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CHAPTER 7: CONSOLIDATION OF ACCOUNTS

INTRODUCTION

Section 2(87) of the Companies Act, 2013 provides that holding company—

- controls the composition of the Board of Directors; or
- exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies

Two Layers of Subsidiaries only permitted:

- A holding company can create up to two layers of subsidiaries only.
- However, on layer which consists of one or more wholly-owned subsidiary or subsidiaries would not be taken into account for computing the number of layers

For the above purpose-

a) a company shall be deemed to be a subsidiary company of the holding company even if the control is of another subsidiary company of the holding company;

b) the composition of a company's Board of Directors: Company can appoint or remove **all** or a **majority** of the directors;

SOME DECISIONS OF CASES

- A holding company is not liable for provident dues of a Subsidiary Company.
- Workmen of subsidiary Company are not workmen of Holding Company.
- It was held that holding company is not liable for wages of its Subsidiary Company which was under winding up.
- A Holding Company can't be penalized for violation of foreign exchange provisions of Subsidiary Company.
- Holding and Subsidiary Companies are independent legal entities, and are to be treated as such.
- These can't be treated as one single unit for all purposes.
- Holding and Subsidiary are separate and distinct legal entities.

CAN A SUBSIDIARY COMPANY HOLD SHARES IN THE HOLDING COMPANY?

- Section 19 prohibits a subsidiary company from holding shares in the holding company but a subsidiary may continue to be a member of its holding company if it **was** a member thereof at the commencement of the Act or before becoming a subsidiary of the holding company; but, in such a case, the subsidiary shall not have any voting rights in respect of the shares held.
- A subsidiary may also hold shares in the holding company as the legal representative of a deceased member of the holding company or as trustee (unless the holding company or any subsidiary thereof is beneficially interested under the trust concerned) and enjoy all rights of members in these two cases.

NEED FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are needed to serve the following purposes:

a. to ascertain the financial performance of the group as a whole;

b. to ascertain the financial position of the group as a whole;

c. to ascertain the appropriate value of the share of a holding company;

d. to ascertain whether an excessive or otherwise price has been paid for acquiring the shares of a subsidiary company

DUTY TO PREPARE CONSOLIDATED FINANCIAL STATEMENTS [SEC 129 (3)]

- Prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the AGM of the company along with the laying of its financial statement u/s 129 (2)
- Separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in prescribed Form AOC-1
- Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed.
- "Subsidiary" shall include associate company and joint venture
- The provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements.

MANNER OF CONSOLIDATION OF ACCOUNTS [RULE 6 OF COMPANIES (ACCOUNT) RULES, 2017]

- Consolidation of financial statements: As per Schedule III and as per Accounting Standards
- Company covered u/s 129 (3) which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions as provided in Schedule III of the Act

Exception: consolidated financial statement by an intermediate wholly-owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India

Associate company

- Company in which that other company has a significant influence, (at least twenty per cent of total share capital, or of business decisions under an agreement) but which is not a subsidiary company of the company having such influence and includes a joint venture company.
- 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 AS 18.

Wholly Owned Subsidiary Company

A company in which all the shares with voting rights (i.e. 100%) are owned by the holding company

Partly Owned Subsidiary Company

A company in which only the majority of shares (more than 50%) are owned by the holding company, 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.
- Even though there is no statutory provision for a holding company: Prepare consolidated financial statements, the ICAI has issued AS-21 on 'consolidated financial statements.
- 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'.

The advantages of consolidation of financial statements are as follows:

- Facilitates easy comprehension
- Assists in ascertaining intrinsic value of share
- Proper assessment of return on investment (Share of holding company in the revenue profit of its subsidiaries)
- Minority interest disclosure
- Helps in the "evaluation" of holding company as a 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.

CONSOLIDATED BALANCE SHEET:

- As per Schedule III of the Companies Act, 2013
- Consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:
- 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.
- "Minority interests" in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

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

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.	XXX		
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.	XX		
Subsidiary Co.	XX	XX	XX
3. Current liabilities			
Holding Co.	XX		
Subsidiary Co.	XX		
Less: inter Co. or mutual Owings	XXX		XX
Total			**XX**
ASSETS			
1. Non-current assets			
a) Fixed Assets:			
i) Tangible assets			
Holding Co.	XX		
Subsidiary Co.	XX		XX
ii) Intangible assets:			
a) Goodwill or Cost of Control:			
Holding Co.	XX		
Subsidiary Co.	XX	XX	
b) Goodwill resulting from acquisition		XX	XX
b) Non-Current Investment			
Holding Co. (except investment in shares of subsidiary Co.)			XX
2. Current assets			
Holding Co.	XX		
Subsidiary Co.	XX		
Less: inter Company or Mutual Owings	XX		XX
Total			**XX**

IMPORTANT TERMS

Date of Acquisition	Date of acquisition refers to the date on which the relationship of holding company and subsidiary company comes into existence.
Pre-acquisition Period	Pre-acquisition period refers to the period beginning with the date of beginning of current accounting period and ending with the date immediately preceding the date of acquisition of majority shares by holding company.
Post-acquisition Period	Post-acquisition period refers to the period beginning with the date of acquisition of majority shares by the holding company and ending with the date on which the current accounting year ends.
Pre-acquisition Profits and Reserves	Pre-acquisition Profits and Reserves refer to the undistributed portion of the Profits earned and Reserves created upto the date immediately preceding the date of acquisition of majority shares by holding company.
Post-acquisition Profits and Reserves	Post-acquisition Profits and Reserves refer to the undistributed portion of the Profits earned and Reserves created on/after the date of acquisition of majority shares by holding company.
Share of Holding Company	Share of Holding Company is calculated as follows: No. of Shares held by holding Co./Total No. of Shares of Subsidiary Co.x100
Minority	Minority refers to the outside shareholders (i.e., Shareholders other than holding company and its another subsidiary) holding shares in the subsidiary company and Share of Minority is calculated as follows: No. of Shares held by Minority/Total No. of Shares of Subsidiary Co. x 100

Example The equity share capital of S Ltd. on 31.3.2018 is Rs. 5,00,000 divided into 50,000 equity shares of Rs. 10 each. H Ltd. acquired 25,000 equity shares on 1.4.2017 and 5,000 equity shares on 1.7.2017. The accounting year of S Ltd. and H Ltd. ends on 31st March each year. In this case:

(a) **Date of Acquisition** = 1.7.2017 because H Ltd. holds more than 50% of the nominal value of the equity share capital of S Ltd. on 1.7.2017.

(b) **Pre-acquisition Period** = 3 months from 1.4.2017 to 30.6.2017.

(c) **Post-acquisition Period** = 9 months from 1.7.2017 to 31.3.2018.

(d) **Pre-acquisition Profits and Reserves** refer to the undistributed portion of the profits earned and reserves created upto 30.6.2017.

(e) **Post-acquisition Profits and Reserves** refer to the undistributed portion of the profits earned and reserves created from 1.7.2017 to 31.3.2018.

(f) **Share of Holding** company is 60% [i.e. (30,000 Shares/50,000 Shares) x 100].

(g) **Share of Minority** is 40% [i.e. (20,000 Shares/50,000 Shares) x 100].

REPARATION OF CONSOLIDATED BALANCE SHEET

The following are the most important points which reserve special consideration in the preparation of the consolidated Balance Sheet of the holding company and its subsidiaries.

1: Cancellation of Investment and Share Capital

A Consolidated Balance Sheet can be prepared by **simply combining all the assets and *liabilities*** of *the* holding company and its subsidiary. It will certainly balance, but it is not a Consolidated Balance Sheet. This is because the **inter-company balances have first to be eliminated**. The "**Investment in Subsidiary Company" by the holding company should cancel out** the Share Capital of the subsidiary company.

