Lesson 7 Consolidation of Accounts as per Companies Act, 2013

Key Concepts One Should Know

- Holding company
- Subsidiary company
- Consolidated Financial statement
- Minority interest
- Goodwill
- Pre-acquisition profits

Learning Objectives

To understand the:

- Holding Company and Subsidiary Company
- Legal requirements relating to presentation of accounts by a Holding Company.
- Requirement of schedule III
- Preparation of Consolidated balance sheet of a holding company and its subsidiaries
- Various steps involved in preparation of Consolidation Balance Sheet & Consolidated Profit & Loss Account.

Lesson Outline

- Introduction
- Meaning of Holding and Subsidiary Company
- Holding Vs Subsidiary Company
- Types of Subsidiaries
- Legal Requirements for a Holding Company
- Consolidated Financial Statements
- Minority Interest
- Consolidated Profit & Loss A/c
- Goodwill
- Pre-Acquisition Profits/Reserves
- Revaluation of Assets
- Bonus Shares Issued By Subsidiary Company
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF

INTRODUCTION

HOLDING COMPANY

As per Section 2(46) of the Companies Act, 2013 "holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies;

SUBSIDIARY COMPANY

As per Section 2(87) of the Companies Act, 2013 "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company–

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation – For the purposes of this clause–

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes anybody corporate;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

COMPANY INCLUDES BODY CORPORATE

- As per Sec 2(87) of the Companies Act, 2013 Company include a 'Body Corporate'.
- As per Sec 2(11) of the Companies Act, 2013 Body Corporate includes a 'Company incorporate out of India'.

Thus, an Indian company in which more than 50% shares are held by a foreign body corporate will be a 'Subsidiary Company'.

Similarly, any Indian body corporate can be 'holding company' even if that body corporate is not registered as 'company' under Companies Act.

An Indian company can be holding/subsidiary of a foreign body corporate even if it is not registered as a Company.

SHARE-HOLDING OF HOLDING COMPANY BY SUBSIDIARY COMPANY

A Holding Company can and does hold shares of subsidiary, but a subsidiary can't hold shares in its holding company. Share allotment made to subsidiary is void.

This restriction applies even if shares are held by nominee of subsidiary Company and not by the subsidiary company itself.

However there are certain cases, subsidiary can be member of its holding Company:-

(a) When subsidiary is a legal representative of deceased member of holding Company.

(b) When subsidiary is concerned in shares as trustee.

(c) Investment held before the Company became subsidiary can continue, but in that case, subsidiary has no voting right in holding Company.

Associate company

Associate Company, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. The purpose of significant influence has been clarified in the explanation as control of at least twenty per cent of total share capital, or of business decisions under an agreement. In the case of joint ventures it is always by way an agreement significant influence is used but not necessarily by control over share capital. The meaning of significant influence is in line with AS18.

Wholly Owned Subsidiary Company

A company in which all the shares with voting rights (i.e. 100%) are owned by the holding company, it is said to be a wholly owned subsidiary company.

Partly Owned Subsidiary Company

A company in which only the majority of shares (more than 50%) are owned by the holding company, it is said to be a party owned subsidiary.

Minority Shareholder

Small Shareholder: A shareholder who is holding shares of nominal value of INR 20,000 or such other sum as may be prescribed.

Minority Shareholder: Equity holder of a firm who does not have the voting control of the firm, by virtue of his or her below fifty percent ownership of the firm's equity capital

LEGAL REQUIREMENTS FOR A HOLDING COMPANY

Section 129 of the Companies Act, 2013 stipulates that the balance sheet of a holding company has to be accompanied by the below-mentioned documents of relating to each of its subsidiaries:

1. A copy of the Balance Sheet of the subsidiary
2. A copy of the P&LA/c of the subsidiary company
3. A copy of the report of its Board of Directors
4. A copy of the report of its auditors
5. A statement containing the following particulars:
   (i) The nature and extent of holding companies interest in the subsidiary at the end of the last financial year
   (ii) The net aggregate amount of profits or losses in the subsidiary so far as it concerns the members of the holding company and is not dealt within the holding company's accounts.
6. If the financial year of the holding company and its subsidiary company coincide with each other subsidiary company's balance sheet and other documents specified above with respect to the same financial year should be attached to the balance sheet of the holding company.

If the financial year of the subsidiary company does not coincide with the financial year of the holding company, a statement showing the following should be attached:

(i) Whether, and to what extent, there has been a change in the holding company's interest in the subsidiary company since the close of the financial year of the subsidiary company

(ii) Details of any materials changes which have occurred between the end of the financial year of the subsidiary company and the end of the financial year of the holding company in respect of:

(a) The subsidiary's fixed assets

(b) Its investments

(c) The moneys lent by it

(d) The moneys borrowed by it for any purpose other than that of meeting its current liabilities

(e) If for any reason, the board of directors of the holding company is unable to obtain information on profits (capital or revenue) a report in writing to the effect.

In a nutshell, if the financial years of both the subsidiary and holding companies do not coincide, the preceding year's balance sheet and other statements of the subsidiary company should be attached. The information attached to the balance sheet of a holding company in respect of its subsidiary companies could not be more than 6 months.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements means the preparation and presentation of profit and loss account and balance sheet of a holding company and its subsidiaries in a single format. According to the companies and, there is not legal provision insisting a holding company to prepare and present 'Group Accounts' consolidated financial statements. Even though there is no statutory provision for a holding company to prepare consolidated financial statements, the ICAI has issued AS-21 on 'consolidated financial statements'. It is not mandatory. As per AS-21, holding company means a parent company which has one there subsidiaries. A 'group' is a 'parent' and all its subsidiaries. The main purpose of the preparation of consolidated statements is to reflect a true and fair view of the position and the profit or loss of the holding company 'group'. Further, by preparation of consolidated financial statements, the shareholders are in a position to get firsthand information on the company authentically.

The advantages of consolidation of financial statements are as follows:

1. **Facilitates easy comprehension:** Shareholders are in a position to get a clear insight about the financial position of the group (parent and all its subsidiaries)

2. **Assists in ascertaining intrinsic value of share:** For various accounting procedures, intrinsic value of shares serve as an essential tool. This can be attained on the basis of consolidated financial statements of companies.

3. **Proper assessment of return on investment:** Only consolidated financial statements can provide proper information on the total share of holding company in the revenue profit of its subsidiaries.

4. **Minority interest disclosure:** In the consolidated balance sheets, the item shown under the head 'Minority Interest' discloses the total amount payable to outside shareholders. This is liability payable to outsiders, i.e., general public. This factor is the main factor to be considered in the process of acquisition of company.

5. **Helps in the "evaluation" of holding company:** As consolidated financial statements reflect a true and fair view of the position of the holding company (parent) as a group, the investors may be able to evaluate the performance of the company. Thereby, it enhances the overall performance of the group.

The following are its limitations:

1. Varied information: All the subsidiary companies may not carry the same type of business. As their activities differ from each other, information combined together in a single format may result in confusion and alternatives.

2. Irrelevant concealment of facts: The data got from subsidiary companies may not be relevant in the combined form. Further, to arrive at common figures, some of the facts may be suppressed. In such a situation, a consolidated financial statement may not reflect a true and fair view of the position of the companies.

Contents and Format of Consolidated Balance Sheet

Section 129 (Clause 3) of the Companies Act, 2013 mandated the companies having one or more subsidiaries, to prepare Consolidated Financial Statements. According to this section, where a company has one or more subsidiaries, it shall, in addition to separate financial statements will prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.

It shall also attach along with its financial statements, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in the prescribed form.

Consolidated Financial Statements are intended to show the financial position of the group as a whole - by showing the economic resources controlled by them, by presenting the obligations of the group and the results the group achieves with its resources.

The Schedule III of the Companies Act, 2013, provides certain general instructions for the preparation of consolidated financial statements.

1. Accordingly, where a company is required to prepare Consolidated Financial Statements, i.e., consolidated balance sheet and consolidated statement of profit and loss, the company shall mutatis mutandis follow the requirements of Schedule III of the Companies Act, 2013, as applicable to a company in the preparation of balance sheet and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:
   - (i) Profit or loss attributable to "minority interest" and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.
   - (ii) "Minority interests" in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

Format

Consolidated Balance Sheet
Of
Holding Company and its Subsidiaries
as on …….

Format of Consolidated Balance Sheet			
EQUITY AND LIABILITIES		**Amount**	**Amount**
SHAREHOLDER'S FUND			XX
a) Share Capital (Holding Company)		XX	
b) Reserves & Surplus			
i) General Reserve (Holding Co.)		XX	
ii) Capital Reserve (Holding Co.)	XX		
Add: Capital Reserve from Acquisition	XX	XX	
iii) Surplus			
Surplus of Holding Co.	XX		
Add: Share in revenue profits of Subsidiary Co.	XX		
Less: Unrealized Profits	(XX)	XX	XX

2. Non-current liabilities			
a) Minority Interest		XX	
b) Holding Co. Subsidiary Co.	XX XX	XX	XX
3. Current liabilities			
Holding Co. Subsidiary Co. Less: Inter Co. or mutual Owings	XX XX XX		XX
Total			**XX**
ASSETS			
1. Non-current assets			
a) Property, Plant and Equipment:			
i) Tangible assets Holding Co. Subsidiary Co.	 XX XX		XX
ii) Intangible assets:			
Goodwill or Cost of Control: Holding Co. Subsidiary Co. Goodwill resulting from acquisition	 XX XX	 XX XX	XX
b) Non-Current Investment			
Holding Co. (except investment in shares of subsidiary Co.)			XX
2. Current assets			
Holding Co. Subsidiary Co. Less: Inter Company or Mutual Owings	XX XX XX		XX
Total			**XX**

Illustration 1.

