18,48,600	**7,46,800**
Land & Building	3,00,000	3,60,000
Plant & Machinery	4,80,000	2,18,000
Investments in B Ltd	6,80,000	
Inventories	2,40,000	72,000
Trade Receivable	88,000	80,000
Bills Receivable including receivable from B	31,600	–
Cash and Cash Equivalent	29,000	16,800
	18,48,600	**746,800**

Further following information is available:

1. B Ltd had made a bonus issue on 31/12/2018 of 1 equity share for every 2 equity shares held. This issue has not yet been taken into account.
2. Land & building of B Ltd are undervalued by ₹ 40000 and P & M of B Ltd are overvalued by ₹ 20000. Value of this assets are to be adjusted accordingly
3. Creditors of A include ₹ 24000 due to B. Prepare consolidated balance sheet on 31/12/2018.

Dividends

Q10. A Ltd acquired 16000 shares of ₹ 10 each in B Ltd on 1/7/2018. The Balance sheet of two companies are as under as on 31/12/2018.

Particulars	A	B	Particulars	A	B
Equity shares of ₹10	500,000	200,000	Land & building	1,80,000	1,90,000
General Reserve	240,000	100,000	Plant & Machinery	2,40,000	1,35,000
Surplus	57,200	82,000	Investment in B Ltd.	330,000	
Bank Over draft	100,000	–	Inventories	1,44,000	42,000

Trade Payables	69,800	20,000	Trade Receivables	44,000	40,000
Bills Payables	0	13,000	Bills receivables	14,800	0
			Cash Bank	14,200	8,000
	967,000	**415,000**		**967,000**	**415,000**

1. Profit & Loss A/c of B Ltd showed a balance of ₹ 30000 on 1/1/2018 out of which dividend of 10% was paid on 1st August 2018. The Dividend was credited by A Ltd. to its profit & Loss A/c. Profit may be assumed to have accrued evenly throughout the year.
2. Plant & Machinery of B Ltd which stood at ₹ 150000. On 1/1/2018 was considered to be worth ₹ 180000 on date of acquisition by A Ltd. Plant & Machinery is depreciated at 10%. Prepare Consolidated Balance sheet on 31/12/2018.

Comprehensive sums

Q11. A Ltd acquired 8000 shares of ₹ 10 each in Omega Ltd on 31/12/2018. The summarized balance sheet of two companies as on that date is given below

Particulars	**A**	**Omega**
Equity Shares of ₹ 10 each	3,00,000	1,00,000
Capital Reserve	-	52,000
General Reserve	25,000	5,000
Surplus	38,200	18,000
Loans from Related Parties (Omega)	2,100	-
Creditors	17,900	5,000
Bills Payable (Including ₹ 500 to A)	-	1,700
	3,00,000	**1,81,700**
Fixed Assets	1,50,000	1,44,700
Investment in Omega Ltd	1,70,000	-
Inventories	40,000	20,000
Trade Receivables	20,000	10,000
Bills Receivable (Including ` 200 from Omega)	1,200	-

Cash and Bank	2,000	5,000
Loans & Advances from Related Party	-	2,000
	3,00,000	**1,81,700**

1. Omega Ltd made a Bonus Issue on 31/12/2018 of 1 share of every 2 share held from Capital Reserve but this transaction is not shown in the above Balance sheet.
2. Interest Receivable ₹ 100 in respect of Loan due to A Ltd to Omega Ltd has not been credited in the books of Omega Ltd.
3. Directors decided that the fixed assets of Omega Ltd were overvalued and should be written down by ₹ 5000 as of that date. Prepare Consolidated Balance sheet on 31/12/2018.

Q12. Following are Balance sheet of H and S as on 31/3/2018.

	Particulars	**H**	**S**
I.	Equity Shares of ₹ 100 each	10,00,000	5,00,000
	R & S: General Reserve	1,00,000	1,70,000
	Profit /Loss	1,60,000	1,30,000
	Trade Payables	4,40,000	2,00,000
	Total	**17,00000**	**10,00,000**
II	Fixed Assets	4,80,000	2,50,000
	Investment in S Ltd	5,00,000	–
	Current assets	7,20,000	7,50,000
	Total	**17,00,000**	**10,00,000**

Following is the further in formation:

1. H Ltd acquired 3000 shares in S on 1/7/2017. The Reserves & Surplus position of S Ltd on 1/4/2014 was as under -

   General Reserve ₹ 250000 Profit /Loss ₹ 120000
2. On 1/10/2017, S Ltd issued one share for every four share held as bonus shares. No entry has been made in the books of H for the receipt of this bonus shares.