2: Minority Interest Calculation

When the holding company acquires all the shares of the subsidiary company, the latter company becomes a wholly owned subsidiary when the holding company acquires more than half but less than all the shares of the subsidiary company, those shareholders who have a minority share are referred to as Minority Shareholders. The interest of the minority shareholders, known is Minority Interest must be accounted for separately in the Consolidated Balance Sheet.

A minority interest the proportion of the subsidiary company's net assets / shareholders' fund which belongs to the minority shareholders. Therefore the value of the minority interest is the portion of the share capital and reserves at the date when the holding company acquires its controlling interest and the share of income after acquisition.

Objectives:

1. The objective of the policy is to protect the rights of the minority shareholders and keep them updated about their rights from time to time.
2. To check that the Shareholder Relationship Committee is redressing the grievance of the minority shareholders.

As per para 13(e) of AS 21, minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the net assets consist of:

(i) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and

(ii) the minorities share of movements in equity since the date the parent subsidiary relationship came in existence.

Regarding minority interest, following arc the points to be remembered:

1. Minority interest is not a liability but capital of the group which does not belong to the shareholders of the holding company.
2. Minority interest is always calculated at the date of the consolidated balance sheet - not when the holding company takes the control.

Minority interest may be computed as follows :

Minority Interest = Share Capital of subsidiary related to outsiders + Minority interest in reserves and profits of subsidiary company

3: Goodwill / Capital Reserve on Consolidation

When the value of "Investment ill subsidiary" in the holding company's balance sheet is more than the book value of the net assets acquired, the difference represents "Goodwill on Consolidation". In this case, Investment in subsidiary will not cancel out against the share capital of the subsidiary unless a goodwill equal to the difference of (he two items is shown on the asset side or till' Consolidated Balance Sheet. Conversely, if the value of "Investment in subsidiary" in the holding company's balance sheet is less than the book value of the net assets acquired tile difference represents "**Capital Reserve on Consolidation**". In this case, Investment in subsidiary will not cancel out against the share capital of the subsidiary unless a capital reserve equal to the difference of (he two items is shown on the liability side of the Consolidated Balance Sheet.

To calculate goodwill or capital reserve the value of the net assets acquired by the holding company in the subsidiary company must he compared with the cost of the investment. This value call be ascertained by adding together proportionate share capital and reserve of the subsidiary.

4: Reserves or the Holding and Subsidiary Company

While preparing Consolidated Balance Sheet, reserves of the subsidiary company are treated just as though they were part of the share capital of the subsidiary company. Therefore, while

Calculating goodwill or capital reserve on consolidation and the minority interest reserves are to be apportioned between the holding company and the minority shareholders. The reserves of the subsidiary company at the dale of the acquisition form a part of goodwill/capital reserve and minority interest calculation.

The reserves of the holding company, on the other hand, belong entirely to the shareholders of the holding company and as such they are shown along with the holding company's share capital ill the Consolidated Balance Sheet.

5: Pre- and Post - acquisition Profit of Subsidiary

The profits earned by the subsidiary company before the holding company acquires its control, is known as pre-acquisition profit or capital profit. Undrawn pre-acquisition profit is taken into consolidation for calculation of goodwill or capital reserve. It is split between cost of control (goodwill / capital reserve calculation) and minority interest.

The profits earned by the subsidiary company after the holding company acquires its control. is known as post-acquisition profit or revenue profit, which can be distributed as dividend. It should be noted that post-acquisition profit of a subsidiary company do not form part of the goodwill or capital reserve calculation.

Minority shareholders are not concerned whether. the profits are pre-acquisition or post acquisition.

Post-acquisition profit is apportioned between holding company and minority shareholders. The share of holding company is added with its profit, while the share of the minority shareholders form a part or the calculation of minority interest.

6: Cancellation of Inter-company Debts and Acceptances

It is very common that member companies have business dealing not only with outsiders but also with each other. Inter-company transactions may lead to inter-company debts and acceptances. At the time of consolidation, inter-company debts and acceptances which are part of the, same group, are to be cancelled out as follows:

Inter-company Debts

Inter-company debts for the sale of goods on credit owing by one company to the other company in the same group should be eliminated from sundry debtors and sundry creditors.

For example, if the holding company sell goods to its subsidiary for Rs 10,000 on credit, it will appear as one of the sundry debtors in the Balance Sheet of holding company and as one of the sundry creditors in the Balance Sheet of the subsidiary company. It is an internal debt and is neither an external asset nor a liability of the group. While preparing Consolidated Balance Sheet sundry debtors of both the companies are to be added together. Similarly, sundry creditors or both the companies are to be added together. From this merged balance of sundry debtors and sundry creditors, a sum of Rs 10,000 is to be deducted from both the balances. If the above adjustment is not done it will lead to an over-statement of the figures for current assets and current liabilities in the Consolidated Balance Sheet.

Inter-company Bills of Exchange

Bills drawn or accepted either by the holding company or its subsidiary are not an outside obligation. The item "Bills Receivable" in one company's Balance Sheet and corresponding item "Bills Payable" in another company's Balance Sheet are to be cancelled out against each other like ordinary debts.

But if some or the bills are discounted, their adjustment is not possible because they are no longer an intercompany obligation. When a bill is discounted, it will have to be paid by the drawer (if not, by the drawer in case of dishonour) to the bank (outside the group). Bills discounted generally appear at the bottom or the Balance Sheet as a contingent liability. In the Consolidated Balance Sheet it will also appear as a contingent liability. Only the face value or the bills that are drawn on outsiders and subsequently discounted, will appear as a contingent liability in the Consolidated Balance Sheet as a footnote.

7: Cancellation of Inter-company Loans and Advances

Usually a Current Account is used (0 record inter-company loans and advances. When a loan is provided by either of the companies to the other, a current account will exist between the holding company and its subsidiary. l-or example. if the holding company makes a loan of Rs. 10,000 to its subsidiary, it will appear as an asset in the Balance Sheet of the holding company and as a liability in the Balance Sheet of the subsidiary company. At the time of preparing the Consolidated Balance Sheet these two amounts are to be cancelled out. A difficulty arises where the current accounts maintained by the holding company and its subsidiary show different figures as to the balance owed. At the time of preparing the Consolidated Balance Sheet, these two current accounts are to be reconciled if they are not in agreement by company the entries ill the accounts. Any remaining difference is usually caused by goods-in- transit from the seller to the buyer, or cash-in-transit from the buyer to the seller. III the Consolidated Balance Sheet, the cash or goods-in-transit will appear as one or the assets and the two current accounts will cancel each other out. The general rule in these circumstances is that adjustment should be made to the holding company's balance, whichever way the goods or cash are going, because it is easier for the holding company's account to make the adjustment.

8: Adjustment of Bank Balances

Bank accounts may be held by the holding company and its subsidiary at different banks. While some balances arc favorable, others are overdrawn balances, they should appear in the Consolidated Balance Sheet as assets and liabilities respectively. It would be incorrect to adjust the overdraft balances against credit balances for the purpose of the Consolidated Balance Sheet.
But when both the companies maintain their bank accounts at the same branch and the bank has a set off agreement between the holding company and its subsidiary the usual method is to combine all bank balances and to set off overdraft against credit balances.