Model : Cancellation of investment – Wholly owned subsidiary company

From the following Balance Sheet of H Ltd. (holding) and S Ltd. (subsidiary), prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd.

Particulars	**H Ltd Rs.**	**S Ltd Rs.**
Equity & Liabilities Share capital : Shares of Rs. 10 each Sundry Liabilities	5,00,000 1,00,000	2,00,000 25,000
Total	**6,00,000**	**2,25,000**
Assets: Sundry Assets Investment : 20,000 shares of Rs.10 each of S Ltd	400000 200000	225000
Total	**6,00,000**	**2,25,000**

Solution:

Notes

1. The Balance Sheet reveals that H Ltd. owns the whole of issued share capital of S Ltd. (wholly owned subsidiary)
2. The balance sheet of H Ltd. reveals the investment in shares of S Ltd. the amount is equal to the nominal value of issued share capital of S. Ltd.
3. These two amounts represent the same transaction but different in nature. (the issued capital of S Ltd. and investment held by H Ltd.)
4. These two are the internal items of H Ltd. and S Ltd.
5. Hence, these should be eliminated in the preparation of consolidated balance sheet shown in the following:

Consolidated Balance Sheet of

H Ltd. & S Ltd. as on .....

I. EQUITIES AND LIABILITIES		**H Ltd. Amount (Rs.)**
1. Shareholders' funds Share Capital		
50,000 shares of Rs. 10 each (H Ltd. Only)		5,00,000
2. Sundry Liabilities		
H Ltd.	1,00,000	
S Ltd.	25,000	1,25,000
Total		**6,25,000**
II. ASSETS		
Sundry Assets		
H Ltd.	4,00,000	
S Ltd.	2,25,000	6,25,000
Total		**6,25,000**

Note: The investment account on the assets side of H Ltd. is replaced by the total assets of S Ltd. on the assets side of consolidated balance sheet and its liabilities are shown on the liabilities side.

Minority Interest

As per AS 21, 'Minority interest' is that part of the net results of operations and of the net assets of a subsidiary attributable to the interests which are not owned, directly or indirectly through subsidiary or subsidiaries, by the parent.

As per Ind AS 110, 'Non-controlling interest' is an equity in a subsidiary, not attributable, directly or indirectly to a parent.

The term 'Minority interest' or 'Non-controlling interest' is not defined under the Companies Act, 2013.

Calculation and presentation of the minority interest: This point may be explained as under:

<table>
<tr><th>Calculation</th><th>Minority interest will be calculated as under:
<table>
<tr><th>Particulars</th><th>(Rs.)</th></tr>
<tr><td>A. Paid up value of the equity shares (including bonus shares) held by the minority</td><td>*****</td></tr>
<tr><td>B. Paid up value of preference shares presently held by the minority</td><td>******</td></tr>
<tr><td>C. Share of minority in the capital profits/(loss) of the subsidiary</td><td>***/(***)</td></tr>
<tr><td>D. Share of minority in the revenue profits/(loss) of the subsidiary</td><td>***/(***)</td></tr>
<tr><td>E. Share of minority in the revenue reserve of the subsidiary</td><td>******</td></tr>
<tr><td>F. Share of minority in the preference dividend of the subsidiary (on cumulative preference shares whether declared or not and on non-cumulative preference shares when declared)</td><td>******</td></tr>
<tr><td>G. Share of minority in the equity dividend declared by the subsidiary</td><td>****</td></tr>
<tr><td>Minority Interest (A+B+C+D+E+F)</td><td>*****</td></tr>
</table></th></tr>
<tr><td>Presentation of minority interest in the consolidated Balance sheet</td><td>‘Minority Interest’ should be presented as a separate item after the head ‘Shareholders’ fund’ but before the head ‘Share application money pending allotment’ on the ‘Equity and Liabilities’ side of the Balance sheet.</td></tr>
</table>

Illustration 2

Model : Minority interest

From the following, prepare consolidated balance sheet of H Ltd. and its subsidiary S Ltd.

Particulars	**Rs.**	**Rs.**
Equities & Liabilities		
Share capital :		
Shares of Rs.10 each	5,00,000	3,00,000
Other Liabilities	1,40,000	20,000
Total	640000	320000
Assets:		
Sundry Assets	400000	320000
Investment in Shares of S Ltd. 24000 shares of Rs.10 each	240000	
Total	**6,40,000**	**3,20,000**

Notes:

1. This partly owned subsidiary company H Ltd. owns to the extent:

   Issued capital of S Ltd. Rs.3,00,000

   Owned as investment in shares of S Ltd. Rs.2,40,000

   ∴ proportionate share $\frac{\text{Rs.2,40,000}}{\text{Rs.3,00,000}}$ x 100 = 80%

2. Outside shareholders share = (100-80)% = 20%

   ∴ value of minority interest = 20% of Rs. 3,00,000

   = Rs.60,000

   This amount may be shown in either of the following two ways:

   (i) As a separate item under the head 'Minority Interest'

   (ii) Along with share capital of holding company

3. As in this problem, no items relating to capital reserve profit and loss; revenue reserve profit and loss or P&L A/c balance is given – Minority interest is computed straight away in Notes 1 and 2.

Solution:

Consolidated Balance Sheet of
H Ltd. & S Ltd.
as on ……

Particulars	Amount (Rs.)	Amount (Rs.)
I. EQUITIES AND LIABILITIES		
1. Shareholders' funds		
a) Share Capital -50,000 shares of Rs. 10 each (H Ltd. only)		5,00,000
2. Non-current liabilities		
Minority Interest		60,000
3. Other Liabilities		
H Ltd.	1,40,000	
S Ltd.	20,000	1,60,000
Total		**7,20,000**
II. ASSETS		
1. Sundry Assets		
H Ltd.	4,00,000	
S Ltd.	3,20,000	7,20,000
Total		**7,20,000**

Consolidated Profit & Loss Account

While preparing the Consolidated Profit and Loss Account of the holding company and its subsidiary, the items appearing in the Profit and Loss Account of the holding and subsidiary companies have to be aggregated. But in doing so, the following adjustments have to be made:

(i) Transfer of goods between the holding company and the subsidiary company should be eliminated both from the purchases and sales appearing in the Consolidated Profit and Loss Account.

(ii) Stock Reserve for unrealised profit in respect of inter-company transactions should be created by debiting Consolidated Profit and Loss Account and crediting Stock Reserve Account.

(iii) The share of profits of the subsidiary company arising before the date of acquisition of shares by the holding company that belongs to the holding company will be debited to the Consolidated Profit and Loss Account and credited to Capital Reserve or Goodwill Account as the case may be. In case of loss the entry will be just reversed.

(iv) The share of profits or losses belonging to the minority shareholders will be respectively credited or debited to Minority Interest Account.

(v) Dividends received from the subsidiary company by the holding company should be eliminated from both the sides of the Consolidated Profit and Loss Account.

(vi) Care should be taken to see that both the companies pass entries for interest accrued and outstanding on debentures of the subsidiary company held by the holding company. The debenture interest should be eliminated from both the sides of the Consolidated Profit and Loss Account to the extent to which it relates to the debentures held by the holding company.

(vii) If the subsidiary company has passed entries for proposed dividend and the holding company has taken credit for its shares of the dividends, the holding company's share should be eliminated from both the sides of the Consolidated Profit and Loss Statement. The necessary changes should also be made on both the sides of the Consolidated Balance Sheet. However, if the holding company has not passed entries for proposed dividends of the subsidiary company, the debit in respect of the proposed dividend should be reduced by the holding company's share in such proposed dividend and obviously, the liability in respect of proposed dividend in the Consolidated Balance Sheet should also be reduced.

(viii) If there are profits and the dividends on cumulative preference shares are in arrears, the arrears of dividends on preference shares held by the Minority shareholders should be debited to the Consolidated Profit and Loss Account and credited to Minority Interest Account.

(ix) If fixed assets of the subsidiary company are revalued at the time of acquisition of shares by the holding company without any alteration in book-values, the excess or short depreciation should be adjusted by debiting or crediting the Consolidated Profit and Loss Account and crediting or debiting the respective Asset Account.

(x) The minority interest will consist of its proportion of total profits after adjustment of excess or short depreciation due to over or under valuation of fixed assets, but before adjusting the proportionate unrealised profit on stock.