3. On 30/9/2017, S Ltd declared dividend out of pre-acquisition profits at the rate of 25%. H Ltd credited the dividends to its Profit & Loss A/c.

4. H Ltd owed S Ltd ₹ 500000 for purchase of stock from S. The entire stock is held by H Ltd on 31/3/2018. S Ltd made a profit of 25% on cost. Prepare consolidated balance sheet as on 31/3/2018.

Q13. Balance Sheet of Sun & Moon on 31/3/2018 are given below.

Particulars	**Sun**	**Moon**
Equity Shares of ₹ 10 each	1,20,000	1,00,000
General Reserve	20,000	36,000
Profit and Loss	12,000	20,000
Trade Payables	4,000	7,000
Bills Payables	2,000	5,000
	1,58,000	**1,68,000**
Fixed Assets	44,000	84,000
8000 shares in Moon @ ₹ 11 per share	88,000	
Inventories	10,000	40,000
Trade Receivables	6,000	15,000
Bills Receivables	4,000	16,000
Cash and Cash equivalent	6,000	13,000
	1,58,000	**1,68,000**

Following further information is available:

1. Shares were purchased on 1/4/2015. When shares were purchased, General Reserve & P & L A/c were ₹ 30000 & ₹ 16000 respectively. Dividends have been paid at the rate of 10% every year after acquisition of shares 1st Dividend being paid out of pre acquisition profits. No dividend was proposed for the year 2017 - 2018 and no provision has been made in the consolidated balance sheet. Sun Ltd has credited all dividends received to P & L A/c.

2. On 31/3/2018, Bonus shares has been declared by Moon Ltd at the rate of 1 fully paid up share for 5 held but no effect has been given to that in the above accounts. Bonus was declared out of profits

earned prior to 1/4/2015 from General Reserve. When shares were purchased agreed valuation of Fixed Account of Moon Ltd was ₹108000 though no effect has been given in Books of accounts.

3. Depreciation has been charged at 10% p.a. on the book Value as on 1/4/2015 (on SLM) there being no addition or sale since then.

4. Out of current profits ₹ 2000 has been transferred to GR every year.

5. Bills Receivable of Sun Ltd include ₹2000 bills accepted by Moon and Bills discounted by Sun Ltd but not yet Natured include ₹1500 accepted by Moon. Sundry Creditors of Sun Ltd include ₹2000 due to Moon whereas Sundry Debtors of Moon include ₹4000 due from Sun. It is found that Sun Ltd has remitted a cheque of ₹2000 which has not yet received by Moon Ltd.

6. Contingent Liability of Sun Ltd : Bills Discounted not yet Matured - ₹ 2000.

Q14. From the following data, determine for each case

i) Minority Interest at the date of acquisition and Date of consolidation

ii) Goodwill / Capital Reserve

iii) Amount of Holding Co's consolidated profit, assuming holding Co's P/L is ₹ 20,000 in each case.

Case	**Sub Co.**	**% Control**	**Cost**	**Date of Acquisition 01/01/2018**		**Consolidation Date 31/12/2018**	
				Share Cap	**P/L A/c**	**Share Cap**	**P/L A/c**
1	A	90%	140000	100,000	50,000	100000	70,000
2	B	85%	104000	100,000	30,000	100,000	20,000
3	C	80%	56000	50,000	20,000	50,000	20,000
4	D	100%	100000	50,000	40,000	50,000	55,000

Q15. P Ltd acquired 12,000 shares in F Ltd for ₹ 1,70,000 on 1/4/2017. The Balance Sheet of two companies on 31/12/2017 was as follows.