Points to Remember:

1. The investment in a subsidiary is replaced by the underlying net assets of the subsidiary.
2. Assets and liabilities arc added on a line-by-line basis to the corresponding asset and liability amounts of the holding company.
3. 100% of each asset and liability is aggregated even if the holding company owns a controlling interest of less titan 100%.
4. The minority shareholders' interest in the net assets not owned by the holding company is shown as a liability of the Group in the Consolidated Balance Sheet.
5. Assets arc stated at their cost to the Group, rather than at their cost to any individual company. Thus, inter-company profit arising out of stock and fixed assets transfers arc removed. (They are usually referred to as unrealised profit).
6. Any inter-company debtors/creditors; bills receivable/bills payable are eliminated, so that the Consolidated Balance Sheet shows the net asset position of the group vis – a - vis third parties.
7. Degree of control depends upon holding of equity shares only.

SOME SPECIAL ADJUSTMENTS

1) Unrealized Profit on Trading Stock

If the holding company and its subsidiary trade with one another, the goods bought at a profit from one company may appear as unsold stock in the Balance Sheet of another, if the entire quantity is not sold. In the Consolidated Balance Sheet, the aggregate stock of the holding company and its subsidiary is to be stated at a cost. but in this case, the cost to the buying company includes an element of profit earned by the selling company. From the viewpoint of the group, it should be ensured that no unrealized profit earned into group accounts. Therefore, it would be wrong to account for this profit until the goods had been sold outside the group. The unrealized profit on inter – group stocks, still held, must be computed and should be cancelled out. It should be deducted from the consolidated profit as well as from the aggregate stock valuation in the Consolidated Balance Sheet. The above adjustment also holds good when the subsidiary company is a wholly – owned subsidiary.

2) Unrealized Profit on Fixed Assets

A member company may transfer fixed assets or stock which becomes fixed .assets of the transferee company at a profit. In this case, a similar problem arises as that seen in connection with trading stock transfer. At the time of consolidation, unrealised profit should be deducted from consolidated profit as well as aggregate value of fixed assets.

3) Revaluation of Assets

If the fixed assets of the subsidiary company are revalued at the time of acquisition of the controlling shares of the subsidiary company by the holding company, the effect of profit or loss on revaluation should be reflected in the Consolidated Balance Sheet. The assets are to appear at their revalued figures in the Consolidated Balance Sheet. If the revaluation is upward causing an increase in the book value of an asset, the same should be treated as a pre-acquisition profit. The total revaluation profit will be apportioned and will be used in calculating goodwill/capital reserve and minority interest. The holding company's share of the revaluation profit will be taken to 'investment in subsidiary company' which, in effect, will reduce the cost of control on value of goodwill or capital reserve. If the revaluation results in a loss, the cost of control on value of goodwill or capital reserve will be increased. If an asset is revalued, the compounding depreciation adjustment is also to be considered. If the revaluation results in an increase, the depreciation that has already been charged seems to be undercharged and the amount of extra depreciation is treated as revenue loss. This should be deducted from the Profit and Loss Account of the subsidiary. Conversely, when there is a downward revaluation, the depreciation that has already been provided seem to be overcharged. The amount of extra depreciation is to be written-back and considered as a revenue profit. This should be added with the Profit and Loss Account of the subsidiary company.

4) Issue of Bonus Shares

Treatment of bonus shares issued by the subsidiary company will depend upon whether they are issued out of pre-acquisition profit or post-acquisition profit.

If the bonus shares are issued out of pre-acquisition profit. it will not have any effect on the Consolidated Balance Sheet. This is because it will cause decrease in the holding company's share of pre-acquisition profit and on the other hand paid-up value of the equity shares held by the holding company will he increased by the same amount. Therefore, the amount of goodwill or capital reserve will be the same. The portion of the bonus shares of the minority shareholders will he added to the minority interest.

If a subsidiary company issues bonus shares out of post-acquisition profit it will have a direct effect on the Consolidated Balance Sheet. In such a situation, the holding company's share of revenue profit in the subsidiary company will be reduced and the paid-up value of the shares held by the holding company in its subsidiary will be increased because of the issue of bonus shares. This will reduce the value of goodwill or increase the value of capital reserve. The portion of the bonus shares of the minority interest will be added to the minority interest, as before.

5) Preference Shares held by the Holding Company

When preference shares are issued by a subsidiary company and are held by the holding company (whether wholly or partly), it should be treated in the same way as equity shares. If the holding company acquires the preference shares at par, the cost of investment of the holding company cancels out of the shares shown on the Balance Sheet of the subsidiary. When the preference shares are acquired at a premium or a discount, the balance is carried to goodwill or capital reserve in the Consolidated Balance Sheet. The portion of the preference shares owned by the minority shareholders are added to minority interest.

6) Debentures

The debentures of the holding company will appear in the liability side of the Consolidated Balance Sheet just like equity or preference share capital. Debentures issued either by the holding company or the subsidiary and held by other should be cancelled out when they are acquired at par. When part of the debentures are held by the minority shareholders, it should appear in the liability side of the Consolidated Balance Sheet. The holding company's "investment in debentures in the subsidiary" will cancel out against the nominal value of debentures shown in the subsidiary company's Balance Sheet.

If the debentures are acquired at a premium or at a discount, the difference between cost and nominal value is adjusted against goodwill or capital reserve in the Balance Sheet.

7) Inter-company Dividends

Holding company owns majority of the shares of its subsidiary. When a dividend is paid out of profit of the subsidiary company, the holding company is likely to receive a majority portion of it as a shareholder. It should he noted that such dividends may be paid out of pre-acquisition profit or post-acquisition profit. The accounting treatment in the books of the holding company will vary accordingly.

Dividend Paid Out of' Pre-acquisition Profit by the Subsidiary Company

Care is needed in the treatment of any dividend received by the holding company from its subsidiary which come out of pre-acquisition profits. Such dividend should be treated as a return of capital to the holding company, since it transfers to the holding company part of the net assets in the subsidiary company that have been paid for. In this situation, the correct accounting treatment is to deduct such dividend from the cost of investment in the subsidiary for calculating goodwill or capital reserve.

Points to Remember

1) If such dividend has wrongly been credited to the Profit and Loss Account of the holding company, then it should be rectified. For rectification, the amount of dividend received by the holding company out of pre-acquisition profit is to be deducted from the Profit and Loss Account of the holding company as well as from the cost of investment in the shares of subsidiary. For better understanding of the accounting treatment, observe the following:

Wrong entry		Correct entry	
a. Bank Account	Dr.	a. Bank Account	Dr.
To Dividend Received Account		To Dividend Received Account	
b. Dividend Received Account	Dr.	b. Dividend Received Account	Dr.
To Profit and Loss Account		To Investment in shares of subsidiary Co. A/C	

Dividend Paid Out of Post-acquisition Profit by the Subsidiary Company

Dividend received by the holding company from a subsidiary out of post-acquisition profit is treated as investment income and credited to the Profit and Loss Account of the holding company.

It should be noted that any *interim dividend* paid by the subsidiary company is also treated in the books of the holding company in the same manner as discussed above.

Proposed Dividend

When a dividend is proposed by the holding company, it will be deducted from the post-acquisition profit of the holding company (provided no proposed dividend is appearing in the Balance Sheet of the holding company) and will be shown in the Consolidated Balance Sheet as a current liability. Proposed dividend of the subsidiary will be deducted from the post-acquisition profit of the subsidiary company (provided no proposed dividend is appearing in the Balance Sheet of the subsidiary company).

Holding company's share of such proposed dividend is added with the Profit and Loss Account of the holding company. Minority's share of proposed dividend can be added with the minority interest or it can be shown as a current liabilities in the Consolidated Balance Sheet (along with the proposed dividend of the holding company, if any).

PREPERATION OF CONSOLIDATED PROFIT AND LOSS

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

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

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

(iii) The share or profits or the subsidiary company arising before the date or acquisition of shares by the holding company the 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 lose 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 Account. 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 dividend 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 Consolidate 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 unrealized profit on stock.