It is important to note here that the consolidated Profit and Loss Statement has got no concern with the Consolidated Balance Sheet. It is prepared in addition to the Consolidated Balance Sheet to serve the purpose of showing the total profits earned by the group of companies for a particular period

(1) PROFIT AND LOSS ACCOUNT

Particulars	**Note No.**	**Figures for the Current Reporting period**	**Figures for the Previous Reporting period**
I Revenue from operations			
II Other Income			
III Total Revenue (I + II)			
IV Expenses:			
Cost of materials consumed			
Purchases of Stock-in-Trade			
Changes in inventories of finished goods Employee benefits expense			
Finance costs			
Depreciation and amortization expense			
Other expenses			
Total expense			

V	Profit before exceptional and extraordinary items and tax (III-IV)			
VI	Exceptional items			
VII	Profit before extraordinary items and tax (V-VI)			
VIII	Extraordinary items			
IX	Profit before tax (VII-VIII)			
X	Tax expense: Current tax Deferred tax			
XI	Profit (Loss) for the period from continuing operations			
XII	Profit / (Loss) from discontinuing operations (before tax)			
XIII	Tax expense of discontinuing operations			
XIV	Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			
XV	Earning per equity share:			
	Basic			
	Diluted			

In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the	**Net Assets, *i.e.*, total assets minus total liabilities**		**Share in profit or loss**	
	As % of consolidated net assets	**Amt**	**As % of consolidated profit or loss**	**Amt**
1	**2**	**3**	**4**	**5**
Parent Subsidiaries Indian 1. 2. 3. Foreign 1. 2. 3. Minority Interests in all subsidiaries Associates				
(Investment as per the equity method) Indian 1. 2. 3. Foreign 1. 2. 3.				

Joint Ventures (as per proportionate consolidation/ investment as per the equity method)				
Indian				
1.				
2.				
3.				
Foreign				
1.				
2.				
3.				
TOTAL				

3. All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under consolidated financial statements.

4. An entity shall also disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.

Goodwill

Calculation and presentation of goodwill/capital reserve on consolidation: This point may be dealt with as under:

Meaning	Goodwill on consolidation or capital reserve on consolidation is equal to the difference between (a) the net cost of investment of the holding company in the equity and preference shares of the subsidiary company and, (b) the share of the holding company in the net assets of the subsidiary company. If the net cost of investment of holding company in the equity and preference shares of the subsidiary company is more than the share of the holding company in the net assets of the subsidiary company, the difference between the two is 'Goodwill on consolidation'. If the net cost of investment of holding company in the equity and preference shares of the subsidiary is less than the share of the holding company in the net assets of the subsidiary, the difference between the two is 'Capital Reserve on consolidation'. However, if both are equal, there is neither any 'Goodwill on consolidation' nor any 'Capital Reserve on consolidation'.	
Calculation	Particulars	(Rs.)
	A. Net cost of investment	
	(i) Amount actually paid for equity shares and preference shares of subsidiary	******
	(ii) Less: dividend received out of pre-acquisition profit of the subsidiary (whether equity or preference dividend)	(*****)
	(iii) Less: Share of holding company in preference dividend on cumulative pref. shares whether declared or not and on non-cumulative pref. shares when declared out of pre-acquisition profit of the subsidiary	(******)

	(iv) Less: Share of holding company in declared equity dividend of the subsidiary out of pre-acquisition profit of the subsidiary	(******)
	Total net cost of investment (I+ ii+ iii+ iv)	******
	B. Share of holding company in the net assets of the subsidiary company	
	(i) Paid up value of equity shares (including bonus shares) presently held by the holding company	******
	(ii) Paid up value of preference shares presently held by the holding company	*****
	(iii) Share of holding company in the capital profit of the subsidiary company	*****
	Total share of holding company in the net assets of the subsidiary company (i+ ii+ iii)	******
	C. Goodwill on consolidation (if A exceeds B) or Capital reserve on consolidation (if B exceeds A)	*******
Presentation	Goodwill on consolidation is shown under the sub-sub-head "intangible Assets" under the sub-head "Fixed assets" under the head 'Non-current assets' on the assets side of the CBS. 'Capital Reserve on consolidation' is shown under the sub-head 'Reserves and Surplus 'under the head 'Shareholders' funds' on the 'Equity and Liabilities' side of the CBS.	

Illustration 3.

Model: Goodwill

From the following balance sheets of H Ltd. and its subsidiary S Ltd. as on 31 December 2017, prepare consolidated balance sheet.

Particulars	Rs.	Rs.
Equities & Liabilities		
Share Capital:	5,00,000	2,00,000
Shares of Rs. 50 each Creditors	1,00,000	20,000
Reserves	--	10,000
Profit & Loss A/c	50,000	30,000
Total	**6,50,000**	**2,60,000**
Assets		
Sundry Assets:	350000	260000
Investment in the shares of S Ltd 4,000 shares (at cost)	300000	
Total	**6,50,000**	**2,60,000**

H Ltd. purchase shares in S Ltd. on the balance sheet date.

Solution

Computation of Goodwill:

		Rs.
Step 1:	Cost price of shares in S Ltd. (Investment) Give:	3,00,000
Step 2:	Less: Face value of shares:	2,00,000
		1,00,000
Step 3:	Less: Share in Reserves:	10,000
		90,000
Step 4:	Less: Share in Profit (P&L A/c):	30,000
	∴ Goodwill:	60,000

Consolidated Balance Sheet of

H Ltd. &S Ltd.

as on 31.12.2017

I. EQUITIES AND LIABILITIES		Amount (Rs.)
1. Shareholders' funds		
a. Share Capital		
50,000 shares of Rs. 10 each (H Ltd. only)		5,00,000
b. Reserve & surplus		50,000
2. Other Liabilities		
H Ltd.	1,00,000	
S Ltd.	20,000	1,20,000
Total		**6,70,000**
II. ASSETS		
1. Sundry Assets		
H Ltd.	3,50,000	
S Ltd.	2,60,000	6,10,000
Goodwill		60,000
Total		**6,70,000**

Illustration 4.

Model: Capital reserve

From the following balance sheets of H Ltd. and its subsidiary S Ltd. as on 31st December 2017, prepare a consolidated balance sheet.

Liabilities	**H Ltd. Rs.**	**S Ltd. Rs.**
Share Capital:		
(Shares of Rs.100 each)	6,00,000	4,00,000
Creditors	2,00,000	50,000
Reserve	40,000	20,000
Profit & Loss A/c	70,000	15,000
Total	**9,10,000**	**4,85,000**

Sundry Assets	5,00,000	4,85,000
Investment in 4,000 Shares of S. Ltd. (on 31st December 2010)	4,10,000	
Total	**9,10,000**	**4,85,000**

Computation of Capital Reserve:

			Rs.
Step 1:	Cost price of shares (on 31.12.17)	:	4,10,000
Step 2:	Less: Paid – up value of shares (face value)	:	4,00,000
	Difference	:	10,000
Step 3:	Less: (Proportionate) Shares in Reserve 100%	:	(20,000)
		:	(10,000)
Step 4:	Less: 100% share in profit (P&L A/c)		(15,000)
Step 5:	Capital Reserve		(25,000)

Consolidated Balance Sheet of

H Ltd. and Its Subsidiary S Ltd.

As on 31.12.2017

I. EQUITIES AND LIABILITIES		**Amount (Rs.)**
1. Shareholders' funds		
(a) Share Capital of H Ltd.		6,00,000
(b) Reserve & surplus		
Capital Reserve		25,000
General Reserve		40,000
P & L A/c		70,000
2. Other Liabilities		
H Ltd.	2,00,000	
S Ltd.	50,000	2,50,000
Total		**9,85,000**
II. ASSETS		
1. Sundry Assets		
H Ltd.	5,00,000	
S Ltd.	4,85,000	9,85,000
Total		**9,85,000**

Pre-acquisition and post-acquisition Profits/Reserves

For this purpose, the following terms should be clearly understood:

Terms	Meaning
(i) Date of acquisition	Date of acquisition refers to the ***date on which the relationship*** of holding company/ parent** and subsidiary company comes into existence.
(ii) Pre-acquisition period	Pre-acquisition period refers to the period beginning with the ***date of beginning of the current accounting period*** and ***ending with the date immediately preceding*** the date of acquisition of majority *equity shares** by the holding company/parent**.
(iii) Post-acquisition period	Post-acquisition period refers to the period beginning with the ***date of acquisition of majority equity shares**** by the holding company/parent** and ending with the date on which the current accounting period ends.

Pre-acquisition profits*** and reserves refer to the ***undistributed portion of profits and reserves*** earned and created up to the date immediately preceding the date of acquisition of majority equity shares* by the holding company/parent**.

Post-acquisition profits*** and reserves refer to the undistributed portion of profits and reserves ***earned*** and ***created*** on or after the date of acquisition of majority equity shares* by the holding company/parent**.

The share of holding company and minority interest is calculated as under:

Share of holding company/parent = (No. of equity shares held by the holding company/Total number of equity shares* in subsidiary company) x 100

Minority/Non-controlling interest = (No. of equity shares* held by minority/Total number of equity shares* in subsidiary company) x 100

*'Equity shares' may alternatively be termed as 'Equity interests' or 'Ordinary shares' also as per Indian Accounting Standards (Ind ASs)/International Financial Reporting Standards (IFRSs).

**The term 'Holding company' is used by the Companies Act, 2013 and the term 'Parent' is used by the AS 21/ Ind AS 110/IFRS 10. However, both the terms mean the same thing.

*** In the absence of any information to the contrary, the profits of a year are treated as accruing form day to day on a uniform basis.