Particulars	**P**	**F**
Equity Shares of ₹ 10 each	1,00,000	3,00,000
General Reserve	4,20,000	50,000

Profit and Loss Account	2,60,000	85,000
Loan from F Ltd including Interest	57,500	–
Trade Payables	1,82,500	42,000
Bills Payables	80,000	60,000
Total	**11,00,000**	**5,37,000**
Land & Building	4,00,000	1,00,000
Plant & Machinery	5,00,000	1,00,000
Goodwill	3,00,000	70,000
Shares in F Ltd	1,70,000	–
Inventories	2,00,000	40,000
Trade Receivables	3,00,000	85,000
Bills Receivables	50,000	30,000
Cash & Cash Equivalent	80,000	62,000
Loan to P Ltd.	–	50,000
Total	**11,00,000**	**5,37,000**

1. On 1/1/2017, General Reserve & P/L of F Ltd stood at ₹ 150,000 and 40,000 out of which dividend of 15% on capital of ₹ 2,00,000 was paid. In June 2017 for calendar year 2016.
2. At same time bonus issue of one share for every two shares held was paid out of General reserve.
3. Bills payables of F represents Bills issued in favour of P of which company still held ₹ 40,000 of Bills accepted by F. Entire closing stock of F represents goods supplied by P at cost plus 20%.
4. P and F agreed that for services rendered, P Ltd would charge ₹ 500 p.m. from F. Entries for these were not made when the accounts were drawn. The service contracts were entered immediately after P acquired shares in F.
5. Loan to P Ltd was made by F on 1/1/2017.

Prepare consolidated balance sheet on 31/12/2017.

Negative Net worth

Q16. A Ltd acquired 70% of Equity Shares of B Ltd on 1/4/2011 at a cost of ₹ 10 lakh when B Ltd had an Equity Shares Capital of ₹ 10 lakh and Reserves & Surplus of ₹ 80,000. In four consecutive years B Ltd fared badly and suffered losses of ₹ 250,000, ₹ 400,000, ₹ 500,000 and ₹ 120,000 respectively. Thereafter in 2015 - 2016 B Ltd experienced turnaround and registered a annual profit of ₹ 50,000. In next two year i.e 2016 - 2017 and 2017 - 2018, B Ltd recorded annual profit of ₹ 100,000 and ₹ 150,000 respectively show the minority interest at the end of each year for the purpose of consolidation.

Different Accounting Polices

Q. 17 Consider the following Balance sheet of the subsidiary Aravind Ltd.

Liabilities	**2003**	**2004**	**Assets**	**2003**	**2004**
Share capital			Fixed assets Cost	3,20,000	3,20,000
Issued and subscribed			Less: Accumulated		
5,000 equity shares of			Depreciation	48,000	96,000
₹100 each	5,00,000	5,00,000		2,72,000	2,24,000
Reserves and surplus			Investments at cost	–	4,00,000
Revenue reserves	2,86,000	7,14,000	Current assets:		
Bank overdraft	–	1,70,000	Stock	5,97,000	7,42,000
Current liabilities &			Sundry debtors	5,94,000	8,91,000
Provisions:			Prepaid expenses	72,000	48,000
Sundry creditors	4,90,000	4,94,000	Cash at bank	51,000	3,000
Provision for taxation	3,10,000	4,30,000			
	15,86,000	**23,08,000**		**15,86,000**	**23,08,000**

Consider also the following information:

a. Aravind Ltd. is a subsidiary of Bharat Ltd. Both follow calendar year as the accounting year.

b. Bharat Ltd. values stocks on LIFO basis while Aravind Ltd. used FIFO basis. To bring Aravind Ltd.'s values in line with those of Bharat Ltd. its value of stock is required to be reduced by ₹12,000 at the end of 2003 and by ₹34,000 at the end of 2004.

c. Both the companies use SLM of depreciation. However Bharat Ltd. charges depreciation @ 10%.

d. Aravind Ltd. deducts 1% from Sundry debtors as a general provision against doubtful debts.

e. Prepaid expenses in Aravind Ltd. include advertising expenditure carried forward of ₹60,000 in 2003 and ₹30,000 in 2004, being part of initial advertising expenditure of ₹90,000 in 2003 which is being written off over three years. Similar amount of advertising expenditure of Bharat Ltd. has been fully written off in 2003.

Restate the Balance sheet of Aravind Ltd. as on 31st December, 2004 after considering the above information for the purpose of consolidation.