(xi) It is important to note here that the consolidated Profit and Loss Account 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.

Bonus Shares Issued by Subsidiary Company

A subsidiary company (after the holding company acquired controlling interest) may issue bonus share out of its profits to all the shareholders. This will increase the number of shares with the holding company. Naturally, the face value of shares held in the subsidiary company will also increase, as the holding company receives such bonus shares.

Treatment: 'Source of profit' out of which the bonus issued is the basis of accounting treatment.

1. Bonus shares issued out of capital profit (or) pre-acquisition profits
2. Bonus shares issued out of revenue profits (or) post-acquisition profits

1. Bonus issue out of capital profits : This does not have any accounting effect. The reason is that while determining the cost of control/goodwill, the share of the holding company in the pre-acquisition profit is reduced and the paid-up value of shares held is increased. At this juncture, the issue of bonus shares will in no way affect the cost of control. Minority share of the bonus is added to the minority interest.

2. Bonus issue out of revenue profits: This has its effect on the consolidated balance sheet. The amount of bonus is reduced from revenue before apportioning the revenue profits in the holding minority ratio.

While calculating "cost of control" the holding company's share of bonus is deducted. This will result in decrease in goodwill to the extent of the holding company's share of bonus. Minority share of the bonus is added to the minority interest.

Net result is that the bonus issue is in the nature of capital profits whether they are issued out of capital profits or out of revenue profits.

Dividend

A subsidiary company can declare dividend on its shares. The holding company will receive such dividends on the paid-up value of the shares held by it. The source from which the dividend to be paid may be any of the following categories.

Category I: Payment of dividends entirely from the pre-acquisition profits

Treatment: It is treated as capital gains.

• **On receipt of dividend, the following entry has to be passed:**

Bank A/c Dr. .....

To investments in shares of subsidiary company A/c .....

• This type of dividends will not be utilized for distributing dividends to the shareholders of the holding company.

Important notes:

(i) If the dividend is paid wholly out of pre-acquisition profits, it has to be appropriated from previous year profits.

(ii) Holding company's share has to be adjusted towards cost of control or capital reserve.

(iii) Holding company's share has to be deducted from the consolidated P&L A/c

(iv) If by mistake this type of dividend is credited to P&L A/c of the holding company, it has to be rectified by debiting P&L A/c and crediting investment A/c.

Category II: Payment of dividends entirely from post-acquisition profits:

• It is treated as revenue income

• Entry:

Bank A/c Dr. .....

To P&L A/c of the holding company. .....

· This type of dividend partly out of pre-acquisition profits and partly out of post-acquisition profits.

The main point to be observed is that the dividend up to the date of acquisition (pre-acquisition) is to be treated as capital profit (capital receipt) and after the date of acquisition (post-acquisition) is to be treated as revenue profit (revenue receipt).

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.

PRACTICAL PROBLEMS TO BE SOLVED IN CLASS (ICSI MODULE)

Que. 1 (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	5,00,000	2,00,000
Sundry liabilities	1,00,000	25,000
Total	**6,00,000**	**2,25,000**
Assets:		
Sundry assets	400000	225000
investment :		
20,000 shares of rs.10 each of S ltd	200000	
Total	**6,00,000**	**2,25,000**

Que. 2 (Minority interest)

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

Particulars	Rs.	Rs.
Equities & Liabilities		
Share capital :	5,00,000	3,00,000
Shares of rs.10 each	1,40,000	20,000
Other Liabilities		

Total	640000	320000
Assets: Sundry assets Investment in Shares of S ltd. 24000 shares of Rs.10 each	400000 240000	320000
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

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

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) A long 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.

Que. 3 (Cost of control)

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

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

Que. 4. (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 4,000Shares of S. Ltd. (on 31st December 2010)	4,10,000	
Total	9,10,000	4,85,000

Que. 5. (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.**
Equities & **Liabilities**		
Share Capital	2,00,000	1,00,000
Shares of rs.10 each	50,000	20,000
Reserves	20,000	10,000
Profit & Loss A/c	30,000	20,000
Creditors		
Total	**3,00,000**	**1,50,000**
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

Que. 6.

(Revaluation of assets-profit)

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

Liabilities	**P Ltd. Rs.**	**Q Ltd. Rs.**	**Assets**	**P Ltd. Rs.**	**Q Ltd. Rs.**

Equity shares of Rs. 100 each	16,00,000	4,00,000	Equipment	10,00,000	3,80,000
Profit & Loss A/c	2,00,000	80, 000	Investment:		
External Liabilities	30,00,000	19,20,000	3,600 equity shares in Q Ltd. on 1st Apirl 2010	5,60,000	---
			Other Assets	32,40,000	20,20,000
Total	48,00,000	24,00,000	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.

Que. 7.

(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 :

Liabilities	**H Ltd. Rs.**	**S Ltd. Rs.**
Share capital :		
Share of rs.10 each	15,00,000	3,00,000
Reserves	2,40,000	90,000
Profit & Loss A/c	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 5 shares held.

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

Illustration 8.

(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.

Que.

The Balance Sheets of Hari Ltd. and its subsidiary Suri Ltd. as at 31st March, 2002 are as follows:

Liabilities	**Hari Ltd. (Rs.)**	**Suri Ltd. (Rs.)**	**Assets**	**Hari Ltd. (Rs.)**	**Suri Ltd. (Rs.)**
Share capital			Plant and Machinery	4,80,000	90,000
Equity shares of Rs.10 each fully paid	4,00,000	1,00,000	Furniture	15,000	27,000
General Reserve (1.4.2001)	2,80,000	34,000	Investments	2,00,000	
Profit and Loss A/c	1,70,000	42,000	Stock	95,000	42,000
Creditors	70,000	35,000	Debtors	60,000	32,000
			Cash at bank	70,000	20,000
	9,20,000	2,11,000		9,20,000	2,11,000

The following Information is also given to you:

(i) Hari Ltd. acquired 8,000 equity shares in Suri Ltd. as at Ist July, 2001 at a cost of Rs 2,00,000.

(ii) Stock of Hari Ltd. includes Rs 6,000 relating to stock purchased from Suri Ltd. which follows the practice of charging 25% extra on the cost for determining the sale price.

(iii) Creditors of Hari Ltd. include Rs 10,000 on account of purchases from Suri Ltd.

(iv) Profit and Loss Account of Hari Ltd. includes dividend @ 10% for the year 2001-02 received from Suri Ltd., which declared and paid it after Ist July 2002.

(v) Balance in Suri Ltd.'s Profit and Loss Account on Ist April, 2001 was Rs. 26,000. Dividend @ 10% for the year 2000-01 was declared out of this balance after Ist July, 2001.

(vi) Profits during the year 2001-02 have been earned on uniform basis throughout the year.

Prepare a Consolidated Balance Sheet of Hari Ltd. and its subsidiary Suri Ltd. as at 31sl March, 2002. Submit all your working notes neatly.

MCQ:

1. Holding company, in relation to one or more other companies, means a company of which such companies are -

(A) Associate Companies
(B) Subsidiary Companies
(C) Both (A) and (B)
(D) Either (A) or (B)

2. Which of the following would qualify a company to be regarded as a parent of another?

(A) A parent should control the majority of the votes at subsidiary's shareholders' meetings.
(B) A parent should own majority shares in the subsidiary.
(C) A parent and its subsidiary both must be in the same line of business.
(D) A parent and the subsidiary both should have the same persons as their directors.