Summary of Treatment of pre-acquisition profits (or losses) and reserves and post-acquisition profits (or losses) and reserves in a summarized form: After computation of these figures by means of analysis of profits of the subsidiary as above, treat the same as under:

Item	**Holding company's share**	**Minority**
Pre-acquisition profits (or losses) and Reserves (capital profits)	Holding company's share will be added to (or in the case of losses deducted from) the paid-up value of shares presently held by the holding company in the subsidiary company so as to calculate the holding company's share in the net assets of the subsidiary company.	The Share of minority will be added to (or in the cases of losses deducted from) the paid-up value of shares presently held by the minority in the subsidiary company so as to calculate the Minority Interest.
Post-acquisition profits (or losses) and reserves (Revenue profits)	Holding company's share in the profit of the subsidiary will be added to (or in the case of losses deducted from) the profit and Loss A/c of the holding company. Holding company's share in the reserves shall be added to the reserves of the holding company.	The Minority share in the post-acquisition profits and reserves shall be added to (or in the case of losses deducted from) the paid-up value of shares held by the minority in the subsidiary company so as to calculate the Minority Interest.

Note: It may be observed that whether the profit and surpluses and losses of subsidiary are pre-acquisition or post-acquisition matters only in the case of holding company because the treatment for holding company diff depending on whether these pre-or post. However, it does not make any difference for the minority interest at all because all the profit and reserves whether pre-or post are included in the minority interest.

Illustration 5.

Model: Pre-acquisition profit/reserves

From the following information, prepare a consolidated balance sheet

Balance sheets

As on 31 December 2017

Particulars	**H Ltd. (Rs.)**	**S Ltd. (Rs.)**
I. Equities & Liabilities		
Share Capital	2,00,000	1,00,000
Shares of Rs.10 each Reserves	50,000	20,000
Profit & Loss A/c	20,000	10,000
Creditors	30,000	20,000
Total	**3,00,000**	**1,50,000**
II. Assets		
Sundry Assets	220000	1,50,000
Investments	80000	
6,000 Shares of S Ltd		
Total	**3,00,000**	**1,50,000**

H Ld. Acquired its shares in S Ltd. on 1 January 2017 when reserves of S Ltd. stood at Rs.4,000 and its profit and loss account (Cr.) was Rs.5,000

Solution

Basic Calculations:

1. Calculation of H Ltd.'s share in capital profit and reserve:

Step 1: Ratio of Equity Acquired and Held by Minority Interests:

Total number of shares = Rs.$\frac{1,00,000}{10}$= 10,000 Shares

Number of shares acquired by H Ltd. = 6,000 Shares

Number of shares held by minority interest by H Ltd. = 4,000 Shares

∴ Ratio of Shares Acquired and Held by Minority Interest

6,000: 4,000

or 6: 4 or 3: 2

	Rs.
Step 2: Shares in Pre-acquisition profit: 3/5 x Rs. 5,000 =	3,000
Share in Pre-acquisition reserves: 3/5 x Rs. 4,000 =	2,400
Step 3: Total amount to be transferred to capital reserve or to be adjusted against goodwill	5,400

2. Calculation of Goodwill

		Rs.
Step 1:	Investment in shares of S Ltd.	80,000
Step 2:	Less: Face Value of Shares Held (6,000 x Rs.10)	(60,000)
		20,000
Step 3:	Less: Company's share of Pre-acquisition profit & reserve	(5,400)
	(Ref: Basic calculation 1 step 3) i.e. capital reserve:	14,600

3. Calculation of H Ltd.'s Share in Revenue Profit & Reserves:

(i)	Balance in Reserve Account (Given):	20,000
	Less: Pre-acquisition Reserve (Given):	4,000
	∴ Post-acquisition Reserve:	16,000
	of this, H Ltd.'s Share = $\frac{3}{5}$ x Rs.16,000 =	9,600
(ii)	Balance in P&L A/c (Given):	10,000
	Less: pre-acquisition profit (Given):	(5,000)
	∴ Post-acquisition profit:	5,000
	Of this, H Ltd.'s share = $\frac{3}{5}$ x Rs.5,000 =	3,000

4. Computation of Minority Interest:

(i)	Nominal value of equity shares held:	
	4,000 shares (10,000 – H Ltd.'s acquisition 6,000) x Rs.10	40,000
(ii)	Share: $\frac{2}{5}$ i.e. minority shareholder's share	
	Their share in reserve: $\frac{2}{5}$ x Rs.20,000 =	8,000
	Share in profit = $\frac{2}{5}$ x 10,000 =	4,000
		52,000

Consolidated Balance Sheet of
H Ltd. and Its Subsidiary S Ltd.
As on 31 December 2017

I.	**EQUITIES AND LIABILITIES**		**Amount (Rs.)**
	1. Shareholders' funds		
	(a) Share Capital: 20000 shares of Rs. 10 each		2,00,000
	(b) Reserve & surplus		
	General Reserve H Ltd.	50,000	
	Shares in S Ltd.	9,600	59,600
	P & L A/c of H Ltd.	20,000	23000
	Share in S Ltd.	3,000	52,000
	1. Minority Interest		
	2. Other Liabilities		
	H Ltd.	30,000	
	S Ltd.	20,000	50,000
Total			**3,84,600**

II. **ASSETS**		
1. Sundry Assets		
H Ltd.	2,20,000	
S Ltd.	1,50,000	3,70,000
Goodwill		14,600
Total		**3,84,600**

Elimination of inter-company balances and amounts

These rules may be explained as under:

(i) Elimination of the cost to the parent of its investment in subsidiary and the parent's portion of equity in subsidiary: The terms 'Parent' and 'Holding company' are same and the terms 'Subsidiary' and 'Subsidiary company' are also same. The investment of holding company in subsidiary is presented under the sub-head 'Non-current investments' under the main head 'Non-current assets' on the Assets side of the holding company's Balance Sheet. The parent' portion of equity in subsidiary is shown under 'Share Capital' of the subsidiary's Balance sheet. Both are eliminated i.e. cancelled for preparing Consolidated Balance Sheet otherwise it will mean that the same company can make investment in the share capital of its own company which is completely illogical. Similarly, if the subsidiary company has investment in the holding company's equity (which is possible only before it became a subsidiary), the represented portion of the equity of holding company and the corresponding investment of the subsidiary company should also be eliminated.

(ii) Elimination of unrealized profit on assets transferred between the holding company and subsidiary company: If any current or non-current asset is sold by one company to another company within the group i.e. the current or non-current asset is sold by the holding company to the subsidiary company or by the subsidiary company to the holding company at a profit, there may be two situations as under:

(a) *The buying company has sold the whole of such asset bought at a profit from the selling company till the end of the accounting year*: In such a case, the question of elimination of the unrealized profit from the asset does not arise because there is no unsold asset as such with the buying company.

(b) *The buying company has not sold the entire asset bought at a profit from the selling company till the end of the accounting year*: In such a case, the unrealized profit on such unsold asset must be eliminated. The elimination should be done ***by debiting the Profit and Loss Account of the holding company and crediting the concerned asset by the amount of unrealized profit***.

It must be noted that if the asset under consideration is the depreciable fixed asset (i.e. the item of property, plant and equipment), the amount of unrealized profit should be computed only after providing for depreciation.

> **Note**: It does not make any difference which company in the group is the buyer and which company in the group is the seller. Calculation of 'Minority interest' and 'Goodwill/Capital Reserve on consolidation' are not in any way affected by the elimination of unrealized profit.

(iii) Elimination of unrealized loss on assets transferred between the holding company and subsidiary company:

If the asset sold by one entity to another entity within the group at a loss is sold by the buying entity fully, there is no question of elimination of unrealized loss on the unsold asset. However, when such asset bought remains with the buyer entity within the group either wholly or partly, then the unrealized loss on such unsold asset may or may not be eliminated as per the situation discussed as under:

Unrealized losses resulting from intra group transactions should be eliminated only if cost can be recovered. It means that if the cost cannot be recovered by selling the asset, the unrealized loss should not be eliminated.

If the unrealized loss is to be eliminated, the same is eliminated by **debiting the concerned Asset A/c and crediting the Profit and Loss A/c of the holding company**.

> **Note**: It does not make any difference which company in the group is the buyer and which company in the group is the seller. Calculation of 'Minority interest' and 'Goodwill/Capital Reserve on consolidation' are not in any way affected by the elimination of unrealized loss.

(iv) Elimination of intra-group balances: Intra group balances should also be eliminated. The following may be the examples of intra group balances:

(a) Loan advanced by one company ang taken by another company within the group;

(b) Debtors and creditors within the group;

(c) Bills receivable and bills payable within the group;

(c) Debentures shown on the Equity and Liabilities side of one company and investment in those debentures shown on the assets side of another company within the group;

(e) Prepaid expenses of one company and Income Received in Advance of another company within the group;

(f) Outstanding Expenses of one company and Accrued Income of another company within the group.

(v) Adjustment of remittance-in-transit: The holding company may be the debtor of the subsidiary company or the subsidiary company may be the debtor of the holding company within the group. The debtor company may send cash to the creditor company but the same may not be received by the creditor company by the end of the accounting year. In such a case, the debtor company must have debited the 'Creditors A/c' in its books at the time of sending cash. However, the creditor company did not credit the 'Debtors A/c' and did not debit its 'Cash/Bank A/c' because it did not receive the said cash by the end of the accounting year. Hence, in the CBS, the 'Debtors A/c' of the recipient company should be reduced and 'Cash/Bank A/c' should be increased by the amount of remittance-in-transit. What applies to debtors and creditors may apply to any other inter-company balances also.