Multiple Subsidiaries

Q18. Draft Balance Sheets of 3 Companies as at 31st March, 2007 are as below : (₹ in 000')

Liabilities	**Morning**	**Evening**	**Night**
Share Capital - shares of ₹100 each	40,000	20,000	10,000
Reserves	1,800	1,000	900
Profit and loss A/c (1.4.2006)	1,500	2,000	800
Profit for 2006 - 2007	7,000	3,800	1,800
Loan from Morning Ltd.,	–	5,000	–
Creditors	2,500	1,000	1,400
	52,800	**32,800**	**14,900**
Investments :			
1,60,000 shares in Evening	18,000	–	–
75,000 shares in Night	8,000	–	–
Loan from Evening Ltd.,	5,000	–	–
Sundry Assets	21,800	32,800	14,900
	52,800	**32,800**	**14,900**

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 lakhs on which the former made a Profit of ₹3 lacs. On 31st March, 2007 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 1.4.2006 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 31.3.2007.

f. The shares of the subsidiaries were all acquired by Morning Ltd., on 1st April, 2006.

Prepare consolidated Balance Sheet as on 31st March, 2007.

Change in holding percentage

Q19. The summarised Balance sheet of A Limited and B Limited are as follows:

Particulars	**A Ltd. ₹**	**B Ltd. ₹**
Share capital (₹10 each)	2,00,000	50,000
Reserves	20,000	5,000
Profit and loss account as on 1st January, 2000	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	30,000	20,000
Total	**2,92,000**	**88,000**
Fixed assets	2,00,000	80,000
Current assets	32,000	8,000
Shares in B Ltd. at cost - 3,000 shares	60,000	–
Total	**2,92,000**	**88,000**

A Limited had acquired 4,000 shares in B Limited at ₹20 each on 1st January, 2000 and sold 1,000 of them at the same price on 1st October, 2000. Draft the consolidated balance sheet as at 31st December, 2000.

Q20. Balance sheets of Football Ltd & its subsidiary Hockey Ltd as on 31/03/2005 are as under:

Liabilities	Football	Hockey	Assets	Football	Hockey
Equity shares of			Goodwill	4,50,000	3,00,000
₹ 10 each	48,00,000	20,00,000	Plant & machinery	12,00,000	5,00,000
10% preference			Motor vehicles	9,50,000	7,50,000
shares of ₹10 each	7,00,000	3,80,000	Furniture & fittings	6,50,000	4,00,000
General reserve	5,50,000	4,20,000	Investments	26,00,000	4,50,000
Profit & loss A/c	10,00,000	6,00,000	Stock	4,50,000	7,20,000
Bank overdraft	1,20,000	70,000	Cash at bank	2,25,000	2,10,000
Sundry creditors	4,30,000	4,80,000	Debtors	9,30,000	7,80,000
Bills payable –	1,60,000		Bills receivable	1,45,000	–
	76,00,000	**41,10,000**		**76,00,000**	**41,10,000**

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

Nature of Shares	Nos. acquired	Date of acquisition	Cost of acquisition (₹)
Preference shares	14,250	01.04.2002	3,10,000
Equity Shares	80,000	01.04.2003	9,50,000
Equity Shares	70,000	01.04.2004	8,00,000

Other information:

i. On 1.4.2004, Profit and loss A/c and general reserve of Hockey Ltd. had credit balance of ₹3,00,000 and ₹2,00,000 respectively.

ii. Dividend @ 10% was paid by Hockey Ltd. for the year 2003 - 04 out of its Profit and loss A/c balance as on 1.4.2004. Football Ltd. credited its share of dividend to its Profit and loss A/c.

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 2004-05, 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 01.04.2004 machinery of Hockey Ltd. were overvalued by ₹1,00,000. Depreciation rate is 20%.

vii. Dividends recommended for the year 2004-05 in the holding and the subsidiary companies are 15% and 10% respectively.