3. Subsidiary company in relation to any other company (that is to say the holding company), means a company in which the holding company -

(A) Controls the composition of the Board of Directors
(B) Exercises or controls more than 50% of the total voting power either at itsown or together with one or more of its subsidiary companies
(C) Both (A) or (B)
(D) Neither (A) nor (B)

4. Pre-acquisition profit in subsidiary company is considered as:

(A) Revenue profit
(B) Capital profit
(C) Goodwill
(D) Cost of control

5. Which section of the Companies Act, 2013 requires the preparation of consolidated financial statements?

(A) Section 127
(B) Section 128
(C) Section 130
(D) Section 129

6. Associate company in relation to another company, means -

(A) A company which cannot be classified as subsidiary company or joint venture company
(B) A company which is a subsidiary company of the company having significant influence
(C) A company which is originally formed as associate company as such.
(D) A company in which that other company has a significant influence

7. Holding company holds more than _____ voting power in subsidiary company.
(A) 25% (B) 40%
(C) 50% (D) 75%

8. In associate companies, one company holds _____ of share capital.
(A) more than 20% but less than 50% (B) more than 10% but less than 25%
(C) more than 25% but less than 50% (D) more than 50% but less than 75%

9. Term 'subsidiary company' is defined in:
(A) Section 2(4) (B) Section 2(5)
(C) Section 2(6) (D) Section 2(7)

10. The company shall attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in _____ as per Companies (Accounts) Rules, 2014.
(A) Form No. AOC-1 (B) Form No. AOC-2
(C) Form No. AOC-4 (D) Form No. AOC-3

11. Minority interest represents -
(A) Shares owned by minor persons in a consolidated financial statement of holding company.
(B) Shares owned by persons who can be classified as small shareholders in a consolidated financial statement of holding company.
(C) Shares owned by third parties in a consolidated financial statement of holding company.
(D) Shares owned by creditors in a total debt in preparation of consolidated financial statement of holding company.

12. Term 'associate company' is defined in -
(A) Section 2(6) (B) Section 2(7)
(C) Section 2(5) (D) Section 2(4)

13. Holding company's share in revenue profits of subsidiary company is adjusted in:
(A) Cost of control (B) Shown on assets side of balance sheet
(C) Profit and loss account of holding company (D) Capital profits of holding company

14. Which of the following statements are correct with regard to preparation of consolidated financial statements?

A. To be a subsidiary a parent should hold 100% of its equity shares.
B. Consolidation is merely addition together of two Statements of financial position.
C. In consolidation a subsidiary and an associate are treated identically.
D. Consolidated balance sheet excludes assets not owned by the group.
Select the correct answer from the options given below.
(A) A & D (B) B & C
(C) A & B (D) None

15. While preparing a consolidated financial statements, in share capital held by outsider if we add pre-acquisition post-acquisition profits proportionate to share capital held by those outsider resultant figure will be -
(A) Goodwill (B) Cost of control
(C) Minority interest (D) Capital reserve

16. If cost of acquisition of shares in the subsidiary company is less than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
(A) Minority interest (B) Capital Reserve
(C) Goodwill (D) Significant cost

17. Issue of bonus shares by the subsidiary company:
(A) Affects the cost of control.
(B) Increases the control percentage in subsidiary company.
(C) Reduces the cost of investment of holding company.
(D) Does not affect the cost of control.

18. Which of the following will affect cost of control?
(A) Issue of bonus shares by the subsidiary company out of pre-acquisition profit
(B) Issue of bonus shares by the subsidiary company out of post-acquisition profit
(C) Buyback of shares by subsidiary company from all shareholders in equal proportion
(D) None of the above

19. Which of the following statement(s) apply when consolidating statements of financial position?
I. All inter-company balances should be cancelled.
II. The group share of the whole of subsidiary's profit is included within group profit.
III. Inter-company profit should be eliminated unless it is realized by sale to an outsider.
IV. Subsidiary's asset values need to be updated at the end of each accounting period.
Select the correct answer from the options given below.
(A) I & III (B) I & IV
(C) II &III (D) I & II

20. Issue of bonus shares by subsidiary company out of pre-acquisition profit:
(A) Will reduce the paid-up value shares held by holding company.
(B) Will reduce holding company's share in pre-acquisition profits of subsidiary company.
(C) Must be debited to General Reserve A/c and credited to Profit & Loss A/c of subsidiary.
(D) Will affect the market capitalization of subsidiary company.

21. Holding company's share in pre-acquisition losses of subsidiary -
(A) Should be treated as capital loss
(B) Added to the 'cost of control'
(C) Will increase the goodwill while calculating cost of control
(D) All of the above

22. Holding company's share in pre-acquisition profits of subsidiary -
(A) Should be credited to the profit & loss account of holding company
(B) Deducted from the cost of the 'cost of control'
(C) Needs separate disclosure in consolidated financial statements.
(D) None of the above

23. With regard to preparing consolidated statements of financial position which of the following statements is / are correct?
1. The consolidated statement of financial position reports only parent's goodwill.
2. Any unrealized profit made by a subsidiary should be eliminated from its profit.
3. An amount owed to each other within the group needs to be cancelled.
4. Only the group portion of any unrealized profit need be eliminated.
Select the correct answer from the options given below.
(A) 3
(B) 1
(C) 2 & 3
(D) 3 & 4

24. Dividend received out of pre-acquisition profits of subsidiary
(A) It should be treated as revenue income and credited to the Profit and Loss A/c.
(B) Added while calculating 'cost of control'.
(C) Should be treated as capital receipt and credited to Investment A/c
(D) Will increase the Goodwill while calculating cost of control.

25. If cost of acquisition of shares in the subsidiary company is more than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
(A) Minority interest
(B) Capital Reserve
(C) Goodwill
(D) Significant cost

26. Deduction of out-siders liabilities from total assets then dividing it by number of shares, the resultant figure will be -
(A) Intrinsic value per share
(B) Net asset value per share
(C) Asset backing value per share
(D) All of the above

27. Which of the following treatment of 'Share Capital' of subsidiary company is correct?

(A) Share capital held by the holding company will be added to the cost of control statement.

(B) Share capital held by minority will be deducted in minority statement.

(C) Share capital of subsidiary held by holding company will be deducted from the cost of Investment to find out goodwill/capital reserve.

(D) Share capital of subsidiary will be set-off against the negative net worth of other subsidiary.

28. If closing balance of general reserve of subsidiary is more than opening balance of general reserve then it can be concluded that -

(A) Capital profits are debited to the General Reserve A/c

(B) Pre-acquisition dividend is declared by the subsidiary company

(C) Some profit must have been transferred to general reserve by debiting profit & loss account by the subsidiary company

(D) Bonus share capital is issued by the subsidiary company

29. If closing balance of general reserve of subsidiary is less than opening balance of general reserve then it can be concluded that -

(A) Pre-acquisition dividend is declared by the subsidiary company

(B) Bonus share capital is issued by the subsidiary company

(C) Some profit must have been transferred to general reserve by debiting profit & loss account by the subsidiary company

(D) Capital profits are credited to the General Reserve A/c

30. Unrealized profit on goods sold and included in stock is deducted from:

(A) Capital Profit (B) Revenue Profit

(C) Fixed Assets (D) Minority interest

31. Which of the following treatment is correct for mutual debts with regard to purchase and sale of goods between holding and subsidiary company?

(A) Amount of mutual debt will be added to the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.

(B) Amount of mutual debt will be ignored as it is not asset or liability at all.

(C) Amount of mutual debt will be deducted from the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.

(D) Amount of mutual debt will require adjustment on debtors figure on asset side only if amount receivable by subsidiary company is more than amount payable to holding company.

32. Which of the following statements are incorrect with regard to preparation of a consolidated statement of financial position?

(a) Gain on fair valuation of a subsidiary's asset is a pre-acquisition profit.