(vi) Treatment of debentures of Subsidiary Company held by holding company: The debentures of subsidiary company will be added with the debentures of holding company. However, if some debentures of subsidiary company are held by the holding company, then the paid-up value of such debentures held will be eliminated from the aggregate of debentures of both the companies to be shown on the 'Equity and Liabilities" side of the consolidated balance sheet. Further, the cost of investment of holding company in such debentures will be eliminated from the aggregate of investment to be shown on the assets side of the consolidated balance sheet. The difference between the cost of investment of the holding company in such debentures and the paid-up value of such debentures of subsidiary company will be either profit or loss on debentures held which will be added to or deducted from the balance of profit and Loss Account of the holding company to find out the closing balance of consolidated profit and Loss account of the holding company to be taken to consolidated balance sheet. For this purpose, if the cost of investment in debentures is more than the paid-up value of debentures, the difference between the two is loss and in the reverse case, the difference between the two is profit.

(vii) Treatment of debentures of holding company held by subsidiary company: The paid-up value of debentures and cost of investment will be eliminated as above. The difference between the paid-up value of debentures and the cost of investment of subsidiary will be taken in the analysis of profits of subsidiary.

Note: The aforesaid intra group amounts are eliminated by deducting the intra group items from the aggregate amounts of the respective items on both the sides of the balance sheet.

(viii) Elimination of mutual contingent liabilities: Contingent liability in respect of bills drawn by holding company/subsidiary company upon subsidiary company/holding company and discounted is eliminated. For example. Suppose H Ltd. is the holding company and S Ltd. is the subsidiary company. H Ltd. may draw a bill on S Ltd and hence the bill is 'Bills receivable' for H Ltd. and is the Bills Payable for S Ltd. In such a case, if H Ltd. discounts the bills receivable with the third party, say, Bank, the contingent liability of H Ltd. and S Ltd. in respect of bills discounted should be added and from the total, the bills accepted by S Ltd. which have been discounted by H Ltd. should be deducted as a mutual contingent liability. The same process will be adopted if S Ltd. has drawn a bill upon H Ltd. and the said bills have been discounted by S Ltd. with the third party. Thus, for Notes to Accounts to the CBS,

Contingent liabilities for CBS=Total contingent liabilities-internal contingent liabilities (i.e. the contingent liabilities which exist only between the holding company and subsidiary company).

Thus, the formula for contingent liabilities for bills receivable may be written as under:

Contingent liabilities for Bills receivable (for Notes to Account to CBS) =Bills receivable drawn and discounted by holding company+ Bills receivable drawn and discounted by subsidiary company-Bills receivable drawn by holding company upon subsidiary company and discounted-Bills receivable drawn by subsidiary company upon holding company and discounted.

Presentation of items in the CBS based on the elimination of inter-company amounts and balances: In the CBS, some items appear on the ***aggregate basis (with or without elimination of the intra group amount)*** and some items appear on ***individual basis belonging to Holding Company only***.

The list of items appearing on aggregate basis and those appearing on individual basis may be given as under:

Items which appear on aggregate basis subject to elimination of intra group amount and unrealized profit	**Items which appear on individual basis i.e. the items which belong to holding company only**
(i) Current liabilities (ii) Non-current liabilities (iii) Current assets (iv) Non-current assets: e.g. Tangible fixed assets, intangible fixed assets, capital work-in-progress, intangible assets under development, non-current investments, long term loans and advances (v) *Contingent liabilities and commitments (shown in the form of a note outside the consolidated balance sheet) i.e. total contingent liabilities-internal contingent liabilities (vi) Proposed Dividend and Dividend Distribution tax thereon	(i) Share Capital (ii) Reserves and surplus (iii) Dividend payable (i) Other non-current assets (like discount on Issue of shares, underwriting commission, unamortized borrowing costs etc.)

Revaluation of fixed assets of subsidiary and treatment thereof: This point may be discussed as under:

(i) Computation of Profit or loss on revaluation and treatment thereof	**Part I: Computation**: The computation of profit or loss on revaluation of fixed assets is done as under: Revalued figure is compared with the carrying amount (i.e. the book value) as on the date of revaluation and the difference between the two figures is either profit or loss on revaluation of fixed assets which is as under: (a) If the revalued figure as on the date of revaluation is more than the carrying amount on the date of revaluation, there is a profit on revaluation i.e. Profit on revaluation=Revalued figure on the date of revaluation-carrying amount on the date of revaluation (b) If the revalued figure as on the date of Revaluation is less than the carrying amount as on the date of revaluation, there is a loss on revaluation i.e. Loss on revaluation=Carrying amount on the date of Revaluation-Revalued figure as on the date of revaluation. **Part II: Treatment**: The treatment of profit or loss on revaluation of fixed assets may be explained as under:

<table>
<tr><td></td><td>
(a) Pre-acquisition profit: Profit on revaluation of fixed asset related to the period before the date of acquisition is pre-acquisition profit. This is treated as capital profit in the analysis of profits of subsidiary.

(b) Post-acquisition profit: Profit on revaluation of fixed assets related to the period after the date of acquisition is post-acquisition profit. However, it is capital profit and not revenue profit. Holding company's share in post-acquisition profit on revaluation of fixed asset should be shown separately in the CBS. Minority's share therein will be added to the Minority interest.

(c) Pre-acquisition loss: Loss on revaluation of fixed assets related to the period before the date of acquisition is pre-acquisition loss. Such loss should be deducted from the capital profit in the analysis of profits of subsidiary.

(d) Post-acquisition loss: Loss on revaluation of fixed asset related to the period after the date of acquisition is post-acquisition loss and will be treated like revenue losses. Holding company's share therein will be deducted from the balance of P&L A/c of Holding company in the computation of consolidated P&L A/c balance. Minority's share therein will be deducted from minority's interest.
</td></tr>
<tr><td>(ii) Computation of Depreciation in case of revaluation of items of PPE and treatment thereof</td><td>
Part I: Computation: The first point is whether we should consider the depreciation in case of revaluation i.e. shortage/deficiency of depreciation on increase in the value of fixed assets or excess/surplus of depreciation on decrease in the value of fixed assets. Normally, if the subsidiary company has revalued the assets in its books, it would have provided depreciation also on the revalued figure. Hence, no readjustment is required.

However, when the subsidiary company's balance sheet shows the asset at its original figure, then we will have to account for the shortage/deficiency of depreciation or excess/surplus depreciation for the period from the date of revaluation till the end of the accounting year. The computation of short or excess depreciation is done as under:

(a) Shortage/deficiency of depreciation on increase in the value of fixed assets= (Increase in the value of fixed assets*rate of depreciation*Period from date of revaluation till the end of accounting year)/12

(b) Excess/surplus depreciation on decrease in revaluation of fixed asset= (Decrease in the value of fixed asset*Rate of depreciation*Period from the date of revaluation of fixed asset till the end of the accounting year)/12

Part II: Treatment: The treatment of short or excess depreciation on revaluation of fixed asset may be explained as under:

(a) Shortage/Deficiency of depreciation: The portion of shortage/deficiency of depreciation which is attributable to the post-acquisition period is treated like any other revenue expense and hence is deducted from the post-acquisition profit i.e. it is shown as a negative figure in the column of revenue profit in the analysis of profits of subsidiary.

(b) Excess/surplus depreciation: The portion of excess/surplus depreciation which is attributable to the post-acquisition period is treated like any other revenue profit and hence is added to the post-acquisition profit i.e. it is shown as a positive figure in the analysis of profits of subsidiary.

Note: It must be very clear that either shortage/deficiency of depreciation or excess/surplus of depreciation, as the case may be, belongs to the post- acquisition period only if the date of revaluation is the date of acquisition. Normally, the revaluation of fixed assets takes place on the date of acquisition. However, if the date of revaluation is before the date of acquisition then either shortage/deficiency of depreciation or excess/surplus of depreciation, as the case may be, belongs to both the pre-acquisition period and the post-acquisition period and should accordingly be included in the computation of pre-acquisition and post-acquisition profit.
</td></tr>
</table>

(iii) Presentation of items of property, plant and equipment in the CBS	In the consolidated balance sheet, the presentation will be as under:	
	In case of increase in the value of fixed asset	
	Particulars	**(Rs.)**
	Concerned fixed asset (at figure prior to revaluation)	*****
	Add: increase in the value of fixed asset	*****
	Less: shortage/deficiency of depreciation	(*****)
	Final figure in the CBS	*****
	In case of decrease in the value of fixed asset	
	Particulars	**(Rs.)**
	Concerned fixed asset (at figure prior to revaluation)	****
	Less: decrease in the value of fixed asset	(*****)
	Add: Excess/surplus depreciation	****
	Final figure in the CBS	*****

Illustration 6.