Prepare consolidated Balance Sheet as on 31st March, 2005. Assume Fair value ₹ 11 / share

Q21. The Balance sheet of Bat Ltd. and Ball Ltd. as on 31.3.2003 are as follows:

Liabilities	**Bat Ltd.**	**Ball Ltd.**	**Assets**	**Bat Ltd.**	**Ball Ltd.**
Share capital			Investments :		
(Equity shares of			Shares in Ball Ltd.	1,96,000	–
₹10 each)	1,60,000	2,00,000	Debtors	–	1,20,000
Profit and loss A/c	50,000	60,000	Stock	–	80,000
Creditors	–	16,000	Cash at bank	–	70,000
			Cash in hand	14,000	6,000
	2,10,000	**2,76,000**		**2,10,000**	**2,76,000**

Particulars of Bat Ltd :

1. This company was formed on 1st April 2002.
2. It acquired the shares of Ball Ltd. as under:

Date of Acquisition	**No. of. Shares**	**Cost**
01/04/02	8,000	110,000
31/07/02	6,000	86,000

3. The shares purchased on 31.07.02 are ex-dividend and ex-bonus from existing holder
4. On 31.07.02, dividend at 10% was received from Ball Ltd. and was credited to Profit and loss.
5. On 31.07.02, it received bonus shares from Ball Ltd. in the ratio of 1 share on every 4 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 31.3.2003 included ₹36,000 being the net profit made during the year.
8. Dividend proposed for 2002 - 2003 at 10% was not provided for as yet.

Particulars of Ball Ltd.:

1. Balance in the P&L as on 31.3.2003 is after the issue of bonus shares made on 31.07.02.
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 30.6.02 (Cost ₹10,800 included in opening stock)
3. Dividend proposed for 2002 - 2003 at 10% was not provided for in the accounts.

Prepare the Consolidated Balance sheet of Bat Ltd. as on 31.3.2003.

Multiple Holdings

Q22. Following are Balance Sheets of Ram Ltd., Shyam Ltd &Tom Ltd. as on 31.3.2008: (₹ in '000)

Particulars	**Ram Ltd.**	**Shyam Ltd.**	**Tom Ltd.**
Liabilities			
Equity Share capital (₹100 each)	8,000	4,000	1,600
General Reserve	1,600	280	–
Profit and Loss Account	1,360	960	–
Current Liabilities	1,280	3,000	1,120
Total	**12,240**	**8,240**	**2,720**
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	7,240	7,520	2,080
Total	**12,240**	**8,240**	**2,720**

From the following information, prepare consolidated Balance Sheet of Ram Ltd. and its subsidiaries as on 31.03.2008:

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 1.4.2007 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 1.4.2007, when the debit balance in Profit and Loss account in books of Tom Ltd was ₹4,80,000

vi. Shyam acquired its investments in Tom Ltd. on 1.4.2005 & then Dr. balance in P&L was ₹1,60,000

vii. Shyam Ltd's stock includes stock worth ₹4,80,000 which was invoiced by Ram Ltd. at Cost+20%.

Q23. A Limited is a holding company and B Limited and C Limited. Their Balance sheets as on 31.12.2000 are given below.

	A	**B**	**C**		**A**	**B**	**C**
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 and loss A/c.	16,000	12,000	9,000	Shares in B Ltd.	95,000	–	–
Sundry creditors	7,000	5,000	–	Shares in C Ltd.	13,000	53,000	–
C Ltd. bal	3,000	–	–	Stock	12,000	–	–
A Ltd. bal	–	7,000	–	Debtors	26,000	21,000	32,000
				B Ltd. Bal	8,000	–	–
				A Ltd. Bal	–	–	3,000
	1,74,000	**1,34,000**	**78,000**		**1,74,000**	**1,34,000**	**78,000**

The following particulars are given :

i. The Share capital of all companies is divided into shares of ₹10 each.

ii. A Ltd. held 8,000 shares of B Ltd. and 1,000 shares of C Ltd.

iii. B Ltd. held 4,000 shares of C Ltd.

iv. All these investments were made on 30.06.2000.

v. On 31.12.1999, the position was as shown below:

Particulars	B Ltd. ₹	C Ltd. ₹
Reserve	8,000	7,500
Profit and 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

vi. 10% dividend is proposed by each company.

vii. The whole of stock in trade of B Ltd. as on 30.06.2000 (₹4,000) was later sold to A Ltd. for₹4,400 and remained unsold by A Ltd. as on 31.12.2000.

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 31.12.2000.

Cross Holdings

Q24. Following are the balance sheet of H and S as on March 2015.