(b) Non-controlling interest does not deserve any portion of fair valuation gain.
(c) If an asset is not reported in the subsidiary's ledger it need not be fair valued.
(d) Gain on fair valuation of subsidiary's asset inflates the cost of goodwill.
Select the correct answer from the options given below.

(A) (b), (c) & (d) (B) (c) & (d)
(C) (a), (c) & (d) (D) (a), (b) & (c)

33. On a consolidated balance sheet, if the shares of a company have been bought for more than the balance sheet value then the difference would appear as:

(A) Profit on purchase (B) Goodwill
(C) Capital reserve (D) Loss on purchase

34. If less than 100% of a subsidiary's share capita] has been acquired then what is the rule for inclusion of the subsidiary's assets on the consolidated balance sheet?

(A) Only a proportional amount should appear.
(B) All the assets should appear.
(C) None can appear until all the shares have been acquired.
(D) Half the value should appear.

35. What is the term used to describe dividends paid by one company in the group to another in the same group?

(A) Inter-group dividends (B) Intra-group dividends
(C) Group dividends (D) Interim dividends

36. Which of the following is true?

(A) Minority shareholders share of pre-acquisition losses should be added to the amount of Minority Interest.
(B) Holding company's share of pre-acquisition losses must be debited to Profit & Loss A/c
(C) Dividend received out of pre-acquisition profits of subsidiary should be credited to Investment A/c.
(D) Dividend received out of post-acquisition profits of subsidiary should be debited to Investment A/c.

37. How is a negative goodwill reported on the consolidated statement of financial position?

(A) As a negative asset ie. shown on the asset side but as a deduction.
(B) A tenth of it is included in consolidated reserves and the remainder reported as a reserve.
(C) Included fully in the consolidated retained earnings.
(D) As a reserve, which may preferably be titled a capital reserve

38. If stock is sold for a profit from one group member to another, how should this be dealt with in the final accounts?

(A) Stock should appear at the original cost.
(B) The profits should be included but stock would appear at the value sold for.

(C) Profit on sale should be eliminated and stock appears at original cost.
(D) Profits on the sale should be eliminated.

39. The claim by outsiders to assets featured on a consolidated balance sheet is known as:
(A) Subsidiary (B) Negative goodwill
(C) Minority interest (D) Wholly owned subsidiary

40. On consolidation, if the total of the fair value of the assets acquired is less than the whole purchase consideration then the differences should be treated as:
(A) Negative goodwill (B) Goodwill
(C) Profit on acquisition (D) Loss on acquisition

41. When dealing with consolidated balance sheets, the expression cost of control could be used instead of:
(A) Acquisition expenditure (B) Goodwill
(C) Intangible investments (D) Negative goodwill

42. Which of the following is not normally considered the right of an ordinary shareholder?
(A) An interest in the profits earned by the company.
(B) An interest in the day-to-day running of the company.
(C) An interest in the net assets of the company.
(D) Voting rights at meetings.

43. Y Company has a receivable from its parent, X Company. Should this receivable be separately reported on Y's balance sheet and in X's consolidated balance sheet?

	Y's balance sheet	**X's balance sheet**
(A)	Yes	No
(B)	Yes	Yes
(C)	No	No
(D)	No	Yes

44. Which of the following is the best theoretical justification for consolidated financial statements?
(A) In form the compani es are one entity; in substance they are separate.
(B) In form the companies are separate; in substance they are one entity.
(C) In form and substance the companies are on entity.
(D) In form and substance the companies are separate.

45. Which of the following statement is false?
(A) Minority interest shown in the consolidated balance sheet is the equity held by the outsiders in the subsidiary company.

(B) Cost of control is the excess price paid for investment over and above proportionate share of net assets acquired by the holding company.
(C) Profit on revaluation of fixed assets is a capital profit and depreciation on such amount is a revenue loss.
(D) For calculating cost of control there is no need to distinguish between capital and revenue profits of the subsidiary.

46. Preparation of consolidated Balance Sheet of holding company and its subsidiary company is as per -
(A) AS-11 (B) AS-20
(C) AS-21 (D) AS-23

47. Pre-acquisition dividend received by Holding company is credited to:
(A) Profit & Loss A/c (B) Capital Profit
(C) Investment A/c (D) None of the above

48. Post-acquisition dividend received by Holding Company is:
(A) Debited to Profit & Loss A/c & Credited to Bank A/c
(B) Debited to Bank A/c and Credited to Investment A/c
(C) Debited to Investment A/c and Credited to Bank A/c
(D) Debited to Bank A/c and Credited to Profit & Loss A/c

49. Which exchange rate will be considered for conversion of share capital of subsidiary company?
(A) Closing rate (B) Opening Rate
(C) Actual rate on date of share acquisition (D) Average Rate

50. The group's share of the pre-acquisition reserves of a subsidiary form part of the:
(A) Goodwill calculation (B) Group's capital reserves
(C) Group's revenue reserves (D) Group's share capital

51. As per AS-21, a Consolidated Financial Statement will not be prepared by the parent company when-
(A) Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future.
(B) Subsidiary company operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the parent.
(C) Both (A) and (B)
(D) None of the above

52. In which of the following case the C Ltd. will be subsidiary of A Ltd.

(A) If A Ltd. holds 75% shares in B Ltd. and B Ltd. holds 25% shares in C Ltd.
(B) If A Ltd. holds 75% shares in B Ltd. and 25% shares in C Ltd.
(C) If A Ltd. holds 75% shares in B Ltd. and A Ltd. and B Ltd. holds 25% & 30% shares in C Ltd.
(D) If A Ltd. holds 75% shares in B Ltd. and C Ltd. holds 25% shares in B Ltd.

53. If A Ltd. is proved to be a subsidiary company of B Ltd., C Ltd. & D Ltd., then which company is liable to prepare Consolidated Financial Statement?
(A) B Ltd. (B) C Ltd.
(C) D Ltd. (D) All companies excluding A Ltd.

54. Goodwill = ?
(A) Cost of Investment less Parent's share in the equity of the subsidiary on date of investment less Minority interest
(B) Cost of Investment less Parent's share in the equity of the subsidiary on date of investment.
(C) Parent's share in the equity of the subsidiary on date of investment less Cost of investment
(D) Cost of Investment add Parent's share in the equity of the subsidiary on date of investment add Minority interest

55. H Ltd. acquires 70% of the equity shares of S Ltd. on 1.1.2019. On that date, paid-up capital of S Ltd. was 10,000 equity shares of Rs. 10 each; accumulated reserve balance was Rs. 1,00,000. H Ltd. paid Rs. 1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on 1.1.2019 and a revaluation loss of Rs. 20,000 was ascertained. Which of the following is correct in relation to cost of control of group consolidated financial statement?
(A) Capital Reserve Rs. 34,000 (B) Goodwill Rs. 34,000
(C) Capital Reserve Rs. 1,26,000 (D) Goodwill Rs. 1,26,000

56. H Ltd. holds 7,500 shares of S Ltd. Total shares of S Ltd. are 10,000 of Rs. 10 each. General Reserve and Profit & Loss balance of S Ltd. are Rs. 35,000 & Rs. 27,500 respectively out of which 40% relates to post-acquisition period. Minority Interest = ?
(A) Rs. 40,625 (B) Rs. 34,375
(C) Rs. 50,525 (D) Rs. 40,925

57. Balance Sheet of S Ltd. is as follows:

Shareholder's Funds:	**Rs.**
Equity Shares (Rs. 10 each)	**1,00,000**
General Reserve	**35,000**
Profit & Loss Account	**27,500**
Current Liabilities:	
Creditors	**25,000**
Bills Payable	**15,000**
	2,02,500

Non-Current Assets:	Rs.
Land & Buildings	40,000
Machinery	10,000
Preliminary Expense	2,000
Current Assets:	
Stock	85,500
Debtors	45,000
Bills Receivable	15,000
Cash & Bank	5,000
	2,02,500

H Ltd. holds 80% shares of S Ltd. Minority Interest = ?