Model: Revaluation of assets-profit

The following are the balance sheet of P Ltd., and its subsidiary Q Ltd., as at 31 March 2017:

I. Equity and Liabilities	**P Ltd. Rs.**	**Q Ltd. Rs.**
Equity shares of Rs.100 Each	16,00,000	4,00,000
Profit & Loss A/c	2,00,000	80,000
External Liabilities	30,00,000	19,20,000
Total	48,00,000	24,00,000

II. Assets	**P Ltd. Rs.**	**Q Ltd. Rs.**
Equipment	10,00,000	3,80,000
Investment:		
3,600 equity shares in Q Ltd. on 1 April 2010	5,60,000	---
Other Assets	32,40,000	20,20,000
Total	**48,00,000**	**24,00,000**

On 1 April 2017 P&L A/c Q of Ltd. showed a credit balance of Rs.32,000 and equipment of Q Ltd., was revalued by P Ltd., 20% above its book value of Rs.4,00,000 (but no such adjustment effected in the books of Q Ltd.) prepare the consolidated balance sheet as at 31 March 2017.

Solution

Calculations:

		Rs.
I:	Calculation of Pre-acquisition profits:	
	(i) Balance on 1 April 2017	32,000
	(ii) Share of P Ltd i.e. 90% x Rs.32,000	28,800
	(iii) Minority Interest [(i) – (ii)]	3,200

II:	Revaluation of Equipment:		
	(i)	Profit on revaluation (20% x Rs. 4,00,000)	80,000
	(ii)	Share of P Ltd (i.e. 90/100 x 80,000)	72,000
	(iii)	Minority share [(i) – (ii)]	8,000
III:	Calculation of Additional Depreciation:		
	(i)	Book value on 1 April 2017	4,00,000
	(ii)	Less: Book value on 31 March 2018	(3,80,000)
	(iii)	Depreciation [(i) – (ii)]	20,000
	(iv)	Rate of Depreciation = $\frac{20,000}{4,00,000}$ x 100 = 5%	
	(v)	∴ Additional Depreciation on Rs.80,000	
		5% = $\frac{5}{100}$ x Rs.80,000	4,000
IV:	Calculation of Post-acquisition of profit:		
	(i)	Balance on 31 March 2018	80,000
	(ii)	Less: Balance on 31 March 2017	(32,000)
			48,000
	(iii)	Less: Additional Deprion (Ref: III)	(4,000)
	(iv)	Less: Share of P. Ltd. x 44,000	(39,600)
	(v)	Minority Interest [(iii) – (iv)]	4,400
V:	Calculation of Cost of Control:		
	(i)	Cost of Investment in share of Q Ltd.	5,60,000
	(ii)	Less: Paid-up Capital Held	(3,60,000)
			2,00,000
	(iii)	Less: Capital Profit-Pre-acquisition	(28,800)
			1,71,200
	(iv)	Less: Revaluation of Equipment (Capital Profit)	(72,000)
			99,200
VI:	Computation of Minority Interest:		
	(i)	Paid-up value of shares held	40,000
	(ii)	Add: Share of Pre-acquisition profit:	3,200
		[Ref: I (iii) i.e. $\frac{1}{10}$ x 32,000]	43,200
	(iii)	Add: Share of Profit on Revaluation	8,000
		[Ref: II (iii) i.e., $\frac{1}{10}$ x Rs.80,000]	51,200

(iii)	Add: Share of Post-acquisition profit	4,400
	[Ref: IV (v) i.e., $\frac{1}{10}$ x Rs.44,000]	55,600

Consolidated Balance Sheet of
P Ltd. and its Subsidiary Q Ltd.
as on 31 March 2017

I. EQUITIES AND LIABILITIES		**Amount (Rs.)**
1. Shareholders' funds		
a. Share Capital:		
16000 shares of Rs. 100 each		16,00,000
b. Reserve & surplus		
General Reserve P Ltd.	2,00,00	
P & L A/c		
Share in Q Ltd.	39,600	2,39,600
2. Minority Interest		59,600
3. Other Liabilities		
P Ltd.	30,00,000	
Q Ltd.	19,20,000	49,20,000
Total		**68,15,200**
II. ASSETS		
1. Fixed Assets	10,00,000	
P Ltd.	4,80,000	
Q Ltd.	14,80,000	
Depreciation 5% on 4,80,000	24,000	14,56,000
Goodwill		99,200
2. other Assets		
P Ltd.	32,40,000	
Q Ltd.	20,20,000	52,60,000
Total		**68,15,200**

Bonus Shares Issued by Subsidiary Company

The issue of bonus shares by the subsidiary company may be discussed as under:

Situation	Treatment
(i) Accounting effect of bonus issue already given in the books of subsidiary	If Accounting effect has already been given by subsidiary in its books, nothing will be done further. If the problem on hand only states that during the year, bonus shares have been issued and does not state anything as to whether the accounting entry for the said bonus issue has been passed or not, it is presumed that the accounting entry for the said bonus issue has been passed in the books.

(ii) Accounting effect of bonus issue not given in the books of subsidiary	In such a case, the following pieces of work will be done: (a) The balance of profits and reserves out of which bonus shares have been issued should be reduced by passing the following entry: General Reserve A/c/ P&L A/c Dr. To Equity Share Capital A/c **Note**: Normally, if nothing is mentioned in the problem as to whether general reserve has been used or P&L A/c has been used for issue of bonus shares, the first preference should go in favour of the use of general reserve and the second one in favour of the use P&L A/c. (b) The paid-up value of bonus shares allotted to the minority after the date of acquisition should be added to the paid-up value of equity shares held by the minority. The paid-up value of bonus shares allotted to the holding company after the date of acquisition must be added to the paid-up value of equity shares held by the holding company. **Note**: As usual, no entry is passed in the books of the holding company (or for that in the books of any recipient company) for the receipt of bonus shares.

Illustration 7.

Model: Bonus shares issued out of revenue profits

The summarized balance sheet of H Ltd. and S Ltd. as on 31 December 2017 are as follows:

Equity and Liabilities	**H Ltd. Rs.**	**S Ltd. Rs.**
Share capital:		
Share of Rs.10 each Reserves	15,00,000	3,00,000
Profit & Loss A/c	2,40,000	90,000
	1,80,000	1,20,000
Total	**19,20,000**	**5,10,000**
Assets		
Sundry Assets	15,00,000	5,10,000
24,000 shares in S Ltd.	4,20,000	
Total	**19,20,000**	**5,10,000**

S Ltd. had reserves of Rs.90,000 when H Ltd. acquired the shares in S Ltd. but the P&L A/c balance of S Ltd. was fully earned after the purchase of shares.

S Ltd. decided to issue bonus shares out of the post-acquisition profit in the ratio of 2 shares for every S shares held.

Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares.

Solution

I: Calculation of Cost of Control before the issue of Bonus Shares:

		Rs.
Step 1:	Amount paid by H Ltd. in purchase of shares in S Ltd	4,20,000
Step 2:	Less: Face value of shares acquired 24,000 x Rs.10	2,40,000
		1,80,000
Step 3:	Less: H Ltd's share of capital profits 90,000 x $\frac{8}{10}\left(or\ \frac{4}{5}\right)$	72,000
Step 4:	Cost of Control/Goodwill	1,08,000

II: Calculation of Cost of Control After the issue of Bonus Shares:

		Rs.
Step 1:	Amount paid by H Ltd. for purchase of shares in S Ltd.	4,20,000
Step 2:	Less: Face value of shares required (24,000 x Rs.10)	2,40,000
		1,80,000
Step 3:	Less: H Ltd's share of capital profits 90,000 x8/10	72,000
		1,08,000
Step 4:	Less: H Ltd's Share of Bonus $\left(3{,}00{,}000 \times \frac{8}{10} \times \frac{2}{5}\right)$	96,000
Step 5:	Cost of control/goodwill	12,000

Dividend

(i) Treatment of dividend received: Such dividend received may be either final dividend for the previous year paid by subsidiary during the current year or interim dividend paid by subsidiary for the current year during the current year. This point may be explained as under:

(i) Nature of dividend received	The dividend received from the subsidiary company will be either capital dividend or revenue dividend.
(ii) Meaning of capital dividend and revenue dividend	Capital dividend means the dividend which is received out of the pre-acquisition profits of the subsidiary. Revenue dividend means the dividend received out of post-acquisition profits of the subsidiary. When information is given in the problem as to out of which profits dividend has been paid by subsidiary, the amount of capital dividend and revenue dividend may be easily determined. But, the problem may arise when such information is not given in the question.
(iii)What to do if information as to out of which profits **dividend is paid is not given in the problem?**	In such a case, either of the following two assumptions may be made: Assumption No. (i): Dividend has been paid out of current year's profit: If it is assumed that dividend has been paid out of current year's profits and the dividend paid by subsidiary is more than current year's profits, then the excess of dividend paid over current year's profits should be assumed to be paid out of earlier year's profits. Accordingly, depending on the date of acquisition, the dividend shall be assumed to be paid out of pre-acquisition profits and post-acquisition profits. Assumption No. (ii): Dividend has been paid out of earlier year's profits: If dividend is assumed to be paid out of earlier year's profits and the date of acquisition is in the

	current year, then the entire dividend will be treated as first paid out of earlier year's profits and the balance amount of dividend, if any, which is in excess of earlier year's profit shall be assumed to be paid out of current year's profits. Accordingly, depending on the date of acquisition, the dividend shall be assumed to be paid out of pre-acquisition profits and post-acquisition profits.
(iv) Treatment of capital dividend	Capital dividend received by the holding company is deducted from its cost of investments in the equity shares of subsidiary company while computing goodwill/ capital reserve. However, if capital dividend received by the holding company is already credited to its P&L A/c, the same will be rectified by the holding company by debiting its P&L A/c and crediting its 'Investments in equity shares in Subsidiary Company A/c'. Para 12 of AS 13 "Accounting for Investments" also requires, inter alia, that dividend on equity shares declared out of pre-acquisition profits is deducted from cost of investments. **Note:** Capital dividend received by the minority requires no treatment.
(v) Treatment of revenue dividend	Revenue dividend received by the holding company is credited to its P&L A/c. Note: Revenue dividend received by the minority requires no treatment.