Particulars	H	S
Equity shares of 100 Each	10,00,000	5,00,000
Revenue reserves	3,00,000	2,00,000
Trade payables	1,00,000	1,00,000
Total	**14,00,000**	**8,00,000**
Fixed Assets	9,00,000	6,90,000
Trade investment		
In S (4,000 Shares)	5,00,000	
In H (1,000 Shares)		1,10,000
Total	**14,00,000**	**8,00,000**

H acquired the shares in S on 1st April 2014 when the reserves in S stood at ₹ 1,20,000 and in H at ₹ 1,80,000. S acquired the shares in H on 1st April 2013. Prepare consolidated balance sheet of two companies.

Profit and Loss Account

Q25. Given below are the P & L A/c's of H Ltd and its subsidiaries S Ltd for 31/3/2018.

Particulars	**H**	**S**
Sales and other Income	5000	1000
Increase in Inventory	1000	200
Total	**6000**	**1200**
Expenses		
Raw Material consumed	800	200
Wages & Salaries	800	150
Production Expenses	200	100
Administrative Expenses	200	100
Selling & Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50
Total	**2400**	**700**
Profit before Tax	**3600**	**500**
(-) Provision for Tax	(1200)	(200)
Profit after Tax	**2400**	**300**

Adjustments.

1) H Ltd sold goods to S Ltd of ₹ 120 lakh at cost plus 20%. Inventory of S Ltd includes such goods valuing ₹ 24 lakhs.

2) Administrative Expenses of S Ltd include ₹ 50 lakh paid to H as consultancy fees.

3) S & D Expenses of H Ltd include ₹ 10 lakh paid to S as commission.

4) H Ltd holds 80% of Equity Share Capital of S Ltd.

Prepare Consolidated P/L for the year 2017 - 2018.

Q26. Following is the Profit & Loss A/c for Summer Ltd. and Winter Ltd. for the year ended 31/12/18.

	Summer Ltd.	**Winter Ltd.**
Sales	1,00,000	54,000
- Cost of Sales	49,000	28,500
Gross Profit	**51,000**	**25,500**
- Administration	20,000	9,500
Profit before Tax	**31,000**	**16,000**
- Tax	5,400	4,000
Profit after Tax	**25,600**	**12,000**

Summer Ltd. acquired 75% shares of Winter Ltd. on 30/6/18. Prepare Consolidated P&L A/c.

Miscellaneous

Q27. DEF Ltd. acquired 100% ordinary shares of ₹ 100 each of XYZ Ltd. on 1st October 20X1. On March 31, 20X2 the summarised Balance Sheets of the two companies were as given below:

	DEF Ltd.	**XYZ Ltd.**
Assets: Property Plant Equipment		
Land & Buildings	15,00,000	18,00,000
Plant & Machinery	24,00,000	13,50,000
Investment in XYZ Ltd.	34,00,000	-
Inventory	12,00,000	3,64,000
Financial Assets		
Trade Receivable	5,98,000	4,00,000
Cash	1,45,000	80,000
Total	**92,43,000**	**39,94,000**
Equities & Liabilities		
Equity Capital (Shares of ₹ 100 each fully paid)	50,00,000	20,00,000
Other Equity		
Other reserves	24,00,000	10,00,000

Retained Earnings	5,72,000	8,20,000
Financial Liabilities		
Bank Overdraft	8,00,000	-
Trade Payable	4,71,000	1,74,000
Total	**92,43,000**	**39,94,000**

The retained earnings of XYZ Ltd. showed a credit balance of ₹ 3,00,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November. DEF Ltd. has recognised the dividend received to profit or loss account. Fair Value of P&M as on 1st October 20X1 was ₹ 20,00,000. The rate of depreciation on plant & machinery is 10%. Following are the increases on comparison of Fair value as per respective Ind AS with Book value as on 1st October 20X1 which are to be considered while consolidating the balance sheets.

Liabilities	**Amount**	**Assets**	**Amount**
Trade Payables	1,00,000	Land & Buildings	10,00,000
		Inventories	1,50,000

Note:

1. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.
2. Also assume that the Other Reserves of both the companies as on 31st March 20X2 are the same as was on 1st April 20X1.
3. All fair value adjustments have not yet started impacting consolidated post-acquisition profits.

Prepare consolidated Balance Sheet as on March 31, 20X2.