(A) Rs. 32,500 (B) Rs. 32,100

(C) Rs. 40,125 (D) Rs. 38,450

58. Balances of S Ltd. on 31.3.2019 are:

General Reserve	Rs. 70,000
Profit & Loss Account	Rs. 1,40,000

Balances of general reserve and profit and loss account on 1.4.2018 of S Ltd. were Rs. 10,000 and Rs. 50,000 respectively. Profit earned by S Ltd. during the year 2018-2019 = ?

(A) Rs. 90,000 (B) Rs. 1,20,000

(C) Rs. 1,50,000 (D) Rs. 80,000

59. Following are the balances of S Ltd. on 31.3.2019:

General Reserve	Rs. 1,75,000
Profit & Loss Account	Rs. 3,50,000

H Ltd. acquired 60% shares on 30th June, 2018. Balances of general reserve and profit and loss account on 1.4.2018 of S Ltd. were Rs. 25,000 and Rs. 1,25,000 respectively. Share of H Ltd. in post-acquisition profit will be -

(A) Rs. 1,68,750 (B) Rs. 1,46,250

(C) Rs. 1,12,500 (D) Rs. 2,81,250

60. Following are the balances of S Ltd on 31.3.2019:

Equity Share Capital	Rs. 10,00,000
General Reserve	Rs. 3,50,000
Profit & Loss Account	Rs. 7.00.000

H Ltd. acquired 80% shares on 31st July, 2018. Balances of general reserve and profit and loss account on 1.4.2018 of S Ltd. were Rs. 50,000 and Rs. 2,50,000 respectively. Share of Minority in post-acquisition profit will be -

(A) Rs.1,10,000 (B) Rs. 1,00,000

(C) Rs. 5,00,000 (D) Rs. 2,70,000

61. Following are the balances of S Ltd. on 31.3.2019:

Equity Share Capital	**Rs. 20,00,000**
General Reserve	**Rs. 7,00,000**
Profit & Loss Account	**Rs. 14,00,000**

H Ltd. acquired 70% shares on 1.1.2019 Balances of general reserve and profit and loss account on 1.4.2018 of S Ltd. were Rs. 1,00,000 and Rs. 5,00,000 respectively. Minority Interest = ?

(A) Rs. 12,90,000 (B) Rs. 5,20,000
(C) Rs. 7,00,000 (D) Rs. 12,30,000

62. H Ltd. holds 75% Shares in S Ltd. In January, 2019 S Ltd. sold to its parent company H Ltd. goods costing Rs. 15,000 for Rs. 20,000. On 31 st March, 2019 hal f of these goods were lying as unsold in godowns of H Ltd. Which of the following is correct treatment for unrealized profit on stock while preparing consolidated financial statement of H Ltd. & S Ltd.?

(A) Stock reserve of Rs. 2,500 will be reduced from 'Stock' on asset side in balance sheet and added to the profit & loss account of H Ltd.
(B) Rs. 15,000willbereducedfromcurrent asset & current liabilities
(C) Stock reserve of Rs. 5,000 will be reduced from 'Stock' on asset side in balance sheet and capital reserve of HLtd.
(D) Stock reserve of Rs. 5,000 will be reduced from 'Stock' on asset side in balance sheet and Rs. 5,000 will be debited to profit & loss account of H Ltd.

63. General reserve of S Ltd. on 31.3.2020 was Rs. 90,000. Break-up of its profit and loss account is given below:

Balance as on 1.4,2019	**10,000**
(+) Profit for year 2019-2020	**3,20,000**
	3,30,000
(-) Transfer to general reserve	**(40,000)**
	2,90,000
(-) Interim dividend paid	**(40,000)**
Balance as on 31.3.2020	**2,50,000**

On 1.7.2019, H Ltd. acquired interest in S Ltd. by acquiring 72,000 fully paid equity shares of Rs. 10 each for Rs. 8,00,000. Total paid-up share capital of S Ltd. is Rs. 8,00,000. H Ltd. credited the entire amount of interim dividend received to its profit and loss account.
How much goodwill or capital reserve will be shown in consolidated balance sheet?

(A) Goodwill Rs. 46,000 (B) Capital reserve Rs. 10,000
(C) Goodwill Rs. 80,000 (D) Capital reserve Rs. 46,000

64. Following are the balances of H Ltd. & S Ltd. on 31.3.2019:

Particulars	H Ltd.	S Ltd.
Debtors	3,40,000	2,05,000
Creditors	1,95,000	1,10,000
Bills Receivable	50,000	-
Bills Payable	-	80,000

Bills accepted by S Ltd. were all shown by H Ltd. and H Ltd. had got bills amounting to Rs. 30,000 discounted with bank. On 31.3.2019, S Ltd. owed Rs. 30,000 to H Ltd. for goods purchased from it. After setting-off mutual debts (a) Net Account Receivables and (b) Net Account Payables will appear in consolidated financial statement at -

	Account Receivables	Account Payables
(A)	Rs. 3,85,000	Rs. 1,95,000
(B)	Rs. 5,45,000	Rs. 2,55,000
(C)	Rs. 5,15,000	Rs. 2,25,000
(D)	Rs. 5,65,000	Rs. 2,75,000

65. S Ltd. is subsidiary of H Ltd. S Ltd. remitted a cheque for Rs. 5,000 to H Ltd. on 30th March, 2018, which was received by H Ltd. on 1st April, 2019. Accounting year of both companies closed on 31st March 2019. Which of the following treatment is correct in consolidated financial statement for cheque in transit?

(A) Bank balance of S Ltd. will be added by Rs. 5,000 and cheque in transit of Rs. 5,000 will be separately shown in balance sheet on asset side.

(B) Really no treatment is required for cheque in transit as it does not affect the aggregate bank balance of the group if proper entries are passed by the parent company and subsidiary company as and when cheque is received or paid.

(C) Bank balance of H Ltd. will be increased by 5,000 and cheque in transit of Rs. 5,000 will be separately shown in balance sheet on asset side

(D) All of the above are correct

66. A parent owns two third of the subsidiary's equity. As at a year end the subsidiary's inventory includes goods sent to it by the parent invoiced at Rs. 3,60,000. Parent has purchased these goods for Rs. 3,00,000. Which of the following are the correct entries for eliminating unrealized profit?

(A) Debit the parent's retained earnings and credit the subsidiary's inventory with Rs. 60,000.

(B) Debit the subsidiary's retained earnings and credit the subsidiary's inventory with Rs. 45,000.

(C) Debit the subsidiary's retained earnings and credit the subsidiary's inventory with Rs. 60,000.

(D) Debit the parents retained earnings and credit subsidiary's inventory with Rs. 45,000.

67. What is the amount of the unrealized profit to be eliminated if the parent's year- end inventory includes at Rs. 5,40,000 goods invoiced to it by its 60% owned subsidiary at cost plus 25%.

(A) Rs. 35,000 (B) Rs. 1,08,000

(C) Rs. 64,800 (D) Rs. 81,000

68. Subsidiary's inventory at the year end included Rs. 1,80,000 purchased from its parent. Further goods invoiced by the parent at Rs. 45,000 were in transit. The parent invoices the subsidiary at cost plus 20%. The amount of unrealized profit that needs to be eliminated from the parent's retained earnings would be:

(A) Rs. 37,500 (B) Rs. 36,000
(C) Rs. 38,333 (D) Rs. 30,000

69. Any amount owed by one member of a group to another need to be cancelled when preparing the consolidated statement of financial position. As at the year end the parent's receivable includes Rs. 90,000 due from the subsidiary; whereas the subsidiary reports that it owes only Rs. 60,000 to the parent. Difference has arisen because of cash in transit. Which is the correct way of dealing with the situation when preparing the consolidated statement of financial position?