(ii) Treatment of dividend on preference shares: This point may be dealt with under two situations as under:

Situation	Treatment
(a) Preference dividend on non-cumulative pref. shares proposed by subsidiary during the current year	This will be totally ignored for the consolidation for the year of proposal of dividend and hence will not be deducted from the profit for the analysis of profits of subsidiary. Subsidiary company will show the same by way of the notes to accounts to the CBS titled 'Proposed dividends and Corporate Dividend tax thereon' view of paragraph 14 of revised AS 4 as under: 'Dividend proposed to be distributed to preference shareholders for the year…. Rs. …(Rs. ... per share)' Corporate dividend tax Rs…….
(b) Pref. dividend on non-cumulative pref. shares declared by subsidiary during the current year	This will be deducted from the profit of subsidiary in the year of declaration. Such dividend will be divided between the holding company and minority for the purpose of consolidation for the year of declaration. Holding company's share shall be divided between pre-acquisition and post-acquisition dividend and shall be dealt with by it accordingly. Minority share shall be added to the minority interest.
(c)Preference dividend on cumulative pref. shares proposed by subsidiary during the current year	**Case 1:** When some portion of cumulative preference shares is held by the minority: In such a case, para 27 of AS 21 will apply. Hence, the preference dividend will be deducted from the profit of subsidiary. The pref. dividend so deducted shall be divided between holding and minority. Holding company's share of such dividend will be divided between pre-and post- portion and will be dealt with accordingly. Minority's share of such dividend shall be added to the minority interest. The remaining balance of P&L A/c of the subsidiary shall be divided between the holding company and the minority. It may be carefully noted that the adjustment for the dividend on cumulative preference shares for the current year shall be made even if the subsidiary has a debit balance of P&L A/c in which case, the debit balance of P&L A/c in the books of subsidiary before such adjustment shall increase by the adjustment of such preference dividend and hence, the increased debit balance of P&L A/c of subsidiary shall be shared by both the holding company and minority. In the year of declaration of such proposed dividend, such preference dividend is not again deducted from profit of subsidiary for consolidation in the year of declaration because it has already been deducted from profit of subsidiary in the previous year.

	Case 2: When no portion of cumulative preference shares is held by the minority i.e. all preference shares of subsidiary are held by holding company: It will be simply ignored for consolidation purpose in the year of proposal. In the year of declaration by subsidiary, such preference dividend shall be deducted from profit of subsidiary. Further, the said declared dividend shall be treated by holding as pre-acquisition or post-acquisition dividend, as the case may be, and dealt with accordingly.
(d)Preference dividend on cumulative preference shares not proposed by subsidiary during the current year	**Case1:** When some portion of cumulative preference shares is held by the minority: In such a case, para 27 of AS 21 will apply. Hence, the preference dividend will be deducted from the profit of subsidiary. The pref. dividend so deducted shall be divided between holding and minority. Holding company's share of such dividend will be divided between pre-and post-portion and will be dealt with accordingly. Minority's share of such dividend shall be added to the minority interest. The remaining balance of P&L A/c of the subsidiary shall be divided between the holding company and the minority. It may be carefully noted that the adjustment for the dividend on cumulative preference shares for the current year shall be made even if the subsidiary has a debit balance of P&L A/c in which case, the debit balance of P&L A/c in the books of subsidiary before such adjustment shall increase by the adjustment of the arrears of preference dividend and hence, the increased debit balance of P&L A/c of subsidiary shall be shared by both the holding company and minority. In the year of payment of such arrears of dividend by subsidiary, it will not be deducted again from profit of subsidiary for consolidation purpose because it has already been deducted from the profit of subsidiary in the concerned previous year. Rather, in the year of payment, the same will be divided between holding and minority. Holding company's share shall be treated as pre- or post-acquisition dividend and shall be dealt with accordingly in its books. Minority will also deal with the receipt of dividend as capital income or revenue income as the case may be. **Case 2:** When no portion of cumulative preference shares is held by the minority i.e. all preference shares of subsidiary are held by holding company: It will be simply ignored and will not be deducted from the profit of the subsidiary for consolidation purpose. Further, arrears of fixed cumulative dividend shall be disclosed in the notes to accounts in the CBS. In the year of payment of such arrears of dividend by subsidiary, it will be deducted from profit of subsidiary for consolidation purpose. Rather, in the year of payment, the same will be treated as pre-or post-acquisition dividend, as the case may be.

(iii) Treatment of Equity dividend: This point may be dealt with under two situations as under:

Situation	Treatment
(a) Equity dividend proposed by subsidiary during the current year	This will be ignored for the purpose of consolidation because this will not be adjusted by the subsidiary in the books of account for the year of proposal in view of para 14 of revised AS 4. Such proposed dividend is simply shown in the notes to accounts to the Balance sheet related to the year of proposal. This is adjusted by the subsidiary in the books in the year of declaration in which case, this will be divided between holding company and minority for the purpose of consolidation for the year of declaration. Accordingly, holding company shall divide its share of declared dividend between pre-acquisition dividend and post-acquisition dividend and shall treat accordingly. Minority's share of such declared dividend shall be added to minority interest.
(b) Equity dividend not proposed by subsidiary during the current year	It will be simply ignored for the consolidation. It will not be mentioned even in the notes to accounts to the balance sheet of the subsidiary.

(c)Equity dividend declared	The entry will be passed if the same has not already been passed. If nothing is mentioned whether the entry for declaration of equity dividend has been passed or not, it will be presumed that the entry has been passed.

Goodwill (Goodwill Appearing in the Balance Sheet of Subsidiary Company)

If, the goodwill is shown in the balance sheet of the subsidiary company. That means goodwill already exists.

Accounting Treatment:

Approach I: Add: Goodwill already appearing in the balance sheet of subsidiary company to the goodwill and/ or cost of control in the consolidated balance sheet.

Approach II: Add: Only holding company's share to the cost of control/goodwill, from the goodwill of the subsidiary company.

Illustration 8.

Model: Dividends paid out of pre-acquisition profits and goodwill of subsidiary company.

From the following Balance Sheets of a holding company and its subsidiary on 31 March 2018, prepare consolidated balance sheet.

Particulars	**H Ltd. Rs.**	**S Ltd. Rs.**
Equities & Liabilities		
Share capital	15,00,000	6,00,000
Shares of Rs. 10 each		
General reserve	2,40,000	1,80,000
P&L Account	2,70,000	2,10,000
Sundry Creditors	1,50,000	1,20,000
Outstanding expenses	60,000	30,000
Total	**22,20,000**	**11,40,000**
Assets:		
Goodwill	90,000	30,000
Machinery	9,00,000	4,50,000
Stock	2,40,000	1,50,000
Debtors	3,60,000	4,80,000
Cash and Bank	60,000	30,000
Investments:		
48,000 shares in S Ltd	5,70,000	
Total	**22,20,000**	**11,40,000**

When control was acquired S Ltd. had Rs.1,20,000 in general reserve and Rs.90,000 in profit and loss account. Immediately on purchase of shares, H Ltd. received Rs.48,000 as dividend from S Ltd. which was credited to profit and loss account. Debtors of H Ltd, include Rs.60,000 due from S Ltd. whereas creditors of S Ltd. include Rs.45,000 due to H Ltd., the difference being accounted for by a cheque-in-transfer.