Q28. Ram Ltd. acquired 60% ordinary shares of ₹ 100 each of Krishan Ltd. on 1st October 20X1. On March 31, 20X2 the summarised Balance Sheets of the two companies were as given below:

	Ram Ltd.	**Krishan Ltd.**
Assets: Property, Plant and Equipment		
Land & Buildings	3,00,000	3,60,000
Plant & Machinery	4,80,000	2,70,000

Investment in Krishan Ltd.	8,00,000	-
Inventory	2,40,000	72,800
Financial Assets		
Trade Receivables	1,19,600	80,000
Cash	29,000	16,000
Total	**19,68,600**	**7,98,800**
Equity & Liabilities		
Equity Capital (Shares of ₹ 100 each fully paid)	10,00,000	4,00,000
Other Equity		
Other Reserves	6,00,000	2,00,000
Retained earnings	1,14,400	1,64,000
Financial Liabilities		
Bank Overdraft	1,60,000	-
Trade Payable	94,200	34,800
Total	**19,68,600**	**7,98,800**

The Retained earnings of Krishan Ltd. showed a credit balance of ₹ 60,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November; Ram Ltd. has credited the dividend received to its Retained earnings; Fair Value of P& M as on 1st October 20X1 was ₹ 4,00,000; The rate of depreciation on plant & machinery is 10%. Following are the increases on comparison of Fair value as per respective Ind AS with book value as on 1st October 20X1 which are to be considered while consolidating the Balance Sheets.

Liabilities	**Amount**	**Assets**	**Amount**
Trade Payables	20,000	Land & Buildings	2,00,000
		Inventories	30,000

1. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.
2. Also assume that Other Reserves as on 31st March 20X2 are the same as was on 1st April 20X1.

Prepare consolidated Balance Sheet as on March 31, 20X2.

Q29. On 31 March 20X2, Blue Heavens Ltd. acquired 100% ordinary shares carrying voting rights of Orange County Ltd. for ₹ 6,000 lakh in cash and it controlled Orange County Ltd. from that date. The acquisition-date statements of financial position of Blue Heavens Ltd. and Orange County Ltd. and the fair values of the assets and liabilities recognised on Orange County Ltd. statement of financial position were:

	Blue Heavens	**Orange County**	
	Carrying Amount (₹ in lakh)	**Carrying Amount (₹ in lakh)**	**Fair Value (₹ in lakh)**
Assets			
Non-current assets			
Building and other PPE	7,000	3,000	3,300
Investment in Orange County Ltd.	6,000		
Current assets			
Inventories	700	500	600
Trade receivables	300	250	250
Cash	1,500	700	700
Total assets	**15,500**	**4,450**	
Equity and Liabilities			
Equity			
Share capital	5,000	2,000	
Retained Earning	10,200	2,300	
Current Liabilities			
Trade payables	300	150	150
Total Equity and Liabilities	**15,500**	**4,450**	

Prepare the Consolidated Balance Sheet as on March 31, 20X2 of group of entities Blue Heavens Ltd. and Orange County Ltd.

Q30. The facts are the same as in Question 29 above. However, Blue Heavens Ltd. acquires only 75% of the ordinary shares, to which voting rights are attached of Orange County Ltd. Blue Heavens Ltd. pays ₹ 4,500 lakhs for the shares. Prepare the Consolidated Balance Sheet as on March 31, 20X2 of group of entities Blue Heavens Ltd. and Orange County Ltd.

Q31. Facts are same as in Question 29 & 30, Blue Heavens Ltd. acquires 75% of Orange County Ltd. Blue Heavens Ltd. pays ₹ 4,500 lakhs for the shares. At 31 March 20X3, i.e one year after Blue Heavens Ltd. acquired Orange County Ltd., the individual statements of financial position and statements of comprehensive income of Blue Heavens Ltd. & Orange County Ltd. are: (₹ in lakhs)

	Blue Heavens Ltd.	**Orange County Ltd.**
	Carrying Amount	**Carrying Amount**
Assets: Non-current assets		
PPE (Building and others)	6,500	2,750
Investment in Orange County Ltd.	4,500	-
Current assets		
Inventories	800	550
Financial Asset -Trade receivables	380	300
Cash	4,170	1,420
Total assets	**16,350**	**5,020**
Equity and liabilities		
Share capital	5,000	2,000
Retained earnings	11,000	2,850
Current liabilities		
Financial Liabilities-Trade payables	350	170
Total liabilities and equity	**16,350**	**5,020**