(A) Cancel Rs. 90,000 from both Receivable and Payable.
(B) Cancel Rs. 90,000 from parent's Receivable, Rs. 60,000 from subsidiary's Payable and include Rs. 30,000 with Cash.
(C) Cancel Rs. 90,000 from Receivable and Rs. 60,000 from Payable.
(D) Cancel Rs. 60,000 from both Receivable and Payable

70. As at the year end the parent's statement of financial position reports rent receivable as an asset at Rs. 60,000 and this includes Rs. 15,000 due from the subsidiary. Subsidiary reports rent payable as Rs. 15,000. Which of the following will be included in the consolidated statement of financial position?

(A) Rent receivable as an asset at Rs. 45,000 and rent pavable as a current liability at Rs. 15,000.
(B) Rent receivable as an asset at Rs. 60,000 and report nothing as current liability.
(C) Rent receivable as an asset at Rs. 45,000 and report nothing within Current liabilities as rent payable.
(D) Rent receivable as an asset at Rs. 60,000 and rent payable as a current liability at Rs. 15,000.

71. The parent paid Rs. 48,000 to acquire 75% of 3,000 ordinary shares of Rs. 10.00 and reserves of the subsidiary were reported as Rs. 35,000 and fair valuation of its assets identified a gain of Rs. 5,000. What is the goodwill/capital reserve of the subsidiary on this date?

(A) Goodwill Rs. 8,000 (B) Capital Reserve Rs. 17,000
(C) Goodwill Rs. 13,000 (D) Capital Reserve Rs. 22,000

72. On 1.7.2012 H Ltd. acquired 7,500 shares of Rs. 100 each in S Ltd. at a cost of Rs. 160 per share. The total number of shares in S Ltd. is 10,000. In August, 2012 S Ltd. paid a dividend of Rs. 10 per share for the year ending 31.3.2012. In September, 2012 H sold 500 shares in S Ltd. @ Rs. 155. At what figure will be the Investment Account now stands in the books of H Ltd.?

(A) Rs. 10,47,500 (B) Rs. 11,00,000

(C) Rs. 10,00,000 (D) Rs. 10,50,000

73. Total of assets side of subsidiary's balance sheet is Rs. 8,10,000 which includes preliminary expense Rs. 8,000. Outsider's liability in balance sheet was Rs. 1,60,000. Holding company holds 75% shares of subsidiary.
Minority Interest - ?

(A) Rs. 2,02,500 (B) Rs. 1,62,500
(C) Rs. 1,60,500 (D) Rs. 1,64,500

74. X Ltd. acquired 80% equity shares in Y Ltd. on Ist July, 2019 at cost price of Rs. 4,48,000. Total equity share capital of Y Ltd. was Rs. 2,00,000. Share of X Ltd. in preacquisition profits of Y Ltd. was Rs. 1,27,000. Goodwill = ?

(A) Rs. 1,86,400 (B) Rs. 2,48,000
(C) Rs. 1,58,000 (D) Rs. 1,46,400

75. S Ltd. had purchased goods of Rs. 80,000 from its holding company H Ltd. out of which goods invoiced at Rs. 50,000 were in stock on 31st March, 2020. H Ltd. added 25% to cost to arrive at invoice price. Stock reserve to be eliminated from the consolidated balance sheet = ?

(A) Rs. 10,000 (B) Rs. 12,500
(C) Rs. 16,000 (D) Rs. 20,000

76. P Ltd. acquired 12,000 shares of Rs. 10 each in S Ltd. at Rs. 1,70,000 on 31st March, 2020. Details of S Ltd. on 31.3.2020 are given below:

Share Capital (Rs. 10 each)	**1,50,000**
Capital Reserve	**5,000**
General Reserve	**1,05,000**
Profit & Loss Account	**18,000**
Fixed assets	**2,44,700**

Interest receivable for the year ended 31.3.2020 amounting to Rs. 100 in respect of a loan due by P Ltd. has not been credited in the accounts of S Ltd. The directors decided to value fixed assets of S Ltd. at Rs. 2,39,700. What is the cost of control that will appear in consolidated balance sheet prepared for the year ended 31.3.2020?

(A) Capital Reserve Rs. 48,480 (B) Goodwill Rs. 50,000
(C) Goodwill Rs. 48,480 (D) Capital Reserve Rs. 46,120

77. Take the data of above question and calculate Minority Interest?

(A) Rs. 54,620 (B) Rs. 56,420
(C) Rs. 54,260 (D) Rs. 52,460

78. H Ltd. acquired as investment 15,000 shares in S Ltd. for Rs. 1,55,000 on 1.7.2018. Details of S Ltd. on 31.3.2019 are given below:

	Rs.
Share Capital (Rs. 10 each)	2,50,000
General Reserve	40,000
Profit & Loss Account	25,000

General reserve of S Ltd. has remained unchanged since 31.3.2018. Profit earned by S Ltd. for the year ended 31.3.2019 amounted to Rs. 20,000. Cost of control = ?

(A) Rs. 25,000 capital reserve (B) Rs. 25,000 goodwill
(C) Rs. 5,000 goodwill (D) Rs. 5,000 capital reserve

79. Take the data of above question and calculate Minority Interest?
(A) Rs. 1,06,000 (B) Rs. 1,16,000
(C) Rs. 1,26,000 (D) Rs. 1,36,000

80. Following are the details of S Ltd. on 31.3.2017:

Share Capital (Rs. 10 each)	Rs. 2,00,000
Plant & Machinery	Rs. 1,35,000

H Ltd. acquired 80% shares in S Ltd. On 1.10.2016. S Ltd.'s plant and machinery which stood at Rs. 1,50,000 on 1.4.2016 was considered worth Rs. 1,80,000 as on 1.10.2016, this figure is to be considered while consolidating the balance sheets. In consolidation balance sheet Plant & Machinery of S Ltd. will appear at -

(A) Rs. 5,06,225 (B) Rs. 5,25,835
(C) Rs. 5,60,625 (D) Rs. 5,40,345

Answers:

1.	(B)	2.	(A)	3.	(C)	4.	(B)	5.	(D)	6.	(D)	7.	(C)
8.	(A)	9.	(C)	10.	(A)	11.	(C)	12.	(A)	13.	(C)	14.	(D)
15.	(C)	16.	(B)	17.	(D)	18.	(D)	19.	(A)	20.	(B)	21.	(D)
22.	(B)	23.	(C)	24.	(C)	25.	(C)	26.	(D)	27.	(C)	28.	(C)
29.	(B)	30.	(B)	31.	(C)	32.	(A)	33.	(B)	34.	(B)	35.	(B)
36.	(C)	37.	(D)	38.	(C)	39.	(C)	40.	(B)	41.	(B)	42.	(B)
43.	(A)	44.	(B)	45.	(D)	46.	(C)	47.	(C)	48.	(D)	49.	(C)
50.	(A)	51.	(C)	52.	(C)	53.	(D)	54.	(B)	55.	(B)	56.	(A)
57.	(B)	58.	(C)	59.	(A)	60.	(B)	61.	(D)	62.	(D)	63.	(D)
64.	(C)	65.	(B)	66.	(A)	67.	(B)	68.	(A)	69.	(B)	70.	(C)
71.	(D)	72.	(D)	73.	(C)	74.	(A)	75.	(A)	76.	(A)	77.	(A)
78.	(A)	79.	(C)	80.	(C)								

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