Solution

Step 1: Determination of Holding-Minority Ratio:

(i)	H Ltd's investment in S Ltd:	48,000 Shares
(ii)	Minority state in S Ltd.: (60,000 shares – 48,000 shares)	12,000 shares
(iii)	∴ Holding – Minority Ratio = 48,000:12,000 = 4:1 (i.e. H Ltd $\frac{4}{5}$ and S Ltd. $\frac{1}{5}$)	

Step 2: Determination of H Ltd's share in capital profits and reserves

		Rs.	Rs.
(i)	Balance in Reserve (pre-acquisition) (Given in Additional Information)		1,20,000
(ii)	Add: Balance in P&L A/c (Pre-acquisition) (Given in Additional information)	90,000	
(iii)	Less: Dividends Paid:		
	Shares Dividend		
	48,000 48,000		
	60,000 x		
	$x = \frac{48,000 \times 60,000}{48,000}$ = Rs.60,000	(60,000)	30,000
(iv)	Total Capital Profit =		1,50,000
(v)	H Ltd's share = $\left(\frac{4}{5} \times Rs. 1,50,000\right)$		1,20,000
(vi)	S Ltd's share (Minority) $\frac{1}{5}$ x Rs.1,50,000 =		30,000

Step 3: Determination of Current Year's Profit:

(i)	Balance of Profits as on 31 March 2018 (Ref Balance Sheet)	2,10,000
(ii)	Less: Pre-acquisition profits after deducting dividends paid [Ref: Step 2 (iii)] (Rs.90,000 – Rs.60,000)	30,000
(iii)	Profits During the year	1,80,000
(iv)	H Ltd's share $\left(\frac{4}{5} \times Rs. 1,80,000\right)$	1,44,000
(v)	S Ltd.'s share	36,000

Step 4: Determination of share in general reserve:

(i)	Balance of Profits as on 31 March 2018 (shown in balance sheet)	1,80,000
(ii)	Less: Pre-acquisition reserve (Given in Additional information)	1,20,000
(iii)	Transfer to reserve in the year	60,000

(iv)	Share of H Ltd's $\left(\frac{4}{5} \times Rs.60{,}000\right)$		48,000
(v)	Share of S Ltd.'s $\left(\frac{1}{5} \times Rs.60{,}000\right)$		12,000

Step 5: Determination of Goodwill/Capital Reserve:

(i)	Cost of investment in share of S Ltd. (Shown in Balance Sheet)		5,70,000
(ii)	Less: Paid-up value of shares held (48,000 shares x Rs.10)		4,80,000
			90,000
(iii)	Less: Dividends paid out from pre-acquisition profit (Given)		42,000
(iv)	Add: Goodwill:		
	H Ltd.	90,000	
	S Ltd.	30,000	1,20,000
			1,62,000
(v)	Less: Capital profits [Ref: Step 2 (v)]		(1,20,000)
(vi)	Goodwill – To be shown in consolidated balance sheet		42,000

Step 6: Ascertainment of Minority Interest:

(i)	Face value of Minority Shares Held (12,000 shares x Rs.10)	1,20,000
(ii)	Add: Minority share of General Reserve $\left(\frac{1}{5} \times Rs.1{,}80{,}000\right)$	36,000
		1,56,000
(iii)	Add: Minority Share in P&L $\left(\frac{1}{5} \times Rs.2{,}10{,}000\right)$	42,000
		1,98,000

Step 7: Construction of Consolidated Balance sheet:

Consolidated Balance Sheet of
H Ltd. and its subsidiary S Ltd.
As on 31.03.18

I. EQUITIES AND LIABILITIES		**Amount (Rs.)**
1. Shareholders' funds		
(a) Share Capital:		15,00,000
150000 shares of Rs. 10 each		
(b) Reserve & surplus		
General Reserve H Ltd.:	2,40,000	
Share in S Ltd.	48,000	2,88,000
P & L A/c	2,70,000	
H Ltd.	1,44,000	
Share in Q Ltd.	4,14,000	
Less: Dividend	48,000	3,66,000

2. Minority Interest		1,98,000
3. Current Liabilities & Provisions		
H Ltd.	1,50,000	
S Ltd.	1,20,000	
	2,70,000	
Less: Inter Company Debts	(45,000)	2,25,000
Outstanding Expenses:		
H Ltd.	60,000	
S Ltd.	30,000	90,000
Total		**26,67,000**
(II) ASSETS		
1. Fixed Assets		
Machinery		
H Ltd.	9,00,000	
S Ltd.	4,50,000	13,50,000
Goodwill		42,000
2. Current Assets		
Stock:		
H Ltd.	2,40,000	
S Ltd.	1,50,000	3,90,000
Debtors:		
H Ltd.	3,60,000	
S Ltd.	4,80,000	
	8,40,000	
Less: Inter Company Debts	60,000	7,80,000
Cash & Bank Balance		
H Ltd.	60,000	
S Ltd.	30,000	90,000
Cheque-in-transit		15,000
Total		**26,67,000**

LESSON ROUND-UP

Holding company: As per section 2(46) of the Companies Act, 2013 "A company shall be deemed to be the holding company of another, if, but only if, that another is its subsidiary.

Subsidiary company: As per section 2(87) of the Companies Act, 2013, a company is a subsidiary of another company, if, but only if:

1. The other company controls the composition of its board of directors Or
2. The other company
   - (a) Holds more than half in nominal values of its equity shares capital Or
   - (b) It is a subsidiary of any company which is that of other company's subsidiary consolidated P&L A/c and balance sheet mean a single P&L A/c and balance sheet of a holding company and all its subsidiaries (group).

Steps involved in the preparation of consolidated balance sheet and profit & loss A/c (Ref: Main text).

Various factors to be considered for the preparation of consolidated balance sheet of a holding company and its subsidiaries.

(i) Holding-minority ratio

(ii) Elimination of investment a/c

(iii) Minority interest

(iv) Cost of control/goodwill

(v) Pre-acquisition profit (capital profit)

(vi) Post-acquisition profit (revenue profit)

(vii) Revaluation of assets and liabilities

(viii) Depreciation

(ix) Bonus shares issued by subsidiary company

(x) Dividends from subsidiary company preference shares in subsidiary company

(xi) Preference shares in subsidiary company

(xii) Debentures in subsidiary company

(xiii) Mutual obligations

(xiv) Consignment liabilities

(xv) Unrealized profit in stock

(xvi) Post and pre-acquisition losses abnormal losses

(xvii) Preliminary expenses

GLOSSARY

Holding Company: A company is said to be the holding company of another if that other company is its subsidiary.

Subsidiary Company: A company is said to be a subsidiary of another if that another company controls the composition of its board of directors (holding more than 50% of the nominal value of equity share capital).

Minority Interest: Holding of the general public (other than holding company) in a subsidiary company is termed as "minority interest".

Goodwill: The "excess" amount paid (more than face value or book value of shares) by the holding company to acquire 'controlling interest' in the subsidiary company.

Consolidated Balance Sheet: The balance sheet prepared by the holding company by incorporating all the assets and liabilities of its subsidiary company long with its own assets and liabilities.

TEST YOURSELF

1. H Ltd. acquired 15,000 equity shares in S Ltd. on 1 April 2017. On 31 December 2017 the balance sheet of S Ltd., was as follows:

I. Equity and Liabilities		**Rs.**
Share capital:		
20,000 equity Share of Rs.100 each		20,00,000
General Reserve		4,00,000
On 1 January 2017 P&L A/c Rs.		
Balance on		
1 Jan. 2017	1,00,000	
Profit for 2017	4,00,000	5,00,000
Sundry Creditors		3,00,000
		32,00,000
II. Assets		**Rs.**
Sundry Assets		32,00,000
		32,00,000

Ascertain capital profits and revenue profits.

[Ans. Capital profits: Rs.6,00,000; Revenue profits: Rs.3,00,000]

2. Calculate minority interest from the balance sheet of Delhi Ltd. Balance sheet of Delhi Ltd. as on 31 December 2017.

I. Equity and Liabilities	**Rs.**
Share capital:	
42,000 share of Rs.100 each	42,00,000
General Reserve on 1st January 2017	18,00,000
Sundry Creditors	9,00,000
P&L on 31 December 2017	6,00,000
	75,00,000
II. Assets	**Rs.**
Sundry Assets:	32,00,000
Plant & Machinery	21,00,000
Other Assets	4,50,000
Investment (80% of sheets)	19,50,000
	75,00,000

Mumbai Ltd. acquired 80% of the shares it Rs.19,50,000.

[**Ans:** Minority interest: Rs.13,20,000]

3. On 30 June 2017, two-third of the shares of S Ltd. (with a total capital of Rs.48,00,000) was acquired by H Ltd. the balance sheet of S Ltd. showed a debit balance of Rs.24,00,000 or 1 January 2017 and a credit balance of Rs14,40,000 on 31 December 2017. The investment by H Ltd. in shares of S Ltd. is Rs.36,00,000. Calculate the cost of control or capital reserve.

[**Ans.** Cost of control/goodwill: Rs.7,20,000]

4. S Ltd. has a capital of Rs.45,00,000 in shares of Rs.100 each. Out of this, H Ltd. purchased 75% shares of Rs.52,50,000. The profit of S Ltd. at the time of purchase of shares by H Ltd. were Rs.22,50,000. S Ltd. decided to make a bonus issue out of capital profits of one share of Rs.100 each fully paid for every three shares held. Calculate the cost of control after the issue of bonus shares.

[**Ans:** Cost of control/goodwill: Rs.1,87,500]

5. Prepare Consolidated Balance sheet of X Ltd. & Y Ltd.

Balance Sheet of
X Ltd. and its Subsidiary Y Ltd.
As at 31 December 2017

I. Equity and Liabilities	**X Rs.**	**Y Rs.**
Share Capital:		
4,00,000	320	----
Shares of Rs. 80		
40,000 shares of Rs.80 each	----	320
General Reserve	160	----
Creditors	96	6.40
P&L A/c	32	48
Total	**608**	**86.40**
II. Assets		
Land & Buildings	304	----
Plant & Machinery	44.80	6.40
Shares in Y Ltd. 36,000 shares of Rs.80 each stock	57.60	----
Debtors	96	16
Cash at Bank	64	22.40
Total	**41.60**	**41.60**

[Ans.: Minority interest: Rs.8,00,000; Capital reserve Rs.14,40,000; Balance sheet total: Rs.6,36,80,000]