Statements of Profit and Loss for the year ended 31 March 20X3: (₹ in lakhs)

	Blue Heavens Ltd.	**Orange County Ltd.**
Revenue	3,000	1,900
Cost of sales	(1,800)	(1,000)
Administrative expenses	(400)	(350)
Profit for the year	800	550

Note: Blue Heavens Ltd. estimates that goodwill has impaired by 98. The fair value adjustment to buildings and other PPE is in respect of a building; all buildings have an estimated remaining useful life of 20 years from 31 March 20X2 and estimated residual values of zero. Blue Heavens Ltd. uses the straight-line method for depreciation of PPE. All the inventory held by Orange County Ltd. at 31 March 20X2 was sold during 20X3. Prepare the Consolidated Balance Sheet as on March 31, 20X3 of group of entities Blue Heavens Ltd. and Orange County Ltd.

Q32. Reliance Ltd. has a number of wholly-owned subsidiaries including Reliance Jio Infocomm Ltd. at 31st March 20X2. Reliance Ltd. consolidated statement of financial position and the group carrying amount of Reliance Jio Infocomm Ltd. assets and liabilities (i.e. the amount included in that consolidated statement of financial position in respect of Reliance Jio Infocomm Ltd. assets and liabilities) at 31st March 20X2 are as follows: ***(₹In '000)***

Particulars	**Consolidated**	**Group carrying amount of Reliance Jio Infocomm Ltd. asset and liabilities Ltd.**
Assets: Non-current Assets		
Goodwill	190	90
Buildings	1,620	670
Current Assets: Inventories	70	20
Financial Assets		
Trade Receivables	850	450
Cash	1,550	500
Total Assets	**4,280**	**1,730**

Equity & Liabilities		
Equity		
Share Capital	800	
Other Equity		
Retained Earnings	2,130	
Current liabilities	2,930	
Financial liabilities		
Trade Payables	1,350	450
Total Equity & Liabilities	**4,280**	**450**

Prepare consolidated Balance Sheet after disposal as on 31st March, 20X2 when Reliance Ltd. group sold 90% shares of Reliance Jio Infocomm Ltd. to independent party for ₹ 1000 thousand.

Q33. Airtel Telecommunications Ltd. owns 100% share capital of Airtel Infrastructures Pvt. Ltd. On 1 April 20X1 Airtel Telecommunications Ltd. acquired a building from Airtel Infrastructures Pvt. Ltd., for ₹ 11,00,000 that the group plans to use as its new headquarters office. Airtel Infrastructures Pvt. Ltd. had purchased the building from a third party on 1 April 20X0 for ₹ 10,25,000. At that time the building was assessed to have a useful life of 21 years and a residual value of ₹ 5,00,000. On 1 April 20X1 the carrying amount of the building was ₹ 10,00,000 in Airtel Infrastructures Pvt. Ltd.'s individual accounting records. The estimated remaining useful life of the building measured from 1 April 20X1 is 20 years and the residual value of the building is now estimated at ₹ 3,50,000. The method of depreciation is straight-line. Pass necessary accounting entries in individual and consolidation situations.

Q34. As at the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited. During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of ₹ 56 crore and consequently loses control of BC Limited. At the date of disposal, fair value of the 20% interest retained by AB Limited is ₹ 16 crore and the net assets of BC Limited are fair valued at ₹ 60 crore.

These net assets include the following:

(a) Debt investments classified as fair value through other comprehensive income (FVOCI) of ₹ 12 crore and related FVOCI reserve of ₹ 6 crore.

(b) Net defined benefit liability of ₹ 6 crore that has resulted in a reserve relating to net measurement losses of ₹ 3 crore.

(c) Equity investments (considered not held for trading) of ₹ 10 crore for which irrevocable option of recognising changes in fair value in FVOCI has been availed & related FVOCI reserve of ₹ 4 crore.

(d) Net assets of a foreign operation of ₹ 20 crore and related foreign currency translation reserve of ₹ 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest. What would be the accounting treatment on loss of control in the consolidated financial statements of AB Limited?